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The Effect of Current Ratio (CR), Total Asset Turnover (TATO), Net Profit Margin (NPM), and Return on Asset (ROA) on Profit Growth in Fast-Moving Consumer Goods (FMCG) Companies Listed on the Indonesia Stock Exchange in 2017–2021

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ABSTRACT

This study aims to analyze the effect of Current Ratio (CR), Total Asset Turnover (TATO), Net Profit Margin (NPM), and Return on Asset (ROA) on profit growth in Fast-Moving Consumer Goods (FMCG) companies listed on the Indonesia Stock Exchange from 2017 to 2021. Using a quantitative method with a Common Effect Model (CEM) panel data regression approach, this study analyzed 99 FMCG companies with a total of 419 observations. The results show that NPM (coefficient 0.623499; p=0.0014) and ROA (coefficient 2.800167; p=0.0012) have a significant and positive effect on profit growth, while CR and TATO do not have a significant effect. These findings have practical implications for FMCG company stakeholders in making profitability-ratio-based decisions to drive sustainable profit growth.

INTRODUCTION

In the era of global competition, a company's financial performance is a key indicator of operational success. As stated by Wibowo & Widiyanto (2019), companies that are able to improve employee performance and operational efficiency will be more competitive in the face of increasingly fierce business competition. In this context, profit growth is one of the most crucial performance measures for Fast-Moving Consumer Goods (FMCG) companies operating in a dynamic business environment.

Research conducted by Arif shows that the company's financial performance is inseparable from the company's ability to increase sales, manage assets, and generate profits optimally. The better the level of profitability and efficiency of using the company's assets, the greater the chance of the company increasing profits in the next period. Thus, the ratio of liquidity, activity, and profitability is a relevant indicator in explaining the company's profit growth.

Profit growth reflects the company's ability to increase net profit compared to the previous period (Harahap, 2015). According to Panjaitan (2018), positive profit growth indicates that the company is able to optimize resources to generate additional profits and strengthen its financial position (Ardayanti et al., 2022). On the other hand, consistent profits are the main consideration for investors in allocating capital, as well as for creditors in evaluating the company's debt repayment ability (Chasanah & Adhi, 2017; Nadila & Hapsari, 2022).

Data from the Indonesia Stock Exchange shows significant fluctuations in the average profit growth of FMCG companies for the 2017-2021 period. In 2017, average profit growth fell drastically to -19.73%, then jumped to 26.30% in 2018, and declined again to -8.11% in 2020, before experiencing a recovery in 2021. This phenomenon of fluctuations encourages the need for an in-depth study of the financial ratio factors that affect profit growth.

This research focuses on four main financial ratios: Current Ratio (CR) as a liquidity proxy, Total Asset Turnover (TATO) as a proxy for activity efficiency, and Net Profit Margin (NPM) and Return on Asset (ROA) as a profitability proxy. Aprilia's research (2022) shows that NPM has an effect on profit growth, while CR and ROA are not significant. On the other hand, Ardayanti et al. (2022) found that CR and TATO had a significant effect on automotive companies. The inconsistency of the results between studies and the limited studies in the FMCG sector are the gaps answered by this study. The purpose of this study is to test and obtain empirical evidence of the influence of CR, TATO, NPM, and ROA on profit growth in FMCG companies listed on the IDX in 2017-2021.

Literature Review and Hypothesis Development

Financial ratios are an analytical instrument that describes the mathematical relationship between items in financial statements (Chasanah & Adhi, 2017). According to Brigham and Houston (2007), financial ratios can be categorized as ratios of liquidity, asset management, debt management, profitability, and market value. In the context of profit growth, choosing the right ratio determines the quality of a company's performance prediction.

Current Ratio (CR) measures a company's ability to meet short-term obligations using current assets (Kasmir, 2012). The ideal CR standard is 2:1 or 200% (Danang, 2016). A ratio that is too low indicates a high liquidity risk, while a ratio that is too high indicates current assets that are not managed productively, thus negatively impacting profitability (Mamduh, 2016). Rosyad R. Arif in his various teachings at FEB UNISLA emphasized that optimal liquidity management does not have to be shown by a high ratio, but by the efficiency of the use of current assets to support business operations.

Total Asset Turnover (TATO) describes the efficiency of a company in using all its assets to generate sales (Syamsuddin, 2009; Irawati, 2006). The higher the TATO, the more efficient the utilization of assets in supporting sales activities. However, Hapsari (2007) shows that TATO does not always have a significant effect on profit growth if there is an inefficiency in the conversion of assets into income. This is in line with the view of FEB UNISLA academics that asset turnover needs to be balanced with adequate profit margins.

Net Profit Margin (NPM) is a ratio that measures the company's ability to earn net profit from every rupiah of sales (Kasmir, 2016; Darsono & Ashari, 2005). The higher the NPM, the greater the company's ability to generate profits (Harahap, 2007). Research by Harningsih and Supriyanto (2012), Lestari & Sulastri (2021), and Martini & Siddi (2021) consistently shows that NPM has a positive and significant effect on profit growth. Nurul Badriyah (2022) as the supervisor of this research underlined that sales effectiveness reflected in NPM is the main key to long-term profit growth in the consumer sector.

Return on Asset (ROA) measures the effectiveness of management in generating profits from the total assets owned (Kasmir, 2012; Mamduh, 2016). According to Harmono (2016), companies with high ROA have a stronger position in overall asset utilization. Madekhan (2023) as the main supervisor of this study emphasized that ROA is a reflection of the quality of the company's asset management and is an important signal for investors in assessing the prospects for profit growth. Research by Sundari & Satria (2021) and Safitri & Mukaram (2018) confirms that ROA has a positive and significant relationship with profit growth.

Based on the theoretical and empirical studies above, the hypothesis of this study is formulated as follows: **H1**: CR does not have a significant effect on profit growth; **H2**: TATO has no significant effect on profit growth; **H3**: NPM has a significant effect on profit growth; **H4**: ROA has a significant effect on profit growth.

RESEARCH METHODS

This study uses a quantitative approach with the panel data regression method. The research population is all FMCG companies listed on the Indonesia Stock Exchange (IDX) in 2017-2021. The purposive sampling technique was applied with the following criteria: (1) FMCG companies listed on the IDX consistently during 2017-2021; (2) have complete and audited financial statements; and (3) do not have significant extreme/outlier data. The final sample consisted of 99 FMCG companies with 419 total observations (unbalanced panels).

The dependent variable of this study is profit growth (Growth), which is measured using the formula: Growth = (Net Profit t - Net Profit t-1) / |Net Profit t-1| x 100%. Independent variables include CR = Current Assets / Current Debt; TATO = Sales/Total Assets; NPM = Net Profit / Sales x 100%; ROA = Net Profit / Total Assets x 100%.

The data was analyzed using three panel data estimation approaches, namely Common Effect Model (CEM), Fixed Effect Model (FEM), and Random Effect Model (REM). The selection of the best model is done through a series of tests: the Chow Test to choose between CEM and FEM, the Hausman Test to choose between FEM and REM, and the Breusch-Pagan Lagrange Multiplier (LM) Test to choose between CEM and REM. Data processing is carried out using EViews 12 software.

RESULTS AND DISCUSSION

Descriptive statistical analysis shows that the average profit growth (Growth) of FMCG companies during the study period was 5.42% with a standard deviation of 171.08%, indicating a very high variation between companies. The average CR was 2.55, TATO was 1.92, NPM was 0.69%, and ROA was 5.32%.

Table 1. Descriptive Statistics of Research Variables

Statistics	Growth (%)	CR	TATTOO	NPM (%)	LENGTH (%)
Red	5,42	2,55	1,92	0,69	5,32
Median	3,67	1,47	1,27	3,36	3,86
Maximum	706,92	98,63	23,11	636,08	62,12
Minimum	-958,73	0,04	0,02	-278,13	-26,85
Std. Dev.	171,08	5,90	2,15	51,08	11,25
Observations	419	419	419	419	419

The selection process of the panel data estimation model is carried out in stages. The Chow test yielded a cross-section F-statistical value of 0.8239 with a probability of 0.8716 (>0.05), so CEM was chosen over FEM. The Breusch-Pagan test yielded a statistical value of 0.8406 with a probability of 0.3592 (>0.05), so CEM was chosen over REM. Thus, the Common Effect Model (CEM) was established as the best estimation model for this study.

Table 2. Common Effect Model (CEM) Estimation Results

Variable	Coefficients	Std. Error	t-Statistics	Prob.
Constant (C)	-0,345308	12,59095	-0,027425	0,9781
CR	-1,949251	1,454502	-1,340150	0,1809
NPM	0,623499	0,193784	-3,217496	**0,0014***
LONG	2,800167	0,860358	3,254654	**0,0012***
TATTOO	-1,933961	3,886966	-0,497550	0,6191

R-squared: 0.033343 | Adj. R-squared: 0.024004 | F-statistic: 3.570076 | Prob(F): 0.007065 | *significant at α=5%

The results of the CEM estimation show a regression equation: Growth = -0.345308 - 1.949251CR + 0.623499NPM + 2.800167ROA - 1.933961TATO. Simultaneously, the model is significant with an F-statistic of 3.570076 (p=0.007065), although the R-squared value of 3.33% indicates that there are still other factors outside the model that affect the profit growth of FMCG companies.

The Current Ratio (CR) has a negative coefficient of -1.949251 with a probability of 0.1809 (>0.05), so it does not have a significant effect on profit growth. These findings support H1 and are consistent with the research of Heikal et al. (2014) and Aprilia (2022). Rosyad R. Arif in his views on corporate financial management argues that a high CR does not necessarily reflect the overall health of the company, because excessive current assets can actually reflect inefficiency in working capital management. When the CR is too high, the company tends to hold funds in the form of unproductive cash or receivables, so it does not directly contribute to profit growth.

Total Asset Turnover (TATO) has a negative coefficient of -1.933961 with a probability of 0.6191 (>0.05), so it does not have a significant effect on profit growth. These findings support H2 and are in line with the research of Hapsari (2007). In FMCG companies with fast product turnover characteristics, a high TATO does not necessarily result in greater profit growth if the profit margin per transaction is very thin. This is in line with the view of FEB UNISLA lecturers that asset efficiency must be balanced by the quality of profit margins.

Net Profit Margin (NPM) has a positive coefficient of 0.623499 with a probability of 0.0014 (<0.05), so it has a significant and positive effect on profit growth. These findings support H3. Any 1% increase in NPM will drive earnings growth of 0.623499%. Nurul Badriyah (2022) emphasized that the ability of FMCG companies to manage operational costs efficiently is reflected in high NPM, and this directly has an impact on increasing net profit. These findings are consistent with Lestari & Sulastri (2021), Martini & Siddi (2021), and Susyana & Nugraha (2021), which collectively confirm the central role of NPM in driving profit growth in the consumer industry.

Return on Asset (ROA) has a positive coefficient of 2.800167 with a probability of 0.0012 (<0.05), thus having a significant and positive effect on profit growth — with the largest effect among all variables. Every 1% increase in ROA will drive profit growth by 2.800167%. Madekhan (2023) revealed that ROA is a comprehensive measure of management's effectiveness in utilizing assets to create value for shareholders. In the capital-intensive FMCG sector, companies with high ROA have a stronger competitive advantage. These findings support H4 and are consistent with Sundari & Satria (2021), Safitri & Mukaram (2018), and Mulyani & Susianto (2021).

CONCLUSION

This study concludes that of the four financial ratios tested on 99 FMCG companies on the IDX in 2017-2021, only Net Profit Margin (NPM) and Return on Asset (ROA) were proven to have a significant and positive effect on profit growth. Current Ratio (CR) and Total Asset Turnover (TATO) have not been shown to have a significant effect. These findings indicate that profitability ratios — specifically the ability to generate profit from sales (NPM) and from total assets (ROA) — are the main determinants of profit growth in FMCG companies.

The practical implication of this study is that the management of FMCG companies needs to prioritize improving cost efficiency and optimizing asset utilization as the main strategy to drive profit growth. For investors and financial analysts, NPM and ROA can be used as the main indicators in assessing the profit growth prospects of FMCG companies. Further research is suggested to explore additional variables such as Return on Equity (ROE) and Gross Profit Margin, as well as expand the scope of the industry sector to enrich the generalization of the findings.

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