CHAPTER I
INTRODUCTION

1.1 Background of Study

In general, companies and investors in measuring the success of a company will be based on the performance of the company. Where, the company's performance can be accessed through financial statements, one of which is the company's profit every period (Hasanah, Jubaeda, and Astuti, 2018). Thus if the company earns a large profit, it can be said that the performance of the company is good, on the contrary if the company in carrying out its operations obtains a declining profit, it can be said that the company's performance still needs to be improved. This means that the greater the level of profit, this will increase investor confidence. Investors will invest in companies that are able to generate high profits or return (Hery, 2016).

Information on profit growth obtained from financial statements is one of the factors that are taken into consideration for investors in making investment decisions in a company. The priority of the financial statements is profit, so profit in the future can be predicted or known through information from financial statements that can be done by calculation and interpretation. To predict profit growth can be done by analysing its financial ratios. Financial ratios analysis can help business people and government to evaluate the corporate finance of past, present situation and profits in the future and with financial ratio analysis can also provide prediction of company's profit growth. Profit growth is an increase in profit earned by the company (Aulia, 2017). Companies can use financial ratios to determine their current financial condition, through calculation and analysis of financial ratios to determine the weaknesses and financial strength of the company. In general, financial ratios are grouped into liquidity ratios, profitability ratios, leverage ratios, and activity ratios (Harahap, 2016).

Property and real estate companies are one of the industrial sub-sectors listed on the Indonesia Stock Exchange (IDX). The property and real estate industry is an industry engaged in the development of services by facilitating the development of integrated and dynamic areas. The development of the property and real estate industry is so rapid, as evidenced by the increasing number of companies listed on the IDX. The property and real estate sector is one of the investment fields that provide benefits for investors because every year the price of land and buildings tends to increase. Along with the increase in the population of Indonesia so that basic needs and housing also increase. Products from the property and real estate industry are very diverse. These products can be in the form of housing, apartments, shop houses, home offices, office buildings that are included in landed property, and also shopping centres in the form of malls, plazas, or trade centres which are included in commercial building. The development of the property and real estate sector will certainly attract investors (Hasanah, Susyanti, and Wahono, 2017). Here are the example of financial ratios and profit growth in property and real estate companies in 2016 and 2017 as follows:

Table 1.1The example of Financial Ratios and Profit Growth in 2016- 2017

No	Company's Name	Years	CR (%)	DER (%)	NPM (%)	GPM (%)	ROA (%)	Profit Growth (%)
1	PT Agung Podomoro Land, Tbk.	2016	1.068	1.579	0.156	0.503	0.373	(0.159)
		2017	1.307	1.504	0.267	0.486	0.069	1.003
2	PT Ciputra Development, Tbk.	2016	1.871	1.033	0.199	0.640	0.042	(0.379)
		2017	1.949	1.052	0.189	0.638	0.034	(0.124)

3	PT. Greenwood Sejahtera, Tbk.	2016	8.801	0.074	1.486	0.722	0.031	(0.834)
		2017	8.268	0.079	2.218	0.682	0.027	(0.103)
4	PT. Modernland Realty, Tbk.	2016	1.344	1.205	0.212	0.679	0.034	(0.426)
		2017	1.330	1.063	0.199	0.629	0.045	0.226
5	PT. Metropolitan Land, Tbk.	2016	2.595	0.572	0.277	0.631	0.084	0.319
		2017	2.519	0.625	0.436	0.647	0.125	0.741

Source: Annual Report from each company (2017)

Based on Table 1.1, the growth of property and real estate company's profits during the year 2016 to 2017 has increased. This indicates that companies in the property and real estate sector indicate the growing economy in Indonesia. The ratio of Current Ratio from 2016 to 2017 from five companies of property and real estate tends to decrease and this is followed by rising profit growth. This means that the company does not have a good capability in paying off its liabilities, but still the company can increase the company profits. The Debt to Equity Ratio from 2016 to 2017 tends to decrease, the decrease in the DER is not followed by declining profit growth, and it actually increases. This shows that the company has ability to pay its long-term obligations. The Net Profit Margin ratio from 2016 to 2017 from five property and real estate companies mostly showed an increase. This shows that the net profit received by the company from its sales activities can increase the company's profit. The Gross Profit Margin ratio decreases, but not followed by declining profit growth but rising, which means the company from its sales activities that the gross profit received by the company to support its sales activities do not efficient, but the company's profit still can increase although the sales activities does not support the sales activities. The Return on Assets tends to increase, which means the company is efficient in managing its assets to generate profits.

This research was conducted because from previous research there were inconsistent results, with the variable current ratio, debt to equity ratio, net profit margin, gross profit margin and return on assets to profit growth. According to Arvina, Titisari, and Chomsatu (2018), liquidity ratios that have significant positive effect on profit growth is Current Ratio (CR). CR shows the ratio between current assets against current liabilities. The current ratio is needed by companies because this ratio helps companies to measure the extent to which their obligations are fulfilled immediately due. The higher the CR, the company has a good capability in paying off its obligations because the comparison of assets is greater than the liabilities held. Research conducted by Arvina, Titisari, and Chomsatu (2018), Hartini (2012) and Anshori (2018) show that CR has a significant positive effect on profit growth. Meanwhile, the research of Ifada and Puspitasari (2016), Nugroho, Nurdiansyah, and Erviana (2017) and Andriyani (2015) shows that the CR has a negative and no significant effect to profit growth.

Anshori (2018) in his research show that the leverage ratio that has a significant effect on profit growth is Debt to Equity Ratio (DER). DER is the ratio that uses debt and capital to measure the ratio. DER is used to measure the level of use of debt to the total shareholder’s equity owned by the company. The higher the ratio, the lower the company’s funding provided by shareholders. From the perspective of the ability to pay for the long-term obligations, the lower the ratio is, the better the company’s ability to pay its long-term obligations. The research conducted by Arvina, Titisari, and Chomsatu (2018), Nugroho, Nurdiansyah, and Erviana (2017), Hartini (2012), and Anshori (2018) which shows that the DER has a positive and significant effect to predict profit growth. This means, the company indicates that the company has a debt that is smaller than the capital it has. However, the research of Hasanah, Jubaeda, and Astuti (2018), Ifada and Puspitasari (2016), Arvina, Titisari, and Chomsatu (2018) do not have a significant effect to predict profit growth.

Hasanah, Jubaeda, and Astuti (2018) in their research showed that the profitability ratio that has a significant effect on profit growth is Net

Profit Margin (NPM). NPM is a comparison between net income after tax (earnings before income tax less income tax) on net sales. This ratio measures the company's ability to generate net income against the total net sales achieved by the company. The higher the NPM indicates the higher the net profit achieved by the company towards net sales. Increasing the NPM will increase the attractiveness of investors to invest their capital, so that the company's profit will increase. Hasanah, Jubaeda, and Astuti, Ifada and Puspitasari (2016), Nugroho, Nurdiansyah, and Erviana (2017) in their research showed that NPM has a positive and significant effect on profit growth.

According to Ifada and Puspitasari (2016), the profitability ratio that has a significant effect on profit growth is Gross Profit Margin (GPM). GPM is the ratio of gross profit (net sales minus the cost of goods sold) to net sales. Increased GPM shows the greater the rate of return of gross profits obtained by the company on net sales. This means that the more efficient the costs incurred by the company to support sales activities so that the income earned increased. The results of Ifada and Puspitasari (2016) study showed that GPM has a significant positive effect on profit growth. While the result of the research by Hartini (2012) showed that GPM does not significantly influence profit growth.

The profitability ratio that has a significant effect on profit growth according to Andriyani (2015) is Return on Assets (ROA). ROA is profitability ratio that shows the percentage of profits (net income) obtained by the company in relation to the overall resource or average number of assets. In other words, ROA is a ratio that measures how efficient a company is in managing its assets to generate profits during a period. ROA is calculated by dividing the company's net profit (net income) by total assets. A higher ratio indicates that the company is more effective in managing its assets to produce a greater amount of net income. The results of Arvina, Titisari, and Chomsantu (2018), Hartini (2012), Andriyani (2015) showed that ROA partially has a significant positive effect on profit growth.

Other factors that affect Profit Growth are interest rate, exchange rate, total asset turnover, operating profit margin, leverage ratios, debt ratio, and quick ratio. However, this research will study the current ratio, debt to equity ratio, net profit margin, gross profit margin and return on assets which affect profit growth.

Based on the conflict between previous studies (research gap) and existing phenomena, therefore the researcher conducted a research with the title **"The impact of Financial Ratios on Profit Growth in Property and Real Estate Sub-Sector Companies Listed on Indonesia Stock Exchange for Period 2013-2017"**.

1.2 Problem Limitation

In this study, the research will be examined is the impact of financial ratios on profit growth. As it is known that there are many other variables such as liquidity ratios, leverage ratios, activity ratios, and profitability ratios. Due to time constraints, the variables used in this study will be limited by the researchers, therefore the variables used are Current Ratio (CR), Debt to Equity Ratio (DER), Net Profit Margin (NPM), Gross Profit Margin (GPM), and Return on Assets (ROA). This study focused on how financial ratios in property and real estate companies affect profit growth. The research object is limited on 55 companies in property and real estate with a period of 2013-2017.

1.3 Problem Formulation

Based on the research GAP from the results if previous research which has been done by Taruh and Wibowo and Pujiati. This research is done to analyze and provide empirical evidence on the influence of CR, DER, NPM, GPM and ROA on future profits growth at the property and

Real Estate Company listed on the IDX from 2013 to 2017. So, the research is done to continue the previous research with question as follow:

1. Does Current Ratio (CR) affect profit growth partially?
2. Does Debt to Equity Ratio (DER) affect profit growth partially?
3. Does Net Profit Margin (NPM) affect profit growth partially?
4. Does Gross Profit Margin (GPM) affect profit growth partially?
5. Does Return on Assets (ROA) affect profit growth partially?
6. Do Current Ratio, Debt to Equity Ratio, Net Profit Margin, Gross Profit Margin and Return on Assets affect profit growth simultaneously?

1.4 Objective of the Research

The purpose of this research is:

1. To analyze the influence of Current Ratio (CR) on profit growth.
2. To analyze the influence of Debt to Equity Ratio (DER) on profit growth.
3. To analyze the influence of Net Profit Margin (NPM) on profit growth.
4. To analyze the influence of Gross Profit Margin (GPM) on profit growth.
5. To analyze the influence of Return on Assets (ROA) on profit growth partially.
6. To analyze the influence of Current Ratio, Debt to Equity Ratio, Net Profit Margin, Gross Profit Margin and Return on Assets on profit growth simultaneously.

1.5 Benefit of the Research

1.5.1 Theoretical Benefit

The uses of this study are:

1. For Students

   The results of this study can provide information that can be used in lecture studies on the financial performance of manufacturing companies, especially about the influence of financial ratios on profit growth.

2. For researchers

   Provide opportunities for researchers to analyze problems and the things contained in the company as objects that are examined by developing and applying the theories that have been obtained during the lecture so that they can add insight, experience, and improve the maturity of thinking in decision making.

3. For reader

   It can be used as material for knowledge and comparison and as a reference for the same field of study.

1.5.2 Practical Benefit

This research is expected to be useful for:

1. For Issuers

The results of this study are expected to be used as a basic consideration in decision making in the financial sector especially in order to maximize company profits with pay attention to the factors examined in this study.

2. For Investors.

The results of this study are expected to be used as material for consideration in making investment decisions in manufacturing companies in Indonesia Stock Exchange (IDX).

1.6 System of Writing

To understand this report more clearly, the materials listed in this research paper are grouped into several sub chapters with systematic delivery as follows:

CHAPTER I : INTRODUCTION

It contains background, problem limitation, problem formulation, objective of research, benefits of the research such as theoretical benefit and practical benefit, and system of writing.

CHAPTER II : LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

This chapter contains theories in the form of definitions, the definitions taken from book citations relating to the preparation of reports and some literature reviews related research. It contains theoretical background, previous research, hypothesis development, research model, and framework of thinking.

CHAPTER III : RESEARCH METHODOLOGY

This chapter contains a research design population and sample, data collection method, operational variable definition and variable measurement and data analysis method.

CHAPTER IV : DATA ANALYSIS AND DISCUSSION

This chapter explains the analysis of the system proposed by using the flowchart and mind map of the system being implemented, as well as the detailed discussion of the final elicitation in the previous chapter, described in one by one by applying the concept after the proposed system. It contains general view of “research object”, data analysis such as descriptive statistic, result of data quality testing, result of hypothesis testing and discussion.

CHAPTER V : CONCLUSION

This chapter contai1ns conclusions, implication and recommendations relating to the analysis and optimization of systems based on those described in previous chapters.

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