

The Effect of Financial Ratio in Determining Company Value: (Empirical Study on Banking Companies Listed on the Indonesia Stock Exchange for the 2015-2019 Period)

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Abstract

The main objective of company management is to maximize shareholder wealth, namely increasing the company's share price, so efforts are needed to increase the company's share price through increasing company value. Various ratios can be used to evaluate a bank's ability to make capital structure decisions based on its asset structure and firm value, including Return on Equity (ROE), Loan to Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and Non-performing loan (NPL). This research gap is filled because no one has previously investigated the effect of this ratio on banking companies listed on the IDX between 2015 and 2019. The research method is quantitative; independent variables are ROE, LDR, CAR, company size, and non-performing loans. The dependent variable is the firm value of banking companies listed on the Indonesia Stock Exchange from 2015 to 2015-2019 with a population of 49 banks, purposive sampling, descriptive analysis, and hypothesis testing using multiple linear regression analysis in SPSS 25. The hypothesis proposed is that ROE, Firm Size, and CAR ratios have a positive effect on Firm Value. On the other hand, the ratio of LDR and NPL is detrimental to Firm Values. The results of the Simultaneous Test (F-Test) show an F value of 13.047 and a significance level of 0.000, meaning that the calculated F value > F table (0.05; 5; (225-5) = 2.255) and a level of <0.05 indicates that there is a simultaneous effect of ROE, LDR, CAR, firm size, and NPL to solid value.. This study shows that financial ratios can be used to describe a company's ability to meet short-term obligations, especially strategic decision-makers involving investment, profitability, and capital. Limitations or weaknesses in research are in the research data and the time span of the research. Suggestions for further research so that researchers take a longer research time span so that data accuracy is more optimal.

Keywords

ROE; LDR; CAR; firm size; NPL, firm value; PBV



I. Introduction

A good company will be judged by the value of the company so that the company is considered worthy of being targeted by potential investors. Management can adopt various policies to try to increase the value of the company by increasing the welfare of the owners and holders, as well as reflecting in stock prices (Brigham, 2014).

Bank, is one of the companies involved in the financial industry, namely financial institutions that provide intermediation services. Banks are required to not only carry out the intermediation function, but also other public services such as payment flows and other financial services. The banking world is inseparable from human life, because all human activities involve finance and require banking facilities (Tarigan, 2020). Bank is a company

engaged in the financial sector, meaning that the banking business is always related to financial matters (Rosmika, 2019). The bank is simply defined as a financial institution whose business activities are collecting funds from the public and channeling these funds back to the community and providing other bank services (Dianto, 2020). The role of society as a whole in the economic development of the country is also very important. Fund mobilization leads to investment in productive economic sectors during the intermediation process. Return on Equity (ROE), Loan Deposit Ratio (LDR), Capital Adequacy Ratio (CAR), and firm size (Firm Size) and Non-Performing Loan (NPL) are several factors that affect the ability of investors to evaluate the capital structure of a bank company through assets. the structure and value of the company using the company ratio. Financial ratios are tools that analysts commonly use to assess the state of a company over a certain period of time.

The research gap is carried out because no one has studied the effect of ROE, LDR and CAR, Firm Size, NPL on firm value in banking companies listed on the Indonesia Stock Exchange for the 2015-2019 period, the authors are interested in conducting this research because previously there has been no research discussing the effect of the ratio ROE, LDR, CAR and Firm Size and NPL on Firm Value in Banking Companies, especially those in a relatively new research period, namely the 2015 - 2019 period. This research is also useful for the general public as knowledge related to the ratio of CAR, LDR, NPL, and Firm Size to Firm Value which is analyzed so that it can be applied as a reference for future research. This research can be used as a comparison for companies related to aspects that influence company value.

II. Review of Literature

2.1 Return on Equity (ROE)

The Return on Equity (ROE) ratio is a ratio to assess the company's ability to seek profit" (Kasmir, 2016). According to Wahlen et al. (2015) to assess the company's ability to earn profits and profits by applying the ROE Ratio. According to Brigham (2014) "Return on Equity, namely the ratio of net income to ordinary equity measures the rate of return on shareholder investment. ROE or known as return on equity is the ratio used in measuring the amount of return on equity (Brigham, 2014). According to Brigham (2014) and Makri et al. (2014), ROE can be calculated by:

Return On Equity (ROE) formula: $\frac{\text{Net Profit}}{\text{Equity}} \times 100\%$

2.2 Loan to Deposit Rasio (LDR)

Loan to Deposit Ratio (LDR) is a financial ratio of banking companies related to the aspect of liquidity, which measures the ability of banks to use public funds to provide credit to the public. This ratio is a measure of a bank's liquidity capacity. The size of this ratio makes the liquidity capacity lower because the amount of money needed in credit financing increases (Juwenda & I Kt Galih Mitra, 2014). If the bank's LDR exceeds the threshold, the bank must be prepared to pay higher Statutory Reserves (GWM). According to Bank Indonesia Regulation No. 22/3/PBI/2020 concerning Amendments to Bank Indonesia Regulation No. 20/3/PBI/2018 Regarding Statutory Reserves (GWM). If the bank's, for Conventional Commercial Banks, Sharia Commercial Banks, and Sharia Business Units. The Statutory Reserves (GWM) is set at an average of 6.5% of BUK deposits in a certain reporting period in rupiah and must be calculated regularly. 4.5% daily and an average of 2

while in foreign exchange 8% of BUK deposits during one reporting period. The following 6% and an average of 2% must be met daily during the foreign exchange period.

Kasmir (2013) claims that the LDR ratio is based on the formula:

$$\text{Loan Deposit Rasio (LDR)} = \frac{\text{Total Credit Volume}}{\text{Total receipt of Third Party Funds (DPK)}}$$

2.3 Capital Adequacy Rasio (CAR)

Capital is the amount or type of ownership or other control of a business (Clark, 2013). The capital adequacy ratio used to represent capital in this study is the Capital Adequacy Ratio (CAR). According to Kasmir (2013) said "Capital Adequacy Ratio (CAR) describes the number of risky assets of a bank (loan participation, securities, and claims on other banks) can be financed from the bank's capital, excluding external funds". Sources of funding, such as public cash, loans, and so on.

The capital adequacy ratio is calculated using the following formula, Kasmir (2016), Capital Adequacy Ratio (CAR) :

$$\frac{\text{Main Core Capital (Tier I)} + \text{Supplementary Capital (Tier II)}}{\text{Risk Weighted Assets (RWA)}} \times 100 \%$$

2.4 Firm Size

The number of activities and net sales used to characterize the size of a company is referred to as company size (Elton, 2004). The size of the assets of large companies is believed to have a lower level of risk than small companies because large companies have greater access to capital markets than small ones. The company's total assets, sales, or capital can all be used to determine its size. Big businesses are less dangerous than small companies (Masakure, 2016). Large assets describe if a company reaches maturity and is said to have high influence and create profits in the long term.

$$\text{Firm Size} = \text{LnTotal Aset}$$

2.5 Non Performing Loan (NPL)

Non-Performing Loans (NPL) are bad loans or non-performing loans are loans in which there are obstacles caused by 2 elements, namely from the banking side in analyzing and from customers who intentionally or unintentionally in their obligations do not make payments "(Kasmir, 2013). Therefore, in assessing the distribution of bank credit, banks must consider the ability of the debtor. NPL is the ratio between the number of loans granted to the total non-performing loans (Kasmir, 2013). According to Bank Indonesia Regulation No. 15/15/PBI concerning Statutory Reserves, Rupiah and Foreign Exchange for Conventional Commercial Banks, it is explained that the Non-Performing Loan Ratio (NPL) can be calculated based on:

$$\frac{\text{Non-Performing Loans Collectability 3,4, and 5}}{\text{Total Credit}}$$

2.6 Firm Value

The value of the company increases with rising share prices. The price of a stock when it is exchanged in the market is known as the stock price (Fakhruddin, 2001). The stock price is the price that occurs when the stock is traded in the market (Fakhruddin, 2001).

Price to Book Value (PBV) ratio is a ratio that is often used to determine company value by comparing the market price per share with book value-per share with formula :

$$PBV = \frac{\text{Market Price Per Share}}{\text{Book Value Per Share}}$$

2.7 Relationship between Variables

a. The Effect of Return on Equity (ROE) on Firm Value

According to Terpstra & Verbeeten (2014), Bhattarai (2020), and Kang et al. (2010) describes if ROE has a positive influence on firm value as suggested by (Husna & Satria, 2019), (Agustin, 2016), and (Wardana et al., 2019).

H1: Return On Equity (ROE) has a positive effect to Firm Value

b. The Effect of Loan Deposit Ratio (LDR) on Firm Value

LDR is very important because it provides an overview of the situation and condition of a bank. The LDR can also be used to determine the GWM of traditional banks and to assess the soundness of banks. This is to maintain bank liquidity, according to BI Regulation No. 17/11/PBI/2015 concerning "Required Reserves for Commercial Banks and Foreign Exchange Demand Deposits for Conventional Banks", an amendment to Regulation no. 15/15/PBI/2013, functioned so that banks remain liquid. According to Riahi (2019), Fanta (2013), Agustin (2016), Hutasuhut et al. (2017) in his research explains, LDR liquidity risk harms firm value. The higher the LDR ratio describes the low liquidity of the bank.

H2: Loan Deposit Ratio (LDR) have a negative effect on Firm Value

c. Effect of Capital Adequacy Ratio (CAR) on Firm Value

Husna & Satria (2019), in their hypothesis, says that liquidity has a positive effect on firm value. Murni et al.(2019) explain that the Capital Adequacy Ratio (CAR) has a positive value and has a significant effect on firm value.

H3: Capital Adequacy Ratio (CAR) has a positive effect on Firm Value

d. The Effect of Firm Size on Firm Value

According to Huang, Lu, & Wee (2020) and Bhattarai (2020) explain that company size is measured based on total assets, sales, and capital. this research is aligned by Husna & Satria (2019), Nur'ainy et al. (2013), Azmal et al. (2019), Erlangga & Ibrahim (2017), and Mutmainah (2015) who reveal the Loan Deposit Ratio (LDR) harms the stock value of a bank, which implies that the larger the LDR ratio, the less liquid the bank is. This is because the amount of money needed to finance loans is increasing, the bank's credit limit must be balanced with the bank's ability to repay.

Based on research analysis by Huang et al, (2020), Bhattarai (2020), Husna, A., & Satria, (2019), Azmal et al. (2019), Mutmainah (2015), Nur'ainy et al. (2013), in his research concluded that if the size of the company has a positive effect on the value of the company, so the authors determine the hypothesis as follows:

H4: Firm Size has a positive effect on Firm Value

e. The Effect of Non-Performing Loans (NPL) on Firm Value

Non-Performing Loan (NPL) indicates bank risk. This ratio describes the bank's ability to manage non-performing loans, as a result, this high ratio makes the bank's credit quality high and increases the decline in firm value (Nasser, 2003).

Based on the analysis of research conducted by Ebenezer et al. (2019); Pure et al. (2019); Sari (2019); Hantono (2017); Agustin (2016), hereby take the following hypothesis:

H5: Non-Performing Loans (NPL) have a negative effect on Firm Value

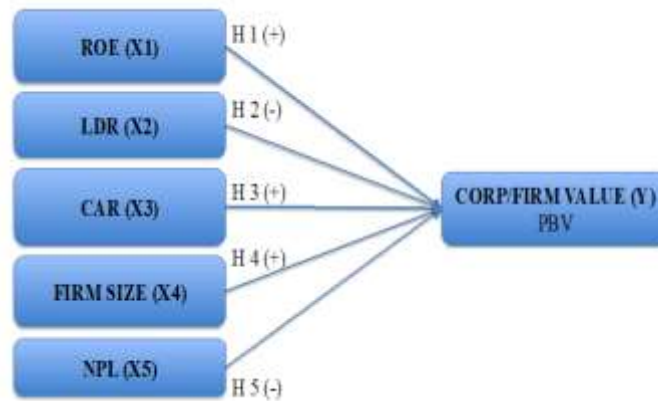


Figure 1. Research Framework

III. Research Methods

This study applies quantitative methods, and the data is data that includes independent variables, namely ROE, LDR, CAR, firm size, and NPL. while the dependent variable is Firm Value or Corporate Value of Banking companies on the IDX for the 2015-2019 period. The data was obtained from the IDX's official website at www.idx.co.id in the form of financial reports. The dependent variable (Y) is the Company Value measured by Price to Book Value (PBV), and the independent variables are X1 = ROE, X2 = Liquidity, X3 = Leverage, X4 = Firm Size, and X5 = Non-Performing Loan (NPL).

In the period 2015 to 2019, there were 49 banking businesses listed on the IDX which were made into the population. Purposive sampling is a process to determine sample size. For sampling, certain criteria were used, including (1) companies listed on the Indonesia Stock Exchange in 2015 - 2019. (2) The company has released the 2015-2019 financial statements in their entirety. (3) Since 2015 -2019, companies that compile financial statements in rupiah (Rp.). After selecting the sample, a population of 49 companies obtained that company data was used 45, this was done because 4 companies listing on the IDX in 2018 did not have one of the sample criteria, so the data was not used as a sample. The use of techniques with multiple linear regression analysis methods applies SPSS 25.

Linear regression is used to build a model of the relationship between one (or more) dependent and independent variables. Simple linear regression is used when only one independent variable is in the model, and multiple linear regression is used when several independent variables are used.

(Harlan, 2018) to test the hypothesis, multiple regression analysis was used, using the formula:

$$Y = a + b_1X_1 + b_2X_2 + \dots + b_nX_n$$

Y = dependent variable
 a = constanta
 b1, b2 = regression coefficient
 X1, X2 = independent variable

The assumptions used in this analysis include adequate models, assumptions of linearity, independence, non-correlation, normality, homoscedasticity, and non-multicollinearity.

IV. Discussion

The purpose of this study is to analyze financial ratios in determining company value in banking companies listed on the IDX in 2015-2019. The use of this research analysis is multiple regression, with the elaboration of the research results, namely:

4.1 Results

a. Descriptive Analysis

The purpose of this analysis is to find out a description of the research data presented in the form of a minimum, maximum, and standard deviation as well as an average, with the results:

Table 1. Descriptive Results

Variable	N	Minimum	Maximum	StDev	Mean
ROE (%)	225	-59,03	36,50	13,23	5,84
LDR (%)	225	47,54	466,78	33,45	89,51
CAR (%)	225	8,02	148,28	16,77	24,38
Firm Value (Millions IDR)	225	494606,00	1416758840,00	269483392,65	132207430,16
NPL GROSS (%)	225	0,05	15,82	2,47	3,44
Price To Book Value (PBV)	225	0,21	8,70	1,36	1,64

Source: Secondary Processing Data

b. Assumption Test

The assumption test here applies the normality, multicollinearity, and heteroscedasticity tests with the same test being:

Table 2. Assumption Test Results

Variable	Normality	Autocorrelation	Multicollinearity	
	Sig.	dw	Tolerance	VIF
ROE (%)	0,200	2,151	0,728	1,373
LDR (%)			0,623	1,604
CAR (%)			0,637	1,569
Ln Total Assets			0,856	1,168
NPL GROSS (%)			0,769	1,301

Source: Secondary Processing Data

This study applies the normality test Kolmogorov Test. The results of the normality test above describe a significance value of 0.200 so that the sig value > 0.05 means that it is normally distributed. The purpose of the autocorrelation test is to determine the relationship between residuals or errors from the previous period or not. There is no autocorrelation if the Durbin Watson value is between du and $4-du$. The value of du is 225 data and the number of independent variables 5 is 1.835 so that $4-du$ becomes $4-1.835 = 2.165$. The result of the Durbin Watson score is 2.151 so it is between 1.835 and 2.165. Therefore, there is no autocorrelation problem. To test heteroscedasticity, the Glejser test was applied. The significance value of each independent variable in the regression model is > 0.05 , so the regression model does not describe the symptoms of heteroscedasticity, according to the results of the heteroscedasticity test.

Multicollinearity test was used to see whether the independent variables had a strong relationship. There is no concern for multicollinearity if the tolerance is more > 0.1 and $VIF < 10$. The results illustrate that the tolerance value of each independent variable is > 0.1 , and $VIF < 10$, implying that there is no multicollinearity or significant correlation between variables.

c. Multiple Regression Analysis

Multiple regression analysis is used to test the hypothesis. So that researchers use analysis to test whether there has an influence on Financial Ratios in Determining Firm Value. Where Variable X consists of several variables, namely ROE, LDR, CAR, Firm Size, and NPL to variable Y, namely Firm Value. Multiple regression test includes R Square, F test, and t-test.

d. Coefficient of Determination (R square)

The coefficient of determination serves to calculate the magnitude of the influence of the independent variable on the dependent:

Table 3. Coefficient of Determination Results (R square)

Regression Model	R square
X1,X2, X3, X4, X5→Y	0,230

Source: secondary processing data

The table above produces a coefficient of determination of 0.230, meaning that there is an influence of ROE, LDR, and CAR, firm size, the company's NPL can affect the firm value by 23% and the rest is influenced by other variables.

e. Simultaneous Test (F Test)

Simultaneous test (F test) is used in conducting joint tests whether there is an effect of the independent variable on the dependent. If the significant probability > 0.05 the criteria have no significant effect or H_0 is accepted and H_a is rejected; if the probability is significant < 0.05 then the criteria have a significant effect or H_0 is rejected and H_a is rejected.

Table 4. Simultaneous Result Test

Regression model	F statistics	Significance
X1, X2, X3, X4, X5→Y	13,047	0,000

Source: secondary processing data

The F-count value is 13.047 and the significance is 0.000 so that the calculated F value is $> F$ table ($F(0.05; 5; (225-5) = 2.255)$) and $\text{sig} < 0.05$, it is concluded that there is a simultaneous effect of ROE, LDR, CAR, firm size, NPL to firm value, In other words, H1 is accepted, meaning that the financial ratio variables, namely ROE, LDR, CAR, Firm Size, NPL simultaneously affect Firm Value).

f. Partial Test (t-test)

This test is intended to analyze whether it has an influence on each independent variable on the dependent. There is a significant effect if the significance value is < 0.05 and the t count $> t$ table or $-t$ table $< -t$ table where the t statistic is $t(0.05; (225-5) = 1.971$; $-t(0.05; (225-5) = -1.971$.

Table 5. Partial Test Result

Variable	Hypothesis	Coefficient	Significance	Description
(Constant)		2,443		
ROE (%)	+	0,014	0,046	Hypothesis accepted
LDR (%)	-	-0,017	0,000	Hypothesis accepted
CAR (%)	+	0,032	0,000	Hypothesis accepted
Ln Total Assets	+	0,001	0,049	Hypothesis accepted
NPL Gross (%)	-	-0,076	0,042	Hypothesis accepted

Source: secondary processing data

Regression model is obtained:

$$PBV = 2,443 + 0,014ROE - 0,017LDR + 0,032CAR + 0,001 \text{ Firm Size} - 0,076NPL$$

g. Statistical Interpretation

The Return On Equity (ROE) variable has a T-count value of 2.003 and sig 0.046 so the value of sig < 0.05 so that there is a significant partial effect of ROE on firm value. The regression coefficient value of 0.014 illustrates that there is a positive effect, meaning that the higher the ROE value, the firm value (firm value) increases and vice versa. This coefficient describes the company's value increasing by 0.014 units for each unit increase of ROE. The Loan Deposit Ratio (LDR) variable has a t value of -5.458 and sig 0.000 so that the value of sig < 0.05 . It is concluded that there is a partial and significant effect of LDR on firm value. The regression coefficient value -0.017 illustrates that it has a negative influence, meaning that the high value of the Loan Deposit Ratio (LDR) means that the firm value decreases, and vice versa.

Variable Capital Adequacy Ratio (CAR) has a t-value of 5.303 and sig. 0.000 so that the value of sig < 0.05 , means that there is a significant partial effect of the CAR variable on firm value. The regression coefficient value of 0.032 describes a positive influence, so it means that the higher the value of the Capital Adequacy Ratio (CAR), the firm value (Firm value) increases and vice versa. The firm size variable has a t-count value of 1.983 and a significant 0.049 so the significant value is < 0.05 , meaning that there is a significant partial effect of the firm size variable on firm value. The regression coefficient value of 0.001

illustrates that it has a positive influence, namely the high value of the firm size means the high firm value and vice versa. This means that the value of the company has increased by 0.001 in each unit of increase in the size of the company (firm size). The Non-Performing Loan (NPL) variable has a t-value of -2.049 and a significant 0.042 so that it is significant <0.05 , meaning that there is a significant partial effect of the firm's NPL variable on firm value. The value of the regression coefficient -0.076 illustrates that it has a negative effect, meaning that the high value of the company's NPL means that the value of the company decreases and vice versa. This means that the value of the company decreases by 0.076 in each unit increase in NPL.

4.2 Discussion

a. The Effect of Return on Equity (ROE) on Firm Value

ROE has a significant influence on the value of a company. The ROE variable has a partially significant effect on firm value, as evidenced by the variable t value of 2.003 and significant 0.046, i.e. significant value <0.05 .

b. Effect of Loan Deposit Ratio (LDR) on Firm Value

There is a significant effect of Loan Deposit Ratio (LDR) on firm value, in terms of the LDR variable with a t value of -5.458 and a significant 0.000 so that the significant value is <0.05 , so there is a partially significant influence on the Loan Deposit Ratio (LDR) variable. to the value of the company. The regression coefficient value -0.017 illustrates that it has a negative effect, meaning that the high value of the Loan Deposit Ratio (LDR) means that the value of the company will decrease.

c. Effect of Capital Adequacy Ratio (CAR) on Firm Value

There is a significant effect of CAR on firm value, as evidenced by t count 5.303 and sig. 0.000 so the significance <0.05 means that there is a significant partial effect of the CAR variable on firm value. The regression coefficient value of 0.032 illustrates that it has a positive influence, meaning that the high value of the Capital Adequacy Ratio (CAR) means that the value of the company has increased in each unit of 0.032 increase from the Capital Adequacy Ratio (CAR).

d. Effect of Firm Size on Firm Value

There is a significant effect of Firm Size on firm value. This is evidenced by the Firm Size variable having a t-count value of 1.983 and a significant 0.049 so that the significant value is <0.05 , so there is a significant partial effect of the Firm Size variable on firm value. The regression coefficient value of 0.001 illustrates that it has a positive influence, meaning that the high value of firm size means that the firm's value has increased, and vice versa. The coefficient value means that the value of the company has increased by 0.001 units in each unit of increase in the size of the company.

e. The Influence of the Company's Non Performing Loan (NPL) on Firm Value

There is a significant effect of the company's NPL on company value. This is evidenced by the company's Non-Performing Loan (NPL) variable having a t value of -2.049 and sig 0.042 so that the value of sig <0.05 so that there is a significant partial effect of the company's NPL variable on firm value. The regression coefficient value -0.076 illustrates that it has a negative effect, meaning that the high value of the company's Non-Performing Loan (NPL) makes the company value decrease and vice versa. The coefficient value also means a decrease of 0.076 years in each unit increase from the company's Non-Performing Loan (NPL).

V. Conclusion

Based on the results of research on the effect of financial ratios in determining firm value in banking companies listed on the Indonesia Stock Exchange in 2015-2019, 5 conclusions were drawn. First, it has a significant positive effect of ROE on Firm Value, as evidenced by the variable having a t-count value of 2.003 and a significant 0.046 so that the sig value <0.05 , there is a partially significant influence of the ROE variable on firm value.

Second, there is a significant negative effect of the Loan Deposit Ratio (LDR) on firm value because the LDR variable has a t-value of -5.458 and a significant 0.000 so that the significant value is <0.05 , so there is a partially significant effect of the Loan Deposit Ratio variable (LDR) to firm value.

Third, the capital adequacy ratio has a positive and strong impact on company value because a high capital adequacy ratio makes the public and investors believe that the bank's capital capacity will increase, thereby increasing the money absorbed from the public. Based on this study, it was determined that the CAR variable had a significant effect on firm value, with a value of 5.303, a significant value of 0.000, and a significant value of <0.05 . The regression coefficient of 0.032 means that the high CAR means the high value of the company, and vice versa. Fourth, there is a significant positive effect of Firm Size on firm value, this is evidenced by the Firm Size variable having a t-count value of 1.983 and a significant 0.049 so that the sig value <0.05 , so there is a partial effect. Significant from the firm size variable to firm value. The regression coefficient value of 0.001 illustrates that it has a positive influence, meaning that the high value of firm size means that the firm's value has increased and vice versa.

Fifth, there is a significant negative effect of the company's NPL on company value, as evidenced by the company's Non-Performing Loan (NPL) variable having a t-count value of -2.049 and a significant 0.042 so that the significant value is <0.05 , so there is a partially significant influence on the company's NPL variable to the value of the company. The value of the regression coefficient -0.076 describes having a negative influence, meaning that the high value of the company's NPL means that the value of the company decreases and vice versa. Limitations or weaknesses in research are in the research data and the time span of the research. Suggestions for further research so that researchers take a longer research time span so that data accuracy is more optimal.

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