November 14, 2022

India Mortgage Guarantee Corporation Pvt. Ltd.: Rating reaffirmed; outlook revised to Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA; reaffirmed and outlook revised to Stable from Negative
Total	**-**	**-**	

**Instrument details are provided in Annexure I*

Rationale

The revision in the outlook to Stable from Negative factors in the improvement in India Mortgage Guarantee Corporation Pvt. Ltd.'s (IMGC) capital profile, supported by substantial capital raise in Q1 FY2023 from a new investor, Sagen International Holdings Inc. (Sagen)[1] with Sagen acquiring a 31.4% stake in IMGC. ICRA notes that one of IMGC's existing shareholders, i.e. Enact Holdings, Inc.[2] (Enact), had been infusing equity to support the capitalisation profile. However, with Enact approaching closer to the shareholding cap, the headroom for further equity infusion by it was limited. With the recent capital raise, the capital buffer over the regulatory minimum (Rs. 100 crore) has increased considerably. The rating also factors in the benefits derived by IMGC from the operating expertise of its existing shareholder (Enact) and the new shareholder (Sagen) in managing mortgage guarantee businesses internationally. The rating also continues to factor in the strong profile of the other shareholders, namely National Housing Bank (NHB; rated ([ICRA]AAA (Stable)/[ICRA]A1+), International Finance Corporation (IFC) and Asian Development Bank (ADB). Their involvement at the board level provides strategic support to IMGC.

ICRA takes note of IMGC's position as the only mortgage guarantee company (MGC) in the country and the significant business potential. The steadily increasing traction towards its product proposition, though much lower than anticipated, provides ample growth opportunity.

The rating is, however, constrained by the slower-than-anticipated growth in IMGC's mortgage guarantee business with cumulative loans guaranteed amounting to Rs. 15,785 crore and assets under guarantee (AUG) of Rs. 10,650 crore outstanding as on June 30, 2022. The lower-than-anticipated traction in business volumes is on account of the relatively limited overall losses observed by lenders in the retail home loan portfolio compared to the cost of a mortgage guarantee cover. Consequently, the profitability has remained subdued with the company reporting losses since inception. Nevertheless, ICRA has taken note of IMGC's gradually reducing losses. It reported a net loss of Rs. 2.2 crore in H1 FY2023 against a net loss of Rs. 12.7 crore in FY2022.

ICRA also notes that the company will need to manage the risk of the guaranteed portfolio efficiently as it scales up and ensure that the premium charged is in line with the underlying risk. Additionally, IMGC must avoid the adverse selection of loans against which mortgage guarantees are issued. Its ability to grow as per plans and improve its profitability would remain a key

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[1] *Subsidiary of Sagen MI Canada Inc.*

[2] *Enact (immediate shareholder of IMGC) was wholly owned subsidiary of Genworth Holdings Inc. {GHI; GHI is subsidiary of Genworth Financial, Inc. (GFI)}. GHI is rated by Moody's Investors Service at B1 Stable (upgraded from Caa1 on developing watch in September 2021) for its long-term debt; Enact is rated by Moody's at Ba2 Stable (upgraded from Ba3 Positive in September 2021)*

monitorable. Moreover, IMGC's ability to manage the higher claims payouts that could arise from the Covid-19 pandemic-induced stress will remain a monitorable from a capitalisation as well as profitability perspective.

Key rating drivers and their description

Credit strengths

Healthy capitalisation profile supported by recent capital raise – IMGC has witnessed a significant improvement in its capitalisation profile with a substantial capital raise from Sagen in Q1 FY2023. As a result, its net worth increased to Rs. 317 crore as on September 30, 2022 from Rs. 130 crore as on March 31, 2022. With this, the company has a significant buffer over the regulatory requirement of minimum net owned funds of Rs. 100 crore. The buffer had been reducing gradually because of the decline in the net worth, given the continuing losses. As per regulatory guidelines, an MGC cannot be a subsidiary of any company. Thus, its existing shareholder, Enact, had limited headroom to infuse further capital before onboarding of Sagen. With the capital raise from Sagen, Enact's stake diluted to 33.4% as on June 30, 2022, providing it with more headroom to invest further in the company if required.

No external debt requirement – Given the nature of the business segment in which IMGC operates, it has not required external debt funding so far and has been operating completely on an equity-oriented model. Its credit profile is supported by a gearing of 0 times and would be adversely impacted if it raises external debt funding (short term or long term).

Good shareholder profile and management support – IMGC was set up as a joint venture between Enact, NHB, IFC and ADB. Enact (formerly known as Genworth Mortgage Holdings, Inc.) was a wholly-owned subsidiary of Genworth Holdings, Inc. (GHI; GHI is subsidiary of Genworth Financial Inc.) until its initial public offering on September 20, 2021. In Q1 FY2023, Sagen became a shareholder in IMGC, acquiring a 31.4% stake in the company. IMGC is the only player in India operating as a mortgage guarantor and enjoys a first-mover advantage in the Indian markets while simultaneously leveraging Enact's (and now Sagen's as well) expertise in managing mortgage guarantee businesses internationally. Other shareholders' involvement at the board level provides strategic support to the company.

Credit challenges

Relatively short operating track record – The idea of mortgage guarantee is relatively new in India and IMGC, the sole MGC, has been operational since 2014. The company is yet to break even as it has not reported a profit in any financial year so far. Portfolio seasoning has been relatively low as housing loans are a longer-tenor asset class. However, ICRA takes note of IMGC's gradually improving scale and its relationships with lenders, though at a slower-than-expected pace. In FY2022, IMGC had written guarantees for seven lenders (housing finance companies (HFCs) and banks). Further, it has entered into agreements with a few more lenders in the current fiscal and is in the process of conducting pilot runs with a few large lenders. Given its relatively smaller scale of operations and limited track record, the company's operational profile is yet to mature.

Weak profitability indicators owing to high operating expenses and low scale of operations – Establishing a product proposition for mortgage guarantee has taken time as IMGC is the first of its kind in the Indian market. The traction in business volumes has been slower than anticipated on account of lower acceptance of the product by lenders, including those operating in the affordable housing finance space. Moreover, the product is available only for housing loans and not for other products such as loan against property, project finance, etc. The probability of default and loss given default on housing loans for lenders has remained low and the cost of a mortgage guarantee is not found to be favourable by such lenders. This slower-than-anticipated traction has resulted in continued losses and delayed projected breakeven timelines. Further, the pandemic-induced challenges had impacted operations and volumes in FY2021 and Q1 FY2022, though the same improved subsequently.

Nonetheless, over the last few years, IMGC has continued to onboard mortgage lenders, including a few large players like ICICI Bank, Axis Bank, LIC Housing Finance Limited, etc, and a few more lenders are expected to be onboarded in the near-to-medium term. In addition, the pandemic is expected to provide a slight boost to IMGC's value proposition on account of the increased stress on the asset quality of the lenders. The company's ability to grow its business volumes as planned and report an improvement in its profitability would be critical from a credit perspective.

Ability to manage credit risk in the portfolio – As the business volumes have improved in the past couple of years, the strength of the company's risk management and credit underwriting functions is yet to be tested. Further, with the expected increase in the volume of guarantees written and with more business coming from the flow business, IMGC's ability to manage the credit risk adequately would be important for maintaining its credit profile. Moreover, the company's ability to manage the additional claim payout burden arising from the Covid-19-induced asset quality stress in the portfolio would be monitorable from a capitalisation as well as profitability perspective.

Liquidity position: Adequate

The company does not have any debt servicing obligations and has not required external debt funding so far. However, it has to meet requirements for its operating expenses and for paying claims. IMGC has adequate liquidity as it has sufficient unencumbered liquid investments.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if the company is able to report sustainable profits while significantly expanding its scale of operations and maintaining a healthy capital buffer above the regulatory requirement.

Negative factors – ICRA could revise the outlook to Negative or downgrade the rating if it is unable to significantly grow its business volumes and attain sustainable profitability. Substantial weakening of IMGC's capitalisation profile and/or inadequate support from its shareholders could also lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Methodology for Non-banking Finance Companies Issuer Rating Methodology for General Insurance Companies
Parent/Group support	Not Applicable
Consolidation/Standalone	The rating is based on the standalone financial statements of the rated entity

About the company

IMGC was incorporated as a joint venture between Enact, NHB, IFC and ADB. In Q1 FY2023, Sagen infused a substantial capital in IMGC, acquiring a 31.4% stake in the company.

IMGC was set up to carry out the business of mortgage guarantee in India. The Reserve Bank of India's regulations for mortgage guarantee companies (MGCs) stipulate that an MGC cannot be a subsidiary of any company and that no shareholder can have a controlling stake in the company.

IMGC commenced operations in March 2014, underwriting a securitisation pool originated by Dewan Housing Finance Limited. It has subsequently grown its partners to 19 banks and HFCs. As on June 30, 2022, IMGC reported guaranteed loans (assets under guarantee; AUG) amounting to Rs. 10,650 crore against which the risk in force was Rs. 2,147 crore. For FY2022, IMGC reported a net loss of Rs. 12.7 crore on an asset base of Rs. 289 crore as on March 31, 2022 compared with a net loss of Rs. 24.3 crore in FY2021 on an asset base of Rs. 270 crore as on March 31, 2021.

Key financial indicators (audited)

IMGC	FY2020	FY2021	FY2022	H1 FY2023 (Provisional)
Accounting as per	IGAAP	IGAAP	IGAAP	IGAAP
Mortgage guarantee fee income	19.26	21.57	28.28	16.65
Total income	37.42	38.60	47.14	29.45
Profit after tax	(13.16)	(24.33)	(12.65)	(2.19)
Guarantee in force	7,350	8,655	10,444	10,701^
Risk in force	1,412	1,735	2,095	2,147^
Total assets	225.54	269.71	288.68	490.65
Net worth	132.11	142.78	130.12	317.31
CRAR	30.26%	28.64%	22.19%	43.52%^

Source: Company, ICRA Research; All ratios and values as per ICRA's calculations; Amount in Rs. crore

^ Guarantee in force, risk in force and CRAR are as on June 30, 2022

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)				Chronology of Rating History for the Past 3 Years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021	Date & Rating in FY2020
					Nov 14, 2022	Mar 29, 2022	Jun 18, 2021	Nov 9, 2020	Oct 22, 2019
1	Issuer Rating	Long Term	-	-	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer Rating**	NA	NA	NA	-	[ICRA]AA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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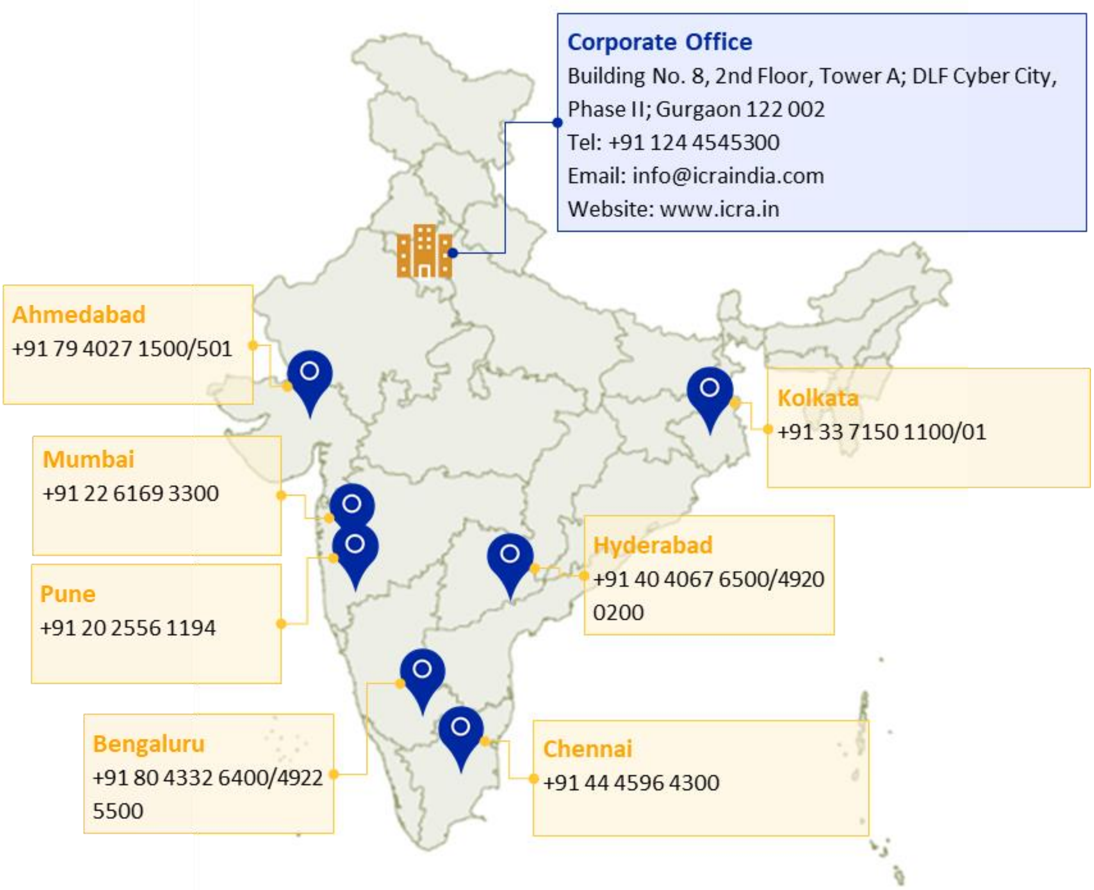

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