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Effect of Current Ratio, Net Profit Margin, Debt Equity Ratio, Return onEquityonFinancial Distress

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Abstract. The purpose of the study was to provide empirical evidence regarding the current ratio, net profit margin, debt-equity ratio, return on Equity, to financial distress. The dependent variable in the study is financial distress using the Altman z-score method. The current ratio is specified in this study as the ratio of existing assets to current liabilities; the net profit margin is defined as the ratio of current year profit to sales; the return on Equity is defined as the ratio of current year profit to company equity, and the debt-equity ratio is defined as the ratio of liabilities to current year profit. The sample in this study was 96 data from 24 goods and consumption sector manufacturing companies listed on the Indonesia Stock Exchange in 2016-2019. This study used purposive sampling techniques. Data analysis techniques are utilized using multiple linear regression methods. The results also showed that the Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity simultaneously had a significant influence in predicting financial distress in the company. In contrast, the results of the hypothesis test study partially showed that the current ratio, debt-equity ratio, return on Equity had a significant influence.Favorabletofinancialdistress. Meanwhile, the net profit margin harmseconomicdesperation.

Keywords: financial distress, model Altman z-score, current ratio, net profit margin, debt-equity ratio, return on Equity

I. INTRODUCTION

Financial distress indicates a condition where the company is experiencing financial difficulties and is threatened not to maintain it (Atmaja, 2008). Financial problems show the challenges that are often encountered by manufacturing companies in the consumer goods sector. The number of small and large companies that go bankrupt is caused by economic conditions that affect the company's activities and performance. Financial statements can be used as a benchmark of the bankruptcy of a company. Analysis of financial statements shows it is crucial to predict the sustainability of a company's s establishment. These predictions are significant for company owners and management to prevent the possibility offinancial distress. Financial distress indicates a decrease in the financial condition experienced by a company that occurred before going into bankruptcy. Financial difficulties experienced by a company can make investors, prospective investors, and creditors reluctant to invest. If the solution to this problem is not common ground, the company will certainly go bankrupt. If the losses experienced by the company last for two consecutive periods, it can be estimated that the company is experiencing financialdistress (Agusti, 2013).

In general, the current ratio is often used to analyze the company's working capital position by comparing the number of existing assets with current debt(Ginting, 2017).The current ratio is used to determine how much capacity the business has to meet its commitments.In the study, Current assets can be used to pay short-term, time-consumed finances affected by the current ratio. This is because the ability to pay debts smoothly shows essential things in the company's activities and a picture of the company's debt relationship with creditors.

Net Profit Margin (NPM) shows the comparison of operating profit with sales. This ratio describes the percentage of net income received by the company in each deal, as it includes all elements and cost revenue(Kasmir, 2014).stated that Net Profit Margin(NPM) has a significant effect on financial distress. The higher the profit margin ratio, the better the company's ability to get a profit. Companies withhigh Net Profit Margin (NPM) will not experience financial difficulties because high profits will not lower economic conditions.

Rikah (2016) states that the Debt Equity Ratio (DER) shows the relationship between the long-term amount and the capital itself given to the company'sowner. Definesthe debt-equity ratio used to measure how much total money alone is financed by total debt. Supposethe debt-equity ratio is getting more minorthan the company's ability to pay debt tetter and the greater the debt-equity percentage. In that case, the company's ability to pay debts is getting worse. Companies that cannot afford debts will be liquidated because they are considered to have gone bankrupt(Sartono, 2001).

The valuation oftheincome of the owners of the company related to the capital they have invested in the company is called Return On Equity(Rohmadini, 2018).Return on Equity (ROE) or a company's capacity to generate profits based on a comparison of net profit to cost Equity was used by shareholders to evaluate a company's ability to create net income concerning dividend income.

However, thatdistinguishesthis study frompreviousresearch by addingthe ReturnonEquity (ROE)variableand the researchobjectandyearof analysisused.Researchersusedresearchobjectsonconsumergoodsmanufacturingcompanies on the Indonesia StockExchange in2016-2019.Based on the explanation above, the purpose of thisstudyistoexaminewhat factorsaffectfinancial distress inconsumergoodsmanufacturingcompanieslisted on theIDX in2016-2019 andas material. Evaluationandimprovement of the company where thecompanyneeds toanticipatefinancial distress so that this testing will benefit therelevant parties.

II. LITERATUR REVIEW

Signaling Theory

The signaling theory was first proposed bySpence (1973).The signaling theory states that signsrelated to theconditionand picture ofacompanydiscusstheinstability of increasesandpricedeclines in the market to affectshareholderdecisions. According to Hendrianto, in the theory of financial distress, it is said thatmanagers issue liberal accounting if the company'sfinancial condition isexcellentandstable. In contrast,managerswillholdconservativeaccountingifthecompany'sfinancialsituation is poorand its existence is doubtful. (Muflihah, 2017). According toKhairudin and Wandita (2017), aninvestorconsidering anddeterminingwhethertoinvestinacompanyneedsrelatedinformationthatshowssignaling theory.Signaling theoryputs forward theirport issued by the company againstthe decision of a shareholder as anoutside party.

Agency Theory

According to agency theory, agency theory describes agency relationships as contracts between one or more people(principals)involving others(agents)to carry out some services under the nameof principalinvolving delegation of authority to the agent. Compared to principals, managers as agents have excellent information regarding the company's operations, and selfish managers are likely to engage in illegal or manipulative activities to increase one's wealth

Current Ratio

Harahap (2013) defines the current ratio as acompany'sabilityto pay off itsshort-term debt with existing assets. This ratio can be calculated by comparing existing assetsdivided by existing debt. The greater the current ratiovalue, the smaller the financial distress. The company has some liquid assets such as cash or money used to pay offits debt and finance its operational activities in the transaction period. The company does not experience financial difficulties orbankruptcy. States that the current ratio shows the general ratio used in analyzing a company's working capital position by comparing the number of existing assets with existing debt.

Net Profit Margin

In obtainingsalesprofits generated byacompany,themanagementuses Net profitmarginas a benchmark. Profit marginis usedto calculate a company'sabilityto generateearnings on certain sales (Kasmir, 2014). The profit margin ratio can be used asanexternalconsideration in making decisions related to the company. This is seen in thecompany's financial statements. This ratio is used to measure net income on sales and describe the company's net income on total sales(Fahmi, 2015).

Debt Equity Ratio

Brigham and Houston (2009) definesthe Debt Equity Ratio (DER)asthe oracle usedto calculate total capital financed with incremental debt. The higherthe debt-equityRatio (DER), the greatertheburden borne by the company on outsiders, thuslowering the company's performance because the level ofdependence on outsiders is higher. DebtEquity Ratio (DER)shows the relationship between the long-term amount and the capital itself given to the owner of the company

Return on Equity

The Return on Equity (ROE) ratio is used to determine how well a business utilizes its resources to generate a return on Equity. It is computed using accounting-based performance indicators and equals net income divided by common shareholders'Equity. Equity The next section discusses the return on Equity, which measures the revenue (income) provided to business owners on the money they have put in the business.

Financial Distress

Financial distress is a condition in which the company experiences economic sustainability.Companies that are in financial difficulty are companies that have an interest coverage ratio(ratio of operating profit to interest expense) of less than 1 (one)(Wardhani, 2007). Next according tofinancial distress shows the term used by the company to describe the company's financial condition when experiencing difficulties. Financial distress starts from thecompany'sinability to meet its obligations, especially short-term obligations, including liquidity obligations and liabilities in the solvency category. Theeconomic distress condition of a company must be known early so that the company's management can take initial actions in anticipation of the company leading to bankruptcy(Agusti, 2013).Supposethe businessshows a negativenumber on operating profit. In that case, net income and equity book value and the company'semerging, the company can be categorized as experiencing financial distress(Sarinaet al., 2020).

III. RELATIONSHIPS BETWEEN VARIABLES

Relationship between Current Ratioand Financial Distress

The higher the current asset comparison result, the higher thecompany'sability to cover its short-term liabilities. The greater the current ratio value of a company, the better the company's condition so that it will be far from financial distress. This is because the ability to pay debts smoothlyshows essential things in the company's activities, as well as being a picture of the company's debt relationship with creditors in the study, Yuliana et al. (2020) gave results if the current ratiopositively influences the possibility of financial distress. Nextconcluded that the current ratio has a positive effect on financial distress. The currentratio can affect the ability to pay all short-term financial liabilities at maturity using current assets.

$H_{1:}$Current ratio has a positive effect on thecompany's financialdistress.

Net Profit Margin (NPM) and Financial Distress

The greater thecompany's net profit margin, the higher the level ofshareholdertrustbecause the company is considered productive, thus indicating the slightpossibility of the companyexperiencing financial distress. It can be used asinformation. Forshareholdersin investment decision making in provided results that net profit margin has a positive influence on the prediction of financial distress that occurs in the company. It was stated that net profit margin has a significant positive effect on financial distress. The higher the profit margin ratio, the better the company's ability to get high profits.

H_2: Net profit margin positively affects the company’s financialdistress.

Relationship debt-equityratio (DER) and financial distress

The lower the debt-equity ratio, the companycan pay off the debtwithoutrisk too much interest in the owner of capital. The total amount of assets must be greater than the total number of liabilities for thedeficit to be covered by the company's assets(Masud, 2011).Which demonstrated that the debt-to-equity ratio has a statistically significant beneficial effect on financial hardship. Furthermore, basedondebt-equity ratio has a positive influence onfinancial distress.

H3: debt-equityratio has a positive effect on the company’s financial distress.

Relationship of Return on Equity (ROE) and Financial Distress

The higher the profit generated, the possibility of a budget that is not usedby the company. Ife, if this is not considered it can be as curtained thatthecompanyexperiencedbankruptcy beforeexperiencing financial difficulties(Masud, 2011).In which gave the results that the ratio of return on Equity has a significant positive effect on financial distress that return on Equity has a positive influence on economicdesperation.

$H_{4:}$ Return on Equity has a positive effect on the company’s financialdistress.

Relationship Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on EquityandFinancial Distress.

Current ratio can affect the ability to pay all short-term financial liabilities at maturity using existing assets. The higher the recent asset comparison result, the higher thecompany'sability to cover its short-term liabilitiesGinting'sresearch states that the current ratiopositively influencesfinancial distress.Net profit margin is very significant to financial distress with the higher the profit margin ratio, the better the company's ability tohigh profitsThenstated that it provides the debt equity ratio has a significant favorable influence on financial distress.Masud research provides the debt equity ratio has a significant favorable influence onfinancial distress. The debt equity ratio the company can pay off the debt without sacrificing too much interest of the owner of capital.It can be said that the higher the profit obtained allows the existence of funds that are idle or not used by the company's funds following, which supposed needs. which provides results that the return on equity ratio has a significant positive effectonfinancial distress.

$H_{5:}$ Current ratio, net profit margin, debt-equity ratio, return on Equity simultaneously affectthe company’s financial distress.

IV. RESEARCH MODEL

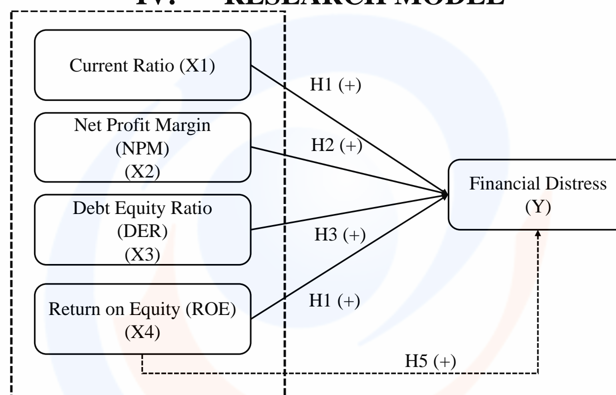

Figure 1 Research Model

Information:
---------: The overall influence of independent variables Current Ratio, Net Profit Margin (NPM), Debt Equity Ratio (DER), andReturnonEquity (ROE) together (simultaneously) on financialdistress dependent variables.
———The effect of each independent variable current ratio, net profit margin (NPM), debt equity ratio (DER), andreturnonEquity (ROE)partially on the dependent irregulate financial distress.

V. RESEARCH METHODOLOGY

There is one dependent variable in this study, which is financial distress, and four independent variables, which are the current ratio, net profit margin (NPM), debt equity ratio (DER), and return on Equity (ROE), Current Ratio is determined by dividing current assets by current liabilities. Net Profit Margin (NPM) is computed by dividing its net revenue generated on each sale by its current liabilities.(Harahap, 2011).Debt Equity Ratio(DER) bydividingthe totaldebt to bepaidby the company in cash to thelenderbyReturn On Equities (ROE)withreturnsonordinaryequityandnetincomeagainstcommonEquitythatmeasures the rate of returntypical onshareholderinvestment.The studyusedthe Altman Z-Scoremethod

The research design used is causal research that shows research to investigate causal relationships that always involve one or more independent variables or causes of the research hypothesis and its relationship to one or more dependent variables (Rina,In casual research using quantitative shortness because this study investigated the influence of Current Ratio, Net Profit Margin(NPM),Debt Equity Ratio(DER), and Return On Equity(ROE) on financial distress by proving the significant influence of independent variables on dependent variables

The population in this study is a company in the manufacturing sector of consumer goods listed on the Indonesia Stock Exchange. This study used secondary data from the company's annual financial statements sourced from the official website of the Indonesia Stock Exchange(https://www.idx.co.id)for the period2016 -2019. The sample in thisresearch was selected as many as24companiesfor4years, namely in 2016-2019, the number of financial statements sampled in tian researchwas96 financial statements. Sampling is a sampling technique used is purposive samplingspecification considerations only.

VI. RESEARCH RESULTS

Descriptive Statistical Test Results

	N	Minimum	Maximum	Mean	Std. Deviation
X1_CR	96	.58615	15.82231	3.4226860	2.50627326
X2_NPM	96	-.15337	1.90099	.1104492	.20331591
X3_DER	96	.08330	4.94652	.7812184	.82950976
X4_ROE	96	-.06592	2.24458	.1927453	.26721961
Y_FD	96	.97481	11.33930	4.7246037	2.23862779
Valid N (listwise)	96				

The descriptive statistical analysis results show that the current ratio variable has an average value of 3.42268 and a standard deviation of 2.50627. The minimum value obtained is 0.58615 whichshowsimportance of CLEO companies in 2016 and the maximum value of 15.82231 which offerimportance value of CAMP companies in 2017.For variable net profit margin has an average value of 0.11044 and a standard deviation of 0.20331. The minimum value obtained is -0.15337 whichimportance's the value of ALTO company in 2018 and the maximum value of 1.90099 importance shows the value of MERK companies in 2018.The debt equity ratio variable has an average value of 0.781218 and a standard deviation of 0.82950. The minimum value obtained is 0.08importancehichshows the value of SIDO companies in 2016 and the maximum value of 4.94importance which shows the value of SCPI companies in 2016.The return on equity variable has an average value of 0.192745 and a standard deviation of 0.26721. The minimum value obtained is -0.06importance whichshows the value of INAF companies in 201weight a maximum value of 2. indicates which indicates the company value of MERKin2018.

One-Sample Kolmogorov-Smirnov Test.

N	Unstandardized Residual 0,96	
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.86749827
Most Extreme Differences	Absolute	.080
	Positive	.041
	Negative	-.080
Test Statistic		.080
Asymp. Sig. (2-tailed)		.144[c]

Multicollinearity Test Results

Type	Collinearity Statistics	
	Tolerance	VIF
X1_CR	0.966	1.036
X2_NPM	0.317	3.154
X3_DER	0.918	1.089
X4_ROE	0.317	3.156

The normality data testaimstodeterminewhether the data is nousuallymisinformation ornot. The datais said to be normaldistribution if probability value of >0.05. The normality test result obtained a probability value of 0.114 which weighed less than 0.05. So, it was concluded that the research data was normally distributed.
The results of the multicollinearity test analysis showed that all VIF values of research variables were below the value of 10 and the more significance value indicates greater than 0.1. This shows that there is no multicollinearity in the data.

Heteroscedasticity Test Results

Type		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.404	.111		3.635	.000
	X1_CR	.085	.021	.394	4.070	.000
	X2_NPM	-.459	.450	-.172	-1.019	.311
	X3_DER	-.064	.065	-.097	-.980	.330
	X4_ROE	.408	.343	.201	1.190	.237

Heteroscedasticity test results show thatthe probabilityvalueof variableX_1is0.000 unstable ableX_2is0.311 andvariableX_3is0.330 and variable X_4is0. 237.Variables $X_{2,}$ $X_{3,}$ X_4 are smallerthan0.05. So, itwas concludedthatthere isheteroscedasticityin the data, namelyvariable$X_{1.}$

Test Result F

Type		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig
1	(Constant)	2.903	.196		14.788	
	X1_CR	.683	.037	.765	18.494	.000
	X2_NPM	-1.327	.794	-.121	-1.670	.098
	X3_DER	-1.078	.114	-.399	-9.423	.000
	X4_ROE	2.455	.605	.293	4.062	.000

The Anova test orFtest results in a significance value (0.000) smallerthan0.05 then the regression model is fit. This means that there is a simultaneous influence of independent variables on dependent variables.

Variable X	Sig	Information
X1_CR	0,000	Effect on Y
X2_NPM	0,098	It does not affect Y
X3_DER	0,000	Effect on Y
X4_ROE	0,000	Effect on Y

Partial test results of variable X whichprovide valuewith a significancelevel of <0.05then means thatthevariableaffectsvariableY.

Determination Coefficient Test Results

Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.922[a]	.850	.843	.88635913

The results of the independent variable determination coefficient test consistingofcurrent ratio, net profit margin, debt equity ratio, and return on Equity to financial distresswith the sizeof thecompanyas a variablemoderation

Value Adjusted R Square Value ($R^{2)}$0.843, meaning thatindependent variables can explain 84.3% of variation Y. Other reasons outside the model explain the rest (100%-84.3% = 15.7%).

Multiple Linear Regression Test Results

Type		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	2.903	.196		14.788	.000
	X1_CR	.683	.037	.765	18.494	.000
	X2_NPM	-1.327	.794	-.121	-1.670	.098
	X3_DER	-1.078	.114	-.399	-9.423	.000
	X4_ROE	2.455	.605	.293	4.062	.000

Based on the results of multiple linearregression tests, the equation can bedrivesfollows:

$$Y = a + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + e$$

Or

$$FD = a + \beta 1CR + \beta 2NPM + \beta 3DER + \beta 4ROE + e$$

The constant value is2.903. If the independent variable equalszero, then thevalue of Ywilldecreaseby2,903units.The regression coefficient value of β1Current Ratioispositiveat0.683. Positive valuemeans that there is a unidirectional relationship, meaningthatif variable X1increases by oneunit, then thevalue of Ywillingcreaseby0.683units. Assuming thevariables of constant magnitude.And vice versa.

The regression coefficient value of β2 Net Profit Marginisnegativeat1,327. Negative valuemeans that there is a relationshipinthe oppositedirection,meaning thatif variable X2increasesbyoneunit,then thevalueofYwilldecreaseby1,327. Unitsassumingothervariables of constant magnitude.Andvice versa.The regression coefficient value of β3Debt Equity Ratioispositiveat1,078. Apositive value means a relationship in the opposite direction, meaningthatif variable X3increases byoneunit,then the value of Ywilldecreaseby1,078. unitsassumingothervariables of constant magnitude.Andvice versa.The regression coefficient value of β4 ReturnonEquityispositiveat2,455. Positive value means that there is a unidirectional relationship, meaning that if variable X4increasesbyoneunit,then the value ofYwill increaseby2,455units. Assumingothervariables of constant magnitude.Andvice versa.

Hypothesis	ValueSignificance	Information
H1: Current ratio has a positive effect on the company's financial distress.	0.000	Accepted
H2: Net Profit Margin negatively affects the company's financial distress.	0,098	Rejected
H3: Debt Equity Ratio has a positive effect on the financial distress of the company.	0,000	Accepted
H4: Return on Equity has a positive effect on the company's financial distress.	0,000	Accepted
H5: Current Ratio, Net Profit Margin, Debt Equity Ratio, Return on Equity positively affect the company's financial distress.	0,000	Accepted

VII. DISCUSSION

The firsthypothesismultiple linear regression analysis results,namelythe Current Ratio, positively affectthe company's financial distress. SoH1was accepted, these results were in linewith the researchandprovethe current ratioan influences financial distress.Current balancecanaffect theabilitytopayallshort-termfinancialobligationsat maturityusingexisting assets. This isbecause theability topaydebtssmoothlyshowsessential things in the company's activities and apicture of thecompany'sdebtrelationshipwithcreditors.

The results of the second hypothesis of multiple linearregression analysis,namelyNet Profit Marginnegatively affect the company'sfinancialdistress. SoH2was rejected, this result isin linewith the researchandproves net profit margin does not involve financial distress.Net profit marginindicates thecompany's ability to generatenet profitfromsales. Thatmeans the more significant the net profit marginvalue suggests thatthecompanyeffectively generatesprofits. It isusedtotreat financial distress.

The results ofthe third hypothesis of multiplelinearregression analysis, namely Debt Equity Ratio,positively affectthe company'sfinancial distress. SoH3was received, these results are in linewith masud research, proving thatdebtequity ratioinfluencesfinancial distress. Becausethelower the debt equity ratio of the companycanpay offdebtwithout sacrificingtoomuch interest of the owner ofcapital. Thetotal amount of assets must begreaterthan the total

numberofliabilities forthe debt to be coveredby the company's assets.

The fourth hypothesis of multiplelinearregression analysis results,namelyReturnonEquity,positively affectscorporate financial distress.SoH4 wasaccepted,these results are in linewith masud(2011): Widati (2018)whichproves the return onEquityaffects financial distress.Return on Equity showsin measuringacompany's abilityto make aprofitbased ona comparisonofnet income withcostequitycommonlyusedincalculating the level ofreturnon theinvestmentordinaryon shareholders.
The results of thefifth hypothesis multiplelinearregression analysesare,namelyCurrent Ratio, Net Profit Margin, Debt Equity Ratio, ReturnonEquity,have a positiveeffectoncorporate financial distress. SoH5was accepted,these results are in linewithmasud (2011); Nurhidayah (2017)thatproves the effecton financial desperations.

VIII. RESULT

The data used in this study amounted to 96 data from 24 companies with consumer goods sector manufacturing company objects listed on the Indonesia Stock Exchange in 2016-2019. This study has multiple linear regression results that show the current ratio, net profit margin, debt equity ratio, return on Equitysimultaneously positively affect the company'sfinancial distress.Current ratiohas a positive effect on financial destress. Net profit marginnegatively affects financial distress. Debt Equity Ratio hasaimpact effect on financial destress. Return on Equity has a positive effect on financial distress.
In this study, several things limit the implementation of research that can affect the results of this study. The prediction model used in this study only used the model. Altman Z-Score. There are still various prediction models that can be used. Including Springate, Zmijewski, Grover, and other models. Another limitation is the question of time, matter, data, and free variables used. Based on the results of testing of the sample, the conclusions obtained, and the study's limitations, the advice that can be given to be input and improve the next research by adding other factors that can affect the research. financial distress. Then, it is expected to include independent variables that adequately explain their effect on financial distress in a particular company, industry, or service, such as return on assets, asset turnover, net working capital, company size, and debt-to-assets ratio, as well as financial distress research models. Others include Springate, ZMajewski, and Grover.
Managerial implications on research for the company are management to pay more attention tocorporate debt that is very risky for the company, if not noticed will cause financial distress. For example, suppose the companyhasexperienced financial distress. In that case, it is expected that the company can improve relations with investors, creditors, and employees so that trust remains established, and improve the company’s business activities for the better while for prospective investors to be more carefulwhendoing so.Investmentin thecompany, the decisions taken are not only focused on profit information but also consider non-financial information such as the company's financial condition and the existence of internal and external mechanisms of the company.

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