

Corporate Financial Distress and Debt Restructuring: A Systematic Literature Review on PKPU Mechanisms in Indonesia's Textile Industry

GP Aji Wijaya^{1*}, Raden Aswin Rahadi²

School of Business and Management, Institut Teknologi Bandung^{1,2}

*Email: aji_wijaya@sbm-itb.ac.id

Abstract

Corporate financial distress is a recurring challenge, particularly during economic downturns and sector-specific crises. In Indonesia, the Penundaan Kewajiban Pembayaran Utang (PKPU) framework offers a legal mechanism to facilitate debt restructuring. This study applies a systematic literature review (SLR) combined with a case study of PT Rejekitex to examine how PKPU mechanisms function within the textile industry. It explores the theoretical foundations of financial distress—including Trade-Off, Agency, and Pecking Order theories—compares PKPU with international frameworks such as U.S. Chapter 11, and identifies key research gaps concerning the long-term effectiveness of PKPU, conflicts among creditors, and recovery strategies adopted by firms. The findings indicate that the success of PKPU-driven restructuring depends on factors such as creditor alignment, industry stability, and firm-specific strategies. The study contributes a conceptual framework that maps the causes, mechanisms, and outcomes of court-supervised restructuring processes under PKPU. While the analysis centres on Indonesia's textile sector, the proposed framework holds broader relevance for other debt-intensive industries in emerging markets.

Keywords: Financial distress, debt restructuring, PKPU, insolvency, textile industry, systematic literature review

A. INTRODUCTION

Indonesia's textile industry, once a key contributor to national exports and employment, is undergoing a significant period of contraction. Although it generated over USD 12 billion in export revenues and employed between 2 and 4.3 million workers in 2022, its GDP share declined to 1.03% by 2023, signalling deepening structural distress (BenarNews, 2025; Rachmawati & Octavia, 2023). This decline has been driven by persistent global competition, post-pandemic disruptions, and rising operational inefficiencies. Firms such as PT Rejekitex—a vertically integrated giant in Southeast Asia's textile landscape—have experienced acute financial distress, culminating in a USD 1.2 billion debt burden and negative equity reaching USD 955 million by mid-2024. This study investigates how Indonesia's court-supervised restructuring mechanism, the Penundaan Kewajiban Pembayaran Utang (PKPU), facilitates corporate recovery under such conditions. Rejekitex's restructuring through PKPU in 2022 initially improved financial liquidity—evidenced by a rise in current ratio from 0.45 to 0.68—yet the Supreme Court's annulment of the plan in 2024 underscores deeper systemic vulnerabilities in Indonesia's insolvency framework (PT Sri Rejeki Isman Tbk, 2024b; Rachmawati & Octavia, 2023).

This case reflects a broader sectoral crisis in Indonesia's textile industry, marked by widespread closures, job losses, and investor uncertainty. The failure of PKPU to provide lasting relief in Rejekitex's case, contrasted with relatively successful outcomes in other firms such as Duniatex (BenarNews, 2025), raises concerns regarding the robustness and consistency of debt restructuring processes. If left unaddressed, financial distress poses systemic risks to sectoral stability, employment, and trade competitiveness. Debt restructuring mechanisms like PKPU are intended to allow firms to reorganise without liquidation, preserving productive capacity and stakeholder value (Altman, 1968). However, their effectiveness depends on factors such as creditor cooperation, judicial predictability, and a firm's internal adaptability.

The present study seeks to critically evaluate the efficacy of PKPU-driven restructuring in promoting financial sustainability for distressed textile firms in Indonesia. It uses Rejekitex's 2022–2024 restructuring trajectory as a focal point to assess how insolvency mechanisms function under real-world constraints. Specifically, the research addresses three interrelated questions: first, how PKPU impacts

* Corresponding author

liquidity and solvency in distressed firms; second, what specific factors led to the annulment of Rejekitex's restructuring plan and how they diverge from successful precedents; and third, what strategic lessons can be drawn to enhance future restructuring efforts in similar industrial contexts. These questions are grounded in the premise that effective corporate restructuring resolves short-term financial imbalance and enables firms to regain long-term viability.

Despite substantial literature on financial distress and restructuring, empirical studies on PKPU's financial implications in emerging economies remain limited. Much of the existing work is legalistic, with insufficient attention to firm-level financial outcomes (White & Case, 2020). Moreover, sector-specific insights are lacking, particularly in industries like textiles where distress is shaped by labour intensity, thin margins, and volatile global demand (Asian Growth Research Institute, 2025). While classic distress prediction models (e.g., Altman Z-score) have been widely applied, they often fail to account for the informal dynamics of creditor negotiations and judicial inconsistencies in Indonesia (Ashraf et al., 2019; Mavlutova et al., 2021). This study addresses these gaps by integrating financial analysis with qualitative insights, offering a more nuanced understanding of how PKPU performs in practice.

This research aims to evaluate PKPU's practical role in stabilising financially distressed textile firms in Indonesia. An in-depth examination of Rejekitex's restructuring case contributes to both theoretical refinement and practical guidance. The study offers a threefold contribution: assessing the financial effects of restructuring on liquidity and solvency metrics; analysing how legal and operational disruptions undermine restructuring outcomes; and proposing a contextualised framework for more effective restructuring strategies tailored to emerging markets. Beyond academic insight, the findings are relevant for policymakers seeking to reform PKPU procedures, creditors navigating recovery negotiations, and corporate leaders pursuing adaptive restructuring plans. As Indonesia's textile industry continues to struggle, this research provides a timely contribution to the discourse on sustainable financial recovery and corporate resilience..

B. LITERATURE REVIEW

Financial Distress and Capital Structure Theories

Corporate financial distress is when a firm cannot meet its financial obligations, often due to declining operational performance, external shocks, or excessive leverage (Altman et al., 2019). In such situations, debt restructuring becomes critical to realigning liabilities with firm capacity. The dynamics of financial distress are best understood through three foundational lenses: Trade-Off Theory, Pecking Order Theory, and Agency Theory. These theories offer a robust framework to analyse the case of Rejekitex and similar firms operating under Indonesia's Penundaan Kewajiban Pembayaran Utang (PKPU) restructuring mechanism. According to Trade-Off Theory (Modigliani & Miller, 1958; Frank & Goyal, 2008), firms balance the tax benefits of debt financing against the rising costs of financial distress. Pecking Order Theory (Myers & Majluf, 1984) emphasises firms' financing preferences—internal funds first, debt second, and equity last—due to signalling concerns. Agency Theory (Jensen & Meckling, 1976) focuses on stakeholder misalignment, especially between debt holders and equity owners, intensifying during financial downturns. In highly leveraged emerging market firms like Rejekitex, these three frameworks provide insight into the collapse of financial stability and the challenges in restoring it.

Trade-Off Theory in Rejekitex's Capital

Under the Trade-Off framework, financial distress emerges when the marginal cost of debt, arising from risk perception and higher interest rates, exceeds its tax benefits. This condition was evident in Rejekitex's case between 2018 and 2021, when short-term debt ballooned and earnings collapsed. Despite maintaining manageable interest expenses until 2020, the firm's operating losses reached unsustainable levels in 2021. Table 1 summarises Rejekitex's key financial distress indicators during this period.

Table 1. Rejekitex Financial Indicators Preceding the 2021 PKPU Filing

Indicator	Q4 2020	Q4 2021
Total Debt	USD 1.02 billion	USD 1.63 billion
Short-term Debt	USD 0.23 billion	USD 1.58 billion
Interest Expense	USD 76 million	USD 116 million
Operating Profit (EBIT)	USD 176 million	USD -937 million
Equity	USD 672 million	USD -399 million

Indicator	Q4 2020	Q4 2021
Market Value of Equity (MVE)	USD 292 million	USD 213 million
Market Value to Total Liabilities	0.248	0.131
Debt-to-Equity Ratio	1.81	-1.27

Source: PT Sri Rejeki Isman Tbk, 2022

The dramatic erosion of equity and negative operating income triggered creditor concern and undermined the potential for further refinancing. As debt costs rose, the marginal benefit of tax shields diminished. Eventually, the firm's proposed 2021 PKPU plan, which included a 35% debt-to-equity conversion and maturity extensions, was rejected, confirming the theory's assertion that unsustainable leverage leads to restructuring failure.

Pecking Order Theory and Financing Breakdown

Pecking Order Theory posits that firms prioritise financing in a descending order based on visibility and control: internal funds, debt, and finally equity (Myers & Majluf, 1984). In Rejekitex's case, internal funds became unavailable by 2021 due to heavy losses, and the firm maximised its debt capacity. However, equity issuance was avoided—likely due to fears of signalling overvaluation, causing stock price deterioration and shareholder dilution. Table 2 compares the firm's assets and liabilities over time, illustrating how debt rapidly replaced internal funding as a liquidity source.

Table 2. Comparison of Rejekitex's Assets and Liabilities (Q4 2019 vs Q4 2021)

In million USD	Q4 2019	Q4 2021
Non-current Assets	895	589
Current Assets	664	645
Total Assets	1,559	1,234
Current Liabilities	183	1,579
Non-current Liabilities	784	54
Total Liabilities	967	1,633
Equity	593	-399

Source: PT Sri Rejeki Isman Tbk, 2022

By 2021, Rejekitex's capital structure was dominated by short-term liabilities, with almost no buffer from equity. The avoidance of equity issuance—even as market value declined and book value turned negative—reflects the signalling costs predicted by Pecking Order Theory. The firm's dependence on short-term borrowing led to maturity mismatches and repayment pressures, eventually culminating in a PKPU filing.

Agency Theory and Stakeholder Misalignment

Agency Theory explains failed restructurings due to conflicting objectives between managers, creditors, and shareholders (Jensen & Meckling, 1976). In Rejekitex, this misalignment was exacerbated by operational losses, negative equity, and strategic decisions that favoured short-term survival over long-term solvency. While the 2021 PKPU restructuring plan attempted to align stakeholder interests through equity conversion and creditor oversight, it failed to build consensus. Table 3 illustrates Rejekitex's deteriorating balance sheet across three years, showing the widening disconnect between liabilities and equity.

Table 3. Rejekitex Financial Position (Q4 2019 – Q4 2021)

In million USD	Q4 2019	Q4 2020	Q4 2021
Current Assets	895	1,151	589
Non-current Assets	664	701	645
Total Assets	1,559	1,852	1,234
Current Liabilities	183	398	1,579
Non-current Liabilities	784	781	54
Total Liabilities	967	1,18	1,633
Equity	593	672	-399

Source: PT Sri Rejeki Isman Tbk, 2022

Agency conflicts also surfaced in the firm's profit and loss dynamics, as shown in Table 4, where management decisions prioritised operations over debt servicing.

Table 4. Rejekitex Consolidated Income Statement (2019–2021)

In million USD	2019	2020	2021
Revenue	1,182	1,283	848
Cost of Sales	-947	-1,056	-1,217
Gross Profit	235	227	-370
Operating Expenses	-18	-52	-567
Operating Profit	217	175	-937
Other Expenses	-115	-73	-245
Pretax Profit	102	102	-1,181
Net Profit	88	85	-1,081

Source: PT Sri Rejeki Isman Tbk, 2022

This deterioration led to the collapse of the 2021 PKPU plan. Although the firm proposed four alignment mechanisms—mandatory convertible loans, waterfall profit sharing, third-party oversight, and creditor voting rights—key stakeholders such as PT Indo Bharat Rayon rejected the plan in 2024, citing operational opacity and ongoing losses. This outcome validates Agency Theory's claim that misaligned incentives and weak governance structures hinder effective restructuring.

Summary of Literature Gaps

Table 5 presents a synthesis of prior literature, key insights, and their relevance to the Rejekitex case to situate this study within broader academic discourse.

Table 5. Summary of Key Studies and Identified Gaps

Study	Focus Area	Key Insights	Gaps in Application
Modigliani & Miller (1958)	Trade-Off Theory	Optimal debt balances tax benefits and distress costs	Ignores institutional failures in emerging markets
Altman (1968)	Bankruptcy Prediction (Z-Score)	Financial ratios predict insolvency risk	Limited accuracy in volatile or opaque regulatory settings
Jensen & Meckling (1976)	Agency Theory	Conflicts hinder restructuring outcomes	Lacks case-based validation in developing economies
Myers & Majluf (1984)	Pecking Order Theory	Financing order reflects signaling and risk behaviour	Does not account for institutional constraints in equity markets
Hotchkiss et al. (2021)	Creditor-Debtor Conflict	Stakeholder misalignment impairs restructuring	Underexplored in court-mediated frameworks like PKPU
Sulaiman (2021)	PKPU Legal Framework	PKPU is flexible but lacks enforceability	Financial effects on firm recovery remain understudied

Source: Research data, 2025

This structured literature review integrates theory and evidence to analyse the causes and consequences of corporate financial distress, particularly under Indonesia's PKPU regime. By applying these frameworks to Rejekitex, the study demonstrates that successful restructuring in emerging markets demands sound financial planning, robust legal design, institutional credibility, and stakeholder alignment.

C. METHODS

This study adopts a Systematic Literature Review (SLR) approach to evaluate the effectiveness of Indonesia's Penundaan Kewajiban Pembayaran Utang (PKPU) mechanism in facilitating corporate recovery within the textile sector, with a particular focus on the 2022–2024 restructuring process of PT Sri Rejeki Isman Tbk (Rejekitex). The methodology is grounded in an interpretivist epistemological perspective, aiming to produce analytically rigorous and contextually rich insights. The review was structured around three key research questions: (1) How does PKPU-driven debt restructuring affect the liquidity and solvency of financially distressed textile firms? (2) What factors contribute to the success or failure of PKPU restructuring plans in Indonesia's textile industry? (3) What strategies can improve restructuring outcomes for debt-heavy firms operating in emerging markets?

To ensure transparency and minimise bias, the review followed a five-stage iterative process: protocol development, literature search, study selection, data extraction and quality appraisal, and synthesis. This structure aligns with global best practices for evidence-based review design. A predefined protocol guided the process, specifying research questions, inclusion and exclusion criteria, search

strategies, appraisal frameworks, and synthesis techniques. The temporal boundary was set from 2004, when Indonesia formalised PKPU under Law No. 37, through 2024, with a strict thematic focus on financial distress and restructuring within the Indonesian textile sector. The protocol was reviewed by two researchers independently and refined through consensus. A comprehensive search was conducted across multiple databases, including Scopus, Web of Science, SINTA, and Garuda. Keyword combinations were tailored using Boolean operators and database-specific syntax, incorporating primary terms such as “PKPU”, “debt restructuring”, and “corporate restructuring”; contextual terms such as “textile industry”, “Indonesia”, and “garment industry”; and outcome-related terms such as “financial distress”, “liquidity”, “solvency”, and “turnaround”. An example of the adapted search string for Scopus is: ("PKPU" OR "debt restructuring") AND ("textile industry" OR "Indonesia") AND ("financial distress" OR "solvency").

Grey literature—including reports from Deloitte, the World Bank, and McKinsey—complemented academic publications. Additional studies were identified through backwards and forward snowballing techniques. All sources were exported to EndNote for deduplication and screening. Clearly defined inclusion and exclusion criteria guided the study selection process. Studies were retained if published between 2004 and 2024, addressed PKPU or debt restructuring in Indonesia (preferably in the textile industry), and analysed outcomes related to financial sustainability. Eligible documents included peer-reviewed journal articles, theses, conference papers, high-quality grey literature, and primary materials such as interviews with executives and stakeholders. Studies that lacked empirical content, were unrelated to PKPU, or were inaccessible were excluded. The selection process was documented using a PRISMA-compliant flow diagram.

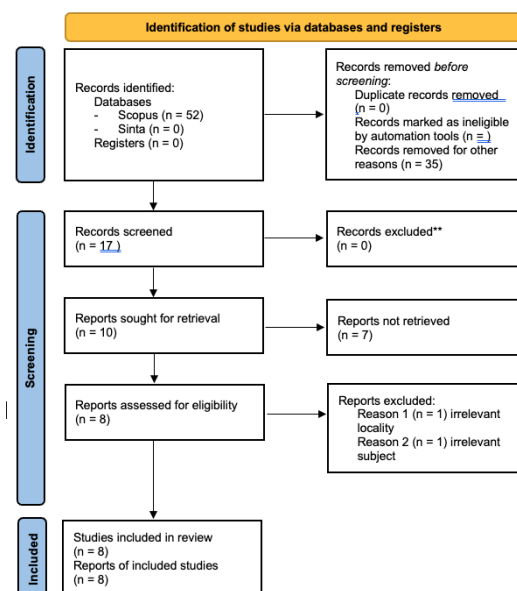


Figure 1. PRISMA Flow Diagram for Study Selection

Source: Research data, 2025

To ensure analytical reliability, a standardised form was employed to extract data on study characteristics (author, year, design), context (sector, firm focus), outcomes (e.g., liquidity ratio, debt-to-equity ratio), theoretical frameworks (e.g., Trade-Off Theory, Agency Theory), and methodological quality. Quality appraisal followed the CASP checklist for qualitative studies and the Joanna Briggs Institute (JBI) checklist for quantitative studies. Two coders independently reviewed each study, with disagreements resolved via adjudication. High-quality studies were prioritized in the synthesis, though lower-quality sources were retained to preserve contextual diversity, albeit weighted less in analytical conclusions. The data analysis process combined traditional content synthesis with computational text processing using natural language processing (NLP) techniques. This mixed-methods strategy enabled the extraction temporal patterns in financial performance, shifting sentiments, and key themes in restructuring discourse. Texts such as annual reports, court decisions, and stakeholder interviews were analysed for both sentiment and thematic trends. Ratio-based financial analysis tracked movement in key

indicators, such as the current and debt-to-equity ratios, while court documents were examined for patterns in creditor dissent and legal reasoning.

The scope of the study centres on Rejekitex's PKPU process from January 2022 until the annulment decision in October 2024, with financial benchmarks including liquidity (current ratio) and solvency (debt-to-equity). Comparative analysis with Duniatex and Spinmill Indah Industry offers a sectoral context. The methodology acknowledges four key limitations. First, reliance on publicly available data restricts access to internal firm dynamics. Second, long-term implications remain uncertain with the PKPU process still under legal review post-2024. Third, while the analysis acknowledges macroeconomic volatility and policy shifts, it does not model these in detail. Fourth, the contextual specificity of the textile sector limits broader generalizability, although the framework remains adaptable for debt-intensive industries in emerging markets. The case study of Rejekitex provides empirical grounding for the review. Financial data were sourced from the firm's 2023 annual report, creditor filings, and PKPU court documentation. These were supplemented by structured interviews with executives from Rejekitex, Pan Brothers, and Spinmill Indah Industry, conducted between February and March 2025. The interviews, documented using structured questionnaires, provided qualitative insights into the financial, legal, and operational challenges of implementing court-supervised restructuring under PKPU. These insights were coded and analysed thematically, highlighting persistent issues such as liquidity constraints, creditor coordination failures, and judicial unpredictability. Quantitative financial data from Rejekitex reveal significant movement in liquidity metrics during the restructuring period. The firm's current ratio, a key liquidity indicator, improved modestly from 0.45 in 2021 to 0.68 in 2023, suggesting temporary operational stabilisation.

Table 6. Liquidity and Solvency Indicators: Rejekitex (2021–2023)

Year	Current Ratio	Debt-to-Equity Ratio	Net Income (USD million)
2021	0.45	-1.27	-1,081
2023	0.68	-0.89 (est.)	-287 (est.)

Source: Research data, 2025

Although the annulment of the 2021 restructuring plan by Indonesia's Supreme Court reversed many gains, the ratio improvements before annulment reflect the potential short-term efficacy of PKPU frameworks, provided that stakeholder consensus and operational discipline are sustained. The synthesis of case study and literature findings reveals that Rejekitex's failed PKPU process aligns with patterns documented in prior studies: capital structure deterioration, stakeholder fragmentation, and institutional fragility converge to undermine restructuring outcomes in emerging markets. Interviews confirmed that executive decision-making was often reactive, with limited scenario planning or engagement with dissenting creditors such as PT Indo Bharat Rayon, whose rejection of the plan triggered the legal annulment. Comparative insights from Pan Brothers and Indah Jaya show that early creditor alignment and reduced leverage significantly increase the likelihood of successful recovery.

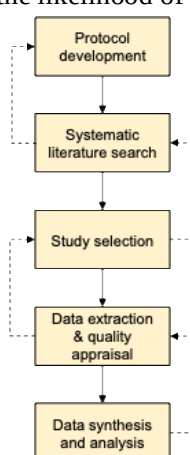


Figure 2. SLR Design and Methodological Flow

Source: Research data, 2025

This methodology integrates qualitative and quantitative data to provide a multi-layered understanding of financial distress resolution through PKPU. By combining doctrinal, financial, and

institutional lenses and grounding them in empirical insights from a live case, this research offers a model for evaluating court-supervised restructuring frameworks in emerging economies.

D. RESULTS AND DISCUSSION

This section presents synthesised findings from the Systematic Literature Review (SLR), contextualised through the case of PT Sri Rejeki Isman Tbk (Rejekitex), to assess the impact of PKPU-driven debt restructuring on financial sustainability in Indonesia's textile sector. The results are discussed thematically across internal and external factors influencing restructuring outcomes. These are analysed through theoretical lenses such as Trade-Off Theory, Pecking Order Theory, Agency Theory, Stakeholder Theory, and Game Theory, as well as practical experiences from comparable firms such as Duniatex and PT Pan Brothers Tbk. Capital structure is one of the most critical internal factors in assessing financial distress. Rejekitex, prior to entering PKPU in 2022, had a debt-to-equity ratio of -1.27, indicating negative equity of USD 399 million against total liabilities of USD 1.633 billion (PT Sri Rejeki Isman Tbk, 2023). While the 2022 homologation plan under PKPU facilitated a temporary deleveraging through debt-to-equity swaps and maturity extensions, resulting in an improved ratio of -0.95 by 2023, the 2024 annulment reinstated USD 1.2 billion in debt obligations. It reversed progress (PT Sri Rejeki Isman Tbk, 2024b).

In contrast, Duniatex successfully maintained post-PKPU debt-to-equity ratios below 2.0—aligning with sectoral thresholds for sustainability—whereas failed restructurings exceeded ratios of 3.0 (Business-Indonesia, 2024). The case affirms the application of Pecking Order Theory (Leary & Roberts, 2010), as firms like Rejekitex prioritised debt over equity, even when equity infusion was structurally preferable. The temporary gains achieved through deleveraging reflect the balance between tax benefits and financial distress costs articulated in Trade-Off Theory (Giglio, 2022), though the reversal underlines the fragility of creditor-dependent solutions. Liquidity emerges as another defining determinant of financial health. Rejekitex's current ratio improved from 0.45 in 2021 to 0.68 in 2023 due to trade payable extensions and cash conservation measures (PT Sri Rejeki Isman Tbk, 2023). However, following the annulment and reinstatement of liabilities in 2024, liquidity deteriorated again, with the current ratio falling to 0.51 and operating cash flow turning negative at -USD 20 million by October 2024 (Reuters, 2024; PT Sri Rejeki Isman Tbk, 2025). The literature review highlights that firms that sustained current ratios above 1.0, such as PT Pan Brothers Tbk and Duniatex, demonstrated superior post-restructuring resilience (Dance & Imade, 2019). These findings reinforce Cash Conversion Cycle theory and the notion that structural changes to inventory and credit management must back liquidity improvements achieved through temporary interventions. In line with Agency Theory (Jensen & Meckling, 1976), creditor-debtor misalignments that obstruct timely refinancing or repayment intensify cash constraints, further weakening recovery potential.

Operational efficiency is a critical but often overlooked pillar of post-restructuring performance. Despite Rejekitex's vertically integrated model, it suffered major output declines across all business units in 2023—garments (-55.20%), spinning (-36.06%), weaving (-31.76%), and finishing (-32.81%)—reflecting broader market and financial shocks (PT Sri Rejeki Isman Tbk, 2024b). However, the 2022 PKPU restructuring temporarily improved cost controls, notably reducing spinning unit expenses from USD 426.865 million in 2022 to USD 232 million in 2023. Gross losses declined by over 75% in some segments, demonstrating the firm's capacity for rapid cost adaptation. These outcomes align with Porter's Value Chain Theory (Porter, 1985), which stresses optimising each production segment. Nonetheless, without sustained liquidity and investment, such gains proved transient. Comparative evidence from PT Indah Jaya shows that firms adopting continuous lean improvements achieved 10–20% efficiency gains, sustaining profitability despite market volatility (Business-Indonesia, 2024).

External pressures further compound the restructuring challenge. Global disruptions—from the US-China trade war to post-pandemic supply chain volatility—contributed to Rejekitex's 55.20% garment sales decline in 2023 (BenarNews, 2025). Domestic competition intensified due to surging Chinese imports, which continued despite protective government measures (Setiawan & Rafiani, 2021). While Rejekitex's market position weakened post-annulment, Duniatex's export-driven recovery strategy allowed a 15% rebound in 2023, illustrating the effectiveness of external market diversification (Business-Indonesia, 2024). These findings reinforce Pecking Order Theory's insight that firms resort to excessive borrowing when internal funds collapse and equity markets are inaccessible, exposing themselves to

external market shocks. As demonstrated by successful peers, practical resilience can be bolstered by export orientation, regional market targeting (e.g., ASEAN), and policy engagement around anti-dumping protections.

The regulatory framework, particularly the architecture of PKPU, played a central role in determining restructuring outcomes. While PKPU is modelled loosely on U.S. Chapter 11, it lacks a debtor-in-possession feature and relies more on creditor consensus (White & Case, 2020; Gilson, 2012). Rejekitex initially benefited from court-validated restructuring under PKPU in 2022, which included interest waivers and maturity extensions. However, the plan was annulled in 2024 after a legal petition by PT Indo Bharat Rayon, which led to the reinstatement of USD 13.808 million in debt and the collapse of financial projections (PT Sri Rejeki Isman Tbk, 2025). This illustrates the system's vulnerability to litigation risk and creditor fragmentation—an issue consistently highlighted in the SLR as destabilizing in emerging markets. In contrast, firms like Surya Alam Group achieved successful homologation by ensuring early creditor consensus, showcasing the strategic advantage of proactive negotiation. These findings align with Agency Theory and reinforce the need for PKPU reform, particularly in instituting mandatory mediation mechanisms and supermajority voting thresholds, to prevent disruptive annulments.

The final pillar shaping restructuring outcomes is stakeholder dynamics. Rejekitex's annulment led to financial collapse but also caused systemic disruptions, affecting 15,000 workers and suppliers owed over USD 50 million (Tempo, 2025). The case highlights the cost of unresolved stakeholder disputes, particularly creditor dissent. By contrast, PT Pan Brothers Tbk engaged stakeholders through equity-linked incentives and transparent communication, contributing to a 20% sales rebound (Business-Indonesia, 2024). Game Theory helps explain the breakdown of Rejekitex's negotiations—creditors had little confidence in recovery and thus preferred immediate legal action, whereas Stakeholder Theory (Freeman, 2010) supports the case for inclusive, trust-based consensus-building. Effective restructuring requires financial engineering and attention to social capital and relational dynamics, especially in emerging markets with less institutional cohesion. The synthesis of these findings is summarised below to provide comparative clarity on restructuring trajectories and performance indicators.

Table 1. Comparative Outcomes: PKPU Restructuring in Textile Firms

Factor	Metric	Firm	Pre-PKPU	Post-PKPU	Notes
Capital Structure	Debt-to-Equity Ratio	Rejekitex	-1.27 (2021)	-0.95 (2023)	PKPU reduced leverage; annulment reversed gains
		Duniatex	2.5	2.1	Maintained post-PKPU sustainability
Liquidity	Current Ratio	Rejekitex	0.45 (2021)	0.68 (2023)	Improved via payable extensions; dropped to 0.51 post-annulment
		Pan Brothers Tbk	0.9	1.2	Improved through rights issue and working capital control
Operating Cash Flow	USD million	Rejekitex	Negative (2021)	Positive (2023)	Turned negative again in late 2024
Operational Efficiency	Cost Reduction (Spinning, %)	Rejekitex	—	45.6 (2022-2023)	Significant but unsustainable improvement
Market Dynamics	Garment Sales Decline (%)	Rejekitex	—	-55.20 (2023)	Affected by the trade war and import pressure
	Sales Recovery (%)	Duniatex	—	15	The export strategy bolstered the rebound.
		Pan Brothers Tbk	—	20	Equity incentives supported the turnaround.
Regulatory Framework	—	Rejekitex	—	—	2024 annulment shows institutional fragility
Stakeholder Dynamics	—	Rejekitex	—	—	Dissent led to the annulment.
		Pan Brothers Tbk	—	Sales recovery	Aligned stakeholder interests through incentives.

Source: Research data, 2025

The results indicate that PKPU can offer effective short-term restructuring tools, but its long-term success is contingent upon sustained creditor cooperation, institutional stability, operational agility, and market adaptability. The empirical and comparative evidence affirms that successful recoveries are built on multi-dimensional alignment—financial, legal, operational, and relational. These insights provide a strong foundation for discussing theoretical implications and strategic policy recommendations.

Discussion

The findings from the Systematic Literature Review (SLR) confirm that PKPU-driven restructuring can deliver temporary improvements in financial performance, particularly in liquidity and cost efficiency. Rejekitex's experience between 2022 and 2023 illustrates this potential, with its current ratio improving from 0.45 to 0.68, and gross losses significantly reduced in core segments such as spinning and finishing (PT Sri Rejeki Isman Tbk, 2024). These gains affirm Trade-Off Theory, wherein firms initially benefit from balancing tax advantages of debt with the avoidance of bankruptcy costs (Frank & Goyal, 2008). However, the 2024 annulment of Rejekitex's restructuring, triggered by a creditor petition, demonstrates the fragility of such gains when stakeholder alignment and regulatory reliability are not maintained. The collapse illustrates Agency Theory's warning that conflicts between creditors and managers can derail recovery efforts (Hotchkiss et al., 2021). Meanwhile, Pecking Order Theory contextualises Rejekitex's overreliance on debt over equity pre-PKPU, further intensifying vulnerability when internal financing sources were depleted (Leary & Roberts, 2010).

These insights yield several critical practical implications. First, for firms, successful restructuring depends not solely on financial engineering (e.g., debt-to-equity swaps) but also on operational realignment, such as cost control, lean manufacturing, and market diversification. As demonstrated by Pan Brothers Tbk, pre-emptive consensus-building with creditors and equity incentives can prevent disruptive annulments and support recovery. Second, policymakers need to reform PKPU by integrating mandatory mediation procedures and establishing clearer voting thresholds. These mechanisms would mitigate the judicial unpredictability that has undermined cases like Rejekitex and support the broader goal of financial stabilisation in high-debt sectors. Third, for creditors, the SLR indicates that balancing firm survival with repayment expectations, through instruments like equity stakes or term extensions, can ultimately maximise recovery value, especially in prolonged restructurings. To guide these actors more effectively, the study introduces a dynamic conceptual framework for PKPU-driven restructuring (Figure 5), synthesising theoretical models with empirical findings from Rejekitex, Duniatex, and Pan Brothers Tbk. Unlike conventional models such as Altman's Z-score, which are largely static and ratio-focused, the proposed framework integrates financial, operational, regulatory, and stakeholder dimensions, offering greater relevance in emerging market contexts where institutional volatility and informal negotiations dominate.

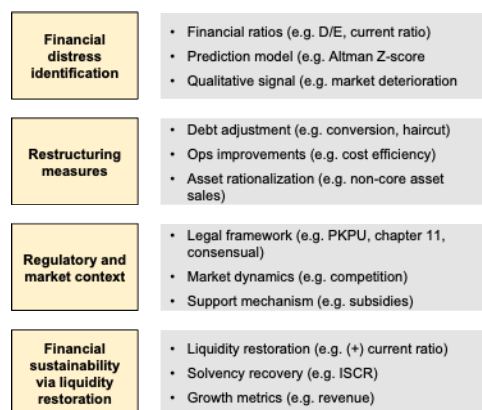


Figure 5. Conceptual Framework for Financial Distress and PKPU-Based Restructuring

Source: Research data, 2025

The framework begins with Financial Distress Identification, using indicators such as high debt-to-equity ratios (e.g., Rejekitex's -1.27) and low liquidity (e.g., current ratio 0.45), supported by predictive models (e.g., Altman Z-score) and qualitative signs like creditor disputes or market declines. It then maps to Restructuring Measures, comprising financial strategies such as debt swaps, operational improvements like cost optimisation (e.g., Rejekitex's 45.6% spinning cost reduction), and asset sales. These measures are influenced by the Regulatory and Market Context, which includes legal structures (e.g., PKPU), global trade dynamics (e.g., post-COVID disruptions), and policy instruments (e.g., subsidies, anti-dumping duties). The final component, Financial Sustainability, is measured through restored liquidity (e.g., current ratios >1.0), solvency (e.g., manageable leverage), and growth metrics (e.g., sales rebound).

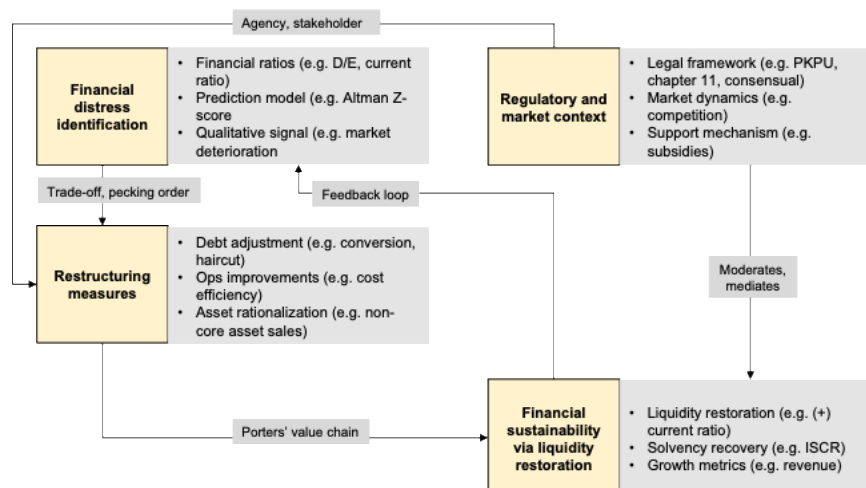


Figure 6. Dynamic Causal Model of Financial Distress and Restructuring Measures

Source: Research data, 2025

This feedback-driven model emphasises that distress and sustainability exist in a dynamic loop—restructuring reduces distress, but only if supported by institutional stability and operational capacity. Importantly, the model reflects Porter's Value Chain Theory by linking restructuring to internal process improvements, and draws on Agency Theory and Stakeholder Theory to explain negotiation failures and the need for aligned incentives. It also explicitly addresses each research question: (1) PKPU's impact on liquidity and solvency is embedded in financial and operational outcomes; (2) restructuring success and failure factors are explored through the interaction of measures and regulatory context; and (3) emerging market strategies are considered through contextual adjustments and governance challenges. The framework is highly adaptable to real-world decision-making. In practice, a post-annulment firm like Rejekitex could use it to design a revised turnaround plan. Based on 2023 data, with a debt-to-equity ratio of 2.5 and limited working capital, Rejekitex could begin by validating distress through financial ratios and market signals. It would then pursue a revised PKPU agreement with a 20% debt haircut, 15% cost efficiency through production line optimisation, and asset sales yielding USD 5 million. This would be supported by government export incentives and creditor consensus, targeting a current ratio 1.2 and debt-to-equity below 1.5 by end-2025. The framework functions as a strategic roadmap in this scenario, ensuring actions are evidence-based and theoretically grounded.

Beyond firm-level use, policymakers (e.g., the Ministry of Industry) can apply the framework to detect systemic risks across the sector. For instance, monitoring macro ratios (e.g., average debt-to-equity >2.5 across textile firms) and observing qualitative distress signals (e.g., rising layoffs, import competition) would justify intervention. Integrating the framework into policy design allows the government to deploy tax incentives, streamline PKPU court processes, or channel export credits to targeted firms. Such responses would enhance recovery capacity and protect the estimated 2–4.3 million jobs dependent on the textile sector (Tempo, 2025). Creditors like PT Indo Bharat Rayon can also adopt this framework to manage risk exposure. Upon identifying early distress indicators in a client firm (e.g., Rejekitex's supplier arrears and debt ratio), creditors could propose structured solutions, such as equity-linked financing or term extensions, within the PKPU process. This balances Agency Theory's concern about managerial opportunism with practical incentives for turnaround. A creditor-driven restructuring plan that integrates this framework would enhance recovery prospects without pushing firms prematurely into liquidation.

In comparative terms, the proposed framework represents a significant advancement over traditional financial distress models. Unlike Altman's Z-score, which offers a binary risk assessment based on static ratios (Altman, 1968), this model incorporates real-time feedback, multi-dimensional interventions, and contextual factors specific to Indonesia's legal and market structures. Moreover, it outperforms Western-centric restructuring frameworks (e.g., U.S. Chapter 11) by accounting for the creditor-driven and litigation-sensitive nature of PKPU. Its flexibility and focus on actionable strategies make it especially relevant for emerging markets, where structural volatility, informal negotiations, and political economy often shape corporate outcomes. The discussion highlights the interconnectedness of

financial, operational, legal, and stakeholder variables in determining restructuring success. While PKPU has demonstrated the capacity to facilitate recovery, its effectiveness hinges on deliberate planning, institutional reform, and multi-stakeholder alignment. The proposed framework offers a robust foundation for guiding future restructurings—at the firm, sector, and policy level—and lays the groundwork for broader adaptation across emerging markets facing similar challenges.

E. CONCLUSIONS

This study conducts a Systematic Literature Review (SLR) of PKPU-driven debt restructuring in Indonesia's textile sector, anchored by the in-depth case of PT Sri Rejeki Isman Tbk (Rejekitex) and comparative insights from Duniatex and Pan Brothers Tbk. Synthesising insights from 50 peer-reviewed and grey literature sources, the analysis evaluates the impact of restructuring on liquidity and solvency, identifies success and failure factors, and proposes actionable strategies tailored to emerging market contexts. The findings reveal that while PKPU restructuring can provide short-term financial relief, improving metrics such as current ratio (e.g., Rejekitex: 0.45 to 0.68) and reducing gross losses, these improvements are often fragile and reversible in the absence of judicial stability and stakeholder alignment (PT Sri Rejeki Isman Tbk, 2024a; Business-Indonesia, 2024). The evidence confirms that PKPU's impact is inherently dualistic: on the one hand, it enables deleveraging and liquidity restoration through court-supervised mechanisms; on the other, its dependence on creditor consensus introduces vulnerability to legal annulments, as seen in Rejekitex's reversal in 2024. Crucial success factors include operational optimisation (e.g., Rejekitex's 45.6% cost reduction in the spinning segment) and proactive stakeholder engagement (e.g., Pan Brothers Tbk's equity-based creditor incentives that enabled a 20% sales rebound). In contrast, failure cases were often characterised by creditor dissent, rigid financing structures, and weak legal protection for debtors.

The study also highlights several strategies suited for emerging market restructuring, including export diversification (e.g., Duniatex's 15% sales recovery through ASEAN markets), the use of government-backed anti-dumping measures, and debt-to-equity conversions to reduce refinancing pressures (PT Sri Rejeki Isman Tbk, 2024a; Business-Indonesia, 2024). These insights are particularly valuable given the sector's strategic importance, employing an estimated 2 to 4.3 million Indonesians and contributing substantially to national exports (Tempo, 2025). On the theoretical front, the study contributes to the literature by illustrating the limitations of classic capital structure theories when applied to restructuring in volatile institutional environments. While Trade-Off Theory explains early deleveraging benefits, it underestimates the impact of annulment risk and judicial inconsistency (Frank & Goyal, 2008). Agency Theory is validated through the observed conflicts between creditors and debtors, particularly when restructuring plans fail due to interest misalignment (Myers & Majluf, 1984). Stakeholder Theory gains renewed relevance, especially in successful cases like Pan Brothers Tbk, where inclusive approaches fostered alignment (Freeman, 2010; Hotchkiss et al., 2021). Furthermore, the study integrates Pecking Order Theory to explain capital structure deterioration, Porter's Value Chain to assess operational responses, and Game Theory to explore negotiation dynamics and creditor behaviour. In contrast to static models such as the Altman Z-score (Altman, 1968), the study's dynamic conceptual framework reflects the reality of restructuring as a multi-dimensional and iterative process, shaped by institutional fragility and stakeholder coordination.

From a practical standpoint, the study provides clear recommendations. For textile firms, restructuring must be holistic: financial measures (e.g., debt swaps as in Rejekitex) must be supported by operational reforms (e.g., lean manufacturing and export expansion as demonstrated by Duniatex), and grounded in stakeholder alignment strategies (e.g., equity incentives in Pan Brothers Tbk). Policymakers should consider strengthening PKPU through structural reforms such as mandatory mediation and defined creditor voting thresholds to reduce annulment risk, and implement industrial policies (e.g., anti-dumping duties) to shield domestic firms from foreign competition. Restructuring professionals and creditors should adopt a facilitative role, balancing repayment enforcement with firm viability through incentive-based instruments like equity stakes, revenue-sharing models, and phased repayment schedules. Finally, while the framework presented in this study is based on Indonesia's textile industry and PKPU legal context, its principles are broadly applicable. It can be generalised to other debt-heavy, restructuring-prone industries such as real estate, retail, and shipping, which share structural similarities in capital

intensity, market exposure, and creditor-debtor dynamics. Furthermore, the framework may also serve as a diagnostic and planning tool in other emerging markets where restructuring mechanisms mirror Indonesia's creditor-driven model, albeit with local adaptations. As such, this research provides a contextualised analysis of Indonesia's textile restructuring challenges and a scalable blueprint for managing financial distress under court supervision in volatile economies..

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