

NSE IFSC Clearing Corporation Limited (Revised)

September 09, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Issuer rating	0.00	CARE AAA; Stable	Re-affirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Rating assigned to NSE IFSC Clearing Corporation Limited (NSEICC) continues to derive strength from its strong parentage of the National Stock Exchange Ltd (NSE) group; the benefits derived from being part of the NSE group, including managerial, financial, and technology support; and the expectation of continued support from the NSE group, which has a strong market position. NSEICC is also of strategic importance to the group due to its presence in the Gujarat International Finance Tec (GIFT) city.

Rating also factors in the presence of an adequate risk management framework, a well-defined default waterfall mechanism, along with an adequate core settlement guarantee fund. The rating also takes note of the growth in the trading turnover of NSE International Exchange Ltd (NSE IX), post launch of the NSE IX SGX Connect.

Rating, however, remains tempered by its low revenue coupled with volatility associated with equity markets. NSEICC provides clearing and settlement (C&S) services for trades executed in NSE IX. The exchange has started levying transaction fees since July 03, 2023, and NSEICC has a revenue sharing agreement with NSE IX, which is expected to improve the revenues of NSEICC, going forward.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors: Not applicable

Negative factors

- Deterioration in the credit profile of the NSE under an eventuality
- Reduction in the shareholding of the NSE group in the company below 51%.
- Weakening in the expected support from the group.

Analytical approach

Standalone, along with factoring in the strong linkages with its ultimate parent, NSE (NSEICC is a stepdown subsidiary of NSE, being a 100% subsidiary of NSE Clearing Limited [NCL]), deriving significant support in terms of technology, system and process development from the NSE group.

Outlook: Stable

The 'stable' outlook considers continued support from the NSE group.

Detailed description of the key rating drivers

Key strengths

Strong parentage with support in the form of shared brand name, managerial, technological, and other infrastructure

NSEICC is an NSE group company, being a wholly owned subsidiary of NCL, which is 100% held by NSE. It remains strongly linked with the group in terms of a shared brand name, managerial and capital support. It remains strongly linked with the parent, NCL, in terms of technological as well as other infrastructure aspects of the central counterparty (CCP) clearing business.

Incorporated in 1992, NSE was recognised as a stock exchange by the Securities and Exchange Board of India (SEBI) in April 1993 and commenced operations in 1994 with the cash market segment and wholesale debt market. NSE enjoys a leading market share (by total turnover) of 93% of the equity cash segment, 91% of the equity derivatives segment, and 94% of the currency derivatives segment during FY24 (refers to the period from April 1 to March 31). The financial risk profile of NSE, on a standalone basis, remained stable during FY24, wherein, the total income witnessed a growth of 10% during FY24 on a y-o-y basis, the profit-after-

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

tax (PAT) was stable during FY24 at ₹6,645.3 crore as compared to ₹7,207.6 crore, coupled with strong liquidity and net worth base and nil outstanding debt. The capital structure of NSE has remained strong with a tangible net worth (TNW) of ₹19,294 crore and nil debt as on March 31, 2024.

Experienced board of directors and management team

The board of directors of NSEICC consists of highly qualified personnel who have vast experience of securities exchanges and clearing corporations. The board of NSEICC comprises of four public interest directors and one shareholder director. Mr. Kumar Kanakasabapathy is the chairman of the Board, who was former MD & CEO, Indian Clearing Corporation Ltd. Mr. Neeraj Kulshrestha is the Managing Director & CEO of NSEICC effective from July 24, 2023. Mr. Piyush Chourasia shareholder director is the Chief Regulatory Officer – NSE. The key management personnel of the company possess wide experience of more than 15 years, majorly in the capital market and clearing & settlement domain.

Strong regulatory supervision

The Government of India (GoI) has set up a unified regulator, the International Financial Services Centres Authority (IFSCA), for regulating all financial services entities in the International Financial Service Centre (IFSC), which will bring about ease of doing operations by providing a single-window clearance and increase the pace of market development. NSEICC's operations are regulated by the IFSCA from October 1, 2020. IFSCA has issued the IFSCA (Market Infrastructure Institutions [MII]) Regulations, 2021, which laid down the framework under which MIIs can operate at IFSC and will help IFSC clearing corporations substantially to compete with other clearing corporations established at international jurisdictions. As per the new regulations, the minimum net worth requirement is US\$ 3 million, against which NSEICC has a net worth of US\$ 21.23 million as on March 31, 2024 (includes SGF of US\$ 4.43 million).

Adequate risk management in adherence to global benchmarks

NSEICC's risk management policy is in accordance with the Principles for Financial Market Infrastructure (PFMI) published by the Committee on Payments and Market Infrastructures (CPMI) and the Technical Committee of the International Organization of Securities Commissions (IOSCO) and is similar with risk management systems of other global clearing corporations who also follow CFMI IOSCO guidelines. These principles are also broadly adopted by the risk management systems of leading domestic clearing corporations.

NSEICC undertakes to act as the central counterparty to all the trades executed on the NSE IX. NSEICC is exposed to operational risk arising out of the exposure to clearing members, which will lead to credit and liquidity risk. The risk containment measures include capital adequacy requirements of members, monitoring of member performance and track record, stringent margin requirements, position limits, online monitoring of member positions, and automatic disablement from trading when limits are breached, etc. The three pillars of NSEICC's approach for management of exposure to clearing members are the upfront collection of margins in the form of collateral, client-level margining (no netting across clients) and online real-time computation of client level margin and position monitoring. NSEICC covers its credit exposures to its participants for all products through an effective margining system that is risk-based and regularly reviewed.

NSEICC has an established framework for the selection of members and clearing banks. The framework ensures stringent criteria of selection and adequate risk mitigation. NSEICC inducts three categories of members having a stipulated minimum TNW requirement, infrastructure, etc.

Well-defined default waterfall and adequate settlement guarantee fund

NSEICC has adopted a well-defined default waterfall mechanism, based on globally accepted practices, to take care of allocation of losses in case of defaults, if any, by the clearing members. The CCP has also created a dedicated default fund, which is readily and unconditionally available to meet the settlement obligations of NSEICC in case of clearing members failing to honour the settlement obligation; the adequacy of the same is stress tested on a daily basis. For the month of March 2024, the value of default fund is US\$ 4.59 million as against the minimum required value of US\$ 1 million as per regulation. NSEICC has had nil defaults in the member accounts since its inception.

Incentives and tax benefits provided to entities in the IFSC

NSEICC and NSE IX are located in the IFSC at GIFT City, Gandhinagar, which is a special economic zone (SEZ), and hence, as per regulations, receives various tax benefits and incentives. The same has been provided to incentivize the trading activity and attract investors from across the globe by making the IFSC globally competitive.

Continuous growth in turnover in NSE IX led by the Connect

NSEICC acts as the qualified counterparty to carry out the clearing and settlement of trades executed on NSE IX. The trading turnover at NSE IX increased substantially during FY24 and H1FY25 due to full scale operations of NSEIX SGX Connect which commenced from July 3, 2023.

Key weaknesses

Past track record of losses with low revenue albeit improvement

During FY24, NSEICC reported a loss of ₹8.40 crore on a total income of ₹16.66 crore as compared to loss of ₹15.75 crore on a total income of ₹0.86 crore during FY23. The income profile consists of clearing & settlement income (C&S), annual membership fees from the clearing members. The C&S income flows from NSE IX through revenue sharing agreement, wherein the exchange shares the revenue generated out of the trades. Investment income earned on the cash and bank balance maintained by the CCP is another source of income for NSEICC. The substantial improvement in the income profile is led by C&S income which started from July 03, 2023 onwards as the exchange started levying charges on the trades executed. The operating expense of NSEICC comprises of employee expenses, technology related expenses and other administration expenses, which continues to remain high, dragging the profitability. Going forward, as C&S income increases with growth in the trading turnover and operating expense stabilizes, the CCP is expected to report an operating break-even in the medium term. However, CARE Ratings Ltd (CARE Ratings) also takes note of the volatility in the revenue generation for the CCP which is market determined.

Liquidity: Strong

The liquidity of NSEICC remained comfortable, marked by no repayment obligations on account of no debt and the presence of cash and bank balance of ₹167 crore as on March 31, 2024. The overall gearing of NSEICC was NIL as on March 31, 2024. NSEICC has also created a dedicated settlement guarantee fund, which is readily and unconditionally available to meet the settlement obligations of NSEICC in case of clearing members failing to honor the settlement obligation; the adequacy of the same is stress tested on a daily basis.

Applicable criteria

[Factoring Linkages Parent Sub JV Group](#)

[Definition of Default](#)

[Issuer Rating](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios - Financial Sector](#)

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

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 Intermediaries

NSEICC was incorporated on June 05, 2017, as a qualified central counterparty as the clearing corporation for the transactions executed on NSE IX, established at IFSC, GIFT City. NSEICC provides counterparty guarantee for the trades executed on NSE IX to ensure the efficient clearing and settlement for trades. NSEICC is a wholly owned subsidiary of NCL, established by the NSE. It has adopted best practices and principles and adopted the CPMI IOSCO Principles for Financial Market Infrastructures (PFMIs).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	March 31, 2024 (A)
Total income	0.40	0.86	16.66
PAT	-10.07	-15.75	-8.40
Total assets*	68.80	56.34	216.32
ROTA#	NM	NM	NM

A: Audited UA: Unaudited; Note: these are latest available financial results *Net of intangible assets. #NM: Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Detailed explanation of covenants of rated instruments/facilities: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: 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 and 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 2024-2025	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
1	Issuer Rating-Issuer Ratings	LT	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (14-Jul-23)	-	-

*Long term/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 : Not applicable

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.

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About us:

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