Influence Debt To Equity Ratio and Current Ratio On Profit Growth Of Building Construction Companies Listed On The Indonesian Stock Exchange In 2020

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ABSTRACT

The main motive of investors in investing capital into one or several companies is to obtain profits (profit/return). Investors can find out whether the company is able to provide the expected benefits or returns by measuring management performance within the company. When investing, investors can measure financial performance through the profits generated by the company. Profit is the company's main source to maintain its survival. Profit growth is a change in the percentage increase in profits obtained by the company. In this research, the leverage ratios used are the Debt-to-Equity Ratio (DER) and Current Ratio (CR) on Profit Growth. The sample used in this research used a purposive sampling method, namely the annual financial reports of Building Construction Companies on the BEI in 2020 as many as 12 companies. The results of this research show that the Partial Debt to Equity Ratio (DER) has a negative and significant effect on Profit Growth, while the Current Ratio (CR) has a negative and insignificant effect on Profit Growth.

Keywords : Debt to Equity Ratio (THE),Current Ratio (CR), Profit Growth

INTRODUCTION

When investing, investors can measure financial performance through the profits generated by the company. Investors see company profits as a good signal in assessing a company. Profit is the company's main source to maintain its survival. Profit growth is a change in the percentage increase in profits obtained by the company. Good profit growth shows that the company is in good financial condition and will increase the company's value. The higher the profit generated by the company, the better the company's performance (Hapsari, Nuraina and Wijaya, 2017). *Debt to Equity Ratio* (DER) is a leverage ratio that measures a company's performance ability to repay its long-term debt by looking at the comparison between total debt and equity. The higher the company's debt, the higher the company's profits will be.

According to Zulkifli (2018: 175) one of the liquidity ratios that influences profit growth is*Current Ratio* because through*Current Ratio* can be known about the amount of current assets owned by the company. The current assets in question include cash, receivables, securities and inventory. The higher the value*Current Ratio* (CR), the greater the company's ability to fulfill short-term financial obligations, this will also affect the company's profit growth (Sumarsan in Zulkifli, 2018). But, if*Current Ratio* (CR) that is too high will also have a negative effect on profit ability because some of the working capital does not rotate. On the Indonesian Stock Exchange there are several industrial sector classifications, including the construction industry. The construction industry sector is a suitable sector for investors to invest their capital, because it is supported by infrastructure development in Indonesia. The following is the average empirical data per year*Debt to*

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Equity Ratio (DER) and*Current Ratio* (CR) listed on the Indonesia Stock Exchange for the 2016-2020 period are:

Table 1. Average Condition per Year of DER and CR, Listed on the Indonesian Stock Exchange 2016-2020

Year	Profit Growth	THE	CR
2016	-0,028	2,58	1,61
2017	0,022	2,76	1,60
2018	-0,007	2,91	1,66
2019	-0,047	2,64	1,52
2020	-0,019	3,46	1,45

Source: www.idx.co.id, www. bi.go.id, Data processed

From Table 1, it can be seen that the average profit growth movement of construction and building companies experienced a decline during the 2016-2020 period. Profit growth increased in 2017 to 0.022 from -0.028 in 2016 and decreased again in 2018 to 2020 to -0.007 and -0.047 then increased again in 2020 to -0.019. During the five years, only in 2017, the profit growth of construction and building companies increased, while in the other four years, profit growth experienced a negative value, or in other words, the average company experienced a decline in profits.

Debt to Equity Ratio (DER) for construction and building companies experienced an average increase during the 2016-2018 period, namely from 2.58 in 2016, increasing to 2.76 in 2017 and then increasing again in 2018. In 2019 to 2020 the ratio*Debt to Equity Ratio* (DER) decreased from 2.64 to 3.46. From the data, it can be seen that there is movement*Debt to Equity Ratio* (DER) which is in line with profit growth, namely in 2017. This is not in accordance with expert statements, where if*Debt to Equity Ratio* (DER) increases, then profit growth tends to decrease because the company's income is used to pay debts.

Current Ratio (CR) construction and building companies experienced fluctuating conditions on average during the 2016-2018 period, namely from 1.61 in 2016, decreasing to 1.60 in 2017 and then increasing again in 2018 to 1.66. In 2019 to 2020 ratio*Current Ratio* (CR) decreased from 1.52 to 1.45. From the data, it can be seen that there is movement*Current Ratio* (CR) which is in line with profit growth, namely in 2019, where*Current Ratio* (CR) decreased but profit growth decreased. This is not in accordance with the expert's statement which states that the value is higher*Current Ratio* (CR) then the net profit generated by the company is lower because a high current ratio indicates an excess of current assets which is not good for the company's profitability and vice versa.

Seeing the phenomenon of condition data*Debt to Equity Ratio* (DER) and*Current Ratio* (CR) listed on the Indonesian Stock Exchange in the table. 1, it is interesting to carry out research regarding influence*Debt to Equity Ratio* (DER) and*Current Ratio* (CR) on profit growth. Studies on profit growth that have been carried out have results that are inconsistent with each other. Therefore, this area is still an interesting problem to research.

METHODS

The analytical method used is multiple linear regression analysis. Multiple linear regression analysis is an analysis to determine the effect of more than one independent variable on one dependent variable. The multiple linear regression analysis model is used to explain the relationship and how much influence the independent variables have on the dependent variable (Ghazali, 2018). The variables used in this research are independent variables*debt to equity ratio* (DER) and the dependent variable is profit growth. This data was obtained on the official website of the Indonesian Stock Exchange, namely www.idx.co.id for financial reports, and www.invesnesia.com for the classification of issuers in the building construction sector. The population in this research is building construction companies listed on the Indonesia Stock Exchange in 2020 with

a sample of 12 companies. Samples were selected using techniques*Purposive Sampling. Purposive sampling* is a sampling technique using certain considerations.

The data analysis techniques used in this research are data quality testing, classical assumption testing, multiple linear regression analysis, hypothesis testing, and coefficient of determination testing using SPSS 22 to test the proposed hypothesis.

RESULTS AND DISCUSSION

2020				
		X1	X2	AND
No.	Company name	THE	CR	Profit Growth
1	ACST	8,42	0,84	0,001
2	ADHI	5,83	1,10	-0,009
3	CSIS	1,01	1,79	-0,023
4	DGIK	16,13	1,47	-0,132
5	IDPR	0,96	1,40	-0,009
6	NRCA	0,90	2,10	-0,004
7	PBSA	3,03	3,03	0,022
8	WSKT	5,36	0,67	-0,003
9	PTPP	2,81	1,21	-0,007
10	SKRN	1,75	1,41	-0,009
11	SSIA	0,90	1,61	-0,015
12	LANGUAGE	3,09	1,08	-0,002
Industry Average		**4,18**	**1,48**	**-0,02**

Source: BEI financial report, 2020

Classic assumption test

Normality test. Purpose of Normality Test: Test whether in the regression model, the residual variable has a normal distribution or not. Based on the output chart display above, you can see a histogram graph and a P-Plot graph. Where the Histtogram graph provides a distribution pattern that is slightly skewed to the left. Next, in the P-Plot image you can see the points approaching the diagonal line. Based on the normality test with the Kolmogorov-Smirnov Test, a value of 0.115 and Asymp. Sig. equal to 0.200 > 0.050, it can be concluded that the data is normally distributed. So the regression model meets the normality assumption.

Multicollinearity Test according to Nofri and Hafifa (2018), this test aims to test whether in the regression model a correlation is found between the independent variables. By looking at value*collinearity diagnostics* in the regression model. It is said that multicollinearity does not occur if the value*eigenvalue* more than >0.01 and condition index less than <30. Based on the table, it can be seen that the value*eigenvalue* all variables more than >0.01 and value*condition index* less than <30, it can be concluded that there is no multicollinearity problem.

Heteroscedasticity Test. Based on the Scatterplot Graph, there is no particular pattern because most of the points are spread above and below the number 0 on the Y axis. The distribution of the data points does not form a wavy pattern that widens then narrows and widens again. Based on Spearman's correlation rank, it is known that the significance value or Sig. (2-tailed) variable DER (X1) is 0.186 variable CR (X2) is 0.131. Because the value of the two independent variables (X) is greater than the value > 0.05, it can be concluded that there are no problems or symptoms of heteroscedasticity. This means that the regression model is suitable to be used to predict Profit Growth based on the input variables DER and CR. Based on these results, there is no heteroscedasticity problem.

Auto Correlation Test. According to Gujarati (2016:216-217), there are several ways to detect the presence or absence of autocorrelation, namely by using graphic methods,*Durbin-Watson*, method*Van Hewmann* and methods*run test*. In this research, the method used is by testing the method*Durbin-Watson*. Detecting an autocorrelation problem is by looking at the magnitude*Durbin-Watson*. The calculated DW value is 1.028 Where this value is compared with the DW Table value, to determine the critical point. Determining the value of the DW Table, where the number of independent variables (K=2), alpha 5%, n = 12 then =

dL = 0,8122
dU = 1.5794
4 – dU = 4 - 1.5794 = 2.4206
4 – dL = 4 - 0,8122= 3,1878

The calculated DW value of 1.028 is located between (dU = 1.5794) and (dL = 0.8122), so the data tested cannot be concluded.

Run Test Test (Autocorrelation). Based on the SPSS output above, the Asymp.Sig value is known. (2-tailed) of 0.364 is greater than 0.05, so it can be concluded that there are no autocorrelation symptoms or problems. Thus, the autocorrelation problem that cannot be resolved with Watson's durbin can be resolved through run tests so that linear regression analysis can be continued.

Multiple Linear Regression Analysis. According to Imam Gozali (2018), regression analysis is used to measure the strength of the relationship between two or more variables, and also shows the direction of the relationship between the dependent and independent variables. Multiple linear regression analysis is a linear relationship between two or more independent variables (X) and the dependent variable (Y). The mathematical model for the relationship between these three variables is the multiple regression equation, which is as follows: Y = a + b1 X1 + b2 X2 + b3 X3.

The results of the regression coefficients obtained from the table above can be written in the form of the following equation:

$$Y = 021 - 007_1 - 006\ X_2$$

The multiple linear regression equation obtained can be explained as follows:

a. A constant of 0.021 shows the value of profit growth if*Debt to Equity Ratio* (DER) and*Current Ratio (CR)* has not changed.
b. *Debt to Equity Ratio* (DER) has a negative coefficient of 0.007, meaning every increase*Debt to Equity Ratio* (DER) of 1 times is predicted to reduce profit growth by 0.007 with assumptions*Current Ratio (CR)* do not change.
c. *Current Ratio (CR)* has a negative coefficient of 0.006, meaning every increase*Current Ratio (CR)* 1x is predicted to reduce profit growth by 0.006 with the assumptions*Debt to Equity Ratio* (DER) has not changed.

Hypothesis testing

T test (partial). The T test functions to test the independent variables separately (partially) and whether they have a significant effect on the dependent variable. Based on the result of testing, the calculated t value of each variable can be seen as follows:

a. Influence*Debt to Equity Ratio* (DER) on Price Profit growth based on the table above, it can be obtained that the calculated t value is 3.538 which is greater than the t table, namely 2.26216 with a Sig value of 0.006 which is smaller than 0.05, meaning with a confidence level of 95%, thus the variable*Debt to Equity Ratio* (DER) has a negative and significant effect on Profit Growth.

b. Influence*Current Ratio (CR)* on share prices based on the table above, a calculated t value of 0.417 can be obtained, which is smaller than the t table, namely 2.26216 with a Sig value of 0.687 greater than 0.05 means with a 95% confidence level, thus Variable*Current Ratio (CR)* has no effect on Profit Growth.

F Test (Simultaneous). The F test is used to test the significance of variables X1 and X2 on variable Y, simultaneously or together. Based on the result, it is known that the

calculated F value for the regression model obtained is 6.424 greater than F table, namely 4.26 with a significance value of 0.018 which is smaller than 0.05 so that at an error level of 5% it can be stated that the two independent variables are*Debt to Equity Ratio* (DER) and*Current Ratio (CR)* has a significant effect on the dependent variable, namely Profit Growth.

Coefficient of Determination

Coefficient of determination (R^2) aims to measure how far the model's ability can explain variations in stock price variables. The coefficient of determination value is between zero and one or $0 < R^2 < 1$. Based on the table above, the R value is obtained*square* of 0.588 or 58.8%. This result means that there is a contribution of 58.8% influence*Debt to Equity Ratio* (DER) and*Current Ratio (CR)* on profit growth, and the remaining 41.2% is influenced by other factors outside the research model.

Discussion

Influence*Debt to Equity Ratio (DER)* Against Profit Growth**.** The results obtained from the research are that*Debt to Equity Ratio* (DER) has a negative influence on profit growth. That is, the higher the value*Debt to Equity Ratio* (DER) will reduce the company's profit growth. This shows that the company's capital structure is more dominated by debt than company capital. The intensity of the company's debt will certainly have an impact on the survival of the company, of course it will have an impact on profit growth. The results in the research show that the ratio value*Debt to Equity Ratio* A large (DER) will have a negative influence on profit growth, it can be seen that the greater the value*Debt to Equity Ratio* (DER) obtained will increase the value of the funding provided by the capital owner and will have a negative impact on the company's performance and of course will reduce profit growth. The results of this research support research conducted by Intan and Suzan (2021), who stated that*Debt to Equity Ratio* (DER) has a negative effect on profit growth.

Influence*Current Ratio* Against Profit Growth**.** The research results show that*Current Ratio* (CR) has a negative influence on profit growth. That is, the higher the value*Current Ratio* (CR) will increase the company's profit growth. There is a negative influence on testing*Current Ratio* (CR) shows that the company has a low level of liquidity so it cannot attract creditors to provide loans to the company, so that the company's activities are disrupted and the company cannot increase profit growth. Changes that occur in either current assets or current liabilities have an effect on increasing profits, resulting in an increase*Current Ratio* (CR) or high or low liquidity values affect profit growth.

CONCLUSION

Based on the results of the analysis carried out, it can be concluded as follows:*Debt to Equity Ratio (DER)* negative and significant effect on profit growth.*Current Ratio (CR)* has no effect on profit growth. Simultaneously it can be concluded that the two independent variables viz*Debt to Equity Ratio* (DER) and*Current Ratio (CR)* has a significant effect on the dependent variable, namely Profit Growth. From the results that have been analyzed, it is hoped that company management will be able to increase profit growth by managing debt levels well.

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