

## Indian Clearing Corporation Limited

April 04, 2019

### Ratings

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

*Details of instruments/facilities in Annexure-1*

*\*The rating is subject to the company maintaining overall gearing not exceeding 2 times*

### Detailed Rationale & Key Rating Drivers

The rating factors in the strong parentage of Indian Clearing Corporation Limited [ICCL]; being a wholly-owned subsidiary of BSE Ltd. (BSE)], strong linkages with the BSE as ICCL is the central counterparty for clearing and settlement of all trades executed on BSE and good corporate governance with strong regulatory supervision by the Securities and Exchange Board of India (SEBI).

The rating also factor in strong capitalization levels with nil gearing, adequate risk management framework in place and liquidity management through Core Settlement Guarantee Fund (Core SGF).

The rating also factors in volatility in ICCL's income profile due to its revenue model of investment income from collaterals deposited by members and fixed fee charged on transactions vis-à-vis fixed nature operating costs impacting the profitability of ICCL.

Continued parentage, capitalization levels, profitability, regulatory changes, significant impact on the capitalization level due to member defaults and BSE's competitive position are the key rating sensitivities. Further, with the expected regulatory changes bringing interoperability amongst central counterparties (CCPs) the business model may see changes in the near future.

### Detailed description of the key rating drivers

#### **Strong parentage and linkages with BSE and expected support**

Being a wholly owned subsidiary of BSE, ICCL plays an important role for smooth functioning of BSE's operations as it provides clearing and settlement services for trades executed at BSE as a result, ICCL has strong linkages with BSE in terms of technology, infrastructure as well as capital support and contribution of atleast 25% to its Core SGF. BSE had tangible net worth of Rs.2,683 crore as on March 31, 2018 and in times of crisis, BSE is expected to support ICCL considering high reputation risk as well as operational risk for BSE.

#### **Strong capitalization levels and nil gearing**

ICCL had strong capitalization levels with tangible net-worth of Rs.547.40 crore as on December 31, 2018 (March 31, 2018: Rs.519.24 crore). ICCL has nil borrowings as on December 31, 2018 (Nil as on March 31, 2018) and therefore has no leverage on its balance sheet.

#### **Good corporate governance and strong regulatory supervision**

ICCL continues to have a good corporate governance framework. As on December 31, 2018, ICCL's Board of Directors had seven members, out of which four were Public Interest Directors and two Shareholders Directors.

The clearing and settlement operations of ICCL are closely regulated by SEBI. ICCL has been accorded with "Qualified Central Counterparty" (QCCP) status 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 risk management framework**

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. The member is put in Risk reduction mode at 90% collateral utilization whereby trades only get executed on availability of adequate collateral. On 100% collateral utilization, 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 also has lines of credit of Rs.825 crore as a liquidity cushion.

#### **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

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

default risk. ICCL has not sought any contribution from its members and 50-75% is self-funded and 25-50% 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, Currency Derivatives and Commodities derivatives Segment to assess the adequacy of core SGF. For the month of March 2019, ICCL's actual Core SGF for all the segments cumulatively stood at Rs.388.44 crore (March, 2018: Rs.354.12 crore) as against actual minimum required corpus of Rs.73.18 crore (March, 2018: Rs.108.59 crore) ensuring adequate coverage in case of defaults by members, if any.

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.

#### **ICCL's business subject to volatility in trading volumes**

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

#### **Potential increase in competition due to interoperability among CCPs**

SEBI has issued framework for interoperability among Clearing Corporations with major objective of reducing costs. It will be implemented from June 01, 2019. As well as lowering the costs of participants' market access, interoperability will also foster competition between CCPs. Currently, all trades of an Exchange are cleared by its respective CCP. With the advent of interoperability, the Clearing Member shall be able to trade on any Exchange and choose to get the trades cleared through its preferred CCP. . While this creates opportunity for all the clearing corporation, the increase in competition may also affect business volumes and profitability.

**Analytical Approach:** CARE has analyzed the standalone profile of ICCL along with its strong operational and financial 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](#)

#### **Liquidity Profile**

ICCL's liquidity profile was comfortable with respect to borrowings as it had no external borrowings. ICCL follows SEBI mandated daily stress test to be conducted to compute the Minimum Required Corpus (MRC) of core SGF for every month. For the month of March 2019, ICCL's actual Core SGF for all the segments cumulatively stood at Rs.388.44 crore (as against actual minimum required corpus of Rs.73.18 crore) ensuring adequate coverage in case of defaults by members, if any. In addition, ICCL had unutilized bank lines of Rs.825 crore to meet any liquidity requirement.

#### **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, Currency Derivatives Segment and Commodity 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)	FY17 (A)	FY18 (A)
Total income	87.97	64.84
PAT	56.48	38.64
Total Assets (net of intangibles)	1,762.45	1,567.50
PAT Margin (%)	64.20	59.59
ROTA (%)	3.85	2.32

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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**

**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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**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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Issuer Rating-Issuer Ratings	Issuer rating	0.00	CARE AAA (Is); Stable	1) CARE AAA (Is); Stable (04-Apr-18)	-	1) CARE AAA (Is); Stable (02-Feb-17)	1) CARE AAA (Is) (22-Jan-16)

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