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The rise of Indika

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In an era where energy has become a vital national asset, companies such as Indika Energy play a vital role in the economy. Indonesia's only integrated energy player is not only reshaping the energy landscape, it is proving that Indonesian companies can compete through innovation and business acumen.

In the early 1990s, three young men forged a friendship while studying at Pepperdine University in California. Two decades later, Agus Lasmono, Wishnu Wardana and Arsjad Rasjid are at the helm of the third-largest energy company in Indonesia, driving it forward to become a global player.

Now in their early 40s, they are spearheading the transformation not only of Indika Energy but arguably Indonesia's coal and energy sector with a blend of business acumen, nationalism and global aspirations.

The rise of Indika Energy from a $150 million coal mining concern to a $2.5 billion integrated energy conglomerate is due as much to careful planning and bold risk taking as to the phenomenal increase in commodity demand over the past 10 years.

The story of Indika Energy began in 2004 when two close families, Wiwoho Basuki and Agus Lasmono Sudwikatmono decided to go into business together by merging Indika Enery and Tripatra.

Agus had earlier acquired a 46% stake in coal-mining company PT Kideco Jaya Agung for $150 million and was looking to expand. He and Wihowo Basuki are today the principle shareholders of Indika Energy, which was listed on the Indonesia Stock Exchange in 2008 with a market capitalization of $1.2 billion. Over the past three years, the company has grown by leaps and bounds, issuing bonds totaling $480 million and acquiring new businesses.

It recently acquired a 51% stake in coal logistics company Mitra Batra Segera (MBSS) for Rp1,630 per share for a total value of $167.78 million. The company is expected to book higher revenue and profits this year, driven by higher coal prices as well as higher contributions from its subsidiaries. In 2010, it recorded Rp3.9 trillion in revenue and Rp773 billion in net profits.

"This year, I expect revenue to rise to Rp3.9 trillion and net profits to increase to Rp1.6 trillion," says Surabhi Chopra, equity analyst at Bahana Securities. "Indika's strategy to integrate is

moving along nicely and its acquisition of coal logistics company Mitra Batra Segera should help it to improve its bottom line."

The strategy, says Arsjad Rasjid, president director and chief executive officer, is to grow both organically and through acquisition of companies that allow Indika Energy to grow its energy footprint. That is why, he boasts, Indika is the only energy company in the country that also owns a power plant, shipping and logistic businesses and a coal services business.

Its portfolio of companies includes Kideco, Cirebon Electric Power (CEP), engineering services company Tripatra and Petrosea, a mining contractor it acquired in 2009.

"Our strategy from the start has been to integrate the whole energy supply chain," says Arsjad. "We want to combine natural resources, services and infrastructure in a seamless way." Although coal is the main driver of the business, logistics and transportation are vital cogs in the supply chain given the poor state of infrastructure in Indonesia.

More importantly, by owning companies that are involved in engineering and services, Indika is able to keep a lid on its costs. "In mining, there are two main cost centers, mining services and logistics, and by having these businesses, we are converting our costs into revenue on a consolidated basis," says Arsjad.

"We can do everything related to energy from A to Z internally," he says. "We understand the whole supply chain and that gives us an enormous advantage over other coal companies."

Cirebon Electric Power, on the other hand, not only buys Indika's low-calorie coal, it also ensures steady income for the group when commodity prices fluctuate. "In this way, our financial risks are well-managed and, on the aspirational side, we have synergy and security."

Even then, all its companies have to compete for contracts not just with Indika but with other mining groups as well. For instance, Tripatra and Petrosea have to fight for projects from Indika based on their performance and pricing.

"We do not want to have a monopoly, that was the past business model," he notes. "Under our new model, all our companies have to be competitive and that way we can monitor costs and we also know how our competitors are doing."

He adds that for all Indika subsidiaries, less than 50% of their revenue must be internally driven. "This way, they must be able to stand on their own."

The end of cheap energy

Indika's meticulous strategy has gained recognition at home and abroad. Last year, the company won the "Most Coherent Strategy in Asia" award from AsiaMoney while Arsjad was recognized as the Best Executive. He has also been recognized as a Young Global Leader by the World Economic Forum.

"I have a lot of admiration for them," says Daniel Budiman, a partner at investment firm Mahanusa Capital. "They have executed their strategy very well and acquired all the right companies."

“They represent a new breed of young indigenous businessmen who are making their mark on the corporate scene,” he adds. “All the key players are good at business as well as politics.”

Indika’s strategy to integrate all its operations is especially critical in an era where energy costs are rising exponentially. With global oil prices now hovering at $120 a barrel and coal prices at $130 a ton, companies that are able to manage their costs will gain an upper hand.

Not only will this allow energy companies to stay competitive, they will be able to offer innovative solutions. CEP, for example, has opened a new market for low calorie coal that was previously unusable by most power plants.

“The era of cheap energy is over,” notes economist Chatib Basri. “The future will be driven by those who can harness energy resources most optimally and companies like Indika will play an important role.”

As governments slash their energy subsidies, the private sector has an opportunity to step in and provide affordable power, but only if energy companies can innovate, develop human resources and new business models.

CEP, says Chatib, is a great role model for other independent power producers as it is profitable and was 100% driven by the private sector. Indika was able to secure financing by convincing investors that it had the ability to produce clean energy from low calorie coal.

“For the past 30 years, only 5% of our exports were driven by new products designed for new markets,” he notes. “Companies like Indika are opening up new markets for Indonesia’s natural resources.”

Arsjad is particularly proud of the $850 million CEP because it was the company’s first successful infrastructure project and it managed to secure international funding. More importantly, the power plant proved that lower calorie coal was a viable substitute for energy production.

“In the past, PLN did not want to use coal that was less than 5,000 calories,” says Arsjad. “We built a power plant that could use 4,500-calorie coal, which was a first in Indonesia and proved that we could develop new technology.”

He is now selling this technology to other power plants in the country as well as abroad. If more power plants use low calorie coal, he will have succeeded in creating a new market for Indika’s coal reserves.

“We have one billion tons of low calorie coal in reserves,” says Arsjad. “We have created value for our company from our coal reserves that were previously uneconomical.” Just as importantly, by using lower calorie coal, CEP is able to sell electricity to PLN at only 4.3 cents per kilowatt per hour, the lowest rate in the country, which benefits all Indonesians.

Going global

Arsjad is acutely aware that if Indika is to fulfill its ambitions of being a global player, it will have to compete internationally. He is now putting in the foundations that will allow it to do so.

The first five years after the three friends joined forces were focused on building the financial and human capital foundations. The next five will focus on growing globally by bidding for offshore projects.

Indika is now actively looking for projects in the Middle East and Africa where it can leverage on existing relationships. The goal is to bring the same level of service and expertise it provides to major energy companies such as ExxonMobil at home to other countries.
“Our dream is to be a national brand. But we do not only want to be big in our own country, we want to be a global, world-class company,” he says. “If the big companies can trust us in Indonesia, why should they not trust us in other markets?”

Even as it strives to improve its profit margins and be a global player, Indika will be firmly rooted to its home base and contribute to the development of the nation. For this reason, it has tied up with Paramadina University to promote education in remote areas of the country.

“We are a company that is proud to be Indonesian and we want to play a role in nation-building,” says Arsjad. “Let us not fight with each other. We are in an economic war and we need to work together,” he adds, referring to other Indonesian energy companies.
He defines this attitude and approach as the new nationalism – where the private sector works closely with the government to benefit the people of Indonesia. GA

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