FINANCIAL PERFORMANCE ASSESSMENT AND VALUE IMPROVEMENT OF PT. RAJAWALI NUSINDO

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ABSTRACT

PT Rajawali Nusindo is Indonesian pharmaceutical and healthcare distributor company that has a vision to keep increasing the stakeholders' value through the initial public offering (IPO). However, the IPO might be concerning due to the company's current financial performance that indicates the low profitability. This study is focusing on finding the financial improvement strategies in ensuring the well functioning IPO by overcome the profitability matters to increase the company's value. The annual report from 2012-2016 will be used as the data to analyze the financial performance using DuPont method. The result is applied as the improvement strategies that later will be valuated using the discounted cash-flow (DCF) valuation model. The result reveals that net profit margin and total asset turnover are the main causes of the low profitability. It is proven that the firm's value is increased for IDR521,544,380,459 after the cost minimization in employee expenses and acceleration in average collection period.

Keywords: *Discounted Cash Flow Valuation, DuPont System, Financial Performance, Financial Ratios, Initial Public Offering.*

BACKGROUND

Trade and commerce have been the activities that brought civilization as it is now. Same with other countries in the world, Indonesia has a department that handles and controls trading and commerce within the country. One of the Indonesian state owned enterprises or which is in this business sector is PT. Rajawali Nusindo. It is one of the oldest Indonesian stated owned companies that has established since 1955. It specialized in industry of pharmaceutical, agro-industry and consumer goods.

The primary objective of every business is to use the assets provided by investors and creditors to generate profits (Mautz & Angell, 2006) This theory also applied to PT Rajawali Nusindo that has a vision to keep increasing their stakeholders' value. According to Gitman in Principles of Managerial Finance: 2012, profitability ratio enable the analyst to evaluate the firm's profits and return with respect to a given level of sales, a certain level of assets, or the owners' investment. The measurement of company profitability can be seen from the ratio of Return on Asset (ROA), Return on Equity (ROE), Gross Profit Margin (GPM) and, Net Profit Margin (NPM). Those ratios show PT Rajawali Nusindo's overall efficiency and performance in generating returns for its shareholders and translate its sales into profits at various stage of measurement. From the historical data for the past five years, the ratios indicate the company has an unstable return with low profitability.

With low profitability condition, the company has a long-term plan to take this state owned company to public through the initial process offering (IPO). The IPO process is expected to increase the firm's values which can lead the company to become wealthier and superior in healthcare, consumer and industrial business. However, the plan has not been applied yet due to the higher risk that appeared from the low profitability itself.

Profitability ratio has a significant affect with the positive correlation to initial public offering in which the ratio will able to explain the quality of IPO grading to some significant extent (Banerjee, Guha, & Bandyopadhyay, 2016). According to Peristiani and Hong in Current Issues in Economic and Finance: 2004, strong fundamentals and business plan is the key of the successful IPO. It is because market participants have begun to underwrite and invest in financially stronger company. This theory is also supported by the fact that majority of companies that went public were unprofitable, with the result that investing in speculative firms became the rule rather than the exception (Peristiani & Hong, 2004).

Other than that, the risk also may occur from the probability of facing underpricing and underperformance of the company after IPO, which are strongly affected by the pre-IPO earnings management (Xiong, Zhou, & Varshney, 2010). The earnings itself has a strong and positive relation with the profitability of a company. Therefore to survive in the IPO process, PT Rajawali Nusindo needs to prepare a strong business plan by managing a strategic alternative that allows the company to improve its financial performance efficiently and profitably. Hence, identifying relevant factors that can improve profitability is required.

This study focusing on finding the alternative improvement strategies on PT Rajawali Nusindo's financial performance in ensuring the well functioning IPO by overcome the profitability matters as the way to increase the values of the company.

LITERATURE REVIEW

Initial Public Offering

Initial public offering can be defined as the process of issuing the firm's bonds or the equity financing in the form of shares to the public (Gitman & Zutter, 2012). In general, the IPO process in Indonesia starts with the selection of underwriter, trustee, supporting agencies and related professionals. From the overall process, one of the key step to execute the IPO process is by valuing the company as it will become the foundation to determine the worth of the company in the capital market. This study will cover the valuation process and analyze the factors that affecting the value of the company.

Financial Ratios

The financial ratios are used to predict the amount, timing, and uncertainty of both cash flows and price appreciation (Mautz & Angell, 2006) In general, financial ratio is a tool to measures the quantitative relation between one numbers to another in the financial statements. The analysis using financial ratio can help the investor, creditor, and the management to determine and monitor the company's performance in the past and how to improve or maintain it in the future. This study used profitability, liquidity, leverage, and activity ratios to analyse the overall financial performance of PT Rawajali Nusindo.

Profitability Ratios

The financial and economic efficiency of a company can be determined through its profitability as it accentuates the company's result acquired by using production factors and capital (Pavaloaia, 2011). In this research, gross profit margin, operating profit margin, net profit margin, EPS (earning per share), ROA (return on asset), and ROE (return on equity) are used to generate company's profitability.

Liquidity Ratios

According to Mayilmurugan and Krishnan, 2013, a good level of liquidity position indicates the company's solvency or its ability in meet the short-term obligation by utilizing firm's liquid assets. (Mayilmurugan & Krishnan, 2013). The liquidity ratios used in this research are current ratio and quick (acid-test) ratio.

Leverage Ratios

Leverage ratio is the measurement to show the firm's degree of the debt loan as it also represents the percentage of firm's total assets that is acquired from the other people money. The firm's financing efficiency can be implied through the balance between the debt and its own capital (Burja, 2011). In this study, debt to asset ratio, debt to equity ratio, times interest earned ratio, and fixed payment coverage ratio are used to assess the leverage in the firm.

Activity Ratios

The firm can determines its productivity in utilizing its resources to generating revenues by calculating the activity ratios (Singh & Schmidgall, 2002). It measures the firm's effectiveness in converting its asset to sales and cash. Inventory turnover, total asset turnover, average collection period, and average payment period are the ratios that is used to analyze the activity ratios in this study.

DuPont System Analysis

The DuPont system analysis is a financial method to assessing the firm's performance by combining income statement and balance sheet into two profitability measurements, which are ROA (return on asset) and ROE (Return on equity) (Gitman & Zutter, 2012).

This framework distinguishes the firm profitability as being affected by three distinct approaches, which are earnings as it also describes firm's efficiency, turnings that represent asset's productivity, and leverage to determine firm's proportion in using debt to generate profit (Bernhardt, 2013). Through those three components, the firm can evaluate its financial health to generate profits and decide which aspect that needs to be improved. Further analysis of comparing the DuPont resulted in a beneficial enhancement of long-term strategy within the firm that gives comprehension to generate or strengthen the firm's competitive advantage by maximizing its internal capability (Panayiotis, 2003).

Valuation

Valuation is a calculation method that associates the firm's risk and return to estimate the value of an asset (Gitman & Zutter, 2012). This process allows the firm to convert and simplify the firm's worth into number. According to Fernandez, 2013, there are four most common valuation models that are widely used and can be categorized as popular valuation method. Those models are balance sheet-based methods, income statement-based methods, good-will based methods and cash flow discounting based methods (Fernandez, 2002). The most suitable method to valuing the firm is chosen in accordance to the purpose. This study will use the cash flow discounting based method and more specifically the discounted cash flow valuation (DCF).

This valuation method uses present value as its foundation in valuing the firm. The asset value in DCF is basically the result from discounting the future cash flow projection to the present. To use this method, the firm needs to forecast the growth of the company and discount it as much as the amount of risk from the estimated cash flow. According to Damodaran, 2012, the DCF valuation can be divided into two methods. The first one is Equity Valuation in which only quantifying the equity stake in the firm (Damodaran, 2012). From this perspective, the valuation can be done by discounting the expected cash flows to equity with expected rate of return from the investors in the firm. The second DCF model is Firm Valuation. This method discounts the whole projection of the firm's future asset to the expected average rate of return from all kind of investors in the firm that is weighted by its market value proportions.

METHODOLOGY

This study used quantitative method as all of the data are collected from the company and the Internet. The data needed in this study are PT. Rajawali Nusindo annual report and financial report for the past 5 years (2012 – 2016) and the strategic future planning from the company. The rest of the data, such as competitors' annual report, current interest and inflation, will be gathered from the Internet. In creating the assumptions in valuation, some of the data are gathered from the interview to the financial staff in PT Rajawali Nusindo.

The data will be analyzed using two methods which are the DuPont formula and discounted cash flow valuation (DCF). The income statement and the balance sheet from year 2012 – 2016 are used to calculate the financial ratios. The result will be compared to the competitor in the sam industry that has already gone public. PT Enseval Putera Megatrading Tbk. and PT Millennium Pharmacon International are the companies for the comparison of PT Rajawali Nusindo financial performance. To compare both companies, this study is using trend analysis, cross-sectional analysis, common sized income statement and common sized balance sheet. The last method that is used is DuPont formula. The main objective of this method is to compare the net profit margin, total asset turnover, and equity multipliers within these two companies. The result will show the PT Rajawali Nusindo's financial aspects that can be improved.

The next step is to valuing the company using DCF model. In this stage, this study will create two valuation that presents the before and after improvement. To valuate the company, the first step is to determine assumptions and calculate the pro forma of PT Rajawali Nusindo for 2018 -2022 with 2017 becoming the year basis. The appropriate assumptions in the valuation are used as the base of the forecasted financial report for the next five years. In this study, the capital structure of PT Rajawali Nusindo is assumed to fix, meaning there will be no changes occurred in the percentage of debt and equity.

Some assumptions in the valuation before improvements, including sales, employee expenses, and the amortization of the other assets are based on the company's strategic planning and decision. The data are gained from the interview with the financial staff of PT Rajawali Nusindo. Fixed costs of the company such as general and administrative expenses are following the inflation rate and the assumption for the rest of the accounts will be based on the growth rate (CAGR) from historical data from 2012 until 2017 or from the percentage of sales. For the after improvements valuation, the other accounts that are not being improved is remain the same.

The pro forma of PT Rajawali Nusindo is the financial report, consists of the income statement and the balance sheet, projection for the next five years that is made in accordance to the assumptions that has been made before. After calculating the pro forma, the next step is to find the discount rate which is weighted average cost of capital (WACC). After that, the terminal value of the firm is calculated with the with the assumption that the firm will have a perpetuity and stable growth. The total flows is discounted with WACC, resulting the value of the firm. The next step is to divide the result with the common shares outstanding to see the value of the equity. Last, the improved value will be compared by the existed value to see the changes and the effect of the new improvement strategy to PT Rajawali Nusindo.

RESULT AND DISCUSSION

Trend Analysis

Below is the table of PT Rajawali Nusindo financial ratio in the past 5 years:

Table 1. PT Rajawali Nusindo Financial Ratios

PT. Rajawali Nusindo						
Financial Ratios		**2012**	**2013**	**2014**	**2015**	**2016**
Profitability	Gross Profit Margin	12.29%	11.57%	11.79%	13.69%	14.19%
	Operating Profit Margin	1.84%	0.79%	0.19%	0.71%	1.53%
	Net Profit Margin	1.23%	0.48%	0.05%	0.25%	0.67%
	Return on Asset (ROA)	2.11%	0.81%	0.09%	0.46%	1.22%
	Return on Equity (ROE)	10.02%	5.35%	0.53%	2.30%	4.86%
Liquidity	Current Ratio	1.28	1.23	1.26	1.25	1.33
	Quick (Acid-Test) Ratio	0.84	0.73	0.84	0.87	1.02
Leverage or Debt	Debt to Asset	0.79	0.85	0.82	0.80	0.75
	Long Term Debt to Total Asset	0.06	0.09	0.10	0.06	0.06
	Equity Multiplier	4.74	6.60	5.66	4.95	3.99
Activity	Inventory Turnover	4.74	3.85	5.53	5.78	7.23
	Total Asset Turnover	1.72	1.68	1.92	1.85	1.81
	Average Collection Period	63.17	61.69	55.55	54.95	66.17

Profitability

The profitability ratios of PT Rajawali Nusindo were shown a significant decline during 2012 to 2014 and slowly rise back up to the end 2016. It was proven from the all terms of profitability ratios such as gross profit margin, operating profit margin, net profit margin, ROA, and ROE. The decline was primarily due to excessive growth of the company's operating expenses as a result of the weaken exchange rate of Rupiah against the US dollar. From the table above, PT Rajawali Nusindo shows high and quite stable gross profit margin. It proved the company capability in maintaining its sales and the COGS for these past five years. However the margin was dramatically dropped in operating profit margin especially in 2014. During 2014, the company was having a hard time in maintaining its sales and in order to reach the targeted sales the company was spending more money in promotion expenses on that year. Though the sales in 2014 were successfully increased, the margin showed the opposite. The higher operating expenses during 2013 to 2014 was not followed by the same or higher percentage of its sales. The high differences from gross profit margin to net profit margin were specifically driven by the employee expenses or in particular from the wages as a result from the continuous recruitment over the years. The ROA are somewhat following the trends of net profit margin, which peaked in 2012 at 2.11%, and then declining in 2013 at 0.81% and even further into 0.09% in 2014 and by cutting some expenses and increasing the sales, the ROA was slowly climbed back again into 1.22% in 2016. This condition interpret that the company has done several improvement to increase the efficiency in using its assets. Following the trend of ROA, the ROE also happen to experience a decrease in 2013 and 2014.

Liquidity

PT Rajawali Nusindo liquidity ratios were considered as stable. The current ratio of PT Rajawali Nusindo was constantly above 100%, means the company was sufficiently good to pay its short-term debt. The company had a few decline for 5% during 2013 as the effect of the higher short-term bank loans on that year. In 2015, the company had higher net income, resulting the higher retained earnings and equity. This condition led to the lower short-term debt needed in 2016 and caused the 8% incline in current ratio. In terms of the quick ratio, PT Rajawali Nusindo was constantly below 100% from 2012 to 2015. The ratio was stayed around 80% and in accordance with its current ratio, the quick ratio also had around 10% decline in 2013 but back up again to the point of 102% at the end of 2016. The lower quick ratio of Nusindo implies that the company's excess inventory has lowered the company's capability in meet its current debt. Since the company has reduced the amount of inventory by the end of 2016, the liquidity of the firm during that year was categorized as adequate to meet the obligations during that year.

Leverage

The debt ratios calculation of PT Rajawali Nusindo show increase from year 2012 to 2013 in all terms of debt ratios which are debt to asset, long term debt to total asset, and the equity multiplier. The reason was because the higher debt or in particular from the growth of the other payables and bank loans that was following the higher operating expenses in 2013. The debt to asset and the equity multiplier were starting to decline from 2014 to 2016 as a result of the more retained earnings the company gained from the higher net income and the lower loans the company used to financed its total assets. In the opposite, the long-term debt to total asset was increasing until 2014 due to the growth in post-employment benefits. After 2014, the ratio was also decreasing as the other leverage ratios.

Activity

The activity ratios consist of inventory turnover, total asset turnover, and average collection period. The inventory turnover was gradually increasing except for the years 2013 that was lowering due to the higher amount of sugar inventories. The ratio grew for 20% until 2016, indicating a performance improvement in the liquidity of Nusindo's inventory. On the other hand, the total asset turnover of the company seems fluctuate from 2012 to 2013, and then significantly increase from 1.68 to almost 2.0 in 2014. Subsequently, the total asset turnover was gradually declining into 1.81 in 2016 as the effect of the bigger increase in total asset especially in the receivables and inventories than the increase in overall sales. In terms of the average collection period, PT Rajawali Nusindo has decreased from 63 d.17 days in 2012 to 55.55 in 2014. However, the period was starting to increase until its longest time at 66.17 days in 2016, indicating the longer time for Nusindo to collect cash, which lead to the non-optimal activity of the firm.

Cross Sectional Analysis

To analyze the financial performance of PT Rajawali Nusindo, this study compare the company with the competitor that runs in the same business industry and has already gone public. PT Rajawali Nusindo is distributor for the healthcare, consumer goods and agro-business industry. In this case Nusindo will be compared to its most contributing and biggest industry which is pharmaceutical and healthcare distribution. There are two listed companies in Indonesia that are running in the same industry which are PT Enseval Putera Megatrading and PT Millennium Pharmacon International. Below is the overall financial ratios comparison table of Nusindo and the average industry in a year 2016:

Table 2. Cross Sectional Analysis Year 2016

Financial Ratios 2016		PT Rajawali Nusindo	PT Enseval	PT Millennium Pharmacon	Average Industry
Profitability	Gross Profit Margin	14.19%	11.50%	8.59%	11.43%
	Operating Profit Margin	1.53%	3.94%	0.88%	2.11%
	Net Profit Margin	0.67%	2.94%	0.56%	1.39%
	Return on Asset	1.22%	7.85%	1.51%	3.53%
	Return on Equity	4.86%	12.04%	7.75%	8.22%
Liquidity	Current Ratio	1.33	2.52	1.24	1.70
	Quick (Acid-Test) Ratio	1.02	1.62	0.75	1.13
Leverage or Debt	Debt to Asset	0.75	0.35	0.80	0.63
	Long term debt to total asset	0.06	0.01	0.03	0.03
	Equity Multiplier	3.99	1.53	5.12	3.55
Activity	Inventory Turnover	7.23	7.91	6.44	7.19
	Total Asset Turnover	1.81	2.67	2.69	2.39
	Average Collection Period	66.17	43.76	56.32	55.42

The Table 2. represents PT Rajawali Nusindo's financial ratios position in pharmaceutical and health care industry distribution which most of them are still below the industry average. From the profitability, PT Rajawali Nusindo lead the industry in gross profit margin but it dropped to below the industry average in operating profit margin and affecting the other ratios in the profitability aspect. For the liquidity, PT Rajawali Nusindo is still sufficient despite it position is below the industry average. Leverage or debt indicates PT Rajawali Nusindo still has greater debt than its equity. PT Rajawali Nusindo's inventory turnover has reach the average industry, however, the total asset turnover and average collection period are still below the industry average.

Common Sized Analysis

Table 3 PT Rajawali Nusindo Common Sized Income Statement

	2012	2013	2014	2015	2016
Net Sales	**100%**	**100%**	**100%**	**100%**	**100%**
Cost of Goods Sold	88%	88%	88%	86%	86%
Gross Profit	**12%**	**12%**	**12%**	**14%**	**14%**
Total Operating Expenses	10%	11%	12%	13%	13%
Earning Before Income Tax	**1.8%**	**0.8%**	**0.2%**	**0.7%**	**2%**
Tax Expense, Net	0.6%	0.3%	0.1%	0.5%	0.9%
Net Income	**1.2%**	**0.5%**	**0.05%**	**0.3%**	**0.7%**

For the income statement, PT Rajawali Nusindo have a stable percentage of cost of goods sold roaming around 88 – 91% since 2012. However, there was a slight percentage drop for PT Nusindo in 2015 and the following year from 88% to 86 that was due to the lower price offered from the agro—industry supplier for these past two years**.** In operating expenses, PT Nusindo gained 1% every year from 2012 to 2015 which started at 10%, while in 2016, the increase has stopped and make it stable at 13%. It was shown that PT Rajawali Nusindo got the highest growth in operating expenses and the main contributed aspects for those gradual increase in 2012 to 2016 coming from the employee expenses as it the only fixed cost of the company that was grew higher than the inflation rate. For 2012 to 2014, the growth was also highly affected by the sales and distribution expenses due to the excessive cost for sponsorship and advertisement as part of the strategy to boosting the sales. The high operating expenses throughout the years have affected the low earnings before income tax between 0.2% - 2% for PT Rajawali Nusindo. In 2016, the company has successfully reduced its operating expenses and got an increment in the percentage of sales, resulting 1.3% growth in EBIT.

Table 4 PT Rajawali Nusindo Common Sized Balance Sheet

	2012	2013	2014	2015	2016
ASSET					
Total Current Asset	93%	94%	91%	92%	92%
Total Non Current Asset	7%	6%	9%	8%	8%
Total Asset	**100%**	**100%**	**100%**	**100%**	**100%**
LIABILITIES AND EQUITIES					
Total Current Liabilities	73%	76%	72%	74%	69%
Total Non Current Liabilities	6%	9%	10%	6%	6%
Total Liabilities	**79%**	**85%**	**82%**	**80%**	**75%**
Share Capital	13%	11%	12%	12%	10%
Additional paid in Capital	-	-	-	-	6%
Retained Earnings	9%	4%	6%	8%	9%
Total Equity	**21%**	**15%**	**18%**	**20%**	**25%**
Total Liabilities and Equities	**100%**	**100%**	**100%**	**100%**	**100%**

In term of common size balance sheet, the total assets and total liabilities plus equity portion used as a benchmark for the percentage of distribution of the balance sheet. PT Nusindo had the current asset percentage ranging from 91 - 94% with the non-current asset percentage from 6 – 9%. The highest point of PT Nusindo's current asset was in 2013 and its lowest point was in 2014 with the trade receivables and inventories as the most contributed accounts for the higher percentage of the current asset. For the liabilities, PT Nusindo started at 79% in 2012 and inclined to 85% in 2013 due to the increase in bank loans, the trend was gradually decreasing until 75% in 2016. The trend of PT Rajawali Nusindo indicating that its financing were slowly tend to be more rely on equity.

DuPont Analysis

PT Rajawali Nusindo shows the lowest ROA and ROE compared to the other two companies. In terms of the profitability from the past five years, 2014 proved to be the worst year for both Nusindo and Pharmacon. This trend was accordant with the net profit margin that also showed similar pattern with both ROA and ROE of the two companies. As stated in the net profit margin section, the main reason of the drawbacks was due to the external factors such as lower price of Indonesia's commodities in the world market and the weakened currency rate of Rupiah. However, the same factors did not really affecting PT Enseval on that year. Although PT Enseval's ROA and ROE also dropped in 2014, the decline was not as significant as the two competitors. The total asset turnover was apparently has more affected PT Enseval rather than the net profit margin. It can be seen from the incline in ROA in 2013 that was following the increase in the total asset turnover in the same year. Yet both of ratios are still affected the ROA of the three companies.

Similar with the ROA, the return on equity of Nusindo also got to the lowest in 2014. At the end of 2016, the equity multiplier has been increased the ROE of Nusindo for about 3%. On the opposite, the ROE of PT Enseval was keep declining due to the lower debt that Enseval used to financing its business throughout these past five years. For the other competitior, PT Pharmacon, the continuous incline on its equity multiplier has made the company got a better ROE than its ROA. As the lower equity multiplier means that the company is using higher equity than its debt, the earnings distribution for each fund shareholders' invested would be fewer and it is represented by the lower ROE of the firm.

In conclusion, the most affecting factor of PT Rajawali Nusindo's return on equity was the net profit margin. The significant difference in the Nusindo's net income with the other competitors was the main caused of its lower ROE. Furthermore, total asset turnover also has a role to increase the ROE and of the company. Therefore, the further improvement for the net profit margin and the total asset turnover is highly needed in a way to increase the profitability of PT Rajawali Nusindo.

Financial Performance Assessment Result

Based on the financial performance analysis, PT Rajawali Nusindo needs to improve its net profit margin and the total asset turnover in order to gets higher profitability. The first improvement comes from the employee expenses. PT Rajawali Nusindo has prepared 7% growth of its employee expenses due to the plan to keep recruiting new employees for the next 5 years. Compared to the other competitors, this growth is too high and it is better to be cut and follow the inflation rate. Rather than recruiting new employees, the two competitors choose to hold a series of seminars and trainings to enhance the capability of their employees and increasing the work efficiency in every person for the company. In this case, Nusindo also has already allocated more than Rp2,000 million for the seminar and training. However, the management said that the seminar was never been effective. It is proven by the survey result in the 2016 annual report that stated one of the lowest points of the company is the incompatibility of the training material with the actual competencies that the employees needed. As the management said, those little details have made the money for training and seminar are not used effectively. Therefore, the first suggestion is to stop the recruiting process and use the training and seminar money efficiently so the company can cut the employee expenses growth and following the inflation rate for the next five years.

For the total asset turnover, the most contributing account is trade receivables. The average collection period of PT Rajawali Nusindo indicates that the company was having a longer time to collect its receivable than the other two competitors. Since this delay payment has significantly affected the total asset of the company, the second improvement for Nusindo is to accelerate the collection period to at least same as the industry (40 days). Currently, Nusindo needs 60 days to collect the payment and if the company wants to have same collection period as the others, Nusindo needs to cut off the days as many as 4 days a year until 2022. To be equal with the other two competitors, Nusindo needs to be stricter with the payment deadline and create a new regulation regarding the payment collection period.

Proposed Financial Improvement Strategies

Below is the table that represents the changes to improve financial performance in a way to increase PT Rajawali Nusindo value. The other accounts that are not listed in the table below are assumed remain the same.

Table 5. Proposed Financial Improvements

Account	Before	After	Information
Employee Expenses	7% Growth per year	3.5% following the inflation rate	By stopping the recruitment of new employees and more utilizing the fund allocated for training and seminar, PT Nusindo can following the inflation rate to adjust the wages over the years
Trade Receivables	Following percentage of sales with 66 days average collection period	Minus 5 days per year, resulting 40 days average collection period in 2022	The calculation for the assumption after improvement is: $Trade\ Receivables = Improved\ Average\ Collection\ Period \times \frac{Sales}{365}$

Discount Rate Calculation

In order to calculate the weighted average cost of capital, there are several step that needs to be done. Below are the detail calculation and the steps to find the WACC:

- *Step 1 : Beta Calculation*

Table 6. Beta Calculation

Name of Listed Companies	Adjusted Beta	D/E Ratio	Tax	Unlevered Beta
PT Enseval Putera Megatrading Tbk	0.69	1.3	25.00%	0.3494
PT Millennium Pharmacon International	1.31	187.65	25.00%	0.0092
UNLEVERED BETA				**0.1793**

$$\beta_{levered} = 0.1793\left(1 + (1 - 0.25)\left(\frac{1,305,331,885,289}{463,947,796,595}\right)\right)$$

$$\beta_{levered} = 0.6$$

- *Step 2 : Cost of Debt Calculation (r_d)*

$$cost\ of\ debt = 11\%\ x\ (1 - 0.25)$$

$$r_d = 8.3\%$$

- *Step 3 : Cost of Equity Calculation (r_e)*

$$cost\ of\ equity = 7.9 + 0.6(10.6\%)$$

$$r_e = 13.8\%$$

Table 7 WACC Calculation Information

	Value	Information
Risk Free Rate	7.92	Indonesia Bond Pricing Agency with maturity of 30 years
Market risk	18.45	Jakarta Stock Exchange Composite Index 1 Year Return
Risk Premium	10.6	Risk Free Rate - Market Risk

- *Step 4 : WACC Calculation*

$$WACC = (15.9\%\ x\ 8.3\%) + \ (84.1\%\ x\ 13.8\%)$$
$$WACC = 12.9\%$$

Based on the calculation, the WACC is 12.9% For the terminal growth, the companny is assumed to follow the growth of Indonesia gross domestic product from Badan Pusat Statistika (BPS) for the pharmeutical and healthcare industry for 5.48%.

Discounted Cash Flow Valuation Before Improvements

Table 8 DCF Valuation Before Improvements

	2018	2019	2020	2021	2022
Operating Income	146,716,103,753	184,165,836,487	227,546,632,555	249,812,666,473	273,727,679,221
Taxes	51,466,882,379	62,080,762,444	74,308,388,109	81,009,510,197	88,212,448,661
NOPAT	95,249,221,374	122,085,074,042	153,238,244,446	168,803,156,276	185,515,230,561
Depreciation	9,695,297,040	9,695,297,040	9,695,297,040	9,695,297,040	9,695,297,040
Change in NWC	(146,686,551,332)	(165,404,478,532)	(187,574,891,286)	(121,263,013,488)	(129,771,606,095)
Free cash flow	(41,742,032,918)	(33,624,107,449)	(24,641,349,800)	57,235,439,828	65,438,921,506
Terminal value					929,879,396,831
Total flows	(41,742,032,918)	(33,624,107,449)	(24,641,349,800)	57,235,439,828	995,318,318,337
Present value of flows	(40,836,963,489)	(32,852,664,709)	(24,044,974,525)	55,778,244,654	968,727,896,642

Enterprise Value	**926,771,538,573**
Less: current outstanding debt	87,764,286,865
Equity value	839,007,251,708
Current shares outstanding	255,000
Equity value per share	**3,290,225**

Discounted Cash Flow Valuation After Improvements

Below is the value calculation of PT Rajawali Nusindo after minimizing employee expenses and accelerate the average collection period:

Table 4.1 PT Rajawali Nusindo DCF Valuation After Improvements

	2018	**2019**	**2020**	**2021**	**2022**
Operating Income	152,373,663,314	196,109,587,498	246,463,843,630	276,387,465,636	308,730,075,844
Taxes	52,951,707,236	64,831,926,679	78,457,192,508	86,685,578,357	95,554,395,038
NOPAT	99,421,956,078	131,277,660,820	168,006,651,122	189,701,887,279	213,175,680,805
Depreciation	9,695,297,040	9,695,297,040	9,695,297,040	9,695,297,040	9,695,297,040
Change in NWC	(144,627,198,114)	(162,897,268,174)	(184,534,373,521)	(118,040,481,323)	(126,146,910,909)
Free cash flow	(35,509,944,996)	(21,924,310,315)	(6,832,425,359)	81,356,702,996	96,724,066,936
Terminal value					1,374,437,642,793
Total flows	(35,509,944,996)	(21,924,310,315)	(6,832,425,359)	81,356,702,996	1,471,161,709,729
Present value of flows	(34,740,002,486)	(21,421,297,705)	(6,667,065,524)	79,285,388,522	1,431,858,896,225

Enterprise Value	**1,448,315,919,032**
Less: current outstanding debt	87,764,286,865.0
Equity value	1,360,551,632,167
Current shares outstanding	255,000.0
Equity value per share	**5,335,497**

Result of The Improvements

The additional value that PT Rajawali Nusindo will get from the two improvements is:

$$Additional\ Value = \ 1{,}448{,}315{,}919{,}032 \ - 926,771{,}538{,}573$$
$$Additional\ Value = \ 521{,}544{,}380{,}459$$

The improvements are proven to increase the PT Rajawali Nusindo's value for 56% higher and strengthen the company's ability to get through the IPO process with higher profitability and values to compete with the other two competitors.

CONCLUSIONS

From the financial performance analysis, the author has determined that PT Rajawali Nusindo's profitability was below the other two competitors in the same industry that has already gone public. The ratios show that there are two important factors that caused the low profitability of PT Rajawali Nusindo which are the net profit margin and the total asset turnover.

The net profit margin of PT Rajawali Nusindo was low due to the excessive operating expenses especially from the employee salaries. This was mainly caused by the company's plan to recruit more people to substitute the current employee that has low performance without letting the current employees go. It makes PT Rajawali Nusindo pay double than it should be. To overcome this problem, the company should utilize the allocated seminar and training fund and be more effective in developing the current employees. Thus the company can cut off the ineffective budget and follow the inflation rate for years to come.

For the total asset turnover, PT Rajawali Nusindo should reduce its total asset by accelerating the collection period of its trade receivables. Currently, PT Rajawali Nusindo has its collection period for 60 days and it is 20 days longer than the industry average. Therefore, the company needs to accelerate the collection period as many as 4 days a year until 2022.

By improving those two factors, the calculation using discounted cash flow (DCF) valuation model prove that PT Rajawali Nusindo can get 1.56 times increases in the firms value amounting IDR521,544,380,459 additional value from IDR926, 771,538,573 before any improvements to IDR1,448,315,919,032 after the cost minimization in employee expenses and acceleration in average collection period. These changes in value indicate that these two factors are important to the company's value improvement.

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