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Original Article

Analysis of Current Ratio and Debt Ratio on Profitability of Retail Trade Sub-Sector Companies Listed on the Indonesian Stock Exchange for the Period 2018-2022

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Abstract

The main objective of this study is to investigate how the current ratio and debt ratio influence the profitability of retail trade sub-sector firms that are publicly listed on the Indonesian stock exchange from 2018 to 2022. The research utilises quantitative methods and correlation research, with a sample size of 22 companies and 110 annual financial reports. The data gathering process involves purposive sampling, while the analysis includes descriptive tests, classical assumption tests, multiple linear regression analysis, coefficient of determination (R^2), and hypothesis testing. According to the research findings, it is indicated that the current ratio has a certain impact on profitability with a significance value of 0.002<0.05. Additionally, the debt ratio has a partial effect on profitability with a significance value of 0.000<0.05. At the same time, both the current ratio and debt ratio collectively affect profitability with an f value of 19.271>3.12 and a significance value of 0.000. The combined influence of the current ratio and debt ratio on profitability is estimated to be 34.9%.

Keywords: Current Ratio, Debt Ratio, Profitability.

1. Introduction

Competition is becoming fiercer in today's business world within a free market economy. This is primarily a result of the growing number of companies emerging and expanding in response to the increasing demand and economic activity within the market (Damajanti et al., 2021). The authorities have offered a range of support measures to boost economic growth, including offering financial help and issuing permits for enterprises (Abimantrana & Wijayanto, 2021). Businesses require capital to maintain operations, however, accessing funds can be a common challenge for companies.

Retailers or retail trade is the last link in the distribution process, they sell goods/services directly to consumers. One of the advantages of being a retailer is having a wide market reach, not only opening stores in big cities, but also extending to the suburbs. The Indonesian retail sector significantly impacts the country's Gross Domestic Product (GDP) and provides employment to a substantial number of individuals (Gunawan, 2020). In order to run and develop their business, retail companies obtain funds from the capital market in addition to other financial institutions such as banks, cooperatives and pawnshops (Donny, 2021). The swift growth of the population in Indonesia is opening up new possibilities for retail businesses to grow their operations by engaging directly with local communities and providing a wide range of products for people to easily access their necessities (Anggraini et al., 2023).

Intense competition exists among companies in the industry due to the high number of businesses and the current economic situation.

Retail businesses act as the intermediary between producers and consumers, with a focus on managing working capital over other aspects. In Indonesia, retail companies experience an annual GDP growth rate of approximately 5%. The retail sector in Indonesia sees an annual growth rate ranging from 10% to 15%. The primary expansion in the retail industry today is seen in minimarkets and hypermarkets. Convenience stores, which fall under the minimarket category, are particularly flourishing (Olfimarta et al., 2019).

All companies aim for growth in their business operations. For a business to expand, it requires a strong management team capable of devising strategic policies to secure and optimally utilise financial resources for enhancing the company's worth (Prasetyorini, 2013). A company must determine the main strategy to obtain funds from outside and use these funds to the maximum. The global economy has evolved, giving rise to a laissez-faire market environment, prompting businesses to enhance their competitiveness. To stay ahead of the competition, each company needs to implement effective strategies in managing their operations. An essential measure of a company's success and ability to outperform its competitors is its ability to generate profits that benefit its stakeholders.

The focus is on how well a company can generate profits over a specific period of time. Profitability is crucial for the longevity of a business as it needs to remain financially stable in order to attract external funding. The absence of profit makes it challenging for a company to attract investments from external sources (Ginting, 2017). Profitability is commonly utilised to gauge the effectiveness of capital utilization in a business by contrasting the capital acquired with the company's operating profit. Key metrics for assessing profitability include Gross Profit Margin, Net Profit Margin, Return On Investment, Return On Equity, and Earnings.

In this research, profitability in a business is evaluated using Return On Equity. Return On Equity is a metric utilised to gauge the return on equity. This ratio is calculated by comparing the after-tax net profit and the company's internal capital. A history of high ROE does not guarantee high ROE in the future. However, previous ROE data can offer insights into the company's future performance. A company is considered more efficient if it has a higher ROE.

The Current Ratio serves as a metric to assess a company's capacity to settle short-term debts promptly. A high Current Ratio suggests that the company is well-equipped to fulfil its immediate financial commitments, reducing the likelihood of default. Investor trust will be boosted, encouraging investments in the company and ultimately driving up demand for its shares. Consequently, the share price will rise in tandem with the growing market interest in the company's stocks (Surenjani et al., 2023)

One of the indicators of solvency is Debt Ratio (DR), where the debt ratio (DR) is a tool used to gauge the level of reliance a company has on debt for funding its assets. This ratio reveals the extent of the company's debt in relation to its overall assets. By analysing the debt ratio, investors can assess the company's debt in comparison to its assets. Furthermore, creditors can evaluate the level of risk posed by a company. A higher ratio indicates a greater risk associated with the company's activities. Conversely, a lower debt ratio suggests cautious financing with the potential for future borrowing without significant risk. Additionally, a low debt ratio signifies that only a small portion of the company's assets are funded through debt.

Drawing on the information provided, the researchers aim to explore the impact of both the Current Ratio and Debt Ratio on the profitability of retail companies within the sub-sector listed on the Indonesia Stock Exchange from 2018 to 2022.

2. Methods

Quantitative research methods refer to research approaches grounded in the principles of positivism, focusing on studying specific populations or samples, collecting data through research tools, and analysing statistical data to test pre-established hypotheses. This form of research is typically correlational, examining the connections between various variables within a single group (Budiang et al., 2017).

This research examines two factors that are not connected and one factor that is affected by the other two. In correlation studies, researchers gather data to see if there is a link and how strong it is between different factors. This type of research is useful when trying to understand how one thing affects another. It is crucial to understand the strength of the relationship between variables so that researchers can adjust their approach accordingly to meet their goals.

3. Results and Discussion

3.1. Research Results

3.1.1. Normality Test

Discovering whether data follows a normal distribution can be achieved by assessing normality through the one sample Kolmogorov-Smirnov test on the residual equation. The test criteria indicate that if the Probability value is greater than 0.05, the data is considered to be normally distributed. Conversely, if the Probability value is less than 0.05, then the data is not deemed to be normal.

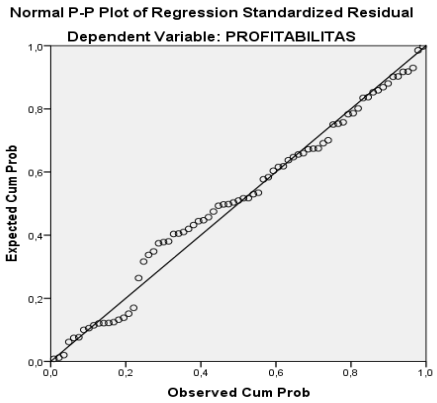

Figure 1. P-Plot Normality Test Results
Source: Statistical Data Processing with SPSS Version 22.00

According to the findings in Figure 1, the normality test results from the P-Plot Curve show that the points or data distribution align with the diagonal line. From this, we can infer that the data in this study follows a normal distribution.

Table 1. One-Sample Kolmogorov-Smirnov Normality Test Results

One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		110
Normal Parameters[a,b]	Mean	,0000000
	Std. Deviation	,80157225
Most Extreme Differences	Absolute	,336
	Positive	,336
	Negative	-,316
Test Statistic		,336
Asymp. Sig. (2-tailed)		,000[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Statistical Data Processing with SPSS Version 22.00

As per the data presented in Figure 1, the results of the normality test conducted using the P-Plot Curve indicate that the distribution of points or data is in line with the diagonal. This suggests that the data analysed in this research adheres to a normal distribution pattern. The outlier test aims to eliminate abnormal data points that display distinct characteristics and extreme values that deviate significantly from the rest of the observations. By excluding these outliers, the research sample will yield normally distributed data that is appropriate for subsequent analysis purposes.

After conducting the outlier test, it was found that the data affected by outliers was 35 data, and this amount had to be excluded from the study because it could interfere with other variables. Of the 110 data used as research samples, there are 35 data as outlier data, and must be deleted. Thus, the data used for further analysis is 75 data. After conducting tests, the outcomes of the One-Sample Kolmogorov-Smirnov test are determined following the examination of outliers, and can be viewed in the table provided.

Table 2. Normality Test Results after Outliers

One-Sample Kolmogorov-Smirnov Test

		Y	X1	X2
N		75	75	75
Normal Parameters[a,b]	Mean	,0166	1,6904	,6107
	Std. Deviation	,07051	1,10146	,24372
Most Extreme Differences	Absolute	,109	,200	,115
	Positive	,057	,200	,115
	Negative	-,109	-,138	-,107
Test Statistic		,109	,200	,115
Asymp. Sig. (2-tailed)		,027[c]	,000[c]	,015[c]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.

Source: Statistical Data Processing with SPSS Version 22.00

According to the data in Table 2, the Significant value of 0.027 is higher than the Significant value of 0.005, suggesting that the data in this research follows a normal

distribution. This leads to the acceptance of H0, indicating that the residuals exhibit normal distribution.

3.1.2. Multicollinearity Test

Identification of multicollinearity can be determined by looking at the tolerance value and variable inflation factor (VIF) as a point of reference. If the tolerance value is less than or equal to 0.10 and the VIF value is greater than or equal to 10, then it can be inferred that there is multicollinearity present in the research.

Table 3. Multicollinearity Test Results

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	,191	,032		5,932	,000		
CURRENT RATIO	-,025	,008	-,388	-3,185	,002	,610	1,640
TOTAL ASET	-,217	,035	-,749	-6,151	,000	,610	1,640

a. Dependent Variable: Y

Source: Statistical Data Processing with SPSS Version 22.00

According to the information provided in table 3, it is apparent that the Current Ratio has a tolerance value of 0.610, and the Debt to Total Asset Ratio also has a tolerance value of 0.610. The analysis shows that all Independent variables have a tolerance value exceeding 0.10 (0.610>0.10), indicating a lack of correlation among the independent variables and affirming the effectiveness of the regression model.

The VIF value for the Current Ratio is 1.640, and the VIF value for the Debt to Total Asset Ratio is also 1.640. According to the results of this calculation, all independent variables have VIF values less than 10 (1.640 <10), indicating that the regression model is effective, free of Multicollinearity, and satisfies the requirements for Data Normality.

3.1.3. Heteroscedasticity Test

This study will involve conducting a heteroscedasticity test by examining the Scatter Plots image pattern between SRESID and ZPRED. If a discernible pattern emerges, indicating a consistent arrangement of dots, then heteroscedasticity is present. On the contrary, if the dots do not show any specific pattern, heteroscedasticity is absent.

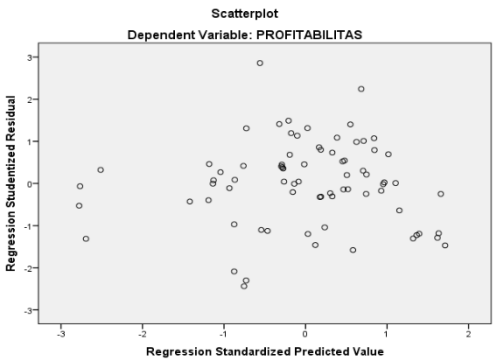

Figure 2. Heteroscedasticity Test Results

Source: Statistical Data Processing with SPSS Version 22.00

According to the diagram above, the Scatter Plot Output on the Heteroscedasticity Test reveals that the data points are evenly spread both above and below the number 0. The points do not cluster solely above or below, and there is no discernible wavy pattern that widens and narrows repeatedly. In fact, the distribution of data points appears random and without a specific pattern. Therefore, it can be inferred that there are no signs of Heteroscedasticity present in the research data.

3.1.4. Auto-colleration Test

The method for identifying autocorrelation in data is through the use of the Durbin-Watson test (DW test). This test specifically looks for first-order autocorrelation and necessitates a constant and a regression model for accurate results.

Table 4. Autocorrelation Test Results

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics					Durbin-Watson
					R Square Change	F Change	df1	df2	Sig. F Change	
1	,590[a]	,349	,331	,05769	,349	19,271	2	72	,000	1,656

a. Predictors: (Constant), TOTAL ASSETS, CURRENT RASIO
b. Dependent Variable: PROFITABILITY

Source: Statistical Data Processing with SPSS Version 22.00

The table indicates that the Durbin Watson test resulted in a value of 1.656. Since this value falls within the range of -2 to +2, it can be inferred that there is no presence of Autocorrelation in the data being analysed.

3.1.5. Multiple Linear Regression Analysis

Regression analysis is typically concerned with examining the relationship between one or more independent variables and a single dependent variable, in order to estimate or forecast the average or typical value of the dependent variable based on the known values of the independent variables. When employing multiple regression analysis, the aim is to forecast the value of the dependent variable (Y) when there are two or more independent variables (X) involved.

Tabel 5. Multiple Linear Regression Test Results

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	,191	,032		5,932	,000		
CURRENT RATIO	-,025	,008	-,388	-3,185	,002	,610	1,640
TOTAL ASSETS	-,217	,035	-,749	-6,151	,000	,610	1,640

a. Dependent Variable: PROFITABILITY

Source: Statistical Data Processing with SPSS Version 22.00

According to the information provided in table, it is clear that there is a connection between the Current Ratio (X1), Debt to Total Asset Ratio (X2), and Profitability (Y). This leads to the derivation of the multiple regression equation.

$$Y= a +\beta_1X_1 + \beta_2X_2 + e$$
$$Y= 0{,}191-0{,}025X_1-0{,}217X_2 + e$$

Description:
Y = Profitability as the dependent variable
α = Constant
β1β2 = Regression coefficient of independent variables
X1 = Current Ratio
X2 = Debt to Total Asset Ratio
E = Error term or Hypothesis error rate in research
From the results of multiple linear regression it can be concluded:

1. The constant value of 0.191 indicates that maintaining a steady Current Ratio (X1) and Debt to Total Asset Ratio (X2) would lead to a rise of 0.191 in the Company's Profitability (Y).
2. The -0.025 coefficient for variable X1 (Current Ratio) indicates a negative correlation with Y (Profitability). When X1 (Current Ratio) increases by 1% while other factors remain constant, Y (Profitability) is expected to decrease by 2.5%.

The X2 variable (Debt to Total Asset Ratio) has a coefficient value of -0.217 (-2.17%), indicating an inverse correlation with Y (Profitability). If there is an increase in X2 (Debt to Total Asset Ratio) up by 1% with the assumption that other variables are constant, it will cause Y (Profitability) to decrease by 2.17%.

3.1.6. Coefficient of Determination (R^2)

Table 6. Determination Coefficient Test Results (R^2)

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,590[a]	,349	,331	,05769

a. Predictors: (Constant), TOTAL ASET, CURRENT RASIO
b. Dependent Variable: PROFITABILITY
Source: Statistical Data Processing with SPSS Version 22.00

The data in the table indicates that R Square equals 0.349 or 34.9%. This suggests that the factors of Current Ratio and Debt to Total Asset Ratio account for 34.9% of the total influence, with the remaining 65.1% being impacted by variables like Company Size and Financial Performance.

3.1.7. Hypothesis Test

A. Partial Hypothesis Testing (t test)

Table 7. Partial Test Results (t Test)

Coefficients[a]

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	,191	,032		5,932	,000
CURRENT RATIO	-,025	,008	-,388	-3,185	,002
TOTAL ASET	-,217	,035	-,749	-6,151	,000

a. Dependent Variable: PROFITABILITY

Source: Statistical Data Processing with SPSS Version 22.00

According to the table and an α value of 0.05, it is evident that the t value for X1 is 0.002 < 0.05, suggesting that the initial hypothesis H1 can be accepted, indicating that the Current Ratio does have an impact on profitability (Y). Similarly, the t value for X2 is 0.000 < 0.05, leading to the acceptance of the second hypothesis H2, suggesting that the Debt to Total Asset Ratio also has an effect on profitability (Y).

B. Simultaneous Hypothesis Testing (Test f)

Table 8. Simultaneous Regression Coefficient Results (Test f)

ANOVA[a]

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	,128	2	,064	19,271	,000[b]
	Residual	,240	72	,003		
	Total	,368	74			

a. Dependent Variable: PROFITABILITY

b. Predictors: (Constant), TOTAL ASET, CURRENT RASIO

Source: Statistical Data Processing with SPSS Version 22.00

The table indicates that the significance level for the value of f table at 0.05 is 0.000. It is evident that the f count value is 19.271, which is greater than the significant value of 3.12 at 0.000 < 0.05. The analysis of the test results leads to the conclusion that both the Current Ratio (X1) and Debt to Total Asset Ratio (X2) have a joint and significant impact on Profitability (Y).

3.2. Discussion

The outcomes of the data analysis indicate that the effects of the independent variable on the dependent variable are as follows:

3.2.1. Effect of Current Ratio on Profitability

The initial hypothesis testing revealed that the Current Ratio's p-value is 0.002, which is less than 0.05. Furthermore, the Fcount value is 19.271, exceeding 3.12. Therefore, it can be concluded that the first hypothesis H1 is valid, indicating that the Current Ratio positively and

significantly impacts the Profitability (Y) of retail trade sub-sector firms listed on the Indonesia Stock Exchange between 2018 and 2022.

3.2.2. Effect of Debt To Total Assets on Profitability

The findings from testing the second hypothesis regarding the Debt To Total Asset Ratio showed a significant value of 0.000, which is less than 0.05. Additionally, the Fcount value was found to be 19.271, exceeding the threshold of 3.12. Therefore, we can infer that the second hypothesis H_2 is valid, indicating that the Debt To Total Asset Ratio positively and significantly impacts the Profitability (Y) of retail trade sub-sector firms listed on the Indonesia Stock Exchange from 2018 to 2022.

3.2.3. The Effect of Company Size and Asset Turnover on Capital Structure

In light of the findings from the third hypothesis (H_3), it is evident that the third hypothesis (H_3) has been validated, indicating a joint impact of Current Ratio (X_1) and Debt To Total Asset Ratio (X_2) on Profitability (Y). This can be supported by the calculated f value of 19.271 which surpasses 3.12, with a significant value of 0.000 less than 00.05. Therefore, it can be deduced that Current Ratio (X_1) and Debt To Total Asset Ratio (X_2) collectively influence Profitability (Y) in retail trade sub-sector businesses that are publicly traded on the Indonesia Stock Exchange between 2018 and 2022.

4. Conclusion

The results of this research suggest that the Current Ratio and Debt to Total Assets Ratio play a crucial role in enhancing the profitability of retail trade sub-sector firms listed on the Indonesia Stock Exchange from 2018 to 2022. These variables have shown to positively influence the financial performance of the companies in this sector (Current Ratio: 0.002 and Debt to Total Assets Ratio: 0.000) are below the 0.05 threshold, and the F-count values (19.271) exceed the critical value (3.12), leading to the acceptance of the first two hypotheses. Furthermore, the combined impact of the Current Ratio and Debt to Total Assets Ratio on profit has been validated by the resulting F-value and its statistical significance. This suggests that liquidity and financial leverage are crucial determinants of profitability for companies in this sector, and understanding their dynamics can help improve financial performance.

For future researchers, it is recommended to explore additional financial ratios and their impact on profitability to gain a more comprehensive understanding of the factors influencing financial performance in retail trade companies. Moreover, further studies could examine the influence of external factors such as market conditions and economic trends, which might also affect the relationship between financial variables and profitability. For companies in the retail trade sub-sector, it is suggested to maintain a balanced approach in managing liquidity and leverage. Companies should focus on improving their Current Ratio to ensure sufficient short-term assets to cover liabilities while carefully managing their debt levels to avoid excessive leverage, which may harm profitability. These actions will help to ensure long-term financial stability and success.

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