


# The Effect of Return on Assets, Current Ratio, Debt to Equity Ratio, and Price Earning Ratio on Profit Growth in Cosmetic Companies Listed on The Indonesia Stock Exchange in The Period 2017-2022

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Article Info	ABSTRACT
<p><b>Keywords:</b> Return On Assets (ROA), Current Ratio (CR), Debt To Equity Ratio (DER), Price Earning Ratio (PER) and Profit Growth</p>	<p>The study was conducted on cosmetic companies listed on the Indonesia Stock Exchange for the period 2017 - 2022 with the aim of assessing whether Return On Assets, Current Ratio, Debt To Equity Ratio, and Price Earning Ratio have a partial effect on profit growth. The respondent selection technique in this study was the purposive sampling technique, from a population of 8 companies, 5 companies were produced as samples that met the criteria. The data analysis technique used in this study is multiple linear regression analysis to measure the influence of independent variables on dependent variables. The results of the data analysis show that Return On Asset has a positive and significant effect on profit growth because the T-calculation value is greater than the T-table value and the significance value is less than 0.05, Current Ratio has a positive and insignificant effect on profit growth because the T-calculation value is less than the T-table value and the significance value is greater than 0.05, Debt To Equity Ratio has a negative and insignificant effect on profit growth because the T-calculation value is less than the T-table value and the significance value is greater than 0.05, and Price Earning Ratio has a negative and significant effect on profit growth because the T-calculation value is greater than the T-table value and the significance value is less than 0.05.</p>
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## INTRODUCTION

In assessing a company's financial performance, profit growth is one of the important indicators and at the same time an attraction for investors. The company's ability to manage resources efficiently is a picture of positive profit growth and is a positive signal for shareholders and potential investors. Competitiveness or rivalry that emerges in the business world encourages every company to be able to increase profits from time to time and maintain profit stability, this also happens in the cosmetics industry.

The cosmetics industry in Indonesia has experienced ups and downs in its sales system, which is influenced by market trends, high competition, unstable macroeconomics, and lack of innovation. Therefore, declining sales have resulted in a decline in the profits of cosmetic companies in Indonesia. The domestic cosmetics industry is challenged by the circulation of imported cosmetic products in the domestic market. This is due to the high demand for the premium domestic market (high branded). The revenue of the cosmetics sector in Indonesia reached more than IDR 61 trillion, with the largest revenue from skin care, which was more than IDR 23 trillion (Perkosmi 2019).

The cosmetic sector is one of the promising industries in the capital market. There is a clear trend of significant growth along with a healthy lifestyle, increasing awareness of appearance, and the use of personal care products. Financial factors that affect the growth of company profits in this sector must be identified because not all cosmetic companies are able to maintain stable financial performance, especially in terms of profit growth.

Financial factors that affect the company's profit growth can be described through several financial ratios, namely Return On Assets (ROA), Current Ratio (CR), Debt To Equity Ratio (DER), and Price Earning Ratio (PER) which play an important role in evaluating the financial health and prospects of the company. ROA is used to measure how effectively the company utilizes its assets to generate profits, CR measures the company's ability to meet short-term obligations, DER is used to assess the company's level of dependence on external financing, and PER shows market expectations of profit growth. The profit growth trend of cosmetic companies listed on the IDX for the period 2017 - 2022 is as follows:

**Table 1.** List of Cosmetic Company Profit Growth 2017-2022

No	Code	Profit Growth %					
		2017	2018	2019	2020	2021	2022
1	MBTO	180%	362%	(41%)	204%	(27%)	(71%)
2	MRAT	(77%)	76%	(94%)	50.33%	(95%)	188.68%
3	KINO	(7%)	37%	243%	(78%)	(14%)	871%
4	TCID	11%	(3%)	(16%)	(31%)	(24%)	(76%)
5	UNVR	10%	30%	(19%)	(3%)	(20%)	(7%)

Source: ww.idx.com The period from 2017 to 2022 was processed

Table 1 shows that the profit growth of 5 cosmetic companies in 2017 to 2022 varies greatly and fluctuates, tending to decrease or increase from year to year. The highest profit growth occurred in the MBTO company (PT Martina Berto Tbk) in 2018, which was 362% and the highest profit decline occurred in the MART company (PT Mustika Ratu Tbk) in 2021, namely 95% and in 2020 the KINO company (PT Kino Indonesia Tbk) experienced a decrease in profits with the same percentage, namely 79%.

Although there have been many studies analyzing the influence of financial ratios on company performance, specifically studies examining the influence of ROA, CR, DER, and PER on profit growth in cosmetic companies in Indonesia are still relatively limited. Therefore, this study is relevant to be conducted to gain a deeper understanding of how these financial factors affect the profit growth of cosmetic companies listed on the Indonesia Stock Exchange (IDX) during the 2017–2022 period. It is highly expected that the results of this study will be useful for company management in making strategic decisions and can provide information on investment prospects in the cosmetic sector for investors.

## METHODS

This research was conducted in cosmetic companies listed on the Indonesia Stock Exchange for the 2017-2022 period through the official website of the Indonesia Stock Exchange, namely [www.idx.co.id](http://www.idx.co.id). The object of research in this study is the Influence of current ratio, debt to equity ratio, return on assets, and price earning ratio on Profit Growth in Cosmetic Companies listed on the Indonesia Stock Exchange for the period 2017-2022. This study uses a quantitative approach to analyze the use of financial ratios on the company's profit growth.

The respondent selection technique in this study is the purposive sampling technique. This technique aims to determine respondents using purposive sampling because not all respondents meet the criteria determined by the author (Saputri, 2019). The criteria determined are Cosmetic companies that published financial reports consecutively during the research period, namely 2019-2022.. Thus the number of cosmetic companies listed on the Indonesia Stock Exchange There are 5 companies that meet these criteria.

The data analysis technique used in this study is multiple linear regression analysis. Multiple regression analysis is an analysis used to measure the influence of independent variables on dependent variables. In this study there are five variables, namely one dependent variable (bound variable) and four independent variables (free variables). According to Sugiyono (2017, p. 39) defines a dependent variable as a variable that is influenced or that is the result, because of the existence of an independent variable. The dependent variable in this study is profit growth. According to Sugiyono (2017, p. 39) the independent variable is a variable that influences or causes changes or the emergence of the dependent variable (bound). The independent variables in this study consist of Return On Asset, Current Ratio, Debt to Equity Ratio and Price Earning Ratio.

### a). Return On Assets (ROA)

ROA shows the company's ability to use all assets owned to generate profit after tax. This ratio is important for management to evaluate the effectiveness and efficiency of company

management in managing all company assets. The greater the ROA, the more efficient the use of company assets or in other words, with the same amount of assets, greater profits can be generated, and vice versa. (I Made Sudana 2019) Return On Assets can be calculated using the formula:

$$\text{Return On Assets} = \frac{\text{Earning After Taxes}}{\text{Total Assets}} \times 100\%$$

b). Current Ratio

Current ratio is a ratio used to measure or see the company's ability to pay its short-term debts that will mature by using the total current assets that already exist or by looking at the comparison between the company's current assets and its total current liabilities. Current assets are assets and cash that can be converted into cash, or consumed within one period in the company's normal operating cycle, seen from the longest. Current liabilities are liabilities that are paid with current assets and other current liabilities that must be paid within one period in the normal operation of the company's site (Hery 2016). The current ratio can be calculated using the formula:

$$\text{Current Ratio} = X 100\% \frac{\text{Total Current Assets}}{\text{Total Current Liabilities}}$$

c). Debt To Equity Ratio

*Debt to Equity Ratio* is a ratio used to assess debt and equity. This ratio is sought by comparing all debts, namely current debt and long-term debt with all equity. This ratio is useful for knowing the amount of funds provided by borrowers (creditors) with the company owners. In other words, this ratio functions to find out every rupiah of own capital that is used as collateral for debt (Kasmir 2019, 159). Debt to Equity Ratio can be calculated using the formula:

$$\text{Debt To Equity Ratio} = X 100\% \frac{\text{total debt}}{\text{Equity}}$$

d). Price Earning Ratio (PER)

*Price Earning Ratio (PER)* is a market ratio that shows how much a company's stock price is compared to its earnings per share, serving as an important indicator of a company's valuation. A high PER indicates investors' expectations of the company's future earnings growth prospects, indicating that investors are willing to pay more for the stock. However, a PER that is too high can be less attractive, given the limited potential for share price increases and the possibility of lower profits (Damayanti et al., 2020). Conversely, a low PER can reflect less optimistic market expectations of the company's future earnings growth. A stable PER

level indicates the consistency of the company's performance, building investor confidence in the company's long-term prospects and resilience. PER is calculated by dividing the current stock price by earnings per share. Based on (Indrarini & Wijaya, 2021), the Price Earning Ratio can be calculated using the following formula:

$$PER = \frac{\text{Stock Price}}{\text{Earning Per Share}}$$

## RESULTS AND DISCUSSION

### Overview of Research Object

#### 1. PT Martina Berto Tbk

The company was founded in 1977 by Dr. HC. Martha Tilaar, (the late) Pranata Bernard, and Theresa Harsini Setiady. In 1981, the company established its first modern factory at Jl. Pulo Ayang No. 3, Pulogadung Industrial Estate, which produced cosmetics and herbal medicine under the brand name "Sariayu Martha Tilaar" for the first time. In 1986, the Company established its second modern factory at Jl. Pulo Kambing, Pulogadung Industrial Estate ("Pulo Kambing Factory"). Due to rapid sales growth, in 1995, the company shifted its herbal production to Gunung Putri, Bogor. Meanwhile, Pulo Ayang factory was transferred to a subsidiary, namely PT Cempaka Belkosindo Indah. It produces cosmetics under the brands "Mirabella" and "Cempaka". In 2005, PT Cempaka Indah Belkosindo was merged with the company so that the brands "Mirabella" and "Cempaka" were also combined with production at the Pulo Kambing factory.

#### 2. PT Mustika Ratu Tbk

Mustika Ratu was born from the desire to share Indonesia's cultural heritage through a series of high-quality, beneficial natural products and treatments. Utilizing Indonesia's natural and cultural wealth, Mustika Ratu preserves the nation's heritage through a series of products with a touch of luxury that will radiate beauty and fitness. Mustika Ratu continues to innovate to preserve centuries-old herbs and present them in a series of modern products that are effective in maintaining beauty.

#### 3. PT Kino Indonesia Tbk

PT Kino Indonesia Tbk (Kino) started as a small distribution company named PT Dutalestari Sentratama (DLS) which was founded in 1991. Taking advantage of the opportunities that existed at that time, DLS developed the business by establishing PT Kino Sentra Industrindo (KSI), a snack food production company in 1997. KSI focuses on various snack products such

as candy, snacks, and chocolate, as well as flavored drinks in powder form which are currently sold in the Indonesian and international markets. The first product launched by KSI was "Kino Candy". Seeing the success of previous achievements, in 1999, the Company established PT Kinocare Era Kosmetindo as a producer of various body care products for all genders and ages. In 2014, PT Kinocare Era Kosmetindo changed its name to PT Kino Indonesia. The first product launched was the 2 in 1 facial cleanser "Ovale", followed by the hair vitamin product "Ellips", special soap for the feminine area "Resik-V", and perfume in gel form "Eskulin". These products have successfully received a positive response from the Indonesian market, thus having a significant impact on Kino's business growth. The latest innovation in this segment is also carried out through the production of herbal toothpaste with an Islamic concept, "Sasha".

#### **4. PT Mandom Indonesia Tbk**

PT Mandom Indonesia Tbk (TCID) produces and trades skincare, haircare, cosmetics, and perfume products. Established in 1969 under the name PT Tancho Indonesia, it is a joint venture between Mandom Corporation and NV The City Factory. Its commercial operations began in 1971 by producing haircare products. In 1975, it launched a men's cosmetics series, Mandom. It then entered the women's cosmetics market in 1987. The company began exporting its products to ASEAN and Japan in 1990, then conducted an IPO in 1993. Its well-known products include; Lucido~L, Pixy, Pucelle, Gatsby, Fresh n Fresh, and Johnny Andean.

#### **5. PT Unilever Indonesia Tbk**

Unilever Indonesia was first established on December 5, 1933 under the name "Lever's Zeepfabrieken NV" located in the Angke area, North Jakarta based on deed No. 23 from Mr. AH van Ophuijsen, a notary in Batavia. This deed was approved by General Geoual van Nederlandsch-Indie based on letter No. 14 on December 16, 1933, registered at Raad van Justitie, Batavia No. 302 on December 22, 1933 and published in the Javasche Courant on January 9, 1934, supplement No. 3. On July 22, 1980, the Company changed its name to "PT Unilever Indonesia" with deed No. 171 from notary Mrs. Kartini Muljadi SH. The name change occurred again on June 30, 1997 to "PT Unilever Indonesia, Tbk." with deed No. 92 of public notary Mr. Mudofir Hadi SH. This deed was approved by the Minister of Justice with a decree No. C2-1.049HT.01.04 TH.98 dated 23 February 1998 and announced in the State Gazette No. 2620 dated 15 May 1998, supplement No. 39. On 22 November 2000, Unilever Indonesia entered into an agreement with PT Anugrah Indah Pelangi, to establish a new company, namely PT Anugrah Lever (PT AL) which is engaged in the manufacturing,

development, marketing and sales of soy sauce, chili sauce and other sauces such as Bango and other brands under the company's license for PT AL.

### Research Data Description

This research was conducted in cosmetic companies listed on the Indonesia Stock Exchange for the 2017-2022 period through the official website of the Indonesia Stock Exchange, namely [www.idx.co.id](http://www.idx.co.id). The object of research in this study is the influence of current ratio, debt to equity ratio, return on assets, and price earning ratio on profit growth in cosmetic companies listed on the Indonesia Stock Exchange for the period 2017-2022.

### The Influence of Current Ratio on Profit Growth

Based on the results of the T-test using SPSS V.26, the results of  $T_{count} = 0.225$  and  $T_{table} 1.708$  with a significance value = 0.801, so it can be concluded that  $T_{count} < T_{table}$  and significance value  $> 0.05$ . Thus, the results of the t-test state that the Current Ratio (CR) has a positive and insignificant effect on profit growth. This can indicate that companies that have high current assets cannot guarantee the availability of working capital to support the company's operational activities. In current assets there are inventory items in the form of raw materials that are not ready to be sold, this will increase the value of the company's current ratio but are unable to generate profit because the inventory items are still raw materials and not ready to be sold. So that the excess of assets does not guarantee that the company will obtain the expected profit. A high current ratio indicates an excess of current assets which has a negative effect on profit growth because current assets generally produce lower returns compared to fixed assets.

The results of this study are in accordance with the research conducted by Nathasya Angellie Tambunan and Richard Friendly Simbolon (2021) with the results of the study that partially the Current Ratio has a significant negative effect on profit growth. This states that the hypothesis H1 Current Ratio has a positive effect on profit growth is rejected.

### The Influence of Debt to Equity Ratio on Profit Growth

Based on the results of the T-test using SPSS V.26, the results of  $T_{count} = -1.109$  and  $T_{table} 1.708$  with a significance value = 0.279, so it can be concluded that  $T_{count} < T_{table}$  and significance value  $> 0.05$ . Thus, the results of the t-test state that the Debt To Equity Ratio (DER) has a negative and insignificant effect on profit growth. Insignificant effect means that there is an influence between the debt to equity ratio on profit growth, when the debt to equity ratio increases, it will be followed by an increase in profit growth, but because it is not significant, the increase in the debt to equity ratio has a very small effect, so with the

company's high dependence on funds from outside parties to maximize business expansion, this has an impact on the company's survival in increasing the profits obtained. With the use of funds from external parties, it has consequences on the increase in interest expenses that must be paid, thus having an impact on the decline in company profits, meaning that the debt to equity ratio does not have an impact on increasing profit growth because the results of using debt to fund the owner's capital used by the company are not able to cover all interest expenses that must be paid by the company, so that it can result in a decrease in company profits, and the company can even experience losses if the debt value is greater than the owner's capital.

The results of this study are in accordance with the research conducted by Dea Afritri Sahyati, Heni Nurani Hartikayani (2023), with the results of the study that the Debt to Equity Ratio (DER) partially has a negative and insignificant effect on Profit growth. This states that the hypothesis H2 Debt To Equity Ratio has a negative effect on profit growth is received.

### **The Influence of Return on Assets on Profit Growth**

Based on the results of the T-test using SPSS V.26, the results of  $T_{count} = 2.555$  and  $T_{table} 1.708$  with a significance value = 0.018, so it can be concluded that  $T_{count} > T_{table}$  and the significance value  $< 0.05$ . Thus, the results of the t-test state that Return On Asset (ROA) has a positive and significant effect on profit growth. This means that the greater the Return On Asset will increase profit growth. This is because the more efficient the company means the better the company's performance. Because Return On Asset (ROA) shows how much profit or net profit is obtained from the company's assets. If Return On Asset increases, it will increase profit growth.

This is in line with the theory of financial statements Return On Asset (ROA) which is positive indicates that from the total assets used by the company's operations are able to provide company profits. Conversely, if Return On Asset (ROA) is negative, it indicates that the total assets used do not provide profits. So that a high Return On Asset (ROA) indicates the level of efficiency of the use of company assets to generate company profits.

The results of this study are in accordance with the research conducted by Sitti Fajrunnisa Reformyanti et al. (2023) with the results of the study showing that Return On Assets has a positive effect on profit growth. This states that the hypothesis H3 Return On Asset has a positive effect on profit growth is received.

### **The Influence of Price Erasing Ratio on Profit Growth**

Based on the results of the T-test using SPSS V.26, the results of  $T_{count} = - 6.558$  and  $T_{table} 1.708$  with a significance value = 0.000, so it can be concluded that  $T_{count} >$

Ttable and the significance value  $<0.05$ . Thus, the results of the t-test state that the Price Earning Ratio (PER) has a negative and significant effect on profit growth. The price earning ratio in this study is used to determine the company's ability to describe market expectations of profit growth. This shows that the company has good growth prospects. Which means that the price earning ratio taken by the company affects profit growth. Assuming that investors are willing to pay more to get the company's shares because the company has good prospects for profit growth.

The results of this study are in accordance with research conducted by (Indrarini & Wijaya, 2021) and Nita Astuti (2023) proved that the price earning ratio has a significant effect on profit growth.

This states that the hypothesis H4 Price Earning Ratio has a negative effect on profit growth is rejected.

## CONCLUSION

Based on the results of the analysis and discussion, several conclusions can be drawn as follows: a) The Current Ratio (CR) has a positive relationship with company profit growth, but this effect is not statistically significant. This is indicated by a t-value that is smaller than the t-table value and a significance value that exceeds the 0.05 limit, which means that the company's ability to meet its short-term obligations does not significantly drive profit growth. c) The Debt to Equity Ratio (DER) shows a negative effect that is also insignificant on profit growth. This means that a high proportion of debt to equity does not necessarily reduce company profits consistently during the observation period. d) Return on Assets (ROA) has a positive and significant effect on profit growth, indicating that efficiency in the use of company assets contributes significantly to increasing profits. e) Price Earning Ratio (PER) has a significant negative effect on profit growth. This finding shows that overly high market expectations for future profits can actually have a negative impact on a company's actual profit growth. As an implication of these conclusions, it is recommended that further research be conducted with a broader scope of data, both in terms of the number of companies and the observation period, so that the analysis results are stronger and more generalizable. In addition, it is also recommended to include non-financial variables such as product innovation, management quality, and market conditions in order to gain a more comprehensive understanding of the factors that influence the profit growth of cosmetic companies.

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