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THE EFFECT OF CURRENT RATIO AND DEBT TO EQUITY RATIO ON PROFIT GROWTH IN CIGARETTE COMPANIES THAT GO PUBLIC 2017-2022 PERIOD

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A R T I C L E I N F O

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A B S T R A C T

This study aims to determine and analyze the effect current ratio, debt to equity ratio, on profit growth in cigarette companies listed on the Indonesia Stock Exchange for the 2017-2022 period. This research was conducted using a quantitative research approach. The total population in this study amounted to 5 companies. The sample was selected using a saturated sampling technique, in order to obtain a sample of 5 companies. The data used in this study is secondary data collected through annual financial reports accessed from idx.co.id which is the research sample. The analytical method used in this research is multiple linear regression analysis. The data was tested using the Eviews12 application. Based on the results of the influence test current ratio on profit growth obtained test results with a probability of 0.1235> 0.05 which means that (X1) CR partially does not affect profit growth. Test results debt to equity ratio has a probability of 0.0000 <0.05 which means that (X2) DER partially has a positive effect on profit growth. And (X1) Current ratio ,(X2) Debt to equity ratio simultaneously affect the profit growth

INTRODUCTION

Cigarette companies in Indonesia play a very important role in the running of the country's economic industry. Indonesia's considerable economic growth, one of which is the development of the cigarette industry, proves this. Most of Indonesia's domestic revenue comes from taxes, which greatly benefit from the development of the cigarette industry due to the government's high cigarette excise tax (Rahayu, 2021). Indonesia is a large tobacco-producing country, this is because Indonesia is the largest tobacco market in the world. There are also 5 cigarette companies that have gone publi*c* and listed on the IDX, namely Hanjaya Mandala Sampoerna Tbk (HMSP), Bentoel International Investama Tbk (RMBA), PT Indonesian Tobacco Tbk (ITIC), Gudang Garam Tbk (GGRM), and Wismilak Inti Makmur Tbk (WIIM). As a member of the IDX, companies are required to provide or submit financial reports to the IDX in an open manner (Purwanto & Pardistya, 2021).

(Andriyani et al., 2018) argues that in order to predict what will happen in the future, financial statements must be analyzed using financial ratios. Financial ratios are very important to analyze the financial condition of a company. Financial ratios can be used to predict company bankruptcy because it is one form of accounting information that is important in the process of evaluating company performance. By obtaining maximum profit as targeted, companies can do a lot for the welfare of owners, and employees, as well as improve product quality and make new investments (Kasmir, 2019).In this study, using the Liquidity Ratio is a ratio that measures the company's ability to pay off short-term obligations (Anisya, 2021).

In this study, using the Liquidity Ratio is a ratio that measures the company's ability to pay off short-term obligations (Anisya, 2021). Measurement of liquidity ratios by dividing current assets and current liabilities. A good liquidity ratio if the current *ratio* is 1 :1 or 100% means that current *assets* can cover all current liabilities (Diana, 2018). In this study, the liquidity ratio is measured using the current ratio with the formula The liquidity ratio is a ratio that describes the company's ability to fulfill obligations in the short term that are required to be repaid. The liquidity ratio indicator uses the *current ratio*, which describes the company's ability to pay off short-term debts or less than one year (Hanafi, 2018). Based on the understanding of the liquidity ratio, it can be concluded that the liquidity ratio is a ratio used to measure the company's ability to fulfill its obligations both to parties outside the company and within the companyn.

Solvency ratio is one of the financial ratios related to debt and equity by comparing it between all debt, including current debt and equity. The solvency ratio is also called the Leverage Ratio which is used to measure the ratio of funds borrowed from the company's creditors (Horijah &; Fuadati, 2021). In this study, solvency is measured by *Debt to Equity Ratio* (DER). Can show the level of financial independence of a company related to debt. The result of calculating a high solvency ratio of the company will have an impact on the emergence of greater risk of loss, but there is a chance that the company gets a large profit. Conversely, if the calculation of the company's solvency ratio is low, it has a

smaller risk of loss, especially when the economy declines. This also results in low returns when the economy is high.

The liquidity ratio is proxied with the Current Ratio which is used to measure the ability of the company's current assets to meet the debt to be paid. Research conducted by (Sari et al., 2017) and (Lestari, 2021) shows that the Current Ratio has no effect on profit growth. Meanwhile, research from (Ebimobowei, 2020), (Idi, et al., 2021) states that the Current Ratio has a positive and significant effect on profit growth. The Solvency ratio proxied with the Debt to Equity Ratio (DER) is the ratio of debt to equity. This ratio measures how far the company is financed by debt, according to (Nugroho, 2017), (Estininghadi, 2019) shows that DER has a positive and significant effect on profit growth. In contrast to research (Manalu et al., 2020) which states that the Debt to Equity Ratio does not have a significant effect on profit Growth

THEORETICAL REVIEW

Profit Growth

According to (Al-Vionita &; Asyik, 2020) stated that profit growth can be a reference in determining the success of company performance which is used as a measurement of a decrease or increase in the company's profit percentage. Companies with stable profits make it possible to predict future earnings forecasts and they pay a higher percentage of their profits as dividends compared to companies with fluctuating profits. Therefore, profit growth information obtained by the company is very important for users of financial statements because it is with profit growth information

Financial Ratio

Financial Ratio Analysis is a technique of combining one element with another element in financial statements, which is expressed in a simple mathematical form in a certain period or period of time. By comparing two variables taken from the company's financial statements, both balance sheet and profit and loss lists or operating results and a company in a certain period that can be used as a measure of a company's financial condition (Bella, 2020). How the state of an agency, organization, company, or anything related to business in general progress and potential can be seen from its financial statements. In the preparation of financial statements, good skills and qualified knowledge are needed, especially in the field of accounting to support the preparation and presentation of good financial statements and can be understood by assessing company performance, which can be done by analyzing the company's financial statements (Sahabuddin et al., 2022)

Current Ratio

According to (Arnita &; Aulia, 2020) Current Ratio is a ratio used to measure a company's ability to pay its short-term obligations using its current assets. According to (Petra et al., 2021) Current Ratio is a current ratio measuring the company's ability to pay short-term obligations or debts that are immediately due when collected. In other words, how much current assets to cover short-

term liabilities that are soon due. *Current ratio* can also be said as a form to measure the level of safety (margin of safety).

Debt to Equity Ratio

Debt to Equity Ratio is a ratio used to assess debt with equity. This ratio is sought by comparing all debt, including current debt with all equity (Kasmir, 2019). This ratio is useful for knowing the amount of funds provided by borrowers (creditors) with company owners. In other words, this ratio serves to find out every rupiah of own capital used for debt security. Debt to Equity Ratio (DER) is a leverage ratio that measures the amount of a company's operations financed by debt compared to the company's operations financed by equity. This ratio measures the balance between debt and own capital. The higher the DER ratio indicates the lower the mode itself (Muslichah, 2021).

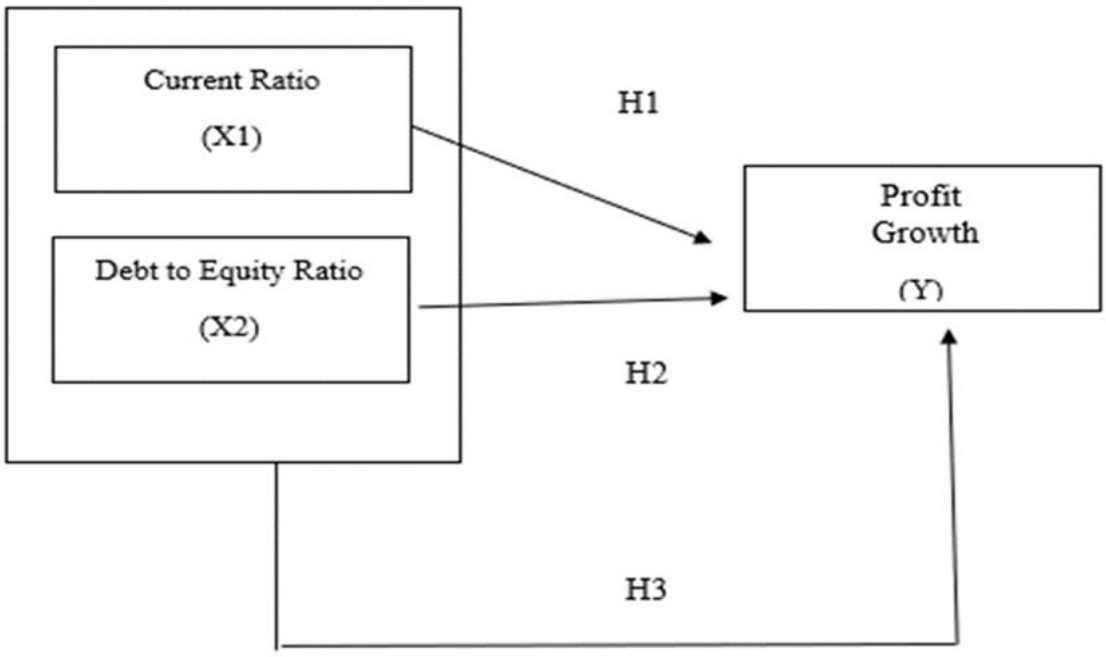

Figure 1. Conceptual Framework

Hypothesis

H1 : CR (*Current Ratio*) has a positive effect on profit growth.
H2 : DER (*Debt to Equity ratio*) Positively Affects Profit Growth
H3 : CR (*Current Ratio*) DER (*Debt to Equity ratio*) has a positive effect on Profit Growth

Methodology

This research is an associative research, which is a study that aims to determine the relationship or influence between two or more variables. In this study, the author took a quantitative research approach, which produced data in the form of numbers obtained by the statistical method through samples obtained from sampling techniques, namely the *non-probability sampling* method. This research is quantitative which aims to determine the "Effect of Current Ratio (CR), Debt to Equity Ratio (DER) on Profit Growth of Cigarette Companies that Go Public.

The type of data used in this study is secondary data. Secondary data is data obtained indirectly or in the form of data that has been processed in advance from the first party. In this study, the author took secondary data in the form of data from financial statements on cigarette sub-sector companies in the annual period, namely from 2017 to 2022. The source of this research is from the official *website* of the Indonesia Stock Exchange and RTI *Finance.* The data analysis method used in this study is quantitative analysis and uses the Multiple Regression Analysis method, by conducting a classical assumption test first, then followed by a hypothesis test. This test aims to determine whether the data used in this study are normally distributed and do not have symptoms of multicollinearity and symptoms of heteroscedasticity.

Results

Chow Test

Table 1 Chow Test Results

Redundant Fixed Effects Tests
Equation: Untitled
Test cross-section fixed effects

Effects Test	Statistic	d.f.	Prob.
Cross-section F	1.962759	(4,23)	0.1341
Cross-section Chi-square	8.810285	4	0.0660

Source: Data processing results with the Eviews 12 application

Based on table 1 above, it can be seen that the prob value is 0.0660 > 0.05, so the *Common effect model* is better used than *the Fixed Effect Model.*

Lagrange Multiplier Test

Table 2 Lagrange Multiplier Test

Lagrange Multiplier Tests for Random Effects
Null hypotheses: No effects
Alternative hypotheses: Two-sided (Breusch-Pagan) and one-sided (all others) alternatives

	Test Hypothesis		
	Cross-section	Time	Both
Breusch-Pagan	0.147534 (0.7009)	0.339650 (0.5600)	0.487184 (0.4852)
Honda	0.384102 (0.3505)	-0.582795 (0.7200)	-0.140497 (0.5559)
King-Wu	0.384102 (0.3505)	-0.582795 (0.7200)	-0.102238 (0.5407)
Standardized Honda	0.777154 (0.2185)	-0.344504 (0.6348)	-2.815963 (0.9976)
Standardized King-Wu	0.777154 (0.2185)	-0.344504 (0.6348)	-2.757336 (0.9971)
Gourieroux, et al.	--	--	0.147534 (0.5827)

Source: Data processing results with the Eviews 12 application

Based on table 2 above, it can be seen that the value of the Breusch-Pagan prob is 0.7009 > 0.05, then the selected model is the Common Effect Model Based on the results of the Chow Test and LM Test, the best mode in this study is the Common Effect Model.

Classic Assumption Test Table

Table 3 Multicolinearity Test

	X1	X2
X1	1.000000	-0.050845
X2	-0.050845	1.000000

Source: Results of data processing with the Eviews 12 application

Based on table 3 above, it can be seen that the correlation coefficients X1 and X2 are -0.50845 < 0.85. So it can be concluded that it is free from multicollinearity or passes the multicollinearity test (Napitupulu et al., 2021)

Table 4 heteroscedasticity Test

Dependent Variable: ABS(RESID)
Method: Panel Least Squares
Date: 06/08/23 Time: 06:49
Sample: 2017 2022
Periods included: 6
Cross-sections included: 5
Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	818.8982	359.9483	2.275044	0.0311
X1	-120.4130	109.8806	-1.095853	0.2828
X2	-76.09833	121.9024	-0.624256	0.5377

R-squared	0.044595	Mean dependent var	463.7598
Adjusted R-squared	-0.026176	S.D. dependent var	916.2047
S.E. of regression	928.1186	Akaike info criterion	16.59884
Sum squared resid	23257913	Schwarz criterion	16.73896
Log likelihood	-245.9825	Hannan-Quinn criter.	16.64366
F-statistic	0.630127	Durbin-Watson stat	2.066841
Prob(F-statistic)	0.540174		

Source: Results of data processing with the Eviews 12 application

To detect the presence or absence of heteroscedasticity in regression models, you can use the glejser test. The glacier test regresses the residual absolute value. The glejser test can be done by looking at the probability value on the independent variable, if the probability value on the independent variable is more than the significance value. Based on the table above, it can be known that the probability of each variable has a value greater than 0.05 so that the decision taken is that there are no symptoms of heterokedasticity.

Multiple Linear Regression

Table 5 Multiple Linear Regression Test

Dependent Variable: Y
Method: Panel Least Squares
Date: 06/08/23 Time: 06:50
Sample: 2017 2022
Periods included: 6
Cross-sections included: 5
Total panel (balanced) observations: 30

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-1493.426	414.1901	-3.605652	0.0012
X1	201.0153	126.4389	1.589822	0.1235
X2	1499.133	140.2722	10.68731	0.0000

R-squared	0.816604	Mean dependent var	256.0670
Adjusted R-squared	0.803020	S.D. dependent var	2406.310
S.E. of regression	1067.980	Akaike info criterion	16.87957
Sum squared resid	30795696	Schwarz criterion	17.01968
Log likelihood	-250.1935	Hannan-Quinn criter.	16.92439
F-statistic	60.11136	Durbin-Watson stat	2.171898
Prob(F-statistic)	0.000000		

Source: Results of data processing with the Eviews 12 application

Based on table 5 the results of multiple linear regression analysis test results obtained by the regression equation, namely:

Y = -1493.426 - 201.0153 X1 + 1499.133 X2

Based on the regression equation above, it can be explained that:

1. based on the equation above, the magnitude of the constant -1493.426 this shows that if the independent variables (CR and DER) are 0, then the growth rate of profit is
   -1493.426
2. The value of the Coefficient of CR is 201.0153 and has a positive sign. This shows that for every increase in CR by 1, the profit growth rate will increase by 201.0153
3. The Coefficient value of DER is 1499.133 and has a positive sign. This shows that for every 1 increase in DER, the profit growth rate will increase by 1499,133

Discussion

The Effect of Current Ratio (X1) on Profit Growth (Y)

The results show that the current ratio does not have a significant effect on profit growth in cigarette companies listed on the Indonesia Stock Exchange for the 2017-2022 period, so the hypothesis (H1) stating that there is a significant effect of the current ratio on profit growth in cigarette companies listed on the Indonesia Stock Exchange is not proven to be true. This result is in accordance with research from (Oktaviani et al., 2023) and supported by (Suciana & Hayati, 2021) With the result that the *Current ratio* has no effect on profit growth.

The Effect of Debt to Equity Ratio (X1) on Profit Growth (Y)

The results showed that the debt to equity ratio had a significant effect on profit growth in the cigarette industry listed on the Indonesia Stock Exchange for the 2017-2022 period, so the hypothesis stating that there was a significant effect of debt to equity ratio on profit growth in the cigarette industry listed on the Indonesia Stock Exchange was proven to be true. This result is in accordance with research from (Estininghadi, 2019) the same results are also shown in the results of research conducted by (Marjuno et al., 2020) where the sample used in the research is also manufacturing where it is stated that there is a significant influence between the Debt to Equity Ratio on profit growth. With the result that the Debt to Equity Ratio affects profit growth. This indicates that higher DER can increase the company's profit.

The Effect of CR (X1) and DER (X2) on Profit Growth (Y)

The results of simultaneous testing using Test f show that the Current Ratio and Debt to Equity Ratio, based on F count or F statistics of 60.11136 with a significance value of 0.000000 which means > 0.05 so that Ha is accepted and it can be concluded that CR and DER together affect profit growth. This result is in

accordance with research from (Amalina & Efriadi, 2022) with the result that the Current ratio and Debt to Equity Ratio together affect profit growth.

Conclusion

This study aims to determine the effect between Current ratio and Debt to Equity Ratio on Profit Growth of cigarette companies listed on the Indonesia Stock Exchange / go public, the sample in this study is cigarette companies listed on the Indonesia Stock Exchange / go public. Based on the results of the analysis and discussion in this study, the researcher can make the following conclusions:

1. The current ratio partially has no positive and insignificant effect on the variable Profit Growth. Based on this, it can be concluded that the first hypothesis proved to have no effect on profit growth.
2. Debt to Equity Ratio partially has a positive and significant effect with the variable of Profit Growth. Based on this, it can be concluded that the second hypothesis is proven to have an effect on interest in profit growth.
3. Current ratio and Debt to Equity Ratio Based on f count or f statistic of 60.1136 with a significance value of 0.000000 which means > 0.05 so that Ha is accepted and it can be concluded that CR and DER together affect profit growth

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