THE INFLUENCE OF FINANCIAL LEVERAGE RATIO COMPANY PROFITABILITY (CASE STUDY PT. AGRO MEDIKA)

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Abtract

The economy is constantly changing, and business competition is getting stronger, which forces managers to continue to increase the profitability or profits of their companies by developing and explaining their business. The profitability ratio used by researchers as a metric in this study is called ROE (Return on Equity). The leverage ratio measures the extent to which total assets are funded by owners compared to funding provided by lenders. The company's goal is to adopt a leverage policy, namely, to increase and maximize the wealth of the owner of the company itself. Based on research conducted at PT. Agro Medika and analysis supported by underlying theories, researchers draw conclusions simultaneously Debt to Asset Ratio (DAR), Debt to Equity Ratio (DER), Long Term Debt to Equity Ratio (LTDtER), Interest Earned Time (TIE) and Coverage fixed costs (FCC) has a significant impact on profitability.

Keywords: profitability, financial performance, leverage

Introduction

The economy is constantly changing and business competition is getting stronger, which forces managers to continue to increase the profitability or profits of their companies by developing and explaining their business. Therefore, the company needs a very large fund to increase the profits of the company. For companies as a whole, the issue of profitability is more important than the issue of profit, because a large profit in itself is not an indicator that the company was operating efficiently. New efficiency can be learned by comparing these profits or, in other words, by calculating the level of profitability. The profitability ratio used by researchers as an indicator in this study is called ROE (*Return on Equity*). This ratio shows the ability of a company with its own capital working in it to make a profit. An increase in ROE indicates a company's good financial performance in terms of generating profits, since an increase in equity is followed by an increase in net income, and a decrease in ROE indicates that the company's activities are not conducive to profit.

Under these conditions, a company can meet its funding needs by prioritizing sources of funds that come from internal or within the company, but due to the growth of the company, this leads to an increase in funding needs, so that companies can use sources of funds to meet these sources of funding. from outside the company, namely borrowed funds. The use of borrowed funds (Leverage) gives huge advantages as a source of additional funds for the company. The leverage ratios used by researchers as indicators in this study are debt-to-asset ratio (DAR), debt-to-equity ratio (DER), long-term debt-to-equity ratio (LTDTER), interest time earned (TIE), and fixed coverage expenses (FCC).

This article aims to determine the impact of debt-to-asset ratio on profitability , determine the impact of debt-to-equity ratio on profitability , determine the impact of long-term debt-to-equity ratio and leverage ratio on profitability , determine the impact of time Interest accrued on profitability , to determine the magnitude of the impact covering fixed payments on profitability and to determine the magnitude of the impact of debt-to-asset ratio, debt-to-equity ratio, long-term debt-to-equity ratio, interest timing and fixed costs. Coverage at the same time on Profitability is carried out on PT. Agro Medika.

Literature Review

2.1 Financial statements

Financial statements are an important source of information because financial statements describe the health or financial position of a company. According to Sutrisno (2009:9), financial statements are the end result of an accounting process that includes two main reports, namely (1) a balance sheet and (2) an income statement. Financial

statements are prepared for the purpose of providing the company's financial information to stakeholders as material for consideration in decision making . Accounting reports that contain such information are called financial statements. The main financial statements, according to Warren (2005:24), consist of profit and loss statements, equity statements, balance sheets, and cash flow statements.
Users of financial statements and their need for financial information can be grouped as follows: Investors or Owners. Lenders, Suppliers, Employees, Customers, State, Society. The prepared financial statements are reports of the final results of the accounting process. Each transaction that can be measured in money is recorded and processed in such a way that it becomes the final report presented in the money report (Deanta, 2009:3).

2.2 Analysis of financial statements

The analysis of financial statements begins with a sufficient understanding of financial statements, namely balance sheets, income statements, and cash flow statements. Despite this, each company operates in its own industry, so in order to deepen the understanding of the industry, it is also necessary analysis context. In its development, analysis that specializes in certain industries is considered more expert (Toto Prihadi, 2010:1). According to Kasmir (2013: 68), there are several goals and benefits for different parties when analyzing financial statements. In general, it is said that the goals and benefits of financial statement analysis are: Finding out the financial position of the company in a certain period, both assets, liabilities, capital, and performance results that have been achieved over several periods; Find out what weaknesses the company lacks; Find out the strengths that he possesses; Find out what corrective steps need to be taken in the future, related to the current financial position of the company; To evaluate the future work of management, whether it needs to be updated or not, because it is considered successful or unsuccessful; It can also be used to compare with similar companies in terms of the results they achieve.

2.3 Financial performance

The definition of financial ratios according to James S. Van Horn is an index that links two accounting numbers and is obtained by dividing one number by another. Financial ratios are used to assess the financial condition and performance of the company. Based on the results of these financial ratios, the health status of the respective company will be visible.

2.4 Leverage Ratio (Leverage Ratio)

Leverage ratio measures the extent to which total assets are funded by owners compared to funding provided by lenders. The company's goal is to adopt a leverage policy , namely to increase and maximize the wealth of the owner of the company itself. Typically, the use of a solvency ratio or leverage ratio is adjusted to reflect the company's objectives. This means that companies can use the leverage ratio in whole or in part from each existing type of solvency ratio. According to Kasmir (2013: 155), there are five leverage ratios that companies can use when calculating the following metrics: debt-to-asset ratio (debt ratio), debt- to-equity ratio, long-term debt-to-equity ratio (LTDTER), amount of interest earned , fixed cost coverage (FCC).

2.5 Profitability

Profitability ratios play a very important role in the analysis of financial statements, especially for investors or creditors when considering the results of a company's investment. This profit ratio is useful for measuring a company's profit margins. The higher the level of profitability , the better the management in managing the company. According to Sutrisno (2012: 222), there are several ways to measure a company's profitability : namely: Profit margin, Return on assets (ROA), Return on equity (ROE), Return on investment (ROI), Earnings per share (EPS)

Method

The method used by the author in this study is to use a quantitative descriptive method, as explained by Nazir (2009: 54), a descriptive method is a method of examining the status of a group of people, an object, a set of conditions, a thought system, or a class of events at the present time . This study is a case study at PT. Agro Medika.

An independent variable or independent variable is a variable that causes the dependent variable to appear or change. The independent variables are also known as predictor, stimulus, input, and antecedent variables. In this study, the independent variable is the leverage ratio (X). A dependent variable or dependent variable is a variable that is affected or that results from the independent variables. The dependent variable is also known as the criterion variable, response, outcome, consequence. In this study, the dependent variable is profitability (Y).

Results and Discussion

1. Description of the object of study

PT. Agro Medika is the legal entity of AMN Subang Hospital . A new subsidiary of PTPN VIII that specifically focuses on the hospital sector, which was previously a business unit. RSPPPN VIII Built in 1914 as P &T Land PT Hospital. In 1965 it changed its name to PPN Dwikora IV Hospital. It became PP Subang Hospital in 1967. In 1979 it became the RS II PTP XIII. Replaced by RS II Subang PTP Nusantara VIII (Persero) in 1996. As of 1 July 2007, it changed its name to PTP Nusantara VIII Subang Hospital. PTPN VIII Subang Hospital is strategically located in the center of Subang City, exactly on Jl. Otto Iskandardinata No. 1 Subang, RT.04 RW.01 Kel. Soklat Subang Regency.

2. Descriptive analysis

Debt to Assets is a debt ratio used to measure the ratio between total debt and total assets. The formula for determining the ratio of debt to assets is as follows :

Debt to Asset Ratio = (total debt) / (total assets)

Development of the debt-to-asset ratio in PT. Agro Medika Nusantara :

Table 1. Dynamics of the ratio of debt to assets PT. Agro Medika from 2009 to 2020

Year	PT. Agro Medika		
	Total debt	Total assets	GIFT (attitude)
2009	5 205 296	7 719 791	0.67
2010	4 990 592	7 647 642	0.65
2011	5 366 846	7 520 403	0.71
2012	5 481 781	7 324 210	0.75
2013	4 967 178	7 065 846	0.70
2014	4 950 893	7 208 250	0.69
2015	5 137 054	7 674 980	0.67
2016	3 949 183	7 265 366	0.54
2017	3 611 246	10 437 249	0.35
2018	3 423 241	10 950 501	0.31
2019	3 750 461	12 168 517	0.31
2020	6 122 043	14 894 980	0.41
General			6.77

Average	1.04
Maximum value	0.75
Minimum value	0.31

Source: PT Financial Statement. Agro Medika Nusantara (data processed by researchers)

you can see the company's debt-to-asset ratio evolve from year to year. The value of the debt-to-asset ratio in 2009-2020 was 7.77, with the lowest value reached in 2018 and 2019, which was 0.31, and the highest value was reached in 2012, which was 0.75.

Table 2. Dynamics of the ratio of *debt-to-equity* PT. Agro Medika Nusantara from 2009 to 2020

Year	PT. Agro Medika		
	Total debt	capital	MED (ratio)
2009	5 205 296	2 508 495	2.08
2010	4 990 592	2 657 050	1.88
2011	5 366 846	2 153 557	2.49
2012	5 481 781	1 842 429	2.98
2013	4 967 178	2098668	2.37
2014	4 950 893	2 257 357	2.19
2015	5 137 054	2 804 264	1.83
2016	3 949 183	3 314 890	1.19
2017	3 611 246	6 826 003	0.53
2018	3 423 241	7 527 260	0.45
2019	3 750 461	8 418 056	0.45
2020	6 122 043	8 722 947	0.70
General			19.14
Average			2.94
Maximum value			2.98
Minimum value			0.45

Table 2 shows the change in the debt-to-equity ratio from 2009 to 2012, which was 19.14, the lowest was in 2018 and 2019, which was 0.45, and the highest was in 2005, which was 2 .98.

Table 3. Dynamics of the long-term ratio of debt-to-equity PT. Agro Medika from 2009 to 2020

Year	PT. Agro Medika		
	Long-term loans	capital	LTDTER (Coefficient)
2009	4 936 101	2 508 495	1.97
2010	4 650 409	2 657 050	1.75
2011	5 013 214	2 153 557	2.33
2012	4 814 435	1 842 429	2.61
2013	4 111 360	2098668	1.96
2014	3 852 510	2 257 357	1.71
2015	4 133 420	2 804 264	1.47
2016	2 786 641	3 314 890	0.84
2017	2 255 416	6 826 003	0.33
2018	1 739 442	7 527 260	0.23
2019	2 193 586	8 418 056	0.26
2020	2 859 989	8 722 947	0.33
General			15.79
Average			2.43

Maximum value	2.61
Minimum value	0.23

3. Multiple Linear Regression Analysis

Multiple linear regression analysis, the purpose of which is to determine the degree of influence of independent variables, namely the ratio of debt to assets, the ratio of debt to equity, the ratio of long-term debt to equity, interest accrual time and coverage of fixed costs on the dependent variable, namely the presented return on return on equity (ROE). Data processing results for the multiple linear regression model:

Table 2 . Table of multiple linear regression coefficients

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	-,058	,076		-,764	,474
	DAR	,724	,095	,915	7,653	,000
	DER	,284	,105	1,491	2,713	,035
	LTDtER	-,552	,126	-2,792	-4,380	,005
	TIE	-,018	,006	-,493	-3,258	,017
	FCC	,019	,003	,590	6,188	,001

a. Dependent Variable: Profitabilitas

Conclusion

Based on research conducted at PT. Agro Medika Nusantara and analysis, backed up by the underlying theories, the researchers concluded that:

a) The debt-to-asset ratio (DAR) has a significant positive impact on profitability . The debt to equity ratio (DER) has a significant positive impact on profitability.
b) Long-term debt-to-equity ratio (LTDTER) negatively impacts profitability
c) The amount of interest earned (TIE) negatively impacts profitability
d) Covering fixed costs has a significant positive impact on profitability
e) the debt-to-asset ratio (DAR), debt-to-equity ratio (DER), long-term debt-to-equity ratio (LTDtER), interest time earned (TIE) and fixed cost coverage (FCC) have a significant impact on profitability.

From the output, the coefficient of determination or R-squared in Table 4.14 is 0.971 or 97.1 %. This shows that debt-to-asset ratio (DAR), debt-to-equity ratio (DER), long-term debt-to-equity ratio (LTDtER), interest time earned (TIE), and fixed cost coverage (FCC) all have a strong impact on profitability at the same time. . is 97.1%, while the remaining 2.9% is influenced by other unexplored factors or variables such as liquidity ratios, market ratios and activity ratios. With the value of the coefficient of determination (R2) equal to 0.971 and close to 1, we can conclude that the level of connection is very strong.

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