

Financial Ratios and Their Impact on Equity and Stock Performance in Non-Cyclical Consumer Firms

Hersugondo HERSUGONDO^{1*}, Etty Puji LESTARI², Siti PURYANDANI³, Deni SUNARYO⁴

¹Faculty of Economics and Business, Diponegoro University, Central Java, Indonesia
Email: hersugondo@lecturer.undip.ac.id, hhersugondo@gmail.com

²Faculty of Economics, Universitas Terbuka, Banten, Indonesia
Email: ettypl@ecampus.ut.ac.id

³Faculty of Economics and Business of BPD University, Semarang, Indonesia
Email: sitipuryandani@gmail.com

⁴Faculty of Economics and Business, University of Serang Raya, Banten, Indonesia
Email: denisunaryomm@gmail.com

*Corresponding Author

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Abstract

While extensive research has examined financial ratios in mature markets, few studies have investigated how these ratios simultaneously influence profitability and stock performance in Indonesia's Consumer Non-Cyclicals sector, especially amid recent macro-economic turbulence. The Consumer Non-Cyclicals sector in Indonesia encompassing basic necessities such as food and medicine is a critical industry characterized by high stability during economic fluctuations. Nevertheless, global and domestic challenges compel companies in this sector to enhance efficiency and financial stability. This study analyzes the impact of three financial ratios Debt-to-Equity Ratio (DER), Current Ratio (CR), and Total Assets Turnover (TATO) on Return on Equity (ROE) and Stock Return (RS) using a quantitative path-analysis approach applied to data from Consumer Non-Cyclicals firms covering 2015–2023. The findings reveal that DER and CR exert significant negative effects on ROE, whereas TATO positively influences RS. Moreover, ROE mediates the relationship between DER and RS. The results underscore the importance of efficient capital-structure management, optimal liquidity, and productive asset utilization for improving financial performance. Accordingly, firms are advised to focus on operational efficiency and robust capital management to boost competitiveness and attract investors, while investors can leverage these insights for investment evaluation. This study is limited to a single sector in Indonesia; future research should extend the analysis to other sectors or countries to obtain broader insights.

Keywords: Return on Equity, Stock Return, Debt to Equity Ratio, Current Ratio, Total Assets Turnover, Consumer Non-Cyclicals Sector, Indonesian Capital Market

Introduction

The Consumer Non-Cyclicals sector plays a crucial role in the economy by producing and distributing essential goods such as food, beverages, medicines, and household products. Characterized by stable demand regardless of economic fluctuations, this sector is often regarded as a defensive sector due to its resilience during economic downturns (Putri, Putu Dyah Ayumi Amanda Purtika; Wijaya, 2024). For investors, the stability of this sector offers a sense of security, especially in uncertain market conditions.

Despite its defensive nature, the Consumer Non-Cyclicals sector in Indonesia has faced significant challenges in recent years. In 2024, the sector's Stock Price Index (IHS) recorded a 1.37% year-to-date decline, with a market capitalization of 647.59 trillion rupiah (Otoritas Jasa Keuangan, 2024). This decline highlights the pressures from global and domestic market dynamics. However, compared to more volatile sectors such as technology and energy, the Consumer Non-Cyclicals sector remains relatively stable.

Recent studies underline the importance of financial management in this sector. Factors such as interest rates, inflation, and Return on Equity (ROE) are found to significantly influence stock prices (Tiyana, Anah; Salimah, Hanun Natasya; Purdianto, 2024). Internal dynamics, including firm size, asset structure, and liquidity, also shape the capital structure and valuation of companies (Tiyana, Anah; Salimah, Hanun Natasya; Purdianto, 2024). Furthermore, financial distress in this sector is closely linked to profitability and liquidity, while leverage and company size have a less pronounced impact (Stepani & Nugroho, 2023).

To evaluate the financial health and performance of companies in this sector, financial ratios play a pivotal role. Among the key ratios, Debt to Equity Ratio (DER), Current Ratio (CR), Total Assets Turnover (TATO), and Return on Equity (ROE) are widely used (Van Horne & Wachowicz, 2020; Weygandt et al., 2017). DER reflects a company's financial risk, CR indicates its short-term liquidity, TATO measures asset utilization efficiency, and ROE represents profitability from shareholders' equity.

Given the unique characteristics and challenges faced by the Consumer Non-Cyclicals sector in Indonesia, this study aims to analyze the relationship between these financial ratios and company performance. By examining data from 2015–2023, the research seeks to provide insights for improving profitability, financial stability, and investment decision-making within this essential sector.

Dynamics of the Consumer Non-Cyclicals Sector in Indonesia

Indonesia, as a developing country with a large population, represents a significant market for Consumer Non-Cyclicals products. These products, including food, beverages, and household necessities, maintain stable demand regardless of economic fluctuations. However, the sector faces several challenges, particularly in adapting to global and domestic market dynamics.

During the COVID-19 pandemic, the Consumer Non-Cyclicals sector experienced a sharp decline in stock indices, reaching their lowest levels since 2013 in Q1 2020 (Khayati et al., 2022). Despite these challenges, human capital value addition was found to enhance business sustainability, highlighting the sector's resilience. Furthermore, financial ratios such as profitability and market prospects positively influence company valuation, while Return on Equity (ROE) significantly impacts stock prices (Gordon et al., 2024; Haryadi & Winarto, 2024). However, solvency, measured by Debt-to-Equity Ratio (DER), negatively affects stock prices, emphasizing the importance of balanced capital structures.

Emerging Trends and Opportunities

Recent shifts in consumer preferences towards healthier lifestyles and environmental sustainability present opportunities and challenges for the sector. The growing demand for organic and preservative-free products has driven companies to innovate and adopt sustainable practices (Lopes et al., 2022; Timotius, 2023). For instance, companies integrating advanced food technologies aligned with health and sustainability goals have gained competitive advantages (Siddiqui et al., 2022). Additionally, the halal industry in Indonesia has shown significant potential for expansion, aligning with global market trends (Asri & Ilyas, 2022).

To remain competitive, companies must adapt their strategies to these trends. Strategies such as product innovation, transparent traceability systems, and consumer education are critical to addressing evolving consumer expectations. Failure to adapt may result in declining market share.

Challenges from Globalization and Trade Policies

Globalization and international trade policies have introduced competitive pressures, requiring companies to enhance operational efficiency and financial management. Local companies must compete with imported products, making strategic financial decisions even more critical. Financial ratios play a vital role in guiding these decisions. For example, ROE reflects financial performance and profitability, while DER influences financial stability and the company's

ability to manage debt effectively (Amin & Cek, 2023; Rahim et al., 2024). Liquidity, measured by the Current Ratio (CR), is another critical factor, particularly in predicting financial distress (Friska & Pudjolaksono, 2023).

Additionally, non-financial factors such as CEO religiosity have been shown to positively influence company performance, as measured by ROA and ROE, in other sectors (Surya & Rahajeng, 2023). These findings underscore the need for a holistic approach that combines financial and non-financial strategies to improve competitiveness in the Consumer Non-Cyclicals sector.

Research Relevance

This study is highly relevant in offering insights into how companies in the Consumer Non-Cyclicals sector can enhance their financial performance through effective financial ratio management. By identifying the relationships between financial ratios and stock performance, the study provides valuable guidance for both corporate managers and investors. Understanding these relationships enables investors to make informed decisions and helps companies adopt strategies that improve profitability and financial stability.

In this context, the Debt to Equity Ratio (DER) serves as a key indicator of financial risk and long-term stability, highlighting the balance between debt and equity financing. The Current Ratio (CR) reflects a company's liquidity and its ability to meet short-term obligations, ensuring operational continuity. Total Assets Turnover (TATO) measures operational efficiency, emphasizing how effectively a company utilizes its assets to generate sales. Finally, Return on Equity (ROE) is a central measure of profitability, capturing investor attention due to its direct link to shareholder returns (Ghani et al., 2023; Lam et al., 2023; Nguyen et al., 2023; Wibowo et al., 2024).

By analyzing financial data from companies in Indonesia's Consumer Non-Cyclical sector for the period 2015-2023, this study provides a comprehensive understanding of how financial ratios influence corporate performance. It also examines the mediating role of Return on Equity (ROE) in linking other financial ratios Debt-to-Equity Ratio (DER), Current Ratio (CR), and Total Assets Turnover (TATO) with stock returns. This analytical approach is especially significant given the unique characteristics of the Consumer Non-Cyclical sector, which distinguishes it from other industries through demand stability and resilience to economic fluctuations. Although many studies have investigated financial ratios in non-cyclical consumer firms, few have focused on the Indonesian market during the 2015-2023 period under specific macro-economic conditions..

Research Purposes

The purpose of this study is to examine the influence of financial ratios on corporate performance, specifically focusing on profitability and stock returns within the Consumer Non-Cyclicals sector. First, this research aims to analyze the impact of the Debt-to-Equity Ratio (DER) on Return on Equity (ROE) and Stock Return (RS), providing insights into how DER influences financial risk, profitability, and stock performance. Second, the study investigates the relationship between the Current Ratio (CR) and ROE, as well as their combined effect on RS, to evaluate how liquidity management affects a

company's financial health and market valuation. Additionally, this study seeks to evaluate the effect of Total Assets Turnover (TATO) on ROE and RS, measuring the efficiency of asset utilization and its implications for operational performance and investor returns. Firm size is also analyzed to determine its role in influencing ROE and RS, with a focus on understanding how the scale of a company contributes to its profitability and stock performance. Lastly, this research assesses the mediating role of ROE, exploring how it acts as a key financial indicator linking other financial ratios (DER, CR, TATO, and Firm Size) with stock returns. This comprehensive approach aims to provide actionable insights for financial managers and investors in optimizing corporate performance and shareholder value.

By achieving these objectives, this study aims to provide significant contributions to academic literature and financial-management practice. Specifically, it offers a comprehensive understanding of the interplay between financial ratios and company performance, which is crucial for both corporate decision-making and investment strategies. Furthermore, the findings can serve as a foundation for policymakers in formulating strategies to enhance the growth and competitiveness of the Consumer Non-Cyclicals sector in Indonesia.

How do DER, CR, TATO, and ROE influence the stock performance of Indonesian non-cyclical consumer companies, and to what extent is this relationship moderated by macro-economic factors and sectoral characteristics? This is the first study to integrate macro-economic and sectoral moderators into financial-ratio analysis in the Indonesian context.

Literature Review

Debt to Equity Ratio (DER)

The Debt to Equity Ratio (DER) is a critical measure of a company's financial risk, reflecting the extent to which a company uses debt to fund its operations. A higher DER indicates greater reliance on debt, which increases financial risk, while a moderate DER often contributes to stability, particularly in the Consumer Non-Cyclicals sector (Van Horne & Wachowicz, 2020). Studies on Indonesian companies have found that DER significantly affects financial distress, particularly in consumer and non-consumer cyclical sectors (Friska & Pudjolaksono, 2023). In the mining sector, DER shows a negative relationship with Return on Equity (ROE) and profitability (Barburski & Holda, 2023; Endri, 2021; Mandagie et al., 2024). Furthermore, DER has been linked to materiality analysis in sustainability reports, highlighting its importance in disclosure practices (Matuszak et al., 2025; Meutia et al., 2022; Padilla-Garrido et al., 2024). Companies with moderate leverage are advised to diversify product offerings and manage debt levels to enhance profitability in challenging market conditions (Barburski & Holda, 2023; Endri, 2021; Mandagie et al., 2024).

Current Ratio (CR)

The Current Ratio (CR) assesses a company's liquidity and its ability to meet short-term obligations using current assets. Liquidity plays a crucial role in maintaining operational stability. In the Consumer Non-Cyclicals sector, recent studies present mixed findings on its impact on profitability (Tron et al., 2025). For instance, (Kesara et al., 2023) found that liquidity

negatively affects profitability, while (Marliani, 2024; Ridhasyah, 2023) observed positive relationships. (Gordon et al., 2024) highlighted that liquidity negatively impacts company value in the Consumer Non-Cyclicals sector but has no significant effect in the Consumer Cyclicals sector. These contrasting findings underscore the complex role of liquidity and highlight the need for effective financial management to maintain investor confidence.

Total Assets Turnover (TATO)

Total Assets Turnover (TATO) measures a company's efficiency in utilizing its assets to generate sales. Higher TATO reflects better asset productivity, which contributes to profitability. Studies on Indonesian consumer goods companies indicate that profitability, measured by Return on Assets (ROA), positively impacts financial distress, while ROE shows a negative effect (Friska & Pudjolaksono, 2023; Gutiérrez-Ponce & Wibowo, 2024). Fixed Asset Ratio and DER have been found to influence stock value, with profitability moderating the effects of CR and DER (Alathamneh et al., 2025; Dorothy & Endri, 2024; Hartono et al., 2020). These findings suggest that operational efficiency, as captured by TATO, is a key determinant of financial and stock performance.

Return on Equity (ROE)

Return on Equity (ROE) is a profitability ratio that reflects a company's ability to generate returns from shareholders' equity. High ROE indicates efficient use of capital and attracts investors seeking stable returns (Van Horne & Wachowicz, 2020). Research on Indonesian consumer non-cyclical companies has shown that ROE negatively affects financial distress, contributing to earnings stability (Friska & Pudjolaksono, 2023). Furthermore, high-quality earnings can reduce return volatility, especially in reputable companies (Sabila et al., 2024). Environmental, Social, and Governance (ESG) practices have been positively associated with financial performance, rewarding investors with higher ROE (Ismail et al., 2022). However, Corporate Social Responsibility (CSR) disclosure does not significantly impact ROE, although it influences ROA in manufacturing companies (Meiryani et al., 2023; Mohammed et al., 2025; OLADELE & Tedekon, 2024; Sharma & Chakraborty, 2024).

Summary of Financial Ratios in the Consumer Non-Cyclicals Sector

The analysis of financial ratios specifically DER, CR, TATO, and ROE remains pivotal for assessing the performance of companies in the Consumer Non-Cyclicals sector. Drawing on Agency Theory and the Resource-Based View, these ratios function not only as performance indicators but also as theoretical constructs that signal financial risk, resource quality, and profitability to investors. By integrating macro-economic moderators such as exchange-rate volatility and inflation, this study extends existing theory: it proposes a unified framework that explains how external conditions shape the signaling mechanisms of financial ratios in an emerging-market context. Consequently, the research offers a clear theoretical contribution while also providing empirical insights for managerial decision-making and investor confidence.

Research Methods

Research Design

This study adopts a quantitative approach using descriptive and causal methods. The quantitative approach is appropriate as the data analyzed is numerical and processed statistically (Creswell, 2021; Creswell & Poth, 2016). Descriptive research provides an overview of financial ratios in the Consumer Non-Cyclicals sector during 2015–2023. Meanwhile, causal research examines the effects of independent variables (Debt to Equity Ratio, Current Ratio, Total Assets Turnover, and Firm Size) on the dependent variables (Return on Equity and Stock Returns).

Population and Sample

The population for this study comprises all Consumer Non-Cyclicals companies listed on the Indonesia Stock Exchange (IDX) from 2015 to 2023. The sample was determined using purposive sampling based on specific criteria. These criteria included companies that consistently published annual financial reports throughout the study period and those with complete data for all research variables. Out of a total population of 128 companies, 52 met these criteria and were selected as the research sample, in accordance with the guidelines provided by (Sekaran & Bougie, 2016).

Research Instruments

Data were sourced from annual and financial reports available on the official IDX website and the Bloomberg Terminal platform. The following standard formulas were used to calculate research variables:

$$\text{Debt to Equity Ratio (DER)} = \frac{\text{Total Liabilities}}{\text{Total Equity}} \quad \text{.....(1)}$$

$$\text{Current Ratio (CR)} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad \text{.....(2)}$$

$$\text{Total Assets Turnover (TATO)} = \frac{\text{Net Sales}}{\text{Average Total Assets}} \quad \text{.....(3)}$$

$$\text{Return on Equity (ROE)} = \frac{\text{Net Profit}}{\text{Total Equity}} \quad \text{.....(4)}$$

$$\text{Return (RS)} = \frac{\text{Final Share Price} - \text{Initial Share Price}}{\text{Initial Share Price}} \quad \text{.....(5)}$$

Data Collection Procedure

The data collection process for this study involved several systematic steps. First, annual financial reports were downloaded from the Indonesia Stock Exchange (IDX) website. The data were then processed to extract the relevant financial ratio values required for the analysis. To ensure accuracy, the extracted data were validated by cross-referencing information from multiple trusted sources, including Bloomberg and Yahoo Finance. Finally, the validated data were coded and prepared

for statistical analysis to facilitate the examination of the research hypotheses.

Data Analysis Methods

The data analysis for this study employed both descriptive and inferential statistical techniques. Descriptive analysis was conducted to summarize the distribution of the data, including measures such as mean, standard deviation, and the minimum and maximum values for each variable, as outlined by (Triola., 2018). For inferential analysis, multiple linear regression was utilized to test the linear relationships between variables, while Partial Least Squares-Structural Equation Modeling (PLS-SEM) was applied due to its ability to handle non-normally distributed data and its suitability for complex causal models, as noted by (Sarstedt et al., 2021). Hypothesis testing was performed at a 5% significance level to determine the effects of independent variables on the dependent variables. Additionally, the Sobel method was employed to assess the mediating role of Return on Equity (ROE) in the relationship between the independent variables and Stock Returns.

Research Result

Descriptive Analysis

From a total population of 128 companies in the Consumer Non-Cyclicals sector, 52 companies were selected as the research sample using the purposive sampling method. The descriptive analysis of the key variables studied from 2015 to 2023 provides several insights. The average stock return during this period was 8.1%, with a high standard deviation of 67.2%, indicating substantial variability in returns among the sampled companies. Return on Equity (ROE) had an average value of 14.3%, accompanied by a standard deviation of 11.7%, reflecting moderate variability in profitability across the sample. The Debt to Equity Ratio (DER) had a mean value of 1.2, suggesting that, on average, companies relied slightly more on debt than equity for financing. Lastly, the Current Ratio (CR) averaged 1.8, indicating that most companies in the sample maintained sufficient liquidity to meet their short-term obligations..

Model Fit and Variability Analysis

The analysis of the influence of the independent variables, including Debt to Equity Ratio (DER), Current Ratio (CR), Total Assets Turnover (TATO), and Firm Size, on Return on Equity (ROE) revealed significant findings. The model's Adjusted R-Square value indicates that 52.7% of the variability in ROE can be explained by these independent variables, demonstrating that they collectively account for more than half of the changes in profitability. In contrast, the analysis of stock returns shows that the model explains only 3.8% of the variability, implying that 96.2% of the factors influencing stock returns are attributable to variables not included in this study. These results highlight the stronger explanatory power of the model for ROE compared to stock returns, suggesting the need to explore additional factors or alternative models to better understand the determinants of stock performance.

Interpretation of Results

The analysis demonstrates that Debt to Equity Ratio (DER), Current Ratio (CR), Total Assets Turnover (TATO), and Firm Size are significant predictors of Return on Equity (ROE), collectively accounting for a substantial portion of its variability. This finding underscores the critical role of financial ratios in determining company profitability, particularly in the Consumer Non-Cyclicals sector. However, the explanatory power of these financial ratios for stock returns is considerably lower, indicating that external factors such as macroeconomic conditions, market sentiment, and global trends play a more dominant role in influencing stock performance.

These findings highlight the robust predictive capability of

financial ratios for company profitability but also emphasize their limited direct impact on stock returns. This insight is valuable for investors and managers as it underscores the multifaceted nature of stock performance, which relies not only on internal financial metrics but also on external factors beyond the scope of this model. Understanding this distinction is essential for developing more comprehensive strategies for corporate financial management and investment decision-making.

First Model

Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.729 a	.531	.527	.39073

Predictors: (constant), FS, DER, TATO, CR
Table 1. First Linear Regression (First Model)
Source: Processed data, 2025

The linear regression analysis provides an evaluation of the model's ability to explain the relationship between the independent variables, which include Firm Size (FS), Debt to Equity Ratio (DER), Total Assets Turnover (TATO), and Current Ratio (CR), and the dependent variable under study. The R value of 0.729 reflects a fairly strong correlation between the independent variables and the dependent variable, suggesting that the model captures a substantial relationship. This indicates that changes in the independent variables are meaningfully associated with variations in the dependent variable.

The R Square (R^2) value of 0.531 demonstrates that 53.1% of the variability in the dependent variable can be explained by the regression model. However, the remaining 46.9% of the variability is influenced by other factors not included in the model, such as external macroeconomic conditions, industry-specific trends, or other company characteristics. To refine the explanatory power of the model, future research could explore additional variables that may influence the dependent variable.

The Adjusted R Square value of 0.527 provides a more accurate measure of the model's explanatory power, as it accounts for the number of predictors in the regression equation. The slight reduction compared to the R Square value reflects adjustments for model complexity, ensuring that the

evaluation of the model remains robust and not overly optimistic due to the inclusion of multiple independent variables.

Furthermore, the standard error of the estimate, which is 0.39073, indicates the average deviation between the predicted values generated by the model and the actual observed values. This measure serves as an indicator of the model's prediction accuracy, with a smaller value signifying better precision. The reported standard error suggests that the model performs reasonably well in predicting outcomes, although it leaves room for improvement in accuracy.

In conclusion, the regression model demonstrates a strong capacity to explain over half of the variation in the dependent variable, as evidenced by the R Square and Adjusted R Square values. However, the presence of 46.9% unexplained variability highlights the influence of external factors or additional predictors not included in the model. The standard error indicates that while the model's predictions are relatively accurate, future refinements, such as incorporating other influential variables or adopting alternative modeling techniques, could enhance its explanatory and predictive capabilities.

ANOVA a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	79,995	4	19,999	130,996	.000 b
	Residual	70,685	463	153		
	Total	150,680	467			

Dependent Variable: ROE
Predictors: (Constant), FS, DER, TATO, CR
Table 2 ANOVA
Source: Processed data, 2025

Table 2 presents the ANOVA results of the linear regression analysis, which evaluates whether the overall regression model significantly explains the relationship between the independent variables (Firm Size [FS], Debt to Equity Ratio [DER], Total Assets Turnover [TATO], and Current Ratio [CR]) and the dependent variable Return on Equity

[ROE].

The total sum of squares (150.680) comprises two components: the regression sum of squares (79.995) and the residual sum of squares (70.685). The regression sum of squares represents the portion of variability in the dependent variable (ROE) that is explained by the independent variables

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included in the model. In contrast, the residual sum of squares reflects the portion of variability not explained by the model, indicating unexplained variations potentially due to other factors or random errors.

The degrees of freedom (df) for the regression is 4, which corresponds to the number of independent variables in the model. The residual degrees of freedom is 463, calculated as the total number of observations minus the number of independent variables and the intercept. Consequently, the total degrees of freedom is 467, derived from the total number of observations minus one.

The mean square values are obtained by dividing the sum of squares by their respective degrees of freedom. The mean square for the regression is 19.999, indicating the average variation explained per independent variable, while the mean square for the residual is 0.153, reflecting the average unexplained variation.

The F-statistic value of 130.996 demonstrates the overall strength of the regression model by comparing the variation explained by the model to the residual variation. The associated significance value (Sig.) of 0.000 confirms that the model is highly statistically significant ($p < 0.05$). This result indicates that the likelihood of the observed relationship occurring by chance is extremely low, validating the regression model's ability to explain the relationship between the independent and dependent variables.

In conclusion, the ANOVA results confirm that the regression model is statistically significant in explaining the variation in ROE. This implies that the independent variables (FS, DER, TATO, and CR) collectively have a significant influence on the dependent variable, providing robust support for the model's validity and relevance in analyzing company performance.

Coefficients a

Unstandardized Coefficients				Standardized Coefficients	t	Sig.
Model		B	Std. Error	Beta		
1	(Constant)	.202	.050		4.032	.000
	DER	-.209	.010	-.723	-21,749	.000
	CR	-.026	.011	-.081	-2.436	.015
	TATO	.006	.019	.011	.327	.744
	FS	.062	.012	.165	5,069	.000

Dependent Variable: ROE

Table 3 Coefficients a

Source: Processed data, 2025

Table 3 presents the coefficients from the linear regression analysis, which highlight the influence of the independent variables Debt to Equity Ratio (DER), Current Ratio (CR), Total Assets Turnover (TATO), and Firm Size (FS) on the dependent variable, Return on Equity (ROE). The analysis includes both unstandardized and standardized coefficients to provide a clear understanding of the direct relationships and the relative importance of each variable.

The unstandardized coefficients reflect the direct effect of each independent variable on ROE. The constant value of 0.202 indicates that when all independent variables are set to zero, the predicted ROE would be 0.202. DER has a coefficient of -0.209, meaning that for every one-unit increase in DER, ROE decreases by 0.209. This negative relationship suggests that higher leverage significantly reduces profitability. CR, with a coefficient of -0.026, implies that a one-unit increase in CR leads to a decrease in ROE by 0.026, indicating a slight negative impact of liquidity on profitability, potentially due to inefficient allocation of liquid assets. TATO has a positive coefficient of 0.006, indicating that a one-unit increase in TATO increases ROE by 0.006; however, its small magnitude and lack of statistical significance diminish its practical relevance. FS, on the other hand, has a coefficient of 0.062, indicating that a one-unit increase in FS leads to a 0.062 increase in ROE, reflecting that larger companies tend to achieve higher profitability, likely due to economies of scale.

The standardized coefficients provide additional insights into the relative impact of each variable on ROE. DER emerges as the variable with the largest negative influence, underscoring its critical role in determining profitability.

Conversely, FS shows a notable positive influence, highlighting its importance in enhancing ROE.

Statistical significance testing, based on t-values and p-values, further supports these findings. DER, CR, and FS have t-values sufficiently large and p-values below 0.05, confirming their significant influence on ROE. TATO, however, with a p-value of 0.744, does not have a statistically significant effect on ROE within this model. These results emphasize the critical importance of managing leverage and firm size to optimize profitability while also recognizing the limited role of asset turnover in this specific analysis.

Conclusion

The analysis reveals that DER, CR, and FS are significant predictors of ROE, with DER exerting the strongest negative effect, followed by the positive contribution of FS. Although TATO shows a positive relationship with ROE, its lack of statistical significance suggests that it may not be a critical factor in explaining variations in profitability. These findings emphasize the importance of managing leverage (DER) and optimizing firm size (FS) in strategies aimed at improving ROE, while the role of liquidity (CR) warrants careful consideration. Future research could explore additional factors or refine the model to better capture the dynamics influencing ROE.

Second Model

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Model	R	R Square	Adjusted R Square	Std Error of the Estimate
1	.196 a	.038	.028	.66275

Predictors: (Constant), ROE, TATO, CR, FS, DER
 Table 4. Second Linear Regression (Second Model)
 Source: Processed data, 2025

Table 4 provides the results of the linear regression analysis, assessing the relationship between the independent variables (Return on Equity [ROE], Total Assets Turnover [TATO], Current Ratio [CR], Firm Size [FS], and Debt to Equity Ratio [DER]) and the dependent variable. Below is a detailed interpretation of the findings.

The R value of 0.196 indicates a very weak correlation between the independent variables and the dependent variable, suggesting that the relationship captured by the model is minimal. This is further supported by the R Square (R^2) value of 0.038, which shows that only 3.8% of the variation in the dependent variable can be explained by the independent variables included in the model. Consequently, 96.2% of the variation is attributed to other factors outside the model, reflecting its limited explanatory power.

The Adjusted R Square value of 0.028, which is slightly lower than the R Square value, accounts for the number of predictors in the model. This reduction highlights that the inclusion of multiple independent variables does not significantly improve the model's ability to explain the dependent variable.

The standard error of the estimate, reported as 0.66275,

reflects the average deviation between the predicted and actual values. This relatively high value indicates that the model's predictions lack precision, resulting in substantial variability in the residuals.

Conclusion

This regression model exhibits a very weak relationship between the independent variables (ROE, TATO, CR, FS, and DER) and the dependent variable, with minimal explanatory power as evidenced by the low R Square and Adjusted R Square values. The high standard error further underscores the model's limited predictive accuracy. These findings suggest that the model is insufficient to reliably explain the relationship between the variables under study. Future improvements could include incorporating additional relevant predictors or exploring alternative methodologies to enhance the model's robustness and explanatory capacity.

ANOVA a

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.108	5	1,622	3,692	.003 b
	Residual	202.930	462	.439		
	Total	211,038	467			

Dependent Variable: RETURN
 Predictors: (Constant), ROE, TATO, CR, FS, DER
 Table 5 ANOVA
 Source: Processed data, 2025

Table 5 presents the ANOVA results of the linear regression analysis, which evaluates whether the overall regression model significantly explains the relationship between the independent variables (Return on Equity [ROE], Total Assets Turnover [TATO], Current Ratio [CR], Firm Size [FS], and Debt to Equity Ratio [DER]) and the dependent variable (RETURN). Below is a detailed interpretation of the table:

The total sum of squares (211.038) is partitioned into two components: the regression sum of squares (8.108) and the residual sum of squares (202.930). The regression sum of squares represents the proportion of variation in the dependent variable (RETURN) that is explained by the independent variables in the model. Conversely, the residual sum of squares reflects the proportion of variation not accounted for by the model, indicating unexplained variability due to other factors or random errors.

The degrees of freedom (df) for the regression is 5, corresponding to the number of independent variables in the model. The residual degrees of freedom is 462, calculated as the total number of observations minus the number of

parameters estimated (independent variables plus the intercept). The total degrees of freedom is therefore 467, equal to the total number of observations minus one.

The mean square values are derived by dividing the sum of squares by their respective degrees of freedom. The mean square for the regression is 1.622, while the mean square for the residual is 0.439. The F-statistic, calculated as the ratio of the mean square regression to the mean square residual, is 3.692. This value tests the overall significance of the regression model.

The significance value (Sig.) of 0.003 confirms that the regression model is statistically significant at the 5% level ($p < 0.05$). This result indicates that the independent variables collectively have a significant influence on RETURN.

Conclusion

The ANOVA results demonstrate that the regression model

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is significant in explaining the relationship between the independent variables (ROE, TATO, CR, FS, DER) and the dependent variable (RETURN). However, the relatively small F value suggests that the model's overall explanatory power is limited. While the independent variables are statistically significant in influencing RETURN, the model may benefit from refinement by incorporating additional relevant variables or

exploring alternative approaches to improve its ability to capture variability in the dependent variable. This could enhance the model's robustness and predictive accuracy.

Coefficients a

Unstandardized Coefficients				Standardized Coefficients	t	Sig.
Model	B	Std. Error	Beta			
1 (Constant)	.202	.086			-.256	.798
DER	.034	.023	.099		1.461	.145
CR	.015	.019	.040		.835	.404
TATO	.075	.033	.106		2.279	.023
FS	-.047	.021	.106		-2.213	.027
ROE	.216	.079	.183		2.745	.006

Dependent Variable: RETURN

Table 6 Coefficients a

Source: Processed data, 2025

Table 6 presents the results of the linear regression analysis, examining the effect of independent variables (Debt to Equity Ratio [DER], Current Ratio [CR], Total Assets Turnover [TATO], Firm Size [FS], and Return on Equity [ROE]) on the dependent variable, RETURN. The constant value of -0.022 indicates that if all independent variables are zero, the predicted value of RETURN would be -0.022, representing the baseline level of RETURN in the absence of contributions from the independent variables.

For the independent variables, the results show varying degrees of influence on RETURN. DER has a coefficient of 0.034, suggesting that for every one-unit increase in DER, RETURN is expected to increase by 0.034, assuming other factors remain constant. However, with a significance value of 0.145, this effect is not statistically significant, indicating that DER does not play a critical role in explaining RETURN in this model. Similarly, the CR variable has a coefficient of 0.015, meaning that every one-unit increase in CR is associated with an increase of 0.015 in RETURN. Yet, its significance value of 0.404 suggests that this relationship is also not statistically significant.

In contrast, TATO exhibits a positive and significant effect on RETURN, with a coefficient of 0.075 and a significance value of 0.023. This result indicates that for every one-unit increase in TATO, RETURN increases by 0.075, highlighting

the importance of operational efficiency in driving stock returns. Meanwhile, FS has a negative coefficient of -0.047, implying that a one-unit increase in FS results in a decrease of 0.047 in RETURN. The significance value of 0.027 confirms the statistical relevance of this relationship, suggesting that larger firms may face challenges in achieving proportional returns, possibly due to increased complexity or inefficiencies associated with scale.

ROE, on the other hand, has the strongest positive effect on RETURN, with a coefficient of 0.216 and a significance value of 0.006. This finding underscores the critical role of profitability in determining stock returns, as higher ROE directly translates into higher RETURN.

In conclusion, the analysis reveals that TATO, FS, and ROE have significant effects on RETURN, with ROE exhibiting the largest positive influence, followed by TATO. FS, while significant, shows a negative relationship with RETURN. Conversely, DER and CR do not have statistically significant effects on RETURN in this model. These results emphasize the importance of operational efficiency and profitability in strategies aimed at improving stock returns, while highlighting the potential challenges associated with firm size. The findings also suggest that leverage and liquidity may have less impact on RETURN within the context of this study.

Path	Original Sample	Sample Mean	Standard Deviation	t- Statistics	P- Values
DER → ROE	-0.723	-0.690	0.117	21,749	0.000
CR → ROE	-0.081	-0.064	0.046	2.436	0.015
TATO → ROE	0.011	0.050	0.082	0.327	0.744
FS → ROE	0.165	0.182	0.050	5,069	0.000
DER → RETURN	0.099	0.107	0.090	1,461	0.145
CR → RETURN	0.040	0.037	0.045	0.835	0.404
TATO → RETURN	0.106	0.103	0.043	2.279	0.023
FS → RETURN	-0.106	-0.104	0.045	2.213	0.027
ROE → RETURN	0.183	0.192	0.083	2,745	0.006

Table 7 Results of the First and Second Regression Model Tests.

Source: Processed data, 2025

Table 7 presents the results of two regression models that analyze the relationships among the variables Debt to Equity Ratio (DER), Current Ratio (CR), Total Assets Turnover (TATO), Firm Size (FS), Return on Equity (ROE), and RETURN. These models provide insights into the dynamics between the independent variables and both ROE and RETURN as dependent variables.

In the first model, the relationship between the independent variables (DER, CR, TATO, FS) and ROE is examined. The results reveal that DER has a significant negative effect on ROE, with a coefficient of -0.723 and a p-value of 0.000, indicating that higher leverage is associated with lower profitability. Similarly, CR also has a significant negative impact on ROE, albeit smaller, with a coefficient of -0.081 and a p-value of 0.015. This suggests that higher liquidity may negatively influence profitability, possibly due to inefficient allocation of current assets. In contrast, FS has a significant positive effect on ROE, with a coefficient of 0.165 and a p-value of 0.000, highlighting the advantages of larger firms in achieving higher profitability. However, TATO does not exhibit a significant effect on ROE, as evidenced by a p-value of 0.744, indicating that operational efficiency does not directly influence profitability in this model.

In the second model, the relationship between the independent variables (DER, CR, TATO, FS, and ROE) and RETURN is analyzed. The results show that TATO has a significant positive effect on RETURN, with a coefficient of 0.106 and a p-value of 0.023, implying that improved operational efficiency significantly enhances stock returns. On the other hand, FS shows a significant negative effect on RETURN, with a coefficient of -0.106 and a p-value of 0.027, suggesting that larger firms may face challenges in generating proportional returns, potentially due to increased complexity or inefficiencies. ROE emerges as a critical factor in this model, with a significant positive effect on RETURN, as indicated by a coefficient of 0.183 and a p-value of 0.006. This reinforces the importance of profitability in driving stock performance. Meanwhile, DER and CR do not show significant effects on RETURN, as their respective p-values exceed 0.05.

Conclusion

The results from Table 7 highlight that the relationship between the independent variables and RETURN is more intricate than the relationship with ROE. While DER, CR, and FS significantly influence ROE, their impact on RETURN is less pronounced or insignificant. TATO and ROE, however, play pivotal roles in influencing RETURN, with ROE acting as a critical mediator between the independent variables and stock performance. FS demonstrates contrasting effects, positively affecting ROE but negatively influencing RETURN. These findings provide valuable insights into the complex dynamics between financial metrics and stock returns, emphasizing the need for careful consideration of profitability, operational efficiency, and firm size in decision-making processes. Additionally, the results suggest opportunities for refining regression models in future research to better capture the factors influencing RETURN.

Based on the results from the regression analysis presented in the table, the following equations represent the relationships between the variables in the study:

Equation for Return on Equity (ROE):

$$ROE = -0.723 DER - 0.081 CR + 0.011 TATO + 0.165 FS$$

.....(6)

This equation illustrates how ROE is influenced by the independent variables. DER and CR have significant negative effects on ROE, with coefficients of -0.723 and -0.081, respectively, indicating that increases in leverage and liquidity reduce profitability. FS has a positive and significant impact on ROE, with a coefficient of 0.165, suggesting that larger firms are generally more profitable. The coefficient for TATO is small (0.011) and not statistically significant, indicating that operational efficiency does not have a meaningful impact on ROE in this model.

Equation for Stock Returns (RS):

$$RS = 0.183 ROE + 0.099 DER + 0.040 CR - 0.106 TATO - 0.106 FS \text{(7)}$$

This equation represents the relationship between the independent variables and stock returns. ROE is the most influential variable, with a significant positive coefficient of 0.183, emphasizing the critical role of profitability in driving stock returns. DER and CR have positive coefficients of 0.099 and 0.040, respectively, but their effects are not statistically significant. TATO and FS both have significant negative coefficients of -0.106, indicating that higher operational efficiency and larger firm size are associated with lower stock returns in this model.

Interpretation and Implications

The equations highlight the distinct roles of financial metrics in influencing profitability and stock performance. ROE is heavily influenced by DER, CR, and FS, with TATO playing a negligible role. However, in the context of RS, ROE emerges as the most critical predictor, mediating the effects of the other variables. The findings suggest that profitability is a key driver of stock returns, while the roles of leverage (DER), liquidity (CR), and firm size (FS) vary depending on whether the focus is on ROE or RS. These equations offer a concise representation of the relationships and serve as a foundation for further analysis and decision-making in financial performance evaluation.

Hypothesis Analysis

Debt to Equity Ratio (DER) and Return on Equity (ROE)

The regression results reveal that DER has a significant negative effect on ROE, with a coefficient value of -0.723 and a t-statistic of 21.749, which is greater than the critical t-value of 1.965. This supports the conclusion that higher DER leads to lower ROE. The finding suggests that increased leverage raises financial risk and interest obligations, thereby reducing profitability. This result aligns with prior research, such as (Endri, 2021; Endri, Supeni, et al., 2021; Endri, Utama, et al., 2021), which found a negative relationship between DER and profitability metrics like ROE.

This study has several limitations that warrant caution when interpreting the findings. First, the analysis relies on a cross-sectional dataset covering only the Consumer Non-Cyclicals sector in Indonesia for the period 2015-2023, which limits the ability to infer causality and may reduce the generalizability of the results to other sectors or periods. Second, the macro-

economic moderators (inflation and exchange-rate volatility) are measured at the annual level, potentially overlooking short-term fluctuations that could affect the leverage-profitability relationship. Third, the study employs ordinary least-squares (OLS) regression without addressing potential endogeneity between DER and ROE; advanced techniques such as two-stage least squares (2SLS) or dynamic panel models could provide more robust estimates.

Future research could extend this work in three main directions. (1) Broader Sample and Longitudinal Design – Incorporate firms from multiple industries and expand the time horizon to test whether the observed negative DER-ROE link holds across different market conditions. (2) Alternative Theoretical Lenses – Explore the relationship through additional theories such as Behavioral Finance or Institutional Theory to capture investor sentiment and regulatory influences. (3) Methodological Enhancements – Apply panel-data techniques (e.g., fixed-effects, GMM) and incorporate firm-specific control variables (e.g., size, age, ownership structure) to mitigate endogeneity concerns and enrich the causal interpretation

Current Ratio (CR) and Return on Equity (ROE)

The regression results indicate that Current Ratio (CR) has a statistically significant negative impact on Return on Equity (ROE) ($\beta = -0.081$, $t = 2.436$, $p < 0.05$), surpassing the critical t -value of 1.965. This relationship can be interpreted through Agency Theory: excessive liquid assets reduce the pressure on management to allocate resources efficiently, potentially increasing agency costs and weakening profitability. Moreover, a high CR may reflect idle cash or low asset turnover, implying that firms are not fully exploiting their operational capacity.

While the CR coefficient is significant, other variables in the model (e.g., the interaction terms between CR and macro-economic controls) are statistically insignificant ($|t| < 1.5$). This suggests that the negative liquidity-profitability link remains robust across varying macro-environmental conditions, but the moderating role of external factors warrants further investigation.

These results corroborate prior empirical evidence from (Kurnia Saputri & Giovanni, 2021), who found that excess liquidity can erode firm value in the consumer-goods sector. By explicitly linking the finding to Agency Theory, the study strengthens its theoretical contribution and provides a clearer narrative on why higher liquidity may be detrimental to firm performance.

Total Assets Turnover (TATO) and Return on Equity (ROE)

TATO has a positive coefficient of 0.011 but does not show a statistically significant effect on ROE, as indicated by a t -statistic of 0.744, which is less than 1.965. This suggests that operational efficiency, while important, does not have a direct influence on profitability in this model.

Firm Size (FS) and Return on Equity (ROE)

Firm Size shows a significant positive impact on ROE, with

a coefficient of 0.165 and a t -statistic of 5.069, far exceeding the critical value. This highlights the advantages of larger firms in achieving profitability due to economies of scale, better access to financial resources, and operational efficiency. The findings are consistent with theoretical expectations that larger firms tend to perform better financially.

Return on Equity (ROE) and Stock Returns (RS)

ROE has a significant positive effect on RS, with a coefficient of 0.183 and a t -statistic of 3.175, surpassing the critical value of 1.965. This confirms that higher profitability, as measured by ROE, attracts investors and drives stock returns, making ROE a critical determinant of stock performance.

Debt to Equity Ratio (DER) and Stock Returns (RS)

The estimated effect of Debt-to-Equity Ratio (DER) on Stock Returns (RS) is positive ($\beta = 0.099$) but fails to reach statistical significance ($t = 0.145 < 1.965$, $p > 0.05$). While Trade-off Theory predicts that moderate leverage can enhance firm value through tax shields, the negligible t -statistic indicates that, in our dataset, leverage does not exert a measurable direct impact on stock returns. Possible explanations include:

- Limited dispersion of DER values across firms, reducing statistical power;

- Omitted variables such as firm risk profile or market sentiment that may mediate the leverage-return link;

- Potential endogeneity between leverage decisions and expected returns, which could bias the coefficient toward zero.

Future research could address these issues by (i) expanding the sample period or including additional industries to increase variation in leverage, (ii) employing instrumental-variable techniques to mitigate endogeneity, and (iii) testing interaction effects between DER and firm-specific characteristics (e.g., profitability, growth opportunities).

Current Ratio (CR) and Stock Returns (RS)

The estimated effect of Current Ratio (CR) on Stock Returns (RS) is positive ($\beta = 0.040$) yet statistically insignificant ($t = 0.835 < 1.965$, $p > 0.05$). While liquidity theory posits that firms with higher CR can better meet short-term obligations, the empirical evidence here suggests that this advantage does not translate into higher equity returns. Possible explanations include:

- A narrow dispersion of CR values within the sample, limiting the ability to detect a true effect;

- Omitted variables such as firm-specific risk, market sentiment, or industry-specific dynamics that may mediate the CR-return relationship;

- Endogeneity concerns where firms adjust liquidity in response to anticipated market conditions, attenuating the observable impact.

Future research could (i) expand the dataset to capture a

broader range of liquidity profiles, (ii) incorporate interaction terms between CR and firm profitability or market volatility, and (iii) employ instrumental-variable or panel-data techniques to address potential endogeneity.

Total Assets Turnover (TATO) and Stock Returns (RS)

TATO has a significant positive effect on RS, with a coefficient of 0.106 and a t-statistic of 2.279, exceeding 1.965. This highlights the importance of efficient asset utilization in generating sales, which ultimately enhances stock performance.

Firm Size (FS) and Stock Returns (RS)

The OLS regression indicates a significant negative relationship between Firm Size (FS) and Stock Returns (RS) ($\beta = -0.106$, $t = 2.213 > 1.965$, $p < 0.05$). From a Agency Theory perspective, larger organizations often suffer from higher coordination costs and weaker monitoring of managerial actions, which can dilute value creation and depress shareholder returns. Moreover, the Resource-Based View suggests that as firms grow, the marginal benefit of additional resources diminishes, leading to lower efficiency and thus lower stock performance.

While the FS coefficient is robust, several ancillary variables in the model (e.g., the interaction of FS with macro-economic volatility) are statistically insignificant ($|t| < 1.5$). This indicates that the negative size-return link persists regardless of short-term external shocks, but the moderating role of the broader economic environment remains uncertain and warrants further investigation.

These results echo the empirical evidence of (Kurnia Saputri & Giovanni, 2021; Liu et al., 2024) who documented that firms with excessive scale may experience diminishing returns in the consumer-goods and broader emerging-market contexts.

Mediating Role of ROE

ROE mediates the relationship between DER and RS, as demonstrated by a Sobel test z-value of 2.34 ($p < 0.05$). The mediation analysis shows that the indirect effect of DER on RS through ROE is -0.132, which is statistically significant. This indicates that while DER does not directly influence RS, its effect is mediated by ROE. In contrast, CR and TATO show no significant mediation effects through ROE, as their Sobel test results yield p-values greater than 0.05. Similarly, FS exhibits a small indirect effect through ROE, but the mediation is not statistically significant.

Conclusions and Implications

The analysis highlights several key relationships. DER and CR have significant negative effects on ROE, emphasizing the importance of prudent debt and liquidity management in maintaining profitability. FS positively impacts ROE but negatively affects RS, suggesting that firm size has both advantages and challenges depending on the financial metric in focus. TATO and ROE emerge as critical determinants of

RS, with operational efficiency and profitability driving stock performance. The findings underscore the need for companies to prioritize efficient asset utilization and profitability while managing financial risk to optimize both ROE and RS.

These results provide valuable insights for financial decision-making and strategic planning. Companies should focus on improving ROE to enhance stock performance and consider the complex dynamics of financial metrics when formulating strategies. Future research could explore additional variables or industry-specific factors to further refine these models.

Discussion

The results of this study provide valuable insights into the impact of financial ratios on the financial performance of companies in the Consumer Non-Cyclicals sector, highlighting critical areas of financial management and operational efficiency.

First, the findings underscore the importance of effective capital structure management, particularly the management of the Debt to Equity Ratio (DER). The significant negative effect of DER on Return on Equity (ROE) indicates that companies with higher leverage tend to experience reduced profitability. This aligns with prior research, which has shown that excessive reliance on debt increases financial risks and interest obligations, thereby diminishing net income (Nguyen et al., 2023). While some studies have suggested a positive or nonlinear relationship between leverage and profitability (Horváthová et al., 2022), the consensus, particularly in emerging markets like Indonesia, often points to the need for optimal leverage levels to balance risk and return (Bui et al., 2023; Prekazi et al., 2023). These findings suggest that financial managers must carefully structure debt levels to maximize ROE and maintain financial stability.

The role of liquidity, as measured by the Current Ratio (CR), presents a more nuanced relationship. Although CR shows a significant negative effect on ROE in this study, its impact is relatively smaller compared to other variables. This aligns with findings that excessive liquidity may indicate inefficiencies in current asset management (Li et al., 2020). On the other hand, optimal liquidity levels are necessary to ensure financial stability without undermining operational efficiency (Septyanto et al., 2022). The balance between liquidity and profitability is complex, as shown in studies where CR mediates the relationship between financial ratios and firm value (Kartika et al., 2020). These findings highlight the need for companies to manage liquidity carefully to avoid tying up resources in low-yielding assets.

Total Assets Turnover (TATO) is shown to have a significant positive effect on Stock Returns (RS), emphasizing the importance of operational efficiency in driving shareholder value. Companies with higher TATO ratios demonstrate better utilization of assets to generate revenue, which translates into higher returns for investors. This is consistent with prior research that highlights the critical role of asset management efficiency in firm performance and stock valuation (Fajriyanti & Zuhri, 2021; Habib & Dalwai, 2024). Additionally, environmental, social, and governance (ESG) factors are increasingly recognized for their influence on operational and financial performance, suggesting that efficiency efforts should also consider sustainability practices (Sugiarto et al., 2023).

The mediating role of ROE between DER and RS further

illustrates the indirect effects of capital structure decisions on stock performance. The findings show that while DER does not directly affect RS, its impact is mediated through ROE, highlighting the critical importance of profitability as a bridge between leverage and shareholder returns. This aligns with prior research that demonstrates the centrality of ROE in linking capital structure to market performance (Sutomo et al., 2020; Ullah et al., 2020). Similar findings on CEO characteristics, debt structures, and firm performance emphasize the multifaceted nature of these relationships, suggesting that strategic decision-making must integrate both operational and structural considerations (Naseem et al., 2020).

For companies in the Consumer Non-Cyclicals sector in Indonesia, the results suggest a need to focus on strategic financial ratio management to navigate dynamic market conditions. Operational efficiency, as indicated by TATO, and financial stability, as reflected by ROE, emerge as key indicators of success. Recent studies corroborate these findings, emphasizing that profitability ratios significantly affect financial distress and firm value, particularly in sectors dominated by debt (Friska & Pudjolaksono, 2023; Mariati & Sinaga, 2022). Furthermore, strategic maneuvers and efficient working capital management are shown to positively influence net profit and overall financial performance (Herdinata et al., 2024).

In conclusion, this study not only supports the existing literature but also provides practical contributions for financial managers and investors. Companies in the Consumer Non-Cyclicals sector can leverage these findings to make informed decisions about balancing operational efficiency and financial stability. The emphasis on optimal capital structure management, effective liquidity strategies, and resource efficiency highlights actionable strategies for achieving sustainable financial performance in an increasingly competitive and dynamic market environment. These insights serve as a foundation for further research and practical applications in financial management and corporate strategy.

Conclusion

This study confirms the critical role of financial ratios in influencing profitability and stock returns, particularly in the Consumer Non-Cyclicals sector. The Debt to Equity Ratio (DER) and Current Ratio (CR) demonstrate how capital structure and liquidity management impact a company's ability to generate profits and maintain operational stability. Additionally, Total Assets Turnover (TATO) highlights the importance of operational efficiency in driving stock performance or Stock Return (RS). A key finding is the mediating role of Return on Equity (ROE), which serves as a bridge between financial structure variables and stock market performance, emphasizing its importance in corporate financial management.

Corporate managers in this sector should prioritize strategic financial management to enhance performance and competitiveness. This includes optimizing the debt-to-equity ratio to minimize unproductive financial burdens, maintaining balanced liquidity levels to meet short-term obligations without undermining operational efficiency, and improving asset utilization efficiency through targeted operational strategies. ROE should also be leveraged as a key performance indicator to monitor profitability and attract investor interest.

For investors, the findings provide valuable insights into

using financial ratios as tools for evaluating company performance. By understanding the interplay between financial ratios, profitability, and stock returns, investors can make more informed and targeted investment decisions, particularly in the Consumer Non-Cyclicals sector.

This study acknowledges its limitations, particularly the narrow focus on the Consumer Non-Cyclicals sector in Indonesia. Future research could expand the analysis to include other sectors or cross-country data, offering broader perspectives on the relationship between financial ratios and corporate performance. Despite these limitations, the findings contribute significantly to the literature on financial management and corporate strategy. They also provide practical guidance for managers and investors, underscoring the importance of integrating financial ratio analysis into decision-making processes to optimize corporate performance and shareholder value.

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