

Indian Clearing Corporation Limited

December 27, 2022

Rating

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Issuer Rating*	-	CARE AAA; Stable [Triple A; Outlook: Stable]	Reaffirmed
Total Instrument	-		

Details of instruments/facilities in Annexure-1

*The change in the symbol for Issuer rating is pursuant to SEBI's circular no. SEBI/HO/DDHS/DDHS-RACPOD2/P/CIR/2022/ 146 dated October 31, 2022, wherein SEBI has standardised the symbols and definitions for Issuer Ratings. The new symbols and definitions as prescribed by SEBI shall henceforth be used for the new ratings/ reviews by CARE Ratings Limited for Issuer Ratings.

Detailed rationale & key rating drivers

The rating remains underpinned by the strong linkage of Indian Clearing Corporation Limited (ICCL) with its parent BSE Ltd [BSE]; ICCL being BSE's wholly-owned subsidiary acts 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. The rating factors in the strong regulatory oversight of the sector by SEBI, which has outlined various risk management guidelines like – Core 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 strong capitalization level with nil gearing. ICCL had tangible networth of ₹777.7 crore as on September 30, 2022 (including SGF) against minimum required corpus (MRC) requirement of ₹248.7 crore. The rating also takes note of earnings vulnerability to volatile trading volumes partly offset by wider market access through inter-operability.

Continued strong inter-connectedness with BSE, maintenance of liquidity buffers to cover default risk, regulatory changes and change in BSE's competitive position are the key rating sensitivities.

Rating sensitivities

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

- Shortfall in Actual SGF from regulatory requirements
- Weakening of linkages due to reduction in shareholding or significant decline in the amount of settlement of trades executed on BSE
- Moderation in credit profile of BSE

Detailed description of the key rating drivers

Key rating strengths

Systemic importance; benefits from linkages with parent company

ICCL is one of the three CCPs that clear exchange-listed products and has been designated as a 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 and contribute 25-50% to Core SGF for non-interoperable segments and upto 50% for interoperable segments.

Strong capitalisation levels and nil gearing

Capitalisation levels continued to remain strong with ICCL reporting tangible net worth of ₹714.1 crore as on March 31, 2022, and ₹777.7 crore as on September 30, 2022. ICCL had nil term borrowings as on September 30, 2022 (Nil borrowings as on March 31, 2022). As on September 30, 2022, ICCL had sanctioned overdraft facilities of ₹731.9 crore with a drawing power of ₹724.6 which had 0.58% utilization during July 2022. Assuming, full utilization of the overdraft bank facilities in place as on September 30, 2022, the adjusted overall gearing levels would have been 0.94 times. Furthermore, ICCL had ₹2,500 crore bank guarantee limit in place.

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 Settlement Guarantee Fund (Core SGF) and Default Waterfall, to ensure that its operations are compliant with international benchmarks and regulations, including the Principles for Financial

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

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, back testing). ICCL has also been recognised 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 recognised 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/ SPAN), Extreme Loss Margin, Crystallized Loss Margin (intraday MTM), Additional Margin and Special Margin, which are monitored on a real-time basis. Stress tests are performed daily considering historical and hypothetical scenarios including increase in volatility in the price of the underlying securities, increase/decrease in the position value of the clearing member, etc. 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% confidence interval (6 sigma) 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 as a part of its recovery and resolution for covering operational cost for one year, legal cost, regulatory cost, and other liabilities. The entity has a transparent governance structure with Board of Directors independent of BSE.

Solid 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 considering a 6-month Core SGF average of ₹699.60 crore vis-à-vis an average actual Minimum Required Corpus (MRC) of ₹248.7 crore as on September 30, 2022. This is in line with the 2014 SEBI mandate 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 in the amount of around ₹450 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 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

ICCL settled and cleared trades for 39% of BSE's trade volumes in H1FY23 (PY: ICCL settled and cleared trades for about 39% of BSE's trade volumes in FY22, 37% of BSE's trade volumes in FY21); ICCL also gained about 8% market share in NSE's clearing volume during H1FY23 and 32% market share in MSE's clearing volume during H1FY23 resulting in an increase in its overall business volume. Subsequently, fee income has reported increase over the past few quarters with clearing and settlement fees now contributing 50% to the total income in FY22 as against 8% in FY19.

During FY22, the company reported profit after tax (PAT) of ₹34.85 crore up by 53% on Y-o-Y basis mainly on account of 81% rise in the total income due to high growth in clearing and settlement income (C&S). Such high growth was on account of higher turnover cleared by ICCL during FY22 i.e. ₹1,11,44,236 crore as compared ₹74,58,834 crore during FY21. During H1FY23 (refers to April 01 to September 30), the company reported profit after tax of ₹12.91 crore down from ₹19.28 crore in the corresponding period last year. The decline in the PAT is due to higher contribution of ₹38.56 crore made by ICCL towards core SGF which has led to rise in the operating expense.

Liquidity: Strong

ICCL has substantial liquidity to manage both its clearing member defaults and to support its business operations. In addition to Core SGF, ICCL also has access to liquidity in the form of cash and bank balances and liquid investments amounting ₹2,506 crore (excluding earmarked) as on March 31, 2022 and ₹2,343 crore (total) as on September 30, 2022. ICCL also has sanctioned limit of ₹731.9 crore from five banks with no drawdowns as of September 30, 2022 and negligible utilisation over the last one year.

Analytical approach: CARE Ratings has analyzed standalone credit and risk profile of ICCL. Ownership and operational linkages with its parent BSE are also factored in.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[Financial Ratios - Financial Sector](#)

[Issuer Rating](#)

[Rating Outlook and Credit Watch](#)

About the company

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 & borrowing, corporate bonds and government securities), equity derivatives segment (stock & 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. Post-interoperability, 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 (Rs. crore)	31-03-2021 (A)	31-03-2022 (A)	H1FY23 (UA)
Total income	81.63	147.9	104.2
PAT	22.7	34.9	12.9
Total Assets	1582.1	2831.0	2711.0
ROTA (%)	1.41	1.58	0.93

A: Audited UA: Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer 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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Issuer Rating-Issuer Ratings	-	-	-	-	0.00	CARE AAA ; Stable

Annexure-2: Rating History of 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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Issuer Rating-Issuer Ratings	Issuer rat	0.00	CARE AAA; Stable	-	1)CARE AAA (Is); Stable (28-Dec-21)	1)CARE AAA (Is); Stable (08-Jan-21)	1)CARE AAA (Is); Stable (11-Feb-20) 2)CARE AAA (Is); Stable (04-Apr-19)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
NA	
B. Non-financial covenants	
NA	

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Issuer Rating	-

Annexure-5: Bank lender details for this company – Not applicable

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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