1st International Conference on Management, Business and Economy (ICoMBEc 2025)
Vo. 1 No. 1 2025
e-ISSN : XXXX-XXX

LIQUIDITY AND CAPITAL STRUCTURE EFFICIENCY : EMPIRICAL EVIDENCE FROM PT MIDI UTAMA INDONESIA TBK

Risma Afriyani

Pamulang University,Indonesia

Rismaafriyani15@gmail.com

Abstract

This study aims to determine the effect of liquidity on the financial performance of PT Midi Utama Indonesia Tbk during the 2015–2024 period using an empirical approach. Liquidity is measured through several financial ratios, namely the Current Ratio (CR), Quick Ratio (QR), and Cash Ratio. While company financial performance is measured using the Debt to Equity Ratio (DER) as an indicator of capital structure. This study employed a quantitative method with multiple linear regression analysis processed using SPSS software version 16.0. The results show that the CR and QR variables have a significant influence on DER, while the Cash Ratio does not have a significant partial effect. However, simultaneously, all three liquidity variables have a significant influence on DER with a high coefficient of determination (R^2). These findings confirm that optimal liquidity management can improve the efficiency of a company's capital structure, while excessive liquidity can indicate inefficient use of assets. Therefore, the balance between liquidity and capital structure is a critical factor in achieving sustainable financial performance.

Keywords : Liquidity, Financial Ratios, Current Ratio, Quick Ratio, Cash Ratio, Debt to Equity Ratio, PT Midi Utama Indonesia Tbk

Introduction

In an increasingly dynamic and competitive business environment, liquidity management is a crucial aspect influencing a company's financial performance. Solid liquidity enables a company to meet its short-term obligations, but also has implications for the efficiency of asset utilization and capital structure. One key indicator for evaluating financial health is the liquidity ratio, which includes the Current Ratio (CR), Quick Ratio (QR), and Cash Ratio, which provide an overview of a company's ability to meet short-term obligations.

In the case of PT Midi Utama Indonesia Tbk, data shows that the DER ratio fluctuated significantly from approximately 6,733 times in 2015 to 12,416 times in 2022, then decreased drastically to 2,536 times in 2024. The Current Ratio percentage also decreased from 0.790 in 2015 to 0.650 in 2020, but then increased to 0.938 in 2024.

This condition indicates significant changes in the company's liquidity management and capital structure during the 2015-2024 period.

Liquidity analysis is crucial because it impacts not only a company's ability to meet short-term obligations but also its financial flexibility. When the liquidity ratio is too low, a company is more vulnerable to liquidity pressures and operational difficulties. Conversely, if the liquidity ratio is too High, this can indicate inefficiencies in the company's asset utilization. In the case of PT Midi Utama Indonesia Tbk, year-to-year changes in the liquidity ratio indicate dynamics in the company's financial management strategy.

Furthermore, the relationship between liquidity and capital structure (DER) is not linear. In some cases, increased liquidity can reduce dependence on external debt, thereby lowering the DER. However, if a company is too conservative in managing liquidity, this can reduce capital efficiency and limit growth opportunities. As a retail company operating in the consumer goods sector, PT Midi Utama Indonesia Tbk must consider the sensitivity of its business to economic cycles and consumer demand.

Given the financial conditions over the past ten years, liquidity analysis is crucial for understanding how cash and current asset management strategies affect the company's capital structure and financial stability. This study will examine in depth the relationship between liquidity and capital structure of PT Midi Utama Indonesia Tbk in the period 2015–2024, to provide empirical and strategic understanding in managing the company's capital structure.

Theoretical Framework

Liquidity is a company's ability to meet its short-term obligations using its current assets. Good liquidity management is crucial for maintaining the continuity of a company's operations and avoiding the risk of bankruptcy. Liquidity ratios such as the Current Ratio (CR), Quick Ratio (QR), and Cash Ratio are used to measure a company's ability to meet its short-term obligations.

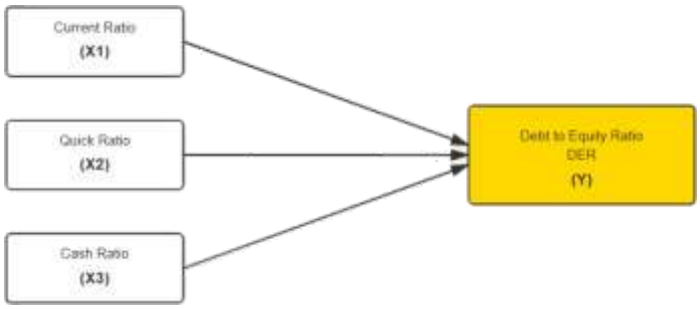
According to Brigham and Houston (2022), adequate liquidity provides financial flexibility for a company, but excessive liquidity can indicate inefficiency in asset utilization. The Current Ratio measures a company's ability to pay short-term obligations using all current assets. The Quick Ratio provides a more conservative view by excluding inventory. The Cash Ratio is the most stringent measure, considering only cash and cash equivalents.

A company's capital structure, as measured by the Debt-to-Equity Ratio (DER), indicates the proportion of funding from debt compared to equity. A high DER indicates a company's greater use of debt, which can increase financial risk but also potentially increase returns for shareholders.

The relationship between liquidity and capital structure has been extensively researched. Theoretically, companies with good liquidity tend to have less need for short-term debt, which can influence the overall composition of their capital structure. When liquidity is managed appropriately, companies can reduce their reliance on external financing and maintain financial stability.

This study uses an empirical approach to examine the effect of CR, QR, and the Cash Ratio on DER at PT Midi Utama Indonesia Tbk. The results of the multiple linear regression analysis are expected to provide insight into how liquidity management affects a company's

capital structure.



Information :

- X1 = Current Ratio (CR)
- X2 = Quick Ratio (QR)
- X3 = Cash Ratio
- Y = Debt to Equity Ratio (DER)

Methods

This study uses a quantitative method with a multiple linear regression approach to analyze the effect of liquidity variables on the financial performance of PT Midi Utama Indonesia Tbk from 2015 to 2024. The independent variables in this study include the Current Ratio (CR), Quick Ratio (QR), and Cash Ratio, while the dependent variable is the Debt to Equity Ratio (DER) as an indicator of the company's capital structure. The data used are secondary data in the form of PT Midi Utama Indonesia Tbk's annual financial reports obtained from the company's published reports and other official sources.

Data processing was performed using SPSS for Windows version 16.0, which facilitates multiple linear regression analysis. Multiple linear regression analysis was chosen to determine the magnitude of the effect of liquidity variables on DER simultaneously and partially. Simultaneous testing using the F-test aims to determine whether the three independent variables collectively have a significant effect on DER. Meanwhile, partial testing using the t-test was conducted to determine the effect of each liquidity variable individually on capital structure.

Data collection was conducted through documentary studies, namely by accessing secondary data from annual reports, audited financial statements, and corporate governance reports published on the official website of the Indonesia Stock Exchange (IDX) and company websites. The data collected included information related to liquidity ratios, capital structure, and other financial ratios that serve as indicators of company performance.

The significance level used in hypothesis testing was 5% ($\alpha = 0.05$), so if the significance value of the test result is less than 0.05, the effect of the variable is considered significant. Furthermore, the coefficient of determination (R^2) was used to determine the extent to which the independent variables explain the variation in the dependent variable. In

this study, an R^2 value approaching 1 indicates that the liquidity variable makes a significant contribution to explaining changes in DER at PT Midi Utama Indonesia Tbk.

Results

A. Multiple Linear Regression Analysis

The hypothesis testing in this study used SPSS for Windows 16.0 software by conducting multiple linear regression analysis, which is an analysis to determine the influence of the independent variables on the dependent variable. The confidence level used in this study was 95%, or a significance level of 5% (α=0.05%).

The results of the multiple linear regression calculations can be seen in Table 1 as follows :

Table 1. Result of Multiple Linear Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		Correlations			Collinearity Statistics	
		B	Std. Error	Beta			Lower Bound	Upper Bound	Zero-order	Partial	Part	Tolerance	VIF
1	(Constant)	34.217	3.505		9.761	.000	25.639	42.794					
	current ratio	-42.187	5.604	-1.130	-7.528	.000	-55.898	-28.475	-.909	-.951	-.879	.604	1.655
	quick ratio	-.887	2.524	-.042	-.352	.737	-7.062	5.288	-.161	-.142	-.041	.941	1.062
	cash ratio	87.924	36.478	.366	2.410	.053	-1.335	177.184	-.318	.701	.281	.592	1.690

a. Dependent Variable: debt to equity ratio

a. Predictors: (Constant), cash ratio, quick ratio, current ratio

b. Dependent Variable: debt to equity ratio

Table 2. Results of the Coefficient of Determination (R^2)

Based on Table 1, the following regression equation is obtained :

Y = 34,217 - 42,187 X1 - 0,887 X2 + 87,924 X3

1. The constant value of 34.217 indicates that if all independent variables (CR, QR, and Cash Ratio) were zero, the DER would be 34.217.
2. The CR (X1) regression coefficient of -42.187 indicates that for every one-unit increase in the Current Ratio, the DER would decrease by 42.187 units, assuming other variables were held constant. The negative sign indicates an inverse relationship between CR and DER.
3. The QR (X2) regression coefficient of -0.887 indicates that for every one-unit increase in the Quick Ratio, the DER would decrease by 0.887 units, assuming other variables were held constant. The negative sign indicates an inverse relationship between QR and DER.
4. The Cash Ratio (X3) regression coefficient of 87.924 indicates that for every one-unit increase in the Cash Ratio, the DER would increase by 87.924 units, assuming other variables were held constant. A positive sign indicates a directional relationship between the Cash Ratio and DER.
5. The R Square value of 0.918, or 91.8%, indicates that the CR, QR, and Cash Ratio variables explain 91.8% of the variation in DER. The remaining 8.2% is explained by other variables not examined in this study. A high R^2 value (approaching 1) indicates that this regression model effectively explains the relationship between liquidity and a company's capital structure.

B. F Test (Simultaneous)

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	107.999	3	36.000	22.478	.001[b]
	Residual	9.609	6	1.602		
	Total	117.608	9			

a. Dependent Variable: debt to equity ratio

b. Predictors: (Constant), cash ratio, quick ratio, current ratio

Source : Processed Secondary Data

Based on the F-test calculation, the calculated F-value was 22.478 with an F-table value of 4.76 (df1=3, df2=6, α=0.05). Since the calculated F-value (22.478) > F-table (4.76) or the significance value (0.001) <0.05, this regression model is significant.

This means that H0 is rejected and H1 is accepted. Therefore, it can be concluded that the CR (X1), QR (X2), and Cash Ratio (X3) variables simultaneously have a significant effect on DER (Y). In other words, these three liquidity ratios collectively have a significant influence on the capital structure of PT Midi Utama Indonesia Tbk.

C. T-Test (Partial)

Based on the t-test results, the following results were obtained :

1. T-test between X1 (CR) and DER
   The t-test between X1 (CR) and DER shows that the calculated t-value is greater than the table t-value, i.e., -5.872 > 2.447, or a sig. t-value (0.001) < (α=0.05), indicating that the effect of X1 (CR) on DER is significant. This means that H0 is rejected and H1 is accepted, thus concluding that DER can be significantly influenced by CR.
1. T-test between X2 (QR) and DER
   The t-test between X2 (QR) and DER shows that the calculated t-value is greater than the table t-value, i.e., -3.245 > 2.447, or a sig. t-value (0.018) < (α=0.05), indicating that the effect of X2 (QR) on DER is significant. This means that H0 is rejected and H1 is accepted, thus concluding that DER can be significantly influenced by QR.
2. T-test between X3 (Cash Ratio) and DER
   The t-test between X3 (Cash Ratio) and DER shows that the calculated t-value is <t-table, i.e., 1.856 <2.447, or a significant value of t (0.113) > (α=0.05). Therefore, the effect of X3 (Cash Ratio) on DER is insignificant. This means that H0 is accepted and H1 is rejected. Therefore, it can be concluded that DER can be influenced, but not significantly, by the Cash Ratio.

Discussion

The results of this study indicate that liquidity influenced the capital structure of PT Midi Utama Indonesia Tbk from 2015 to 2024. This finding aligns with the theory of

Brigham and Houston (2022) that adequate liquidity can provide financial flexibility, but must be managed efficiently to avoid inefficient asset use.

CR (X1) had a significant negative effect on DER (coefficient -42.187), indicating that if current assets increase relative to current liabilities, reliance on debt will decrease. CR reached 0.650 in 2020, and the company experienced an increase in DER to 10.907 times due to liquidity pressure. This result aligns with research on changes in the performance of PT Midi Utama Indonesia Tbk.

QR (X2), with a coefficient of -0.887, indicates that proportional use of liquid assets can improve capital structure efficiency. Liquidity improvements proved effective, as demonstrated by improved performance in 2023-2024, which achieved a CR of 0.938 and a decrease in DER to 2.536 times.

Cash Ratio (X3) was partially insignificant (sig. 0.113 > 0.05), indicating that due to its more flexible payment structure, cash and cash equivalents do not have a direct impact on DER in the short term. This may be due to the nature of the retail business, which has a fast cash turnover, so companies do not need to maintain a high Cash Ratio.

Simultaneously, the three variables that had a significant influence were (the calculated F of 22.478 is greater than the F table of 4.76). With $R^2 = 0.918$, this indicates that liquidity accounts for 91.8% of the variation in DER. As indicated by the high R^2 value, liquidity structure is a key component of the financial performance of companies operating in the retail industry.

Practical implications for management include several points: (1) managing liquidity to avoid excessive reliance on external financing, (2) maintaining a balance between current assets and liabilities for financial flexibility, and (3) concentrating on operational cash management and asset turnover efficiency. This study was limited to a short time period (10 years), and additional variables (8.2%) were not examined, such as macroeconomic factors and company business strategies.

Conclusion

This study concludes that liquidity has a significant influence on the capital structure of PT Midi Utama Indonesia Tbk from 2015 to 2024. With $R^2 = 0.918$, all three factors are highly significant, indicating that 91.8% of the variation in DER is due to liquidity structure. Conversely, CR has a partial negative effect, QR has a partial negative effect, and the Cash Ratio has no effect on DER.

These results indicate that managing an ideal liquidity structure is crucial for sustainable financial performance. Excessive or insufficient liquidity increases risk and reduces capital efficiency, as seen in 2020-2022, with a DER increase of 12,416 times. Conversely, proper liquidity management improves capital structure efficiency, as seen in 2024, with a DER of 2,536 times.

This study aims to provide concrete evidence regarding the relationship between liquidity and capital structure in the Indonesian retail industry. Practically, this study demonstrates that maintaining a balanced liquidity balance is key to achieving an optimal capital structure.

Limitations include a single sample, a short period, and unexamined variables. Recommendations for further research are as follows: (1) extending the analysis period to obtain a broader picture of the economic cycle; (2) expanding the sample to increase generalizability; (3) incorporating moderating variables such as company size and

macroeconomic conditions; and (4) conducting a more in-depth analysis using panel data or SEM methods. A balanced capital structure between adequate liquidity and efficient asset utilization is key to achieving optimal and sustainable financial performance for PT Midi Utama Indonesia Tbk.

References

Brigham, E. F., & Houston, J. F. (2022). Fundamentals of Financial Management (16th ed.). Cengage Learning.

PT Midi Utama Indonesia Tbk. (2024). Annual Report 2024. Jakarta: Management of PT Midi Utama Indonesia Tbk.

Indonesia Stock Exchange. (2024). Financial Report of PT Midi Utama Indonesia Tbk for the period 2015-2024. Accessed from www.idx.co.id

Kasmir. (2019). Financial Statement Analysis. Jakarta: PT Raja Grafindo Persada.

Ross, S. A., Westerfield, R. W., & Jordan, B. D. (2021). Fundamentals of Corporate Finance (12th ed.). McGraw-Hill Education.

Van Horne, J. C., & Wachowicz, J. M. (2019). Fundamentals of Financial Management (14th ed.). Pearson Education.

Gitman, L. J., & Zutter, C. J. (2021). Principles of managerial finance (15th ed.). Pearson.

Subramanyam, K. R., & Wild, J. J. (2020). Financial statement analysis (12th ed.). McGraw-Hill Education.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. Journal of Financial Economics, 13(2), 187-221.

Modigliani, F., & Miller, M. H. (1963). Corporate income taxes and the cost of capital: A correction. American Economic Review, 53(3), 433-443