

THE EFFECT OF CURRENT RATIO AND DEBT TO EQUITY RATIO ON NET PROFIT MARGIN (EMPIRICAL STUDY ON COMPANIES IN THE PLASTICS AND PACKAGING SUB-SECTOR FOR THE PERIOD 2021-2023 LISTED ON THE IDX)

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Abstract

This study aims to analyze the effect of Current Ratio (CR) and Debt to Equity Ratio (DER) on Net Profit Margin (NPM) in plastic and packaging sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period. This study uses the multiple linear regression method to test the relationship between independent variables (CR and DER) and dependent variables (NPM). The data used is the annual financial statements of companies listed on the IDX. The results show that the Current Ratio has a significant positive influence on Net Profit Margin, which shows that companies with higher liquidity tend to have better profitability. In contrast, the Debt to Equity Ratio has a significant negative effect on the Net Profit Margin, which indicates that the higher the DER, the lower the company's profitability due to the greater interest expense. These findings provide insights for company management in managing liquidity and capital structure to increase profitability.

Keywords: Current Ratio, Debt to Equity Ratio, Net Profit Margin, Profitability, Plastics and Packaging Sub-Sector.

1. Introduction

Changes in global economic conditions and evolving industry dynamics require companies to be able to adapt to various challenges, especially in financial management and profitability. In an increasingly complex economic context, companies in the plastics and packaging sector face significant challenges related to financial management and profitability. One important aspect of a company's financial analysis is its financial ratios, which provide an overview of the company's financial health. Among these ratios, Current Ratio (CR) and Debt to Equity Ratio (DER) are the main focus because they are directly related to the company's liquidity and capital structure. The Current Ratio measures a company's ability to meet its short-term obligations, while the Debt to Equity Ratio reflects the proportion of debt to equity that a company has. An interesting phenomenon to study is how these two ratios affect the Net Profit Margin (NPM), which is an indicator of a company's profitability performance.

NPM shows how efficient a company is in generating profits from the revenue earned. Previous studies have shown mixed results regarding the relationship between CR, DER, and NPM. For example, it found that Lutfi & Kurniawati (2023) CR and DER had a significant influence on Return on Asset (ROA), which correlated with profitability. However, other studies show that CR does not always have a positive effect on profit growth (Widiasmara et. al, 2022)

This shows that there is a gap in the literature that needs to be explored further, especially in the context of the plastic and packaging sub-sector in Indonesia. The plastics

and packaging sector in Indonesia also faces challenges related to sustainability and environmental impact. With increasing awareness of environmental issues, companies in this sector are required to not only focus on profitability, but also on sustainable business practices. Research by shows that many companies in this sector have the potential to go bankrupt, which can be affected by unhealthy financial ratios. Therefore, it is important to analyze how (Nafisa et. al. 2022) CR and DER can affect NPM in this context, as well as the implications of the research results on the company's managerial strategy.

In the period 2021 to 2023, companies in the plastics and packaging sub-sector experienced significant fluctuations in financial performance, in line with changes in global and domestic economic conditions. The impact of the COVID-19 pandemic that is still being felt in 2021 and changing economic policies in Indonesia are affecting the financial stability of companies, with some companies struggling to maintain their profitability. One important indicator that can be used to evaluate a company's performance is the Net Profit Margin (NPM), which shows the extent to which the company is able to generate profits from the revenue earned.

Current Ratio and Debt to Equity Ratio are two financial ratios that are often used to assess a company's liquidity and capital structure. The Current Ratio measures a company's ability to meet its short-term obligations with current assets owned, while the Debt to Equity Ratio shows the extent to which a company relies on debt in its operational financing compared to its own capital. These two ratios are particularly relevant in the context of plastics and packaging sector companies that often face large capital needs to fund product production and distribution.

On the other hand, the plastics and packaging sector as an industry that is highly dependent on market demand, raw material costs, and government policies regarding environmental regulations, is also undergoing rapid changes. The increasing demand for packaging products amid increasing environmental awareness provides an opportunity for companies to increase revenue. However, fluctuations in raw material prices and the influence of government policies related to single-use plastics can affect the company's net profit margin.

This research has a novelty in its focus on the plastic and packaging sub-sector which has not been studied specifically regarding the influence of Current Ratio (CR) and Debt to Equity Ratio (DER) on Net Profit Margin (NPM). The industry has unique characteristics, such as the need for high liquidity for the management of raw materials and different levels of leverage due to the scale of its operations. By analyzing data on companies in the plastics and packaging sub-sector for the period 2021-2023 listed on the IDX, this study makes a new contribution in understanding how liquidity and leverage affect profitability in the context of specific industries. And by using the latest data, the results of this study will be more relevant than previous studies.

Thus, this study aims to fill the gaps in the literature by analyzing the influence of Current Ratio and Debt to Equity Ratio on Net Profit Margin in plastic and packaging sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period. The results of this study are expected to provide deeper insights into the relationship between financial ratios and profitability, as well as provide recommendations for companies to manage their finances more effectively.

2. Theoretical Background

2.1 Stakeholder Theory

Stakeholder theory is an approach that emphasizes the importance of considering the interests of various parties involved in an organization. According to Freeman, a

stakeholder is an individual or group that can influence or be influenced by the achievement of organizational goals (Johnson- Cramer et al., 2022).

This opinion is supported by García-Sánchez who states that the sustainability and long-term success of a company depends heavily on the support of all stakeholders, so companies must integrate stakeholder expectations into their corporate strategy. However, there is criticism of stakeholder theory which states that too much focus on stakeholders can obscure the company's main goal, which is to create value for shareholders. Although stakeholders have an important role, management must still balance the interests of stakeholders with the company's profitability goals. Thus, stakeholder theory provides a complex framework in the management of the company, where the interests of various parties must be considered in a balanced manner (García-Sánchez et al., 2022), (Bosse Et al., 2023)

2.2 Financial Ratios

Financial ratios are analytical tools used to assess the financial performance of a company. This ratio provides insight into the company's liquidity, solvency, and profitability. Financial ratios such as Current Ratio and Debt to Equity Ratio have a significant influence on a company's Return on Equity (ROE), which shows that financial ratio analysis is very important in determining a company's financial health. However, there is also a view that financial ratios do not always accurately reflect the condition of the company. Financial ratios can be affected by a variety of external factors, such as market conditions and government policies, which are not always reflected in the ratio figures. Therefore, while financial ratios provide valuable information, they should be used with caution and in a broader context (Liza et al., 2022), (Kalu & Rugami, 2021).

2.3 Current Ratio

Current Ratio (CR) is a ratio that measures a company's ability to meet its short-term obligations by using its current assets. The formula for calculating the Current Ratio is:

$$\text{Current Ratio} = \frac{\text{Current assets}}{\text{Short term obligations}}$$

A high Current Ratio indicates that the company has good liquidity, which can increase investor and creditor confidence. However, on the other hand, too high (Nada & Hasanuh, 2021) a Current Ratio can indicate that the company is not making efficient use of its assets, which can reduce profitability. Therefore, the analysis of (Marjamaa Et al., 2021). The Current Ratio should be carried out taking into account the context of the industry and the company's strategy.

2.4 Debt to Equity Ratio

Debt to Equity Ratio (DER) is a ratio that shows the proportion of debt to a company's equity. The formula for calculating the Debt to Equity Ratio is:

$$\text{DER} = \frac{\text{Total liabilities}}{\text{Total Equity}}$$

A high DER can indicate that the company is more dependent on debt to finance its operations, which can increase financial risk. However, the prudent use of debt can improve the company's profitability, as debt can be used for profit-making investments. Therefore, (Lutfi & Kurniawati, 2023) (Chen et al., 2023). The DER analysis should consider the financing strategy and the risks the company faces.

2.5 Net Profit Margin

Net Profit Margin (NPM) is a ratio that measures how efficiently a company is in generating profits from the revenue earned. The formula for calculating Net Profit Margin is:

$$\text{NPM} = \frac{\text{Net profit}}{\text{Income}} \times 100\%$$

According to (Ramoglou et al., 2020) a high NPM indicates that the company is able to manage costs and generate good profits. However, NPM does not always reflect the overall performance of a company, as it can be affected by external factors such as changes in regulations and economic conditions. Therefore, (Dmytriyev Et al., 2021) NPM analysis must be carried out by considering factors that can affect the overall performance of the company.

2.6 Framework of Thinking

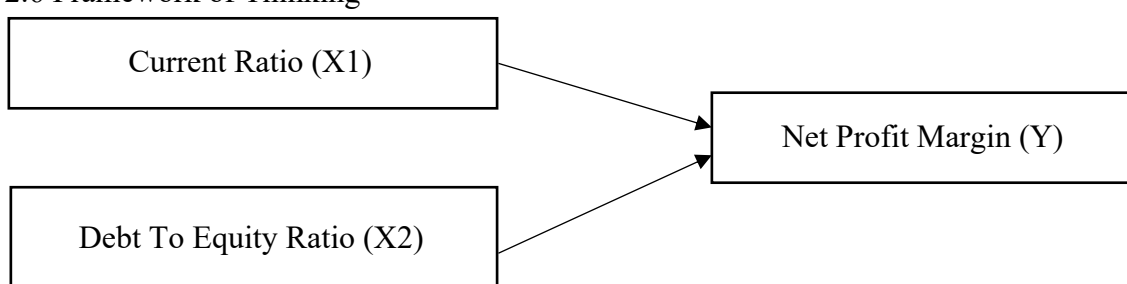


Figure 1. Framework of Thinking

2.6 Effect of Current Ratio on Net Profit Margin

Research by Shabrina shows that there is a positive relationship between Current Ratio and Net Profit Margin in PT Indo Tambang Raya Megah Tbk during the period 2008-2017, which suggests that a company's liquidity can affect its profitability in addition, (Shabrina, 2020) the Current Ratio contributes to financial performance, although the results show variations depending on the industry context. However, research by Widiasmara shows that (Hapsoro et al., 2020) Current Ratio does not have a significant effect on profit growth, which has implications for an increase in Net Profit Margin (Widiasmara et al., 2022). Thus, while there is evidence to support the effect of Current Ratio on Net Profit Margin, the results may vary depending on the context and methodology of the research.

H1: Current Ratio contributes significantly to the Net Profit Margin.

2.7 Effect of Debt to Equity Ratio on Net Profit Margin

Research by Gunanto shows that the Debt to Equity Ratio has a significant impact on Net Profit Margin in small and medium enterprises (SMEs), which shows that a good capital structure can increase profitability. In addition, research by Amelia and Gulo found that (Gunanto & Preda, 2023) the Debt to Equity Ratio has a positive effect on Net Profit Margin in food and beverage industry companies listed on the Indonesia Stock Exchange Another (Amelia & Gulo, 2021). Study by Hendawati confirmed that the Debt to Equity Ratio plays a role in determining financial performance, which is reflected in the Net Profit Margin. Thus, there is strong evidence that (Hendawati, 2017) the Debt to Equity Ratio contributes significantly to the Net Profit Margin.

H2: Debt to Equity Ratio contributes significantly to Net Profit Margin.

2.8 Previous Research

Previous research has shown that the Current Ratio (CR) has a positive and significant influence on Net Profit Margin (NPM), indicating that companies with higher liquidity tend to achieve better profitability. Studies in the basic industry and chemicals sectors support this relationship, showing that effective current asset management can improve a company's profit margin on the other hand, the effect of (Sudirman et al., 2020) (Sudirman et al., 2020) the Debt to Equity Ratio (DER) on the Net Profit Margin (NPM) shows mixed results. Some studies have found that DER does not have a significant impact on NPM, indicating that higher leverage does not necessarily increase profitability. However, other studies note that DER can affect financial performance indirectly, although its impact on NPM is not always real. Simultaneous analysis of these two ratios shows that (Primary et al., 2024) CR and DER together can affect the profitability of companies with varying degrees of significance These findings show that liquidity has an important role in driving profitability, while the influence of leverage requires a more in-depth study in the context of the plastics and packaging industry.(Sunaryo, 2022).

3. Methods

This study uses a quantitative approach with an empirical study design to analyze the effect of financial ratios on Net Profit Margin (NPM) in plastics and packaging sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2021-2023 period. The type of data used is secondary data obtained from the company's annual financial statements published on the IDX's official website or through financial statements available on the respective company's website. The variables used in this study are Current Ratio (CR), Debt to Equity Ratio (DER), and Net Profit Margin (NPM) as dependent variables.

The sample used in this study is 11 companies that are members of the plastic and packaging sub-sector listed on the IDX during the 2021-2023 period. These companies include:

Table 1. Sample Company Name List

No	Company Code	Company Name
1	FPNI	PT. Lotte Chemical Titan Tbk
2	IMPC	PT. Impack Pratama Industri Tbk
3	IPOL	PT. Indopoly Swakarsa Industry Tbo
4	AKPI	PT. Argha Karya Prima Industry Tbk
5	BRNA	PT. Berlina Tbk
6	KMDS	PT. Kurniamitra Duta Sentosa Tbk
7	SPTO	PT. Surya Pertiwi Tbk
8	TPIA	PT. Chandra Asri Petrochemical Tbk
9	TRST	PT. Trias Sentosa Tbk
10	TCID	PT. Muliapack Technotama Tbk
11	YPAS	PT. Yanaprima Hastapersada Tbk

Source: idx.co.id

PT Lotte Chemical Titan Tbk (FPNI), PT Impack Pratama Industri Tbk (IMPC), PT Indopoly Swakarsa Industry Tbk (IPOL), PT Panca Budi Idaman Tbk (PBID), PT Champion Pacific Indonesia Tbk (IGAR), PT Satyamitra Kemas Lestari Tbk (SMKL), and other companies that meet the sample criteria. The sample determination was carried out using the purposive sampling method, with the criteria of companies that have

complete financial statements, companies that report within the specified period, and companies that use rupiah currency in their financial statements.

The collected data were then analyzed using multiple linear regression analysis to test the influence of each independent variable (CR and DER) on the dependent variable (NPM). The multiple linear regression equation in this study is as follows:

$$Y = a + bX1 + bX2 + e$$

Information:

Y = Net Profit Margin

X1 = Current Asset

X2 = Debt to Equity Ratio

e = Error standard

The classical assumption test was carried out to ensure that the data used met the requirements of multiple linear regression analysis, namely normality, multicollinearity, heteroscedasticity, and autocorrelation tests. The results of this study are expected to provide insight into how much the liquidity ratio and solvency ratio affect the profitability performance of companies in the plastics and packaging sub-sector listed on the IDX.

4. Results and Discussion

4.1 Research Results

4.1.1 Net Profit Margin Sample Company

Table 2. Net Profit Margin Sample Company

Company Name	Code	Net Profit Margin		
		2021	2022	2023
PT. Lotte Chemical Titan Tbk	FPNI	2,13	2,13	2,13
PT. Impack Pratama Industri Tbk	IMPC	3,29	2,89	2,88
PT. Indopoly Swakarsa Industry Tbk	IPOL	2,47	2,16	1,40
PT. Argha Karya Prima Industry Tbk	AKPI	1,09	0,93	0,85
PT. Berlina Tbk	BRNA	0,27	-0,82	-0,45
PT. Kurniamitra Duta Sentosa Tbk	KMDS	3,57	3,59	6,02
PT. Surya Pertiwi Tbk	SPTO	1,57	1,20	2,80
PT. Chandra Asri Petrochemical Tbk	TPIA	4,16	4,43	3,25
PT. Trias Sentosa Tbk	TRST	0,93	0,94	0,26
PT. Muliapack Technotama Tbk	TCID	10,24	8,89	11,05
PT. Yanaprima Hastapersada Tbk	YPAS	1,42	2,15	1,54

Source: Researcher Analysis Results, 2024

The table above shows the Net Profit Margin (NPM) of the sample companies covering the period 2021 to 2023. In general, there is a significant variation in profitability performance between companies. Most companies experienced a decrease in NPM in 2022, but some managed to record an increase in 2023. For example, PT Kurniamitra Duta Sentosa Tbk (KMDS) showed an increase in NPM from 3.57% in 2021 to 6.02% in 2023, reflecting improvements in operational efficiency or cost management. Meanwhile, PT Berlina Tbk (BRNA) experienced a fairly sharp decline in NPM, from 0.27% in 2021 to -0.45% in 2023, which indicates significant losses or declines in performance. Other companies such as PT Muliapack Technotama Tbk (TCID) showed stable performance and tended to increase, with NPM reaching 10.24% in 2021 and 11.05% in 2023. Overall, despite the fluctuations in NPM, some companies are able to maintain or increase their profit margins, while others face greater challenges in maintaining profitability.

4.1.2 Current Ratio Company Sample

Table 3. Current Ratio Company Sample

Company Name	Code	Current Ratio		
		2021	2022	2023
PT. Lotte Chemical Titan Tbk	FPNI	1,65	1,20	1,71
PT. Impack Pratama Industri Tbk	IMPC	2,16	2,45	2,38
PT. Indopoly Swakarsa Industry Tbo	IPOL	1,40	1,45	1,35
PT. Argha Karya Prima Industry Tbk	AKPI	1,12	1,24	1,17
PT. Berlina Tbk	BRNA	0,62	0,76	1,05
PT. Kurniamitra Duta Sentosa Tbk	KMDS	2,95	3,17	4,59
PT. Surya Pertiwi Tbk	SPTO	1,62	1,49	1,61
PT. Chandra Asri Petrochemical Tbk	TPIA	3,14	3,75	3,47
PT. Trias Sentosa Tbk	TRST	1,17	1,01	0,95
PT. Muliapack Technotama Tbk	TCID	8,13	7,42	9,10
PT. Yanaprima Hastapersada Tbk	YPAS	1,76	1,37	1,81

Source: Researcher Analysis Results, 2024

Table 3 shows the development of the Current Ratio of the sample companies over three years, namely 2021 to 2023. In general, this data illustrates the company's ability to meet its short-term obligations with current assets owned. Several companies showed stability and improved liquidity performance, such as PT Kurniamitra Duta Sentosa Tbk (KMDS) which recorded a significant increase from 2.95 in 2021 to 4.59 in 2023, and PT Muliapack Technotama Tbk (TCID) with the highest ratio, increasing from 8.13 in 2021 to 9.10 in 2023. Companies with high Current Ratios, such as PT Chandra Asri Petrochemical Tbk (TPIA) and PT Impack Pratama Industri Tbk (IMPC), indicate good current asset management, although too high can indicate less efficiency. Conversely, companies with a Current Ratio below one, such as PT Trias Sentosa Tbk (TRST) in 2023, show greater liquidity risk. This data illustrates the diversity of financial management strategies between the sample companies in managing their liquidity.

4.1.3 Debt to Equity Ratio Sample Company

Table 4. Debt to Equity Ratio Sample Company

Company Name	Code	Debt To Equity Ratio		
		2021	2022	2023
PT. Lotte Chemical Titan Tbk	FPNI	0,75	0,71	0,79
PT. Impack Pratama Industri Tbk	IMPC	0,71	0,54	0,45
PT. Indopoly Swakarsa Industry Tbo	IPOL	0,62	0,58	0,61
PT. Argha Karya Prima Industry Tbk	AKPI	1,28	1,03	1,03
PT. Berlina Tbk	BRNA	1,37	1,60	1,68
PT. Kurniamitra Duta Sentosa Tbk	KMDS	0,24	0,26	0,18
PT. Surya Pertiwi Tbk	SPTO	0,53	0,48	0,45
PT. Chandra Asri Petrochemical Tbk	TPIA	0,00	0,75	0,88
PT. Trias Sentosa Tbk	TRST	0,88	1,03	1,00
PT. Muliapack Technotama Tbk	TCID	0,26	0,27	0,28
PT. Yanaprima Hastapersada Tbk	YPAS	1,12	1,15	1,41

Source: Researcher Analysis Results, 2024

Table 4 shows the development of the Debt to Equity Ratio (DER) in the sample companies during the period 2021 to 2023. DER reflects the level of leverage or use of

debt compared to the company's equity. Several companies showed a consistent decline in DER, such as PT Impack Pratama Industri Tbk (IMPC) which fell from 0.71 in 2021 to 0.45 in 2023, and PT Surya Pertiwi Tbk (SPTO) which also experienced a decrease from 0.53 to 0.45 in the same period. This decline could indicate a more conservative debt management strategy or an increase in equity capital. On the contrary, several companies recorded an increase in DER, such as PT Berlina Tbk (BRNA) which increased from 1.37 in 2021 to 1.68 in 2023, and PT Yanaprima Hastapersada Tbk (YPAS) which increased from 1.12 to 1.41 in the same period. This increase could indicate a greater reliance on debt in funding the company's operations or investments. Meanwhile, PT Kurniamitra Duta Sentosa Tbk (KMDS) has the lowest DER among the sample companies, which is 0.18 in 2023, indicating a very small dependence on debt. In contrast, companies such as PT Argha Karya Prima Industry Tbk (AKPI) and PT Berlina Tbk (BRNA) have relatively high DERs, indicating a more aggressive capital structure with a significant portion of debt.

4.2 Classical Assumption Test

4.2.1 Normality Test

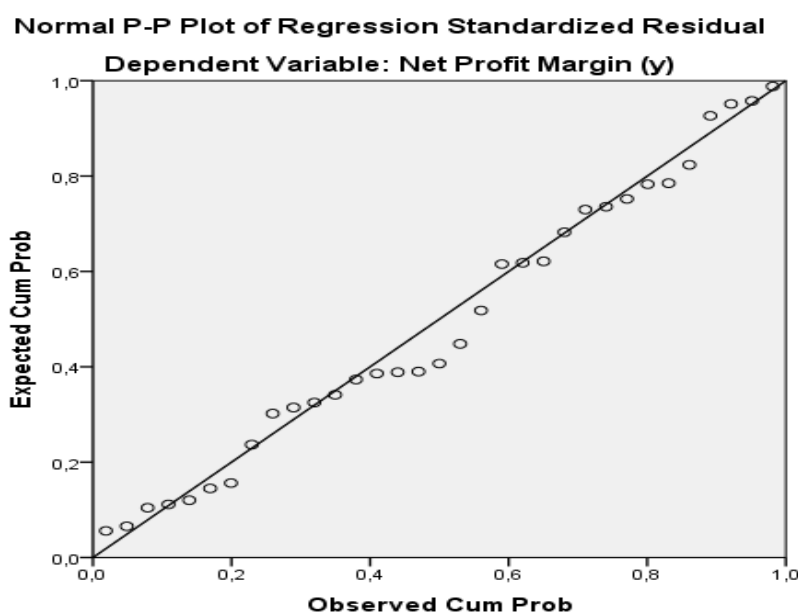


Figure 1. Normality Test

The graph above is the Normal P-P Plot of Regression Standardized Residuals for the dependent variable Net Profit Margin (y). This graph is used to test the assumption of residual normality in regression analysis. In the graph, the residual points can be seen scattered relatively close to the diagonal line (normal line). This indicates that the residual distribution is close to the normal distribution. In other words, the assumption of residual normality is fulfilled. If the dots deviate far from the diagonal line, then it may indicate a violation of the assumption of normality. Therefore, based on this graph, the regression model has a residual distribution that corresponds to the normality assumptions.

4.2.2 Multicollinearity Test

Table 5. Multicollinearity Test

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
1 (Constant)	,729	,281		2,591	,015		
Current Ratio (x1)	1,165	,049	,880	23,746	,000	,658	1,519
Debt To Equity Ratio (x2)	-1,078	,240	-,166	-4,489	,000	,658	1,519

Source: data processed in 2024

The results of the multicollinearity test, the Tolerance value for the independent variables Current Ratio (x1) and Debt to Equity Ratio (x2) were 0.658 (greater than 0.1), respectively, and the VIF value of both was 1.519 (less than 10). This shows that there is no multicollinearity between independent variables in the regression model. Thus, the regression model satisfies the assumption of being free from multicollinearity, so the results of the regression analysis can be considered valid and can be used for further interpretation.

4.2.3 Heteroskedasticity Test

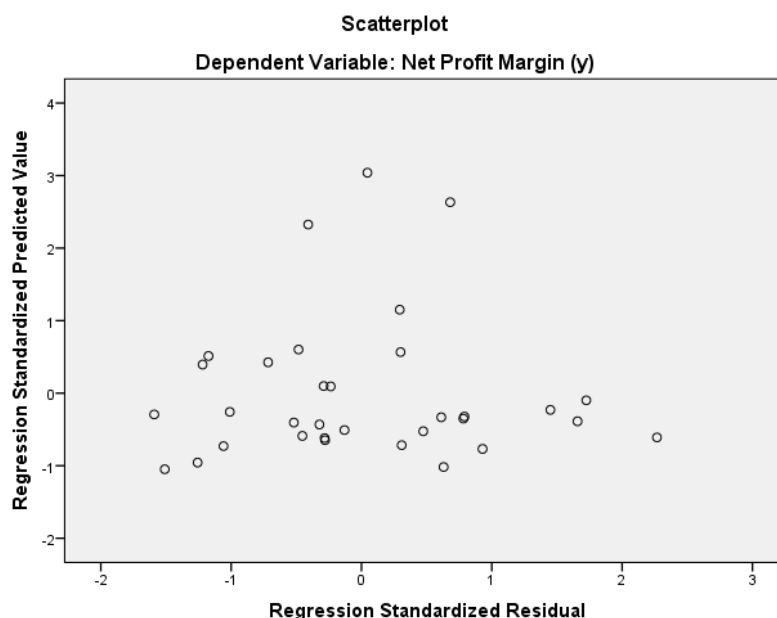


Figure 2. Scatterplot Heteroskedasticity Test

The scatterplot graph below shows the relationship between the regression standard residual value and the standard prediction value for the dependent variable Net Profit Margin (y). This graph is used to test heteroscedasticity assumptions, i.e. whether residual variability remains constant throughout the prediction value range. In this graph, the distribution of points looks random and does not form a specific pattern, such as a cone or curved pattern. This shows that there is no indication of heteroscedasticity in the regression model, so the assumption of homoskedasticity is met. Thus, the regression model used can be considered valid in meeting the classical assumption of linear regression.

4.3 Multiple Linear Regression Analysis

Table 6. Regression Analysis and Partial Testing

Type	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error			
1 (Constant)	,729	,281		2,591	,015
Current Ratio (x1)	1,165	,049	,880	23,746	,000
Debt To Equity Ratio (x2)	-1,078	,240	-,166	-4,489	,000

Source: data processed in 2024

With the results of the table above, a multiple linear regression equation can be made as follows:

$$Y = a + bX1 + bX2$$

$$Y = 0.729 + 1.165 (X1) - 1.078 (X2)$$

$$\text{Net Profit Margin} = 0.729 + 1.165 (\text{CR}) - 1.078 (\text{DER})$$

- 1) Constant (0.729) = The constant indicates the NPM (Net Profit Margin) value when CR (Current Ratio) and DER (Debt to Equity Ratio) are zero. In this context, if there is no influence from liquidity or capital structure, the company's NPM base value is 0.729;
- 2) Current Ratio Coefficient (1.165) = Coefficient of 1.165 indicates that for every increase in Current Ratio by 1 unit (e.g., from 1.0 to 2.0), NPM will increase by 1.165 points, and it can be interpreted that the higher the company's ability to meet its short-term obligations, the greater its contribution to profitability. This can be due to good liquidity that supports the company's operations efficiently;
- 3) Debt to Equity Ratio Coefficient (-1.078) = Coefficient -1.078 indicates that for every increase in Debt to Equity Ratio by 1 unit (e.g., from 1.0 to 2.0), NPM will decrease by 1.078 points. In other words, the greater the proportion of debt in the capital structure, the greater the financial burden (such as interest), which can reduce the profitability of the company.
- 4) The interpretation of the overall relationship, i.e., the Current Ratio (CR) has a positive influence on the Net Profit Margin (NPM), indicating that adequate liquidity contributes directly to increased profitability. The Debt to Equity Ratio (DER) has a negative effect on Net Profit Margin (NPM), indicating that an increase in debt relative to equity may decrease profitability, likely due to the high financial burden or risk associated with debt

4.4 Testing Partial Hypothesis

Df = n-k, where n is the total data of 33 (data on the ratio of 11 companies in 3 years) and k the number of independent variables, which is 2. So that: Df = n-k, i.e. 33-2 is obtained 31. By referring to the distribution table T, the value of the table T is obtained, which is 1.696 as the T table in this study.

Based on the results of the partial test on the table, a t-test was carried out to determine the significant influence of each independent variable on the dependent variable Net Profit Margin (y). With Df = 31 and referring to the distribution table t, t table = 1.696 is obtained as the comparison value.

- 1) For the Current Ratio variable (x1), the calculated t-value = 23.746 with the Sig. = 0.000 value. Since t calculates > t table (23.746 > 1.696) and Sig. < 0.05, this variable has a significant influence on Net Profit Margin (y).

- 2) For the Debt to Equity Ratio (x2) variable, the calculated t value = -4.489 with a Sig. = 0.000 value. Because $|t \text{ count}| > t \text{ table}$ ($-4,489 > 1,696$) and $\text{Sig.} < 0.05$, then this variable also has a significant influence on Net Profit Margin (y).

4.5 Determinant Coefficient Testing

Table 7. Koefisien Determinant

Model Summary				
Type	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,986a	,973	,971	,46976

a. Predictors: (Constant), Debt to Equity Ratio (x2), Current Ratio (x1)

Based on the Model Summary table, the value of the determination coefficient (R Square) is 0.973. This shows that the 97.3% variation in the dependent variable Net Profit Margin (y) can be explained by the independent variables Current Ratio (x1) and Debt to Equity Ratio (x2). The remaining 2.7% is explained by other factors outside the model. The Adjusted R Square value of 0.971 shows that after adjusting for the number of independent variables and sample size, the model still has an excellent level of predictive ability, which is 97.1%. In addition, the Std. Error of the Estimate value of 0.46976 indicates the error rate or deviation of the actual data from the predicted value.

4.6 Discussion

4.6.1 Effect of Current Ratio (X1) on Net Profit Margin (Y)

Current Ratio (CR) In this study, CR is proven to have a significant positive influence on Net Profit Margin (NPM). The higher the CR, the greater the company's ability to manage its liquidity, which has the potential to improve operational efficiency and profitability. This is in line with the basic principles of accounting which states that companies with good liquidity can avoid short-term financial crises and take advantage of investment opportunities that can increase revenue. In this case, companies with high CR will find it easier to carry out their operational activities without having to be hampered by liquidity problems.

High liquidity provides more flexibility in financial and operational planning. With sufficient liquid reserves, companies can diversify their businesses or increase production capacity without having to worry about possible payment difficulties. For example, companies with high levels of liquidity can quickly meet short-term obligations and have room to invest in product development or efficiency improvements, which in turn can increase revenue and net profit. This indicates that good liquidity management, as reflected in a high Current Ratio value, supports the achievement of higher profit margins.

While a high Current Ratio can have a positive impact on profitability, if a company accumulates too many current assets, it can indicate that the company is not using its assets optimally to generate more revenue. Therefore, it is important for management to maintain a balance between liquidity and efficient use of assets. In this case, the Current Ratio serves as an indicator that shows that the company not only has enough liquidity to survive in the short term but also manages its assets to support the achievement of larger financial goals.

Current Ratio (CR) has a significant influence on Net Profit Margin (NPM). A company with a high CR shows the company's ability to meet short-term obligations efficiently, which can create trust among stakeholders It can improve the company's performance and profitability in line with the company's goal of creating long-term value (Gunanto & Preda, 2023). (Gunanto & Preda, 2023)

4.6.2 Effect of Debt to Equity Ratio (X2) on Net Profit Margin (Y)

While Current Ratio shows a positive influence on Net Profit Margin, Debt to Equity Ratio it shows a negative relationship. DER The high reflects that the company relies more on debt than equity for its operational financing. In this situation, companies tend to have a larger interest expense, which in turn can reduce profitability. High interest costs reduce the net profit that the company can generate, thereby lowering the Net Profit Margin. In this case, DER A high can be an indicator of higher financial risk, where the larger the portion of debt used, the greater the burden that the company must bear.

This phenomenon can be further explained using financial theory which states that although debt can provide benefits in the form of tax savings and accelerate expansion, the interest expense incurred will reduce net profit, especially when companies face cash flow difficulties or a decrease in revenue. When DER Too high, companies' risk having difficulty meeting their debt obligations, which can ultimately affect overall financial performance. Therefore, companies with DER high may be more susceptible to unexpected economic and market fluctuations, which negatively impact Net Profit Margin.

However, this negative effect of DER on Net Profit Margin does not always apply to all companies. In some cases, companies with a good debt structure and efficient financial management can use debt to increase competitiveness or expand a business without significantly lowering profitability. Therefore, it is important for companies to ensure that the use of debt is not excessive and is always balanced with the ability to generate enough revenue to cover interest expenses and other obligations. Wise management in managing debt and taking advantage of investment opportunities will ensure that the DER remains at a safe level and does not reduce the company's profit margins.

Debt to Equity Ratio (DER) also has a significant influence on Net Profit Margin (Nurwita et al., 2022) However, the effect tends to be negative This shows that if a company is too dependent on debt, a high interest expense will reduce profitability and negatively impact the satisfaction of stakeholders, especially shareholders. In this case, stakeholders such as creditors and investors may reduce their support if the company experiences financial difficulties due to high DER (Anisa & Priyanto, 2022)

5. Conclusion

The focus of this study is to find out and analyze the influence of Current Ratio (CR) and Debt to Equity Ratio (DER) on Net Profit Margin (NPM). The findings of the study are as follows: (1) Current Ratio has a positive and significant effect on Net Profit Margin; (2). Debt to Equity Ratio has a negative and significant effect on Net Profit Margin. According to the researcher, the two variables studied, namely the Current Ratio and the Debt to Equity Ratio, have a significant effect on the Net Profit Margin. The Current Ratio variable, which measures a company's liquidity, affects profitability by indicating the company's ability to meet its short-term obligations. And on the other hand, the Debt to Equity Ratio, which reflects the capital structure of a company, also has a significant impact on a company's profitability, by showing the relationship between the level of debt and the company's own capital. Thus, the regression model used in this study proved valid to explain the relationship between independent and dependent variables.

The suggestion from the results of this study is that companies should pay attention to their liquidity management and capital structure to increase profitability. Improving the Current Ratio can help companies maintain a balance between current assets and short-term liabilities, which is essential for maintaining operational continuity. On the other

hand, optimal management of the Debt to Equity Ratio will allow the company to minimize financial risk while maximizing the use of capital for growth. Therefore, companies are advised to conduct periodic evaluations of these ratios and make appropriate policies to improve overall financial performance.

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