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Financial Ratio Analysis of Gagak Hitam: A Case Study from Indonesia's Tobacco Industry

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Background: The tobacco industry remains one of Indonesia's key economic sectors but is increasingly threatened by health regulations, rising excise taxes, and shifting public attitudes. Small-scale tobacco companies, such as Gagak Hitam in Bondowoso, face growing financial pressures that require evaluation of their financial resilience.
Aims: This study aims to assess the financial performance of Gagak Hitam Cigarette Company from 2014 to 2018 by analyzing key financial ratios—liquidity, solvency, and profitability—to determine the company's ability to sustain operations amid industry decline and regulatory challenges.
Methods: The study uses a descriptive case study approach with purposive sampling, focusing on financial statements and internal management interviews. Financial ratio analysis was applied to audited balance sheets and income statements over a five-year period. Key ratios such as Current Ratio, Quick Ratio, Net Working Capital, Debt Ratio, Debt to Equity Ratio, Gross Profit Margin, Net Profit Margin, and Operating Profit Margin were calculated and interpreted.
Findings: The analysis showed a stable financial condition from 2014 to 2017, with strong liquidity and improving profitability. However, in 2018, there was a sharp decline in nearly all indicators, especially profit margins, which dropped significantly. Liquidity weakened, and the company's reliance on long-term debt increased, raising concerns over financial sustainability.
Significance: This study provides empirical insight into the financial vulnerability of regional tobacco firms under regulatory pressure. It highlights the importance of financial ratio analysis as a strategic tool for early risk detection and supports the need for improved financial management and adaptive strategies in small-scale, high-risk industries.

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Introduction

The Tobacco Product Industry (IHT) has long been a strategic sector within Indonesia's economy, contributing significantly to national revenue (Ministry of Industry, 2017). However, this industry is increasingly confronted with multifaceted challenges, including growing public health awareness and the imposition of stricter government regulations—most notably, the continual rise in excise taxes (Rachmat, 2016; Rachmat and Nuryanti, 2016). These developments have led to a nationwide decline in cigarette production, posing substantial threats to both large and small tobacco companies, including Gagak Hitam, a regional firm located in Bondowoso, East Java. Previous research has indicated that factors such as workplace environment, employee competence, and recruitment practices significantly affect productivity at Gagak Hitam (Khoirul Ulum et al., 2018; Nugraha et al., 2018), which in turn influences overall financial performance.

In light of these challenges, evaluating financial performance through key indicators—namely liquidity, solvency, and profitability—is critical. Financial ratio analysis, particularly when complemented by models such as the Du Pont system, enables companies to assess asset efficiency and profitability under pressure from both market forces and regulatory frameworks (Garcinia, 2022;

Kamil and Sutrisno, 2022). This study, therefore, is driven by the need to assess the financial resilience of small-scale tobacco firms like Gagak Hitam in a period marked by industry contraction and increasing regulatory burdens. While much of the existing literature focuses on large multinational tobacco corporations, small and regionally based firms remain underrepresented despite experiencing similar, if not greater, vulnerabilities. By analyzing the financial performance of Gagak Hitam from 2014 to 2018, this study seeks to contribute context-specific insights that are often absent from macro-oriented analyses.

Moreover, previous studies have underscored that financial outcomes in the tobacco industry are not solely dependent on internal management but are also shaped by external forces such as government policy, public scrutiny, and ethical considerations. Several researchers have highlighted the growing importance of financial indicators in evaluating corporate sustainability, especially in controversial or "sin" industries like tobacco (Lehenchuk et al., 2023; Mišura et al., 2018). At the same time, studies on corporate social responsibility (CSR) reveal a dual effect: while some tobacco firms benefit from ethical branding, others face investor skepticism when CSR is perceived as insincere or performative (L. Liu et al., 2018; Oh et al., 2017). Additional research has also demonstrated how advertising strategies, investor biases, and governance structures influence financial reporting and market performance in this sector (Emma and Jennifer, 2021; Ezzine and Olivero, 2018; Hamdan et al., 2023; Salaber, 2013). Furthermore, the rise of environmental, social, and governance (ESG) reporting and sustainable development goals (SDGs) is pressuring companies in environmentally sensitive industries, including tobacco, to reformulate their strategic disclosures and align with broader ethical expectations.

Despite the richness of these studies, a significant gap remains concerning micro-level financial analysis of local tobacco enterprises in developing countries, particularly Indonesia. Most of the available research has centered on macroeconomic effects or the corporate strategies of large firms, thereby overlooking how smaller tobacco companies are managing their financial stability amid excise increases and evolving consumer behavior. While financial ratio analysis is widely acknowledged as a critical tool for understanding company performance (Hamdan et al., 2023), there are still few studies that apply it to local businesses through a focused case-study approach. To address this gap, the present study offers a five-year financial performance analysis of Gagak Hitam Cigarette Company, providing time-bound empirical data that reflects how internal financial metrics signal the company's adaptive capacity in a challenging market environment.

The purpose of this study is to analyze the financial performance of Gagak Hitam Cigarette Company from 2014 to 2018 using financial ratio analysis, with particular emphasis on liquidity, solvency, and profitability. Through this investigation, the study aims to offer a comprehensive view of the company’s financial condition and to generate practical insights that can inform managerial decision-making—especially within the context of regulatory tightening and declining industry momentum in Indonesia’s tobacco sector.

Method

Research Design

This study employs a descriptive research design with a case study approach, aiming to provide a comprehensive overview of the financial performance of Gagak Hitam Cigarette Company in Bondowoso over a five-year period, from 2014 to 2018. The case study method was chosen because it allows for an in-depth exploration of a specific phenomenon within its real-world context—in this case, a small-scale tobacco company operating under regulatory pressure and declining industry trends. This approach not only describes the company's financial condition but also considers how it responds to external challenges such as rising excise taxes and shifting public attitudes toward tobacco products.

Participant

The participants of this study include key members of the management team of Gagak Hitam Cigarette Company, particularly those in the finance division and the general manager. These individuals were selected using a purposive sampling technique, in which participants are intentionally chosen based on their strategic roles and access to relevant financial and operational information. This technique ensures that only those with direct knowledge and authority over financial data contribute to the research, thereby enhancing the credibility and accuracy of the findings.

Clarification:

- Population: The entire management of Gagak Hitam Cigarette Company.
- Sample: Finance division staff and the general manager.
- Sampling Technique: Purposive sampling based on professional judgment and data relevance.

Instrument

The instruments used in this study include both primary and secondary data sources. Primary data were collected through direct interviews and on-site observations involving the finance department and the general manager. Secondary data were obtained from internal company documents, such as audited financial statements (balance sheets and income statements), as well as records detailing the company's history and organizational structure. The use of both data types provides a more holistic understanding of the company's financial condition, enabling triangulation of findings through multiple sources.
Types of data:

- Qualitative data: The company's history and organizational structure.
- Quantitative data: Audited financial reports, including balance sheets and income statements for the years 2014 to 2018.

Data Analysis plan

The collected data were analyzed using financial ratio analysis techniques to evaluate three core aspects of the company's financial performance: liquidity, solvency, and profitability. This method is designed to assess the company's ability to meet short-term obligations, maintain long-term financial stability, and generate profit from its operational activities. The ratios were calculated using standard financial formulas and interpreted in comparison with industry norms and internal year-to-year trends. The aim of this analysis is to identify financial strengths and weaknesses and provide insights for managerial decision-making under regulatory and market pressures.
Financial ratios used:

- Liquidity Ratios:
  - Current Ratio = Current Assets / Current Liabilities × 100%
  - Quick Ratio = (Current Assets – Inventory) / Current Liabilities
  - Net Working Capital = Current Assets – Current Liabilities
- Solvency Ratios:
  - Debt Ratio = Total Liabilities / Total Assets × 100%

- Debt to Equity Ratio = Long-Term Debt / Shareholders' Equity × 100%

- Profitability Ratios:
  - Gross Profit Margin = Gross Profit / Sales × 100%
  - Net Profit Margin = Net Profit After Tax / Sales × 100%
  - Operating Profit Margin = Operating Profit / Sales × 100%

RESULTS AND DISCUSSION

Results

The financial ratio analysis of Gagak Hitam Cigarette Company from 2014 to 2018 reveals a noticeable fluctuation in performance across all indicators. A summary of the company's key financial ratios over this five-year period is presented in Table 1.

Table 1. Financial Ratios of Gagak Hitam Cigarette Company (2014–2018)

Year	CR (%)	QR (%)	NWC (IDR)	DR (%)	DER (%)	GPM (%)	NPM (%)	OPM (%)
2014	333.63	191.30	10B	41	69	21	20	23
2015	354.48	199.40	11B	30	43	22	21	23
2016	221.50	129.50	8B	31	44	24	23	225
2017	188.80	103.00	7B	5	33	25	24	26
2018	123.50	69.68	2B	38	63	4	3	6

To provide a clearer understanding of the financial dynamics, the trends in liquidity ratios (Current Ratio, Quick Ratio, and Net Working Capital) are illustrated in **Figure 1** below.

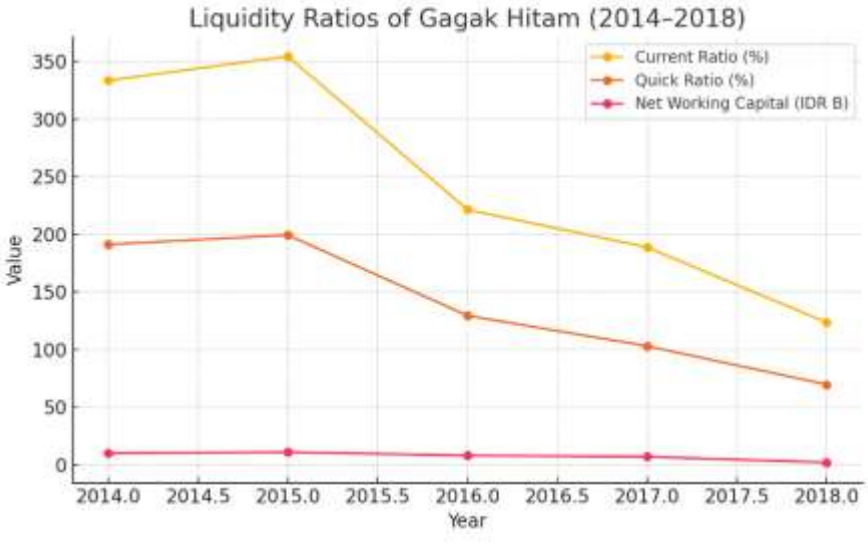

Figure 1. Trends in Liquidity Ratios of Gagak Hitam (2014–2018)

The Current Ratio (CR) remained above the 200% benchmark until 2016, indicating a healthy ability to meet short-term liabilities. However, a significant decline was observed in 2017 (188.8%) and worsened in 2018 (123.5%), signaling a potential liquidity risk. Similarly, the Quick Ratio (QR) dropped from 191.3% in 2014 to only 69.68% in 2018, falling below the minimum acceptable threshold of 100% and suggesting the company may struggle to cover liabilities without relying on inventory.

The Net Working Capital (NWC) followed a similar downward trend, decreasing from IDR 10 billion in 2014 to only IDR 2 billion in 2018. This indicates a shrinking buffer between current assets and liabilities, which could raise concerns among creditors. The evolution of the company's solvency ratios is presented in Figure 2, highlighting Debt Ratio (DR) and Debt to Equity Ratio (DER) changes over the study period.

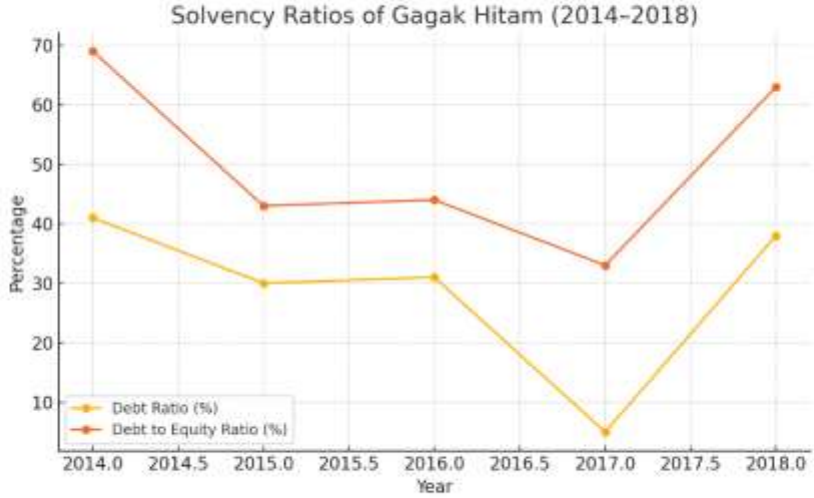

Figure 2. Solvency Ratios of Gagak Hitam (2014–2018)

The Debt Ratio (DR) decreased over the first four years, reaching as low as 5% in 2017, before rising again to 38% in 2018. Despite this increase, the ratio remains within the acceptable range for trading companies. The Debt to Equity Ratio (DER) also fluctuated, peaking at 69% in 2014 and dropping to 33% in 2017, before increasing again to 63% in 2018, indicating reliance on long-term debt remained a persistent issue. In terms of profitability, the Gross Profit Margin (GPM), Net Profit Margin (NPM), and Operating Profit Margin (OPM) trends are visualized in Figure 3 below.

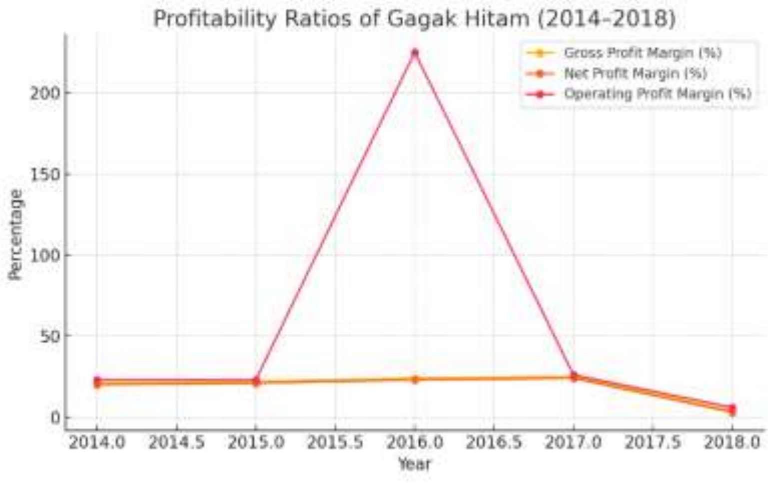

Figure 3. Profitability Ratios of Gagak Hitam (2014–2018)

The Gross Profit Margin (GPM) increased from 21% in 2014 to 25% in 2017, but experienced a sharp decline to 4% in 2018. The Net Profit Margin (NPM) mirrored this pattern, rising steadily from 20% in 2014 to 24% in 2017 before plummeting to 3% in 2018. Lastly, the Operating Profit Margin (OPM) showed a relatively stable performance until 2017, reaching as high as 26%, but significantly dropped to 6% in 2018, reflecting a considerable decrease in operational efficiency.

Discussion

The results indicate that Gagak Hitam Cigarette Company maintained relatively strong financial performance from 2014 to 2017, particularly in terms of liquidity and profitability. However, 2018 marked a critical turning point, as nearly all financial indicators deteriorated. The sharp declines in Current and Quick Ratios reflect decreasing short-term solvency, a trend that, according to (Hamdan et al., 2023), often discourages creditors and signals underlying instability in firms operating in controversial sectors. The substantial drop in Net Working Capital in 2018 further supports the notion that the company may be experiencing tightening liquidity and growing difficulties in maintaining a financial cushion. To visualize the severity of this decline, a radar chart comparing the company's financial ratios in 2017 and 2018 is presented in Figure 4.

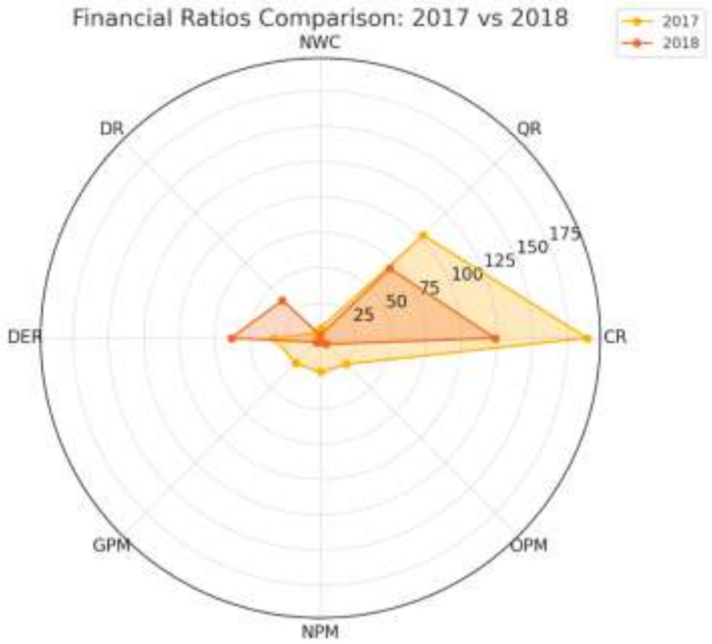

Figure 4. Financial Ratio Comparison: 2017 vs 2018

This mirrors findings from Lehenchuk et al., (2023), who demonstrated that financial fragility is common in industries under regulatory scrutiny, particularly when transparency and adaptability are lacking. Furthermore, the drop in all three profit margin ratios in 2018 can be associated with increased operating costs and declining efficiency, which reflects the concerns raised by Oh et al., (2017) and Liu et al., 2018) regarding the compounded challenges faced by tobacco firms when cost control and strategic positioning are not effectively implemented. The minor rebound in debt-related ratios in 2018 could indicate the firm's increased reliance on external borrowing, a behavior consistent with firms struggling to maintain profitability under environmental pressures as described by Emma and Jennifer, (2021).

Implications

The findings of this study underscore the importance of continuous financial monitoring and prudent management practices in highly regulated and socially sensitive industries such as tobacco. As pointed out by (Mišura et al., 2018), financial resilience is not only a function of internal performance metrics but also a reflection of how well a company positions itself within broader ethical and regulatory frameworks. The downward trends in 2018 imply that if companies like Gagak Hitam do not adapt quickly to rising operational costs and shifting market expectations, they may face loss of investor confidence, reduced access to credit, and eventual business discontinuity. The case also reinforces the utility of financial ratio analysis, as noted by Hamdan et al., (2023), as a strategic tool for early detection of financial distress and as input for corrective decision-making.

Limitations

This study is limited in scope due to its focus on a single company, which restricts the generalizability of its findings across the broader tobacco industry in Indonesia. The analysis heavily relies on internal financial data and managerial interviews, without integrating comparative market or policy data. Additionally, the absence of advanced statistical analysis methods confines the interpretation to a descriptive level. As highlighted by (Salaber, 2013), financial outcomes in controversial industries are often influenced by macro-level socio-political factors, which are beyond the scope of this study.

Suggestions

Future research should extend the analysis by comparing multiple tobacco firms of different scales to determine whether the trends observed in Gagak Hitam are isolated or reflective of broader industry dynamics. Integrating environmental, social, and governance (ESG) metrics, as suggested by Emma and Jennifer, (2021) and (Lehenchuk et al., 2023), would also enhance the depth of analysis and align the study with global reporting standards. On the practical side, Gagak Hitam should improve its internal cost management systems and consider diversifying its product portfolio, in line with the strategic suggestions from Liu et al., (2018). Lastly, implementing more proactive CSR communication and sustainability reporting, as discussed by Oh et al., (2017), could help the company strengthen its legitimacy and stakeholder support amid increasing public scrutiny.

Conclusion

This study set out to evaluate the financial performance of Gagak Hitam Cigarette Company over the period 2014–2018 using key financial ratios liquidity, solvency, and profitability as outlined in the introduction. The results confirm the initial expectation that financial ratio analysis serves as a reliable tool to assess a company’s financial health and to identify critical trends over time. The findings revealed that the company experienced stable financial performance from 2014 to 2017, with positive liquidity and profitability ratios. However, a notable financial downturn occurred in 2018, indicating potential liquidity challenges, reduced profitability, and increased reliance on external financing. These outcomes are consistent with the study's objective to assess the company’s financial resilience amidst increasing regulatory and market pressures in the tobacco industry.

The study also affirms the broader implications discussed in previous literature, highlighting that firms operating in controversial and heavily regulated sectors must adopt more proactive financial strategies to maintain sustainability. From a developmental perspective, the research underscores the importance of financial ratio analysis as an early warning mechanism for companies facing external pressures. Future studies may expand upon these findings by including comparative analyses across multiple firms and integrating non-financial indicators such as ESG performance or CSR strategies. Furthermore, the results may serve as a valuable reference for financial managers and policymakers aiming to support small and medium-sized enterprises in regulated industries through better-informed decision-making and strategic financial planning.

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