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Effect of Debt to Equity Ratio and Current Ratio on Company Value with Return on Assets as Intervening Variable in Consumer Goods Industrial Companies Listed on the Indonesia Stock Exchange for the 2015–2018 Period

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ABSTRACT: The value of the company is an illustration of how good or bad management is in managing its wealth. An increase in the value of the company is usually marked by an increase in stock prices. The purpose of this study is to examine and analyze the effect of debt to equity ratio (DER) and current ratio (CR) on company value with return on assets (ROA) as intervening variable in Consumer Goods Industrial Companies Listed on the Indonesia Stock Exchange for the 2015–2018 period. The research method used is a quantitative approach, the type of research is reciprocal associative, and the nature of the research is explanatory research. The sampling technique used is purposive sampling so that the number of samples obtained is 20 companies. The analytical method used is Smart PLS (partial least square). The results of this study indicate that DER has a positive and significant effect on ROA but has no effect on company value. CR has a positive and significant effect on ROA but has no effect on company value. ROA has a positive effect on company value. ROA as an intervening variable can mediate the effect of DER on company value but cannot mediate the effect of CR on company value.

KEYWORDS: Debt to Equity Ratio, Current Ratio, Company Value, Return on Assets

INTRODUCTION

The consumer goods industry sector relies heavily on the capital market for investment purposes. This is because the shares of consumer goods industrial companies have the potential to increase every year. Investments are made with the aim of obtaining profits as expected. The consumer goods industry is still the main choice for investors in investing their assets.

One of the capital markets in Indonesia is the Indonesia Stock Exchange (IDX), which is a capital market that deals with the buying and selling of securities of companies that have been listed on the exchange. In the Indonesia Stock Exchange there are financial reports of each issuer, where the issuer is a company that has gone public (open).

Every company that is founded has its own goals. The purpose of each company is to maximize the profits earned by the company and increase the company's stock price. Stock prices that continue to increase every year will give a positive value to the value of the company. The value of the company is an illustration of how good or bad management is in managing its wealth, this can be seen from the measurement of financial performance obtained (Savitri, 2017). An increase in the value of the company is usually marked by an increase in stock prices (Ardimas and Wardoyo, 2014).

The higher the stock price, the higher the value of the company. The level of company health is important for companies to improve efficiency in running their business, so that the ability to earn profits can be increased and to avoid potential bankruptcy. Companies that have a high corporate value will foster a sense of trust from the parties associated with the company as well as from the wider community. This is because a high company value indicates that the company's performance is good (Putri, 2012). The value of the company is also a reflection of a company where companies with high stock market prices will be in demand by many investors. For investors who are interested in investing, of course, the level of return or profits obtained from the investment will be invested in the form of capital gains and dividends which are part of the investment profits for shareholders (Kayobi and Anggraeni, 2015).

In the process of maximizing the value of the company, there will usually be conflicts between managers and shareholders (company owners). This is known as the agency problem. Agency problem is an agency problem that usually occurs when there is a conflict of interest in terms of policies that must be carried out within an agency. It is not uncommon for management, namely company managers, to have other goals and interests that conflict with the company's main goals and often ignore the interests of shareholders. This difference in interests between shareholders and managers results in conflicts, this happens because managers usually prioritize personal interests, on the contrary shareholders do not like the personal interests of managers because what the manager does will increase costs for the company, causing a decrease in company profits and affect the company's profits the stock price so that it will also reduce the value of the company.

Firm value can be calculated using several valuation ratios, including price earning ratio (PER), price to book value (PBV) and tobin's Q. In this study, the indicator used to measure firm value is tobin's Q. tobin's Q is the valuation ratio considered is superior to other market value ratios because this ratio defines firm value as the combined value of tangible assets and intangible assets.

There are many factors that can affect the value of the company, among others, solvency (leverage), liquidity and profitability. Solvency is the company's ability to fulfill all its obligations. Solvency is also often referred to as the debt ratio (leverage). In the solvency ratio there are several debt ratios, namely; debt to equity ratio (DER), debt to asset ratio (DAR) and so on. The researcher will choose the DER as the first independent variable in this study because the DER is the ratio used to measure the company's ability to pay off all of its debts by using all of the company's capital. If the DER shows a high number, it will make the risk even greater and make investors afraid to invest so that the stock price will fall which will have an impact on the value of the company. Because investors will assume the company is an illiquid company or has too much debt.

Based on the data that the company PT. Unilever Indonesia, Tbk (UNVR) in 2017 the DER increased which was not followed by a decrease in tobin's Q. DER at PT. Ultrajaya Milk Industry and Trading Company, Tbk (ULTJ) in 2018 experienced a decline which was not followed by an increase in tobin's Q. In 2016, the DER at PT. Multi Animal Indonesia Tbk experienced an increase which was not followed by a decrease in tobin's Q. At PT. Kimia Farma (Persero), Tbk (KAEF) DER in 2016 experienced an increase which was not followed by a decrease in tobin's Q. The condition of the DER in each company experienced an increase but could not push tobin's Q to decrease and vice versa. This is in accordance with research conducted by Chasanah (2018) and research by Utami and Welas (2019) which states that increasing the DER can increase firm value. However, research conducted by Wijaya (2016) has contradictory results, where the results of his research state that the DER has no effect on firm value.

In addition to solvency, liquidity is also the company's ability to pay off debts that must be paid immediately. In contrast to solvency, liquidity uses its current assets to pay off its debts. Companies that are unable to pay off their debts will give investors a negative view that the company is experiencing financial problems. This results in reduced investor confidence and affects the high and low value of the company (Putri et al., 2016). In liquidity there are several ratios, namely; current ratio (CR), quick ratio (QR) and cash ratio (CAR). In this study, the researcher will use the CR as the second independent variable. CR is a ratio that shows the company's ability to pay its short-term obligations by using its current assets (James et al., 2005). Mahardhika and Marbun (2016) argue that if the CR level is high, it shows better guarantees for short-term debt but if it is too high it will also result in inefficient working capital.

The data shows that the company PT. Unilever Indonesia, Tbk (UNVR) in 2018 the CR experienced an increase which was not followed by an increase in tobin's Q. CR at PT. Ultrajaya Milk Industry and Trading Company, Tbk (ULTJ) in 2017 experienced a decline which was not followed by a decrease in tobin's Q. In 2018, the Current Ratio (CR) at PT. Multi Animal Indonesia Tbk experienced a decrease which was not followed by a decrease in tobin's Q. At PT. Kimia Farma (Persero), Tbk (KAEF) CR in 2016 decreased which was not followed by a decrease in tobin's Q. CR conditions in each company experienced a decline but could not push tobin's Q to decline and vice versa.

In addition to the debt factor, profit that comes from profitability also affects the value of the company. Profitability is the ability of a company to generate profits during a certain period at a certain level of sales, assets and share capital. Investors will have an interest in investing in companies that have a high level of profitability. Companies that are able to generate high profits and are able to use assets effectively will increase the value of the company (Wilson, 2020). In profitability there are several measurement ratios, namely: return on assets (ROA), return on equity (ROE), and so on. In this study, researchers will use ROA as an intervening variable between DER and CR to firm value. According to Rosikah (2018) ROA is used to calculate the company's ability to create profit using its own total assets for future profits. The higher the ROA, the higher the value of the company, making investors interested in investing.

The data shows that the company PT. Unilever Indonesia, Tbk (UNVR) in 2016 experienced an increase in ROA, which was not followed by an increase in tobin's Q. ROA at PT. Ultrajaya Milk Industry and Trading Company, Tbk (ULTJ) in 2017 experienced a decline which was not followed by a decrease in tobin's Q. In 2018, ROA at PT. Multi Animal Indonesia Tbk experienced a decrease which was not followed by a decrease in tobin's Q. At PT. Kimia Farma (Persero), Tbk (KAEF) ROA in 2016 experienced a decline which was not followed by a decrease in tobin's Q. The condition of ROA in each company experienced a decline but could not push tobin's Q to decline and vice versa. The ROA conditions in each company have decreased but have not been able to push tobin's Q to decrease and vice versa. This is in accordance with the results of Rahmantio et al. (2018) which states that the size of the ROA does not have an influence on the high and low value of the company. Asset investment made by the company only has a small impact on the company's income and net profit which tends to decrease due to an increase in the company's total expenses. This condition has not been able to increase the value of the company which tends to fluctuate. The results of this study are also supported by the results of Astuti et al. (2018) where ROA has no effect on firm value.

The purpose of this study is to examine and analyze the effect of DER and CR on company value with ROA as intervening variable in Consumer Goods Industrial Companies Listed on the Indonesia Stock Exchange for the 2015–2018 period.

RESEARCH METHODS

The research method used is a quantitative approach. According to Sugiyono (2013:13), "Quantitative research methods can be interpreted as research methods based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques are generally carried out randomly, data collection using research instruments, data analysis is quantitative or statistical with the aim of testing the established hypothesis."

The type of research is reciprocal associative. According to Sugiyono (2013:55-57). "Reciprocal associative research is a research question that is asking the relationship between two or more variables that influence each other."

The nature of the research is explanatory research. Research that aims to examine causality between variables that explain a certain phenomenon (Zulgenef, 2013:11). In this case, research will be conducted on the debt to equity ratio (DER), current ratio (CR), return on assets (ROA) and tobin's Q.

According to Sugiyono (2013:115), "In quantitative research the population is defined as a generalization area consisting of objects or subjects that have certain qualities and characteristics determined by the researcher to be studied and then conclusions are drawn. According Pandiangan et al. (2018) in Sugiyono, sampling is the selection of samples based on certain characteristics that are considered to have relevance to the characteristics of the population that have been known previously. The population in this study are consumer goods industrial companies listed on the Indonesia Stock Exchange from 2015 to 2018 as many as 52 companies. The sampling technique used is purposive sampling so that the number of samples obtained is 20 companies. Library research is a form of research that uses library facilities by examining theoretical discussions from various books, articles, and scientific works related to writing (Pandiangan, 2018).

The analytical method used is Smart PLS (partial least square). Structural equation modeling (SEM) is a method used to cover the weaknesses found in the regression method. According to experts, the SEM research method is grouped into two approaches, namely covariance based sem (CBSEM) and variance based or partial least square.

RESULT

Overview of Consumer Goods Industry Companies on the Indonesia Stock Exchange

The share of the consumer goods industry in 2018 experienced an increase which was assisted by an increase in public consumption. The Composite Stock Price Index (JCI) closed the trade by rising above the 6,300 level, to be exact at 6,328.71, or an increase of 0.90%. The sector managed to rebound up to 1.96% after experiencing a deep correction. Investors responded positively to the retail sales survey report by Bank Indonesia (BI) which showed that retail sales in 2018 were better than 2017.

According to the results of the BI retail sales survey, the average annual real sales index (IPR) growth in 2018 is estimated to be 3.7% higher than 2.9% in the previous year. Retail sales growth in December 2018 reached 7.7% compared to the previous year which only grew 0.7%. For example, PT Unilever Indonesia, Tbk (UNVR) which posted a profit of Rp. 5.22 trillion or an increase of 9.89% from 2016. However, in the 2018 period, its profit increased by 39.84% or Rp. 7.3 trillion. Similar conditions also occurred in Indofood CBP Sukses Makmur (ICBP) and Mayora Indah (MYOR). Profit growth is 14.47% and Mayora Indah is 18.44% respectively. When compared to 2017, Indofood CBP Sukses (ICBP)'s net profit was only 7.42% and Mayora Indah (MYOR) was 7.15%. HM Sampoerna (HMSP) and Kalbe Farma (KLBF) also recorded growth although not as big as Indofood CBP Sukses (ICBP) and Mayora Indah (MYOR). HM Sampoerna's net profit (HMSP) increased by 3.85% to Rp. 9.69 trillion and Kalbe Farma's net profit (KLBF) rose 1.69% to Rp. 1.8 trillion.

Descriptive Statistics Results

Descriptive statistics provide an overview of the minimum, maximum, total value, average value and standard deviation of the data used in the study.

The results of data processing show that N or the amount of data on each valid variable is 80. From 80 samples of debt to equity ratio (DER) data, the average value of DER is 0.719 with a standard deviation of 0.542. The minimum value of DER is 0.160 which is at PT Ultrajaya Milk Industry and Trading Company, Tbk (ULTJ) in 2018, which means that PT Ultrajaya Milk Industry and Trading Company, Tbk (ULTJ) is financed by 16% debt and the remaining 84% is financed by own capital. The maximum value of the DER of 2,650 which is at PT Unilever Indonesia, Tbk (UNVR) in 2017 which means that PT Unilever Indonesia, Tbk (UNVR) is financed by 265% debt or 2.65 times compared to its own capital.

From 80 samples of current ratio (CR) data, the average CR is 2.818 with a standard deviation of 1.726. The minimum value of the CR is 0.580 which is at PT Multi Animal Indonesia, Tbk (MLBI) in 2015 which means that in 2015 PT Multi Animal Indonesia, Tbk (MLBI) was financed by current assets of 58% and the remaining 42% was financed by current debt. In another sense, every Rp1 current debt of PT Multi Animal Indonesia, Tbk (MLBI) able to be repaid in the amount of Rp0.580. The maximum value of the CR is 8.640 which is at PT Delta Djakarta, Tbk (DLTA) in 2017 which means that in 2017 PT Delta Djakarta, Tbk (DLTA) was financed by current assets of 864% or 8.64 times compared to current debt, which means every Rp1 current debt of PT Delta Djakarta, Tbk (DLTA) was able to be repaid with current assets of Rp8,640.

Return on assets (ROA) of 80 data samples has an average value of 0.146 with a standard deviation of 0.141. The minimum value of ROA is 0.010 which is at PT Merck Indonesia Tbk (MERK) in 2015 which means that in 2015 every Rp1 company assets PT Merck Indonesia, Tbk is able to generate a net profit after tax of Rp0.010. The maximum value of ROA is 0.920 at PT Merck Indonesia Tbk (MERK) in 2018 which means that in 2018 every Rp1 company assets PT Merck Indonesia Tbk (MERK) is able to generate net profit after tax of Rp0.920.

The average firm value of 80 data samples is 3.029 with a standard deviation of 2.835. The minimum value of tobin's Q is 0.440 which is at PT Wismilak Inti Makmur, Tbk in 2018 which means that in 2018 every Rp1 company asset PT Wismilak Inti Makmur, Tbk is able to generate a market value of Equity of 0.440. The maximum value of tobin's Q is 12,960 which is at PT Handjaya Mandala Sampoerna, Tbk in 2018 which means that in 2018 every Rp1 company asset PT Handjaya Mandala Sampoerna, Tbk is able to generate a market value of equity of 12,960.

Hypothesis Test

This analysis is carried out by comparing the T-table value with the T-statistics value generated from the bootstrapping results in PLS. The hypothesis is accepted if the T-statistics value is higher than the T-table 1.96 with a significance level of 5%. The purpose of hypothesis test is to examine and analyze the effect of debt to equity ratio (DER) and current ratio (CR) on company value with return on assets (ROA) as intervening variable in Consumer Goods Industrial Companies Listed on the Indonesia Stock Exchange for the 2015–2018 period.

Table 1. Hypothesis Test Results (Path Coefficients)

	Original Sample	Sample Mean	Standard Deviation	T-Statistics	P-Values
DER →Tobin's Q	0.044	0.024	0.199	0.223	0.823
DER→ ROA	0.732	0.742	0.105	6.951	0.000
CR → Tobin's Q	0.052	0.035	0.180	0.291	0.772
CR → ROA	0.455	0.478	0.127	3.571	0.000
ROA → Tobin's Q	0.564	0.594	0.205	2.754	0.006

Source: Data Processed with Smart PLS, 2020

Table 2. Hypothesis Test Results (Specific Indirect Effects)

	Original Sample	Sample Mean	Standard Deviation	T-Statistics	P-Values
DER → ROA → Tobin's Q	0.413	0.446	0.185	2.234	0.026
CR → ROA → Tobin's Q	0.257	0.294	0.154	1.666	0.096

Source: Data Processed with Smart PLS, 2020

The results of this study indicate that DER has a positive and significant effect on ROA but has no effect on company value. CR has a positive and significant effect on ROA but has no effect on company value. ROA has a positive effect on company value. ROA as an intervening variable can mediate the effect of DER on company value but cannot mediate the effect of CR on company value.

CONCLUSION AND SUGGESTION

The results of this study indicate that debt to equity ratio (DER) has a positive and significant effect on return on assets (ROA) but has no effect on company value. Current ratio (CR) has a positive and significant effect on ROA but has no effect on company value. ROA has a positive effect on company value. ROA as an intervening variable can mediate the effect of DER on company value but cannot mediate the effect of CR on company value.

Based on the conclusions above, the researchers suggest the following:

1.High ROA in a company will increase stock prices and firm value. Therefore, the company should increase the company's assets and production with the aim that the company's profit continues to increase and does not decrease.

2.Given the positive and significant value of the DER on ROA, the company must always be able to maintain effective debt management provided by external parties in the aim of creating as much profit as possible.

3.Positive and significant CR value on ROA indicates that the company is successful in paying off its short-term obligations. Therefore, the company must also be able to manage its remaining assets for production activities aimed at maintaining and increasing sales levels.

4.ROA is able to mediate the DER to firm value, indicating that companies that are in a healthy position are able to use the existing capital structure to increase profitability. Therefore, financial management in the company must always be able to analyze the company's financial statements accurately so that there is no single element of the company's finances that does not help the company to move forward.

5.Using a broader research object, namely all companies listed on the Indonesia Stock Exchange.

6.For further researchers who will examine more deeply about this problem, it is recommended to add more years of research. This is because the author only conducted research for 4 years. Then, the title of the research can be further developed, and the use of independent variables can be added again, because there are still many independent variables that have an influence on firm value.

7.Investors and potential investors should not only use ratio analysis such as the DER, CR, and ROA which can be used as the basis for making decisions to determine the value of the company.

8.For the company should use a large amount of debt effectively to increase profitability which will have a positive impact on the value of the company and also use all assets owned to facilitate the company's performance.

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