



THE INFLUENCE OF RETURN ON ASSET (ROA) AND CURRENT RATIO (CR) ON BOND RATING

Ana Susi Mulyani, SE., MM¹⁾*

ana.susi@untirta.ac.id

Faculty of Economics and Business, Sultan Ageng Tirtayasa University, Banten – Indonesia

Dr. Wawan Ichwanudin SE., M.Si²⁾

Faculty of Economics and Business, Sultan Ageng Tirtayasa University, Banten - Indonesia

ABSTRACT

Bond rating is something that should be considered for investors and issuers before making a decision on bond investment. This study aims to determine the effect of ROA and CR on the Rating of Bonds.

The research population is non-financial sector companies listed on the Indonesia Stock Exchange in 2013-2017. The research sample amounted to 22 companies out of 453 population numbers using the Purposive Sampling method. Data analysis techniques use logistic regression. Results: 1) ROA has a positive and significant effect on bond ratings. 2) CR does not affect the bond rating.

Keywords: ROA, CR, Bond Rating.

INTRODUCTION

Investment is now no stranger to some people, because investment has started to attract a lot of interest and access to become an investor is quite easy. Since the first until now the capital market can be one of the bridges to make these investments. The capital market is currently an option for some people who want to invest in the hope of getting profits in the future. The capital market is a meeting between parties who have excess funds and those who need funds by trading securities (Tandelilin, 2017: 25). The capital market can also be interpreted as a market for trading securities which generally have a lifespan of more than one year, such as stocks, bonds and mutual funds. The capital market can also function as intermediaries. This function indirectly shows the important role of the capital market in supporting the economy because as a capital market intermediary institution it can connect parties who need funds with those who have excess funds.

Bond investment is one of the investment instruments that are in demand by capital owners today. Because bond instruments include fixed income investments. Where this fixed income is obtained from interest that will be received by investors periodically and the principal of the bonds at maturity. For issuers, bonds are one of the safest securities because bond issuance costs are cheaper than stocks. According to Tandelilin (2017: 40) Bonds are securities that make a promise to provide fixed payments according to a predetermined schedule. Meanwhile, according to Jogiyanto (2013: 182) Bonds can be defined as long-term debt that will be repaid at maturity with fixed interest if any.

Even though bonds are a safe investment, they also have risks that must be considered by investors, namely the risk of the company's inability to pay its debts at maturity. If the issuer defaults, the investor will receive a smaller amount than the previously promised return on the bond. Bonds must be rated by a bond rating agency or agency before being offered. Bond rating agency is an independent agency

that provides information on risk rating scales, one of which is bond securities, which is used as an indication of the security level of a bond for investors. This security is indicated by the ability of a company to pay interest and repay the principal. There are several business phenomena that reveal that there are several factors that affect a company's bond rating. The downgrade of bond ratings in 2014 was due to a downgrade in several issuers' ratings. One of them is PT Indofarma (Persero), Tbk. In December 2014 PEFINDO lowered the rating for PT Indofarma (Persero), Tbk. The Company and its Medium Term Notes (MTN) I/2012 became "idB" from "idBB" and still places the company's rating on "Credit Watch with negative implications". The rating downgrade reflects PEFINDO's increasing concern about the liquidity pressures the company is facing to pay off its MTN I/2012 amounting to Rp. 210 billion which will mature on December 20, 2014 (www.pefindo.com). PT Perneringkat Efek Indonesia (Pefindo) has downgraded the rating of PT Express Transindo Utama Tbk's 2014 Bond I Year 2014. from previously idBB+ to idBB- with a negative outlook. Because this year there was a decrease in income reaching 121.3% year on year. The company did not make a profit and even suffered a loss of up to Rp. 210.6 Billion. This shows that the company's profitability ratio is low which has caused the rating of the company's bonds to be lowered by Pefindo (www.m.bisnis.com). The purpose of this study was to examine the effect of Return On Assets, Current Ratio, and Size on Bond Ratings. And the ability of the control variables of Bond Guarantee and Bond Age in controlling the effect of the independent variable on the dependent variable. It is hoped that this research can be useful for further researchers, investors, and companies in the non-financial sector.

LITERATUR REVIEW

Signaling Theory

Brigham and Houston (2011: 186) in Yulianto (2010) state "signal theory is an action taken by the management of a company to provide instructions to investors on how management assesses the prospects of the company". Tandellilin (2010:251) states "the higher the bond rating, the lower the risk faced by investors considering the less likely the bond will fail to pay interest and principal".

This signal theory suggests about how companies should provide signals to users of financial statements. Some of the information provided in the financial statements is the amount of profitability, liquidity, and Size owned by the company that issues bonds. The party who has better information will try to give a signal to the other party about the state of the company. The company's management will publish its financial statements which show that the company has been well managed.

Return on Assets

According to Husnan (2015: 76) "The profitability ratio is the company's ability to generate profits from its sales, from its assets, or from its equity". This study uses a Return On Asset proxy. ROA is showing the company's ability to generate profits from the assets used. By using this ROA proxy, we can indirectly find out how much assets can be optimized. If a company can optimize their assets then the bond rating will be high.

Current Ratio

According to Harahap (2015:301) "The liquidity ratio describes the company's ability to settle its short-term obligations. These ratios can be calculated through sources of information on working capital, namely current assets and current liabilities. This study uses a proxy Current Ratio. Current Ratio (Current Ratio) is a ratio to measure the company's ability to pay short-term obligations or debts that are due immediately when billed in their entirety.

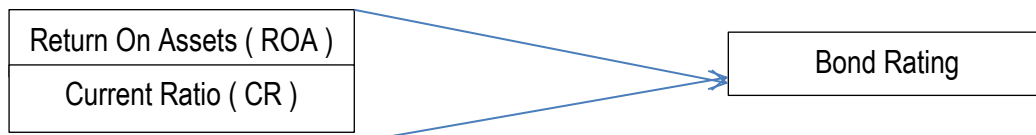
Bond Rating

Investors who want to invest in bonds should need to pay attention to the bond rating of the company that will be given the loan. Bond ratings conducted by independent institutions provide a risk scale for all bonds traded and can indicate how safe a bond is for investors. This security is shown from the company's financial condition which can also be used to measure their ability to pay interest and repay the loan principal. According to Jogiyanto (2015:230) "Bond rating is the character symbols given by the rating agency to show the risk of the bonds issued". According to Sitorus (2015: 103). "Credit rating or debt securities is an assessment of credit worthiness (credit worthiness), ability to repay debt and the possibility of default (probability of default)".

Bond ratings can provide a signal to investors who want to invest in bond instruments. In this case the bond rating can indicate whether the company is eligible to invest in bond instruments.

Thinking Framework and Hypotheses

Figure 1
Framework



H1 : If the Return on Assets increases, the Bond Rating will increase.

H2 : If the Current Ratio increases, the Bond Rating will increase.

METHODS

Types of research

The type of research used in this research is causality research, because the research wants to see the cause and effect of the independent variable on the dependent variable.

Research variable

In this study, the independent variable is Profitability (X1) which is proxied by Return On Assets (ROA), Liquidity (X2) is proxied by Current Ratio (CR). Meanwhile, the dependent variable is Bond Rating (Y).

Population and Sample

The population in this study is data on companies in the non-financial sector. The companies totaled 452 companies. Sampling in this study using purposive sampling technique. Based on the existing sample selection criteria, the samples used in this study were 22 companies that matched the existing criteria.

Data source

The secondary data sources in this study were obtained through documents from the Indonesia Stock Exchange (IDX) through the website www.idx.co.id. This study also obtained research data from the rating agency PEFINDO through the website www.pefindo.com.

Analysis Techniques

The data analysis technique used in this study is Logistic Regression, with the help of the SPSS 20 application.

RESULTS AND DISCUSSION

Results

Effect of Return on Assets on Bond Rating

After the logistic regression test was carried out, the Effect of Return On Assets on Bond Rating got a positive regression coefficient value of 0.149 and the value of the Wald statistic for the Return On Assets variable of 0.005. The significance value is smaller than the level used, which is 0.05 ($\alpha=5\%$). Based on these results, the first working hypothesis that has been formulated is correct. Thus, the first working hypothesis formulated by the researcher was accepted. Return on Assets has a significant positive effect on Bond Rating.

Effect of Current Ratio on Bond Rating

After the logistic regression test was carried out, the Effect of Current Ratio on Bond Rating got a negative regression coefficient value of -0.005 and the wald statistical probability value of the Current Ratio variable was 0.183. The significance value is greater than the level used, which is 0.05 ($\alpha=5\%$). Based on these results, the second working hypothesis that has been formulated is not true. So, the second working hypothesis formulated by the researcher was rejected. Current Ratio has no effect on Bond Rating.

Discussion

Effect of Return on Assets on Bond Rating

Hypothesis testing that has been done shows the effectiveness of the company in using its company assets to generate net profit after tax. Companies that have a high ratio of Return On Assets tend to attract the attention of investors. If a company has a high Return On Assets, it will reflect good company performance. Bond issuing companies that have high Return On Assets will get a good rating by rating agencies because high profits can be used to pay bond coupons and pay off other obligations. The results of testing the first working hypothesis are in accordance with research conducted by Melani and Kananlua (2013), Hadianto and Wijaya (2010), and Tensia, et.al (2015) which state that profitability (Return On Assets) has a positive and significant effect on bond rating.

Effect of Current Ratio on Bond Rating

Hypothesis testing that has been done shows the effectiveness of the company in using its company assets to be able to pay its short-term obligations. Companies that have a high current ratio tend to attract more investors' attention. If a company has a high Current Ratio, it will reflect good company performance. Supposedly the higher the liquidity (Current Ratio) the more likely the bond issuing company is grouped in the high investment grade category. The results of testing the second working hypothesis are in accordance with research conducted by Sejati (2010), Tensia, et.al (2015), and Partha and Yasa (2016) which state that liquidity (Current Ratio) has no effect on bond ratings.

CONCLUSIONS

1. Partially Return On Assets has a positive and significant effect on bond ratings in non-financial sector companies, with the regression equation $\text{Bond Rating} = -0.071 + 0.149\text{ROA} - 0.005\text{CR}$. The regression coefficient value is positive, namely 0.149 and the wald statistical probability value for the Return On Assets variable is 0.008. The significance value is smaller than the level used, which is 0.05 ($\alpha=5\%$).
2. Partially Current Ratio has no effect on bond ratings in non-financial sector companies, with the regression equation $\text{Bond Rating} = -0.071 + 0.149\text{ROA} - 0.005\text{CR}$. The regression coefficient value is negative, namely -0.005 and the wald statistical probability value for the Current Ratio variable is 0.183. The significance value is greater than the level used, which is 0.05 ($\alpha=5\%$).

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