

Indian Clearing Corporation Limited

April 03, 2018

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating factors in the strong parentage of Indian Clearing Corporation Limited [ICCL]; being wholly-owned subsidiary of BSE Ltd. (BSE)], strong capitalization levels and nil gearing, good corporate governance & risk management framework, strong regulatory supervision by the Securities and Exchange Board of India (SEBI) and adequate Core Settlement Guarantee Fund (Core SGF). The rating also factors in ICCL's business subject to the volatility in clearing volumes. Continued parentage, profitability, capitalization levels and BSE's competitive position are the key rating sensitivities.

Detailed description of the key rating drivers

Strong parent support: ICCL being a wholly-owned subsidiary of BSE enjoys parent support in terms of technology, infrastructure and capital requirements. ICCL plays an important role for smooth functioning of BSE's operations as it provides clearing and settlement services for trades executed at BSE.

Strong capitalization levels and nil Gearing: ICCL has a strong capitalization levels with tangible net-worth of Rs.512.48 crore as on September 30, 2017 (March 31, 2017: Rs.515.36 crore). ICCL has nil borrowings as on September 30, 2017 (Nil as on March 31, 2017) and therefore has no leverage on its balance sheet.

Good corporate governance & risk management framework: ICCL continues to have a good corporate governance framework which is strengthened by the fact that, as on December 31, 2017, out of the seven board members, three are public interest directors and two are shareholders directors. 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 segments. Apart from this, ICCL also has purchased an insurance policy of USD 60 million which serves an additional cushion to cover the losses arising due to payment default by clearing members, if any.

Strong regulatory supervision by SEBI: ICCL has been accorded with "Qualified Central Counterparty" (QCCP) status by SEBI. The clearing and settlement operations of ICCL are closely regulated by SEBI. ICCL needs to seek approval from SEBI before extending its services to any segment of a recognized stock exchange and admitting any securities for clearing and settlement. SEBI also directs ICCL towards mandatory maintenance of Core SGF for which the contribution is done by ICCL, BSE and clearing members to ensure settlement of transactions in case of failure on part of its clearing members to fulfill its obligations.

Adequate Core SGF: SEBI in its August 2014 circular has stipulated the formation of Core SGF by the clearing corporations against which no exposure is granted to the clearing members and which is readily and unconditionally available to cover the counterparty default risk. ICCL has not sought any contribution from its members and 75% is self-funded and 25% is contributed by BSE to the core SGF.

As prescribed by SEBI, ICCL conducts daily stress tests for various segments like equity cash, equity derivatives and currency derivatives to assess the adequacy of core SGF. For the month of December 2017, ICCL's actual Core SGF stood at Rs.348.00 crore as against actual minimum corpus required of Rs.106.62 crore ensuring adequate coverage in case of defaults.

ICCL's business subject to volatility in trading volumes: ICCL neither receives clearing and settlement income from nor pays any investment income to BSE. Due to change in its revenue model, ICCL majorly earns its operational revenue from the investment income from the deposits and margins parked by clearing members and from the clearing fee charged to its

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

members. Since ICCL currently, is a clearing and settlement agency only for BSE, its business performance is dependent upon the trading activity on BSE's trading platform.

Analytical Approach: CARE has analyzed the standalone profile of ICCL along with its strong linkages with parent, BSE.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

[Criteria for Issuer Rating](#)

[Financial ratios - Financial Sector](#)

About the Company

Indian Clearing Corporation Limited ("ICCL") was incorporated in April 2007 as a wholly owned subsidiary of BSE. ICCL clears and settles trades executed on all the segments of BSE, including Equity Cash, BSE SME, Offer for Sale, Securities Lending & Borrowing, Equity Derivatives, Debt Segment, Sovereign Gold Bonds, Interest Rate Futures and the Currency Derivatives Segment. It also settles trades reported on the Indian Corporate Debt Segment and the Mutual Fund segment of BSE. Recently, ICCL received recognition as a Third Country Central Counterparty ("TC-CCP") by European Securities and Market Authority (ESMA) in accordance with the European Market Infrastructure Regulation (EMIR). A TC-CCP recognized under the EMIR process also receives the Qualified Central Counterparty ("QCCP") status across the European Union, and so is subject to lower capital requirements/charges under the Basel III Framework introduced by the Basel Committee on Banking Supervision. ICCL operates under the primary regulation of the SEBI and also the Reserve Bank OF India ("RBI") for select products.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total income	69.58	87.97
PAT	48.24	56.48
Total Assets (net of intangibles)	1,166.66	1,762.45
PAT Margin (%)	69.33	64.20
ROTA (%)	3.98	3.85

A: Audited

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	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 (Is); Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE AAA (Is); Stable	-	1)CARE AAA (Is); Stable (02-Feb-17)	1)CARE AAA (Is) (22-Jan-16)	1)CARE AAA (Is) (13-Jan-15)

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