

## How PEFINDO Assigns Corporate Rating

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Q (Question): What factors are considered by PEFINDO in assigning a Corporate rating?

A (Answer): PEFINDO analyzes macroeconomic factors, in which a rated company engages in, company-specific business and financial risks profiles, management, and the parent support analysis.

Q: What factors are considered in the industry risk analysis?

A: We look at the markets, which include economic and demographic characteristics. In addition, we review the operations, such as revenue and cost structure, as well as capital intensity. We also analyze the competitive environment and any related regulations that affect the players.

Q: What factors are considered in the business risk analysis?

A: We consider the key success factors (KSF) of the specific industry. Key success factors are important factors that, in our view, drive the company's success and determine the risks inherent in an industry that affect the level of credit risk.

For example, the KSFs for food industry are:

- market position, this include market share, brand equity, sales volume and sales value growths
- raw material procurement, factors to be analyzed are source of raw materials, the company's bargaining power towards suppliers, as well as the availability of the raw materials and their price fluctuations
- diversification, this include products, brands, and target markets to review their earning stability
- marketing and distribution, reviewing the company's marketing strategy and distribution coverage to improve its sales
- operating management, we analyze the company's efficiency in terms of capacity utilization, gross profit margin, EBITDA (earnings before interest, tax, depreciation and amortization) and EBIT margins, by comparing with the other major players' figures

Q: What factors are considered in the financial risk analysis?

A: PEFINDO's analysis on a company's financial risk is generally focused on the company's financial policy, capital structure, cash flow protection, liquidity and financial flexibility. The ratios are used are among others debt to EBITDA, debt to equity, and EBITDA to interest and financial charges. In calculating the ratios, PEFINDO may use some adjustments on the company's financial figures. The analysis include the trend of these ratios and their comparisons to the company's peers (both with the players in the same industry or cross industry) to determine the relative financial strength of the rated company.

Q: Are there any financial benchmark for the ratios? Will companies with the same ratios get the same ratings?

A: PEFINDO has internally developed a financial benchmark, which is continuously reviewed and updated (please refer the detail on the Table below). However, it does not mean that the companies with the same ratios will have the same ratings as there are other qualitative factors to be considered in assigning a rating. The stronger the company's business position, the more lenient scoring assigned for the financial ratios, as we expect that the company with a stronger business position will have more stable financial performance.

Some of the Financial Ratios Benchmark used by PEFINDO:

**Debt to Equity Ratio**

<b>Business Financial</b>	<b>Very Strong &amp; Above</b>	<b>Strong</b>	<b>Average &amp; Below</b>
Superior	<0.20x	<0.15x	<0.10x
Very Strong	0.60x	0.35x	0.25x
Strong	1.25x	0.75x	0.50x
Adequate	1.75x	1.25x	1.00x
Weak	>2.00x	>1.50x	>1.25x

**Debt to EBITDA Ratio**

<b>Business Financial</b>	<b>Very Strong &amp; Above</b>	<b>Strong</b>	<b>Average &amp; Below</b>
Superior	<1.50x	<1.25x	<1.00x
Very Strong	1.75x	1.50x	1.25x
Strong	3.00x	2.50x	2.00x
Adequate	4.50x	3.50x	3.00x
Weak	>5.00x	>4.00x	>3.00x

**EBITDA to Interest Ratio**

<b>Business Financial</b>	<b>Very Strong &amp; Above</b>	<b>Strong</b>	<b>Average &amp; Below</b>
Superior	>8.5x	>9.0x	>9.5x
Very Strong	7.0x	7.5x	8.0x
Strong	4.0x	4.5x	5.0x
Adequate	2.0x	2.5x	3.0x
Weak	<1.5x	<2.0x	<2.5x

Q: Which financial figures are considered, historical or projected figures?

A: Rating is a forward looking analysis to measure the company's ability to fulfill its financial obligations in the future. Consequently, we put an emphasis on the projected figures or ratios. Historical financial figures are used as one of the basis for the projection. The analysis is also based on trend analysis. We consider the sustainable level of the financial ratios and carefully look at any extraordinary figures, which could be adjusted for ratios calculation.

Q: In arriving to a final rating, does PEFINDO assign a certain weight (or proportion) to the scoring of industry, business and financial risks?

A: We do not assign a certain proportion. The final rating will be based on the combination of the business and financial profiles scorings. During certain cases, for example when a company faces a liquidity problem, PEFINDO will put significant weight on the financial scoring.

Q: What is meant by the parent support analysis?

A: Parent support analysis is used to determine whether the stand-alone rating of a company could be notched up or notched down, due to the effect of its parent company. The notching up is determined by the parent's overall credit strength and the degree of importance of a company to its parent (or group). The more important the company's business and financial contributions to its parent, the higher degree of parent support is expected. The rating notch down is determined by our analysis on how weak its parent or group's credit profile and how negative its effect to the company, which could weaken the company's standalone credit profile.

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