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Management of Financial Performance Based on Capital Structure, Liquidity Ratio, Coverage and Activity

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ABSTRACT

All of Automotive companies, were quite badly affected during the Covid-19 pandemic. The automotive industry players do not simply surrender to this situation. As Idul Fitri 2020 approaches, the Association of Indonesian Automotive Industries (Gaikindo) synergizes with the Government to maintain the performance of the automotive industry. The situation improved as the Covid-19 cases in the country slumped. In 2020, wholesale sales for the automotive industry in Indonesia will only reach 530 thousand units. This figure is down by 50% from usual due to very limited mobility of people and goods. The automotive sector is gradually improving, car sales are picking up again in August 2021. In the first half of 2022, a number of automotive companies managed to score encouraging performances. This encouraging performance cannot be separated from funding decisions, availability of assets, ability to meet short and long term debts. Research objective to examine and analyze effect of capital structure, liquidity ratios, coverage and activity on financial performance. A total of 13 companies out of 16 automotive companies are listed Indonesia Stock Exchange for the period 2018 – 2021. Using hypothesis testing with multiple linear regression. The results showed only coverage ratio had an effect on financial performance. Novelty in this study uses two state conditions, namely before and during the Covid-19 pandemic.

Keywords: Activity Ratio, Capital Structure, Coverage Ratio, Financial Performance, Liquidity Ratio.

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INTRODUCTION

The automotive industry is one of the leading sectors that has a significant contribution to the national economy. According to the Minister of Industry Agus Gumiwang Kartasasmita, the automotive sector has contributed an investment value of IDR 99.16 trillion with a total production capacity of 2.35 million units per year and absorbed a workforce of 38.39 thousand people (https://www.kemenperin.go.id/artikel/22297/Menperin:-Industri-Otomotif-Jadi-Sector-Andalan-Ekonomi-Nasional). The automotive sector has a far-reaching impact on the more than 1.5 million people who work along the industry's value chain. The automotive industry is considered to have an important and strategic role so that it is included in the Making Indonesia 4.0 road map which is prioritized for development in the implementation of industry 4.0 (https://www.kemenperin.go.id/artikel/22297/Menperin:-Industri-Otomotif-Jadi-Sector-Andalan-Ekonomi-Nasional). Automotive companies, whether or not listed on the Indonesia Stock Exchange (IDX), were quite badly affected during the Covid-19 pandemic. In 2020, wholesale sales for the automotive industry in Indonesia will only reach 530 thousand units. This figure is down by 50% from usual due to very limited mobility of people and goods (https://ajaib.co.id/company-otomotif-di-bei/). The automotive industry players do not simply surrender to this situation. As Idul Fitri 2020 approaches, the Association of Indonesian Automotive Industries (Gaikindo) synergizes with the government to maintain the performance of the automotive industry. The situation is improving as the Covid-19 cases in the country slump (https://ajaib.co.id/company-otomotif-di-bei/). The automotive sector is gradually improving, car sales are picking up again in August 2021. According to the Main Service of Capital Sekuritas analyst (Chris Apriliony), there is indeed an improvement in the performance of the automotive industry. This recovery is actually due to a significant decline in 2020 (https://www.gaikindo.or.id/saham-sector-otomotif-yang-jadi-rekomendasi-analis/). In the first half of 2022, a number of automotive companies managed to score encouraging performance, sales of motorized vehicles also crept up (https://ajaib.co.id/company-otomotif-di-bei/). This encouraging performance is inseparable from funding decisions, company's ability meet short-term debt, long-term debt, and interest expenses as well as company's ability to efficiently use assets in creating sales.

Several previous studies that are synonymous with the relationship between financial performance, capital structure, liquidity ratios, scope, activity are as follows:

a. Meryana and Setiany (2020) research title *The Effect of Investment, Free Cash Flow, Earnings Management, and Interest Coverage Ratio on Financial Distress*, results the study show that free cash flow and interest coverage ratio influence on financial distress, investment and earnings management no effect on financial distress(Setiany, 2021).
b. Indraty, et al. (2019) research title *The Effects Of Financial Ratio, Local Size And Local Status On Financial Distress*, results the study show that financial ratios (CR, DER, QR/TR, ROA, ROE), local size, and local status influence on financial distress(Indriaty, Setiawan, & Pravasanti, 2019).
c. Khan, et al. (2016) research title *The Effect of Liquidity and Capital Structure on Organization Performance: Evidence from the Banking Sector*, results the study show that liquidity ratios and capital structure affect performance of banking sector companies in Pakistan(Khalil & Responsibility, 2019).
d. Zeb, et al. (2016) with the research title *Effect of Liquidity and Capital Structure on Financial Performance: Evidence from the banking sector*, results the study show that liquidity ratios (CR and QR) positive effect, while capital structure (DER, DR, FCR, FDR) negative influence on financial performance of banks in Pakistan(Zeb & Khan, 2016).
e. Agustiningtias, et al. (2016) *The Influence Of Capital Structure And Asset Management On Profitability And Firm Value (An Empirical Research At Real Estate And Property That Listed In Indonesia Stock Exchange For The Period Of 2011-2013)*, results the study show it reveals capital structure influence a significant and positive effect on profitability, asset management does not significant and positive influence on profitability, capital structure has a significant and positive effect on firm value, asset management does not have a significant and positive inflence on profitability(Agustiningtias, Kertahadi, & Suyadi, 2016).
f. Hamidu (2013) examined the effect of financial performance on profit growth in Banking on the IDX, with proxies for financial performance being *Net Profit Margin* and *Total Asset Turnover*, the results showed that both variables had a partial effect on profit growth (Hamidu, 2013).
g. Warmana and Widnyana (2017) analyze role of funding decisions on financial performance of the companies tourism, restaurant and hotel. The results show structure of long-term debt has an influence on financial performance, while capital and debt structure have no effect on financial performance (Warmana & Widnyana, 2017).

h. Jariah (2022) discusses about effect financial management decisions on *stock returns* moderated by performance. Show that financial management decisions and performance have no effect on stock returns. Furthermore Financial management decisions affect performance. And than performance cannot be moderate financial management decisions on stock returns (Jariah, Lukiana, Hartono, & Irwanto, 2022).
i. Jariah (2019) discusses *the Role of Investment and Funding Decisions, Their Impact on Company Value through Financial Performance*. The results of research show only investment decisions affect financial performance and firm value. Simultaneously has a significant effect on financial performance and company value (Jariah, 2019b).

Based on the explanation above, the purpose this research test and analyze the influence of capital structure, liquidity ratios, coverage, and activities partially significant to financial performance.The period in the study was during the period before and during Covid-19 pandemic.

METHODS

This research type is survey research with the aim of this research being explanatory research. The research object is capital structure (Long Debt to Equity Ratio), liquidity ratio (Quick Ratio), coverage ratio (Interest Coverage Ratio), activity ratio (Investment Turn Over), financial performance (Net Profit Margin). The population sector of automotive companies listed the Indonesia Stock Exchange period 2018 – 2021. Using the purposive sampling method, the total sample is 13 companies and 52 observations. The research procedure determines which companies will be sampled according to the criteria, identifies variables and collects data and measures variables according to their operational definitions. Next, describe the research variables, classic assumption test (data normality, multicollinearity, autocorrelation, heteroscedasticity) and hypothesis test.

RESULTS AND DISCUSSION

The discussion in a study to describe and explain the result oh the research based on the data obtained and calculating have been carried out. The following will explain the results of calculations regarding influence financial performance (Net Profit Margin/NPM), capital structure (Long Debt to Equity Ratio/LTDter), liquidity ratio (Quick Ratio/QR), coverage ratio (Interest Coverage Ratio/ICR), and activity ratio (Inventory Turn Over/IT).

The result normality test all of data detected normal distribution, with value of test statistics at 0,090 and asymp.sig. (2-tailed) at 0,200. The result multicolinearity test shows value of tolerance and Variance Inflation Factor (VIF) for each variable are LTDter 0,796 & 1,25; QR 0,443 & 2,257; ICR 0,427 & 2,344, and IT 0,826 & 1,211, it means that all independent variable detected free of multicolinearity because have tolerance value above 0,1 and number of VIF (Variance Inflation Factor) below 10. The result heteroscedasticity test shows all of independent variable detected free of heteroscadasticity because have significance value above 0,05. Than the result autocorrelation test value of durbin-watson 1, 510, this number is in the value -2 and 2 it means all of data detected free autocorrelation.

The following is the regression equation resulting from the results of the regression analysis:
NPM = -0.047 + 0.004 LTDtER + 0.007QR + 0.002ICR + 0.010IT
Under the condition:
LTDter = *Capital Structure*
QR = *Liquidity Ratio*
ICR = *Coverage Ratio*

IT = *Activity Ratio*
NPM = Financial Performance

Effect of capital structure on financial performance, based on the partial test obtained that value of t count (0,205) smaller than t table (2,030), significance level of (0,839) greater than α (0.05) this means that capital structure has no effect on performance finance. Influence of the liquidity ratio on financial performance, according to the partial test obtained that t count (0.279) smaller than t table (2.030), significance level (0.782) greater than α (0.05) this means that liquidity ratio has no effect on performance finance.

Effect of coverage ratio on financial performance, the partial test obtained that value of t count (2,766) greater than t table (2,030), significance level (0,009) smaller than α (0.05) this means that the coverage ratio has an influence on financial performance. Influence of activity ratio on financial performance, the partial test obtained t count (1,964) smaller than t table (2,030), significance lever (0,058) greater than α (0.05) this means that the activity ratio has no effect on performance finance.

Effect of Capital Structure on Financial Performance

Research results show capital structure has no effect on financial performance. This means that whatever the size of the composition between debt and equity does not affect financial performance.The reasons are (1) not all debts have interest expense that must be borne by the company, for example spontaneous debt, trade payable, payable to employees (salary payable), and dividend payable. All types of debt have no effect on company profits; (2) according to the theory of capital structure presented by Modigliani-Miller that capital structure is not able to influence firm value. Because by procuring debt, the capital structure used for investment and development activities for the company increases. So that when debt increases, *the profits* received from investment activities also increase, this causes profits to be considered unaffected, on the one hand costs increase and on the other hand returns also increase, in the end, profits are considered to remain unchanged. Third, the average movement of capital structure during the study period tends to increase, while the average movement of financial performance fluctuates and increases in 2021. The increase in the average movement of capital structure during the study period is due to the decrease in the average debt amount of automotive companies, while the average capital structure average equity tends to increase. For the average movement of financial performance during the study period, it tends to fluctuate, especially the lowest average sales and profits were in 2020, which was the year the Covid pandemic began to hit Indonesia. The four possibilities are that the capital structure of automotive companies is not optimal in influencing financial performance.

Effect of Liquidity Ratio on Financial Performance

Results of the study show liquidity ratio has no effect on financial performance. This means that high or low liquidity ratios are not able to influence changes in financial performance. The liquidity ratio in this study uses a quick ratio (QR) proxy, which measures company's ability meet short-term obligations using cash and receivables, this ratio does not take inventory into account. Procurement of current assets will incur accompanying costs, procurement of accounts receivable, for example, will result in billing costs when the receivables are not fulfilled by the debtor. Likewise with securities when investing in securities will incur administrative costs. But investing in current assets also provides returns, so at the same time there are expenses and returns. So at the same time there are expenditures and *returns*, therefore the liquidity ratio has no effect on earnings or financial performance. Some argue that when liquidity is high, it is actually not always profitable for the company because there are idle funds that can actually be used to invest in several profitable projects for the company. High current assets or increased liquidity ratios reduce a company's opportunity to make a profit.

Effect of Coverage Ratio on Financial Performance

Research results show the coverage ratio influence on financial performance. Relationship between coverage ratio and financial performance is positive, meaning when coverage ratio is high, the financial performance is also high and when the coverage ratio is low, the financial performance also decreases.Coverage ratio describes company's ability meet fixed financial expenses in the future by using its profits. When this ratio is high, creditors and prospective creditors will increase the loan ceiling given to the company, so that the company has more funds to increase sales so as to increase company profits. The interest coverage ratio is used lenders and investors determine riskiness a company relative to current debt or to future loans. When this ratio is high, it means that the profit generated or available is able to meet debt interest charges in the future. If this ratio is high, lenders (creditors) and investors will feel safe and confident that the company is able to fulfill all company's financial *leverage* obligations, meaning that company's financial risk is low. So that the market believes that the financial condition is strong and healthy, this indicates that the financial performance is good and increasing. When investors or creditors decide to increase their investment and the amount of investment is very concerned about company's ability meet expectations and returns both parties. And picture of the company's capabilities is described by the coverage ratio. Return from loans and investments on bonds in the form of interest expenses that must be met by the company. To get an idea of a company's capability in terms of its interest expense capability, look at the interest coverage ratio. A high coverage ratio indicates that the profit generated will be very capable of meeting its financial burden obligations and company's financial condition is very strong and healthy, so this has an impact on assumption that the company's financial and management performance are very good.

Effect of Activity Ratio on Financial Performance

Showed that activity ratio has no effect financial performance. This means that high or low activity ratios are not able to affect company's financial performance. Investment inventory will have consequences related to the cost of procurement and storage. Therefore when inventory increases the amount of profit will decrease. High inventory is able to support and increase sales, profits will definitely increase, but when faced with high costs, profits will automatically decrease. Inventory is part of current assets (liquidity), liquidity that is too high can actually result in a decrease in company profitability. Inventories are part of current assets that have a higher risk than accounts receivable, securities and cash. Because this inventory takes a long time to turn into cash in its operating cycle. Sales increased but other costs also increased, for example finance costs (interest expense) and other administrative costs.

CONCLUSION

Conclussion are made based on the results of the researchand and to answering the formulation of problem, that is only the coverage ratio has an influence the financial performance automotive companies Indonesia.

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