February 19, 2024

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
Long term – Fund-based/non-fund based bank lines	15,000.0	15,000.0	[ICRA]AAA (Stable); reaffirmed
Total	**15,000.0**	**15,000.0**	

**Instrument details are provided in Annexure I*

Rationale

The rating takes into consideration The Clearing Corporation of India Limited's (CCIL) established position and its track record as a prominent financial market infrastructure (FMI) 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), triparty repo and forex forward 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 forex transactions and is authorised as a payment system operator under the Payment and Settlement Systems (PSS) Act, 2007. This underscores its importance as an FMI provider in the domestic market.

The rating also factors in CCIL's established risk management capabilities and technology processes, which help reduce the counterparty default risk. To further mitigate this risk, the company keeps an adequate default fund, including contributions by members and CCIL (skin in the game), to support exigencies, besides the risk-adjusted margins and collateral maintained by the members as a part of the Member Common Collateral {MCC; erstwhile Settlement Guarantee Fund (SGF)}. The available line of credit and the corpus maintained in the default fund are comfortably above the stress case loss assessment undertaken by CCIL. Further, its direct clientele includes institutions like banks, insurance companies, primary dealers (PDs) and mutual funds that operate in a regulated environment. The trades are settled through the process of multilateral netting with CCIL as the central counterparty. Thus, the capital requirement for members is considerably low. ICRA notes that CCIL has not reported any instance of default fund utilisation.

Additionally, the rating factors in CCIL's favourable financial profile with healthy profitability, comfortable net worth and the ability to contribute to the default fund further, if required. However, ICRA takes note of the vulnerability of the company's revenue and profitability to settlement volumes, which are susceptible to various domestic and global cues. Nonetheless, the healthy operating profit margin provides a cushion against volatility to some extent.

While reaffirming the rating, ICRA has taken note of the announcement by the European Securities and Markets Authority (ESMA) to derecognise CCIL as a third country central counterparty (CCP) with effect from April 30, 2023. ICRA notes that this announcement does not pose a threat to CCIL's market position as it is the sole FMI mandated by the RBI for its product segments. Further, ICRA has factored in the extended recognition provided by the French and German central banks till October 2024 and the memorandum of understanding (MoU) signed by the Bank of England and the RBI in December 2023, recognising CCIL as a third-party CCP. Moreover, ICRA notes that there has been no instance of a major penalty being levied on CCIL by the regulator, which reflects favourably on the adequacy of its systems and processes. Besides, the company maintains comfortable skin in the game compared to some of its global counterparts.

Key rating drivers and their description

Credit strengths

Sole institution for clearing and settlement of G-Secs, triparty repo and forex forward transactions – CCIL was incorporated with the objective of providing an institutional structure for the clearing and settlement of G-Secs, money market instruments and forex transactions. It is the only institution authorised by the RBI to deal in the clearing and settlement of G-Secs and forex forward in the country, which underscores its position as a prominent FMI provider in the country. While G-Secs accounted for 38% of its total business volumes in H1 FY2024, CCIL's proprietary product, i.e. the triparty repo dealing system (TREPS), accounted for 31% and the forex segment for the balance.

ICRA notes CCIL's importance in the G-Sec, money market and forex market as it guarantees the financial settlement of trades and bears counterparty risk. In FY2022, the RBI announced the Retail Direct Scheme enabling retail participation in G-Secs and sovereign gold bonds. Here too, CCIL was authorised to open accounts, receive/remit and refund funds, act as an aggregator and the receiving office for primary auctions, and undertake corporate actions, etc, on behalf of the RBI. In FY2024, RBI Retail Direct account holders were given an option to buy Floating Rate Savings Bonds using the extant mechanism provided by CCIL to retail customers for trading in G-Secs and sovereign gold bonds.

Established risk management systems and technology platform – CCIL's operations are underpinned by its established risk management capabilities and technology processes. The same is evident from the company's history of not utilising the default fund since inception. As a Qualifying Central Counterparty, CCIL has to comply with the principles for financial market infrastructures and its compliance with the same is overseen by the RBI. Further, its risk management policy is placed before the RBI for approval.

CCIL uses a delivery versus payment (DvP) mode of settlement for G-Secs, i.e. it releases the security on the receipt of funds and it releases funds on the receipt of security, which helps reduce the counterparty default risk. The company has also adopted settlement on payment versus payment (PvP) basis for the forex segment (from FY2015) to reduce the settlement risk arising from time zone differences. CCIL's real-time risk management system generates various alerts at different collateral utilisation levels and puts the member in the risk reduction mode in certain segments at a high margin utilisation level. However, as it is the sole institution for the clearing and settlement of G-Secs and forex transactions, CCIL does not disable the trading terminal of the participating members. In case of a temporary shortfall, the member is expected to make good the transaction/settlement by 9:00 am on T+1 day along with penalty. Failure to do so, coupled with concerns regarding the member's status as a going concern, can lead to the member being declared a defaulter. CCIL has a policy specifying the waterfall of funds that can be utilised to make good the loss and complete the settlement process in such a scenario. Besides, its business operations are backed by an established information technology (IT) infrastructure and a business contingency plan (BCP) for disaster recovery of its IT systems and other operating environments.

Adequately sized default fund and member common contribution – CCIL's key objective is to guarantee the clearing and settlement of trades, which exposes it to counterparty risk besides operating risk. To mitigate these risks, the company has a mechanism whereby an adequate default fund, including contributions by members and the company (skin in the game), is maintained to support exigencies, besides the risk-adjusted margins and collateral maintained by the members as a part of the MCC. CCIL collects the initial margin, mark-to-market (MTM) margin, volatility margin and concentration margin (specifically in the derivatives segment), which collectively represent the MCC. Further, the segment-wise stress case loss (i.e. loss under worst case scenario minus margin provided) for the top 2 players (along with affiliates) over the last six months is calculated. This represents the default fund (it is the primary component of the default fund). The participating members contribute to the default fund in proportion to the risk they bring to the system. Additionally, CCIL contributes ~25% of the members' aggregate contribution to the default fund from its net worth.

As on September 30, 2023, CCIL's MCC stood at Rs. 11.7 lakh crore and the default fund was Rs. 11,874 crore compared to Rs. 11.0 lakh crore and Rs. 11,391 crore, respectively, as on March 31, 2023. The company's contribution to the default fund was about Rs. 2,300 crore as of September 2023, even though the requirement for its contribution to the default fund, based on the stress loss estimates, stood at Rs. 1,700 crore as on September 30, 2023. Any dip in CCIL's own contribution to the default fund can be immediately made good by the transfer of funds from the general reserve (Rs. 1,382 crore as on September 30, 2023). The available corpus maintained in the default fund comfortably covers the cumulative stress case loss across all segments of Rs. 3,974 crore, assessed by CCIL, as on September 30, 2023. The reduction in the stress loss estimates was driven by the lower volatility in INR/USD in the last one year. The methodology for assessing the stress loss estimates is also subject to regulatory inspections.

Institutional client base alleviates 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 the company's risk management capabilities is evident from the fact that the available liquidity backup, in the form of committed bank lines to plug temporary funding shortfalls, has remained largely unutilised over the years.

Comfortable capitalisation and healthy financial profile – CCIL has a comfortable capital profile characterised by a net worth of Rs. 5,103 crore, including the Rs. 2,300-crore contribution to the default fund as on September 30, 2023. The net worth also included the general reserve of Rs. 1,382 crore, which can be used to increase/replenish the default fund if it dips. Further, the company maintains a contingency fund (included in net worth) of Rs. 961 crore to meet the non-default losses.

The company has reported healthy profitability with a five-year average net profit margin (net profit/net operating income) of 43% and an average return on net worth (RoNW) of 12.2%. The net profit margin was 41% in H1 FY2024 while the RoNW was 15.7%. ICRA notes that despite the healthy growth in volumes, CCIL's revenue remains constrained because of the capping on the maximum fees charged by it, which is generally revised downwards with increasing volumes. Further, settlement volumes are susceptible to various domestic and global factors. At a consolidated level as well, the company has reported healthy profitability over the years with a five-year average net profit margin (net profit/operating income) of 43% and average return on net worth (RoNW) of 12%.

Credit challenges

Need to continuously upgrade risk management systems – As an FMI provider, CCIL facilitates the clearing, settlement and recording of monetary and other financial transactions, thus strengthening 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 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 forward instruments in India, there is no regulatory restriction on the entry of new players in the money market and forex segments. 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 company's established IT and risk management systems further limit competition.

Liquidity position: Superior

CCIL's key objective is to guarantee the clearing and settlement of trades. Accordingly, it has a mechanism, whereby a sizeable default fund, to support exigencies, is maintained in highly liquid investment avenues such as Treasury bills and fixed deposits with leading banks. As of September 30, 2023, the default fund aggregated Rs. 11,874 crore. Besides, ICRA notes that CCIL had on-balance sheet liquidity funded from own funds (cash and bank balance and liquid investments) of about Rs. 4,430 crore (including about Rs. 2,300 crore earmarked under the default fund of MCC) while it remains largely debt free. The company also enjoys a rupee line of credit of Rs. 10,500 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. It also enjoys a securities line of credit amounting to Rs. 2,000 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 may arise if there is an adverse change in its market position as a key institution for the clearing and settlement of transactions in G-Secs, triparty repo 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 Rating Approach – Consolidation
Parent/Group support	Not Applicable
Consolidation/Standalone	Consolidation

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 forex products. CCIL's principal promoters are State Bank of India (SBI), Life Insurance Corporation of India, Bank of Baroda, HDFC Bank and ICICI Bank. As of November 2023, the banks held a 67.2% stake in CCIL, while the rest was held by insurance companies (8.3%) and financial institutions, PDs and other corporate bodies (24.5%).

At the standalone level, CCIL reported a net profit of Rs. 386 crore on total income of Rs. 952 crore in H1 FY2024 compared to Rs. 242 crore and Rs. 592 crore, respectively, in H1 FY2023. As on September 30, 2023, CCIL's capitalisation was characterised by a net worth of Rs. 5,103 crore.

Key financial indicators (audited) – Standalone

	FY2021	FY2022	FY2023	H1FY2024*
Operating income (OI)	856	802	1,364	952
PAT	416	342	538	386
OPBITA/OI	70.2%	62.3%	55.8%	56.6%
PAT/OI	48.6%	42.6%	39.5%	40.5%
Total outside liabilities^/Tangible net worth (times)	3.66	3.52	3.54	3.36
Total debt^^/OPBDIT (times)	0.08	0.10	0.07	0.05
Interest coverage (times)	NM[!]			

*Source: Company and ICRA Research; All ratios as per ICRA's calculations; *Provisional; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^Includes deposit received from members; ^^Represents preference shares; [!]Not meaningful*

Key financial indicators (audited) – Consolidated

	FY2021	FY2022	FY2023
Operating income (OI)	903	894	1,424
PAT	430	392	553
OPBITA/OI	69.3%	64.4%	55.5%
PAT/OI	47.6%	43.8%	38.8%
Total outside liabilities^/Tangible net worth (times)	3.57	3.59	3.45
Total debt^^/OPBDIT (times)	0.02	0.02	0.05
Interest coverage (times)		NM[!]	

Source: Company and ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; ^Includes deposit received from members; ^^Represents preference shares; [!]Not meaningful

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)			Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Feb 19, 2024	Mar 17, 2023	Mar 31, 2022	Mar 16, 2021	May 18, 2020
1	**Issuer Rating**	Long term	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
2	**Fund-based/non-fund based bank lines – Others**	Long term	15,000	12,500	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer Rating	Not applicable
Fund-based/non-fund based bank lines	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Issuer Rating**	-	-	-	-	[ICRA]AAA (Stable)
NA	**Fund-based/non-fund based bank lines**	-	-	-	15,000	[ICRA]AAA (Stable)

Source: Company; NA: Not applicable

[*Please click here to view details of lender-wise facilities rated by ICRA*]

Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership as on March 31, 2023	Consolidation Approach
CCIL	Holding company	Full consolidation
ClearCorp Dealing Systems (India) Limited	100%	Full consolidation
Legal Entity Identifier India Limited	100%	Full consolidation

Source: Company

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About ICRA Limited:

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