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Analysis of Liquidity, Leverage, and Profitability Ratios On Financial Distress

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ABSTRACT

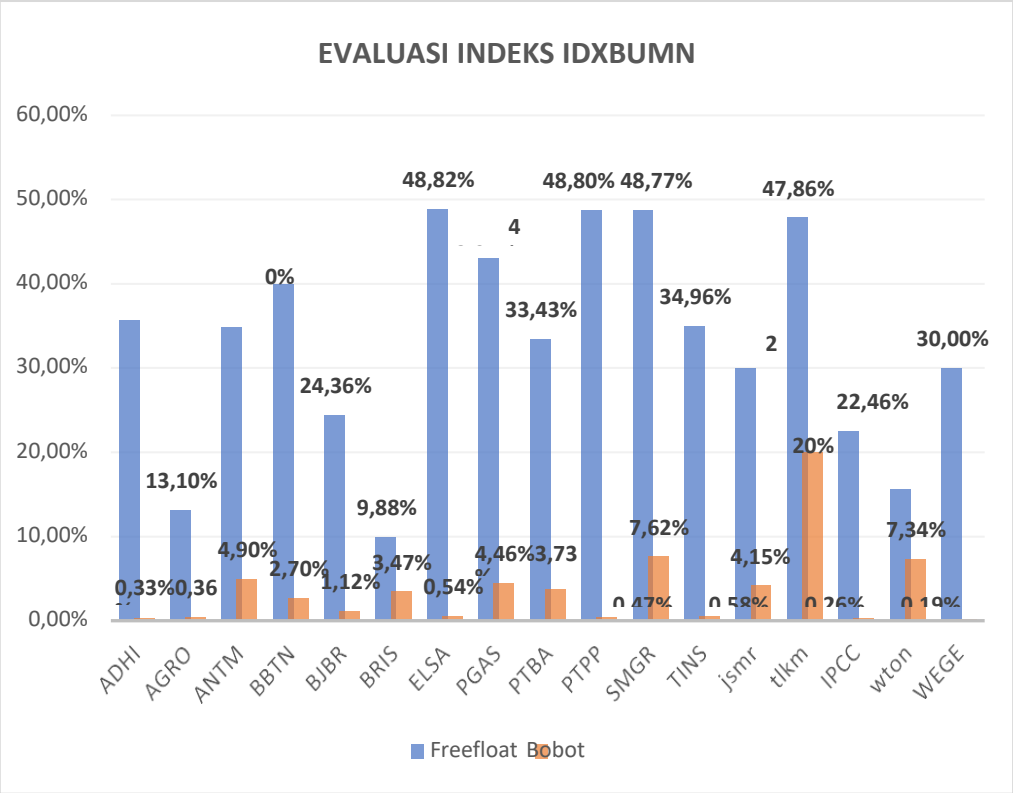
This study aims to determine the effect of liquidity, leverage, and profitability on financial distress. The population in this study are companies included in the State-Owned Enterprises (BUMN) in 2017-2023. The sampling method used was puposive sampling and obtained 17 companies with a total sample of 119 financial statements which became the object of research. The data analysis method is quantitative analysis using multiple liner regression analysis and hypothesis testing using the SPSS 26 program. The results showed that liquidity, leverage, and profitability simultaneously affect financial distress. While partially the variables current ratio, quick ratio, return on assets, and return on equity have a significant negative effect on financial distress. While the variable return on equity and debt to assets has a significant positive effect on financial distress.

INTRODUCTION

The growth of the business world leads to competition, and companies that can't compete may experience financial distress. This has a impact on Indonesia's welfare, especially for state-owned enterprises (BUMN), which are government-owned businesses aiming to improve people's welfare (Koto, 2021). Finance Minister Sri Mulyani Indrawati stated that poor financial performance is indicated by the Altman Z-score, which shows that the average score of BUMN from various industries is 0, while the agricultural sector has a negative score of 0.4. The Ministry of Finance uses two financial ratios, Return on Equity (ROE) and Debt to Equity Ratio (DER), to measure a company's ability to generate profits and pay off debts. A company's financial performance can be seen from its ability to manage profits and debt repayment (Kompas.com, 2023). Poor financial management can be a threat, especially for public companies in Indonesia that are dominated by debt rather than equity. A company's financial condition can also be seen from its performance, which is an important aspect in providing information about the company's achievements during a certain period (Khairedayati et al., 2019).

In a case mentioned by Eric Tohir, Minister of BUMN, on December 29, 2023, two out of seven dissolved companies had financial management problems, particularly in debt usage, and two others went bankrupt (cnbcindonesia). According to Veronica (2020), increasing debt can be caused by operational costs that use debt as an expense. A company's profit is determined by its revenue and expenses, and a financial report is used to measure a company's performance (Fatmawati & Wahyuningtyas, 2021). To achieve optimal profit, the company must make production cost efficiency, maintain selling prices, and increase sales volume. The company must also be able to set the selling price in accordance with the profit target and increase sales volume (Lisna et al., 2020).

The free float ratio measures the proportion of available shares for trading to total registered shares, excluding shares controlled by management and major stakeholders. A change in the ratio indicates active buying and selling, while a low ratio suggests dominant ownership and a high ratio indicates high liquidity (Sugiana et al., 2022). The following data evaluates the stock index with no stable status on the BUMN index.



Source: www.idx.co.id, data processed

Figure 1. free float index evaluation digram

The data above shows the free float ratio of 17 companies, with varying values. Companies like ADHI, AGRO, ELSA, PTPP, and TINS have high free float values compared to their weight. In contrast, BRIS and SMGR have high free float values with high weights, a higher free float share indicates a better company stock. A low free float ratio may deter investors, affecting market liquidity (Fitrianingsih et al., 2022). Liquidity is essential to ensure investors receive their due as providers of funds in a company. It is crucial for investors to understand the company's financial situation, including analyzing financial ratios.

Financial ratio analysis is a technique used to evaluate a company's financial performance. It helps identify potential financial difficulties, such as those caused by operational crises (Nasution & Miftah, 2022). By analyzing financial reports, investors can better understand a company's financial ratios and predict financial distress (Mahaningrum & Merkusiwati, 2020). According to Aji & Anwar (2022), financial ratios serve as a tool to detect bankruptcy and predict future company performance. In analyzing financial distress, liquidity, leverage, and profitability ratios provide a comprehensive picture of a company's ability to face financial difficulties and manage risks related to debt, liquidity, and profit.

The liquidity ratio measures a company's sales growth and reflects its performance. However, previous research shows conflicting results regarding the impact of liquidity ratio on financial distress, with some finding a negative and significant relationship Abdullah et al. (2023), others finding a positive relationship Cahyani & Indah (2021), and others finding no significant relationship (Arifiana & Khalifaturofi'ah (2022).

Leverage ratio can be used to evaluate a company's financial situation by measuring its debt usage as an operational asset. A high debt level can lead to financial distress if it is not balanced with income (Jannah et al., 2021). Leverage ratio can indicate a company's ability to meet its obligations, and if it fails to do so, it may face financial distress (Idawati, 2020). However, previous studies have shown conflicting results on the impact of leverage ratio on financial distress, with some finding no significant relationship Arini et al., (2021) and others finding a positive and significant relationship (Ulinnuha et al., 2020).

Profitability reflects a company's efficiency in utilizing its assets, with high profitability indicating good performance. A high profitability ratio may indicate a low likelihood of financial distress (Lia Indarti, 2020). The profitability ratio helps to evaluate a company's ability to generate profits from its total assets, reflecting management's ability to manage the company and achieve profits (Izzah et al., 2021). However, previous studies have shown conflicting results on the impact of profitability ratio on financial distress, with some finding a positive relationship Oktavian & Handoyo, (2023) and others finding no significant relationship (Asmarani & Lestari, 2020).

The research focuses on state-owned enterprises (BUMN) to evaluate the effectiveness of liquidity, leverage, and profitability ratios in predicting financial distress. These ratios assess a company's ability to pay debts, manage debt, and generate profits. The study aims to determine whether BUMN companies listed on the Indonesia Stock Exchange (IDX) from 2017 to 2023 can withstand financial distress and manage risks related to debt, liquidity, and profitability. From the phenomena and gaps and research gaps described above and differences of opinion from previous studies as well as the novelty of the object of this research, I am interested in researching "Analysis Of Liquidity, Leverage, And Profitability Ratios Agains Financial Distress (Empirical Study Of BUMN Companies Listed On The Indonesian Stock Exchange Indonesia In 2017-2023)"

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

Agency theory

The Agency Theory arises from the separation of functions between shareholders (principals) and management (agents) (Jensen & Meckling, 1976). According to agency theory, managers (agents) are responsible for making decisions to maximize firm value and reporting them to shareholders (principals). However, conflicts can arise due to information asymmetry, making it difficult for the principal to monitor and control the agent's actions, leading to hidden information, lack of transparency, and potentially harming the principal (Ginanjar & Rahmayani, 2021).

The Agency Theory is related to financial distress, as hidden information by the company can harm the principal, particularly in credit experiences, indicating low profitability and high leverage. If the agent's decision-making is flawed, it can lead to significant losses for the company, resulting in financial distress (Oktaviani & Lisiantara, 2022). According to Setiawan (2023), agency theory can be used to analyze the efforts of SOE management in

improving performance and avoiding financial distress. The focus of this theory is to find the most efficient contract to regulate the relationship between the government as the principal and SOE management as the agent. The government (principal) and SOE management (agent) have agency conflicts, which Agency Theory helps resolve by implementing governance mechanisms to monitor management actions. Companies with better financial performance tend to avoid financial distress. In a principal-agent relationship, management may withhold information from shareholders, potentially to their detriment due to information asymmetry.

1. **Effect of Current Ratio (CR) on financial distress**

   According to Agency Theory, past decisions made by agents can lead to current financial obligations. If these financial obligations are due, the agent must make quick decisions to avoid financial distress (Putri & NR, 2020). A company with a high Current Ratio (CR) has good liquidity, indicating a high level of current assets to cover short-term liabilities in case of losses. The margin of safety allows the company to absorb decreases in non-cash current assets and eventually liquidate them. The Current Ratio (CR) measures the margin of safety against uncertainty in cash flow, such as unexpected losses that can suddenly reduce cash flow (Rusli et al., 2020).

   According to research by Fitri Wahyuni et al. (2020), Haras et al. (2022), and Mutiara & Septyanto (2022), the Current Ratio (CR) has a significant impact on financial distress. A higher current ratio indicates a higher guarantee of short-term liabilities being paid. If a company cannot maintain its liquidity level, it is more likely to experience financial distress. From an Agency Theory perspective, management's decision-making can influence the current ratio. A company with a high current ratio may attract more investors, but it does not necessarily mean the company can pay off its debts or obligations. A high current ratio can actually increase the risk of financial distress, meaning the company may be able to pay off its debts in the future.

   H1 = Current Ratio (CR) has a positive effect on financial distress

2. **Effect of Quick Ratio (CR) on financial distress**

   According to Agency Theory, the delegation of authority from the owner (principal) to the manager (agent) means that the manager has significant power and control over the company's operations. The manager must be transparent in their activities, and one way to demonstrate accountability is through financial reports that show their performance (Kartika et al., 2020). A high Quick Ratio (QR) can provide extra protection against unexpected risks and cash shortages. However, slow inventory turnover and accounts receivable can also increase the Quick Ratio, which may not always reflect a healthy financial condition. A high Quick Ratio can indicate that a company has idle working capital, which can limit its ability to maximize profits (Ghozaly & Dewi, 2024). Research by Hendriani et al. (2023), Aprilia et al. (2023), and Ceylan (2021) shows that the Quick Ratio has a positive impact on financial distress, as a company's inability to manage its current assets can increase the likelihood of financial distress.

   In Agency Theory, information asymmetry can lead to problems such as moral hazard and adverse selection. Therefore, the Quick Ratio (QR) can help monitor whether management has the ability to meet short-term liabilities and ensure financial transparency. Good asset management by a company will increase the Quick Ratio, indicating that the company has sufficient current assets to pay off short-term liabilities. However, poor asset management

and management's wrong decision-making can harm the company. A high Quick Ratio indicates a company's ability to utilize its current assets, which can reduce financial distress and help the company avoid bankruptcy.

H2 = Quick Ratio (QR) has a positive effect on financial distress.

3. **Effect of Debt to Equity (DER) on financial distress**

According to Agency Theory, management performance needs to be reviewed further in managing the company, as decision-making for third-party funding is a management decision (Natalia & Sha, 2022). The Debt to Equity Ratio (DER) is an indicator to evaluate a company's ability to use its equity to pay off long-term and short-term debts. A company's liabilities will increase proportionally with the amount of debt used to finance its operations (Sanusi et al., 2022). Research by Yunitasari & Pernamasari (2023), Sukmawati et al., (2020), and Oktavian & Handoyo (2023) shows that the Debt to Equity Ratio has a significant impact on financial distress.

Management's debt management from third-party funding for operational purposes leads to high debt liabilities. A company with a high Debt to Equity Ratio (DER) relies heavily on external financing. However, a high DER can lead to financial distress, making it difficult for the company to pay off remaining loans and interest in the future, ultimately resulting in financial distress.

H3 = Debt to Equity Ratio (DER) has a negative effect on financial distress.

4. **Effect of Debt to Equity (DER) on financial distress**

According to Agency Theory, higher leverage in a company leads to better wealth transfer from creditors to shareholders. However, a company with more debt in its capital structure will have higher agency costs, increasing the likelihood of financial distress (Faldiansyah et al., 2020). Research by Muis et al., (2020), Dhani & Dewi (2021), and Novica & Yuniarwati (2021) shows that the Debt to Asset Ratio (DAR) has a significant impact on financial distress. A high Debt to Equity Ratio (DER) indicates that a company has a large debt to finance its assets, increasing the risk of default and potentially leading to financial distress. Management's responsibility to stakeholders is fulfilled through financial performance disclosure in the company's financial reports, which serves as a decision-making tool. Management's decisions on using third-party debt will impact the company's risk and return. High debt usage will increase the risk of the company experiencing financial distress.

H4 = Debt to Asset (DAR) has a negative effect on financial distress.

5. **Effect of Return on Asset (ROA) on financial distress**

According to Agency Theory, high operational performance indicates that the agent (management) has successfully made good decisions in managing the company. Return on Asset (ROA) measures a company's ability to generate net profit from its assets. A high ROA indicates effective and efficient asset utilization, leading to better results, including profits and optimal fund usage. Research by Kuntari & Machmuddah (2021), Prastyatini & Novikasari (2023), and Oktavian & Handoyo (2023) shows that ROA has a significant impact on financial distress.

Every company aims to make a profit, and so do shareholders and investors. Financial information, including Return on Asset (ROA), is crucial for both management and investors. If management makes good decisions, the company's profit will be high, increasing returns. A high ROA value can reduce financial distress, helping the company avoid bankruptcy.

H5 : Return on Asset (ROA) has a significant positive effect on financial distress.

6. Effect of Return on Equity (ROE) on financial distress

According to Agency Theory, good financial management can increase profits and minimize financial distress risks. A company must be able to cover all expenses with its revenue and generate net profit, which is crucial for reinvestment and increasing return on equity (ROE) to ensure shareholder interests. Failing to balance revenue and expenses can lead to financial distress. Research by Minanari (2022), Indriyanto et al. (2022), and Noviyanti Simorangkir et al. (2020) shows that return on equity (ROE) has a significant impact on financial distress.

Management decisions and actions can lead to a company experiencing financial distress. Return on Equity (ROE) provides information on a company's performance in generating profits, with higher ROE indicating better investment returns from the company's assets. A high ROE value can reduce financial distress, indicating that the company is more stable and less likely to go bankrupt.

H6: Return On Equity (ROE), has a positive effect on financial distress.

METHODS

This study is a quantitative research using secondary data from annual company reports in the BUMN index from 2017-2023. Quantitative research involves the use of numbers in data collection, processing, and presentation, and may include illustrations, tables, diagrams, or other forms in the conclusion phase. The research design involves various statistical methods, data analysis, and quantitative techniques to analyze numerical data and draw conclusions (Hardani et al., 2020). The study applies descriptive quantitative analysis to analyze data, involving the collection and analysis of data for each variable separately. This technique aims to enable the writer to describe the research results in detail. The data analysis is assisted by SPSS version 26 software, which helps with data processing and hypothesis testing using T-tests, F-tests, and coefficient of determination. The researcher uses purposive sampling to select the data to be used.

Operational Variables and Measurements:

1. Current Ratio (CR).

   This study uses the Current Ratio (CR) formula referred to by (Arsita, 2021):

$$Current\ Ratio \frac{Current\ Asset}{Current\ Liabilities}\ X\ 100\%$$

2. Quick Ratio (QR)

   This study uses the Quick Ratio (QR) formula referred to by (Arsita, 2021):

$$Quick\ ratio \frac{Current\ Asset\ -Inventory}{Current\ Liabilities}\ X\ 100\%$$

3. Debt to Equity Ratio (DER)
   This study uses the Debt to Equity Ratio (DER) formula referred to by (Eka Puspita et al., 2021):

$$Debt\ to\ Equity\ Ratio\ \frac{Total\ Debt}{Equity}\ X\ 100\%$$

4. Debt To Asset Ratio (DAR)
   This study uses the Debt to Asset Ratio (DAR) formula referred to by (Eka Puspita et al., 2021):

$$Debt\ to\ Asset\ Ratio\ \frac{Total\ Debt}{Total\ Asset}\ X\ 100\%$$

5. Return on Asset (ROA)
   This study uses the Return on Asset (ROA) formula referred to by (Shalini et al., 2022):

$$Return\ on\ Asset\ Ratio\ \frac{Earning\ After\ Tax}{Total\ Asset}$$

6. Return on Equity (ROE)
   This study uses the Return on Equity (ROE) formula referred to by (Arsita, 2021):

$$Return\ on\ Equity\ Ratio\ \frac{Earning\ After\ Tax}{Equity}\ X\ 100\%$$

7. Financial Distress
   This study uses the Financial distress the Altman Z-Score formula referred to by (Fatmawati & Wahyuningtyas, 2021):

   Z-score = 6.56 X1 + 3.26 X2 + 6.72 X3 + 1.05 X4

   Description:
   X1 = Working Capital / Total Assets
   X2 = Retained earnings / Total Assets
   X3 = EBIT / Total Assets
   X4 = Stock Market Value/Total Debt
   Notes:
   If we use the Z-score formula which consists of Z1, Z2, Z3, and Z4, then the company can be categorized as follows:
   a. if the Z-score value> 2.6, the company is not experiencing financial distress.
   b. if the value of 1.1 < Z-score < 2.6, the company is in the gray zone.
   c. if the Z-score value < 1.1, the company has the potential for financial distress.

RESULTS

Descriptive Statistical Test Result

Table 1. Descriptive Statistics Test

Variable	N	*Minimum*	*Maximum*	*Mean*	Std. Deviation
Current Ratio	119	0,35	9,81	2,557	2,250
Quick Ratio	119	0,06	9,72	3,160	2,644
Debt to Equity Ratio	119	0,25	9,95	3,847	2,870
Debt to Asset Ratio	119	0,15	9,10	3,864	2,871
Return on Asset Ratio	119	0,10	9,92	2,691	2,403
Return on Equity Ratio	119	0,03	9,60	3,110	2,625

Source: SPSS 26 output, data processed

The descriptive statistical analysis of the data reveals the following results:

1. Current Ratio has a minimum value is 0.35, maximum value is 9.81, and the average value is 2.557. The standard deviation is 2.250, which is lower than the average value, indicating low variability in liquidity among companies. This suggests that companies have stable liquidity and can efficiently use their assets.
2. Quick Ratio has a minimum value is 0.06, maximum value is 9.72, and the average value is 3.160. The standard deviation is 2.644, which is lower than the average value, indicating low variability in quick ratio among companies. This suggests that companies have stable liquidity and can consistently meet their short-term obligations.
3. Debt to Equity Ratio has a minimum value is 0.25, maximum value is 9.95, and the average value is 3.847. The standard deviation is 2.870, which is lower than the average value, indicating low variability in debt to equity ratio among companies. This suggests that companies have relatively uniform debt management and can make more stable investment decisions.
4. Debt to Asset Ratio has a minimum value is 0.15, maximum value is 9.10, and the average value is 3.864. The standard deviation is 2.871, which is lower than the average value, indicating low variability in debt to asset ratio among companies. This suggests that companies have efficient debt management and can make more stable investment decisions.
5. Return on Asset Ratio has a minimum value is 0.10, maximum value is 9.92, and the average value is 2.691. The standard deviation is 2.403, which is lower than the average value, indicating low variability in return on asset ratio among companies. This suggests that companies have structured data and can make more accurate investment decisions.
6. Return on Equity Ratio has a minimum value is 0.03, maximum value is 9.60, and the average value is 3.110. The standard deviation is 2.625, which is lower than the average value, indicating low variability in return on equity ratio among companies. This suggests that companies have stable return on equity and can manage investment risks more effectively.

Classical Assumption Test Result

Table 2. Kolmogrov-Smirnov Normality Test

No	Indicator	Unstandardized Residual
1	N	119
2	Mean	0,0000000
3	Std. Deviation	0, 69642236
4	Absolute Differences	0,071
5	Positif Differences	0,057
6	Negatif Differences	-0,071
7	Kolmogrof-Smirnov 2	0,071
8	2-Tiled Significant	0,200

Source: SPSS 26 output, data processed

Based on the table 2 above, it is known that in the regression model, the residuals have a normal distribution. Based on the table shows the Asmp Sig (2-tailed) value of 0.200 which exceeds the alpha value of 0.05. which is 0.05. It can be concluded that the results of the tests carried out this study fulfills the assumption of normality.

Table 3. Multicollinearity Test Results

Variable	*Collinerity Statistic*		Description
	Tolerance	VIF	
Current Ratio	0,901	1,110	Multicollinearity Free
Quick Ratio	0,581	1,722	Multicollinearity Free
Debt to Equity Ratio	0,504	1,986	Multicollinearity Free
Debt to Asset Ratio	0,718	1,392	Multicollinearity Free
Return on Asset Ratio	0,578	1,729	Multicollinearity Free
Return on Equity Ratio	0,674	1,483	Multicollinearity Free

Source:SPSS 26 output, data processed

Based on the table 3 above, it shows that all variables have a tolerance value greater than 0.10 and a VIF value less than 10.0. Therefore, it can be concluded that the variables Current Ratio, Quick Ratio, Debt to Equity Ratio, Debt to Asset Ratio, Return on Asset Ratio, and Return on Equity Ratio do not exhibit multicollinearity symptoms among independent variables because there are no VIF values greater than 10.0 and tolerance values less than 0.10. Since there are no VIF values greater than 10.0 and tolerance values less than 0.10, it can be concluded that the multicollinearity test passes and further testing can be conducted.

Table 4. Heteroscedasticity Test Results

No	Variable	Signification
1	Constant	0,000
2	Current Ratio	0,276
3	Quick Ratio	0,410
4	Debt to Equity Ratio	0,681
5	Debt to Asset Ratio	0,192
6	Return on Asset Ratio	0,505
7	Return on Equity Ratio	0,599

Source: SPSS 26 output, data processed

Based on Table 4 above, the results of the heteroscedasticity test using the Glejser test show that the results are significant for both independent variables with absolute residuals greater than 0.05 (Sig > 0.05). Therefore, it can be concluded that in this study, there is no heteroscedasticity.

Table 5. Durbin Waston Test Results

N	K	DW	dU	4-dU	Description
119	6	2,189	1,807	2,192	Autocorrelation Free

Source: SPSS 26 output, data processed

The Durbin-Watson test is used to check for autocorrelation. The results show that d = 2.189, dL = 1.596, and dU = 1.807. After calculating dL and dU, it is found that dU (1.807) < d (2.189) < 4 - dU (2.193). Therefore, the null hypothesis is rejected, which means that there is no autocorrelation.

Multipe Regression Test

Table 6. Simultaneous Significance Test Results (F)

Variable	*Ustandardized Coefficient*		*Standardiezed Coefficient*	t	Sig
	B	Std. Eror	Beta		
Constant	1,951	101		19,357	0,000
Current Ratio	0,020	0,016	0,070	1,268	0,208
Quick Ratio	-0,16	0,075	-0,147	-2,145	0,034
Debt to Equity Ratio	0,544	0,067	0,594	8,075	0,000
Debt to Asset Ratio	0,149	0,046	0,199	3,227	0,002
Return on Asset Ratio	-0,025	0,075	-0,023	-0,338	0,736
Return on Equity Ratio	-0,091	0,037	-0,158	-2,48	0,015

Source: SPSS 26 output, data processed

Based on the table above, we can describe the linear regression test equation as follow:

Y = 1.951+0.02X1-0.016X2+0.544X3+0.149X4-0.025X5-0.091X6+101

Then the multiple linear regression equation above can be described as follows:

a. The constant value (a) has a positive value of 1.951, this means that there is a unidirectional influence between the independent variable and the dependent variable. Then the value of the financial distress variable is 1.951.
b. The regression coefficient value of the Current Ratio variable (X1) shows a positive value (unidirectional) between the Current Ratio and financial distress of 0.02. This shows that every increase in the Current Ratio value by one percent will increase the value of financial distress by 0.02 assuming other variables are considered costly.
c. The regression coefficient value of the Quick Ratio variable (X2) shows a negative value (opposite direction) between the Quick Ratio variable and financial distress of -0.16. This shows that every time the Quick Ratio increases by one time, the value of financial distress decreases by 0.16, assuming other variables are considered costly.
d. The regression coefficient value of the Debt to Equity Ratio variable (X3) shows a positive value (unidirectional) of 0.544. This shows that each increase in Debt to Equity Ratio by one time will increase the value of financial distress by 0.544 assuming other variables are considered costly.
e. The regression coefficient value of the Debt to Asset Ratio variable (X4) shows a positive value (unidirectional) between the Debt to Asset Ratio variable and financial distress of 0.149. This shows that every one percent increase in the value of Debt to Asset Ratio will increase the value of financial distress by 0.149, assuming other variables are considered costly.
f. The regression coefficient value of the Return on Asset Ratio variable (X5) shows a negative value (opposite direction) of -0.025. This shows that every one percent increase in Return on Asset Ratio will decrease the value of financial distress by 0.025, assuming other variables are considered costly.
g. The regression coefficient value of the Return on Equity Ratio variable (X6) shows a negative value (opposite direction) of 0.091. This shows that every one percent increase in Return on Equity Ratio will reduce financial distress by 0.091, assuming other variables are considered costly.

Hypothesis Testing Result

Table 7. Simultaneous Significance Test Results (F)

Model	df	F	Sig	Description
1	6	5,719	0,000	Significant Effect

Source: SPSS 26 output, data processed

Based on the significant values in Table 7, which show a value of 0.000 or less than 0.05, it can be concluded that the variables Current Ratio, Quick Ratio, Debt to Equity Ratio, Debt to Asset Ratio, Return on Equity Ratio, and Return on Asset Ratio together have a significant influence on financial distress.

Table 8. Individual Parameter Test Results (t Test)

Variable	*Ustandardized Coefficient*		*Standardiezed Coefficient*	t	Sig
	B	*Std. Eror*	Beta		
Constant	1,951	101		19,357	0,000
Current Ratio	0,020	0,016	0,070	1,268	0,208
Quick Ratio	-0,16	0,075	-0,147	-2,145	0,034
Debt to Equity Ratio	0,544	0,067	0,594	8,075	0,000
Debt to Asset Ratio	0,149	0,046	0,199	3,227	0,002
Return on Asset Ratio	-0,025	0,075	-0,023	-0,338	0,736
Return on Equity Ratio	-0,091	0,037	-0,158	-2,48	0,015

Source: SPSS 26 output, data processed

The significance value (sig) is less than 0.05, the independent variable (X) has a significant effect on the dependent variable. In this case, the results show that:

a. The Current Ratio (X1) has a significance value of 0.208, which is greater than 0.05, with a beta value of 0.07. This indicates that the Current Ratio (X1) does not have a significant effect on financial distress, than H1 is rejected.
b. The Quick Ratio (X2) has a significance value of 0.034, which is less than 0.05, with a negative beta value of -0.147. This indicates that the Quick Ratio (X2) has a negative effect on financial distress, than H2 is accepted.
c. The Debt to Equity Ratio (X3) has a significance value of 0.000, which is less than 0.05, with a positive beta value of 0.594. This indicates that the Debt to Equity Ratio (X3) has a positive significant effect on financial distress, than H3 is accepted.
d. The Debt to Asset Ratio (X4) has a significance value of 0.002, which is less than 0.05, with a positive beta value of 0.199. This indicates that the Debt to Asset Ratio (X4) has a positive significant effect on financial distress, than H4 is accepted.
e. The Return on Asset Ratio (X5) has a significance value of 0.736, which is greater than 0.05, with a negative beta value of -0.023. This indicates that the Return on Asset Ratio (X5) does not have a significant effect on financial distress, than H5 is rejected.
f. The Return on Equity Ratio (X6) has a significance value of 0.015, which is less than 0.05, with a negative beta value of -0.158. This indicates that the Return on Equity Ratio (X6) has a negative significant effect on financial distress, than H6 is rejected.

Coefficient of Determination (R2)

Table 8. Determination Coefficient Test Results

Model	R	R. Square	Adjusted R Square	Std. Error of the Estimate
1	0,264	0,070	0,020	0,714830

Source: SPSS 26 output, data processed

Based on the results of the table above, the magnitude of the coefficient of determination number (R square) is 0.070 or equal to 7.0%. It can be concluded that this study is able to explain the factors that affect Financial Distress by 7.0% and the remaining 93.0% is influenced by other variables outside this study.

DISCUSSION

1. Effect of Current Ratio on Financial distress

Based on the data analysis and testing, it is found that the significance value of the current ratio is 0.208, which is greater than 0.05. The t-value of the current ratio is 1.268, with a beta value of 0.070. Since the calculated t-value (1.268) is less than the t-table value (2.18) and the significance value (0.208) is greater than 0.05, the null hypothesis (Ho) is accepted, and the alternative hypothesis (Ha) is rejected. This indicates that the current ratio does not have a significant relationship with financial distress. The increase in the current ratio does not affect the financial distress value, and vice versa. Therefore, the research result shows that the current ratio does not have a significant partial effect on financial distress, rejecting the proposed hypothesis (H1).

Sample data current ratio of AGRO companies increased from 8.73 in 2017 to 9.58 in 2018, but the level of financial distress remained the same at 1.39. This indicates that the increase in current ratio does not affect the value of financial distress. An increase in the current ratio indicates that the company has more liquid assets to pay off short-term debt so as to improve financial performance. However, this increase does not affect financial distress. This finding is consistent with previous research by Sari et al. (2019), Arnita & Ida (2024), and Azky et al. (2021), which found that the current ratio has no effect on financial distress, possibly because companies can make new loans to pay off debt when they are unable to fulfill their obligations.

The increase in current ratio in this study can be interpreted as a management effort to increase company liquidity which can reduce agency costs. However, this increase does not necessarily mean that the company will experience an increase in the value of financial distress. This is because management may make the wrong decision by using liquid assets to finance unprofitable investments or maintain inefficient positions so as to increase agency costs. An increase in the current ratio does not necessarily indicate that management uses its liquid assets efficiently, but it could be that management uses these liquid assets to reduce agency costs. Therefore, an increase or decrease in the current ratio value does not affect the company's financial distress.

2. Effect of Quick Ratio on Financial distress

Based on data analysis and testing, a significance value of 0.034 is obtained which indicates that the quick ratio is significant. The quick ratio variable has a t value of -2.145 and a beta value of -0.147. Because the calculated t value (2.145) is smaller than the t table value (2.18) and the significance value (0.034) is smaller than 0.05, the alternative hypothesis (Ha) is accepted and the null hypothesis (Ho) is rejected. This shows that the quick ratio has a significant negative effect on financial distress. An increase in quick ratio does not cause an increase in financial distress, and vice versa. Therefore, the research findings show that the quick ratio has a partially significant negative effect on financial distress, which rejects the second hypothesis (H2).

This research is consistent with previous research by K. I. Sari & Dwi Wahyuni (2023) and Dewi et al. (2023), state that the quick ratio has a significant negative effect on financial distress. A higher quick ratio indicates the company's ability to pay off short-term debt quickly, thereby reducing the possibility of financial distress. According to M. Putri & Kautsar (2021), financial distress can be caused by the company's inability to manage its assets, and a high quick ratio indicates the company's ability to manage its assets properly, there by reducing the risk of financial distress. According to sample data, the ADHI company in 2018 was at 0.15 and in 2019 it increased to 1.07 with a financial distress level in 2017 of 1.57 and in 2018 of 1.57. with the level of financial distress in 2017 amounting to 1.57 and in 2018 decreased by 1.39, meaning that companies that have an increasing quick ratio value will reduce the occurrence of financial distress. This study supports agency theory which states that company management works hard to increase the quick ratio. A low quick ratio can lead to higher agency costs due to unnecessary expenses, as management has to spend more than the value of the company. Therefore, a high quick ratio can help companies avoid financial distress indicators.

3. **Effect of Debt to Equity Ratio on Financial distress**

Based on the results of data analysis and testing, a significance value of 0.000 is obtained, which indicates that the debt to equity ratio is significant. The debt to equity ratio variable has a t value of 8.075 and a beta value of 0.594. Because the calculated t value (8.075) is greater than the t table value (2.18) and the significance value (0.000) is less than 0.05, the alternative hypothesis (Ha) is accepted and the null hypothesis (Ho) is rejected. This indicates that the debt to equity ratio has a significant positive effect on financial distress. Therefore, the third hypothesis (H3) is accepted, which is in line with the proposed hypothesis.

The results of this study are in accordance with research conducted by, Hananiyah & Jaya (2023), Nabhan et al., (2024) state that a significant increase indicates that companies that have a large debt to equity ratio have the ability to repay have a large debt to equity ratio have an effective debt repayment ability so that it can increase the value of financial distress. The company chooses to invest debt in the company's operational activities, this can increase the company's ability to manage funding, productivity, and operational activities so that activities can run smoothly and produce profit. activities so that activities can run smoothly and generate high profits. high profits.

According to the sample data, the calculation results of the ANTAM company in 2017 were at 6.23, and in 2018 it increased to 6.87 with the 2017 financial distress level of 3.91 and in 2018 it increased to 4.25, meaning that companies that have an increasing debt to equity ratio value, companies are able to reduce the risk of financial distress. The results of this study support agency theory where management uses debt to finance investments that generate profits, so as to cover interest costs. investment that generates profits, so that it can cover interest costs and pay the company's obligations. This can reduce the possibility of the company experiencing financial distress.

4. **Effect of Debt to Asset Ratio on Financial distress**

Based on data analysis and testing that has been done in this study, it can be seen that the significance value is 0.002, which shows that the significance of the debt to asset ratio is less than 0.05. It is known that the debt to asset ratio variable obtained a t value of 3.227 with a beta value of 0.199. The tcount value of 3.227> t table 2.18 and significant results

Sig. 0.002 <0.05, then Ha is accepted and Ho is rejected, this shows that the debt to asset ratio variable has an effect on company profitability, indicating that the debt to asset ratio variable has a significant positive effect on financial distress. Therefore, H4 is accepted, because it is in line with the proposed hypothesis

This research is consistent with previous studies, such as Wulandari & Jaeni (2021), Usmany & Loupatty (2023) and Yasa et al. (2020) which found that companies use debt to increase efficiency and productivity by increasing asset value. Management decisions that aim to increase debt can also increase the value of financial distress. Therefore, efficient business operations and management can reduce risk, but failed or forced development can lower profits and increase expenses.

According to the sample data, the calculation results of the PTBA company in 2020 were at 2.96, and in 2021 it increased to 3.96 with a financial distress level in 2020 of 5.72 and in 2021 it increased to 7.05, meaning that companies that have an increasing debt to asset ratio value have the potential to reduce the company experiencing financial distress. The results of this study support agency theory where management uses debt to be able to manage the company and maximize shareholder wealth. However, more debt tends to take greater risks to be able to increase greater profits. Development by utilizing debt properly and controlling the accuracy of decisions, so the importance of management in considering the balance of income and financial risk. balance of income and financial risk to avoid financial distress. avoid financial distress.

5. Effect of Return on Asset Ratio on Financial distress

Based on data analysis and testing that has been done in this study, it can be seen that the significance value is 0.736 which shows the significance of the return on asset ratio is smaller than 0.05. It is known that the return on asset ratio variable obtained a t value of -0.037 with a beta value of -0.023. Thitung -338 < Ttable 2.18 and significant results Sig. 0.736> 0.05, then Ha is rejected and Ho is accepted, this indicates that the variable return on asset ratio has no effect on financial distress. effect on financial distress. Thus H5 is rejected, because it contradicts the proposed hypothesis.

This study is consistent with previous research by Holili et al. (2021) and Susanti et al. (2022), which found that the return on asset ratio has no significant effect on financial distress. Although a high return on asset ratio is expected to reduce financial distress, it is not a guarantee, because financial distress can be influenced by other factors such as debt, equity, and others. A high return on assets ratio indicates the company's efficiency in generating profits from its assets, but does not directly affect financial distress. Rather, it affects overall financial performance, which in turn can reduce the risk of financial distress. Based on sample data, the results of the company's calculations on PTPP in 2020 are at 2.24 and in 2021 it increases to 2.52 with, the level of financial distress in 2020 is 1.74 and in 2021 it is still the same, namely 1.74, meaning that companies that have an increasing return on asset ratio value, do not have the potential to be an indicator of financial distress. an increasing return on asset ratio, does not have the potential to be used as an indicator of financial distress. for the occurrence of financial distress. Agency theory shows that managers can try to increase the return on asset ratio in various ways, including efficient asset management. various ways including efficient asset management, but this does not directly affect financial distress. directly affect financial distress which is more dependent on the capital structure and overall financial performance of the company.

6. Effect of Return on Equity Ratio on Financial distress

Based on the data analysis and testing that has been carried out in this study, it can be seen that the significance value is 0.15 which indicates that the significance of the return on equity ratio is smaller than the significance of the return on equity ratio is smaller than 0.05. It is known that the return on equity ratio variable obtained a t value of -2.480, with a beta value of -0.158. Thitung -2.480 < Ttable 2.18 and significant results Sig. -0.158> 0.05, then Ha is accepted and Ho is rejected. This shows that the variable return on equity ratio has a significant negative effect on financial distress. Thus H6 is rejected, because it contradicts the proposed hypothesis.

The results of this study are in line with Indah Lestari & Fitranita, (2024), Agrina Br Ginting et al., (2024) it is said that return on equity has a significant negative value on financial distress companies that have a high return on equity ratio tend to have a low level of financial distress. This can provide the results of decisions that must later be taken by shareholders and investors. Companies that have a high return on equity ratio value indicate that management is able to manage and provide good income and performance for shareholders. Provide income and good performance for shareholders.

According to sample data, the calculation results of the IPCC company in 2019 were at 1.26 and in 2020 it increased to 2.36 with the level of financial distress in 2019 of 6.78 and in 2020 it decreased to 3.57, meaning that companies that have an increasing value of retutn on equity ratio can reduce financial distress. According to agency theory, the increasing value of the return on equity ratio can show that management is able to generate high profits from the equity used. However, if management uses the return on equity ratio to maintain dividends or invest funds inefficiently, then this can cause financial distress if the company is unable to manage dividends properly. The higher the return on equity ratio value, the lower the company's financial distress value. The increase and decrease in the return on equity ratio value affects the risk of financial distress, especially related to management's ability to generate profits and equity. So that the return on equity ratio value affects the company's financial distress condition.

CONCLUSION

This study aims to determine the effect of six financial ratios (current ratio, quick ratio, debt to equity ratio, debt to asset ratio, return on asset ratio, and return on equity ratio) on financial distress. This study uses secondary data from 17 companies listed on the BUMN index from 2017 to 2023, with a total sample of 119 data. The results showed that, the six financial ratios jointly affect financial distress. Current ratio has no significant effect on financial distress. Quick ratio has a significant negative effect on financial distress, meaning that an increase in quick ratio will reduce financial distress. Debt to equity ratio and debt to asset ratio have a significant positive effect on financial distress, meaning that an increase in these ratios will increase the value of financial distress. Return on asset ratio has no significant effect on financial distress.Return on equity ratio has a significant negative effect on financial distress, meaning that an increase in return on equity ratio will reduce the value of financial distress.

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