Indonesia Automobile and Motorcycle Finance Industry

STRATEGIC RESEARCH DIVISION (SINGAPORE)
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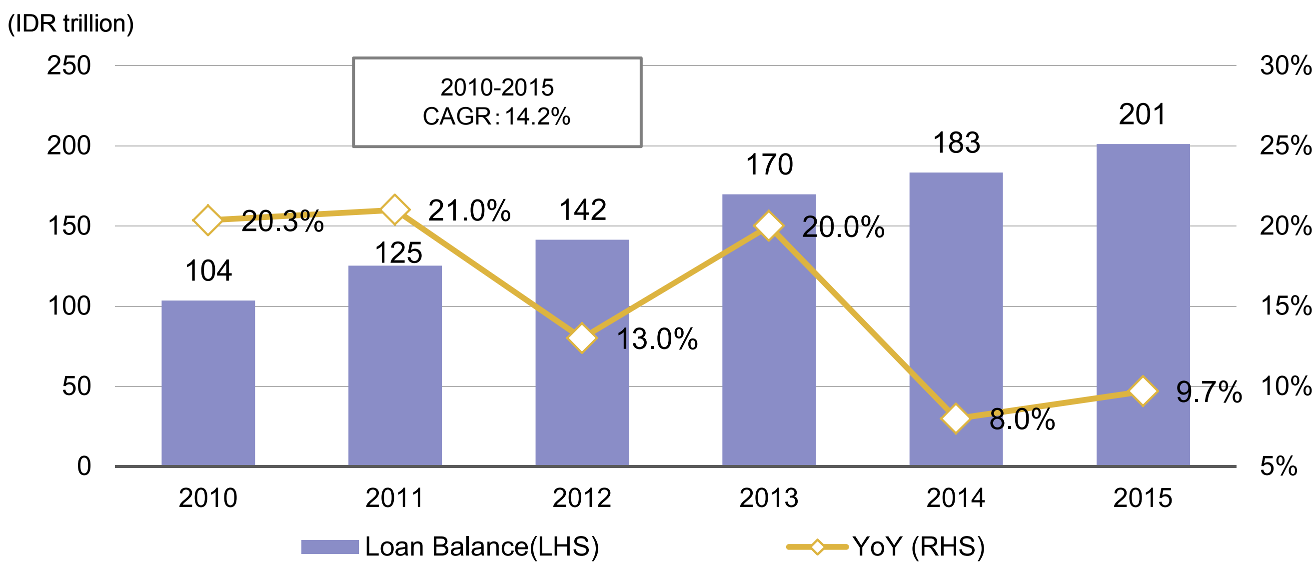
1. Current Situation of the Financing Market

(1) Market Trends

~ The automobile and motorcycle financing market in Indonesia has been expanding

- The Indonesian automobile and motorcycle financing has been growing in recent years.
- Loan balance has grown at a CAGR of 14.2% in the last 5 years, from IDR 104 trillion in 2010 to IDR 201 trillion in 2015. However, the rate of growth has been slowing as vehicle sales have declined.

Automobile and Motorcycle Loan Balance



(Source) Euromonitor, compiled by BTMU SRD Singapore

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(2) Background

~ Economy-driven demand for automobiles and motorcycles has boosted the financing market

- Automobile and motorcycle sales have boosted the financing market, but the slowdown in sales has affected the industry.

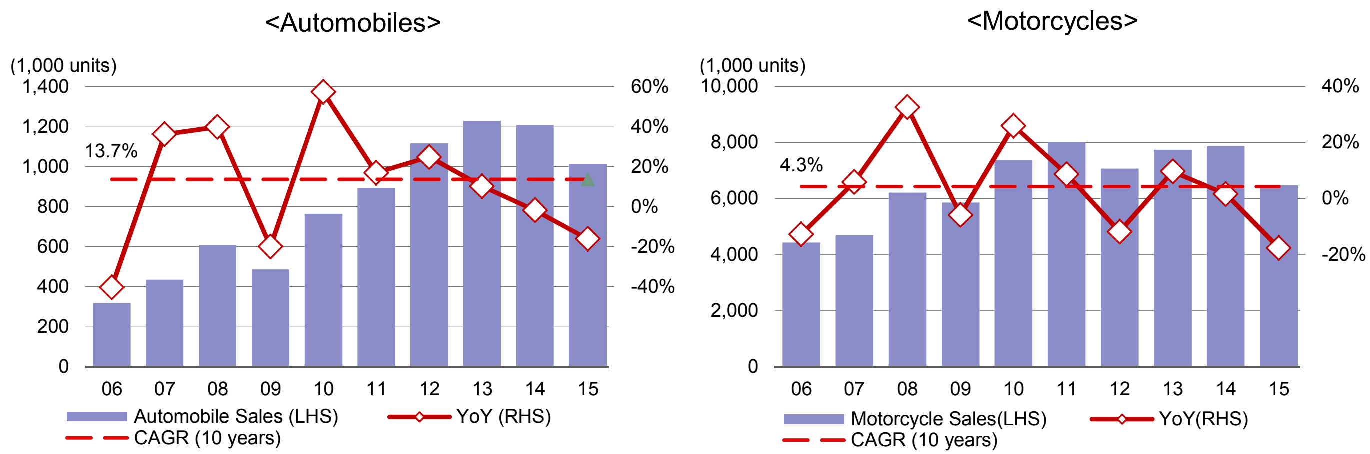
✓ Automobile sales in Indonesia have grown at a CAGR of 13.7% over the last 10 years. However, automobile sales have been declining since 2014 due to higher fuel prices and high interest rates, with sales in 2015 declining by -16.1% YoY.

✓ Although motorcycle sales have grown at CAGR of 4.3% in the last 10 years, sales in 2015 declined by -17.6% YoY.

- Indonesia has maintained a GDP growth rate of 5-6% in recent years. Most new buyers are young people in their 20s and 30s as well as the increasing ranks of middle income earners.

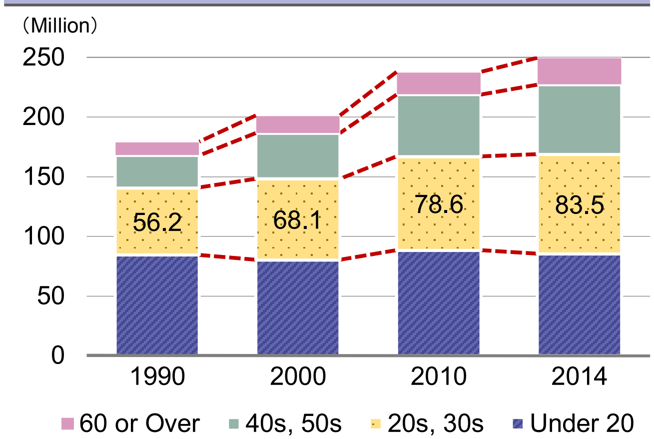
- About 70% of car buyers and 80% of motorcycle buyers use financing services.

Indonesia Automobile and Motorcycle Sales



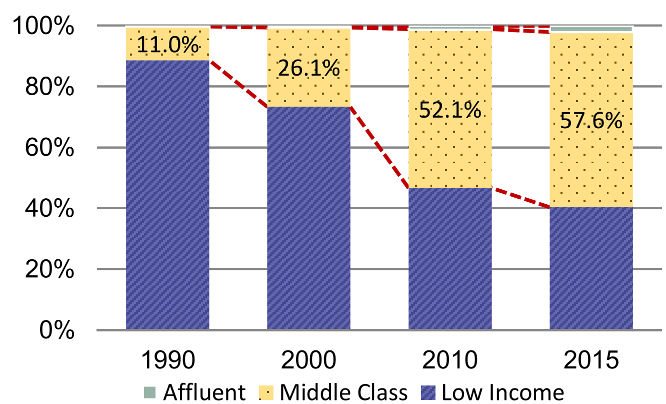
(Source) CEIC, compiled by BTMU SRD Singapore

Population Growth by Age Group



(Source) Euromonitor, compiled by BTMU SRD Singapore

Population Ratio by Income Bracket



(Source) Euromonitor, compiled by BTMU SRD Singapore

2. Industry Structure

(1) Major Players

~ The market comprises a large number of commercial banks and non-bank financial institutions

- There are over 200 finance companies in Indonesia, of which over 100 provide automobile and motorcycle finance services.
- Financing companies can be largely classified into commercial banks (and affiliated companies) and non-bank financial institutions, which can be further divided into captive and independent non-captive finance companies.
  - ✓ Adira Dinamika Multi Finance, Mandiri Tunas Finance, BCA Finance etc. are affiliated with commercial banks.
  - ✓ Most captive finance companies are affiliated with Japanese automakers, such as Toyota Astra Financial Services (Toyota), Dipo Star Finance (Mitsubishi Motors), Bussan Auto Finance (Yamaha).
  - ✓ Astra Sedaya Finance, Federal International Finance etc. are non-captive finance companies affiliated with local major conglomerates.

Major Players

<Commercial Banks>

Company	Loan	Total Assets (IDR 1 billion) the end of 2015	Brand[1]										
			Automobile[2]							Motorcycle[2]			
			Toyota (31.8)	Daihatsu (16.6)	Honda (15.7)	Suzuki (12.0)	Mitsubishi Motors (11.1)	Nissan (5.4)	Others (7.4)	Honda (68.7)	Yamaha (27.8)	Suzuki (1.7)	Others (1.8)
Adira Dinamika Multi Finance	Automobile/ Motorcycle	27,744	O	O	O	O	O	O	O	O	O	O	-
Mandiri Tunas Finance	Automobile	9,203	O	O	O	O	O	O	O	-	-	-	-
BCA Finance	Automobile	6,824	O	O	O	O	O	O	O	-	-	-	-
Clipan Finance Indonesia	Automobile	6,647	O	O	O	O	O	O	O	-	-	-	-
Wahana Ottomitra Multiartha	Motorcycle	5,306	-	-	-	-	-	-	-	O	O	O	-
Buana Finance	Automobile	3,163	O	O	O	O	O	O	O	-	-	-	-
CIMB Niaga Auto Finance	Automobile/ Motorcycle	N/A	O	O	O	O	O	O	O	O	O	O	O

<Non-Bank Financial Institutions>

	Company	Ownership	Loan	Total Assets (IDR 1 billion) the end of 2015	Brand[1]										
					Automobile[2]							Motorcycle[2]			
					Toyota (31.8)	Daihatsu (16.6)	Honda (15.7)	Suzuki (12.0)	Mitsubishi Motors (11.1)	Nissan (5.4)	Others (7.4)	Honda (68.7)	Yamaha (27.8)	Suzuki (1.7)	Others (1.8)
Captive	Toyota Astra Financial Services	Toyota	Automobile	17,804	O	–	–	–	–	–	–	-	-	-	-
	Dipo Star Finance	Mitsubishi Motors	Automobile	N/A	O	O	O	O	O	O	O	-	-	-	-
	Bussan Auto Finance	Yamaha	Motorcycle	N/A	-	-	-	-	-	-	-	-	O	-	-
	Suzuki Finance Indonesia	Suzuki	Automobile / Motorcycle	N/A	-	-	-	O	-	-	-	-	-	O	-
Non-captive	Astra Sedaya Finance	Conglomerate	Automobile	30,392	O	O	-	-	-	-	O	-	-	-	-
	Federal International Finance	Conglomerate	Motorcycle	28,734	-	-	-	-	-	-	-	O	-	-	-
	BFI Finance Indonesia	Independent	Automobile	11,770	O	O	O	O	O	O	O	-	-	-	-
	Mandala Multifinance	Independent	Motorcycle	4,595	-	-	-	-	-	-	-	O	O	O	O
	Indomobil Finance Indonesia	Conglomerate	Automobile / Motorcycle	4,468	-	-	-	O	-	O	O	-	-	O	-
	Mitra Pinasthika Mustika Finance	Independent	Automobile / Motorcycle	N/A	O	O	O	O	O	O	O	O	O	O	O
	Summit Oto Finance	Japanese trading company	Motorcycle	N/A	-	-	-	-	-	-	-	O	O	O	O
	Oto Multiartha	Japanese trading company	Automobile	N/A	O	O	O	O	O	O	O	-	-	-	-
	Mitsui Leasing Capital Indonesia	Japanese trading company	Automobile	N/A	O	O	O	O	O	O	O	-	-	-	-

(Note 1) O indicates that the company provides loans for that brand, while — indicates otherwise.
(Note 2) The figures in parentheses below the brand represent the market share (%) of that brand in 2015.
(Source) Bloomberg, various websites, compiled by BTMU SRD Singapore

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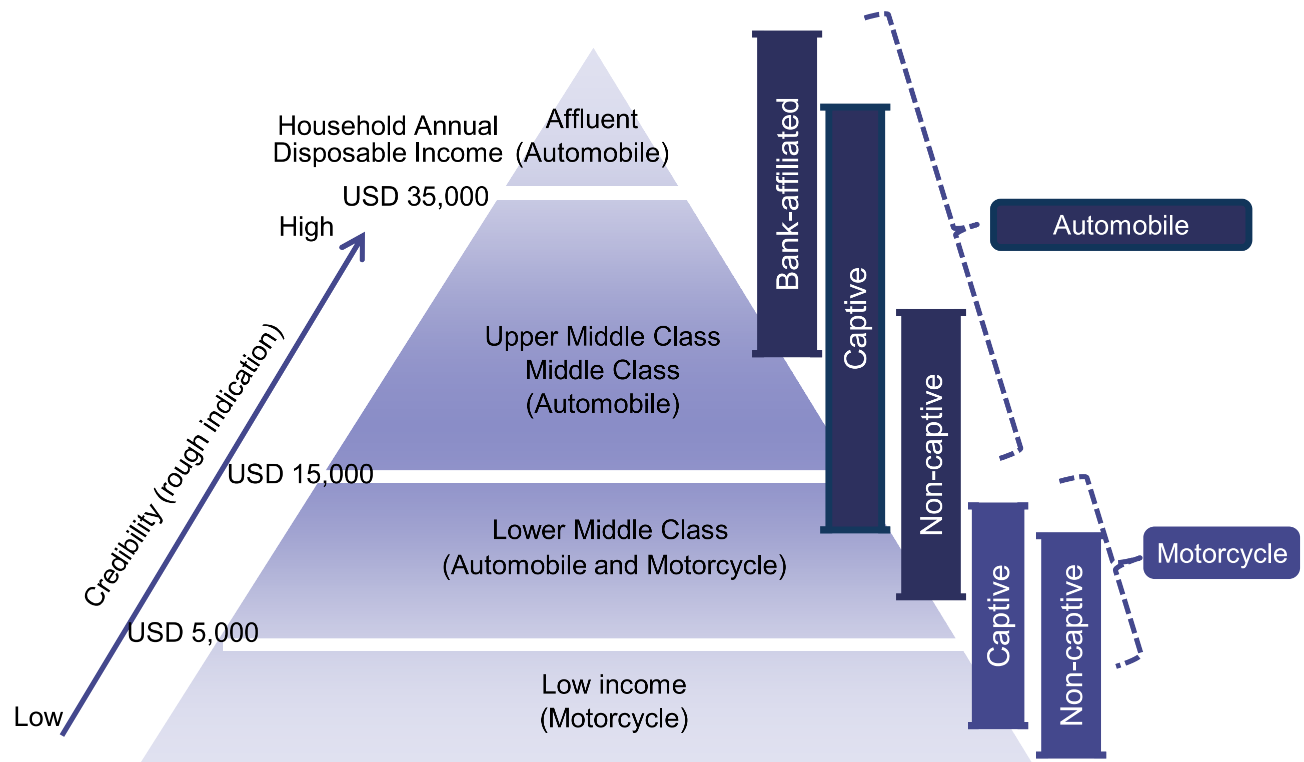
(2) Business Development and Customer Segmentation (1/2)

~ Commercial banks and captive finance companies mainly target more creditworthy customers

- The customer groups of the financing companies can be classified as follows:
  - ✓ Commercial banks launch products with competitive loan interest rates and terms and run advertising campaigns aggressively to target the affluent class (many of which are automobile buyers), who are more sensitive to the lending terms.
  - ✓ Captive finance companies mainly target customers who are relatively more creditworthy through affiliated dealers. They also acquire less creditworthy customers as a result of launching promotional campaigns regularly.
  - ✓ Non-captive finance companies cannot compete with commercial banks in terms of fund-raising ability and they have weaker connections with dealers as compared to captive finance companies. Thus, they target mainly less creditworthy customers such as low income earners in urban areas and consumers in rural areas.

Customer Segmentation in Vehicle Finance Industry



(Source) Various articles, interviews, compiled by BTMU SRD Singapore

(2) Business Development and Customer Segmentation (2/2)

~ Commercial banks and non-bank financial institutions continue to enter the market

- However, although the growth of automobile and motorcycle loans has been sluggish recently, new players continue to enter the financing industry, thus resulting in intense competition among the players.

Recent Developments in Financing Company Activities

	Company	Subsidiary	Description	Date
New Entrant	Nissan (automaker)	Nissan Financial Services Indonesia	Established a new local company and entered the automobile financing market. Started to provide automobile loans which specialize in Nissan brand.	Nov 2013
New Entrant	JACCS (non-bank)	Mitra Pinasthika Mustika Finance	Acquired 40% share of an automobile financing company (Mitra Pinasthika Mustika Finance) and entered the automobile financing market.	Feb 2014
New Entrant	Tunas Ridean (local auto dealer) Bank Mandiri (local bank)	Mandiri Utama Finance	Established a joint venture between Tunas Ridean and Bank Mandiri to enter the automobile financing market.	Oct 2014
New Entrant	Sumitomo Corporation (trading company) Hino (automaker)	Hino Finance Indonesia	Established a new captive finance company mainly offering finance services for Hino trucks and buses with the aim of strengthening customer relations.	Dec 2014
New Entrant	J-Trust (non-bank) Group Lease (non-bank)	Group Lease Finance Indonesia	Established a joint venture company providing automobile, motorcycle and other consumer financing services.	Jan 2016
Expansion of Existing Business	JA Mitsui Leasing (non-bank)	Mitsui Leasing Capital Indonesia	Expanded its sales networks (up to 3 branches/year) especially in rural areas.	Jun 2013
Expansion of Existing Business	Bank Central Asia (local bank)	Central Santosa Finance	Acquired stock of a motorcycle financing company (Central Santosa Finance) and expanded its existing business.	Jan 2014
Expansion of Existing Business	Trakido Utama Group	Chandra Sakti Utama Leasing	Expanded business from heavy equipment financing to include automobile financing due to weakness in the mining industry.	Mar 2015

(Source) Company homepages, newspaper articles, etc., compiled by BTMU SRD Singapore

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(3) Characteristics of Business Activities

~ Provision of incentives to dealers and labour-intensive methods of credit screening/loan collection

- Financing companies mostly acquire their customers through dealers, and so need to provide incentives to them.
- Credit screening is labour-intensive as there is no useful credit information agency in Indonesia (e.g. buyer workplace/home visits, interviews with neighbours).
- The financing companies usually call to remind automobile debtors to repay their loans via bank transfer from a call center. In contrast, motorcycle loan debtors are more likely to make cash payments and are often late in repaying their loans by up to a week, so labour-intensive methods such as home visits are used to remind and collect payment.
- If financing companies have to seize/sell collateral after an overdue loan, both automobile and motorcycle financing companies normally outsource the work to external contractors.

Business Operations and Characteristics of Financing Companies

Type of Business Operation			Indonesia		Japan (Reference)
			Automobile	Motorcycle	Automobile / Motorcycle
Marketing	Customer Acquisition	Channel	Dealers		Dealers
	Customer Profile	Regional Characteristics	Overwhelming majority in urban areas	Urban areas: 60% Rural areas: 40%	No
		Occupation	Individuals, middle management or above in the company	Office workers, those working in the service industry, farmers, etc.	Ordinary salaried employees
	Incentive to Dealers	Interest Kickback	Yes		Yes
		Rewards to Sales Staff	Provision of incentives to individual sales staff		No
		Privileges System	Various incentives such as overseas travel		No
Screening	Application Terms	Required Documents	Salary statement, ID, Utility payment slip, etc.		Copy of driver's license
	Screening	Credit Information Data	No		Yes (CIC: Credit Information Center)
		Home Visit and Verification	Home visit, verification of required documents, interviewing neighbors		No
		Screening Period	Several hours to 2 days after receiving documents	1 to 3 days after receiving documents	Several hours after receiving documents
Collateral/Credit Execution	Collateral Terms	Collateral Document	Vehicle inspection certificate, letter of proxy authorizing vehicle impoundment (to be kept by financing company)		Vehicle inspection certificate to be kept by applicants.
	Insurance	Vehicle Insurance	To be obtained via a financing company.		Voluntary vehicle insurance
	Credit Execution	Interest Rate	Around 10-15%	Around 30%	3-8%
		Down Payment	Bank: more than 30%, Financing Company: more than 25%		No
		Payment Period	Average of 3-4 years with equal monthly repayment		3-5 years with monthly repayment
Collection	Payment Method		Bank transfer, cash, post-dated check	Mainly cash	Automatic money transfer
	Reminder	Loan Delinquency Management	Via telephone or SMS by person-in-charge	Via telephone or SMS by person-in-charge, urging debtors to repay loans through home visit	Via telephone, written notice
		Reminder before Due Date	Reminder via telephone or SMS before due date	Via telephone or SMS by person-in-charge, reminder through home visit	Almost none (contact customers after due date)
		Call Center	Used aggressively	Used together with home visiting	Intensive reminder from a call center
	Seizure	Basis for Repossession of Collateral	30-50 days overdue	30 days overdue	60-90 days overdue
		Vehicle Impoundment	Vehicles that are difficult for the financing company to impound are outsourced to contractors		Collected by collection division
	Sellout	Used Car Price	Around 60-70% of their initial value after 3 years	Around 30-40% of their initial value after 1 year	Around 50-60% of their initial value after 2 years
Fundraising		Method	Mainly bank borrowings (some major players issue corporate bonds)		Mainly bank borrowings

(Source) Various articles, interviews, compiled by BTMU SRD Singapore

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(4) Financial Performance of Major Companies (1/3)

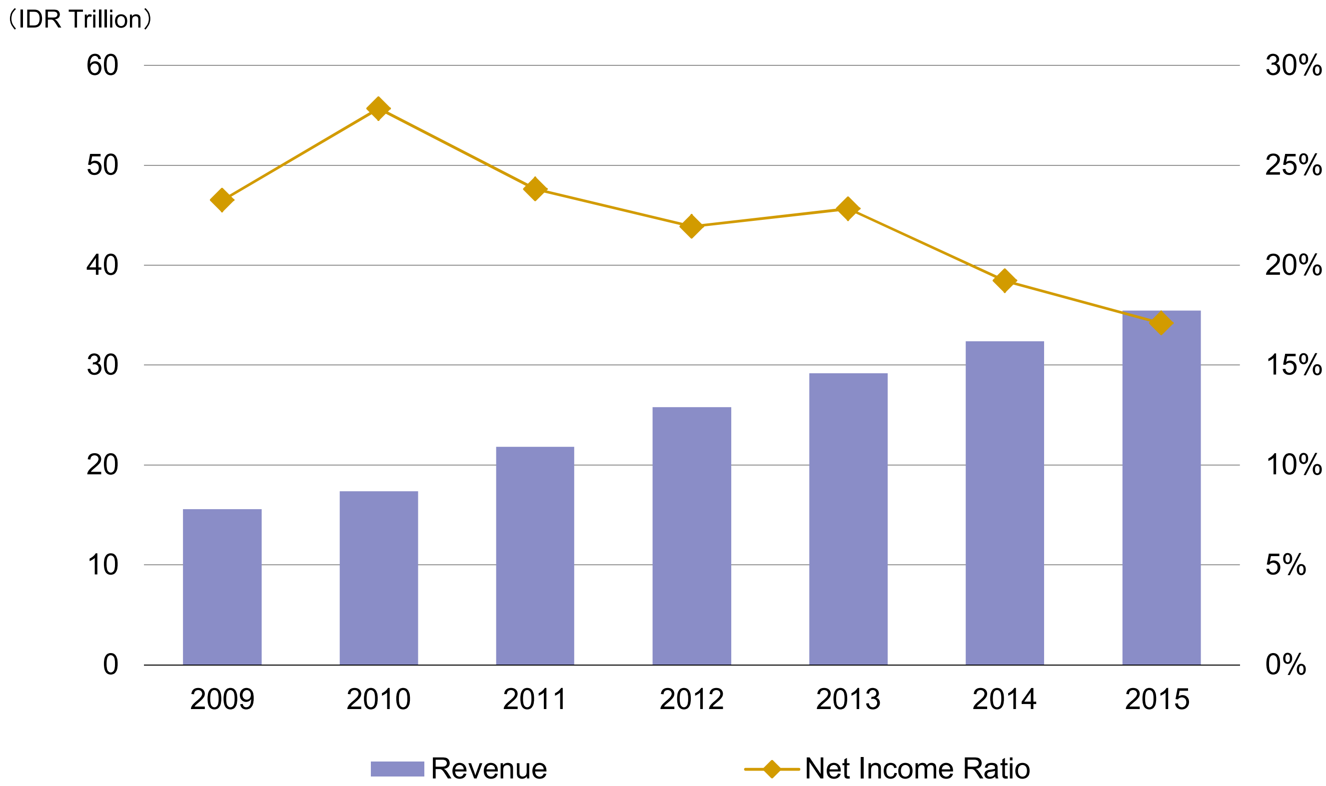
~ Stable earnings , but operating expenses eat into net margins

- Major financing companies in Indonesia are starting to experience slower revenue growth. At the same time, net income ratios have come down amidst higher operating expenses due to increased financing and credit costs.

- However, finance companies are helped by the fact that (1) they have a high lending profit margin and (2) they control credit costs by maintaining a high loan collection rate.

- The funding rate is about 5% for automobile financing companies and 10-20% for motorcycle financing companies, while the lending rate for automobile financing companies is over 10% and around 30% for motorcycle financing companies.

Earnings of Major Financing Companies



(Note) 12 major financing companies' financials used: Astra Sedaya Finance, Adira Dinamika Multi Finance, Federal International Finance, Toyota Astra Financial Services, BFI Finance, Clipan Finance Indonesia, BCA Finance, Mandiri Tunas Finance, Mandala Multifinance, Wahana Ottomitra Multiartha, Buana Finance.
(Source) Various websites, newspaper articles, etc., compiled by BTMU SRD Singapore

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(4) Financial Performance of Major Companies (2/3)

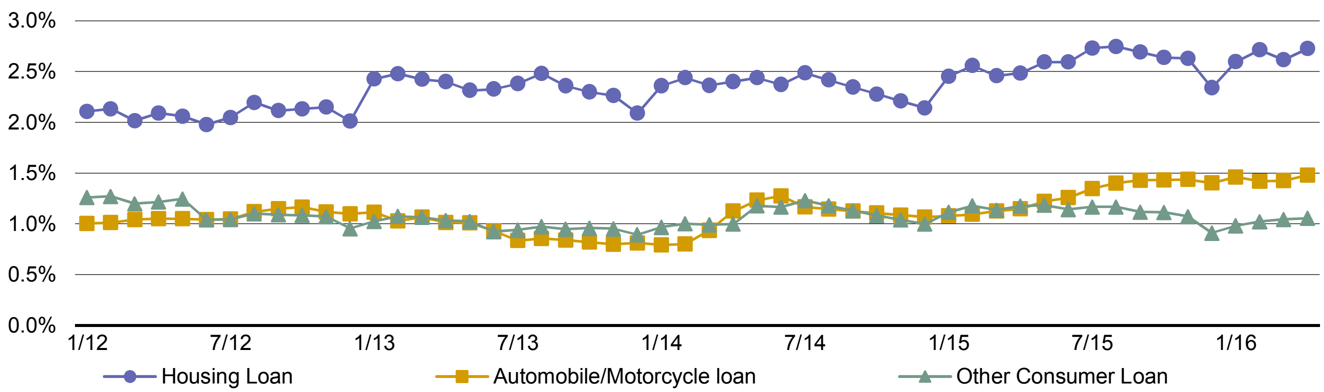
~ Maintaining high loan repayments rates while keep credit costs low

- The non-performing loan ratio for automobiles and motorcycles is about 1.0%-1.5%.

✓ This denotes the percentage of bad loans (that are more than 90 days overdue) to total gross loans. In Indonesia, vehicles as collateral are normally impounded and sold when loans are past due by 30-50 days. Thus, the amount of bad loans tends to be equal to the amount of uncollected receivables after selling collateral.

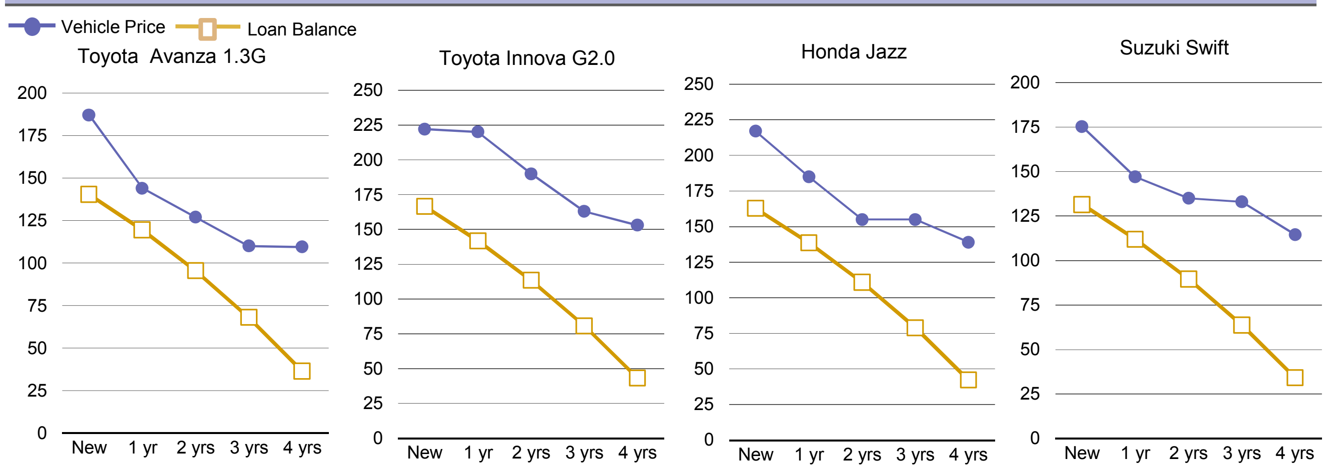
- This is because
  (1) prices of used cars decline more slowly than the rate of loan repayment and
  (2) bad debt losses after disposing of collateral are low.

Non-Performing Loan Rates for Personal Loans



(Source) Bank Indonesia, compiled by BTMU SRD Singapore

Second Hand Prices of Major Car Models



(Note) Prices are in IDR million. Loans are calculated as such: initial loan amount of 75% (25% downpayment), 5 year period, 15% interest rate.
(Source) Various articles, compiled by BTMU SRD Singapore

(4) Financial Performance of Major Companies (3/3)

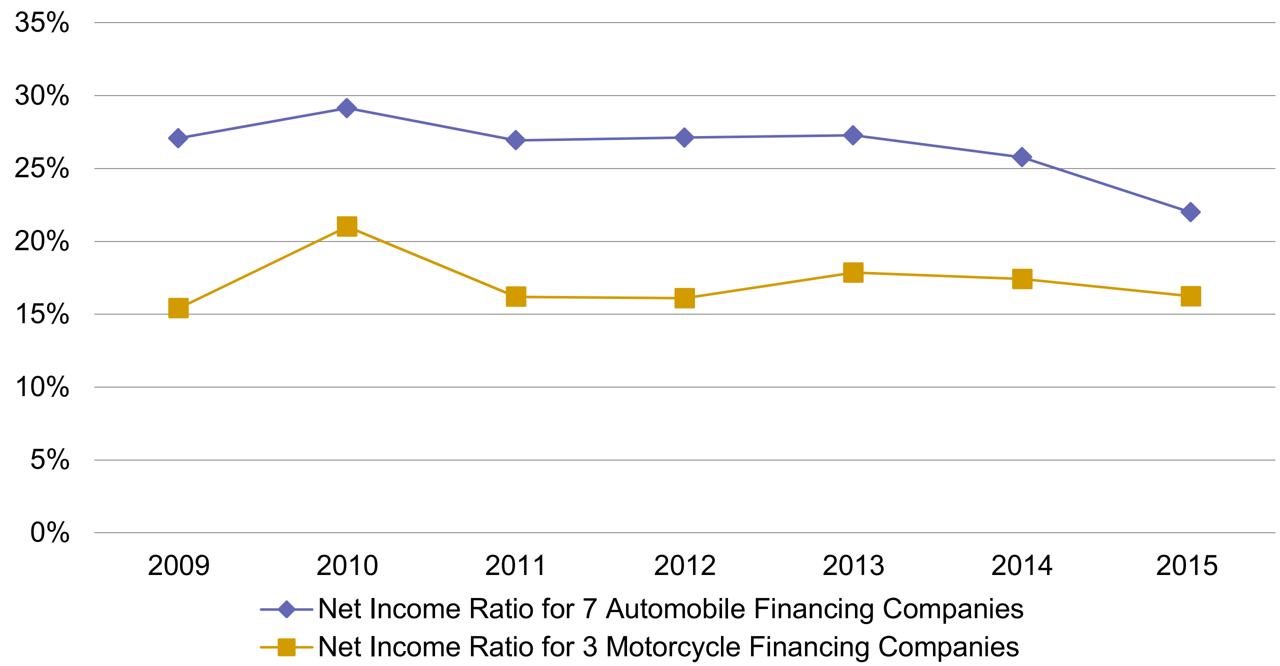
~ Rising costs putting pressure on margins

- The net income ratio of financing companies has declined recently as revenue growth has not been able to keep up with expenses, with increased funding costs cited as one of the main reasons for the increase in costs.

✓ Automobile financing companies have higher profitability as their customers are relatively more creditworthy. They also shoulder less cost burdens (e.g. labour costs associated with credit screening/loan collection and allowance for bad loans).

✓ The profitability of motorcycle financing companies is lower as (1) their main customers are less creditworthy and are more prone to bad loans, (2) motorcycle financing companies incur large labour costs for credit screening/loan collection.

Earnings of Financing Companies by Vehicle Loan Type



(Note) 7 automobile financing companies' financials used: Astra Sedaya Finance, Toyota Astra Financial Services, BFI Finance、Clipan Finance Indonesia, BCA Finance, Mandiri Tunas Finance, Buana Finance. 3 motorcycle financing companies' financials used: Federal International Finance, Mandala Multifinance, Wahana Ottomitra Multiartha.
(Source) Bloomberg, compiled by BTMU SRD Singapore

3. Future Outlook

(1) The Financing Market Outlook

~ The financing market is expected to grow slowly with the increasing demand for automobiles and motorcycles

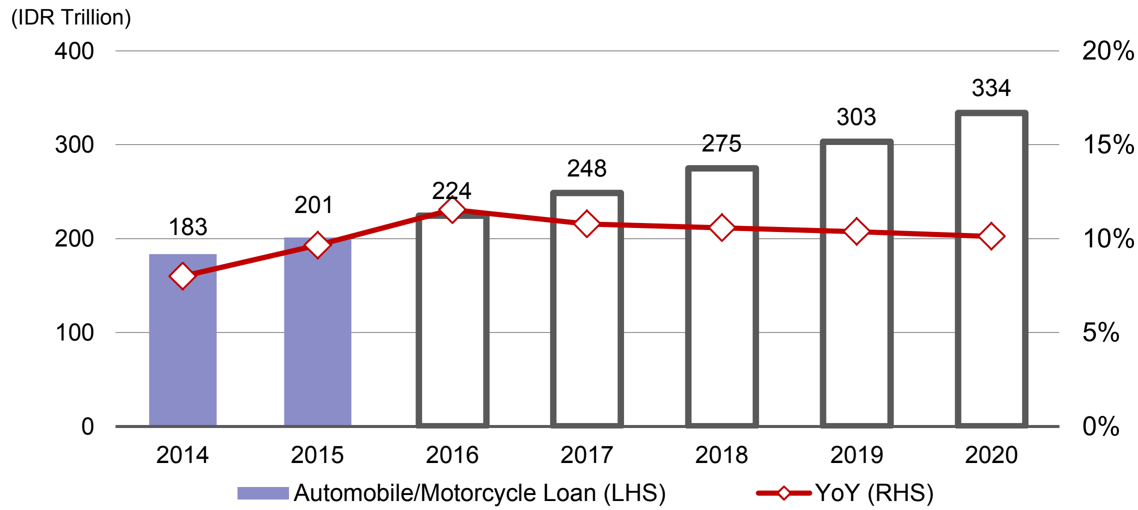
- Automobile demand slowed down in 2015 due to rising gasoline prices and high policy interest rates. However, sales are expected to recover in 2016 as major automakers launch new models in popular automobile segments.
- Similarly, motorcycle demand declined in 2015 due to higher fuel prices and low consumer sentiment. Recovery is expected from 2017, driven by economic improvement and traffic congestion in urban areas. However, growth will be gradual as the market is saturated with a motorcycle ownership rate of 3.3 people/unit.
- As such, given that automobile and motorcycle loan balance generally correlate with automobile and motorcycle sales trends, it is expected that the automobile and motorcycle financing market will grow at a faster rate than it did in 2015.

Forecasts of Vehicle Sales and Major Economic Indicators

Year		2012	2013	2014	2015	*2016*	*2017*	*2018*	*CAGR (2015→2018)*
① Automobile Sales	1,000 units	1,116	1,229	1,208	1,013	*1,049*	*1,106*	*1,178*	*5.1%*
(YoY)	%	24.8	10.2	-1.8	-16.2	*3.5*	*5.4*	*6.5*	-
② Motorcycle Sales	1,000 units	7,064	7,744	7,867	6,480	*6,474*	*6,700*	*6,901*	*2.1%*
(YoY)	%	-11.8	9.6	1.6	-17.6	*-0.1*	*3.5*	*3.0*	-
③ Real GDP Growth Rate	%	6.0	5.6	5.0	4.8	*5.0*	*5.3*	*5.5*	-
④ GDP per Capita	USD	3,745	3,676	3,532	3,362	*3,620*	*3,906*	*4,179*	*7.5%*
⑤ Population	Million	245	249	252	255	*259*	*262*	*266*	*1.3%*

(Note) The figures from 2016 onwards are estimates.
(Source) IMF, CEIC, compiled by BTMU SRD Singapore

Forecast of Vehicle Loans



(Note) The figures from 2016 onwards are estimates.
(Source) Euromonitor, compiled by BTMU SRD Singapore

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(2) Competitive Outlook

~ Competition for customers will intensify, leading to wider earning gaps among companies

- Going forward, while the financing market is expected to keep growing, new entrants will intensify competition and the earning gaps among companies will widen according to their customers' creditworthiness.

✓ Commercial banks are likely to offer loans with favourable lending terms (e.g. better interest rates) as they benefit from cheaper fundraising costs and are able to acquire highly creditworthy customers, especially in urban areas. Their credit costs are expected to remain low and they will report solid earnings.

✓ Captive finance companies are likely to report solid earnings as they will be able to continue to take advantage of their cooperation with affiliated dealers to acquire a steady stream of relatively highly creditworthy customers.

✓ Meanwhile, the earnings of non-captive finance companies are likely to polarize, due to gaps in customers' creditworthiness based on their capital structure. Non-captive finance companies managed by local conglomerates and Japanese trading companies are expected to report solid earnings by acquiring relatively highly creditworthy customers through their affiliated dealers(note). However, the intensifying competition will make it more difficult for independent companies to acquire highly creditworthy customers, and the profitability of these companies will decline due to the increase in credit costs and incentive rewards to dealers.

(Note) Major automobile and motorcycle manufacturers established joint ventures with local conglomerates and Japanese trading companies to develop their financing businesses.

(3) Regulatory Outlook (1/2)

~ New Financial Services Authority to regulate and supervise the financial sector

- The Indonesian government established the Financial Services Authority (Otoritas Jasa Keuangan or OJK) in January 2014 for the purpose of strengthening regulation and supervision in the financial sector.

✓ Traditionally, the Central Bank (Bank Indonesia or BI) supervised banks, while the Capital Market Supervisory Agency (BAPEPAM-LK) supervised all financial agencies except banks (stock exchanges, securities firms and insurance companies, etc.).

✓ However, the supervisory system did not work properly, as there were inconsistencies between BI and BAPEPAM-LK regarding their regulatory framework, with some financial agencies not controlled by either BI or BAPEPAM-LK. Hence, OJK was established and appointed to supervise most of the financial agencies, whereas BI focuses mainly on financial policy.

(3) Regulatory Outlook (2/2)

~ More stringent financial regulations may reduce the number of small to medium-sized companies

- Since the establishment of the new system, OJK and BI are considering implementing new regulations on non-bank financial companies in order to stabilize the financial system.
  - ✓ In particular, the criteria for loan assets and allowance for bad loans in ③ are expected to be stringent. Thus, there is a concern that this may cause the profitability of some companies to fall.
  - ✓ Also, as per ④, local companies with debt in foreign currency such as JPY and USD may be affected as changes in fund raising methods could lead to higher interest rates.
- The implementation date of the new regulations has not yet been specified. If implemented, companies with a weak capital base will see their competitiveness weaken as they have to incur increased costs to develop their organization/system. Hence, they might be forced to partner with large companies or fold.

New Regulations

Major Categories[1]	Description
① Complying with capital requirements	■ Current regulations state that the minimum capital for companies is IDR 100 billion with a maximum foreign ownership of 85%. However, OJK will encourage companies to fully comply with the capital requirements as numerous non-bank financial institutions do not meet this capital requirement.
② Strengthening the functions on corporate governance	■ There will be more stringent regulations on corporate governance such as requirements, responsibilities and work execution processes for shareholders, board members and auditors in order to increase the transparency and health of financing companies.
③ Strengthening the risk management system of loan assets	■ Companies will have to maintain their financial health indicators such as capital-to-asset ratio, gearing ratio[2] and non-performing loan ratio[3] at a certain level in order to stay in business.
④ Strengthening regulations on foreign-currency-denominated loans	■ Companies which have foreign-currency-denominated loans will have to comply with regulations on hedging ratio, liquidity ratio and acquiring an external credit rating (implemented in January 2015). ■ More specifically, the minimum hedging ratio should be 20% (25% from 2016 onwards) for foreign currency offshore debt, while the minimum liquidity ratio should be 50% (70% from 2016 onwards). In addition, companies will be required to have a credit rating of at least BB from an external credit rating agency.

(Note 1) It is expected that ① to ③ will be implemented by OJK, while ④ will be introduced (reviewed) by BI.
(Note 2) Gearing ratio is a financial ratio that compares some form of borrowed funds to the equity capital (including subordinated debt).
(Note 3) Non-performing loan ratio refers to the percentage of loans that are more than 90 days overdue to total gross loans.
(Source) Bank Indonesia, newspaper articles, etc., compiled by BTMU SRD Singapore

(4) Future Challenges

~ Maintaining and expanding profitability is a major challenge for financing companies

- As competition is expected to intensify going forward, financing companies have to increase their loan balance and maintain/increase their profitability by reducing their credit costs.

① Strengthening the marketing capabilities

- Financing companies have to continue to strengthen their alliance with dealers in order to maintain their competitive advantage in customer acquisition. It is important for them to attract dealers further by improving their loan serviceability and enhancing their marketing capabilities.

② Strengthening their credit control system

- Strengthening their credit control system is crucial for financing companies to maintain/expand their profitability by reducing credit costs.

✓ In addition to the complying with more stringent loan screening standards, financing companies will need to establish an effective loan screening process such as developing a credit scoring model (an automated credit scoring system) based on customers' attributes which can be adjusted according to employment/income environment.

✓ Early loan collection (successfully reminding debtors who are late in repaying their loans by up to a week) is crucial for preventing bad loans. Financing companies will need to make their loan collection operations more efficient by concentrating on reminder operations at their own call centres or using outsourced debt collection agencies.

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