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Toward a Comprehensive Understanding of Financial Ratios' Impact on Profitability: A Study of Cigarette Companies Listed on the Indonesia Stock Exchange (2015-2017)

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Abstract

This study aims to determine the extent of the influence of Current ratio (CR), Debt to asset ratio (DAR), and Debt to equity ratio (DER) on profitability. This research was conducted on cigarette companies listed on the Indonesia Stock Exchange for the period 2015-2017. The sampling method used was purposive sampling method with a total sample of 4 observations. The data used is secondary data in the form of audited financial reports registered and published by the Indonesia Stock Exchange through the website www.idx.co.id. The analytical method used in this research is multiple linear regression analysis with the SPSS Statistics 24 tool. A descriptive statistical test is used to describe the data in the study, classical assumption test is used to test the existence of bias estimates. The results of this study indicate that DAR and DER have no effect on profitability while CR partially affect profitability. Simultaneous results, namely CR, DAR, and DER affect profitability. CR, DAR, and DER affect profitability by 0.541 or 54.1%, while the remaining 45.9% is influenced by other variables not examined.

INTRODUCTION

In today's fiercely competitive business landscape, a company's survival hinges on its capacity to generate profits. This fundamental principle applies across industries, regardless of company size or sector. Profitability ratios are pivotal in assessing a company's financial health and performance, making them invaluable for various stakeholders, particularly investors and creditors (Ali Al-Qudah & Abdel Mohsen Al-Afeef, 2015). These ratios provide critical insights into a company's ability to generate revenue and translate it into sustainable profits. Consequently, profitability deserves a paramount position in financial analysis because it directly impacts a company's longevity and resilience in the market .

Investors, who pour their financial resources into companies, closely scrutinize profitability ratios to gauge the potential returns on their investments. A

company's ability to generate consistent profits signifies stability and growth potential, making it an attractive proposition for investors seeking to maximize their returns. Conversely, creditors, such as banks or suppliers, rely on profitability metrics to assess a company's ability to repay its debts. A profitable company is more likely to meet its financial obligations, reducing the credit risk associated with lending to or transacting with that company.

Profitability is not merely a desirable outcome but a vital necessity for companies. With profitability, a company can sustain its operations, fund growth initiatives, or reward its shareholders. It serves as the lifeblood of a business, ensuring its continued existence in the dynamic and unforgiving world of commerce. Whether reinvesting in research and development, expanding market reach, or simply weathering economic downturns, profitability empowers companies to navigate the ever-evolving business landscape with confidence and resilience.

Ratios are indispensable tools in financial analysis, providing valuable insights into a company's financial health and performance. One of these critical ratios is the liquidity ratio, which offers a glimpse into a company's ability to meet its short-term financial obligations or debts. In this study, we focus on a specific liquidity ratio known as the current ratio (CR), which is pivotal in assessing a company's capacity to settle its existing debts using its current assets.

The current ratio is a fundamental financial metric that helps evaluate a company's liquidity position. It is calculated by dividing a company's assets by its liabilities. Current assets typically include cash, accounts receivable, and inventory, while current liabilities encompass short-term obligations like accounts payable and short-term loans. The resulting ratio is a numerical representation of how well a company can cover its immediate financial obligations with its current assets.

A higher current ratio is generally considered favorable, suggesting the company has more current assets than current liabilities. This implies that the company has a buffer of resources readily available to meet its short-term financial commitments. It can reassure creditors and suppliers, indicating a lower risk of defaulting on payments. However, an excessively high current ratio might indicate inefficient use of resources, as a surplus of current assets could mean that the company needs to deploy its capital effectively to generate returns.

Conversely, a low current ratio may raise concerns about a company's short-term solvency. It could indicate that the company might need help to meet its immediate financial obligations, which might erode the confidence of creditors and

investors. A balance between current assets and liabilities is essential, ensuring the company has enough liquidity to cover its debts while not letting excessive funds sit idle.

The importance of the current ratio extends beyond financial analysis and decision-making. It has practical implications for a company's day-to-day operations, as maintaining a healthy current ratio ensures that it can promptly settle its suppliers' invoices, meet payroll obligations, and handle unexpected expenses. A strong current balance can also provide flexibility in pursuing growth opportunities, as it indicates the company's readiness to invest in expansion without compromising its short-term financial stability. One of the key aspects contributing to their success is the effectiveness of the internal control system, which ensures the reliability of financial reporting and protects assets. protect assets (Ari Purwanti et al., 2023).

Debt financing operational activities is a common practice for many companies, as it allows them to leverage their resources and potentially amplify returns on investment (Hidayatulloh & Erdős, 2023). However, it's essential to strike a balance, as excessive debt can indeed be detrimental to a company's financial health. Too much debt can lead to a significant portion of the company's earnings being directed toward paying interest expenses, reducing overall profitability (Mujiatun, 2023).

Financial analysts often employ leverage ratios to assess the extent to which a company relies on debt to finance its operations. One such ratio is the Debt to Asset Ratio (DAR), which is crucial in evaluating a company's financial structure. The DAR calculates the proportion of a company's total assets funded through debt. It is computed by dividing the company's total debt by its total assets. A higher DAR indicates a larger portion of assets financed by debt.

In your study, you have chosen to focus on a cigarette company listed on the Indonesian stock exchange. Given the nature of the tobacco industry, it's not uncommon for such companies to carry significant debt to support their operations, including capital-intensive processes like manufacturing and distribution. Analyzing the DAR for these companies will provide valuable insights into their financial risk profiles. Notably, you've used purposive sampling as your sampling technique, resulting in a selection of four specific cigarette companies. Purposive sampling allows researchers to select samples based on particular criteria that align with the research objectives. In this case, you've likely chosen companies representing a meaningful cross-section of the industry or having unique

characteristics of interest for your study. The results of your research can have implications for investors, creditors, and policymakers interested in the financial stability and risk exposure of cigarette companies in the Indonesian market. Understanding how these companies leverage debt to support their operations can help stakeholders make informed decisions regarding investment, lending, and regulatory oversight.

Table 1. Research Sample Selection Process

No	Criteria	Amount
1	Cigarette companies listed on the Indonesia Stock Exchange during 2015-2017.	4
2	The company has never been delisted during the 2015-2017 period	4
3	Cigarette companies that publish complete financial statements for the 2015-2017 period	4
Observation Year		3
Number of observations sampled during the study period		12

LITERATURE REVIEW

Current Ratio to Profitability Ratio

The current ratio is a financial ratio that measures a company's ability to pay off its short-term liabilities with its short-term assets (Bina et al., 2022). It is calculated by dividing current assets by current liabilities. A low current ratio is generally considered to indicate problems with liquidity, while a high current ratio may indicate excess idle funds that can reduce a company's profitability (Ali Al-Qudah & Abdel Mohsen Al-Afeef, 2015).

Debt to Equity Ratio to Profitability Ratio

Debt to Equity Ratio (DER) compares a company’s total debt to its equity (Junaidi & Muksal, 2021). It assesses the extent of a company's reliance on debt financing. A high DER may indicate that a company is financing its growth with debt, which can be risky. Based on the search results, it can be inferred that DER can impact the profitability ratio, specifically on a company's return on equity (ROE). A high DER may negatively affect a company's ROE, indicating a high

capital dependence on outsiders, leading to heavier interest expenses and reduced shareholder returns (Bina et al., 2022). However, the relationship between DER and profitability ratio could be more straightforward and may also depend on other factors.

Debt to Equity Ratio to Profitability Ratio

Debt to Equity Ratio (DER) is a financial ratio comparing a company's total debt to its equity (Junaidi & Muksal, 2021) . It is used to assess the extent of a company's reliance on debt financing. The search results suggest that DER can have an impact on the profitability ratio, specifically on a company's return on equity (ROE) (Rahmawati & Hadian, 2022).

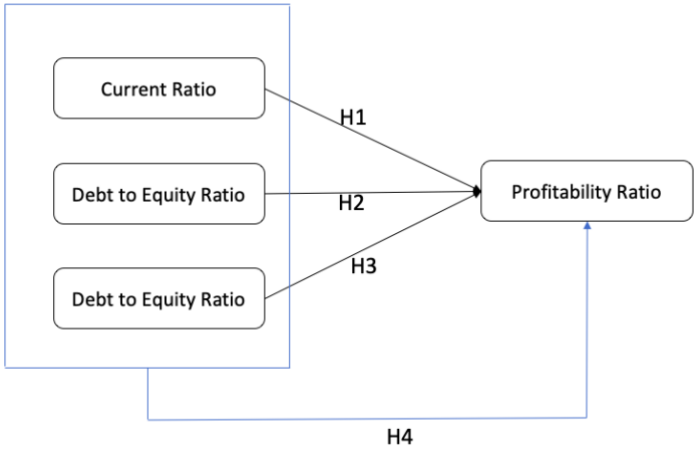

Figure 1. Researcher's framework

RESEARCH METHODS

The research aims to investigate cigarette companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2017, specifically focusing on those companies that meet specific criteria. The population of this research comprises all cigarette companies listed on the IDX during the specified period. To ensure that your sample is representative and aligns with your research objectives, you have used purposive sampling, which allows for a targeted selection based on specific criteria. The sampling criteria are as follows: a. Cigarette companies listed on the Indonesia Stock Exchange during 2015-2017: This criterion ensures that the companies under study were actively traded on the IDX during the designated research period, making them relevant for your analysis. b. The company has never been delisted during the 2015-2017 period: This criterion ensures the continuous presence of the selected companies on the stock exchange throughout the research period, preventing the inclusion of companies that may have experienced delisting,

mergers, or other significant events that could affect your analysis. c. The cigarette company publishes complete financial statements for the 2015-2017 period: This criterion ensures that you have access to comprehensive financial data for the specified period, which is crucial for conducting a thorough and accurate financial analysis.

By applying these criteria, you aim to select a sample of cigarette companies that are actively traded on the IDX and have a consistent and complete financial reporting history during the 2015-2017 period. This approach helps ensure the reliability and relevance of your research findings, allowing you to draw meaningful conclusions about these selected cigarette companies' financial performance and characteristics during the specified timeframe.

Data source

Sources of data used are also secondary data. Secondary data sources come from published studies (usually focusing on survey results or case studies featuring one or more incidents), document analysis, and information retrieval from organizational databases (Cooper, 2014). The data is the financial statements of cigarette companies listed on the Indonesia Stock Exchange (IDX) and published by the Indonesian Capital Market Directory (ICMD) sourced from the website www.idx.co.id.

Data Analysis

To test the formulated hypothesis, the regression model used is multiple linear regression with the help of SPSS (Statistical Product Service Solution). Researchers use multiple regression analysis to predict how the condition (up and down) of the dependent variable will be, if two or more independent variables as predictor factors are manipulated (increase in value) (Sugiyono, 2013). So, this analysis was carried out because the number of independent variables studied was more than one variable.

RESULT AND DISCUSSION

Descriptive Statistics

Based on the scope of the language, descriptive statistics include measures of central values (mean, median, mode, quartile, and so on); size dispersion (range, deviation, average, variation, standard deviation, and so on), and other sizes (Ghozali, 2011). The following are the results of descriptive statistical tests.

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Profitabilitas	12	-128.868	314.336	90.100	1.498.451
CR	12	-1.685.280	1.238.979	3.407.308	17.198.550
DAR	12	-1.790	1.833	.3667	.28959
DER	12	-1.661	1.221	-.0367	157.757

Source: SPSS processed data. version 24, 2020

Table 4.2 shows that the research variable has the amount of data that became the research sample as many as 12 companies with a minimum value on profitability, namely Rp. -1,661 and a maximum value of Rp. 314,336. The minimum CR value owned by the company is -1,685,280 and the maximum is 1,238,979. The minimum DAR value owned by the company is -1,790 and the maximum is 1,833. The minimum value of DER owned by the company is -1,661. and a maximum of 1,221.

Autocorrelation Test Results

This test aims to test whether in the regression modal there is a correlation between the confounding error in period t and the error in period t-1 (previous). This test was conducted because the study used time series data. A good regression model is a regression that is free from autocorrelation which can be tested through the Durbin-Watson test (DW Test) with the condition that if the DW number is below -2 it means there is a positive autocorrelation, if the DW number is between -2 to +2 then there is no autocorrelation and if the DW number is above +2 then there is a negative autocorrelation

Table 3. Autocorrelation Test Results

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.816[a]	.666	.541	1.014.712	1.697

Source: SPSS processed data. version 24, 2020

Based on table 3, it can be seen that the Durbin-Watson value is 1.697 where the value is between the values of -2 to +2 so it can be concluded that in the regression model there is no autocorrelation symptom.

Multicollinearity Test Results

The multicollinearity test aims to test whether in the regression model there is a correlation between the independent variables or not. A good regression model should not correlate with the independent variables. Orthogonal variables are independent variables equal or zero, to detect the presence or absence of multicollinearity is to analyze the correlation of the independent variables or can

also look at the tolerance value and the value of the variance inflation factor (VIF). The values commonly used to indicate the presence of multicollinearity are tolerance values > 0.10 or VIF values < 10 (Ghozali, 2011).

Table 4. Multicollinearity Test Results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constnt)	-125.075	65.698		-1.904	.093		
	CR	.178	.073	2.045	2.450	.040	.060	16.721
	DAR	203.699	114.561	3.937	1.778	.113	.009	117.582
	DER	36.196	18.646	3.811	1.941	.088	.011	92.440

Source: SPSS processed data. version 24, 2020

Table 4 shows the results, namely the independent variable has a VIF value of CR variable of 16,721, the value of the DAR variable is 117,582, and the value of the DER variable is 92,440. where the value is less than 10. Then the independent variable has a tolerance value for the CR variable of 0.060, the DAR variable value is 0.009, and the DER variable value is 0.011, and where the value is less than 0.1. Based on these results, it can be concluded that the regression model can correlate between independent variables or the independent variables contain multicollinearity.

Multiple Linear Regression Test Results

Hypothesis testing is done by using multiple linear analysis model is a linear relationship between two or more independent variables (X1, X2) with the dependent variable (Y). The regression model used to test the hypothesis in this study are: **Table 5**. Multiple linear regression test results

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-125.075	65.698		-1.904	.093
	CR	.178	.073	2.045	2.450	.040
	DAR	203.699	114.561	3.937	1.778	.113
	DER	36.196	18.646	3.811	1.941	.088

Source: SPSS processed data. version 24, 2020

$Y = -125.075 + 0.178x1+203.699x2+36.196x3+ \varepsilon$

Information:
Y : Profitability
α : Constant
β : Reg . coefficient
X1 : CR
X2 : DAR
X3 : DER
ε : Error

Partial test results

This test is intended to partially test the effect of the independent variables on the dependent variable, with other variables considered constant, and with a 95% confidence level (= 0.05). This test is carried out by comparing the significance of t arithmetic with the following provisions:

a. If the significance of t count < 0.05 then Ha is accepted
b. If the significance of t count > 0.05 then Ha is rejected

Based on table 5 shows the results that the CR variable has a significant value of 0.040 where the value is smaller than 0.05 (0.040 > 0.05) so it can be concluded that H1 is accepted or CR has an effect on profitability. The DAR variable has a significant value of 0.113 where the value is greater than 0.05 (0.113 > 0.05) so it can be concluded that H2 is rejected or DAR has no effect on profitability. The DER variable has a significant value of 0.088 where the value is greater than 0.05 (0.088 > 0.05) so it can be concluded that H3 is rejected or DER is not effect on profitability.

Multiple Linear Regression Test Results

Hypothesis testing is done by using multiple linear analysis model is a linear relationship between two or more independent variables (X_1, X_2) with the dependent variable (Y). The regression model used to test the hypothesis in this study are:

This test is intended to partially test the effect of the independent variables on the dependent variable, with other variables considered constant, and with a 95% confidence level (= 0.05). This test is carried out by comparing the significance of t arithmetic with the following provisions:

a. If the significance of t count < 0.05, then Ha is accepted
b. If the significance of t count > 0.05, then Ha is rejected

Based on table 5 shows the results that the CR variable has a significant value of 0.040 where the value is smaller than 0.05 (0.040 > 0.05) so that it can be concluded that H1 is accepted or CR has an effect on profitability. The DAR variable has a

significant value of 0.113 where the value is greater than 0.05 (0.113 > 0.05) so it can be concluded that H2 is rejected or DAR has no effect on profitability. The DER variable has a significant value of 0.088 where the value is greater than 0.05 (0.088 > 0.05) so it can be concluded that H3 is rejected or DER is not effect on profitability.

Simultaneous Test Results

This test is used to determine whether the coefficients of all independent variables have a significant effect or not on the dependent variable. The significance level (α) used in this test is 5%. The decision making in this test is if the significance (α) < 0.05 then Ha is accepted and if the significance (α) > 0.05 then Ha is rejected.

Table 6. Simultaneous Test Results

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.646.180	3	548.727	5.329	.026[b]
	Residual	823.712	8	102.964		
	Total	2.469.892	11			

Source: SPSS processed data. version 24, 2020

Table 6 shows the results that the significant value is 0.026 where the value is smaller than 0.05 (0.026 < 0.050). Based on these results, it can be concluded that H4 is accepted, namely, CR, DAR and DER have an effect on profitability.

CONCLUSION

Based on the results of hypothesis testing conducted using SPSS version 23 and the subsequent discussion and analysis, several key conclusions can be drawn from this research. First, the study indicates that the Current Ratio (CR) partially impacts the profitability of cigarette companies listed on the Indonesia Stock Exchange (IDX). This suggests that the company's ability to manage its short-term financial obligations, as reflected in its CR, plays a role in determining its profitability. Second, the Debt to Asset Total Ratio (DAR) is found to have no partial impact on profitability in cigarette companies listed on the IDX. This implies that the proportion of a company's assets financed through debt may not significantly influence its profitability within the context of the tobacco industry. Third, the Debt to Equity Ratio (DER) does not partially impact profitability in cigarette companies listed on the IDX. This suggests that the relationship between a company's debt and equity only partially affects its profitability within this sector. Lastly, when considering all three ratios together—CR, DAR, and DER—they simultaneously impact the profitability of cigarette companies listed on the IDX.

This indicates that the combined influence of a company's liquidity (CR), leverage (DAR), and debt-equity structure (DER) collectively affects its overall profitability within the tobacco industry.

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