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Cash Flow, Financial Leverage, and Current Ratio Towards Corporate Valueatfood and Beverage

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ABSTRACT

A slowing economy has an impact on public consumption. Where, the middle and upper economic community reduces their consumption policy, such as the community reducing expenditure on all necessities except household needs, so that the sales level decreases and economic growth slows down which can lead to inflation, making people care in their daily expenses. The purpose of this study was to determine the effect of cash flow, financial leverage, and current ratio on company value in the Food and Beverages industry sector companies listed on the Indonesia Stock Exchange in 2014-2019. This study uses a quantitative research approach. Data collection techniques using documentation. The population used in this study are 26 companies in the Food and Beverages industry sector, which are listed on the Indonesia Stock Exchange in 2014-2019. The sample of this research is 10 companies and the model used in this research is multiple linear regression. The results of cash flow have no effect on firm value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019. Meanwhile, financial leverage and current ratio have an effect on company value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019

1. Introduction

The purpose of establishing a company is to optimize profits and prosper the company owners and shareholders. The prosperity of shareholders can be seen in how well the company gets an assessment (Mardiyati et al, 2012)**[1].**Amid increasingly fierce global competition, public companies in Indonesia are competing to improve their competitiveness in terms of product quality and the quality of the company's performance itself. This kind of action is often carried out to maximize the level of company performance. This is due to the merits of a company which is an important indicator for investors in making investment decisions.

The Indonesian economy in the first quarter of 2019 experienced a slowdown due to inconsistencies with government expectations, which hoped that growth could approach 5.2% but the fact that the Central Statistics Agency recorded GDP growth in the first quarter of 2019 was 5.07% so that many companies were affected but this condition is still able to create a surviving consumer goods company. The persistence of these consumer goods companies is driven by community needs that must be met, especially basic needs. This condition also had an impact on the financial performance of several large consumer companies, including. The trend of private consumption growth is always in line with the pace of the economy. When consumption slows down, it has an impact on aggregate economic growth. The Central Statistics Agency (BPS) said that the factors causing the slowing growth of household consumption in the middle to upper-class society were holding their consumption at the beginning of the year. However, the performance of consumer sector issuers is still growing with the performance of several large companies, especially those engaged in the food and beverage industry, actually falling in the first quarter of 2019 (https://katadata.co.id).

The food and beverage industry in Indonesia, which is also a primary need, has become very attractive because it is supported by the fact that Indonesia's population is quite high. Seeing that this reality has increasingly strengthened in Indonesia in the last five years, food and beverage stocks have also been increasingly traded on the capital market. The increasing number of investors who are interested in the food and beverage sector causes the value of food and beverage industry companies to be higher in the Indonesia Stock Exchange capital market.

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Therefore, the researcher wants to research "The Effect of Cash Flow, Financial Leverage and Current Ratio on Company Value in the Food and Beverages Consumption Industry Sector Companies listed on the Indonesia Stock Exchange (BEI) in 2014-2019".

2. Literature Review

2.1 Cash Flow

According to Wind (2014: 183)**[**2**]**, cash flow is the inflow and outflow of cash or cash equivalents. The cash flow statement is a revision of where companies get cash from and how they spend it.

According to Nidar (2015: 185)**[**3**]**, cash flow or cash flow is an important part of company activities that are the focus of financial managers. Cash flow differs from profit in accounting terms. Profits are recognized by the company on an accrual basis, while cash flow is more focused on a cash basis. From an accounting perspective, cash flow will be manifested in the form of a statement of cash flow.

According to Sujarweni (2017: 19)**[**4**]**, the cash flow statement contains cash and cash equivalents that enter and leave the company in a certain period. What is called cash is cash, while cash equivalents are very liquidinvestments.

Based on the previously stated opinion, it can be concluded that cash flow is the cash inflow and outflow originating from transactions that cause income and expenses that are presented in the income statement. According to Hanafi (2016: 619) **[**5**]**,the company's share price will be largely determined by the company's prospects. If the company is expected to provide sufficient cash flow in the future, the company's stock price will increase.

2.2 Financial Leverage

According to Kamaludin and Indriani (2012: 98) [**6**],financial leverage will arise if the company uses long-term debt, then it will cause a fixed interest expense that is used to finance its investment.

According to Noor (2014: 153) [**7**],financial leverage is an opportunity to increase profits before loan and tax capital remuneration (EBIT), through the use of outside funds (loans) indicated by Degree Of Financial Leverage (DFL) or the degree of sensitivity to changes in EBIT. According to Kasmir (2016: 113)[**8**], Financial Leverage is a ratio used to measure the extent to which the company's assets are financed by debt.

Based on the above opinion, it is concluded that financial leverage is a ratio measuring the opportunity to increase profits before loan and tax capital remuneration (EBIT) which must bear a fixed burden to finance its investment. According to Sambora, Sri, and Rahayu (2014: 2) [**9**],a large DER can result in small profits and lower stock prices so that company value decreases. Low DER can increase company value. Solikahan, Ratnawati, and Djawahir (2011: 429)[**10**], optimizing the cost of debt capital, taxes on the use of large debts to increase profits and increase share prices.

2.3 Current Ratio

According to Murhadi (2015: 57) **[**11**]**,the current ratio measures its ability to meet current liabilities with current maturing assets. Annisa, and Chabachib (2017: 3)**[**12**]**, high CR reflects cash adequacy so that the more liquid a company is, the level of investor confidence increases so that it can affect company value. Kahfi, Pratomo, and Aminah (2018: 568) **[**13**]**high liquidity reduces the company's failure to meet its current liabilities and increases the value of companies with good performance.

3. Research Method

This research uses quantitative research methods. The quantitative data used in this study is secondary data, namely financial reports published by the Indonesia Stock Exchange for the period 2014-2019. Sources of data obtained by documentation study. This type of research is descriptive statistics and the nature of this research is an explanatory relationship

The population used in this study were 26 companies in the Food and Beverage Consumption Industry sector listed on the Indonesia Stock Exchange for the 2014-2019 period, namely in the form of financial reports sourced from the website www.idx.co.id, totaling 25 companies.

The sample is part of the number and characteristics of the population. The sampling technique used purposive sampling. The criteria used are as follows:

a. Food and Beverages consumption industry companies listed on the Indonesia Stock Exchange in 2014-2019.
b. Food and Beverages consumer industry sector companies that publish financial reports in a row for the years 2014-2019.
c. Companies in the Food and Beverages consumption industry that had positive profits in 2014-2019.

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Based on the sample selection criteria, the total sample size is 10 companies in the Food and Beverages consumption industry which are listed on the Indonesia Stock Exchange in 2014-2019 with a sample of 60 observations.

To determine the effect of the independent and dependent variables, the multiple linear analysis formula is used as follows:

$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$ (1)

Information :

Y : Company Value
a : constant
X1 : Cash flow
X2 : Financial leverage
X3 : Current ratio
b1,2,3 : the amount of the regression coefficient of each variable
e : error

4. Result and Discussion

The data that has been collected in this study will be processed by SPSS. Data processing will start from descriptive data, then classical assumptions to test the hypothesis.

4.1 Descriptive Data

Processing research data from 11 sectors of the Food and Beverages consumption industry can be presented as follows:

Table 1
Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Cash Flow	60	-4903761000000	4940273000000	119009285271.3167	1241122947744.01120
DFL	60	-14.28	4.79	.7557	2.09753
CR	60	.51	5.11	2.0947	1.12758
PBV	60	.62	45.47	5.8932	8.77772
Valid N (listwise)	60				

Descriptive details:

a. The number of samples from cash flow is 60, the minimum is -4,903,761,000,000.00 with PT. Indofood Sukses Makmur Tbk in 2018; maximum 4,940,273,000,000.00 at PT. Indofood Sukses Makmur Tbk in 2019; the mean is 119,009,285,271,3167 and the standard deviation is 1,241,122,947,744,01120.
b. The number of samples from financial leverage is 60, minimum -14.28 at PT. Nippon Indosari Corpindo Tbk in 2018; maximum 4.79 at PT. Sekar Bumi Tbk in 2017; mean 0.7557 and standard deviation 2.09753.
c. The number of samples from the current ratio of 60, a minimum of 0.51 at PT. Multi Bintang Indonesia Tbk in 2014; maximum 5.11 for Wilmar Cahaya Indonesia Tbk in 2018; mean 2.0947 and standard deviation 1.12758.
d. The number of samples from the firm value of 60, minimum of 0.62 at PT. Sekar Bumi Tbk in 2019; maximum 45.47 PT. Multi Bintang Indonesia Tbk in 2014; mean 5.8932 and standard deviation 8.77772.

4.2 Classic Assumptions

a. Normality

This normality is to test whether the research data processed by SPSS is included or not. Testing for normality with the graph method is presented with the following histogram:

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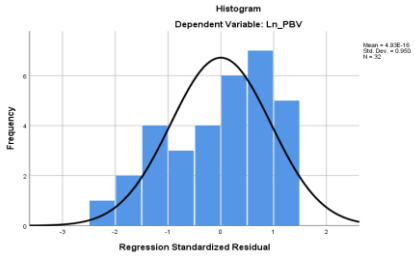

Fig 1. Histogram

The histogram graph is shown to form an inverted bell so the data is normal.
The normal p-p-plot graph can be shown as follows:

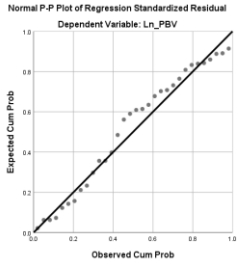

Fig 2. *Normal Probability Plot*

The normal p-p-plot graph is shown close to the diagonal line so the data is normal.
The following Kolmogorov Smirnov one-sample statistics:

Table 2
Kolmogorov-Smirnov Test

		Unstandardized Residual
N		32
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.75521142
Most Extreme Differences	Absolute	.127
	Positive	.075
	Negative	-.127
Test Statistic		.127
Asymp. Sig. (2-tailed)		.200[c,d]

a. Test distribution is Normal.
b. Calculated from data.
c. Lilliefors Significance Correction.
d. This is a lower bound of the true significance.

Asymp Value. Sig (2-tailed) of 0.200. This data shows that the significance value is greater than 0.05, which means that this data is normally distributed.

b. Multicollinearity Test

Multicollinearity has the criteria of VIF <10 and tolerance> 0.1.

Table 3
Multicollinearity test

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Ln_NetCashFlow	.820	1.220
	Ln_DFL	.930	1.075
	Ln_CR	.778	1.285

Cash flow, financial leverage, and current ratio have a tolerance> 0.1 and VIF <10 shows that there is no multicollinearity.

c. Autocorrelation Test

Autocorrelation is blue with the terms du <dw <4-du.

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Table 4
Autocorrelation Test

Model Summary[b]

Model	Durbin-Watson
1	1.962

a. Predictors: (Constant), Ln_CR, Ln_DFL, Ln_NetCashFlow
b. Dependent Variable: Ln_PBV

DW = 1,962, N = 32, du = 1,6505, du <dw <4-du, 1,6505 <1,962 <4-1,6505 to 1,6505 <1,962 <2,3495 data without autocorrelation.

d. Heteroscedasticity Test

Heteroscedasticity test using method graphic and statistical. Graphs of the plotterplots that meet the point conditions are randomly distributed and without a pattern showing no heteroscedasticity.

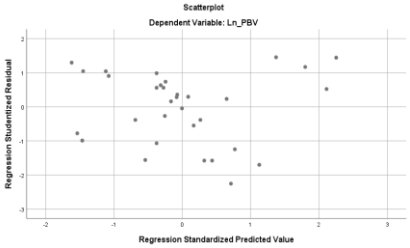

Fig 3. *Scatterplot*after Transformation

Graphs of the plotterplots that meet the point conditions are randomly distributed and without a pattern showing no heteroscedasticity.

Glejser test in Table 5 below:

Table 5
Glejser Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-.475	.924		-.514	.612
	Ln_NetCashFlow	.048	.037	.259	1.291	.207
	Ln_DFL	-.022	.142	-.030	-.158	.876
	Ln_CR	-.176	.137	-.263	-1.280	.211

a. Dependent Variable: Abs_ut1

Sig cash flow, financial leverage, and current ratio> 0.05 are not heteroscedasticities

4.3 Results of Data Analysis

a. Multiple Linear Regression Analysis

Multiple linear regression analysis is used to predict changes (ups and downs) in the dependent variable explained by two or more independent variables. The results of multiple regression analysis are seen in table 6 below:

Table 6
Multiple Linear Regression Analysis

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta
1	(Constant)	1.940	1.895	
	Ln_NetCashFlow	.008	.076	.017
	Ln_DFL	-.727	.291	-.373
	Ln_CR	-1.102	.281	-.641

a. Dependent Variable: Ln_PBV

Ln_PBV = 1,940 + 0.008 Ln_ NetCashFlow - 0.727 Ln_DFL - 1.102 Ln_CR (2)

1) A constant 1.940 means that cash flow, financial leverage, and current ratio are considered zero with a firm value of 1.940.
2) Cash flow 0.008 means an increase in cash flow once, the value of the company increases 0.008.

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3) Financial leverage -0.727 means that the increase in financial leverage is one time, the company value decreases by 0.727.
4) Current ratio -1.102 means that the current ratio increases once, the company value decreases by 1.102.

b. Coefficient of Determination (R^2)

The coefficient of determination measures the ability of the independent variable to explain the dependent variable.

Table 7
Coefficient of Determination

Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.646[a]	.418	.355	.79464

a. Predictors: (Constant), Ln_CR, Ln_DFL, Ln_NetCashFlow
b. Dependent Variable: Ln_PBV

Adjusted R Square is 0.355 with a 35.5% influence on firm value and the remaining 64.5% is influenced by other variables.

c. Simultaneous Hypothesis Testing (Test Statistic F)

The F test is used to test whether the independent variables jointly affect the dependent variable. F test is also used to test whether our regression model is good/significant or not good/nonsignificant.

Table 8
Test Statistic F

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.676	3	4.225	6.691	.002[b]
	Residual	17.681	28	.631		
	Total	30.357	31			

a. Dependent Variable: Ln_PBV
b. Predictors: (Constant), Ln_CR, Ln_DFL, Ln_NetCashFlow

Fcount = 6.691, sig = 0.002 and Ftable (32-4 = 28) = 2.95. Fcount> Ftable, namely 6.691> 2.95, it shows that H0 is rejected, Ha is accepted, is shown Cash flow, financial leverage, and current ratio have an effect on company value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.

d. Partial Hypothesis Testing (t Statistical Test)

The t-test tests whether the independent variable individually affects the dependent variable.

Table 9
T Statistical Test

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.940	1.895		1.024	.315
	Ln_NetCashFlow	.008	.076	.017	.106	.916
	Ln_DFL	-.727	.291	-.373	-2.496	.019
	Ln_CR	-1.102	.281	-.641	-3.920	.001

a. Dependent Variable: Ln_PBV

1) Cash flow counts = 0.106, sig = 0.916, t table (32-3 = 29) = 2.045, t count <t table, 0.106 <2.045 with a sig value 0.916> 0.05 so that H0 is accepted, Ha is rejected, it is shown that cash flow does not effect and does not significant towards firm value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.
2) Financial leveraging count = -2.496, sig = 0.019, ttable (32-3 = 29) = 2.045, -thitung <-table, -2.496 <-2.045 and sig value 0.019 <0.05 H0 is rejected, Ha is accepted, it is shown that financial leverage is influential and significant to the company value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.
3) Current ratio = -3.920, sig = 0.001, t table (32-3 = 29) = 2.045, -thitung <-table, -3.920 <-2.045 and sig 0.001 <0.05 H0 is rejected, Ha accepted is shown Current ratio affects and significant towards firm

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value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.

4.4 Discussion

a. The Effect of Cash Flow on Firm Value

The results of this study show that cash flow has no effect on firm value in the Food and Beverages industry sector companies listed on the Indonesia Stock Exchange in 2014-2019. Because the company's cash flow includes operating cash flow, investment cash flow, and financing cash flow so that the company's high operating cash flow reflects the results or income that will be received by shareholders for each share it owns and makes investors need to consider it before making investment decisions.

The results of the study are inconsistent with Brigham and Houston (2014: 97)**[**14**]**, companies that generate high cash flow does not necessarily mean that the cash reported on the balance sheet is also high. Cash flow is usually not used to increase cash accounts but rather is used to pay dividends, increase inventory, finance accounts receivable, invest in fixed assets, pay off debts, and buy back common stock. The results of this study are not in line with Rakhmandan Nur Ainy statement that total cash flow affects positive and has a significant effect on firm value.

b. The Effect of Financial Leverage on Firm Value

The results of this study are that financial leverage has an effect on firm value in the Food and Beverages consumption industry sector companies listed on the Indonesia Stock Exchange in 2014-2019. Companies that have high financial leverage will result in a greater risk of loss. The increasing number of debt is also seen as a company that is not careful with high levels of debt which can interfere with the company's ability to make the funds effective in its use in operating funding or become a burden of loss if the company is unable to pay a high debt

The results of this study are consistent with Sambora, Sri, and Rahayu (2014: 2)[**9**]. The greater the DER, the smaller the profit that will be distributed to shareholders, so that it can reduce the price of the shares concerned. The lower the DER level, the higher the firm's value and the company will gain the trust of investors. The results of this study are in line with Kahfi, Pratomo, and Aminah (2018)[**13**] that the debt-equity ratio influence firm value with negative significant.

c. The Effect of Current Ratio on Firm Value

The results of this study are the current ratio has an effect on firm value in the Food and Beverages consumption industry sector companies listed on the Indonesia Stock Exchange in 2014-2019. Therefore, the performance of the company is getting better in streamlining the level of liquidity in fulfilling its current liabilities with the ability of its current assets and encouraging the value of the company to increase due to its good performance.

The results of this study are consistent with Kahfi, Pratomo, and Aminah (2018: 568)[**13**] High levels of liquidity reduce the company's failure to meet short-term financial obligations to creditors and vice versa. This can increase the value of the company which is due to better company performance in streamlining liquidity levels. in fulfilling its current liabilities with the ability of its current assets and encouraging its company value to increase due to its good performance. The results of this study are in line with Hasania, Murni, and Mandagie (2016) which stated that the Current Ratio (CR) has a significant effect on firm value.

5. Conclusion

Based on the research results, several conclusions can be drawn as follows:

a. Cash flow does not affect and is not significant to company value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.
b. Financial leverage has a significant and significant effect on firm value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.
c. The current ratio has a significant and significant effect on company value in the Food and Beverages consumption industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.
d. Cash flow, financial leverage, and current ratio have an effect on company value in the Food and Beverages consumer industry sector companies listed on the Indonesia Stock Exchange in 2014-2019.

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