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THE EFFECT OF PROFITABILITY RATIOS AND CAPITAL STRUCTURE ON FIRM VALUE IN INDUSTRIAL SECTOR MANUFACTURING COMPANIES LISTED ON THE INDONESIA STOCK EXCHANGE

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Abstract

This study aims to analyze the effect of profitability and capital structure on the value of manufacturing companies in the pharmaceutical industry sector which are listed on the Indonesia Stock Exchange. Profitability in this study is measured using Return On Assets (ROA) and Return On Equity (ROE). The capital structure in this study is measured using the Debt To Equity Ratio (DER). This research approach uses a quantitative approach to determine the effect due to the variables studied and the data displayed in the form of numbers and analyzed using statistics. The samples in this study were 7 manufacturing companies in the pharmaceutical industry sector which were listed on the Indonesia Stock Exchange in 2016-2020. The data analysis technique used is multiple linear analysis. Partial test results show that measured profitability _ with Return On Assets (ROA) and Return On Equity (RO OE) has a significant effect on firm value Capital structure with DER has an effect on firm value. Profitability and capital structure simultaneously influence firm value. From the calculation of the coefficient of determination of 0.81_ or 81% of the company's value is influenced by profitability and capital structure.

Keywords: *ROA, ROE, DER, Tirm Value*

1. INTRODUCTION

The value of a company is the goal of financial management. The company value is the selling price of the company if the company is sold. The value of companies in companies that go public in the capital market can be seen from their share prices. The high and low stock prices reflect the high and low value of the company (Novandalina & Marnoto, 2022). According to (Masyitah et al., 2022)company value is the price that prospective buyers are willing to pay if the company is sold. The higher the value of the company, the greater the prosperity that will be received by the owners of the 2 companies. For companies that issue shares on the capital market, the price of shares traded on the stock exchange is an indicator of the company's value. Company profitability is an important variable that companies consider when investing. The resulting profitability can also affect the value of the company. Profitability is the company's ability to generate profits (profitability) at the level of sales, assets and share capital of the company(Hidayat, 2019). A high level of profitability indicates that the company has good performance and has prospects in the future. Investors perceive this as a positive signal and respond by buying the company's shares. More and more investors are interested in buying company shares. This will result in an increase in the company's stock price and the company's value will also increase. Companies that have high profitability show that these companies manage company assets effectively and efficiently in obtaining profits every period (Darmawan, 2017).

The capital structure is one of the factors that can affect the value of the company by considering the tax element, the addition of debt in the proportion of the company's capital structure will increase the value of the company. This increase in company value is due to tax savings from interest paid and a reduction in agency costs. Several studies related to the effect of capital structure on firm value have been carried out previously with inconsistent results. What is meant by capital structure is the balance of permanent short-term debt, long-term debt, preferred stock and common stock. 3 The optimal capital structure of a company is a combination of debt and equity (external sources) that maximizes the company's stock price (Aisyah, 2012). Profitability ratios in this study use ROA and ROE because ROA identifies how efficient management is in using its assets to generate profits.(Thaib & Dewantoro, 2017)

A positive or greater ROA indicates that of the total assets used to operate, the company is able to provide profits for the company and the ROA ratio has been widely used in measuring profitability. Likewise with ROE, researchers choose to use ROE because investors will look at profitability ratios, especially ROE, to find out how much a company generates a return on the investment they will invest. This is done because ROE is a ratio to measure a company's effectiveness in generating returns for investors. High ROE reflects the company's ability to generate high profits for shareholders, the more the shares are desirable to buy (Suriadi & Widjaja, 2019)

In this study, the capital structure is measured using the Debt to Equity Ratio (DER), which is the ratio of the total debt owned by a company to the total equity of the company. The capital structure is an important issue for the company because good or bad capital structure will have a direct effect on the company's financial position which will ultimately affect the value of the company. A high DER indicates that the company's debt is greater than the company's equity, conversely, a low DER indicates that the company's debt is less than equity in the financial statements(Oktaviarni et al., 2019). The percentage of capital structure, percentage of profitability, capital structure and company value fluctuates every year. This can be seen in PT. Pyridam Farma Tbk in 2017 with ROA 3.08%, ROE 4.88%, DER 29.00% and PBV 0.15%, the company is experiencing problems caused by the company's total debt being larger than the company's net profit and company value experience a value where the value of the company is below one. PT. Darya Varia Laboraturia Tbk in 2019 with ROA 11.92%, ROE 11.81%, DER 21.09% and PBV 0.21%, the company is experiencing problems caused by a larger total company debt than the company's net profit and value the company experiences a value where the value of the company is below one. Kimia Farma Tbk in 2017 with ROA 5.89%, ROE 4.67%, DER 5.72%, and PBV 0.93%, the company experienced problems caused by the company's total debt being larger than the company's net profit and value the company experiences a value where the value of the company is below one. Among the seven companies, only three companies that have company value experience value. (Nugroho & Arifin, 2022)

The greater the results of ROA, ROE, the better the company's performance. An increased ratio indicates that management's performance has improved in managing operational funding sources effectively to generate net profit (increased profitability). Based on this theory, it can be said that the financial performance of the three companies is not good at managing sources of funds(Dewi & Rahyuda, 2020). From the data above, it can be seen in the capital structure column that there are companies that have experienced an increase in total debt, debt is an appropriate alternative to use in financing company development. Every company is allowed to obtain debt or loans as capital which will be used to finance any company expenses, but must be on the principle of prudence(Rakasiwi et al., 2017). A low Price to Book Value (PBV) ratio is a good sign for the company. It can be seen that the company value in the pharmaceutical industry sector manufacturing companies listed on the IDX which is calculated by PBV is overvalued where the PBV calculation results are > 1 = expensive, or it is called the stock price(Awulle et al., 2018). Manufacturing companies in the pharmaceutical industry sector above the PVB value with expensive or overvalued prices. This study will analyze the effect of profitability and capital structure on firm value with profitability variables namely Return On Assets (ROA) and Return On Equity (ROE) and capital structure variables will be measured by Debt to Equity Ratio (DER) and firm value using Price to Book Value (PBV). Based on the phenomenon above, the authors are interested in conducting research with the title "The Influence of Profitability Ratios and Capital Structure on Firm Value in Manufacturing Companies in the Pharmaceutical Industry Sector Listed on the Indonesia Stock Exchange".

2. METHODOLOGY

The type of research used in this study is quantitative research, namely research that is oriented towards data processing in the form of figures contained in financial statements. Quantitative research is a research method based on the philosophy of positivism, used to examine certain populations or samples, sampling techniques and generally carried out randomly, collecting data using quantitative or statistical data analysis research instruments with the aim of testing the hypotheses that have been implemented aiming to analyze the effect of the independent variables on the dependent variable(Sugiyono, 2015). This study examines the Effect of Profitability, Capital Structure on Firm Value.

The type of data collected to support the variables studied is quantitative data. Quantitative data is a type of data whose real value can be measured in the form of numbers or calculations(Sugiyono, 2015). In this study, the authors used secondary data, namely research data sources obtained and collected by researchers indirectly but with other parties. The data analysis technique used in this study is associative data analysis, namely for the form of research data analysis to test whether there is a relationship between the existence of variables from two or more groups of data. The data processing used by the authors in this study was not done manually, but using statistical software SPSS 26.

3. RESULTS AND DISCUSSION

a) The Effect of Return On Assets on Firm Value

Obtained t count for variable X1, namely ROA of 2.518 with $\alpha = 0.05$ and dk = nk (35-3 = 32), obtained t table 1.651. If t count > t table, then there is an influence between Return On Assets and company value, and vice versa if t count <t table, then there is no effect between Return On Assets and company value, in this case t count 2.518 > t table 1.651. This means that there is an influence between Return On Assets and company value in Manufacturing Companies in the Pharmaceutical Industry Sector. Furthermore, it can be seen that the sig value is 0.008 while the significant level of α previously set is 0.05, so the sig value is 0.003 <0.05, so that H0 is rejected. This means that there is a significant influence between Return On Assets and company value in Manufacturing Companies in the Pharmaceutical Industry Sector.

b) Effect of Return On Equity on Firm Value

Obtained t count for variable X2, namely ROE of 2.453 with $\alpha = 0.05$ and dk = nk (35-3 = 32), obtained t table 1.651. If t count > t table, then there is an influence between Return

On Equity and company value, and vice versa if t count < t table, then there is no effect between Return On Equity and company value, in this case t count 2.453 > t table 1.651. This means that there is an influence between Return On Equity and company value in Manufacturing Companies in the Pharmaceutical Industry Sector. Furthermore, it can be seen that the sig value is 0.044 while the significant level α previously set is 0.05, then the sig value is 0.044 <0.05, so H0 is rejected. This means that there is a significant effect between Return On Equity and company value in Manufacturing Companies in the Pharmaceutical Industry Sector .

c) Effect of Debt to Equity Ratio on Firm Value

Obtained t count for variable X3, namely DER of 2.146 with α = 0.05 and dk = nk (35-3 = 32), obtained t table 1.651. If t count > t table, then there is an influence between the Debt to Equity Ratio and company value, and vice versa if t count < t table, then there is no influence between the Debt to Equity Ratio and company value, in this case t count 2.146 > t table 1.651 . This means that there is an influence between the Debt to Equity Ratio and company value in Manufacturing Companies in the Pharmaceutical Industry Sector. Furthermore, it can be seen that the sig value is 0.040 while the significant level α previously set is 0.05, then the sig value is 0.044 <0.05, so H0 is rejected. This means that there is a significant influence between the Debt to Equity Ratio and firm value in Manufacturing Companies in the Industrial Sector Pharmacy.

The analysis of the findings of this study is an analysis of the findings of this research on the suitability of the theories, opinions and previous studies that have been put forward previously as well as the pattern of behavior that must be done to overcome this. In the following there are 3 (three) main sections that will be discussed in the analysis of the findings of this study, namely as follows:

1 . Effect of Return On Assets on Price Book Value

Based on the results of the research above regarding the effect of Return On Assets (ROA) on Price Book Value (PBV) in Manufacturing Companies Sub 62 of the Pharmaceutical Industry Sector on the Indonesia Stock Exchange which states that t-count > t-table, namely: 2,518 > 1,651. This shows that the t-count is in the area of Ho so that Ho is accepted. This states that Return On Assets (ROA) has a partially significant effect on Price Book Value (PBV) in Manufacturing Companies in the Pharmaceutical Industry Sub Sector on the Indonesia Stock Exchange for the 2016-2020 period. A high ROA value indicates better performance because the rate of return is greater. The level of ROA depends on the management of company assets by management which illustrates the efficiency of the company's operations, the higher the ROA the more efficient the company. This shows that the more efficient the company, the higher the company's ability to generate profits for the company, so that it will have an impact on increasing the value of the company.

These results support research conducted by Imron, et al (2013) with the title Effects of Financial Performance and Firm Size on Firm Value with Good Corporate Governance as Moderating Variables. Hermuningsih (2013), with the research title Effects of Profitability, Size on Firm Value with Capital Structure . Kusumawati and Rosady (2018) with the research title Effects of Capital Structure and Profitability on Firm Value with Managerial Ownership as Moderating Variables, and so are the results of research from Sari, et al (2016) with the title Effects of Financial Performance on Corporate Values with CSR and GCG Disclosures as Moderating variable indicating that ROA has a significant positive effect on firm value. However, the results of this study are not in accordance with the results of research conducted by Lita Elisabeth Salempang, et al (2016) with the research title "Effect of Return On Assets, Debt To Equity and Sales Growth on Company Value in the

Real Estate and Property Sector Registered in Bei Year 2013-2014" which states that ROA has no significant effect on firm value. This means that every change in profitability is followed by a change in firm value. The significant influence of profitability on firm value is in line with the signal theory. Profitability is a signal in the form of information stating that the company is better than other companies, and is able to provide certainty for the company's prospects in the future so as to increase the value of the company. This is also in line with research (Sujoko and Soebiantoro, 2007) which explains that high profitability indicates good company prospects, then investors will respond positively to this which makes stock market prices increase.

2 . Effect of Return On Equity on Price Book Value

Based on the results of the research above regarding the effect of Return On Equity (ROE) on Price Book Value (PBV) in Manufacturing Companies in the Pharmaceutical Industry Sub Sector on the Indonesia Stock Exchange which states that t-count > t-table, namely: 2,453 > 1,651. This shows that the t-count is in the Ho area so that Ho is accepted. This states that Return On Equity (ROE) has a partially significant effect on Price Book Value (PBV) in Manufacturing Companies in the Pharmaceutical Industry Sub Sector on the Indonesia Stock Exchange for the 2017-2021 period. A high ROE value will give a positive signal to investors. Companies that are able to generate profits above the issued capital mean that these companies are able to increase the value of the company so that the demand for shares is high.

The results of this study support Wardjono's research (2010) with the research title "Analysis of the Factors Influencing Price to Book Value and the Implications for Stock Returns", and Alfredo Mahendra (2012) with the research title The Effect of Performance on Firm Value in Manufacturing Companies on the IDX that shows that profitability has a significant positive effect on firm value. However, the results of this study are not in accordance with the results of research conducted by Karin Dwi Cahaya with the research title "The Influence of Roa and Roe on Firm Value with Sustainability Reporting as an Intervening Variable in Companies Registered at Lq 45" which states that ROE has a negative impact on Firm Value . Companies with high net income will receive a positive response from investors because of their good financial performance, this positive response will be shown through an increase in stock prices so that the value of the company will also increase.

3 . Effect of Debt to Equity Ratio on Price Book Value

Based on the results of the research above regarding the effect of the Debt to Equity Ratio (DER) on Price Book Value (PBV) in Manufacturing Companies in the Pharmaceutical Industry Sub Sector on the Indonesia Stock Exchange which states that t-count > t-table, namely: 2,146 > 1,651. This shows that the t-count is in the Ho area so that Ho is accepted. This states that the Debt to Equity Ratio (DER) has a partially significant effect on 65 Price Book Value (PBV) in Manufacturing Companies in the Pharmaceutical Industry Sub Sector on the Indonesia Stock Exchange for the 2017-2021 period.

This states that by reducing the company's operational financing expenditures it will be able to increase the value of the company seen from the book price per share, the better the company manages its capital, the better the future of the company itself. In this case the Pharmaceutical Industry Sub Sector Company uses capital consisting of debt, while it is known that the use of high debt will cause bankruptcy costs and greater interest expenses. If the bankruptcy costs are greater, then the cost of debt capital will be higher because lending will incur interest. However, this is sometimes not really cared for by the company because if the benefits of debt are still greater than the costs of bankruptcy, the company will continue to use debt. Supporting research is that conducted by Gisela Prisilia Rompas (2013) with the title Liquidity, Solvability and Profitability on the Value of BUMN Companies listed on the IDX, which shows that the Debt to Equity Ratio (DER) ratio has a positive and significant effect on company value. However, the results of this study are not in accordance with the results of research conducted by Morenly Welley and Victoria Untu (2015) with the research title "Factors Affecting Firm Value in the Agricultural Sector on the Indonesian Stock Exchange 2010-2013" which states that DER has no significant effect on The value of the company.

4. CONCLUSION

The results of the partial test can be concluded that profitability as measured by Return On Assets (ROA) and Return Of Equity (ROE) has a significant effect on firm values. And the Debt to Equity Ratio (DER) partially has a significant effect on the industrial value of companies in pharmaceutical manufacturing companies. 3. The results of the F test can be concluded that Return On Assets (ROA), Return Of Equity (ROE) and Debt to Equity Ratio (DER) simultaneously affect firm value.

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