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Original Article

Financial Ratio Analysis as a Tool for Evaluating Company Performance at PT. Mettana Engineering Consultant

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Abstract: *This study aims to understand the importance of using ratio analysis as a strategic tool to measure and improve company performance. Financial ratio analysis is one way used to evaluate company performance. To understand the company's condition, PT. Mettana Engineering Consultant was evaluated using financial ratio analysis based on financial statements. Liquidity, solvency, and profitability ratio analysis are some of the methods used to evaluate the performance of PT. Mettana Engineering Consultant. The data examined came from the financial statements of PT. Mettana Engineering Consultant from 2018 to 2022. This research was conducted using descriptive methods. The analysis results indicate that over the five years, the liquidity, solvency, and profitability ratios of PT. Mettana Engineering Consultant has changed. The liquidity ratio shows that the business can cover its immediate debts. A low solvency ratio suggests that the firm can manage its debt. Profitability is a measure of an organization's capacity to turn its assets into cash. Profitability may be better understood and enhanced with the use of financial ratio analysis.*

Keywords: *Company Performance, Liquidity Ratio, Solvency Ratio, Profitability Ratio.*

I. INTRODUCTION

Nowadays, even rival companies operating in the same market may have a major influence on how well a firm does. A corporation has to perform well if it wants to stay in the industry. In facing this competition, company management must understand the financial conditions found in financial reports in order to assess and evaluate the company's performance.

Tyas (2020) states that financial statements are a picture of a firm's health that will later are used to describe how well the company did. To sum up, financial accounts include details on the health and success of the business.

According to Nirawati et al. (2022), a company's performance may be defined as an official effort to evaluate the effectiveness and efficiency of its activities within a certain time period. An organization's performance may be described as its formal effort to assess its efficacy and efficiency within a certain time period.

The company is faced with the challenge of not only achieving financial profits but also maintaining stability and sustainable growth. Therefore, evaluating company performance is very important, as it indicates how well a company can achieve its goals.

One method to evaluate company performance is by conducting a financial ratio analysis on financial statements. Milasari (2023) explains that financial ratio analysis is a tool for comparing and contrasting various accounts in an organization's financial statements. Lastly, analysis of financial ratios is a way to compare and relate the different accounts in a company's financial accounts.

In order to evaluate a company's financial performance, financial analysts utilize a variety of criteria, including liquidity, solvency, profitability, and activity ratios (Oktavianie & Novianti, 2022). Financial ratio analysis becomes an important tool for assessing overall company performance. This tool also enables companies to measure and compare various financial performance components, from liquidity to profitability.

PT. Mettana Engineering Consultant is a company engaged in engineering, science, industry, development, and construction. The company was established in 1976. The head office is located in Arcamanik Housing, Jl. Aero Modeling IV No. 2, Kec. Arcamanik, Kota Bandung, West Java. PT. Mettana Engineering Consultant is determined to become a leading construction consulting service provider. Therefore, financial statement analysis is necessary to assess the company's development conditions.

Based on the financial ratio analysis of PT. Mettana Engineering Consultant's income statement and balance sheet for the years 2018–2022, the researcher assessed the company's financial performance. The researcher may learn about the company's profitability, solvency, and liquidity by looking at the balance sheet and income statement. The researcher picked the title "Financial Ratio Analysis as a Tool for Evaluating Company Performance at PT. Mettana Engineering Consultant" after seeing the description.

This research aims to understand the importance of using ratio analysis as a strategic tool for measuring and improving company performance. By focusing on liquidity, solvency, and profitability, various financial and operational aspects that form the foundation of company health can be uncovered. Companies can strengthen their position in achieving long-term success and progress by focusing on the use of ratio analysis as a strategic tool. This analysis is not only a review of the past but also serves as the basis for providing strategic recommendations to achieve future company performance.

II. METHOD

This study used a descriptive approach. Research that aims to characterize the outcomes of a study is known as descriptive research (Ramdhan, 2021). This type of research aims to provide descriptions, explanations, and validation of the phenomena under study.

Secondary data is used as the data source for this research. Secondary data is data collected through intermediaries such as books or financial reports. The data used is the financial report data of PT. Mettana Engineering Consultant from 2018 to 2022. The analytical tool for this research is financial ratios, including liquidity, solvency, and profitability ratios.

III. RESULTS AND DISCUSSION

A) Results

The financial report data of PT. Mettana Engineering Consultant for the last five years, calculated from 2018, 2019, 2020, 2021, and 2022 using liquidity ratio analysis, solvency ratio, and profitability ratio are as follows:

a. Liquidity Ratio

An indicator of a business's liquidity or its capacity to meet its short-term obligations. Finding out how well a business can cover its immediate debts with its current asset base is what this ratio is all about.

i. Current Ratio

To determine if a business can meet its short-term commitments with its current cash on hand, one might look at its liquidity ratio. A high CR indicates that a corporation has sufficient liquid assets to cover its immediate debts.

Current Ration= Current Assets / Current Liabilities

ii. Cash Ratio

This ratio shows how easily a corporation can pay its short-term bills using its cash and other liquid assets. The capacity to meet immediate financial commitments is directly proportional to the CR.

Cash Ratio= Cash / Current Liabilities

Table 1: Liquidity Ratio Calculation Results of PT. Mettana Engineering Consultant

Year	2018	2019	2020	2021	2022
Current Ratio	1,20	1,74	1,45	1,36	1,43
Cash Ratio	0,91	0,83	0,34	0,49	0,46

Source: *The data was processed by the researcher in 2024*

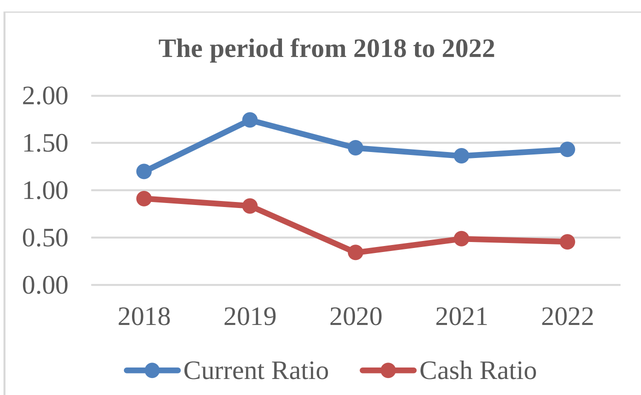

Figure 1: Liquidity Ratio Calculation Results of PT. Mettana Engineering Consultant

Source: *The data was processed by the researcher in 2024*

b. Solvency Ratio

Reducing long-term debt is one indicator of a company's solvency. This ratio provides a prospective view of a company's debt burden and its capacity to repay it over the long run.

i. Debt to Total Assets Ratio

The ratio illustrates the extent to which a company's total assets are financed by debt. A higher DTA indicates that the company is financing a larger amount of debt.

Debt to Total Assets Ration= Total Debt / Total Assets

ii. Debt to Equity Ratio

One way to look at a company's capital structure is by comparing its debt-to-equity ratio. A greater Debt-to-Equity Ratio (DER) indicates that debt is funding a larger portion of the firm's capital.

Debt to Equity Ratio = Total Debt / Owner's Equity

Table 2: Solvency Ratio Calculation Resut of PT. Mettana Engineering Consultant

Year	2018	2019	2020	2021	2022
Debt to Total Assets Ratio	0,81	2,36	0,60	0,66	0,65
Debt to Equity Ratio	3,92	4,84	1,49	1,92	1,88

Source: *The data was processed by the researcher in 2024*

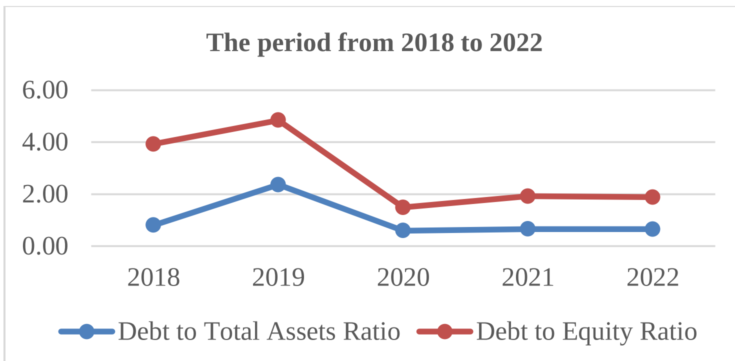

Figure 2: Solvency Ratio Calculation Results of PT. Mettana Engineering Consultant

Source: *The data was processed by the researcher in 2024*

c. Profitability Ratio

The ratio calculates the level of profit earned while the company is operating. Finding out how much of a return on investment and profit the firm can provide to shareholders is what this ratio is all about.

i. Return on Assets

Calculating the efficiency with which a business turns its assets into cash. An indicator of a business's financial health is its return on assets (ROA).

Return to Assets = Net Income after Tax / Total Assets

ii. Return on Equity

Measuring the level of return that shareholders obtain from their investment in the company. A greater return on equity indicates that the firm is doing an excellent job of making money for its shareholders.

Return on Equity = Net Income after Tax / Total Owner's Equity

Table 3: Profitability Ratio Calculation Resut of PT. Mettana Engineering Consultant

Year	2018	2019	2020	2021	2022
Return on Assets	0,06	0,13	0,07	0,05	0,06
Return on Equity	0,31	0,27	0,17	0,14	0,17

Source: *The data was processed by the researcher in 2024*

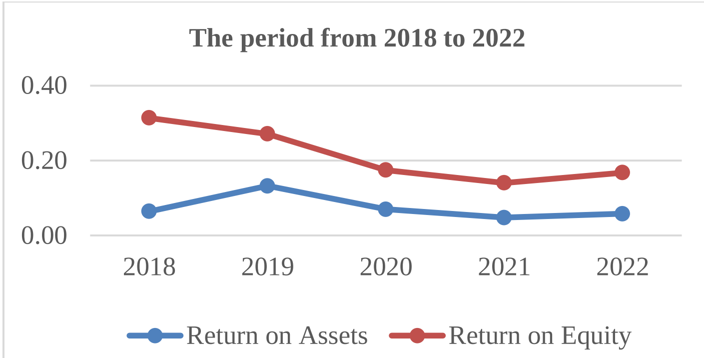

Figure 3: Profitability Ratio Calculation Results of PT. Mettana Engineering Consultant

Source: *The data was processed by the researcher in 2024*

B) Discussion

a. Liquidity Ratio

Table 1 and Chart 1, the results of the liquidity ratio research of PT. Mettana Engineering Consultant shows a significant fluctuation in each year. The low level of current assets held by PT. Mettana Engineering Consultant in 2018 was shown by its Current Ratio of 1.20, which is 120%. The jump from 1.20, or 120%, to 1.74, or 174%, in 2019 shows that the business can cover its immediate debts. The company's liquidity declined in 2020 as the ratio fell from 1.74, or 174%, to 1.45, or 145%. The fact that the Current Ratio kept falling in 2021, from 1.45 or 145% to 1.36 or 136%, suggests that the business would have trouble meeting its short-term commitments. An improvement in the company's liquidity was shown by a rise from 1.36, or 136%, to 1.43, or 143%, in 2022. In general, PT. Mettana Engineering Consultant has sufficient liquid assets to meet its immediate financial commitments for the whole year.

The cash is on hand at PT. Mettana Engineering Consultant was more than sufficient to meet most of its short-term obligations in 2018, with a Cash Ratio of 0.91, or 91%. In 2019, it had a considerable increase in its capacity to pay down its short-term obligations with cash, decreasing from 0.91 in 2018 to 0.83. In 2020, the company's short-term obligations would be difficult to meet with the current cash on hand due to the sharp decline from 0.83, or 83%, to 0.34, or 34%. After a slight rise in 2021 (from 0.34 or 34% to 0.49 or 49%), the business tried to pay its short-term obligations using cash. There was a slight decline in 2022, from 0.49, or 49%, to 0.46, or 46%, indicating that the company can partly satisfy its short-term commitments—the capacity of PT. Mettana Engineering Consultant to pay its short-term debts in cash has changed over time. Despite the significant decrease in 2020, the company managed to increase its cash ratio in the following years.

b. Solvency Ratio

From Table 2 and Chart 2, the results of the solvency ratio analysis of PT. Mettana Engineering Consultant shows fluctuations in each year. With a debt-to-assets ratio of 0.81 in 2018, PT. Mettana Engineering Consultant was able to fund 81% of its total assets with debt. The bulk of the company's assets were funded by debt in 2019, as the ratio increased significantly from 0.81 or 81% to 2.36 or 236%. A steep drop from 2.36, or 236%, to 0.60, or 60%, in 2020 suggests the firm may have decreased its debt and is beginning the path of financial recovery. In 2021, there was a slight increase from 0.60 or 60% to 0.66 or 66%, indicating that the amount of assets financed by debt slightly increased compared to the previous year. In 2022, there was a slight decrease from 0.66 or 66% to 0.65 or 65%, indicating that the company still has assets financed by debt. Overall, PT. Mettana Engineering Consultant experienced a change in the debt-to-total assets ratio. Although there was a significant increase in 2019, indicating high risk due to high leverage, the company successfully reduced its debt significantly in 2020 as part of its financial recovery efforts.

The Debt to Equity Ratio of PT. Mettana Engineering Consultant in 2018 was 3.92 or 392%, indicating that the company was highly dependent on debt. In 2019, there was an increase from 3.92 or 392% to 4.84 or 484%, suggesting that the company was likely relying on debt as a source of financing. In 2020, there was a significant decrease from 4.84 or 484% to 1.49 or 149%, indicating that the company may have increased its equity or decreased its debt level. In 2021, there was an increase from 1.49 or 149% to 1.92 or 192%, showing that the company's dependency on debt as a source of financing had slightly increased. In 2022, there was a slight decrease from 1.92 or 192% to 1.88 or 188%, indicating that the company still had a large amount of capital financed by debt. Overall, PT. Mettana Engineering Consultant experienced a significant decrease in 2020, and the company's dependency on debt remained quite high until 2022 due to changes in the fluctuation of the debt-to-equity ratio.

c. Profitability Ratio

Table 3 and Chart 3 show the results of the profitability ratio analysis of PT. Mettana Engineering Consultant shows fluctuations each year and indicates relatively stable performance—the Return on Assets (ROA) of PT. Mettana Engineering Consultant was 0.06 or 6% in 2018, indicating that the company generated a profit of 6% from its total assets. In 2019, there was a significant increase from 0.06 or 6% to 0.13 or 13%, indicating that the company generated a profit from its assets within one year. In 2020, there was a slight decrease from 0.13 or 13% to 0.07 or 7%, indicating that the company experienced a decrease in using its assets to generate profits. In 2021, there was a decrease from 0.07 or 7% to 0.05 or 5%, indicating that the company was able to generate profits from its assets compared to the previous year. In 2022, there was an increase from 0.05 or 5% to 0.06 or 6%, indicating that the company succeeded in generating profits effectively from its assets. Overall, PT. Mettana Engineering Consultant tends to be stable with fluctuations in ROA, although ROA changes every year. The increase in ROA in 2022 indicates the company's efforts to improve its financial performance.

The Return on Equity of PT. Mettana Engineering Consultant in 2018 was 0.31 or 31%, indicating that the company generated profit and return for shareholders. In 2019, there was a decrease from 0.31 or 31% to 0.27 or 27%, indicating that the company's profitability decreased. In 2020, there was a further decrease from 0.27 or 27% to 0.17 or 17%, suggesting that the company may have difficulty generating profit. In 2021, there was a decrease from 0.17 or 17% to 0.14 or 14%, indicating a decline in profit generation compared to the previous year. In 2022, there was an increase from 0.14 or 14% to 0.17 or 17%, showing that the company has made improvements in generating profit from its equity. Overall, PT. Mettana Engineering Consultant was unable to generate adequate profit for shareholders over the five years. Although there was a significant decrease in 2020 and 2021, the increase in 2022 indicates efforts to improve the company's financial performance.

IV. CONCLUSION

The following findings are derived from the financial ratio study of PT. Mettana Engineering Consultant conducted from 2018 to 2022, as well as the accompanying discussion:

1. If we look at the company's liquidity ratios—the current ratio and the cash ratio—we can see that it can pay its short-term obligations off without any problems, even if the current ratio went down from 2020 to 2021. The cash ratio went down from 2020 to 2022.
2. Based on the Solvency Ratios through Debt to Total Assets and Debt to Equity analysis, it can be observed that the company has been effectively reducing its debt, despite a decrease in Debt to Total Assets from 2020 to 2021 and a decline in Debt to Equity in 2020 and 2022.
3. The corporation is able to make good use of its assets, according to the Profitability Ratio calculated by analyzing Return on Equity and Return on Assets. However, both metrics saw declines between 2020 and 2022 and 2020 and 2021, respectively.

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