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Research Article

The Effect of Leverage, Liquidity and Profitability in Predicting Financial Distress in Plantation Sub-Sector Companies Listed on the IDX in 2019-2023

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Abstract: This study investigates the factors influencing financial distress in plantation sub-sector companies in Indonesia. The data collection method involves a literature study and documentation, while the data analysis techniques encompass classical assumption tests (normality, multicollinearity, autocorrelation, and heteroscedasticity), multiple linear regression analysis, and hypothesis testing (partial, simultaneous, and coefficient of determination). The findings reveal that leverage, liquidity, and profitability both simultaneously and partially have a positive and significant effect on financial distress. These results offer valuable insights into the factors that affect financial distress in the plantation sub-sector, providing a clearer understanding for investors and company management. This study emphasizes the importance of managing leverage, liquidity, and profitability effectively to avoid financial distress, which could disrupt the operational continuity of companies. Additionally, the study serves as a reference for making informed decisions related to financial stability and strategic planning, assisting in mitigating the risks associated with financial distress. By managing these financial factors, companies can improve their resilience and sustainability in the face of challenges, contributing to long-term business success. Furthermore, understanding the role of financial management in preventing financial distress is essential for plantation companies to maintain stable growth. As companies face various financial pressures, the study highlights how proactive financial strategies can help ensure sustained performance and profitability, ultimately supporting their competitive advantage in the industry.

Keywords: Financial Distress; Indonesia; Leverage; Liquidity; Profitability

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1. Introduction

Bankruptcy of Global Corporations is a common issue in Global Business, triggered by internal factors such as poor Global Management and abuse of power and external factors such as turbulent economic conditions (Kadim and Sunardi, 2018). A company's inability to predict its financial position on a routine basis increases the risk of financial distress, which diminishes investor willingness to invest. Financial distress is a sudden condition resulting from financial difficulties that, if not treated immediately, may lead to bankruptcy (Mujib and Santoso, 2020). Therefore, the firms need an early warning system to help them prepare and change to a healthier condition. One of the measures of financial distress is the Interest Coverage Ratio (ICR), which indicates a firm's ability to pay the annual interest (Deanisyah and Erinos, 2020; Kasmir, 2019).

Several financial ratios are critical in predicting financial distress. To begin with, leverage, measured in terms of Debt to Equity Ratio (DER), gauges the level at which a company is dependent on debt. The heightened leverage ratio increases the default risk due to the unsustainable interest burden on cash flow (Kasmir, 2019). Secondly, liquidity, as reflected by the Cash Ratio, captures how well a firm can meet short-term commitments with cash and

cash equivalents alone. Financial distress has a highly negative relationship with low liquidity (Maimunah and Huda, 2022). Thirdly, profitability, as reflected by Return on Assets (ROA), captures how effectively asset usage is in generating profit. However, there has been incongruity of findings in the effect of profitability on financial distress (Amna, 2021; Rinofah et al., 2022).

This research focuses on the plantation sector, which is a significant contributor to the Indonesian economy. This sector consists of companies that produce palm oil and usually faces challenges in terms of declining commodity prices, declining export demand, and land fires. Based on an analysis of companies' financial statements within this sector, this research aims to help investors and companies to determine potential financial distress risks and recommend appropriate mitigation measures.

Table 1. Data on the Development of ICR, DER, ROA, and CR of Plantation Sub-Sector Companies on the IDX in 2019-2023.

Company Code	Year	ICR	DER	ROA	CR
BTEK	2019	-10.9	1.32	-1.69	0.01
	2020	-5.5	1.54	-12.07	0.01
	2021	1.5	1.67	-2.55	0.02
	2022	1.5	2.44	-3.22	0.04
	2023	1.2	2.66	-2.81	0.05
BWPT	2019	1.6	2.42	-7.39	0.01
	2020	1.3	3.32	-7.36	0.01
	2021	2.7	4.85	-11.77	0.03
	2022	0.2	4.96	0.10	0.03
	2023	0.2	3.65	1.57	0.01
CSRA	2019	-0.8	1.94	2.13	0.17
	2020	-1.4	1.44	5.17	0.16
	2021	-4.6	1.24	14.81	1.39
	2022	-6.6	0.91	13.82	1.05
	2023	-4.4	0.65	8.25	0.14
FAPA	2019	1.5	1.33	-3.27	0.02
	2020	0.4	1.89	-1.63	0.04
	2021	-2.5	1.49	5.14	0.19
	2022	-5.7	1.21	8.73	0.25
	2023	-1.1	1.12	1.91	0.19
MIN		-10.9	0.65	-12.07	0.01
MAX		2.7	4.96	14.81	1.39
AVERAGE		-1.6	2.10	0.39	0.19

Source: Indonesia Stock Exchange (2025)

Table 1. Interest Coverage Ratio (ICR) is a ratio that describes the ability of a company to cover interest on debt with the operating profit. Generally, the ICR shows various patterns in companies. The lowest value of -10.9 (PT. Bumi Teknokultura Unggul Tbk, 2019) suggests that the company is not able to pay the interest cost. But the mean ICR within this sub-industry is up to -1.6, meaning that certain firms have not managed to expand operating profit sufficient to service interest.

Debt to Equity Ratio (DER) is a measure of a firm's capital structure, that is, the ratio of debt used in financing to equity. DER ratios within the plantation sub-sector are at a high level of 2.10, with a minimum of 0.65 and a maximum of 4.96. High DER implies that a company is highly reliant on debt to fund its operations, which can increase financial risk if the company is unable to pay off its liabilities.

Return on Assets Return on Assets (ROA) is a firm's effectiveness in generating revenues from assets. As a industry, the plantation sub-sector did not perform well on the measure. Average ROA was a mere 0.39, low of -12.07 (PT Bumi Teknokultura Unggul Tbk, 2020) and high of 14.81 (PT Cisadane Sawit Raya Tbk, 2021). Some ROA were negative for the period studied, an indication of loss from the period's operations.

Cash Ratio (CR) calculates a firm's capability for satisfying short-term debt. As a general rule, plantation sub-sector firms possess a very low CR, averaging 0.19. Its minimum stands at 0.01, while a maximum record stands at 1.39. Low CR means most firms lack adequate

liquidity for satisfying short-term debt and may expose themselves to a higher level of financial risk.

Based on the above analysis, we conclude that most plantation sub-sector companies are faced with significant liquidity, profitability, and capital structure problems. It might increase the possibility of financial distress unless there are strategic initiatives towards the improvement of financial and operatory performance. Such a conclusion is very important for investors, top managements, and regulators in evaluating and devising strategies for the development of the plantation sector in Indonesia. Therefore, researchers are interested in discussing "The Effect of Leverage, Liquidity, and Profitability in Predicting Financial Distress in Plantation Sub-Sector Companies Listed on the IDX in 2019-2023".

2. Literature Review

2.1. Signal Theory

Theory of signaling describes that businesses offer signs in the form of information on their financial performance through annual reports. Such information may either be positive or negative and affects the belief of creditors and investors in investment decisions. Investors pay close attention to positive signs, including a high ratio of profitability, moderate leverage, and proper liquidity, as they signify a stable and potentially high-growth company. On the contrary, negative signs such as high leverage, low profitability, and low liquidity are a cause for concern for investors and creditors, hence minimizing investment interest (Kurniasanti & Musdholifah, 2018). For the purpose of this study, signs presented in plantation sub-sector businesses through leverage, liquidity, and profitability variables help in forecasting for possible financial distress. For instance, high leverage offers a bad sign since such a company relies on debt too much, hence putting a strain on cash flow. Low profitability and low liquidity can also indicate a possibility of higher financial distress. Investors and creditors are known to examine such signs before determining a company's investment option (Sutra & Mais, 2019).

2.2 Financial Distress

Financial distress refers to a scenario where a company is in a state of financial trouble described by an inability to generate profits or meet short-term or operative responsibilities. According to Nilasari and Ismunawan (2021), an early sign of bankruptcy is a case of financial distress. Such a scenario usually stems from an absence of working capital arising from high operating costs or an overly weighted burden of liability vis-à-vis a stream of revenues. Financial distress refers to a scenario where a company is in a very bad state of financial trouble, usually described by an inability to meet monetary responsibilities such as debt, interest, or operating costs on a timely basis. A case of financial distress may be a case of bankruptcy unless corrective actions are taken on a short notice (Rangkuti and Sahira, 2024).

Fraternesi (2020) furthered their argument that financial distress initiates when a firm can no longer fulfill its responsibilities, especially short-term responsibilities such as liquidity and solvency responsibilities. The primary measure for assessing financial distress through a ratio is the Interest Coverage Ratio (ICR), defining a firm's capability to cover interest responsibilities through operating profit. The below is the calculation for the Interest Coverage Ratio (ICR) from Deanisyah and Erinos (2020).

$$\text{ICR} = \frac{\text{Earnings Before Interest and Tax (EBIT)}}{\text{Interest Expense}}$$

Info:

ICR < 2, indicates the company is in some sort of financial trouble and that's represented by dummy 1.

ICR > 2, means the company is not experiencing financial distress or is a company Whichhealthy, symbolized by the dummy 0.

2.3 Leverage

As per Kasmir (2019), leverage is a ratio applied to assess a company's capacity to pay for all short-term as well as long-term responsibilities in the event the company goes into

liquidation. This ratio reveals the magnitude to which a company finances its operating activities through debt and reveals the amount of risk in a company's finances. Leverage ratio is a financial ratio applied to assess the magnitude to which a company incorporates debt in the composition of its funds. This ratio reveals the magnitude of a company's reliance on external funds (debt) vis a company's own funds (equity) or total assets (Nst and Sari, 2020). For leverage, the Debt to Equity Ratio (DER) is the primary measure applied in this study in the assessment of the possibility of a company's financial distress. DER is a ratio applied in assessing the ratio of debt to a company's equity. This ratio reveals the magnitude to which a company undertakes debt in comparison to equity capital. Here, DER value implies a high dependency on debt, thereby exposing a company to higher risk in a company's finances. On the contrary, where DER exhibits a low measurement, a company relies on equity more, hence a low risk in a company's finances. DER calculation as per Kasmir (2019) is as follows:

$$\text{DER} = \frac{\text{Total Debt}}{\text{Total Equity}}$$

2.4 Liquidity

As cited by Kasmir (2019), liquidity ratio or working capital ratio is a ratio in measuring a company's capability in fulfilling short-term debt through current assets. It indicates the liquidity level of the company, a key measurement in determining the company's financial health. Liquidity ratio is a ratio in measuring a company's capability in fulfilling short-term debt through current assets. Simarmata and Nasution (2024) expressed that liquidity ratio determines the level of current assets in fulfilling current debt. The higher the ratio's value, the higher the liquidity of the company, since it signifies that the company possesses such current assets in paying short-term debt. Liquidity indicator applied in the present study is the Cash Ratio (CR). Cash Ratio (CR) is the most conservative in measuring a company's capability in fulfilling short-term debt. Simply put, it only takes into account available cash and cash equivalents. As cited by Kasmir (2019), the calculation for cash ratio can be computed through the formula:

$$\text{CR} = \frac{\text{Cash and Cash Equivalents}}{\text{Short Term Liabilities}}$$

2.5 Profitability

As cited in Kasmir (2019), a profitability ratio is a ratio to measure a company's capacity to generate profits from its operation. It indicates the company's effectiveness and efficiency in utilizing assets to generate profits. It is a vital profitability ratio since it indicates the level to which a company generates profits relative to the capital it possesses. Nst and Sari (2020) explain the profitability ratio as a company's capacity to generate profits through sales, assets, and particular share capital. For this study, the profitability ratio applied is Return on Assets (ROA). ROA indicates a company's efficiency in generating profits from the total assets. It does so from a stance where a higher ROA means the company performs well in utilizing assets to generate profits, implying the company is in a position to avoid a state of financial distress. As per Kasmir (2019), the calculation for ROA is done through the formula:

$$\text{ROA} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

3. Method

This research adopts a quantitative method and was carried out on the Indonesia Stock Exchange from 2019 until 2023. The population was comprised of 19 firms in the plantation sub-sector and 95 samples. Data applied were secondary data from Indonesian Stock Exchange and Indonesian Stock Exchange.www.idx.co.id. Data collection methods are literature study and documentary. Data analysis methods applied are: classical assumption testing (multicollinearity, normality, autocorrelation, heteroscedasticity), hypothesis testing (partial, simultaneous and coefficient of determination) and multiple linear regression analysis.

4. Results and Discussion

4.1 Classical Assumption Test

4.1.1 Normality Test

Table 2. Normality Test.

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		95
Normal Parameters[a,b]	Mean	.0000000
	Standard Deviation	555.49025215
Most Extreme Differences	Absolute	.061
	Positive	.061
	Negative	-.058
Test Statistics		.061
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Source: Author (2025)

Based on Table 2. above, the outcome of the Kolmogorov-Smirnov test produces a significance value (Asymp. Sig. 2-tailed) = 0.200. Since the 0.200 significance value > 0.05, then we conclude the residual values are normally distributed and satisfy normality assumptions.

4.1.2 Multicollinearity Test

Table 3. Multicollinearity Test.

Variable	Tolerance	VIF
Leverage (X1)	.960	1.042
Liquidity (X2)	.975	1.025
Profitability (X3)	.956	1.046

Source: Author (2025)

As in Table 3. previously mentioned, we can observe from these Tables that the Tolerance for each of the variables Leverage, Liquidity and Profitability are > 0.1 and the VIF values are < 10. Therefore, we can conclude that for our regression model in this case, there are no indications of multicollinearity, implying that the independent variables are not related to one another very substantially.

4.1.3 Autocorrelation Test

Table 4. Autocorrelation Test.

Model Summary										
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.415[a]	.172	.145	564,572	.172	6,315	3	91	.001	1,836

a. Predictors: (Constant), Profitability (X3), Liquidity (X2), Leverage (X1)
b. Dependent Variable: Financial Distress (Y)

Source: Author (2025)

Autocorrelation values from the table above are 1.836 for the Durbin-Waston statistic. It is close to 2, and the value shall be read from the table with a significant value of 0.05 for a sample size of 95 and independent number 3. DW table then reveals dU = 1.836 for a nominal close to 2. Hence, the Durbin-Waston statistic is lower than (4 - dU) 4 - 1.7355 = 2.2645 and higher than the upper limit dU 1.836. It means there is no autocorrelation.

4.1.4 Heteroscedasticity Test

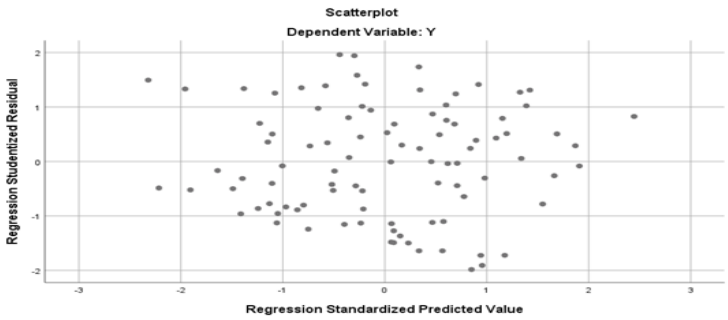

Figure 1. Heteroscedasticity Test.
Source: Author (2025)

Figure 1. shows that the data points in the regression equation are evenly spread throughout around the Y-axis and are not in any significant pattern. The data points are spread out above and below the zero line in a random pattern. From these discoveries, you can conclude that there is no heteroscedasticity in the regression equation applied.

4.2 Simple Linear Regression Analysis

Table 5. Simple Linear Regression Analysis.

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	218,911	170,350		1,285	.202
	Leverage (X1)	1,028	.383	.261	2,684	.009
	Liquidity (X2)	1,489	.705	.204	2,113	.037
	Profitability (X3)	12,876	5,980	.210	2,153	.034

a. Dependent Variable: Financial Distress (Y)

Source: Author (2025)

As per Table 5. above, the F-test values for linear regression are as follows:

$$Y = 218{,}911 + 1{,}028\ X1 + 1{,}489\ X2 + 12{,}876\ X3 + e$$

Below is a description of the result for the multilevel linear regression test: (a) The constant term is 218,911 and is positive, hence the Financial Distress will be 218,911, for given values for the variables of Leverage, Liquidity and Profitability. (b) The Regression coefficient of Leverage (X1) is 1.028, and it is positive, so in case there is a one unit change in Leverage, then there will be an increase in Financial Distress by 1.028 (102.8%). (c) The Liquidity regression coefficient (X2) has a coefficient value of 1.489 and is positive, which means that if there is a one unit increase in Liquidity, Financial Distress will increase by 1.489 (148.9%). (d) The Regression coefficient for Profitability (X3) is 12,876 and a positive sign, indicating for a change in one unit in Profitability, Financial Distress will increase by 12,876 (1,287.6%).

4.3 Hypothesis Testing

4.3.1 Partial Test (t-Test)

Table 6. Partial Test (t-Test).

Coefficients[a]						
Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	218,911	170,350		1,285	.202
	Leverage (X1)	1,028	.383	.261	2,684	.009
	Liquidity (X2)	1,489	.705	.204	2,113	.037
	Profitability (X3)	12,876	5,980	.210	2,153	.034

a. Dependent Variable: Financial Distress (Y)

Source: Author (2025)

From Table 6. above, n = 40, and k = 3, then the degrees of freedom (df) is computed from the equation df = n – k – 1 = 95 – 3 – 1 = 91. The value of the t-table at df = 91 with the significance level α = 0.05 (two-sided) is 1.986377. (a) Testing Leverage against Financial Distress: Leverage has a significance value 0.009 < 0.05 and a calculated t value 2.684 > t table 1.986377, thus H0 is rejected and H1 is accepted. Thus, it can be concluded that Leverage has a positive and significant partial effect on Financial Distress. (b) Testing Liquidity Against Financial Distress: Liquidity has a significance value 0.037 < 0.05 and calculated t value 2.113 > t table 1.986377, thus H0 is rejected and H2 accepted. So, it can be concluded that Liquidity has a positive and significant partial effect on Financial Distress. (c) Testing Profitability against Financial Distress: Profitability has a significance value 0.034 < 0.05 and calculated t value 2.153 > t table 1.986377, thus H0 is rejected and H3 is accepted. Therefore, it can be said that Profitability has a positive and significant partial effect on Financial Distress.

4.3.2 Simultaneous Test (F-Test)

Table 7. Simultaneous Test (F-Test).

ANOVA						
Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6038718.182	3	2012906.061	6,315	.001[b]
	Residual	29005525.502	91	318742.038		
	Total	35044243.684	94			

a. Dependent Variable: Financial Distress (Y)
b. Predictors: (Constant), Profitability (X3), Liquidity (X2), Leverage (X1)
Source: Author (2025)

F value interpretation of above results using the F table at n – k – 1 = 95 – 3 – 1 = 91 is 2.70. The significance value 0.001 < 0.05 is read from Table 7. and calculated F value 6.315 > F table 2.70, and H0 is rejected and H4 is accepted. This means that simultaneously, Leverage, Liquidity and Profitability have a strong impact on Financial Distress.

4.3.3 Coefficient of Determination (R^2)

Table 8. Coefficient of Determination (R^2).

Model Summary										
Model	R	R Square	Adjusted R Square	Standard Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	.415[a]	.172	.145	564,572	.172	6,315	3	91	.001	1,836

a. Predictors: (Constant), Profitability (X3), Liquidity (X2), Leverage (X1)
b. Dependent Variable: Financial Distress (Y)
Source: Author (2025)

The above table presents the model summary statistics with R Square 0.172. This indicates that independent variables leverage, liquidity, and profitability explain the dependent variable, financial distress, up to 17.2%. The remaining 82.8% is explained by variables beyond the area of this study.

4.4 Discussion

4.4.1 The Effect of Leverage on Financial Distress

Based on the findings of the research, Leverage partially has positive and significant effects towards Financial Distress in Plantation Sub-Sector companies listed on IDX during 2019-2023. This research is complemented by Kasmir's theory (2019), leverage refers to the ratio used to determine the capability of a company to meet all its liabilities, either short-term or long-term, in case the company is put into a state of liquidation. Results of this study are in agreement with results of a study conducted by Rachmawati Umi Hanifa (2019) the study finds that leverage partially positively and significantly influences financial distress.

4.4.2. The Impact of Liquidity on Financial Distress

Based on the findings of the study, liquidity was, in general, positively and significantly associated with financial distress for plantation sub-sector companies listed on the Indonesia Stock Exchange (IDX) between 2019-2023. The study corroborates Kasmir's (2019) hypothesis that the liquidity ratio, or working capital ratio, is a ratio used to measure the capacity of a firm to meet its short-term obligations using its current assets. This research finding is in agreement with the research conducted by Muhammad Raja Irvan Effendy Nst

(2021) and identified that liquidity had a partial, positive, and significant influence on financial distress.

4.4.3 The Effect of Profitability on Financial Distress

As per the findings of the research, profitability made a partial positive and significant contribution to financial distress in plantation sub-sector companies listed on the Indonesia Stock Exchange (IDX) during 2019-2023. The theory of Kasmir (2019) is supplemented in this research, according to which the profitability ratio is a ratio used to test the ability of a company to generate profit from its business operation. The results of the current study align with the results of a research conducted by Meilani Purwanti and Indri Nur Sya'adah (2020), which concluded profitability positively and partially, and significantly influenced financial distress.

4.4.4 The Influence of Leverage, Liquidity, and Profitability on Financial Distress

Based on the research results, Leverage, Liquidity, and Profitability simultaneously have a significant and positive effect on Financial Distress in Plantation Sub-Sector companies listed on the IDX period 2019-2023. The findings of this study are in line with research results by Alfinda Rohmadini (2018), which stated that Profitability, Liquidity, and Leverage simultaneously have a significant and positive effect on Financial Distress.

5. Conclusions

Based on the result of the data analysis and discussion that has been done, the following conclusions could be drawn: (a) Leverage had a significant and positive effect on financial distress in plantation sub-sector companies listed on IDX between 2019–2023. That is, the higher the firm's leverage, the larger the likelihood of financial distress. (b) Liquidity also positively and significantly affects financial distress. This is a measure of whether or not a company can pay short-term obligations, and though it has the ability to do so, higher liquidity does not necessarily represent a firm in good financial health and may actually reflect inefficiency in the utilization of current assets, thereby enhancing the risk of distress. (c) Profitability has a positive and significant effect on financial distress. This is to say that while a company is profitable, yet it is not enough to reduce the risk of distress, most likely because profits do not match liabilities. (d) At the same time, leverage, liquidity, and profitability have a positive, significant influence on financial distress. These are correlated factors and they lead to a firm's financial situation, eventually determining the danger of financial distress.

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