



## MCX – SX Clearing Corporation Limited

Instrument	Rated Amount	March 2013
Fully guaranteed cash deposit/ margin	Rs 50 crore	[ICRA]AAA (SO) (Reaffirmed)

ICRA has re-affirmed the rating of [ICRA]AAA (SO) [pronounced as ICRA triple A (Structured Obligation)] to the fully guaranteed cash deposit / margin of Rs 50 crore placed by the clearing member banks with MCX – SX Clearing Corporation Ltd (MCX – SX CCL). Instruments with this rating are considered to have the highest degree of safety regarding timely servicing of financial obligations. Such instruments carry lowest credit risk. The letter SO in parenthesis suffixed to a rating symbol stand for Structured Obligation. An SO rating is specific to the rated issue, its terms, and its structure. SO ratings do not represent ICRA's opinion on the general credit quality of the issuers concerned. The rating for the cash deposit / margin is based on the strength of the un-conditional and irrevocable guarantee by Punjab National Bank (rated [ICRA]AAA/Stable/[ICRA]A1+) for repayment of the cash deposit / margin, to the extent of Rs 50 crore, in the event of default on the same by MCX – SX CCL. The guarantee will be in favor of MCX Stock Exchange Ltd (MCX – SX) and can be invoked by MCX – SX only in the event of MCX – SX CCL failing to return the cash deposit/ margins tendered by the clearing bank members, when the demand is raised by any of those clearing bank members of MCX – SX CCL in terms of the Rules, Bye-laws and Regulations of MCX – SX or MCX – SX CCL.

ICRA takes a note of MCX – SX CCL's parentage in the form of Financial Technologies India Ltd (FTIL) and Multi Commodity Exchange of India Ltd (MCX), which have the largest market share in electronic trading platform (ODIN) (~85%) & Commodity Exchange (~82%) respectively, group's vast domain knowledge, technical expertise & seasoned management with an experience of setting exchange houses both at global & domestic level, its robust risk management systems, expected operational synergies with MCX - SX, and stringent regulatory operating framework. The rating also factors in the conclusion of various pending issues with the regulator, the commencement of operations in currency options and in new segments recently pursuant to regulatory approvals, as well as four years of operational track record. However ICRA takes note of the regulatory requirement to enhance the net worth of clearing houses affiliated with stock exchanges to a minimum of Rs 300 crore, which would require capital infusion from the shareholders of MCX - SX CCL and/or other investors into it over the next 36 months as well as decrease in market share for MCX-SX in currencies trading. In ICRA's view, the exchange business in India is becoming more competitive with entry of new players and also existing players trying to strengthen / retain their position, which could exert pressure on MCX-SXCCL's profitability over the short to medium term.

Incorporated in November 2008 by MCX - SX, MCX and FTIL, MCX – SX CCL began its activities in February 2009 with the main objective to act as the central counterparty and to carry on the business of clearing and settlement of all trades executed at MCX – SX. MCX and FTIL have promoted MCX - SX to provide a common stock exchange platform for equity, equity Futures and Options, currency derivatives, interest rate derivatives, debt market and Small &Medium Enterprise. In August 2012, MCX - SX obtained the approval for trading in currency options as well as for commencing trading on other asset classes.

Exchange traded currency volumes have been growing steadily over the past 12-15 months. However, while overall volumes for MCX - SX have also grown over the same period, it has lost significant market share over the period on account of the competitors having significant head start with regards to options trading. Consequently, the market share for MCX-SX with regard to currency trading which was in the range of ~45-50% about 12-15 months into the past, is now in the range of 35-40%. ICRA however takes note of the Budget 2013 proposal to allow FIIs to trade in the exchange traded currencies segment and the possible increased depth it can bring to this segment which is expected to positively impact MCX - SX.



MCX –SX CCL's profitability is closely linked to the trading turnover at MCX – SX as the clearing fees charged are based on the volume of transactions on MCX – SX. The interest & investment income from the deposits placed by various clearing members is again dependent on the trading volumes at MCX – SX. On the expenses front, MCX-SX CCL has a cost sharing arrangement with MCX – SX for technology related infrastructure expenditure. MCX – SX CCL reported a net profit after tax of Rs 0.69 crore on a total income of Rs. 16.57 crore in FY11-12 as compared to a net profit after tax of Rs 1.00 crore on a total income of Rs. 12.11 crore in FY10-11. For 9MFY12-13, MCX-SX CCL has reported a net profit (as per audited financial statements) of Rs. 1.03 crore on a total income of Rs. 13.89 crore.

In order to mitigate the risk associated with clearing and settlement of trades, MCX-SX CCL has deployed robust risk management framework in terms of collecting adequate member's deposit, stringent monitoring of member-level position limits, mark-to-market losses and collection of margins from clients. The MTM loss monitoring by MCX - SX CCL prevents members from taking further positions in the event of MTM loss reaching 75% of collaterals. MCX – SX CCL has policy based system driven processes in place which are continuously upgraded to mitigate any operational failure. MCX – SX CCL carries out stress test analysis on regular intervals as per the international standards recommended by Bank of International Settlements & IOSCO for Central Counterparties for maintaining sufficient financial resources to withstand a default by the participant to which it has the largest exposure in extreme but plausible market conditions that produces losses not fully covered by collateral requirements. Under such stress test analysis conducted for various days in FY 12 and FY 13, it is observed that even in an unlikely event of default by top 10 clearing members, MCX-SX CCL shall be able to complete settlement without utilizing the SGF contribution of non-defaulting members. MCX-SX CCL has availed an insurance cover to protect itself from risk arising out of default of clearing members. The amount of coverage of this insurance has been increased from Rs. 2.5 Crores to Rs. 10 Crores in a year in light of increased scope of operations of the clearing corporation.

Size of Settlement Guarantee Fund has increased from Rs. 963 crore as on September 30, 2011 to Rs. 1104 crore as on December 31, 2012. As on December 31, 2012, MCX-SX CCL has successfully completed 940 settlements without any defaults or failure on the part of the Clearing Corporation to meet any of obligations on time. Further, the SGF increases as Volatility and Open Interest increase since more collateral is required from members to carry bigger positions during high volatility. While ICRA acknowledges the fact that MCX – SX CCL has been successfully operating within a stringent regulatory framework as a Clearing Corporation in Currency Derivatives Segment since February 2009 and in Equity and Equity Derivatives segments since February 2013, and is expected to derive functional and operational benefit by using FTIL's tried and tested technology, in ICRA's view, MCX – SX CCL is yet to prove its ability to manage its operations in the scaled up environment in the new segments.

MCX– SX CCL's current liquidity profile is comfortable with negligible gearing and a Settlement Guarantee Fund which is substantial for current lower average daily payout. SGF is constituted by all deposits and margins placed by members and it could be utilised to make payments in the event of temporary shortfalls in pay in – payout obligations and any default by the members. Going forward also, ICRA expects MCX – SX CCL's liquidity profile to remain comfortable with cash generation from its business operation and no or very less external funding requirement.

### **Company Profile**

#### **MCX – SX Clearing Corporation Limited (MCX-SX CCL)**

MCX – SX CCL is a 51% subsidiary of MCX – SX with 26% being held with MCX and balance 23% with FTIL. Incorporated in November 2008, MCX – SX CCL began its activities in February 2009 with the main objective to act as central counterparty to all the trades executed at MCX – SX and provide full novation and carry on the business of clearing and settlement of currency futures contracts. With effect August 2012, MCX-SX CCL also does clearing and settlement of currency options transactions and from February 2013, of equity cash as well as derivative transactions done on MCX - SX. MCX – SX CCL reported a net profit after tax of Rs 0.69 crore on a total income of Rs. 16.57 crore in FY11-12 as compared to a net profit after tax of Rs 1.00 crore on a total income of Rs. 12.11 crore in FY10-11.

For 9MFY12-13, MCX-SX CCL has reported a net profit (as per audited financial statements) of Rs. 1.03 crore on a total income of Rs. 13.89 crore.



### **MCX Stock Exchange Ltd (MCX - SX)**

MCX - SX was initially promoted by FTIL and MCX. During FY09-10, through a process of divestment and reduction in capital reduction, the shareholding of FTIL and MCX in MCX - SX has reduced to 5% each as on March 31, 2010. As of March 2013, MCX – SX offers online trading in currency derivatives as well as equity cash and derivative transactions and operates under regulatory framework of Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI). It began its business operations in October 2008 following the RBI and SEBI permitting online trading platform for currency futures. MCX – SX clientele includes hedgers, importers and exporters, banks & Financial Institutions and Foreign currency dealers. MCX – SX reported a net loss of Rs 2.92 crore on a total income of Rs. 88.18 crore in FY11-12 as compared to a net loss of Rs 57.80 crore on a total income of Rs. 39.15 crore in FY10-11.

For 9MFY12-13, MCX - SX has reported a net profit (as per audited financial statements) of Rs 31.49 crore on a total income of Rs. 131.33 crore

### **About the Guarantor – Punjab National Bank - rated [ICRA]AAA/Stable/[ICRA]A1+**

PNB was incorporated as Punjab National Bank limited in 1894 and commenced operations from Lahore in April 1895. Upon nationalization in 1969, PNB Limited was renamed PNB. In 2002 PNB came out with an IPO resulted in dilution of GOI equity from 100% to 80%. Subsequently in March 2005, the bank came out with another public issue which resulted in dilution of GOI equity to 57.8%. As on December 31, 2011 Gol had 58% ownership in the bank. PNB had 5,393 domestic branches and 5 foreign branches as on December 31, 2011. The bank has strong presence in rural and semi urban areas where around 62% of its branches are located. As on December 31, 2011, all the branches of the bank are covered under core banking solution (CBS). For its international presence, the bank has five foreign branches at Afghanistan, Hong Kong (two branches), Dubai and an offshore banking unit in Mumbai. In addition, PNB's subsidiary in UK (PNB International Limited) has seven branches in United Kingdom. PNB also has a JV banking subsidiary "DRUK PNB Bank Limited" in Bhutan which has three branches in Bhutan and a JV with JSC SB PNB in Kazakhstan. During 2010-11 the bank reported profit after tax of Rs.4,433 crore on total asset base of Rs.376,854 crore as on March 31, 2011 against profit after tax of Rs.3,905 crore on total asset base of Rs.295,141 crore as on March 31, 2010. For the nine months ended December 31, 2011, the bank has reported a net profit of Rs. 3,460 crore as compared to Rs. 3,233 crore for the corresponding period last year, registering a growth of 7% during the period. The bank reported a capital adequacy of 11.48% as on December 31, 2011.

**March 2013**

### **Financial Indicators – MCX-SX Clearing Corporation Limited (Standalone)**

<b>For the year / as on period end</b>	<b>9M FY12-13</b>	<b>FY11-12</b>	<b>FY10-11</b>	<b>FY09-10</b>
	(Audited)	(Audited)	(Audited)	(Audited)
Total Income	13.89	16.57	12.11	12.06
Profit before Tax	1.03	0.69	1.00	1.14
Profit after Tax	1.03	0.69	1.00	1.14
Net worth	28.99	27.97	27.28	26.28
Borrowings	0.00	0.00	0.00	0.00
Investments	18.20	4.05	27.93	36.80
Cash and bank balances	82.19	73.39	40.19	31.70

*Note: amount is in Rs crores*



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