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THE EFFECT OF LEVERAGE ON FINANCIAL PERFORMANCE PT KINO INDONESIA TBK THROUGH AN EMPIRICAL APPROACH

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Abstract

This study aims to determine the influence of leverage on the financial performance of PT Kino Indonesia Tbk during the 2020–2024 period using an empirical approach. Leverage is measured through several financial ratios, namely Debt Ratio (DR), Debt to Equity Ratio (DER), and Long-Term Debt to Equity Ratio (LDER), while a company's financial performance is measured using Return on Investment (ROI). This study uses a quantitative method with multiple linear regression analysis processed using SPSS software version 16.0. The results showed that the DR and DER variables had a significant effect on ROI, while LDER did not have a partial significant effect. However, simultaneously, the three leverage variables have a significant effect on ROI with a determination coefficient value (R^2) of 0.999. This suggests that 99.9% of the variation in financial performance can be explained by changes in the leverage ratio. These findings confirm that optimal use of leverage can improve a company's performance through capital management efficiency, while excessive use of debt can increase financial risk and lower profitability. Therefore, the balance between debt and capital itself is an important factor in achieving sustainable financial performance.

Keywords: *Leverage, Financial Ratio, Debt Ratio, Debt to Equity Ratio*

Introduction

In an increasingly dynamic and competitive business environment, the company's capital structure is one of the crucial aspects that affect financial performance. A solid capital structure allows the company to take advantage of investment and growth opportunities, but it also carries risks in the event of liquidity pressures or increased financial burdens. One of the main indicators for evaluating the capital structure is leverage, which is the use of debt in financing the company's activities. Leverage analysis through ratios such as DER, DAR, and interest-to-earnings ratios provides an idea of the extent to which a company uses external funds and how it affects its financial strength.

In the case of PT Kino Indonesia Tbk, data shows that the DER ratio has jumped from around 0.74 times in 2020 to around 1.58 times in 2022. The percentage of debt to assets also increased to around 45% in 2022 compared to around 32% in 2020. Meanwhile, Kino's financial performance showed fluctuating results. In 2022, the company recorded a net loss of around IDR 950 billion. However, in 2023 and 2024, financial conditions began to show improvement, with a net profit of IDR 70.46 billion in 2023 and a significant increase to IDR 217.97 billion in 2024. This condition suggests that a fairly sharp increase in leverage in 2021 to 2022 is likely to put great pressure on financial performance, while the improvement in performance in the following year can be attributed to a decline in the ratio DER and interest expense management.

Leverage analysis is crucial because debt not only impacts interest expense and principal payment obligations, but also on a company's financial flexibility. When the ratio of DER and DAR becomes high, companies are more susceptible to changes in interest rates, market conditions, and operational disruptions. In the case of KINO, high leverage in 2022 contributed to considerable losses, while in 2024, a decrease in interest expense of around 13.58% was one of the factors increasing net profit. This confirms that there is a significant influence between the level of leverage and the financial performance of the company.

Nevertheless, the relationship between leverage and financial performance is not linear. In some cases, increased leverage can indeed increase ROE if the investment yield exceeds the cost of debt. However, if the company is unable to generate enough profit to cover interest and principal obligations, leverage can actually reduce financial performance and increase the risk of bankruptcy (Brigham & Houston, 2022). Therefore, the right financing strategy is needed to balance between the use of debt and its own capital.

Therefore, it is important for a company's financial management to establish a balanced capital structure between debt and equity. Companies in the consumer goods sector such as Kino Indonesia must consider business sensitivity to economic cycles and consumer demand. Considering the financial conditions of the last five years, leverage analysis is crucial to understanding how funding strategies affect a company's profitability and financial stability. This research will examine in depth the relationship between leverage and KINO's financial performance in the 2020–2024 period, to provide an empirical and strategic understanding in the management of the company's capital structure.

Theoretical Framework

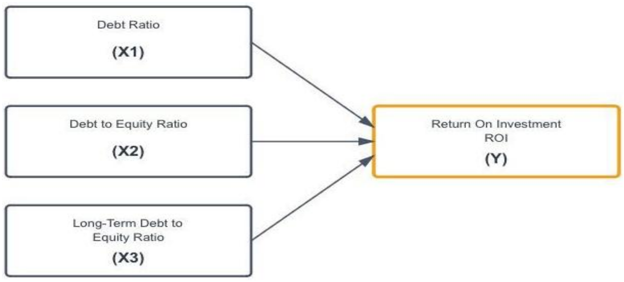
Capital structure is crucial in a company's financial management, one of which is the use of debt or leverage. Leverage is a funding strategy using borrowed funds to increase a company's profit potential. The higher the level of leverage, the greater the fixed burden that the company must bear in the form of debt interest. Therefore, companies must balance the benefits and risks of using debt in their business operations.

According to Brigham and Houston (2022), financial leverage can provide benefits in the form of increased returns, but also increases the risk of bankruptcy if the debt burden is too large compared to the company's ability to generate profits. Leverage ratios such as DR, DER, and LDER are used to measure the extent to which a company is financed by debt versus its own capital.

A company's financial performance is measured by various indicators, one of which is ROI. ROI shows how efficient a company is in managing the capital invested to generate profits. High ROI indicates that the company is able to manage financial resources optimally.

The relationship between leverage and financial performance has been extensively researched. In theory, when leverage is managed appropriately, the company can increase profits through capital efficiency, but if the leverage is too high, it will decrease the ROI due to large interest expenses. In this study, an empirical approach was used to see the influence of DR, DER, and LDER on ROI in KINO.

The results of multiple linear regression analysis showed that DR (X1) and DER (X2) had a significant effect on ROI. However, LDER (X3) has no partial significant effect on ROI. However, simultaneously these three variables have a significant influence on ROI with a determination coefficient value (R^2) of 0.999.



Information:
X1 = Debt Ratio (DR)
X2 = Debt to Equity Ratio (DER)
X3 = Long-Term Debt to Equity Ratio (LDER)
Y = Return on Investment (ROI)

Method

This study uses a quantitative method with a multiple linear regression approach to analyze the influence of leverage variables on the financial performance of PT Kino Indonesia Tbk during the period 2020 to 2024. The independent variables in this study include DR, DER, and LDER, while the bound variable is ROI as an indicator of the company's financial performance. The data used is secondary data in the form of KINO's annual financial statements obtained from company publication reports and other official sources.

Data processing is carried out using SPSS for Windows software version 16.0, which makes it easier to perform multiple linear regression analysis. Multiple linear regression analysis was chosen to determine the magnitude of the simultaneous and partial influence of the leverage variable on ROI. Simultaneous testing using the F Test aims to find out whether the three independent variables together have a significant influence on ROI. Meanwhile, a partial test using the t-test was carried

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out to determine the influence of each individual leverage variable on financial performance.

The data collection technique is carried out through documentary studies, namely by accessing secondary data from annual reports, audited financial statements, and corporate governance reports published through the official websites of Bank BRI and the Indonesia Stock Exchange (IDX). The data collected includes information related to the capital structure, the structure of the board of commissioners, the number and activities of the audit committee, institutional ownership, and financial ratios that are indicators of the company's performance.

The significance level used in hypothesis testing is 5% (α = 0.05), so if the significance value of the test results is less than 0.05, then the influence of the variable is considered significant. Furthermore, the determination coefficient (R^2) is used to find out how much independent variables are able to explain variations in dependent variables. In this study, the R^2 value close to 1 shows that the leverage variable makes a major contribution in explaining the change in ROI in KINO.

Results

1. Multiple Linear Analysis

The hypothesis test in this study uses SPSS software for windows 16.0 by testing multiple linear regression which is an analysis to determine the magnitude of the influence between independent variables on bound variables. The level of confidence used in this study was 95% or a significant level of 5% (α=0.05%).

The results of the multiple linear regression calculation to be seen in Table 1 are as follows:

Table 1. Results of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	26.425	1.802		14.664	.043		
	DR	-80.270	5.424	-25.201	-14.800	.043	.001	1986.239
	DER	14.393	.978	27.071	14.719	.043	.000	2317.060
	LDER	-1.938	.217	-1.658	-8.932	.071	.042	23.593

a. Dependent Variable: KINERJA KEUANGAN PERUSAHAAN

Source: Processed Secondary Data

Based on Table 1, the regression equation is obtained as follows:

Y = 26,425 - 80,270 X1 + 14,393 X2 - 1,938 X3

From the regression equation above, it can be interpreted as follows:

1. ROI will increase by 80,270 units for each additional debt ratio (DR) (X1). So if the debt ratio increases by one unit, then the ROI will increase by 80,270 units assuming the other variables are considered constant.
2. ROI will increase by 14,393 units per additional one DER (X2). So if the DER increases by one unit, then the ROI will increase by 14,393 units assuming the other variables are considered constant.

3. ROI will increase by 1,938 units for each additional LDER (X3). So if the LDER increases by one unit, then the ROI will increase by 1.938 units assuming the other variables are considered constant.
4. The R square value of 0.999 or the DR, DER and LDER variables have an effect of 99.90% on ROI. Meanwhile, 0.10% was influenced by other variables that were not studied. Because the value of R square tends to be close to 1, it means that independent variables provide almost all the information needed to predict the variation of dependent variables.

2. F Test (Simultaneous)

Table 1.2 F Test Results (Simultaneous)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.264	3	.088	228.009	.049[b]
	Residual	.000	1	.000		
	Total	.265	4			

a. Dependent Variable: KINERJA KEUANGAN PERUSAHAAN

b. Predictors: (Constant), LDER, DR, DER

Source: Processed Secondary Data

Based on the calculation of the F test, the value of F calculated > F of the table is 228,009 > 10.13 or the value of sig. F (0.049) (= 0.05) then the regression analysis model is significant. This means that H0 is rejected and H1 is accepted so that it can be concluded that the ROI-bound variables can be (simultaneously) significantly influenced by the independent variables DR (X1), DER (X2), and LDER (X3).

3. T Test (Partial)

Based on the results of the t test, it was obtained:

1. The t test between X1 (*DR)* and ROI shows that the t calculation of the > t table is -14,800 > 3.182 or the sig. value t (0.043) (=0.05) then the influence of X1 (DR) on ROI is significant. This means that H0 is rejected and H1 is accepted so it can be concluded that the ROI can be significantly influenced by DR.
2. The t test between X2 (DER) and ROI shows that the t count of the > t table is 14.719 > 3.182 or a sig value. t (0.043) (= 0.05) then the influence of X2 (DER) on ROI is significant. This means that H0 is rejected and H1 is accepted so it can be concluded that the ROI can be significantly influenced by the DER.
3. The t test between X3 (LDER) and ROI shows t calculated > t table which is -8,932 > 3,182 or sig value. t (0.071) (= 0.05) then the influence of X3 (LDER) on ROI is significant. This means that H0 is accepted and H1 is rejected so it can be concluded that the ROI can be influential but significant by the LDER.

Discussion

The results of the study show that leverage affects the financial performance of PT Kino Indonesia Tbk from 2020 to 2024. These results are in line with Brigham and Houston's (2022) theory that while debt can increase returns, it can also pose financial risks.

DR (X1) has a significant negative impact on ROI (coefficient -80,270), indicating that if the amount of debt increases compared to the asset, profitability will decrease. DR reached 45% in 2022 and the company suffered a loss of IDR 950 billion due to high interest expenses. The results are in accordance with the research of Amor et al. (2024) on changes in KINO performance. DER (X2), with (coefficient of 14.393), shows that the use of debt proportional to capital can improve efficiency. Debt restructuring has proven effective, as shown by the increase in performance in 2023–2024, which reached a profit of IDR 217.97 billion and a 13.58% decrease in interest expenses. LDER (X3) is not partially significant (sig. 0.071 > 0.05), indicating that, due to its more flexible payment structure, long-term debt does not have a direct impact on ROI in the short term.

At the same time, the three variables that had a significant effect were (F count 228.009 was greater than F in table 10.13). With R2 = 0.999, it indicates that leverage is responsible for 99.9% of ROI variations. As demonstrated by the high R2 value, the capital structure is a key component of the financial performance of businesses engaged in the consumer goods industry.

Management has several practical consequences: (1) managing leverage to avoid excessive interest expenses, (2) maintaining a balance of debt for financial flexibility, (3) concentrating on managing interest expense and operational efficiency. This study was limited to a single sample (0.1%), a short time (5 years), and additional variables (0.1%) that were not studied, such as macroeconomic factors and business strategies.

Conclusion

This study concludes that leverage has a significant effect on financial performance of PT Kino Indonesia Tbk from 2020 to 2024. With R2 = 0.999, these three factors are very significant, suggesting that 99.9% of ROI variations are due to the leverage structure. On the other hand, DR has a partial negative effect, DER has a partial positive effect, and LDER has no effect on ROI.

These results show that the management of the ideal capital structure is essential for sustainable financial performance. The excessive use of leverage increases risk and reduces profitability, as happened in 2022 with a loss of IDR 950 billion. Conversely, proper debt management improves capital efficiency, as seen in 2024 with profits

IDR 217.97 billion.

This study aims to provide concrete evidence on the relationship between leverage and financial performance in the Indonesian consumer goods industry. Practically, this study shows that maintaining a balance of debt is the key to getting an optimal return on investment.

Limitations include single samples, short periods, and unresearched variables. The next research recommendations are as follows: (1) extend the analysis period to obtain a broader picture of the economic cycle; (2) expand the sample to expand the generalization; (3) enter moderation variables such as company size and macroeconomic conditions; and (4) conduct a more in-depth analysis using the data panel or SEM method. A balanced capital structure between debt and equity is the key to achieving optimal and sustainable financial performance for KINO.

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