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Financial Improvement Strategy of PT. Wahana Interfood Nusantara Tbk. Using The Cash Waterfall Method

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ABSTRACT

This paper examines the financial issues of PT. Wahana Interfood Nusantara Tbk., a manufacturer of cocoa and chocolate goods, and recommends improvements through the Cash Waterfall Method and the \ optimization of their capital structure. As of the third quarter of 2024, the company had a Debt to Equity Ratio of 261% and a negative Interest Coverage Ratio of -0.66, indicating significant financial distress due to excessive debt servicing. This research utilized financial modeling tools such as CAGR forecasting, linear regression, and ARIMA methods, revealing significant shortcomings in cash flow management and recommending a negotiation to debitors of one-year grace period to mitigate severe urgent financial pressures. The Cash Waterfall Method is applied to enhance debt servicing, business viability, and reinvestment, although its application is tempered by its capacity to improve liquidity and recover the company's financial health. The analysis indicates that the unutilized capacity of the newly constructed Sumedang factory, which has an annual production capacity of 20,000 tons, combined with the existing yearly production objective of 6,000 tonnes, is likely to improve the company's overall growth potential. This properly strategized investment necessitates assertive marketing and distribution tactics to facilitate the company's enhancement of net income while concurrently diminishing its need on external financing sources. The study concludes that while the optimal capital structure remains unattainable under current financial distress, a restructured approach focusing on operational recovery and disciplined cash flow management is imperative. Recommendations include leveraging increased production capacity, implementing strategic marketing initiatives, and pursuing shareholder returns once financial stability is restored. This research contributes to understanding the interplay between capital structure, cash flow prioritization, and operational performance in heavily indebted firms, offering actionable insights for practitioners and policymakers in similar contexts.

Keywords: *Capital Structure, Cash Waterfall Method, WACC, Financial Improvement, Debt Management*

ABSTRAK

Tulisan ini mengkaji masalah keuangan PT. Wahana Interfood Nusantara Tbk., produsen produk kakao dan cokelat, dan merekomendasikan perbaikan melalui Metode Air Terjun Kain dan optimalisasi struktur permodalannya. Pada kuartal ketiga tahun 2024, perusahaan memiliki *Debt to Equity Ratio* sebesar 261% dan *Interest Coverage Ratio* negatif sebesar -0,66, menunjukkan kesulitan keuangan yang signifikan karena pembayaran utang yang berlebihan. Penelitian ini menggunakan alat pemodelan keuangan seperti peramalan CAGR, regresi linier, dan metode ARIMA, mengungkapkan kekurangan yang signifikan dalam manajemen arus kas dan merekomendasikan negosiasi kepada debitur masa tenggang satu tahun untuk mengurangi tekanan keuangan yang mendesak yang parah. Metode Air Terjun

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Tunai diterapkan untuk meningkatkan pembayaran utang, kelangsungan bisnis, dan reinvestasi, meskipun penerapannya dipengaruhi oleh kapasitasnya untuk meningkatkan likuiditas dan memulihkan kesehatan keuangan perusahaan. Analisis menunjukkan bahwa kapasitas yang belum dimanfaatkan dari pabrik Sumedang yang baru dibangun, yang memiliki kapasitas produksi tahunan sebesar 20.000 ton, dikombinasikan dengan tujuan produksi tahunan yang ada sebesar 6.000 ton, kemungkinan akan meningkatkan potensi pertumbuhan perusahaan secara keseluruhan. Investasi yang disusun dengan baik ini memerlukan taktik pemasaran dan distribusi yang tegas untuk memfasilitasi peningkatan laba bersih perusahaan sekaligus mengurangi kebutuhannya pada sumber pembiayaan eksternal. Studi ini menyimpulkan bahwa meskipun struktur modal yang optimal tetap tidak dapat dicapai di bawah tekanan keuangan saat ini, pendekatan restrukturisasi yang berfokus pada pemulihan operasional dan manajemen arus kas yang disiplin sangat penting. Rekomendasi termasuk memanfaatkan peningkatan kapasitas produksi, menerapkan inisiatif pemasaran strategis, dan mengejar pengembalian pemegang saham setelah stabilitas keuangan pulih. Penelitian ini berkontribusi untuk memahami interaksi antara struktur modal, prioritas arus kas, dan kinerja operasional di perusahaan yang berutang berat, menawarkan wawasan yang dapat ditindaklanjuti bagi praktisi dan pembuat kebijakan dalam konteks serupa.

Kata Kunci: Struktur Modal, Metode Air Terjun Kas, WACC, Peningkatan Keuangan, Manajemen Utang

INTRODUCTION

Capital structure is one of the key elements in corporate financial management. Companies must make strategic decisions when choosing between debt and equity financing, with the goal of achieving an optimal capital structure. Optimizing capital structure is an important part of corporate financial management, as the success, stability, and long-term survival of a company heavily rely on decisions about its financing. The right balance between debt and equity plays a key role in determining a firm's financial health, influencing its ability to perform, sustain operations, and navigate future challenges (Kontuš et al., 2023).

PT Wahana Interfood Nusantara Tbk., enlisted on the Indonesia Stock Exchange (IDX) with the registered trade name of COCO, is a company that operates on the food industry and focuses on chocolate production. The company is currently facing quite serious financial challenges. Based on the company's 3rd quarter of 2024 financial report (YoY), it stated that the company has had a significant loss in the past few years. With a Debt-to-Equity Ratio (DER) reaching 261.33% in 2024 and an Interest Coverage Ratio (ICR) of -0.66, the company’s financial sustainability is under considerable pressure. These issues are worsened by negative Return on Assets (ROA) of -9.26% and a Net Profit Margin (NPM) of -29.72%. One of the factors that affects the financial performance of the company is the high volatility of the cocoa price as the main ingredient of chocolate products.

In order to tackle these problems, a well-defined financial enhancement plan is fundamental. One of such approaches that they can utilize is the Cash Waterfall

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Method, a model where the financing capability of a business is organized according to a priority list (Jelen, 2011). This approach practice establishes the servicing of key financial requirements, for example loans, cash flow before fund recycling, debt repayments, or profits returned to shareholders using cash generation. By utilizing this method, PT. Wahana Interfood Nusantara Tbk. will be able to execute efficient approaches of cash flow management aimed towards minimizing the firm's cost of capital, increasing operational effectiveness, and increasing the return on investment for shareholders.

The Cash Waterfall Method is especially important for companies such as PT. Wahana Interfood Nusantara Tbk. that are in a capital goods industry because of their debt. This technique focuses on the orderly flow of cash starting with the debt obligations, then the operational expenditure, and lastly the investment in the business equity or the returns for the investors. This form of financing relies on internal investment as it provides businesses with a better source of finance for strategies that tackle firm distress while still generating consistent positive cash flow for the business

Cacao has always been one of the most prospective commodities in Indonesia. Classified into the business sector within Agriculture, Forestry, and Fisheries, the Agriculture, Livestock, Hunting, and Agricultural Services sector contributed a significant portion of 9.85%, or equal to 1.672 trillion IDR (Ministry of Agriculture, 2022). According to ICCO (2023), Indonesia is the 6th largest cocoa bean producer in the world, just a few grades below Cote d'Ivoire and Ghana. But unfortunately, in the past few years the cocoa production has gone through a decline, which directly affects the raw material cost of the company.

It is projected that the market for chocolate products is growing, with a revenue projection to up to 1.2 billion USD in 2029 (Nurhayati-Wolff and Statista, 2024). However, challenges in the supply chain and rising raw material costs have led the company to reconsider its capital structure to ensure business sustainability amid global economic uncertainties. This research will be focused on the analysis of the optimum capital structure for PT. Wahana Interfood Nusantara Tbk. in 2019-2024 in order to give strategic recommendations for the company and investors about efficient debt and equity composition to increase the value of the company.

RESEARCH METHODOLOGY

The research methodology used to determine the optimum capital structure for PT Wahana Interfood Nusantara Tbk. It explains the tools, and procedures of data retrieval, collection, and analysis that are used to find answers regarding the research questions. Quantitative analysis approach is used in this research.

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Research Design

In order to analyze the optimal capital structure of PT Wahana Interfood Nusantara Tbk in a comprehensive way, a research design is necessary. The research design will help ensuring a comprehensive and structured analysis and strategic recommendations.

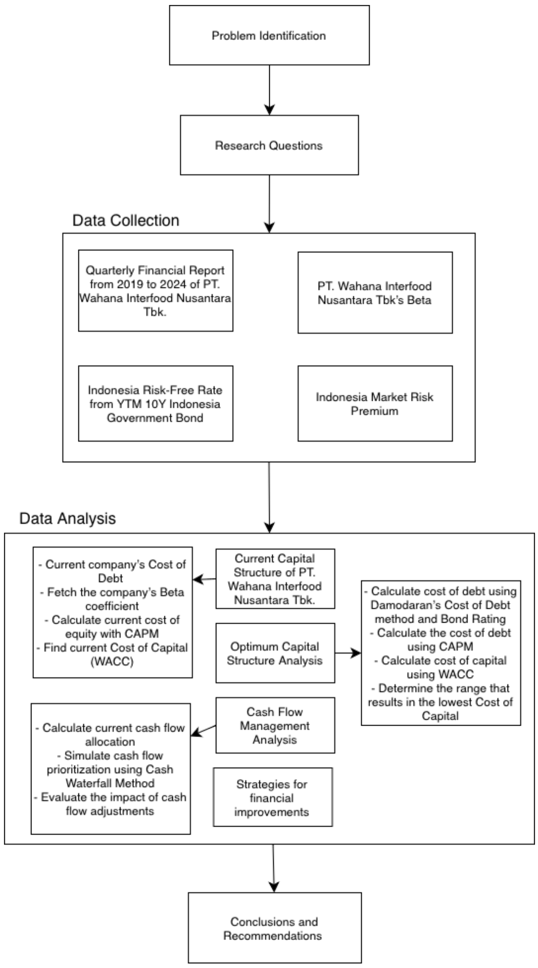

Figure 1. Research Design

This study's research design goes in a systematic way, begin with problem identification. Determining the main issue in the current capital structure of PT. Wahana Interfood Nusantara Tbk is the focus of this first stage. The focus is on examining how the company's financial strategy aligns with the goal of achieving an optimal balance between debt and equity to reduce costs and enhance value (Setiawan, 2023).

The research questions are developed in accordance to the identified problem. These questions will later be used to analyze key elements of PT. Wahana Interfood Nusantara Tbk's capital structure, including the calculation of the cost of debt, cost of equity, and the influence of these factors on the overall capital structure.

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This phase is important as it signifies the focus of this research to quantifiable aspects that directly contribute to assessing the company's optimal capital structure (Nishihara & Shibata, 2021).

Then comes the data collection phase through secondary sources. Key information includes PT. Wahana Interfood Nusantara Tbk quarterly financial report that contains financial information such as debt, equity, and cash flow. Additional data points, such as the company's beta coefficient, the risk-free rate taken from Indonesia's 10-year government bond yield, and the Indonesian market risk premium are also collected. This detailed information will enable precise financial calculations such as the Weighted Average Cost of Capital (WACC) and will align with the synthetic ratings (Damodaran, 2015).

Next is the Current Capital Structure Analysis, which basically will analyze PT. Wahana Interfood Nusantara Tbk's existing financial condition. This step involves calculating the company's current cost of debt and cost of equity using the collected data. This ranges from changing the cost of debt to reflect the volatility of the firm, to calculating the cost of equity using the Capital Asset Pricing Model (CAPM). This step allows for an initial calculation of the company by determining what percentage is generated from the debt and equity.

The Optimum Capital Structure Analysis is based on this and then applies the Damodaran (2015) method to analyze other capital structures. In this case, cost of debt is recalculated using synthetic ratings that are derived from interest coverage ratios, similar to the approach taken by Satrio (2022) in estimating credit risk for unrated firms. Then CAPM is run again to get the updated cost of equity, and this is done for every leveraging situation since the goal of the analysis is to identify the capital structure that will minimize the firm's weighted average cost of capital (WACC).

Cash Flow Management Analysis, examines the company's current cash flow allocation and applies the Cash Waterfall Method to prioritize cash inflows toward essential obligations such as debt repayment, operational expenses, and reinvestment. The impact of these simulations is evaluated on key financial metrics, including the Debt-to-Equity Ratio (DER), Interest Coverage Ratio (ICR), and Free Cash Flow (FCF), to determine the feasibility of this method in reducing financial risks and stabilizing operations.

Strategic recommendations are developed from insights gained through the analysis of the optimal capital structure and cash flow management. These recommendations focus on the financial strategy and risk management requirements of PT. Wahana Interfood Nusantara Tbk., providing actionable measures to align its financial structure with the optimal balance identified through WACC analysis. Suggestions may include adjusting debt levels, issuing new equity, or temporarily modifying dividend policies based on financial advantages. Additionally,

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implementing the Cash Waterfall Method is recommended to optimize cash flow allocation by prioritizing debt repayments, operational expenses, and reinvestment, ensuring improved liquidity and financial stability.

RESULT AND DISCUSSION

Debt-to-Equity Ratio (DER)

Debt to Equity ratio reflects the ability of a company to fulfil all its obligations indicated by its own capital used as debt payment. This will affect investor confidence in the company (Hirdinis, 2019). According to the Q3 2024 financial report of PT. Wahana Interfood Nusantara Tbk., the Debt-to-Equity ratio is increasing year by year.

Table 1. PT. Wahana Interfood Nusantara's DER (in Millions) (Processed)

Debt-to-Equity	Q3 2024	Q3 2023	Q3 2022	Q3 2021
Total Debt	Rp287,918	Rp361,559	Rp194,103	Rp133,351
Total Equity	Rp110,174	Rp189,524	Rp202,634	Rp116,239
DER	**2.61**	**1.91**	**0.96**	**1.15**

Based on table IV.1, PT. Wahana Interfood Nusantara Tbk. (COCO) is having increases on their Debt-to-Equity ratio of between 3rd quarter of 2021 to 2024. This signifies that the company is relying on debt financing to support its operation (Heikal et al., 2014). In 3Q2022, the company's DER is at 0.96, indicating that the capital structure is balanced with debt making up 96% of company's equity. However, the DER rose sharply in 3Q2024 to 2.61 or the debt is covering at 261% of company's equity. This aligns with the company's increasing liabilities by 84.9%, reaching Rp. 287,9 billion, with equity declined by 41.6%, reflecting financial pressures likely come from operational activities.

Debt Ratio

PT. Wahana Interfood Nusantara Tbk.'s debt ratio has seen an ongoing rise over the past three years, highlighting the company's escalating reliance on debt to finance its capital structure (Sukma et al., 2022). This trend shows the company's challenges. This is a comprehensive examination of the Debt Ratio from 3rd quarter of 2022 to 2024.

Table 2. PT. Wahana Interfood Nusantara's Debt Ratio, (in Millions)

Debt Ratio	Q3 2024	Q3 2023	Q3 2022
Total Debt	Rp287,918	Rp361,559	Rp194,103
Total Asset	Rp437,033	Rp583,250	Rp485,054

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Debt Ratio	**0.66**	**0.62**	**0.40**

Referring to Table IV.2, in 3Q2022 the company's debt ratio is at 0.40, indicating that 40% of company's overall assets, totaling Rp. 485,05 billion, were financed by debt. This relatively low ratio indicated a balanced financial structure with moderate leverage. In 3Q2022, the company seems to own adequate equity to sustain its operations while keeping debt at sufficient levels.

Cost of Equity

The Cost of equity is an important element which helps in ascertaining a particular firm's capital structure because this is the return that equity holders require in order to mitigate their investment risk. This view is also shared by Brigham & Houston (2007), as they assert that, the Cost of Equity has a significant impact on a company's WACC and in the attractiveness of the firm to investors. In this research, I examine the use of Capital Asset Pricing Model (CAPM) for PT Wahana Interfood Nusantara Tbk, a practical Cost of Equity estimation techniques within corporate finance. In order to calculate the cost of equity of COCO using the CAPM, several data needs to be fetched. Those data are Indonesian Risk-Free, Beta coefficient of COCO, and the Rate Market Risk Premium of 2024.

- **Risk-Free Rate**: The Yield to Maturity (YTM) of Indonesia's 10-Year Government Bonds is used as a proxy for the risk-free rate, which stands at 6.91%. This rate represents the minimum return for risk-free investment in the Indonesian market (Saribi et al., 2024).
- **Beta Coefficient:** The company's Beta is 0.06, reflecting its stock's sensitivity to the market. A Beta value below 1 indicates low volatility, suggesting the stock has less risk compared to the overall market (Setiawan, 2023). However, a low Beta may also imply limited growth potential relative to market movements.
- **Market Risk Premium:** The Indonesian Market Risk Premium is estimated at 6.28% according to Wealthy Education (2024), which reflects the additional return investors demand for investing in the Indonesian stock market over risk-free assets (Damodaran, 2015).

These values then calculated which are summarized in the table below.

Table 3. PT. Wahana Interfood Nusantara Tbk's Cost of Debt by 3Q24 (Processed)

Risk Free Rate	0.0706
Beta	0.0600
Risk Premium	0.0628
CAPM	**0.0744**

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The calculated Cost of Equity of 7.44% indicates the minimum return that shareholders expect for holding equity in PT Wahana Interfood Nusantara Tbk. According to Cepec & Grajzl (2020), the Cost of Equity plays a crucial role in evaluating the company's financing strategy, as it determines the attractiveness of equity financing compared to debt.

Cost of Debt

The Cost of Debt evaluates the actual interest costs that a firm incurs on its debt and is regarded as an important component in assessing the efficiency of the company. According to Damodaran (2015), the credit risk associated with the company that lenders take on and has a direct effect on the Weighted Average Cost of Capital (WACC). The higher the Cost of Debt, means greater costs of financing and lower financial capacity which in the long run are unhealthy for cash generation and overall earnings.

Table 4. Cost of Debt of PT. Wahana Interfood Nusantara Tbk (in Millions)

Cost of Debt	Q3 2024	Q3 2023	Q3 2022	Q3 2021
Interest Expense	Rp24,670	Rp19,437	Rp5,247	Rp9,962
Total Debt	Rp287,918	Rp361,559	Rp194,103	Rp133,351
Cost of Debt	**0.086**	**0.054**	**0.027**	**0.075**

The data from Table IV.4 suggests that the Cost of Debt of PT Wahana Interfood Nusantara Tbk for Q3 2024 is equal to 8.6% which is higher than in the previous years. In contrast, the company's Cost of Debt were 2.7 % in Q3 2022 and 5.4 % in Q3 2023 indicating a growth over time as well. This trend can be explained by increased interest expenses resulting from the greater amounts of debt and perhaps poorer terms of debt caused in part by the firm's weakening financial health.

As highlighted by Heikal et al. (2014), the increasing costs of borrowing can reduce profits and cash flows, thus adding more strain on the company to honor its debts. In the case of PT Wahana, the high cost of servicing debt is evident in the company's declining Interest Coverage Ratio (ICR) that hit -0.66 in Q3 2024. This suggests the operating earnings available are too low to service interest obligations which is alarming for the company.

Weighted Average Cost of Capital (WACC)

The company's cost on financing, whether through debt or equity, is called as Weighted Average Cost of Capital or WACC. It is a key indicator for evaluating PT Wahana Interfood Nusantara Tbk's financial performance and capital structure efficiency. The lesser the WACC, implies a more optimized capital structure, which

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enhances the company's value and reduces the cost of capital for future investments Brigham & Houston (2019).

The Weighted Average Cost of Capital has been calculated and the results will be shown on the table below:

Table 5. WACC of PT. Wahana Interfood Nusantara Tbk. (in Millions)

WACC	Q3 2024	Q3 2023	Q3 2022	Q3 2021
E	Rp85,426	Rp138,818	Rp250,941	Rp245,602
D	Rp287,918	Rp361,559	Rp194,103	Rp133,351
V	Rp373,345	Rp500,378	Rp445,045	Rp378,953
WACC	**0.069**	**0.051**	**0.053**	**0.065**

In Q3 2024, WACC hit 6.86%, a significant increase from the Q3 2023 figure of 5.15%. One clear factor for this increased WACC is an increase in the Cost of Debt, which is rooted in high borrowing rates and lower equity worth. In comparison, the WACC values for Q2 2022 and Q2 2021 were much more stable, standing at 5.35% and 6.50% respectively. The increasing values for WACC can be attributed to the amplified D/V ratio. The rising debt levels causes an expanded risk since any changes in interest rate would withhold severe impacts to the firm, relative to using equity. (Heikal et al, 2014). The market value of equity (E) has significantly decreased from Rp250.94 billion in Q3 2022, to Rp85.43 billion in Q3 2024, indicating an alarming 66% decrease.

Interest Coverage Ratio

The degree of earnings before interest and tax (EBIT), according to Ji (2017), shows whether the company has sufficient earnings to repay the loan and therefore the Interest Coverage Ratio (ICR) is always important for the company. The Interest Coverage Ratio (ICR) indicates a firm's ability to cover its interest expenses from EBIT. This ratio implies a financial risk. the lower its value the higher is the risk to be exposed to. It can be stated that an ICR lower than 1 would mean that the company is likely to experience financial distress since its operational profits are not sufficient to cover the interest expenses.

Based on the calculations for 3rd quarter from 2021 to 2024, the ICR for PT Wahana Interfood Nusantara Tbk has shown a downward trend over the past four years, as summarized below:

Table 6. ICR of PT. Wahana Interfood Nusantara Tbk (in Millions)

Interest Coverage	Q3 2024	Q3 2023	Q3 2022	Q3 2021
EBIT	-Rp16,325	Rp4,392	Rp13,010	Rp16,084
Interest Expense	Rp24,670	Rp19,437	Rp5,247	Rp9,962

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ICR	**-0.66**	**0.23**	**2.48**	**1.61**

At the end of Q3 of 2021, PT Wahana Interfood Nusantara Tbk showed a 1.61 Interest Cover Ratio tuned strongly suggesting that the company made enough operational earnings to pay the interest on its debts. By this time in the end of Q3 of 2022 the ratio seemed to have improved, standing at 2.48 which suggested that the EBIT relative to interest obligations had increased thereby improving the financial position of the entity in comparison to the previous time period. On the other hand, Q3 of 2023 marked a great dip for the ratio which fell down to 0.23. This was due to a decline in EBIT which dropped to Rp4.39 billion while increasing the incurred interest expenses to Rp19.43 billion. The latest Q3 of 2024 saw the ratio decreased even further, standing at -0.66, which was due to an increase in interest expenses up to Rp24.67 billion and the EBIT took a negative turn downwards to reach -Rp16.33 billion. The decline of the ratio suggests that the company isn't producing enough operational receivables to pay back and amortize its debt, putting the company in a position of financial distress (Hanifah, 2019).

Return on Assets

Return on Asset (ROA) is a key financial ratio that measures a company's ability to generate profit relative to its total assets. It is a fundamental indicator of operational efficiency and overall financial performance. A higher ROA indicates that a company is effectively using its assets to produce earnings, while a declining ROA signals operational inefficiency or financial stress (Heikal et al., 2014).

Table 7. ROA of PT. Wahana Interfood Nusantara Tbk (in Millions)

Return on Asset	Q3 2024	Q3 2023	Q3 2022	Q3 2021
Net Income	-Rp40,429	Rp14,769	Rp4,604	Rp4,170
Total Asset	Rp437,033	Rp528,959	Rp440,894	Rp370,684
ROA (%)	**-9.25**	**2.79**	**1.04**	**1.13**

In Q3 2024, PT Wahana Interfood Nusantara Tbk recorded a negative ROA of -9.25%, marking a steep decline from 2.79% in Q3 2023 and 1.04% in Q3 2022. The company's performance over the analyzed period reflected a drastic drop in ROA relative to its previous years, indicating a substantial and steep decline in business performance and profitability. In Q3 of 2024, the company reportedly suffered a net loss of Rp40.43 billion due to operational inefficiencies and growing financial burden, attributing this to the severe ROA drop.

Implications

The cocoa industry has faced significant challenges in recent years due to a sharp increase in global cocoa prices.

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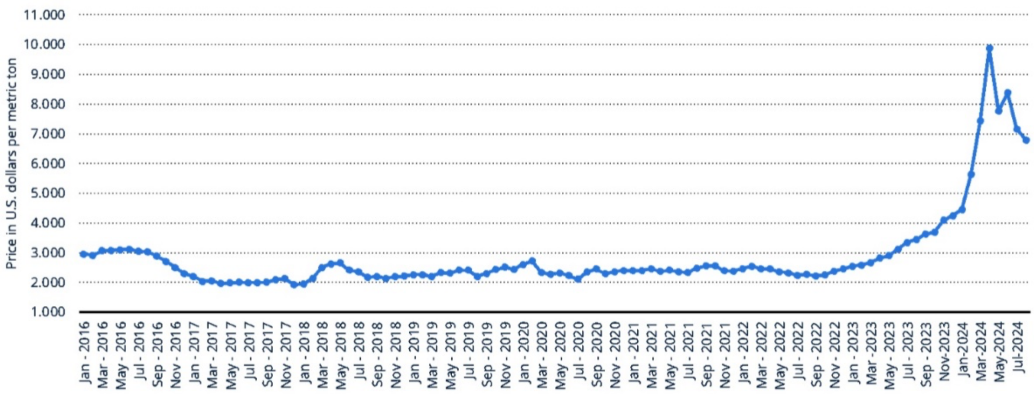

Figure 2. Monthly Cocoa Price Worldwide from January 2016 to August 2024 (in USD per Metric Ton)

According to data from the International Cocoa Organization (ICCO) (2024) and Statista (2024), it can be seen that the price of cocoa skyrocketed in Figure IV.1, with August 2024 recording the highest price at around $9,376 per metric ton of cocoa. This price exceeded the historical average between 2016 and early 2023, $2,000 - $4,000 dollars per metric ton of cocoa. The cocoa price hike is attributed to a mix of factors, such supply chain problems, climate change issues which decreased cocoa production levels in the major growing regions, and the growing demand for chocolate and cocoa products across the globe (ICCO, 2024).

CONCLUSION AND RECOMENDATION

The financial analysis of PT Wahana Interfood Nusantara Tbk has revealed critical challenges related to liquidity, debt management, and operational inefficiencies. The company's heavily leveraged capital structure and negative cash flows highlight its inability to meet financial obligations, threatening its long-term viability. Despite these issues, the recent expansion of production capacity presents a significant opportunity for recovery, provided strategic interventions are implemented promptly.

The capital structure of PT Wahana Interfood Nusantara Tbk reflects its heavy reliance on debt financing, which has significantly impacted its financial performance and risk profile. A detailed analysis of the company's capital structure reveals key challenges that underscore the need for urgent strategic adjustments.

Damodaran's Optimal Capital Structure Framework is a widely used method to determine the ideal mix of debt and equity for a company. The framework aims to minimize the company's Weighted Average Cost of Capital (WACC) while balancing the risks and benefits of debt. A key assumption of this model is that the company has a positive Interest Coverage Ratio (ICR), which reflects its ability to generate enough operational earnings to cover interest expenses. Without a positive ICR, the model cannot reliably estimate the cost of debt or determine the optimal level of leverage.

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For PT Wahana Interfood Nusantara Tbk, the application of the Optimal Capital Structure Framework is severely limited due to its negative ICR and EBIT. With an ICR of -0.66, the company's earnings before interest and taxes (EBIT) are insufficient to cover its interest expenses of Rp24.67 billion in Q3 2024. This negative ICR shows that the company is unable to meet its existing debt obligations, making any additional debt unsustainable and impractical.

The company's negative EBIT further complicates the use of the framework. Negative EBIT not only reflects operational inefficiencies but also distorts key inputs in the framework, such as the default spread. The default spread, which is critical in calculating the cost of debt, becomes unreliable when a company is unable to generate profits to cover its financial costs. As a result, the Optimal Capital Structure Framework cannot provide meaningful insights into the trade-offs between debt and equity under these conditions

PT Wahana Interfood Nusantara Tbk's capital structure includes high-cost debt instruments, such as Medium-Term Notes (MTNs) with interest rates of 10.5% and 11.25%. These rates significantly increase the company's financial burden and contribute to its inability to achieve a sustainable balance between debt and equity. The framework assumes that debt provides tax benefits, but for a company in financial distress, these benefits are overshadowed by the risks and costs associated with high-interest obligations. This makes it impossible to achieve an optimal capital structure under the current conditions.

For Damodaran's Optimal Capital Structure Framework to work, PT Wahana Interfood Nusantara Tbk must first focus on operational recovery. This means achieving positive EBIT, improving the Interest Coverage Ratio, and addressing liquidity challenges. A stable operational foundation is essential for the framework to generate practical recommendations. Without these improvements, the model cannot accurately balance the risks and benefits of debt, and its outputs would be unreliable.

Cash Waterfall Analysis

The cash waterfall analysis for PT Wahana Interfood Nusantara Tbk highlights the company's critical financial challenges and the limitations of its current cash flow allocation strategy. By systematically prioritizing cash inflows, the framework provided insights into how the company manages its financial obligations, including operational costs, debt servicing, and trade payables. However, the findings reveal that the company's liquidity remains insufficient to cover all obligations under its current financial structure.

The analysis demonstrated that a significant portion of the company's cash inflows is allocated to operational costs and trade payables, ensuring short-term business continuity. However, debt servicing, particularly the high-interest payments on Medium Term Notes (MTNs) and short-term loans, puts further pressure on cash reserves. The company recorded a negative residual cash balance of -Rp68,274

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million in Q3 2024, highlighting a severe liquidity gap that threatens its ability to meet future obligations.

The structured prioritization of the cash waterfall framework revealed that operational and financial pressures have left the company unable to build liquidity reserves or address long-term obligations. While the framework ensures that critical outflows are prioritized, it is clear that it cannot solve the underlying liquidity shortfall or reduce the burden of high debt servicing costs.

In conclusion, the cash waterfall analysis emphasizes the urgent need for additional strategies to address the company's liquidity challenges.

Based on the findings from the financial and cash waterfall analysis, the following recommendations are proposed to address PT Wahana Interfood Nusantara Tbk's financial challenges and set the foundation for recovery and long-term sustainability.

Recommendations

Negotiate a Grace Period of 1 year

The cash waterfall analysis for PT Wahana Interfood Nusantara Tbk revealed a persistent negative residual cash balance, including a deficit of Rp68,274 million in Q3 2024. This shortfall is driven by high debt servicing obligations, particularly interest payments on Medium Term Notes (MTNs) and short-term loans, which significantly strain the company's cash flows. Forecasting over the next several quarters indicates that without intervention, the company will remain in a liquidity crisis, jeopardizing its ability to sustain operations and meet its financial commitments.

In conclusion, the Optimal Capital Structure Framework is ineffective for PT Wahana Interfood Nusantara Tbk due to its negative ICR, negative EBIT, and the unsustainable cost of its existing debt. These financial metrics indicate that the company is not in a position to optimize its capital structure. Instead, immediate efforts must focus on stabilizing cash flows, improving profitability, and reducing financial distress. Once these foundational challenges are addressed, the framework can be revisited to guide long-term capital structure decisions.

1. **Assumptions Based on the New Factory**: The projected production increase from 6,000 tons to 20,000 tons per year served as the foundation for revenue growth assumptions starting in 2026. This capacity expansion is expected to significantly enhance the company's net income and cash inflows.
2. **Compound Annual Growth Rate (CAGR)**: Historical financial data was used to estimate baseline growth rates for revenue and cash flows, providing a realistic projection for short-term periods prior to 2026.

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3. **Linear Regression**: This method was applied to identify trends in operating expenses, trade payables, and other cash outflows, ensuring that projections accounted for consistent patterns in cost increases.
4. **ARIMA (Autoregressive Integrated Moving Average)**: ARIMA models captured short-term fluctuations and seasonal variations in cash flows, offering precise projections of cash inflows and outflows over the next years.

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