December 24, 2024

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	NA	NA	[ICRA]AA (Stable); reaffirmed
Total	**NA**	**NA**	

**Instrument details are provided in Annexure I*

Rationale

The rating factors in India Mortgage Guarantee Corporation Pvt. Ltd.'s (IMGC) comfortable capitalisation profile with no external debt and net worth of Rs. 348 crore (provisional), as on September 30, 2024, against the regulatory requirement of net owned funds (NOF) of Rs. 100 crore. The rating also considers the benefits arising from the operating expertise of the shareholders {Genworth Financial Mauritius Holding Limited (Genworth) ultimately held by Enact Holdings Inc. (Enact) and Sagen International Holdings Inc. (Sagen)} in managing mortgage guarantee businesses.

The rating, however, remains constrained by the slower-than-anticipated growth and limited seasoning of the guaranteed book with exposure to the relatively riskier housing credit segment. The company's assets under guarantee (AUG) stood at Rs. 18,337 crore as of June 2024 (Rs. 16,466 crore as of June 2023) with a large proportion of guarantees underwritten over the past 3-4 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. Further, business volumes remain concentrated, given the high share of the top 3 lending partners.

The rating also factors in the company's moderate earnings profile with a net profit of Rs. 1.9 crore in FY2024 (provisional profit of Rs. 1.4 crore in H1 FY2025), translating into a return on average assets (RoA) of 0.4% and a return on average net worth (RoNW) of 0.6% against Rs. 3.2 crore, 0.8% and 1.3%, respectively, in FY2023. ICRA notes that IMGC 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. 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 and manage the underlying risk while scaling up its business volumes, given its established and recent tie-ups.

Key rating drivers and their description

Credit strengths

Comfortable capitalisation profile with no external debt – IMGC's capitalisation profile remains comfortable with a net worth of Rs. 348 crore as on March 31, 2024 and no external debt till date. It had last raised primary equity capital in FY2023 from Sagen, which had helped improve its capitalisation profile. With this, the company has significant buffer over the regulatory requirement of NOF of at least Rs. 100 crore. Its capital adequacy ratio of 33.1%, as on June 30, 2024, was well above the regulatory requirement of 10%.

Good shareholder profile – IMGC was set up as a joint venture between Genworth Mortgage Holdings LLC (now known as Enact Holdings Inc.), National Housing Bank (NHB), International Finance Corporation (IFC) and Asian Development Bank (ADB). Enact was a wholly-owned 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, Enact and Sagen bought some stake from the other three shareholders, increasing their stakes to 49.5% and 47.5%, respectively, as on March 31, 2024. IMGC is the only company operating as a mortgage guarantor in India and enjoys first-mover advantage in the Indian markets while simultaneously leveraging Enact and Sagen's expertise in managing mortgage guarantee businesses. It derives benefit from the operating expertise of Enact and Sagen in managing mortgage guarantee businesses internationally.

Credit challenges

Limited seasoning of guaranteed book with exposure to relatively riskier housing credit – A major portion of IMGC's guaranteed portfolio lacks seasoning as it has grown considerably only in the last 3-4 years. This is reflected by the 3-year compound annual growth rate (CAGR) of 34% in the AUG till March 31, 2024. IMGC's guaranteed writing volumes over the last three fiscals (FY2022 to FY2024) was around Rs. 14,700 crore compared to the AUG of Rs. 20,915 crore as on March 31, 2024. 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 untested for a larger part of the portfolio. IMGC's ability to manage the credit risk appropriately would be important for maintaining its credit profile.

Concentration of business volumes – IMGC has continued onboarding mortgage lenders and improving its business volumes. Nonetheless, the traction in business volumes remains below expectations and concentrated among a few lenders. As on March 31, 2024, the share of loans underwritten for its top 3 mortgage lending partners stood at 81% of its AUG (80% as of June 2023). The company remains exposed to the risks arising from such business concentration. Its ability to onboard new lenders while reducing concentration shall remain important from a credit perspective.

Subdued profitability indicators owing to high operating expenses and lower-than-expected growth in business volumes – Establishing the mortgage guarantee product has taken time as it is a first of its kind in the Indian market. The traction in business volumes has been slower than expected 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.

The slower-than-expected business volumes have kept IMGC's operating efficiency low and the overall profitability subdued. The company reported a net profit of Rs. 1.9 crore in FY2024, translating into an RoA of 0.4% and RoNW of 0.6% against Rs. 3.2 crore, 0.8% and 1.3%, respectively, in FY2023. In relation to the average risk in force (RIF), the return stood at 0.1% in FY2023 and FY2024. While the operating expenses declined to 11.0% of average total assets (ATA) in FY2024 from 13.0% in FY2023, the same remained elevated, compressing the overall profitability. The management's ability to improve the operating efficiency further while containing credit cost shall be important from a profitability perspective.

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 the capitalisation profile and/or inadequate support from the shareholders could also lead to a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Non-banking Finance Companies (NBFCs) General Insurance
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. Enact and Sagen subsequently acquired some stake from the other three shareholders, increasing their stakes to 49.5% and 47.5%, respectively, as on March 31, 2024.

IMGC was set up to conduct 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 partner base comprising various banks and housing finance companies (HFCs).

As on June 30, 2024, IMGC reported guaranteed loans (assets under guarantee; AUG) of Rs. 18,337 crore against which the risk in force was Rs. 3,688 crore. IMGC reported a net profit of Rs. 1.9 crore in FY2024 on an asset base of Rs. 552 crore as on March 31, 2024 compared with a net profit of Rs. 3.2 crore in FY2023 on an asset base of Rs. 504 crore as on March 31, 2023.

Key financial indicators (audited; Ind-AS accounting)

IMGC	FY2023	FY2024	H1 FY2025*
Mortgage guarantee fee	35.2	44.8	25.1
Total income	64.0	80.6	44.8
Profit after tax	3.2	1.9	1.4
Assets under guarantee (AUG)	13,375	17,327	18,337^
Risk in force (RIF)	2,694	3,485	3,688^
Total assets	504	552	580
Net worth	345	347	348
CRAR	40.2%	33.3%	33.1%^

*Source: Company, ICRA Research; * Provisional numbers; All ratios as per ICRA's calculations; Amount in Rs. crore*
^ As on June 30, 2024

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current (FY2025)				Chronology of rating history for the past 3 years					
FY2025				FY2024		FY2023		FY2022	
Instrument	Type	Amount rated (Rs. crore)	Dec 24, 2024	Date	Rating	Date	Rating	Date	Rating
Issuer Rating	Long term	NA	[ICRA]AA (Stable)	Nov 22, 2023	[ICRA]AA (Stable)	Nov 14, 2022	[ICRA]AA (Stable)	Mar 29, 2022	[ICRA]AA (Negative)
								Jun 18, 2021	[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	NA	[ICRA]AA (Stable)

Source: Company; NA – Not applicable

Annexure II: List of entities considered for consolidated analysis

Not applicable

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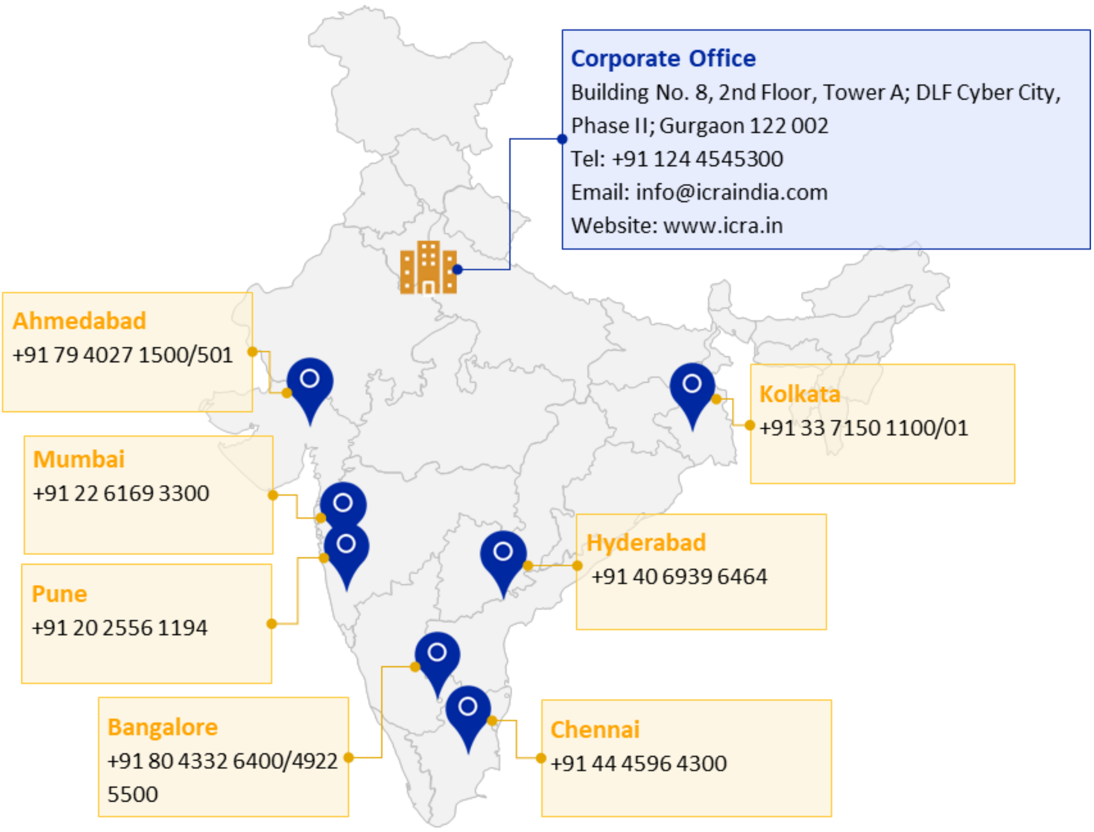

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