Indian Clearing Corporation Limited

March 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term issuer rating	0.00	CARE AAA; Stable	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The issuer rating of Indian Clearing Corporation Limited (ICCL) factors in strong linkage of ICCL with its parent BSE Ltd [BSE]; ICCL being wholly owned subsidiary of BSE and acting as a central counterparty (CCP) for clearing and settlement (C&S) of BSE's trades in addition to performing C&S for other stock exchanges being recognised as a Qualifying CCP (QCCP) by Securities and Exchange Board of India (SEBI). BSE is India's and Asia's oldest stock exchange, established in 1875 and is one of India's leading exchange groups and provides market for trading in equity, derivatives (equity, currency, commodity) and mutual funds.

The rating also derives strength from the strong regulatory oversight of the sector by the market regulator Securities and Exchange Board of India (SEBI), which has outlined various risk management guidelines like – Core Settlement Guarantee Fund (SGF), Default Waterfall and Stress Test to be adhered to by the CCPs underlining ICCL's systemic importance as a Financial Market Infrastructure (FMI) entity and ICCL's classification as a recognized CCP.

The rating further factors in ICCL's strong capitalization level with nil gearing. ICCL had tangible net worth of ₹913 crore as on September 30, 2023, including Core SGF of ₹898 crore compared to applicable Minimum Required Corpus (MRC) of ₹663 crore as on December 31, 2023. The rating also takes note of earnings vulnerability to volatile trading volumes partly offset by wider market access through inter-operability.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

Not applicable

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Shortfall in Actual SGF from regulatory requirements
- Weakening of linkages due to reducing of shareholding or significantly declining amount of settlement of trades executed on BSE
- Moderating credit profile of BSE

Analytical approach:

CARE Ratings Limited (CARE Ratings) has analyzed standalone credit and risk profile of ICCL. Ownership and operational linkages with its parent BSE are also factored in.

Outlook: Stable

The 'stable' outlook takes into consideration the Strong capitalisation levels, expectation of continued support from its parent alongwith high level of regulatory supervision in the sector with well-defined risk management policies.

Detailed description of the key rating drivers:

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Key strengths

Systemic importance coupled with strong parentage, operational linkages and extended support from BSE:

ICCL is one of the three CCPs that clear exchange-listed products and has been designated as a financial market intermediary (FMI) by SEBI. Being a CCP, the entity is systemically important in the financial sector as it bears the counterparty credit risk of both the trading parties. The recognition of its growing importance is exhibited by the increasing regulatory scrutiny by SEBI and the continuing regulatory developments led by SEBI.

ICCL is a wholly owned subsidiary of BSE and continues to remain integrated with the parent in terms of technology and other infrastructure. The parent-subsidiary linkage is further strengthened by SEBI regulatory guidelines, wherein BSE is required to have a minimum 51% ownership in ICCL. All exchanges are required contribute at least 25% to Core SGF in which BSE also contribute to Core SGF in proportion to the turnover cleared by ICCL. However, historically, BSE has been contributing 30%-35% of Core SGF, indicating continuing support.

BSE had tangible net worth of ₹2,646 crore (consolidated) and ₹2,166 crore (standalone) as on March 31, 2023 with nil borrowings. On standalone level for FY23, BSE reported profit after tax (PAT) of ₹167 crore on total income of ₹742 crore (9MFY24: PAT of ₹674 crore on total income of ₹807 crore) as compared to PAT of ₹195 crore on total income of ₹724 crore in FY22.

Strong capitalisation levels and nil gearing:

Capitalisation levels continued to remain strong with ICCL reporting tangible net worth of ₹817 crore as on March 31, 2023, and ₹913 crore as on September 30, 2023, as compared to a minimum net worth requirement of ₹100 crore. ICCL had nil term borrowings as on September 30, 2023 (Nil borrowings as on March 31, 2023). As on September 30, 2023, ICCL had sanctioned overdraft facilities of ₹1,058 crore and bank guarantee limits of ₹7,000 crore. Bank guarantees (BGs) are required due to interoperability and are kept with other CCP as a margin. These BG are exchanged between the CCP's. Overdraft are kept for intraday purpose and utilised only in case of technical defaults. BG and overdraft (OD) facilities had NIL utilization in FY23 and H1FY24.

Strong regulatory supervision by SEBI ensures adherence to global financial standards:

ICCL's business operations are closely monitored by SEBI in line with the strong regulatory framework stipulated by SEBI over the last few years with guidelines on stress testing, Core SGF and Default Waterfall, to ensure that its operations are compliant with international benchmarks and regulations, including the Principles for Financial Market Infrastructures (PFMI) issued by CPMI-IOSCO. The FMI principles include standards regarding participant default rules and procedures, minimum financial resources to cover credit and liquidity exposure of central counterparties and testing (stress testing, reverse stress testing and back testing). ICCL has also been recognized as a Qualifying CCP (QCCP) with its operational systems subject to regular scrutiny by SEBI. ICCL needs to seek approval of SEBI before extending its services to any segment of a recognized stock exchange and before admitting any securities for C&S. SEBI also prescribes margins to be collected from the members for the positions taken by them.

Adequate counterparty and operational risk management:

ICCL also has strong risk management systems in place, which helps to manage the risk of default by clearing members wherein ICCL regularly collects prescribed margins from its clearing members in each segment. The members get margin usage alerts on pre-defined levels on real-time basis. ICCL has prescribed various margins like Initial Margin (VaR) and SPAN, Spread Margin, Extreme Loss Margin, Additional Margin and Special Margin, etc. which are monitored on a real-time basis. Stress tests are performed daily with model testing frequency increased on identification of risks led by volatility in the price of the underlying securities and increase in the position of the clearing member, among others.

ICCL has a comprehensive margin and collateral risk management system with 50% of the margins and collateral required in the form of cash and cash equivalents to manage its liquidity risk in a stress environment. Initial margins are calculated with a 99.99% confidence interval and haircuts to collateral (10% or VaR) are applied on a real-time basis.

In case of shortfall of margin, risk management system generates various alerts at different collateral utilisation levels (70%, 80% and 90%), puts the member in risk reduction mode at 90% and disables the trading terminal of a member when the collateral utilisation exceeds 100%. On 100% collateral utilisation, member's terminal is put under suspension.

In case of default by clearing members, ICCL follows a defined waterfall mechanism to recover money and mitigate the counterparty risk. ICCL has also set aside ₹100 crore or the capital requirement towards orderly winding down of critical operations and services to cover operational, legal, regulatory, and other labilities. The entity has a transparent governance structure with Board of Directors independent of BSE.

During FY23, SEBI mandated discontinuation of pooling mechanism, third-party validation checks and nomination check with effect from July and October 2022 respectively under the mutual fund segment which necessitated process changes at ICCL. This resulted in challenges like incorrect data update, delays in data updates, no updates from payment aggregators (PA) end and error in underlying process. There were also technology constraints at PA-end and incorrect updating of bank account details from member's-end.

Headroom led by a well-funded default waterfall:

ICCL has a well-developed structure with strong liquidity buffers providing the required cushion to its risk exposures. ICCL had a strong buffer with Core SGF of ₹898 crore against applicable Minimum Required Corpus (MRC) of ₹663 crore as on December 31, 2023. ICCL had kept core SGF in line with the mandate published by SEBI in the year 2014 to form a core SGF to provide liquidity buffer in order to provide a hedge against default risk of clearing members.

ICCL also has additional buffer in the form of counterparty default insurance of around ₹492 crore. ICCL has witnessed nil counter party defaults during the entire course of the business.

The collaterals and margin being the first line of defense mechanism in the waterfall structure, the adequacy of margins is computed and monitored on a real-time basis. Furthermore, as required by SEBI, core SGF adequacy is reviewed on monthly basis through various stress scenarios.

Earnings vulnerability to volatile trading volumes partly offset by wider market access through inter-operability:

In equity segment, ICCL settled and cleared trades for 10% of overall trade volumes in 9MFY24 which increased from 7% in FY23 (ICCL settled and cleared trades for about 8% of overall trade volumes in FY22). In derivatives segment, ICCL settled and cleared trades for 6% of overall trade volumes in 9MFY24 which increased from 5% in FY23 (settled and cleared trades for about 3% of overall trade volumes in FY22); and in currency derivatives segment, ICCL settled and cleared trades for 27% of overall trade volumes in 9MFY24 as compared to 29% in FY23 (settled and cleared trades for about 31% of overall trade volumes in FY22). Considering all segments, ICCL had settled and cleared trades for about 11% market share in 9MFY24 as compared to 10% in FY23 (settled and cleared trades for about 9% of overall trade volumes in FY22).

Subsequently, fee income has reported increase over the past few quarters with clearing and settlement fees now contributing 51% to the total income at ₹111 crore in FY23 as against 49% to the total income at ₹73 crore in FY22. The company reported PAT of ₹33 crore on total income of ₹216 crore in FY23 as compared to PAT of ₹35 crore on total income of ₹148 crore in FY22. PAT reduced mainly due to increased operating expense and contribution to Core SGF.

In 9MFY24 (refers to April 01 to December 31), the company reported PAT of ₹60 crore which increased from ₹23 crore in the corresponding period last year. The increase in the PAT in 9MFY24 is due to higher income from operations of ₹271 crore as compared to ₹148 crore in the corresponding period last year.

High growth in income was witnessed on account of higher turnover cleared by ICCL in FY23 i.e. ₹1,44,27,464 crore (9MFY24: ₹95,48,956 crore) as compared to ₹1,11,44,236 crore in FY22.

Due to the discontinuation of pooling mechanism in mutual fund segment as mentioned in above para, there were delays in processing of refunds. Clients got refunds as well as allotment of units and excess payment by ICCL to clients amounting ₹18.25 crore receivable as on March 31, 2023. Out of this the company made provision of ₹15.00 crore in FY23. In H1FY24, the company made additional provision against such recoverable amount of ₹6.79 crore in the books of account and accordingly the ₹17.43 crore provision (net of recovery) stood against such receivable as on December 31, 2023.

Liquidity: Strong

ICCL has strong liquidity to manage its both its clearing member defaults and to support its business operations. In addition to ICCL's Core SGF, ICCL has access to liquidity in the form of cash and bank balances to the tune of ₹3,023 crore (excluding earmarked) compared to no external borrowings as on September 30, 2023.

ICCL also has sanctions from banks of ₹8,676 crore with no drawdowns as on December 31, 2023 and negligible utilisation over the last one year. In an adverse stress scenario of clearing member default, ICCL has a robust liquidity framework and an adequate default waterfall to manage the consequent liquidity risk.

Environment, social, and governance (ESG) risks : Not applicable

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Issuer Rating
Non Banking Financial Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial services	Financial services	Capital markets	Depositories, Clearing houses and Other intermediates

ICCL was incorporated in April 2007 as a wholly owned subsidiary of BSE. ICCL carries out the functions of clearing, settlement, collateral management and risk management for various segments such as equity cash market (including BSE SME, offer for sale, securities lending and borrowing, corporate bonds and government securities), equity derivatives segment (stock and index futures and options), currency derivatives (currency (including cross-currency) futures and options, interest rate futures and options), commodity derivatives, electronic gold receipts and debt products, including tri-party repo products. Postinteroperability, ICCL settles trades reported on the equity cash segment, equity derivatives segment and currency derivatives segments of BSE as well as other exchanges.

ICCL operates under the primary regulation of the SEBI and the Reserve Bank of India (RBI) for select products.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	December 31, 2023 (UA)
Total income	148	216	288
PAT	35	33	60
Total Assets	2,831	2,664	-
ROTA (%)	1.58	1.20	-

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Issuer Rating-Issuer Ratings		-	-	-	0.00	CARE AAA; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (27-Dec-22)	1)CARE AAA (Is); Stable (28-Dec-21)	1)CARE AAA (Is); Stable (08-Jan-21)

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated: Not applicable

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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