

**FINANCIAL PERFORMANCE ASSESSMENT OF PT KIMIA FARMA TBK IN COMPARISON WITH
OTHER LOCAL AND REGIONAL COMPANIES**

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abstract. In recent years, Indonesia has facing with the increase in population size alongside with the increase in people's life expectation as one of the effect of people's awareness in healthy life. Pharmaceutical industry in Indonesia is said to be having a positive growth with this condition therefore PT Kimia Farma Tbk, as the first pharmaceutical company in Indonesia does have an increase for its sales but unexpectedly it has a decrease for its net profit margin in 2013. Financial performance assessment will be done in order to know the real condition of PT Kimia Farma Tbk's financial condition and it will also be compared with local and regional companies so that the result becomes clearer. The analysis method includes financial ratios analysis, DuPont analysis, BUMN framework, and Moody's framework. The result of the assessment in 2010 - 2014 shows that PT Kimia Farma Tbk has a good financial condition but it still need to be improved with some suggestions based on the financial assessment.

Keywords: Kimia Farma, pharmaceutical company, financial performance, analysis

Introduction

In recent years, Indonesia as a developing country has facing with many different conditions and high population size is one of them. Indonesia's population size is keep increasing in each year with up to 1.2% of growth and this phenomenon is happened alongside with the increase in people's life expectancy. One of the causes of the increase in life expectancy is the enhancing in people's awareness in healthy living. With this healthy issue, pharmaceutical industry is said to be having a positive growth as well. In Indonesia, there are some top companies that run the business in pharmaceutical industry and one of them has doing the business for more than ten decades, which is PT Kimia Farma Tbk. Following the current situation in which pharmaceutical industry has been showing a promising prospect, PT Kimia Farma Tbk is supposed to be having a positive growth in each year. In reality, PT Kimia Farma Tbk's sales do increase but it also stated that its net profit margin has decreases in 2013. This makes it interesting to know about the real condition of PT Kimia Farma Tbk's financial performance in recent years. To make the financial performance assessment clearer, PT Kimia Farma Tbk will be compared with its local and regional benchmarks, which are PT Kalbe Farma Tbk, PT Indofarma Tbk, Eu Yan Sang International Limited, and Apex

Healthcare Berhad. Therefore, the research questions of this paper are:

1. How is the financial performance of PT Kimia Farma Tbk if compared to the other local and regional pharmaceutical companies?
2. How is the financial condition of PT Kimia Farma Tbk as a stated-owned company (BUMN) based on The Ministry of BUMN Indonesia regulation?
3. How is the financial performance of PT Kimia Farma Tbk based on an international standard rating method?

4. Is there any recommendation that can be given in order to improve PT Kimia Farma Tbk's financial performance?

Literature Review

Financial Statement

Financial statement is a written report that shows company's financial performance in particular periods of time, usually for one-year period. Financial statement are made to show the readers about the financial information as concisely and clearly as possible so it would be useful for both the stockholders and the management of the company itself. There are four key of financial statements which are; (1) Income Statement, (2) Balance Sheet, (3) Statement of Stockholders' Equity, and (4) Statement of Cash Flow.

Financial Ratios

In finance, there are several ratios that can be used to see how well is the performance of a company in some sorts of years that have been chosen. After the ratios are calculated by using some data from financial statement of the company, these ratios can be compared and analyzed with the other company's financial ratios. There are several types of financial ratios, which are:

- Liquidity ratios: Current ratio and quick ratio
- Activity ratios: Inventory turnover, average collection period, average payment period, and total asset turnover
- Debt ratios: Debt ratio and times interest earned ratio
- Profitability ratios: Gross profit margin, operating profit margin, net profit margin, earnings per share, return on total asset, and return on total equity
- Market ratios: Price/earnings ratio

Cross-Sectional Analysis

After done with calculating the financial ratios, now the data can be compared using some analytical methods and the first one is Cross-Sectional Analysis. With this method, the company can compare its financial ratios with the other companies.

Trend Analysis

The other analytical method that can be used to compare company's financial ratios is Trend Analysis. With this analytical method, the company or investors can compare the financial ratios of a company from period A with period B, C, D, etc. and the result will show about the comparison between the financial conditions of the company from period to period based on its financial ratios.

Growth Rate Comparison

Growth rate comparison is a method that use the compound annual growth return (CAGR) calculation to find out about company's growth in a chosen range of time.

DuPont System of Analysis

DuPont system of analysis is a method that was started by the DuPont Corporation in the 1920s and being used until today. This method basically breaks up ROA and ROE into some components so the actual performance of the company can be seen clearer.

Badan Usaha Milik Negara (BUMN) Framework

BUMN that stands for Badan Usaha Milik Negara, is the company or business entity owned by the government of a country. In this case, it is the company that owned by Indonesia's government. The Ministry of BUMN Indonesia has a scoring method or framework that being used to give a score for the BUMN based on their performances. , There are some aspects that can be seen as the indicators, which can be seen in the table below together with the maximum score a company can get for each of the indicator.

No.	Indicator	Score
1	ROE	20
2	ROI	15
3	Cash Ratio	5
4	Current Ratio	5
5	Collection Periods	5
6	Inventory Turnover	5
7	Total Asset Turnover	5
8	Equity to Total Asset Ratio	10
Total Score		70

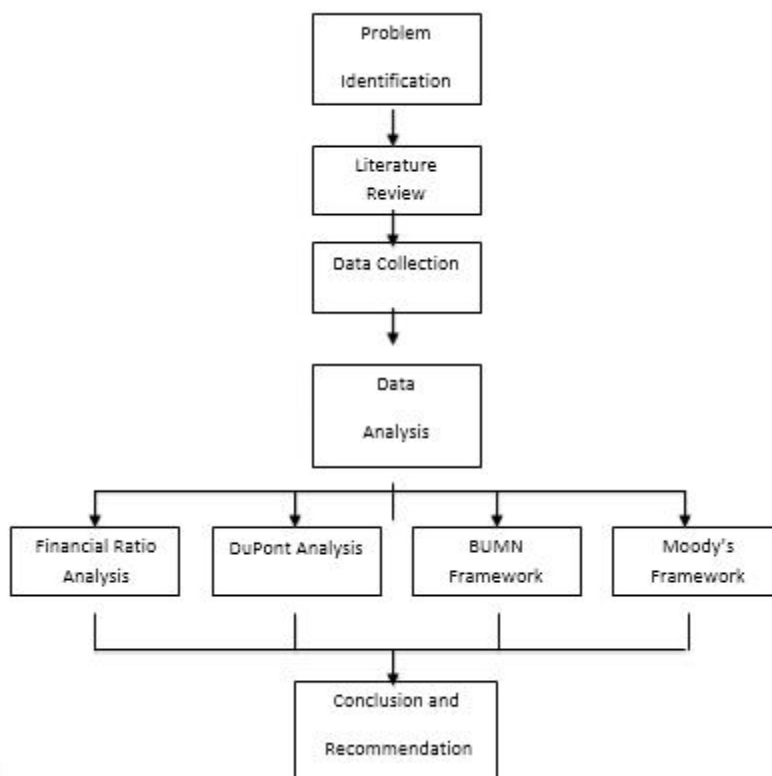
Moody's Rating Methodology (Moody's Framework)

Moody's Investors Service or commonly known as Moody's Framework is the part of Moody's Corporation that provides services such as rating methodology that includes assessing credit risk for companies. For the rating methodology, Moody's has already separated it into some sections based on the type of the business and pharmaceutical industry is one of them. With Moody's rating methodology, it may give information that helps companies, investors, and other interested market participants to understand how key qualitative and quantitative risk characteristics are likely to affect rating outcomes for companies in the pharmaceutical industry. In Moody's rating methodology, to assess global companies in the pharmaceutical industry based on its financial performance, there are three rating factors that can be used.

No.	Rating Factors	Rating Sub-Factors
1	Scale (25%)	Revenue (25%)
2	Leverage and Cash Coverag (24%)	Debt To EBITDA (9%) Cash Flow from Operation to Debt (9%) Pharmaceutical Cash Coverage (6%)
3	Financial Policy (10%)	-
Total = 59%		

Methodology

For the methodological step in this research, below is the flow chart that shows how this research will be done.



Data Analysis

Trend Analysis

Trend analysis compares each of the company's financial ratios over time period, which will give information about which are the strongest or the weakness year for the companies. The financial ratios of Kimia Farma can be seen in table below:

KAEF	2010	2011	2012	2013	2014
Ratios					
Liquidity					
Current ratio	2.42548712	2.74754265	2.80313215	2.42669674	2.38699459
Quick ratio	1.60250938	1.75542962	1.8157292	1.56771071	1.58283281
Activity					
Inventory turnover	5.89496634	5.35697893	4.82464303	4.76810316	4.56140664
Average collection period	41.0087103	40.26623	44.8380015	45.8824747	41.5723345
Average payment period	68.8556061	60.6626399	69.5081515	81.5421393	84.0158906
Total assets turnover	1.9211036	1.94001732	1.79846628	1.75897262	1.52316144
Debt					
Debt ratio	0.32779832	0.30190417	0.30573585	0.34288252	0.38981425
Times interest earned ratio	10.8337832	19.626075	41.4835893	31.3422907	12.7583916
Profitability					
Gross profit margin	28.41%	29.82%	31.47%	29.72%	30.65%
Operating profit margin	4.59%	6.38%	7.57%	6.67%	7.41%
Net profit margin	4.36%	4.93%	5.49%	4.93%	5.19%
Earnings per share (EPS)	24.98	30.93	36.93	38.63	42.24
Return on total assets (ROA)	8.37%	9.57%	9.88%	8.68%	7.90%
Return on common equity (ROE)	12.45%	13.71%	14.23%	13.21%	12.95%
Market					
Price earning ratio (P/E Ratio)	5.89111289	10.5929518	19.0433252	15.0012943	34.4415246

Liquidity

In liquidity ratio, there are two basic measures, which are current and quick ratio. Kimia Farma shows a stable in both current and quick ratio with a little increase in year 2010 - 2012 but then declines in 2013 - 2014. Overall, it means that Kimia Farma's ability in meet its short term obligation

has decrease in recent five years but Kimia Farma still can fulfill its obligations since the ratio is positive.

Activity

Activity ratio includes inventory turnover, average collection period, average payment period, and total asset turnover. Basically, activity ratios may give information about company's efficiency in managing several things, such as inventory, collections, etc. Kimia Farma's inventory turnover keep decreasing from 2010 – 2014, which means its inventory has becoming less liquid for the last five years.

Debt

In debt, there are two ratios that being used to asses the company's performance. The first one is debt ratio that calculates company's proportion of its total asset that being financed by creditors. Kimia Farma shows a pretty constant result in recent five years, which is around 30% means that 30% of Kimia Farma's total asset is being financed by its debt or liabilities.

Profitability

Profitability ratio is being used to assess company's ability in generating profit compared to its several cost for the business. Some measurements for profitability ratio includes gross profit margin, net profit margin, earnings per share (EPS), return on asset (ROA), and return on equity (ROE). In terms of profitability, Kimia Farma always give a positive value, which is good. For gross profit margin, operating profit margin, and net profit margin, the trend is also positive in year 2010 – 2012, although it has decreased in 2013, but Kimia Farma succeed to fix it in 2014. Kimia Farma's EPS is also keep increasing from 2010 – 2014.

Market

For market ratio, company's performance can be seen based on its price earning (P/E ratio.) This ratio can shows investor's confidence towards the company, so it will be better to have a high result. Kimia Farma shows a good trend, which is increasing from 2010 – 2012, decrease in 2013, but then succeed in manage its performance so it reaches the highest result in 2014.

4.2 Growth Rate Comparison

To analyze the growth rate, the method that being used is compound annual growth rate (CAGR) which measures how are these five pharmaceutical companies' performance based on the growth of their financial ratios from 2010 to 2014. The result for the five companies' CAGR can be seen in table below:

CAGR	KAEF	KLBF	INAF	EYS	Apex
Ratios					
Liquidity					
Current ratio	-0.32%	-4.96%	-3.43%	-3.68%	0.18%
Quick ratio	-0.25%	-7.03%	-3.52%	-8.73%	1.60%
Activity					
Inventory turnover	-5.00%	-2.48%	1.52%	-3.98%	4.61%
Average collection period	0.27%	1.82%	3.21%	-1.01%	-1.05%
Average payment period	4.06%	5.72%	-0.33%	-3.99%	1.13%
Total assets turnover	-4.54%	-0.79%	-4.97%	-5.47%	3.61%
	-1.30%	1.07%	-0.14%	-3.61%	2.08%
Debt					
Debt ratio	3.53%	3.21%	-1.80%	7.16%	0.88%
Times interest earned ratio	3.32%	-8.78%	-12.27%	-33.88%	130.96%
Profitability					
Gross profit margin	1.53%	-0.69%	-5.74%	-0.22%	-2.66%
Operating profit margin	10.06%	-1.37%	-9.04%	-5.46%	-1.25%
Net profit margin	3.56%	-1.12%	-41.16%	-12.16%	-8.37%
Earnings per share (EPS)	11.08%	-20.32%	-49.81%	-5.27%	-3.83%
Return on total assets (ROA)	-1.14%	-1.90%	-44.09%	-16.96%	-5.06%
Return on common equity (ROE)	0.79%	-1.15%	-45.32%	-11.75%	-4.76%
Market					

Based on the table above, it can be seen that for liquidity, Apex is the only one with positive growth both in current and quick ratio. It means that Apex can maintain its ability in fulfilling its obligation for the recent five years while the other four companies show a negative growth, which means their ability diminish. Kalbe Farma has the worst growth for its liquidity ratio as an

effect of the high amount of current liabilities that is not followed by a high increase in its current asset.

For the activity, Kimia Farma has the worst growth for its inventory turnover but it has a good improvement for its average payment period. Eu Yan Sang has negative growth for its entire activity ratio, shows that its performance has declined in 2014 compared to the earlier year, which is 2010.

For the debt, Kimia Farma has positive growth for both of its debt ratio means that Kimia Farma has a higher leverage in 2014 but it also able to fulfill its interest payments better in 2014. Apex has a really high growth for its times interest ratio that caused by its small interest payment in 2014. For the profitability, overall Indofarma has the worst performance compared to the others. This happened because Indofarma has a loss for its income in 2013 and so in 2014, it has not full recovery yet although it succeeds in gaining profit, but it is not as big as what Indofarma earned in the previous years. Seems like Indonesia's bad economy condition in 2013 has damaged Indofarma quite much. On the other hand, Kimia Farma has the best result overall among the rest of the companies because most of its profitability ratios are showing positive growth except for its ROA but it does not really matter. It means that the decrease in Kimia Farma's net profit margin in 2013 does not really give bad impact because Kimia Farma succeeds in increasing its profit margin that turns out it has a good growth in recent five years.

4.3 Cross Section Analysis

Cross section analysis can be used to compare the financial performance from all of the companies based on their financial ratios in a period of time. The result of the five companies' financial ratios in 2014 can be seen in table below:

2014	Average	KAEF	KLBF	INAF	EYS	Apex
Ratios						
Liquidity:						
Current ratio	2.20545772	2.38699459	3.40363666	1.30358391	1.39794594	2.53512752
Quick ratio	1.43939454	1.58283281	2.10831078	0.94324544	0.60994628	1.95263738
Activity						
Inventory turnover	4.39553391	4.56140664	2.87740183	4.93981693	2.18820262	7.41084153
Average collection period	47.007189	41.5723345	49.3210599	51.9130765	11.9814097	80.2480645
Average payment period	88.1104865	84.0158906	66.4392689	163.248049	41.0822511	85.7669736
Total assets turnover	1.29672809	1.52316144	1.39786618	1.10661595	1.04745277	1.40854411
Debt						
Debt ratio	0.38795969	0.38981425	0.20986317	0.52580095	0.54870251	0.26561759
Times interest earned ratio	18.0501615	12.7583916	52.9711289	1.31289998	5.15822551	5449.91262
Profitability						
Gross profit margin	35.13%	30.65%	48.80%	22.62%	50.31%	23.26%
Operating profit margin	8.60%	7.41%	15.86%	3.35%	7.62%	8.77%
Net profit margin	5.61%	5.19%	11.89%	0.08%	4.10%	6.78%
Earnings per share (EPS)	23.782	42.24	44	0.38	3.38	28.91
Return on total assets (ROA)	7.69%	7.90%	16.62%	0.09%	4.30%	9.55%
Return on common equity (ROE)	11.34%	12.95%	21.03%	0.20%	9.53%	13.01%
Market						
Price earning ratio (P/E Ratio)	18.9854134	34.4415246	41.1590909	934.210526	0.21893491	0.12210308

In 2014, overall Kalbe Farma shows the best performance while Indofarma shows the worst. For current and quick ratio, all of the companies have good results but it seems like it is not good enough for Indofarma and Eu Yan Sang because their scores are lower than the average of the five companies. Kimia Farma shows a pretty good result compared to the average and also it has the best total assets turnover among the other four companies and the average. Eu Yan Sang has two lowest scores, which are inventory turnover and total asset turnover, but it also has two highest scores, which are average collection and payment period. For profitability ratio, Kimia Farma and Apex show good result but if compared to the average, Kimia Farma only has three aspects those are better than the average, which are EPS, ROA, and ROE. Otherwise, most of the aspects in profitability of Apex are better than the average except for its gross profit margin.

DuPont System of Analysis

The calculation using DuPont Analysis will be resulted in the breaks parts of ROA and ROE of the five companies. The result of DuPont analysis in 2014 can be seen in table below:

Operating Efficiency

The company's operating efficiency can be seen based on its net profit margin. Overall, the trend is the pretty similar, which are increase in 2011 and 2012 except for Apex, and then decrease in 2013, and then decrease again in 2014 except for Kimia Farma and Indofarma.

Asset-Use Efficiency

In DuPont analysis, asset-use efficiency can be seen based on company's total asset turnover. All of the company show different trend for their asset-use efficiency. Overall, Kimia Farma has the best total asset turnover with its highest score in 2012 but then decrease until 2014. This means that Kimia Farma's ability in generating sales from its asset is getting worse since 2012 – 2014.

Financial Leverage

To see company's financial leverage condition, in DuPont analysis it can be done by calculating company's equity multiplier, which is dividing total asset with total equity. All of the company shows unpredictable and fluctuated trends with pretty stable growth for Apex, Kimia Farma, and Kalbe Farma while Indofarma and Eu Yan Sang have bigger increase in 2013. The condition of company's equity multiplier can show how does the company manage to finance its asset, whether by using equity or debt.

BUMN Framework

BUMN Framework is a method from The Ministry of BUMN in Indonesia that being used to asses the performance of Indonesia's stated owned company (BUMN).

2014	KAEF	KLBF	INAF	EYS	Apex
Net profit margin	0.05189657 5	0.118875136	0.000844102	0.04104382 9	0.067832009
Total asset turnover	1.52316144 3	1.397866181	1.106615949	1.04745277	1.408544111
Equity multiplier	1.63884523 2	1.26560358	2.108819081	2.21583326 5	1.361688389
ROA	7.90%	16.62%	0.09%	4.30%	9.55%
ROE	12.95%	21.03%	0.20%	9.53%	13.01%

Here are the results of BUMN framework assessment for the five companies:

2014	Kimia Farma		Kalbe Farma		Indofarma	
	Result	Score	Result	Score	Result	Score
Indicators:						
ROE	13.06%	18	21.61%	20	0.20%	2
ROI	14.45%	12	32.64%	15	6.13%	5
Cash ratio	67.07%	5	79.41%	5	22.60%	3
Current ratio	238.70%	5	340%	5	130%	5
Collection periods	41.572	5	49.321	5	51.913	5
Inventory turnover	55.497	5	64.948	5	57.179	5
Total asset turnover	187.58%	5	192.54%	5	162%	5
Equity to total asset ratio	61.02%	8	79.01%	7.5	47.42%	9
Result	63		67.5		39	
	AA		AAA		BBB	
Rank	3		1		5	

2014	Eu Yan Sang		Apex	
	Result	Score	Result	Score
Indicators:				
ROE	9.60%	14	13.05%	18
ROI	16.51%	13.5	17.23%	13.5
Cash ratio	42.75%	5	41.14%	5
Current ratio	140%	5	254%	5
Collection periods	11.981	5	83.208	4.5
Inventory turnover	82.883	4.5	37.797	5
Total asset turnover	156%	5	196%	5
Equity to total asset ratio	45.13%	9	73.44%	7.5
Result	61		63.5	
Rank	AA		AA	
Rank	4		2	

Kimia Farma is ranked on the third place but actually its score only lost for 0.5 point from Apex, which is ranked on the second place. Apex is better for the efficiency in gaining profits from its investment while Kimia Farma is better at collecting its receivables and also it has a better proportion for its total asset and total equity. But a good ROI is more important for a company to be categorized as a healthy company based on the regulation from The Ministry of BUMN and that is why Apex got higher score even though Kimia Farma is better at two indicators.

Moody's Rating Methodology

Moody's framework provides different types of rating methodology based on the industry of the company and rating methodology for pharmaceutical company is one of them. The score and rate for each of the companies can be seen in the following tables:

Pharmaceutical Companies	Leverage and Cash Coverage								
	Debt to EBITDA			Cash Flow from Operation to Debt			Pharmaceutical Cash Coverage of Debt		
	Grid Indicated Rating	Score	Weighted Score	Grid Indicated Rating	Score	Weighted Score	Grid Indicated Rating	Score	Weighted Score
Kimia Farma	Ba	7.08	0.6372	Ba	7.08	0.6372	Aa	1.77	0.1062
Kalbe Farma	Aa	1.77	0.1593	Aaa	0.59	0.0531	Aa	1.77	0.1062
Indofarma	Ca	11.8	1.062	Ba	7.08	0.6372	Ba	7.08	0.4248
Eu Yan Sang	Ca	11.8	1.062	Caa	10.62	0.9558	Aa	1.77	0.1062
Apex	Baa	5.31	0.4779	Baa	5.31	0.4779	B	8.85	0.531

Pharmaceutical Companies	Scale			Financial Policy		
	Revenue			Grid Indicated Rating	Score	Weighted Score
	Grid Indicated Rating	Score	Weighted Score			
Kimia Farma	Ca	11.8	2.95	A	3.54	0.354
Kalbe Farma	B	8.85	2.2125	Aa	1.77	0.177
Indofarma	Ca	11.8	2.95	Caa	10.62	1.062
Eu Yan Sang	Ca	11.8	2.95	Baa	5.31	0.531
Apex	Ca	11.8	2.95	A	3.54	0.354

In the first rating factor, which is leverage and cash coverage, there are three sub-factors, which are debt to EBITDA, cash flow from operation to debt, and pharmaceutical cash coverage of debt. For debt to EBITDA, Kimia Farma got the third place, which is good enough, and Kalbe Farma got the first place followed by Apex. Indofarma and Eu Yan Sang have the same rate and apparently Ca is the worst rate for this rating factor. For cash flow from operation to debt factor, Kalbe Farma once again got the first place followed by Apex, Kimia Farma and Indofarma, and Eu Yan Sang on the last place again. This factor indicates company's financial flexibility in paying its debt and also shows the amount of cash flow available for capital expenditure and external growth opportunities. For pharmaceutical cash coverage of debt, none of the five companies shows a very bad result. Kimia

Farma, Kalbe Farma, and Eu Yan Sang have the best performance compared to others, followed by Indofarma, and then Apex. This factor can give information about company's financial flexibility and the ability to absorb unpredicted events or make strategic acquisitions. It means Kimia Farma has succeeded in managing its cash from debt so that it has more than enough reserved cash that can be used to finance unpredicted events.

The next factor is revenue, which is the sub-factor in indicating company's scale and based on the Moody's standard, Kimia Farma has a very bad revenue as well as the other companies except for Kalbe Farma. This situation might have happened because of Moody's criterion that uses US dollar as its standard and so Kalbe Farma is the only one that can get a quite good rate because it has the highest revenue in 2014 compared to the other benchmarking companies. The last factor is financial policy that assesses company's overall financial performance in that year. Kimia Farma got a good result for this factor as well as Apex that got the same score and Kalbe Farma that got a higher result. Here is the final result from the assessment in the table below:

Pharmaceutical Companies	Score	Aggregate Weighted Factor Score	Indicated Rating	Rank
Kimia Farma	4.6846	$4.425 \leq x < 5.015$	Baa1	2
Kalbe Farma	2.7081	$2.655 \leq x < 3.245$	A1	1
Indofarma	6.136	$5.605 \leq x < 6.195$	Baa3	5
Eu Yan Sang	5.605	$5.605 \leq x < 6.195$	Baa3	4
Apex	4.7908	$4.425 \leq x < 5.015$	Baa1	3

After calculating all of the weighted score, companies' final rate result and rank can be seen. A lower final score will be better for the company's indicated rating. Kimia Farma is on the second place after Kalbe Farma, and followed by Apex, which has the same indicated rating but a bigger score.

Conclusion

Conclusion

This part of the research will be divided into three parts based on the research questions and the analytical method that has been used in order to conclude the overall analysis result.

Financial Performance of PT Kimia Farma Tbk in 2010 – 2014

Based on some financial ratios analytical methods that have been used, overall it shows that in 2010 – 2014, Kimia Farma has done well. Though it is not the best among the other benchmark companies, but still it is above the average of the five companies. Kimia Farma shows its strength in total asset turnover, ROE, and P/E ratio. Kimia Farma also has the best growth for profitability ratio with a positive growth for almost all of the indicators, except for its ROA but it is still good because its benchmark has a negative trend.

Financial condition of PT Kimia Farma Tbk as a stated-owned company (BUMN) based on The Ministry of BUMN Indonesia scoring method

Based on the assessment using the regulation from The Ministry of BUMN Indonesia, it shows that in 2014, Kimia Farma has succeeded to be a financially-healthy BUMN company with a final score of AA. With total of eight indicators, Kimia Farma has reached the best score for cash ratio, current ratio, collection periods, inventory turnover, and total asset turnover. But it does not really matter since based on BUMN framework, those five indicators are not too important because its highest score is not even that high (only 5.) The strength that Kimia Farma has and really help its scoring for this framework comes from its high ROE and ROI, which get score of 18 out of 20 and 12 out of 15. It means that Kimia Farma has succeeded in fulfilling all of the criteria in being a healthy company.

Financial performance of PT Kimia Farma Tbk based on an international standard rating method

Moody's framework has been chosen as the international rating method that used to answer this research question. Based on the assessment using Moody's framework, Kimia Farma got the second place if compared to its benchmark, and got Baa1 as its final rate. This final rate is pretty good because Baa1 is ranked the seventh out of seventeenth. Kimia Farma shows its strength in some factors, which are financial cash coverage and financial policy. This results shows that in 2014, Kimia Farma has a good proportion of debt for its cash and investments and also it has an overall good financial policy in that year. Since Moody's framework is an international rating method, it means that based on Kimia Farma's financial performance in 2014, Kimia Farma is compatible in international pharmaceutical industry.

Recommendation

Based on the conclusion above, some recommendations that can be given in order to improve Kimia Farma's financial performance are:

Managing cost of goods sold (COGS)

It seems like Kimia Farma's sales has increase in each year but its COGS has also increase with higher growth, resulted in decrease for its profitability ratios in 2013 and though it has improved in 2014, it is not better than in 2012. It is better to have a higher increase in sales than its COGS so that the profitability ratio will have a positive growth.

Managing other cost and expenses

Not only COGS, Kimia Farma also faced with the increase in its cost and expenses, such as operating expense and financial cost. This can be overcome by reducing the cost and expenses, for instance decrease salaries and employees' welfare and also amortization, electricity, fuel, water, and gas payments. Maybe those cost and expenses cannot be reduced that much since for electricity, fuel, etc, they are controlled by the government. As a solution, Kimia Farma can manage these cost and expenses better so that the proportion of increase for its cost and expenses will not be higher than the proportion of increase for its sales revenue because if not, the profitability will be decrease though its sales revenue is increase.

Improve operating efficiency

Based on DuPont analysis in the previous chapter, it can be seen that Kimia Farma has a poor ability in managing its operating efficiency compared to its benchmark. If Kimia Farma can improve its operating efficiency, which means it needs to increase its net profit margin, it may be resulted in higher ROA and ROE. Related to the previous recommendation, Kimia Farma needs to have a higher proportion of increase for its earnings available for common stockholder than the increase for its cost and expenses.