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## Analysis of The Effect of Financial Ratios On Profit Growth In Real Estate Companies Listed On The Indonesian Stock Exchage

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**ABSTRACT**

This study aims to examine the effect of financial ratios on the profit growth of property companies. The ratios used in this study include the Current Ratio (CR) as an indicator of liquidity, fixed asset turnover as an indicator of activity, Return on Assets (ROA) as an indicator of profitability, and Debt to Asset Ratio (DAR) as an indicator of solvency. The research was conducted using a quantitative approach with data from annual financial reports of several property companies over a specific period. The analysis results indicate that CR does not have a significant effect on profit growth, suggesting that a company's liquidity level does not directly drive profit increases. Fixed asset turnover also does not have a significant effect on profit growth, as fixed assets are not always optimally utilized to increase company profits. Meanwhile, ROA has been proven to have a positive and significant effect on profit growth, indicating that the higher a company's effectiveness in utilizing its assets, the greater the potential for profit growth. Conversely, DAR does not show a significant effect on profit growth, indicating that the debt-to-asset ratio is not the primary determinant of profit growth for the company. These findings are expected to contribute to managerial decision-making and investment considerations in the property sector.

***Keywords: Current Ratio; Debt to Asset Ratio ; Fixed Asset Turnover; Profit Growth ; Return on Assets.***

## 1. INTRODUCTION

Domestic Investment (PMDN) and Foreign Investment (PMA) in the property sector showed a positive trend throughout the first quarter of 2023. The recorded investment value reached Rp36.14 trillion, an increase of 12% compared to the same period last year, which stood at Rp32.15 trillion. This surge indicates that the property sector remains a favorite among investors, particularly in high-demand subsectors such as residential, industrial areas, offices, hotels, and restaurants. Demand in these sectors continues to grow in line with public needs and the increasingly stable national economy post-pandemic.

As the political year or election year approaches, industry observers and players remain optimistic about the sector's growth potential. Since the first post-reform election in 2004, it has been proven that the property sector and political climate do not directly influence each other or have experienced a decoupling phenomenon. This means that despite political dynamics, the property sector still has growth opportunities. In fact, election years often present a favorable opportunity to purchase property, as there is a tendency for property prices to rise after the election period concludes. This phenomenon is supported by expectations of new post-election policies that typically stimulate economic activity, including the real estate sector.

The current state of the Indonesian property market also shows a shift in consumer characteristics. Around 60% of property buyers today are end-users, meaning buyers who purchase for their own needs rather than for speculation or investment purposes alone. This market characteristic creates stability and sustainability in the property sector. This type of consumer places greater emphasis on long-term housing needs rather than short-term market fluctuations. Therefore, the presence of end-users is the primary driver in maintaining the resilience of the property industry amid economic and political uncertainty.

The growth and competitiveness of the property sector are driving companies to compete to improve performance in order to achieve maximum profits. One of the key components in achieving this goal is through the implementation of effective marketing strategies. These strategies encompass various important aspects, from selecting strategic locations, determining high selling prices, to financial policies that are not overly reliant on debt financing. As a result, companies can optimize profitability sustainably. However, high profits are not necessarily the sole indicator of success, as this must be assessed comprehensively through financial statement analysis and relevant financial ratios.

A company's profit can be defined as the difference between sales revenue and total operating costs. According to Wardiyah (2017:256), profit is the gain obtained from product sales after deducting the company's operating expenses. In the context of a company, success in achieving profit is a key indicator of performance, which ultimately reflects the company's financial position in the eyes of investors and creditors. Therefore, good financial performance is essential to maintain the trust of stakeholders, including investors who will invest their capital in the company.

Financial statements play a crucial role as a measuring tool in evaluating company performance. The information presented in financial statements covers various aspects, from cash flow, profit margins, to asset and liability positions. This evaluation serves as the basis for managerial decision-making, both by internal parties such as management and the board of directors, as well as external parties such as investors, financial institutions, and the government. The accuracy and transparency of information in financial statements are vital for maintaining the company's credibility in the eyes of the public.

Financial ratio analysis is one of the methods used to assess a company's financial condition in greater depth. Halim (2016:74) explains that financial ratio analysis is compiled by combining data from income statements and balance sheets, thereby producing indicators that describe a company's efficiency, liquidity, profitability, and solvency. Through this approach, decision-makers can obtain a more comprehensive picture of the company's financial strengths and weaknesses and establish strategies for future improvement.

Previous studies have shown mixed results regarding the relationship between financial ratios and profit growth. For example, research conducted by Nava Yansi Anggraeni (2022) shows that the Current Ratio (CR) has no effect on a company's profit growth. This indicates that high liquidity does not necessarily correlate with increased profits. Conversely, research by Febriyanto and Gusman (2021) states that CR has a significant and positive effect on profit growth. These differing results open up opportunities for further research to clarify this relationship in different contexts and periods.

This study aims to re-examine the relationship between various financial ratios and company profit growth. In this study, four types of financial ratios are used, namely: (1) liquidity ratio proxied by Current Ratio (CR), (2) activity ratio proxied by fixed asset turnover, (3) profitability ratios proxied by Return on Assets (ROA), and (4) solvency ratios proxied by Debt to Asset Ratio (DAR). This study also increases the number of company samples and expands the period of financial statements analyzed, with the aim of providing a more comprehensive and accurate picture of the relationship between these financial ratios and profit growth.

The Signaling Theory proposed by Ross (1977) explains that information in financial statements can signal the condition and prospects of a company to external parties. If financial statements show good performance, then the company is considered to be sending a positive signal that management is running the business effectively. Therefore, management has a responsibility to prepare and communicate financial statements that are informative and relevant to stakeholders.

Financial statements, as explained by the Indonesian Institute of Accountants (2012:5), are a structure that presents the financial position and performance of an entity. These reports are very important for assessing the financial development and stability of a company. However, to gain a comprehensive understanding, financial statements need to be analyzed in greater depth. Dennis (in Arfi, 2016) states that financial statement analysis is the best method for understanding the overall financial condition of a company. One of the most commonly used methods in this analysis is financial ratios.

Financial ratios are divided into several categories, including liquidity, activity, profitability, and solvency ratios. Liquidity ratios measure a company's ability to meet its short-term obligations. According to Fahmi (2020:59), one of the indicators used is the Current Ratio (CR), which reflects the ability of a company's current assets to cover its current liabilities. Based on signaling theory, a good liquidity level can send a positive signal about a company's financial condition. Previous studies, such as Mahaputra (2012), Abidin and Asyik (2013), and Irawan (2015), show that CR has a significant effect on profit growth. Therefore, the hypothesis proposed is:

*H1: Current Ratio (CR) has a significant effect on profit growth.*

Furthermore, activity ratios are used to measure a company's efficiency in using its assets. Kasmir (2017:172) states that activity ratios help show how effectively a company utilizes its resources. One indicator is fixed asset turnover. In the context of signaling theory, high efficiency in the use of fixed assets sends a positive signal to investors regarding the company's ability to generate income from its assets. Muhammad Fakhri Gurning (2019) found that fixed asset turnover has a positive and significant effect on profit growth. Based on this, the second hypothesis is proposed as follows:

*H2: Fixed asset turnover has a significant effect on profit growth.*

Profitability ratios are ratios that indicate a company's ability to generate profits. One indicator that is often used is Return on Assets (ROA), which measures a company's effectiveness in using its total assets to earn profits. Kasmir (2017:196) states that ROA is the main indicator for assessing operational efficiency. Within the signaling theory framework, a high ROA signals that a company is capable of managing its resources optimally to generate profits. Research conducted by Rachmawati et al. (2020), Marcel et al. (2020), and Purwitasari (2020) shows that ROA has a positive and significant effect on profit growth. Therefore, the following hypothesis is proposed:

*H3: Return on Assets (ROA) has a significant effect on profit growth.*

Meanwhile, the solvency ratio measures the extent to which a company's assets are financed by debt. Harjito (2014:59) states that the Debt to Asset Ratio (DAR) is an important indicator for assessing a company's leverage level. If the DAR value is low, the company is considered to have low dependence on debt, thus providing a signal of financial health. Based on research by Fitriah and Suprihadi (2019), Rachmad (2020), Marcel et al. (2020), and Purwitasari (2020), it is known that DAR has a positive and significant effect on profit growth. Therefore, the final hypothesis in this study is:

*H4: Debt to Asset Ratio (DAR) has a significant effect on profit growth.*

## 2. RESEARCH METHOD

This study uses a quantitative approach, where the data analyzed consists of figures sourced from company financial reports. The type of data used is secondary data obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id). Quantitative research was chosen because it is able to provide an objective and measurable picture of the relationship between variables in companies in the property and real estate sector listed on the IDX.

The sampling method used in this study employs purposive sampling, which is a method of selecting samples based on specific criteria deemed relevant to the research objectives. The criteria used to determine the sample are as follows: (1) companies classified in the property and real estate sub-sector and listed on the Indonesia Stock Exchange, (2) companies that prepare financial statements in Indonesian Rupiah, and (3) companies that consistently publish financial statements during the 2019–2022 period. Considering these criteria, a number of companies were identified as suitable for the study.

Data collection was carried out using documentation techniques, namely by accessing and recording secondary data published by companies through the Indonesia Stock Exchange. The data collected included annual financial reports containing information on assets, liabilities, net income, and other financial data needed to calculate the research variables.

The variables used in this study consist of independent (free) variables and dependent (bound) variables. The independent variables consist of four types of financial ratios, namely Current Ratio (CR), Fixed Asset Turnover, Return on Assets (ROA), and Debt to Asset Ratio (DAR).

First, the Current Ratio (X1) is a liquidity ratio that measures a company's ability to cover its short-term liabilities with its current assets. According to Suhendro (2017:2023), CR can be calculated using the formula:

**CR = (Current Assets / Current Liabilities) × 100%**

Second, Fixed Asset Turnover (X2) is an activity ratio used to assess how efficiently a company utilizes fixed assets to generate sales. According to Kasmir (2019:186), the formula used is:

**Fixed Asset Turnover = Sales / Fixed Assets**

Third, Return on Assets (ROA) (X3) is a profitability ratio that measures a company's effectiveness in generating net income from its total assets. According to Hanafi and Halim (in Putri Hidayatul, 2016:3), ROA is calculated as follows:

**ROA = (Net Income / Total Assets) × 100%**

Fourth, Debt to Asset Ratio (DAR) (X4) is a solvency ratio that measures the proportion of a company's assets financed by debt. According to Kasmir (2019:158), DAR is calculated using the following formula:

**DAR = (Total Debt / Total Assets)**

The dependent variable in this study is profit growth (Y). Profit growth reflects a company's ability to increase its net profit from the previous year. The indicator used is net profit after tax as recorded in the financial statements of companies in the property and real estate sub-sector for the period 2020 to 2022. The formula for calculating profit growth is:

**PL = (Net Profit in year t – Net Profit in year t–1) / Net Profit in year t–1 × 100%**

To analyze the relationship between the independent and dependent variables, multiple linear regression analysis was used with the assistance of SPSS Statistics software version 26. Before conducting the regression analysis, classical assumption tests were first performed, including normality tests, multicollinearity tests, heteroscedasticity tests, and autocorrelation tests. All variables were calculated based on their respective formulas, and the results were used to test the regression model and draw conclusions regarding the influence of financial ratios on profit growth.

## 3. RESULTS AND DISCUSSION

**Table 1 Hypothesis testing results**

Coefficients[a]

| Model | | Unstandardized Coefficients B | Unstandardized Coefficients Std. Error | Standardized Coefficients Beta | t | Sig. | Collinearity Statistics Tolerance | Collinearity Statistics VIF |
|---|---|---|---|---|---|---|---|---|
| 1 | (Constant) | -2,435 | 4,442 | | -,548 | ,587 | | |
| | CR | -,878 | ,646 | -,189 | -1,360 | ,183 | ,955 | 1,048 |
| | AKTIVA TETAP | ,694 | 15,711 | ,006 | ,044 | ,965 | ,893 | 1,120 |
| | ROA | 214,241 | 50,078 | ,611 | 4,278 | ,000 | ,907 | 1,103 |
| | DAR | -,006 | ,029 | -,031 | -,222 | ,826 | ,945 | 1,058 |

a. Dependent Variable: PERTUMBUHAN LABA

Source : Output SPSS

Based on the results of data processing in Table 1, it is known that there are differences in the effects of each independent variable on the dependent variable, namely profit growth. The interpretation of these results can be explained through the following discussion:

***The Effect of Current Ratio (CR) on Profit Growth***

The t-test results show that Current Ratio (CR) has a negative and insignificant effect on profit growth. This is indicated by a significance value of 0.183 (> 0.05) and a negative beta coefficient value. This finding indicates that a company's liquidity, although it shows the ability to meet short-term obligations, does not directly impact profit growth. In other words, even though a company has sufficient current assets, these assets are only enough to cover current liabilities and are not productive enough to support significant profit growth.

These results align with research conducted by Nava Yansi Anggraeni (2022), who stated that the Current Ratio does not significantly influence profit growth. Thus, liquidity ratios are not always the primary determinant of a company's profitability, particularly in the real estate sector.

***The Effect of Fixed Asset Turnover on Profit Growth***

The t-test for the fixed asset turnover variable shows a significance value of 0.965 (> 0.05), which means that it does not have a significant effect on profit growth. Although the beta coefficient is positive, it is not strong enough to indicate a statistically significant relationship. This shows that the efficient use of fixed assets does not necessarily result in higher profit growth.

This may occur because fixed asset turnover does not always reflect direct profitability, considering that fixed assets such as buildings or land in property companies are more long-term in nature and do not necessarily generate income in a single accounting period. This finding is not in line with the research by Muhammad Fakhri Gurning (2019), which states that fixed asset turnover has a positive and significant effect on profit growth.

***The Effect of Return on Assets (ROA) on Profit Growth***

The analysis results show that Return on Assets (ROA) has a positive and significant effect on profit growth, with a significance value of 0.000 (< 0.05) and a positive beta value. This indicates that the higher the company's effectiveness in utilizing its assets to generate profits, the greater the profit growth obtained.

ROA reflects a company's ability to manage its total assets to generate net profit. The higher the ROA, the more efficient the company is in utilizing its available resources. Therefore, ROA is an important indicator in assessing the success of financial management. These results are consistent with the findings of Rachmawati et al. (2020), Marcel et al. (2020), and Purwitasari (2020), who concluded that ROA has a positive and significant effect on profit growth.

***The Effect of Debt to Asset Ratio (DAR) on Profit Growth***

Based on the t-test, the Debt to Asset Ratio (DAR) variable has a negative and insignificant effect on profit growth, as indicated by a significance value of 0.826 (> 0.05) and a negative beta value. This indicates that a high proportion of debt relative to a company's assets does not directly impact profit growth and may even act as a burden hindering profit growth, especially if the debt is not used productively.

The results of this study contradict the findings of previous studies by Fitriah and Suprihadi (2019), Rachmad (2020), Marcel et al. (2020), and Purwitasari (2020), which stated that DAR has a positive and significant effect on profit growth. This difference in results may be due to the characteristics of property companies, which tend to use long-term financing and do not directly reflect annual profit performance.

## 4. CONCLUSION

Based on the results of research conducted on property and real estate sub-sector companies listed on the Indonesia Stock Exchange (IDX) for the period 2020–2022, it can be concluded that of the four independent variables analyzed, only Return on Assets (ROA) has a positive and significant effect on profit growth. This indicates that a company's overall effectiveness in managing its assets is a key factor in increasing net profit. Meanwhile, the Current Ratio (CR) variable shows a negative and insignificant influence, indicating that high liquidity does not always correlate with profit growth, as current assets are typically used to cover short-term liabilities. Fixed asset turnover also does not show a significant effect on profit growth, as fixed assets are long-term in nature and may not generate direct income within a single period. Similarly, the Debt to Asset Ratio (DAR) shows a negative and insignificant effect, indicating that debt-based financing structures do not directly contribute to a company's profit growth.

Based on these results, it is recommended that company management focus more on improving asset utilization efficiency in order to generate optimal profits. For investors, ROA can be used as a key indicator in assessing a company's profit prospects, while other ratios such as CR, fixed asset turnover, and DAR need to be considered carefully as they do not have a significant impact on profit growth. For future researchers, it is recommended to expand the scope of the study by increasing the time period, sample size, and considering additional variables such as operational efficiency or company size to obtain more comprehensive and relevant results in explaining the factors influencing profit growth.

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