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Effect of Current Ratio, Debt to Equity Ratio, Return on Equity Ratio, and Net Profit Margin Ratio on Financial Distress Conditions in Hotel, Restaurant, and Tourism Sub-Sector Companies Listed on the Indonesia Stock Exchange for the 2017–2020 Period

Musa Panjaitan[1], Putri Naulina Br Sagala[2], Hanna Melkyana Napitupulu[3], Janfrina Paramitha Mayawi Br Tarigan T[4], Ferdinand Napitupulu[5]

[1,2,3,4,5]*Universitas Prima Indonesia, Indonesia*

ferdinandnapitupulu@unprimdn.ac.id

Abstract

The purpose of this study is to determine and analyze effect of current ratio, debt to equity ratio, return on equity ratio, and net profit margin ratio on financial distress conditions in Hotel, Restaurant, and Tourism Sub-Sector Companies listed on the Indonesia Stock Exchange for the 2017–2020 period. This research is descriptive and quantitative. The population in this study in Hotel, Restaurant, and Tourism Sub-Sector Companies listed on the Indonesia Stock Exchange for the 2017–2020 period totaling 35 companies. The number of research samples is 21 x 4 is 84 samples. The data analysis method is multiple linear regression. The results of the research using partial test (t) is that current ratio has a positive and no significant effect on financial distress conditions. Debt to equity ratio has a positive and significant effect on financial distress conditions. Return on equity ratio has a negative and significant effect on financial distress conditions. Net profit margin ratio has a positive and no significant effect on financial distress conditions. In simultaneous test (F) is current ratio, debt to equity ratio, return on equity ratio, and net profit margin ratio have a significant effect simultaneously on financial distress conditions.

Keywords

Current ratio; debt to equity ratio; return on equity ratio; net profit margin ratio; financial distress conditions

I. Introduction

Development is a systematic and continuous effort made to realize something that is aspired. Development is a change towards improvement. Changes towards improvement require the mobilization of all human resources and reason to realize what is aspired. In addition, development is also very dependent on the availability of natural resource wealth. The availability of natural resources is one of the keys to economic growth in an area. (Shah, M. et al. 2020)

Economic developments in the world have progressed rapidly in all fields and all sectors, both manufacturing companies and non-manufacturing companies. Especially in the Hotel, Restaurant, and Tourism Sub-Sector, which are part of non-manufacturing companies. Under the leadership of President Joko Widodo, Hotel, Restaurant, and Tourism Sub-Sector has received special attention from the government because its substantive contribution to the state's foreign exchange continues to increase and also increases the state budget. The contribution from this sub sector from 2017-2019, namely in 2017 it was $16.8 billion, in 2018 it was $19.29 billion, in 2019 it was $19.42 billion.

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Every year the contribution of this sub-sector always increases. However, in 2020 this sub-sector suffered the heaviest hit due to the COVID-19 epidemic which caused this sub-sector to suffer a loss of $4 billion. These three sub-sectors are interrelated with each other so that when the tourism sub-sector declines, the hotel and restaurant sub-sector also declines, judging by the number of hotels and restaurants that were forced to close. Prior to this, this sub-sector had directly experienced financial distress.

Fahmi (2017:93) explains “if a company experiences problems in liquidity, it is very possible for the company to start entering a period of financial distress or what is called financial distress. And if these conditions are not addressed quickly, this can result in business bankruptcy.” In this case, the researcher wants to predict financial distress from the point of view of current ratio, debt to equity ratio, return on equity ratio, and net profit margin ratio.

The ratio used in predicting financial distress as the company's ability and ability to finance current debts on its current assets is the definition of the current ratio. Because if this ratio is lower, it is more likely that the company will experience financial distress resulting from the company's inability to finance its short-term debt.

Another parameter in predicting financial distress is the debt to equity ratio where there is a balance between the debt owned by the company and the company's capital. The problem that occurs is that the company's total equity has increased but the amount of debt has also increased so that there is an imbalance between the amount of capital and the amount of debt that can cause the company to experience financial distress.

The company's ability to use capital to generate profits, and this ratio also plays an important role in predicting financial distress, namely the ratio of return on equity. When the company does not use its capital to generate profit, will it affect the financial position, such as the problem that occurs in a company where the amount of equity in the company will increase due to a decline in equity. The higher the company's leverage, the company tends to generate less cash, this is likely to affect the occurrence of earning management. Companies with high debt or leverage ratios tend to hold their profits and prioritize the fulfillment of debt obligations first. According to Brigham and Ehrhardt (2013), the greater the leverage of the company, it tends to pay lower dividends in order to reduce dependence on external funding. So that the greater the proportion of debt used for the capital structure of a company, the greater the number of liabilities that are likely to affect shareholder wealth because it affects the size of the dividends to be distributed. (Yanizzar, et al. 2020)

Net profit margin where this is a ratio that measures profits that compares profit after interest and taxes compared to sales. Which is also an important ratio in predicting financial distress. Because if the company has good profitability and is always increasing, investors will be more confident in investing in the company in that case the company will have a good financial condition and it is likely that the company will not experience financial distress.

Based on the table above, in the current ratio variable where one indicator is used as a phenomenon is PT. Bayu Buana Tbk, namely the total current assets of BAYU companies in 2018-2019 increased by Rp67,740,763,611, but the value of debt in 2018-2019 also increased by Rp24,312,954,684. Meanwhile, according to the theory, if the value of current assets increases, the value of debt will decrease, so that there is no financial distress condition.

In the variable debt to equity ratio where one of the indicators becomes a phenomenon is PT. Bukit Uluwatu Villa, at the BUVA company, the value of equity in 2017-2018 increased by Rp609,957,011,613, but the value of trade payables in 2017-2018 also increased by Rp212,436,541,933. Thus there is a phenomenon that occurs because the increase in the value of equity does not affect the value of trade payables. Meanwhile, according to the theory, if the value of equity increases, the value of trade payables should decrease, so that there is no financial distress condition.

In the return on equity variable where one of the indicators becomes a phenomenon is PT. Jaya Bersama Indo Tbk. In the DUCK company, the value of EAT in 2017-2018 increased by Rp45,315,009,127 but the value of accounts payable also increased by Rp88,524,696,409. Thus, there is a phenomenon that occurs because the increase in the value of EAT does not affect the value of accounts payable. Meanwhile, according to theory, if the value of EAT experiences an increase, there should be a decrease in the value of accounts payable, so there should be no financial distress.

In the variable net profit margin where one of the indicators becomes a phenomenon is PT. Sanurhasta Mitra, at the MINA company, the revenue value in 2018-2019 increased by Rp554,006,583. Thus, there is a phenomenon that occurs because the increase in income does not affect the value of trade payables. Meanwhile, according to theory, if the value of income increases, the value of the business forest should decrease, so that there is no financial distress condition.

The purpose of this study is to determine and analyze effect of current ratio, debt to equity ratio, return on equity ratio, and net profit margin ratio on financial distress conditions in Hotel, Restaurant, and Tourism Sub-Sector Companies listed on the Indonesia Stock Exchange for the 2017–2020 period.

II. Review of Literature

2.1 Effect of Current Ratio on Financial Distress Conditions

Hanafi and Halim (2016:75) explain that: "Current ratio measures a company's ability to meet its short-term debt obligations by using its current assets (assets that will turn into cash within 1 year)".

State that the current ratio has a significant effect on financial distress conditions because an increase in the current ratio value can cause the financial distress value to increase and vice versa.

2.2 Effect of Debt to Equity Ratio on Financial Distress Conditions

Harahap (2018:303) "Debt to equity ratio which describes the extent to which the company's capital can cover debts to external parties, the smaller this ratio the better". If the company's capital cannot cover its debts, the company will experience financial distress conditions.

Sudaryoo et al. (2021) state that debt to equity ratio has a significant effect on financial distress conditions.

2.3 Effect of Return on Equity on Financial Distress Conditions

Kasmir (2018:204) says that "Return on equity ratio is a ratio to measure net income after taxes with own capital". If a company cannot generate profits well, it can be ascertained that the company will have difficulty managing its finances and therefore investors are not interested in investing their capital in the company, so it is likely that the company will experience financial distress conditions.

Stated that return on equity had no significant effect on financial distress conditions. Because investors currently do not pay much attention to information on increasing return on equity ratio in making decisions to invest in a company.

2.4 Effect of Net Profit Margin Ratio on Financial Distress Conditions

Herry (2017:198) argues that "Net profit margin ratio is a ratio used to measure the percentage of net profit on net profit sales". The higher the value of this ratio, it indicates that the company's profitability is getting better so that investors are interested in investing and the company will be able to pay its debts so that the company does not have the potential to experience financial distress conditions.

The results of Nurhidayah's research (2017) show that net profit margin ratio has an effect on financial distress conditions, the greater this ratio indicates the company's performance will be better so as to create investor confidence to invest in the company.

III. Research Method

This research is descriptive and quantitative. Descriptive research where research from general to specific and the type of research used is quantitative research (Pandiangan, 2015; Pandiangan et al., 2021). Quantitative research is a type of research that produces findings that can be achieved using statistical procedures or other means of quantification (Pandiangan, 2018; Pandiangan et al., 2018).

The population is the total number consisting of objects or subjects that have certain characteristics and qualities determined by the researcher (Pandiangan et al., 2022). The population in this study in Hotel, Restaurant, and Tourism Sub-Sector Companies listed on the Indonesia Stock Exchange for the 2017–2020 period totaling 35 companies. The sample is part of the population that is taken in certain ways to be measured and its characteristics are observed (Pandiangan, 2022). The number of research samples is 21 x 4 is 84 samples.

The data analysis method is multiple linear regression. Multiple linear regression analysis was used to determine the effect between two or more independent variables with one dependent variable (Tobing et al., 2018). Multiple linear analysis used partial test (t) and simultaneous test (F).

IV. Result and Discussion

4.1 Statistics Descriptive Results

From a total of 84 samples then using data treatment so that it becomes 64 samples with the following results.

Table 1. Statistics Descriptive Results

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
CR	64	.30	16.20	2.1955	3.08287
DER	64	.02	4.07	.9585	.81679
ROE	64	-.34	.38	.0230	.11922
NPM	64	-9.91	.39	-.1324	1.25799
Finansial Ditres	64	.07	24.10	5.5374	4.97246
Valid N (listwise)	64				

Source: Research Results

The results showed that:

1. Current ratio (CR) has a total of 64 data, where the minimum value is 0.30 for PJJA companies in 2020 and the maximum value is 16.20 for MINA companies in 2019, the mean is 2.1955 and the deviation standard is 3.08287.
2. Debt to equity ratio (DER) has a total of 64 data, where the minimum value is 0.02 for the MINA Company in 2018 and the maximum value is 4.07 for the CLAY Company in 2018, the mean is 0.9585 and the deviation standard is 0.81679.
3. Return on equity ratio (ROE) has a total of 64 data, where the minimum value is -0.34 which is found in the PTSP Company in 2020 and the maximum value is 0.38 which is found in the 2017 PZZA Company, the mean is 0.0230 and the deviation standard is 0.11922.
4. Net profit margin ratio (NPM) has a total of 64 data, where the minimum value is -9.91 for NASA companies in 2020 and the maximum value is 0.39 for JGLE companies in 2019, the mean is -0.1324 and the deviation standard is 1.25799.
5. Financial distress has a total of 64 data, where the minimum value is 0.07 for the 2017 NATO Company and the maximum value is 24.10 for the 2018 CLAY Company, the mean is 5.5374 and the std deviation is 4.97246.

4.2 Partial Test (t) Results

Partial test (t) of regression coefficients partially, this test is carried out to determine the partial significance between the independent variables on the independent variables by assuming that the other independent variables are considered constant.

Table 2. Partial Test (t) Results

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	1.739	.647		2.688	.009
	CR	.028	.436	.006	.064	.949
	DER	3.856	.513	.666	7.516	.000
	ROE	-9.143	2.676	-.284	-3.417	.001
	NPM	.238	.253	.078	.942	.350

a. Dependent Variable: F.DIITRES

The results of the research using partial test (t) is that current ratio (CR) has a positive and no significant effect on financial distress conditions. Debt to equity ratio (DER) has a positive and significant effect on financial distress conditions. Return on equity ratio (ROE) has a negative and significant effect on financial distress conditions. Net profit margin ratio (NPM) has a positive and no significant effect on financial distress conditions.

4.3 Simultaneous Test (F) Results

Simultaneous test (F) is used to determine whether the independent variables simultaneously or simultaneously affect the dependent variable.

Table 3. Simultaneous Test (F) Results

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	589.656	4	147.414	22.535	.000[b]
	Residual	418.660	64	6.542		
	Total	1008.315	68			

a. Dependent Variable: F.DIITRES

b. Predictors: (Constant), NPM, CR, ROE, DER

In simultaneous test (F) is current ratio (CR), debt to equity ratio (DER), return on equity ratio (ROE), and net profit margin ratio (NPM) have a significant effect simultaneously on financial distress conditions.

V. Conclusion

The results of the research using partial test (t) is that current ratio has a positive and no significant effect on financial distress conditions. Debt to equity ratio has a positive and significant effect on financial distress conditions. Return on equity ratio has a negative and significant effect on financial distress conditions. Net profit margin ratio has a positive and no significant effect on financial distress conditions. In simultaneous test (F) is current ratio, debt to equity ratio, return on equity ratio, and net profit margin ratio have a significant effect simultaneously on financial distress conditions.

Suggestions that we can give are as follows:

1. Companies should always pay attention to financial conditions that can be seen from their current assets, debt, and equity ability to generate profits and net income so that the company will not experience financial distress.
2. For investors, before buying, selling, and investing shares in a company, they should pay attention to how the company controls its obligations.
3. Suggestions for further researchers, namely using other ratios such as return on equity ratio and adding the number of samples outside the Hotel, Restaurant, and Tourism Sub-Sector.
4. Suggestions to Universitas Prima Indonesia to add references to scientific works that can be used as research material for students.

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