FINANCIAL RATIO ANALYSIS FOR PREDICTING FINANCIAL DISTRESS CONDITION USING RATIO RETURN ON ASSET, RETURN ON EQUITY AND NET PROFIT MARGIN (Case Study of Manufacturing in Indonesia Stock Exchange)

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ABSTRACT

Financial distress is a condition in which the company finance in an unhealthy situation or crisis. Financial distress occurs before the bankruptcy. In this study, financial distress defined as a condition of firms experiencing a negative net income for several years.

From the definition, the sample obtained by 31 companies classified into distress company group and 39 companies into non-distress company group. So, the whole total sample that was taken is 70 manufacturing companies and the data’s been published on the Indonesia Stock Exchange in the period of 2007-2011.

Testing in this study uses logistic regression to determine the predictive power of financial ratios (ROA) Return On Assets (ROE) Return On Equity and (NPM) Net Profit Margin. The determination of a company's financial distress.

The result of this research indicates that all three ratios simultaneously in use, namely ROA, ROE and NPM are dependent on the occurrence of financial distress, but in partially only ROA which is dependent on the occurrence of financial distress proven after wald test.

Keywords: Financial Distress, Return On Asset (ROA) Ratio, Return On Equity (ROE), Net Profit Margin (NPM) and logistic Regression.