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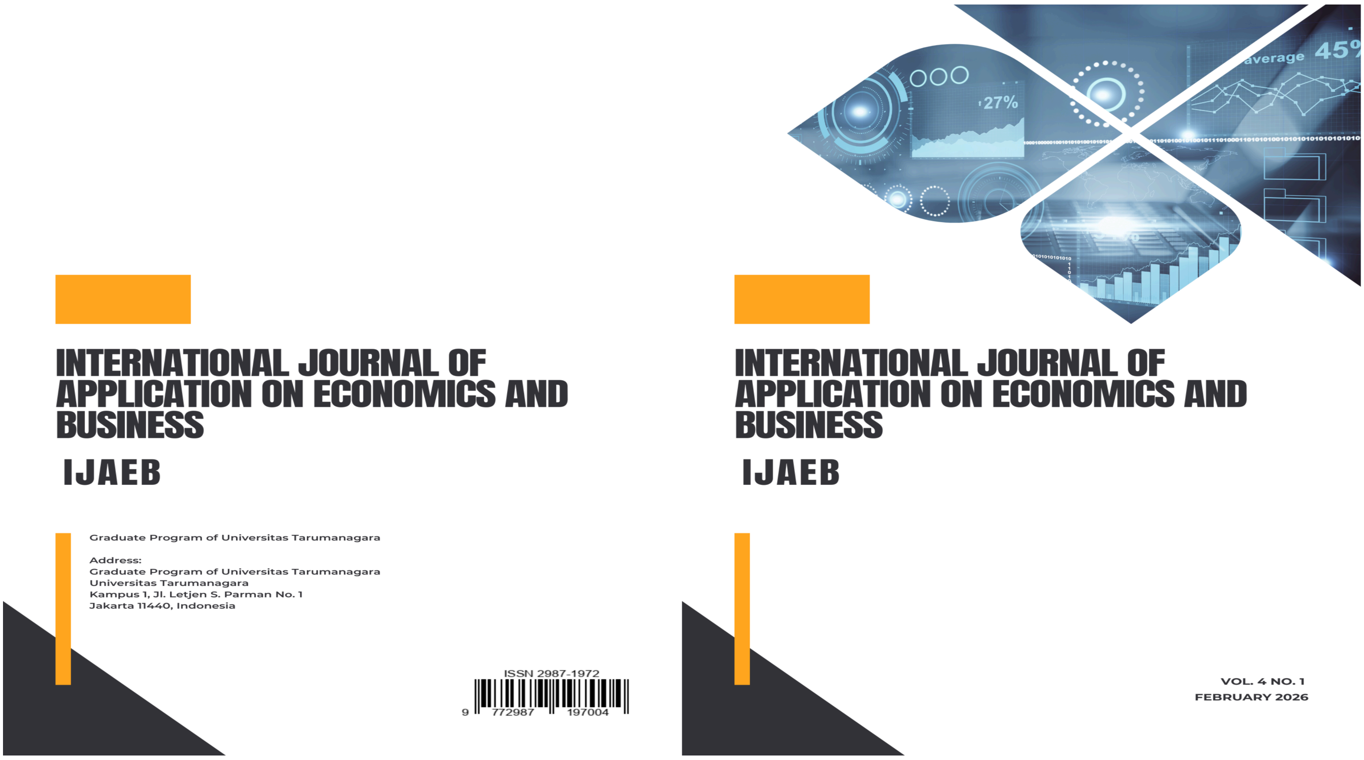

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PROFITABILITY, CAPITAL STRUCTURE, AND LIQUIDITY AS DETERMINANTS OF FINANCIAL DISTRESS IN CONSUMER NON-CYCLICALS

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ABSTRACT

This study's purpose is to analyze the effect of profitability, capital structure, and liquidity on financial distress among consumer non-cyclicals sector firms listed on the BEI during 2022–2024. The urgency of this study lies in the strategic role of consumer non-cyclicals companies in providing basic needs, yet still facing post-pandemic challenges such as rising raw material costs, fluctuating consumer purchasing power, and global supply chain uncertainty. Theoretically, financial variables such as profitability, capital structure, and liquidity are considered essential predictors of potential bankruptcy. This research applies a quantitative design using secondary data from 64 company observations, analyzed with IBM SPSS Statistics 31. The outcome indicates that both liquidity and profitability contribute significantly to lowering financial distress, while capital structure shows no significant effect. This indicates that firms with higher Return on Assets (ROA) and Current Ratio (CR) tend to have higher Z-Scores, reflecting stronger financial health. Conversely, Capital Structure (DER) cannot serve as a reliable predictor since its effect is inconsistent across firms. In conclusion, the key factors strengthening financial resilience in consumer non-cyclicals companies are profitability and liquidity, while capital structure plays a relatively weak role.

Keywords: *Profitability, Capital Structure, Liquidity, Financial Distress, Consumer Non-Cyclicals*

1. INTRODUCTION

The consumer non-cyclical sector plays a crucial role in Indonesia's economy, providing essential goods such as food, beverages, and household products that maintain relatively stable demand. Theoretically, this sector is considered more resilient to crises compared to other industries (McKinsey, 2022). However, post-pandemic and geopolitical realities have shown that this resilience is not absolute. The sector continues to face challenges from rising raw material prices, weakened consumer purchasing power, and disruptions in global supply chains caused by the lingering effects of COVID-19 and ongoing geopolitical conflicts, including the dispute involving Russia and Ukraine along with persistent Middle Eastern tensions (Yudha & Roche, 2023). These conditions have intensified inflationary pressures, increased production costs, and added uncertainty to global trade.

In recent years, the sector has experienced further strain from the sharp rise in staple food prices. The increase in rice prices across more than 170 regions in Indonesia, along with the surge in onion and chili prices since 2023, reflects growing pressure on household consumption (Sorongan, 2025). These developments not only weaken consumers' purchasing power but also increase companies' operational costs due to higher raw material and distribution expenses. Such pressures may lead to financial distress, a condition of serious financial difficulty that can signal potential bankruptcy if not properly managed. Financial distress is an important concern as it directly affects business continuity, investor confidence, and capital market stability.

Although the consumer non-cyclical sector shows signs of recovery at the aggregate level, individual firm performance remains uneven. For example, data from the financial report provided by BEI show that PT FKS Food Sejahtera Tbk (AISA) shifted from a net profit of IDR 5.8 billion in 2021 to a net loss of IDR 62.4 billion in 2022, indicating distress. PT Nippon Indosari Corpindo Tbk (ROTI), despite recording a net income of IDR 362.6 billion in 2024 (an 8.8% increase from the prior year), experienced a sharp rise in short-term bank debt, from IDR 100 billion to IDR 500 billion by April 2025, while operating cash flow fell to only IDR 60.9 billion in the first half of 2025. Similarly, PT Tri Banyan Tirta Tbk (ALTO) reported continued losses, in 2022 it already loss IDR 16.1 billion then increase to IDR 25.8 billion in 2023, reflecting persistent financial strain.

From a theoretical perspective, financial distress can be explained through key financial indicators. Profitability, capital structure, and liquidity are among the most relevant indicators of a firm's financial health. Low profitability increases the probability of distress as firms fail to generate sufficient returns to cover obligations. A capital structure dominated by debt amplifies distress risks due to higher interest and repayment burdens. Meanwhile, weak liquidity indicates limited short-term solvency, further heightening the risk of financial distress.

Empirical studies on financial distress in Indonesia show mixed and inconclusive findings regarding these variables. Some studies found significant effect, while others did not. For instance, Septyanto et al. (2022) conclude that profitability, capital structure, and liquidity all have significant affect financial distress. In contrast, Arifiana & Khalifaturofi'ah (2022) reported only profitability as significant, while Friska & Pudjolaksono (2023) found profitability and capital structure significant but not liquidity or sales growth. Meanwhile, Irfan et al. (2023) observed that intellectual capital significantly affects financial distress, but capital structure and asset structure do not, and Purwanti & Syarif (2022) found the opposite, profitability had no effect, but capital structure and liquidity did. These inconsistencies suggest that the effect among these indicators remain uncertain and may depend on industry characteristics and external conditions.

Despite the strategic importance of the consumer non-cyclical sector, research focusing specifically on this sector using post-pandemic (2022–2024) data remains limited. Most prior studies either examined other industries or used pre-pandemic data, leaving a research gap in understanding how post-pandemic recovery and global instability jointly affect financial distress in this sector. To respond this gap, this research analyzed the effects of profitability, capital structure, and liquidity on financial distress focusing on consumer non-cyclical companies listed on the BEI and using recent financial data from 2022–2024. By capturing the post-pandemic recovery phase and the geopolitical context, this study contributes updated empirical insights that reflect both global and domestic economic realities.

Agency Theory

Jensen and Meckling (1976) contend that interactions between principals and agents are prone to agency conflicts, largely due to the incompatibility of their respective aims. Owners aim to maximize firm value and investment returns, while prioritize their personal interests by seeking higher compensation, additional benefits, or greater job security. According to Brigham and Houston (2019), such misaligned goals can lead managers to make financial decisions that prioritize personal gain over long-term corporate performance, such as engaging in excessive borrowing or risky investments. These behaviors increase agency costs and can ultimately heighten the company's exposure to financial distress.

Signaling Theory

According to Spence (1973), the signaling theory describes that information asymmetry between internal and external parties encourages those with more complete information to send signals to others. In a corporate context, management as the internal party possesses deeper insights into the company's condition and prospects compared to investors or creditors. Therefore, management seeks to convey positive signals through financial reports or other disclosures to reduce uncertainty, build trust, and assist external parties in making better investment or financing decisions. According to Irfan et al. (2023), when these signals are credible and transparent, they can enhance investor confidence and reduce the likelihood of financial distress. Conversely, weak or misleading signals may create uncertainty and erode company's stakeholder trust, which can worsen its financial condition.

Financial Distress

According to Altman et al. (2019), an early stage of a company's financial decline before experiencing bankruptcy or liquidation is the definition of financial distress. At this stage, the company begins to face cash flow shortages, making it difficult to meet its debt obligations. This situation is evident when a company fails to produce sufficient earnings or cash flows to meet its financial obligations, whether in the short or long term. Tron (2021) defines financial distress as a phenomenon that often arises during national or international economic crises, representing a condition in which a company encounters difficulties that require reorganization and revitalization to survive. He argues that a strategically managed crisis can serve as a catalyst for pragmatic organizational and operational changes that support recovery. Pozzoli and Paolone (2017) explain that financial distress is a stage preceding bankruptcy, characterized by severe financial challenges that hinder a company's capacity to sustain its daily operations. This condition may result in agency costs, a loss of investor confidence, and an increased risk of liquidation if not promptly addressed.

Integrating these differing perspectives allows one to deduce that financial distress can be defined as the initial stage of a company's financial hardship, indicated by limited cash flow, inability to generate profits, and difficulties in meeting financial obligations, which, if left unresolved, may eventually lead to bankruptcy or liquidation.

Profitability

Profitability denotes the firm's aptitude for deriving net income from the deployment of its assets and ongoing operations. Kasmir (2017) defines profitability as management's capacity to utilize company assets to produce profit. Loppies (2022) views it as an indicator of managerial success in executing business activities, while Brigham and Houston (2019) emphasize its role as a key performance measure reflecting value creation for shareholders. Elevated profitability signifies optimal asset utilization and superior financial outcomes, thereby mitigating the chances of financial distress. Septyanto et al. (2022) empirically demonstrated that profitability bears a significant negative association with financial distress, implying that enhanced profitability lowers a firm's vulnerability to distress.
H1: Profitability has a significant negative effect on financial distress.

Capital Structure

Brigham and Houston (2021) characterize capital structure as the configuration of long-term liabilities and equity instruments that underpin a firm's operations. As noted by Kasmir (2017), disproportionate leverage amplifies interest obligations and financial exposure. Thus, an equilibrated mix of debt and equity is essential for value optimization and minimizing

distress. The findings of Merty (2019) reveal that capital structure exerts a significant positive impact on financial distress, indicating that increased leverage escalates distress risk.
H2: Capital structure has a significant positive effect on financial distress.

Liquidity

Liquidity denotes the extent to which a company can discharge its near-term financial commitments by converting current assets into cash. Sukamulja (2022) defines liquidity as the firm's capacity to convert assets into cash to settle immediate liabilities. Kasmir (2017) and Soekotjo & Hariansyah (2020) state that higher liquidity reduces the probability of payment default. Conversely, low liquidity signifies that a company has insufficient cash or liquid assets, that able to be quickly converted into cash, in order to pay its immediate debts. This inability to meet short-term obligations directly increases the risk of payment default. This condition is a primary indicator and a direct cause of financial distress, which, if unresolved, can lead to more severe outcomes like insolvency or bankruptcy. Recent study from Purwanti & Syarif (2022) conclude that liquidity has a negative and significant influence on financial distress.
H3: Liquidity has a significant negative effect on financial distress.

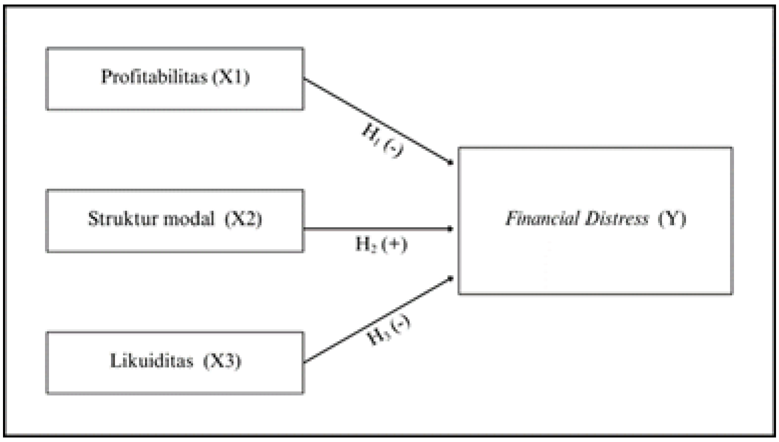

Figure 1. Research Framework

2. RESEARCH METHOD

This research applies a quantitative design grounded in an explanatory paradigm to evaluate the effects of profitability, capital structure, and liquidity on financial distress. According to Sugiyono (2019), the quantitative method is considered a scientific approach based on positivism philosophy, fulfilling scientific criteria such as empirical experience, objectivity, measurability, rationality, and systematic procedures. The objective is to analyze the impact of profitability, capital structure, and liquidity on financial distress. The subjects are consumer non-cyclical sector firms listed on the BEI during the 2022–2024 period. Secondary data are provided by firms that published their financial statements and then analyzed using IBM SPSS Statistics version 31.

According to Sugiyono (2019), population refers to an entire group of subjects or objects possessing certain characteristics determined by the researcher for study and conclusion. In this research, the population comprises all companies in the consumer non-cyclical sector listed on the BEI between 2022 and 2024.

Purposive sampling is employed as the sampling method, which, based on Sugiyono (2019), entails selecting samples that meet specific predetermined conditions. The applied criteria are as follows: (1) Companies operating in the consumer non-cyclical sector that remained listed on the BEI throughout the 2022–2024 period; (2) Companies that provided audited annual financial statements for the fiscal years 2022–2024; (3) Companies that present their financial statements in IDR.

Dependent variable

The dependent variable of this investigation is financial distress, conceptualized as a circumstance wherein a firm endures significant financial pressure, reflected in its incapacity to satisfy obligations such as debt servicing or routine operational outlays. Financial distress is evaluated through the Altman Z-Score metric (Altman et al., 2019).

Z-Score Formula:

$Z = 1.2\ X1 + 1.4\ X2 + 3.3\ X3 + 0.6\ X4 + 1.0\ X5$

Table 1. Intrepretation of Z-Score Model
Source: Altman et al., 2019

Z-Score	Criteria
Z > 2.99	Healthy
Z > 1.81	Grey
Z < 1.81	Financial Distress

Independent variables

Table 2. Operationalization of Variable and Measurement

Variable	Measurement	Source
Profitability	ROA = Net Income / Total Asset	Septyanto et al. (2022)
Capital Structure	DER = Total Debt / Total Equity	Merty (2019)
Liquidity	Current Asset / Current Liabilities	Septyanto et al. (2022)

The dataset is processed through multiple linear regression, incorporating a series of analytical steps such as descriptive statistics, regression diagnostics, the adjusted coefficient of determination, classical assumption verification, and inferential tests including the F-test and t-test. The regression specification is outlined below:

$$Y = \alpha + \beta 1\ ROA + \beta 2\ DER + \beta 3\ CR + e$$

Description:

Y : Financial Distress (Z-Score)
α : Constant
β1- 4 : Regression Coefficient
ROA : Profitability
DER : Capital Structure
CR : Liquidity
e : Error

3. RESULTS AND DISCUSSIONS

Descriptive statistical techniques were employed to outline the characteristics of the dataset, encompassing the mean, MIN, MAX, and STD for all variables. The analysis was executed using IBM SPSS Statistics version 31.

Tabel 3. Descriptive Statistics
Source: IBM SPSS Statistics 31, 2025

	N	MIN	MAX	Mean	Std. Deviation
FD	160	-2.14	10.11	3.2494	2.22844
ROA	160	-0.10	0.21	0.0463	0.05766
DER	160	0.15	5.27	1.0386	0.79032
CR	160	0.18	5.10	1.7639	0.92322
Valid N (listwise)	160				

Before estimating the regression model, classical assumption checks were administered to evaluate the robustness of the dataset. The Kolmogorov–Smirnov normality test produced a significance value of 0.200, surpassing the 0.05 criterion, thereby affirming that the residuals exhibit a normal distribution pattern. The multicollinearity test showed tolerance values greater than zero point one (0.1) and VIF values below ten (10), verifying that multicollinearity does not occur among the predictors. The heteroscedasticity test was conducted using the White method. The auxiliary regression produced an R^2 value of 0.065 with N = 160, resulting in a calculated $x^2 = 10.4$. Compared to the Chi-Square table of 16.919 (df = 9, $\alpha = 0.05$), x^2 (10.4) < 16.919, indicating no heteroskedasticity. Thus, the regression model meets the homoskedasticity assumption., confirming homoscedasticity. Finally, The Durbin–Watson statistic of 1.020, positioned within the –2 to +2 threshold, confirms the absence of autocorrelation in the model. Therefore, the data met all classical assumptions, allowing further regression analysis. To determine the joint influence of the predictors on financial distress, an F-test was performed. The analysis generated an F-statistic of 65.823 with a significance value of 0.000, confirming that profitability, capital structure, and liquidity collectively exert a statistically significant impact on financial distress.

Table 4. Determination Coefficient Test Result
Source: IBM SPSS Statistics 31, 2025

R	R Square	Adjusted R Square
,747	0.559	0.550

The Coefficient of Determination (Adjusted R^2) test yields an Adjusted R Square of 0.550, suggesting that 55% of the fluctuations in the dependent variable are attributable to the independent variables. Accordingly, profitability, capital structure, and liquidity jointly exert a meaningful and significant impact on financial distress in the sector. A multiple linear regression framework was employed in conducting the analysis. The ensuing findings derived from the estimation output are delineated as follows:

Table 5. The Result of Multiple Linear Regression Analysis
Source: IBM SPSS Statistics 31, 2025

Model	Unstandardized Coefficients	t	Sig.
ROA	17.435	7.511	0.000
DER	-0.019	-0.102	0.919
CR	1.080	7.072	0.000

Multiple linear regression analysis is deployed to scrutinize the conjoint influence of several independent variables upon a single dependent variable. Drawing upon the empirical results, the multiple linear regression equation within this study may be articulated as follows:

$$FD = 0.558 + 17.435\ ROA - 0.019\ DER + 1.080\ CR$$

Profitability embodies a firm’s aptitude to transmute its asset base into substantive economic returns. The regression estimation reveals that the ROA variable attains a significance level of 0.000, well beneath the 0.05 benchmark, thereby denoting a decisive and consequential influence on the Altman Z-Score. The unstandardized coefficient (B) of 17.435 intimates that a one-unit augmentation in ROA is projected to elevate the Z-Score by 17.435 points, assuming all other determinants remain undisturbed. Considering that a higher Z-Score connotes a diminished propensity toward financial distress, the results elucidate that profitability imposes a markedly negative bearing on the likelihood of financial distress. In essence, an enhancement in ROA reinforces the firm’s earning strength, fortifies its fiscal stance, and attenuates the probability of encountering financial adversity. Accordingly, the evidence substantiates H1, affirming that profitability exerts a significant negative impact on financial distress.

This outcome resonates with the empirical insights documented by Septyanto et al. (2022), Karlina & Rahman (2023), Maximillian & Septina (2022), Padang et al. (2025), Arifiana & Khalifaturofi’ah (2019), Friska & Pudjolaksono (2023), and Merty (2019), all of whom observed a pronounced negative nexus between profitability and financial distress. Conversely, the present finding stands at variance with the works of Wicaksono & Faisol (2022), Purwanti & Syarif (2022), and Normiati & Amalia (2021), which posited that profitability bears no meaningful influence on financial distress.

Capital structure denotes the relative composition of total indebtedness and equity employed to underwrite a firm’s operational activities. In this inquiry, capital structure is proxied by the Debt to Equity Ratio (DER), an index that illustrates the extent to which a firm relies on external financing in comparison to its own capital base. The empirical estimation reveals that DER exerts no statistically consequential effect on financial distress, as evidenced by a significance level of 0.919, which surpasses the conventional 0.05 criterion.

This absence of significance appears to arise from erratic interplays between leverage positions and corporate financial soundness across the sampled entities. For example, PT Tunas Baru Lampung Tbk., despite registering a comparatively elevated DER of 1.85, remains financially robust with a Z-Score of 3.12, whereas PT Mahkota Group Tbk., with an even higher DER of 2.10, exhibits distress with a Z-Score of 1.40. Comparable discrepancies emerge among firms with more modest leverage levels. Such patterns intimate that the ramifications of DER are influenced less by the nominal magnitude of debt and more by the prudence, discipline, and strategic acuity with which the debt is administered. Well-governed leverage may fortify profitability and operational resilience, while imprudent borrowing practices may intensify financial fragility.

These divergences underscore that DER itself is not a pivotal arbiter of financial distress. Instead, variables that more directly encapsulate a firm’s profit-generating capacity and its ability to discharge short-term obligations assume a more dominant explanatory role. Hence, DER cannot be reliably invoked as a definitive predictor of distress likelihood among firms in the consumer non-cyclical sector.

This outcome consequently invalidates the second hypothesis, which posited that capital structure exerts a positive and significant influence on financial distress. The finding is consonant with the empirical observations of Irfan et al. (2023) and Arifiana & Khalifaturofi'ah (2019), both of whom documented an insignificant relationship between capital structure and financial distress. Conversely, it diverges from the conclusions of Septyanto et al. (2022), Maximillian & Septina (2022), Padang et al. (2025), Friska & Pudjolaksono (2023), and Merty (2019), who identified a significant positive association, as well as from Purwanti & Syarif (2022) and Normiati & Amalia (2021), who reported a significant negative effect.

Liquidity denotes a firm's aptitude to discharge its short-term commitments through the mobilization of its readily available assets. In this investigation, liquidity is captured by the Current Ratio (CR). The regression output demonstrates that CR possesses a significance value of <0.001, indicating a positive and statistically meaningful influence on the Altman Z-Score. The unstandardized coefficient (B) of 1.080 suggests that each incremental rise of one unit in CR augments the Z-Score by 1.080 points.

This outcome signifies that firms exhibiting stronger liquidity positions are more capable of honoring immediate obligations, maintaining operational continuity, and avoiding disruptions that could precipitate financial instability. Accordingly, heightened liquidity attenuates the likelihood of financial distress, as reflected by the upward movement in the Z-Score.

These findings corroborate the third hypothesis, asserting that liquidity exerts a significant negative effect on financial distress. The results align with the empirical evidence of Septyanto et al. (2022), Karlina & Rahman (2023), Maximillian & Septina (2022), Wicaksono & Faisol (2022), Purwanti & Syarif (2022), and Normiati & Amalia (2021), all of whom identified a significant inverse association between liquidity and financial distress. Conversely, the present findings diverge from those of Padang et al. (2025), Arifiana & Khalifaturofi'ah (2022), and Friska & Pudjolaksono (2023), which reported that liquidity bears no statistically significant influence on financial distress.

4. CONCLUSIONS AND SUGGESTIONS

Drawing upon 160 data from 64 firm-year observations from the consumer non-cyclicals sector for the 2022–2024 period, this study concludes that profitability and liquidity exert a significant negative effect on financial distress, whereas capital structure exhibits no statistically meaningful effect. Firms with higher profitability (ROA) and liquidity (CR) achieve higher Z-Scores, indicating stronger financial health and lower distress risk. Conversely, capital structure (DER) shows inconsistent effects across firms, suggesting it is not a reliable predictor of financial distress. Therefore, profitability and liquidity serve as the primary determinants of financial resilience in the consumer non-cyclicals sector, as they better capture a company's ability to produce earnings and fulfill short-term obligations compared to capital structure. The capital structure does not significantly influence financial distress, likely because debt can produce both favorable and unfavorable outcomes. On one side, high leverage may signal greater financial risk, causing creditors to lose confidence and become more hesitant to extend additional financing. This limited access to external financing can increase the company's vulnerability to financial distress. Conversely, if the company arranged its debt effectively, such as by allocating borrowed funds to productive investments that generate higher returns, it can improve profitability and strengthen cash flows. Proper utilization of debt therefore helps minimize the risks that come with high leverage.

This study is limited to three financial indicators, the consumer non-cyclical sector, and a short 2022–2024 observation period, which may not capture all determinants or long-term trends of financial distress. Based on the identified limitations, several suggestions can be made for future research. First, future studies are encouraged to include additional independent variables such as operating cash flow or non-financial indicators to cultivate a more holistic and nuanced understanding of the determinants of financial distress. Second, future research can be expanded to include other sectors beyond consumer non-cyclicals, such as property, financial, or energy sectors, to produce findings that are more representative of the overall conditions of Indonesia's capital market. Third, extending the observation period is recommended to capture a broader view of long-term financial distress trends, including comparisons of conditions before, during, and after specific crisis periods.

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