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The Impact of Financial Ratios on Profit Growth of Public Health Sector Companies

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Abstract

The purpose of this research is to determine the influence of Debt to Asset Ratio, Total Asset Turnover, and Return on Asset on the profit growth of public healthcare sector companies listed on the Indonesia Stock Exchange during the period of 2017-2021. The population of this study consists of public healthcare sector companies listed on the Indonesia Stock Exchange. The sample was determined using purposive sampling technique, and the selected sample consists of 3 public healthcare sector companies. The data analysis technique used in this research is panel data regression analysis with the assistance of EViews 12 software. The research findings indicate that the variable Debt to Asset Ratio does not have a significant influence on profit growth, Total Asset Turnover has a significant negative influence on profit growth, while the variable Return on Asset has a significant positive influence on profit growth.

Keywords: *Debt to Asset Ratio, Total Asset Turnover, Return on Asset, profit growth, healthcare sector*

INTRODUCTION

The Covid-19 pandemic has become a global disaster that has drastically changed various aspects of human life throughout the world. Starting from Wuhan, China, this disease outbreak has had a significant impact on various sectors, including tourism, the economy and health. The health sector is at the forefront in facing and dealing with the pandemic, with medical personnel and health companies fighting hard to treat patients, provide medicines and develop Covid-19 vaccines. The critical role of the health sector in dealing with this pandemic has resulted in a different impact from other sectors, and data from the Central Statistics Agency (BPS) and the 2021 Health Statistics Profile processed by R&D Kompas/TIN shows that the health sector managed to record positive growth from 2016 to 2021 (*www.kompas.id*). This indicates that health companies are able to overcome challenges and achieve success in business. Profit growth is an important performance measure for companies, and this research will focus on the factors that influence profit growth in health sector companies by using financial ratio analysis as a relevant tool to identify the influence of certain variables on company profit growth in facing the challenges of the Covid-19 pandemic.

Kasmir (2019: 106-107) divides financial ratios into six classifications, but this research only uses three ratio classifications, namely solvency ratios, activity ratios and profitability ratios. The solvency ratio used is the Debt to Asset Ratio. This ratio can provide information about how much of the company's assets are financed by debt or how much the company's debt affects asset management. This high ratio can have a negative impact on the company because if the funding using debt is large, the company will have difficulty obtaining additional loans. This is because it is feared that the company will not be able to cover its debts with the assets it owns. If this happens, it can affect the company's ability to generate profits.

Next is the activity ratio, the ratio used is total asset turnover (TATO). TATO is a ratio to see how effective the overall turnover of assets owned by the company is. The faster TATO shows that the overall turnover of company assets is effective. This effective asset turnover has the effect of increasing income so that the faster TATO is, the profits generated will also increase (Fahmi, 2020: 132).

The profitability ratio used is Return on Assets (ROA). ROA is a ratio that is useful for assessing a company's ability to generate profits through the use of all the assets it owns (Kasmir, 2019: 201). According to Hery (2014: 193), a high ROA value indicates a high return on a company's assets. A high rate of return is followed by a higher amount of net profit generated for each rupiah of funds invested in the company's total assets.

A number of previous studies have been conducted with varying results. Yasmine & Dillak's (2021) research and Jie & Pradana (2021) research both found that total asset turnover had a significant positive influence on profit growth, while debt to asset ratio, return on assets, and current ratio did not have a significant influence on profit growth. However, the results of this research are different from research by Lestari & Sulastri (2021), which shows that Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin (NPM) have a significant positive influence on profit growth in food and beverage companies. The inconsistency in research results makes researchers interested in conducting further similar research. The aim of this research is to analyze the influence of the solvency ratio (Debt to Asset Ratio), activity ratio (Total Asset Turnover), and profitability ratio (Return on Assets) on the profit growth of health sector public companies on the Indonesia Stock Exchange for the 2017-2021 period.

Literature Review

Profit Growth

Profit growth is the main key in evaluating a company's performance. Profit is income that exceeds net assets from the beginning to the end of the period, and is a basic measure of management's ability to run company assets (Martani, 2012: 113). Several factors influence profit growth, including company size, company age, level of leverage, level of sales, and changes in past profits (Hanafi & Halim, 2016: 81).

Financial Ratio Analysis

Fahmi (2020: 2-3) states that company financial reports contain information about the company's financial condition which is very important in making economic decisions related to finance. Therefore, financial ratio analysis is one way to understand and assess management performance and the effectiveness of utilizing company resources. By comparing financial reports from year to year, financial ratios help see financial conditions in more depth (Kasmir, 2019: 104). Through this financial ratio analysis, management can assess the company's performance in a certain period and the extent to which resources have been utilized efficiently (Fahmi, 2020: 111-113). The numbers in financial statements can be compared using several financial ratios. Each financial ratio has certain benefits, objectives and uses. There are six classifications of financial ratios, but in this research only three ratio classifications are used, namely Solvency Ratios, Activity Ratios and Profitability Ratios .

Solvency Ratio (Debt to Asset Ratio)

Debt to Asset Ratio is a measure that shows how much a company is financed by debt compared to total assets. A high ratio indicates the dominance of debt in the company's funding, which can make it difficult to obtain additional loans. Conversely, a low ratio indicates less funding from debt (Fahmi, 2020: 131-132).

Activity Ratio (Total Asset Turnover)

According to Fahmi (2020:137), the activity ratio is a ratio that assesses the extent to which a company manages its resources to support activities. From the results of calculating this activity ratio, it will be seen whether the company is efficient or effective in managing the company's assets or resources or vice versa. The activity ratio in this research is total asset turnover. Total Asset Turnover is a ratio to calculate the effectiveness of a company's asset turnover, or in other words, it measures how many sales are obtained from each rupiah of assets.

Profitability Ratio (Return on Assets)

Hery (2015: 227) explains that profitability ratios are ratios that describe a company's ability to generate profits. The profitability ratio in this research is Return on Assets. Return on Assets is a ratio to measure a company's ability to generate profits through the use of all assets owned. If the results of measuring the ratio are high, it shows that the company has the ability to utilize its assets well to obtain profits.

Previous Research

The following are several results of previous research that are related and also serve as references for this research. Yasmine & Dillak (2021) research entitled "The Influence of Debt to Equity Ratio, Total Asset Turnover and Company Size on Profit Growth". The object of this research is companies operating in the basic and chemical industries listed on the Indonesia Stock Exchange from 2016 to 2019. The results of this research show that the debt to equity ratio partially has a significant negative effect on profit growth, while Total Asset Turnover and company size has no partial effect on profit growth.

Then researched "The influence of Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) on Profit Growth in Food and Beverage Companies listed on the Indonesia Stock Exchange in 2017 - 2019" . After conducting research, it was found that the results of Return on Assets (ROA), Return on Equity (ROE) and Net Profit Margin (NPM) partially had a significant positive effect on profit growth.

Next, Jie & Pradana (2021) examined "The Effect of Debt to Asset Ratio, Return on Assets, Total Asset Turnover and Current Ratio on Profit Growth of Manufacturing Companies in the Consumer Goods Industry Sector listed on the IDX for the 2016-2019 Period" showed that the results of the four independent variables were selected, only one independent variable has a significant positive effect on partial profit growth, namely the total asset turnover ratio. Meanwhile, the Debt to Asset Ratio, Return on Assets and current ratio have no effect on profit growth.

Ardiyanto et al. (2020) conducted research entitled "The Influence of Return on Assets, Return on Equity, Earning per Share and Price to Book Value on stock prices". The research objects chosen were companies listed in the LQ-45 index on the Indonesia Stock Exchange for the 2014-2018 period. The results of this research are that return on equity, earnings per share, and price to book value have a significant effect on stock prices, while Return on Assets has no effect on stock prices.

Next is research entitled "Financial Ratios and Their Influence on Profit Growth" by Fadilla & Rahadi (2019). This research attempts to see the influence of financial ratios represented by the current ratio, total asset turnover and net profit margin. The object of this research is manufacturing companies in the food and beverage sub-sector for the 2015-2018 period. The research conclusion is that the current ratio has a significant negative effect on profit growth, while total asset turnover and net profit margin have no effect on profit growth.

Another research was conducted by Fawzan & Nusa (2018) with the title "The Influence of Debt to Asset Ratio (DAR) and Current Ratio (CR) on Profit Growth" in food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the 2010-2017 period." This research shows that the debt to asset ratio has a significant positive effect on profit growth, while the current ratio has a significant negative effect on profit growth.

Safitri & Mukaram (2018) research on "The Influence of ROA, ROE and NPM on Profit Growth in Consumer Goods Industry Sector Companies listed on the Indonesia Stock Exchange" during the 2010-2015 period. This research shows that there is a significant positive influence of return on assets and net profit margin on profit growth.

The latest research is "The Influence of Total Asset Turnover (TATO), Return on Assets (ROA), and Net Profit Margin on Profit Changes in Automotive Sector Companies Listed on the Indonesia Stock Exchange (BEI) in 2012-2015" by Chasanah & Adhi (2017). The research results show that return on assets has a significant positive effect on profit growth, while net profit margin has a significant negative effect on profit growth.

Research Hypothesis

Fawzan & Nusa (2018) research shows that the Debt to Asset Ratio has a significant positive effect on profit growth, therefore a hypothesis was formed:

H_1: Debt to Asset Ratio has a positive effect on Profit Growth

Research by Jie & Pradana (2021) concludes that total assets turnover has a significant positive effect on profit growth, thus the next hypothesis is:

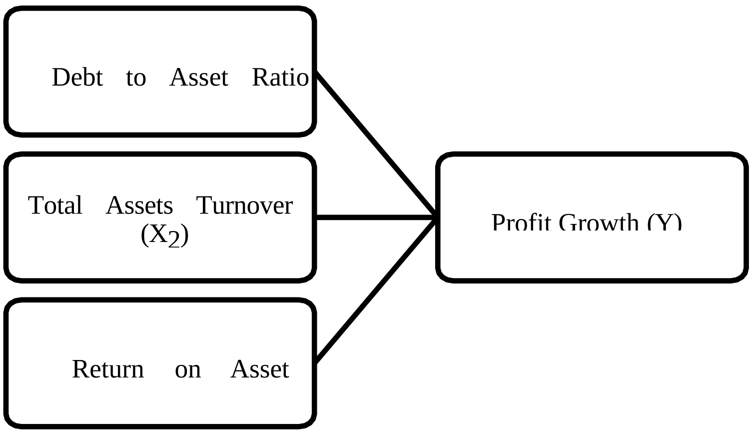
H_2: Total Assets Turnover has a positive effect on Profit Growth

The results of research by Lestari & Sulastri (2021), the ratio that shows a significant influence and positive correlation on profit growth is Return on Assets, so the final hypothesis of this research is:

H_3: Return on Assets has a positive effect on Profit Growth

RESEARCH METHOD

This type of research is based on the level of explanation in associative form. The independent variables consist of Debt to Asset Ratio (X_1), Total Assets Turnover (X_2), and Return on Assets (X_3) while the dependent variable is profit growth (Y). The data analysis method in this research is panel data regression which is processed using Eviews 12. The influence of independent variables on profit growth is described in the following framework:



Source: Researcher (2023)

Figure 1 Research Framework

The research population is public health sector companies listed on the Indonesia Stock Exchange during the 2017-2021 period. The research sample was taken using a purposive sampling technique. The following is the sample selection process.

Table 1. Sample Selection Process

No	Criteria	Quantity
1	Health sector public companies listed on the IDX during the 2017 to 2021 period	9
2	Health sector public companies that have incomplete financial reports from 2017 to 2021	(3)
3	Health sector public companies that experienced losses in the period 2017 to 2021	(3)
4	Health sector public companies that do not use the rupiah currency in their financial reports from 2017 to 2021	0
	Companies that meet the criteria	3

Source: Researcher (2023)

Based on the sample selection process, the sample companies in this study are three public health sector companies listed on the Indonesia Stock Exchange during the 2017-2021 period, as shown in table 2.

Tabel 2. Research Sample

No	Company Name
1	Kalbe Farma Tbk (KLBF)
2	Industri Jamu dan Farmasi Sido (SIDO)
3	Tempo Scan Pacific Tbk (TSPC)

Source: *www.idx.co.id*

RESULT AND DISCUSSION

Descriptive Statistics

The results of descriptive statistical tests using Eviews 12 can be seen in table 3.

Table 3. Descriptive Statistics

	Profit Growth (Y)	DAR (X_1)	TATO (X_2)	ROA (X_3)
Mean	0.10331	0.20545	0.67237	0.09275
Maximum	0.43270	0.34660	1.31300	0.30990
Minimum	-0.07100	0.06540	0.18630	0.02710
Std Dev.	0.11207	0.08480	0.33051	0.06102
Observation	60	60	60	60

Source: Processed Data (2023)

In table 3 it can be seen that the highest value of profit growth was 0.43270 which occurred at Tempo Scan Pacific Tbk in the first quarter of 2020, then the lowest value was -0.07100 which occurred at PT Industri Jamu dan Farmasi Sido Muncul in the second quarter of 2017, with standard deviation of 0.112207. In DAR, the highest value was 0.34660 which occurred in Tempo Scan Pacific Tbk in the second quarter of 2017, then the lowest value was 0.06540 which occurred in the Sido Herbal Medicine and Pharmaceutical

Industry in the first quarter of 2017, with a standard deviation of 0.08480. Then the TATO variable has the highest value of 1.31300 which occurred at Tempo Scan Pacific Tbk in the fourth quarter of 2019, then the lowest value was 0.18630 which occurred at Tempo Scan Pacific Tbk in the first quarter of 2018, with a standard deviation of 0.33051. Furthermore, the last variable, namely ROA, has the highest value of 0.30990 which occurred at PT Industri Jamu and Farmasi Sido Muncul in the fourth quarter of 2021, then the lowest value was 0.02710 which occurred at Tempo Scan Pacific Tbk in the first quarter of 2019, with a standard deviation of 0.06102.

Panel Data Regression Model

Through model selection, the best one is the Common Effect Model (CEM), as a regression equation based on table 4:

Table 4. Common Effect Model (CEM)

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.008179	0.052328	0.156313	0.8763
DAR	0.325043	0.207400	1.567225	0.1227
TATO	-0.145070	0.050195	-2.890155	0.0055
ROA	1.357376	0.306269	4.431967	0.0000

R-squared	0.299057	Mean dependent var	0.103308
Adjusted R-squared	0.261506	S.D. dependent var	0.112072
S.E. of regression	0.096310	Akaike info criterion	-1.778156
Sum squared resid	0.519431	Schwarz criterion	-1.638533
Log likelihood	57.34468	Hannan-Quinn criter.	-1.723542
F-statistic	7.964119	Durbin-Watson stat	0.989927
Prob(F-statistic)	0.000164		

Source: Processed Data (2023)

Classic Assumption Test

The classical assumption test consists of the normality test, multicollinearity test, and heteroscedasticity test. Following are the results of each test:

1. The results of the normality test in this study are that the data is normally distributed or, in other words, the data has no significant differences.
2. From the results of the multicollinearity test, it is known that all independent variables Debt to Asset Ratio, total asset turnover, and Return on Assets are not affected by multicollinearity problems.
3. The results of the heteroscedasticity test using the Glejser test method show that in the model there are no symptoms of heteroscedasticity

Hypothesis Test

This research tests the hypothesis regarding the influence of the variables Debt to Asset Ratio (DAR), Total Asset Turnover (TATO), and Return on Assets (ROA) on company profit growth. The test was carried out using the t test to see the partial influence of each independent variable. The t test results show that the TATO and ROA variables have a significant effect on profit growth, while the DAR variable does not have a significant effect. Next, the coefficient of determination test (adjusted R^2) is used to measure how much ability DAR, TATO and ROA have in explaining variations in profit growth. The results show that 26.15% of the variation in profit growth can be explained by these three variables, while the remaining 73.85% is influenced by other variables outside this research model.

Interpretation of the Results

The following is an interpretation regarding the influence of Debt to Asset Ratio, Total Asset Turnover and Return on Assets on the profit growth of health companies listed on the IDX for the 2017-2021 period based on table 4.

$$PG = 0.008179 + 0.325043\ DAR - 0.145070\ TATO + 1.357376\ ROA$$

The Effect of Debt to Asset Ratio on Profit Growth

The research results show that the Debt to Asset Ratio has been proven to partially have no influence on the profit growth of health companies listed on the IDX for the 2017-2021 period. Based on table 4, the probability value of the Debt to Asset Ratio in the t test shows a number greater than 0.05, namely 0.1227. This means that whatever the size of the change in the Debt to Asset Ratio, it is not followed by an increase or decrease in profit growth so that **H_1 is rejected**. Although the Debt to Asset Ratio (DAR) can provide an idea of the use of debt or loans in a business to increase profits or losses, DAR does not always correlate directly with profit growth. DAR is closely related to how a company manages its debt relative to the amount of assets it owns.

The opinion of Cahyati & Hartikayanti (2023) states that DAR does not only influence profit growth, because DAR actually measures the extent to which the company can utilize the debt properly and optimally to increase the company's investment assets or strengthen the production process, which in the end is expected to maximize profits obtained. The results of this research are in contrast to research by Fawzan & Nusa (2018) which states that the Debt to Asset Ratio has a significant positive effect on profit growth. Even though it has different results from Fawzan & Nusa's (2018) research, it is in line with Jie & Pradana's, 2021) & research which has results namely that the Debt to Asset Ratio has no partial effect on profit growth.

The Effect of Total Asset Turnover on Profit Growth

The probability value of the Total Asset Turnover t test in table 4 shows a value of 0.0055 < 0.05. With a probability value that is smaller than 0.05 and a coefficient value of -0.145070, it can be concluded that Total Asset Turnover partially has a negative effect on the profit growth of health companies listed on the BEI for the 2017-2021 period, so **H_2 is rejected**, namely Total Asset Turnover has a positive effect on profit growth. . This is different from previous research by , which showed that there was a positive and significant influence of TATO on profit growth.

According to Shinta & Laksito (2014), the asset turnover ratio can be used as an indicator of a company's efficiency in generating income from its assets. The higher the TATO, the more efficient the company is in generating income from its assets. However, in this research, the negative effect of TATO on profit growth shows that the company is unable to manage its asset turnover effectively, resulting in a decrease in profits. This finding is in line with research by Mardiana et al. (2021) which also states that TATO has a negative effect on profit growth. Overall, this research shows that an increase in TATO of 1 percent, assuming other independent variables remain constant, will cause a decrease in profit growth, indicating ineffective use of assets in generating sales and profits for the company.

The Effect of Return on Assets on Profit Growth

Based on the t test results in table 4, the probability value shows a result below 0.05, namely 0.000 with a positive coefficient value of 1.357376. Therefore, it can be concluded that Return on Assets partially has a positive effect on profit growth and **H_3 is accepted**. This finding is in line with several previous studies, such as Lestari & Sulastri (2021), Safitri & Mukaram (2018), and Chasanah & Adhi (2017), which also stated that ROA has a positive effect on profit growth. However, Agustinus (2021) research results show different results, where ROA has no effect on company profit growth. The positive influence of ROA in this research indicates that capital invested in company assets has a positive impact on company profits. The higher the company's ROA, the more efficient the company is in utilizing its assets to generate profits.

CONCLUSION

This research aims to analyze the influence of Debt to Asset Ratio, Total Asset Turnover, and Return on Assets on the profit growth of health sector companies listed on the Indonesia Stock Exchange (BEI) during the 2017-2021 period. Based on the results of the analysis and discussion of three sample companies using the panel data regression model, it can be concluded that the Debt to Asset Ratio has no significant effect on profit growth, Total Asset Turnover has a significant negative effect on profit growth, and Return on Assets has a significant positive effect on profit growth.

For further research, the author proposes to increase the number of samples so that more data is used and the results are more accurate and can be generalized to the industry in general. An example of an industry that can be considered is the manufacturing industry. In addition, it is advisable to distinguish between internal and external factors of the company in research on profit growth. Internal variables such as the return on equity and external variables such as the inflation rate, economic growth, and level of competition can be of concern in further research.

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