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ROS, DR and DSCR

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Abstract

Every business wants to grow and succeed. The success of a company's business will cause the company to have the trust of the creditor to get a loan so that the company's management will make decisions about the capital structure that will be run by the company. Furthermore, changes in capital structure will affect the company's ability to pay debts. The purpose of this study was to determine the effect of efficiency (ROS) on capital structure (DR) and its impact on debt coverage (DSCR). The data used is quantitative data with causal associative methods. The study lays out descriptive statistical results, correlation and determination coefficients, significance tests, and regressions. This study used secondary data on the financial statements of Health Sector Companies listed on the Indonesia Stock Exchange for 2017 - 2020. The results showed that efficiency had a positive and very weak relationship with the capital structure. Efficiency has no significant effect on the capital structure. The capital structure has a negative and very weak relationship to debt coverage. The capital structure has no significant effect on debt coverage. Finally, the conclusion is that the higher profit gives the company the opportunity to obtain investment through debt. However, debt leads to narrower debt coverage. Companies with small profits did not choose debts as their source of funding and did not face debt coverage issues.

Keywords: profit, capital structure, debt coverage

INTRODUCTION

The Indonesian stock market was affected by the coronavirus pandemic (Covid-19), which caused many market participants to sell. However, there were still a number of sectors that survived. Among them is the health sector that was fortunate from the increase in drug sales and the demand for medical check-ups during the Covid-19 pandemic[10]. Even the health sector was able to grow in challenging times and was able to record positive performance and exceed the performance of the Jakarta Composite Index (JCI) throughout 2020[11]. Some hospitals listed as issuers on the Indonesia Stock Exchange experienced a drastic increase in profits after the pandemic crashed. The increase in profitability was driven by management's ongoing focus on

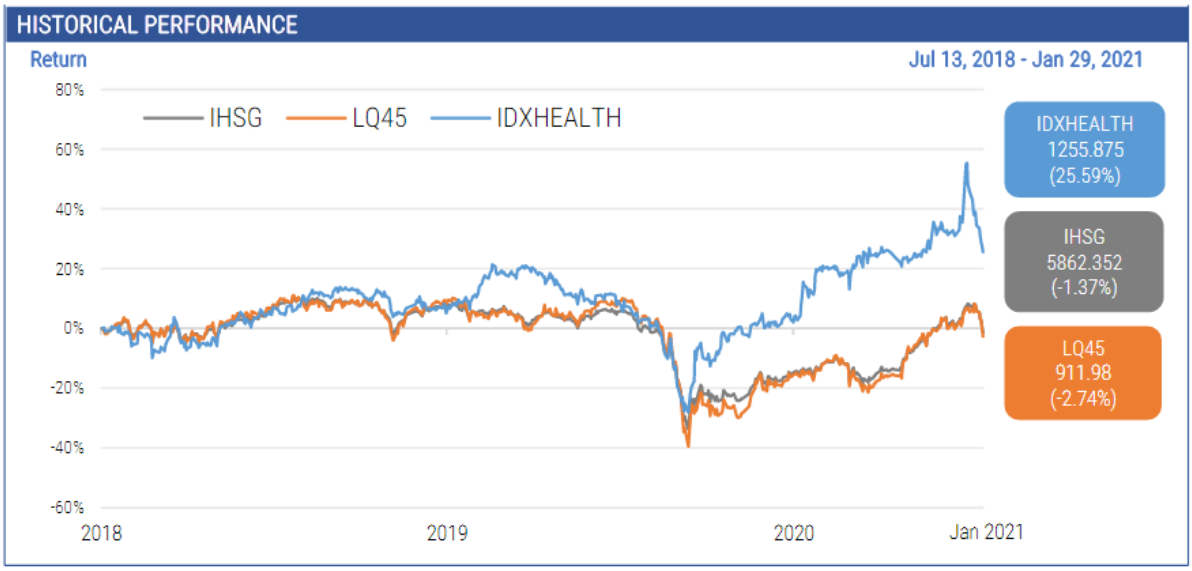
[10] Sidik, 2020.

[11] Dwi, 2021.

improving revenue and cost management strategies as well as the implementation of Covid treatment and testing programs, as seen from financial statements accessed on the IDX[12].

In summary, it can be seen in the image below, which shows the performance of the health sector in the IDX from 2018 to January 2021. Initially, the health sector was not much different from the financial performance of JCI, but since the end of 2019 recorded a trend that increased even above JCI.

Figure 1: IHSG, LQ45, and IDX Health Historical Performance[13]



The health sector's improved performance demonstrates its ability to generate large profits that have good long-term prospects. Good performance from the company shows the company is getting stronger and has the potential to increase profits. Thus, it becomes a positive signal for creditors to lend because they feel safe over the company's financial performance. However, companies that use additional sources of funds from loans will be riskier because of the emergence of fixed costs through debt. That's why directors must take strategic policies such as increased sales, cost savings, employee reduction in order for the company to have sufficient funds for debt coverage.

Although profitability ratios have been widely discussed in previous studies, this study uses efficiency ratios and debt coverage as a gauge of company performance that reflects the newness of this study.

In accordance with the background exposure of the above problems, the purpose of this study is 1) to find out the effect of efficiency ratio on capital structure and 2) the influence of capital structure on debt coverage.

[12] Iswara, 2021

[13] Djajadi, 2021

LITERATURE REVIEW

Return on sales is a financial ratio that aims to measure how efficiently a company makes a profit from sales. In other words, ROS is defined as a measure of a company's performance by analyzing a percentage of the company's total revenue that can be converted into company profits. ROS informs the many benefits that the company earns after paying material costs, wages, and other variable production costs. The ROS formula is to divide EBIT by total sales. The higher ROS ratio indicates that the company is successful in making efficiencies.[14] The company's success in achieving maximum efficiency will attract creditors to provide loans as funds used for the development of the company. On convenience and trust obtained by the company from creditors, the company will take debt as a source of funding. Thus, there is a change in the company's capital structure (Debt ratio). Capital structure is a balance or comparison between own capital and foreign capital. In this case, foreign capital is short-term debt or long-term debt. At the same time, capital itself is divided into retained earnings and company ownership. The DR's formula is to divide total debt by total assets. The first hypothesis can be made as there is a significant influence on the ratio of efficiency to capital structure.

Decision-making for funding through debt makes the company analyze the company's ability to pay debts with a certain level of income. The Debt-Service Coverage Ratio (DSCR) is a measurement of a company's cash flow available to pay its current debt obligations. DSCR shows investors whether a company has enough revenue to pay its debts. DSCR measures the percentage of net income used to guarantee debt repayment. This ratio is calculated by dividing total net income by total debt repayment, using the equation DSCR = total net income/total debt repayment.[15] If the debt service coverage ratio is too close to 1, for example, 1.1, the vulnerable entity, and a slight decrease in cash flow can make it unable to pay off its debt. Lenders may, in some cases, require borrowers to maintain a certain minimum DSCR as long as the loan is still running. The greater the funding obtained through debt will reduce the company's ability to pay debts. It also happens the opposite way. Then, the second hypothesis can be formed that there is a significant influence of the capital structure on debt coverage.

METHODOLOGY

This study used seven health sector companies. The health sector company codes studied include HEAL, MIKA, PRDA, PRIM, SAME, SILO, SRAJ, and HEAL. The study uses quantitative data collected and drawn from the financial overview of the annual report of all health sector companies in 2017 - 2020 published in IDX. A total of 26 data were collected and processed. Data work is assisted by SPSS application version 24.

The study used secondary data drawn from the company's financial statements and annual reports. The focus of this study centers on efficiency ratio as an X's variable as measured by return

[14] Brigham & Houston, 2007.

[15] Brigham & Houston, 2007

on sales ratio (ROS). Variable Y is capital structure by debt ratio formula (DR). The next variable is debt coverage projected (variable Z) by debt service coverage ratio (DSCR)[16].

To meet the first and the second research objective using quantitative analysis methods with correlation regression descriptive techniques. The stages of processing and analysis of data are spelled out in the following order, namely correlation coefficient analysis, determination coefficient analysis, t-test, and regression analysis[17].

RESULTS AND DISCUSSION

This section will discuss the statistical transcribed results of ROS, DR, and DSCR. Then, we will discuss each hypothesis that has been formed to be discussed.

Descriptive Statistical Analysis

The acquisition of ROS in the health sector listed in the IDX study showed an average figure of 7.36%. The best ROS was 30.44% in 2017 with the MIKA company code. The lowest ROS occurred in 2019 at 0.036% in companies with the code PRIM.

The highest DR was 71.42% in 2017 with the company code HEAL. The lowest DR occurred in 2020 at 6.41% in companies with the code PRIM. The average DR in health sector companies listed on the IDX is 31.42%

The highest DSCR gain was 110 in 2018 with the company code MIKA. The lowest DSCR occurred in 2019 at 0.0008% in companies with the code PRIM. The average DR in health sector companies listed on the IDX is 10.33%.

Influence of Efficiency Ratio on Capital Structure

The company's success in achieving maximum efficiency will attract creditors to provide loans as funds used for the development of the company. On convenience and trust obtained by the company from creditors, the company will take debt as a source of funding. Thus, there is a change in the company's capital structure.

Table 1: Influence of Efficiency Ratio on Capital Structure

Regression Statistics	
Correlation Coefficient	0.1273
Coefficient of Determination	0.0162
Significance	0.5354

[16] idem.

[17] Sugiyono, 2015.

Observations	26

Source: Processed by the author

The correlation coefficient of efficiency ratio (ROS) and capital structure (DR) seen from the correlation coefficient value of 0.1273 is at the correlation interpretation interval of 0.00-0.199, so it is found to have a very weak relationship level. It can be concluded that health sector companies listed in the IDX 2017 - 2020 hint at a very weak relationship in efficiency ratio (ROS) and capital structure (DR).

The coefficient of determination of the efficiency ratio (ROS) to the capital structure (ROA) by looking at the coefficient of determination is worth 0.0162 or 1.62%. The results of the coefficient of determination have the understanding that the variation or combination of independent variables, namely the efficiency ratio (ROS), can explain the dependent variable of capital structure (DR) of 1.62%.

Tested by looking at significance values of 0.5354>0.05, so Ha was rejected, and Ho accepted. The conclusion that can be taken is that the efficiency ratio (ROS) has no significant effect on the capital structure (DR) in Health Sector Companies listed on the Indonesia Stock Exchange for the period 2017-2020.

The regression coefficient value of the efficiency ratio (ROS) is positive, which means the efficiency ratio has a positive or unidirectional relationship to the capital structure (DR).

Influence of Capital Structure on Debt Coverage

Companies that use additional sources of funds from loans will be riskier because of the emergence of fixed costs through debt. That's why directors must take strategic policies such as increased sales, cost savings, employee reduction in order for the company to have sufficient funds for debt coverage.

The correlation coefficient of capital structure (DR) and debt coverage (DSCR) seen from the correlation coefficient value of 0.1964 is at the correlation interpretation interval of 0.00-0.199, so it is found to have a very weak relationship level. It can be concluded that health sector companies listed in the IDX 2017 - 2020 hint at a very weak relationship in the capital structure (DR) and debt coverage (DSCR).

Table 2: Influence of Capital Structure on Debt Coverage

Regression Statistics	
Correlation Coefficient	0.1964
Coefficient of Determination	0.0385
Significance	0.3363
Observations	26

Source: Processed by the author

The coefficient of determination of the capital structure (DR) to the debt coverage (DSCR) by looking at the coefficient of determination is worth 0.0385 or 3.85%. The results of the coefficient of determination have the understanding that the variation or combination of independent variables, namely the capital structure (DR), can explain the dependent variable of debt coverage (DSCR) of 3.85%.

Tested by looking at significance values of 0.3363>0.05, Ha was rejected, and Ho accepted. The conclusion that can be taken is that the capital structure (DR) has no significant effect on the debt coverage (DSCR) in Health Sector Companies listed on the Indonesia Stock Exchange for the period 2017-2020.

The regression coefficient value of the capital structure (DR) is negative, which means the capital structure has a relationship that is different or in the opposite direction to the debt coverage.

Discussion

The efficiency carried out by the Health Sector listed on the IDX shows good numbers. Most companies have implemented efficiencies in their company's activities. However, success in this efficiency was not arbitrarily used to take funding decisions through debt, although the opportunity for it is wide open. The results showed that companies use more investment through stock. Therefore, efficiency in the company has no effect on decisions on debt.

Funding decisions through debt make the company face a greater effort to have sufficient funds for debt coverage. The larger the debt results in less debt coverage. However, most Health Sector Companies listed on the IDX have the ability to pay the debt because they use more investment through stock.

CONCLUSION

The results of this study can be drawn to the first conclusion, more efficient will be able to use funding through debt and increase the value of the capital structure. But there has no significant influence on the efficiency of the capital structure.

The second result of this study is the higher capital structure will make it harder for the companies to provide funds to meet their responsibility for the debt. Although, there is no significant influence on the capital structure on debt coverage.

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