THE EFFECT OF GROWTH, PROFITABILITY AND LIQUIDITY TO BOND RATING OF THE BANKING FIRMS LISTED ON THE INDONESIAN STOCK EXCHANGE (PERIOD 2009-2013)

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ABSTRACT - *This study aims to identify and analyze the effects of growth, profitability and liquidity on bond ratings of the banking firms listed on the Indonesia Stock Exchange (Period 2009-2013). Measurement of growth using sales growth and Earnings per Share growth, profitability is measured by Net Profit Margin (NPM), Return on Assets (ROA), Return on Equity (ROE), while liquidity is measured by the Loan to Deposit Ratio (LDR). The sample in this study is the banking firms listed in Indonesia Stock Exchange 2009-2013 and ranked by PT. PEFINDO. Sampling using purposive sampling in order to obtain a total sample of 7 banking firms that meet the criteria of the study sample set. The technique of the data analysis in this study is using ordinal regression with SPSS 18.0 for Windows.*

The results showed that growth with sales growth of measurement has a positive influence on bond ratings while EPS growth measurement has no effect on bond ratings. Profitability with NPM and measurement ROA has a positive influence on bond ratings, when using ROE measurement has a negative influence on bond ratings. Liquidity with LDR of measurement has no effect on bond ratings.

keywords: Growth, Profitability, Liquidity, Bond Ratings, Ordinal Regression

1. BACKGROUND

Investments in general is an activity to invest hope to get profit in the future. People who have excess funds will tend to allocate it into investment. Bond is one of the products in the capital market in the form of a waiver of debt which indicates that the bond issuer borrows some funds from communities (bondholders) and has an obligation to pay periodic interest and repay the principal at a predetermined time to the bondholders From this bond ratings information, an investor will be able to determine the level of expected return and risk of the bonds. In general, bond rating by Pefindo Ltd is divided into two investment grade (AAA, AA, A, BBB) and non-investment grade (BB, B, CCC, and D).

A phenomenon that occurs on the rating of the bonds, is that some issuers defaulted while their bond rating is investment grade. There are some differences in the results of research on the factors that affect the bond ratings such as Almilia's and Devi's (2007) research. Winardi's (2013) statement about the factors that affect the bond ratings on manufacturing companies found that profitability does not affect the bond ratings, while Agus and Daniel (2013) in their research on the ability of financial ratios for bond ratings in the consumer goods company found that the profitability has a significant effect on bond ratings; Sejati (2010) in the analysis of accounting and non-accounting factor for bond ratings in manufacturing states that growth has significant effect on bond ratings; Adrian's (2011) research concluded that the liquidity has significant effect on bond ratings and research of Magreta and Poppy (2009) concluded that liquidity does not affect the bond ratings.

2. THEORITICAL REVIEWS

2.1 Bonds

Manurung, et al (2009) state that a bonds is a valuable document issued by the issuer for investors (Bondholder), where the publisher will provide a return in the form of coupons paid periodically with the capital when the bonds meets its maturity. In investment there would be advantages and risks that will be received by an investor. According Rahardjo (2004), some of the risks faced by an investor to invest in bonds are:

a. Interest Rate Risk, the higher interest rates, the higher the bond price will increase.

b. Liquidity Risk, How to measure liquidity is to see a big difference (spread) between the demand and supply price posted by the broker. The greater the difference the greater the liquidity risk is faced.

c. Risk Maturity, bonds that have long maturity more than 10 years will have a higher risk because at the time of buying the bonds, it would be difficult to predict the condition of the company and the country's economy in the long term.

d. Default risk, If the publishing company went bankrupt, then the bond would not have value.

e. Inflation risk, If economic conditions weaken and inflation increase, it will result in the purchasing power of the bond or other investment products will decrease.

According Kuljeet and Rajinder (2011) bond rating is an indicator symbol of the opinion of rating agencies regarding the relative ability of the issuer of debt securities to implement the obligations under the contract. Ranked bonds are expected to be used as guidelines for investors who want to invest on quality bonds they are interested. Low bond rating indicates that the security level of the bonds is also low. This can be avoided by investors to choose bonds that are rated higher (Sundjaja, et al., 2010). Bond ratings were measured using an ordinal scale ranked by PEFINDO Ltd.

Table 1. Category Bond Ratings

Skala	Peringkat	Kategori
8	AAA	Obligasi berkualitas bagus dan berisiko rendah
7	AA	Kemampuan obligor sangat kuat dan tidak mudah dipengaruhi perubahan keadaan
6	A	Kemampuan obligor kuat, namun cukup peka terhadap perubahan yang merugikan
5	BBB	Kemampuan obligor memadai, namun dapat diperlemah dengan perubahan keadaan bisnis dan perekonomian yang merugikan
4	BB	Kemampuan obligor peka terhadap keadaan bisnis dan perekonomian yang tidak menentu dan merugikan
3	B	Obligor masih memiliki kemampuan melunasi, namun dapat diperburuk dengan perubahan kondisi bisnis dan perekonomian
2	CCC	Obligasi sudah tidak mampu memenuhi kewajiban, hanya bergantung perbaikan kondisi eksternal
1	D	Obligasi macet

Source: Pefindo, Maharti (2011)

2.2 Company's Growth

The company's growth is its ability to increase the size (the size of the company). The more the company grows, the greater the need of funds is to be expanded. Expansion requires funds that are not few in number, so the need for funds in the future financing will increase. Greater funds are needed. This results the company to hold its earnings. Profit obtained will be used in financing the expansion so that the profits are not distributed as dividends. This growth potential can be measured from the magnitude of the cost of research and development. The greater the R & D cost he company then it means that there are prospects for growth (Sartono, 2001).

Pottier and Sommer (1999) state that the stronger the growth of a company is positively associated with decision-grade rating and the rating given by bonds. In general, with the company's growth viewed as good means that the company's performance is also good, thus, that the company issuing the bond will have a good bond rating. Therefore, company's growth effects positively to the bond rating. The company's growth can be measured by sales growth and its EPS growth (Cashmere, 2010), a formula to measure the sales growth is:

$$\text{Company's growth} = \frac{\text{current year's sales} - \text{previous year's sale}}{\text{Previous year's sales}}$$

$$\text{EPS Growth} = \frac{\text{current year's EPS} - \text{Previous year's EPS}}{\text{Previous year's EPS}}$$

2.3 Liquidity Ratio

Liquidity ratio is the ratio that measures the company's ability to pay short-term financial obligations on time by looking at the company's current relative assets to current debt (Hanafi and Halim, 2012). Company's ability to meet their financial obligations on time means that the company is in a liquid state and has current assets outweigh its current debt (Almalia and Devi, 2007).

Burton (1998) states that a high level of liquidity will demonstrate strong financial condition that would financially affect the bond ratings predictions. Therefore, company's liquidity affects positively to the company's bond rating. Tools used to measure liquidity to the banking company according Taswan (2013) are to use the Loan to Deposit Ratio (LDR). LDR is a ratio that describes the bank's ability to repay its obligations to customers who invest the funds with which credit has been given to the debtors. LDR can be measured by:

$$\text{LDR} = \frac{\text{Credit}}{\text{Third party's cost}}$$

2.4 Profitability Ratios

Hanafi and Halim (2012) state that profitability is a ratio that measures a company's ability to produce a profit at the level of sales, assets, and certain share capital. This profitability provides an overview of how effective the company operates so as to provide benefits to the company. Burton, et al., (1998) says a high level of profitability can reduce the risk of insolvency (inability to pay debts) which results to higher bond rating of the company issuing the bond, so the profitability affects positively on bond ratings. Profitability ratios in this study were measured by NPM (Net Profit Margin), ROA (Return on Assets), ROE (Return on Equity).

$$\text{NPM} = \frac{\text{Net Profit}}{\text{Sale total}} \qquad \text{ROA} = \frac{\text{Net Profit}}{\text{Asset total}} \qquad \text{ROE} = \frac{\text{Net Profit}}{\text{Capital money}}$$

2.5 Hypothesis

From the theoretical reviews, previous studies, and the framework described above, it can be stated that temporary answer to the existing problems, are:

a. Company's growth affects positively to bond ratings.

b. Profitability ratios affects positively to bond ratings.

c. Company's liquidity affects positively to bond ratings.

3. RESEARCH METHODOLOGY

The type of research used in this research is the study of causality and data used are secondary data derived from the company's financial statements which published in the Indonesia Stock Exchange in between 2009-2013 and bond ratings data are issued by PEFINDO. Its population is banking companies listed in Indonesia Stock Exchange and rated by PEFINDO Ltd. The sampling technique used is purposive sampling technique with the following criteria:

a. Banking companies listed in the Indonesia Stock Exchange.

b. They Issued bonds during the study period and listed in bond ratings issued by PEFINDO.

c. Has a complete set of financial statements during 2009-2013.

There are 39 banking companies listed on the Indonesia Stock Exchange. Of the criteria mentioned above, there are 7 companies that meet these criteri.

4. RESULTS AND DISCUSSION

Table 2. Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
P. Penjualan	35	-.16	.29	.1486	.10500
P. EPS	35	-9.16	1.59	-.2480	2.09084
ROA	35	-.0200	.0350	.016829	.0113332
ROE	35	.0020	.2300	.121343	.0511405
NPM	35	-.16	.20	.1211	.07899
Peringkat Obligasi	35	5	8	6.69	.796
Valid N (listwise)	35				

Source: Data processed by SPSS, 2014

Based on the results of descriptive statistics in Table, 2 it can be seen that the lowest bond rating owned by Bank ICB Bumiputera during 2009-2013 with BBB ratings and the highest ranking is owned by Bank OCBC NISP in 2012-2013 with AAA bond rating. It means that the Bank ICB Bumiputera's bond rating does not increase during 2009-2013 and it has the lowest rating of the bonds of other companies. However, during the 5-year bond ratings remain stable.

Table 3. Bonds Rating

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	BBB+	BBB+	BBB+	BBB+	BBB+
2	BBTN	AA-	AA-	AA	AA	AA
3	BDMN	AA+	AA+	AA+	AA+	AA+
4	BJBR	A+	AA-	AA-	AA-	AA
5	BNLI	A+	A+	AA	AA	AA+
6	NISP	AA-	AA-	AA+	AAA	AAA
7	PNBN	AA-	AA	AA	AA-	AA

Source: www.pefindo.com

Company's growth in this study is measured or represented by sales growth and calculation growth of EPS (Earnings per Share). The lowest value of sales growth based on table 2 that is equal to -0.16 owned by Bank ICB Bumiputera in 2012 shows that sales of the company has decreased and become less efficient to make the sales. The highest value sales growth amounted to 0.29 occurred in Bank of West Java and Banten in 2009 and at Bank Permata in 2011 and 2013. This means that the two companies are good enough to make a sales.

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Table 4. Sales Growth

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	0.09	0.11	-0.02	-0.16	0.01
2	BBTN	0.25	0.26	0.07	0.17	0.23
3	BDMN	0.10	-0.01	0.18	0.12	0.08
4	BJBR	0.29	0.25	0.18	0.15	0.21
5	BNLI	0.24	-0.01	0.29	0.18	0.29
6	NISP	0.19	0.09	0.15	0.19	0.22
7	PNBN	0.27	0.16	0.24	0.07	0.07

Source: www.idx.co.id

The company's growth by using measurements of the EPS (Earnings per Share) has an average of -0.2480 with a deviation standard of 2.09084. The highest value of 1.59 EPS growth contained in Bank ICB Bumiputera in 2009 has meant that the company is efficient in increasing EPS, but in 2011 the Bank ICB Bumiputera became less efficient in increasing EPS thus declined in 2011 with the lowest value of -9.16 EPS growth.

Table 5. Growth in Earnings per Share (EPS)

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	1,59	1.20	-9,16	-1,01	-7,55
2	BBTN	-0,18	1.25	-0,08	0,13	0,13
3	BDMN	-0,40	1.20	-0,14	0,23	-0,01
4	BJBR	0,27	-0,19	0,08	0,24	0,16
5	BNLI	0,43	0,40	0,17	0,02	0,17
6	NISP	0,36	0,01	0,41	-0,07	0,29
7	PNBN	0.43	0,26	0,57	0,13	-0,02

Source: www.idx.co.id

Profitability measured using the ROA has an average of 0.16829 to the level of data variation of 0.0113332. The highest value of 0,035 ROA contained in Bank Danamon in 2012 that signalled the company is quite efficient in utilizing its assets to generate earnings or profits for the company. The lowest ROA value of -0.02 which is owned by Bank ICB Bumiputera in 2011 means that the company is less efficient in utilizing its assets to generate profits.

Table 6. ROA (Return On Assets)

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	0,002	0,002	-0,02	0,001	-0,009
2	BBTN	0,013	0,018	0,017	0,07	0,016
3	BDMN	0,024	0,034	0,032	0,035	0,03
4	BJBR	0,030	0,028	0,024	0,021	0,025
5	BNLI	0,014	0,017	0,015	0,014	0,014
6	NISP	0,017	0,011	0,017	0,015	0,016
7	PNBN	0,018	0,018	0,022	0,021	0,02

Source: www.idx.co.id

Profitability as measured by ROE in table 2 shows that the average ROE value is equal to 0.121343 with a deviation standard of 0.0511405. The highest value of ROE is owned by Bank of West Java and Banten in 2009 in the amount of 0.23 means that the company utilizes its equity efficiently and the lowest value of ROE is owned by Bank ICB Bumiputera in 2012 of 0.002 means that the company is less efficient in utilizing equity in generating profits.

Table 7. ROE (Return On Equity)

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	0,009	0,02	0,164	0,002	0,163
2	BBTN	0,09	0,17	0,14	0,132	0,125
3	BDMN	0,097	0,183	0,129	0,142	0,129
4	BJBR	0,23	0,178	0,179	0,199	0,205
5	BNLI	0,101	0,126	0,13	0,11	0,116
6	NISP	0,105	0,075	0,114	0,096	0,077
7	PNBN	0,096	0,087	0,103	0,108	0,117

Source: www.idx.co.id

Profitability measured using the NPM (Net Profit Margin) in Table 2 shows that the average NPM value is 0.1211 with a deviation standard of 0.07899. The highest value of NPM is 0.20 which is contained in Bank Tabungan Negara in 2012 meaning that the company is quite efficient in controlling costs used in operational activities and the lowest value that is equal to -0.16 NPM is contained in Bank ICB Bumiputera in 2011 reflects that the company is less efficient in controlling costs used in its operational activities.

Table 8. NPM (Net Profit Margin)

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	0,01	0,01	-0,16	0,01	-0,09
2	BBTN	0,12	0,17	0,19	0,20	0,19
3	BDMN	0,08	0,18	0,15	0,17	0,17
4	BJBR	0,17	0,17	0,15	0,17	0,16
5	BNLI	0,07	0,15	0,14	0,13	0,12
6	NISP	0,11	0,10	0,16	0,15	0,15
7	PNBN	0,12	0,13	0,16	0,17	0,16

Source: www.idx.co.id

Liquidity in this study uses the size of the LDR (Loan to Deposit Ratio). Results of Table 2 show that average value of LDR is at 0.8666 with a deviation standard of 0.10204. The highest value of LDR is at 1.07 which is owned by Bank Tabungan Negara in 2010 means that the bank's ability is low to repay its obligations to customers with loans and the lowest value of LDR contained in Bank of West Java and Banten in 2010 at 0.69 indicates that the bank's ability to repay its obligations to customers with loans that have been granted is high.

Table 9. LDR (Loan to Deposit Ratio)

No.	Kode Perusahaan	2009	2010	2011	2012	2013
1	BABP	0,87	0,84	0,82	0,78	0,80
2	BBTN	1,00	1,07	1,01	1,00	1,03
3	BDMN	0,87	0,92	0,99	1,01	0,95
4	BJBR	0,71	0,69	0,71	0,73	0,94
5	BNLI	0,86	0,88	0,86	0,89	0,89
6	NISP	0,70	0,78	0,85	0,85	0,91
7	PNBN	0,74	0,77	0,86	0,89	0,86

Source: www.idx.co.id

4.1 Assessing Feasibility Regression Model (Goodness of Fit Test)

If the value of Goodness of Fit Test> 0.05 then the model is said to be fit or fit for use. Goodness of Fit Test value is seen from the significance of Pearson and Deviance (Yamin & Kurniawan, 2009).

Table 10. Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	28.478	96	1.000
Deviance	23.784	96	1.000

Link function: Logit.

Source: Data processed by SPSS, 2014

Based on table 10 it can be seen that the value of chi-square (Pearson) is equal to 28.478 and the value of Chi-Square (Deviance) is 23 784. The significance of Pearson and Deviance is equal to 1.00> 0.05, it can be said that the model fit the data.

4.2 Pseudo R-Square

Pseudo R-Square is used to explain the variation of the dependent variable and can be explained by the independent variables indicated by the value McFadden (Ghozali, 2012).

Tabel 11. Pseudo R-Square

Cox and Snell	.669
Nagelkerke	.804
McFadden	.619

Link function: Logit.

Source: Data processed by SPSS, 2014

Pseudo R-square value can be seen in Table 11 above. McFadden shows values of 0.619 or 61.9%. This means that the variability of the dependent variable that can be explained by the independent variable in this study is 61.9%, while the remaining 39.1% can be explained by other variables outside the research.

4.2 Hypothesis Testing

Parameter Estimates

		Estimate	Std. Error	Wald	df	Sig.
Threshold	[PeringkatObligasi= 5]	.347	5.656	.004	1	.951
	[PeringkatObligasi= 6]	3.035	5.830	.271	1	.603
	[PeringkatObligasi= 7]	16.582	7.956	4.344	1	.037
Location	P.Penjualan	24.777	9.822	6.364	1	.012
	P.EPS	-3.440	2.164	2.528	1	.112
	ROA	318.766	152.288	4.381	1	.036
	ROE	-142.356	54.626	6.791	1	.009
	NPM	131.083	49.479	7.019	1	.008
	LDR	-1.346	6.639	.041	1	.839

Link function: Logit.

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	P.EPS	-3.440	2.164	2.528	1	.112
	ROA	318.766	152.288	4.381	1	.036
	ROE	-142.356	54.626	6.791	1	.009
	NPM	131.083	49.479	7.019	1	.008
	LDR	-1.346	6.639	.041	1	.839

Source: Data processed by SPSS, 2014

Based on the table 12 as it can be seen above it can be analyzed that the independent variables that affect the bond rating is the company's growth as measured by growth in sales and profitability variables measured by ROA, ROE, and NPM. Each increase of 1 unit sales growth will raise the odds ratio (exp 24.777) amounted to 5.761123 bond ratings. Then every increase of 1 unit ROA will raise the odds ratio (exp 318.766) of 2.742974 bond ratings. Increase of 1 unit ROE will decrease the odds ratio (exp -142.356) amounted to 1.498361 bond ratings, and every increase of 1 unit NPM will raise the odds ratio (exp 131.083) amounted to 8.483670 bond ratings. Each of this increases on the condition that the other independent variables considered 0. The value of exp (exponential) is equal to 2.71828.

4.3.1 The Effect of Company's Growth to Bond Ratings

Hypothesis 1 in this study states that the company's growth effects positively to bond ratings. Based on the results of regression testing using a sales growth, it has a positive coefficient of 24 777 with a value of 6.364 and wald statistical significance level of 0.012. Significance value of 0.012 indicates that the value is smaller than 0.05 which means that there is influence. While the calculation of company's growth which uses growth measurements of EPS with a negative coefficient value 3.440 and a significance level of 0.112 states that there is no influence due to the significant value higher than 0.05. Research hypothesis is supported when measuring the growth of companies using sales growth.

High sales indicate that the cash flow received by the company becomes better so that the possibility of the company to pay principal and interest of the bonds in time becomes higher. While the company's growth with EPS growth did not affect the bond rating because the EPS is used often to measure the amount of the dividend distribution, so EPS goal is to attract investors who invest in stocks instead of investing in bonds. Therefore, in improving the bond rating, the company should see growth and increase the sales.

Research on the growth of the company according to research conducted by Almilia & Devi (2007) and Sejati (2010) resulted in that the company's growth (growth) effects to bond ratings.

4.3.2 Profitability Effect on Bond Ratings

Hypothesis 2 in this study states that the profitability effects positively on the bond ratings. Profitability in this study was measured by using ROA (Return on Assets), ROE of (Return on Equity) and NPM (Net Profit Margin). Results of regression testing ROA produces a coefficient positive value of 318.766 with a value of 4.381 and wald statistical significance level of 0.036 which indicates that 0.036 <0.05 means ROA effects positively on bond ratings. The test results ROE produce a negative coefficient value of 142.356 with a significance level of 0.009 <0.05, which indicates that the ROE negatively affects bond ratings. So NPM regression testing results shows a positive coefficient value of 131.038 with a significance level of 0.008 <0.05 means that the NPM effect positively on bond ratings. Based on the results of the hypothesis 2 regression testing received by the measurement of the profitability of using ROA and NPM which states that they effect positively on the profitability of bond ratings.

Therefore, companies should be able to raise the value of ROA and NPM to improve its bond rating. Companies should increase ROA and NPM value to be able to get high profit. The assumption is that companies that produce high profits indicates that the profit generated will be used to satisfy the obligations of the company so that the company will reduce the risk of failure to pay principal and interest of the bonds. The test results are consistent with the results of tests performed by Agus and Daniel (2013) which suggests that the ROA affects the bond ratings, as well as Magreta's & Poppy's (2009) research which suggests that profitability affects the bond ratings.

4.3.3 Effect of Liquidity of the Bond Ratings

Hypothesis 3 states that the liquidity affects on the bond ratings. Regression testing for liquidity as measured by the LDR (Loan to Deposit Ratio) produces a negative coefficient value of 1,346 with a value of 0.041 and wald statistic significance level of 0.839. Where significance value of is greater than the value of 0.05, it states that the liquidity of the LDR measurement does not affect the bond ratings. Therefore, hypothesis 3 is rejected.

Liquidity in this study was measured by using the Loan to Deposit Ratio (LDR) which is calculated by dividing the bank's loans to the public by the third party funds received from the public to see the bank's ability to repay its obligations to the people who invest their funds in the form of demand deposits, time deposits , certificates of deposit, savings or other similar forms, so the LDR here measures the ability of the bank not to repay the bond obligation but more to its obligations to customers.

Another study supports that liquidity does not affect the bond rating is the research conducted by Sejati (2010) and Magreta & Poppy (2009). Sejati (2010) states that the management should provide information regarding the company's liquidity and ability so that that bond agents can pay attention to the quality of the company's operational activitiesand investors can decide correctly about the bond ratings. Maharti (2011) gives an opinion that liquidity does not affect the bond ratings because PEFINDO may assess the management of assets and liabilities more accordiing to which the cash flow it provides more detailed information in providing bond ratings.

5. CONCLUSIONS AND SUGGESTIONS

5.1 Conclusion

Based on the results of the study as described in chapter IV, it can be summed up as follows:

1. The results for the company's growth variables show that company's growth affects positively on bond ratings measured using the sales growth, while the results show that the EPS growth did not affect the bond ratings.
2. The results of the profitability variable in this study shows that the profitability affects positively on the of bond ratings by using measurements of ROA (Return on Assets) and NPM (Net Profit Margin). Profitability measured using ROE (Return on Equity) results in a negative impact on bond ratings. Therefore, the company should be able to increase ROA and the value of NPM by increasing corporate profits.
3. The results of the liquidity variables indicate that liquidity measured by using the LDR (Loan to Deposit Ratio) does not affect the bond ratings.

5.2 Suggestions

The researcher can suggest banking companies issuing the bonds should enhance the company's sales growth further, also ROA and NPM company to increase their bond ratings.

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