March 16, 2021

The Clearing Corporation of India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	-	[ICRA]AAA (Stable); reaffirmed
Total	**-**	**-**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of the issuer rating takes into consideration The Clearing Corporation of India Limited's (CCIL) established position and track record as a prominent financial market infrastructure provider in the country. The company is the sole player for the clearing and settlement of transactions across various instruments including Government securities (G-Secs), foreign exchange (forex) products and money market instruments. CCIL is mandated by the Reserve Bank of India (RBI) as the only clearing and settlement agency for all secondary market transactions in G-Secs and is authorised as a payment system operator under the Payment and Settlement Systems (PSS) Act, 2007. This underscores the company's importance as a financial market infrastructure provider in domestic markets. The rating also factors in CCIL's large institutional client base and its strong risk management capabilities and technology processes, which enable a significant reduction in the bilateral exposure between counterparties through its clearing and settlement process. Additionally, the rating factors in CCIL's favourable financial profile with healthy profitability and low gearing. However, ICRA takes note of the vulnerability of the revenue and profitability to settlement volumes, which, in turn, are susceptible to various domestic and global cues. Nonetheless, the healthy operating profit margin provides a cushion against volatility to some extent. Going forward, CCIL's ability to maintain its leading market position in the clearing and settlement of transactions and its healthy profitability level is a key rating sensitivity.

The Stable outlook reflects ICRA's opinion that CCIL will maintain its position as a prominent financial market infrastructure provider in the country. CCIL benefits from the close monitoring of its operations by the RBI.

Key rating drivers and their description

Credit strengths

Sole institution for clearing and settlement of G-Secs, repo and forex transactions – CCIL is the only institution engaged in the clearing and settlement of G-Secs and foreign exchange in the country. Since its inception in 2001, the company has been the premier financial intermediary for the clearing and settlement of transactions across a wide range of market participants (primarily banks, insurance companies, primary dealers (PDs), and mutual funds). In its early years of operations (2002-2004), the company built its expertise in the settlement of G-Secs and forex transactions. Leveraging its expertise in these segments, CCIL forayed into and scaled up its presence in money market instruments. It subsequently developed a third-party repo product, collateralised borrowing and lending operations (CBLO), enabling secured lending and borrowing across counterparties. CBLO was replaced with the triparty repo dealing system (TREPS) with effect from November 5, 2018. TREPS now accounts for a sizeable share of the company's total business volumes (~33% in 9M FY2021). In FY2021, CCIL extended the clearing member structure in the Forex Forward segment. CCIL was incorporated as an initiative of the RBI to provide an institutional structure for the clearing and settlement of transactions. This underscores the company's position as a prominent financial market infrastructure provider in the country.

Strong risk management systems; robust technology platform – CCIL's operations are underpinned by its strong risk management capabilities and technology processes. The company utilises a delivery versus payment (DvP) mode for the settlement of G-Secs, i.e. it releases the security on the receipt of funds and it releases funds on the receipt of security, which helps de-risk the counterparty default risk. The company has also adopted settlements on a payment versus payment (PvP) basis for the forex segment from FY2015 to reduce the settlement risk arising from time zone differences. CCIL also collects margins from the members to protect from future adverse movements in the prices of the securities. The risk management functions are backed by the members' contribution to the company's Settlement Guarantee Fund (SGF) and the collateral set up for each business segment. CCIL's business performance is backed by its information technology (IT) infrastructure. The company has set up robust technology platforms to facilitate the execution of trades across segments. It has a comprehensive business contingency plan (BCP) for disaster recovery of its IT systems and other operating environments.

Institutional client base annuls credit risks – CCIL's clientele includes institutions like banks, insurance companies, PDs and mutual funds that operate in a regulated environment. Further, as trades are settled through the process of multilateral netting with CCIL as the central counterparty, the funding requirement for the members is considerably lower, thereby reducing the risk of fund/security shortfall with the members. The effectiveness of CCIL's risk management capabilities is evident from the fact that the liquidity supports available to the company, in the form of committed bank lines to plug temporary funding shortfalls, have remained largely unutilised over the years.

Healthy financial risk profile – CCIL has a strong financial profile characterised by healthy profits (average profit after tax (PAT) of ~Rs. 374 crore over the past five years), a net profit margin (PAT/net operating income) of ~56% in 9M FY2021 and net worth of Rs. 3,767 crore as on December 31, 2020. CCIL's leverage is low with a gearing of 0.02 times over the last five years. While the strong yearly accruals to reserves have led to a healthy net worth, the funding requirements (capital expenditure and working capital) are low and are met from the operating cash flows. The debt of Rs. 50 crore, as on December 31, 2020, is in the form of 8.5% redeemable, non-convertible, cumulative preference shares (redeemable on March 22, 2023).

Credit challenges

Need to continuously upgrade risk management systems – As a financial market infrastructure (FMI), CCIL facilitates the clearing, settlement, and recording of monetary and other financial transactions and thus strengthens the markets it serves. As it plays a critical role in fostering financial stability in the market, its ability to strengthen and upgrade its systems and processes, based on the developments in the technology space, financial services sector and regulatory environment, remains critical.

Competition from new players, though unlikely in the short to medium term – While CCIL benefits from being the only player for the clearing and settlement of transactions in G-Secs and money market and forex instruments in India, there is no regulatory restriction on the entry of new players. The entry of new players in any of these segments could impact the company's market share and profitability. However, given CCIL's demonstrated track record and established position in the key segments, the likelihood of a new entrant establishing itself in the industry with the same level of acceptance remains low. Various regulatory approvals for operating in each of these segments, the proprietary nature of the dealing systems and the well-established IT and risk management systems of the company further limit competition.

Liquidity position: Superior

As on December 31, 2020, CCIL had liquid funds (cash and bank balances and liquid investment from own funds) of Rs. 3,285.67 crore compared to the borrowing outstanding of Rs. 50 crore in the form of 8.5% redeemable, non-convertible, cumulative preference shares. CCIL also enjoys a fully-funded rupee line of credit of Rs. 9,200 crore and a USD line of credit of $500 million from various banks to meet any shortfall in the members' accounts during the settlement of transactions across the product segments. CCIL also enjoys a securities line of credit amounting to Rs. 1,400 crore to meet any shortfall in securities on account of default by a member.

Rating sensitivities

Positive factors – Not applicable

Negative factors – Pressure on CCIL's rating could arise if there is any adverse change in its position as a key institution for the clearing and settlement of transactions in G-Secs, money market and forex instruments in India due to a change in the RBI's regulatory stance regarding the entry of other players as clearing and settlement agencies in this segment.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

The Clearing Corporation of India Limited (CCIL) was set up at the initiative of the RBI in 2001 to provide an institutional structure for the clearing and settlement of transactions undertaken in G-Secs, money market instruments and foreign exchange products. CCIL's principal promoters are State Bank of India (SBI), Life Insurance Corporation of India, Bank of Baroda, HDFC Bank and ICICI Bank, and as of January 2021 the company was an associate of SBI. Banks hold 62.2% stake in CCIL, while the rest is held by insurance companies (18.3%) and financial institutions, PDs and other corporate bodies (19.5%).

CCIL reported a net profit of Rs. 325 crore on an operating income of Rs. 658 crore in 9M FY2021 compared to a net profit of Rs. 386 crore on an operating income of Rs. 801 crore in 9M FY2020. In FY2020, CCIL reported a net profit of Rs. 499 crore on an operating income of Rs. 1,057 crore.

Key financial indicators (audited)

CCIL	FY2019	FY2020	9M FY2021*
Transaction Income (Rs. crore)	334.27	395.92	243.80
Interest Income (Rs. crore)	584.23	650.40	406.76
Total Income (Rs. crore)	926.99	1,056.74	657.53
Interest Paid on Members' Deposit (Rs. crore)	211.98	209.72	72.11
Total Operating Expense (Rs. crore)	138.45	146.52	117.71
Profit before Tax (Rs. crore)	550.19	664.11	437.95
Profit after Tax (PAT) (Rs. crore)	354.65	499.03	325.03
Net Worth (Rs. crore)	2,987.26	3,471.69	3,767.06
Total Debt (Rs. crore)	50.00	50.00	50.00
Total Assets (Rs. crore)	16,980.52	15,442.33	16,431.30
PAT / Total Income (%)	38.26%	47.22%	49.43%
PAT / Net Worth (%)	11.91%	14.37%	11.50%
Gearing (times)	0.02	0.01	0.01

Source: *Company; *Provisional; All ratios as per ICRA calculation*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on Feb 28, 2021 (Rs. crore)	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					Mar 16, 2021	May 18, 2020	May 08, 2019	Jun 08, 2018
1	Issuer Rating	Long Term	NA	NA	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA[1] (Stable)**	**IrAAA (Stable)**

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[1] *With effect from September 1, 2017, ICRA has aligned the symbols and the definitions of ratings pertaining to the Issuer Rating Scale with that of the Long-Term Rating Scale. The change in the symbol is not to be construed as a change in the credit rating. Please refer to ICRA's website for more details*

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer Rating	NA	NA	NA	-	[ICRA]AAA (Stable)

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not applicable

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Samriddhi Chowdhary
+91 22 6114 3462
samriddhi.chowdhary@icraindia.com

Shreekiran Rao
+91 22 6114 3469
shreekiran.rao@icraindia.com

Kruti Jagad
+91 22 6114 3447
kruti.jagad@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.