



The Influence of Current Ratio, Leverage, Return on Total Assets, and Company Size on Bonds Rating

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Abstract

The aim of this study is to find out the influence of Current Ratio, Leverage, Return on Total Assets, and Company on Bonds Rating in non-financial service industry sector listed on the Indonesia Stock Exchange. This research is uses secondary data from the Indonesia Stock Exchange listed company and list of companies that had been rated by PT Pefindo in 2014-2018. While the sampling method selection uses purposive sampling and the results are 15 non-financial service companies. The regression model is using an ordered logistic regression by IBM SPSS 23 version software. The research result shows that Current Ratio, Return on Total Assets, and Company Size partially have a significant influence on Bonds Rating. While Leverage has no significant influence on Bonds Rating.

Keywords : Bonds Rating, Current Ratio, Firm Size, Leverage, Return on Total Assets

1. INTRODUCTION

The service sector is one of the sectors that plays an important role in contributing to economic growth in Indonesia, throughout 2015-2018 the service sector contributed the highest increase of 5.7% to Indonesia's GDP. The rapid development by the Indonesian government has an impact on potential growth of companies in the service sector. In advancing the service sector, of course company owners will search additional sources of capital to finance their businesses in order to continue operation and provide welfare to all parties. In line with the increasing financial literacy of the people in Indonesia, companies have various options to obtain the right sources of capital due to company interests. One source of capital used by companies is by issuing bonds. Bonds issued must be assessed by the Securities Rating Agency recognized by the OJK to determine the company's fundamental capability and the risks that are likely to face in the future, which may reflect the company's ability to pay its obligations.

The assessment carried out by the securities rating agency is in form of classification ratings, starting from the highest rating IdAAA to the lowest rating IdD. Investors who wish to purchase bonds as an investment instrument need to notice the Bonds Rating. Beside from the bonds issued rating, investors can also analyze financial reports to find out the company's progress in managing investor funds that are used as additional capital, both in short-term and long-term management. Investors can assess the quality of bonds by using financial ratios

such as Current Ratio, Leverage, Return on Total Assets, and Company Size, which will affect the company's ability in the future.

Previous research conducted by Hasan and Dana (2018), liquidity proxied by Current Ratio has an influence on Bonds Rating. While the results of Suprpto and Aini's research (2019) showed conflicting results, namely that Current Ratio has no influence on Bonds Rating. Furthermore, Hidayat's (2018) research shows that Leverage has an influence on Bonds Rating contrary to Ulfa's (2019) research which shows that Leverage has no influence on Bonds Rating. Hernando et al (2018) stated that Return on Total Assets has influence on Bonds Rating, this is contrary to the research result of Suprpto and Aini (2019) which states that Return on Total Assets has no influence on Bonds Rating. Research conducted by Suprpto and Aini (2019) shows that company size has an influence on Bonds Rating, while research results from Pratiwi and Paramita (2018) state that company size has no influence on Bonds Rating.

2. LITERATURE REVIEW

1) Agency Theory

The Agency theory put forward by Jensen & Meckling (1976), according to Husbandati and Indrawati (2019) is a contract made between the company owner (principal) and the manager (agent), where managers as agents are asked to carry out tasks in running and managing the company, and are given the authority to make decisions that are deemed to provide benefits to the company.

2) Signal Theory

The Signal theory is the action of company management to provide information to investors, both positive and negative (Suganda, 2018). This is done by the company because there is an asymmetry between the company management and external parties (investors) thus, investors receive relatively little and late information compared to the company management. Asymmetry of information gives investors a sense of doubt which will impact decisions they make and cause conditions that are not ideal among investors.

3) Bonds Rating

The Bonds Rating is the level of measure of a company's ability to commit payments of its obligation debts in the future published by a securities rating agency (Tandelilin, 2017). Bonds Rating are assessed from the rating list issued by PT Pefindo which will be classified into categories in the following table:

Table 1
Classification of Bonds Rating Categories

Category	Indicator
IdAAA	8
IdAA+	7
IdAA	6
IdAA-	5
IdA+	4
IdA	3
IdA-	2
IdBBB+	1

Source: PT. Pefindo

4) Research Hypothesis

a. The Influence of the Current Ratio on Bonds Rating

Current Ratio is a ratio that measures a company's ability to fulfill its maturing obligations using the company's current assets. The Current Ratio influences Bonds Rating because it provides information on the availability of company operational funds in one period to investors. Greater Current Ratio value indicates that the company is able to pay its obligations when they are due, but it also indicates that the company is not allocating its funds influenceively on more profitable investment activities, and tends to hoard inventory, thus investors consider that the asset management carried out is less influenceive. Research conducted by Hasan and Dana (2018) shows that the Current Ratio influences Bonds Rating. From the theory that has been described, the following hypothesis is formulated as follow:

H1: Current Ratio influences Bonds Rating.

b. The Influence of Leverage on Bonds Rating

Leverage is used to calculate the level of debt use in a company. In this research it is proxied by the Debt to Equity Ratio which observes the composition of the company's capital sources. The greater use of capital originated from debt, the greater the risk of failure to pay in the future thus, investors will be unsure about the risks they will face and this will affect the company's Bonds Rating. Research conducted by Hidayat (2018) shows that leverage influences Bonds Rating. The formulation of the research hypothesis is as follow:

H2: Leverage affects Bonds Rating.

c. The Influence of Return on Total Assets on Bonds Rating

Return on Total Assets is a ratio used to measure the level of influenceiveness of using company assets in generating company net profit. The higher the ratio value

shows that the company is maximizing the use of its assets influenceively to generate net profit, thus, investors will value the company able to generate profit and continue to grow, which then provide the ability to pay debt principals when bonds are mature. This will influence the Bonds Rating. Based on research by Hernando et al (2018), Return on Total Assets influences Bonds Rating. So the research hypothesis is as follow:

H3: Return on Total Assets influences Bonds Rating.

d. The Influence of Company Size on Bonds Rating

Company size is the company size scale perceived from the total value of assets owned by the company. Large assets indicate that the company allocates its capital for investment activities influenceively and has good financial condition. The company is also considered capable of surviving in any situations and minimizing the risk of bankruptcy which then affect its Bonds Rating because it is considered capable of paying its obligations, hence increasing investors' sense of optimism on investing. Based on research conducted by Suprpto and Aini (2019), company size influences Bonds Rating. The hypothesis is as follow:

H4: Company size influences Bonds Rating.

3. RESEARCH METHODS

Research Population

This research uses secondary data source from the BEI website. In this research the population used is public companies in the non-financial services sector listed on the Indonesia Stock Exchange during the period of 2014-2018.

Research Sample

The research sample was taken using purposive sampling technique. The criteria are based on companies that published complete financial reports, registered in the Indonesia Stock Exchange and possess bonds registered to PT Pefindo. This resulted in a total of 15 non-financial service companies as samples from a total of 336 non-financial service companies.

4. METHODS

a. Research Model

In this research, the ordinal logistic regression research model is used because the Bonds Rating variable data uses ordinal data or data in the form of orders. This analysis is used to observe the influences of Current Ratio, Leverage, Return on Total Assets, and Company Size on Bonds Rating. The cumulative ordinal logistic regression method used is as follow:

$$\begin{aligned} \text{Logit}(p_1 + p_2 + \dots + p_8) &= \text{Log} \frac{p_1 + p_2 + \dots + p_8}{1 - p_1 - p_2 - \dots - p_8} \\ &= \alpha + \beta_1 CR + \beta_2 DER + \beta_3 ROA + \beta_4 FS \end{aligned}$$

Information:

P = Bonds Rating probability *DER = Debt to Equity Ratio*

B_{0-4} = intercept *ROA = Return on Total Assets*

CR = Current Ratio FS = Company Size

b. Analysis Tools

In this study, an analytical tool was used in the form of Ordinal Logistic Regression Analysis.

5. RESULTS AND DISCUSSION

Result

a. Test Parallel Lines

Table 2
Test of Parallel Lines^a

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Null Hypothesis	223,440			
General	196,707 ^b	26,733 ^c	20	,143

In Table 2, -2 Log Likelihood shows the difference value of 26.733 with the significance value of 0.143. The resulting significance value is greater than 0.05 indicating that the categorical assumption model used in this research has equal parameters.

b. Assessment of The Goodness of Fit

Table 3
Goodness-of-Fit

	Chi-Square	Df	Sig.
Pearson	381,851	440	,979
Deviance	223,440	440	1,000

Link function: Probit.

Based on table 3, it can be seen that the Pearson and Deviance values produce a significance probability of 0.979 and 1.000, which means the values are more than 0.05 and it can be concluded that the model in this research is appropriate or compatible with the empirical data so it is suitable for use in research.

c. Model Fitting Information

Table 4
Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	Df	Sig.
Intercept Only	267,027			
Final	223,440	43,587	4	,000

Link function: Probit.

Based on the results of table 4, it is known that there was a decrease in the value of -2 Log Likelihood before the independent variable was entered into the research model and after the independent variable was entered into the research model it was 43.587 and a significance value of $0.000 < 0.05$ was obtained, which means the model fits and suitable for use.

d. Coefficient of Determination Test Results (Pseudo R-Square)

Table 5
Pseudo R-Square

Cox and Snell	,441
Nagelkerke	,454
McFadden	,163

Link function: Probit.

Pseudo R-Square is the Nagelkerke value of 0.454, which means that the variation in Bonds Rating can be explained by the independent variables, namely Current Ratio, Return on Total Assets, and Company Size, which is 45.4%. Meanwhile, 54.6% can be explained by other variables, one of which is collateralized bonds such as mortgage bonds, which are type of bonds guaranteed by the company's real assets (Fahmi, 2018). Bonds with this guarantee will increase investors confidence and provide investors with a sense of security in investing. This statement is supported by a research conducted by Hasan and Dana (2018).

e. Wald test

Table 6
Parameter Estimates

		Estimate	Std. Error	Wald	Df	Sig.	95% Confidence Interval	
							Lower Bound	Upper Bound
Threshold	[Rating = 1,00]	-10,803	2,748	15,456	1	,000	-16,188	-5,417
	[Rating = 2,00]	-8,848	2,651	11,139	1	,001	-14,044	-3,652
	[Rating = 3,00]	-8,128	2,631	9,544	1	,002	-13,284	-2,971
	[Rating = 4,00]	-7,569	2,618	8,355	1	,004	-12,701	-2,436
	[Rating = 5,00]	-6,735	2,604	6,690	1	,010	-11,839	-1,631
	[Rating = 6,00]	-6,317	2,599	5,908	1	,015	-11,410	-1,223
Location	CR	-.816	,359	5,152	1	,023	-1,520	-,111
	DER	-.542	,281	3,714	1	,054	-1,093	,009
	ROA	,657	,191	11,855	1	,001	,283	1,031
	FS	-.085	,022	14,595	1	,000	-,129	-,042

Link function: Probit.

From the table above, it can be seen that the cumulative model for ordinal logistic regression is as follows:

$$\text{Logit}(p_1) = -10,803 - 0,816\text{CR} - 0,542\text{DER} + 0,657\text{ROA} - 0,085\text{FS}$$

$$\text{Logit}(p_1+p_2) = -8,848 - 0,816\text{CR} - 0,542\text{DER} + 0,657\text{ROA} - 0,085\text{FS}$$

$$\text{Logit}(p_1+p_2+p_3) = -8,128 - 0,816\text{CR} - 0,542\text{DER} + 0,657\text{ROA} - 0,085\text{FS}$$

$$\text{Logit}(p_1+p_2+p_3+p_4) = -7,569 - 0,816\text{CR} - 0,542\text{DER} + 0,657\text{ROA} - 0,085\text{FS}$$

$$\text{Logit}(p_1+p_2+p_3+p_4+p_5) = -6,735 - 0,816\text{CR} - 0,542\text{DER} + 0,657\text{ROA} - 0,085\text{FS}$$

$$\text{Logit}(p_1+p_2+p_3+p_4+p_5+p_6) = -6,317 - 0,816\text{CR} - 0,542\text{DER} + 0,657\text{ROA} - 0,085\text{FS}$$

The relationship between odds and independent variables can be explained as follows:

- Based on table 6, it can be seen that the significance value of the Current Ratio variable is 0.023 below 0.05 and the estimated value is -0.861, which means that the Current Ratio has an influence on the Bonds Rating. If there is an increase of 1 unit in the Current Ratio, it will reduce the Odd Ratio of the Bonds Rating by $(\text{Exp } -0.861) = 0.44219691$.
- Based on table 6, the significance value for the Return on Total Assets variable is 0.001, which is lower than 0.05 and the estimated value for the Return on Total Assets variable is 0.657, which means that Return on Total Assets has an influence on the Bonds Rating. If there is an increase of 1 unit in Return on Total Assets, it will increase the Odd Ratio of the Bonds Rating by $(\text{Exp } 0.657) = 1.92899666$.
- Based on table 6, it is known that the significance value of the Company Size variable is 0.000, which is lower than 0.05 and the estimated value of the Company Size

variable is -0.085, which means that Company Size has an influence on the Bonds Rating. If there is an increase of 1 unit in Company Size, it will reduce the Bonds Rating Odd Ratio by $(\text{Exp } -0.085) = 0.91851228$.

Discussion

1) The Influence of the Current Ratio on Bonds Rating

A high Current Ratio value will lower the Bonds Rating because investors think that the company tends to be less than optimal in managing its cash and tends to hoard inventory, causing the company to lose the opportunity to allocate its current assets for appropriate investments and obtain greater profits. The results of this research are supported by previous researches conducted by Hernando et al (2018) and Hasan and Dana (2018) that the Current Ratio variable has a significant influence on Bonds Rating.

2) The Influence of Leverage on Bonds Rating

Leverage has no influence on the Bonds Rating. This is because debts used as company capital are considered by investors to be normal because the debts are used as company capital in carrying out its operational activities in order to produce greater profits. Beside that, the value of this ratio shows that the company has an average debt value that is relatively small so that investors still consider it reasonable to use debt in operational activities. The results of this research are supported by a research conducted by Ulfa (2019) that Leverage has no influence on Bonds Rating.

3) The Influence of Return on Total Assets on Bonds Rating

Based on this research, it is known that Return on Total Assets has an influence on Bonds Rating because with a high Return on Total Assets value, the company is considered capable of generating profits which results in investors being optimistic about the company's performance and tend to invest their funds in the company because it is considered that the company can provide profits, thereby increasing the company's Bonds Rating. The results of this research are supported by a research conducted by Ulfa (2019) and Hernando et al (2018) which states that Return on Total Assets has a significant influence on Bonds Rating.

4) The Influence of Company Size on Bonds Rating

The results of this research show that company size influences Bonds Rating. Company size can influence Bonds Rating. The results of this research show that higher company size, will lower the bond quality. This is because the sector in this research uses the non-financial services sector which comprises of the telecommunications sub-sector, the trade, investment, tourism sub-sector, and the property and real estate sub-sector. From

these sub-sectors, the conclusion shows that in the telecommunications sub-sector, the fixed assets used by companies are mostly still leased or joint venture. The property and real estate sub-sector which dominates the research sample shows that many of its fixed assets have not been developed yet, so investors believe that the company is not optimizing its investment sources. Meanwhile, for the trade, investment and tourism sub-sectors, fixed assets are mostly in the form of intangible fixed assets in forms of patents and brandings, thus investors conclude that the increase in these assets cannot be used as collateral if the company is unable to pay its obligations in the future. The results of this research are supported by research of Suprpto and Aini (2019) which states that company size has a significant influence on Bonds Rating.

6. CONCLUSION

Conclusions obtained as results of the conducted research shows that Current Ratio, Return on Total Assets, and Company Size have a significant influence on Bonds Rating. Meanwhile, Leverage does not have a significant influence on the Bonds Rating of non-financial services companies for the 2014-2018 period.

The results of this study have managerial implications for companies and investors. For companies, this research can be used as a positive signal to continue improving company performance as reflected in the company's financial reports so that it can provide a positive value on the company's Bonds Rating which will impact the increasing number of investors who will be interested in entrusting their funds to be managed by the company. Meanwhile, for investors, these financial ratios can be used as an assessment of the company bonds quality, which can protect investors from several investment risks, especially the risk of failure to pay in the future, so they can determine whether the bonds are feasible as investment instruments or not.

7. LIMITATION

This research still has several limitations, namely:

- This research only uses four independent variables, namely Current Ratio, Leverage, Return on Total Assets, and Company Size.
- The sample selection carried out in this research is limited to Non-Financial Services Companies listed on the Indonesia Stock Exchange.
- This research only uses Bonds Rating issued by the securities rating agent PT Pefindo.
- The research observation period is only the 2014-2018 period.

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