

Determination Of Financial Ratios To Profit Growth In Pharmaceutical Companies On The Jakarta Stock Exchange

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ABSTRACT

Good profit growth indicates that the company has good management that can increase the value of the company. To measure the success of an enterprise. Financial ratio analysis is used to assist business people and the government in evaluating the company's past, present financial condition and projecting results or profits obtained in the future. Ratio analysis used as a performance gauge includes Current Ratios, Debt To Equity Ratios, Return On Assets Ratios, and Return On Equity Ratios. The analysis method used is multiple linear regression panel data, while to test the regression model a classical assumption test is used. The results of this study show that the R^2 value obtained in this study is 0.792036 so that it can be concluded that the ability of the independent variable to explain the dependent variable is 79%. then it can be concluded that the independent variables consisting of: Current Ratio, Debt to Equity Ratio, Return On Assets, and Return On Equity can provide almost all the information needed for profit growth variables, but only the variable Return On Equity affects the profit organization. This shows that the resulting regression model does not all variables can be used as an explanation of the variation of the dependent variable.

Keywords : Current Ratios, Debt To Equity Ratios, Return On Assets, Return On Equity, Profit Growth.

1. INTRODUCTION

The development of the economic world after the COVID-19 pandemic requires company management to be able to manage and adjust to changes that occur in their environment effectively and efficiently. Likewise with Pharmaceutical companies. Pharmaceutical companies or drug companies are commercial business companies that focus on researching, developing and distributing drugs, especially in terms of health.

The pharmaceutical industry experienced an increase in demand for medicinal products during the COVID-19 pandemic. In conditions like today, companies must have a strategy in order to maintain their development that they experienced during the Covid-19 pandemic two years ago. Companies are expected to have strong capabilities in various fields such as finance, marketing, operations, and human resources. In an effort to maintain its performance, the most important thing to consider is the company's financial condition. This can be seen, among others, from the company's profit growth from year to year, because a company can see its success based on performance each year.

Profit growth is an increase in the percentage of profit obtained by a company. Good profit growth indicates that the company has good management that can increase the value of the company. To measure the success of a company, one of them is by looking at the profit achievements generated. One way to analyze and predict a company's profit is using financial ratios. Financial ratio analysis is used to assist business people and the government in evaluating the company's past, present financial condition and projecting results or profits obtained in the future. In addition, financial ratios can also be used as a tool to predict the deterioration of a company's financial condition (Oktanto and Nuryatno, 2014).

The results of the study (Khotimah, Siti and Mardhani, Malavia Ronny. 2019) show that the Current Ratio (CR) and Debt to Equity Ratio (DER) have a significant effect on Profit Growth in chemical and pharmaceutical subsector manufacturing companies. The results of this study are the same as the results of research from (Mahaputra, I Nyoman Kusuma Adnyana. 2012) which shows that Current Ratio (CR) and Debt to Equity Ratio (DER) have a significant effect on Profit Growth in manufacturing companies. In research conducted by Bionda, Azeria Ra and Mahdar, Nera Marinda (2017) shows that Return On Asset (ROA) and Return On Equity (ROE) have an influence on Profit Growth.

2. PROBLEM STATEMENT

Does the Current Ratio, Debt To Equity Ratio, Return On Assets, and Return on Equity partially affect profit growth in pharmaceutical companies listed on the Indonesia Stock Exchange?

Does the Current Ratio, Debt To Equity Ratio, Return On Assets, and Return on Equity simultaneously affect profit growth in Pharmaceutical Companies Listed on the Indonesia Stock Exchange?

3. RESEARCH OBJECTIVES

The purpose of this study is another: to determine and analyze the effect of Current Ratio, Debt To Equity Ratio, Return On Assets, and Return on Equity partially on profit growth in Pharmaceutical Companies Listed on the Indonesia Stock Exchange 2018-2021.

To determine and analyze the effect of Current Ratio, Debt To Equity Ratio, Return On Assets, and Return on Equity simultaneously on profit growth in Pharmaceutical Companies Listed on the Indonesia Stock Exchange 2018-2021.

4. PROBLEM LIMITATION

This research only limits to financial ratios commonly used by analysts in assessing company performance and profit growth.

5. LITERATURE REVIEW

5.1 Previous Research

Kusoy, Nurul Amalia, and Maswar Patuh Priyadi. 2019. Resulting in the conclusion that *the variable Return On Equity* has a positive effect on profit growth. *Debt to Equity Ratio* negatively affects Profit Growth.

Susyana, Fina Islamiati, and Nugi Mohamad Nugraha. 2021. The results show that *Net Profit Margin (NPM)*, *Return On Assets (ROA)*, and *Current Ratio (CR)* simultaneously have a significant influence on Profit Growth in Cement Industry Sub-Sector Companies listed on the Indonesia Stock Exchange for the period 2014 – 2018. While partially, *Return On Assets* does not affect profit growth, as well as *the Current Ratio* does not affect Profit Growth. While the variable Net Profit Margin affects profit growth.

5.2 Theoretical Studies

a. Liquidity Ratio

Liquidity Ratio is a ratio that shows the company's ability to meet short-term obligations (debt). Where it means that if the company is collected, then the company is able to pay the debt, especially when the debt is due. In other words, the liquidity ratio serves to show or measure the company's ability to fulfill its overdue obligations, both obligations to outside the company and within the company. Thus, it can be said that the use of this ratio is to determine the company's ability to finance and meet obligations (debts) at the time of collection. (Cashmere, 2016:129). Liquidity Ratios consist of several ratios, including: Current Ratios, Quick Ratios, Cash Ratios, and Working Capital Ratios.

b. Solvency ratio

Solvency ratio is a ratio used to measure the extent to which a company's assets are financed with debt. This means how much debt burden the company bears compared to its assets. Thus, it is said that the solvency ratio is used to measure the company's ability to pay all of its obligations, both short-term and long-term if the company is dissolved or dissolved. (Cashmere, 2016:151). This ratio consists of various ratios, including: Debt to Equity Ratios, Debt to Total Assets Ratios, Tangible Assets Debt Coverage, Times Interest Earned Ratio, Total Assets Turnover, Receivable Turnover, Inventory Turnover, and Working Capital Turnover.

c. Profitability Ratio

Profitability Ratio is a ratio used to measure the company's ability to generate profits from its business activities. A company is an organization that operates with the aim of making a profit by selling products (goods or services) to customers. The operational goal of most companies is to maximize profits, both short-term and long-term profits. (Hery 2014:192). This ratio consists of several ratios, including: Return On Assets, Return On Equity, Return On Investment, and Profit Margin.

d. Profit Growth

Profit growth can be used as a tool to assess how the company's performance is. According to Stice, et al (2004: 225-226) "Research supports the FASB's statement that the best indicator of performance is profit. So understanding profits, what profits measure and their components is important to be able to understand and interpret the financial state of a company." According to the Indonesian Institute of Accountancy (2007) "net income (profit) is often used as a measure of performance or as a basis for other measures such as return on investment or earnings per share. Profit growth is calculated by subtracting the current period's profit from the previous period's profit and then dividing by the profit in the previous period.

6. Hypothesis

This study provides the following hypothesis that:

- a) It is suspected that the resulting regression model can be used to predict the profit growth of pharmaceutical companies that have been listed on the Indonesia stock exchange.
- b) It is suspected that simultaneously the current ratio, debt to equity ratio, and return on assets affect profit growth.
- c) It is suspected that the partial current ratio, debt to equity ratio, and return on assets affect profit growth.

7. RESEARCH METHODOLOGY

7.1 Brief Overview of the Object of Research

This research was conducted on Pharmaceutical Companies listed on the Indonesia Stock Exchange (IDX) using financial statements in 2017-2020. The pharmaceutical companies studied consist of: PT Darya-Varia Laboratoria Tbk, PT Kalbe Farma Tbk, PT Kimia Farma, Tbk, PT Merck Indonesia Tbk, PT. Millenium Pharmacon International Tbk, PT Merck & Co., Inc., PT Phapros, Tbk, PT. Pyridam Farma Tbk, PT Industri Jamu dan Farmasi Sido Muncul Tbk, PT Tempo Scan Pacific Tbk, dan PT Indonesia Farma Tbk.

7.2 Types of Research

Research This research is in the form of quantitative research. According to Kasiram (2008:149) in his book "Qualitative and Quantitative Research Methodology", interpreting quantitative research as a process of gaining knowledge by using data where the data is in the form of numbers as a tool to analyze information about what you want to know. Quantitative research is assumed that the variables are fixed and can be identified and measured with objective or standard tools.

7.3 Data Collection Techniques

The collection method used in this research is descriptive analysis and quantitative analysis, namely research that compares the similarities or differences of two or more facts and properties of the object under study. Sources of data used in this study is secondary data. Secondary data can be defined as data obtained from other parties (Kuncoro, 2009:148). Secondary data in this study is in the form of documents obtained from IDX/Indonesian Stock Exchange via the internet. The data used in this study were obtained from the financial statements of The Pharmaceutical Companies listed on the Indonesia Stock Exchange for the period 2018 – 2021.

7.4 Data Analysis Methods

The data analysis methods used include: classical assumption test, which is used to assess whether in an Ordinary Least Square (OLS) linear regression model there are classical assumption problems. The classical assumption test provides certainty that the regression equation obtained has accuracy in estimation, is unbiased and consistent, so that the forecasting model made becomes valid as a forecasting tool. Second, a multiple linear regression model is used in order to know the regression coefficient so that it can be tested whether or not there is an effect on the dependent variable. Third, determine the coefficient of determination in order to know the contribution of the independent variable to the variation of changes in the dependent variable. Fourth, test the hypothesis using a partial test and a simultaneous test. Through this hypothesis test, the proposed hypothesis will be answered.

8. DISCUSSION

8.1 Classical Assumption Test

First, a classical assumption test was carried out, the results of processing the Normality Test data with panel data could show that the residuals were normally distributed because the probability value obtained was 0.225099 (>5%). Based on the results of processing Multicollinearity Test data using panel data, it can be concluded that there are no symptoms of multicollinearity because there is no correlation between independent variables. According to Ghazali, decision making in the multicollinearity test is: a) If the correlation of the independent variable is more than 0.50 ($r > 0.50$), then multicollinearity occurs. b) If the correlation between independent variables is less than 0.50 ($r < 0.50$) then, it is free from multicollinearity. While the results of the correlation analysis between the highest independent variables amounted to 0.65228, namely between the DER and ROA variables. This means that there is multicollinearity between the variables DER and ROA. Likewise, the independent variables CR and ROA produce a correlation value of 0.630239, this means that there is also a multicollinearity between these variables.

Based on the results of the *Run Test* data processing, a value of 1.000000 is obtained which value is greater than the significant value of 5% so that the $d1 < d < d4$ -du value has no positive auto correlation.

8.2 Coefficient of Determinant

The results of the determinant coefficient analysis are obtained as follows:

Table 8.1: Determinant Efficiency

<i>Regression Statistics</i>	
Multiple R	0.873220778
R Square	0.762514528
Adjusted R Square	0.738157044
Standard Error	0.625192513
Observations	44

The results of partial tests on regression efficiency of each independent variable with the dependent variable of profit growth are as follows:

Table 8.2: Partial Test Results

	<i>Coefficients</i>	<i>Standard Error</i>	<i>t Stat</i>	<i>P-value</i>
Intercept	0.04618102	0.368188315	0.125427719	0.900829290
CR	0.001310463	0.088967426	0.014729698	0.988322922
THE	-0.145903912	0.117135666	-1.245597664	0.220343737
ROA	-2.386492983	1.669387247	-1.429562246	0.160804901
ROE	3.224804059	0.292961779	11.00759312	0.000000000

While the simultaneous test results of the regression model $Y = 0.0462 + 0.0013 X_1 - 0.1459 X_2 - 2.3865 X_3 + 3.2248 X_4$ as follows:

ANOVA Table (Simultaneous Test Results)					
	<i>df</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	4	48.94442366	12.23610592	31.30514292	0.0000000
Residual	39	15.24376145	0.390865678		
Total	43	64.18818511			

The coefficient of determination (R^2) aims to determine the role of the *independent* variables CR, DER, ROA and ROE in explaining the variation of the *dependent* variable Profit Growth. It is known that the R^2 value obtained in this study is 0.738157044 which means that the ability of the *independent* variable to explain the variation of the *dependent variable* is 74%. The remaining 26% was explained by other variables outside the variables of this study. Because the R-squared value is close to 1, it can be concluded that the independent variables consisting of: Current Ratio, Debt to Equity Ratio, Return On Assets, and Return On Equity can provide almost all the information needed by profit growth variables. However, when viewed from the partial test results, only the Return On Equity variable affects the profit organization. This shows that the resulting regression model does not all variables can be used as an explanation of the variation of the dependent variable. The largest role in the model is only given by the Return On Equity variable, while the other independent variables only burden Return On Equity's ability to explain variations in profit growth variables. Likewise, when viewed from the results of simultaneous tests, that simultaneously there is a strong influence on profit growth. This means that only Return On Equity is the largest contributor to the simultaneous influence on profit growth. While other variables weaken the ability of the effect of the Return On Equity variable on profit growth.

9. CONCLUSION

The coefficient of determination shows a high result, which is 74%, meaning that the resulting regression model can be used as a predictive model for profit growth in pharmaceutical companies in Indonesia. But when viewed from the partial test results, only the Return On Equity variable shows a strong influence on profit growth. It can be concluded that the largest contributor in the model's ability to predict profit growth of 74% is the variable Return On Equity.

10. SUGGESTION

Current Ratios, Debt To Equity Ratios, Return On Assets, and Return On Equity are in poor position. This means that the company must improve its current asset position against its current debt by increasing cash to be able to reduce its current debt. On the other hand, companies must calculate wisely in increasing capital sourced from foreign capital. It should be considered to add new shares to be offered to the company's shareholders.

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