GE Capital Transportation Financial Services Limited

ICRA has assigned the A1+ (pronounced as A One Plus) rating to the enhanced Rs. 9000 million (from Rs. 7000 million) Commercial Paper Programme of GE Capital Transportation Financial Services Limited (GECTFSL), indicating highest credit quality in the short term. GECTFSL is owned 77.33% by GE Capital (Mauritius) Investment Limited (GECMIC), which in turn is a 100% subsidiary of GE Capital Corporation, USA (GECC). Moody's Investors Service has an outstanding long-term senior debt rating of Aaa assigned to GECC. GECTFSL's strong ownership by the GE group, the guidance it receives from the GE group for management techniques, information systems, policies along with a strong portfolio growth while maintaining a moderate control over delinquencies are important factors influencing the rating. Earnings for the company have been under pressure over the past couple of years owing to compression of interest margins; ICRA however has taken note of the re-orientation of the company's business strategy, which going forward is expected to be geared towards expansion in higher yielding customer segments. While this strategy could relieve the pressure on the interest margins, ability of the company to improve its earnings would be linked to the level of control it exercises over asset quality in the relatively riskier segments. GECTFSL had come under the purview of the RBI guidelines for NBFC-SI's under which a minimum Capital Adequacy Ratio of 10% is required to be maintained. While these guidelines came into effect from March 31, 2007, the RBI has given the company an extension till March 31, 2008 to achieve compliance. GECTFSL is in the process of augmenting its equity base through a proposed equity rights issue, which is expected before the end of the financial year. ICRA expects the company to maintain a favorable liquidity profile, as refinancing risk on the company is relatively low. In ICRA's view strong parentage is likely to ensure continuity of various funding sources including securitization to plug any temporary asset liability mismatches.

About the Company

GECTFSL came in to being when GECMIC took over the existing SRF Finance Limited in 1997. The company is primarily engaged in the financing of commercial vehicles and construction equipment. GECC is one of the world's largest financing companies, with interests in wholesale (corporate), retail, commercial, industrial, auto, and bank financing and had an asset base of US $ 543 billion as on December 2006

GECTFSL reported a Profit After Tax (PAT) of Rs. 22.1 million on an asset base of Rs. 13,452.1 million as on March 31, 2007 compared to a profit of Rs. 43.57 million on asset base of Rs. 14,510.1 million in the previous year. Profits during the year declined by close to 50% primarily on account of a compression of interest margins owing to a sharp rise in borrowing costs. As a result Net Interest Income in FY 2006-07 declined 3.76%. Profits for the year were further impacted by a rise in operating expenses with the investments made by the company on expansion of branch and staff resources. Operating expenses as % of average managed[1] assets for the company increased from 1.32% in the FY 2005-06 to 1.47% in FY 2006-07. As a result profitability [2] for the company declined significantly from 0.34% to 0.16% in FY 2006-07. Going forward, with the shift towards higher yielding segments the company could off-set the pressure on interest margins, however ability of the company to translate higher interest margins to higher earnings would be linked to the control it exercises over its credit losses and operating expense level.

Recent Results

During the 6-month period ended September 30, 2007 GECTFSL reported a loss after tax of Rs. 46.1 million compared to a profit of Rs. 26.5 million during the corresponding period in the previous financial year. While Net Interest Income (NII) of GECTFSL expanded close to 10%, losses are mainly attributable to a substantial rise in the operating expenses and provisions/write-off during the period. GECTFSL has adopted a new strategy of expanding in higher yielding but relatively riskier customer segments through a greater branch penetration in tier II locations. Therefore a rise in operating expenses and credit losses during the period is attributable to this shift in strategy. Going forward as the company increases volumes from its new branches it could achieve scale benefits, however future improvement in earnings would be linked to its ability to manage a moderate risk adjusted return from its new target customer profile.

December 2007

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[1] Including securitized/assigned portfolio outstanding

[2] Profit After Tax as % of Average Total Assets

(For further details please refer to ICRA Brief Rationale September 2007)

KEY FINANCIALS

In Rs. Million	H1 2008 Prov.	H1 2007 Prov.	Growth yoy	Q2 2008 Prov.	Q2 2007 Prov.	Growth yoy	2006-07 Audited
Interest Income	789	691.1	14%	446.2	375.7	19%	1407.5
Interest Expended	581.1	501.2	16%	298.5	271.3	10%	1063.1
Net Interest Income	207.9	189.9	10%	147.7	104.40	41%	344.4
Other Income	2.7	14.9	-82%	0.8	13.5	-94%	51.3
Total Net Income	210.6	204.80	3%	148.5	117.90	26%	395.7
Other Operating Expenses	186.8	121.9	53%	105.6	65.3	62%	255.6
Operating Profit	23.8	82.90	-71%	42.90	52.60	-18%	140.1
Prov. Towards NPA's	93.1	38.6	141%	61.6	16.3	278%	91.5
PBT	-69.3	44.30	-256%	-18.7	36.30	-152%	48.60
Current Tax	-23.2	17.8	-230%	-8.9	13.6	-165%	26.5
Deferred Tax	0	0		0	0		0
PAT	-46.10	26.50	-274%	-9.8	22.70	-143%	22.1

Note; Amounts in Rs. million

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