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# UNLOCKING FINANCIAL INSIGHTS: EVALUATING PERFORMANCE THROUGH KEY RATIOS

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***Abstract***

*This study analyzes the financial performance of Pabrik Gula Modjopanggoong through key financial ratios, including liquidity, activity, solvency, and profitability. Using financial data from 2019 to 2023, the study employs a descriptive quantitative approach to evaluate the company's financial stability and operational efficiency. The findings reveal that liquidity ratios, such as Current Ratio and Quick Ratio, fall below industry standards, reflecting challenges in meeting short-term obligations. Activity ratios demonstrate poor asset utilization, with a low Total Asset Turnover (TATO), although inventory management, as measured by Inventory Turnover (ITO), is efficient. Solvency ratios, including Debt-to-Equity Ratio (DER) and Debt-to-Asset Ratio (DAR), show favorable values, indicating minimal reliance on debt. However, profitability ratios, such as Net Profit Margin (NPM) and Return on Assets (ROA), are suboptimal due to declining sales and high operational costs. These results highlight the need for improved asset management and operational strategies to enhance profitability and competitiveness. The study provides actionable insights for optimizing financial performance and ensuring long-term sustainability.*

***Keywords:*** *financial performance, liquidity ratios, activity ratios, solvency ratios, profitability ratios*

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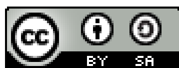

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## 1. Introduction

The financial statements of a company provide a comprehensive reflection of its financial condition and operational performance. As argued by (Brigham & Houston, 2019), financial statements act as critical tools for stakeholders to evaluate a company's economic stability, liquidity, and

profitability. The financial performance of a company measures its efficiency in generating profits, offering insights into its growth potential and operational sustainability (Gitman & Zutter, 2021). Achieving predetermined standards and goals is a key determinant of a company's success. Without meeting these benchmarks, even companies with substantial physical assets may falter due to financial mismanagement.

Physical assets such as infrastructure and expansions are often tangible indicators of a company's presence and scale. However, as noted by (Atrill & McLaney, 2020), the most critical determinant of a company's health lies in its financial metrics. Financial statements enable stakeholders to assess the effectiveness of company policies and identify potential vulnerabilities. Studies by (Altman, 1968) highlight the predictive power of financial ratios in identifying companies at risk of bankruptcy, emphasizing the importance of financial health over physical growth.

Unhealthy financial conditions are frequently cited as the primary cause of corporate failures. Research by (Beaver, 1966) demonstrated that financial ratios, particularly liquidity and solvency ratios, are strong predictors of corporate distress. This aligns with contemporary observations by (Bhimani et al., 2019), who argue that financial mismanagement remains a critical risk factor for business continuity in today's complex economic environment.

Financial ratios are indispensable tools for evaluating a company's performance. Liquidity ratios assess the ability to meet short-term obligations, solvency ratios evaluate long-term financial stability, activity ratios measure operational efficiency, and profitability ratios gauge profit generation (Horne & Wachowicz, 2018). Among these, profitability ratios, especially Return on Assets (ROA), are pivotal. According to (Ross et al., 2021), ROA provides a clear indicator of how effectively a company utilizes its assets to generate returns.

Investors often prioritize profitability metrics when making investment decisions. Studies by (Fama and French, 1992) show that firms with consistently high ROA attract more investment, as they signal efficient resource utilization and robust financial health. Moreover, (Albrecht et al., 2020) underline that profitability is a benchmark for assessing financial performance, guiding stakeholders in making informed decisions.

The utility of financial ratios in assessing corporate performance is well-documented. Empirical studies by (Lev, 1974) demonstrate the predictive accuracy of ratio analysis in identifying growth opportunities and financial risks. Similarly, a study by (Zaki et al., 2020) on manufacturing firms in Southeast Asia found that financial ratio analysis is an effective tool for evaluating financial stability and performance.

PT Sinergi Gula Nusantara Pabrik Gula Modjopanggoong, located in Tulungagung Regency, operates in the sugarcane-based White Crystal Sugar (GKP) industry. As highlighted by (Hardono et al., 2022), the sugar industry plays a crucial role in Indonesia's economy, contributing to food security and job creation. However, the sustainability of such industries depends heavily on continuous monitoring of financial performance.

Despite its historical significance and annual operations, skepticism surrounds the factory's financial health. Misconceptions about its operational status underline the need for rigorous financial performance evaluation. By analyzing liquidity, activity, solvency, and profitability ratios, stakeholders can assess the factory's financial stability and identify areas for improvement (Setiawan & Cahyono, 2019

Evaluating financial performance through ratio analysis not only reveals a company's strengths and weaknesses but also provides actionable insights for policymakers and investors. The findings of this study aim to guide PT Sinergi Gula Nusantara in optimizing its financial strategies, ensuring long-term sustainability and operational success.

## 2. Research Method

The research method employed in this study is a quantitative research method with a descriptive research design, utilizing analysis of liquidity ratios, activity ratios, solvency ratios, and profitability ratios. The ratio analysis in this study includes the calculation of the current ratio, quick ratio, inventory turnover ratio, total assets turnover ratio, debt-to-asset ratio, debt-to-equity ratio, net profit margin, and return on total assets (ROA). The sample for this study consists of the financial statements of Modjopanggoong Sugar Factory for the period 2019–2023. The data collection techniques used in this research are observation and literature review.

The data analysis technique used in this study is a descriptive quantitative method. This approach involves collecting financial reports from the Modjopanggoong Sugar Factory for the period 2019 to 2023, which are then processed, interpreted, and analyzed to identify the issues faced by the company. The steps for analyzing the financial reports include:

1. Calculating liquidity ratios using the current ratio and quick ratio based on the financial reports of the Modjopanggoong Sugar Factory.
2. Calculating activity ratios using the inventory turnover ratio and total assets turnover ratio from the financial reports of the Modjopanggoong Sugar Factory.
3. Calculating solvency ratios using the debt-to-asset ratio and debt-to-equity ratio derived from the financial reports of the Modjopanggoong Sugar Factory.
4. Calculating profitability ratios using the net profit margin and Return on Total Assets (ROA) metrics based on the financial reports of the Modjopanggoong Sugar Factory.
5. Conclusions and providing recommendations.

## 3. Result and Discussion

**Table 1. Recapitulation of Financial Ratio Analysis Calculation Results Modjopanggoong Sugar Factory 2019-2023**

| NO | ANALISIS RASIO | TAHUN | | | | |
|---|---|---|---|---|---|---|
| | | 2019 | 2020 | 2021 | 2022 | 2023 |
| 1 | **Rasio Likuiditas:** | | | | | |
| | *Current Ratio* | 1,026 | 2,124 | 1,093 | 2,662 | 0,388 |
| | *Quick Ratio* | 0,743 | 0,993 | 0,755 | 0,610 | 0,208 |
| 2 | **Rasio Aktivitas:** | | | | | |
| | *Total Asset Turn Over (TATO)* | 0,859 | 0,727 | 0,580 | 0,647 | 0,489 |
| | *Inventory Turn Over (ITO)* | 34,442 | 12,692 | 20,139 | 12,261 | 12,630 |
| 3 | **Rasio Solvabilitas:** | | | | | |
| | *Debt to Equity Ratio (DER)* | 0,048 | 0,056 | 0,038 | 0,047 | 0,252 |
| | *Debt to Asset Ratio (DAR)* | 0,046 | 0,053 | 0,036 | 0,045 | 0,201 |
| 4 | **Rasio Profitabilitas:** | | | | | |
| | *Net Profit Margin (NPM)* | 0,088 | -0,045 | -0,033 | 0,053 | 0,241 |
| | *Return On Asset (ROA)* | 0,075 | -0,033 | -0,019 | 0,034 | 0,118 |

**Current Ratio**

Based on the table, the current ratio of the Modjopanggoong Sugar Factory in 2019 was 1.026 or 102.6%. This indicates that for every IDR 1.00 of current liabilities, the company had IDR 1.026 of current assets to cover them. In 2020, the current ratio increased to 1.098 due to a rise in current assets, amounting to 2.124 or 212.4%. This means that for every IDR 1.00 of current liabilities, the company had IDR 2.124 of current assets. However, in 2021, the current ratio declined to 1.030 due to a reduction in current assets, amounting to 1.093 or 109.3%. This indicates that every IDR 1.00 of current liabilities was backed by IDR 1.093 of current assets.

In 2022, the current ratio rose significantly to 1.569, driven by an increase in current assets, which reached 2.662 or 266.2%. This indicates that for every IDR 1.00 of current liabilities, the company had IDR 2.662 of current assets. By contrast, in 2023, the current ratio fell to 0.388 due to a substantial decrease in current assets and an increase in current liabilities following a spin-off, resulting in only IDR 0.338 of current assets available for every IDR 1.00 of current liabilities.

A higher current ratio signifies a stronger ability of the company to meet its obligations, and vice versa. Based on the calculations, the current ratio in 2019 was 1.026, above 1.00, indicating that the company could cover 100% of its liabilities, but it still fell short of the industry standard of 200% or 2.00. Similarly, in 2020, the current ratio increased to 2.124, enabling the company to meet its liabilities fully but still not reaching the industry benchmark. The ratio in 2021 was 1.093, also above 1.00, meaning the company could pay its liabilities, but again, it did not meet the standard.

In 2022, the current ratio rose to 2.662, which still exceeded 1.00 and allowed the company to cover its obligations, yet it remained below the industry standard. However, in 2023, the current ratio dropped sharply to 0.388, falling below 1.00 due to the drastic rise in current liabilities and a decline in current assets after the spin-off. This indicates that the company could not cover 100% of its liabilities in 2023, let alone meet the industry standard.

The average current ratio of the Modjopanggoong Sugar Factory from 2019 to 2023 was 1.459, which is above 1.00. This shows that, on average, the company was able to pay 100% of its liabilities over the five-year period. However, it consistently fell short of the industry standard of 200% or 2.00.

**Quick Ratio**

Based on the table, the quick ratio of the Modjopanggoong Sugar Factory in 2019 was 0.743 or 74.3%. This indicates that for every IDR 1.00 of current liabilities, the company had IDR 0.743 in current assets excluding inventory to cover them. In 2020, the quick ratio increased by 0.250, reaching 0.993 or 99.3%, due to an increase in current assets. This means that for every IDR 1.00 of current liabilities, the company had IDR 0.993 in current assets excluding inventory.

In 2021, the quick ratio declined to 0.755 or 75.5%, reflecting a decrease in current assets. This indicates that for every IDR 1.00 of current liabilities, the company had IDR 0.755 in current assets excluding inventory. In 2022, the quick ratio further declined to 0.610 or 61%, due to an increase in inventory and current liabilities. This means that for every IDR 1.00 of current liabilities, the company had IDR 0.610 in current assets excluding inventory. By 2023, the quick ratio dropped sharply to 0.208 or 20.8%, driven by a decrease in current assets and an increase in current liabilities. This indicates that the company had only IDR 0.208 in current assets excluding inventory for every IDR 1.00 of current liabilities.

A higher quick ratio reflects a stronger ability to meet current liabilities without relying on inventory, and vice versa. The calculations show that the quick ratios from 2019 to 2023 were consistently below 1.00, with values of 0.743 in 2019, 0.993 in 2020, 0.755 in 2021, 0.610 in 2022, and 0.208 in 2023. The average quick ratio over the five-year period was 0.662, also below 1.00. This indicates that the company was unable to fully meet its short-term liabilities using assets other than inventory, falling short of the industry standard of 1.00 or 100%.

**TATO**

Based on the table, the Total Asset Turnover (TATO) of the Modjopanggoong Sugar Factory in 2019 was 0.859 or 85.9%. This indicates that for every IDR 1.00 of total assets, the company generated IDR 0.859 in sales. In 2020, the TATO decreased by 0.132, resulting in a ratio of 0.727 or 72.7%, due to a decline in sales. This means that for every IDR 1.00 of total assets, the company generated IDR 0.727 in sales that year.

In 2021, the TATO further declined to 0.580 or 58%, a decrease of 0.147 compared to the previous year, reflecting reduced sales. This indicates that for

every IDR 1.00 of total assets, the company generated only IDR 0.580 in sales. However, in 2022, the TATO increased by 0.067 to 0.647 or 64.7% due to an improvement in sales. This means that for every IDR 1.00 of total assets, the company generated IDR 0.647 in sales. In 2023, the TATO dropped significantly to 0.489 or 48.9%, a decrease of 0.158, attributed to a reduction in sales. This indicates that the company generated only IDR 0.489 in sales for every IDR 1.00 of total assets that year.

The Total Asset Turnover ratio measures how efficiently a company utilizes its total assets to generate sales. Based on the calculations, the TATO of the Modjopanggoong Sugar Factory fluctuated over the years, with an average ratio of 0.660, which is well below the standard benchmark of 1.5. This suggests that the company has underutilized its assets and has not fully optimized them to generate higher sales.

**ITO**

Based on the table, the Inventory Turnover (ITO) of the Modjopanggoong Sugar Factory in 2019 was 34.442 or 3444.2%. This indicates that for every IDR 1.00 in sales, the company replaced it with an average inventory of IDR 34.442. In 2020, the ITO decreased significantly to 12.692 or 1269.2%, a drop of 21.750, due to reduced sales and increased average inventory. This means that for every IDR 1.00 in sales, the company replaced it with an average inventory of IDR 12.692.

In 2021, the ITO increased to 20.139 or 2013.9%, reflecting a drop in both average inventory and sales. This indicates that for every IDR 1.00 in sales, the company replaced it with an average inventory of IDR 20.139. However, in 2022, the ITO fell again to 12.261 or 1226.1%, a decrease of 7.878, driven by a rise in average inventory. This shows that for every IDR 1.00 in sales, the company replaced it with an average inventory of IDR 12.261. In 2023, the ITO increased slightly to 12.630 or 1263%, a rise of 0.369, due to a reduction in average inventory alongside lower sales. This means that for every IDR 1.00 in sales, the company replaced it with an average inventory of IDR 12.630.

The inventory turnover ratio measures how often the value of inventory is cycled through during a given period. Based on the calculations, the ITO of the Modjopanggoong Sugar Factory fluctuated over the years, with values of 34.442 in 2019, 12.692 in 2020, 20.139 in 2021, 12.261 in 2022, and 12.630 in 2023, resulting in an average ITO of 18.433. This ratio exceeds the standard benchmark of 5.0, indicating that the working capital tied up in inventory is

relatively small. This is a positive sign for the company, as it demonstrates efficient inventory management, where stock is sold quickly, and working capital is not tied up in inventory for extended periods.

**DER**

Based on the table, the Debt-to-Equity Ratio (DER) of the Modjopanggoong Sugar Factory in 2019 was 0.048. This means that for every IDR 1.00 of equity, the company had IDR 0.048 in debt. In 2020, the DER increased slightly to 0.056, a rise of 0.008, due to an increase in total equity. This indicates that for every IDR 1.00 of equity, the company had IDR 0.056 in debt.

In 2021, the DER declined to 0.038, a decrease of 0.018, driven by an increase in total equity. This implies that for every IDR 1.00 of equity, the company had IDR 0.038 in debt. However, in 2022, the DER rose again to 0.047, an increase of 0.009, as a result of higher total debt. This means that for every IDR 1.00 of equity, the company had IDR 0.047 in debt. By 2023, the DER experienced a significant increase to 0.252, a rise of 0.205, due to a substantial increase in total debt. This indicates that for every IDR 1.00 of equity, the company had IDR 0.252 in debt.

The Debt-to-Equity Ratio reflects the extent to which a company uses debt to finance its business operations. A higher DER indicates greater reliance on debt, while a lower DER suggests a smaller proportion of debt relative to equity. The calculations show that the company's DER fluctuated over the years, with values of 0.048 in 2019, 0.056 in 2020, 0.038 in 2021, 0.047 in 2022, and 0.252 in 2023. The average DER over the five-year period was 0.088, which is well below the standard benchmark of 1.0. This indicates that the company has maintained a low reliance on debt for its business operations, which is a positive sign as it suggests manageable liabilities and a lower financial risk profile.

**DAR**

Based on the table, the Debt to Asset Ratio (DAR) of the Modjopanggoong Sugar Factory in 2019 was 0.046. This indicates that for every IDR 1.00 of total assets, the company had IDR 0.046 in debt. In 2020, the DAR increased to 0.053, a rise of 0.007, due to an increase in total debt. This means that for every IDR 1.00 of total assets, the company had IDR 0.053 in debt.

In 2021, the DAR decreased to 0.036, a reduction of 0.017, as a result of a decline in total debt. This indicates that for every IDR 1.00 of total assets, the

company had IDR 0.036 in debt. In 2022, the DAR rose slightly to 0.045, an increase of 0.009, due to higher total debt. This shows that for every IDR 1.00 of total assets, the company had IDR 0.045 in debt. In 2023, the DAR significantly increased to 0.201, a rise of 0.156, reflecting a substantial addition to total debt. This indicates that for every IDR 1.00 of total assets, the company had IDR 0.201 in debt.

The Debt to Asset Ratio measures the extent to which a company uses debt to finance its assets. Based on the calculations, the DAR fluctuated over the years, with values of 0.046 in 2019, 0.053 in 2020, 0.036 in 2021, 0.045 in 2022, and 0.201 in 2023. The average DAR over the five-year period was 0.076, which is well below the standard benchmark of 0.5. This low ratio indicates that the company relies minimally on debt to finance its assets, which is a positive sign, as it suggests low financial risk and a strong ability to meet its obligations.

**NPM**

Based on the table, the Net Profit Margin (NPM) of the Modjopanggoong Sugar Factory in 2019 was 0.088 or 8.8%. This indicates that for every IDR 1.00 in sales, the company generated IDR 0.088 in net profit. In 2020, the NPM declined significantly to -0.045, a decrease of 0.133, due to a net loss. This means that for every IDR 1.00 in sales, the company incurred a loss of IDR 0.045.

In 2021, the NPM improved slightly to -0.033, an increase of 0.012, reflecting a reduction in losses. This indicates that for every IDR 1.00 in sales, the company incurred a loss of IDR 0.033. In 2022, the NPM increased to 0.053, a rise of 0.086, driven by an increase in net profit. This means that for every IDR 1.00 in sales, the company earned IDR 0.053 in net profit. By 2023, the NPM rose significantly to 0.241, an increase of 0.188, indicating that for every IDR 1.00 in sales, the company generated IDR 0.241 in net profit.

The Net Profit Margin measures the proportion of net profit earned relative to total revenue and reflects the company's efficiency in profitability. The calculations show that the NPM fluctuated over the years, with values of 0.088 in 2019, -0.045 in 2020, -0.033 in 2021, 0.053 in 2022, and 0.241 in 2023. The lowest NPM occurred in 2020 and 2021 due to losses, indicating poor profitability performance during those years. The average NPM over the five-year period was 0.061, which falls short of the standard benchmark of 0.1 or 10%. This indicates that the company's net profit relative to sales was relatively low, reflecting suboptimal profitability performance.

**ROA**

Based on the table, the Return on Assets (ROA) of the Modjopanggoong Sugar Factory in 2019 was 0.075. This indicates that for every IDR 1.00 of total assets, the company generated IDR 0.075 in net profit. In 2020, the ROA declined significantly to -0.033, a decrease of 0.108, reflecting a net loss. This means that for every IDR 1.00 of total assets, the company incurred a loss of IDR 0.033.

In 2021, the ROA improved slightly to -0.019, an increase of 0.014, due to a reduction in net loss. This indicates that for every IDR 1.00 of total assets, the company incurred a loss of IDR 0.019. In 2022, the ROA rose to 0.034, an increase of 0.053, driven by higher net profit. This means that for every IDR 1.00 of total assets, the company generated IDR 0.034 in net profit. By 2023, the ROA increased significantly to 0.118, an improvement of 0.084, due to a substantial rise in net profit. This indicates that for every IDR 1.00 of total assets, the company generated IDR 0.118 in net profit.

The Return on Assets measures how effectively a company utilizes its assets to generate net profit. Over the five years, the ROA fluctuated, with values of 0.075 in 2019, -0.033 in 2020, -0.019 in 2021, 0.034 in 2022, and 0.118 in 2023. The lowest ROA was recorded in 2020 and 2021, during periods of losses, indicating poor profitability performance. The highest ROA was achieved in 2023, at 0.118, driven by a significant increase in net profit. The average ROA over the five-year period was 0.035, which is below the standard benchmark of 0.1. This indicates that the company’s net profit relative to its assets was relatively low, reflecting suboptimal profitability performance and a need for better asset utilization to enhance returns.

The analysis results indicate that the liquidity ratios of Pabrik Gula Modjopanggong, such as the Current Ratio and Quick Ratio, are on average below industry standards. This reflects the company's limited ability to meet short-term obligations using current assets without selling fixed assets or seeking external financing.

For the activity ratios, the Total Asset Turnover (TATO) shows poor performance due to declining sales, while the Inventory Turnover (ITO) meets industry standards. Inventory management is effective, allowing quick sales without long-term holding costs. However, the overall asset management lacks optimization in enhancing revenue and operational efficiency.

The solvency ratios, including the Debt-to-Equity Ratio (DER) and Debt to Asset Ratio (DAR), show favorable values, indicating that the company does not rely heavily on debt for funding. This reflects a healthy capital structure with low financial risk in fulfilling its obligations.

However, the profitability ratios, such as the Net Profit Margin (NPM) and Return on Asset (ROA), fail to meet industry standards. NPM has declined due to reduced sales and rising operational costs, while ROA is weak, highlighting the company's inability to optimize asset utilization for generating substantial profits. This is attributed to high expenses and suboptimal asset management.

Overall, Pabrik Gula Modjopanggong needs to improve asset management, operational efficiency, and profit-generating strategies to achieve a more competitive performance in the industry.

## 4. Conclusion

The financial performance analysis of Pabrik Gula Modjopanggong reveals significant challenges in its operations. Liquidity ratios, including the Current Ratio and Quick Ratio, consistently fall below industry standards, indicating limited capability to fulfill short-term obligations. Activity ratios highlight inefficiencies, as the Total Asset Turnover (TATO) reflects poor asset utilization, although inventory management, measured through the Inventory Turnover (ITO), demonstrates effectiveness. Solvency ratios, such as Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), show positive results, with the company maintaining a low reliance on debt, which reduces financial risk. However, profitability ratios, including Net Profit Margin (NPM) and Return on Assets (ROA), remain suboptimal due to declining sales and high operational costs, underscoring the need for better asset utilization and cost management.

To improve financial performance, the company should prioritize enhancing operational efficiency and asset utilization while minimizing costs. Strategies to increase sales and optimize the profitability of existing assets are essential. Additionally, maintaining robust solvency metrics and strengthening liquidity measures will ensure financial stability and competitiveness in the industry. Future research may focus on external market factors and internal management practices that influence financial outcomes.

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