Automotive Industry - Key Success Factors

BUSINESS RISK ASSESSMENT

Market Position
The analysis covers deep risk assessments on the company's competitive advantages from its business and market position. Given lack of information on the industry sales values, sales volumes are used as a proxy to estimate the company's market share. The examination is further broken down to the company's market share in different segments, manufacturers, types of products, brands, and etc. Strong market share is important to determine the company's capability in negotiating with its principal, suppliers, distributors, 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 analysis also reviews several other important factors that affect the company's market share such as brand awareness, product quality, product mix strategy, pricing strategy, reliability, after sale services, and principal supports and commitments.

Operating Management
The analysis includes careful reviews on the company's margin management in an effort to operate businesses in the most efficient way. Examination on utilization of factory capacity is one of the main factors to see the degree of efficiency, as production activities in automotive industry usually involve sizable fixed costs. In addition, as revenues of automotive manufacturers are mainly in Rupiah, the analysis also includes deep reviews on the company's capability to localize materials, reduce currency mismatch between revenue and material costs, and pursue foreign currency revenue by exploring the export market. The principal's global strategy, supports, policy as well as capability and flexibility to penetrate the export market are also examined. Working capital management, including inventory management, receivable collection, and payable management, is also analyzed to determine the degree of the company's efficiency and capability to run businesses. 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 characteristics, which is important in analyzing the company's competitiveness. The analysis is helpful to measure operating efficiency and the company's flexibility in adjusting selling price.

Product Range and Development
The analysis covers the examinations on the company's ability to offer variety of products that enables the company to capture wider market segments with different demand characteristics. Having strong position in many market segments will offer more stable revenue stream than that of those who only focus on single market segment. The company's capability to follow customers' rapidly changing preferences and needs is also evaluated to see the degree of the company's ability in product development that is generally measured by the company's facility, human resources and amount of the budget for research and development (R&D).

Marketing and Distribution
The analysis covers thorough examinations on the company's marketing and distribution networks that enable the company reaching wider customer base. The company's ability, policy and commitment to advertise and strengthen customers' awareness on the products, distribution network to ensure product availability in targeted market place are also thoroughly analyzed. Extensive distribution networks should offer better geographic diversity, which in turn is expected to lighten revenue instability from certain marketing area/location. The company's strengths on marketing and distribution networks should be reflected by number and distribution of branches, dealers, workshops, and supports from financing companies as well as spare-part provider networks.
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-serving 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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