PT EQUITY FINANCE INDONESIA

	Amount Outstanding as in May 2015	Maturity Date	Rating Outstanding/ Outlook	Previous Ratings/Outlook
Proposed Rp 300bn Medium Term Notes (MTN)	-		[Idr]BBB/ Stable	-
MTN EFI II	Rp 200bn	Oct 2015 - Feb 2017	[Idr]BBB/ Stable	[Idr]BBB/ Stable
MTN EFI III	Rp 250.9bn	Jun 2015 - Mar 2018	[Idr]BBB/ Stable	[Idr]BBB/ Stable

PT ICRA Indonesia (ICRA Indonesia) has affirmed its [Idr]BBB (pronounced triple B) ratings of Rp 450.9bn outstanding Medium Term Notes (MTN) of PT Equity Finance Indonesia (EFI) and assigned the same rating to the proposed Rp 300bn new MTN. The outlook for all ratings is stable. The ratings indicate moderate credit quality relative to other domestic issuers, and the rated instruments carry higher-than-average credit risk.

The ratings factor in EFI's maintained level of growth --in asset size, financings and also income profile-- and its relatively low leverage. These strengths are however offset by the uptick in its non performing financings/loans (NPL) and lack of tie-ins with major suppliers, dealers or any prominent bank or financial institution (which could provide the crucial growth support).

EFI's ratings could move upwards if it can further expand its operations and strengthen its income profile, while maintaining acceptable levels of gearing and asset quality. However, if EFI were to grow aggressively by diluting its lending norms or employing such other strategies which ultimately can impair its profitability and/or asset quality, the ratings would come under downward pressure. Adverse changes in operating environment could also impact EFI's ratings.

The principal methodology used in rating EFI is ICRA Indonesia's rating methodology for Non-Bank Financial Companies. Please refer www.icraindonesia.com for detailed information on the methodology, along with other methodologies.

The ratings factor in EFI's maintained level of growth despite the overall challenging macroeconomic backdrop in 2014. At end of 2014, top line grew 41% yoy to Rp 169.7bn whereas bottom line grew by 29% yoy to Rp Rp 23.9bn. This made the company's retained earnings to cross into positive territory after carrying loss since its inception. Q1 2015's revenue also experienced 24% growth yoy while pre-tax income booked higher by 22% yoy. End of 2014's receivables expanded 23% yoy to Rp 1,022.6bn while as of 31 March 2015 the figure grew 18% yoy to Rp 1,061.8bn. However, the interest spread got moderated to 3.9% in 2014 and 1.9% in 1Q 2015 (versus 4.4% and 2.7% in 2013 and 1Q 2014). It became more evident that the company aimed for volume rather than to forcibly increase the spread given the competitive nature of market and high interest environment where the company cannot easily pass on the funding rate to the customers. By asset size, EFI now has surpassed the psychological level of Rp 1tn, recorded at Rp 1.08tn in December 2014 and Rp 1.11tn in March 2015. Total asset has recorded a 5-year CAGR of 31% during 2009-2014.

In addition, despite more debts added to support the business, EFI's gearing level is still at 2.5x currently, relatively low compared to its peers. The figure is slightly higher than 2.2x at our last observation in 3Q2014 and has shown an uptrend. However, the company also has a characteristic of distributing its MTN issuance over several months, making it more manageable to be repaid. Added leverage also naturally results in better ROE where it increased to 6.6% and 8.4% as of 31 March 2015 and 31 December 2014 compared to 5.7% and 6.9%, respectively a year earlier. Factoring in the business growth potential, the company looks to further increase the gearing to be almost at par with its peers at nearly 4x figure by 2016. ICRA Indonesia also notes that EFI can maintain its relationship with its network of 10 banks.

EFI's ratings are however constrained by the consistent uptick in its non performing financings/loans (NPL). The company cannot defy the macroeconomic headwinds that happened during 2014 and 1Q 2015. Although still in a manageable range, NPL moved upward to 0.86% as on 31 March 2015 after recording 1.13% at end 2014, compared to respectively 0.74% and 0.68% in the previous year. There are no issues of loosening underwriting process, rather 2014 was a political year that subdued the economy significantly. Meanwhile, the economy until the second quarter of 2015 has not yet picked up due to adjustments to the new administration in the country and its impactful policies (such as fuel price setting scheme). Nevertheless, ICRA Indonesia expects EFI to show its resiliency in its asset quality given that most of the financings are made to productive purposes, where around 26% of financings were made in machineries, 21% in commercial vehicles, and 7% in heavy equipment as of 31 March 2015.

ICRA Indonesia also views EFI's lack of tie-ins with major suppliers, dealers or any prominent bank or financial institution as a constraining factor for the ratings. This is on the ground that a greater business or cheaper funding cost can be derived from such arrangements and ultimately can enhance its competitiveness. But ICRA Indonesia also understands EFI's emphasis on keeping its independence in order to maintain flexibility in running its business. In addition, EFI can in the future ramp up its synergy with its sister companies within Equity group --notably the life and general insurance companies– to widen its business networks, which up until now, relatively untapped.

Company Profile

PT Equity Finance Indonesia, established on 16 December 1982, obtained its license and started its operations as a finance company in 1996. EFI has its main office in Jakarta, and branch offices in 10 major cities in the country. Currently, the shareholders of EFI are PT Equity Development Investment Tbk (56.6%), PT Ventura Investasi Utama (13.9%), PT Equity Life Indonesia (9.1%), Global Link Equity Limited (HK) (14.1%) and PT Datindo Entrycom (6.3%).

EFI reported total assets (with provisions for non performing loans being added back) of Rp 1,111.8bn and a profit after tax of Rp 4.9bn as on March 31, 2015. Out of Rp 1,061.8bn total financing, net financing lease accounted for 59.8%, followed by consumer finance 34.7%, factoring 5.4% and operating lease for the rest 0.1% during the same period.

June 2015

Financial Snapshot of PT Equity Finance Indonesia

		1Q2015	FY2014	FY2013	FY2012	FY2011
Equity Capital (par value)	*Rp billion*	289.4	289.4	289.4	289.4	289.4
Net Worth	*Rp billion*	299.5	294.6	276.4	257.9	242.8
Finance Lease Receivables—Net	*Rp billion*	634.7	615.0	564.1	350.4	224.4
Total Portfolio Managed	*Rp billion*	1,061.8	1,022.6	829.9	531.2	354.2
Total Assets	*Rp billion*	1,111.8	1,076.1	881.6	566.5	403.6
Total Income	*Rp billion*	39.4	169.7	120.5	77.8	59.3
Net Interest Income	*Rp billion*	13.9	76.1	63.3	48.1	40.4
Profit before Tax (reported)	*Rp billion*	6.5	31.7	24.1	19.9	14.9
Profit after Tax (reported)	*Rp billion*	4.9	23.9	18.5	15.1	11.2
Yield on Avg. Earning Assets	*%*	13.6%	17.3%	16.6%	15.9%	16.5%
Cost of Avg. Int. Bearing Funds	*%*	11.7%	13.4%	12.2%	11.6%	13.6%
Gross Interest Spread	*%*	1.9%	3.9%	4.4%	4.3%	2.9%
NIM/Avg. Managed Assets	*%*	5.1%	7.8%	8.7%	9.9%	11.1%
Profit After Tax/Avg. Assets	*%*	1.8%	2.4%	2.6%	3.1%	3.1%
Profit After Tax/Avg. Net Worth	*%*	6.6%	8.4%	6.9%	6.0%	4.7%
Cost to Income Ratio	*%*	62.9%	54.9%	58.7%	60.2%	66.4%
Total Debt/Net Worth	*(x)*	2.5	2.5	2.0	1.1	0.6
Gross NPLs/Average Managed Assets	%	0.86%	1.13%	0.68%	0.43%	0.34%

Note: Certain numbers have been adjusted to ICRA Indonesia's standard of adjustments.

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