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Current Ratio and Debt-to-Equity Ratio as Determinants of Return son Equity in Food and Beverage Companies

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ABSTRACT
This study examines the impact of the Current Ratio (CR) and Debt-to-Equity Ratio (DER) on Return on Equity (ROE) in food and beverage sector companies listed on the Indonesia Stock Exchange (IDX). The population consisted of 95 companies in 2023. Using purposive sampling, 26 companies were selected based on criteria such as consistent listing and publication of audited annual financial reports from 2020 to 2023. CR and DER are the independent variables, while ROE is the dependent variable. Panel data regression analysis was conducted using EViews software. The results indicate that both CR and DER have a significant impact on ROE simultaneously. However, to some extent, CR does not significantly affect ROE, while DER has a negative and significant impact. This suggests that companies should manage their debt levels carefully, as excessive reliance on debt can reduce returns to shareholders. For investors, DER is a crucial indicator for evaluating financial risk and assessing a company's capital structure before making investment decisions.

Keywords:
Current Ratio, Debt to Equity Ratio, Return on Equity, Capital Structure

INTRODUCTION

The food and beverage industry, also known as the F&B sector, is one of the key strategic industries in Indonesia that continues to grow through innovation, remaining relevant in today's times. This industry encompasses the entire production chain, from manufacturing and packaging to distribution and the serving of food and beverages, and involves various types of businesses, such as restaurants, cafes, food stalls, and producers of consumer products. The market potential for this industry in Indonesia is substantial, driven by several key factors. First, food and beverages are basic human needs, so demand tends to remain stable. Second, the industry is well-equipped to adapt to changing trends and increasing consumer awareness of product quality and sustainability. Third, this sector is closely linked with other industries such as tourism, agriculture, and fisheries. However, several challenges must be addressed, including intense competition, stringent regulations regarding licensing and food safety, and the ever-changing nature of consumer preferences. Additionally, logistical constraints resulting from Indonesia's vast geographical conditions and fluctuations in raw material prices pose significant obstacles. Therefore, business players need adaptive and efficient strategies to remain competitive and sustainable in this industry (Bizhare, 2024).

The Ministry of Industry (Kemenperin) reported that the food and beverage industry sector experienced a 5.53% growth in the second quarter of 2024. This growth reflects the vital role of the subsector in supporting the national economy. During the same period, the food and beverage industry made a significant contribution to the Gross Domestic Product (GDP) of the non-oil and gas manufacturing sector, accounting for 40.33%. This figure indicates that the food and beverage industry is the most significant contributing subsector within the non-oil and gas processing industry's

GDP (Hartawan, 2024). Furthermore, the Ministry of Industry (Kemenperin) reported that the food and beverage industry showed a positive performance, with a growth rate of 5.82% in the third quarter of 2024. This figure surpassed the growth of the non-oil and gas manufacturing industry GDP, which was recorded at 4.84%, and also exceeded the national GDP growth, which reached 4.95%. During the same period, the food and beverage sector contributed 40.17% to the non-oil and gas manufacturing industry's GDP, making it one of the main drivers of the sector. Seeing this positive trend, the Indonesian Food and Beverage Entrepreneurs Association (Gapmmi) projected that domestic food and beverage industry growth could reach 6% in 2025. This projection indicates an increase of 0.5 to 1% from the 2024 growth target, which is estimated to be in the range of 5% to 5.5% (Shafiq, 2025).

The achievements of food and beverage companies have not only shown positive growth but also play a dominant role in driving the overall performance of the manufacturing industry. The success of this subsector is primarily attributed to the industry's ability to adapt to market demands, innovate in products, and maintain both quality and efficiency in its production processes. With its significant contribution, the food and beverage industry has become a key pillar in the development of the national processing industry. It is expected to remain a major driver of economic growth, particularly in facing global challenges and enhancing domestic industrial competitiveness. Therefore, companies need to improve their profitability.

Consistent financial performance will increase investor confidence, especially for food and beverage companies that have gone public and are listed on the Indonesia Stock Exchange (IDX). Public companies have the responsibility to deliver added value to shareholders. One key measure of profitability is the ROE, which is a significant indicator used by investors to assess a company's performance and prospects. With the rapid growth of the industry, many new players are entering the market. To survive and excel, companies must operate efficiently and manage their finances wisely, including maintaining healthy liquidity ratios such as the CR and capital structure or leverage, represented by a healthy DER. These elements contribute to sustainable profit growth, enabling companies to pursue expansion, develop new products, embrace digitalization, and enhance supply chain networks. All of these are crucial in responding to dynamic trends and consumer preferences. Moreover, public companies are required to meet high reporting standards, including financial transparency. Therefore, stable and transparent profitability will strengthen the company's image as a professionally and accountably managed entity.

A good level of liquidity indicates that a company is capable of effectively managing its cash and short-term liabilities, enabling smooth operations that support profit generation, which ultimately has a positive impact on ROE. However, empirically, excessively high liquidity as reflected by a high CR may indicate that the company is holding too many current assets that are not being optimally utilized for productive activities. This condition can hinder asset utilization efficiency and suppress profitability, potentially leading to a decrease in ROE. On the other hand, the proportional use of debt in the financial structure can increase ROE due to the additional funds available for investment or business expansion, commonly known as the leverage effect. Conversely, if the DER is too high, interest expenses and financial risk may increase, reducing the company's net profit and negatively impacting its ROE. As described, there are also some inconsistent empirical findings. For instance,

Angelina et al. (2020); Maiyaliza et al. (2022) found that CR has a positive and significant effect on ROE. This may reflect the company's optimal short-term liquidity capacity, which supports operational efficiency and improved profitability. A high CR indicates sufficient current assets to meet short-term obligations, such as trade payables, employee wages, or raw material purchases. When current liabilities are settled on time, operations run smoothly without disruption, boosting productivity and efficiency, ultimately leading to higher profits and improved ROE.

In contrast, Sagala et al. (2020); Muhani et al. (2022); Nasyadilla & Rahman (2022) stated that CR has a negative and significant effect on ROE. A high liquidity level can have a negative and significant impact on profitability, especially when not managed optimally. This condition occurs when CR is excessively high, indicating that the company has excess current assets such as cash, receivables, or inventories relative to its short-term liabilities. If these assets are not utilized efficiently, for instance, if cash is stored without being used productively or inventories are not quickly turned over, the funds that could be allocated to profit-generating activities become ineffective. Consequently, capital utilization efficiency declines, net profit decreases, and ultimately, ROE is reduced.

Hendawati (2017); Istan (2018); Armin & Maryandhi (2018); Maiyaliza et al. (2022); Siregar et al. (2024) have found in their research that the DER has a positive and significant effect on ROE. This is possible under conditions where debt utilization is done wisely and in a controlled manner. Additionally, a high DER indicates that the company utilizes debt-based financing to enhance working capital or support business expansion without requiring additional equity from shareholders. If the borrowed funds are allocated to projects or activities that generate revenues higher than the interest expense, the company's net profit will increase. As a result, ROE will also rise, as profits are earned using a constant amount of equity.

Furthermore, the use of debt offers companies the opportunity to acquire additional sources of funds without diluting shareholder ownership. Therefore, a debt financing strategy enables management to maximize the effectiveness of using equity capital, ensuring that every rupiah of equity contributes more significantly to the company's profits. Conversely, Fajri et al. (2017); Balqish (2020); Apriliyani & Nugroho (2022); Ardi & Damayanti, (2023); Nasyadilla & Rahman (2022); Nurhamdi & Hendra (2023) argue that DER has a negative and significant effect on ROE. This may occur when the company carries a high level of debt that is not managed effectively. A high DER indicates that a majority of funding comes from debt rather than equity, leading to increased interest expenses. If the revenue generated is insufficient to cover these expenses, net profit will decline, directly reducing ROE. Moreover, a high DER also reflects excessive use of leverage, making the company more vulnerable to financial pressure, especially during economic uncertainty or rising interest rates. This condition can disrupt the company's financial stability, reduce operational efficiency, and lower profitability, ultimately resulting in a decline in ROE.

Literature Review

1. Return on Equity

Kasmir (2019) stated that ROE can demonstrate a company's efficiency in using its capital to generate profits. This ratio measures a company's effectiveness in generating profits from its available capital. Meanwhile, Hery (2020) explained that the higher the ROE value, the greater the profit generated from the capital invested in the

company's equity. Conversely, if the ROE value is low, the margin gained from each unit of invested capital will also be low. In addition, Titman et al. (2021) argued that ROE is a key figure that indicates how profitably a company can generate returns from shareholders' equity investments. ROE provides a percentage-based summary of how well a company uses its equity to generate profits; thus, a high ROE value reflects strong performance in utilizing equity capital to produce earnings.

2. Current Ratio

Kasmir (2019) stated that the current ratio represents how much current assets are available to cover liabilities that are approaching their due dates shortly. Simply put, the current ratio measures a company's cash reserves. Meanwhile, Jumingan (2019) explained that the CR reflects the relationship or comparison of current assets, indicating the company's ability to repay its debts. If the CR value is too low, the company may appear risky; however, this also indicates that the company is utilizing its assets efficiently. On the other hand, Hery (2020) stated that a low CR value shows that the company has limited assets to meet its obligations. Conversely, a high CR value suggests that the company may not be effectively maximizing its cash and inventory. Essentially, the current ratio indicates a company's ability to ensure sufficient funds are available to meet its short-term operational needs.

3. Debt to Equity Ratio

Kasmir (2019) stated that the DER is a measure of the value of debt and equity by dividing total liabilities by total equity. DER helps companies analyze the importance of the relationship between debt and equity. It illustrates the proportion of a company's capital that is supported by debt, with the expectation that the company can find solutions to financing and financial risks. Meanwhile, Hery (2020) explained that a high DER indicates that less of the company's equity is used as collateral for debt, which increases potential risks for creditors. Conversely, a low DER means the company has sufficient equity that can be used as collateral for its debt, making it safer for creditors to lend to or invest in the company.

4. Hypothesis Development

An increase in the Current Ratio (CR) can lead to a decrease in ROE. This is because a high CR indicates that the company has the ability to repay all of its short-term liabilities. However, an excessively high CR is not always beneficial, as it may reflect an excess of current assets that are not being utilized optimally. This inefficiency can lower the company's profitability, which in turn reduces the ROE (Kasmir, 2019). CR is a financial ratio used to measure a company's ability to meet its short-term obligations using its current assets. Although a high CR shows that the company has good liquidity and is capable of repaying its short-term debts, this condition does not always reflect efficient financial performance, particularly in relation to ROE. ROE measures how effectively a company generates profit from the capital invested by shareholders. When CR is too high, it may indicate that the company has excess current assets, such as cash, receivables, or inventory, that are not being optimally utilized. Idle current assets or those not invested in productive activities will not generate income or profit. As a result, the efficiency of capital utilization decreases, reducing net income, and consequently, lowering ROE. This is supported by the findings of Sagala et al. (2020); Muhani et al. (2022); Nasyadilla & Rahman (2022), who stated that CR has a negative and significant effect on ROE. Based on the above explanation, the first hypothesis (H_1) is formulated as follows:

H_1: CR has an effect on ROE.

DER is used to assess how much of the company's capital is available to guarantee all of its liabilities. When DER is at a high level, it indicates that the burden of interest payments on debt will be greater, ultimately reducing the company's net profit. This decline in profit negatively affects ROE, as the return earned from equity becomes smaller (Hery, 2020). DER is a ratio used to measure the proportion of debt to equity in a company's capital structure. The higher the DER, the greater the company's reliance on debt financing compared to its own capital. Although using a certain amount of debt can increase profits through the leverage effect, an excessively high DER can have a negative impact on ROE. The negative effect of DER on ROE occurs due to the high interest expense that must be borne by the company as a result of excessive debt usage. These interest costs reduce earnings before tax and ultimately decrease net profit, which is a key component in the calculation of ROE. When net profit decreases, ROE which is the ratio of net profit to total equity will also decline. Moreover, a high reliance on debt increases the company's financial risk, especially during periods of economic instability. This is supported by the findings of Fajri et al. (2017); Balqish (2020); (Apriliyani & Nugroho, 2022); Ardi & Damayanti (2023); Nasyadilla & Rahman (2022); Nurhamdi & Hendra (2023), who stated that DER has a negative and significant effect on ROE. Based on the explanation above, the second hypothesis (H_2) is formulated as follows:

H_2: DER has an effect on ROE.

METHOD

This study employs a quantitative approach aimed at providing a clear, accurate, and empirically testable depiction to support relevant and valid conclusions in accordance with the research problem. In this study, the independent variables are CR and DER, while ROE serves as the dependent variable. The research design is causal in nature, using secondary data derived from audited annual financial statements. The object of focus in this research is ROE in the Food and Beverage industry in Indonesia. The population consists of 95 companies as of 2023. The research subjects are companies in the Food and Beverage sector that have been consistently listed on the Indonesia Stock Exchange (IDX) and have reported financial data throughout the observation period, from 2020 to 2023. Based on these criteria, a sample of 26 companies was obtained and further analyzed using panel data regression analysis, as it combines time series and cross-sectional data, processed with the EViews software. In applying panel data regression, the study considers three main models: the common effect, fixed effect, and random effect models. To determine the most appropriate model, a series of model selection tests is conducted, including the Chow test, Hausman test, and Lagrange Multiplier test.

The next step in regression analysis using the Ordinary Least Squares (OLS) approach typically involves classical assumption testing, such as tests for linearity, autocorrelation, heteroscedasticity, multicollinearity, and normality. However, not all classical assumption tests are considered relevant in panel data regression due to its hybrid nature, combining cross-sectional and time series data. For instance, the linearity test is rarely conducted since linear regression models already implicitly assume a linear relationship between variables. Moreover, the normality test is not a primary requirement for obtaining estimators that meet the Best Linear Unbiased

Estimator (BLUE) criteria, so many experts argue that this test is not mandatory in the context of panel data regression. Meanwhile, the autocorrelation test is generally applied only to time series data and is often considered insignificant or uninformative when used with cross-sectional or panel data.

Therefore, in panel data regression, it is sufficient to test for multicollinearity and heteroscedasticity to ensure the model's validity (Basuki, 2021). Furthermore, the analysis continues with the coefficient of determination test to measure the extent to which the independent variables explain the dependent variable. Hypothesis testing is carried out through the F-test (ANOVA) to assess the overall significance of the model and the t-test (coefficient test) to determine the partial effect of each independent variable on the dependent variable (Ghozali, 2021).

RESULTS AND DISCUSSION

1. Model Selection Test

The Chow Test is used in panel data regression analysis to determine whether there are differences in the intercept values across cross-sectional units. The purpose of this test is to identify the most appropriate regression model, particularly in choosing between the common effect model and the fixed effect model. In other words, the Chow Test assesses whether the fixed effect model is more suitable than the common effect model based on significant differences among individual units in the data. The results of this test then serve as the basis for selecting the model to be used in further analysis to produce more accurate estimates, as presented below:

Table 1. *Chow Test*

Effects Test	Statistic	d.f.	Prob.
Cross-section F	3.689855	(25,76)	0.0000
Cross-section Chi-square	82.648393	25	0.0000

Source: Processed Data, 2025

Table 1 shows the results of the Chow test, where the probability value of the cross-section F-statistic is 0.0000, which is smaller than the significance threshold of 0.05. Therefore, the null hypothesis (H_0) is rejected, indicating that the fixed effect model is more appropriate to use. The selection of the fixed effect model is based on its ability to capture the differences in characteristics of each entity, which are assumed to remain constant over the observation period. After determining that the fixed effect model is more suitable, the next stage of analysis is the Hausman test, as presented in Table 2 below:

Table 2. *Hausman Test*

Test Summary	Chi-Sq. Statistic	Chi-Sq. d.f.	Prob.
Cross-section random	22.053641	2	0.0000

Source: Processed Data, 2025

The Hausman test is used to determine whether the fixed effect model is more appropriate than the random effect model in this study. Based on the results of the Hausman test, the probability value of the chi-square statistic is 0.0000, which is smaller than the significance threshold of 0.05. With this result, the null hypothesis (H_0) is rejected, indicating that the fixed effect model is the most suitable model to be used in this study and will be further analyzed to test the hypotheses. Therefore, both the Chow test and the Hausman test consistently support the use of the fixed effect

model. Given the consistent results of these two tests, it is not necessary to conduct the Lagrange Multiplier (LM) test.

2. Classical Assumption Test

The classical assumption test is a series of assessments conducted before performing regression analysis to ensure that the model used satisfies the fundamental requirements of the Ordinary Least Squares (OLS) method. The objective of this testing is to ensure that the estimated parameters meet the criteria of BLUE (Best Linear Unbiased Estimator), meaning the estimators are the best, linear, and unbiased. In this study, the types of classical assumption tests applied include the multicollinearity test and the heteroscedasticity test. The results of these two tests are presented in Table 3 and Table 4, which explain the data conditions related to these assumptions, as follows:

Table 3. *Multicollinearity Test*

Variable	CR	DER
CR	1.0000	-0.2914
DER	-0.2914	1.0000

Source: Processed Data, 2025

Table 3 shows the results of the multicollinearity test, in which the correlation coefficient between the CR and DER variables is -0.2914, which is less than 0.85. The relatively low correlation between CR and DER indicates that this research model does not exhibit multicollinearity. In other words, there is no strong linear relationship between the independent variables, meaning the assumptions for panel data regression analysis have been satisfied. Next, the testing continues with the heteroskedasticity test, as presented in Table 4. Heteroskedasticity Test, as follows:

Table 4. *Heteroskedasticity Test*

Heteroskedasticity Test: ARCH			
F-statistic	0.495820	Prob. F(1,101)	0.4830
Obs*R-squared	0.503169	Prob. Chi-Square(1)	0.4781

Source: Processed Data, 2025

Table 4 presents the results of the heteroskedasticity test using the ARCH method, which shows a chi-square probability value of 0.4781. This value is greater than the significance threshold of 0.05, indicating that the regression model in this study does not suffer from heteroskedasticity. Therefore, the residual variance of the model is constant, or homoskedastic, which is one of the characteristics of a good regression model.

3. Hypothesis Testing

Hypothesis testing is a step in statistical analysis aimed at evaluating the validity of an assumption or hypothesis about population parameters based on sample data. In quantitative research, including panel data regression analysis, hypothesis testing is used to determine whether the independent variables have a statistically significant effect on the dependent variable. In the context of regression, there are two main types of hypothesis tests. First, the F-test (ANOVA), which is used to examine whether all independent variables simultaneously have a significant effect on the dependent variable. Second, the t-test (coefficient) is used to assess the individual impact of each independent variable on the dependent variable. The results are presented in Table 5 as follows:

Table 5. *Hypothesis Test*

Dependent Variable: ROE
Method: Panel Least Squares

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.359130	0.070788	5.073313	0.0000
CR	-0.026138	0.025261	-1.034718	0.3041
DER	-0.165325	0.019022	-8.691198	0.0000
		Adjusted R-squared		0.519963
		F-statistic		5.132100
		Prob(F-statistic)		0.000000

Source: Processed Data, 2025

Based on Table 5, the regression equation results present the value of each panel data regression coefficient individually. This test aims to assess whether the variables CR and DER in this study influence ROE, both jointly and individually, at a significance level of 0.05. The results of the coefficient of determination test show an Adjusted R-squared value of 0.519963, indicating that CR and DER are able to explain 51.99% of the variation in ROE. Meanwhile, the remaining 48.01% is explained by other factors or variables not included in this research model. Furthermore, the F-test (ANOVA) yields a probability value of 0.000000, which is lower than the 0.05 significance threshold. Therefore, the alternative hypothesis (Ha) is accepted and the null hypothesis (Ho) is rejected. This indicates that the variables CR and DER jointly have a significant effect on ROE, suggesting that the regression model used is appropriate. In other words, all independent variables in the model are capable of accurately estimating the dependent variable. The constant value (*C*) of 0.359130 implies that if CR and DER are zero or remain unchanged, the estimated value of ROE would be 0.359130. Further explanation of each regression coefficient (β) and individual t-tests will be described based on the research hypotheses, as follows.

Discussion

1. The Effect of CR on ROE

CR has a regression coefficient (β_1) value of -0.026138, indicating a negative direction toward ROE. The interpretation of the regression equation for β_1 = -0.026138 is that if CR increases by 1%, ROE will decrease by 2.61%. However, the probability value of the t-statistic is 0.3041, which is greater than the significance threshold of 0.05. This means that the alternative hypothesis (H_1) is rejected and the null hypothesis (H_o) is accepted. In other words, CR does not have a significant effect on ROE. This research finding is not consistent with the initial research hypothesis (H_1), which stated that CR has a significant effect on ROE. CR is a liquidity ratio that measures a company's ability to meet its short-term obligations using current assets. However, in the context of the food and beverage industry in Indonesia during the period from 2020 to 2023, the results show that CR does not significantly affect ROE. This can be explained by several factors. The food and beverage industry tends to have fast cash turnover due to high consumer demand and the daily consumption nature of its products. Companies in this sector generally rely on sales volume and operational efficiency as the main drivers of profitability, rather than the amount of current assets held. Therefore, whether CR is high or low does not significantly impact ROE. Additionally, the industry is influenced by economic dynamics. Many companies accumulate current assets such as cash and inventory as a precautionary measure against market uncertainties. However, this accumulation does not directly contribute

to profit growth, thus having little effect on ROE. These findings are supported by empirical evidence from Tyas et al. (2021); Siregar & Harahap (2021); Nada & Hasanuh (2021); Rolanda et al. (2022); Herlina & Dewi (2019); Apriliyani & Nugroho (2022); Wijayanti et al. (2022); Wijaya et al. (2022), who stated that CR has a negative but insignificant effect on ROE.

2. The Effect of DER on ROE

DER has a regression coefficient (β_2) value of -0.165325, indicating a negative direction toward ROE. The interpretation of the regression equation for β_2 = -0.165325 is that if DER increases by 1%, ROE will decrease by 16.53%. The probability value of the t-statistic is 0.0000, which is less than the significance threshold of 0.05. This means that the alternative hypothesis (H_2) is accepted, and the null hypothesis (H_o) is rejected. In other words, DER has a negative and significant effect on ROE. This finding is consistent with the second research hypothesis (H_2), which initially stated that DER has a negative and significant influence on ROE. DER is an indicator that reflects the extent to which a company uses debt in its capital structure compared to equity. In food and beverage companies in Indonesia during the 2020 to 2023 period, the study results show that DER negatively and significantly affects ROE. A high DER indicates that the company is more heavily financed by debt than by equity. This condition increases the interest burden and repayment obligations that the company must bear, thereby reducing net income. Since ROE is calculated based on net income relative to equity, a decrease in profit due to high debt burden will directly have a negative impact on ROE. Companies tend to increase debt to sustain operations. However, this increase in debt is not always accompanied by higher revenues, so the additional financial burden from debt significantly affects profitability. When the capital structure is overly dependent on debt, the company's ability to generate ret; urns from its own capital diminishes. This result is supported by empirical findings from Fajri et al. (2017); Balqish (2020); Lutfi (2022); Ardi & Damayanti (2023); Nasyadilla & Rahman (2022); Nurhamdi & Hendra (2023), who stated that DER has a negative and significant effect on ROE.

CONCLUSION

Based on the results of the study on 26 Food and Beverage companies listed on the Indonesia Stock Exchange for the period 2020 to 2023, it can be concluded that the CR variable does not have a significant effect on ROE, while DER has a negative and significant effect on ROE. The insignificant effect of CR on ROE indicates that liquidity levels are not the main factor determining return on equity in this sector. In contrast, a high DER negatively impacts ROE, as an increase in debt burden can reduce the company's net income.

The recommendation for Food and Beverage companies is to be more prudent in managing their capital structure, particularly in taking on debt. Companies should strike a balance between the use of debt and equity to avoid financial pressure that could reduce profitability. In addition, optimizing current assets so they can be used more productively is also important to prevent idle funds that do not contribute to profits. The practical implication of this study is that company management needs to focus on the efficient use of debt and the improvement of operational performance rather than merely maintaining liquidity ratios. Financial decision-making should take

into account its impact on long-term profitability and the company's ability to generate value for shareholders.

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