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Analyzing the Impact of Liquidity and Solvency Ratios on Profitability Ratios in FMCG Companies Listed on the Indonesia Stock Exchange from 2014 to 2023

ABSTRACT

This study aims to investigate the impact of liquidity and solvency measures on profitability ratios in fast-moving consumer goods (FMCG) firms listed on the Indonesia Stock Exchange. This research employs a descriptive verification methodology utilizing a quantitative approach. The utilized data are secondary data sourced from the companies' financial reports throughout the study period. To verify that the regression model is optimal, linear, unbiased, and efficient, several classical assumption tests were performed prior to further investigation.

The findings indicate that the liquidity ratio has a partial, positive, and significant impact on profitability ratios. This condition suggests that a company's enhanced capacity to fulfill its short-term liabilities is correlated with an increased possibility of profit development. Conversely, the solvency ratio has a negative and considerable influence on profitability ratios, suggesting that a substantial debt burden may hinder a company's ability to generate profits. The liquidity ratio and solvency ratio have a significant impact on corporate profitability. These findings underscore the significance of effective liquidity management and capital structure in sustaining a company's financial performance and enhancing its profitability.

Keywords: Rasio Likuiditas, Rasio Solvabilitas, Rasio Profitabilitas

INTRODUCTION

Every company must now acquire the capability to manage and execute its organization more professionally due to the rising number of competitors, both domestic and foreign, stemming from the evolution of the Indonesian business landscape. The basic objective of a firm is to maximize profits. The company's financial performance is indicative of optimal profit levels, as profit earned is contingent upon this performance. Companies utilize financial performance as a criterion in decision-making and strategic planning.

Financial performance analysis can be conducted using analytical methods, such as financial ratios, to assess a company's financial health, thereby providing an overview of its financial quality. Historical financial data is frequently utilized to forecast future financial conditions and outcomes.

Profitability ratios serve as the primary metrics for assessing a company's efficacy in generating profits. A high profitability level signifies strong corporate performance, reflecting the company's capacity to manage resources effectively and efficiently, which leads to sustained profits. Conversely, a diminished level of profitability signifies that the organization has not yet attained ideal financial performance management. If a corporation cannot attain optimal earnings, attracting external capital will be challenging. (Blessing & Sakouvogui, 2023; Maiherawati, Rahman, Damayanti & Ramdani, 2022; Effendie, Manafe & Man, 2022)

Profitability can be evaluated through various profitability ratios to examine a company's effectiveness in generating profits from sales and its ability to manage operating expenses effectively. Companies with high profitability ratios have a significant opportunity for growth improvement. A diminished profitability ratio will hinder expansion. Improving profitability, as reflected in the Profitability Ratio, denotes an enhancement in the company's ability to generate profits from sales, thereby cultivating anticipation for increased growth. (Fikri & Yolanda, 2023; Karlina & Rahman, 2023; Purwanti, Hasan, Falah & Hermuningsih, 2024)

The subsequent data presents the Profitability Ratio of FMCG Companies listed on the Indonesia Stock Exchange for the years 2014 to 2023:

Table 1. Net Profit Margin of Fast-Moving Consumer Goods Companies Listed on the Indonesia Stock Exchange from 2014 to 2023

Year	Net Profit	Sales	Net Profit Margin
2014	Rp 5.738.523.000.000	Rp 34.511.534.000.000	0,17
2015	Rp 5.851.805.000.000	Rp 36.484.030.000.000	0,16
2016	Rp 6.390.672.000.000	Rp 40.053.732.000.000	0,16
2017	Rp 7.004.562.000.000	Rp 41.204.510.000.000	0,17
2018	Rp 9.109.445.000.000	Rp 41.802.073.000.000	0,22
2019	Rp 7.392.837.000.000	Rp 42.922.563.000.000	0,17
2020	Rp 7.163.536.000.000	Rp 42.972.474.000.000	0,17
2021	Rp 5.758.148.000.000	Rp 39.545.959.000.000	0,15
2022	Rp 5.364.761.000.000	Rp 41.218.881.000.000	0,13
2023	Rp 4.800.940.000.000	Rp 38.611.401.000.000	0,12

Source: annual report (data processed 2024)

Depicted via a graph of the Profitability Ratio of FMCG Companies listed on the Indonesia Stock Exchange from 2014 to 2023:

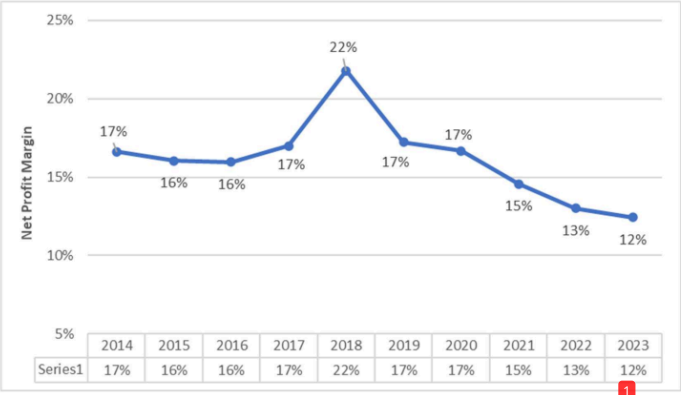


Figure 1. Percentage Graph of Net Profit Margin for FMCG Companies Listed on the Indonesia Stock Exchange from 2014 to 2023

The profitability ratios of FMCG businesses listed on the Indonesia Stock Exchange from 2014 to 2023 exhibit variable growth, as illustrated in Figure 1 above. In 2014, the profitability ratio was 17%, reflecting inferior performance compared to the industry standard of 20%. This profitability ratio signifies that the company produced a profit of only 17% of its revenues. In 2015 and 2016, sales rose; however, this was not reflected in a profitability ratio of 16%, which would suggest the company had a profit of 16% of total sales. The rise in sales was driven by market rivalry as the company adopted a sustainable living strategy, impacting customer purchasing power. In 2017, the profitability ratio rose by 17%, signifying favorable performance, although the company had not yet attained efficiency levels commensurate with industry standards. This gain resulted from the rise in net profit, bolstered by sales and operational income over the year. In 2018, the Profitability Ratio rose by 22%, surpassing the industry standard of 20% in efficiency. This condition signifies that the corporation successfully optimized profits from sales while minimizing operational expenses. The sales growth resulted from the expansion of the company's food business and a decrease in operational costs relative to the prior year. From 2019 to 2020, the Profitability Ratio experienced a substantial decline of 17% over two consecutive years. The primary driver was the challenging phenomenon of escalating raw material prices, resulting in a more significant increase in operational costs compared to the prior year. The onset of the COVID-19 pandemic in early 2020, characterized by social distancing measures and grocery closures, led to a decline in the company's revenue. In 2021, the Profitability Ratio decreased to 15%. The decline was attributed to post-

pandemic recovery linked to the implementation of PPKM (Enforcement of Restrictions on Community Activities), leading to a reduction in sales and subsequently the company's net profit.

In 2022, the profitability ratio declined to 13% owing to the company's inadequate optimization of its recovery strategy to mitigate operating costs. As a result of a significant increase in operating expenses compared to the prior year, net profit accounted for only 13% of total sales. In 2023, the profitability ratio decreased to 12% as a result of declining sales, which therefore reduced net profit. The sales reduction resulted from a boycott of the company's products associated with the Israeli-Palestinian conflict, which has diminished consumer purchasing power. The benchmark for profitability, indicated by the net profit margin, is 20%. The profitability ratio of FMCG businesses listed on the Indonesia Stock Exchange from 2014 to 2023 has constantly remained inferior to the industry average. This condition provides a basis for scholars to investigate the factors influencing the profitability ratios of FMCG companies listed on the Indonesia Stock Exchange from 2014 to 2023.

Liquidity is considered a factor influencing profitability. The liquidity ratio assesses a company's ability to meet its short-term obligations promptly. This ratio is crucial, as a company's failure to meet its short-term obligations may reduce its value and lead to a loss of investor interest. Therefore, managing a company's liquidity is crucial for maximizing profitability.

This study uses the Current Ratio as a liquidity metric, illustrating the extent to which current assets can fulfill current liabilities. Augmented liquidity bolsters creditors' confidence in granting loans, thereby enhancing the profitability of lending institutions. A reduced Liquidity Ratio indicates a company's inability to meet its short-term obligations, which can impact its profitability. Companies that neglect their obligations will incur additional liabilities. (Hamsyah, Latif & Dewi, 2023; Nugraha, Fitria, Puspitasari & Damayanti, 2020; Noviyana, Febriyola & Koranti, 2023)

The following are the Liquidity Ratio values of FMCG businesses registered on the Indonesia Stock Exchange from 2014 to 2023:

Table 2. Current Ratio of Fast-Moving Consumer Goods Companies Listed on the Indonesia Stock Exchange from 2014 to 2023

Year	Current Assets	Current Liabilities	Current Ratio
2014	Rp 6.337.170.000.000	Rp 8.864.832.000.000	0,71
2015	Rp 6.623.114.000.000	Rp 10.127.542.000.000	0,65
2016	Rp 6.588.109.000.000	Rp 10.878.074.000.000	0,61
2017	Rp 7.941.635.000.000	Rp 12.532.304.000.000	0,63
2018	Rp 8.257.910.000.000	Rp 11.273.822.000.000	0,73
2019	Rp 8.530.334.000.000	Rp 13.065.308.000.000	0,65
2020	Rp 8.828.360.000.000	Rp 13.357.536.000.000	0,66
2021	Rp 7.642.208.000.000	Rp 12.445.152.000.000	0,61
2022	Rp 7.567.768.000.000	Rp 12.442.223.000.000	0,61
2023	Rp 6.191.839.000.000	Rp 11.223.968.000.000	0,55

Source: annual report (data processed 2024)

Table 2 presents the Liquidity Ratio levels of FMCG businesses listed on the Indonesia Stock Exchange from 2014 to 2023. From 2014 to 2023, the Liquidity Ratio fluctuated in line with the changing Profitability Ratio. Between 2014 and 2016, the Liquidity Ratio experienced a substantial decline as the annual growth in current liabilities surpassed that of current assets. This condition signifies that the corporation lacked adequate current assets to meet its current liabilities. The rise in current liabilities, including trade payables, taxes payable, and other obligations, resulted from three successive years of elevated sales. Then, in 2017, the Liquidity Ratio grew by 0.63 due to a considerable growth in current assets. In 2018, the Liquidity Ratio attained 0.73, signifying enhanced firm liquidity. The rise was attributed to an increase in current assets and a decrease in current liabilities.

In 2019, there was a fall in the Liquidity Ratio to 0.66. This condition was attributable to a more significant rise in current liabilities relative to prior years, resulting from alterations in debt repayments and modifications in supplier payment arrangements due to the escalation of raw material costs. In 2019, current assets increased, but not to the extent of the rise in current liabilities. This condition was attributable to suboptimal management of inventories, financial liquidity, and receivables associated with sales and operational activities of the organization. Then in 2020, the Liquidity Ratio value fell to 0.66 as a consequence of the COVID-19 pandemic, causing a decrease in sales and income, which influenced the decrease in current assets, such as unsold inventory and challenging to collect receivables, as well as a larger increase in current liabilities.

During 2021-2022, the Liquidity Ratio declined to 0.61 as a result of a yearly reduction in current assets, without a commensurate fall in current liabilities, impacted by economic conditions and the company's strategy in the new normal period. The corporation had a resurgence in its sales approach and enhancements in operations. In 2023, the Liquidity Ratio attained its nadir of 0.55 during the decade-long observation period, attributed to the effects of the pro-Israel goods boycott, leading to diminished sales and excess inventory.

The industry standard for the Liquidity Ratio is 200%, or double that amount. Nevertheless, the Liquidity Ratio for FMCG companies listed on the Indonesia Stock Exchange from 2014 to 2023 was markedly inferior to the industry benchmark, attributable to elevated current liabilities relative to current assets. This condition indicates that the corporation cannot fulfill its short-term liabilities. Consequently, organizations must monitor their debt levels and manage both debt and assets effectively and efficiently within their operational activities to enhance profitability.

The second aspect believed to affect enhanced firm profitability is the solvency ratio. A firm inherently necessitates financing from both internal and external sources to conduct its operations. This ratio indicates the degree to which a company's operations are financed by debt. If total assets are adequate to satisfy all liabilities, the corporation is deemed solvent. This ratio emerges due to the company's utilization of assets or funding sources that incur fixed expenses, specifically depreciation on fixed assets and interest on debt.

This study employs the Solvency Ratio as a metric to assess solvency, comparing the total debt of the organization to its total assets. A high Solvency Ratio signifies a substantial degree of asset financing via debt. This condition can enhance prospective profits for

shareholders, as debt is typically less expensive than stock. It is essential to recognize that elevated debt levels entail increased risk, as interest obligations can substantially erode profitability. (Sumarni, Fitria, Tansar & Sukmalana, 2022; Albertus & Lestari, 2022; Gibran & Armansyah, 2023)

A higher Solvency Ratio indicates an increased risk for the company. Conversely, a lower debt ratio indicates a more favorable firm status, since it can conduct its operations without the encumbrance of regular loan obligations. Consequently, investors and creditors prefer a low debt ratio, as it enhances the degree of security provided. Consequently, to optimize profits, it is essential for enterprises to sustain a high degree of solvency in employing financial sources for their operations.

The following are the Solvency Ratios of Fast-Moving Consumer Goods Companies listed on the Indonesia Stock Exchange for the years 2014 to 2023:

Table 3. Debt-to-Asset Ratio of FMCG Companies Listed on the Indonesia Stock Exchange from 2014 to 2023

Year	Total Debt	Total Assets	Debt to Asset Ratio
2014	Rp 9.681.888.000.000	Rp 14.280.670.000.000	0,68
2015	Rp 10.902.585.000.000	Rp 15.729.945.000.000	0,69
2016	Rp 12.041.437.000.000	Rp 16.745.695.000.000	0,72
2017	Rp 13.733.025.000.000	Rp 18.906.413.000.000	0,73
2018	Rp 11.944.837.000.000	Rp 19.522.970.000.000	0,61
2019	Rp 15.367.509.000.000	Rp 20.649.371.000.000	0,74
2020	Rp 15.597.264.000.000	Rp 20.534.632.000.000	0,76
2021	Rp 14.747.263.000.000	Rp 19.068.532.000.000	0,77
2022	Rp 14.320.858.000.000	Rp 18.318.114.000.000	0,78
2023	Rp 13.282.848.000.000	Rp 16.664.086.000.000	0,80

Source: annual report (data processed 2024)

According to Table 3, the company's Solvency Ratio exhibited fluctuations corresponding to the variations in the Profitability Ratio over the 10-year observation period. In 2014, the Solvency Ratio was 0.68, signifying that 68% of the company's total assets were financed by debt. In 2015, the company experienced growth in total debt, which was subsequently followed by growth in total assets, resulting in a Solvency Ratio of 0.69. This condition signifies that the company's assets were funded by debt above the industry benchmark of 35%. During 2016-2017, the Solvency Ratio rose to 0.73, signifying a greater proportion of total debt utilized to finance the company's assets. This condition transpired due to an augmentation in assets accompanied by a rise in debt, influenced by the sustainable living initiative that necessitates external expenditures for the execution of the company's operational program. In 2018, the Solvency Ratio declined by 0.61. This condition resulted from an augmentation in total assets accompanied by a reduction in total debt relative to the prior year, enabling the corporation to diminish its financial risk exposure. This condition resulted from heightened sales attributable to the company's food business expansion initiative, which positively influenced profitability and augmented asset value, hence diminishing reliance on external financing.

During the 2019-2023 period, the Solvency Ratio experienced yearly growth. This growth signified a deteriorating condition for the company. In 2019, the Solvency Ratio was 0.74, subsequently rising to 0.76 in 2020. The COVID-19 pandemic precipitated a decrease in sales, thus leading to a reduction in net profit, necessitating the company's continued operations and an increase in external investment. From 2021 to 2023, there was a notable decrease in asset value, leading to the Solvency Ratio remaining high at 0.78. This condition resulted from the new normal, which has prompted several consumers to transition to online-based products owing to physical distance mandates. In the 10-year observation period, the peak Solvency Ratio was recorded in 2023, at 0.80, signifying that 80% of the company's assets were financed by debt. In 2023, the company's products were speculated to be pro-Israel. The company formally established a cooperation with Israeli firm Avi Zinger in June 2022. This condition led to diminishing sales and a reduction in net profit, which elevated the debt ratio due to the company's necessity for greater operating expenses to sustain its operations. (Puspitarini & Fitria, 2023; Amalia, 2023; Viranda, Antonio & Arman, 2023)

The industry standard for the Solvency Ratio is 0.35 or 35%. An elevated Solvency Ratio signifies a greater likelihood that a firm will be unable to meet its obligations. From 2014 to 2023, the Solvency Ratio for FMCG companies listed on the Indonesia Stock Exchange (IDX) surpassed 35%, indicating that a portion of the company's assets is financed by debt. This strategy indicates that the corporation is unable to meet its obligations.

A correlation is posited among the Liquidity Ratio, Solvency Ratio, and Profitability Ratio in FMCG businesses listed on the Indonesia Stock Exchange (IDX) from 2014 to 2023, as indicated by varying growth in financial performance. Profitability can be achieved if a corporation manages its liquidity effectively and utilizes external financing to maintain solvency.

The liquidity ratio, represented by the Current Ratio of FMCG companies listed on the Indonesia Stock Exchange from 2014 to 2023, demonstrated fluctuating growth. A high Liquidity Ratio indicates a company's ability to meet its current liabilities, thereby categorizing it as liquid. Widiani (2019) posited in her study that a low current ratio indicates heightened liquidity risk, whereas a high current ratio reflects an excess of current assets, which impacts the company's profitability.

The solvency ratio, measured by the Solvency Ratio (SRR), demonstrated fluctuations among FMCG companies listed on the Indonesia Stock Exchange from 2014 to 2023, alongside similar variations in the profitability ratio. A reduced Solvency Ratio indicates a higher level of profitability, demonstrating efficient organizational management. A heightened Solvency Ratio indicates increased risk exposure, hence impacting profitability. (Asiani & Rahayu, 2024; Handyansyah & Sukarno, 2023; Hamid, 2023)

Based on the previously mentioned data, which encompasses a decade of observation and situates the research issue within a relevant theoretical framework, the researcher intends to conduct a study entitled Analyzing the Impact of Liquidity and Solvency Ratios on Profitability Ratios in FMCG Companies Listed on the Indonesia Stock Exchange from 2014 to 2023.

METHOD

This study utilizes both descriptive and verification research methodologies. The descriptive technique was employed to provide a clear, systematic, and factual depiction of the independent variables analyzed: the liquidity ratio, indicated by the current ratio, and the solvency ratio, indicated by the debt-to-asset ratio. This descriptive method aimed to clarify the financial status of FMCG businesses listed on the Indonesia Stock Exchange (IDX) from 2014 to 2023, providing a preliminary insight into how these two measures reflect the company's financial performance in terms of liquidity and solvency. The verification method was employed to objectively assess the significant impact of the current ratio and the debt-to-asset ratio on profitability, as measured by the net profit margin. This study clarifies current financial trends and quantitatively assesses, via hypothesis testing, the acceptance or rejection of this influence.

The applied sample approach was non-probability sampling, which does not provide each member of the population an equal opportunity for selection. The sample selection adhered to criteria set by the researcher, taking into account expert recommendations and relevance to the research aims. The study population included all financial statements of FMCG companies listed on the Indonesia Stock Exchange (IDX) from 2014 to 2023, encompassing yearly financial position statements and income statements. The data were later converted into current ratios, debt-to-asset ratios, and net profit margins, which served as study variables.

This study employed a set of traditional assumption tests during the analytic process to ensure data quality and reliability, thereby providing unbiased estimation results. A normality test was performed to assess the normal distribution of the data, a multicollinearity test was utilized to detect high correlations among independent variables, a heteroscedasticity test was employed to evaluate unequal variances in residuals, and an autocorrelation test was executed to ascertain relationships between residuals from different periods. All of these tests are essential for verifying data validity prior to performing regression analysis, thereby ensuring scientifically robust study outcomes. This method aims to deliver a thorough analysis and empirical data concerning the impact of liquidity and solvency measures on profitability in Indonesian FMCG companies.

RESULTS AND DISCUSSION

Prior to evaluating the regression results, they were initially assessed for breaches of the conventional linear regression assumptions. This study presents the outcomes of the normality, multicollinearity, heteroscedasticity, and autocorrelation assessments.

Table 4. Tests of Classical Assumptions

No.	Items	Criteria	Result	Decision
1.	Normality test	Kolmogorov-Smirnov Test Sig value > 0,05	0,128	Normal
2.	Multicollinearity Test	Tolerance > 0,10 dan VIF < 10	Tolerance = 0,483 > 0,10 VIF = 2,070 < 10	There is no multicollinearity
3.	Heteroscedasticity Test	Scatterplot	Data spread	Heteroscedasticity does not occur
4.	Autocorrelation Test	Durbin Watson by looking at Du and dl values. (k,n=2,36)	1.732	There is no autocorrelation

The data normality test results presented in Table 4 indicate an asymptotic significance (2-tailed) probability value of 0.128. The normality test criterion stipulates that data is deemed normally distributed if the significance value exceeds 0.05; conversely, if it is less than 0.05, the data is classified as non-normally distributed. The data in this study exhibit a normal distribution, with a significance value of 0.128, which is above 0.05; hence, the assumption of normality is satisfied.

The multicollinearity assessment reveals that all independent variables in the regression model possess a tolerance value exceeding 0.10. Moreover, the VIF calculation results demonstrate that no independent variable possesses a VIF value over 10. Consequently, according to multicollinearity criteria, there are no indications of multicollinearity among the independent variables in the regression model, as evidenced by a Tolerance value of 0.483, which exceeds 0.10, and a VIF value of 2.070, which is less than 10.

The heteroscedasticity test in this investigation reveals no disparity in residual variances among observations. The autocorrelation assessment with the Durbin-Watson test produced a Durbin-Watson statistic of 1.732. The Durbin-Watson test for autocorrelation is as follows:

n = 20

DW = 1,732

dL = 1.1004

dU = 1,5367

4-dL = 4 - 1,1004= 2,8996

4-dU = 4 – 1,5367 = 2,4633

Results = dU < d < 4-dU = 1,5367 < 1,732 < 2,4633

Conclusion = There is no autocorrelation

The calculated DW value of 1.732 is situated between the dU and (4-dU) values of 1.5367 and 2.4633, respectively. Consequently, the regression model employed in this investigation exhibits no autocorrelation.

Table 5. Results of the Simple Regression Analysis

No.	Variable	Unstandardized Coefficients	t	Sig	Decision
	Constanta	0.225	2.307	0.034	
1.	Liquidity Ratio	0.133	2.115	0.049	Significant
2.	Solvency Ratio	-0.202	-2.389	0.029	Significant
R	0.825[a]				
R Square	0.680	Error		0.320	

The regression analysis of the Liquidity Ratio variable produced a regression coefficient of 0.133, a t-value of 2.115, and a significance level of 0.049. The significance value, below 0.05, indicates that the Liquidity Ratio has a significant influence on the Profitability Ratio at the 95% confidence level. A coefficient of 0.133 signifies that a one-unit increase in the Current Ratio, with other variables held constant, will increase to 0.133 units in the Net Profit Margin. A company's liquidity, as measured by its ability to fulfill short-term obligations using current assets, correlates positively with its potential profitability. This aligns with financial theory, which posits that firms with sufficient cash can operate efficiently, mitigate the risk of delayed payment obligations, and seize lucrative short-term investment opportunities.

These findings align with prior studies, which indicate that liquidity ratios, particularly the Current Ratio, exhibit a favorable correlation with profitability. Effective working capital management is essential for FMCG companies listed on the Indonesia Stock Exchange throughout the 2014-2023 period. FMCG products exhibit rapid inventory turnover, necessitating consistent cash flow for the procurement of raw materials, distribution, and marketing. Elevated liquidity enables organizations to sustain a seamless operational cycle, hence preserving profit margins.

The regression analysis of the Solvency Ratio variable produced a regression coefficient of -0.202, a t-value of -2.389, and a significance level of 0.029. The significance value is below 0.05, indicating that the Solvency Ratio has a significant influence on the Profitability Ratio at the 95% confidence level. The negative coefficient signifies that an increase in the Solvency Ratio results in a drop in the Profitability Ratio. A company's profitability diminishes when its debt level increases in relation to its total assets.

This outcome can be elucidated through the notion of financial risk. A high Solvency Ratio indicates a company's reliance on external debt financing. Substantial debt generates considerable interest costs, thereby diminishing the company's net profit. In the FMCG sector, characterized by narrow profit margins, elevated interest expenses can substantially affect profitability. Consequently, while debt may facilitate corporate expansion, organizations must evaluate an ideal capital structure to prevent impairing financial performance.

This finding aligns with other studies indicating that high solvency (an elevated debt ratio) is frequently inversely correlated with profitability. This condition corresponds with the Trade-Off Theory, which posits that while debt offers a tax shelter, the risks of bankruptcy and elevated interest expenses can diminish net profits. For corporations, maintaining acceptable debt levels is a crucial strategy for ensuring long-term success.

The coefficient of determination (R^2) was 0.680. This figure signifies that 68% of the variability in the Profitability Ratio is attributable to fluctuations in the Liquidity Ratio and Solvency Ratio combined, and the remaining 32% is accounted for by extraneous factors not encompassed in this study model. Additional elements may encompass operational efficiency, production expenses, marketing strategy, product innovation, macroeconomic conditions, and foreign influences, such as legislative changes and currency rate fluctuations. The elevated R-squared value indicates that the model effectively explains the correlation among liquidity, solvency, and profitability.

The correlation coefficient (R-squared) of 0.825 signifies a robust association among the Liquidity Ratio, the Solvency Ratio, and the Profitability Ratio. The strong association suggests that the interplay between liquidity management and capital structure has a significant influence on a company's profitability. In a managerial context, this indicates that corporate management must amalgamate working capital policies with funding strategies to attain specified profitability objectives.

According to the findings presented in Table 5, a straightforward linear regression equation can be formulated as follows:

$$\mathbf{Y = 0{,}225 + 0{,}133X_1 - 0{,}202X_2}$$

The fixed value of 0.225 signifies that, assuming both the Liquidity Ratio and Solvency Ratio are zero, the Profitability Ratio produced by the company is 0.225 units. This value represents the fundamental amount of profitability the company can attain independent of liquidity or solvency factors. The regression coefficient for the Liquidity Ratio, valued at 0.133, indicates a positive correlation; hence, a one-unit increase in the Liquidity Ratio, while holding the Solvency Ratio constant, will result in a 0.133-unit increase in the Profitability Ratio. This condition indicates that an enhanced capacity of the corporation to fulfill its short-term liabilities is correlated with an increased likelihood of net profit. Robust liquidity enables the organization to operate efficiently, capitalize on short-term investment prospects, and mitigate financial risks that could diminish earnings. The regression coefficient for the Solvency Ratio, -0.202, signifies a negative relationship; thus, a one-unit rise in the Solvency Ratio, while holding the Liquidity Ratio constant, will result in a fall of 0.202 units in the Profitability Ratio. The findings suggest that an increased debt-to-asset ratio is correlated with elevated interest expenses and financial responsibilities, resulting in a reduction in net profit. This regression equation suggests that enhanced profitability in FMCG businesses listed on the Indonesia Stock Exchange (IDX) from 2014 to 2023 can be achieved through effective liquidity management while maintaining debt levels within a secure range. The equilibrium between the capacity to

meet short-term liabilities and the funding framework is essential for sustaining robust financial performance.

The findings of this study present several significant implications. Initially, regarding liquidity, management must guarantee that the current ratio is maintained at an optimal level. Insufficient liquidity may hinder operations due to inadequate finances for short-term requirements, while excessive liquidity may indicate unutilized funds that could be invested to enhance revenue. Consequently, effective management of cash, receivables, and inventory is essential to sustain a balance between liquidity security and the productivity of current assets.

From a solvency standpoint, organizations must regulate their debt utilization to prevent encumbering profitability. Although debt serves as a versatile funding source, the ratio of debt to total assets must remain beneath the acceptable threshold of operating cash flow. FMCG companies operating in a highly competitive market must uphold a robust financial reputation, ensuring investor and creditor confidence by managing a stable solvency ratio.

These findings underscore the importance of incorporating financial policies into decision-making processes. Management of liquidity and solvency ratios must be conducted in conjunction, as they collectively impact profitability performance. For instance, augmenting liquidity via supplementary current assets may necessitate debt financing, which can subsequently elevate the solvency ratio. Consequently, management must conduct a thorough cost-benefit analysis before making decisions about liquidity and finance.

This study's findings also contribute to the corporate finance literature, particularly in the FMCG sector of Indonesia. In contrast to other industries that may experience extended business cycles or elevated profit margins, FMCG companies operate in a competitive and dynamic landscape, characterized by significant pricing pressures and the need for ongoing product innovation. In this context, achieving equilibrium among liquidity, solvency, and profitability is a strategic challenge that requires meticulous management.

Thus, both the Current Ratio and the Debt-to-Asset Ratio substantially influence the Net Profit Margin of FMCG companies listed on the Indonesia Stock Exchange from 2014 to 2023. The Current Ratio enhances profitability by indicating robust liquidity, while the Debt-to-Asset Ratio adversely affects net profit due to a significant debt load. This research model effectively captures most of the variability in corporate profitability, suggesting that the management of these two financial parameters is crucial for maintaining and enhancing the financial performance of FMCG companies.

CONCLUSION

The research findings demonstrate that the liquidity ratio, denoted by the Current Ratio, exerts a favorable and significant impact on the profitability ratio, represented by the Net Profit Margin, of FMCG companies listed on the Indonesia Stock Exchange from 2014 to 2023. This circumstance indicates that a company's enhanced ability to meet its short-term

obligations is associated with a heightened potential for generating net profits. Strong liquidity enables an organization to perform operational activities, capitalize on commercial opportunities, and mitigate financial risks, thereby enhancing profitability.

The solvency ratio, indicated by the Debt-to-Asset Ratio, demonstrates a negative and considerable impact on the profitability ratio. This research suggests that an increased ratio of a company's debt funding relative to total assets correlates with a heightened obligation burden, particularly in terms of interest expenses, which may hinder the company's ability to achieve a net profit. Consequently, high loan use might diminish operational efficiency and decrease a company's profitability.

The liquidity ratio and the solvency ratio concurrently exert a substantial beneficial influence on the profitability ratio. This condition signifies that both elements are crucial in influencing a company's profitability. Effective liquidity management facilitates seamless operational activities, whereas proportional debt regulation mitigates financial risks that impede profit performance. The integration of the two is essential for sustaining the stability and growth of a company's financial performance.

The findings of this study highlight the importance of striking a balance between liquidity and solvency for organizations. Insufficient liquidity may impede the ability to fulfill short-term obligations, while excessive solvency signifies an overreliance on external financing. The ideal financial management plan involves sustaining sufficient cash to facilitate operations while ensuring debt levels remain manageable to preserve profitability.

Consequently, the company's profitability during the research period was substantially affected by its liquidity and solvency situations. Consequently, firm management must continuously oversee and regulate both dimensions to attain sustainable financial performance.

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