

The Effect of Solvency, Profitability, and Working Capital on Firm Value: Case Studies on Industrial Companies in IDX 2015-2019

Andini Nurwulandari

Universitas Nasional, Jakarta, Indonesia

Email: andinmanajemen@gmail.com

Abstract

The publication of the financial statements (issuers) of the company is a time waiting for investors in the capital market, as investors will find out the progress of issuance, as a consideration for purchasing or selling their own shares, when publishing these financial reporting statements. This research uses quantitative techniques with descriptive interpretation. Data sources include company-owned financial data reports collected from the IDX and published online, as well as conducting library analysis by collecting data from the writing of related books and journals. The type of data used in the study is secondary data from 2015-2019 which was collected through a purposive sampling process. Statistical Descriptive Analysis and Multicollinearity Test. From this research, it can be seen that the rate of working capital turnover, solvency and capital structure affect firm value, while profitability does not affect firm value.

Keywords: *Solvency, Profitability, Working Capital, Firm Value, Influence.*



A. INTRODUCTION

One of the information that investors need is information on financial statements or annual financial reports. At least once a year, a public company is obliged to issue an annual financial report to investors on the stock exchange (Bisman, Jaenuri & Kusworo, 2019) For investors, annual financial reports are a source of various kinds of information, especially company balance sheets and income statements (Adnyana & Nurwuandari, 2020). Past studies have therefore demonstrated the importance of the annual statements of the company as a source of investment (Eri & Riyan, 2020).

There are in general two approaches, namely fundamental analysis and technical analysis, often used by investors to analyze and value stock on the capital market. The economic analysis is a fundamental analysis, the conditions of industry and of the business to consider the company's value. The fundamental analysis focuses on key data for determining whether stock prices have been accurately assessed in the Company's financial statement (Kaddumi & Ramadhan, 2012). The main aim of the analysis is to determine whether the stock value is lower or too high. The stock price in the stock market is said to be underpriced is less than the fair price or the value it should be (intrinsic value), and a stock is said to be overpriced if the share price in the stock market is greater than its intrinsic value (Khidmat & rehman, 2014).

Profitability assessment is an assessment of the condition of a bank's ability to generate earnings to support operations and capital (Noer, Saribanon & Nurwulandari, 2017). Rentability (earnings) not only shows the quantity and trend of earnings, but also the factors that affect the availability and quality of earnings (Maarif, Sarjono & Utami, 2020). The profitability ratio of a company shows the comparison between the profits obtained by the company with the assets or capital needed to generate these profits (Mohamad & Saad, 2010). Profitability means that the company can generate profit over a certain period using the aggregated assets or capital used in the operations of the company (Mawaddah & Nurwulandari, 2019).

The ability for the company to make profits during a given period can be measured with a view to the success of the company and to the productivity of its assets (Padachi, 2006). Working capital must therefore be effectively and productive as one of the most important components of assets to increase profitability of the company (Nurwulandari & Darwin, 2020).

Working capital is the company's total existing assets or can also be used as funds to fund the daily operation of the company (Panigrahi, 2014). Or it can also be seen from another definition, Total value of the investments of the Company into short-term assets, such as cash, accounts receivable, advance payments or the total value of the investment of the Company in current assets is the working capital of the Company, less current liabilities (net working capital) (Chrispina, Ponisan, Tago & Mkiibi, 2014). current assets that represent an investment in the execution of a business or working capital that rotates from one form to another, are cash / bank, cashable securities (for example demand deposits, checks, deposits), accounts receivable and inventories. turnover rate does not exceed one year or the period of normal operation of the company (Prabowo & Yolanda, 2020).

The solvency measure itself is often used to measure the efficiency of a company's use of capital by comparing profits and capital in operations (Singh & Pandey, 2008). The policy on the capital structure of the company is one of the factors that affect the increase in firm value. The capital structure of the company is a combination of the company's long-term funds (Putri & Nurwulandari, 2020).

The solvency ratio in this study is measured in a ratio scale, namely the Debt to Equity Ratio (DER). The greater the DER indicates that the capital structure uses more debt than its own capital (Singh & Asress, 2011). Financing with debt has 3 important implications (1) obtaining funds through debt allows shareholders to maintain control over companies with limited investment, (2) creditors view equity, or funds paid by owners, to provide a safety margin, so that if shareholders only giving a small part of the total financing, so the company risk is mostly on the creditors; (3) If the company obtains a higher loan funded investment return than interest payments, the return on the owner's capital will be higher. If the return on a borrowed investment compares to the interest, the return on the capital of the owner will be lower (Wilis & Nurwulandari, 2020).

In addition, the scale of the company is also a factor that affects the company's profitability. Company scale shows the total assets owned by the company. A company that is large-scale and its shares are widespread, usually has its own strength in dealing with business problems and the company's ability to generate higher profits because its business or business is supported by large assets so that company constraints such as adequate equipment and so on can be overcome.

B. METHOD

This research uses quantitative techniques with descriptive interpretation. Data sources include company-owned financial data reports collected from the IDX and published online, as well as conducting library analysis by collecting data from the writing of related books and journals. The type of data used in the study is secondary data from 2015 to 2019 which was collected through a purposive sampling process. Statistical Descriptive Analysis and Multicollinearity Test.

C. RESULT AND DISCUSSION

1. Sample Company Background

Table 1 Research Sample Companies

Code	Company Name
ADES	Akhsa Wira International
AISA	Tiga Pilar Sejahtera Food
CEKA	Cahaya Kalbar
DLTA	Delta Djakarta
ISMA	Indofood Sukses Makmur
MBIN	Multi Bintang Indonesia
MAYI	Mayora Indah
SELA	Sekar Laut
SITO	Siantar Top
BIPP	Bhuwanatala Indah Permai
BKSL	Sentul City
CTRA	Ciputra development
DART	Duta Anggada Reality
DILD	Intiland Development
DUTI	Duta Pertiwi
ELTY	BakrieLand Development
LPCK	Lippo Cikarang
LPKR	Lippo Karawaci

Source: Processed Data

2. Solvability

The following is the formula when applying the solvency ratio: Debt ratio = total debt/assets $\times$ 100% Debt/equity ratio = total amount of debt/equity (equity) $\times$ 100% the time ratio earned is = before taxes earnings and before taxes costs $\times$ 100%. Table 2 below gives the results of the research calculation:

Table 2 Descriptive Statistics for Firm Solvency

	N	Minimum	Maximum	Mean	Std. Deviation
2015	10	.2768	2.7134	1.358041	.7861256
2016	10	.3455	2.6651	1.360988	.6661089
2017	10	.2783	8.5414	1.694997	2.3251908
2018	10	.1443	2.3827	1.171454	.7060945
2019	10	.2252	1.7321	.972506	.4316227
Valid N (listwise)	10				

Source: processed data

From the results of the processed data in table 2 above, it can be concluded that the largest average Solvency in the Food and Beverage Industry is seen in 2017, which is 1.694997. The average conditions for the sample companies' total debt to shares were, therefore, the best in 2017, whereas the standard default value in 2017 was 2,325,1908. In 2017, solvency for the most varied by a value of 8.5414 in all sample firms, and the lowest was 0.2783. This condition also indicates that the sample companies' solvency status fluctuates where the maximum company's total debt-to-equity distance is compared with the company's distance which has a minimum ratio of full debt-to-equity.

3. Rentability

In general, the profitability ratio can be calculated by comparing the profits generated with the business capital issued. The profitability ratio can be used to measure when making a decision about the problem of meeting the company's financial needs. Table 3 below shows the results of the research calculation:

Table 3 Descriptive Statistics for Company Profitability

	N	Minimum	Maximum	Mean	Std. Deviation
2015	11	-231.7568	41.6884	-12.968350	74.6756593
2016	11	-28.3046	65.5807	13.864405	23.1668144
2017	11	5.2331	343.5964	45.338438	93.8784730
2018	11	4.1869	94.9934	23.673399	26.0731180
2019	11	4.9641	96.6941	23.090268	26.4661771
Valid N	11				

Source: processed data

From the processed data in table 3 above, it can be concluded that the largest average Profitability in the Food and Beverage Industry was seen in 2017, which was 45.338438. This means that in 2017 the condition of the average net profit (EAT) to total own capital in the sample companies looked the best, while the largest standard deviation value occurred in 2017 with a standard deviation of 93.8784730. This means that in 2017 the rentability of all sample companies varied the most with a value of 343.5964 and the smallest was 5.2331. This condition also shows that the condition of the sample companies fluctuates in terms of the distance between companies that have a maximum ratio of net income (EAT) to total equity when compared to the distance in companies that have a minimum ratio of net income (EAT) to total equity.

4. Working Capital

The current ratio, that is, current assets, is calculated by dividing the current liabilities. A ratio higher than 1 means that the present assets are higher and higher the ratio is better. The results of the research calculations are presented in Table 4 below:

Table 4 Descriptive Statistics for the Company's Industrial Working Capital

	N	Minimum	Maximum	Mean	Std. Deviation
2015	11	-2860.56	893.71	-12.0862	1054.13075
2016	11	-3658.85	1254.53	-156.5524	1599.38204
2017	11	-565.96	2066.35	533.6202	656.53522
2018	11	-5246.47	1259.89	-38.2627	1738.41665
2019	11	-48580.71	9749.43	-3097.9083	15409.92042
Valid N (listwise)	11				

Source: Processed data

From the data in Table 4, it can be concluded that the average working capital was shown in 2017 in the largest companies, which was 533.6202. This means that in 2017 the condition of the average sales of current assets minus current debt in the sample companies looked the best, while the largest standard deviation value occurred in 2019 with a standard deviation of 15409,92042. This means that in 2019 the working capital of all sample companies varied the most with a value of 9749.43 and the smallest was -48580.71. This condition also shows that the working capital condition of the sample company fluctuates, where the distance in the company that has a ratio of sales to total current assets minus maximum current debt is compared to the distance in a company that has a ratio of sales to current assets minus minimal current debt.

5. The Value Of The Company

Compact value can be measured by using a ratio known as the valuation ratio. Appraisal ratio is a performance evaluation ratio of the shares of companies traded on the capital market (go public). Table 5 below shows the results of the research calculations:

Table 5 Descriptive Statistics for Value of Industrial Firms

	N	Minimum	Maximum	Mean	Std. Deviation
2015	10	15.710	4172.672	827.43510	1273.282298
2016	10	16.726	4702.486	882.18648	1406.884258
2017	10	18.960	9574.441	1492.92862	2843.379093
2018	10	18.670	18750.581	3088.67808	5703.447649
2019	10	38.246	30495.383	4675.06903	9156.756446
Valid N (listwise)	10				

Source: Processed data

From the processed data in table 5 above, it can be concluded that the largest average Company Value in the Food and Beverage Industry is seen in 2019, amounting to 4675.06903. This means that the average market value to book value for the sample enterprises is best achieved in 2019, while the largest standard deviation value is 9156.756446 in 2019. This means that in 2019 the Firm Value of all sample companies varied the most with a value of 30495,383 and the smallest was 38,246. This condition also shows that the condition of the sample firm's value fluctuates, where the distance within an enterprise with a maximum market value to a book value relative to distance in an enterprise has a minimum book value-to-market ratio.

6. Descriptive statistics

Table 6 shows all variables in this study with descriptive statistics. The distribution of data from the studied sample is known through descriptive analyzes, and the relation between variables is determined through correlation analysis.

Table 6 Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
The value of the company	110	15.00	30495.37	1215.2740	3585.43453
Solvability	110	.08	8.54	1.2730	1.21916
Rentability	110	-240.86	343.70	10.2601	38.84076
Working capital	110	-48580.80	9749.43	-254.9695	4589.35735
Valid N (listwise)	110				

Source: Processed data

The table shows the samples used in the regression analysis. The sample as a whole is 110. Solvency, profitability and equity are the company's values. It is known from the table above that 110 data from financial reports and list of sample stock prices of companies in 2015-2019 were analyzed.

Liquidity is used to determine the ability of a company to fulfill its short-term obligations. During the period of surveying (2015-2019), the average solvency value was 40.1627%. Looking at 40.1617 percent of the average liquidity, the average company can fulfill its 40.1627 percent short-term obligations. The solvency measure is the average of 1.2630 times the total debt to the total assets.

7. Multicollinearity Test

The multi-channel test is done to determine if an intercorrelation or collinearity between independent variables is presented in a regression model.

Table 7 Coefficients Multikolinieritas

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Rentability	.735	1.389
	Solvability	.758	1.347
	Working Capital	.954	1.069
	Dummy	.384	2.680

- a. Dependent Variable: The value of the company
Source: Data processed from Eviews.

Table 7 shows the multi-linearity of the various variables, which have changed over the 0.8 range to support the multi-linear model and had a positive impact on firms in 2019 as a result of the 2017 sampling.

D. CONCLUSION

The results of the data analysis concluded that, for statistical testing to be conducted in the form of Multicollinearity Test, the data in this study fulfilled the normal assumption of normality. Data testing find that the rate of working capital turnover, solvency, and capital structure impacts the value of the company, whereas profitability does not affect the value of the company.

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