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Factors that affect the profitability ratio in manufacturing sector companies for the period 2018-2022

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ABSTRACT

This study investigates the interaction between capital structure, net profit margin, and company value in the manufacturing sector in Indonesia. The goal is to gain insight into how these factors interact and affect the overall value of a company in a particular region and industry. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of 30 manufacturing companies operating in Indonesia. This study examines the relationship between capital structure, net profit margin, and company value through statistical analysis and linear regression modeling techniques with SPSS version 26. The results showed that capital structure net profit margin significantly affected the company's value in the manufacturing industry. The capital structure reinforces the effect of the net profit margin on the company's value. The findings contribute to the existing literature on company valuations by providing empirical evidence specific to the manufacturing sector in West Java. The research has implications for policymakers, investors, and managers, as it offers valuable insights into the factors that drive corporate value in the industry, helping stakeholders make decisions and strategies to improve performance and competitiveness. Provide benefits in the context of financial management.

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1. Introduction

Financial statements are a source of information needed as one of the tools to assess the success of management is expected to be able to provide information about the progress and development of a company (Gu et al., 2023, 2024; Lasabuda, Pelleng, et al., 2019). Financial statements are an essential tool to obtain information concerning the wishes of certain parties interested in the financial statements. Financial statements will be more meaningful to interested parties if analyzed further to convey information supporting policies (Nguyen et al., 2023; Winarno, 2017; Zhang et al., 2023). Financial statements are the final part of the accounting process that plays an essential role in measuring and evaluating a company's performance. Companies in Indonesia, especially those that go public, must make financial statements periodically (Mujari 2019; Supsermpol et al. 2023; Zhang et al. 2023).

Financial performance is work performance in the economic field that has been achieved by the company and stated in the company's financial statements. Meanwhile, according to Munawir, financial performance is "Work performance that has been obtained by a company in a certain period and is owed in the relevant financial statements (Hasan, 2023). Economic performance has many aspects, but economists usually only focus on three main elements: efficiency, technological advancement, and balance in distribution. In simple terms, the calculation of efficiency is to produce maximum value with a certain number of inputs, both quantitatively physical and economic (price). In short, it can be explained that a

certain amount of information of a bonus nature is avoided so that no resource is unused and wasted.(Wenda and Ditilebit 2021). Financial performance is an achievement achieved by a company in a certain period that reflects the company's level of health. This is in contrast to Fahmi, who stated that financial performance is an analysis carried out to see the extent to which a company has implemented financial implementation rules properly and correctly. So, it can be concluded that financial performance is a picture of financial condition, which is a measure of success or achievement achieved by the company in maintaining health and stability in the financial sector by using financial implementation rules properly and correctly during a specific period (deadlock 2023).

Ratio analysis is a ratio used to measure the company's ability to meet the Long-term liabilities of the company, and profitability is a ratio used to measure the company's ability to generate profits generated from sales (Noordiatmoko, 2020). Profitability is the net result of various policies and decisions, where this ratio is used as a measure of a company's ability to profit from every dollar of sales generated (Widarjo & Setiawan, 2009). The results of the profitability ratio can be used as an illustration of the effectiveness of bank performance in terms of net profit obtained compared to the cost of revenue. (Fernos, 2017). The profitability ratio measures a company's ability to profit using resources such as assets, capital, or sales. Profitability ratios that are often used include return on assets (ROA), return on equity (ROE), profit margin ratio, and elemental earning power (Jajuli et al., 2023).

The profitability ratio is a ratio used to measure a company's ability to generate profits from its normal business activities. Besides determining the company's ability to generate earnings during a specific period, this ratio also measures management's effectiveness in conducting company operations. The profitability ratio can be used as a tool to measure the level of point of management performance. Good performance will be shown through the success of management in generating maximum profit for the company. (Muthia, 2018).

Resiko keuangan yang dihadapi perusahaan dapat memicu kegagalan atau munculnya hasil yang tidak Expected. One of the possible risks faced by a company is financial distress (Hadi & Amzul, 2023; Zhafira & Lubis, 2023). Financial distress is when the company's operating cash flow is inadequate to pay off current obligations (such as accounts payable or interest expense) and is forced to take corrective action. Financial distress is when the company's finances are unhealthy or in crisis. The financial distress model needs to be developed because by knowing the company's financial distress condition from an early age, it is hoped that actions can be taken to anticipate situations that lead to bankruptcy (Hasty & Nursiam, 2023; King et al., 2023). Thus, a financial distress model needs to be developed because by knowing financial distress from an early age, it is hoped that action can be taken to anticipate conditions that lead to bankruptcy to avoid losses in investment value. Financial distress can be measured through financial statements by analyzing financial statements. Financial statements support correct decision-making, so the information presented becomes more valuable (Ayem et al., 2023). Financial statements can also be used to see the level of a company's financial health expressed by a ratio. They will reflect the ability to run its business, asset distribution, the effectiveness of asset users, business results that have been achieved, obligations that must be paid off, and potential bankruptcy that occurs (Iskandar et al., 2022).

The liquidity ratio is a company's ability to meet short-term obligations. The liquidity ratio measures the company's short-term liquidity capability by looking at its current assets relative to its current debt (debt, in this case, is the company's obligation). The current Ratio (CR) is a ratio to measure a company's ability to pay short-term obligations or debts that are immediately due when collected as a whole (Gunawan, Widiyanti et al., 2022). The leverage ratio measures a company's ability to meet its short-term and long-term obligations if the company is liquidated at any time. This ratio shows how much a company's assets are funded from debt. With the high debt owned by the company, the company is forced to generate more income to pay its debt and interest. Therefore, it is estimated that there is a positive relationship between the leverage ratio and financial distress. (Goddess et al., 2019).

Several financial ratios are used to reduce financial distress in this study, namely the leverage and profitability ratios. In this study, the financial ratios used to measure the company's financial distress are the Current Ratio, which represents the liquidity ratio; the Debt to Asset Ratio, which means the leverage ratio; and the Return On Asset, which represents the profitability ratio. Some previous research results show the effect of financial ratios that are still diverse on financial distress. Based on the results of previous studies that are inconsistent with financial distress from year to year, researchers are interested in reexamining factors that are thought to affect financial distress, namely with the title (Dewi et al., 2019).

This study empirically investigates the moderation of capital structure on the effect of net profit margin on company value. By examining these factors moderately and partially, we aim to contribute to the existing literature and provide practical implications for decision-makers in the industry, theoretically contributing in the context of financial management.

2. Research Method

This study used a descriptive quantitative research method with a causal approach. The source of the retrieved data is secondary data. The researcher receives secondary data and directly measures the object under study. However, researchers use data from an institution whose data has been published. The population in this study is manufacturing companies in Indonesia listed on the Indonesia Stock Exchange. In sampling, the author uses purposive sampling techniques, taking the target of manufacturing company sector companies published following the research variables that the author analyzed from 2018 to 2022. Data is collected by observation. Observations are made on all data sources under the unit of observation/analysis determined in the study. Data sources for the study were obtained from websites such as manufacturing sector companies in Indonesia, the Indonesia Stock Exchange website http://www.idx.co.id, and companies sampled in this study. This data analysis method makes it easier for researchers to manage and analyze data with the help of the SPSS version 26 program. This data was tested by descriptive analysis followed by classical assumption tests, including data normality, heteroscedasticity, diversity, and autocorrelation. Then, the authors continued with multiple linear regression tests. The author uses the -t test and the -f test test to test the hypothesis. The author formulates a research hypothesis, namely H1: current ratio has a significant effect on profitability, H2: Debt to Asset Ratio has a considerable impact on profitability, and H3: current ratio and debt to asset ratio have a significant effect on profitability.

3. Results And Discussions

Before conducting linear regression and moderating regression analyses, table 1 regarding data normality with One-Sample Kolmogorov-Smirnov Test. The following are the results of the classic assumption test from normality data that are proven to be normally distributed data, as seen in Table 2 below.

Table 1. One-sample kolmogorov-smirnov test

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		35
Normal Parameters[,b]	Mean	.0000000
	Std. Deviation	.96499022
Most Extreme Differences	Absolute	.078
	Positive	.078
	Negative	-.063
Test Statistic		.078
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.200), which is residual data having a significance value greater than 0.05. It can be concluded that the data is typically distributed. The following multicollinearity test results can be seen in Table 2 below.

Table 2. Multiklonieritas test

Tableicients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Current Ratio	.961	1.041
	Debt to Aseset Ratio	.961	1.041

a. Dependent Variable: Profitability

The multicollinearity test obtained a Variance Inflation Factor (VIF) value of > 10 and a Tolerance value of > 10. The result of the decision for the multicollinearity test is that if the tolerance value < 0.10 and VIF < 10, it can be interpreted that there are no symptoms of multicollinearity, so it can be concluded that the model used does not contain signs of multicollinearity. The results of linear regression analysis can be seen in Table 3 below.

Table 3. Regres regressionr test

Model		Coefficients a Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.181	.246		8.874	.000
1	Current Ratio	.018	.011	.256	1.586	.123
	Debt to Asset Ratio	.057	.029	.315	2.247	.044

a. Dependent Variable: Profitability

The positive constant of 57.548 means that if the value of the current and debt-to-asset ratios is equal to zero, then the level or magnitude of profitability is still 2.181. The regression coefficient of the existing ratio variable has a positive value of 0.018, which means that if the value of the current ratio increases one hundred percent, then the company's value increases by 0.018 times. The regression coefficient value of the debt-to-asset variable is positive at 0.744. This explains that if the value of the debt-to-asset ratio rises by one hundred percent, then the variable profitability increases by 0.057 times. The following analysis results in hypothesis testing are presented in Table 4.

Table 4. Hipotesis Test

Variable	T-value	P-values	Result
CR ⟶ P	1.586	.123	Rejected
DAR ⟶ P	2.247	.044	Accepted
CR & DAR ⟶ P	3.919	.030	Accepted

Source: Results of research data processing

The first findings are in Table 5. Shows statistically the current ratio of non-significant fluctuations to the profitability of non-asset returns. Financial risks faced by companies can trigger failure or unexpected results. One of the possible risks faced by a company is financial distress (Hadi & Amzul, 2023; Zhafira & Lubis, 2023). Financial distress is when the company's operating cash flow is inadequate to pay off current obligations (such as accounts payable or interest expense) and is forced to take corrective action. Financial distress is when the company's finances are unhealthy or in crisis. The financial distress model needs to be developed because by knowing the company's financial distress condition from an early age, it is hoped that actions can be taken to anticipate conditions that lead to bankruptcy (Hasty & Nursiam, 2023; King et al., 2023).

The second finding in this study is that the debt-to-asset ratio significantly affects profitability. Debt to Asset Ratio (DAR) is a ratio used to measure the balance between total debt and assets. In other words, how much of the company's assets are financed by debt or how much the company's debt affects asset management. The higher the level of debt owned by the company, the lower the company's profitability. Debt to Asset Ratio is a financial leverage ratio that measures the funds provided by creditors compared to the finances of the company's owners or shareholders and all assets owned by the company. Debt to Asset Ratio is a ratio that measures how much help is financed by debt. The higher the percentage, the greater the company's risk. In comparison, the Debt to Equity Ratio is a ratio that shows the relationship between the amount of loans provided by creditors and the amount of capital offered by company owners.

The third finding in this study is the significant influence of the current and debt-to-asset ratios on the profitability of return on assets. The current Ratio (CR) is a ratio to measure a company's ability to pay short-term obligations or debts that are immediately due when collected as a whole (Gunawan, Widiyanti et al., 2022). At the same time, the Debt to Asset Ratio is a debt ratio used to measure the balance between total debt and total assets. In other words, how much of the company's assets are financed by debt or how much the company's debt affects asset management. If the ratio is high, funding with more debt will be more difficult for companies to obtain additional loans because it is feared that companies will not be able to cover their debts. On the other hand, if the ratio is low, the smaller the company is financed with debt.

4. Conclusion

From the results of our research and discussion, the author concludes, including the first hypothesis, that the current ratio does not significantly affect the profitability of non-asset returns. The second hypothesis shows a considerable debt-to-asset ratio development on the profitability of asset returns. The third hypothesis is that the current ratio and debt-to-asset ratio variables can simultaneously affect the profitability of returns on assets. To increase the company's value through the management of capital structure, profitability, and liquidity, the company must pay attention to the optimal composition of the capital structure, the level of profitability, and financial liquidity. Some things that can be done are increasing the company's profitability by increasing revenue, maintaining financial ratios so that the company's value becomes high, and paying attention to the optimal composition of the capital structure. The research has practical implications for managers, emphasizing the importance of making informed capital structure decisions, increasing profitability through operational efficiency, and driving market liquidity to increase company value. In addition, investors can leverage these findings to assess the factors driving a company's value in the manufacturing industry and make informed investment decisions. Policymakers can also leverage these findings to develop policies that facilitate access to financing, encourage profitability-enhancing initiatives, and promote a liquid market environment. The authors hope this research can theoretically contribute to this context's financial and banking management literature.

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