

## **Effect of Profitability (RoA) and Liquidity (CR) on Profit Growth in Companies Pharmaceutical Sector IDX**

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**Abstract.** Profit growth is important for the sustainability of the company. At this particular time, covid-19 is a problem everywhere. So the pharmaceutical industry is being encouraged by the government to continue to build a good and more integrated structure. Profit growth can be analyzed using financial ratios. The financial ratios used in this study are liquidity, profitability, and company growth. This study used a purposive sampling technique. The research population used is pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) 2015-2019 with a total sample of 9 companies. The result of this study is that profitability has a positive relationship with profit growth and also has a significant effect. On the other hand, liquidity has a negative relationship with profit growth but is not significant. Simultaneously, profitability and liquidity have a significant positive relationship to profit growth.

**Keywords :** Profitability; Liquidity; Profit growth

### **Introduction**

Currently, the government is encouraging the national pharmaceutical industry to continue to build a deeper and more integrated structure, so that it can produce products with innovations and high added value. The pharmaceutical industry is facing a moderate raised condition where the demand for pharmaceutical products related to the handling of Covid-19 has increased significantly, but on the other hand, the demand for products that are not directly related to Covid-19 has not experienced growth or has decreased. Moody's release predicts the growth of EBITDA (Earnings Before Interest, Taxes, Depreciation, and Amortization) or company income that has not been deducted by interest, taxes, depreciation, and amortization of the pharmaceutical industry will increase 2-4 percent in the next 12-18 months, slightly higher than the previous estimate of around 1-3 percent. The success of a company can be measured based on the company's performance in gaining profits. Profit growth can be analyzed using financial ratios. Financial ratios are activities to compare the numbers in the financial statements by dividing one number by another. The financial ratios used in this study are liquidity, profitability, and growth. The liquidity ratio in this study is the current ratio. The current ratio is a ratio to measure the company's ability to pay short-term obligations on debt that will soon mature. The higher the total assets to the smooth running of current liabilities, the greater the company's ability to pay its debts. Research by Rantika & Budiarti (2016), and Wibisono & Triyonowati (2016) states that the current ratio has an effect on profit growth. The company provides various types of information to external parties, especially investors and creditors. One of the elements in the financial statements is the Income Statement. The Income Statement is a report that provides information about the income (profit) achieved by the company in the accounting period.

Profit is one of the indicators to assess the company's operational performance. In measuring profit, the company can use the profitability ratio. The profitability ratio in this study is represented by the net profit margin. According to Kasmir (2010), the net profit margin is the ratio used to measure return on sales margin. The higher the net profit margin value, the greater the net profit, the greater the net income obtained by the company. Wibisono & Triyonowati's research states that net income influences margins on profit growth. The company's profit growth is usually related to the 'surprise' profits earned in the current period. Profit growth is possible to affect the quality of the company's earnings because if the company has the opportunity to grow on the quality of its earnings. Profitability is a financial ratio that measures the ability of a company to seek profits and these profits can measure the effectiveness of the company's management. Therefore, profitability can be related to the quality of earnings itself. If a company has high profitability, it shows good earnings quality because it illustrates the company has a good ability to generate profits and has increased profit growth.

### *Literatur Review*

#### *Profitability*

Profitability is a ratio to assess the company's ability to seek profit or profit for a certain period (Kasmir, 2010). The level of profitability can also be used as a basis for investment in decision-making. It can measure the company's ability to predict the level of investment made by the company. How to assess the profitability of a

company is different and depends on which income and assets or capital will be compared with each other. Profitability describes the company's ability to generate profits through the resources owned by the company. Profitability is a ratio to assess the company's ability to earn a profit. This ratio also provides information about measuring the effectiveness of a management company.

#### *Liquidity*

Liquidity is a ratio that aims to measure the company's ability to meet its short-term obligations. Companies that have high liquidity mean that they can pay the short-term debt. Pecking Order Theory suggests that managers prefer to use financing in the first order, namely retained earnings, then debt, and finally the sale of new shares. This is supported by previous research conducted by Septiani & Suryana (2018). Based on signalling theory, the ability of a company to meet its short-term obligations will receive a positive response from the stock market which causes the value of the company to increase so that it can be said that liquidity can also affect the value of the company. This is supported by the research of Yanti & Darmayanti (2019).

#### *Profit Growth*

Profit growth is a ratio that shows the company's ability to increase net profit compared to the previous year (Wahyuni and Ayem, 2017). Companies with greater profits will have a large number of assets so as to provide greater opportunities in profitability and will affect the quality of good earnings. If the company's management can utilize the company's assets optimally, the company's profits will increase. The more efficient the use of company assets, the lower the costs required to fund the operation of assets. If the company also expands its business in the near future, then management needs to use a special strategy to remain in control of the company's operations so as not to lose money and still be able to run its production.

#### *Profitability and Company Profit Growth*

Profitability is the ratio used to measure the company's ability to use its assets or equity to generate company income (Sudaryono, 2017). The higher the company's profitability value, the company's profit growth will decrease (Safitri & Mukaram, 2018). And previous research from Widiyanti (2019) and Bionda & Mahdar (2017) said that profitability significantly affected the company's profit growth. Based on the theory and previous research, the following hypotheses can be derived:

H1: Profitability has a significant effect on profit growth in the company.

#### *Liquidity and Company Profit Growth*

Liquidity is the ratio used to measure the company's ability to meet short-term obligations using the company's current assets (Hanfi & Halim, 2016). When the company's liquidity value increases, there will be a decrease in the company's profit growth (Napitupulu, 2019). According to previous research from Sihombing (2018) and Safitri (2019), liquidity has a significant effect on company profit growth. And based on the theory and previous research, the following hypotheses can be derived:

H2: Liquidity has a significant effect on profit growth in the company.

#### *Profitability, Liquidity and Company Profit Growth*

Profitability shows the company's ability to manage sales or revenue. When companies try to increase sales volume or revenue, profit growth also increases by itself through the level of sales and company revenues obtained during the current year (Setyarini, 2020). For the company's activities to run well, liquidity in the company needs to be considered by fulfilling the company's short-term obligations. Thus profitability and liquidity can affect profit growth in the company.

H3: Profitability and liquidity have a significant effect on profit growth in the company.

#### **Method**

This study uses a purposive sampling technique, which means determining the sample by considering several things that are used as criteria. The research population used is pharmaceutical companies listed on the Indonesia Stock Exchange (IDX) 2015-2019 with the following criteria: (a) Pharmaceutical companies listed on the IDX that consecutively present their financial statements and are not delisted in the 2014-2019 period, (b) Pharmaceutical companies that provide the data needed in this study are total assets, net income, current assets, and current liabilities. Based on the criteria for determining the sample, the following is a list of companies that meet the criteria to be sampled in this study:

**Table 1**  
**Sampled In This Study**

No	Company's Code	Company's Name
1	DVLA	Darya Varia Laboratoria Tbk
2	INAF	Indofarma (Persero) Tbk
3	KAEF	Kimia Farma (Persero) Tbk
4	KLBF	Kalbe Farma Tbk
5	MERK	Merck Indonesia Tbk
6	PYFA	Pyridam Farma Tbk
7	SCPI	Merck Sharp Dohme Pharma Tbk
8	SIDO	Industri Jamu & Farmasi Sido Muncul Tbk
9	TSCP	Tempo Scan Pasific Tbk

An operational definition is a scientific information that helps how to measure a variable. Operational definitions are needed so that the measurement of variables or data collection is consistent between data sources or respondents from one another. The variables used in this study used three variables, namely two independent variables and one dependent variable.

*Variable Explanation*

1. Profitability (Return on Assets)

The profitability ratio is a ratio to assess the company's ability to seek profit. Profitability as measured by return on assets is often used to measure the efficiency of all assets in a company by comparing profits with the total assets it has (Kasmir, 2014). Return on Assets = Net profit / total assets

2. Liquidity (Current Ratio)

Liquidity is a ratio to assess the company's ability to meet its short-term obligations (Kasmir, 2014). Liquidity measured using the current ratio is used by comparing the number of current assets and current liabilities. Current Ratio = Current assets / current liabilities

3. Profit Growth

Profit growth is a ratio that measures the company's ability to increase the company's net profit compared to the previous period (Halim, 2015). Profit Growth = (net profit t – net profit t-1) / net profit t-1

**Result and Discussion**

**Table 1.**  
**Correlation Coefficient**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.022	.173	-.023	336.45406

source: processed data

The value of the coefficient of determination shows that the contribution of profitability to profit growth in the company is 17.3% and the remaining 82.7% is influenced by other factors not examined in this study. The contribution of profitability to profit growth states that there is a correlation between profitability and profit growth, although the correlation is low.

**Table 2.**  
**Hypothesis Test**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	55.191	64.159		-.860	.039		
	ROA	-52.853	364.123	.022	.145	.045	.803	1.246

source: processed data

Based on the table above, the calculated t value obtained is 0.145 and the significance value is 0.045. This value is smaller than the 0.05 significance level, which means that profitability has a significant effect on profit growth. And from these results, it can be concluded through this test that H1 is accepted.

**Table 3**  
**Correlation Coefficient**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.068	.005	-.018	335.75235

source: processed data

The value of the coefficient of determination shows that the contribution of liquidity to profit growth in the company is 6.8% and the remaining 93.2% is influenced by other factors not examined in this study. The contribution of liquidity to profit growth states that there is a correlation between liquidity and profit growth, although the correlation is low.

**Table 4**  
**Hypothesis Test**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	64.323	60.125		-1.070	.029		
	CR	-3.736	8.330	.068	.448	.056	.653	1.205

source: processed data

Based on the table above, the calculated t value obtained is 0.448 and the significance value is 0.056. This value is greater than the 0.05 significance level, which means that profitability does not affect profit growth. And from these results, it can be concluded through this test that H2 is rejected.

**Table 5**  
**Correlation Coefficient**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.369	.225	-.043	339.69823

source: processed data

The table above shows that the correlation coefficient (r) is 0.369, which means that profitability and liquidity have a positive relationship with profit growth. While the coefficient of determination (r-square) is 0.228 or 22.5%. This means that profitability and liquidity contribute 22.5% to profit growth, and the rest is influenced by other variables.

**Table 6**  
**Coefficients**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-67.304	70.707		-.952	.037		
	ROA	30.703	371.270	.013	.083	.047	.981	1.020
	CR	3.637	8.512	.066	.427	.061	.981	1.020

source: processed data

**Table 7**  
**ANOVA<sup>a</sup>**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23457.237	2	11728.619		.102
	Residual	4846585.332	42	115394.889		
	Total	4870042,570	44			

source: processed data

The value of the hypothesis test shows that the value (sig) is 0.040 < 0.05, which means that liquidity and profitability have a significant effect on profit growth. Simple linear regression for profit growth = -67.304 + 30.703 (profitability) + 3.637 (liquidity). The constant value -67.304 means that if the profitability and liquidity value is 0, then the profit growth already has a value of -67.304. If profitability increases by 1 unit, profit growth will also increase by 30,703 which means that liquidity makes a positive contribution to increasing profit growth. And if the

value of liquidity increases by 1 unit then profit growth will increase by 3,637 which means that liquidity has a positive contribution to increasing profit growth.

### Conclusion

This research shows that the company has good profitability and liquidity. The average company is declared to have a good profit growth rate. Profitability has a level of positive relationship to profit growth and also has a significant effect on profit growth. Profitability contributed 17.3% to profit growth. And the results of linear regression indicate that each addition of 1 unit of profitability will increase the addition of profit growth by 30,703. Liquidity has a negative relationship with profit growth. However, it does not affect profit growth. Liquidity contributed 6.8% to profit growth. And linear regression shows the results that each addition of 1 unit of Debt to assets ratio will increase the decrease in profit growth by 3,637. Profitability and liquidity have a positive relationship with profit growth. Likewise, it has a significant effect on profit growth. Profitability and liquidity contributed 22.5% to profit growth. It is suggested that the results of this study can be used as a consideration for investors to assess or estimate the possibility of profit growth rates obtained based on the role of profitability and liquidity variables. And also as a reference in making decisions. Researchers hope that further research can examine other variables that may affect the company's profit growth.

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