THE ANALYSIS OF FINANCIAL PERFORMANCE ON NET PROFIT MARGIN AT THE COAL COMPANY

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Abstract— This research describe about the investigation of the effect of the financial performance about the company's net profit margin at Coal Company from 2011 to 2013. The earnings of Coal's Company was fluctuated at this period. The variable of the research was Net Profit Margin as Dependent variable, Current Ratio, Leverage, and Growth was Independent variables. The samples were taken for the whole coal's companies that listing on the Indonesian Stock Exchange from 2011 to 2013. The object of this study was sub-sectors of the Coal mining Company that had been experiencing on fluctuating Net Profit Margin. The methodology of this research used Descriptive analysis. The result found that coefficient of determination value was 0.187. This value proved that independent variables such as Current Ratio, Leverage, and Sales Growth contribute in affecting the Net Profit Margin that is equal to 18.7% and the remaining 81.3% is influenced by other variables. The conclusion of this study showed that Leverage positive effect on Net Profit Margin with regression coefficient equal to – 0.368 with a significant level of 0.023 < 0.05. While the Current Ratio and Growth does not found significantly influence the Net Profit Margin of Coal Company.

Index Term— Current Ratio, Leverage, Sales Growth, Net Profit Margin, Coal Company.

I. INTRODUCTION

ASEAN Economic Community has become current trending topic that the idea of free trading among ASEAN countries has already been implemented since 2015. The competitors are not merely from domestic market but also from international market particularly among ASEAN countries. Thus, investment should be addressed to any potential companies that they can meet the expectation; high return. The research was limited to mining industries as they possess high development probability. The rationale of the rapid growing possibility is that Indonesia possesses promising natural resources that become intensely attractive for any international stakeholders to invest. There are four categories of mining, namely coal mining, oil and gas mining, stone mining, and ore mining. All of the sectors are rapidly traded in Indonesia Stock Exchange. However, the research was only focused on coal mining which is listed in Indonesia Stock Exchange as this sector continuously fluctuated that the net profit margin is decreased. It is alerted that the companies may experience bankruptcy if immediate treatment is not put into action. The failure is caused by the significant decreasing of company's net income that the profit margin received by the company is either low. To avoid the risk, any policies, strategies, and internal and external aid are needed.

Pursuant to the previous case, net profit margin management is proposed to be a solution to elude or to anticipate the profit decreasing. Consistent and proportional implementation of net income management will lead to future positive effect toward the company and bankruptcy avoidance. In contrast, if a company's credit policy is not highlighted and consistently managed, the probability of future bankruptcy is high.

One factor that influences the net profit margin is current ration referring to liquidity condition of a company that they are able to pay their maturity debt. When a company possesses a high liquidity, they are able to pay their short term liabilities. Company liquidity also represents company's cash used to determine the company's profit margin. Other factor that might influence net profit margin is leverage. Leverage ratio refers to ratio to determine to which extent a company is run through the debt. Sales growth is also another factor affecting net profit margin that the sales improvement indicates company's maximum capabilities in gaining high profit that the company are able to return or pay the investment in future.

Pursuant to prior researches related to the effect of current ration, leverage and sales growth toward the net profit margin has not been yet consistent. [4] proposes that TATO and current ratio significantly influence net profit margin. Meanwhile, leverage (debt to total asset) does not significantly influence net profit margin. However, [9] states that total debt and total asset significantly and positively influence net profit margin (profitability). Another study determining the effect of sales growth toward net profit margin was conducted by [8]. The study reveals that sales growth has positive and significant effect toward net profit margin.

Pursuant to the prior proposed background problems, the research questions can be formulated as follows: 1) How is the analysis of current ratio to net profit margin in coal mining company listed in Indonesia stock exchange? 2) How is the analysis of leverage to net profit margin in coal mining company listed in Indonesia stock exchange? 3). How is the analysis of sales growth and net profit margin in coal mining company listed in Indonesian stock exchange?

II. LITERATURE REVIEWS AND HYPHOTHESIS

Financial Ratio Analysis

Financial ratio analysis is regarded as a better method to obtain the description of a company's overall financial condition. The analysis is beneficial as an internal analysis for the management of the company that they may check the obtained financial achievement that it can be used for the forthcoming company planning. Besides it can be an internal analysis for the creditor and investor that they are able to establish the policy of credit and investment in a company. [13] define financial ratio analysis as the one designed to evaluate company's financial report. The analysis is purposed to collate a company's leverage to its asset and to compare the accrued interest to profits available for the expenses. [3] defines financial ratio analysis as an instrument to analyze the company achievement which represents its various financial indicator and relation showing company financial changes or company operational achievement in the past. It is either helpful to describe the operational pattern of the company as well as to describe the risk possibility and chances in immediate company.

The Benefits of Financial Ratio Analysis

[3] Says that financial ratio analysis is beneficial to see company's potential and achievement. Firstly, it can be reference for management department to decide forthcoming plans for the company. Secondly, the analysis can be used a tool to evaluate a company's internal condition based on financial perspectives. Moreover it is also beneficial for the creditor to evaluate the potential s and the risks they might face as well as to ensure them whether the company is capable to pay the interest receivable and to return the credit. Further , the analysis is also beneficial for stakeholders to assess company liability. [6] propose that the financial ration analysis can be used to evaluate a company's financial condition and its achievement. Financial inspection is highly needed in a company that company financial condition can be assessed. Often financial ratio or index is assessed for the purposes. Pursuant to the prior description it can be concluded that the ratio analysis is beneficial to know company capability in making profit, the rational amount of debt and investment plans.

Liquidity Ratio

[6] State that the ratio describes company capability in completing its current liabilities. The ratio can be determined through information resources related to force capital, namely current assets and current debt. There are two ratios used to determine the liquidity capability, namely current ratio and quick ratio. Current ratio relates to ration between current assets and current debt, meanwhile quick ratio resembles to ratio between current assets minus current debt.

Solvency Ratio (Leverage)

[6] say that ration indicates to what extent a company is running through their debt. The ratio can be determined through fixed assets and long-term debt. [10] defines solvability ratio as company capability to conduct their financial liabilities if in case the company is in liquidation. According to [1] states that leverage ratio refers to the ratio of total debt and total assets. Debt equity ratio resembles to ratio of the amount of current debt as well as long term debt and the capital itself. Interest coverage refers to ratio between gross profit and taxes toward interest expenses.

Activity Ratio

[7] Defines activity ratio is used to determine of efficiency levels of company resources utilization (selling, stock, account receivables, etc). it be used to assess company capabilities in conducting their daily operational. Activity ratio can be categorized as total asset turn over (ratio of net sales and the amount of the assets), inventory turnover (ratio of cost of goods sold and average stock), average collection period (ratio of average receivable multiplied 360 and credit selling and working capital turnover (ratio of net sales and working capital).

Profitability Ratio

It refers to ratio which describes the company capability to obtain the profits through the use overall forces and sources like selling, cash, capital, number of employees, number of branches, etc. [5] says that profitability ratio is beneficial to assess company capability in gaining profits. Profitability ratio consists of four categories, namely Net profit margin (NPM), Gross profit margin (GPM), Return on assets (ROA) and Return on Equity (ROE). NPM refers to ratio of net profit after taxes and total selling. GPM is defined as ratio of profit before taxes and number of assets. ROA is ratio of net profits after taxes and number of assets. ROE resembles to ratio of net profits after taxes and capital.

Growth Ratio

[7] Says that growth ratio describing company capability to sustain their capital position among economy growth. Growth ratio is classified as sales growth, net profit growth, stock revenue growth, and stock dividend growth. In this study growth is determined through sales growth. According to [2], sales growth can be defined as sales changes on annual financial report. Sales growths above the standards in a company is generally based on fast growth expected and industry where the company is operated.

As all issues and reviews of related literature proposed, the following hypotheses are constructed:

H1: Current ratio positively affects the net profit margin
H2: Leverage positively affects the net profit margin
H3: Sales growth positively affects the net profit margin.

III. METHODOLOGY

The population of the study is 23 coal mining company listed in Indonesia Stock Exchange in 2011-2013. Population is defined as attribute unity working cooperatively to achieve certain goals [11]. Sample refers to a representative part of the population. Sample was selected through purposive sampling method. The method is a non probability one that the samples were drawn based on particular information and rationales. The rationales of sample selection are company's continuous participation in the stock exchange market within period of 2011-2013 and financial report availability provided by the company within 2011-2013. Based on the rationale, there were 9 companies did not provide their annual financial report that they were not put as the sample of the study. There are 13 companies providing their financial report started from 2011-2013. As the data needed was secondary one, it was collected through pooling data. [12] Pooling data was merger of time series and cross section. That 36 data were obtained. Documentation was also used in data collection process. The document was all companies' audited annual financial report within 2011-2013 and the summary of companies' work and achievement retrieved from idx.com and index capital market directory (ICMD).

IV. RESULTS AND ANALYSIS

The study is aimed at empirically proved the effect of current ratio, leverage and sales growth toward net profit margin in coal mining companies listed in Indonesia stock exchange. Data used is the annual financial report within 2011-2013 of 13 mining companies. After the overall data were collected, data analysis could be conducted.

Tabel 1
Description of the Variables

Variable	Mean	Std. Deviation	N
Net Profit margin	0.0975	0.21363	36
Current ratio	1.7533	1.16443	36
Leverage	0.4639	0.22769	36
Sales growth	0.2996	0.48446	36

One of the prominent requirements fulfilled before statistical testing is that the overall data supported research variables has to be normally distributed. Normality testing was conducted through Kolmogorov Smirnov test.

Tabel 2
Normality testing Result

Variable	Probabilty	Alpha	Conclusion
Net Profit margin	0.313	0,05	Normal
Current ratio	0.465	0,05	Normal
Leverage	0.215	0,05	Normal
Sales growth	0.295	0,05	Normal

Based on the normality testing, it can be seen that each research variables possesses probability score above or equal to 0,05. Further data analysis can be conducted namely classical assumption testing as one requirement to conduct dual regression analysis is that each independent variable is freed. Generally, classical assumption tested is as following; multikolinearity, autocorrelation, and heteroskedastistity.

Hypothesis Testing

Based on the hypothesis, the study is aimed at empirically proved the effect of current ratio, leverage and sales growth toward net profit margin in coal mining companies listed in Indonesia stock exchange. As all variables are normally distributed and freed of classical assumption, the steps are as followed:

Tabel 3
Hipotesis Testing

Variable	Coefficient Regresi	R^2	Sig.	Conclusion
Constanta	0.217	0.187		
Current ratio	0.022		0.507	H1 Rejected
Leverage	-0.368		0.023	H2 Accepted
Sales growth	0.043		0.576	H3 Rejected

Regression Model

Of the result of statistical testing, dual regression model can be obtained and processed through SPSS 16, namely: Y = 0.217+0.022X1 - 0.368X2 + 0.043X3
Based on the result, it can be seen that the variable of current ratio possesses the coefficient regression is signed positive 0.022. The result shows that current ratio significantly improve the company's net profit. Leverage variables possesses negative -0.368 regression coefficient. The obtained result shows that low debt will improve company's net profit. Variables of sales growth indicate positive sign; 0.043. It means that the higher is sales growth, the more the profit is obtained.

Determination Coefficient Analysis

Determination Coefficient Analysis is aimed at knowing the ability of independent variable in giving the contribution in affecting dependent variables determined through percentage. Based on Determination Coefficient Analysis, the number obtained is 0.187. the result shows that variables of current ration, debt to total asset ratio and sales growth are able to affect company capability in gaining 18.7% net profit and the rest is affected by other variables which are not used in the research.

Hypothesis Testing Result

T-statistic analysis was used to test the hypothesis. It is aimed at knowing the effect of independent variables toward dependent variables individually. The first hypothesis testing related to variable of current ratio got significant values namely 0,507. Error possibility is determined 0,05. The result shows significant values 0,507 > alpha 0,05. It means that Ho is accepted and Ha is rejected. The implication is that current ratio does not affect significantly to the company capability to gain profit in coal mining companies.

The second hypothesis is aimed at knowing the effect of Leverage ratio toward the companies capability in gaining their net income. The result shows significant values, namely 0,023. The error margin is 0,05. The result shows significant values 0,023 < alpha 0,05. It means that Ho is rejected and Ha is accepted. The implication is that leverage affects significantly to the company capability to gain profit in coal mining companies.

The third hypothesis testing related to variable of sales growth got significant values namely 0,576. Error possibility is determined 0,05. The result shows significant values 0,576 > alpha 0,05. It means that Ho is accepted and Ha is rejected. The implication is that sales growth does not affect significantly to the company capability to gain profit in coal mining companies.

CONCLUSION

Pursuant to analysis and the discussion, it can be extrapolated that current ratio and sales growth does not affect net profit margin. In other hand leverage significantly affects the net profit margin. The value of the significances 0,023 < alpha 0,05. The result of the analysis shows the inconsistency of previous researches stating that current ration, leverage and sales growth positively and significantly affects the net profit margin [4], [9], [8] It can be concluded that there is a tendency of fluctuation and decreasing of net profit margin happening in coal mining company. Most of coal mining companies listed in Indonesia stock exchange depend on the leverage in managing and company operational. [1] operational leverage is defined as expenses in company operational. If it is mostly fixed expenses, it will not affect the profit when the demand decreases. If a company gain the fluctuated net profit margin, it will be wise for them to be careful in deciding the use of leverage in their company operational, 0% or 50%. If the company is in deficit because of the leverage, the possibility of being bankrupt is high.

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