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Analysis of Influence Ability to Pay Debt to Corporate Value with Profitability as Intervening Variables

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Abstract: ***LQ45 is 45 issuers that have gone through a selection process with high liquidity as well as several other selection criteria. These criteria may include the balance of market capitalization. Thus, the shares contained in the list will change. The purpose of this study is to examine the effect of debt ratios consisting of total debt ratio, debt equity ratio, and current ratio to the value of the company (price book value) through profitability (return on assets). The research design uses quantitative research conducted on industries in LQ45, specifically mining, manufacturing, and telecommunications in the period 2014 - 2018. Data analysis techniques using path analysis. The direct test results of equations 1 and 2 show that negative TDR is not significant for ROA, positive DER is not significant for ROA, negative CR is significant for ROA, negative TDR is significant for PBV, positive DER is not significant for PBV, and negative CR is significant for PBV. The results of the indirect effect of the debt ratio to the value of the company through ROA obtained no significant effect. Prove that profitability is not able to mediate the relationship of total debt ratio, debt equity ratio, and current ratio to the value of the company.***

Keywords: total debt ratio, debt equity ratio, current ratio, return on assets, price book value

1. Preliminary

Sujoko and Soebiantoro (2007) revealed the value of the company as an investor's perception of the company's success rate which is often associated with stock prices. Wongso (2012) states that the value of the company or the value of the firm is an important concept for investors because it is an indicator of how the market values the company as a whole. One of the factors that influence the high or low value of a company is the financial performance of a company, thus, the increase in the value of a company is characterized by high stock prices of these companies (Weston and Copeland 1999). The company's financial performance is one of the factors seen by potential investors to determine stock investment. For a company, maintaining and improving financial performance is a must so that the shares still exist and remain in demand by investors. The company's financial statements are a reflection of the company's financial performance. The financial information has a function as a means of information, a means of management accountability to the owner of the company, a depiction of indicators of the company's success and as a material for consideration in decision making (Harahap, 2004). According to (Babu and Jaine, 1998) In order to develop a business, companies do various ways to meet capital needs. One of the policies taken by the company is to use external funds (debt). Some companies consider that the use of debt is felt to be safer than issuing new shares, several reasons why companies prefer to use debt rather than new shares, namely (1) there are tax benefits on interest payments; (2) transaction costs for debt issuance are cheaper than transaction costs for new shares issuance; (3) it is easier to get debt funding than stock funding; (4) Management control has greater debt than new shares. Addition of debt can provide a positive signal, because it is interpreted by investors as the company's ability to pay obligations in the future.

According to Ellili (2011) although it can increase the risk of bankruptcy of the company, an increase in debt is a positive signal in the market that shows the strength of managers in generating sufficient profits to pay interest and obligations. Adding debt can also provide tax benefits for the company, because the interest expense on the debt can be used as a deduction from the company's taxable income. However, the composition of debt that is too high can actually increase the risk, namely the inability of the company to pay its debt debt. The high risk caused by interest will increase higher than tax savings (Sofyaningsih and Hardiningsi, 2011). Funding through debt that is too high can make the value of the company go down. Therefore management must take the right decision in determining the company's debt policy, because it affects the high or low value of the company. This study aims to determine the magnitude of the effect of the ability to pay debt to the value of the company with profitability as an intervening variable. The ability to pay debt ratio includes financial leverage (total debt ratio and debt to equity ratio), and liquidity ratio (current ratio). Return on assets is used as an intervening variable between the relationship of the ability to pay debts to the value of the company. The selected issuers are issuers from LQ 45 companies. LQ 45 was chosen because it is included in the best company with the highest market capitalization in recent months and has a healthy financial condition, rowth prospects and high transaction value. Ratio analysis is an effective way to estimate and compare debt ratios based on a company's financial performance in certain years with other years. Because intense competition in the capital market, especially in LQ 45 companies, it is important to analyze the strengths, weaknesses, opportunities and threats of each

company in great detail to succeed more potential opportunities and become winners in the market.

2. Literature Review

Total Debt Ratio
Total debt ratio = Total liabilitas / Total aset

Debt to asset ratio is the ratio used to measure the ratio between total debt to total assets (Hery, 2016). In other words, this ratio is used to measure how much the company's assets are financed by debt, or how much the company's debt affects the financing of assets. This ratio is important to measure the company's business risk which is increasing with the addition of total liabilities (Sukamulja, 2017). Total debt ratio is included in the solvency ratio or better known as financial leverage. Describe the company's ability to pay the company's long-term obligations or obligations if the company is liquidated.

Debt to Equity Ratio (DER)
Debt to equity ratio =total liabilitas)/ total ekuitas

Debt to Equity Ratio is a ratio used to measure the amount of debt to capital proportion. This ratio is calculated as the quotient between total debt and capital. This ratio is useful to know the size of the ratio between the amount of funds provided by creditors with the amount of funds coming from the owner of the company. The higher this ratio shows that the higher the level of corporate leverage. The higher the level of leverage, the higher the risk borne by the owner of the company (Sukamulja, 2017) Providing loans to debtors who have a high debt to equity ratio raises the consequences for creditors to bear greater risk when debtors experience financial failure. This is of course very unprofitable for creditors.

Current Ratio
Current Ratio = Current Assets / Short-term Liabilities

According to Athanasius (2012) "Current Ratio is a ratio that compares the assets owned by a company with short-term debt". Current ratio is a ratio to measure the ability of a company to pay short-term obligations or debt which is due soon when billed as a whole (Kasmir, 2016). Therefore, the ratio calculation will reduce the inventory of current assets and then divide it by current liabilities, because inventories cannot be sold in the short term. The company must continuously monitor the relationship between the amount of current liabilities and current assets.

Return On Assets (ROA)
Return on assets = net income / total assets

Return on assets or ROA is a ratio that shows the results (return) on the use of company assets in net income (Hery, 2016) Return on assets measures the company's ability to generate net income from assets owned. Return on assets is included in the profitability ratio or profitability, which describes the ability of the company to get profits through all capabilities, and existing sources such as sales, cash, capital, number of employees, number of branches, and so on.

Price to Book Value (PBV)
Price to book value = price per share / Book value per share

Market to book ratio / Price to book value explains the price valuation per share compared to the book value per share, which is described in the balance sheet. PBV is a value that can be used to compare a stock more expensive or cheaper compared to other shares. To compare two or more companies must be from one business group that has the same business nature (Sihombing, 2008).

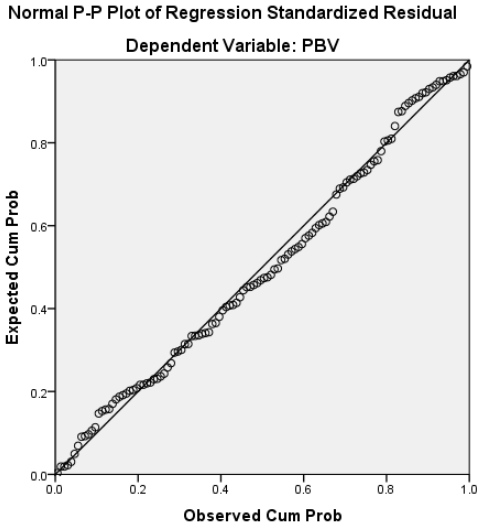
3. Research Methods

The research approach used in this study is quantitative research, this is based on using descriptive research procedures, intervals that aim to show the influence of independent variables on the dependent variable and compared with the theory in order to obtain differences in the results in this study. The sample of this research is 12 companies, so the amount of data observed is 120 annual reports from 2014 to 2018. Sampling using probability sampling techniques. In this study the source of data used is secondary data. Descriptive analysis consists of the classic assumption test, the model feasibility test, the calculation of the path coefficient, the sobel test, the Hypothesis testing.

3.1 Results

Classical Test Assumptions Pathway 1 and 2

1) Normality Test Results
Based on the P-P plot graph above, it can be concluded that the residual data is normally distributed. Where the points spread around the diagonal line, it is decided that the Path

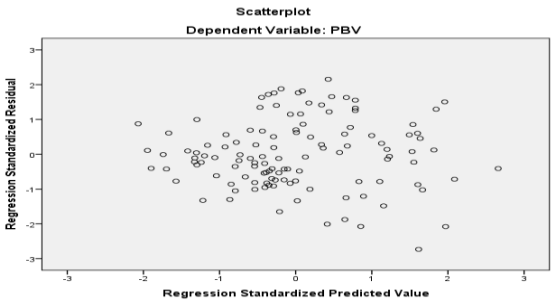


model is normally distributed.

2) Multicollinearity Test Results
Based on the multicollinearity test results table, it can be concluded that the Path model does not occur multicollinearity problems. Because the tolerance value is

greater than 0.10 and the VIF value is less than 10 so the Path model is feasible to use.

3) Heteroscedasticity Test Results



Based on the scatterplot image above, it appears that the points spread between -3 to 2 and do not form certain patterns. So it can be concluded that the Path model is homoscedasticity or not heteroscedastisity

4) Autokoleration Test Results

Model Summary[b]					
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.697[a]	.485	.468	.87648	1.474
a. Predictors: (Constant), ROA, CR, DER, TDR					
b. Dependent Variable: PBV					

Based on the SPSS output in the above table, the Durbin-Watson value is 1.474 dL values (obtained in the statistical table) = 1.633, DU (obtained in the statistical table) = 1.771 while √ (4-DW) = 1.589. Then it can be concluded: in the analysis there is no positive autocorrelation and there is Negative Autocorrelation

Test Path Coefficient
Partial Test Results (T Test)
Referring to the Path Model 2 output in the Coefficients table it can be seen that:

a) TDR (X1) effect on PBV (Y2) with a probability value of 0.037 smaller than 0.05 (0.037 <0.05)
b) DER (X2) No significant effect on PBV (Y2) with a probability value of 0.140 greater than 0.05 (0.140> 0.05
c) CR (X3) affects the PBV (Y2) with a probability value of 0,000 less than 0.05 (0,000 <0.05)
d) ROA (Y1) has a significant effect on PBV (Y2) with a probability value of 0,000 less than 0.05 (0,000 <0.05)

Coefficient Test Results (R2)
The correlation coefficient (R) is 0.697. This shows that there is a fairly strong relationship between TDR (X1), DER (X2), CR (X3) and ROA (Y1) in combination with PBV (Y2). The amount of R Square value in the "Model Summary" table of model 2 is 0.485. this shows that the contribution of the influence of X1, X2, X3 and Y1 to Y2 amounted to 46.8% while the remaining 53.2% was contributed by other variables not included in this study. Meanwhile, for the value of e1 can be found with the formula e1 = √ (1-0.485) = 0.717. thus obtained a structural model path diagram 2.

4. Discussion

1) The direct effect between variable X1 on Y1 has a coefficient value of -0.319 with a significance of 0.167 indicating that the variable X1 has a non-significant negative effect on Y1. The coefficient value of -0.319 indicates a change in the variable Y1, if the X1 variable has an increase of 1% then it can decrease the Y1 variable by 0.319 or vice versa if X1 has decreased 1% then it can increase the Y1 variable by 0.222 assuming the other variables are fixed.
2) The direct effect between the X2 variable on Y1 has a coefficient value of 0.053 with a significance of 0.809 indicating that the X2 variable has a non-significant positive effect on Y1, because the sig value> 0.05.
3) The direct effect between X3 on Y1 has a coefficient value of -0.216 with a significance of 0.031 indicating that the X3 variable has a significant negative effect on Y1. Where if the X3 variable increases 1% then the Y1 variable decreases significantly by 0.216, and vice versa.
4) The direct effect of the X1 variable on Y2 has a coefficient value of -0.3365 with a significance of 0.037. This result has a significant negative relationship between variables X1 and Y2. So it can be defined if there is an increase of 1% in the X1 variable then Y2 will decrease by 0.365 and vice versa.
5) The direct effect between variables X2 on Y2 has a coefficient value of 0.245 with a significance of 0.140 indicating that X2 has a non-significant positive effect on Y2. This result has a positive relationship between variables so that if there is a change of 1% in the X2 variable it can have a direct but not significant effect of 0.245.
6) The direct effect of X3 on Y2 has a coefficient of -0.276 with a significance of 0,000. These results indicate that the X3 variable has a significant negative effect on Y2. It can be said that if there is a 1% change in the X3 variable it can have the opposite effect on Y2 variable of 0.276.
7) The amount of indirect effect between the variable total debt ratio (X1) to the variable firm value (Y2) through the intervening return on assets (Y1) variable can be determined through the multiplication of the coefficient of the total debt ratio variable (X1) to the variable return on assets (Y1) and the coefficient the variable return on assets (Y1) to the variable firm value (Y2) is -0.319 x 0.595 = -0.19. the total effect obtained from the sum of the coefficients of the direct effect of the total debt ratio variable (X1) on the value of the company (Y2) and the indirect effect of the total debt ratio variable (X1) on the value of the company (Y2) through the variable return on assets (Y1) namely -0,365 + (-0.19) = -0.555. The calculation of the sobel test for line 1 obtained that the standard error value. amounted to 3.97 and the t value of -0.048 is smaller than the t table with a significance level of 5%, namely 1.9808. Thus it can be concluded that the mediating coefficient of the total debt ratio (X1) to the value of the company (Y2) through the variable return on assets (Y1) of -0.19 does not have a significant mediating effect.

8) The magnitude of the indirect effect formed on the variable debt equity ratio (X2) to the variable firm value (Y2) through the intervening return on assets (Y1) variable is 0.031 by multiplying the coefficient of influence of the variable debt equity ratio (X2) on the variable return on assets (Y1) and the coefficient of influence of the variable return on assets (Y1) on the firm value variable (Y2) (0.053 x 0.595). The total influence on this pathway is (0.245) + (0.031) = (0.276). The magnitude of the standard error is an indirect variable effect. of 4.33 while the value of t is 0.0073 smaller than t table with a 5% significance level of 1.9808. The conclusion is the magnitude of the mediation coefficient of 1.9808 on line 2 there is no significant mediating
9) The indirect effect between the current ratio variable (X3) on the firm value variable (Y2) through the intervening return on assets (Y1) variable is calculated by multiplying the coefficient of the direct effect of the current ratio variable (X3) on the return on assets variable (Y1) and the coefficient of direct influence variable return on assets (Y1) to the variable firm value (Y2) that is -0.216 x 0.595 = -0.128. The magnitude of the total effect obtained is -0.276 + (-0.128) = 0.404. The standard error value of line 3 using the sobel test was 1,481 with a t-count of -0,087 smaller than the 5% significance level of 1,9808 so the conclusion was drawn that the mediation coefficient value of -0.128 did not have a significant indirect effect
10) The direct effect between the variables Y1 on Y2 has a coefficient value of 0.595 with a significance of 0.0000 indicating that the variable Y1 has a significant positive effect on Y2. The relationship between the two variables showed a positive and significant relationship because the coefficient showed positive with a significant <0.05.

5. Conclusions and Recommendations

1) Total debt ratio has insignificant negative effect on profitability. so H1 is refused
2) Debt equity ratio has a significant positive effect on profitability. so H2 is rejected
3) Current ratio has a significant negative effect on profitability so H3 is accepted
4) Total debt ratio has significant negative effect on significant value so H4 is accepted.
5) Debt equity ratio has not a significant positive effect on company value. So H5 is rejected
6) Current ratio has a significant negative effect on firm value. So H6 is accepted
7) Total debt ratio does not have a significant effect on the value of the company through profitability so H7 is rejected
8) Debt equity ratio does not have a significant effect on company value through profitability so H8 is rejected
9) Current ratio does not significantly influence the value of the company through profitability so H9 is rejected
10) Profitability has a significant positive effect on firm value so that H10 is accepted

6. Suggestion

1) In order to increase company profitability, the company's management must take into account the composition of the total debt ratio, debt equity ratio, and current ratio. Because if the three ratios are in optimal conditions, the return on assets will increase and stock prices will also increase. Utilizing the company's total assets should be to expand the business by utilizing the company's strength to penetrate business opportunities. As well as improving the company's performance, so that investors do not regret the investment they made so as to increase share prices and have a good impact on the value of the company in the eyes of investors.
2) The next researcher is expected to be able to add independent variables such as company growth, debt policy, or dividend policy, so that the results of modeling analysis can be improved.
3) In this study explains that the ability to pay current debt has no impact on existing companies in the LQ 45 index, so it is necessary to do further research on similar companies.

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