



Effects Of Financial Ratios On Financial Distress In Property And Real Estate Companies

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Abstract: *The phenomenon of the Covid-19 pandemic has caused several property and real estate companies to experience financial difficulties. The domino effect of the Covid-19 pandemic has had a major impact on the economy, especially property and real estate companies. Many companies experience a decline in financial conditions that occurred before bankruptcy or can be called financial distress. This study aims to provide empirical evidence regarding the effect of profitability, liquidity, and leverage on financial distress. The number of companies that were sampled in this study were 23 companies listed on the Indonesia Stock Exchange (IDX) during the 2019 - 2020 period. The urgency of this research was carried out because in the current state of the economic crisis, it is necessary to organize a financial strategy through maximum profitability, liquidity, leverage will avoid Financial Distress on the company. The results of this study indicate that partially profitability (X1), liquidity (X2), leverage (X3) have a significant effect on financial distress in property and real estate companies. The results of the study also show that simultaneously profitability (X1), liquidity (X2), leverage (X3) have a significant effect on financial distress in property and real estate companies. Based on the results of these studies, this research has implications for investors and potential investors to be wiser in making investment decisions in a company, taking into account the condition and financial performance of the company and other factors so that the investment becomes more precise and generates the desired profit.*

Keywords: *Profitability, Liquidity, Leverage, Financial Distress*

INTRODUCTION

The pandemic phenomenon has caused all world activities to stop for a moment. According to several studies (Fabeil et al., 2020; Sangkham, 2020; Thorell et al., 2021) the Covid 19 pandemic has caused many economic sectors to weaken, one of which is the property and real estate sector because everyone prioritizes physical health rather than thinking about invest. Deputy Minister of Finance Suahasil Nazara revealed that the property sector was one of the hardest hit at the start of the pandemic in 2020. Many companies experienced financial decline and even went bankrupt (Boubaker et al., 2020; Paule-Vianez et al., 2020). Meanwhile, according to (Mariano et al., 2020; Shahwan & Habib, 2020; Yousaf et al., 2020) finance is a very important aspect for the progress of a company, because most cases of business bankruptcy stem from financial distress caused by poor financial management .

Financial Distress or financial difficulties is a term to describe the condition of a company that is in a condition where it cannot fulfill its financial obligations in accordance with what was previously set (Baghai et al., 2021; Kalda, 2020). This financial distress condition is a pre-condition prior to the bankruptcy of a company. Meanwhile, according to (Z. Li et al., 2021; Waqas & Md-Rus, 2018) Financial distress is marked by the occurrence of negative profits experienced by companies in a row. As a result, the company does not have adequate sources

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of funds to meet the obligations that must be fulfilled immediately (the company goes bankrupt). (Dirman, 2020; Shahwan & Habib, 2020; Wangsih et al., 2021) defines financial distress as a stage of decline in financial conditions that occurs before bankruptcy or liquidation occurs. The use of information if a company experiences financial distress according to (Bravo-Urquiza & Moreno-Ureba, 2021) is that it can accelerate management actions to prevent problems before bankruptcy occurs, management can take merger or take over actions so that companies are better able to pay debts and manage company better, and provide early warning signs of bankruptcy in the future.

Baghai et al., (2021); Gao et al., (2018); Kalda, (2020); Wangsih et al., (2021) mentions several factors that cause a company to be in a state of financial distress, namely general factors, company external factors and company internal factors. Common factors that cause financial distress are something that commonly occurs in society, consisting of the business sector, social sector, technology sector and government sector. External factors are causative factors originating from specific companies that come from outside the company, which consist of the customer sector, supplier sector, and competitor sectors. While internal factors are factors originating from within the company, derived from inappropriate decisions and policies taken in the past, as well as the failure of management to make what is needed when it is needed.

Various studies on financial distress have been carried out to find out what influences the occurrence of financial distress. There are various ways to classify whether the company is experiencing financial distress or not. (Curtis et al., 2020; Singh & Bagga, 2019; Zamula et al., 2020) states that profitability affects financial distress. Profitability is a company's ability to earn revenue above calculated costs, in other words, how a company manages costs (Ledley et al., 2020; Marquetti et al., 2020). According to (Almashhadani, 2021b; Hirshleifer et al., 2018) profitability or profit is a company's ability to earn profits during a certain period. Research (Yüksel et al., 2018) states that profitability affects financial distress. Meanwhile, these results differ from the results of research conducted by (Ahmed et al., 2020; Batten & Vo, 2019) which states that profitability does not affect financial distress.

Furthermore (Andreasen et al., 2021; Chen et al., 2018) states that liquidity has an effect on financial distress. Liquidity is the ability of a company to meet its short-term obligations in a timely manner (Trebbi & Xiaoa, 2019), in other words, the liquidity ratio serves to measure a company's ability to meet obligations that are due. Research on the effect of liquidity on financial distress still shows significant differences in research results, such as (Crosignani et al., 2020; S. Li et al., 2021; O'Hara & Zhou, 2021) which shows results of research that liquidity has an effect on against financial distress. In contrast to research conducted by (Haroon &

Rizvi, 2020; Madushanka & Jathurika, 2018; Nikolov et al., 2019) which states that liquidity has no effect on financial distress.

Apart from profitability and liquidity, there is another factor that can affect financial distress, namely leverage (Birney, 2021; Donangelo et al., 2019). According to (Birney, 2021; Chan et al., 2020; Fischer & Riechers, 2019) leverage is a ratio used to measure the extent to which a company's assets are financed with debt. This means that the large amount of debt used by the company to finance its business activities when compared to using its own capital. company assets/capital are financed with debt (Alessi & Detken, 2018; Heimer & Simsek, 2019; Ibhagui & Olokoyo, 2018). Based on research conducted by (Campbell et al., 2020; Donangelo et al., 2019; Istiak & Serletis, 2020) states that leverage has a negative effect on financial distress. In contrast to the results of research (Fischer & Riechers, 2019; Ibhagui & Olokoyo, 2018; Santos & Veronesi, 2022) which states that leverage has no effect on financial distress.

Furthermore, the results of the Bank Indonesia Residential Property Price Survey (SHPR) in the second quarter of 2021, there was an increase in residential property prices, where (IHPR) was recorded at 1.49% higher than in the first quarter of 2021 which was 1.35%. The data shows that there are still positive property price movements amid the pandemic. This also shows the continued increase in demand for residential property. Primary residential property sales in the second quarter of 2021 show a decline on an annual basis. House sales during this period contracted -10.01%, down from 13.956% in the previous quarter, but better than the -25.6% contraction in the second quarter of 2020. The decline in sales volume in the second quarter of 2021 occurred in small house types (-15.4%,) and large (-12.99%), while medium-sized houses recorded slower growth (3.63%).

Several companies in the property and real estate sector in Indonesia went bankrupt during the Covid 19 pandemic. PT Sentul City Tbk was sued by its consumers twice in 2020. The first lawsuit came from the Bintoro Family through the Central Jakarta District Court on August 7 2020. Request for a statement bankruptcy case number 35/Pdt.SusPailit/2020/PN Niaga Jkt.Pst. The second lawsuit that hit Sentul City came from a consumer named Alfian Tito Suryansyah who submitted an application for Postponement of Debt Payment Obligations (PKPU). The PKPU was submitted to the Commercial Court at the Central Jakarta District Court on 13 November 2020 with Case Number 387/Pdt.Sus-PKPU/2020/PN Niaga Jkt.Pst. After being sued by the Bintoro family, the Indonesia Stock Exchange (IDX) temporarily suspended or suspended the shares of PT Sentul City Tbk (BKSL) on August 10 2020.

However, on August 12 2020, the IDX decided to lift the temporary suspension of BKSL securities trading in all markets since the session I trade securities.

PT Cowell Development Tbk (COWL) has been declared bankrupt by the Central Jakarta Commercial Court. This property issuer with the code COWL shares was filed for bankruptcy status by creditors to the court with letter number 21/Pdt. Sus/Bankruptcy/2020/PN.Niaga.Jkt.Pst. Cowell Development is one of the top property companies engaged in various development projects, ranging from housing, apartments, townships, shopping centers to offices. The bankruptcy decision began after PT Multi Cakra Kencana Abadi filed a bankruptcy application for Cowell's debt of IDR 53.4 billion on July 17 2020, the debt will mature on March 24 2020. Not only that, PT Mega Sukses Bersama also submitted a Postponement of Debt Payment Obligations (PKPU) on June 17 2020, with case number 154/Pdt.Sus-PKPU/2020/PN Niaga Jkr Pst.

Restianti & Agustina, (2018); Wangsih et al., (2020) stated that the stunted growth in residential property sales was caused by several factors, including rising prices for building materials, licensing/bureaucratic issues, a high proportion of down payments in mortgage applications and taxation. Meanwhile, from the consumer side, the majority of residential property purchases are still financed from mortgage facilities. Indonesia experienced an economic slowdown in a row in the second, third and fourth quarters of 2020 due to the Covid-19 pandemic. The slowdown had a negative impact on the property sector. Most property prices, such as houses, apartments, and motorized vehicles, have experienced a sharp decline. This is due to a decrease in demand for property in line with the increasing caution of the public in spending amid a pandemic. (Baghai et al., 2021; Kalda, 2020) stated that a decrease in property prices does not always have a bad impact, this can be beneficial for some people who still need property as a primary need. Moreover, there are many offers of reduced interest rates and ease of transactions, attracting quite a lot of public interest in property transactions (Ashraf et al., 2019; Crespi-Cladera et al., 2021; Waqas & Md-Rus, 2018). On the other hand, property developers have also responded positively to the subsidy on housing loan (KPR) interest through Minister of Finance Regulation (PMK) No. 138/2020 concerning procedures for providing interest subsidies/margin subsidies in the context of supporting the implementation of the national economic recovery program. Where, based on Article 7 PMK 138/2020, KPR interest subsidies are given to banking debtors or finance companies up to type 70.

Urgency of this research is carried out, because of the importance of financial management as a vital aspect of the company must really be considered and managed properly so that the company can maintain its business continuity. A warning system model to anticipate

financial distress needs to be developed, because this model can be used as a means to identify and even improve conditions before reaching a crisis condition. The population growth in Indonesia which is increasing day by day causes the need for housing, places of education, shopping centers, and so on to also increase, this makes the business in the property and real estate sector grow rapidly. Property and real estate companies are companies engaged in development, such as the construction of apartments, housing, offices, real estate, and so on. This has an impact on disrupting the stability of the national economy.

Businesses in the property sector will certainly not experience extinction because the need for housing is the main need for every human being and every human being will try to fulfill it (Bravo-Urquiza & Moreno-Ureba, 2021; Dirman, 2020; Gao et al., 2018 ; Z. Li et al., 2021). Investments in property and real estate are believed to be one of the most promising investments in the future, because these investments are long-term in nature and will grow in line with economic growth. The development of the property and real estate sector attracts many investors because land and building prices tend to rise from time to time, supply is fixed while demand will always increase along with population growth and increasing human needs for residences, offices , hospitals, and others. This is what makes businesses in the property and real estate sector much loved by investors. Based on the differences in the results of previous studies and empirical phenomena, the researchers are interested in conducting research related to financial distress in property and real estate companies. Financial distress as the dependent variable, as well as profitability, liquidity and leverage as independent variables.

THEORETICAL

Financial Ratios

Financial ratios are an activity of comparing the numbers contained in financial statements by dividing one number by another number (Cahya et al., 2022; Hafidah et al., 2022; Microbiology, 2022) Comparison between one component and the components in one report financial statements or between components that exist between financial statements. The numbers being compared can be numbers in one period or several periods. (Ashraf et al., 2019; Chen et al., 2018; Crespí-Cladera et al., 2021; Curtis et al., 2020) also outlines that financial ratios can be used to assess the performance of management in a period whether achieving the target is in accordance with what has been set. Financial ratios are very important to use when analyzing a company's financial condition (Alessi & Detken, 2018; Fischer & Riechers, 2019). Even though in practice the financial ratios used have quite a lot of functions and uses for

companies in making decisions, they do not guarantee that 100% is the actual condition and financial position of the company.

Based on several opinions (Fischer & Riechers, 2019; Kalda, 2020; Mariano et al., 2020; Nikolov et al., 2019) there are several ways to analyze financial ratios: (1). Horizontal Analysis / Trend Analysis, namely comparing the company's financial ratios from past years with the aim of being able to see the trend of the company's ratios over a certain period of time. (2). Vertical analysis, namely comparing the company's financial ratio data with similar ratios from other similar companies or industries for the same time. (3). The Du Pont Chart, which is a chart designed to show the relationship between ROI, asset turnover and profit margin.

Financial Distress (Y)

Financial distress is a stage of decreasing financial condition experienced by a company, which occurs before bankruptcy or liquidation occurs (Boubaker et al., 2020; Paule-Vianez et al., 2020; Yousaf et al., 2020). This condition of financial distress is generally characterized by several things including delays in delivery, decreased product quality, and delays in payment of bills from banks. (Shahwan & Habib, 2020; Wangsih et al., 2021) states that financial distress occurs before bankruptcy actually occurs. There are two criteria used, namely stock-based insolvency, which is a condition in which a company's statement of financial position experiences negative equity, and flow-based insolvency, which is a condition in which operating cash flows cannot meet the company's current liabilities (Dirman, 2020; Gao et al. , 2018; Restianti & Agustina, 2018). According to (Ashraf et al., 2019; Bravo-Urquiza & Moreno-Ureba, 2021; Crespí-Cladera et al., 2021; Z. Li et al., 2021) financial distress is classified into four categories, including:

- 1) Economic failure is a condition where a company is unable to cover its total costs including capital costs, as a result of declining economic conditions. The company can continue its operational activities as long as the creditor is willing to provide additional capital and the owner is willing to accept a rate of return below the market rate of money (Kalda, 2020; Waqas & Md-Rus, 2018)
- 2) Business failure Business failure or business failure is the cessation of a company's operations due to its inability to generate sufficient profits to cover expenses.
- 3) Insolvency Insolvency is divided into two categories, namely: a. Technical insolvency Technical insolvency or technical insolvency occurs if b. Insolvency in bankruptcy
- 4) Legal Bankruptcy Legal bankruptcy is a condition in which a company has been legally declared bankrupt. A company is said to be legally bankrupt if a lawsuit has been filed officially by law.

Ashraf et al., (2019); Baghai et al., (2021) mentions three possible causes of bankruptcy and are named the Trinity of Causes of Financial Difficulties, including: (1). Neoclassical Model This model occurs when the allocation of internal company resources is not appropriate. Management is less able to allocate resources (assets) in the company for the company's operational activities, then financial distress and bankruptcy will occur. (2) Financial Model In the financial model, the mix of assets is appropriate, but the financial structure is considered inappropriate with liquidity constraints. That is, even though the company is able to survive in the long term, it must also go bankrupt in the short term. (3) Corporate Governance Model In this model, bankruptcy has the correct mix of assets and financial structures but is not well managed. Unresolved corporate governance drives companies to withdraw from the market.

Profitabilitas (X1)

Alabdullah et al., (2021); Almashhadani, (2021); Yüksel et al., (2018) Profitability is a ratio to assess a company's ability to make a profit. This ratio also provides a measure of the level of management effectiveness of a company. The use of profitability ratios can be done by comparing the components in financial reports, especially the balance sheet and income statement (Almashhadani, 2021b; Hirshleifer et al., 2018; Ledley et al., 2020). (Curtis et al., 2020; Singh & Bagga, 2019) states that the purpose of using profitability ratios for companies, as well as parties outside the company, is: (1) To measure and calculate the profits earned by the company in a certain period. (2) To assess the company's profit position in the previous year with the current year. (3). To assess the development of profits from time to time. (4) To assess the amount of net profit after tax with own capital. (5) To measure the productivity of all company funds used both loan capital and own capital. (6) To measure the productivity of all company funds that are used either with their own capital.

Likuiditas (X2)

Liquidity is the ability of a company to meet its short-term obligations in a timely manner (Kiyotaki & Moore, 2019; Singh & Bagga, 2019; Zamula et al., 2020). In other words, the function of the liquidity ratio is to show or measure a company's ability to meet obligations that are due, both obligations to parties outside the company and within the company. (Allen & Gale, 2017; Andreasen et al., 2021; Chen et al., 2018; Haroon & Rizvi, 2020; S. Li et al., 2021; Trebbi & Xiaoa, 2019) mentions some of the benefits of the liquidity ratio are: (1) To measure the company's ability to pay obligations or debts that are due when billed. (2). To measure the company's ability to pay short-term liabilities with current assets as a whole. (3). To measure the company's ability to pay short-term liabilities with current assets without taking into account inventories or receivables. (4). To measure how much cash is available to pay

debts. (5). To see the condition and position of the company's liquidity from time to time by comparing it for several periods.

Leverage (X3)

Leverage is a ratio used to measure the extent to which a company's assets are financed with debt (Birney, 2021; Chan et al., 2020; Santos & Veronesi, 2022). In a broad sense it is said that the leverage ratio is used to measure a company's ability to pay all of its obligations, both short term and long term if the company is dissolved or liquidated. (Fischer & Riechers, 2019; Ibhagui & Olokoyo, 2018) also said that some of the goals of companies using leverage ratios are: (1) To find out the company's position in relation to obligations to other parties (creditors). (2) To assess the company's ability to meet fixed obligations. (3) To assess the balance between the value of assets, especially fixed assets with capital. (4) To assess how much the company's assets are financed by debt. (5). To assess how much influence the company's debt has on asset management. (6). To assess or measure how much of each rupiah own capital is used as collateral for long-term debt.

RESEARCH METHODS

This study uses a type of quantitative research. This research is descriptive quantitative. This research was conducted on property and real estate sector companies listed on the Indonesia Stock Exchange (IDX). The data used in this study is data on the financial reports of companies in the property and real estate sector in the 2019-2020 period. The population in this study are property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period. The criteria for sampling are: (a) Property and real estate companies that are consistently listed on the Indonesia Stock Exchange (IDX) in the 2019-2020 period. (b) Property and real estate companies listed on the Indonesia Stock Exchange (IDX) which published complete financial reports for the 2019-2020 period. (c) Property and real estate companies listed on the Indonesia Stock Exchange (IDX) which have the complete data needed in this study.

The population in this study are property and real estate companies listed on the Indonesia Stock Exchange during the period 2019 to 2020, totaling 55 companies. The sample used is a company that has been selected using a purposive sampling technique. From the total population, there were 23 companies that met the research sample criteria which were then used as data sources for analysis. In data collection, researchers took secondary data obtained through the official website of the Indonesia Stock Exchange (IDX) which was accessed at the link address www.idx.co.id and the official website of the related company. Data analysis in this study used SPSS 26.

RESULTS AND DISCUSSION

RESULTS

The level of profitability ratios in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period, overall the average value of the profitability ratio is -0.012 (-1.2%) meaning that every sale or investment made by the company not making a good profit. The minimum average value of the profitability ratio is -0.223 (-22.3%), meaning that the company is not generating good profits. The maximum average value of the profitability ratio is 0.091 (9.1%), meaning that every sale or investment made by the company is able to generate a profit of around 9.1%. the level of liquidity ratios in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period, overall the average value of the liquidity ratio is 2.493 (249%), meaning that every one rupiah of the company's current liabilities is guaranteed by 2.493 current assets. The minimum average value of liquidity is 0.239 (23.9%), meaning that for every one rupiah of current liabilities, only 0.239 of its current assets are guaranteed. The maximum average value of liquidity is 8.531 (853%), meaning that for every one rupiah of current liabilities, 8.531 of its current assets are guaranteed. The leverage ratio level for property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period, as a whole, the average value of the leverage ratio is 0.423 (42%), meaning that every one rupiah of assets is financed by 0.423 rupiah of debt. The minimum average value of leverage is 0.097 (9.7%), meaning that every one rupiah of assets is financed by 0.097 rupiah of debt, in other words, of the total assets 9.7% is financed by debt. The maximum average value of leverage is 0.924 (92%), meaning that every one rupiah of assets is financed by 0.924 debts, in other words, 92% of the company's total assets are financed by debt.

The following table shows the correlation coefficient results

		ROA	Current Ratio	DAR	Financial Distress
ROA	Pearson Correlation	1	,062	-,134	,279
	Sig. (2-tailed)		,685	,375	,060
	N	46	46	46	46
Current Ratio	Pearson Correlation	,062	1	-,547**	,839**
	Sig. (2-tailed)	,685		,000	,000
	N	46	46	46	46
DAR	Pearson Correlation	-,134	-,547**	1	-,690**
	Sig. (2-tailed)	,375	,000		,000
	N	46	46	46	46
Financial Distress	Pearson Correlation	,279	,839**	-,690**	1
	Sig. (2-tailed)	,060	,000	,000	
	N	46	46	46	46

** . Correlation is significant at the 0.01 level (2-tailed).

Source: SPSS output, processed by researchers in 2023

Based on the table above, the profitability variable (ROA) has a Pearson correlation of 0.279, which means that there is a positive correlation between profitability and financial distress. The liquidity variable (current ratio) has a Pearson correlation of 0.839, which means that there is a positive correlation between profitability and financial distress. The leverage variable (DAR) has a Pearson correlation of -0.690, which means that there is a negative correlation between profitability and financial distress.

The following table shows the results of Multiple Linear Regression

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta				Tolerance	VIF
1 (Constant)	3,459	,813			4,255	,000		
ROA	8,645	2,894	,198		2,987	,005	,982	1,018
Current Ratio	1,078	,128	,663		8,447	,000	,701	1,427
DAR	-5,078	1,336	-,300		-3,800	,000	,691	1,448

Source: SPSS output, processed by researchers in 2023

Based on the table above shows the calculation results in the regression equation and a constant with a value of 3.459 is obtained. For the variable profitability (ROA) shows a regression coefficient of 8.645. For the variable liquidity (current ratio) shows a regression coefficient of 1.078. The leverage variable (DAR) shows a regression coefficient of -5.078. Based on the results of these calculations, the regression model can be presented in the form of the following equation:

$$FD = a + b_1 ROA + b_2 Current Ratio + b_3 DAR$$

$$FD = 3,459 + 8,645 ROA + 1,078 Current Ratio - 5,078 DAR$$

From the results of the regression equation above, it can be concluded that the constant value is 3.459, where if the independent variables (profitability, liquidity, and leverage) are 0, then the value of financial distress is 3.459. The value of the profitability variable (ROA) is 8.645 which means that every time there is an increase in one unit of the profitability variable it will increase the financial distress variable by 8.645 assuming the other variables are constant. The value of the liquidity variable (Current Ratio) is 1.078 which means that every time there is an increase in one unit of the liquidity variable, it will increase the financial distress variable by 1.078 assuming the other variables are constant. The value of the leverage variable (DAR) is -5.078, which means that every time there is an increase in one unit of the

leverage variable, it will reduce the financial distress variable by 5.078 assuming the other variables are constant.

Table of t test results

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	T	Sig.
1 (Constant)	3,459	,813		4,255	,000
ROA	8,645	2,894	,198	2,987	,005
Current Ratio	1,078	,128	,663	8,447	,000
DAR	-5,078	1,336	-,300	-3,800	,000

a. Dependent Variable: Financial Distress

Source: SPSS output, processed by researchers in 2023

Based on the table above it can be seen that profitability (ROA) has a positive coefficient value of 8.645, and has a tcount of 2.987 > ttable of 2.018 with a significance level of 0.005 < 0.05 which means H₀ is rejected and H₁ is accepted. Based on the t test table it can be concluded that profitability has a significant positive effect on financial distress. The liquidity variable (current ratio) has a positive coefficient value of 1.078, and has a tcount of 8.447 > ttable of 2.018 with a significance level of 0.000 < 0.05, which means H₀ is rejected and H₁ is accepted. Based on the t test table, it can be concluded that liquidity has a significant positive effect on financial distress. The leverage variable (DAR) has a negative coefficient value of -5.078, and has a tcount of -3.800 > ttable 2.018 with a significance level of 0.000 < 0.05 which means H₀ is rejected and H₁ is accepted. Based on the t test table it can be concluded that leverage has a significant negative effect on financial distress.

The following table shows the results of the F test

ANOVA ^a					
Model	Sum of Squares	df	Mean Square	F	Sig.
1 Regression	423,823	3	141,274	63,256	,000 ^b
Residual	93,802	42	2,233		
Total	517,625	45			

a. Dependent Variable: Financial Distress

b. Predictors: (Constant), DAR, ROA, Current Ratio

Source: SPSS output, processed by researchers in 2023

Based on the table above which shows the results of the F test obtained Fcount of 63.256 > Ftable of 2.822 with a significance level of 0.000. Based on the provisions that have been disclosed in the previous discussion, the F test requirement used is with a significance of $\alpha = 0.05$. So it can be concluded that H₀ is rejected and H₁ which means simultaneously the variables of profitability, liquidity, and leverage have a significant effect on financial distress.

The following is the result of the coefficient of determination test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	,905 ^a	,819	,806	1,494453	1,625

a. Predictors: (Constant), DAR, ROA, Current Ratio

b. Dependent Variable: Financial Distress

Source: SPSS output, processed by researchers in 2023

Based on the table above which shows the value of adjusted R² which is equal to 0.806 which means that 80.6% of the dependent variable (financial distress) can be explained by the independent variables (profitability, liquidity and leverage). While the remaining 19.4% of the dependent variable is influenced by other variables outside the research model.

DISCUSSION

1) The Effect of Profitability on Financial Distress

Based on the results of the study indicate that profitability has a significant positive effect on financial distress. This means that if the profitability ratio of a company is high, the possibility of a company experiencing financial distress is greater, conversely, if the profitability ratio is low, the possibility of financial distress in a company is getting smaller. This is because a high ROA value means that the company's asset value is smaller than the profit earned, so that some of the profit is the result of using the company's debt. The results of this study are not in line with previous research conducted by Martini and Setyawasih (2022) which stated that ROA has a significant negative effect on financial distress. However, this research is in line with previous research conducted by Saputri and Padnyawati (2021) which stated that profitability has no significant positive effect on financial distress.

2) The Effect of Liquidity on Financial Distress

Based on the results of the study indicate that liquidity has a significant positive effect on financial distress. This means that if the liquidity ratio of a company is high, the possibility that the company will experience financial distress is greater, conversely if the liquidity ratio is low, the possibility of financial distress in the company will be smaller. Syuhada (2020) states that this is because companies can have higher inventories compared to sales levels so that inventory turnover is low and indicates overinvestment in the company. The results of this study are not in line with previous research conducted by Saputri and Padnyawati (2021) which states that liquidity has no significant negative effect on financial distress. However, this

research is in line with previous research conducted by Septiani and Dana (2019) which states that liquidity has a significant positive effect on financial distress.

3) Effect of Leverage on Financial Distress

Based on the results of the study, it shows that leverage has a significant negative effect on financial distress. This means that if the leverage ratio of a company is high, the possibility that the company will experience financial distress will be smaller, conversely, if the leverage ratio is low, the probability that the company will experience financial distress will be even greater. Large companies usually rely on loans for most of their financing, therefore companies are able to avoid financial distress through these loans. The results of this study are not in line with previous studies conducted by Varirera and Adi (2021) and Martini and Setyaningsih (2022) which state that the debt ratio has a significant positive effect on financial distress. However, the results of this study are in line with previous research conducted by Septiani and Dana (2019) which states that leverage has a significant negative effect on financial distress.

4) Effect of Profitability, Liquidity, and Leverage on Financial Distress

The test results of F Test (Simultaneous Test) show that the independent variables namely profitability (ROA), liquidity (current ratio), and leverage (DAR) simultaneously have a significant effect on financial distress. Where when the profitability, liquidity, and leverage in a company changes, either increases or decreases, it will affect financial distress.

CONCLUSIONS AND RECOMMENDATIONS

CONCLUSIONS

- 1) Based on the results of this study, partially profitability has a significant positive effect on financial distress in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period.
- 2) Based on the results of this study, partial liquidity has a significant positive effect on financial distress in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2019 – 2020. 107
- 3) Based on the results of this study, partially leverage has a significant negative effect on financial distress in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the 2019-2020 period.
- 4) Based on the results of this study, simultaneously profitability, liquidity and leverage have a significant effect on financial distress in property and real estate companies listed on the Indonesia Stock Exchange (IDX) for the period 2019 – 2020.

RECOMMENDATIONS

Companies are advised to pay attention to the level of profitability, liquidity and leverage because these variables have a significant effect on financial distress. For management, this research is expected to be used as a basis for taking immediate remedial action if they see the possibility that the company is experiencing financial distress. For investors, this research is expected to provide an overview to investors and potential investors to be wiser in making investment decisions in a company, taking into account the condition and financial performance of the company and other factors so that the investment becomes more precise and generates the desired profit.

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