# The Effect of Profitability on Capital Structure at Pt. Kalbe Farma, TBK

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***Abstract***
*PT. Kalbe Farma, Tbk. The types of data used in this study are quantitative data and qualitative data. The analysis method used is multiple linear regression, coefficient of determination, correlation coefficient, F test and T test the results of regression calculation Y the coefficient of determination $R^2$ the correlation coefficient r thus it can be concluded that the effect of profitability simultaneously has a significant effect on apital Structure at PT. Kalbe Farma, Tbk. Partially, the effect of return on asset has a negative and insignificant effect on capital structure while return on equity and net profit margin together have a positive and insignificant effect on capital structure at PT. Kalbe Farma, Tbk.*

***Keywords****: Profitability, capital structure.*

## I.    INTRODUCTION

Profitability is the company's ability to earn profit in relation to sales, total assets and equity. Profitability ratio is a measure used to evaluate the ability of a company or business to generate profit or gain against various related factors. In practice, the types of profitability that can be used include return on assets. The rate of return on assets is the profitability ratio to assess the profit (profit) obtained by the company related to resources or total assets. Return on equity is useful for measuring the company's ability to earn profit available to the company's shareholders or to find out the amount of return given by the company for every rupiah of capital from the owner. This ratio is influenced by the size of the company's debt, if the proportion of debt is greater, this ratio will also be greater. Net profit margin describes the amount of net profit obtained by the company on each sale made. In other words, this ratio measures net profit after tax against sales.

Capital structure refers to the composition of funding sources used by the company to finance its operations. The capital structure reflects how the company obtains funds from various sources, such as shareholders, loans, or internal revenue.

The use of funds from loan sources is often studied in terms of leverage ratios. The leverage ratio is the ability of a company to carry out its activities where the funds used come from loans, the condition of strengthening the company's capital structure whichcomes from these loans is greatly influenced by several aspects.

## II.    LITERATURE REVIEW

### A.    The relationship between profitability and capital structure

According to Fahmi (2014:111), analyzing capital structure is considered important because it is able to assess long-term risk and income levels in a company when carrying out its activities. According to Infantri and Suwitho (2015:4), all companies must strive to increase their profitability because if the level of profitability is high and its business activities grow, the company will be guaranteed. According to Mulyawan (2015:247), companies with high profitability tend to have low debt levels. This can be seen from the pecking order theory which shows that companies with high profitability have many internal funding sources.

**H1: return on asset, return on equity and net profit margin simultaneously have a positive and significant effect on the capital structure of PT. Kalbe Farma**

**B.      The relationship between return on assets and capital structure**
According to Sudana (2011:22) return on assets shows the company's ability to use all assets owned to generate profit after tax. "The high return on assets value means the capital used by the company comes from debt is getting smaller and vice versa if the return on assets value is low then the capital used by the company comes from debt is getting higher. The more profitable the company, the more the company tends to reduce the proportion of its debt. The greater the return on assets value, the greater the company's ability to finance its investment needs from internal sources (retained earnings). It can be concluded that return on assets has a negative effect on capital structure.

**H2: return on asset, have a positive and significant effect on the capital structure of PT. Kalbe Farma**

**C.      The relationship between return on equity and capital structure**
RiyantoAgus (2015:20), stated that return on equity has a positive effect on capital structure if the return on equity value increases along with the increasing capital structure value and vice versa.Kasmir (2019:206), stated that return on equity shows the profit from the value or return on value or productivity of own capital is the proportion to measure net profit after being charged with own capital. This proportion shows the productivity of utilizing own capital. The higher this proportion, the better. This implies that the situation of the owner of the organization is getting stronger, and vice versa.Sutrisno (2017:43), the expected trade off is to obtain a fairly large profit while the capital structure policy is an aggressive policy which means that the company dares to bear quite a large risk.
**H3: Return OnEquity have a positive and significant effect on the Capital Structure of PT. Kalbe Farma**

**D.      The relationship between net profit margin and capital structure**
Net profit margin is a profitability ratio that shows how much percentage of net profit is obtained from each sale. The higher this ratio, the better because it is considered that the company's ability to earn profit is quite high. If net profit after tax increases relatively more than the increase in sales, the net profit margin will increase. Martono and AgusHarjito (2014:60), net profit margin is the ratio between net profit, namely sales after and minus all expenses including taxes compared to sales. So the higher the net profit margin, the better the operation of a company

**H4: Net profit margin have a positive and significant effect on the capital structure of PT. Kalbe Farma**
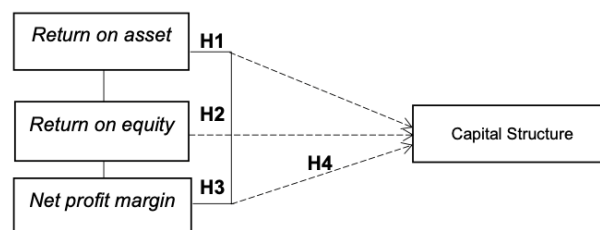


Fig. conceptual framework

**METHOD**
A.      Linear regression analysis
linear regression test because in this study the aim is to test the effect of one independent variable (metric) on one dependent variable (metric), where product quality is the independent variable and purchasing decision is the dependent variable.Ujiregresi linier sederhanakarenadalampenelitianinitujuannyamengujipengaruhsatuvariabelindependen (metrik) terhadapsatuvariabeldependen (metrik), yang mana kualitasproduksebagaivariabelindependen dan keputusanpembeliansebagaivariabeldependen.

$$Y = a + bX_1 + bX_2 + bX_3$$

Y = Capital Structure (Dependent variable)
a = Constants
b =coefisien Regression
$X_1$ = Return On Asset
$X_2$ = Return On Equity
$X_3$= Net Profin Margin

B.      Correlation Analysis (r)
Correlation analysis is a form of data analysis in research that aims to determine the strength or direction of the

relationship between two or more variables, the magnitude of the influence caused by one variable (independent variable) on the other variable (dependent variable). There are several statistics that can be used in correlation analysis, one of which is the correlation coefficient index or number used to measure the closeness (strong, weak, or none) of the relationship between variables. According to Siregar (2015:203) the formula that can be used is:

$$r = \frac{n\sum(xy) - (\sum x)(\sum y)}{\sqrt{(n\sum x^2(\sum x)^2)(n\sum y^2(\sum y)^2)}}$$

Simple correlation value (r) = ($-1 \leq 0 \leq 1$) for the strength of the relationship, the correlation coefficient value isbetween -1 and 1, while the direction is expressed in positive (+) and negative (-) forms, namely:
1) If r = -1, it means a perfect negative correlation, meaning that there is an inverse relationship between variable X and variable Y, if variable X increases, then variable Y decreases.
2) If r = 1, it means a perfect positive correlation, meaning that there is a unidirectional relationship between variable X and variable Y, if variable X increases, then variable Y increases.
C.        Coefficient of determination (r2)
The coefficient of determination essentially measures how far the model's ability to explain the variation of the dependent variable. The purpose of calculating the coefficient of determination is to determine the effect of the independent variable on the dependent variable. The r2 value has an interval between 0 and 1 ($0 \leq r2 \leq 1$). The greater the r2 value (closer to 1), the more for the regression model. The closer to 0, the independent variable as a whole cannot explain the dependent variable. According to Siregar (2013: 252) the formula used is as follows:

$$Kd = (r)^2 X\ 100\%$$

D.        Hypotesis testing
1.        If t or F-Calculate < t or F-table value or sig. F-calculate value > 0.05, thenH0 is accepted and H1, H2, H3, H4 are rejected, meaning there is no significant effect.
2.        If the F-calculate value > F-table or sig. F-calculate value < 0.05, then H1, H2, H3, H4 are accepted and H0 is rejected, meaning there is a significant effect.

## III.        RESULT AND DISCUSSION

A.        Linear regression analysis
Multiple regression equation of Return OnAsset, return on equity, and net profit margin on capital structure at PT. Kalbe Farma, Tbk. from 2019 to 2023 is as follows:

$$Y = 17.092 - 9.346X_1 + 7.917X_2 + 0.083X_3$$

a)        Constant (a) of 17,092, which indicates that if Return OnAssets, return on equity and net profit margin are equal to zero (0), then the Capital Structure at PT. Kalbe Farma, Tbk is 17,092
b)        Regression coefficient (b1) of -9,346. Where this indicates the Return OnAsset variable where every increase or increase in the company's return on asset variable of 1 unit, the Capital Structure will decrease by Rp. -9,346 with the assumption that other variables are constant.
c)        Regression coefficient (b2) of 7,917. This means that the magnitude of the coefficient of the Return OnAsset variable where every increase or increase in the company's return on asset variable of 1 unit, the Capital Structure will increase by Rp. 7,917
d)        Regression coefficient (b3) of 0.083. This means that the magnitude of the coefficient of the company's Net Profit Margin variable where every increase or increase in the company's Net Profit Margin variable of 1 unit, the capital structure will increase by Rp. 0.083 assuming that the other variables are constant.

B.        Correlation Analysis (r)
From the correlation results, a close relationship was obtained between Return On Assets, return on equity and net profit margin to capital structure of 0,878

C.        Coefficient of determination (r2)
The determination value obtained was 0.770, meaning that the variables return on assets, return on equity and net profit margin overall contributed 77% to the capital structure and the remaining 23% was influenced by other factors that were not examined in this study.

D. Hypotesis testing

|  | Sig |
| --- | --- |
|  |  |
| t-value (b1) |  |
| t-value (b1) |  |
| t-value (b1) |  |

a)      H1 is rejected, Ho is accepted

Simultaneously return on asset, return on equity and net profit margin have a significant effect on the capital structure of PT. Kalbe Farma, Tbk.According to Mulyawan (2015:247), companies with high profitability tend to have low debt levels. This can be seen from the pecking order theory which shows that companies with high profitability have many internal funding sources.

b)      H2 is rejected, Ho is accepted

Partially, the return on assets variable has a negative and insignificant effect on the capital structure of PT. Kalbe Farma, Tbk. Thus, this study is in accordance with the theory put forward by Sudana (2011:22), return on assets shows the company's ability to use all assets owned to generate profit after tax. The high return on assets value means that the capital used by the company comes from debt is getting smaller and vice versa if the return on assets value is low, the capital used by the company comes from debt is getting higher. The more profitable the company, the more the company tends to reduce the proportion of its debt. The greater the return on assets value, the greater the company's ability to finance its investment needs from internal sources (retained earnings). It can be concluded that return on assets has a negative effect on capital structure. And this study is in line with research conducted by Astuti (2022), which states that partially return on assets has a negative and insignificant effect on capital structure.

c)      H3 is rejected, Ho is accepted

Return on equity has a positive and significant effect on capital structure, at PT. Kalbe Farma, Tbk. Thus, this study is in line with the theory put forward by RiyantoAgus (2015:20), stating that return on equity has a positive effect on capital structure if the value of return on equity increases along with the value of the capital structure which also increases and vice versa, and this study is in line with the results of research conducted by Susilowati and Narundana (2021), which states that partially return on equity has a positive and significant effect on capital structure.

d)      H4 is rejected, Ho is accepted

Net profit margin has a positive and insignificant effect on capital structure, at PT. Kalbe Farma, Tbk. The higher the sales growth rate, the more the company will rely on external capital. (Brigham and Houstun, 2013) or in other words the company needs additional capital. This shows that when sales growth increases, the capital structure also increases. Research (Faiz Khaldun 2017) proves in his research that sales growth affects the company's capital structure. FacrulRozi's research (2021) shows that net profit margin affects capital structure.

## IV.     CONCLUSION

Based on the results of research conducted at PT. Kalbe Farma, Tbk. For the period 2019 to 2023, the results of the multiple linear regression equation for return on assets, return on equity and net profit margin on capital structure are Y = 17.092 -9.346 X1 + 7.917 X2 + 0.083 X3 determination coefficient (r2) of 1.000 and correlation coefficient (r) of 1.000. So that the hypothesis test can be concluded as follows:

1.      The results of the F test (simultaneous) determine Fcount = 8.975>Ftable = 2.160 or are in the area of accepting H0 and rejecting H1, meaning that return on assets, return on equity and net profit margin simultaneously have a significant effect on capital structure at PT. Kalbe Farma, Tbk, thus the proposed hypothesis is accepted.

2.      The result of the (partial) test for the return on asset variable is tcount -8.061 > ttable-6.314 or is in the area of accepting H2 and rejecting H0, meaning that return on assets partially has a negative and insignificant effect on the capital structure of PT. Kalbe FarmaTbk, thus the proposed hypothesis is rejected. (H2 is rejected).

3.      The result of the t-test (partial) for the return on equity variable is tcount 8.371 >ttable 6.314 or is in the area of accepting H0 and rejecting H3, meaning that return on equity partially has a positive and significant effect on the capital structure of PT. Kalbe Farma, Tbk, thus the proposed hypothesis is accepted.

4.      The result of the t-test (partial) for the net profit margin variable is tcount 0.090 <ttable 6.314 or is in the area of accepting H0 and rejecting H4, meaning that net profit margin partially has a positive and insignificant effect on the capital structure of PT. Kalbe Farma, Tbk, thus the proposed hypothesis is rejected. (H4 rejected)

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