THE EFFECT OF LIQUIDITY RATIOS, PROFITABILITY RATIOS, AND SOLVENCY TO VALUE RATIO COMPANY STUDIES ON SECTOR COMPANIES CONSUMER GOODS INDUSTRY LISTED ON IDX PERIOD 2018-2021

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***Abstract*- This study examines the effect of the company's liquidity, profitability, and solvency ratios on company value and company size is used as a control variable. Using the Purposive Sampling method with a total sample of 184 business entities in the consumer goods industry sector in Indonesia for the 2018-2021 period. The data analysis technique uses multiple linear regression analysis with the help of the SPSS 26 program. The findings showed that the liquidity ratio had no impact on the value of the company, while the ratio of profitability and solvency had a significant influence on the value of the company according to the hypothesis built in the study. The size of the company proved to significantly affect the value of the company. The implication of this research is that investors can use financial ratio analysis to make decisions before investing. Companies must also pay attention to their financial performance if they want to get investment funds. Large-scale companies usually have a large number of assets so that they can generate large profits, this is what can increase the value of the company.**

***Keywords*:** Company Value, Financial Performance, Liquidity, Profitability, Solvency, Company Size

1. Introduction

Consumer goods industry stocks tend to be stronger for investors to collect amid uncontrolled market conditions because the consumer goods sector industry has a major contribution to economic growth in Indonesia to date. Measuring the performance of a company is the most important thing for investors when they want to enter the stock market. So, it takes some in-depth financial ratio analysis to ascertain how investor responses can be affected by financial performance appraisals. Liquidity, Profitability, and Solvency ratios are the ones used in this study. The ability of issuers to pay off their debt using available cash is shown through the cash ratio chosen in this study, as a proxy for liquidity. Return on Equity Ratio (ROE), which is a measurement of the rate of return that shareholders receive on their investments, this ratio is used in this study as a proxy of profitability. Debt Equity Ratio (DER), is an analysis in measuring the company's ability to pay off debts to debtholders with its capital, this ratio is used in this study as a representative of solvency.

2. Literature Review

2.1 Previous Research

Previous research that was used as a source was Myšková & Hájek's (2017) research showing that profitability, activity, and liquidity ratios are positively correlated with a company's financial performance.

The research of L. Rodrigues & L. Rodrigues (2018) characterizes the economic and financial status of the sugarcane energy industry in Brazil. This research was conducted with a quantitative approach by testing on information collected from the financial statements of about 150 crops in the harvest season of 2014 to 2016 with a financial ratio analysis approach, the financial indicators were calculated using measurements of liquidity, profitability, and factory debt.

Vijayakumaran (2018) Testing the performance effects of capital structure decisions using a large panel of listed industrial companies in China. The findings show that leverage is positively related to company performance, as well as suggesting that debt financing can now act as a governance mechanism for China-listed companies in their performance improvement.

2.2 Theoretical Review

2.2.1 Company Value

The value of the company, which is the basis of stock market indicators, is always influenced by investment opportunities (Siswiraningtyas & Yuhertina, 2021). The intended company value of this study is the market value with Tobin's Q approach. Tobin's Q ratio can show in detail related to how effectively the managerial utilizes various economic resources owned by the company (Herawaty, 2008). Companies with large scale are in great demand because they generate large profits and their growth is also rapid (Firm Size) so that it can affect the value of the company.

2.2.2 Liquidity Ratio

The capacity of a business to complete its short-term financial commitments is referred to as liquidity. The risk decreases proportionally with the level of liquidity of the company. According to Kasmir (2013) states that the liquidity ratio is a measure that reflects the inability of the company to meet its commitments, especially short-term debt that has already deadlines.

2.2.3 Profitability Ratio

Profitability is a measure of management effectiveness in running a business (Wahidahwati, 2002). This ratio is used to measure the capacity of a business to generate profits. The issuer's ability to pay dividends increases along with the amount of profit realized. *Return on Equity Ratio (ROE),* measuring the rate of return that shareholders receive on their investments, this proxy is used in this study to describe profitability ratios.

2.2.4 Solvency Ratio

Hanafi (2014: 40) explained that the solvency ratio or *leverage* is a measurement of the ability of issuers to pay off long-term debt. The solvency ratio is used to calculate the ratio between the owner's contribution and the money lent by *debtholders* (Van Horne &; Wachowicz, 2012. *Debt Equity Ratio (DER),* measuring a company's capacity to pay off debt with its capital, is used because it is representative of the solvency ratio.

3. Research Framework

3.1 Research Model

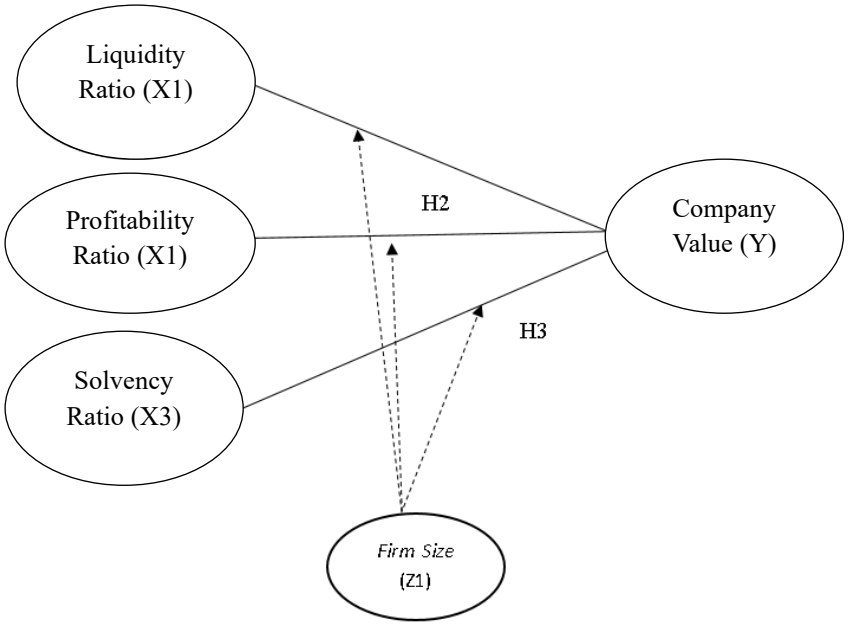

Figure 3.1 Research Model

Source: Data processed by the author, 2023

3.2 Hypothesis

H1: Liquidity has a significant effect on Company Value

H2: Profitability has a significant effect on Company Value

H3: Solvency has a significant effect on Company Value

4. Research Methods

4.1 Research Approach

The purpose of this study is to investigate the impact of financial ratios on the value of publicly listed companies in the consumer goods industry sector on the IDX in 2018-2021 so that it is a type of *explanatory research* with quantitative methodology.

4.2 Sampling Method

The population uses companies in the consumer goods industry sector listed on the Indonesia Stock Exchange for the 2018-2021 periods. Sampling using *purposive sampling techniques* amounted to 184 companies.

4.3 Data Type, Data Source, and Measurement Scale

Using secondary data from companies in the consumer goods industry sector that have been listed on the IDX (http: //www.idx.co.id), in the form of financial statements and *annual reports.*

4.4 Variables and Operational Definitions of Variables

Table 4.1 Operational Definitions of Variables

Variable	Conceptual Definition	Indicators	Scale Measure	Source
Liquidity Ratio (X1)	Liquidity describes a company's capacity to pay off its short-term debt. The higher the company's liquidity, the lower the risk faced.	1. Cash Ratio 2. *Current Ratio* 3. Cash Turnover Ratio 4. Very Current Ratio (*Quick Ratio)*		1.Cashmere (2013)
Profitability Ratio (X2)	Profitability is a measure of how effectively management has run a business. The high profit generated is directly proportional to the company's ability to distribute dividends to investors and will affect the increase in stock price which is good news for the company.	*1. Return on Equity (ROE)* *2. Return on Investment (ROI)* *3. Profit Margin* 4. *Earnings per Share (EPS)*		1. Cashmere (2013) 2.Wahidahwati (2002)
Solvency Ratio (X3)	Solvency describes the company's capacity to pay all obligations owned in the form of short-term and long-term obligations using the assets owned. The high value of DER is directly proportional to the capital structure of debt to finance from existing capital.	*1. Debt to Equity Ratio* (*DER)* *2. Debt to Asset Ratio* 3. *Times Interest Earned* 4. *Long Term Debt to Equity Ratio*		1. Cashmere (2013)

Company Value (Y)	Company value is an important indicator for investors and relates to stock prices.	The indicator of company value in this study uses Tobin's Q proxy.	If the Q ratio is above one, it indicates that investment in assets produces returns that provide higher value than investment expenditures. Conversely, if the Q ratio yields a value below one, then the investment in the asset is not attractive	1. Indrawati &; Anggraini, A. (2021) 2. Herawaty (2008) 3. Erliana (2002)
Firm Size (Z1)	Larger companies have a motive to manage larger profits because they rely on closer scrutiny through bank exploitation. and some specific groups.	Total assets are chosen because they are considered more stable than total sales and market capitalization value for the company.	FRMSIZE ln (*Total Assets*)	1. Guna &; Herawaty (2010) 2. Alzoubi (2016)

Source: Data processed by the author, 2023

5. Result and Discussion

5.1 Descriptive Statistics

Table 5.1 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
TobinsQ	184	0.128	22.946	0.935	1.984
CAR	184	0.002	9.495	0.755	1.349
ROE	184	-2.232	2.574	0.134	0.461
DER	184	-2.127	13.550	1.035	1.516
FRMSIZE	184	22.641	35.123	28.748	1.890
Valid N (listwise)	184				

Source: Data processed by the author, 2023

It can be concluded that the variable data used is evenly distributed because the standard deviation value combined with the mean results in a fairly wide range.

5.2 Multiple Linear Regression Analysis

The above linear regression results can produce the following modeling:

$$TobinsQ = 9.510 – 0.024\ CAR – 0.194\ ROE – 0.785\ DER – 0.282\ FRMSIZE$$

The linear regression equation above shows that the coefficient of the constant is 9.510. This shows that the value of CAR, ROE, DER, and Frmsize in the object of study is 9, so the value of TobinsQ is 9,510. The regression coefficient values of β1, β2, β3, and β4, indicate the magnitude of the change in the value of TobinsQ as a dependent variable if the values of the variables CAR, ROE, DER, and Frmsize decrease or

increase by one unit. The (-) sign before the coefficient indicates that there is an opposite change between TobinsQ and the variables CAR, ROE, DER, and Frmsize. So it can be concluded that any increase in the value of CAR, ROE, DER, and Frmsize will cause a decrease in TobinsQ.

5.3 Simultaneous Test (Test F)

Table 5.2 Summary of Simultaneous Test Results (*F-test*)

Regression Model	Sig.
Regression Model	0.000

Source: Data processed by the author, 2023

It was concluded that the significance value was smaller than 0.05 which indicates that the results of the dependent variable affect the independent variable in the research regression model simultaneously.

5.4 Partial Test (*t-test*)

Table 5.3 Summary of Partial Test Results (*t-test*)

Coefficientsa

Type		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	9.510	2.132		4.462	0.000
	CAR	-0.204	0.105	-0.138	-1.947	0.053
	ROE	-0.785	0.318	-0.182	-2.467	0.015
	DER	-0.194	0.097	-0.149	-1.997	0.047
	Frmsize	-0.282	0.075	-0.269	-3.760	0.000

a. Dependent Variable: TobinsQ

Source: Data processed by the author, 2023

This means that the TobinsQ variable was influenced by ROE, DER, and Frmsize in the regression test in this study. While for the CAR variable is not significant with a probability value of 0.053.

5.5 Coefficient of Determination (R2)

Table 5.4 Summary of the Results of the Coefficient of Determination Analysis

Regression Model	*Adjusted R Square*
Regression model	0.139

Source: Data processed by the author, 2023

The value of the *Adjusted R Square* of 0.139 or 13.9% of the dependent variable TobinsQ can be described by the independent variables CAR, ROE, DER, and Frmsize. Then for the remaining 86.1% explained by other variables.

5.6 Discussion of Research Results

5.6.1 Hypothesis 1: Liquidity has no significant effect on Company Value

Liquidity in this study was proxied using cash ratio (CAR) as an independent variable in the regression model of this study and was not shown to have a significant effect on the value of companies proxied using TobinsQ. This finding is evidenced by the partial test (t test) which gives the result that the significance of the CAR variable is 0.053 is still above 0.05 and the β value is -0.138. The negative relationship occurs in CAR as a liquidity variable approach with company value occurs because the results shown after the test are insignificant so that the movement of cash ownership in the company cannot be predicted precisely due to unstable income received due to declining purchasing power of the community.

5.6.2 Hypothesis 2: Profitability has a significant effect on Company Value

Profitability in this study is proxied using return on equity (ROE) as an independent variable in the regression model of this study and has been shown to have a significant effect on the value of companies proxied using TobinsQ. This result is evidenced by the results of the partial test (t test) which gives the result of the significance of the CAR variable is 0.015 which is far below 0.05 and the β value is -0.182. The negative relationship that occurs in ROE as an approach to profitability variables with company value occurs because during the Covid-19 pandemic, the company's revenue decreased, although the decline was not too significant because the object in this study was the consumer goods industry sector which is still the basic needs of the community such as food, health, and household needs.

5.6.3 Hypothesis 3: *Leverage* has a significant effect on Company Value

Leverage or Solvency in this study proxied using debt to equity ratio (DER) as an independent variable in the regression model of this study has been shown to have a significant effect on the value of companies proxied using TobinsQ. This result is evidenced by the results of the partial test (t test) which gives the result of the significance of the CAR variable is 0.047 which is below 0.05 and the β value is -0.149. The negative relationship that occurs in DER as an approach to solvency or leverage variables with company value occurs because if the company has large debts, it will potentially go bankrupt thereby reducing the value of the company.

5.6.4 Results of Control Variable Regression Equation

This result is supported by a partial test result (t-test) produced of 0.000 which is below 0.05. This shows that to determine the value of the company can be seen from the size of the company, the larger the size of the company, the better the company's performance in managing assets and production activities.

6. Conclusion and Suggestion

6.1 Conclusion

The first hypothesis, stating that liquidity has a significant effect on the value of the company in this study is not proven, because the objects used in the study were affected by the Covid-19 pandemic so that during the Covid-19 made the company experienced a decrease in revenue but financing activities were still high.

The second hypothesis, stating that profitability has a significant effect on the value of the company in this study has been proven. The object of this study is a consumer goods sector company so that this sector does not feel the impact of COVID-19 too much because the industrial needs of this sector provide community needs related to food, health needs, and household needs.

The third hypothesis, stating that leverage has a significant effect on the value of the company in this study has been proven. Investors must carefully assess the company's ability to fulfill its commitments, both direct and long-term before investing, because the object of this research is supported by the consumer goods industry sector, so even though the company's debt level is high, the relationship between the company and debtholders may still be well maintained.

The control variable of this study is firm size or company size which is proven to have a significant effect on company value.

6.2 Suggestion

Based on the limitations and constraints of this study, the following are suggestions given by researchers, namely:

1. Comparing the condition of the company's value before the Covid-19 crisis and after the Covid-19 subsided.

2. Using modeling for proxied company value using TobinsQ with other proxies such as *Price Book Value* (PBV).

3. Conduct research on company value by adding characteristics of control variables such as company age, ownership role, company growth, and other variables besides variables in this study, so that it can be an additional analysis for investors that is used as a basis for consideration in making investment decisions.

4. Testing data non-linearly to find out better comparison of results.

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