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Analysis Of Liquidity Ratio, Solvency Ratio, And Profitability Ratio To Bond Ratings In Food And Beverages Companies Listed On The Indonesia Stock

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ABSTRACT

This study aims to analyze the effect of liquidity on bond ratings for food and beverages companies listed on the Indonesia Stock Exchange for the 2016- 2020 period, to analyze the impact of solvency on bond ratings for food and beverages companies listed on the Indonesia Stock Exchange for the 2016-2020 period, to analyze the effect of profitability on bond ratings for food and beverages companies listed on the Indonesia Stock Exchange for the 2016-2020 period, and to analyze the impact of liquidity, solvency, and profitability simultaneously on the financial sector listed on the Indonesia Stock Exchange for the 2016-2020 period. This research is a quantitative study with secondary data in the form of company financial statements for 2016-2020 obtained from the Indonesia Stock Exchange or the website of each company and bond rating data published by bond rating agencies, namely PT. PEFINDO for five consecutive years. The sampling technique used the purposive sampling method. The t-test or partial test results show that solvency significantly affects bond ratings in food and beverage companies listed on the Indonesia Stock Exchange for the 2016 - 2020 period. The F test results show that the variables CR, DER, and ROA jointly positively affect Bond ratings for food and beverages companies listed on the Indonesia Stock Exchange for the 2016-2020 period. Then the coefficient of determination analysis (R2) results simultaneously explain that Liquidity, Solvency, and Profitability influence the Bond Rating variable for food and beverages companies listed on the Indonesian Stock Exchange. Indonesia Stock Exchange Period 2016 2020

Keywords: Bond Rating, Liquidity Ratio, Solvency Ratio, and Profitability Ratio

INTRODUCTION

In this era of globalization, society's need for financing is increasing. A company's activities are in dire need of funds from the capital market (Supriyanto et al., 2021). In general, a capital market is a meeting place for sellers and buyers to conduct transactions to obtain capital. The capital market is a means for investors to develop many businesses. Issuers use the capital market to meet their individual funding needs. There are various types of capital market investments in the capital market, which are also a meeting place between parties who need funds by trading securities (Supriyanto, 2021).

Securities traded in the capital market are divided into debt securities and equity securities. One type of debt securities traded is bonds (Hanifah, 2020). The bond itself is a source of corporate or government funding in the form of long-term debt securities issued with a particular value and a certain maturity by buying bonds, investors (bondholders) will get a return from the bond issuer (issuer) in the form of Coupons are paid periodically, usually every three months,

six months or once a year until maturity. In addition, investors will get back the principal value when the bonds have matured. For investors who don't like risk, two bonds can be used as an investment type other than stocks because the interest rate bonds are fixed, including bonds in fixed-income investments. The term fixed income often misleads investors who think that the value of their investment will not decrease. It will always increase with this fixed income. The investment value can be reduced from the initial investment value (Al et al., 2019).

For example, many investors are interested in buying a fixed income mutual fund containing several bonds, with the thought that it will provide a fixed income and the initial investment that keeps changing because bonds are one form of funding that a company can do to finance its acquisition. Bonds are also used as a means to strengthen the company's capital.

In Indonesia, investment in bonds is still tiny compared to investment in stocks. However, investing in bonds is more profitable than investing in stocks because investors who buy shares do not necessarily get a permanent income. This is different from bonds that provide fixed income and a predetermined maturity, so supplies have a greater risk than bonds. Bonds also claim against future income on common stock and preferred stock. In general, the bond supervisory agency can classify the company into bankruptcy (Wahyudi et al., 2021).

This shows that bondholders' claims to income are more likely to be paid off than typical stock and preferred stock, where dividends are paid according to the ability of company management. An investor who will buy bonds looks at the security level of the bonds and should pay attention to the existing risks. Although bonds are relatively safe than stocks, bonds also have a default risk—failure to pay the risk of non-payment of interest and principal debt.

One thing that investors must pay attention to when buying bonds is the bond rating. Sudana (2009:127) says that bonds are one of the ingredients to consider investors in choosing bonds issued by various companies, namely information about bond ratings. That issued by the institution serves explicitly to provide ratings for all bonds issued by all companies. All bonds issued must be rated so that investors can measure or estimate how much risk they will face by buying certain bonds. Investors who want to invest in bonds need information on which to base their decisions.

A bond rating is one piece of information that can be used as a basis for consideration to assess the feasibility and risk level of a bond. Indonesia has six independent bond rating agencies recognized by Bank Indonesia according to SEBI No.13/31/DPNP, 22 December 2011, namely an international rating agency (moody's investor four service, standard and poor's, fitch ratings) domestic rating agencies PT. Indonesian Securities Rating Agency (Pefindo), PT. ICRA Indonesia and PT. fic ratings Indonesia. However, one of the rating agencies used the most as a reference is PT. PEFINDO (Indonesian securities rating agency). Regularly announcing the rating results every month, which can be seen in several national business dailies or from the PEFINDO website at new pefindo.com, rating agencies use various factors to assess and give ratings to corporate bonds. The factor used by rating agencies is available accounting information. This information is provided in the form of a company's financial statements.

Generally, bond ratings are categorized into the investment-grade category (AAA, AA, A, and BBB). BB, B CCC, and D) company categories are said to be unfit for investment for investors. Bonds that have an investment grade category rating indicate that the bonds are investment-worthy because the company is considered to have the ability to pay interest and principal loans. Investors who want to find a safe investment have

an investment-grade rating. Meanwhile, bonds classified as non-investment grade have very high default risk. Companies that fall into this category usually find it challenging to obtain funding. Bond-rating information aims to assess the credit quality and performance of the issuing company. This rating is considered very important for investors because it can be used to decide whether the bonds are suitable for investment and determine the level of risk. Bond ratings are important because they provide an informative statement and signal the profitability of a company's debt defaults. Debt ratings also serve to assist public policy in limiting speculative investment by institutional investors such as banks, insurance companies, and pension funds. The quality of a bond can be monitored from its rating information. Several factors affect bond rating agencies, one of which is financial ratios to analyze the company's financial condition. Short-term investors are generally more interested in short-term economic conditions and the company's ability to pay good dividends. This information can be known only by calculating financial ratios according to finances. In this study, researchers used financial ratios as a variable that affects bond ratings. The first variable used in this study is the liquidity ratio, which is the ability of a company to meet its current obligations. This company can pay off its everyday duties on time.

The company can be said to be a liquid company. That is, the company has more current activities than its current liabilities. Therefore, companies with high liquidity have a lower risk of default, so they will have good bond ratings. Ayu Putri Alfiani (2008) research revealed a positive and significant effect on corporate bond ratings. Meanwhile, according to Partha and Yasa's (2016) research, the current ratio proxy does not affect bond ratings. The second variable used in this research solvency ratio is debt to finance investment to owned capital. The lower the company's solvency ratio means the less debt it has. So the risk of default will be more negligible. So with low default risk, the bond rating will be better.

Based on Supriyanto et al., (2021) research, Mariana et al. (2020) conclude that solvency influences a company's bond rating. However, different results were expressed by Magiera (2011) in Nisa & Handayani (2021), which stated that solvency did not affect a company's bond rating. The third variable used in this study is the profitability ratio (Kurniasih, 2020), explaining that profitability is a ratio to assess the company's ability to seek profit. High profitability can signal that the company's sustainability is relatively long and certainty about debt repayment at maturity. A high profitability value can illustrate that the company has been operating well to generate high profits. Increased yields can convince investors that the company can pay off its obligations properly so that later it will affect the bond rating to be given. The research of Ma'ruf (2012) in the study of Febriana & Muqorobbin (2014) revealed that it influences the bond rating of a company, and research conducted by Tetty and Djumahir (2014) shows different results that profitability does not affect the bond rating of a company. There are several studies that examine the factors that affect bond ratings, including Kurniasih (2020), Kim (2021), Sironi (2016) , Liu et al. (2014). The results of previous studies indicate that the variables that affect bond ratings are very varied. For this reason, this study will examine the factors that influence bond ratings using the variables of liquidity, solvency, and profitability with different sample periods.

METHOD

According to Sugiyono (2011:80), "population is a generalization area consisting of objects or subjects with certain qualities and characteristics determined by the author to be studied and then concluded." The population in

this study is the automotive and component sub-sector manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2016-2020 period, with a total of 8 companies.

According to Sugiyono (2011), "The sample is part of the number and characteristics possessed by the population. The technique of taking research samples uses the Saturated Sampling technique, namely the Sampling technique in which all population members are used as samples. Saturated sampling is a sampling technique when all population members are used as samples. This is often done when the population is relatively small, less than 30, or the research makes generalizations with minimal errors. Another term for the saturated sample is the census, where all the population is sampled (Fallon, 2016).

Data is quantitative data. The type of data used is panel data. This research was conducted by collecting data through the company's financial statements that have been published. This research was also carried out by taking quotes from several references such as journals, books, and other sources from electronic media.

The source of data used in this study is secondary data obtained indirectly by browsing the Indonesia Stock Exchange (IDX) website, which can be obtained by accessing www.IDX.co.id.

RESULTS AND DISCUSSION

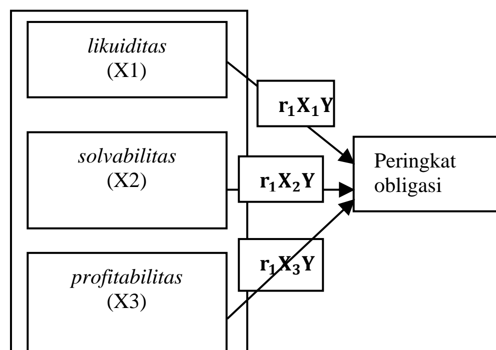
Literature Review

Understanding Bonds The company's decision to purchase bonds is a form of investment policy in the field of securities that have a good value. Therefore, companies with financial analysis tools conduct comprehensive research and studies to determine which bond buyers are the most appropriate to buy. Bonds are securities that are sold to the public, including various provisions that explain various things such as nominal value, interest rate period, name of the issuer, and several other conditions defined in the law passed by the relevant institution (Irham Fahmi, 2007). 2017: 42). Meanwhile, according to (Bambang Susilo, 2009: 29)

Understanding the Liquidity Ratio According to Arief and Edi (2016:57), "The liquidity ratio is a ratio that aims to measure the company's ability to meet its short-term obligations."

A company's solvency shows the company's ability to meet all its financial obligations when the company is liquidated. Thus, solvency is the company's ability to meet all long-term and short-term debts maturing. In this case, the higher the solvency, the better the bond rating (Raharja and Maylia, 2008: 224)

The profitability ratio is a ratio to assess the company's ability to seek profit. This ratio also provides a company's management effectiveness level, and this can be seen from the profit generated from sales and investment income (Kasmir, 197: 2012).



Research Hypothesis

Based on the results of previous research, the hypotheses of this research are:

H_1: There is a liquidity effect on bond ratings.

H_2: There is a solvency effect on bond ratings.

H_3: There is an effect of profitability using working capital on financial performance.

H_4: There is an effect of liquidity, solvency, profitability on bond ratings.

Hypothesis testing

t-test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.190	.968		2.263	.038
	CR	-.265	.246	-.206	-1.076	.298
	DER	2.190	.739	.516	2.964	.009
	ROA	.097	.068	.268	1.427	.173

Based on the data above, it can be concluded that:

1. Liquidity, as proxied by the Current Ratio, has a sig value. 0.298 is more significant than 0.05, which means this variable has no partial and significant effect on bond ratings.
2. Profitability proxied by ROA has a sig value. 0.173 is more significant than 0.05, which means this variable has no partial and significant effect on bond ratings.
3. Solvency, as proxied by the Debt to Equity Ratio, has a sig value. 0.009 is smaller than 0.05, which means this variable has a partial and significant effect on 60 bond ratings.

F Test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	13.202	3	4.401	7.186	.003[b]
	Residual	9.798	16	.612		
	Total	23.000	19			

The criteria for the F test based on the P-value are as follows: 1) If P-value > (α: 0.05), then H0 is accepted. This means that there is no significant effect between the independent and dependent variables. 2) If P-value < (α: 0.05) then H0 is rejected. This means that there is a significant influence between the independent and dependent variables. Based on the table above, it can be seen that the calculated F value is 13,202 with a powerful 0.003 beings = 0.05 because the P-value is smaller than = 0.05, meaning that the variables CR, DER, ROA together have a positive and significant effect on bond ratings.

Coefficient of Determination

Mode 1	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.758[a]	.574	.494	.78254

Based on the table, it is known that the coefficient of determination or R2 is 0.574. The magnitude of the coefficient of determination is 0.574 or equal to 57.4%, which means that the Liquidity (X1), Solvency (X2), and Profitability (X3) variables simultaneously affect the Bond Rating variable (Y) by 57.4%. In contrast, the remaining 42,6% is influenced by other variables not discussed in this study.

CONCLUSIONS AND SUGGESTIONS

Conclusion

Based on the research and discussion conducted in previous chapters that this research was conducted to determine how much influence liquidity, profitability, and solvency have on bond ratings with the 2016 2020 research year, the researchers can conclude as follows:

1. The results of the t-test for hypothesis 1 (H1) or the partial test show that the solvency variable proxied by the Debt to Equity Ratio significantly affects the bond rating. The sig value is the regression coefficient of the liquidity variable proxied by DER. of 0.009. Because of the importance of sig. < 0.05, it can be said that the solvency variable has a significant effect on bond ratings.
2. The results of the F test show that the calculated F value is 13,202 with a powerful 0.003 being = 0.05 because the P-value is more petite than = 0.05, meaning that the variables CR, DER, ROA together have a positive and significant effect on bond ratings.
3. The Coefficient of Determination Analysis (R2) results show the value of the coefficient of determination or

R2 is 0.574. The magnitude of the coefficient of determination is 0.574 or equal to 57.4%, which means that the variable Liquidity (X1), Solvency (X2), and Profitability (X3) simultaneously affect the Bond Rating variable (Y) by 57.4%. In comparison, other variables influence the rest 42.6%.

Suggestions

Based on the research results that have been done, the suggestions that can be given are as follows: 1. Investors who will invest their excess funds in bonds can look at financial ratios to determine the highest level of security for corporate bonds that will be used as a place of investment. 2. Companies that issue bonds must improve the company's financial performance to increase the company's bond rating. The higher the rating of the company's bonds will increase investor confidence in its ability to meet its obligations. With a high corporate bond rating, it will be easier for companies to obtain external capital for expansion purposes.

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PROFILE

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