PT SELAMAT SEMPURNA Tbk

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CREDIT PROFILE

Corporate Rating — *$_{id}$AA-/Stable*

Rated Issues

Bond II/2010/series C — *$_{id}$AA-*

Rating Period

April 7, 2014 – April 1, 2015

Rating History

APR 2013	*$_{id}$AA-/Stable*
APR 2012	*$_{id}$AA-/Stable*
APR 2011	*$_{id}$AA-/Stable*
APR 2010	*$_{id}$AA-/Stable*
APR 2005	*$_{id}$A+/Stable*
JUL 2004	*$_{id}$A/Stable*

FINANCIAL HIGHLIGHTS

As of/for the year ended	**Dec-2013** (Audited)	**Dec-2012** (Audited)	**Dec-2011** (Audited)	**Dec-2010** (Audited)
Total Adjusted Assets [IDR Bn]	1,701.1	1,556.2	1,445.3	1,218.7
Total Adjusted Debt [IDR Bn]	327.2	381.4	318.7	306.7
Total Adjusted Equity [IDR Bn]	1,006.8	910.1	878.3	672.6
Total Sales [IDR Bn]	2,373.0	2,269.3	2,072.4	1,561.8
Net Income after MI [IDR Bn]	307.9	219.3	212.3	150.4
EBIT Margin [%]	17.8	17.1	15.9	14.6
Return on Permanent Capital [%]	32.1	31.3	30.2	27.0
Adjusted Debt/Adj. Equity [X]	0.3	0.4	0.4	0.5
EBITDA/Total Adjusted Debt [X]	1.6	1.3	1.3	1.0
EBITDA/IFCCI [X]	17.6	16.3	13.6	12.8
(Net Operating CF+IP)/IFCCI [X]	12.8	10.1	8.8	7.2
USD Exchange Rate [IDR/USD]	12,189	9,670	9,068	8,991

Return on Permanent Capital = (Annualized EBIT) / Average (Total Adjusted Debt + Total Adjusted Equity + Minority Interest)
EBITDA = (Operating Profit + Depreciation Exp + Amortization Exp)
IFCCI = (Gross Interest Expense + Other Financial Charges + Capitalized Interest); FX Loss not included
CF = Cash Flow IP = Interest Payment MI = Minority Interest
The above ratios have been computed based on information from the company and published accounts. Where applicable, some items have been reclassified according to PEFINDO's definitions.

RATIONALE

PEFINDO has affirmed its **"$_{id}$AA-"** ratings for PT Selamat Sempurna Tbk (SMSM) and its outstanding Bond II/2010 series C of IDR80 billion. The outlook for the corporate rating is **"stable"**. The ratings reflect SMSM's relatively strong presence in the replacement market for automotive filters, very conservative capital structure, and very strong cash flow protection figures. The ratings, however, are still constrained by SMSM's exposure to commodity price volatility. SMSM is one of the leading auto-component companies in Indonesia, producing filters, radiators, body maker, and other automotive products such as brake pipes, mufflers, and fuel tanks for many types of cars, heavy equipment, and other transportation vehicles. In 2013, SMSM acquired a 99.9% stake in sister companies PT Selamat Sempana Perkasa (SSP) and Prapat Tunggal Cipta (PTC) for IDR44.9 billion and IDR50.6 billion, respectively. SSP specializes on manufacture rubber O-rings, rubber compounds, polyurethanes, and plastisol adhesive for automotive industries, while PTC, SMSM's sole distributor that specializes on the distribution of the SMSM products in Indonesia aftermarket sectors. SMSM has three major production facilities: a filter factory with production capacity of 96 million units per year, a radiator factory that can produce almost 2 million units per year, and a factory for its carrosserie products that produces almost 10,000 dump hoist units per year. As of December 31, 2013, SMSM's shareholders consisted of PT Adrindo Intiperkasa (58.1%) and the public (41.9%).

Supporting factors for the above ratings are:

- ***Relatively strong presence in the replacement market.*** With the Company's self-owned brands "Sakura" for filter products and "ADR" for radiators, we are of the view that SMSM has a relatively strong presence in the replacement market. Around 90% of SMSM's products are sold to the replacement market, which in our view is more resilient than the Original Equipment Manufacturer (OEM) market. Despite the slowing global economy, which has affected new automotive and heavy equipment sales, SMSM's revenue from filters and radiators (72.9% of total revenue in 2013) has grown by a five-year compound annual growth rate (CAGR) of 6.9% to IDR1.7 trillion in 2013 from IDR1.3 trillion in 2009. Despite stagnant sales for filters and lower sales for radiators in 2013, we still expect sales volumes to pick up in the near term as a result of Company's efforts to strengthen its domestic distribution network through the acquisition of PTC and to widen its distribution channel overseas. With the Company's high quality recognition for its filter and radiator products in both domestic and overseas markets, we believe SMSM would be able to maintain its strong position in the industry in the near to medium term.
- ***Very conservative capital structure***. Despite a higher debt level, which was used to finance an increased inventory in order to anticipate the volatility of raw material prices, SMSM's capital structure remains very conservative with a debt to equity ratio (DER) of 0.3x as of December 31, 2013 and a debt to EBITDA ratio of 0.6x. In the near to medium term, we expect SMSM's financial leverage to remain conservative as the Company has no major expansion plans in the medium term. As the Company has sufficient production capacity, its capital expenditure in the future is expected to be around IDR100 billion per year, which will be funded by internal operating cash flow. SMSM's debt to equity ratio is expected to remain below 1.0x.
- ***Very strong cash flow protection***. SMSM's cash flow protection remains very strong, with debt coverage measured by EBITDA to total debt at 1.6x in 2013, and its interest coverage measured by EBITDA to interest expense, financial charges, and capitalized interest (IFCCI) ratios at 17.6x. These very strong cash flow protection measures are due to the Company's stable profitability and conservative capital structure. Following the Company's strong effort to widen its distribution network and market coverage, we expect the Company to be able to improve its revenue and profitability, which will support SMSM's debt and interest coverage ratios to stay at a strong level of around 1.3x and 16.3x, respectively.

Mitigating factor for the above ratings is:

- ***Exposure to commodity price volatility.*** Imported raw materials accounted for 71.8% of the Company's total raw material purchases and 65.1% of its cost of goods sold in 2013. SMSM's imported raw materials include steel plates, filter paper, aluminum, and brass-copper strip, all of which are commodities with prices that fluctuate depending on the global supply and demand dynamics. An unexpected increase in raw material prices, in our view, may squeeze SMSM's margins as the Company would not immediately be able to pass on the higher cost to its customers.

OUTLOOK

A **"stable"** outlook is assigned to the Company's corporate rating. The rating may be raised if SMSM is able to further increase its market position globally, while maintaining its very strong financial profile. However, the rating may be lowered if the Company finances its capital expenditure and business expansions with a significant amount of debt above our expectations following a lower-than-expected business growth.