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Company Performance and Financial Distress in Automotive and Component Companies Listed on the Indonesia Stock Exchange

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ABSTRACT: One of the company's efforts is to avoid financial distress which can result in the closure of the company. The purpose of this study was to examine the effect of financial performance on financial distress. Financial distress is measured using Altman's discriminatory theory or often referred to as the Altman Z-score, while company performance consists of profitability as measured by return on assets (ROA), liquidity is measured by current ratio (CR), leverage is measured by debt to equity ratio (DER), and sales growth. The population of this study were 13 automotive and component companies listed on the Indonesia Stock Exchange (IDX) and 12 companies were taken as a sample because one company had incomplete data. Hypothesis testing using multiple regression analysis with a significance level of 0.05. The results showed that profitability (ROA) and liquidity (CR) had a positive and significant effect on financial distress, while leverage (DER) had a significant but negative effect on financial distress. Other results show that free cash flow and sales growth have no significant effect on financial distress.

KEYWORDS: financial distress, profitability, liquidity, leverage, free cash flow, saes growth

INTRODUCTION

Changes in economic conditions have affected company performance (Septiani & Dana, 2019). This causes increasingly intense competition between companies in maintaining its existence. In this condition, if the company is not able to compete, the company will experience losses that lead to bankruptcy. Therefore, analysis in assessing bankruptcy is considered very important to anticipate bankruptcy in the future. This bankruptcy analysis can be started from a risk analysis that can be seen from the company's internal and external conditions. A company that can understand the condition of its company tends to be better able to analyze possible risks that will occur in the internal environment. While external risk is a condition that comes from outside the company where this condition is more difficult to predict and has a sizeable impact on the company. The Covid-19 pandemic is proof that external conditions affect company performance. These external conditions are also supported by several other factors such as industry trends, political circumstances, natural disasters, etc. which can lead to bankruptcy (Dwiantari & Artini, 2021). The initial indicator of company bankruptcy is the occurrence of financial distress. Financial distress is considered as a signal regarding the health condition of the company so that it is necessary to find the root of the problem so that the company can develop fast and appropriate handling steps.

Financial distress is a broad concept used to describe a situation when a company faces financial difficulties (John & Ogechukwu, 2018). According to Wangsih et al (2021) companies that are in a state of financial distress can be seen through several signs, such as decreased sales volume, decreased company ability to generate profits or operating profits which are in negative numbers, and companies that have large debts. These things show that the company's financial condition is not healthy, but it has not yet experienced bankruptcy. These financial problems are common in companies because they have a big influence, not only on the company side but also on the stakeholders.

Financial distress can be measured using financial reports issued by the company. The company's financial statements are a source of information regarding the company's financial condition and company performance where changes in the company's financial position are very useful to support decision making (Arifin et al, 2021). In its implementation, the information presented in financial reports must be converted first so that it is more valid in making decisions, namely by analyzing company financial ratios with certain models (Asfali, 2019). The financial ratios in this study are the profitability ratio, liquidity ratio, and leverage. In addition to using financial performance indicators, this research also includes other factors, namely cash flow and sales growth.

Profitability is a company's ability to earn profits (Purwanto & Putra, 2022). Profit is one indicator to measure how well a company is performing. Profitability includes the accumulation of all income and costs incurred by the company as the use of

assets and liabilities in a certain period. The company's main goal is to earn high profits. High profits will increase the welfare of shareholders and will increase investor interest in investing their funds in the company. In addition, high profits will also describe the company's level of success in managing operational activities. Profitability ratios in this study are measured by proxy Return on Assets (ROA). ROA is used to measure overall asset efficiency and assess a company's ability to generate profits through invested capital. A company with a high ROA level shows that the company is able to properly utilize its assets to earn profits.

According to research conducted by Afiezan et al (2021) and Asfali (2019) states that profitability has a direct positive and significant effect on financial distress. Meanwhile, research conducted by Arifin et al (2021) and Dwiantari (2021) states that profitability proxied by ROA has a significant negative effect on financial distress. This is in contrast to research conducted by Susanti & Takarini (2022) which states that profitability has no significant effect on financial distress.

In addition to profitability, financial distress can also be predicted through liquidity. Liquidity is a company's ability to meet short-term obligations when they fall due. In this study, the liquidity ratio was measured by proxy Current Ratio (CR). CR is used to analyze how much influence the availability of current assets has on fulfilling company obligations. Short-term creditors are very concerned about this CR because the conversion of inventories and accounts receivable into cash is the company's main source of paying short-term creditors. In the view of short-term creditors, the higher the company's CR, the higher the protection (Dirman, 2020).

Based on research conducted by Adiyanto (2021), Syuhada et al (2020), and Diyanto (2020) stated that liquidity has a positive and significant influence on financial distress. However, this research is in contrast to research conducted by Erayanti (2019), Larasati & Wahyudin (2019), and Saputri & Asrori (2019) which state that liquidity has no significant effect on financial distress. This is different from the results of research and Dwiantari & Artini (2021), Purwaningsih & Safitri (2022), and Susanti & Takarini (2022) which state that liquidity has a negative effect on financial distress.

In addition, financial distress can also be predicted through leverage. Leverage is a ratio used to measure how much of a company's activities and assets are financed by debt. If the company uses too much debt in its funding, it will result in long-term debt in the future so that it will increase the possibility of the company experiencing financial distress (Wangsih et al, 2021). Creditors and investors consider this ratio very important to determine the soundness of a company. The leverage ratio in this study is measured by the Debt to Equity Ratio (DER) proxy. DER compares long-term debt with own capital, to show the amount of debt used compared to own capital (Anggraeni & Rahyuda, 2020).

Based on research conducted by Saputri & Asrori (2019), Erayanti (2019), and Afiezan et al (2021) revealed that leverage with the DER proxy has no effect on financial distress. However, it is different from the research conducted by Dwiantari & Artini (2021) and Fatimah, Toha, & Prakoso (2019) which states that leverage has a positive and significant effect on leverage. On the other hand, Christine et al (2019) stated that leverage by proxy Debt to Equity Ratio (DER) has a negative and significant effect on financial distress.

Cash flow is also a variable that can affect a company's financial distress. Sayari & Mugan (2017) say that the information contained in cash flows can be used to identify the financial health or decline of a company. Companies that have high free cash flow indicate that the company has sufficient sources of funds to fund operating activities and capital expenditures such as paying off debt, maintaining the company's operating capabilities, paying dividends to investors, and making new investments without relying on other sources of funding (Syuhada et al. al, 2020).

In research conducted by Isdina & Putri (2021) states that cash flow has a negative and significant impact on the company's financial distress. In contrast, research conducted by Dirman (2020) states that cash flow does not have a significant effect on the company's financial distress. This is because the amount of cash flow is considered to be very volatile so it is not a factor that can affect financial distress.

The last independent variable that can be used to predict financial distress is sales growth. According to Wangsih (2021), sales growth is a ratio used to measure the stability of sales and the level of success of a company from one period to the next. The higher the level of sales growth, it shows that the company is successful in carrying out its business strategy and maintaining the company's performance so that it will reduce the percentage of the possibility that the company will experience financial distress. Conversely, when sales growth declines, the potential for a company to experience financial distress increases.

Research conducted by Asfali (2019) found that sales growth has a positive and significant effect on financial distress. Meanwhile, according to research conducted by Giarto & Fachrurrozie (2020) states that the sales growth variable has a negative and significant effect on financial distress. In contrast to previous research, research conducted by Nabawi (2020) and Wangsih et al (2021) states that sales growth has no significant effect on financial distress.

This research is a replication of Diyanto's research (2020) which analyzes the effects of liquidity, leverage, and profitability on financial distress for manufacturing companies. In this study, researchers added an independent variable, namely cash flow

which refers to Isdina & Putri's research (2021) and sales growth variable which refers to Giarto & Fachrurrozie's research (2020). The addition of cash flow variables is done because these variables can be used to analyze the financial health or decline of a company. Meanwhile, the sales growth variable or commonly called sales growth is a ratio that will show an increase or decrease in a company's sales in a certain year so that capital owners can use this as a guide to assess the company's opportunities in the future. So, these two variables will affect the condition of financial distress.

This research also has a different object from previous studies. If in previous studies most of the companies studied were manufacturing companies engaged in the chemical sector, property and real estate companies, and retail trade sub-sector companies listed on the IDX, in this study the companies to be studied were automotive and component companies listed. on the Indonesian Stock Exchange. This is because global conditions are uncertain and difficult to predict, causing the rupiah exchange rate to fluctuate. The rupiah exchange rate which tends to weaken will have an impact on the automotive business because this industry still uses a lot of imported components. An exchange rate that is too weak will increase the cost of importing components while companies will find it difficult to raise selling prices due to declining public purchasing power. This condition will trigger an increase in the company's operational costs so that it can cause losses to the company. If the company does not immediately find the right alternative solutions, the company will experience financial distress. The period to be used in this study is the period 2017-2021 respectively.

This research is very important to do because in several previous studies the results shown were different. With this inconsistency, researchers want to re-examine research on the topic of the effect of profitability, liquidity, leverage, cash flow, and sales growth on financial distress with firm size as the control variable. This aims to increase understanding, knowledge, and insight for researchers regarding financial distress conditions, and curiosity about what factors might affect a company's financial distress.

HYPOTHESIS DEVELOPMENT

Effect of Profitability on Financial Distress

The profitability ratio is a ratio that is useful for assessing the capacity of an issuer to earn profits over a certain period. In this study, profitability is proxied by Return on Assets or ROA. ROA has a positive influence on profit growth. This is because ROA can estimate a company's capacity to generate net profit. The higher the level of profit or profit obtained by the company, the better the company's financial performance so that the possibility of the company being in a condition of financial distress will be smaller (Syuhada et al, 2020).

According to research conducted by Hastiarto et al (2021) states that profitability proxied by Return on Assets (ROA) has a negative effect on financial distress. This study shows that companies with high profitability have high profits. Thus, the possibility for a company to experience financial distress is very small. This research is supported by Moch et al (2019) and Andika & Nuryaman (2022) which state that profitability has a significant negative effect on financial distress.

H_1: Profitability has a negative effect on financial distress

The Effect of Liquidity on Financial Distress

Liquidity describes the company's ability to pay its short-term obligations or debts that are due. This ratio is required for credit analysis or financial risk analysis. A company is said to be in a state of financial distress if it has problems related to liquidity. To maintain a company in a liquid condition, the company must have larger current assets compared to current liabilities (Aisyah et al, 2017). The more liquid the company, the less likely the company will experience financial distress.

According to research conducted by Restianti & Agustina (2018) states that liquidity proxied by the current ratio (CR) has a negative and significant effect on the company's financial distress. This is because the liquidity value is thought to not reflect the condition of the company in good or bad condition. This research is supported by Sugiharto et al (2021) which states that the liquidity ratio has a significant negative effect on financial distress. This shows that the higher the level of company liquidity, the more capable the company is of paying short-term debt at maturity so that the company will avoid financial distress.

H_2: Liquidity has a negative effect on financial distress

Effect of Leverage on Financial Distress

Leverage is a ratio that shows how much debt a company uses to finance its operations. If the leverage value is high, it means that the company has high debt. This results in the company facing financial problems where it will be difficult for the company to make payments in the future due to the amount of debt that is greater than the amount of assets it owns. If this condition is not handled properly, the potential for financial distress will be even greater so that it can increase the threat of bankruptcy (Septiani & Dana, 2019).

Research conducted by Purba & Muslih (2018) states that leverage proxied by the Debt to Equity Ratio or DER has a significant positive effect on financial distress. This research is supported by Wahyuningtyas & Retnani (2020) which state that leverage has a positive and significant effect on financial distress. That is, the greater the amount of debt owned by the company and not accompanied by high sales results, the higher the potential for failure to pay debts, causing the company to experience financial distress.

H_3: Leverage has a positive effect on financial distress

The Effect of Cash Flow on Financial Distress

Free cash flow is excess cash owned by a company that can be used to pay creditors or shareholders as dividends. If the company has a good amount of cash flow, the welfare of shareholders will increase because they believe that the company will be able to pay its obligations and the company will avoid financial distress (Dirman, 2020). Although free cash flow can increase the welfare of shareholders, it often creates a conflict between the two, where managers tend to use cash that can benefit themselves. To monitor the use of free cash flow, good internal control is needed in the company to avoid agency costs, namely costs incurred by shareholders to monitor managers.

According to research conducted by Ramadhanti & Subagyo (2022) states that cash flow has a negative and significant effect on financial distress. Companies with good cash flow indicate that the company's finances are in good condition too. That is, the higher the cash flow generated by the company, the smaller the percentage of possible financial distress. This research is supported by Giarto & Fachrurrozie (2020) which states that cash flow has a negative and significant effect on financial distress.

H_4: Cash flow has a negative effect on financial distress

Effect of Sales Growth on Financial Distress

Sales growth is the ratio used by the company to measure the development of the company's sales by looking at its growth. The greater the volume of sales of a company, indicating an increase in the performance of the company's management so that sales growth or sales growth will also increase. Increased sales growth will also increase company profits so that the possibility of companies experiencing financial distress will be smaller (Afrianti et al, 2022).

Based on research conducted by Purwanti & Syarif (2022) states that the sales growth variable has a positive and significant influence on financial distress. This is because a high number of sales will cause the company to earn higher profits so that the financial condition becomes more stable and reduces the potential for the company to experience financial distress. This research is supported by Rochend & Nuryaman (2022) which states that sales growth has a positive and significant effect on financial distress.

H_5: Sales growth has a positive effect on financial distress

METHOD

Population and sample

The population in this study are all automotive and component companies listed on the Indonesia Stock Exchange or IDX. This research is included in the time series data with a research period of 5 years from 2017-2021. And it was found that there were 13 companies in the automotive sector listed on the IDX. The sample is part of the population that is used as a research subject which is considered to represent all the population studied. This study used a purposive sampling technique, namely sampling through predetermined standards. The reason for using a purposive sampling technique is to obtain a representative sample or represent the population under study according to the wishes of the author.

Variables

In this research, there is one dependent variable, namely financial distress and five independent variables consisting of profitability (return on assets), liquidity (current ratio), leverage (debt to equity ratio, free cash flow, and sales growth).

Measurement of financial distress using Altman's discrimination analysis is commonly known as the Z-score (Rudianto, 2013), with the following formulation.

$$\mathbf{Z = 1{,}2\ X1 + 1{,}4\ X2 + 3{,}3\ X3 + 0{,}6\ X4 + 1{,}0\ X5}$$

Where

Z = Z-score

X_1 = Woring capital/Total assets

X_2 = Retained Earning/Total assets

X_3 = EBIT/Total assets
X_4 = Market value of stock/Total debt
X_5 = Sales/Total assets

Thus if summarized, the dependent and independent variables and their measurements are as follows:

Table 1: Variable and Measurement

variabel	Symbol	Measurement
Financial distress	FD	Altman Z-score
Profitability	ROA	Earning After Tax/Total Assets
Liquidity	CR	Current Assets/Current Liability
Leverage	DER	Total Debt/Total Equtity
Free cash flow	FCF	Operastional Cah Flow - Capital Expxenditure
Sales growth	SG	$(Sales_t - Sales_{t-1})/Sales_{t-1}$

Data analysis

The multiple linear regression analysis model in this study is used to examine how much influence profitability, liquidity, leverage, cash flow, and sales growth have on financial distress. The multiple linear regression equation model is as follows:

$$FD = a + \beta 1ROA + \beta 2CR + \beta 3DER + \beta 4FCF + \beta 5SG + e$$

RESULTS

Descriptive statistics

From the results of the data tabulation, the description of the data can be seen from the descriptive statistics as follows.

Table 2: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
ROA	60	-7,91	72	5,1322	10,98511
CR	60	0,6	13	2,602	2,3989
DER	60	0,07	3,75	1,0025	0,88372
FCF	60	-16,46	16,94	5,2403	11,12518
SG	60	-0,4076	0,6497	0,06069	0,230081
FD	60	0,23	10,38	3,1652	2,42529
Valid N (listwise)	60				

Source: Data processed

Based on table 2, it can be seen that the results of the descriptive statistical test of the variables used in the study, namely profitability proxied by Return on Assets (ROA) as a whole, obtained a minimum value of -7.91 (MASA in 2020) and a maximum value of 72 (LPIN in 2017). The difference between the maximum value and the minimum value is 79.91. This profitability variable has an average value (mean) of 5.1322 and a standard deviation value of 10.98511. The standard deviation value is greater than the average value so it can be concluded that the distribution of the data is even.

The liquidity variable proxied by the Current Ratio (CR) as a whole obtained a minimum value of 0.6 (PRAS in 2019) and a maximum value of 13 (LPIN in 2019), so that the difference between the maximum and minimum values is 12.4. This variable has an average value (mean) of 2.602 which indicates that every Rp. 1 current debt can be met with Rp. 2.602 current assets owned by the company, as well as a standard deviation value of 2.3989, which means the standard deviation value < the average value so that it can be concluded that the distribution of the data is uneven or collects at the average value.

The leverage variable proxied by the Debt to Equity Ratio (DER) as a whole obtained a minimum value of 0.07 (LPIN in 2019) and a maximum value of 3.75 (IMAS in 2019), so that the difference between the maximum and minimum values is 3.68. This

leverage variable has an average value (mean) of 1.0025 and a standard deviation value of 0.88372. The standard deviation value is smaller than the average value so it can be concluded that the distribution of the data is uneven or collects at the average value.

The free cash flow variable as a whole obtained a minimum value of -16.46 (ASII in 2018) and a maximum value of 16.94 (ASII in 2020). The difference between the maximum value and the minimum value is 33.4. The free cash flow variable has an average (mean) value of 5.2403 and a standard deviation or standard deviation of 11.12518. The standard deviation value is greater than the average value, which means that the 2017-2021 research period has an even distribution of data.

The sales growth variable as a whole obtained a minimum value of -0.4076 (PRAS in 2019) and a maximum value of 0.6497 (PRAS in 2018), so that the difference between the maximum and minimum values is 1.0573. In this variable the average value (mean) is 0.06069 with a standard deviation value of 0.230081. The standard deviation value > the average value so that it can be concluded that the distribution of the data is even.

The overall financial distress variable obtained a minimum value of 0.23 (PRAS in 2019) and a maximum value of 10.38 (LPIN in 2019). The difference between the maximum and minimum values is 10.61. The financial distress variable has an average value (mean) of 3.1652, with a standard deviation or standard deviation of 2.42529, which means the standard deviation value < the average value so it can be concluded that the distribution of the data is uneven or collects at a mean value.

Hypothesis results

Multiple linear regression analysis is used to examine how much influence profitability, liquidity, leverage, cash flow, and sales growth have on financial distress. With a significance level of 0.05, it means that the variable will be said to have a significant effect if the significance result is less than 0.05. From the research results, the results of hypothesis testing using multiple linear regression are as follows:

Table 3: Hypothesis Result

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	1,954	0,228		8,561	0,000
	ROA	0,032	0,008	0,146	3,982	0,000
	CR	0,714	0,042	0,706	17,163	0,000
	DER	-0,805	0,117	-0,293	-6,898	0,000
	FCF	-0,004	0,007	-0,017	-0,504	0,616
	SGR	0,27	0,353	0,026	0,764	0,448

Source: Data processed

DISCUSSION

Effect of Profitability on Financial Distress

Based on the results of the hypothesis testing above, it shows that profitability proxied by Return on Assets (ROA) has a positive and significant impact on the financial distress rating. The results found are not in accordance with the first hypothesis which states that profitability has a negative effect on financial distress, so the H1 hypothesis is rejected. Profitability is a ratio used to measure how effective a company is in generating profits or profits through existing resources. Companies with high profits show that the company has a good ability to use existing assets to produce optimally. The more influential and efficient the company's asset management, the higher the profit that will be obtained by the company so that it can use the funds optimally. However, there are several companies that are able to generate high profits but are unable to control the use of existing funds to finance their business activities, so that the company will experience financial distress. According to Dirman (2020), an increased ROA does not necessarily mean that a company avoids financial distress. This is because the company can see the income and the amount of funds spent. The amount of company expenses that increase but are not accompanied by adequate income from year to year can result in losses that increase every year so that it puts the company in a state of financial distress.

This research supports research conducted by Asfali (2019) and Dirman (2020) which states that profitability has a significant positive effect on financial distress. However, these results are in contrast to research conducted by Hastiarto et al (2021), Moch et al (2019), and Andika & Nuryaman (2022) which state that profitability has a negative effect on financial distress. Company profits tend to fluctuate making it difficult to assess the risk of financial distress if only from the level of profitability.

The Effect of Liquidity on Financial Distress

The results of the second hypothesis test show that liquidity proxied by the Current Ratio (CR) has a positive and significant effect on the financial distress rating. This result is also inconsistent with the second hypothesis which states that liquidity has a negative effect on financial distress, so the H2 hypothesis is rejected. Liquidity is a ratio used to measure a company's ability to pay off short-term obligations or debts that are due. The more liquid a company is, the more capable the company is of paying its maturing short-term debt. However, Diyanto (2020) states that there are several companies that only have a small amount of current assets that can be used to pay off the company's current debt before maturity. At the same time, the company has a large amount of current debt so that the current asset funds owned are not sufficient to pay off all of the company's debts. In addition, the company does not guarantee to be able to pay the remaining debt at maturity. This is what makes the company experience financial distress.

From the results found, this research is in line with research conducted by Adiyanto (2021), Diyanto (2020), and Syuhada et al (2020) which state that liquidity proxied by the current ratio has a positive effect on financial distress. However, on the other hand, these results are not in line with research conducted by Restianti & Agustina (2018) and Sugiharto et al (2021) which state that liquidity has a significant negative effect on financial distress.

Effect of Leverage on Financial Distress

The results of the third hypothesis test show that leverage proxied by the Debt to Equity Ratio (DER) has a negative and significant effect on the financial distress rating. The results found are inconsistent with the third hypothesis which states that leverage has a positive effect on financial distress, so the H3 hypothesis is rejected. Leverage is a ratio used to measure how much a company uses debt to fund its operational activities. The higher the company's leverage value, it shows that the company has a large amount of debt. According to Suryani (2020), companies that have large amounts of debt are indeed quite risky because these companies also have to bear quite high interest costs. However, if the company can use the funds originating from the debt properly and effectively, such as developing business, increasing product promotions, or making other new innovations, it will be able to improve the company's performance so that the possibility that the company will experience financial distress is getting smaller.

The results of this study are in line with research conducted by Christine et al (2019) which states that leverage has a significant negative effect on financial distress. However, these results are not in line with research conducted by Purba & Muslih (2018) and Wahyuningtyas & Retnani (2020) which state that leverage has a positive and significant effect on financial distress.

The Effect of Cash Flow on Financial Distress

The fourth hypothesis test shows that cash flows have an influence on the financial distress rating. The results found are not in accordance with the fourth hypothesis which states that cash flow has a negative effect on financial distress, so the H4 hypothesis is rejected. Free cash flow is a reserve fund owned by the company after it has finished financing operational and capital activities. The greater the company's free cash flow, the greater the interest of creditors to invest their capital, making it easier for the company to finance its business activities. However, the results in this study indicate that cash flow has no effect on financial distress. In his research, Zees & Kawatu (2022) stated that the value of cash flows in a company tends to fluctuate while conditions of financial distress tend to be stable. Fluctuating cash flow conditions can occur in extremes, where in a certain period the company will experience profits and then suffer losses or vice versa. Such extreme conditions cannot be used as an indicator to measure the occurrence of financial distress.

The results of this study support research conducted by Liahmad et al (2021) which states that cash flow has no effect on financial distress. However, the results of this study are not in accordance with research conducted by Ramadhanti & Subagyo (2022) and Giarto & Fachrurrozie (2020) which states that cash flow has a negative effect on free cash flow.

Effect of Sales Growth on Financial Distress

The results of the fifth hypothesis test show that sales growth has no effect on the financial distress rating. The results found are not in accordance with the fifth hypothesis which states that profitability has a positive effect on financial distress, so the H5 hypothesis is rejected. Sales growth is the ratio used by the company to measure the development of the company's sales by looking at its growth every year. The company's sales that are getting bigger make the company generate big profits as well. However, sales growth cannot be used as an indicator to predict financial distress. This is because when the company's sales decline in a certain year, it will not have a direct impact at that time, it's just that the company will experience a decrease in net profit. The percentage value of sales growth will fluctuate every year, so that a decrease in company profits during the year will not cause the company to experience financial distress because it is helped by the sales volume in the previous year which was relatively stable or even higher (Wangsih et al, 2021). This means that even though the company's sales have decreased in a certain

time, the profit earned by the company is still able to cover the costs needed so that the company does not experience financial distress.

The results of this study are in line with research conducted by Nabawi (2020) and Wangsih et al (2021) which state that sales growth has no effect on financial distress. However, this research is in contrast to research conducted by Purwanti & Syarif (2022) and Rochend & Nuryaman (2022) which states that sales growth has a positive and significant effect on financial distress.

CONCLUSIONS AND RECOMMENDATIONS

Based on the results of hypothesis testing, it can be concluded that profitability has a positive and significant effect on financial distress, but contrary to the proposed hypothesis, so the hypothesis is rejected. Liquidity also has a positive and significant effect on financial distress but is contrary to the hypothesis proposed so that the hypothesis is rejected. Leverage also has a significant and negative effect but the hypothesis is rejected because it is contrary to the results. While the variable free cash flow and sales growth have no effect on financial distress.

These results, of course, still have weaknesses, such as only researching in one industrial sector, namely automotive and component companies, so it is hoped that this can be continued with research that uses more samples by future researchers.

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