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Financial Performance Analysis of PT. Indofood Sukses Makmur Tbk: A Comparative Study of 2019 and 2020

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Article Info	Abstract
Keywords: PT. Indofood Sukses Makmur Tbk, Financial Performance, Financial Ratios, Liquidity Ratio, Current Ratio, Quick Ratio, Profitability Ratio	*The objective of this study was to evaluate the financial performance of PT. Indofood Sukses Makmur Tbk between 2019 and 2020, based on financial report data obtained from www.idx.co.id. The analysis employed various financial ratios, including liquidity ratios like the current ratio and quick ratio, as well as profitability ratios such as return on assets and return on equity. The findings revealed an increase in liquidity ratios, represented by both the current and quick ratios, from 2019 to 2020. This uptick was attributed to the growth in current assets, ensuring the company's ability to meet its obligations. Consequently, PT. Indofood Sukses Makmur Tbk was classified as being in good financial health. In terms of profitability ratios, particularly the gross profit margin, there was a notable increase during the same period, driven by enhanced asset utilization for profit generation. This outcome further corroborated the company's positive financial standing.*

INTRODUCTION

Companies are established as economic entities primarily driven by maximizing profits. To accomplish this objective, they must navigate a complex landscape, encompassing resource utilization and effective personnel organization. Central to this mission is the role of management, a critical function for companies of all sizes. The financial sector is pivotal within the organizational structure, serving as the cornerstone for funding all company operations. As such, it becomes imperative for companies to conduct regular assessments of their financial performance. These evaluations are essential not only for achieving success but also for ensuring survival in the ever-challenging economic environment of today.

In the realm of corporate governance, the financial sector emerges as the lifeblood of a company. It not only orchestrates the allocation of resources but also plays a pivotal role in decision-making processes. Companies can optimize their resource utilization through meticulous financial management, enhancing their overall efficiency. In doing so, they increase the likelihood of achieving their profit-driven objectives and adapting to the dynamic economic conditions that characterize the contemporary business landscape.

Furthermore, the economic landscape constantly evolves, marked by increasing competition and economic uncertainties. Consequently, the need for companies to conduct periodic evaluations of their financial performance becomes paramount. These assessments provide valuable insights into the company's strengths and weaknesses, allowing for timely adjustments and strategic planning. In a world where financial stability is synonymous with sustainability, regular financial performance assessments become a strategic imperative for businesses seeking long-term success and resilience in a challenging economic climate.

The assessment of a company's financial performance holds significant value for diverse stakeholders. Among these stakeholders are the company's owners, leadership, management, and employees, all of whom rely on this information to make informed decisions and set strategic directions for the company. Additionally, creditors and investors scrutinize the financial performance to gauge the company's creditworthiness and investment potential. Government agencies use this data to enforce regulations and monitor economic activities, while the general public relies on it to form perceptions about the company's financial health and stability.

Financial reports, particularly balance sheets and income statements, serve as crucial tools in accurately portraying a company's achievements and outcomes during a specific time frame. When these reports are meticulously prepared and accurately reflect the company's financial status, they offer a comprehensive snapshot of its financial performance. This information becomes indispensable in evaluating the company's fiscal health, profitability, and overall financial stability. Consequently, these financial reports play a pivotal role in guiding stakeholders' decisions, ranging from investment choices to regulatory actions, and help shape the collective perception of a company's financial strength within the broader community.

The primary objective of this study is to conduct a comprehensive assessment of PT. Indofood Sukses Makmur Tbk's financial performance during the period spanning 2019 to 2020, focusing specifically on aspects of liquidity and profitability. Through a rigorous financial ratio analysis, the study aims to ascertain whether there has been an improvement or decline in these critical financial metrics during this two-year timeframe. The choice of PT Indofood Sukses Makmur Tbk as the subject of this research is deliberate, as the company holds a prominent position in Indonesia's processed food industry. Its remarkable ability to adapt to the ever-changing business environment in Indonesia makes it an intriguing case study. Initially established as a simple instant noodle company, Indofood has evolved into a comprehensive "Total Food Solutions" company, engaging in diverse business activities spanning the entire spectrum of food production, from raw material processing to the distribution of final products on retailers' shelves.

This study seeks to shed light on PT. Indofood Sukses Makmur Tbk's financial resilience and competitiveness in a dynamic industry characterized by significant shifts and challenges. By focusing on liquidity and profitability indicators, the research aims to provide valuable insights into the company's financial stability and capacity to generate returns during the period under investigation. This analysis holds relevance for investors, stakeholders, and those interested in understanding prominent companies' adaptability and growth strategies in the Indonesian food industry.

LITERATURE REVIEW

Financial performance

Financial performance is a crucial aspect of a firm's overall health, and it is a measure of how well a firm can use assets from its primary mode of business and generate revenues. Analysts and investors use financial performance to compare similar firms across the same industry, industries, or sectors in aggregate. Financial statements used in evaluating overall financial performance include the balance sheet, the income statement, and the statement of cash flows. Financial performance indicators are quantifiable metrics used to measure how well a company is doing. No single measure should be used to define a firm’s financial performance. A company's financial performance can be improved in several ways, such as improving cash flow, selling assets, or reducing expenses. The overall performance and position of the business should be evaluated based on a set of criteria that includes liquidity, solvency, profitability, financial efficiency, and repayment capacity. Each criterion measures a different aspect of financial performance and position. There are various methods to measure financial performance, such as Economic Value Added (EVA), liquidity, operating performance, solvency, corporate governance, and remuneration to executives. These methods can help firms identify their strengths and weaknesses and take corrective actions to improve their financial performance (Rahman & Chowdhury, 2022), (Stojkić & Bošnjak, 2019).

Financial Performance Appraisal

For investors, information about a company's financial performance is crucial in determining whether to maintain their investment or look for other alternatives. A high business value indicates good performance, which attracts investors to invest their capital to increase the stock price. The share price is a function of company value. On the other hand, for the company, information on its financial performance can be used to measure the organization’s achievements in a certain period, reflecting the success level in implementing its activities. Performance measurement can also be used to assess the contribution of a part in achieving the company’s overall goals. It can be used as a basis for determining the company's strategy for the future, guide decision-making and organizational activities in general and divisions or parts of the organization. It can also be used as a basis for determining investment policies to increase the efficiency and productivity of the company (Gopale, 2022), (Bacidore et al., 1997).

Financial statements

Financial statements are formal records that convey a company's financial activities and position over a specific period. They provide information on a company's financial performance, including revenues, expenses, profits, losses, assets, liabilities, and cash flows. The financial statements are used by investors, market analysts, and creditors to evaluate a company's financial health and earnings potential. The four primary types of financial statements are the balance sheet, income statement, statement of cash flow, and statement of changes in equity. The balance sheet shows a company's assets, liabilities, and shareholders' equity at a particular point in time. The income statement shows how much money a company made and spent over a specific period of time. The statement of cash flow shows the exchange of money between a company and the outside world over a period of time. The statement of changes in equity explains the changes in a company's share capital, accumulated reserves, and retained earnings over the reporting period. Financial statements are important for understanding a company's financial performance, making informed investment decisions, and tracking future profitability estimates, business growth, and overall financial health (Sitepu et al., 2021).

Income statement

An income statement is a financial statement that reports a company's financial performance over a specific accounting period. It shows the company's income and expenditures and whether the company is making a profit or loss. The primary purpose of an income statement is to convey details of profitability and business activities of the company to the stakeholders. By understanding the income and expense components of the statement, an investor can appreciate what makes a company profitable. An income statement helps business owners decide whether they can generate profit by increasing revenues, decreasing costs, or both. It also shows the effectiveness of the strategies that the business set at the beginning of a financial period. The income statement is one of the three major financial statements, along with the balance sheet and cash flow statement. The income statement is a great place to begin a financial model, as it requires the least amount of information from the balance sheet and cash flow statement. The income statement is a key financial document for a business, as it shows what the company earns, what it spends, and if it's making a profit over a specific period (Cosmin & Dumitru, 2006).

Cash Flow Statement

A cash flow statement is a financial statement that summarizes the movement of cash and cash equivalents that come in and go out of a company. It measures how well a company manages its cash and cash equivalents and provides information on the cash flows from its operations, investing activities, and financing activities. The cash flow statement is important because it helps investors and creditors determine a company's liquidity, solvency, and overall financial health. The cash flow statement is typically broken down into three sections: cash flow from operating activities, cash flow from investing activities, and cash flow from financing activities. To create a cash flow statement, you need to determine the starting balance of cash and cash equivalents at the beginning of the reporting period and then calculate the cash coming in and going out. The cash flow statement can be created using either the direct or indirect methods. The direct method uses actual cash inflows and outflows from the company’s operations, while the indirect method uses the P&L and balance sheet as a starting point (Pavlović et al., 2015).

Statement of changes in capital

A statement of changes in capital, also known as a statement of changes in equity or statement of retained earnings, is a financial statement that measures the changes in owners' equity throughout a specific accounting period. The statement of changes in equity explains the differences in a company's share capital, accumulated reserves, and retained earnings over the reporting period. It breaks down changes in the owners' interest in the organization and the application of retained profit or surplus from one accounting period to the next. The transactions most likely to appear on this statement are net profit or loss, dividend payments, stock sale proceeds, treasury stock purchases, gains and losses recognized directly in equity, and effects of changes due to errors in prior periods. The statement of changes in equity is most commonly presented as a separate statement but can also be added to another financial statement. To prepare the statement, separate accounts in the general ledger are created for each type of equity, and every transaction is transferred to the appropriate account (Kousenidis, 2006).

Profitability Ratio

Profitability ratio is a financial metric used to assess a company's ability to generate profit relative to its revenue, operating costs, balance sheet assets, or shareholders' equity. It indicates how efficiently a company generates profit and value for shareholders. Profitability ratios are used to measure and evaluate the ability of a company to generate income (profit) relative to revenue, balance sheet assets, and other factors. They are most valuable when they are analyzed in comparison to similar companies or compared to previous periods. Profitability ratios include margin ratios and return ratios. Margin ratios represent the company's ability to convert sales into profits at various degrees of measurement. Return ratios compare returns received to investments made by bondholders and shareholders. Six of the most frequently used profitability ratios are gross profit ratio, operating profit ratio, net profit ratio, return on assets (ROA), return on equity (ROE), and return on investment (ROI). Profitability ratios are a useful tool for comparing the profitability of different companies in the same industry (Wiech et al., 2020).

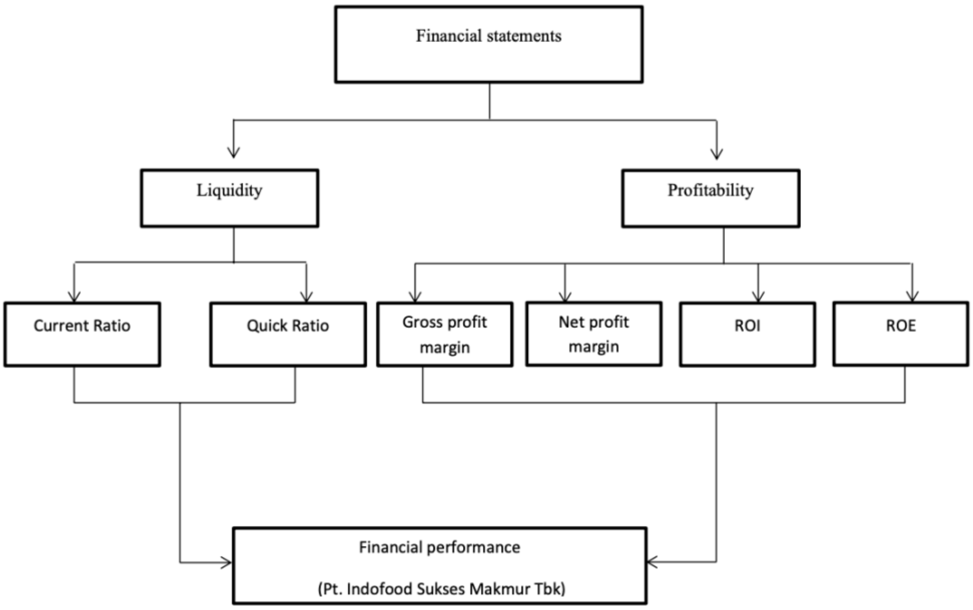

Figure 1: framework of this research

RESEARCH METHODS

The research methodology employed in this study is primarily characterized as a rational or deductive approach, explicitly utilizing a descriptive method. This approach begins with a foundation of general information, expert opinions, and established theories and formulas to analyze financial statements. The descriptive method, in turn, serves as a systematic and factual means to convey the financial statement analysis results, predominantly through ratio analysis.

The data utilized for this research consists of secondary data derived from the financial statements of PT Indofood Sukses Makmur Tbk, covering the years 2019 to 2020. These financial statements were sourced through internet research and supplemented with pertinent information gathered through library research. The focal point of this research is PT Indofood Sukses Makmur Tbk, a company involved in various sectors, including processed food, spices, beverages, packaging, cooking oil, wheat mills, and flour sack manufacturing.

The primary emphasis of this study is the evaluation of the company's financial performance, with a particular focus on its financial ratios. By conducting an in-depth analysis of PT Indofood Sukses Makmur Tbk's financial statements, this research aims to provide valuable insights into the company's fiscal health and ability to adapt and thrive in the competitive landscape of the processed food industry.

RESULTS

Liquidity Ratio

Table 1. Financial Ratio PT. Indofood Sukses Makmur

Financial Ratio	2019 years	2020 years
Liquidity		
CR	0,73%	0,81%
QR	0,46%	0,58%
Profitability		
Gross profit margin	0,30%	0,32%
Net profit margin	0.098%	0.095%
ROI	0.05%	0.049%
ROE	0.36%	0.032%

Source: Processed primary data (2020)

The liquidity ratio is a ratio that reflects the company's ability to pay its obligations that must be met immediately. Obligations that must be fulfilled are short-term debt. The liquidity ratio is the ability of a company to meet its short-term obligations promptly.

Current ratio

The current ratio is a ratio that compares the current assets owned by a company with short-term debt. At PT. Indofood Sukses Makmur, the results of the liquidity analysis on the Current Ratio show an increase, which proves an increase in the current ratio in 2019 of 0.73% in 2020 of 0.81%, an increase of 0.08%. This means that the company has a proportion of current assets compared to current debt owned by the company, so the interest expense that must be borne can be covered.

The formula for finding the current ratio is as follow:

$$\frac{Current\ Asset}{Current\ Debt} x\ 100\%$$

Cash Ratio

Inventory is an element of current assets with the lowest level of liquidity, often experiences price fluctuations, and often causes losses in the event of liquidation. Therefore, in calculating the liquid ratio (quick ratio), the inventory value is excluded from liquid assets.

Financial Performance of Pt. Indofood Sukses Makmur is calculated from the quick ratio ratio from 2019 of 0.46% in 2020 of 0.58% increase as much as 0.12%. This proves that the company's ability to pay off its current liabilities with more liquid current assets without inventory has increased. This situation is evidenced by the increase in the percentage in that year so that it has an effect on increasing the company's ability to pay off its current debt.

The formula for finding the quick ratio is as follows:

$$\frac{Current\ Asset - inventories}{Current\ Account\ Payable} x\ 100\%$$

Profitability ratio

The profitability ratio measures the company's ability to generate profits from the utilization of its resources. The results of measuring profitability are based on gross profit margin and ROI showing that the condition of the company's profitability during 2019–2020 has increased, based on the percentage of the ratio used. These results indicate that the company's ability to make a profit.

The results for 2019–2020 have increased, based on the percentage of the ratio used. These results indicate that the company's ability to obtain profitability measures based on gross profit margin and ROI shows the condition of the company's profitability during.

a. Gross profit margin, is the ratio between gross profit and existing sales or income.

   The formula is:

$$\frac{Sales - HPP}{Sales} x\ 100\%$$

b. Net profit margin,

The relationship between net income after tax and sales shows the ability of management to run the company until it is quite successful in restoring/controlling the cost of goods/services, operating expenses, depreciation, loan interest, and taxes. This ratio also shows the management's ability to set aside a certain margin as a reasonable compensation for company owners who continue to provide their capital with a risk.

Pt. Indofood Sukses Makmur's Net Profit Margin in 2019 was 0.098% in 2020 to 0.093% Decreasing by 0.005%. This is due to Pt. Indofood Sukses Makmur Tbk In the future, it will reduce the company's performance in generating net income. This condition is not neglected from the sales of products produced by the company.

According to Agus Sartono (2011: 122), in simple terms net profit margin can be formulated as follows:

$$\frac{Net\ Provit\ After\ Tax\ (EAT)}{Net\ Sales} x\ 100\%$$

Return on investment

Return on Investment compares net profit after tax and total assets. Return on Investment is a ratio that measures the company's overall ability to generate profits with the total number of assets available. The higher this ratio the better the condition of a company. This condition is not neglected from the sales of products produced by the company. According to Agus Sartono (2011: 123), Return on Investment. Can be calculated by the formula:

$$\frac{Net\ Provit\ After\ Tax}{Tottal\ Aset} x\ 100\%$$

Ratio on Net Worth (Return on Equity or ROE)

The return on equity ratio shows the extent to which the company manages its capital effectively, and measures the level of return on investment made by the owners of capital or company shareholders. Pt. Indofood Sukses Makmur in 2019 amounted to 0.036% in 2020 to 0.032%. Decreased by 0.004%. The results of the return on equity (ROE) calculation prove a decrease in Net Income at Pt. Indofood Suka Makmur from 2019 to 2020. According to Agus Sartono (2011: 124), this ratio is calculated from the following formula:

$$\frac{Provit\ After\ Tax}{Own\ Capital} x\ 100\%$$

CONCLUSION

The financial performance of Pt. Indofood Sukses Makmur, calculated from the Liquidity Ratio in 2019 to 2020 has increased. Current Ratio increased by 0.08% while Quick Ratio increased 0.12%, this indicates that there is an increase which proves an increase in the proportion of current assets compared to current debt owned by the company. The financial performance of Pt. Indofood Sukses Makmur is calculated from the profitability ratio, it is found that the amount of the gross profit margin has increased by 0.02%. Return on Total Assets (ROI) increases by 0.001%, increasing the company's performance in generating net income. and Return on Equity or (ROE) decreased by 0.004%, and Net Profit Margin decreased by 0.005%, which in turn would reduce the company's performance in generating profit and loss.

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