Manufacturing Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers risk assessments on the company's competitive advantages from its business and market position. Companies with strong market position and competitive advantage is able to spread out costs and enjoy more economies of scale than their competitors. The examination is further broken down to the company's market share in different segments, such as types of products and areas. A strong market share is important to determine the company's capability in negotiating with its suppliers, distributors, customers and regulators. A company with the largest market share also often becomes the price leader, offering more flexibility to adjust selling prices. In addition, strong market position could provide the company a better resistance towards any unfavorable business development as compared to a company with smaller and weaker business position. The analyses also reviews several other important factors that affect the company's market share such as growth outlook, pricing power, barriers to entry, maturity and any risks of substitution.

Diversification
The assessment will include an examination on how well the company's ability to provide various products that enables it to capture broader market segment with different demand characteristics. Broad product lines lessen business risk and can mitigate cyclical pressures. New products offering which gives a value increase to customers will enable the price base to be adjusted. In terms of customer base, customer diversity can ease price pressures and protect against a sudden loss of demand. Number and location of facilities that will help the manufacturers get closer to its customers will also be considered as well as how good are its distribution channels. Geographic diversity is also important. Regions may be in different stages of the business cycle and experience different severity of cyclicality, particularly in the local and export markets.

Raw Material Procurement
The analysis covers risk assessments on the company's capability to ensure the flow of raw material needs, the company's ability to get consistent quality standard of raw materials, capability in bargaining power to control/manage cost of raw materials, ability to manage production flow to maintain sustainable throughputs, flexibility in passing through cost increases to its customers, and other related factors that support the sustainability of the company's raw material procurement and productions.

Operating Management
The analysis includes an assessment toward the management's policy and strategy to support the company's business performance. To generate strong profitability and cash flows, manufacturers must be able to control their operating costs. A good cost position, along with a reasonable capital structure should enable a manufacturer to generate positive operating cash flow, even during economic slow-down. 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 to be considered in rating determination.

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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