

# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

As a sector that covers organic and non-organic products with chemical process and product making with the aim of the last product is rising the domestic and international commerce as to support the growth of manufacture, agriculture, infrastructure, and real estate sector. The basic and chemical industries are some of the industries that produce the product that is used for daily use/life. Many of the products that be used by people are connecting with the products that produce in the basic and chemical industry, like concrete for the building, animal feed for chicken, pesticide for the plant, etc. The basic and chemical industries are divide into several sub-sector, which is sub-sector in cement; ceramics, porcelain, and glass; metal; chemical; plastics and packaging; animal feed, wood and processing, and pulp and paper.

As the basic and chemical industries are a sector that covers many daily necessities, the prospect of basic and chemical industries can not be underestimated. It still has many potentials for their development as Indonesia has many resources that are still untouched or hidden or still have been used for their full potential. Not only that, IDX record that the basic and chemical industries in 2019 have the biggest growing and development of year to date(YTD), which is 8.72% even though the  
IDX :

Composite (IHSG) in 01 December 2019 is corrected to 2.95% YTD. This is also one reason that many analysts are still positive about the development and growth of the basic and chemical industries in the future.

As a sector that interconnects with daily life, the sector industry development and performance always increase from time to time as the graphic picture show in figure 1.1. below:



**Figure 1.1. Historical Performance**

Source: Index Fact Sheet of Basic and Chemical Industries(2019)

Based on figure 1.1, it can be seen that the performance of the basic and chemical industries has become better and better from time to time. In Index fact sheet of basic and chemical industries from IDX, the year-over-year(YoY) return on IDX is 14,4% in 2019, 24,0% in 2018, 28,1% in 2017, 32,0% in 2016, and -25% in 2015.

Also, the record in Dec 2019 shows that the return in basic and chemical industries is 25,84% over six months, 14,4% over one year, 81,74 % over three years, and 79,91% for five years. Although if it from since the base date on December 28, 1995, the return from three years (ann.) is 22,04%, from five years (ann.) is 12,46%, ten

Years is 13,57%, and since the base date is 9,97%. From this information can be seen that the basic and chemical industries growth still has much potential.

Although to know more information, the companies would analyze with calculating the performance of the companies by using financial statements. The financial statement of the company is the one that is used to calculate the profit, risk, and loss of one company. To analyze a financial statement, it is starting from examines the income statement and balance sheet through the use of a relative basis, including calculating the income statement items as the percentage of sales and calculates balance sheet items as the percentage of the total assets report (comparable format financial statements), analyze the annual growth rate of each item and indexing each item as a percentage of the base of annual value (Weaver and Weston, 2011) in Amilin, 2015. There are three big techniques to analyze the financial statement, which are risk analysis, profitability analysis, and sources and uses of funds analysis. Profitability analysis is the analysis to evaluate the rate of the return on investment. This analysis is focused on the resources of the company and the level of profitability, as well as involving the identification and measurement of the impact of various triggers profitability. Risk analysis is the analysis evaluation of a company's ability to meet its commitments, involving an assessment of the solvency and liquidity of the company in accordance with the variation of earnings. And sources and uses of funds analysis is the analysis about the evaluation of how companies acquire and use the funds, so the company gets the inside insight into the future implications of corporate funding.

As their performance did not inseparable from their profit. The maximize profit is all hope from the company and shareholders. Although the company can make a profit, it does not mean the company is profitable. Profitability, meaning in KBBI(*Kamus Besar Bahasa Indonesia*), is the ability or prospect to gain income or profit. However, the meaning of profitability in accounting for investopedia.com is a measurement for business abilities to generate the return of investment, compared to alternative investment. The variable that is used to calculate the profitability is Return on Asset(ROA) and Return on Equity(ROE). This research paper analyzes if there is any impact of total asset turnover(TATO), debt to equity(DER), and current ratio(CR) in determining profitability. And as the sample of this research is from the financial statement in some of the basic and chemical industries, which can be seen in the table.

So the title proposed in this research is ” **THE IMPACT OF TOTAL ASSET TURNOVER, DEBT TO EQUITY RATIO AND CURRENT RATIO TOWARD RETURN ON ASSET IN BASIC AND CHEMICAL INDUSTRIES LISTED IN INDONESIA STOCK EXCHANGE.**”

## **1.2. Problem Limitation**

Based on the background of the existing problems, the research object only bases on the Annual report of some companies of basic and chemical industries listed on the Indonesia Stock Exchange. The research is only to understand the impact on the total asset turnover, debt to equity, and the current ratio on profitability in some basic and chemical industries listed on Indonesia Stock Exchange.

### **1.3. Problem Formulation**

Based on the background of the problem that has been described, the problems are as follows:

1. Has total asset turnover impacted the profitability in basic and chemical industries listed on Indonesia Stock Exchange?
2. Has the debt to equity ratio impacted the profitability in basic and chemical industries listed on Indonesia Stock Exchange?
3. Has the current ratio impacted the profitability in basic and chemical industries listed on Indonesia Stock Exchange?

### **1.4. The objective of the Research**

Based on the above problem formulation, the objectives of this study are as follows:

1. To determine the impact of total asset turnover on profitability, either partially or simultaneously, of basic and chemical industries listed in Indonesia Stock Exchange.
2. To determine the impact of debt to equity on profitability, either partially or simultaneously, of basic and chemical industries listed in Indonesia Stock Exchange.
3. To determine the impact of the current ratio on profitability, either partially or simultaneously, of basic and chemical industries listed in Indonesia Stock Exchange.

## **1.5. The benefit of the Research**

The benefit of the research can be separated into two kinds of benefits, which are:

### **1.5.1. Theoretical Benefit**

This research is expected to understand the knowledge of the profitability or return on asset in basic and chemical industries for future reference. This research also enhances knowledge of the impact on profitability in basic and chemical industries listed in the Indonesia Stock Exchange.

### **1.5.2. Practical Benefit**

Provide information about how much impact of total asset turnover, debt to equity ratio, and current ratio in profitability in basic and chemical industries listed in Indonesia Stock Exchange.

