INTERNATIONAL JOURNAL FOR INNOVATIVE RESEARCH IN MULTIDISCIPLINARY FIELD ISSN: 2455-0620 Volume - 4, Issue - 3, Mar – 2018
Monthly, Peer-Reviewed, Refereed, Indexed Journal with IC Value: 86.87 Impact Factor: 5.60 Publication Date: 31/03/2018

# Financial Distress Analysis on Indonesia Stock Exchange Companies

**Ayu Kurnia Sari[1], Hendra Saputra[1], Andysah Putera Utama Siahaan[2]**
[1]Faculty of Social Science, Universitas Pembangunan Panca Budi, Medan, Indonesia
[2]Faculty of Science and Technology, Universitas Pembangunan Panca Budi, Medan, Indonesia

***Abstract:*** *The formulation of the problem is whether there are differences in the average financial ratios between companies experiencing financial distress with companies that do not experience financial distress? The purpose of this study is the difference in financial ratios between companies experiencing financial distress with companies that do not experience financial distress. Financial Distress (FD) is a broad concept consisting of several situations in which a company faces financial difficulties. Type of research The relationship among the variables studied is the corresponding relationship of financial ratios between companies experiencing FD and NFD. The number of manufacturing companies listed on the Indonesia Stock Exchange is 134 companies. Scale ratio used in the research obtained through the calculation of research data using Microsoft Excel. While data analysis using SPSS. The conclusions of financial ratios in the two year period and one year before the occurrence of financial distress are Profit margin (X1), ROA (X2), DAR (X3). Current liabilities to assets ratio (X4), EAR (X6), LTDER (X7), Times interest earned (X8), Current ratio (X9). Current assets to total assets ratio (X10), Net working capital to total assets ratio (X11), Net Fixed assets to total assets ratio (X12). Cash ratio (X13), sales to assets ratio (X14), CFTS (X16), and CFTL (X17) are univariate significantly between companies experiencing financial distress and those without financial distress. These findings support the conclusions of previous studies conducted by Almilia (2006). The established model was able to predict the condition of financial distress and non-financial distress in two years and one year before the incident respectively of 96.1% and 93.4%. Models formed based on financial ratios in the two-year period before the occurrence of financial distress have a higher prediction accuracy than the model established by financial ratios in the two-year period before the occurrence of financial distress.*

***Key Words:*** *Financial Distress, UniCredit, Texmaco.*

## 1. INTRODUCTION:

Perpetrators in the foreign exchange market also see there will be movement in the currency as investors will be more sensitive to risk [11][12]. Investors are shifting to safe currencies such as the yen that rose to the highest point in 14 years against the US dollar. It threatens shares of Japanese exporters. Facing the possibility of default of Dubai World debts, the monetary authorities in several countries simultaneously take several steps to reduce the above domino effect of delay. India's central bank, The Reserve Bank of India, will request a report from banks in India on credit disbursements to Dubai World, as Bank of India Vice Governor ShymalaGopinath. China's central bank, Bank of China, said it did not channel credit to Dubai World. UniCredit Italy and Taiwan hastily declared no receivables to Dubai World. Similar cases of financial difficulties experienced by Dubai World, on a national scale also occur in Indonesia, among others, in Bank Century and PT Texmaco. The controversy of the government bailout of Rp 6,762 trillion to Century Bank from November 23, 2008, to July 21, 2009, stems from the company's inability to fulfill its obligations at the clearing session at Bank Indonesia on November 13, 2008 (Saroha magazine, 2009). Based on the financial statements of PT. Bank Century, Tbk. as of 31 October 2008, Capital Adequacy Ratio (CAR) indicates the figure -35.92% (the minimum requirement set by Bank Indonesia 8%), Return on Assets (ROA) of -0.5209, Return on Equity (ROE) of -9.8163, Loan to Deposit Ratio (LDR) of 93.16%. The severe financial figures of Bank Century, among others, are caused by the loss of Forex Securities (SSB) of US $ 76 million and US $ 45 million due on November 3, 2008, because they have not received the payment until 20 November 2008.

Determination of the default status of these earning assets has undermined the income of Bank Century for the loss of earning assets. Also, the correction of interest recognition amounted to Rp 390 billion, which is not derived from cash receipts, and the shortage of Allowance for Asset Losses (PPA) of Rp 59 billion. At the same time, Bank Century also has a Third Party Fund (DPK) obligation which was delayed its cumulative payment up to November 20, 2008, amounting to Rp.746.5 billion and the position of the balance of Bank Century demand per 20 November amounted to Rp.1.96 billion. It resulted in higher bank liquidity pressure that Bank Century was unable to participate in clearing on November 21, 2008, and taken over by the government through the Deposit Insurance Corporation (LPS) on November 21, 2008 (Joint Press Release of Bank Indonesia-LPS dated November 21, 2009). Since then the government has disbursed a bailout to save Century Bank in four stages as at the beginning of this paragraph. On October 3, 2009, Bank Century was officially renamed to Bank Mutiara and was approved by Bank Indonesia Decision Number 11/47 / KEP.GBI / 2009 dated September 16, 2009. This change is in line with the improvement of the company's financial performance up to the third quarter 2009. The company recorded a profit of Rp 237.3 billion;

total assets reached Rp 6.9 trillion or an increase from Rp. 5.5 trillion in December 2008 position, third-party funds (DPK) as of August 2009 also rose 15.68 percent to Rp. 5.9 trillion from Rp 5.1 trillion in June 2009 as well as total loans disbursed during June-September 2009 valued at Rp. 700 billion. Although a pile of legal problems caused by the old management still ensnare this bank. Bank Mutiara intends to expand next year. According to the plan, Bank Mutiara will add 3-5 branch offices from only about 56 branches. Other unsuccessful financial difficulties occurred in the Texmaco Group. The symptoms can be seen from the financial statements of PT. Texmaco Jaya as of December 31, 2006, or two years before PT Texmaco Jaya declared delisting from the Indonesia Stock Exchange. The high dependence of the company on third-party funding can be seen from the high ratio of total debt compared to the total assets of the company that is equal to 459.85%. This financing structure creates a high-interest expense for the company. The high-interest expense and obligation to fulfill payment of principal and interest on maturing loan resulted in disruption of the company's working capital with the indication of the current ratio of liquidity and networking capital to assets ratio of 4% and negative 227.74%, respectively. Disruption of working capital ultimately disrupts the company's operations so that the profitability of the company also decreased with the achievement of profit margin and returned on assets respectively negative 0.51 and negative 0.07. The decline in corporate profitability accumulates on the company's low ability to pay interest on loans and can be seen from the number of times interest earned figures of negative 4,144.49%.

## 2. CONCLUSION:

After going through the stages of research then obtained some conclusions. Financial ratios in the two-year period and one year prior to the occurrence of financial distress are Profit margin (X1), ROA (X2), DAR (X3), Current liabilities to assets ratio (X4), EAR (X6), LTDER (X7) (X10), current assets to total assets ratio (X10), Net working capital to total assets ratio (X11), Net Fixed assets to total assets ratio (X12), Cash ratio (X13) ), Sales to assets ratio (X14), CFTS (X16), and CFTL (X17) are univariate significantly between companies experiencing financial distress and those without financial distress. These findings support the conclusions of previous studies conducted by Almilia (2006). The established model can predict the condition of financial distress and non-financial distress in two years and one year before the incident each of 96.1% and 93.4%. Models formed based on financial ratios in the two-year period before the occurrence of financial distress have a higher prediction accuracy than the model established by financial ratios in the two-year period before the occurrence of financial distress.

## REFERENCES:


1. Januri, E. N. Sari dan A. Diyanti, “The Analysis of the Bankruptcy Potential Comparative by Altman Z-Score, Springate And Zmijewski Methods at Cement Companies Listed In Indonesia Stock Exchange,” IOSR Journal of Business and Management, vol. 19, no. 10, pp. 80-87, 2017.
2. L. S. Almilia dan E. Kristajadi, “Analisis Rasio Keuangan untuk Memprediksi Kondisi Financial Distress Perusahaan Manufaktur yang Terdaftar di Bursa Efek Jakarta,” Jurnal Akuntansi dan Auditing Indonesia, vol. 7, no. 2, 2003.
3. E. F. Brigham dan L. C. Gapenski, Financial Management: Theory and Practice, Eight Edition, New York: The Dryden Press, 1997.
4. R. B. Whitaker, “The Early Stages of Financial Distress,” Journal Economics and Finance, 1999.
5. H. D. Platt dan M. B. Platt, “Predicting Corporate Financial Distress: Reflections on Choice-based Sample Bias,,” Journal of Economics and Finance, 2002.
6. G. Foster, Financial Statement Analysis, Second Edition, New Jersey: Prentice-Hall International, 1986.
7. A. J. Keown, Basic Financial Management, 5th Edition, New Jersey: Prentice-Hall Inc, 1991.
8. K. A. Fachrudin, Kesulitan Keuangan Perusahaan dan Personal, Medan: USU Press, 2008.
9. R. K. Brahmana, “Identifying Financial Distress Condition in Indonesia Manufacture Industry,” e-Journals Perhimpunan Pelajar Indonesia-United Kingdom, 2007.
10. I. Ghozali, Aplikasi Analisis Multivariate dengan Program SPSS, Semarang: Badan Penerbit Universitas Diponegoro, 2007.
11. Rusiadi, A. Novalina, P. Khairani dan A. P. U. Siahaan, “Indonesia Macro Economy Stability Pattern Prediction (Mundell-Flamming Model),” IOSR Journal of Economics and Finance, vol. 7, no. 5, pp. 16-23, 2016.
12. A. K. Sari, H. Saputra dan A. P. U. Siahaan, “Effect of Fiscal Independence and Local Revenue Against Human Development Index,” International Journal of Business and Management Invention, vol. 6, no. 7, pp. 62-65, 2017.
13. H. M. Ritonga, A. P. U. Siahaan dan Suginam, “Marketing Strategy through Markov Optimization to Predict Sales on Specific Periods,” International Journal for Innovative Research in Multidisciplinary Field, vol. 3, no. 8, pp. 184-190, 2017.
14. H. A. Hasibuan, R. B. Purba dan A. P. U. Siahaan, “Productivity Assessment (Performance, Motivation, and Job Training) using Profile Matching,” SSRG International Journal of Economics and Management Studies, vol. 3, no. 6, pp. 73-77, 2016.