Implications of Company Health Level Caused by CR, DAR and, ROA in the Textile Industry

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ABSTRACT

The existence of free trade among countries may contribute to various impacts on the economy itself. This is the case in Indonesia where the textile and apparel sector are an example of the existence of free trade. A flood of foreign products causes a decline in the performance of domestic textile and apparel companies. This research uses the descriptive verification method to describe the data clearly and accurately so that further research may be conducted. The number of samples is 10 companies based on purposive sampling with a research period of 5 years with a total data of 50 data. The results show that only the current ratio variable affected financial distress, while the debt to asset ratio variable did not affect.

Keywords
Altman Z Score; CR; DAR

Article Received: 18 October 2020, Revised: 3 November 2020, Accepted: 24 December 2020

Introduction

The opening of the free market era between countries made it easy for imported goods to flood the domestic market, including in Indonesia in the textile and garment industry. The entry of foreign textiles to Indonesia on a high scale could be a threat to the Indonesian textile and garment industry. The textile and garment industry is a crucial sector for the Indonesian economy. As seen in Figure 1, where there is a downward trend in the growth of the textile and garment industry until the first semester of 2020. This decline was followed by an increase in the volume of imports that flooded the domestic market for textile and apparel products, as seen in Figure 2.

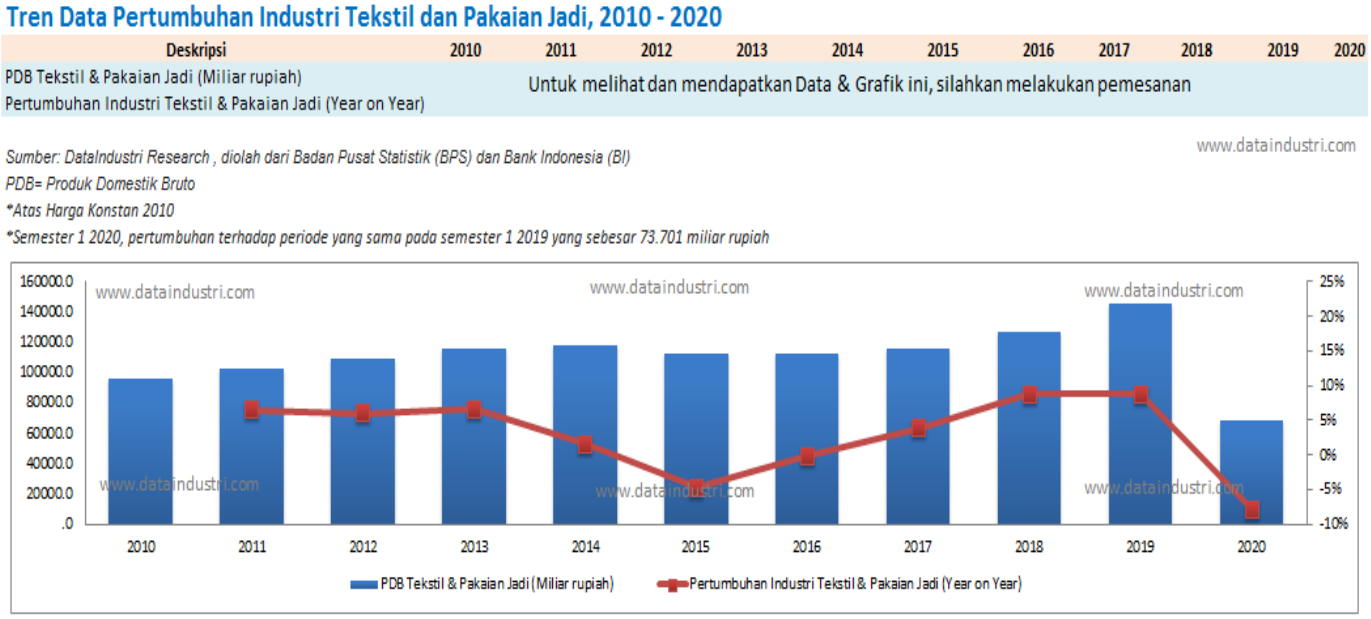


Figure 1.

Source: www.dataindustri.com

	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Volume Impor (Ribu Ton)	Untuk melihat dan mendapatkan Data & Grafik ini, silahkan melakukan pemesanan														
Pertumbuhan Tahunan															

Sumber: DataIndustri Research, diolah dari Direktorat Jenderal Bea dan Cukai, dan BPS

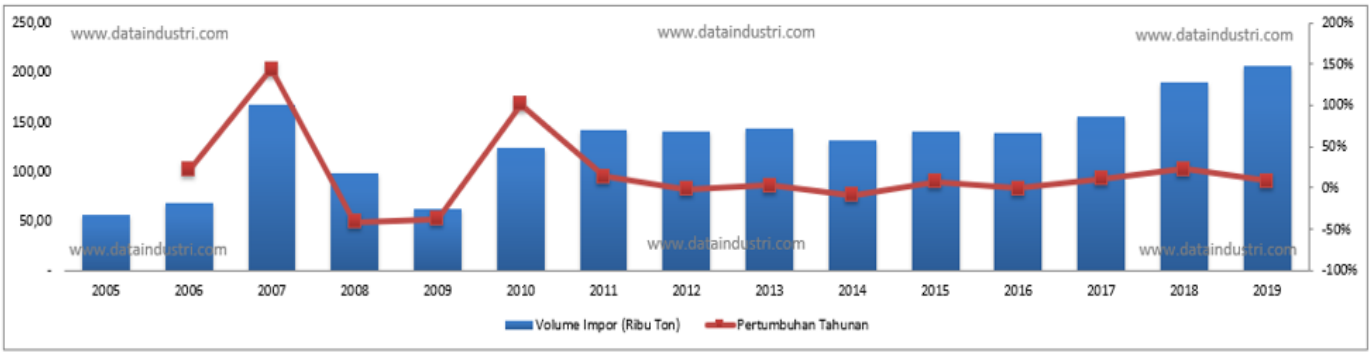


Figure 2.

Source: www.dataindustri.com

The attack of products from abroad into the Indonesian market has become a scourge for the textile and garment product chain in Indonesia. Average growth in the value of world clothing imports, especially China, to Indonesia in that period touched 34.98% annually. In 2016, the overall import value in Indonesia was at US $ 238.70 million. However, in 2018, the value has jumped to US $ 434.85 million. The competitiveness of Indonesian textile products is inferior to China's textile products. The cheaper price of textiles has become the main attraction for the Indonesian people, even though the quality of textiles in Indonesia is relatively good, but Indonesian products are not able to compete for the share of the domestic market. The competitiveness of foreign textile products is superior because the factories are managed efficiently using the latest technology plus the presence of bureaucratic support from the local government which makes it easier for foreign textile products. Meanwhile in Indonesia, technology in textile factories has been using the same technology since 30 years ago. In the current era of globalization, to win the competitiveness, companies must be efficient both in terms of production technology and public services. The weakening of a sector's market can cause problems for companies. The higher the costs incurred by the company to produce its products, the higher the cost of production, and the weakening of the market share of a sector results in a decrease in sales revenue, these things will then affect the company's financial performance. These problems can affect the condition of the company's financial performance which in turn can cause the company to experience financial distress. Ratio analysis is an analysis that is often used in assessing the financial performance of a company, by looking at its financial statements as one of its main sources. One way to predict financial difficulties is to conduct financial ratio analysis (Atika et al., 2013). The ratio analysis in this study focuses on profitability, liquidity and leverage. These ratios have different uses and provide different indications of a company's financial health.

Based on the explanation above, the author believes that the company's financial distress can be caused by financial ratios consisting of liquidity and leverage, where each ratio is measured by the current ratio and the debt to asset ratio.

Literature Review

Altman Z-Score

In predicting bankruptcy or to determine the company's financial condition in the future, the ratio component in the Z-Score formula can be used as a predictor of the possibility of a company being bankrupt. A number of studies have been conducted to determine the use of financial ratio analysis in predicting company failure, one of which is the Multiple Discriminant Analysis conducted by Edward Altman (Hanafi, 2012).

Altman uses five types of ratios namely Working Capital to Total Assets, Retained Earning to Total Assets, Earning Before Interest and Taxes, Market Value of Equity to Book Value of Total Debt and Sales1to Total Assets.

Mathematically the equation can be described as below:

$Z = 1.2\ X_1 + 1.4\ X_2 + 3.3\ X_3 + 0.6\ X_4 + 1.0\ X_5$

Current Ratio

The current ratio (CR) or current ratio is "the ratio to measure the company's ability to pay short-term obligations or debt that matures immediately when collected as a whole. In other words, how many current assets are available to cover short-term liabilities that are due soon" (Kasmir, 2016). The formula for finding the CR is used as follows:

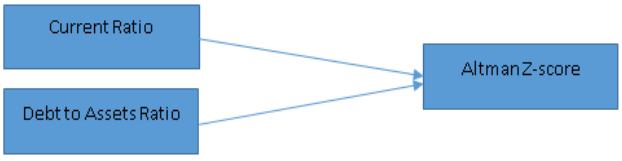
$$Current\ Ratio = \frac{Current\ Asset}{Current\ Liabilities}$$

Debt to Asset Ratio

This ratio measures between total debt and total assets. Where, the amount of assets owned by the company obtained through debt or company debt will affect asset management. Thus, the higher the ratio, the more difficult it is for the company to get a loan because it is feared that it will not be able to cover its debt with the assets it owns. Likewise, if the ratio is low, the smaller company will be financed with debt Kasmir (2016). The formula for finding a debt to asset ratio that can be used is as follows:

$$Debt\ to\ Asset\ Ratio = \frac{Total\ Debt}{Total\ Assets}$$

The research paradigm to be discussed is described as follows:



Methodology

The method used in this research is descriptive method with verification type. According to Sugiyono (2017), the definition of a descriptive research method is research conducted to determine the existence of the value of the independent variable, either one or more (independent) variables without making comparisons or linking with other variables. The purpose of this method is to make a systematic, factual and accurate description, description or painting of the facts and the relationships between the phenomena being investigated.

While the verification method, according to Sugiyono (2017) can be interpreted as research conducted on a specific population or sample with the aim of testing the predetermined hypothesis. The descriptive verification method used in this study aims to determine the effect of liquidity and leverage on financial distress.

Results and Discussion

After passing the model test process consisting of the Chow test, the Hausman test and the Lagrange multiplier test, where it is found that the fixed effect model is more appropriate to use and the tabulated data has passed the classical assumption test, which means that the data is feasible to continue to address existing problems, then the following results are obtained:

Table 1. Fixed effect model

Variable	Probability	Decision
CR	0.0000	Accepted
DAR	0.1620	Rejected
F-statistic	28.99476	
Prob. (F-statistic)	0.000000	Accepted for model test

Source: Output eviews 9

Based on the table above, it is known that the equation formed is as follows:

$$Y = 1.5239 + 0.01172CR - 2.4199DAR + \varepsilon$$

This equation is very well proven by the probability result of the F-statistic which is below the alpha value (0.0000 <0.05). financial distress as measured by the Altman z-score can be explained by the CR and DAR variables at 86.27% while the rest is explained by other

variables not included in the variables studied at 13.73%. To answer the hypothesis itself, it is known that only the cr variable has an effect on the Altman z-score with the probability criterion being smaller than the alpha value (0.0000 <0.05) while the DAR variable has no effect on the Altman z-score because the probability is greater than alpha (0.1620> 0.05).

Conclusion

Uncertain economic conditions have caused all industrial sectors to experience saturation which has an impact on the health level of the company itself. Financial distress will be vulnerable to a company if the company is unable to win the competition between companies in its sector or with international competition. The textile and apparel sector is one of the sectors that is vulnerable to international competition, as evidenced by the opening of import faucets which causes a decline in company performance which will result in financial distress for the company. Investors are expected to be observant in seeing every opportunity that exists while still considering the risk factors that accompany it, the results show that the current ratio of one of the variables will have an impact on financial distress, however the company's ability to pay its obligations, especially short-term ones, will make the company's performance have a positive impact in the eyes of investors. Therefore, companies in the textile and apparel sector really maintain the trust of these investors. Although the debt to asset ratio variable does not have an effect, it does not mean that it does not need to be considered, however, companies must consider the total assets they have to serve as collateral for their total debt.

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