

THE EFFECT OF OPERATING CAPACITY, OPERATING CASH FLOW, AND SALES GROWTH ON FINANCIAL DISTRESS IN MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE FOR THE PERIOD 2022–2024

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Abstract

This study aims to analyze the effect of operating capacity, operating cash flow, and sales growth on financial distress, which is proxied by the interest coverage ratio (ICR), in manufacturing companies listed on the Indonesia Stock Exchange during the period 2022–2024. A quantitative approach was employed using secondary data obtained from corporate financial statements. The sampling technique applied was purposive sampling, resulting in 267 observational data points. Data analysis was conducted using panel data regression with the assistance of EViews 13 software. The findings reveal that operating capacity, operating cash flow, and sales growth have a positive and significant effect on the interest coverage ratio (ICR). These results indicate that higher operating capacity, operating cash flow, and sales growth lead to a higher interest coverage ratio, reflecting an improved ability of firms to meet interest payment obligations and thereby reducing the risk of financial distress.

Keywords: *Operating Capacity, Operating Cash Flow, Sales Growth, Financial Distress.*

INTRODUCTION

In the era of globalization, the rapid development of business activities accompanied by increasingly intense competition requires companies to possess high adaptability and maintain sound financial conditions. Financial health is a crucial factor in sustaining operational continuity, as the primary objective of every business entity is to generate optimal profit while ensuring long-term survival (Vernando & Henny, 2023). Therefore, continuous evaluation of financial conditions is necessary to assess a company's ability to meet obligations, enhance operational efficiency, and support the formulation of appropriate strategies to avoid the risk of financial distress (Khasanah et al., 2021).

Financial distress refers to a decline in a company's financial health prior to bankruptcy, resulting from the inability to fulfill financial obligations. This condition serves as an important indicator for early detection of potential bankruptcy and assists investors and creditors in making economic decisions (Jonnardi et al., 2023; Wulandari & Jaeni, 2021). Moreover, financial distress reflects the weakening of a company's financial position, which may threaten business continuity if not addressed promptly (Primawan et al., 2024).

The deterioration of the global economy necessitates greater vigilance among companies, as it can affect financial stability, operational sustainability, and overall business performance. Ineffective management of financial resources may expose firms to financial distress and increase the risk of bankruptcy (Anthoni et al., 2025). This condition is evident in Indonesia's manufacturing sector, which has experienced fluctuations in the Purchasing Managers' Index (PMI) during the period 2022–2025, as illustrated in the following figure.

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Source: PMI Global, www.pmi.spglobal.com (2025)

Figure 1.1 Performance of Indonesia's Manufacturing Sector

Based on Figure 1.1, the decline in the PMI from 54.2 in March 2024 to 46.7 in April 2025 indicates a contraction in production activity and demand within the manufacturing industry, which may potentially affect corporate financial stability (Nurdifa, 2025). This phenomenon is also reflected in several manufacturing companies in Indonesia. PT Indofarma Tbk experienced a revenue decline of 54.2% accompanied by a net loss of approximately IDR 600 billion, resulting in difficulties in meeting its debt obligations. PT Kimia Farma Tbk reported a consolidated loss of IDR 1.82 trillion due to rising operating expenses and financial problems in its subsidiaries. Similarly, PT Sri Rejeki Isman Tbk recorded a loss of USD 174.84 million following a 38% decrease in sales, while PT Pan Brothers Tbk suffered a net loss of USD 4.34 million, leading to liquidity pressures. PT Century Textile Industry Tbk also incurred a loss of USD 4.04 million, which ultimately resulted in its delisting from the Indonesia Stock Exchange. These cases illustrate that deteriorating operational and financial performance can increase the risk of financial distress in manufacturing firms (Binekasri, 2024; Dwi, 2024; Indopremier, 2024a, 2024b; Sandria, 2024). According to Safitriawati et al. (2023), companies that fail to maintain performance are likely to experience financial distress, which may culminate in bankruptcy. Firms are generally categorized as financially distressed when they report negative operating and net income, negative book equity, or undertake corporate actions due to financial pressure (Pranita & Kristanti, 2020).

Various factors may influence the occurrence of financial distress, including operating capacity, operating cash flow, and sales growth. Operating capacity is a ratio used to measure a company's ability to manage and utilize its assets effectively to support operational activities. When assets are not optimally employed, the firm's potential to generate maximum revenue decreases, thereby increasing the risk of financial pressure (Rahma & Efendi, 2023). The findings of Khasanah et al. (2021) demonstrate that operating capacity has a positive and significant effect on financial distress, whereas Hani & Viriany (2023) found a negative and significant effect. Operating cash flow is a ratio employed to assess a company's ability to generate funds to sustain business activities and meet short-term obligations related to operating cash flows (Miswaty & Novitasari, 2023; Paryati, 2023). Julianti & Hartikayanti (2025) found that operating cash flow has a positive and significant effect on financial distress, while Damayanti & Fathihani (2024) reported a negative and significant effect. Meanwhile, sales growth is a ratio that reflects a company's ability to maintain economic stability amid economic development and

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sectoral growth (Prapanca & Kumalasari, 2023). Soraya & Tara (2025) argued that sales growth has a positive and significant effect on financial distress, whereas Delia et al. (2024) identified a negative and significant effect. Based on the observed phenomenon and the research gap identified in previous studies, there remain inconsistencies regarding the effect of operating capacity, operating cash flow, and sales growth on financial distress. Therefore, this study needs to be re-examined in the context of manufacturing companies listed on the Indonesia Stock Exchange. Accordingly, the objective of this research is to analyze the effect of operating capacity, operating cash flow, and sales growth on financial distress in manufacturing companies listed on the Indonesia Stock Exchange during the period 2022–2024.

LITERATURE REVIEW

Signaling Theory

According to Spence (1973), signaling theory explains that managerial actions in conveying information to investors serve as signals regarding the firm's condition. Such information subsequently becomes the basis for investors to assess and interpret the state of the company, thereby influencing investment decisions (Ariyanti & Sopian, 2024). In the context of accounting and finance, firms with strong performance will provide positive signals, whereas companies experiencing financial pressure will transmit negative signals. This information reflects the financial health of the firm and serves as a foundation for detecting potential financial distress (Afridayani, 2023; Syuhada et al., 2020).

Financial Distress

According to Goh (2023:19), financial distress is a condition in which a company faces financial difficulties due to its inability to generate sufficient revenue or profit to meet financial obligations. This situation is generally triggered by high fixed costs, low asset liquidity, or declining revenues, leading to financial pressure that may result in bankruptcy (Digdowiseiso & Ningrum, 2022). Financial distress also occurs when cash flows from operating activities are insufficient to cover current liabilities, such as trade payables and interest expenses, thereby causing a financial crisis due to revenues that do not match maturing obligations (Pawitri & Alteza, 2020). In this study, financial distress is measured using the Interest Coverage Ratio (ICR), a financial ratio employed to assess a company's ability to meet interest payment obligations on its debt (Finisthya, 2020). The formula for ICR is:

$$\text{ICR} = \text{EBIT} / \text{Interest Expense}$$

(Source: Sugiana & Hidayat, 2023)

Operating Capacity

Operating capacity is a measure that reflects a company's ability to carry out operational activities effectively and efficiently (Afridayani, 2023). According to Kasmir (2017:172) as cited in Agatha & Wijaya (2022), operating capacity is a ratio used to evaluate the effectiveness of firms in managing and utilizing assets, measured using Total Asset Turnover (TATO) to illustrate asset utilization efficiency in generating sales (Afridayani, 2023). Higher operating capacity reduces the likelihood of financial distress, whereas lower operating capacity indicates the inability to optimize asset utilization, thereby increasing the risk of financial difficulties (Pertiwi et al., 2022). In this study, the indicator used to measure operating capacity is Total Asset Turnover (TATO). The formula is:

$$\text{TATO} = \text{Sales} / \text{Total Assets}$$

Source: Miswaty & Novitasari, 2023)

Operating Cash Flow

Operating cash flow refers to the inflows and outflows of cash associated with a company's core business activities (Nursal et al., 2023). According to Dewi and Edastami (2025), operating cash flow is also considered a primary indicator of a firm's financial health, as it reflects the ability to generate cash from operational activities without relying on external financing sources. The greater the operating cash flow generated, the lower the likelihood of financial distress (Putri, 2021). The formula for operating cash flow is as follows:

$$\text{OCF} = \text{Operating Cash Flow} / \text{Current Liabilities}$$

(Source: Oktapani & Maryani, 2024)

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Sales Growth

Sales growth is a ratio used to estimate a company's future development and to demonstrate the success of past investments (Soraya & Tara, 2025). As noted by Wahyuni and Wahyudi (2021), sales growth can serve as an indicator of a firm's ability to maintain financial stability. An increase in sales growth reflects rising sales, which can enhance profitability and reduce the risk of financial distress (Dwipayana & Candradewi, 2024). Conversely, a decline in sales growth signals potential difficulties in covering operating expenses, which may lead to financial distress (Alifah & Tumirin, 2024). The formula for sales growth is expressed as:

$$\text{Sales Growth} = \frac{\text{Sales}_t - \text{Sales}_{t-1}}{\text{Sales}_{t-1}}$$

(Source: Wahyuni & Wahyudi, 2021)

The Effect of Operating Capacity on Financial Distress

Operating capacity is an activity ratio used to assess a company's effectiveness in managing its assets. The better the asset management, the lower the likelihood of financial distress (Khasanah et al., 2021). In relation to signaling theory, high operating capacity provides a positive signal that the firm is capable of optimizing its assets to generate sales and profits, thereby reflecting sound financial conditions (Digdowiseiso & Ningrum, 2022). Empirical studies conducted by Cahyani and Iramani (2022), Fitriani and Hendaris (2024), Hani and Viriany (2023), and Setiyoharini and Taufiqurahman (2022) demonstrate that operating capacity has a significant negative effect on financial distress. This is attributed to the firm's ability to manage assets efficiently, resulting in stable revenues and maintaining financial health, thereby minimizing the risk of financial distress.

Hypothesis: H₁: Operating capacity has a significant effect on financial distress.

The Effect of Operating Cash Flow on Financial Distress

Operating cash flow represents the cash generated from a company's core operations, playing a crucial role in meeting financial obligations (Dewi & Edastami, 2025). Firms with high operating cash flow are better positioned to finance operational activities, fulfill obligations, and sustain business continuity, thereby reducing the risk of financial distress. Conversely, a continuous decline in operating cash flow increases the potential for financial distress (Kanzha & Muslih, 2020). This condition aligns with signaling theory, which posits that high cash flow serves as a positive signal to creditors, indicating the firm's ability to meet its obligations (Khasanah et al., 2021). Empirical studies by Damayanti and Fathihani (2024) and Putri (2021) confirm that operating cash flow has a significant negative effect on financial distress. This suggests that an increase in operating cash flow reduces the likelihood of financial distress.

Hypothesis: H₂: Operating cash flow has a significant effect on financial distress.

The Effect of Sales Growth on Financial Distress

Sales growth is an instrument used to measure the rate of sales expansion, serving as an indicator of a company's effectiveness in marketing activities and maintaining its competitive position within the industry (Azari & Tjakrawala, 2023). High sales growth indicates favorable corporate conditions and provides a positive signal to stakeholders regarding the firm's ability to sustain operations (Khasanah et al., 2021). Empirical evidence from Delia et al. (2024), Nursal et al. (2023), and Putri (2021) demonstrates that sales growth has a significant negative effect on financial distress. Thus, the higher the sales growth, the lower the probability of financial distress.

Hypothesis: H₃: Sales growth has a significant effect on financial distress.

Based on the hypotheses formulated above, a conceptual framework is developed.

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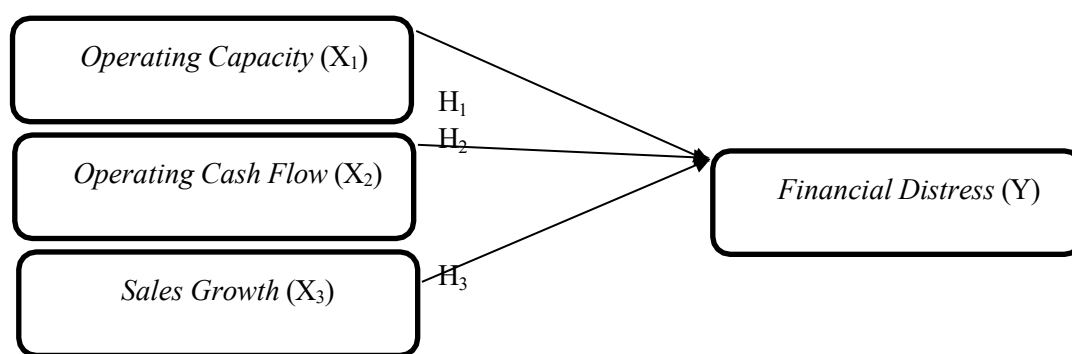


Figure 1.2 Conceptual Framework

METHOD

This study employs a quantitative approach utilizing secondary data obtained from the annual financial statements of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the period 2022–2024. The research data were collected from the official IDX website (www.idx.co.id) and the official websites of the respective companies. The population of this study consists of all manufacturing companies listed on the IDX during 2022–2024.

The sampling technique applied is *purposive sampling*, which involves selecting samples based on specific criteria determined by the researcher. Following the selection process, 176 companies met the research criteria. Subsequently, during the data processing stage, extreme values (*outliers*) were identified, resulting in the exclusion of 87 companies from the analysis. Accordingly, the final sample comprises 89 companies observed over three years, yielding a total of 267 firm-year observations. Data collection techniques include documentation and literature review. The data analysis technique employed is panel data regression, processed using EViews 13 software.

Table 2.1.
Operational Definition of Variables

Variables	Operational Definition of Variables	Indicator	Scale
<i>Financial distress</i> (Y)	Financial distress is a condition in which a company is unable to maintain its financial stability and experiences operational constraints that lead to a decline in performance (Baghaskara & Retnani, 2023).	$ICR = \frac{EBIT}{Interest\ Expense}$ (Source: Sugiana & Hidayat, 2023)	Ratio
<i>Operating Capacity</i> (X ₁)	Operating capacity is an efficiency ratio used to measure the extent to which a company is able to utilize its assets in generating sales, thereby reflecting its operational performance (Miswaty & Novitasari, 2023).	$TATO = Sales/Total\ Assets$ Source: Miswaty & Novitasari, 2023)	Ratio
<i>Operating Cash Flow</i> (X ₂)	Operating cash flow is a ratio employed to assess a company's ability to generate profit in support of its operational	$OCF = \frac{Operating\ Cash\ Flow}{Current\ Liabilities}$	Ratio

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	sustainability (Tania & Wijaya, 2021).	(Source: Oktapani & Maryani, 2024)	
<i>Sales growth</i> (X ₃)	Sales growth is an indicator that reflects a company's ability to maintain stability and enhance its economic performance in line with changes in economic conditions and developments within the industrial sector (Suwarno & Putri, 2022).	$Sales\ Growth = \frac{Sales_t - Sales_{t-1}}{Sales_{t-1}}$ (Source: Wahyuni & Wahyudi, 2021)	Ratio

Source: Processed Data, 2025

RESULTS AND DISCUSSION

Research Result

Descriptive Statistical Test Results

Table 2.2
Descriptive Statistical Analysis

	FD	OC	OCF	SG
Mean	3.991899	0.844189	0.232855	0.031804
Median	2.831670	0.757870	0.151580	0.029270
Maximum	28.01620	2.039850	1.271080	0.494250
Minimum	-13.97679	0.066830	-0.643580	-0.409720
Std. Dev.	5.887713	0.396288	0.326920	0.161543
Skewness	1.027266	0.681652	0.846333	0.185035
Kurtosis	5.404888	3.077109	4.016307	3.622831
Jarque-Bera	111.3011	20.74304	43.36524	5.839186
Probability	0.000000	0.000031	0.000000	0.053956
Sum	1065.837	225.3985	62.17234	8.491610
Sum Sq. Dev.	9220.934	41.77368	28.42916	6.941595
Observations	267	267	267	267

Source: EViews 13 Output, (2026)

Based on the results of the descriptive statistical analysis presented in Table 1.2, the mean, median, maximum, minimum, and standard deviation values of each research variable can be explained as follows. Financial distress, proxied by the interest coverage ratio (ICR), has a minimum value of -13.97679 recorded by PT Keramika Indonesia Assosiasi Tbk (KIAS) in 2024 and a maximum value of 28.01620 recorded by PT Tempo Scan Pacific Tbk (TSPC) in 2024. The mean value of 3.991899 with a standard deviation of 5.887713 indicates that the level of financial distress among firms is relatively diverse.

Operating capacity has a minimum value of 0.066830 recorded by PT Argo Pantes Tbk (ARGO) in 2022 and a maximum value of 2.039850 recorded by PT Kusuma Kemindo Sentosa Tbk (KKES) in 2024. The mean value of 0.844189 with a standard deviation of 0.396288 suggests that firms are relatively capable of utilizing assets effectively to generate sales.

Operating cash flow has a minimum value of -0.643580 recorded by PT Chemstar Indonesia Tbk (CHEM) in 2022 and a maximum value of 1.271080 recorded by PT Pinago Utama Tbk (PNGO) in 2023. The mean value

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of 0.232855 with a standard deviation of 0.326920 indicates that the ability of firms to generate operating cash flow remains varied.

Sales growth has a minimum value of -0.409720 recorded by PT Wahana Interfood Nusantara Tbk (COCO) in 2023 and a maximum value of 0.494250 recorded by PT Waskita Beton Precast Tbk (WSBP) in 2022. The mean value of 0.031804 with a standard deviation of 0.161543 shows that the average sales growth of firms is relatively low, with a considerable degree of data dispersion.

Test Model Selection

Results of the Chow

Table 2.3
Chow Test Results

Effects Test	Statistic	d.f.	Prob.
Cross-section F	10.254368	(88,175)	0.0000
Cross-section Chi-square	485.273986	88	0.0000

Source: EViews 13 Output, (2026)

Based on Table 2.3, the probability value of the cross-section F statistic is recorded at 0.0000. Since this value is lower than the significance level of 0.05, the most appropriate model is the Fixed Effect Model (FEM).

Hausman Test

Table 2.4
Hausman Test Results

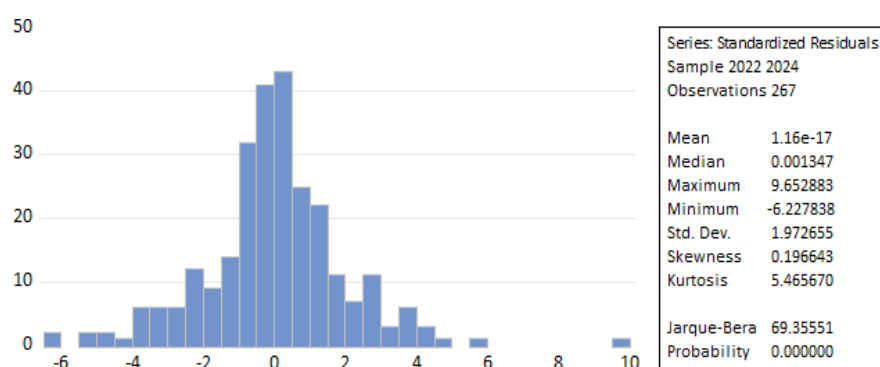
Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	14.446670	3	0.0024

Source: EViews 13 Output, (2026)

As shown in Table 2.4, the probability value of the cross-section random effect is 0.0024. This value is below the 0.05 significance threshold, indicating that the Fixed Effect Model (FEM) is the most suitable specification for this study.

Classical Assumption Test

Normality Test



Source: EViews 13 Output, (2026)

Figure 1.3 Normality Test Results

Figure 3 reports a Jarque–Bera statistic of 69.35551 with a probability value of 0.000000, which is less than 0.05. This finding suggests that the residuals are not normally distributed. However, in panel data analysis, the normality assumption is not strictly required when the number of observations is relatively large. According to the Central Limit Theorem, the sampling distribution tends to approximate normality when the sample size exceeds 30

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(Pranadipta & Natsir, 2023). Therefore, with 267 observations, this study can be assumed to meet the normality requirement, allowing the analysis to proceed.

Table 2.5
Multicollinearity Test Results

Variable	Coefficient Variance	Uncentered VIF	Centered VIF
C	0.547085	6.028443	NA
OC	0.587529	5.626714	1.012910
OCF	0.852668	1.509870	1.000421
SG	3.536118	1.052454	1.013041

Source: EViews 13 Output, (2026)

The Centered Variance Inflation Factor (VIF) values indicate that all independent variables have VIF scores well below the threshold of 10. Specifically, operating capacity (X1) has a VIF of 1.012910, operating cash flow (X2) has a VIF of 1.000421, and sales growth (X3) has a VIF of 1.013041. These results confirm the absence of multicollinearity among the independent variables in the regression model.

Table 2.6
Heteroskedasticity Test Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	1.966562	0.555125	3.542554	0.0005
OC	-0.460148	0.655972	-0.701475	0.4839
OCF	-0.685978	0.363791	-1.885640	0.0610
SG	-0.411090	0.487249	-0.843695	0.4000

Source: EViews 13 Output, (2026)

All independent variables exhibit probability values greater than 0.05. Thus, it can be concluded that the regression model does not show symptoms of heteroskedasticity.

Table 2.7
Panel Data Regression Analysis Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.755396	1.338861	0.564208	0.5733
OC	2.721733	1.582083	1.720348*	0.0871
OCF	3.575238	0.877397	4.074825***	0.0001
SG	3.343403	1.175155	2.845074***	0.0050

Effects Specification

Cross-section fixed (dummy variables)			
R-squared	0.887744	Mean dependent var	3.991899
Adjusted R-squared	0.829371	S.D. dependent var	5.887713
S.E. of regression	2.432052	Akaike info criterion	4.882024
Sum squared resid	1035.104	Schwarz criterion	6.118080
Log likelihood	-559.7502	Hannan-Quinn criter.	5.378539
F-statistic	15.20812	Durbin-Watson stat	2.511760
Prob(F-statistic)	0.000000		

Note : *sig at 10%, **sig at 5%, ***sig at 1%

Source: EViews 13 Output, (2026)

Based on the results of the analysis in table 2.7, the regression equation in this study is formulated as follows:

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$$Y = 0.755396 + 2.721733(OC) + 3.575238(OCF) + 3.343403(SG)$$

The regression equation estimated in this study is as follows:

1. Operating capacity has a coefficient of 2.721733, a t-statistic of 1.720348, and a probability value of $0.0871 < 0.10$. This indicates that operating capacity has a positive and significant effect on the interest coverage ratio (ICR), suggesting that higher operating capacity increases ICR and thereby reduces the risk of financial distress.
2. Operating cash flow has a coefficient of 3.575238, a t-statistic of 4.074825, and a probability value of $0.0001 < 0.01$. This demonstrates that operating cash flow has a positive and highly significant effect on ICR, implying that greater operating cash flow enhances the firm's ability to meet interest obligations and lowers the risk of financial distress.
3. Sales growth has a coefficient of 3.343403, a t-statistic of 2.845074, and a probability value of $0.0050 < 0.01$. This shows that sales growth exerts a positive and significant effect on ICR, indicating that higher sales growth improves ICR and reflects a reduced risk of financial distress.

Coefficient of Determination (R^2)

Table 2.8
Coefficient of Determination (R^2)

R-squared	0.887744	Mean dependent var	3.991899
<i>Adjusted R-squared</i>	0.829371	S.D. dependent var	5.887713
S.E. of regression	2.432052	Akaike info criterion	4.882024
Sum squared resid	1035.104	Schwarz criterion	6.118080
Log likelihood	-559.7502	Hannan-Quinn criter.	5.378539
F-statistic	15.20812	Durbin-Watson stat	2.511760
Prob(F-statistic)	0.000000		

Source: EViews 13 Output, (2026)

The *adjusted R-squared* value is 0.829371, or 82.93%. This result suggests that the independent variables collectively explain 82.93% of the variation in the dependent variable, while the remaining 17.07% is influenced by other factors not included in the model.

The Effect of Operating Capacity on Financial Distress

Based on the test results, the operating capacity variable has a coefficient of 2.721733, a t-statistic of 1.720348, and a probability value of $0.0871 < 0.10$. These findings indicate that H1 is accepted, meaning that operating capacity has a positive and significant effect on the interest coverage ratio (ICR) as a proxy for financial distress. The positive coefficient suggests that higher operating capacity leads to a higher ICR. Since ICR is inversely related to financial distress, an increase in ICR implies that the firm's ability to meet interest obligations improves, thereby reducing the risk of financial distress.

This result demonstrates that operating capacity positively and significantly affects ICR as a proxy for financial distress. The effectiveness of asset utilization reflects the firm's operational efficiency in generating revenue. Increased sales through optimal asset utilization enhance operating profit (EBIT), thereby strengthening the firm's ability to cover interest expenses. Consequently, high operating capacity serves as an indicator of sound financial conditions and a lower likelihood of financial distress. These findings are consistent with Miswaty and Novitasari (2023), who reported that operating capacity significantly influences financial distress, as well as Gunawan and Nariman (2024), who emphasized that operating capacity is one of the determinants of corporate financial distress.

The Effect of Operating Cash Flow on Financial Distress

The test results show that the operating cash flow variable has a coefficient of 3.575238, a t-statistic of 4.074825, and a probability value of $0.0001 < 0.01$. These findings indicate that H2 is accepted, meaning that operating cash flow has a positive and significant effect on the interest coverage ratio (ICR) as a proxy for financial distress at the 1% significance level. The positive coefficient suggests that higher operating cash flow leads to a higher ICR. Since ICR is inversely related to financial distress, an increase in ICR implies that the

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firm's ability to meet interest obligations improves, thereby reducing the risk of financial distress.

High operating cash flow reflects the firm's ability to generate cash from its core operations, providing sufficient internal funding to meet interest payments without relying on external financing. Thus, operating cash flow is a critical indicator of corporate financial health. These findings are supported by Daniella and Lukman (2023), Driani and Munghiyati (2024), and Miswaty and Novitasari (2023), who all reported that operating cash flow significantly affects financial distress.

The Effect of Sales Growth on Financial Distress

Based on the test results, the sales growth variable has a coefficient of 3.343403, a t-statistic of 2.845074, and a probability value of $0.0050 < 0.01$. These findings indicate that H3 is accepted, meaning that sales growth has a positive and significant effect on the interest coverage ratio (ICR) as a proxy for financial distress. The positive coefficient suggests that higher sales growth leads to a higher ICR. Since ICR is inversely related to financial distress, an increase in ICR implies that the firm's ability to meet interest obligations improves, thereby reducing the risk of financial distress.

Sales growth reflects the increasing market demand for a company's products, which potentially enhances revenue and operating profit. Higher operating profit strengthens the firm's capacity to meet interest obligations, as reflected in the rising ICR. Thus, firms that are able to sustain sales growth over time tend to exhibit stronger financial conditions and a lower probability of financial distress.

This finding is consistent with Soraya and Tara (2025), who reported that positive sales growth contributes to an increase in ICR, thereby reflecting healthier and more stable financial conditions. Similarly, Yuhartati and Nurdin (2023) demonstrated that sales growth is one of the factors influencing corporate financial distress. Therefore, sales growth exerts a positive and significant effect on ICR, indicating that the higher the sales growth, the lower the likelihood of financial distress.

CONCLUSION

Based on the results of this study, which examined the effect of operating capacity, operating cash flow, and sales growth on financial distress in manufacturing companies listed on the Indonesia Stock Exchange during the period 2022–2024, it can be concluded that, individually, operating capacity, operating cash flow, and sales growth exert a positive and significant influence on the interest coverage ratio (ICR) as a proxy for financial distress. The findings reveal that the greater the firm's ability to utilize assets, generate operating cash flow, and sustain sales growth, the higher the ICR value. An increase in ICR reflects an improved ability of firms to meet interest payment obligations, thereby reducing the risk of financial distress. In light of these findings, firms are expected to enhance the effectiveness of asset utilization, maintain stable operating cash flows, and sustain sales growth in order to increase ICR and minimize the risk of financial distress. Investors and creditors are advised to consider operating capacity, operating cash flow, and sales growth as key indicators when assessing a firm's financial condition.

Future research is recommended to incorporate additional variables that may influence financial distress, such as profitability, leverage, liquidity, firm size, corporate governance, and institutional ownership, as well as to extend the observation period and broaden the scope of industries under investigation. This study also has several limitations. First, it relies on secondary data obtained from published financial statements, meaning that the results depend on the completeness and quality of the available data. Second, the study only employs operating capacity, operating cash flow, and sales growth as explanatory variables for financial distress, while other potentially influential factors were not included in the research model.

Limitations

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