RATING METHODOLOGY – CORPORATE SECTOR
Road Transportation Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
Companies with strong market position are expected to have better competitive advantage to deal with tightening competition and penetrate market to capture a wider business opportunity. Strong market position will also lead the company to have favorable bargaining power in negotiation process with its suppliers and customers. The company with strong market position usually acts as a price leader and more flexible in pricing adjustment. The measurement of market position includes the assessment toward the company’s market share both in terms of number of fleet and revenue growth. The ability to retain its existing customers and to enhance its number of customers also could indicate the company’s market position.

Fleet Profile
A comprehensive analysis toward fleet profile is highly needed as the capability to deliver good quality of service should largely depend on quality and condition of the fleet. The analysis includes the assessment of number of fleets operated, variety of fleet in term of product types and brand as well as maintenance and disposal policies. Further, we also analyze the average age of the fleets operated as it is considered as a proxy for measuring the quality of the fleet. Companies with favorable fleet profile is believed to have better capability to serve and fulfill various requirements from the customers. Maintenance and disposal policies are also incorporated in rating consideration as good maintenance and disposal policies will result in more efficient operating cost and higher resale value.

Diversification
The objective of the analysis is to measure the company’s ability to diversify its source of income. Source of income could be further categorized based on income by segment, areas, and customers. Having several sources of income should provide more stable revenue stream compared to those which largely depend on single source of income. The assessments toward customers’ profiles and types of rental contracts (if any) are also important factors to measure the sustainability of the revenue stream. Good customers’ profiles with a higher portion of long-term vehicle rental contract or wide customer base will provide more stable and predictable cash inflow generation in the future.

Marketing Network and Support
The analysis focus on the assessment of business network includes number and location of business network as well as roles and responsibilities of each business network. Companies with extensive and wide coverage business network will have better capability to enhance their customers’ base and deliver more reliable service. The abilities to enhance its brand awareness and to set effective marketing strategies are also considered in rating determination. The availability of sophisticated information technology is also important as it provides reliable and real time business information to support the company to manage and monitor its customers and business network.

Operating Management
The analysis includes a comprehensive assessment toward managements’ policy and strategy to support the company’s business performance. Pricing strategy and cost management are the most important factors, particularly in relation to deal with tightening competition. The analysis on operating margins (EBIT and EBITDA) is also assessed by comparing the company’s ratios with other players in the same industry or other industry with similar characteristic, which is important in analyzing the company’s competitiveness. The analysis is helpful to measure operating efficiency. Receivable collection is also an important factor and highly considered in rating determination. We will also assess the company’s working capital.
management and how efficiently it uses its assets to optimize profits. We believe that an unexpected and significant change in working capital relative to the revenue or profitability of the company can indicate a potential liquidity concern in a market downturn as it will further increase the cash burn rate and consequently may lead to deteriorating credit quality.

FINANCIAL RISK ASSESSMENT

Financial Policy
The analysis includes a review of management's philosophy, strategy and policies toward financial risk (historical, current and future). It also includes examination of management's financial targets (growth, leverage, debt structure and dividend policy), hedging and other policies in an effort to reduce the company's overall financial risk (historical vs. future). The company's track record on fulfilling its previous financial obligations is also examined to determine the degree of its commitments and willingness and consistency to pay obligations on a timely basis.

Capital Structure
The analysis covers careful examination of the company's historical, current and projected leverage (total and net debt in relation to equity and EBITDA), debt structures and composition (rupiah vs. foreign currencies, short-term debt vs. long-term debt, fixed rate vs. floating rate). Management of its liabilities is also thoroughly reviewed.

Cash Flow Protection and Liquidity
The analysis covers thorough reviews of the company's cash flow generation and capability to meet its short-term and long-term financial obligations. The degree of its debt-servicing capability level is measured by the company's interest and debt coverage ratio. The degree of its liquidity in fulfilling its short-term liabilities relative to its sources of cash is also thoroughly assessed. The sources of cash are assessed, which include cash balance, estimated cash from operations, unused credit facilities, and other sources of cash. The uses of cash other than short-term liabilities, such as capital expenditure, are also assessed.

Financial Flexibility
The analysis covers combined evaluations of all the financial measures above to arrive at an overall view of the company's financial health. Analysis of other related factors or figures that are not specifically examined above, such as insurance coverage, restrictive covenants in loan/bond agreements or parental linkage and support, are also covered. Other analytical tasks covered are the evaluation of the company's options under stress, including contingency plans and other capabilities and flexibility to deal with various adverse scenarios. Shareholder support and commitment are also greatly considered.
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