



# The Analysis of Financial Performance of State-Owned Steel Issuers After Debt Restructuring: A Case Study in the Indonesian Steel Industry

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**Abstract.** This study aims to analyze the impact of debt restructuring on the financial performance of PT. Krakatau Steel (Persero), Tbk. The research approach used is quantitative, using comparative causal methods. The focus of this research is on debt restructuring and corporate financial performance. Financial performance assessment is carried out by analyzing profitability ratios (Return on Assets), liquidity ratios (Current Ratio), and solvency ratios (Debt to Equity Ratio). The data used in this study was collected through purposive sampling techniques, with research samples in the form of an overview of financial statements taken from the annual report of PT. Krakatau Steel. The analysis was conducted in two periods: before debt restructuring (2015-2018) and after restructuring (2019-2022). The results of research on financial statements illustrate the financial condition of PT. Before the restructuring (2015-2018), Krakatau Steel indicated instability and unhealthy. The analysis shows a significant influence on the company's solvency ratio after restructuring, while there is no significant influence on the company's profitability and liquidity ratio. Post-restructuring, the company could meet its long-term obligations, although it still had difficulties increasing profits and paying short-term obligations. However, it has not yet reached the desired financial ratio standard through debt restructuring PT. Krakatau Steel managed to avoid the risk of bankruptcy.

**Keywords:** Debt Restructuring, Financial Performance, Profitability Ratio, Liquidity Ratio, Solvency Ratio.

## 1 Introduction

PT. Krakatau Steel is a state-owned issuer manufacturing company in the raw material sector listed on the IDX since November 10th, 2010, with the issuer code KRAS. According to [1], the national steel producer is unstable financially. The fluctuating decline in net profit from 2014 to 2018 reflects a dynamic inconsistency with accounting theory. Although the company's revenue or sales increased from 2014 to 2018, the profits generated could not keep up with the trend. Situations where revenues increase but companies incur losses defy the basic principle of accounting, which states that an in-

crease in profits should accompany an increase in revenue. From an accounting perspective, high revenues should create opportunities for large profits. However, in reality, PT Krakatau Steel continues to experience losses every year, which gives a potential indication of bankruptcy risk. This condition can be attributed to increased costs within the company that are not in line with revenue growth. Over time, continued losses can become a serious threat to the company's financial sustainability, and this condition needs to be a concern in evaluating the company's financial health and management [1].

This instability arises due to various internal and external factors in the company. External factors arise due to steel imports from China, causing difficulties for PT. Krakatau Steel competes in the market. From the internal side, problems arise due to increased debt burdens, investments that are not on target, and the cessation of operations of one of the production units [2]. Due to the large amount of the company's debt and declining competitiveness, in 2019 PT. Krakatau Steel is threatened with bankruptcy. However, at the initiation of the Minister of SOEs, the company managed to avoid bankruptcy. One of the efforts made is debt restructuring.

Debt restructuring is an action taken by a company to modify the condition of its debt. According to [3], restructuring is a process of restructuring the company's obligations, which aims to avoid financial difficulties to reconcile the company's financial performance [3]. This process includes changes in payment terms, interest rates, terms, or the amount of the debt itself. Debt restructuring aims to overcome financial difficulties companies face, improve liquidity, and create more sustainable financial conditions. This process is designed to increase the company's liquidity by readjusting the terms and terms of debt repayment. By readjusting debt payments, the company can improve its cash flow, a critical factor for operational continuity.

Recorded in the second quarter of the 2023 financial report, PT. Krakatau Steel has paid Tranche B debt of Rp. 27 trillion to all banking creditors (PT Krakatau Steel (Persero) Tbk, 2022). Since the implementation of the restructuring began in 2019, PT. Krakatau Steel has paid debts of Rp10.9 trillion or equivalent to USD 718 million of the total principal debt of Rp33.6 trillion (USD2.2 billion).

If the debt restructuring is successful, the company can rebuild the trust of creditors and other stakeholders, improving its reputation in the market. Debt restructuring can give companies greater financial flexibility by creating debt structures matching repayment capacity. However, according to Kaur and Srivasta, there are indications of moral hazard arising from the use of debt restructuring mechanisms as a means to evade or delay debt payments by debtors while simultaneously reducing substandard loans by creditors, without any substantially observable performance improvement [4].

The evaluation of restructuring is a crucial stage in determining the impact of implementing decisions. Analysis and evaluation of the company's financial performance after restructuring indicates an essential and strategic aspect of financial management. Financial performance is an analysis to assess the level of compliance with the realization of financial rules in the company [5]. The importance of this study lies in its ability to provide in-depth insight into the impact of changes in debt structure on the company's financial indicators. As a scientific procedure, the analysis involves an in-depth under-

standing of the rearranged financial data and an evaluation of the efficiency of the restructuring strategy implemented. The evaluation can be done by comparing the period before and after debt restructuring [6].

## 2 Methods

This study aims to test the hypothesis by comparing two economic events of several periods. Therefore, this study uses a quantitative approach with a comparative causal approach. The object of this study is debt restructuring and financial performance, while the subject of this study is PT. Krakatau Steel (Persero), Tbk. Data was collected using purposive sampling techniques. The sample of this study is an overview of financial statements derived from the annual report of PT. Krakatau Steel. The analysis is based on time series, namely the period before debt restructuring (2015-2018) and the post-restructuring period. 2019-2022. The report was taken from the official website of PT Krakatau Steel: <https://www.krakatausteel.com/>. The data is processed using the SPSS program.

The company's financial performance can be measured by analyzing financial ratios [7]. Financial ratios are values from comparisons between one element of financial statements with other elements with relevant and significant relationships [8]. According to Pio and Magindan, financial ratios consist of liquidity ratios, solvency ratios (leverage), profitability ratios, and activity ratios [9]. This study uses profitability ratio proxied with Return on Assets (ROA), liquidity ratio proxied with Current Ratio (CR), and leverage proxied with Debt to Equity Ratio (DER). The tests used in this study are:

### Normality Test

The normality test assesses the extent to which a sample or data distribution is close to the normal distribution [10].

### Test the hypothesis

The hypothesis test to be used depends on the normality test results. If the data is normally distributed, then the hypothesis test used is the parametric test Paired Sample t-test. At the same time, if the data is abnormally distributed, it uses the Wilcoxon Signed Rank Test. The basis for decision-making to accept or reject  $H_0$  in both parametric tests is as follows:

If Sig.(2-tailed) < 0.05 then  $H_0$  is rejected and  $H_1$  is accepted.

If Sig.(2-tailed) > 0.05 then  $H_0$  is accepted and  $H_1$  is rejected.

The hypotheses used in this study are as follows:

H1a: There are significant differences in leverage before and after debt restructuring.

H1b: There were significant differences in liquidity before and after the debt restructuring.

H1c: There were significant differences in profitability before and after the debt restructuring.

### 3 Results and Discussion

#### 3.1 Data Analysis

##### Descriptive Statistics

Descriptive statistical analysis aims to understand a number of key metrics in financial performance data, including minimum, maximum, average, and standard deviation values. This research focuses on calculated financial ratio data before and after debt restructuring to provide a deeper understanding of the distribution and variability of financial performance in that context. (Table 1)

**Table 1.** Descriptive statistics

	N	Min	Max	Mean	Std. Deviation
DER1	4	107.05	138.77	120.4675	13.65656
DER2	4	47.20	84.70	63.4750	16.50664
CR1	4	0.61	0.81	0.6975	0.09845
.CR2	4	0.28	1.01	0.5975	0.31383
ROA1	4	-10.35	-1.83	-4.7625	3.94539
ROA2	4	-14.71	1.19	-3.0500	7.77735

Source: Author Work

Note: Number 1 indicates the ratio before restructuring, while number 2 indicates the ratio after restructuring

##### Normality Test

The results of this research data normality test are as follows (Table 2)

**Table 2.** Normality Test

	Shapiro-Wilk Sig.	Information
DER1	0.761	Normal
DER2	0.774	Normal
CR1	0.299	Normal
.CR2	0.833	Normal
ROA1	0.214	Normal
ROA2	0.103	Normal

Source: Author Work

Note: Number 1 indicates the ratio before restructuring, while number 2 indicates after restructuring. If Sig. > 0.05, then the data is normally distributed, while if Sig. < 0.05, then the data is not normally distributed.

##### Test the Hypothesis

Based on the normality test results, every data in this study is normally distributed. So, the hypothesis test used is the Paired Sample T Test. The results of the hypothesis test are as follows: (Table 3)

**Table 3.** Paired Sample T Test

Ratio	Sig. (2-tailed)	Information
DER	0.027	H1 accepted
CR	0.434	H2 rejected
ROA	0.477	H3 rejected

Source: Author Work

Note: Probability value 0.05. If Sig. (2-tailed) is more than the probability value, then H1 is rejected, while if it is less than 0.05, then H1 is accepted.

The test results show a significant difference before and after restructuring when viewed from the solvency ratio. However, there is no significant difference in the ratio of profitability and liquidity.

**Table 4.** DER, CR and ROA 2015-2022

Year	DER	CR	ROA
2015	107.05%	0.61	-10.35%
2016	113.99%	0.81	-4.73%
2017	122.06%	0.75	-2.14%
2018	138.77%	0.62	-1.83%
2019	84.7%	0.28	-14.71%
2020	67.7%	1.01	0.67%
2021	47.2%	0.65	1.19%
2022	54.3%	0.45	0.65%

Source: Author Work

Based on the table above, in the period 2015-2018 (before the restructuring), the company's DER exceeded 1 or 100%. The company depends more on debt than capital if the DER value equals or exceeds 100%. In this context, the company's condition is included in the warning category because it has a high level of leverage [11]. High leverage can increase a company's financial risk, especially if it faces difficulties paying interest on its debt or managing its debts. Companies with high DER may also be considered more vulnerable to fluctuations in interest rates or changing market conditions, as debt interest payments become a greater financial burden. This indicates that the company has reduced its debt level relative to its equity. After carrying out debt restructuring, the composition of debt to the company's capital gradually reached a stable figure (less than 100%).

The Current Ratio before debt restructuring tends to fluctuate. Generally, the industry average standard is at least 200% (2:1) or equivalent to 2 times [12]. With the ratio result, the company is considered to have reached a safe position quickly. The data above shows that there was no significant change in the company's ability to pay its short-term obligations before and after the restructuring. The ROA standard for the industry is 30% [13]. Return on Assets before the restructuring showed a negative ratio, indicating the company suffered a loss. A negative ROA may indicate the company is inefficient in generating profits from its assets. After the restructuring, the company still has not achieved an adequate Return on Assets (ROA) standard, even though its

condition has been significantly more resilient than before the debt restructuring implementation.

## 4 Conclusion

Based on the calculation results, debt restructuring significantly affects the solvency ratio. This indicates that the decision to restructure debt has significantly impacted the company's ability to meet its financial obligations and maintain its financial stability. After debt restructuring, higher or lower solvency ratios may reflect substantial changes in a company's debt structure and overall financial performance. Therefore, these results signal that debt restructuring has real consequences on the solvency aspect of the company. However, debt restructuring did not significantly affect PT. Krakatau Steel. The insignificance of the difference in profitability ratios may indicate that, after debt restructuring, changes in the financial structure did not significantly impact the company's ability to make a profit. Similarly, the insignificant difference in liquidity ratios indicates that debt restructuring does not directly affect the company's ability to meet short-term obligations. In this context, post-debt restructuring, the change in focus on solvency seems to be more pronounced than the impact on profitability and liquidity. Overall, debt restructuring can provide resilience opportunities for companies by paying long-term obligations to creditors. Thus, the company can avoid the threat of bankruptcy and be allowed to reorganize its financial management. However, these changes have not been followed by an increase in the company's ability to optimize its assets to generate profits and pay short-term obligations. So, in addition to debt restructuring, there need to be other efforts to overcome this, such as conducting further research, cost efficiency, optimizing the use of assets, and improving the quality of human resources.

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