CHAPTER I

INTRODUCTION

1.1 Background of Study

Modern globalization and technological advancement have had an impact on economic growth. Therefore, companies must carry out their operational activities effectively and efficiently. In order to meet the company's objectives to maximize profit in order to preserve its viability and expand its business size, companies must constantly remain one step ahead of their rivals. Every company generally uses financial performance measurement to assess the success that has been achieved, for example in generating profits, increasing sales, maximizing share value, and increasing the welfare of shareholders. Intense business competition requires companies to continue to develop innovations, improve their performance and expand their business in order to continue to survive and compete. Despite that, not all companies are able to make profit from their operations, and some companies even continue to experience losses.

It is possible to determine whether a company is healthy by looking at its ability to meet its financial responsibilities, carry out operational tasks, and expand its business in any type of economic environment. To measure the company's strengths and weaknesses, especially in the financial sector, an analysis of financial statements is carried out, in which of course is not only useful for the internal management of the company but can also be used as a benchmark for investors. Financial reports that have been analyzed are very much needed by company leaders or management to be used as a further decision-making tool for the future. The financial report is a tool used to communicate information to interested parties, particularly creditors, investors, and the company's management. It records and summarizes all business activity. An examination of financial statements is required to delve deeper into the data in a financial report. If the information is presented properly, it can be highly helpful to the business in making decisions and assessing its performance (Maryono, 2017).

The most important goal for a business to achieve is profit maximization. In order to make financial decisions, a financial manager must comprehend the financial situation, which is one approach to assess the success of the company over a given time period. Owners and management prioritize making a profit as one of their top priorities. The goal of starting a business is to turn a profit; if the business succeeds in doing so, it has accomplished its objectives (Kasmir, 2018).

A company with strong financial performance will draw investor to invest. In order to maintain a good financial perfomance, company must manage well its finance and operational cost. One of the most important benefits of financial statement analysis for investors is to find out the net income of a company. To see whether a business is prospective or not, investors need valid net income data. Financial statements are valid data that can be used as a benchmark for evaluating a business. The level of net profit obtained by the company is the profit after deducting all the company's operating expenses, the level of net profit greatly affects the rate of profit growth. The level of capital usage efficiency can demonstrate how effectively a corporation uses capital to maximize profit. The amount of assets that the company owns has a significant impact on its level of profit. As a result, the company's assets have the potential to influence sales, which will directly effect company earnings (Anggriani & Hasanah, 2017).

To assess the company's financial performance, financial statements are analyzed. The financial statement is typically examined using financial ratios. Financial ratios including liquidity ratios, leverage ratios, efficiency ratios, profitability ratios, and market value ratios can all be used to gauge how well a company is doing financially. Ratio analysis enables financial managers and interested parties to assess the financial status, which will show how a company is doing financially and how healthy it is. In order to evaluate the efficacy and efficiency of the company, ratio analysis also links the components of the plan and the computation of profit and loss.

Using comparisons of data from a company's balance sheet, income statement, and cash flow statements over a given time period, financial ratio analysis is a tool used to evaluate a company's performance. The analysis' results are then presented to management in order to inform decisions or policies for the following period. The balanced scorecard, a method to assess a company's performance and the efficacy of its strategy for gaining an advantage over competitors, are also included in financial analysis. This activity is directed not just at the management but also at other stakeholders like creditors or investors. They use financial ratio analysis as a tool to determine whether a company is healthy enough to be managed with investment or loan cash.

One of the industrial sectors that occasionally experiences growth is the Consumer Goods Industry. This is due to the pressing requirement for the consumer products sector to meet everyone's basic necessities and assure their existence on a global scale. In this pandemic era, Indonesia’s economic growth is also affected quite significantly. One industry that is able to maintain the level of the economy in Indonesia is the consumer goods. Consumer Goods industry can improve the economy during this pandemic because all people still need consumption every day.

Consumer Goods Industry have a vital role because it greatly influences the economic growth of a country. As a result, financial ratio analysis must be carried out in this sector to enable financial managers and interested parties to assess the financial situation, which will reveal a company's state of health. In order to evaluate the efficacy and efficiency of the company, ratio analysis also links the plan's components to the computation of profit and loss.

The financial ratios that writer used in this research are Current Ratio which represents liquidity, Receivable Turnover which represents efficieny, Debt to Equity Ratio which represents solvency, and Net Profit Margin which represents profitability. In this study, the influence of the Current Ratio, the Receivable Turnover, and the Debt to Equity Ratio toward the Net Profit Margin will be examined.

The Current Ratio (CR) gauges the company's capacity to pay its short-term commitments that are coming due shortly using all of the available current assets (Widiani, 2019). The company may not have enough cash on hand to pay off its debts that are about to become due if the Current Ratio is low. A high Current Ratio does not, however, automatically imply that a corporation is in sound financial standing. If money is not spent as effectively as it could be, this may occur.

Receivables that occur in the company must be controlled minimumly and receivable turnover quickly turn into cash so that company profits can be increased (Monica et al., 2021). A financial ratio called receivable turnover illustrates how frequently a company may turn over its accounts receivable into cash. Since account receivable represent a potential source of cash inflows for a company, a low ratio can lead to cash flow problems. Conversely, a higher accounts receivable turnover ratio means the company collects payments from customers more quickly. Thus, the company is trying to increase the receivables turnover ratio to increase revenue.

The Debt to Equity Ratio, often known as the ratio between outside capital and firm owner capital, is a measure of how much own capital guarantees all loans (Hantono, 2017). Company frequently uses debt to support the efficient execution of their operational activities. The ratio used to compare the amounts of debt and equity is called the debt to equity ratio (DER). DER is frequently used for business operations and needs to have a certain proportion. The leverage ratio or leverage ratio is something DER is aware with. In this situation, a corporate investment is frequently assessed using this ratio.

To assess the ability to generate profits the company can use the Net Profit Margin ratio. Using management's sales forecast, investors can use Net Profit

Margin as a measuring tool to forecast the company's profitability for the upcoming year (Anggiyani et al., 2020). The higher the NPM in the company, investors will be encouraged to invest in the company. This is because the large NPM in the company illustrates that the company is increasingly productive.

Table 1.1 Data of Current Ratio, Receivable Turnover, Debt to Equity Ratio and Net Profit Margin of Consumer Goods Companies Listed on the Indonesia Stock Exchange for the period 2018-2021

Company Code	Period	Current Ratio	Receivable Turnover	Debt to Equity Ratio Ratio	Net Profit Margin
BUDI	2018	1.0032	4.9225	1.7664	1.9064%
	2019	1.0065	5.0215	1.3339	2.1314%
	2020	1.1438	4.4967	1.2410	2.4613%
	2021	1.1666	4.5136	1.1570	2.7179%
CLEO	2018	1.6400	10.7709	0.3123	7.6118%
	2019	1.1747	10.2143	0.6249	12.0523%
	2020	1.7228	8.0343	0.4652	13.6508%
	2021	1.5210	9.1179	0.3461	16.3759%
MYOR	2018	2.6546	4.3573	1.0593	7.3166%
	2019	3.4397	4.4753	0.9207	8.1968%
	2020	3.6943	4.3108	0.7547	8.5720%
	2021	2.3282	4.9060	0.7533	4.3400%
TSPC	2018	2.5162	8.8145	0.4486	5.3566%
	2019	2.7808	9.3768	0.4458	5.4135%
	2020	2.9587	9.0318	0.4277	7.6070%
	2021	3.2919	9.2143	0.4027	7.8136%
ULTJ	2018	4.4813	10.5743	0.1635	12.8197%
	2019	4.4441	10.8819	0.1686	16.6456%
	2020	2.4034	10.1426	0.8307	18.5926%
	2021	3.1126	11.1255	0.4412	19.2967%

Source : Prepared by the Writer (2022)

It can be seen in the Table 1.1 above that the Net Profit Margin of PT Budi Starch & Sweetener Tbk (BUDI), PT Sariguna Primatirta Tbk (CLEO), PT Tempo Scan Pacific Tbk (TSPC), and PT Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) increases year by year. This indicates that the company's perfomance is quite good despite the effect of pandemic that happens at year 2019 and 2020. However, PT Mayora Indah Tbk (MYOR)'s Net Profit Margin decreases in year 2021.

The table above also shows that the Current Ratio of PT Tempo Scan Pacific Tbk (TSPC) keep increases year by year. The Current Ratio increases about 0.78 from 2.5162 at year 2018 to 3.2919 at year 2021. As a result, the Net Profit Margin also increases about 2.46% from 5.3566% to 7.8136%. This phenomenom signifies that Current Ratio have a positive influence toward Net Profit Margin which is supported by the previous research conducted by Sudirman, Abdullah, and Obie (2020). On the other hand, the Current Ratio of PT Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) decreases about 2.07 from 4.4813 at year 2018 to 2.4034 at year 2020 but the Net Profit Margin increases about 5.77% from 12.8197% at year 2018 to 18.5956% at year 2020. This phenomenom signifies that Current Ratio have a negative influence toward Net Profit Margin which is in line with the previous research conducted by Maryono (2017).

The Receivable Turnover of PT Budi Starch & Sweetener Tbk (BUDI), PT Mayora Indah Tbk (MYOR), PT Tempo Scan Pacific Tbk (TSPC), and PT Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) increases year by year, despite the slight decrease in 2020 due to the pandemic. The Receivable Turnover of PT Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) increases about 0.55 from 10.5743 at year 2018 to 11.1255 at year 2021. As a result, the Net Profit Margin also increases about 6.48% from 12.8197% at year 2018 to 19.2967% at year 2021. This phenomenom signifies that Receivable Turnover have a positive influence toward Net Profit Margin which is supported by the previous research conducted by Anggiyani, Pratiwi, and Laksana (2020). On the other hand, the Receivable Turnover of PT Sariguna Primatirta Tbk (CLEO) decreases about 1.65 from 10.7709 at year 2018 to 9.1179 at year 2021 but the Net Profit Margin increases about 8.75% from 7.6118% at year 2018 to 16.3759% at year 2021. This phenomenom signifies that Receivable Turnover have a negative influence toward Net Profit Margin which is in line with the previous research conducted by Sinaga (2017).

The Debt to Equity Ratio of PT Budi Starch & Sweetener Tbk (BUDI) keep decreases year by year. The Debt to Equity Ratio decreases about 0.61 from 1.7664 at year 2018 to 1.1570 at year 2021. As a result, the Net Profit Margin increases about 0.81% from 1.9064% at year 2018 to 2.7179% at year 2021. This phenomenom signifies that Debt to Equity Ratio have a negative influence toward Net Profit Margin which is supported by the previous research conducted by Anggraini & Hasanah (2017). On the other hand, the Debt to Equity Ratio of PT Ultra Jaya Milk Industry & Trading Company Tbk (ULTJ) increases about 0.66 from 1.3556 at year 2018 to 1.8861 at year 2020 but the Net Profit Margin also increases about 5.77% from 12.8197% at year 2018 to 18.5956 at year 2020. This phenomenom signifies that Receivable Turnover have a positive influence toward Net Profit Margin which is in line with the previous research conducted by Amelia & Gulo (2021).

Based on the analysis above, this research will be conducted in order to give more information to the readers and other researchers. Due to the various and different results of previous research, the writer will conduct an analyis about the influence of Current Ratio, Receivable Turnover, and Debt to Equity Ratio toward Net Profit Margin. The writer decides to take this research entitled : **"The Influence of Current Ratio, Receivable Turnover and Debt to Equity Ratio Toward Net Profit Margin of Consumer Goods Company Listed on the Indonesia Stock Exchange."**

1.2 Problem Limitation

Based on the description of the background of the study above, the identification of the problems in this research are :

1. The variables used in this research are Current Ratio, Receivable Turnover and Debt to Equity Ratio as the independent variables and Net Profit Margin as the dependent variable.
2. The object in this research is Consumer Goods Companies listed on the Indonesia Stock Exchange with observation data for 4 consecutive years which are 2018 – 2021.

1.3 Problem Formulation

Based on the description of the identification of the problem, the writer formulate the problem as follows :

1. Does Current Ratio has significant influence toward Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange partially?

2. Does Receivable Turnover has significant influence toward Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange partially?
3. Does Debt to Equity Ratio has significant influence toward Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange partially?
4. Do Current Ratio, Receivable Turnover, and Debt to Equity Ratio have significant influence toward Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange simultaneously?

1.4 Objective of the Research

According to the problems raised by this study, the following can be used to describe the research objectives :

1. To analyze the influence of Current Ratio towards Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange partially.
2. To analyze the influence of Receivable Turnover towards Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange partially.
3. To analyze the influence of Debt to Equity Ratio towards Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange partially.

4. To analyze the influence of Current Ratio, Receivable Turnover, and Debt to Equity Ratio towards Net Profit Margin of Consumer Goods Companies listed on the Indonesia Stock Exchange silmutaneously.

1.5 Benefit of the Research

There are two kinds of benefits that can be generated from this research :

1.5.1 Theoretical Research

As a learning material to increase scientific knowledge, especially with regard to financial management regarding the influence of Current Ratio, Receivable Turnover and Debt to Equity Ratio toward Net Profit Margin, this research is also expected to be a reference material and can be useful for further research and other readers.

1.5.2 Practical Benefit

1. For Company

This research can give the company more information and insight, allowing them to assess it for corporate development and design methods in order to maximizies profit. This research can also assist companies in making decisions regarding Current Ratio, Receivable Turnover and Debt to Equity Ratio toward Net Profit Margin.

2. For Investors

This research can give investors more information about the financial condition of the company. Moreover, this research can also serve as a guidance for investors in considering the company to be invested in.

3. For Academic

This research can be used and serve as reference for future researchers in Pelita Harapan University, especially regarding Current Ratio, Receivable Turnover and Debt to Equity Ratio toward Net Profit Margin.