November 22, 2023

India Mortgage Guarantee Corporation Pvt. Ltd.: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AA (Stable); reaffirmed
Total	-	-	

**Instrument details are provided in Annexure I*

Rationale

The rating reaffirmation factors in the benefits derived by India Mortgage Guarantee Corporation Pvt. Ltd. (IMGC) from the operating expertise of its shareholders {Enact Holdings Inc. (Enact) and Sagen International Holdings Inc. (Sagen)} in managing mortgage guarantee businesses. Further, its capitalisation profile remains comfortable, supported by the last substantial capital raise in FY2023. Enact and Sagen increased their stakes in FY2023 to 42.2% and 40.2%, respectively, as on March 31, 2023 by acquiring a share from the remaining three shareholders.

The rating is, however, constrained by the slower-than-anticipated growth in IMGC's mortgage guarantee business with cumulative loans guaranteed amounting to Rs. 21,131 crore and assets under guarantee (AUG) of Rs. 16,466 crore outstanding as on June 30, 2023. ICRA notes that the company reported a provisional loss of Rs. 2.3 crore in H1 FY2024, after turning profitable in FY2023. The loss in H1 FY2024 was on account of increase in provisioning, however, incremental provisioning is expected to be lower in H2 FY2024, which would help the company keep overall credit cost for FY2024 under control.

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. Moreover, IMGC's guaranteed portfolio lacks seasoning as it has grown considerably only in the last 2-3 years. The portfolio's performance in the longer term is yet to be seen considering the limited vintage of a significant part of the guaranteed portfolio. Improvement in the profitability would remain a key monitorable.

The Stable outlook reflects ICRA's expectation that the company will be able to maintain a steady credit profile while scaling up its business volumes, given its established and recent tie-ups, and managing the underlying risk.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile – IMGC's capitalisation profile remains healthy with a net worth of Rs. 326.9 crore (provisional; IndAS) as on September 30, 2023 compared to Rs. 322.9 crore (audited; IGAAP) as on March 31, 2023. It raised primary equity capital in FY2023 from Sagen, which helped improve its capitalisation profile. With this, the company has significant buffer over the regulatory requirement of minimum net owned funds of Rs. 100 crore. IMGC also derives benefit from the operating expertise of its shareholders (Enact and Sagen) in managing mortgage guarantee businesses.

Good shareholder profile – IMGC was set up as a joint venture between Enact, National Housing Bank (NHB), International Finance Corporation (IFC) and Asian Development Bank (ADB). Enact (formerly known as Genworth Mortgage Holdings, Inc.) was a wholly-owned subsidiary of Genworth Holdings, Inc. (GHI; a subsidiary of Genworth Financial Inc.) until its initial public offering on September 20, 2021. In FY2023, Sagen became a shareholder in IMGC, acquiring a 31.4% stake in the company.

Subsequently, in H2 FY2023, Enact and Sagen bought some stake from the other three shareholders, increasing their stakes to 42.2% and 40.2%, respectively, as on March 31, 2023. 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 and Sagen's expertise in managing mortgage guarantee businesses.

Credit challenges

Limited seasoning of guaranteed book with exposure to relatively riskier housing credit – The majority of IMGC's guaranteed portfolio lacks seasoning as it has grown considerably only in the last 2-3 years. This is reflected by the 3-year compound annual growth rate (CAGR) of 32% in the AUG till March 31, 2023. IMGC's guarantee writing volumes over the last three fiscals (FY2021 to FY2023) was around Rs. 11,000 crore in comparison to the AUG of Rs. 15,895 crore as on March 31, 2023. The portfolio's performance in the longer term is yet to be seen considering the limited vintage of a significant part of the guaranteed portfolio.

IMGC's product proposition allows lenders to lend to borrowers with a relatively higher risk perception. Using mortgage guarantees, lenders may choose to take additional risk and expand their reach. This increases the portfolio vulnerability and makes it imperative for IMGC to avoid adverse selection of portfolio. So far, the company has been able to keep its credit costs under control. However, with the increase in business volumes in the recent past, the strength of the company's risk management and credit underwriting functions remains to be seen for a larger portfolio. IMGC's ability to manage the credit risk appropriately would be important for maintaining its credit profile.

Subdued 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 segments such as loan against property, project finance, etc. This slower-than anticipated traction had resulted in delayed breakeven and subdued profitability. IMGC turned profitable in FY2023 with a profit after tax (PAT) of Rs. 3.4 crore, translating into a return on average assets (RoA) of 0.8% and a return on average equity (RoE) of 1.5%. Nonetheless, its profitability remains subdued. IMGC reported a net loss of Rs. 2.3 crore (provisional; IndAS) in H1 FY2024, which was on account of increase in provisioning, however, incremental provisioning is expected to be lower in H2 FY2024, which would help the company keep overall credit cost for FY2024 under control. Thus, overall profitability is expected to improve, though the same would remain subdued.

ICRA notes that even though IMGC has continued onboarding mortgage lenders, the traction in business volumes remains below expectations. Its business volumes are also concentrated among a few lenders and any discontinuance or reduction of business from such lenders would have an adverse impact on the profitability as the operational efficiency would be impacted. ICRA notes that IMGC has been able to improve its operational efficiency over the past few years. It had an operating expense (opex)-to-average total assets (ATA) ratio of 13.0% in FY2023 against 16.1% in FY2022 (17.9% in FY2021). The management's ability to improve the operating efficiency further shall be key for the profitability metrics.

Liquidity position: Adequate

The company has no debt servicing obligations, given its nil debt level so far. However, it has to meet funding requirements for operating expenses and for paying claims. As it has sufficient unencumbered liquid investments, IMGC's liquidity profile is adequate.

Rating sensitivities

Positive factors – ICRA could upgrade IMGC's rating if it 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 – Pressure on IMGC's rating could arise if it is unable to grow its business volumes significantly 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	Rating methodology for non-banking finance companies Rating methodology for general insurance companies
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

IMGC was incorporated as a joint venture between Enact, NHB, IFC and ADB. Sagen infused substantial capital in IMGC in FY2023 and acquired a 31.4% stake. Further, Enact and Sagen acquired some stake from the other three shareholders in H2 FY2023, increasing their stakes to 42.2% and 40.2%, respectively, as on March 31, 2023.

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 base comprising several banks and housing finance companies (HFCs).

As on June 30, 2023, IMGC reported guaranteed loans (assets under guarantee; AUG) of Rs. 16,466 crore against which the risk in force was Rs. 2,773 crore. IMGC reported a net profit of Rs. 3.4 crore in FY2023 on an asset base of Rs. 515 crore as on March 31, 2023 compared with a net loss of Rs. 12.7 crore in FY2022 on an asset base of Rs. 289 crore as on March 31, 2022.

Key financial indicators (audited)

IMGC	FY2021	FY2022	FY2023	H1 FY2024
Accounting as per	**IGAAP**	**IGAAP**	**IGAAP**	**IndAS (Provisional)**
Mortgage guarantee fee income	21.6	28.3	35.2	21.2
Total income	38.6	47.1	66.0	38.6
Profit after tax	(24.3)	(12.7)	3.4	(2.3)
Assets under guarantee (AUG)	8,601	10,391	15,895	16,466
Guarantee in force	8,655	10,444	13,427	13,824^
Risk in force	1,735	2,095	2,694	2,773^
Total assets	269.7	288.7	514.8	543.4
Net worth	142.8	130.1	322.9	326.9
CRAR	28.6%	22.2%	37.7%	39.2%^

Amount in Rs crore; ^Guarantee in force, risk in force and CRAR are as on June 30, 2023

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2024)				Chronology of Rating History for the Past 3 Years			
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating in FY2024	Date & Rating in FY2023	Date & Rating in FY2022		Date & Rating in FY2021
					Nov 22, 2023	Nov 14, 2022	Mar 29, 2022	Jun 18, 2021	Nov 9, 2020
1	Issuer Rating	Long Term	-	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Negative)	[ICRA]AA (Negative)	[ICRA]AA (Negative)

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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