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Financial Ratio Analysis As Instrument For Measuring Manufacturing Company Performance And Investment Decision Makaing On The Indonesia Stock Exchange (2019-2024)

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Abstract: *This study aims to analyze the effectiveness of financial ratios as instruments for measuring company performance and investment decision making in the manufacturing sector listed on the Indonesia Stock Exchange (IDX) for the 2019–2024 period. The novelty of this study lies in integrating the Environmental, Social, and Governance (ESG) dimension within a financial ratio analysis framework in the post pandemic context of Indonesian manufacturing. The research method is a descriptive quantitative approach with longitudinal comparative analysis of 50 purposively selected manufacturing companies from 222 IDX listed issuers, representing sub sectors of basic industries, various industries, and consumer goods. The financial ratios analyzed include liquidity ratios (current ratio, quick ratio, cash ratio), solvency ratios (debt to equity ratio, interest coverage ratio), profitability ratios (return on assets, return on equity, net profit margin, gross profit margin), activity ratios (asset turnover, inventory turnover, receivable turnover), and market ratios (pric to earnings ratio, price to book value). The results show a significant positive correlation between profitability ratios and firm value ($r = 0.731$; $p < 0.01$), while excessively high liquidity ratios are negatively correlated with investment returns. Practically, these findings offer strategic guidance for financial managers in optimizing liquidity-profitability balance, and for investors in prioritizing profitability ratios (ROE and NPM) as primary determinants of firm value in fundamental analysis*
Keywords: *Financial Ratios, Financial Performance, Liquidity, Investment Decisions, Manufacturing Companies.*

INTRODUCTION

In an increasingly competitive era of economic globalization, a company's ability to survive and thrive is determined by how effectively its management manages its financial resources. Financial statements are the end product of the accounting process, providing a comprehensive overview of a business entity's financial condition, operational performance, and strategic position over a specific period (Brigham & Houston, 2021). However, the raw data contained in financial statements often lacks significant meaning without in-depth and systematic analysis.

Financial ratio analysis has long been recognized as one of the most effective and efficient methods for evaluating a company's financial performance. Financial ratios enable stakeholders including investors, creditors, managers, and regulators to objectively and measurably compare a

company's performance over time (time-series analysis) and against similar companies (cross-sectional analysis) (Ross, Westerfield, & Jordan, 2022). This technique transforms absolute data in financial statements into more meaningful and easily interpreted comparative figures.

The manufacturing sector is one of the backbones of the Indonesian economy, contributing significantly to the national Gross Domestic Product (GDP). According to data from the Ministry of Industry (Kemenperin, 2025), the manufacturing industry's contribution to Indonesia's GDP reached 18.98% in 2024, up from 18.67% in 2023 and 18.34% in 2022 making it the second-largest contributor after the trade sector. The sector's growth of 4.43% in 2024 and its average contribution of 20% to total national economic growth demonstrate the manufacturing industry's strategic role in the Indonesian economy. By 2025, there were approximately 222 manufacturing issuers listed on the IDX, spread across various sub-sectors ranging from raw materials and primary consumer goods to healthcare.

The post-COVID-19 pandemic dynamics and global geopolitical uncertainty in 2022–2024 are putting multiple pressures on Indonesian manufacturing companies, ranging from commodity price volatility, rupiah depreciation, to a flood of imported products resulting from the ACFTA agreement. In this context, financial ratio analysis is an invaluable diagnostic tool for management in identifying areas requiring strategic attention. Recent developments also indicate the increasing attention of institutional investors to the sustainability dimension, making the integration of Environmental, Social, and Governance (ESG) factors in financial performance evaluation increasingly relevant (Pratiwi & Armaniah, 2025).

Financial statements are the final product of an accounting information system that reflects the economic condition of an entity at a specific point in time or during a specific period. According to the Financial Accounting Standards (SAK) issued by the Indonesian Institute of Accountants (IAI, 2023), complete financial statements consist of: (1) a statement of financial position (balance sheet); (2) a statement of profit or loss and other comprehensive income; (3) a statement of changes in equity; (4) a statement of cash flows; and (5) notes to the financial statements. Each component of these financial statements contains complementary information and together provide a holistic picture of the entity's financial condition (Kieso, Weygandt, & Warfield, 2022).

Financial ratio analysis is an analytical technique that connects two or more elements of financial statements to produce more meaningful information than the raw data alone. According to Brigham and Ehrhardt (2020), financial ratios are analytical tools used to evaluate a company's relative strengths and weaknesses by comparing its financial data to industry data, the company's own historical data, or established standards. Financial ratios eliminate the size effect, facilitate the identification of trends over time, and simplify the complexity of financial information into concise indicators (Van Horne & Wachowicz, 2022).

Several financial theories serve as the conceptual foundation for financial ratio analysis. Agency Theory (Jensen & Meckling, 1976) explains the relationship between principals (shareholders) and agents (management) and the potential for conflicts of interest between them; financial ratio analysis serves as a monitoring mechanism that allows principals to objectively evaluate agent performance. Signaling Theory (Spence, 1973) states that good financial ratios signal a positive signal to investors about a company's future prospects. Stakeholder Theory (Freeman, 1984) emphasizes that financial ratio analysis should consider the interests of all stakeholders, including the sustainability dimension now represented in the ESG framework. Furthermore, the Trade-off Theory (Modigliani & Miller, 1963) provides the theoretical basis for understanding the relationship between capital structure, financial leverage, and firm value, which is examined through solvency ratios in this study. Recent scholarship by Penman (2023) underscores that comprehensive financial statement analysis must integrate both traditional ratio analysis and forward-looking valuation perspectives, particularly in dynamic post-pandemic environments.

Various recent empirical studies have demonstrated the relevance of financial ratio analysis. Pratiwi and Armaniah (2025) found that ROA and ROE consistently reflected the company's fundamental resilience post-pandemic, examining 15 manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2021–2024 period. Salsabila and Widajatun (2025) found that operational efficiency and company size significantly influence profitability amid commodity price volatility. Wijayanti and Hidayat (2025) demonstrated that differences in working capital management strategies result in significant variations in liquidity and profitability ratios. Regarding ESG integration, Hermawaty and Rahyuda (2025) found that ESG disclosure does not

directly mediate the impact on the value of Indonesian manufacturing companies. Moreover, Wahyudi and Tania (2025) found that capital structure and growth significantly affect financial performance in the manufacturing sector, further supporting the need for holistic ratio-based analysis.

Despite the growing body of literature on financial ratio analysis, a significant research gap remains. Most prior studies examine a limited set of financial ratios, focus on short time horizons, or fail to incorporate sustainability (ESG) factors within a unified analytical framework. Furthermore, there is a lack of comprehensive longitudinal studies covering the pre-pandemic, pandemic, and post-pandemic recovery period (2019–2024) for Indonesian manufacturing companies. This study addresses these gaps by providing a holistic, multi-dimensional analysis of financial ratios across a six-year period, integrating ESG as a contextual variable, and offering empirical evidence particularly relevant to the current era of sustainable investing in emerging markets.

Based on the description above, this study aims to: (1) comprehensively analyze and describe the condition of financial ratios of manufacturing companies during the 2019–2024 period; (2) identify the causal relationship between various dimensions of financial ratios and company market performance; (3) formulate strategic implications for management and investors in making decisions based on financial data; and (4) explore the relevance of integrating ESG dimensions within a financial ratio analysis framework. Theoretically, this study enriches the body of financial management knowledge by providing empirical evidence on the relevance of financial ratio analysis in the context of Indonesian manufacturing companies post-pandemic. Practically, the findings are expected to serve as a reference for financial managers, investment analysts, creditors, and regulators in evaluating and improving company financial performance in an increasingly sustainability-oriented era.

METHOD

This study employed a descriptive quantitative research design with longitudinal comparative analysis. The quantitative approach was chosen because it aims to statistically measure, analyze, and test the relationships between variables based on objective and measurable

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numerical data. The longitudinal dimension was applied to observe the development and trends of financial ratios over a six-year period (2019–2024), while the comparative analysis was conducted to compare financial performance across companies in the manufacturing sector.

The study population was all manufacturing companies listed on the Indonesia Stock Exchange (IDX) as of December 31, 2024, totaling approximately 222 companies based on the IDX-IC classification. The sampling technique used was purposive sampling with the following criteria: (1) the company has been listed on the IDX since at least 2019; (2) the company consistently publishes audited financial statements during the study period; (3) the company has not experienced delisting or trading suspension during the study period; and (4) the company has a fiscal year ending on December 31. Purposive sampling was chosen because it enables the selection of information-rich cases most relevant to the research objectives, ensuring that only companies with complete and comparable data across the full six-year observation period are included (Creswell & Creswell, 2023). Based on these selection criteria, a final sample of 50 representative companies from various manufacturing sub-sectors was obtained, including basic and chemical industries, various industries, and the consumer goods industry. This sample size meets the minimum requirement of 10 observations per variable recommended by Hair et al. (2022). The selected companies represent approximately 22.5% of the total IDX manufacturing population, ensuring adequate sectoral diversity.

The data used in this study is secondary data obtained from various official sources. Annual financial reports were obtained from the official website of the Indonesia Stock Exchange (www.idx.co.id) and the official websites of each sample company. Stock price and market data were obtained from the Bloomberg Terminal and Refinitiv Eikon systems, accessed through the university library. Supporting macroeconomic data came from official publications from Statistics Indonesia (BPS), Bank Indonesia, the Ministry of Industry (Kemenperin), and the Ministry of Finance

The variables in this study are defined operationally as presented in Table 1 below.

Ratio Category	Formula	Interpretation
Current Ratio	Current Assets / Current Liabilities	Ability to meet short-term obligations

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Ratio Category	Formula	Interpretation
Quick Ratio	(Current Assets − Inventory) / Current Liabilities	Liquidity without inventory
Cash Ratio	Cash & Cash Equivalents / Current Liabilities	The most conservative liquidity
DER	Total Debt / Total Equity	Financial leverage level
ICR	EBIT / Interest Expense	Interest payment ability
ROA	Net Profit / Total Assets × 100%	Efficient use of assets
ROE	Net Profit / Total Equity × 100%	Returns to shareholders
NPM	Net Profit / Net Sales × 100%	Cost control efficiency
Asset Turnover	Net Sales / Average Total Assets	Intensity of asset use
PER	Share Price / Earnings Per Share	Market valuation of earnings
PBV	Stock Price / Book Value Per Share	Market valuation of equity

Table 1. *Operational Definitions of Research Variables*

Source: Processed data (2026)

The data analysis in this study involved several stages. First, descriptive statistical analysis was used to calculate the mean, standard deviation, minimum, and maximum values for each financial ratio. Second, trend analysis was used to identify patterns in financial ratio movements during the study period, including the impact of the COVID-19 pandemic (2020) and economic recovery (2021–2024). Third, Pearson correlation analysis was used to measure the strength and direction of the relationship between variables. Fourth, multiple regression analysis was used to identify financial ratios that significantly influenced the dependent variable. The selection of Pearson correlation and multiple regression was justified by the continuous nature of the ratio variables and the need to examine linear relationships between predictors and firm value (Hair et al., 2022). Preliminary tests for normality (Kolmogorov–Smirnov), multicollinearity (Variance Inflation Factor), and heteroscedasticity (Breusch–Pagan) were conducted to validate the regression assumptions before interpreting results. All statistical analyses were conducted using SPSS version 29.0 and Microsoft Excel.

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RESULT AND DISCUSSION

Descriptive Statistics

Before conducting an in-depth analysis of each financial ratio category, a summary of descriptive statistics for all research variables for the period 2019–2024 is presented below. These descriptive statistics provide an initial overview of the distribution and characteristics of the data for further analysis.

Ratio	Minimum	Maximum	Average	Standard Deviation	N
Current Ratio (x)	0.38	9.12	2.24	1.41	300
Quick Ratio (x)	0.18	6.47	1.53	1.09	300
DER (x)	0.07	5.14	1.27	0.94	300
ICR(x)	0.41	45.63	8.97	7.58	300
ROA (%)	-14.21	33.86	7.92	6.78	300
ROE (%)	-27.34	61.47	14.83	13.12	300
NPM (%)	-20.14	40.32	8.71	9.43	300
Asset Turnover (x)	0.17	3.62	1.01	0.64	300
PER (x)	2.18	134.56	19.07	22.84	300
PBV (x)	0.21	20.34	2.94	3.27	300

Table 2. *Descriptive Statistics of Financial Ratios of Manufacturing Companies (2019–2024)*
Source: Processed data (2026)

Based on Table 2 above, the average current ratio of sample companies was 2.24 times, which is above the industry standard of 2.00 times. This indicates that, in aggregate, the manufacturing companies in the study sample have adequate capacity to meet their short-term obligations. However, the relatively high data dispersion, with a standard deviation of 1.41, indicates significant heterogeneity among companies in terms of liquidity conditions, particularly between companies heavily impacted by the pandemic (2020) and those that were relatively resilient (consumer staples).

The average ROE of 14.83% indicates that manufacturing companies are able to generate competitive returns for shareholders, although there are still several companies with negative ROEs indicating losses especially in 2020. A significant recovery occurred in the 2021–2024 period, consistent with the accelerated growth of the manufacturing sector which reached 4.43%

in 2024. The average PER value of 19.07 times reflects that overall, the market provides a fair valuation for manufacturing company shares considering long-term growth potential.

Liquidity Ratio Analysis

Current Ratio

The current ratio is a fundamental indicator of a company's ability to meet its short-term obligations using its current assets. The analysis shows that the average current ratio of the sample companies fluctuated throughout the study period. A sharp decline occurred in 2020 (an average of 1.97 times) due to pandemic liquidity pressures, followed by a gradual recovery to 2.31 times in 2023 and a slight decline to 2.21 times in 2024.

The decline in the current ratio in 2024 can be attributed to the optimization of working capital management as the global supply chain stabilizes. Companies that previously maintained large buffer inventories are shifting to a more efficient, lean approach. Sub-sector analysis shows that the primary consumer goods industry maintains a higher current ratio (average 2.94 times) than the basic and chemical industries (average 1.82 times), reflecting the need for a larger liquidity buffer due to longer inventory cycles.

Quick Ratio and Cash Ratio

The quick ratio averaged 1.53 times during the study period indicating that the sampled manufacturing companies were still able to meet their current liabilities without having to realize inventory. This ratio is highly relevant given that inventory is often the least liquid component of current assets, particularly during the global supply chain disruptions of 2021–2022.

The cash ratio averaged 0.33, meaning the average company held cash and cash equivalents equal to 33% of its total current liabilities. This moderate increase compared to the previous period reflects management's prudent policy of building larger cash reserves post-pandemic, particularly amid global geopolitical uncertainty.

Solvency Ratio Analysis

The average DER of 1.27x indicates that the manufacturing companies in the sample have moderate financial leverage. The increasing DER trend in 2020–2021 reflects the increased use of debt to support operations amidst pandemic pressures. However, gradual debt consolidation began to emerge in 2022–2024 as companies' financial conditions improved and global benchmark

interest rates rose. The average interest coverage ratio (ICR) of 8.97x indicates adequate capacity to cover interest expenses, although some companies had ICRs below 2x, indicating significant financial stress.

Profitability Ratio Analysis

Profitability ratios are the most important dimension of financial analysis for investors and management because they reflect a company's ability to generate profits from the resources it manages. In this study, three key profitability ratios are analyzed in depth.

Return on Assets (ROA)

Return on assets measures management's efficiency in using company assets to generate profits. The average ROA of 7.92% during the study period reflects a competitive level of profitability within the Indonesian manufacturing industry. A significant decline occurred in 2020, with an average ROA of 4.03%, reflecting the negative impact of the COVID-19 pandemic. Rapid recoveries in 2021 (6.94%), 2022 (9.12%), and 2023 (9.47%) indicate the fundamental resilience of manufacturing companies. In 2024, ROA moderated slightly to 8.73% due to labor cost pressures (minimum wage increases) and increased competition from imported products.

Return on Equity (ROE)

Return on equity is one of the most reliable indicators for investors in assessing the effectiveness of invested capital. An average ROE of 14.83% indicates a competitive rate of return. Du Pont analysis revealed that ROE variations between companies are more influenced by differences in net profit margin than by differences in asset turnover or financial leverage consistent with the findings of Pratiwi and Armaniah (2025) on manufacturing companies listed on the IDX for the period 2021–2024.

Net Profit Margin (NPM)

Net profit margin measures the percentage of net profit generated from each rupiah of sales. An average NPM of 8.71% demonstrates the company's strong ability to control all cost components. Pressure on NPM in 2022–2023 will be due to rising global raw material prices and energy costs following the Russia-Ukraine conflict. NPM recovery in 2024 will be supported by normalizing commodity prices and improving operational efficiency.

Activity Ratio Analysis

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Activity ratios measure how efficiently a company manages and utilizes its assets to generate sales. The asset turnover ratio averaged 1.01 times slightly higher than the previous period indicating increased asset efficiency as production capacity recovered post-pandemic. Inventory turnover averaged 6.78 times per year, indicating that inventory was turned over every 53.8 days, on average more efficient than the 2018–2023 period, reflecting the growing adoption of lean manufacturing principles among Indonesian manufacturers.

Correlation and Regression Analysis

To identify the statistical relationship between financial ratios and firm value, Pearson correlation analysis and multiple regression were performed. Table 3 below presents the correlation matrix between the main variables in the study.

Variables	CR	DER	ROA	ROE	PBV
CR	1,000	-0.327**	0.193*	0.149	-0.094
DER	-0.327**	1,000	-0.502**	-0.248**	-0.168*
ROA	0.193*	-0.502**	1,000	0.691**	0.623**
ROE	0.149	-0.248**	0.691**	1,000	0.731**
PBV	-0.094	-0.168*	0.623**	0.731**	1,000

Table 3. *Correlation Matrix Between Research Variables*
Source: Processed data (2026)

Based on the correlation matrix in Table 3, ROE has a strong and significant positive correlation with PBV ($r = 0.731$; $p < 0.01$), confirming that companies with high returns on equity tend to receive higher market valuations. ROA also shows a strong positive correlation with PBV ($r = 0.623$; $p < 0.01$), while DER is negatively correlated with PBV ($r = -0.168$; $p < 0.05$), indicating that excessive financial leverage tends to reduce the company's value in the eyes of the market.

The results of multiple regression analysis with PBV as the dependent variable produced a model with a coefficient of determination (R^2) of 0.681 variations in financial ratios were able to explain 68.1% of the variation in the company's market value. The ROE ($\beta = 0.391$; $p < 0.01$) and NPM ($\beta = 0.274$; $p < 0.01$) variables were the most dominant and significant predictors in the model, consistent with findings from the previous period.

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The findings of this study consistently support the theoretical proposition that profitability ratios, particularly ROE and NPM, are the primary determinants of a company's market value. These results align with Signaling Theory high profitability serves as a strong positive signal to investors about the company's management quality and growth prospects. In the context of post-pandemic recovery and the manufacturing sector's projected growth of 4.43% by 2024 (Ministry of Industry, 2025), companies with maintained profitability during the turbulent period of 2020–2022 have been shown to command higher valuation premiums in the market.

Another interesting finding is the negative relationship between an excessively high current ratio and the rate of return on investment. This phenomenon can be explained through the concept of opportunity cost in working capital management. Companies that maintain excessive amounts of current assets unproductive cash or excess inventory experience resource allocation inefficiencies that reduce profitability and overall company value.

Regarding ESG integration, this study's findings indicate that while ESG disclosure has not significantly impacted the value of Indonesian manufacturing companies in the short term (Hermawaty & Rahyuda, 2025), future trends indicate increasing pressure from institutional investors and POJK 51/2017 regulations driving the adoption of sustainability reporting. Investors need to begin considering the ESG dimension as a forward-looking factor in fundamental analysis, especially considering that the manufacturing sector is Indonesia's largest contributor to carbon emissions, with 340.71 million tons of CO2e in 2024.

For manufacturing company management, the findings of this study provide several strategic implications. First, focusing on increasing profitability through margin optimization and operational efficiency is the most effective strategy for creating shareholder value. Second, optimal working capital management maintaining a balance between adequate liquidity and capital productivity is key to maximizing resource efficiency. Third, prudent capital structure management, considering the trade-off between the tax benefits of debt and the risk of financial distress, will result in optimal company value. Fourth, in the transition to a green economy, transparency in sustainability reporting (ESG) will increasingly influence the cost of capital and access to long-term investment, particularly from global institutional investors.

For investors, this research finding suggests that primary attention should be paid to profitability ratios (ROE and NPM) as the strongest predictors of company value. Liquidity and solvency ratios need to be evaluated contextually not simply seeking high values, but rather optimal values based on industry characteristics. Prospectively, investors are also advised to begin integrating ESG assessments as a component of fundamental analysis to manage long-term risk.

CONCLUSION

Based on the research results and discussion, several key conclusions can be drawn. First, the aggregate liquidity of manufacturing companies during the 2019–2024 period was at an adequate level, with an average current ratio of 2.24 times, despite experiencing volatility due to the impact of the COVID-19 pandemic (2020) and external pressures from 2022–2024. The consistent recovery reflects the fundamental resilience of Indonesia's manufacturing sector, as demonstrated by its 18.98% GDP contribution in 2024.

This study makes a significant theoretical contribution by providing comprehensive longitudinal empirical evidence on the relevance of multi-dimensional financial ratio analysis in Indonesian manufacturing companies across the 2019–2024 period. Unlike previous studies that examined limited ratio categories or shorter timeframes, this research integrates liquidity, solvency, profitability, activity, and market ratios alongside ESG as a contextual variable, enriching the body of financial management literature. Practically, the findings provide strategic guidance for financial managers to prioritize margin optimization and working capital efficiency, for investors to center fundamental analysis on profitability ratios (ROE, NPM) as primary determinants of firm value, and for regulators to incentivize sustainability reporting to support long-term value creation.

Second, there is a strong and significant positive correlation between profitability ratios (ROA, ROE, NPM) and firm market value (PBV), with the highest correlation coefficient between ROE and PBV ($r = 0.731$; $p < 0.01$). This finding confirms that profitability is a key determinant of shareholder value creation in the manufacturing sector. Third, ROE and NPM are the financial ratios with the strongest predictive power of firm value based on a multiple regression model with

R^2 = 0.681. This implies that investors and financial analysts need to give greater weight to the profitability dimension in the fundamental analysis of manufacturing companies.

Fourth, financial leverage (DER) shows a negative correlation with firm value, consistent with the Trade-off Theory. Management needs to carefully consider the optimal capital structure that balances the tax benefits of debt with the risk of financial distress. Fifth, the integration of ESG factors into financial ratio analysis is an increasingly relevant dimension, although its impact on the value of Indonesian manufacturing companies is still medium- to long-term. ESG disclosure is expected to become increasingly important as regulations tighten and institutional investor pressure increases.

This study has several limitations that should be acknowledged. The sample size is limited to manufacturing companies listed on the Indonesia Stock Exchange (IDX), so generalizations to other industrial sectors or unlisted companies should be approached with caution. The data used are historical and therefore may not fully reflect future conditions and expectations, including the impact of the 2025 global import tariff policy, which could impact Indonesian manufacturing competitiveness. This analysis also does not fully quantify the impact of ESG variables systematically on financial performance.

Several suggestions are proposed for future research. First, further research is recommended to expand the scope of the analysis to other industrial sectors to provide a more comprehensive perspective. Second, the application of more sophisticated analytical methods such as panel data analysis, Structural Equation Modeling (SEM), or machine learning can improve the accuracy and depth of the analysis. Third, the systematic integration of ESG factors within a financial ratio analysis framework is a highly pressing research agenda given the increasing sustainability regulations and global investor pressure on Indonesian manufacturing companies.

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