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Comprehensive Analysis of Financial Performance and Profit Growth Prediction of PT. Rizky Maharani Inhil 2019-2021

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Current Ratio, Debt to Total Equity Ratio, Net Profit margins, Total Assets Turn Over, and profit growth

Abstract

This study aims to comprehensively analyze the financial performance and predict the profit growth of PT. Rizky Maharani Inhil from 2019 to 2021 through the analysis of financial ratios. The data analyzed consists of the financial statements of PT. Rizky Maharani Inhil for the years 2019 to 2021. The company must maintain healthy and efficient financial performance to generate profits and enhance its achievements. The research method involves financial ratio analysis, including liquidity ratios, solvency ratios, profitability ratios, and activity ratios, along with Time Series Analysis to predict profit growth. The results of this study indicate that, based on the liquidity ratio proxied by the Current Ratio, the company's financial performance condition is favorable for profit growth. Similarly, the solvency ratio proxied by the Debt to Total Equity Ratio and the profitability ratio proxied by Net Profit Margin both show that the company's financial performance is conducive to profit growth. However, the activity ratio proxied by Total Assets Turn Over reveals that the company's financial performance is not favorable for profit growth.

1. Introduction

To estimate and evaluate the implementation of a company, management must first assess the financial situation to pursue the best options available. One effective method for evaluating a company's financial performance is through financial analysis, which involves a thorough examination of annual financial reports. These reports provide valuable insights for making informed short- and long-term decisions, allowing companies to quickly seize emerging opportunities for growth and sustainability in competitive environments. Profit information is crucial for both internal and external stakeholders, as it serves as a key indicator of company performance (Pratiwi, 2018). The ever-changing financial landscape demands that companies be prepared to face internal and external challenges by continuously assessing their performance and implementing effective management practices (Sholihah, 2020).

Profit growth, which reflects the increase or decrease in earnings over time, should be analyzed using financial ratios to understand a company's financial health better. Financial ratios highlight strengths and weaknesses, enabling stakeholders to evaluate past performance and anticipate future conditions (Fadly, 2015). These ratios can also serve as predictive tools for future profitability and economic opportunities. Past performance is assessed relative to actual expenditures, which aids in forecasting future outcomes. The analysis of financial statements, including balance sheets and income statements, helps various parties make informed decisions regarding financial options. Understanding the interrelation of financial statements is essential, as each component contributes to a comprehensive understanding of the company's financial position, reinforcing the importance of viewing financial reports holistically (Rico Lesman & Rudy Sarjono).

Stakeholders, including investors and creditors, rely on financial reports to assess company performance and potential risks associated with investment decisions. By analyzing financial ratios, they can gauge a company's profitability, liquidity, solvency, and operational efficiency. The actual results of a company during a specific period reflect its financial health and positive outcomes, which are essential for assessing progress in achieving strategic goals. Company owners prioritize generating ideal profits from their businesses, as they expect returns on their investments and additional capital for growth. Similarly, management focuses on achieving profit targets, which are vital for evaluating their performance in running the company. A failure to meet these targets can damage the owner's trust in management.

Long-term sustainability is another critical goal for both owners and management, who seek to ensure the company can thrive over the years. Additionally, companies must provide diverse labor and products to meet community needs, thus contributing to local economies. This commitment to creating job opportunities is significant in light of limited positions available from public authorities, emphasizing the importance of corporate social responsibility.

To achieve these objectives, management must engage in effective planning, implementation, and oversight of business activities. Evaluating financial performance through financial ratios and reports is vital for determining whether a company adheres to sound management principles. By examining financial statements, stakeholders can assess the financial health of the organization, while ratio analysis provides insights into strengths and weaknesses, guiding future strategic decisions.

The decline in net profit at PT. Rizky Empress Inhil over the years from 2019 to 2021, as illustrated in Table 1.1, underscores the need for thorough financial analysis. Despite the company remaining profitable, the downward trend poses risks to operational activities, highlighting the importance of continual financial assessment through ratio analysis. This motivation leads to the research titled “Financial Ratio Analysis to Predict Growth Rates Profit at PT. Rizki Empress Inhil.”

2. Literatur Review

2.1 Overview of Financial Reports

Financial reports are essential documents that provide a comprehensive overview of a company's financial situation and performance. From an investor's perspective, these reports serve as a basis for forecasting future conditions, while management uses them to assess the current state and develop strategies for future growth (Sari, 2019). Ratio analysis is a critical tool in this context, allowing stakeholders to link various components within financial reports to evaluate a company's financial health and operational effectiveness. Comprehensive financial ratio analysis is necessary to gain accurate predictions regarding profit growth (Sari, 2019).

2.2 Types of Financial Reports

In Indonesia, the Financial Accounting Standards (SAK) outlines five primary types of financial reports commonly used by companies: the profit and loss statement, which focuses on income, expenses, and net profit or loss; the financial position statement, also known as the balance sheet, which provides detailed information about a company's assets, liabilities, and equity over a specific period; the statement of changes in equity; the cash flow statement; and notes to financial statements that provide additional context and detailed explanations.

2.3 Financial Ratio Analysis

Financial ratio analysis involves calculations designed to evaluate financial reports effectively and is one of the most effective techniques for measuring a company's performance and financial health. As defined by Rhamadana.

2.4 Benefits of Financial Ratio Analysis

The benefits of financial ratio analysis include serving as a valuable tool for assessing a company's financial performance and achievements, providing benchmarks for investor planning processes, enabling evaluations of a company's condition from a financial perspective, allowing creditors to assess the risk of potential defaults, and aiding shareholders in evaluating the company's financial standing.

2.5 Categories of Financial Ratios

There are four primary categories of financial ratios used to assess a company's financial performance: liquidity ratios, solvency ratios, profitability ratios, and activity ratios.

2.6 Understanding Profit Growth

Profit growth refers to the increase or decrease in profits over time compared to previous periods, significantly influencing asset growth and depending on the accuracy of income and cost estimations (Estininghadi, 2018). Profit reflects returns to equity holders for the relevant period, while detailed reports illustrate how those profits were earned (Harahap, 2015).

3. Methodology Study

This research is included in the quantitative descriptive category, which is in accordance with the problem formulation and research objectives. Quantitative descriptive research is a type of research that uses numbers in its analysis. This method was chosen because this research relates to companies as research objects, so it is necessary to collect information that is relevant to the research objectives within a certain period of time. The information obtained is then analyzed and interpreted by the author to provide meaning to the existing data. This quantitative descriptive research aims to describe and interpret the information obtained, so that valid conclusions can be drawn.

This research was conducted at PT. Rizky Maharani Inhil, located in Lancirang, Pitu Riawa, Sidenreng Rappang Regency, South Sulawesi. This research took place from October to November 2022. In this research, independent (free) and dependent (dependent) variables were used. These variables include profit growth as the dependent variable, which is defined as the increase or decrease in profit per year and is measured by the formula (Net Profit Year t - Net Profit Year t-1) / Net Profit Year t-1. Independent variables include the Current Ratio (CR), which measures the company's ability to meet its short-term obligations with current assets, measured by the Current Assets / Current Liabilities formula; Debt to Equity Ratio (DER), which measures the ratio of a company's total debt to equity, is measured by the formula Total Debt / Total Own Capital; Net Profit Margin (NPM), which measures capital gains after all costs and income taxes are taken into account, measured by the Net Profit / Sales formula; and Total Asset Turnover, which measures how many assets have been used in company operations, measured by the Net Sales / Total Assets formula.

Selection of appropriate data collection techniques and instruments is very important in this research. The author tries to obtain complete and relevant information to the object being explored. The data collection procedure used is documentation, namely collecting structured information, such as financial position reports and profit and loss statements. The data used is secondary data from PT. Rizky Maharani Inhil in the form of financial reports, especially financial position and profit and loss reports for the observation period 2019 to 2021.

The data analysis technique used in this research is a quantitative descriptive method. Data is analyzed using numbers in ratio analysis to compare the company's financial performance. The data analysis techniques used include financial ratio analysis and time series analysis. Financial ratio analysis includes several types of ratios. The liquidity ratio describes the company's capacity to pay off its short-term obligations, with the current ratio showing that the higher this ratio, the better the company is at meeting its short-term obligations, and the general industry standard is a minimum of 200% (2:1). The solvency ratio is used to measure a company's capacity to pay its obligations, both short and long term, with the Debt to Equity Ratio showing the general industry standard of 90%. Profitability ratios measure a company's ability to earn profits, with Net Profit Margin used to show the company's profit level and the general industry standard for net profit margin is 20%. The activity ratio is used to measure how well a company handles its assets and activities, with Total Assets Turnover used in this research with a general industry standard of 2 times. Time series analysis measures financial performance by looking at the company's financial ratios from one period to the next.

4. Results and Discussion

4.1 Results Study

a. Ratio Liquidity

Liquidity ratios are crucial for assessing a company's ability to meet its short-term obligations, and in this study, the Current Ratio has been analyzed for PT. Rizky Maharani Inhil from 2019 to 2021. The Current Ratio measures the relationship between current assets and current liabilities. A higher current ratio indicates a greater capacity to cover short-term debts, which instills confidence in creditors. For instance, in 2019, PT. Rizky Maharani Inhil had a current ratio of 244%, meaning that for every Rp 1 of current liabilities, the company had Rp 2.44 in current assets. The current ratio improved significantly in 2020 to 286%, indicating that every Rp 1 of current liabilities was supported by Rp 2.86 in current assets. By 2021, the current ratio further increased to 312%, showing that each Rp 1 of current liabilities was backed by Rp 3.12 in current assets. This steady increase over the three years highlights the company’s ability to efficiently manage its short-term financial obligations, far exceeding the standard benchmark of 200% for a healthy current ratio.

b. Ratio Solvency

The solvency ratio, specifically the Debt to Equity Ratio, has been calculated to evaluate the financial leverage of PT. Rizky Maharani Inhil from 2019 to 2021. This ratio reflects the proportion of total debt in relation to the company’s equity. The results indicate a declining trend in the Debt to Equity Ratio, with values of 30% in 2019, 25% in 2020, and 23% in 2021. These figures suggest that for every Rp 1 of total debt, the company had Rp 0.30, Rp 0.25, and Rp 0.23 in equity over the respective years. The decrease in the ratio signifies that PT. Rizky Maharani Inhil is relying more on its own capital to finance its operations rather than external debt, which is a positive indicator of financial stability. The decreasing ratio also reflects a conservative approach to financing, ensuring the company maintains a healthy balance between debt and equity.

c. Ratio Profitability

Profitability ratios, specifically the Net Profit Margin, provide insight into how efficiently a company can convert sales into profits. Analyzing PT. Rizky Maharani Inhil from 2019 to 2021, the net profit margin showed some fluctuation. In 2019, the net profit margin was 4%, which means the company generated a profit of Rp 4 for every Rp 100 in sales. In 2020, there was a slight increase to 5%, indicating improved profitability, but by 2021, the net profit margin decreased again to 4%. This decline in profitability during the latter part of the study suggests inefficiencies in cost management or challenges in maintaining sales levels. The variations in the net profit margin underscore the importance of examining operational effectiveness and market conditions, as a lower net profit margin can indicate potential issues in the company's ability to manage expenses relative to sales.

d. Ratio Activity

Activity ratios, particularly the Total Asset Turnover, measure how effectively a company utilizes its assets to generate revenue. For PT. Rizky Maharani Inhil, the Total Asset Turnover ratios from 2019 to 2021 were calculated to assess this efficiency. In 2019, the Total Asset Turnover was 1.01 times, meaning the company generated Rp 1.01 in sales for every Rp 1 of assets. This figure improved in 2020 to 1.15 times, indicating enhanced efficiency in asset utilization. However, in 2021, the ratio slightly decreased to 1.13 times. Overall, these results suggest that PT. Rizky Maharani Inhil managed to improve its asset utilization initially, but the small decline in 2021 may indicate challenges in sustaining sales growth relative to asset levels. The Total Asset Turnover ratio serves as a crucial metric for evaluating how well the company leverages its assets to drive revenue generation.

e. Rate Growth Profit

The rate of profit growth for PT. Rizky Maharani Inhil from 2019 to 2021 reveals significant challenges faced during this period. The calculations show a negative profit growth rate of -0.0028 from 2019 to 2020, as net profit declined from Rp 6,602,937,905 to Rp 6,584,092,480. The subsequent year also saw a larger decrease in profit growth, with a rate of -0.0910 from 2020 to 2021, where net profit fell to Rp 6,034,678,491. This decline in profit growth can be attributed to several external factors, including the impact of the COVID-19 pandemic, which disrupted sales and operations. Additionally, limited availability of resources, such as subsidized gas, further strained the company's financial performance. Despite maintaining relatively healthy liquidity and solvency ratios, the company's inability to generate significant profit growth underscores the importance of addressing operational inefficiencies and external challenges to foster better financial outcomes in the future.

4.2 Discussion

Based on the results of the financial ratio calculations, the financial performance of PT. Rizky Maharani Inhil is assessed through several key ratios, including liquidity, solvency, profitability, and activity, covering the years from 2019 to 2022. The analysis indicates that PT. Rizky Maharani Inhil maintains a strong liquidity position, as reflected in the Current Ratio (CR), which stood at 244% in 2019, 286% in 2020, and 312% in 2021. These figures exceed the standard benchmark of 200%, indicating a solid ability to meet short-term obligations. However, despite this positive liquidity performance, the company's ability to generate the expected profits has been suboptimal. This situation arises from inefficiencies in managing the difference between current assets and current liabilities, suggesting that while the company is liquid, it may not be utilizing its working capital effectively to enhance operational activities.

In terms of solvency, the Debt to Equity Ratio (DER) demonstrates a favorable financial condition for PT. Rizky Maharani Inhil, with ratios of 30%, 25%, and 23% from 2019 to 2021, all well below the standard threshold of 90%. This trend indicates a lower dependency on external financing, which reduces financial burden and positions the company for better revenue growth. A lower DER implies that the company is primarily using its own funds to finance operations, which enhances financial stability.

When examining profitability through the Net Profit Margin (NPM), the results indicate challenges, as the margins reported were below the desirable standard of 20%. The NPM was 4% in 2019, increased to 5% in 2020, but then declined back to 4% in 2021. These figures suggest that the company's efficiency in generating profit from sales is lacking. A lower profit margin reflects difficulties in operational efficiency, which ultimately hampers the company's ability to maximize sales and sustain profit growth.

Lastly, the Total Asset Turnover ratio reveals that PT. Rizky Maharani Inhil is facing inefficiencies in asset utilization, with turnover ratios of 1.01x, 1.15x, and 1.13x over the analyzed years, which fall short of the ideal benchmark of 2x. This underperformance suggests that the company is not effectively leveraging its assets to drive sales, which can result in stagnant profit levels. The slower asset turnover indicates a need for a reevaluation of marketing strategies and overall asset management practices to ensure that resources are being utilized effectively to maximize revenue.

Overall, while PT. Rizky Maharani Inhil exhibits solid liquidity and solvency ratios, the challenges in profitability and activity ratios highlight areas that require strategic improvement to enhance the company's financial performance and achieve sustainable growth.

5. Closing

5.1 Conclusion

The financial performance of PT. Rizky Maharani Inhil, as assessed through various financial ratios from 2019 to 2021, reveals several critical insights. The Current Ratio demonstrates good performance overall, indicating the company's strong capability to meet short-term financial obligations. This liquidity suggests that PT. Rizky Maharani Inhil is well-positioned to manage its financial commitments without significant risks of insolvency. The Debt to Total Equity Ratio also reflects a favorable situation, as it indicates that the company's capital is sufficiently robust to cover creditor debts. This stability enhances financial resilience and reduces reliance on external funding.

However, the Net Profit Margin indicates poor performance, as it shows the company struggles to achieve desirable profit levels from its sales. This inefficiency in translating sales into profits may hinder the company's long-term viability and growth prospects. Similarly, the Total Asset Turnover ratio reveals a concerning performance, suggesting that PT. Rizky Maharani Inhil is not effectively utilizing its assets to generate sufficient profits. This inefficiency in asset management highlights the need for strategic improvements to enhance overall financial performance.

To address these challenges, several suggestions can be proposed. First, PT. Rizky Maharani Inhil should focus on maintaining its ability to pay off short-term debts consistently, ensuring that liquidity remains stable and obligations are met optimally. This stability will help prevent fluctuations in financial performance and strengthen the company's overall financial health. Additionally, the company must work on enhancing its profitability by improving operational efficiencies and exploring new revenue streams. This can be achieved through better cost management, pricing strategies, and marketing efforts to boost sales.

Furthermore, it is essential for PT. Rizky Maharani Inhil to establish robust wealth management practices to ensure that assets are effectively utilized. By optimizing the turnover of assets, the company can enhance its overall profitability and create a more dynamic wealth cycle. This will enable the company to leverage its resources effectively, leading to increased revenue and sustainable growth.

In summary, while PT. Rizky Maharani Inhil demonstrates solid liquidity and solvency, there are significant areas for improvement in profitability and asset utilization. By implementing these suggestions, the company can strengthen its financial performance and position itself for future success.

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