CHAPTER I

INTRODUCTION

1.1 Background of the Study

Along with the expansion and advancement of business activities in Indonesia, companies must strengthen their competitiveness by optimizing the use of existing resources and being able to adapt to changing conditions. Every company has the same goal which is to make the profit from the business activities that are carried out. Every organization must work together to obtain the goal. Of course, efficient and effective management is needed so that the company can achieve consistent profit growth from time to time, thus ensuring the survival of the company. In addition, the increase in profits obtained is an illustration of increase in the performance of the company concerned (Sari, 2019).

Profit can be used as a measure of a company's performance, the larger the profit earned by the company, the better the company's performance, and thus investors are interested in investing. In deciding to invest or not, investors need to analyze the financial statements of a company so that their decisions are protected from huge risks. For this reason, investors need information about the company's financial statements. Earnings information is one of the components in financial statements that aims to assess performance within the company, assisting in the estimation of representative long-term profitability and risk assessment in investing or lending funds because investors have a tendency to react to all information about the company that can affect the value of their investment in the company. As a result, the profit of the company is expected to improve each period, thus it takes an estimate of the profit to be attained by the company in future periods. Profit estimates can be made by examining financial statements, financial statement analysis can take the form of calculations and interpretations using financial ratios. In order to attain a stable and sustainable company condition, company management must work hard to maintain the company's profit growth by maintaining or even developing financial ratios.

Financial ratio analysis is a method of determining the connection between current posts in one financial report or between financial balance sheet and income statement. The ratio analysis finance results can be used to evaluate performance management in terms of achieving established goals and deep management capabilities in terms of effectively motivating company capital. Liquidity ratios, leverage (solvability) ratios, activity ratios, and profitability ratios are the four fundamental types of ratios that can be found. According to Kasmir (2018) liquidity ratio measures a firm's capacity to meet short-term obligations. The solvency ratio is used to determine how much debt is utilized to finance a company's assets. The profitability ratio is used to evaluate a company's ability to make a profit. The activity ratio is used to determine the efficiency with which a corporation uses its assets or its resources. In this research, writer are using Current Ratio, Debt to Equity Ratio and Net Profit Margin to analyze the impact toward Profit Growth.

The Current Ratio (CR) is a ratio that measures a company's capacity to pay current liabilities with current assets (Sihombing, 2018). The Current Ratio provides the user or reader whether or not the firm will be able to pay down its current liabilities with available cash and transform other current assets to cash. The higher this ratio means the greater the company's ability to meet its short-term obligations.

The Debt to Equity Ratio (DER) is a ratio that measures how much debt a company has compared to how much equity it has (Sihombing, 2018). The Debt to Equity Ratio reflects how big a company's debt is compared to its capital, and it has an impact on profit growth since debt to equity requires corporations to evolve new ways to manage debt in order to generate profits. The higher the Debt to Equity Ratio, the more likely it is that the company's financial resources will be financed by creditors rather than its own financial resources. Of course this is a bad sign for the company's finances.

The Net Profit Margin (NPM) is a ratio that measures how successfully a company can generate net profits from a given amount of revenue (Sudirman, 2021). This ratio can also be viewed as a company capability to reduce costs over time. This figure shows the variation between net income after taxes and net revenues. If this ratio rises, it means the company's ability to produce high profits at a given revenue volume. If the ratio is low, it show that prices are too low for the amount of fees charged, or that fees are too high for the sale, or a combination of the two.

This study uses a sample of Consumer Goods Companies listed on the Indonesia Stock Exchange in 2017-2020. The reason writer choose this sector is because consumer products are one of the most important sectors in the economy. Consumer goods companies provide a variety of products that are always needed in human life, so that the company income is stable and many investors are interested in investing in this industry.

Table 1. 1 Data of Current Ratio, Debt to Equity Ratio, Net Profit Margin and Profit Growth Listed in Indonesia Stock Exchange for the period 2017-2020

Companies	Year	CR	DER	NPM	Profit Growth
HMSP	2017	5.272	0.265	0.127	(0.007)
	2018	4.302	0.318	0.126	0.068
	2019	3.276	0.427	0.129	0.013
	2020	2.454	0.643	0.092	(0.374)
ICBP	2017	2.428	0.556	0.099	(0.024)
	2018	1.952	0.513	0.121	0.314
	2019	2.536	0.451	0.126	0.150
	2020	2.258	1.059	0.159	0.384
KBLF	2017	4.509	0.196	0.121	0.043
	2018	4.658	0.186	0.118	0.017
	2019	4.355	0.213	0.112	0.016
	2020	4.116	0.235	0.121	0.103

Source: Prepared by Writer (2021)

From the table above, the Profit Growth in the PT. Hanjaya Mandala Sampoerna Tbk. (HMSP) keep decreasing from the year 2017 to 2020 however in the year 2018 it is increasing but in the PT. Indofood CBP Sukses Makur Tbk. (ICBP) and PT. Kalbe Farma Tbk. (KBLF) the Profit Growth keep increasing from the year 2017 to 2020.

The Current Ratio in PT. Hanjaya Mandala Sampoerna Tbk. (HMSP) from the year 2017 to 2020 keep decreasing which is from 5.272 to 2.454. The decrease in the Current Ratio was followed by the decrease in the profit growth which is from -0.007 to -0.374. This condition means that Current Ratio has positive impact towards Profit Growth which is supported with the previous research of (Yetty et al., 2018). Otherwise, the Current Ratio in PT. Indofood CBP Sukses Makur Tbk. (ICBP) from the year 2017 to 2020 was decreasing with the unstable condition. However the company can increase their Profit Growth which is from -0.024 to 0.384. This condition means that the Current Ratio has negative impact towards Profit Growth which is supported with the previous research of (Yanti, 2017).

The Debt to Equity Ratio in the PT. Kalbe Farma Tbk. (KBLF) keep increasing in the year 2017 to 2020 which is from 0.196 to 0.235 and it is followed by the increase in the Profit Growth. This condition means that Debt to Equity Ratio has positive impact towards Profit Growth which is supported with the previous research of (Yetty et al., 2018). Otherwise the Debt to Equity Ratio in the PT. Hanjaya Mandala Sampoerna Tbk. (HMSP) keep increasing from the year 2017 to 2020 which is from 0.265 to 0.643 and in this condition the Profit Growth keep decreasing especially in the year 2020. This situation means that Debt to Equity Ratio has negative impact towards profit growth which is supported with the previous research of (Yanti, 2017).

The Net Profit Margin in the PT. Indofood CBP Sukses Makmur Tbk. (ICBP) keep increasing in the year 2017 to 2020 which is from 0.099 to 0.159 and it is followed by the increase in the Profit Growth even though in the year 2019 it is decreasing. This condition means that Net Profit Margin has positive impact towards profit growth which is supported with the previous research of (Yetty et al., 2018). In contrast, the Net Profit Margin in PT. Kalbe Farma Tbk. (KBLF) keep decreasing from the year 2017 to 2020 even though it had increased in the 2020 compared with 2019 and in this situation the Profit Growth is increasing with the unstable condition which means that the Net Profit Margin has negative impact towards profit growth and it is supported with the previous research of (Yanti, 2017).

Based on the background that has been described and the inconsistent result, writer is going to analyze the impact of current ratio, Debt to Equity Ratio and Net Profit Margin toward Profit Growth with the title "**THE IMPACT OF CURRENT RATIO, DEBT TO EQUITY RATIO AND NET PROFIT MARGIN TOWARD**

PROFIT GROWTH IN CONSUMER GOODS COMPANIES LISTED AT INDONESIA STOCK EXCHANGE”.

1.2 Problem Limitation

The writer define the problem limitation as follows:

1. The research object is Consumer Goods Companies listed at Indonesia Stock Exchange.
2. The independent variables are Current Ratio, Debt to Equity Ratio and Net Profit Margin.
3. The dependent variable is profit growth.
4. The research period is limited for the period 2017 – 2020.

1.3 Problem Formulation

Based on the previously outlined background, the formulation of the problem are as follows:

1. Does Current Ratio have significant impact towards Profit Growth in Consumer Goods Companies listed at Indonesia Stock Exchange for the period 2017-2020 partially?
2. Does Debt to Equity Ratio have significant impact towards Profit Growth in Consumer Goods Companies listed at Indonesia Stock Exchange for the period 2017-2020 partially?
3. Does Net Profit Margin have significant impact towards Profit

Growth in Consumer Goods Companies listed at Indonesia Stock Exchange for the period 2017-2020 partially?

4. Do Current Ratio, Debt to Equity Ratio and Net Profit Margin have significant impact toward Profit Growth in Consumer Goods Companies listed at Indonesia Stock Exchange for the period 2017 - 2020 simultaneously?

1.4 Objective of the Research

Based on the formulation of the problem above, the purpose of this study is as follows:

1. To find out whether Current Ratio have significant impact towards Profit Growth in Consumer Goods Companies listed In IDX (2017-2020) partially.
2. To find out whether Debt to Equity Ratio have significant impact towards Profit Growth in Consumer Goods Companies listed In IDX (2017-2020) partially.
3. To find out whether Net Profit Margin have significant impact towards Profit Growth in Consumer Goods Companies listed In IDX (2017-2020) partially.
4. To find out whether Current Ratio, Debt to Equity Ratio and Net Profit Margin have significant impact toward Profit Growth in Consumer Goods Companies listed In IDX (2017-2020) simultaneously.

1.5 Benefit of the Research

The following are some of the benefit of performing this research:

1.5.1 Theoretical Benefit

1. This research can help students have a better understanding of the effects of the Current Ratio, Debt to Equity Ratio, and Net Profit Margin on profits by expanding on what they learned in class.
2. This research can be used as a model for other researchers who want to conduct similar studies.

1.5.2 Practical Benefit

1. This research is expected to be useful for potential investors as material considerations and additional information in determining investment policies.
2. The results of this research can be useful information for the development of science, especially in the field of management finance