

PT Hasjrat Multifinance (HMF)

Corporate rating

BBB/Negative

Rating Period

April 1, 2020 – September 1, 2020

Kredit Rating Indonesia has revised the outlook for corporate rating of PT Hasjrat Multifinance to 'Negative' from 'Stable'.

The COVID-19 pandemic caused pressure on almost all business sectors including the financing sector which is the business of HMF. KRI considers several factors that will affect HMF including profitability, declining asset quality, increased loan loss reserves and funding access.

HMF asset quality will likely to face pressure where financing growth is expected to slow down during the pandemic and weaker repayment ability of borrowers. The asset quality of HMF is below the industry average, with the ratio of non-performing financing at 6.7% at the end of June 2019 (2018: 6.3%), where industry's non-performing financing at 2.8% during this period. We expect HMF's asset quality to remain below the industry average in the medium term.

Otoritas Jasa Keuangan (OJK) has issued POJK No. 11 / POJK.03 / 2020 where the borrower gets relief in the form of adjustment of principal/ interest installment payments for a maximum of 1 year. KRI views the implementation of this policy as facing its own challenges in maintaining asset quality, due to the social / physical distancing policy that will have an impact on the reduction of HMF financing activities and lower borrower income and reduced collection activities. The multifinance restructuring process will likely to face difficulties should the government impose wider restrictions on movement.

HMF's profitability of the company is satisfactory where ROA was at 7.7% at June 2019 (2018: 4.6%), but the sustainability of the profitability is uncertain due to higher loan provision as asset quality deteriorates. HMF's loans loss coverage is still relatively inadequate (June 2019: 59%), and the decision to increase the coverage can erode profitability.

MTN constituted half of the company's funding source in 2018 while bank loans contributed only 11%. The reliance on MTN can be an additional liquidity risk for HMF should the MTN market dries up due to the high risk aversion in the banking and capital market during pandemic period.

HMF is capitalizing on Hasjrat Abadi's strong presence and track record in Eastern Indonesia. Hasjrat Abadi started the dealership of Yamaha motorcycle in 1965 and Toyota cars in 1979. Heavily riding on Hasjrat Abadi's network and brand recognition in Eastern Indonesia, KRI believe that it is unlikely that HMF will significantly increase its national market share significantly.

Although HMF's market share is weak nationally (0.5% in financing receivables), HMF benefits as part of Hasjrat Abadi Group which has a dealership business unit with a

dominant market share in Eastern Indonesia so that HMF has an adequate financing market share (around 35%) in the region.

HMF recorded total financing receivables of Rp 2.3 trillion at the end of June 2019, dominated by vehicle financing, where the proportion of car financing was around 43% and motorcycles around 26%. The rest of the financing portfolio is dominated by working capital and investment financing.

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