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Original Article

Implementation of Financial Management and Debt Restructuring at PT Garuda Indonesia (Persero) Tbk

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Abstract: *This study investigates the determinants and transformations in the financial management and debt restructuring of PT Garuda Indonesia (Persero) Tbk before and after facing a layered crisis, namely the COVID-19 pandemic and the Suspension of Debt Payment Obligations (PKPU) process on the Indonesia Stock Exchange. Using a qualitative case study approach, this research analyzes corporate documents, media publications, and financial statements to understand how liquidity pressures, solvency, and external shocks affected the airline's capital structure. The results show that prior to the crisis, Garuda's financial condition was characterized by large-scale, debt-financed aggressive expansion. Following the crisis and the PKPU composition agreement (homologasi), the company executed strategic adaptations including liability restructuring, reduction of aircraft leasing costs, fleet downsizing, and capital structure optimization. This study concludes that the crisis acted as a catalyst, forcing the company to shift from a high-risk expansionary growth model to a lean, efficient financial model with high liquidity resilience.*

Keywords: *Debt Restructuring, Financial Management, Financial Performance, Airlines, Capital Structure.*

I. INTRODUCTION

PT Garuda Indonesia (Persero) Tbk, as the national flag carrier, plays a crucial and strategic role in maintaining economic stability and national connectivity in Indonesia. The fact that it is a state-owned airline means it needs to be very effective with its working capital management to handle the extremely large amounts of money used for operations. Before the major crisis, the airline's financial strategy consisted of using debt financing to grow its fleet size and create additional routes. While growing its fleet size and creating new routes did allow the airline to generate more revenue, the use of debt financing also caused an increase in aircraft leasing costs and an accumulation of long-term financial obligations. These two things together created a burden on the airline's overall capital structure.

The financial risks associated with the airline's high-leverage business model were made apparent during the global aviation industry shutdown caused by the COVID-19 pandemic. Operating revenue drastically fell as a result of international travel bans. This decrease in operating revenue led to a rapid loss of operational cash flow. Operating revenue decreases combined with the maturity of existing debt obligations resulted in a serious liquidity problem. Liquidity problems ultimately resulted in Garuda becoming insolvent (having less assets than liabilities) and facing bankruptcy. Garuda's large amounts of debt related to its use of aircraft leasing and bond debt made Garuda's overall financial structure very risky in terms of being highly leveraged.

In response to the current financial crisis that may lead to bankruptcy, Garuda initiated a formal debt restructuring process by utilizing the Suspension of Debt Payment Obligations (PKPU) mechanism within the Commercial Court system. The use of this legal/financial mechanism represents a major turning point for the execution of a large-scale debt restructuring with multiple types of participants; i.e., creditors, lessors, and international bondholders. Through the composition agreement (homologasi), Garuda was able to reduce its debt load via debt haircuts, convert some of its debt into equity through debt-to-equity swaps, and extend the period of time for the repayment of its liabilities in order to improve the financial condition of its balance sheet.

Garuda Indonesia's restructuring is an excellent empirical setting for studying corporate financial management. The process illustrates how state-owned enterprises (SOEs) manage their cost structures; renegotiate existing long-term liabilities; and transition from debt-financed growth models to less leverage-intensive ones. Financial restructuring practices provide important lessons regarding liquidity management; risk management of solvency; and corporate breathing room during periods of significant economic instability.

II. LITERATURE REVIEW

The aim of this literature review is to examine how external disruptions, such as those caused by the COVID-19 pandemic, have affected the capital structure and internal financial governance of PT Garuda Indonesia (Persero) Tbk. Garuda Indonesia is the national airline of Indonesia, and its financial position and stock price (ticker GIAA) on the Indonesia Stock Exchange (IDX) can be seen as a measure of the economic stability of the national transportation and tourism industries.

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The chart below shows how GIAA's closing stock prices fluctuated because of corporate dynamic changes from before the pandemic to the worst of the pandemic to the time when it was stopped from being traded until after the debt restructuring.

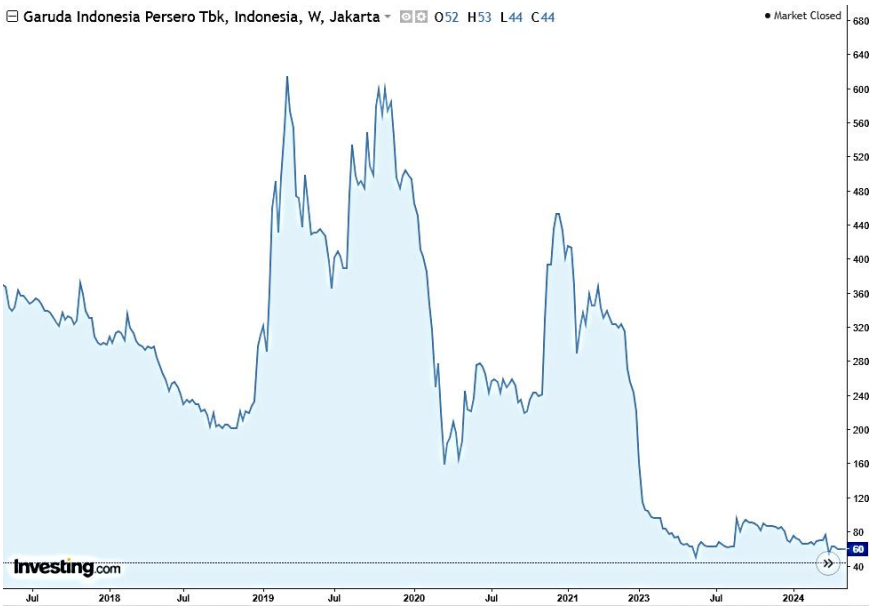


Figure 1. Garuda Indonesia's Stock Price Chart

A) Capital Structure, Debt-Based Financing Policy, and Pre-Pandemic Stock Conditions

In corporate financial management literature, aggressive expansion financed by long-term debt (debt-financed expansion) often increases financial risk when a company faces revenue volatility. Prior to 2020, PT Garuda Indonesia (Persero) Tbk recorded a very high liabilities-to-assets ratio, in which aircraft lease liabilities were recognized as a massive fixed expense.

A reflection of these fundamental conditions was evident in capital market movements during this period. Throughout 2018 to 2019, GIAA stock briefly recorded a speculative upward trend, reaching around the level of IDR 500 per share (supported by route expansion and normal operational performance), but it remained shadowed by tight cost-efficiency challenges toward the end of 2019 due to the accumulation of long-term obligation burdens.

B) Liquidity Crisis, Pandemic Shock, and Stock Trading Suspension

Financial distress and corporate restructuring theories state that when operating cash flows remain consistently negative, a company will face an extreme solvency crisis. The onset of the COVID-19 pandemic in 2020 abruptly crippled the global aviation industry. Mobility restriction policies caused operating revenues to plummet, leaving the company unable to cover its fixed aircraft leasing costs.

The impact of this liquidity crisis was directly exposed in the financial markets:

- GIAA's stock price faced massive selling pressure (panic selling) and dropped sharply to levels below IDR 200.
- Due to defaulting on global sukuk coupon payments and accumulating debt burdens that led to Suspension of Debt Payment Obligations (PKPU) lawsuits, the Indonesia Stock Exchange (IDX) officially imposed a trading suspension in mid-2021 to protect investors from the uncertainty surrounding the company's financial information, which recorded a deep equity deficit.

C) PKPU Mechanism, Liability Restructuring, and Post-Homologation Stock Valuation

PKPU is one example of a legal tool used as a last-resort method for businesses to prevent complete liquidation. In 2022, Garuda Indonesia reached a PKPU composition agreement which allowed for a large-scale liability restructuring through debt reduction (haircuts), extending payment terms (tenor extension), and converting existing debt into shares (debt-to-equity swap). Although this process improved Garuda's balance sheet structure from an accounting perspective, it caused a dilution of ownership from a market perspective.

Efficient markets indicate that corporate restructuring risks have been factored into the price of stocks. The price of GIAA stock was in a consolidating pattern after it was taken off suspension following the approval of the homologation, and has been in the IDR 50 to IDR 100 per share area since then. The stock price closed at approximately IDR 69 by the end of 2023. The

adjustment towards the low-end penny stock levels or lower bounds is reflective of the company's shift from a large debt-financed expansion model to a streamlined model for regaining long-term investor confidence on the Indonesia Stock Exchange.

III. RESULTS AND DISCUSSION

This section presents empirical findings and an in-depth analysis of the financial transformation and corporate restructuring of PT Garuda Indonesia (Persero) Tbk. The analysis focuses on how a debt-based capital structure was tested by external shocks, how the liability restructuring mechanism through Suspension of Debt Payment Obligations (PKPU) improved the balance sheet structure, and its implications for the company's fundamental and stock market valuation.

A) Evaluation of Pre-Crisis Capital Structure and Financial Leverage Risk

Based on the analysis of historical financial statements, prior to the global disruption in 2020, PT Garuda Indonesia (Persero) Tbk relied on a large-scale debt-financed expansion strategy.

- High Leverage Ratio and Fixed Aircraft Lease Expenses: In its effort to expand its route network and modernize its fleet, the company recorded an exceptionally high Debt to Equity Ratio (DER). The largest component of these long-term liabilities was contributed by aircraft lease liabilities under operating lease schemes. This scheme imposed high monthly fixed costs on the company. In financial management theory, this condition creates high operating leverage and financial leverage, where the company bears extreme vulnerability to even a slight drop in revenue, as fixed interest and leasing expenses must still be paid regardless of market conditions.
- Reflection of GIAA Stock Market Value: This high financial risk was briefly offset by stable operational volume during the 2018–2019 period, when GIAA stock recorded peak price levels in the range of IDR 400–IDR 500 per share. However, fundamentally, this capital structure harbored a hidden vulnerability in the form of a low capital buffer against external volatility.

B) Impact of the COVID-19 Pandemic on Cash Flow, Solvency, and Stock Suspension

The impact of the global pandemic in 2020 acted as an external demand shock that instantly destroyed the company's financial foundation.

- Contraction of Operational Cash Flow and Solvency Crisis: International and domestic mobility restriction policies caused passenger load factors to plummet drastically, leading to a continuous decline in operating revenues. On the other hand, cash outflows continued to flow to cover the maintenance costs of unoperated (grounded) fleets as well as interest expenses on maturing debt. This extreme imbalance triggered a severe deficit in operational cash flow (negative operating cash flow), wiped out company liquidity, and culminated in defaults on global sukuk obligations and other commercial debts.
- Escalation of Negative Equity and Stock Exchange Suspension Sanctions: The accumulation of consecutive net losses during this period pushed the company's equity position into negative territory (negative equity), signaling insolvency from an accounting standpoint. In the capital market context, the uncertainty of material information and deteriorating fundamental health forced the Indonesia Stock Exchange (IDX) to impose a suspension sanction, temporarily halting stock trading in mid-2021. This reflected a total loss of fair market value due to the tangible risk of bankruptcy.

C) Financial Restructuring Through PKPU Mechanism and Balance Sheet Composition

To avoid total liquidation, the company pursued a formal legal pathway through the Suspension of Debt Payment Obligations (PKPU) in the Commercial Court, which became one of the largest financial restructurings in Indonesian corporate history.

- Liability Restructuring Through Debt Cuts and Tenor Extensions: Through the PKPU composition agreement (*homologasi*), management successfully restructured total liabilities comprehensively, involving thousands of creditors, global lessors, and bondholders. These restructuring measures included haircuts on debt claims, interest rate restructuring, and significant extensions of maturity tenors. From an accounting perspective, this action succeeded in clearing past legacy burdens that had long crippled the company's balance sheet.
- Equity Restructuring Through Debt-to-Equity Swaps: In addition to debt restructuring, the balance sheet was restored through Debt-to-Equity Swap schemes, where a portion of creditor obligations was converted into equity instruments, supported by a capital injection via Private Placement (PMTHMETD) with state capital participation. This step gradually reversed the equity position from negative to positive territory, moving toward the recovery of a healthier capital structure.

D) Stock Market Valuation and Post-Homologation Financial Performance

The resumption of GIAA stock trading (unsuspended) in early 2023 demonstrated the capital market's response to the new capital structure.

- Market Repricing and Price Consolidation at the Floor Price: After the lifting of the suspension, GIAA stock moved in consolidation within the range of IDR 50 to IDR 100 per share (closing at around IDR 69 at the end of 2023). The valuation adjustment to this level reflects market repricing due to ownership dilution resulting from the debt-to-equity conversion

process, while also reflecting a wait-and-see stance from investors regarding the effectiveness of the new business model implemented by management.

- Transition Toward a Lean Business Model as the Foundation for Value Recovery: The results of the analysis indicate that the recovery of stock prices and long-term profitability depends not only on balance sheet accounting restructuring alone, but also on operational success in cutting fixed costs, including fleet right-sizing and renegotiating more flexible aircraft lease contracts. The combination of a restructured liability structure and daily operational efficiency serves as a fundamental prerequisite for the company to emerge from crisis pressures and restore investor confidence on the Indonesia Stock Exchange.

IV. CONCLUSION

Based on the analysis conducted, it can be concluded that prior to 2020, an aggressive debt-financed expansion strategy and high fixed aircraft lease expenses triggered high operating leverage and financial leverage. This condition placed the company in a position vulnerable to external revenue volatility. Subsequently, the impact of the COVID-19 pandemic triggered a severe contraction in operational cash flow, liquidity deficits, insolvency, and negative equity. In addition to being a reflection of the pressure that the company was under, these pressures were also reflected in the capital markets, as shown by the drop in stock prices and trading suspensions on the Indonesian Stock Exchange. A successful rescue tool for resolving the company's past legacy issues has been the PKPU composition agreement (homologasi). Through a combination of debt haircuts, tenor extensions, and debt-to-equity conversions, the company has been able to restructure its balance sheet away from the risk of total liquidation. The resumption of GIAA stock trading showed a price adjustment to the floor price (Rp50), which reflected market repricing because of the dilution of shares owned by investors and investors' concerns about the company moving into a leaner business model.

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