

CHAPTER I

INTRODUCTION

1.1 Background of Study

As the business grows, more new companies are emerging to compete and win the market. This can be seen by the high level of competition between each company with various forms of business. This condition also requires companies to survive and develop as much as possible. Strong companies will survive while companies that are unable to compete will lead to bankruptcy or be liquidated.

Growth ratios measures the ability of a company to maintain its economic position in economic growth and in the industry or product market where it operates. Profit growth is one of the growth ratios that can be used to measure company performance. Profit growth reflects the success of management in managing the company effectively and efficiently. Profit growth according to Harahap (2011) is a ratio that shows the company's ability to increase net income compared to the previous year.

Every company expects an increase in profits in each period of time, but sometimes in practice profits may decline. Therefore, financial statement analysis is needed to analyze, estimate profits, and make decisions on the growth of profits to be achieved for the next period of time. According to Prihartanty (2010) profit growth that increases from year to year, will provide a positive signal regarding to company performance.

The consumer goods industry is one of the industrial fields that continues to grow over time. The consumer goods industry in Indonesia also shows positive indications in the capital market, this is related to the increasing number of consumer goods companies that

are going public. The industry of consumer goods that has been going public has an important role in the country's economy which is required to maintain and even improve its performance in order to survive in the future and intense competition (Handi, 2015). The consumer goods industry is one of the industries that can improve the country's economy by requiring relatively large funds with fixed costs and stable sales.

Financial ratios are often used to measure the strengths or weaknesses faced by companies in the financial sector which are basically not only useful for the company's internal interests, but also for external parties. In addition, financial ratios can be used as an early warning system for the deterioration of financial conditions to make decisions or balance about what will be achieved by the company and how the prospects will be faced in the future.

Liquidity ratio according to Sudana (2011) is a ratio that measures a company's ability to meet short-term financial obligations. The liquidity ratio used is Current Ratio (CR). According to Kasmir, (2014) current ratio is a ratio to measure a company's ability to pay short-term liabilities or debts that are immediately due when billed as a whole. Current ratio measures the ability of a company to pay current debt using current assets.

According to Sudana (2011) profitability ratio is a ratio that measures a company's ability to generate profits by using the resources owned by the company, such as assets, capital, or sales of the company. One of the profitability ratios used in this study is net profit margin ratio (NPM). Net profit margin can be calculated by comparing net income after tax to net sales. Net profit margin according to Sudana (2011) is a measure of a company's ability to generate net income from sales made by a company.

Leverage ratio according to Sudana (2011) is a ratio that measures how much debt is used in company spending. The leverage ratio used in this study is Debt to Asset Ratio (DAR). Debt to asset ratio according to Kasmir (2014) is a debt ratio used to measure the ratio between total debt and total assets. This ratio shows how much the company's assets are financed by debt or how much the company's debt affects the management of assets. According to Sudana (2011) the greater the ratio, the greater the use of debt in financing investments in assets and financial risks of the company increases.

This study is intended to conduct further testing of findings regarding financial ratios, especially those concerning their usefulness in predicting future profits. Reason for profit selection is because profit reflects the company performance. From profit measure, it can be seen whether the company has a good performance or not. If financial ratios can be used as predictors of profit growth in the future, this finding is useful for users of financial statements in real terms, as well as potential interests in a company. Conversely, if the ratio is not significant enough to predict profit growth in the future, the results of this study will strengthen evidence about the inconsistencies of previous findings.

This study aims to examine the effect of current ratio, net profit margin ratio and debt to assets ratio towards profit growth in manufacturing companies sub sector of consumer goods listed on Indonesia Stock Exchange. To facilitate seeing the phenomenon of gaps that occur in a company's financial performance, it can be seen through the value of current ratio, net profit margin ratio, debt to assets ratio and profit growth found in table 1.1 as follows :

Table 1.1
Financial Data of Sub-Sector Consumer Goods Companies

Company	Year	Current Ratio	Net Profit Margin Ratio	Debt to Assets Ratio	Profit Growth
PT. Indofood CBP Sukses Makmur, Tbk	2013	2.41	0.09	0.38	0.16
	2014	2.18	0.08	0.40	0.20
	2015	2.33	0.09	0.38	0.06
	2016	2.41	0.11	0.36	0.09
	2017	2.43	0.10	0.36	0.04
PT. Hanjaya Mandala Sampoerna, Tbk	2013	1.75	0.14	0.48	0.13
	2014	1.53	0.13	0.52	0.08
	2015	6.57	0.12	0.16	0.10
	2016	5.23	0.13	0.20	0.07
	2017	5.27	0.13	0.21	0.04
PT. Merk Indonesia, Tbk	2013	3.98	0.15	0.27	0.28
	2014	4.59	0.17	0.23	0.07
	2015	3.65	0.14	0.26	0.14
	2016	4.22	0.15	0.22	0.05
	2017	3.08	0.13	0.27	0.12
PT. Unilever Indonesia, Tbk	2013	0.70	0.17	0.68	0.13
	2014	0.71	0.17	0.68	0.12
	2015	0.65	0.16	0.69	0.06
	2016	0.61	0.16	0.72	0.10
	2017	0.63	0.17	0.73	0.03

Source : www.idx.co.id

Based on table 1.1 above, the current ratio of PT. Indofood CBP Sukses Makmur, Tbk year 2016 amounting to 2.41 increased in 2017 amounting to 0.02 which is 2.43. This contrasts with 2016's profit growth amounting to 0.09, it decreased in 2017 by 0.05 which is 0.04.

Debt to assets ratio at PT. Hanjaya Mandala Sampoerna, Tbk in 2015 amounting to 0.16 increased in 2016 amounting to 0.04 which is 0.20. This contrasts with 2015's profit growth in the amount of 0.10, it decreased in 2016 by 0.03 which is 0.07.

Net profit margin ratio at PT. Merk Indonesia, Tbk in 2014 amounting to 0.17 decreased in 2015 amounting to 0.03 which is 0.14. This contrasts with 2014's profit growth in the amount of 0.07, it increased in 2015 by 0.07 which is 0.14.

Net profit margin ratio at PT. Unilever Indoensia, Tbk in 2016 amounted to 0.16 increased in 2017 amounting to Rp 0.01 which is 0.17. This contrasts with 2016's profit growth amounting to Rp 0.10, it decreased in 2017 by 0.07 which is 0.03.

The power of predicting financial ratios in predicting profits so far is very useful in assessing company performance in the future. The strength of financial ratio predictions was found differently by several researchers. According to Eka (2009) with samples of manufacturing companies listed on the Indonesia Stock Exchange that the current ratio has a significant effect on profit growth. While according to Heikal (2014) with samples of automotive companies listed on the Indonesia Stock Exchange in the period 2008 to 2012 that the current ratio has an insignificant effect on profit growth.

According to Linda (2015) with samples of food and beverages companies listed on the Indonesia Stock Exchange that the net profit margin has a significant effect on profit growth. While according to Silvia (2012) with samples of manufacturing companies

listed on the Indonesia Stock Exchange that the net profit margin has insignificant effect on profit growth.

According to Damanik (2010) with samples of manufacturing companies in the consumer goods industry listed on the Indonesia Stock Exchange that the debt to assets ratio has an significant effect on profit growth. While according to Gunawan (2013) with samples of Trading companies listed on the Indonesia Stock Exchange that the debt to assets ratio has insignificant effect on profit growth.

Based on the table phenomenon of the value of financial ratios and profit growth still fluctuating each year and differences in the results of researchers between current ratio, net profit margin ratio and debt to assets ratio towards profit growth. This research is carried out with the title: **The Effect of Current Ratio, Net Profit Margin Ratio and Debt To Assets Ratio Towards Profit Growth in Manufacturing Companies Sub Sector of Consumer Goods Listed on Indonesia Stock Exchange.**

1.2 Problem Limitation

Based on identification of problems and to avoid expansion discussion in this study, this study limited to the financial statements on manufacturing companies sub sector of consumer goods that effect the profit growth by using Current Ratio, Net Profit Margin Ratio and Debt to Assets Ratio listed on Indonesia Stock Exchange period 2013 – 2017.

1.3 Problem Formulation

Based on the discussed background research, the formulation of the problem in this study are :

1. Does the Current Ratio have partially significant effect towards Profit Growth in Manufacturing Companies Sub Sector of Consumer Goods Listed on Indonesia Stock Exchange period 2013 – 2017 ?
2. Does the Net Profit Margin Ratio have partially significant effect towards Profit Growth in Manufacturing Companies Sub Sector of Consumer Goods Listed on Indonesia Stock Exchange period 2013 – 2017 ?
3. Does the Debt to Assets Ratio have partially significant effect towards Profit Growth in Manufacturing Companies Sub Sector of Consumer Goods Listed on Indonesia Stock Exchange period 2013 – 2017 ?
4. Do the Current Ratio, Net Profit Margin Ratio and Debt to Assets Ratio have simultaneously significant effect towards Profit Growth in Manufacturing Companies Sub Sector of Consumer Goods Listed on Indonesia Stock Exchange period 2013 – 2017 ?

1.4 Objective of The Research

Based on the background and formulation of the problems that have been described before, the purpose of this study are :

1. To determine the effect of Current Ratio partially significant towards Profit Growth in manufacturing companies sub sector of consumer goods listed on Indonesia Stock Exchange period 2013 – 2017
2. To determine the effect of Net Profit Margin Ratio partially significant towards Profit Growth in manufacturing companies

sub sector of consumer goods listed on Indonesia Stock Exchange period 2013 – 2017

3. To determine the effect of Debt To Assets Ratio partially significant towards Profit Growth in manufacturing companies sub sector of consumer goods listed on Indonesia Stock Exchange period 2013 – 2017.
4. To determine the effect of Current Ratio, Net Profit Margin Ratio and Debt To Assets Ratio simultaneously significant towards Profit Growth in manufacturing companies sub sector of consumer goods listed on Indonesia Stock Exchange period 2013 – 2017.

1.5 Benefit of The Research

This research aims to provide benefits from the results obtained. The research are expected to provide two benefits which are theoretical benefits and practical benefits.

1.5.1 Theoretical Benefits

1. For Readers

Through this research, it is expected to provide theoretical benefits as follows :

1. The results of this research may increase the knowledge and insight in the field of profit growth
2. The results of this research can be us as material and input in conducting research on similar fields.

1.5.2 Practical Benefits

Through this research, it is expected to provide practical benefits as follows :

1. For Academics

The results of this study are expected to be used as additional references and become a benchmark for the same research in the future.

2. For Company

This research is expected to provide additional information on how much influence the ratios have on profit growth. Thus, the company can make decisions for the sustainability of its business.

3. For Writers

This research can be used to increase knowledge and insight, as well as training in the application of accounting that has been obtained during lectures. Besides that, it is also an experience on how to analyze financial statements using actual ratio analysis.

1.6 System of Writing

To facilitate this research, then the writer compiled system of writing consisting of the following details :

1. Chapter 1 (Introduction)

This chapter consists of :

- a. Background study, which explains the reason of the research, which is the effect of current ratio, net profit margin ratio and debt to assets ratio towards profit growth in manufacturing companies sub sector of consumer goods listed in Indonesia Stock Exchange period 2013 – 2017.
- b. Problem limitation, which states the research boundaries, consisting of the effect of current ratio, net profit margin ratio and debt to assets ratio toward profit growth in a

manufacturing company sub sector of consumer goods listed in Indoensia Stock Exchange (IDX) period 2013 – 2017

- c. Problem formulation, which states the research questions examined later in this research
- d. Objective of the research, which states the aim of the research
- e. Benefit of the research (theoretical and practical), which explains the possible application of research results and benefits of this research.

2. Chapter 2 (Literature Review and Hypothesis Development)

This chapter consists of :

- a. Theoretical background, which is a compilation of related theories used as a reference in this research
- b. Prior research, which is the statement of prior researches in the relevant topic
- c. Hypothesis development, which states the testable relationship of two or more variables as a result of theory viewing
- d. Research model, which is a chart intended to prove the truth of the hypothesis
- e. Framework of thinking, which is the mindset of researchers linked to the research process

3. Chapter 3 (Research Methodology)

This chapter consists of :

- a. Research design, that states whether the research is using qualitative and quantitative method. In this research, quantitative descriptive analysis is used.

- b. Population and sample, which explains the entire research subject (population) and part of the entire research subject (sample)
- c. Data collection method, which explains the method of collecting research data
- d. Operational variable definition and variable measurement, which explains how a variable is measured (variable definition). In variable measurement, a set of rules are used to transform data into a quantitative one
- e. Data analysis method, which explains the process of transforming raw data to a ready-to-use data.

4. Chapter 4 (Data Analysis and Discussion)

This chapter consists of :

- a. General view of “Research Object”, which is a brief explanation of the research object, or in another words, a general view of the research object.
- b. Data analysis, which displays the result of data analyzed data conducted in this research
- c. Descriptive statistic, which are methods of collection and display of data, for example in the form of tables, graphs, etc.
- d. Result of hypothesis testing, which is the decision making process resulted from data analysis, whether or not to accept or reject the null hypothesis
- e. Discussion, which is a more detailed explanation of the data analysis results

5. Chapter 5 (Conclusion)

This chapter consists of :

- a. Conclusion, which consists of a brief explanation of what was explained in the discussion section
- b. Implication, which consists of the outcome of this research, whether theoretical or practical
- c. Recommendation, which consists of advice for external readers as an effect of this research.

