

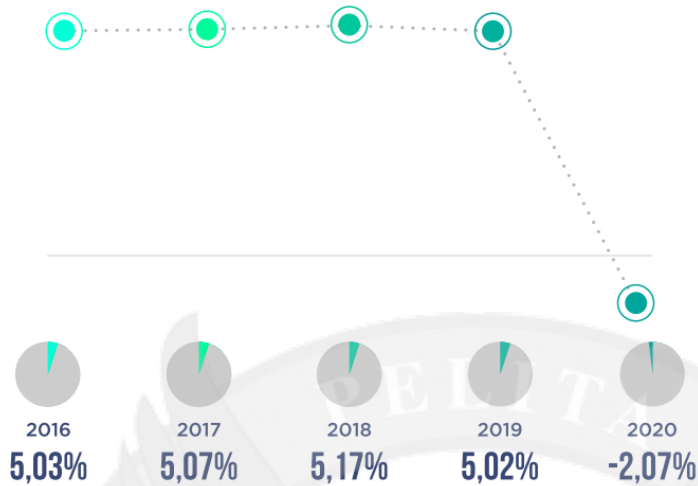
# CHAPTER I

## INTRODUCTION

### 1.1. Background of the Study

The expansion of the corporate world is expanding extremely quickly in this period of globalization, and business competition is fierce and cutthroat. Future success of the company depends on more than just its own performance, but also on the country's economy, where if the country's economy is uncertain, the company's future will not have certainty. Profitability is typically one of the company's objectives, where performance has a significant role because performance used as the basis for decision making by internal and external parties.

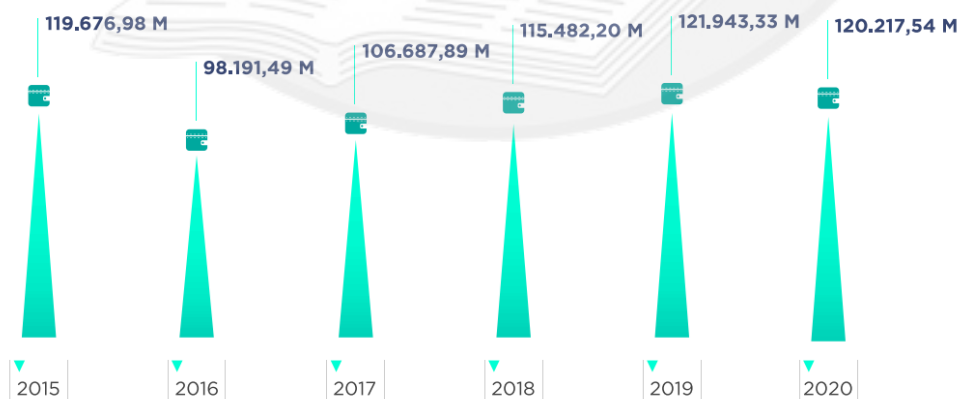
Infrastructure is a sector that is important and has a significant role in Indonesia. Infrastructure development is one of Indonesia's priorities, which will increase productivity, increase access to basic services, and increase competitiveness. Another role of infrastructure is as one of the cogs in the country's economic growth, because how fast economic growth cannot separate from the availability of infrastructure such as non-building construction, transportation facilities, airports, and others.



**Figure 1.1. GDP Growth Rate of Infrastructure Companies**

Source: Kementerian Pekerjaan Umum dan Perumahan Rakyat (2022)

As can be seen from Figure 1.1., the GDP growth rate of infrastructure companies from year 2016 to 2018 has increased, while in year 2019 to 2020 the GDP growth rate has decreased, whereas in year 2020 it has decreased to -2.07. The gross domestic product (GDP) growth rate helps measure the basis for creating a project, the basis for the estimated revenue that a country gets for development planning, the basis for business forecasts, and the country's economic progress as a result.



**Figure 1.2. PUPR State Budget (APBN) of Infrastructure Companies**

Source: Kementerian Pekerjaan Umum dan Perumahan Rakyat (2022)

As can be seen from Figure 1.2., the ministry of Public Works and People's Housing (PUPR) received a State Budget (APBN) of 120,217.54 billion rupiahs in 2020, where the budget will be used to develop housing and settlements, manage water resources, implementing or developing roads and bridges, and other infrastructure development programs. To build and maintain infrastructure, a budget allocation is needed, which is one of the roles of the government. Sustainable infrastructure development is very important where the government and society have an active role to support so that this can be carried out properly.

Every company must have a goal to achieve such as increasing company value and long-term profits, where maximizing company value is related to these goals. Increasing the company value needed for the successful of business continuity can run well. To be able to achieve this goal, the company requires a large enough capital in its operational activities. Companies need capital as a source of financing and a source of investment, where with investment the company will be able to have local capital and foreign capital, and this will help the company. The company's and its stockholders will gain benefit if the company's value increases. But the benefits achieved must be in accordance with what expected or in accordance with the initial goals to said have achieved and gain a profit.

**Table 1.1. Current Ratio, Debt to Equity Ratio, Total Asset Turnover, and Return on Assets Data from Infrastructure Companies listed on the Indonesia Stock Exchange for the period 2018-2020**

Company	Year	Current Ratio	Debt to Equity Ratio	Total Asset Turnover	Return on Assets
PT Adhi Karya (Persero) Tbk (ADHI)	2018	1.34	3.79	0.52	0.02
	2019	1.24	4.34	0.42	0.02
	2020	1.11	5.83	0.28	0.00
PT Inti Bangun Sejahtera Tbk (IBST)	2018	1.20	0.48	0.12	0.02
	2019	1.47	0.53	0.12	0.01
	2020	1.16	0.68	0.11	0.01
PT Pembangunan Perumahan (Persero) Tbk (PTPP)	2018	1.42	2.22	0.48	0.04
	2019	1.37	2.41	0.42	0.02
	2020	1.21	2.82	0.30	0.00
PT Telkom Indonesia (Persero) Tbk (TLKM)	2018	0.94	0.76	0.63	0.13
	2019	0.71	0.89	0.61	0.12
	2020	0.67	1.04	0.55	0.12

Source: Indonesia Stock Exchange (2022)

As can be seen from Table 1.1., if seen from return on assets, it shows that ADHI and PTPP had the lowest return on assets and a very drastic decline in 2020. It indicates that this occurs because of the companies' inability to manage its assets and debts as efficiently and effectively as possible, which results in companies experiencing losses and unable to generate optimal profitability every year. The four companies' return on assets decreased every year, but the companies that experienced a very drastic decline were ADHI and PTPP. If seen from current ratio, it shows that TLKM had the lowest current ratio and IBST had a very drastic decline in current ratio in 2020. It indicates that this happens because the companies have no capacity to pay the short-term debts when fully billed. If seen from debt-to-equity ratio, it shows that ADHI had a high debt to equity ratio and a very drastic increase. It indicates that the company has a higher amount of debt that must be paid off within a certain period. If seen from total asset turnover, it shows that IBST had the lowest total asset turnover and ADHI had a very drastic decline in total asset

turnover in 2020. It indicates that the company profit is not good enough and the use of assets in generating sales is less efficient.

Financial ratios used by a company to evaluate its financial performance over a certain period. Financial ratios allow businesses to plan how to manage its costs as effectively as possible to retain high profitability, because companies need large profitability to maximize profits, but it can also improve work performance, and retain and attract investors and employees.

Based on the research done by Irwansyah (2021), current ratio and total asset turnover has a significant effect toward return on assets, while debt to equity ratio has no significant effect toward return on assets. In the other hand, based on the research done by Irman et al. (2020), current ratio and total asset turnover has a significant positive effect on return on assets, while debt to equity ratio has a significant negative effect on return on assets.

According to the earlier studies and context given above, the writer decided to conduct research titled **“The Effect of Current Ratio, Debt to Equity Ratio and Total Asset Turnover Toward Return on Assets of Infrastructure Companies Listed on the Indonesia Stock Exchange.”**

## **1.2. Problem Limitation**

1. Current Ratio, Debt to Equity Ratio, and Total Asset Turnover are the independent variable used in this research, while Return on Assets is the dependent variable used in this research.
2. Infrastructure Companies listed on the Indonesia Stock Exchange are companies used in this research.

3. Year 2018-2020 is period used in this research.

### **1.3. Problem Formulation**

1. Does Current Ratio have a significant effect toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange?
2. Does Debt-to-Equity Ratio have a significant effect toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange?
3. Does Total Asset Turnover have a significant effect toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange?
4. Do Current Ratio, Debt to Equity Ratio, and Total Asset Turnover have a significant effect toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange?

### **1.4. Objective of the Research**

1. To find out the significant effect of Current Ratio toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange.
2. To find out the significant effect of Debt-to-Equity Ratio toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange.
3. To find out the significant effect of Total Asset Turnover toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange.

4. To find out the significant effect of Current Ratio, Debt to Equity Ratio, and Total Asset Turnover toward Return on Assets of Infrastructure Companies listed on the Indonesia Stock Exchange.

## **1.5. Benefit of the Research**

### **1.5.1. Theoretical Benefit**

This research is aimed to provide knowledge and improved better understanding and knowledge about effect of current ratio, debt to equity ratio, and total asset turnover toward return on assets of infrastructure companies listed on the Indonesia Stock Exchange for the period 2018-2020.

### **1.5.2. Practical Benefit**

For investors, it is reasonable to expect this research to be used by investors as an overview and additional information before making investment decisions of infrastructure companies listed on the Indonesia Stock Exchange.

For companies, it is reasonable to expect this research to be used by companies as input for the companies to improve and increase its value, achievement, and control in the future.

For other researchers, it is reasonable to expect this research to be used by other researchers as a contribution, comparison, and reference for those who are interested in or have similar research and for those who will conduct further research about this research, and useful in increasing ability and knowledge in problem solving in financial analysis or in other economic fields.