

Bankruptcy Level Analysis of PT Sri Rejeki Isman Tbk Using the Altman Z-Score Model (2019-2023)

Wulan Sari¹⁾, Salsa Karwati²⁾, Nurhana Dhea Parlina^{3)*}

^{1,2,3)} Management, Faculty of Economics and Business, Swadaya Gunung Jati University, Indonesia

*Corresponding Author

Email: nurhanadheap@ugj.ac.id

Abstract

This study analyzes the bankruptcy risk of PT Sri Rejeki Isman Tbk (SRIL) from 2019 to 2023 using the Altman Z-Score model. This model is applied to evaluate five key indicators: Working Capital to Total Assets, Retained Earnings to Total Assets, EBIT to Total Assets, Market Value of Equity to Book Value of Liabilities, and Sales to Total Assets. The results indicate significant financial fluctuations, with a tendency to remain in the grey area and distress categories. The average Z-Score of 1.53 suggests that the company's financial condition is still far from the safe category (>2.99). The most critical condition occurred in 2021 when the Z-Score dropped drastically to -0.70 due to high debt burdens, declining operating profits, and the loss of market equity value. Although there was an improvement in 2022 and 2023, the company still faces major challenges in enhancing profitability and managing financial risks effectively. Theoretically, this study confirms the relevance of the Z-Score model in assessing a company's financial health and predicting potential bankruptcy. These findings reinforce the importance of Z-Score analysis as a predictive tool in anticipating financial risks, especially for companies with high debt levels. Practically, PT Sritex needs to implement a more conservative financial management strategy, including debt reduction and operational efficiency improvements, to avoid future financial distress.

Keywords: Altman Z-Score, Bankruptcy, Sritex, Financial Analysis, Textile Industry

INTRODUCTION

Financial distress is a state in which an organization's financial performance declines and struggles to meet its financial obligations. This condition is the initial stage before bankruptcy, where the company cannot operate effectively due to a lack of funds or inability to fulfill short-term and long-term liabilities. If not addressed promptly, financial distress could result in bankruptcy, marked by the company's inability to generate sustainable profits.

The textile industry is one of the sectors facing significant pressure due to changes in global economic conditions, pricing changes for raw materials, and shifts in consumer preferences toward environmentally friendly products. In Indonesia, these challenges are exacerbated by declining export demand and the influx of imported products, particularly from China. Data from the Central Statistics Agency (BPS) indicates that Indonesia exported 1.49 million tons of textiles in 2023, a 2.43% drop from the previous year. Meanwhile, the export value declined even further by 14.78% year-on-year to approximately USD 3.6 billion (Databoks Katadata, 2024). This pressure has caused many textile companies to experience financial difficulties, with some forced to cease operations and lay off more than 13,000 workers (BBC News Indonesia, 2024).

PT Sri Rejeki Isman Tbk (Sritex) is among the biggest textile enterprises in Indonesia that has faced significant financial distress in recent years. As of December 2023, Sritex's financial report indicated a total debt of USD 1.6 billion, far exceeding its total assets of USD 649 million. This imbalance resulted in an equity deficit of USD 955 million, signaling a serious solvency issue. Additionally, the company recorded a loss of USD 175 million, the highest among its competitors in the same industry. The main factors contributing to this condition

include a high debt burden, declining global demand, and ineffective management in responding to market changes (Suara.com, 2024)

To analyze corporate bankruptcy, the Altman Z-Score model is one of the most commonly applied methods. This model is considered highly effective due to its consistent accuracy in predicting potential bankruptcy, its clear classification system, and its strong bankruptcy risk assessment capabilities. Several previous studies, have demonstrated the reliability of the Altman Z-Score model across various sectors. For example, Suci Kurniawati (2016), in a study on miscellaneous industry sectors listed on the Indonesia Stock Exchange, found that while PT SAT Nusa Persada Tbk was categorized as healthy, PT Asia Pacific Fiber Tbk was identified as bankrupt. However, she also noted that the Z-Score prediction does not always align with the actual financial condition. Likewise, Warda Sari et al. (2021) concluded that PT Sumalindo Jaya Lestari Tbk was in an unhealthy condition during 2011–2014, with consistently low Z-Score values indicating a high risk of bankruptcy due to declining sales and continuous losses.

Moreover, Yusnita Yunus et al. (2021) showed that PT Garuda Indonesia (Persero) Tbk experienced financial distress from 2016 to 2019 with Z-Score values below 1.10, mainly due to increasing current liabilities. Reza, Pagalung, and Damayanti (2023) compared multiple bankruptcy prediction models and found that while the Altman Z-Score identified only 2 out of 21 food and beverage companies as potentially bankrupt, other models like Zmijewski had higher predictive accuracy. However, the Z-Score still proved useful in identifying financial red flags. These findings support the robustness and continued relevance of the Altman Z-Score in bankruptcy analysis, while also highlighting certain limitations in prediction accuracy under specific conditions or industries.

Based on the identified research gap, this research attempts to examine the bankruptcy risk level of PT Sri Rejeki Isman Tbk during the 2019–2023 period using the Altman Z-Score model. This study seeks to assess Sritex's financial condition over the past five years and provide insights into the potential for bankruptcy based on the Altman Z-Score method. Therefore, this research contributes to a deeper understanding of the Indonesian textile industry's financial condition and the implications of bankruptcy prediction models for corporate strategic decision-making.

RESEARCH METHODS

This study employs a descriptive quantitative method with a case study approach to analyze the bankruptcy risk of PT Sri Rejeki Isman Tbk (Sritex) using the Altman Z-Score model. According to Sugiyono (2017), descriptive quantitative research aims to describe phenomena in a systematic, factual, and accurate manner, supported by numerical data. Meanwhile, the case study approach enables an in-depth and detailed examination of a particular subject within its real-life context (Yin, 2018).

The research utilizes secondary data obtained from the company's annual financial statements, including income statements, balance sheets, and cash flow statements for the period 2019–2023. The data collection process involves extracting financial ratios from these reports, focusing on five key financial indicators used in the Altman Z-Score model. These indicators include Working Capital to Total Assets, Retained Earnings to Total Assets, EBIT to Total Assets, Market Value of Equity to Total Liabilities, and Sales to Total Assets. The Altman Z-Score model (Altman, 2016) is widely recognized for its effectiveness in predicting corporate bankruptcy and financial distress, and has been extensively applied in various industries and countries due to its reliability and simplicity.

The analytical method applied in this study includes descriptive statistical analysis to summarize financial data and evaluate the company's financial condition over the study period. The Z-Score values are categorized into three classifications: a safe zone ($Z > 2.99$), a grey zone ($1.81 < Z < 2.99$), and a distress zone ($Z < 1.81$), indicating varying levels of bankruptcy risk. The financial trends of PT Sritex are examined based on the annual Z-Score calculations to assess the company's financial stability and the potential risk of bankruptcy. The findings provide insights into the financial health of PT Sritex and contribute to a broader understanding of financial distress in the Indonesian textile industry.

RESULT AND DISCUSSION

This analysis aims to provide an overview of the research variables, namely Working Capital to Total Assets (WCTA), Retained Earnings to Total Assets (RETA), Earnings Before Interest and Taxes to Total Assets (EBITA), Market Value of Equity to Total Debt (MVETD), and Sales to Total Assets (STA). These variables are analyzed as key indicators to assess the company's financial performance and their relationship in supporting the research objectives.

The research model used in this study is the Altman Z-Score model (Altman, 1968; revised 2016), which is designed to predict the probability of corporate bankruptcy by combining several financial ratios into a single composite score. This model consists of five key variables (X1 to X5), where each variable represents a different aspect of financial health: liquidity, profitability, leverage, solvency, and activity. The Z-Score is then used to classify a company into one of three zones: Safe Zone ($Z > 2.99$), Grey Zone ($1.81 < Z < 2.99$), and Distress Zone ($Z < 1.81$). The following table presents the financial data obtained from the company's reports :

Tabel 1. Financial Data of PT Sri Rejeki Isman Tbk 2019–2023

Year	Total Assets	Working Capital	Retained Earnings	EBIT	Market Value of Equity	Total Debt	Sales
(USD '000)							
2019	1.559.252	712.220	332.432	178.558	327.235	966.583	1.181.834
2020	1.851.989	752.703	396.990	171.385	327.235	1.179.572	1.282.569
2021	1.233.820	-982.037	691.271	-455.327	0	1.623.269	847.523
2022	764.552	166.710	1.086.834	-348.985	0	1.545.571	524.565
2023	648.988	84.002	126.165	-118.192	0	1.603.814	325.082

Source: Processed from PT Sri Rejeki Isman Tbk Financial Reports (2019-2023)

The financial data illustrate fluctuations over the five-year period. As seen in Table 1, the company's total assets showed an increasing trend in 2020 before experiencing a decline in the subsequent years. Working capital, which was positive until 2020, turned negative in 2021, indicating liquidity challenges. Retained earnings demonstrated an overall increase, reflecting continued earnings retention despite operational struggles. EBIT showed a sharp decline in 2021 and remained negative through 2023, suggesting difficulties in generating operating profits. The market value of equity remained stable until 2020 but dropped to zero after the stock trading suspension in 2021. The company's total debt increased, reflecting a growing reliance on external financing, while sales exhibited a downward trend, highlighting weakening revenue generation. To further evaluate financial stability, the Altman Z-Score was calculated using the relevant financial ratios. The outcomes are presented in Table 2:

Tabel 2. Outcomes of Altman Z-Score Calculation of PT Sri Rejeki Isman Tbk 2019–2023

Year	X1 WCTA	X2 RETA	X3 EBITA	X4 MVETD	X5 STA	Z-Score	Category
2019	0,46	0,21	0,11	0,34	0,76	2,19	Grey Area
2020	0,41	0,21	0,09	0,28	0,69	1,95	Grey Area
2021	-0,80	0,56	-0,37	0,00	0,69	-0,70	Distress
2022	0,22	1,42	-0,46	0,00	0,69	1,43	Distress
2023	0,13	1,94	-0,18	0,00	0,50	2,78	Grey Area

Source: Processed from PT Sri Rejeki Isman Tbk Financial Reports (2019-2023) and Altman Z-Score Calculation

The Z-score analysis highlights variations in financial stability. As indicated in Table 2, the company remained in the grey area in 2019 and 2020, suggesting financial uncertainty. A sharp decline in 2021 placed the company in the distress category, primarily due to a working capital deficit and the suspension of stock trading. Financial improvements were observed in 2022 and 2023, returning the company to the grey area. However, challenges persist in maintaining long-term financial stability and profitability.

The results suggest that although financial recovery efforts were made, the company still faced uncertainty. The inability to maintain positive earnings and excessive debt burden prevented sustainable financial recovery. The confirmation of PT Sri Rejeki Isman Tbk's bankruptcy on March 1, 2025, aligns with the findings of this analysis, reinforcing the significance of financial distress indicators in predicting corporate failure. This study underscores the importance of effective financial management strategies to ensure long-term business viability and prevent future bankruptcies in similar cases.

CONCLUSION

The analysis of PT Sri Rejeki Isman Tbk (Sritex) during the 2019–2023 period indicates significant financial fluctuations, with a tendency to remain in a financially unstable condition. The company experienced its most critical financial distress in 2021, marked by a sharp decline in financial stability due to high debt burdens, declining operating profits, and loss of market equity value. Although there were signs of improvement in the following years, these efforts were insufficient to ensure long-term financial sustainability. The confirmation of Sritex's bankruptcy on March 1, 2025, supports the findings of this study, highlighting the relevance of financial distress indicators in assessing the financial well-being of an organization and predicting potential bankruptcy. This study underscores the importance of effective financial management strategies, including debt reduction and operational efficiency, to maintain business sustainability and mitigate financial risks.

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