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ANALYSIS OF SOLVENCY AND PROFITABILITY RATIOS TO ASSESS THE FINANCIAL PERFORMANCE OF PT SAWIT DUTA PALMA

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Abstract

The purpose of this study is to use profitability and solvency ratios to assess the financial performance of PT Sawit Duta Palma. A descriptive research design with a quantitative approach was used in this study. Based on the research results, the financial performance of PT Sawit Duta Palma from 2021 to 2023 shows outstanding achievements in profitability, asset utilization efficiency, and debt management. During this period, the company successfully increased its net profit margin from 10% to 40%, indicating excellent financial performance. Return on Assets (ROA) increased from 7% to 34%, reflecting improving efficiency in asset utilization. The recommendation is to continue monitoring and enhancing asset efficiency, as well as considering investments that can boost asset returns. Return on Equity (ROE) also saw a significant increase from 8% to 42%, indicating the company's ability to generate high equity returns.
Keywords: Financial Performance, Solvency, Profitability

Introduction

In the era of globalization and increasingly intense business competition, financial performance analysis becomes a crucial aspect that determines the survival of a company. In a dynamic and challenging business world, a company's ability to survive and grow depends greatly on the stability and effectiveness of its financial performance. PT Sawit Duta Palma, as one of the leading companies in the agribusiness and livestock sector, specifically in the production of animal and poultry feed, faces ever-evolving challenges, both internally and externally. With a competitive business environment and various changes in economic policies, it is essential for the company to ensure that its financial structure is strong and its performance is profitable. Amidst global economic instability and rising competition, the company needs to conduct a thorough evaluation of its financial structure to ensure its business continuity.

The palm oil industry in Indonesia is one of the strategic sectors that significantly contributes to the national economy. Data from the Central Statistics Agency (BPS) shows that in 2023, the palm oil sector accounted for more than 15% of Indonesia's total export value, making it a key commodity in international trade. However, behind these achievements, the palm oil industry faces complex challenges, from global price fluctuations, environmental sustainability issues, to effective financial management. PT Sawit Duta Palma, as a major player in this industry, is not exempt from these challenges, particularly in ensuring financial stability that supports its operational sustainability.

Solvency ratios measure a company's ability to meet its long-term obligations, which is crucial to ensure that the company can operate sustainably without facing serious financial difficulties (Amirudin, 2022). Meanwhile, profitability ratios provide an overview of a company's ability to generate profit from its operations (Dinastya, 2022). This analysis is not only important for management in decision-making but also for investors and creditors to consider when making investment or credit decisions (Munarsah, 2021).

In the face of fierce competition and an ever-changing business environment, it is crucial for companies like PT Sawit Duta Palma to maintain a balance between solvency (the ability to pay obligations) and profitability (the ability to generate profit). Therefore, the analysis of solvency and profitability ratios is highly relevant in evaluating the financial performance of this company. The solvency ratio will provide insight into the company's ability to meet its long-term financial obligations, including debts that may have been issued to expand operations and infrastructure (Umi and Barokah, 2021). Meanwhile, the profitability ratio analysis will provide a view of the company's efficiency in generating profit from its operations. By analyzing the solvency and profitability ratios of PT Sawit Duta Palma, the company can assess its financial performance. The results of this analysis will offer insights into its financial stability, its ability to support the agricultural sector's growth in East Kalimantan, and how it utilizes its financial resources to achieve its strategic goals.

One of the main challenges faced by palm oil companies is the ability to manage debt and generate sustainable profits. Based on financial statements from companies in this sector, many show high debt-to-asset ratios, which can increase financial risks, especially in facing market pressures or unstable economic conditions. On the other hand, fluctuating profitability due to changes in crude palm oil (CPO) prices reflects challenges in maintaining operational efficiency. PT Sawit Duta Palma, despite being known as a company with large-scale operations, also faces solvency and profitability issues that require deeper analysis to ensure its financial performance remains competitive and sustainable.

The analysis of solvency and profitability ratios for PT Sawit Duta Palma is important because it provides a comprehensive picture of the company's financial health, as well as its performance in generating profit. In an increasingly dynamic market, information about solvency and profitability is not only essential for management to make strategic decisions but also for investors, creditors, and other stakeholders to assess the risk levels and potential returns of the company.

Thus, research on the analysis of solvency and profitability ratios to assess the financial performance of PT Sawit Duta Palma becomes highly relevant and necessary. This study will provide a deeper understanding of the company's financial position and the strategic direction it needs to take to enhance its competitiveness and business sustainability.

The problem in this study is how the financial performance of PT Sawit Duta Palma can be assessed based on solvency and profitability ratios. The objective of this research is to determine the financial performance of PT Sawit Duta Palma using solvency and profitability ratios. This serves as a decision-making tool for investing to expand the company's manufacturing strength and provides direction for decision-making and activities within the company in general, and within specific divisions in particular.

Financial Statements

Financial statements are an important component in discussions about financial management. They are useful in the decision-making process as a measure of business performance. Making accurate forecasts and predictions requires careful analysis of financial statements. This is, in fact, the purpose of financial statement analysis. The information in financial statements provides an overview of possible future events, even though these statements actually reflect the company's knowledge of past events. Financial statement users can achieve their goals through detailed analysis.

According to Sutrisno (2018), financial statements such as the income statement and balance sheet can be considered the final products of the accounting process. Financial statements, according to Kasmir (2018:7), should reflect the financial position of the company both currently and at a specific time. According to Munawir (2017), financial statements function as a communication tool for stakeholders involved in the company's activities or financial data because they are the byproducts of the accounting process. Therefore, financial statements can be understood as data that first characterize the company's position before being converted into data showing the company's performance.

Every organization conducts evaluations, and one way that company management controls performance is by comparing and analyzing the financial information accumulated over the past few months. This is done to assess the achievements or performance of the management. The formal efforts made by the company to evaluate the effectiveness and efficiency of its activities over a certain period are known as financial performance.

Financial Performance

Fahmi and Ihram (2018:34) define financial performance as specific metrics used to measure the level of success of a business or organization in generating revenue. Meanwhile, Jumingan (2018:239) defines performance as a reflection of the achievements a company has made in its various operational activities, including aspects related to finance, marketing, cash management and distribution, technology, and human resources. Financial performance, on the other hand, is a company's ability to manage and control its resources. According to Halim (2018:207), the strategic implementation goal of a performance measurement system is for upper management to choose a set of ratios that best represent the company's business plan. These ratios are considered vital for the current and future success of the company. The company's plans will be realized if these components are strengthened.

Profitability

Hery (2018:122) defines profitability as a company's ability to generate profit in relation to its equity, total assets, and sales. Dinastya (2022) defines profitability as a measure of a company's ability to generate profit. According to Sutrisno (2018:16), profitability is the ability of a business to generate profit by allocating all of its capital.

Types of Profitability Ratios

There are various profitability ratios. First, the Net Profit Margin (NPM) is the difference between net profit after tax, interest, and sales. The larger the NPM of a company, the more efficient it is. The industry standard for NPM is 20%, Second, the Return on Equity (ROE), also known as profitability of equity, is the ratio determined by dividing net profit after tax by equity. This percentage indicates how well someone is using their own money. This ratio increases with company performance. The industry average for ROE is 40%. Formula. Lastly, the Return on Investment (ROI), also known as Return on Assets (ROA), is used to show profit from all assets used by the organization. It also reflects the efficiency of all financial resources, including both borrowed and own capital. This ratio increases with company performance. The industry average for ROI is 30%.

Solvency

The ratio used to calculate how much of an organization's assets are financed by debt is called the solvency ratio (leverage). This is the amount of debt a business has compared to its assets. This ratio is often considered useful for evaluating a company's ability to meet all of its long-term and short-term debt obligations in the event of liquidation.

According to Ananda (2022), the solvency ratio serves as an important tool to assess the extent to which a company's assets are financed through loans. The ratio, referred to as "solvency," is used to measure a company's ability to settle its long-term obligations in a liquidation scenario. Meanwhile, a more specific definition of solvency, as explained by Munarsah (2021), indicates a company's ability to meet all financial commitments in the event of liquidation.

Types of Solvency Ratios

a. Debt to Asset Ratio (Debt Ratio)

According to Kasmir (2018:156), the debt ratio is a metric used to assess the extent to which debt finances an organization's assets or how much debt influences the allocation of assets. The formula for calculating the debt ratio is:

Debt to Asset Ratio = Total Debt / Total Assets

b. Debt to Equity Ratio

The debt to equity ratio is a ratio used to analyze debt relative to equity, according to Kasmir (2018:157). This ratio can be calculated by comparing all debts, including current liabilities, with all equity. The Debt to Equity Ratio is calculated using the following formula:

Debt to Equity Ratio = Total Debt / Total Equity

Research Method

This research utilizes a quantitative descriptive analysis method to evaluate numerical data, particularly from the balance sheet and income statement of PT Sawit Duta Palma for the period 2021 to 2023, which reflects the company's business conditions and events. This approach was chosen to perform an analysis of profitability and solvency ratios using various different ratios.

According to Sugiono (2016), the quantitative descriptive analysis method is the analytical approach used in this research. Data analysis using statistics is known as quantitative descriptive analysis. Both descriptive and inferential/inductive statistics can be used. The results of the analysis are then presented and discussed. The data can be presented in the form of tables, frequency distribution tables, line graphs, bar graphs, pie charts, and pictograms. The most important component of a study is the data analysis methodology. The validity of the study remains questionable without data analysis. Reliable study results can only be obtained through data analysis. The type of research conducted must be considered when selecting the data analysis method for the research. The research results are significantly influenced by the data analysis technique.

Results And Discussion

The following is the financial report of PT Sawit Duta Palma from 2021-2023

Table 1. Financial Statement Data

Year	2021	2022	2023
Revenue	18,486,450,000	25,326,684,000	36,940,770,000
Total Assets	27,952,628,000	33,615,304,000	43,438,236,000

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Net Profit	1,819,672,000	6,167,673,000	14,597,319,000
Total Debt	5,078,544,000	7,924,415,000	9,059,666,000
Total Equity	22,874,084,000	25,690,889,000	34,378,570,000

Source: PT Sawit Duta Palma Financial Statements (2024)

Profitability Ratios

Net Profit Margin (NPM)

According to Hery (2018), NPM reflects a company's efficiency in managing operational costs, taxes, and other expenses to maximize net profit from each unit of sales. As a financial performance indicator, a high NPM shows the company's ability to generate significant profit compared to its revenue.

Table 2. Net Profit Margin from 2021 to 2023

Year	Net Profit	Revenue	NPM (%)
2021	1,819,672,000	18,486,450,000	10
2022	6,167,673,000	25,326,684,000	24
2023	14,597,319,000	36,940,770,000	40

Source: Data Processed 2024

In 2021, PT Sawit Duta Palma had a net profit margin of 10%. This means that from each unit of sales, the company retained 10% as net profit after deducting all operational costs, interest, taxes, and other expenses. This level of profitability is fairly good but still has room for improvement. In 2022, there was a significant increase in the net profit margin to 24%. This indicates that the company successfully optimized its operations, possibly by reducing costs or improving operational efficiency. The higher profitability level reflects better financial performance and the company’s ability to generate a larger net profit from its sales.

In 2023, the net profit margin increased even further to 40%. This is an impressive achievement, demonstrating that PT Sawit Duta Palma made significant improvements in operational efficiency and cost management. A profitability rate of 40% shows that the company retained 40% of its sales as net profit, which is very positive for shareholders and investors. Research by Prastowo (2020) indicates that NPM is directly related to management strategies, operational efficiency, and market competitiveness. Companies with high NPM are often considered financially more stable and attractive to investors.

Return on Assets (ROA)

According to Hery (2018), ROA reflects the efficiency of asset use to generate profits. This ratio is an important indicator for investors and management to assess the effectiveness of company resource management. The higher the ROA, the better the company's performance in utilizing its assets to generate profits.

Table 3. Return on Assets (ROA) from 2021 to 2023

Year	Net Profit	Total Assets	ROA (%)
2021	1,819,672,000	27,952,628,000	7
2022	6,167,673,000	33,615,304,000	18
2023	14,597,319,000	43,438,236,000	34

Source: Data Processed 2024

In 2021, PT Sawit Duta Palma's ROA was 7%. This means that the company generated a net profit of 7% from its total assets during that year. This level of ROA indicates that the company made good use of its assets, but there is still room to improve efficiency and generate more profit from the assets. In 2022, there was a significant increase in ROA to 18%. This indicates that PT Sawit Duta Palma significantly improved its use of assets. This improvement could be attributed to increased revenue or reduced operational costs. The higher ROA suggests that the company became more efficient in generating profit from its assets. In 2023, ROA increased even further to 34%. This is an impressive achievement, demonstrating that PT Sawit Duta Palma made substantial improvements in the use of its assets. A ROA of 34% indicates that the company was able to generate significant net profit from its assets. According to research by Warsidi (2022), ROA can be used as a predictive tool to analyze future profit changes. Warsidi concluded that companies with a rising ROA trend have a better chance of maintaining or improving their financial performance in the future, as they show efficient asset management.

Return on Equity (ROE)

According to Hery (2018), ROE is used to assess how efficiently a company uses equity capital to generate profits. A high ROE is typically considered a positive indicator for shareholders as it shows the potential for good returns on investment.

Table 4 Return on Equity (ROE) from 2021 to 2023

Year	Net Profit	Total Equity	ROE (%)
2021	1,819,672,000	22,874,084,000	8
2022	6,167,673,000	25,690,889,000	24
2023	14,597,319,000	34,378,570,000	42

Source: Data Processed 2024

In 2021, PT Sawit Duta Palma's ROE was 8%. This means the company generated a net profit of 8% from the equity invested by shareholders during that year. This level of ROE indicates that the company was able to generate a reasonable profit, but there is potential to increase returns on equity. In 2022, ROE saw a significant increase to 24%. This shows that PT Sawit Duta Palma improved its efficiency in using shareholders' equity to generate profits. This increase could be attributed to higher net profit or improved equity management. In 2023, ROE increased even further to 42%. This is an impressive achievement, indicating that the company made exceptional improvements in generating high returns on equity for its shareholders. A ROE of 42% shows that the company was highly effective in generating net profit relative to the equity invested by shareholders. According to research by Wijaya (2021), profitability ratios, including ROE, are highly relevant for measuring a company’s financial performance. This study found that increasing ROE trends reflect the company’s success in managing equity resources and operational efficiency.

Solvency Ratios

Debt to Assets Rasio

According to Hery (2018), the Debt to Assets Ratio (DAR) is used to evaluate the financial risk of a company in meeting its long-term obligations. The lower this ratio, the less financial risk the company faces in terms of liquidity issues.

Table 5: Total Debt to Assets Ratio for 2021 to 2023

Year	Total Debt	Total Assets	DAR (%)
2021	5,078,544,000	27,952,628,000	18
2022	7,924,415,000	33,615,304,000	24
2023	9,059,666,000	43,438,236,000	21

Source: Data processed 2024

In 2021, PT Sawit Duta Palma's Debt to Assets Ratio was 18%. This means the company used 18% of its total assets to fund its operations with debt. This level can be considered relatively low, indicating that most of the company's assets are funded through equity or its own capital, which can be seen as a positive solvency indicator. In 2022, the Debt to Assets Ratio increased to 24%. This suggests that the company increased its debt usage, possibly for expansion or other significant projects. This increase may be justified

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by growth opportunities or investments requiring additional funding. By 2023, the Debt to Assets Ratio decreased to 21%. This shows that the company either reduced its debt or increased its asset base significantly. The decrease could be the result of more cautious debt management or an improvement in the company's capital structure. Changes in the Debt to Assets Ratio reflect how PT Sawit Duta Palma uses debt as a funding source. A lower ratio generally indicates lower solvency risk, but it may also limit the company's growth potential. Conversely, a higher ratio provides more funding for growth but increases debt-related risks. In this context, changes in the ratio should be evaluated concerning the company's strategy and long-term financial goals. Research by Wulandari (2023) emphasizes the importance of solvency ratios, like the DAR, in assessing the financial health of companies, particularly in the agribusiness sector. The study found that a moderate solvency ratio supports company growth without sacrificing financial stability.

Debt to Equity Ratio (DER)

According to Hery (2018), the Debt to Equity Ratio (DER) is used to measure a company's capital structure, indicating the financial risk associated with the use of debt. This ratio is important because it shows the extent of the company's reliance on debt to finance its operations compared to equity.

Table 6: Debt to Equity Ratio (DER) for 2021 to 2023

Year	Total Debt	Total Equity	DER (%)
2021	5,078,544,000	22,874,084,000	22
2022	7,924,415,000	25,690,889,000	31
2023	9,059,666,000	34,378,570,000	26

Source: Data processed 2024

In 2021, PT Sawit Duta Palma's Debt to Equity Ratio was 22%. This means that the company used 22% of its total equity to fund its operations with debt. This ratio indicates that a small portion of the company's capital came from debt, while the majority was funded by shareholders' equity. This can be considered a relatively low level, suggesting lower solvency risk. In 2022, the Debt to Equity Ratio increased to 31%. This shows that the company increased its use of debt compared to equity. This increase might have been due to growth or investment opportunities requiring additional funding. In 2023, the Debt to Equity Ratio decreased to 26%. This suggests that the company either reduced its debt or increased its equity. The decrease may result from more prudent debt management or an improvement in the company's capital structure. According to research by Yulianti (2022), a moderate DER plays a critical role in maintaining a balance between growth and financial risk, particularly for companies in the agricultural sector. A high ratio may indicate high risk, while a low ratio may limit the company's expansion potential.

Conclusion

PT Sawit Duta Palma has experienced significant improvements in profitability, asset utilization efficiency, and debt management from 2021 to 2023. The company has achieved excellent profitability, with net profit margin rising from 10% in 2021 to 40% in 2023. This indicates very strong financial performance. The recommendation for the company is to maintain and further improve profitability by keeping costs efficient and seeking opportunities for revenue growth. Then, the company's ROA has increased from 7% in 2021 to 34% in 2023. This shows the company has become more efficient in generating profit from its assets. The recommendation is to continue monitoring and improving asset utilization efficiency, as well as considering investments that could enhance asset returns. Moreover, ROE has also increased significantly from 8% in 2021 to 42% in 2023, indicating that the company has been able to generate a high return on equity. The recommendation is to maintain a good balance between the use of debt and equity to maximize returns for shareholders. Then, Despite fluctuations in these ratios, the company has kept its debt levels relatively low compared to its assets and equity. This is a positive sign from a solvency perspective. Based on the conclusions above, the following recommendations are the company should have a clear long-term financial plan that includes growth strategies, capital allocation, and risk management. This will help the company maintain a balance between growth and financial objectives. Then, business diversification could help reduce risks associated with dependence on one sector or product. The company might consider diversifying its business portfolio to mitigate risks. Moreover,

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market and industry monitoring is crucial to identify potential opportunities and threats. This will help the company maintain its competitiveness and adapt to changes in the business environment. Furthermore, the future research should expand the analysis by integrating the impact of external factors, such as changes in government regulations, fluctuations in crude palm oil (CPO) prices, and sustainability issues, on the company's financial performance.

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