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

LIQUIDITY AND SOLVENCY ANALYSIS THROUGH THE CURRENT RATIO AND DEBT TO EQUITY RATIO AT PT UNGGUL INDAH CAHAYA TBK FOR THE YEARS 2020–2024

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Abstract

This study aims to analyze the liquidity and solvency levels of PT Unggul Indah Cahaya Tbk for the period 2020–2024 through the Current Ratio and Debt to Equity Ratio. The research method used is quantitative descriptive analysis, utilizing the company's annual financial statements as data. The results show that the company's Current Ratio increased each year, from 4.90 in 2020 to 6.92 in 2023, indicating an improvement in the company's ability to meet its short-term obligations. Meanwhile, the Debt to Equity Ratio decreased from 0.22 in 2020 to 0.15 in 2023, suggesting that the company increasingly relies on its own capital rather than debt to finance its operations. Overall, the analysis indicates that the financial condition of PT Unggul Indah Cahaya Tbk during the research period was healthy and stable in terms of both liquidity and solvency.

Keywords: Liquidity, Solvency, Current Ratio, Debt to Equity Ratio, PT Unggul Indah Cahaya Tbk

Introduction

The Current Ratio is a ratio that measures a company's ability to pay its short-term liabilities or debts that are due in the near term as a whole. The higher the current ratio, the better the company's ability to meet its short-term obligations.

The Debt to Equity Ratio represents the balance or comparison between debt and shareholders' equity. This ratio is useful for determining the proportion of funds provided by creditors compared to those provided by the company's owners, or to understand how much of the company's equity is used as collateral for debt. The higher the ratio, the better, as it indicates a greater margin of safety for creditors in the event of losses or a decline in asset value.

PT Unggul Indah Cahaya Tbk is a company engaged in the basic chemical industry and is listed on the Indonesia Stock Exchange. The company is known as a producer of essential raw materials such as surfactants and detergents, which are widely used across various industrial sectors. In facing global economic dynamics and fluctuating raw material prices, maintaining financial stability is crucial for the company to remain competitive. Therefore, it is necessary to analyze the company's liquidity and solvency levels to determine how effectively it manages its assets and liabilities.

Based on these considerations, this study focuses on analyzing the liquidity and solvency of PT Unggul Indah Cahaya Tbk during the period 2020–2024, using the Current Ratio and Debt to Equity Ratio as financial indicators. Through this research, it is expected to provide a clearer picture of the company's financial condition as well as serve as an evaluation material for management to improve performance and maintain stability in the future.

Theoretical Framework

Previous studies have demonstrated that liquidity and solvency are crucial factors in evaluating a company's financial health. Van Horne and Wachowicz (2008) mention that liquidity ratios such as the Current Ratio (CR) serve as key indicators of a company's ability to meet short-term obligations, while Brigham and Houston (2019) emphasize the need to maintain liquidity balance to stay efficient yet operationally flexible. Research in Indonesia, including Yuliana and Nurfadila (2022) and Wulandari (2021), found that CR positively influences financial performance and investor confidence. Regarding solvency, the capital structure theories by Modigliani and Miller (1963) and Myers (2001) explain that proportional debt usage can increase company value, but excessive debt levels pose financial risks. Sartono (2016) also asserts that a Debt to Equity Ratio (DER) that is too high indicates reliance on external capital, while Putri and Widodo (2020) found that high DER can reduce company performance due to increased interest expenses.

Theoretically, liquidity reflects a company's ability to meet current obligations in the short term, while solvency indicates the capacity to settle all liabilities over the long term using equity. These two aspects are interconnected: low liquidity can impair solvency due to delayed debt payments, whereas weak solvency caused by high debt levels can pressure cash flow and reduce liquidity. In the context of the basic materials industry, balancing CR and DER is very important given the sector's characteristics, including long production cycles, high capital needs, and volatile commodity prices. Therefore, these ratios offer a clear picture of how companies manage working capital, risk, and financial stability.

Although this topic has been widely discussed, most previous research focused on the manufacturing and banking sectors. Empirical studies on basic materials companies in Indonesia, especially during the post-COVID-19 pandemic period, remain limited. This situation provides an important basis for this research to analyze how PT Unggul Indah Cahaya Tbk manages its liquidity and solvency from 2020 to 2024. Based on existing theories and findings, the proposed hypotheses are: (H1) liquidity (Current Ratio) positively affects the company's financial stability; (H2) solvency (Debt to Equity Ratio) negatively affects the company's financial stability; and (H3) both variables together significantly influence the financial condition of PT Unggul Indah Cahaya Tbk during that period.

Method

This research uses a descriptive quantitative approach to depict the financial condition of PT Unggul Indah Cahaya Tbk during the period 2020–2024 based on liquidity and solvency ratios. This design was chosen because the study does not aim to test causal relationships but rather to assess the company's financial trends over time, similar to the study conducted by Pratiwi and Arifin (2021) on a similar topic in Indonesian manufacturing companies. The research population includes all basic materials sector companies listed on the Indonesia Stock Exchange, with PT Unggul Indah Cahaya Tbk selected purposively because it has complete and consistent financial data.

The data used are secondary data from the company's annual financial reports obtained through the official Indonesia Stock Exchange website (www.idx.co.id) and the company's official website (www.uic.co.id). Data collection was carried out through documentation methods, which involved tracing, downloading, and reviewing the published financial reports. The research variables consist of the Current Ratio (CR) to measure liquidity and the Debt to Equity Ratio (DER) to measure solvency. These two ratios are calculated using simple formulas as used in the studies by Santoso (2020) and Wibowo (2022), namely

$$CR = \frac{CURRENT\ ASSETS}{CURRENT\ LIABILITIES} \text{ and } DER = \frac{TOTAL\ DEBT}{EQUITY}$$

Data analysis was carried out using financial ratio analysis and trend analysis to evaluate changes in the Current Ratio (CR) and Debt to Equity Ratio (DER) from 2020 to 2024. The results were interpreted by comparing them with commonly accepted financial ratio standards, where CR > 1 and DER < 1 indicate a healthy financial condition. This approach aligns with Situmorang and Lestari (2021) and Aminah and Fadillah (2023), who assessed post-pandemic corporate financial performance through multi-year financial ratio patterns. Therefore, this methodology is expected to provide a clear, objective, and measurable picture of the financial stability of PT Unggul Indah Cahaya Tbk over the past five years.

Results

This section presents the results of the analysis of the liquidity and solvency levels of PT Unggul Indah Cahaya Tbk during the period 2020–2024. The data are presented in tables and graphs to facilitate interpretation and to illustrate the trend of ratio changes from year to year.

The company’s liquidity is measured using the Current Ratio (CR), which represents the ratio between current assets and current liabilities. A higher CR value indicates the company’s stronger ability to meet its short-term obligations. The CR values of PT Unggul Indah Cahaya Tbk for the period 2020–2024 are presented in Table 1.

Table 1. Current Ratio of PT Unggul Indah Cahaya Tbk for the Years 2020–2024

Year	Current Assets (Rp)	Current Liabilities (Rp)	Current Ratio
2020	183.171.159	37.344.463	4,90
2021	235.493.664	47.757.509	4,93
2022	260.416.258	39.890.730	6,53
2023	274.188.445	39.626.034	6,92
2024	282.067.204	36.711.960	7,68

Source: Financial Statements of PT Unggul Indah Cahaya Tbk (2020–2024), data reprocessed

Based on Table 1, the Current Ratio of PT Unggul Indah Cahaya Tbk shows a consistent increase from 4.90 in 2020 to 6.92 in 2023. This trend indicates the company's improving ability to meet its short-term obligations using current assets. The increase also reflects more effective cash and receivables management during the post-pandemic economic recovery period. According to Brigham and Houston (2019), a liquidity ratio above one generally signifies a healthy financial condition. However, an excessively high ratio may suggest that a portion of current assets has not been optimally utilized for operational activities or productive investments. In other words, the company's liquidity performance is considered very strong, yet it should still be balanced with efficient asset management strategies to avoid idle funds.
The company's solvency is analyzed using the Debt to Equity Ratio (DER), which compares total debt to total equity. A low DER indicates that the company relies more on its own capital rather than external borrowing. The DER values of PT Unggul Indah Cahaya Tbk for the period 2020–2024 are presented in Table 2 below.

Table 2. Debt to Equity Ratio of PT Unggul Indah Cahaya Tbk for the Years 2020–2024

Year	Total Debt (Rp)	Equity (Rp)	Debt to Equity Ratio (DER)
2020	43.542.406	198.713.965	0,22
2021	51.998.377	240.725.405	0,22
2022	42.624.419	274.953.256	0,16
2023	44.840.780	290.369.879	0,15
2024	41.076.836	300.370.506	0,14

Source: Financial Statements of PT Unggul Indah Cahaya Tbk (2020–2024), data reprocessed

Based on Table 2, the Debt to Equity Ratio (DER) of PT Unggul Indah Cahaya Tbk shows a consistent downward trend from 0.22 in 2020 to 0.15 in 2023. This decline indicates that the company increasingly relies on its own capital to finance operational and investment activities. According to Ross et al. (2018), a DER value below one reflects a healthy capital structure and low financial risk. This condition demonstrates the company's ability to control its long-term liabilities while maintaining the efficiency of its capital structure. Furthermore, the declining trend reflects a sustainable strategy to strengthen the equity base and reduce dependence on external financing. Overall, this positions the company in a safe zone against default risk and provides strong financial flexibility to support long-term growth.

Discussion

The research results show that the Current Ratio (CR) of PT Unggul Indah Cahaya Tbk increased from 4.90 in 2020 to 7.68 in 2024. This rise indicates an improvement in the company's ability to meet its short-term obligations. This finding aligns with the theory proposed by Brigham and Ehrhardt (2016), which states that a ratio above one reflects a healthy liquidity condition. However, an excessively high value may also suggest that current assets have not been optimally utilized. In the context of the basic materials industry, this demonstrates the company's effective cash management during the post-pandemic economic recovery period.

Meanwhile, the Debt to Equity Ratio (DER) decreased from 0.22 to 0.14 over the same period. This decline reflects a reduced reliance on external financing and a strengthening of the company's equity position. The result supports the capital structure theory by Ross et al. (2013), which asserts that a DER below one indicates low financial risk and a sound capital structure.

Overall, the increase in CR and the decrease in DER illustrate conservative and efficient financial management. This condition enhances the company's financial flexibility in responding to fluctuations within the basic materials industry. Nevertheless, this study is limited to two main ratios; therefore, future research is recommended to include profitability indicators to provide a more comprehensive picture of the company's overall performance.

Conclusion

This study examines the liquidity and solvency levels of PT Unggul Indah Cahaya Tbk during the 2020–2024 period using the Current Ratio (CR) and Debt to Equity Ratio (DER). The analysis results show a consistent increase in liquidity, with the CR rising from 4.90 to 7.68, and a decrease in DER from 0.22 to 0.14. These developments indicate that the company has effectively managed its current assets and has increasingly relied on its own capital for operational funding. This reflects a progressively healthier financial structure and lower financial risk.

From an academic perspective, these findings reinforce the theories of Brigham and Ehrhardt (2016) and Ross et al. (2013), which emphasize the importance of balancing liquidity and capital structure to maintain financial stability. From a practical standpoint, the results provide insights for company management—particularly in the basic materials sector—regarding the importance of maintaining efficient cash management and exercising prudence in debt usage to ensure business sustainability. However, this study is limited to two financial ratios and a single company, thus it does not provide a comprehensive overview of overall financial performance. Future research is recommended to include profitability and efficiency ratios, as well as to expand the scope to multiple companies within the same sector, in order to gain a deeper understanding of post-pandemic financial stability in the basic materials industry.

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