

Analyzing the Effect of Current Ratio and Debt Equity Ratio on Stock Returns in the Automotive and Component Subsector Companies Listed on the Indonesia Stock Exchange

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Abstract :

This research aims to empirically examine the effect of the Current Ratio (CR) and Debt to Equity Ratio (DER) on Stock Return. In addition, this study is also used to find out what factors affect stock movements, so that shareholders can determine the purchase of shares in the right company, for companies to know the factors that affect their shares so that they can determine the direction of policy in their company. The factors in this test are the independent variables used in this study, namely CR and DER. The population used in this study was 13 automotive and component companies listed on the Indonesia Stock Exchange from 2015 to 2019, which after elimination by purposive sample, left as many as 11 companies sampled. The data were analyzed using multiple linear regression analysis by test normality (classical assumption test), and to test hypotheses used partial test (t test) and simultaneous test (f test). The results of this study prove that CR has a positive effect on stock returns, but the debt-to-equity ratio does not affect stock returns. This research implies that companies that make decisions can better consider CR. The study is also expected to assist investors in investing their valuable assets into the stock market, especially in automotive and component companies. Further research can add more industries, samples, years, and variables for better results.

Keywords: Current Ratio, Debt to Equity Ratio, Stock Return

Abstrak :

Penelitian ini bertujuan untuk menguji secara empiris pengaruh Current Ratio (CR) dan Debt to Equity Ratio (DER) terhadap Return Saham. Selain itu, penelitian ini juga digunakan untuk mengetahui faktor-faktor apa saja yang mempengaruhi pergerakan saham, sehingga para pemegang saham dapat menentukan pembelian saham pada perusahaan yang tepat, bagi perusahaan dapat mengetahui faktor-faktor yang mempengaruhi sahamnya sehingga dapat menentukan arah kebijakan dalam perusahaannya. Faktor-faktor dalam pengujian ini adalah variabel independen yang digunakan dalam penelitian ini yaitu CR dan DER. Populasi yang digunakan dalam penelitian ini adalah 13 perusahaan otomotif dan komponen yang terdaftar di Bursa Efek Indonesia dari tahun 2015 sampai dengan 2019, yang setelah dieliminasi dengan purposive sample, menyisakan sebanyak 11 perusahaan yang dijadikan sampel. Data dianalisis dengan menggunakan analisis regresi linier berganda dengan uji normalitas (uji asumsi klasik), dan untuk menguji hipotesis digunakan uji parsial (uji t) dan uji simultan (uji f). Hasil penelitian ini membuktikan bahwa CR berpengaruh positif terhadap return saham, namun debt to equity ratio tidak berpengaruh terhadap return saham. Penelitian ini mengimplikasikan bahwa perusahaan yang mengambil keputusan dapat mempertimbangkan CR dengan lebih baik. Penelitian ini juga diharapkan dapat membantu investor dalam menginvestasikan aset berharga yang dimiliki ke dalam pasar saham, khususnya pada perusahaan otomotif dan komponen. Penelitian selanjutnya dapat menambahkan lebih banyak industri, sampel, tahun, dan variabel untuk hasil yang lebih baik.

Kata kunci: Rasio Lancar, Rasio Hutang terhadap Ekuitas, Return Saham

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INTRODUCTION

The capital market has a crucial function for the country's economy because it has two benefits: first, as a facility for funding its business or getting funds from investors or residents (Sudirman et al., 2023). These funds can be used for business development, additional working capital and others; second, the capital market is used as an investment as a financial tool such as stocks, bonds, mutual funds for beginners, and others. Thus, investors can make existing financing by the benefits and risks of each instrument (Ramadhani et al., 2022; Rinaldi et al., 2023).

The object of research conducted by researchers is a company or business entity listed in the automotive and component sub-sector listed on the Indonesia Stock Exchange (IDX). The period used in this study is 2015-2019. This sector was chosen because it saw the condition of Indonesia, which shows that transportation routes are a critical need to support their daily activities. The automotive and component sub-sector is a seeded export product and also a type of industry that is said to be labour-intensive because it requires quite a lot of labour.

The automotive industry is very reliable and a priority in its development because it can affect the improvement of the country's economy. Indonesia is still the leading destination country for investment in the automotive business. But the opposite is reversed with stock prices in automotive companies. Almost all automotive companies in Indonesia have experienced a decline in share prices. This, of course, makes automotive companies not a good choice for investors. So, this study aims to find out what factors decrease automotive companies' stock prices. Here is a chart of automotive company stocks in 2020:

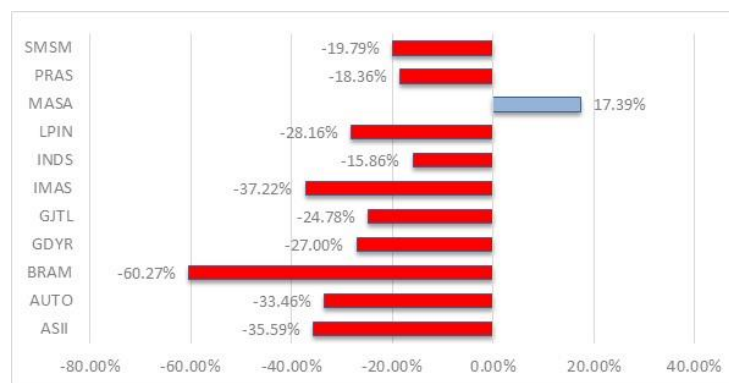


Figure 1. Automotive Company Shares in 2020

Source: www.financeyahoo.com, Data processed by the author, 2023

During the pandemic, the automotive and component sub-sectors sharply declined in the third quarter of 2020. Of the 11 listed companies, 10 experienced a significant decline, namely PT Indo Kordsa. Tbk (BRAM) by 60.27% with the latest price of IDR 4,290, -/share, strengthening PT. Multistrada Arah Sarana.Tbk. (MASA) with an increase of 17.39% at Rp 540, -/share. Investors will undoubtedly consider in advance the condition of the company that will be purchased in stock to get high *returns*. Still, the desire to get high stock returns also has high risks and uncertainty in determining stock returns, making it difficult for investors to predict. Short ups and downs (fluctuations) can affect the stock profit (return) level.

The current ratio (CR) is used to estimate the ability of a business entity to carry out its obligations, especially in the short term (Latifah & Pratiwi, 2020). If the value is high, the company is said to be able to carry out obligations in the short term. However, if the value is high in a company caused

of the accumulation of assets that are not used, it can be considered that the company is less able to carry out its short-term obligations (Latifah & Pratiwi, 2020; Solechah et al., 2021).

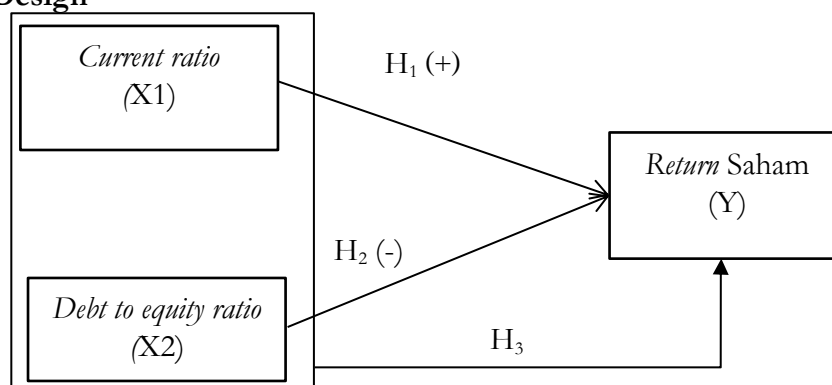
This CR is a part of liquidity that can assess the ability of a company to settle short-term debt payments, which is calculated by comparing current assets with current debt. The signal theory shows that the increased CR is a picture of the condition of the business entity in dealing with its debt in the short term. This situation will give business entities get a good reputation and will undoubtedly have an impact on the development of stock returns in the form of an increase (Latifah & Pratiwi, 2020; Solechah et al., 2021; Sululing & Sandangan, 2020). Previous researchers stated that the current ratio significantly negatively affects stock returns (Boentoro & Widyarti, 2018). Other researchers explained that the ratio does not affect the stock's return.

The company's ability to carry out its obligations for long-term debt must also be measured if the use of long-term debt that cannot be met can reduce a company's solvency. Conversely, if the use of debt in the long term can be fulfilled can increase a company's solvency. In the assessment of the level of solvency is the debt to equity ratio (DER), which is a ratio used by shareholders to know about the level of debt used from the equity owned and indicators to analyze the performance of their finances to find out the number of funds provided by borrowers with business entity owners (Latifah & Pratiwi, 2020; Supriantikasari & Utami, 2019).

Entrepreneurs need to understand this DER because it implies size from the perspective of their internal finances. DER can measure the value of debt in equity. According to Toeri signalling, if the calculation of a high DER hurts the stock price and of course, stock returns will decrease as well, and is related to the signal theory, which explains that a high-value DER illustrates that the business entity has much debt so that the risk to be faced can also be high. This condition causes business entities to experience financial problems where profits are reduced, debts are not paid and continue to increase due to increasing interest expenses so that profitability decreases and certainly has an impact on decreasing stock returns (Basalama et al., 2017; Cendiviani & Herinanto, 2021; Erari, 2020). Calculates this ratio through a comparison between all debt and overall equity. DER on stock returns, according to other studies, shows results that have no effect between DER and stock returns (Basalama et al., 2017).

RESEARCH METHODOLOGY

Research Design



Picture 2. Research Design

Source: Data Processed by Researchers, 2023

Information:

H₁: CR positively affects stock returns

H₂: DER negatively affects stock returns
 H₂: CR and DER simultaneously affect stock returns

The formula used in this study is as follows:

Variable	Formula
Current Ratio	$CR = \frac{\text{Current Assets}}{\text{Current Liabilities}}$
Debt to Equity Ratio	$DER = \frac{\text{Total Liabilities}}{\text{Total Capital}}$

Source: Data Processed by Researchers, 2023

Population and sample

The sampling technique uses nonprobability with the purposive sampling method. There were 13 automotive sub-sector companies involved in the IDX, which were sampled in the study. The sample criteria in this table:

Information	Total
Population	13
Companies that did not publish annual reports during 2015-2019	(2)
Number of Company Samples	11
Number of data to be used in the study (11*5)	55

Source: Data Processed by Researchers, 2023

Data Analysis Techniques

The analysis in this study was using multiple linear regression tests. So the following is the liner equation.

$$Y = a + b_1X_1 + b_2X_2 + e$$

Information:

Y = Stock Return
 a = Constant
 e = Error
 b₁-b₂ = Regression coefficient
 X₁ = CR
 X₂ = DER

The test used in this study is the first to test descriptive statistics. To test the data is feasible to use by carrying out the classic assumption test consisting of normality, multicollinearity, and heteroscedasticity tests. Then do a hypothesis test consisting of a partial test (t test), simultaneous test (f test) and determination coefficient test (r test).

DISCUSSION

Analysis Results

Descriptive Statistical Analysis

Table 3. Descriptive Statistical Analysis

Variable	N	Min	Max	Mean	Std. Deviation
CR	38	60.16	291.52	133.1868	55.03017
DER	38	27.00	375.00	122.3684	82.87582
Stock Return	38	-78.13	42.62	-14.3692	28.12556

Source: Data Processed by Researchers, 2023

The output results show that the CR variable has a Min value of 60.16, a max value of 291.52, and a mean value of 133.1868. The DER variable has a Min value of 27.00, a max value of 375.00, and a mean value of 122.3684. Furthermore, the Stock Return variable has a Min value of -78.13, a max value of 42.62, and a mean value of -14.3692.

Classical Assumption Test

Normality Test

Table 4. Normality Test

Variable	N	Sig.
Unstandardized Residual	38	0,200

Source: Data Processed by Researchers, 2023

At first, the research data experienced abnormal symptoms. So that data transformation and data outliers are carried out. After data outliers, only 38 pieces of data can be analyzed. Based on the output results with a total of 38 data, it is stated that the data is normally distributed, which can be seen with a sig value of 0.200.

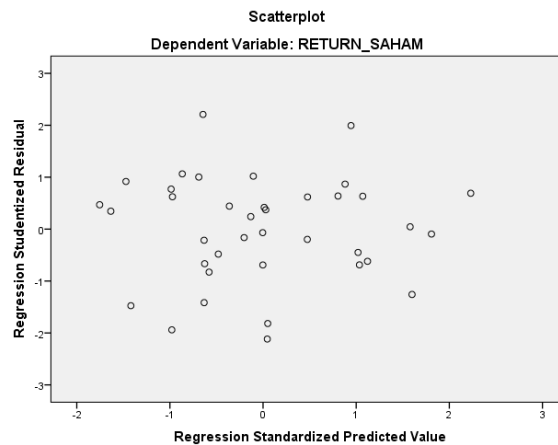
Multicollinearity Test

Table 5. Multicollinearity Test

Variable	Tolerance	VIF
CR	.634	1.576
DER	.596	1.679
Return Saham	.658	1.519

Source: Data Processed by Researchers, 2023

Based on the output results, it states that the data passed the multicollinearity test. This is evidenced by the overall tolerance value of the variable >0.100 and VIF <10.000

Heteroskedastisitas Test

Picture 3. Heteroscedasticity Test
Source: Data Processed by Researchers, 2023

Based on the output results, the data is free from the symptoms of heteroscedasticity. That is, the data is spread and not gathered, but not spread far.

Autocorrelation Test

Table 6. Autocorrelation Test

dU	Durbin Watson	4-dU
1.5937	1.838	2.4063

Source: Data Processed by Researchers, 2023

From the Durbin-Watson value above, which is 1.838 (between -2 to 2), it can be concluded that the data does not show autocorrelation symptoms.

Test The Hypothesis**Test of the coefficient of determination (R-Test)**

Table 7. R-Test

R	R Square	Adjusted R Square
0,477	0,227	0,159

Source: Data Processed by Researchers, 2023

The output R square is 0.227 or 22.7%, where these results explain that a return from stock is influenced by the current ratio, debt to equity ratio, with a magnitude of 22.7%. In comparison, the remaining 77.3% (100% - 22.7%) is pretty influenced by other variables outside the discussion the researchers examined.

Test of Simultaneous Correlation (F-Test)

Table 8. F-Test

F	Sig.
3,336	.031

Source: Data Processed by Researchers, 2023

In the test results obtained for CR and DER on stock returns, the F value is 3,336 with a significance of 0.031, more diminutive than 0.05. It can be concluded that the estimated regression model is feasible to use to explain the effect of the current ratio and debt-to-equity ratio on stock returns.

Test of Partial Correlation (T-Test)

Table 9. T-Test

Variable	Regression Coefficient	T	Sig.	Hypothesis
Constant	5.206	1,889	0,67	-
CR	.185	2.058	.047	Accepted
DER	.082	1.401	.170	Rejected

Source: Data Processed by Researchers, 2023

Based on the t-test results, it can answer the equation model used in this study.

$$Y = 5.206 + 0,185X_1 + 0,082X_2 + e$$

Discussion

The Effect of Current Ratio on Stock Return

The results of multiple regression show a significance value of 0.047, meaning that the first hypothesis is accepted. It can be explained that the current ratio has a positive and significant effect on stock returns in automotive and component sector manufacturing companies on the IDX. According to researchers, every time there is an increase in the current ratio, stock returns also increase, and of course, it is a concern for investors to pay attention to the value of CR when investing in their shares.

The acceptance of this hypothesis shows that this business entity is liquid and in good condition. This result is supported by signalling theory which explains that the company's current assets rise, meaning that it has been able to pay off its short-term obligations. This high current ratio will give an excellent reputation to a company and indeed impact the price of a stock and increase stock returns (Latifah & Pratiwi, 2020).

In addition, the high CR proves that if the availability of current assets to pay off current liabilities will also be high, this situation can have other assets be disbursed at any time without reducing the value in the share of the place of sale. Of course, investors will be interested in buying shares if the company's current asset value is high. These current assets contain accounts such as cash and are also equivalent to cash, receivables, inventories and marketable securities. Another similar supporting research is by (Boentoro & Widyarti, 2018), which explains the positive impact of CR on stock returns.

The Effect of Debt to Equity Ratio on Stock Return

The multiple regression test showed a significant value of 0.170, explaining that the second hypothesis was rejected, which means that DER has no significant effect on stock returns. This situation causes signalling theory not to be used in DER, with high and low DER not a factor that can influence investors to be interested in investing their capital.

High or low debt certainly cannot make a specific benchmark for investing capital because these investors also see how much a business can use its debt to finance it. If it succeeds in utilizing debt

well, it will certainly give a positive signal for investors to develop their capital and stock prices can undoubtedly rise. The opposite is that if the company fails to utilize its debt, it can be a negative signal for investors. The picture in the results of the study is that investors must be more careful in terms of looking at the DER in each company that will be invested because not all of them will fail in terms of using their debts because if successful for operational financing they will be able to pay their obligations well.

This DER does not affect stock returns, meaning there is a different assessment from capital owners regarding the importance of debt to a business entity. According to investors, large DER poses a burden for their companies because of obligations for debt settlement, and of course, there is a risk of bankruptcy that these investors will bear. However, on the other hand, according to some of the debt capital holders, it will also be needed for operationalization. In addition to increasing capital, it can also develop its business so that it will be able to attract other investors to buy shares and make the price rise and certainly increase stock returns. Another study that reinforces these results is conducted by (Erari, 2020; Supriantikasari & Utami, 2019), which proves DER has no significant effect on its stock returns.

The Effect Simultaneous of Current Ratio and Debt to Equity Ratio on Stock Return

Each company has its unique financial situation, growth prospects, and risk profile. The impact of the current ratio and debt-to-equity ratio on stock returns can vary significantly based on these company-specific factors. For example, a high-growth company may prioritize investment in long-term assets, leading to a lower current ratio but potentially higher stock returns if the investments generate substantial returns.

Market participants may interpret the current and debt-to-equity ratios differently based on their investment strategies and risk preferences. Some investors may view higher liquidity (higher current ratio) positively, while others may focus more on profitability and consider a lower debt-to-equity ratio as a sign of stability. It is important to note that many factors beyond the current and debt-to-equity ratios influence stock return. Other fundamental factors such as earnings growth, profitability, competitive positioning, market conditions, and macroeconomic factors also play significant roles in determining stock returns.

CONCLUSION

CR has a positive and significant effect on stock returns. This means the theory supports signalling. The company's ability to handle short-term liabilities is a positive signal for shareholders to invest more in shares. DER has no significant effect. This shows that shareholders see that companies with a large capital structure derived from debt are more likely to be at risk compared to otherwise. So that shareholders can determine the purchase of shares in the right company so that the company knows the factors that influence its shares, and it can determine the policy direction in the company. Suggestions for further research are to add independent variables such as ROA, ROE and other financial ratios that can affect stock returns so that the results of further research are expected to be better.

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