

India International Clearing Corporation (IFSC) Ltd

November 29, 2023

Rating

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

Details of instruments/facilities in Annexure-1

Detailed rationale and key rating drivers

The rating assigned to India International Clearing Corporation (IFSC) Ltd [India ICC] continues to derive strength from its strong parentage of BSE Ltd. (BSE), India ICC's strategic importance to BSE, benefits derived from being part of the BSE group, its experienced Board and Management team, and adequate operational risk management systems. The rating also derives strength from well-defined default waterfall along with presence of adequate default fund. CARE Ratings Limited (CARE Ratings) expects BSE to provide requisite financial support to Ind ICC as and when required. CARE Ratings also takes note of mobilization of fresh equity of Rs. 55.95 crore by India ICC in H1FY24.

The rating takes cognizance of setting up of a unified regulator, International Financial Services Centres Authority (IFSCA), which would take a holistic view across financial sectors of banking, securities markets, insurance and pensions industry to come up with regulations and help accelerate development of efficient markets, enable strong regulatory supervision and boost investor confidence.

The rating, however, above strengths are offset to an extent by low revenue of India ICC due to NIL clearing fee levied on its members and sharp decline in turnover of India INX during H1FY24. Consequently, clearing & settlement (C&S) volumes handled by India ICC also witnessed decline. In the near term, ability of India INX to improve its turnover remains key rating sensitivity.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/downgrade: Not applicable

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

- Any deterioration in the credit profile of BSE.
- Any further weakening of linkages due to any significant reduction in shareholding of BSE below 51%.
- Weakening in the expected support from the group
- Inability to improve trading volume in the two quarters.

Analytical approach: Standalone, along with factoring strong linkages with its parent, BSE.

Statutorily, exchanges are not allowed to carry out the function of 'trade clearing & settlement' within the same entity and hence it required formation of a separate legal entity which led to incorporation of India ICC, accordingly India ICC works as an extended arm of BSE with BSE holding 59.93% equity in it. India ICC derives significant support in terms of technology, system and process development from BSE. The reputation of BSE will be at stake if the C&S operations at India ICC get disrupted, as it is a matter of trust and accordingly, BSE is expected to provide necessary support to India ICC at times of need.

Outlook: Stable

The 'stable' outlook takes into consideration the continued support from the BSE group and benefits derived from being part of BSE group.

Detailed description of the key rating drivers .

Key rating strengths

Strong parentage of BSE, a leading stock exchange along-with technological and managerial linkages:

India ICC is a subsidiary of BSE, Asia's oldest stock exchange, which holds 59.93% (PY: 59.93%) equity in India ICC and 61.93% (PY: 61.93%) equity in India INX (to which India ICC undertakes C&S), as on September 30, 2023. It remains strongly linked with the parent in terms of technological as well as other infrastructure aspects of the central counterparty clearing (CCP) business. It is noteworthy that as per the present guidelines of IFSCA, one of the conditions stipulated for shareholding is that minimum of 26% of shareholding in recognised clearing corporation shall be held by a stock exchange or a clearing corporation recognised in India, an IFSC or a Foreign Jurisdiction as against the earlier guidelines of 51% as stipulated by Securities & Exchange Board of India (SEBI) (the earlier regulator).

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

Established in 1875, BSE (formerly known as Bombay Stock Exchange Ltd.) is Asia's oldest stock exchange. It is also the world's largest stock exchange in terms of number of companies listed and derives its income from the diversified sources such as income from trading/security services, income from services to corporates and data dissemination fees. India INX and India ICC are expected to be major growth drivers for BSE, going forward.

The financial risk profile of BSE largely remained stable in FY23. During FY23, on consolidated basis, BSE total income increased by 11% at ₹954 crore during FY23 on a Y-o-Y basis, however PAT reduced by 16% at ₹206 crore due to higher admin and computer technology related expenses. During H1F24, BSE on consolidated basis, reported total income of Rs. 638 crore and PAT of Rs. 558 crore (including exceptional item of ₹406 crore). The capital structure of BSE on consolidated basis, has remained strong with net worth of ₹3,134 crore as on September 30, 2023.

Experienced board of directors and management: Mr. Arup Mukherjee (MD and CEO of India ICC) has an experience of over three decades and has previously worked with Indian Clearing Corporation Ltd, a BSE subsidiary. Dr. Sudip Kumar Nanda has taken over as Chairperson w.e.f. from March 14, 2023 post end of term of Dr. Alok Mohan Sherry as Public Interest Director (till March 13, 2023). Furthermore, the Board of India ICC comprises of six directors out of which three are Public Interest Directors, three are Shareholder Directors and to avoid conflict of interest, trading and clearing members are not allowed to be part of the Board. The board members have diverse and vast experience and are instrumental in the development and functioning of India ICC.

Unified regulator enables a holistic approach and strong regulatory supervision: Government of India has setup a new unified regulator, IFSCA, for regulating all financial services entities in IFSC which would bring about ease of doing operations by providing a holistic approach to regulations, single-window clearance and increase the pace of market development. India ICC operations are regulated by IFSCA from October 1, 2020. IFSCA has issued the IFSCA (Market Infrastructure Institutions) Regulations, 2021, which lays down the framework under which MIIs can operate at IFSC and would help IFSC clearing corporations substantially to compete with other clearing corporations established at international jurisdictions. As per regulations, the minimum networth requirement is USD 3 million against which India ICC has a net worth of USD 16.32 Million as on March 31, 2023.

Adequate operational risk management in adherence to global benchmarks: India ICC undertakes to act as the central counterparty to all the trades executed on the India INX. India ICC has implemented a collateral management system (CLASS), which keeps track of the collateral deposited by clearing members on a real-time basis and the clearing corporation accepts only high-quality collateral, with low credit risk and high liquidity, which are legally enforceable and easily realisable. India ICC employs a robust real-time risk management system (RTRMS), which calculates the margin at client level on a real-time basis, blocks it in CLASS, generates various alerts according to the utilisation levels and places the terminal of member in risk-reduction mode when collateral utilisation exceeds 90%. India ICC's margining framework, which is designed keeping in mind the best practices globally, uses SPAN® for computing initial margin and margin provisioning for intra-day crystallized losses on parameters defined by the regulator. The various margins are computed at a client-level and grossed across all clients at the member level.

India ICC's risk management policy is in accordance with the Principles for Financial Market Infrastructures (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 like Indian Clearing Corporation Limited (ICCL; rated 'CARE AAA; Stable'), Clearing Corporation of India Limited (CCIL; rated 'CARE AAA; Stable'), etc.

Furthermore, India ICC has an established framework for the selection of members and clearing banks. India ICC inducts three categories of members with a stipulated minimum tangible net-worth requirement. The clearing banks are empaneled based on criteria, such as net worth, infrastructure, etc. Currently, India ICC conducts its fund settlement through eight clearing banks.

Well-defined default waterfall and adequate settlement guarantee fund: India ICC has created a dedicated settlement guarantee fund (SGF), which is readily and unconditionally available to meet the settlement obligations of India ICC in case of clearing/custodian members failing to honour the settlement obligation. IFSCA has also made it obligatory to conduct daily stress test (to check the adequacy of the SGF). The SGF shall be at least the minimum-required corpus as arrived at from the monthly stress test value or USD 1 million, whichever is higher. As on March 31, 2023, India ICC's SGF was USD 1.27 million against the requirement of USD 0.86 million (based on monthly stress test) or USD 1 million, whichever is higher. As per the management, there were no instances of any default by clearing members till date.

Key rating weaknesses

Drop in trading volumes in Ind INX during H1FY24: The operations of India ICC are a function of the trading turnover of the exchange, i.e., India INX. The trading turnover at India INX has witnessed exponential increase in the past three years till year ended March 31, 2023. The trading turnover grew by 28% during FY23 as compared with the last year. However, trading turnover was affected during H1FY24 (i.e from the period April 2023 to September 2023).

Total turnover of Ind INX stood at 1.91 lakh million USD in FY23 against 1.33 lakh million USD in FY22. However, it has witnessed decline to 0.23 lakh million USD in H1FY24. The same was due to reasons including, lowering of Liquidity Enhancement Scheme (LES) incentives provided to trading members, increased competition and also due to recent news reports appearing in the press regarding merger between exchanges and clearing corporations at IFSC. CARE Ratings will continue to monitor the developments in this regard and the impact of the same on the credit profile of India ICC.

Low revenue on account of no trading/clearing fees charged by exchanges and CCPs operating in IFSC-GIFT City:

During FY23, India ICC reported a loss of ₹3.63 crore (H1FY24: ₹ -0.51 crore) on a total income of ₹3.42 crore (H1FY24: ₹ 3.21 crore) as compared to FY22 with loss of ₹3.52 crore on a total income of ₹1.64 crore. It is to be noted that, at present, the CCP does not levy any Clearing & Settlement (C&S) charges, hence, generates negligible C&S income resulting in losses. The income profile majorly consists of investment income on the cash/bank balance held as deposits.

Various inherent business and operational risks: India ICC undertakes to act as the central counterparty to all the trades executed on India INX and provides full novation. India ICC remains the counterparty to trades from the time of the execution of the trade until settlement/expiry/delivery. Hence, India ICC is exposed to various business and operational risks, viz., participant exposure and settlement default risk, credit risk, liquidity risk, legal risk, operational risk, cyber security risk, custody and investment risk, technology risk, etc. India ICC has various risk mitigation policies, which are in accordance with IFSCA and PFMI guidelines published by the CPMI IOSCO. However, the effectiveness of the same needs to be tested over a period of time.

Liquidity: Strong

The liquidity of India ICC remained comfortable marked by no repayment obligations and presence of cash and bank balance of ₹139 crore (including default fund of ₹10.29 crore) as on March 31, 2023. The overall gearing of India ICC was NIL as on March 31, 2023. India ICC has also created a dedicated SGF, which is readily and unconditionally available to meet settlement obligations of India ICC in case of clearing/custodian members failing to honour the settlement obligation; the adequacy of the same is stress tested on a daily basis. As on March 31, 2023, India ICC's SGF was USD 1.27 million against the requirement of USD 0.86 million (based on monthly stress test) or USD 1 million, whichever is higher. Furthermore, India ICC has available sanctioned bank facility of USD 3 million in the form of overdraft against fixed deposits providing additional liquidity cushion in case of any exigencies. However, the overdraft facility is rarely utilized.

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 and industry

Industry classification

Macro Indicator	Economic	Sector	Industry	Basic Industry
Financial Services		Financial Services	Capital Markets	Depositories, Clearing Houses and Other Intermediaries

India ICC is the first clearing corporation to be established at the International Financial Services Centre (IFSC), GIFT City-Gandhinagar, Gujarat. India ICC commenced operations from January 16, 2017, and clears and settles a wide range of global benchmark products across all major asset classes, including equity derivatives, commodity derivatives, currency derivatives, debt securities. India ICC maintains world class standards in its operations and competes with other international clearing corporations. India ICC provides C&S, risk management and collateral management services to the India INX, which is also a wholly-owned subsidiary of BSE and is also operating at IFSC, Gift City, Gandhinagar.

India ICC has gradually diversified its investor base with induction of ICICI Bank, DCB Bank and other individual shareholders, and BSE now holds 59.93% as on March 31, 2023.

Brief Financials of Ind ICC (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-03-2023 (A)	H1FY24 (UA)
Total income	1.80	1.64	3.42	3.21
PAT	-3.00	-3.52	-3.63	-0.51
Total assets*	105.92	164.42	161.63	160.99
ROTA (%)	NM	NM	NM	NM

A: Audited UA: Unaudited NM: Not meaningful NA: Not available Note: 'the above results are latest financial results available'

*Calculated as Net of deferred tax assets, intangible assets and goodwill

Brief Financials of BSE (Standalone) (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-03-2023 (A)	H1FY24 (UA)
Total income	565.05	724.02	742.39	481.08
PAT (including exceptional item)	97.26	195.12	166.91	579.10
PAT (excluding exceptional item)	111.79	195.12	166.91	74.93
Total assets	2848.85	3030.45	3002.60	3762.73
ROTA (%) (including exceptional item)	3.52%	6.64%	5.53%	34.24%*
ROTA (%) (excluding exceptional item)	4.05%	6.64%	5.53%	4.43%*

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

ROTA is calculated as ratio of PAT to average of annual opening and closing balance of Total Assets, calculated as Net of deferred tax assets, intangible assets, and goodwill.

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 instruments/facilities: 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

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ 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 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	Issuer rat	0.00	CARE AAA; Stable	-	1)CARE AAA; Stable (26-Dec-22) 2)CARE AAA (Is); Stable (30-Aug-22)	1)CARE AAA (Is); Stable (05-Jul-21)	1)CARE AAA (Is); Stable (06-Jul-20)

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

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

Sr No	Name of Instrument	Complexity Level
1	Issuer rating	Simple

Annexure-5: Bank lender details for this company – 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.

Contact us

<p>Media Contact</p> <p>Name: Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in</p> <p>Relationship Contact</p> <p>Name: Pradeep Kumar V Senior Director CARE Ratings Limited Phone: +91-044-28490876 E-mail: pradeep.kumar@careedge.in</p>	<p>Analytical Contacts</p> <p>Name: Sanjay Agarwal Senior Director CARE Ratings Limited Phone: +91-022- 6754 3500/582 E-mail: sanjay.agarwal@careedge.in</p> <p>Name: Sudhakar Prakasam Director CARE Ratings Limited Phone: +91-044-28501003 E-mail: p.sudhakar@careedge.in</p> <p>Name: Nikhil Hardikar Associate Director CARE Ratings Limited Phone: +91 - 22 - 6754 3410 E-mail: nikhil.hardikar@careedge.in</p>
---	--

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.

Disclaimer:

The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in