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ANALYSIS OF THE EFFECT OF DEBT ON NET PROFIT AT PT LIPPO KARAWACI TBK

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Abstract

This study aims to analyze the effect of debt on net income at PT Lippo Karawaci Tbk during the period 2020-2024. The background of this study stems from the importance of a balanced funding structure in maintaining the stability and profitability of companies, especially in the property sector, which is highly susceptible to financial fluctuations. The method used is a quantitative approach with simple linear regression analysis to test the relationship between debt levels and net profit. The results show that debt has a negative effect on net profit, but it is not statistically significant, with a regression coefficient value of -2.707 and a significance of 0.094 (> 0.05). The coefficient of determination (R^2) value of 0.661 indicates that 66.1% of net profit variation is influenced by debt, while the rest is influenced by other factors. These findings indicate that an increase in debt tends to suppress profitability, but efficient management can reduce this negative impact. This study is expected to serve as a reference for companies in designing optimal and sustainable capital structure strategies.

Keywords:
Debt, Net Profit, Capital Structure, Profitability

Introduction

The increasingly competitive business environment in Indonesia requires every company to have the right financial strategy to maintain its business continuity. One important aspect of financial management is how companies determine their funding structure, particularly in terms of debt usage. Debt is a common financing alternative used by companies to increase their business capacity without having to increase their own capital. According to Kasmir (2019), debt is a company's obligation to another party that must be paid within a certain period and can be used to support operational activities and business expansion. However, excessive use of debt can result in high interest burdens and increase a company's financial risk.

In the context of property companies, the use of debt plays a strategic role because this sector requires large amounts of capital for development and long-term investment. PT Lippo Karawaci Tbk, as one of the largest property developers in Indonesia, has complex financing characteristics, with a significant amount of debt on its financial statements. Significant changes in the amount of debt from year to year can affect the company's net profit. According to Harahap (2021), net profit is a key indicator that reflects a company's financial performance after deducting all expenses, including interest expenses from debt. Therefore, it is important to examine how debt affects net profit, especially in the context of large companies such as PT Lippo Karawaci Tbk.

Previous studies have examined the relationship between debt, capital structure, and profitability with varying results. For example, research by Zahara (2018) shows that total debt has a negative effect on net income in companies in the coal sub-sector. Meanwhile, Handayani (2018) in her study on PT Kereta Api Indonesia (Persero) found that an increase in debt does not always reduce net profit; on the contrary, if borrowed funds are used efficiently, debt can actually increase profits through broader business expansion. These findings show that the effect of debt on net profit is not absolute and is highly dependent on the effectiveness of fund management and the company's financial condition. The research by Prasetyo and Anis (2023) also reinforces the view that capital structure has a close relationship with profitability. In their study of manufacturing companies in the textile and garment sub-sector, they found that a balanced capital structure composition can increase company value through the optimization of external fund usage. Meanwhile, Pramesti and Rahayu (2021) found that leverage has a significant effect on profit management, where an increase in debt encourages companies to adjust their financial reporting to maintain a positive performance in the eyes of investors. Furthermore, research by Pangau, Dewi, and Maratno (2024) confirms that capital structure, company size, and liquidity simultaneously affect company profitability, indicating that the use of debt needs to be adjusted to asset capacity and operational efficiency levels.

Most previous studies have focused on manufacturing companies or the mining sector, while studies specifically examining large property companies such as PT Lippo Karawaci Tbk are still limited. In addition, some previous studies only assessed the relationship between debt and profitability without considering the overall capital structure of the company. However, according to Brigham and Houston (2019), an optimal capital structure must consider the balance between risk and return so as not to reduce the value of the company. Thus, this study attempts to fill this gap by analyzing in more depth the effect of debt on net income in the context of property companies that have different risks and financial characteristics compared to other sectors.

This study is expected to contribute scientifically to strengthening the understanding of the relationship between debt and corporate financial performance. From a theoretical perspective, this study can add empirical evidence to the relevance of capital structure theory, particularly trade-off theory and pecking order theory, in the context of Indonesian property companies. From a practical perspective, the results of this study are expected to serve as consideration for the management of PT Lippo Karawaci Tbk and other players in the property industry in determining effective financing policies. Based on this description, the objective of this study is to analyze the effect of debt on net income at PT Lippo Karawaci Tbk during a specific observation period.

Theoretical Framework

Debt

Debt is a company's obligation arising from past transactions and must be settled through the expenditure of economic resources in the future (PSAK No. 1, 2018). In financial management, debt is seen as a source of external funding that can be used to support operational activities and business expansion without the need to increase equity capital. According to Brigham and Houston (2019), the use of debt can provide a leverage effect on company profits, as long as the tax benefits on debt interest are greater than the risk of bankruptcy it causes. This is in line with the capital structure theory proposed by Modigliani and Miller (1963), which states that a company's value can increase with the use of debt up to a certain level before the financial risk outweighs the benefits.

However, excessive use of debt can increase financial risk and reduce company performance. Research by Pramesti and Rahayu (2021) shows that high leverage levels have the potential to affect profit management practices because companies strive to maintain performance so that they continue to look good in the eyes of investors and creditors. Meanwhile, Handayani and Wuryani (2025) found that leverage has a significant effect on the potential for financial distress, where the greater the proportion of debt, the higher the risk of financial difficulties faced by the company. Therefore, balanced debt structure management is important so that companies can obtain optimal benefits from external funding without increasing financial risk excessively.

Net Profit

Net income is the difference between revenue and all expenses incurred by a company in an accounting period, including taxes (Kasmir, 2019). Net income is an important indicator in measuring operational success because it reflects the final results of a company's economic activities. According to Harahap (2021), net profit shows a company's ability to manage assets, liabilities, and capital efficiently to generate sustainable profits. In profit theory, profit is considered the result of production efficiency and the effectiveness of a company's financial decisions (Sadalia & Butarbutar, 2016).

Several previous studies have shown an inconsistent relationship between debt and net income. Handayani (2018), in her study of PT Kereta Api Indonesia (Persero), found that an increase in debt does not always reduce net income. If borrowed funds are used for productive activities such as business expansion or investment, net income may actually increase. Conversely, Zahara's (2018) study shows that total debt has a negative effect on net profit in companies in the coal sub-sector, due to the high interest expenses that must be borne. These differing results indicate that the effect of debt on net profit is highly dependent on the effectiveness of fund utilization and the industry conditions of the company.

Capital Structure

Capital structure is the composition of debt and equity used by companies to finance operational and investment activities (Riyanto, 2001). The grand theory underlying this concept is the capital structure theory of Modigliani and Miller (1963), which states that under perfect market conditions, capital structure does not affect company value. However, in reality, the existence of taxes, bankruptcy costs, and financial risks make capital structure decisions crucial for the company's survival. Brigham and Houston (2019) also emphasize that companies need to determine the optimal capital structure, which is a balance between the benefits of using debt (tax shield) and the financial risks incurred.

In the context of middle theory, there are two main approaches that are often used to explain corporate behavior in determining capital structure, namely trade-off theory and pecking order theory. Trade-off theory argues that companies must balance the tax benefits of using debt with the potential risk of bankruptcy. Meanwhile, pecking order theory, proposed by Myers and Majluf (1984), explains that companies prefer to use internal funding first, then debt, and finally issue new shares.

Empirical research supports the importance of effective capital structure management. Lamba and Atahau (2022) found that leverage affects company value with profitability as a mediating variable, indicating that efficient use of debt can improve performance and market perception of the company. Furthermore, Prasetyo and Anis (2023) proved that capital structure, profitability, and company growth significantly affect company value in the manufacturing sector, particularly in the textile and garment sub-sectors. These findings confirm that an optimal capital structure can increase company value while strengthening its financial position in facing market dynamics.

Financial Performance and Profitability

Financial performance is a measure of management's effectiveness in managing company resources to achieve predetermined financial objectives (Kasmir, 2019). Financial performance is generally assessed using various ratios such as liquidity, solvency, activity, and profitability (Harahap, 2021). Among these ratios, profitability is the main indicator because it reflects the company's ability to generate profits from the capital and assets used.

In applied theory, the relationship between debt and profitability is explained through the financial leverage effect, which is the use of debt that can increase profits if the return on investment is higher than the cost of interest (Brigham & Houston, 2019). However, increasing debt also risks reducing profitability if the interest burden becomes too large. Therefore, the balance between the use of debt and operational efficiency is an important factor in maintaining a company's financial performance.

Empirical research supports the view that leverage has a complex effect on financial performance. Pramesti and Rahayu (2021) found that leverage affects earnings management practices, whereby companies seek to maintain their financial image amid debt pressures. Lamba and Atahau (2022) show that leverage can increase company value through increased profitability, while Handayani and Wuryani (2025) emphasize that leverage, profitability, and liquidity have a significant effect on the risk of financial distress. Thus, profitability not only reflects operational success, but also serves as an important indicator in assessing the extent to which a company is able to optimally manage financial risk.

Conceptual Framework

Based on previous theories and research, the relationship between variables can be explained as debt affecting net income both directly and indirectly through capital structure and financial performance. The use of debt within reasonable limits can increase profits through the leverage effect, while excessive debt will reduce profits due to increased interest expenses. Capital structure acts as a balance between risk and return, while financial performance describes the end result of the effectiveness of funding decisions.

Conceptually, this study examines the effect of debt on net income at PT Lippo Karawaci Tbk, taking into account the principles of capital structure efficiency and profitability as the basis for analysis. Based on the above description, the researcher describes the conceptual framework as follows:

Debt → Capital Structure → Financial Performance (Profitability) → Net Income

Research Hypothesis

Based on the conceptual framework above, the research hypothesis to be tested is: "The existence of the effect of debt on net profit at PT Lippo Karawaci Tbk".

Method

This study uses an associative approach, which is a research approach that aims to determine the relationship or influence between independent variables and dependent variables. In this study, the independent variable is debt, while the dependent variable is net profit. This approach was chosen because the researcher wanted to determine the extent to which debt affects net profit at PT Lippo Karawaci Tbk.

The type of research used is quantitative research, where the data used is secondary data obtained from the annual financial reports of PT Lippo Karawaci Tbk published through the official website of the Indonesia Stock Exchange (www.idx.co.id) and the company's official website. The data analyzed covers a five-year period, from 2020 to 2024. The research procedure began with the collection of financial statement data, followed by the identification of the total debt and net profit for each year as the basis for analyzing the relationship between variables.

Data analysis was performed using simple linear regression tests to determine the effect of debt on net income. In addition, hypothesis testing (t-test) was also performed to test the significance of the effect between the two variables, as well as a coefficient of determination (R^2) test to determine the extent to which the debt variable contributed to changes in net income. The results of this analysis are expected to provide an empirical picture of the extent to which debt structure affects net profit performance at PT Lippo Karawaci Tbk during the research period.

Results

Overview of the Research Object

PT Lippo Karawaci Tbk (LPKR) is a leading property developer in Indonesia, established in 1990 and headquartered in Tangerang, Banten. As part of the Lippo Group, its business activities include the development of integrated areas, housing, shopping centers, hospitals, and other commercial properties. Since its listing on the Indonesia Stock Exchange in 1996, PT Lippo Karawaci has consistently published annual financial reports, which serve as a secondary data source in this study.

As a company in the property sector, PT Lippo Karawaci requires large capital investments and therefore often utilizes external funding in the form of debt. The use of debt can affect net profit, depending on the company's ability to manage it. The company's capital structure can be seen through the Debt to Equity Ratio (DER) and Debt to Asset Ratio (DAR), while net profit is measured through the income statement. PT Lippo Karawaci was chosen as the object of this study because it has shown significant fluctuations in debt and net profit levels in recent years, making it relevant for a study on the effect of debt on net profit.

Data Description

The data used in this study is secondary data sourced from the annual financial reports of PT Lippo Karawaci Tbk for the period 2020 to 2024. The main variables analyzed are total debt and net profit, which serve to describe the company's financial condition and profitability over the last five years.

Table 1
Total Debt and Net Income Data PT Lippo Karawaci Tbk
2020-2024

Year	Total Debt		Net Profit	
2020	Rp	28,291,825.00	-Rp	9,637,220.00
2021	Rp	29,594,927.00	-Rp	1,623,183.00
2022	Rp	30,731,006.00	-Rp	2,327,495.00
2023	Rp	29,964,393.00	Rp	653,699.00
2024	Rp	22,836,790.00	Rp	18,727,125.00

Source: Financial Report of PT Lippo Karawaci Tbk

During 2020-2024, PT Lippo Karawaci Tbk's total debt fluctuated. Debt increased from IDR 28,291,825.00 in 2020 to a peak of IDR 30,731,006.00 in 2022, then decreased to IDR 29,964,393.00 in 2023 and fell significantly to IDR 22,836,790.00 in 2024. This trend shows that after a period of debt increase, the company succeeded in improving its financial management by reducing its liabilities effectively and efficiently.

During 2020-2024, PT Lippo Karawaci Tbk showed a significant improvement in financial performance. After experiencing consecutive losses in 2020-2022, the company turned a profit of IDR 653,699.00 in 2023 and jumped to IDR 18,727,125.00 in 2024. This trend reflects the management's success in improving the financial structure, increasing operational efficiency, and driving the company's profitability growth.

Descriptive Statistics

Table 2
Descriptive Statistics Output

Statistics

		Hutang	Laba Bersih
N	Valid	5	5
	Missing	0	0
Mean		28283788.20	1158585.200
Std. Deviation		3170262.071	10551645.61
Minimum		22836790.00	-9637220.00
Maximum		30731006.00	18727125.00

Source: Data processed by the author, 2025

Descriptive statistics show that during 2020-2024, PT Lippo Karawaci Tbk experienced fluctuations in total debt and net profit. The average debt was IDR 28,283,788.20, with a maximum value of IDR 30,731,006.00 and a minimum value of IDR 22,836,790.00, indicating changes in liabilities each year. Meanwhile, net profit averaged Rp 1,158,585.20, with a minimum value of -Rp 9,637,220.00 and a maximum of Rp 18,727,125.00, showing a significant improvement in performance. Overall, the company succeeded in reducing debt and increasing net profit throughout the period.

Simple Linear Regression Analysis

Table 3
Simple Linear Regression Test Output

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	77710194.81	31790395.86		2.444	.092
	Hutang	-2.707	1.118	-.813	-2.420	.094

a. Dependent Variable: Laba Bersih

Source: Data processed by the author, 2025

The regression equation Y = 77,710,194.81 + (-2.707)X shows that if debt is zero, net income is estimated at Rp 77,710,194.81. The negative coefficient (-2.707) indicates that every increase in debt will decrease net profit, so there is an inverse relationship between the two.

Hypothesis Testing

Table 4
T-test Output

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	77710194.81	31790395.86		2.444	.092
	Hutang	-2.707	1.118	-.813	-2.420	.094

a. Dependent Variable: Laba Bersih

Source: Data processed by the author, 2025

The t-test results show a t-value of -2.420 with Sig. 0.094 > 0.05, so it can be concluded that debt has a negative but insignificant effect on the net profit of PT Lippo Karawaci Tbk. This means that changes in debt tend to affect net profit, but the effect is not statistically significant.

Coefficient of Determination

Table 5
Determination Test Output

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics: R Square Change	F Change	df1	df2	Sig. F Change
1	.813[a]	.661	.548	7091071.899	.661	5.857	1	3	.094

a. Predictors: (Constant), Hutang

Source: Data processed by the author, 2025

The determination test results show an R value of 0.813, indicating a strong relationship between debt and net profit. The R Square value = 0.661 means that 66.1% of the variation in net profit is explained by debt, while 33.9% is influenced by other factors outside the model. However, with Sig. F Change = 0.094 > 0.05, this regression model is not significant overall at a 95% confidence level.

Discussion

Based on the results of data analysis, it is known that the debt variable has a negative effect on the net profit of PT Lippo Karawaci Tbk, although the effect is not statistically significant. The regression coefficient value of -2.707 indicates that an increase in debt tends to be followed by a decrease in the company's net profit. This finding indicates that interest expenses and debt repayment obligations have the potential to reduce profitability, especially if the income generated is not able to cover the financial costs arising from the increase in debt.

However, the significance value of 0.094 (> 0.05) indicates that the effect of debt on net profit is not strong enough to be considered significant. This may be due to various other factors that also affect net profit, such as operational efficiency, sales strategy, property market conditions, and management policies in managing assets and liabilities. In other words, the fluctuations in PT Lippo Karawaci's net profit during the 2020-2024 period are not entirely determined by the level of debt, but also by the company's ability to adjust its cost structure and optimize other sources of income.

Furthermore, the results of the coefficient of determination test show a value of R = 0.813 and R Square = 0.661, which means that 66.1% of the variation in net profit can be explained by changes in the debt variable, while the remaining 33.9% is influenced by other factors outside the research model. The high R value indicates a fairly strong relationship between debt and net profit, although the effect is not statistically significant. This indicates that debt still plays an important role in the company's financial structure, but it is not the only determining factor of net profit. Thus, optimal debt management is still necessary for companies to maintain a balance between risk and profitability.

The results of this study are in line with Modigliani and Miller's (1963) theory, which states that in imperfect market conditions, an increase in debt can lead to bankruptcy risk and higher financial costs, thereby reducing a company's net profit. However, on the other hand, the management of PT Lippo Karawaci appears to be able to manage debt gradually by reducing total liabilities in 2023-2024, followed by a significant increase in net profit. This shows that a cautious debt management strategy can help companies improve their financial performance sustainably even though the statistical relationship is not significant.

Conclusion

Based on the results of the study, it can be concluded that debt has a negative but insignificant effect on the net profit of PT Lippo Karawaci Tbk during the 2020-2024 period. The regression coefficient value of -2.707 and significance of 0.094 indicate that an increase in debt tends to reduce net profit, although the effect is not yet statistically significant. The coefficient of determination (R^2) value of 0.661 indicates that 66.1% of the variation in net profit can be explained by changes in debt, while the remaining 33.9% is influenced by other factors. These results reinforce the capital structure theory view that excessive use of debt can increase financial risk and suppress profitability if not balanced with efficient financial management. This study contributes to expanding the understanding of the relationship between leverage and financial performance in the property sector in Indonesia. For further research, it is recommended to include other variables such as liquidity, sales growth, and company size, as well as extending the observation period to obtain more comprehensive and representative results.

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