



# Capital structure moderation on the effect of net profit margin on company value in the manufacturing company sector for the 2015-2019 period

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## ABSTRACT

This study investigates the interaction between capital structure, net profit margin, and company value in the manufacturing sector in Indonesia. The goal is to gain insight into how these factors interact and affect the overall value of a company in a particular region and industry. This analysis uses quantitative methods based on financial data and relevant metrics for a sample of 30 manufacturing companies operating in Indonesia. This study examines the relationship between capital structure, net profit margin, and company value through statistical analysis and linear regression modeling techniques with SPSS version 26. The results showed that capital structure net profit margin significantly affected the company's value in the manufacturing industry. The capital structure reinforces the effect of the net profit margin on the company's value. The findings contribute to the existing literature on company valuations by providing empirical evidence specific to the manufacturing sector in West Java. The research has implications for policymakers, investors, and managers, as it offers valuable insights into the factors that drive corporate value in the industry, helping stakeholders make decisions and strategies to improve performance and competitiveness. Provide benefits in the context of financial management.

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## 1. INTRODUCTION

Fierce competition makes many companies take steps to optimize their company value to survive in the business world. Company value is a measure of success in implementing financial functions and describes company owners' welfare (Yuvia & Wijaya, 2023). Company value can provide maximum shareholder prosperity if the stock price increases; the higher the share price of a company, the higher the level of shareholder prosperity (Anggraini & Yudiantoro, 2023; Nanang Qosim, 2021). The current phenomenon in the service and trade sectors has decreased for three consecutive weeks in 2017. This is because market participants will look for other industries in the oversold area. But the sector is still optimistic that it is predicted to have the potential to bounce back (rebound). Moreover, several large-cap issuer stocks in the trade and services sector remain attractive to market participants (Karmilah et al., 2023; Setyawati, 2019).

Optimizing company value is one way to attract investors to reinvest in companies seen from rising stock prices. Maximizing company value generally indicates maximizing stock price. A

company is said to have good value if its performance is also good (Prasongko & Hirawati, 2022). Many factors affect the company's value, including capital structure and profitability, which are critical information for investors. In addition to the capital structure and profitability level, investors usually also focus on dividend policy. This is because the company's value can also be reflected in its ability to pay its shareholders dividends (Supriandi & Masela, 2023). Company value is a picture of public confidence in a company for the results achieved after going through the process of activities for several years. Increasing the company's value means that the owner's welfare will also increase, so expanding the company's value will be considered an achievement. The company's value is significant because its high value influences the high prosperity of shareholders. (Wahyu & Mahfud, 2018).

Company value is the company's performance reflected by stock prices formed by demand and supply in the capital market, which reflects the public's assessment of the company's performance. Company value can be seen from the company's stock price; if the company's stock price is high, then the company's value will increase (Gu et al., 2024; X. Gu et al., 2023; Julia, 2019). Measurement of company value based on book value and market value of equity is less representative (Nguyen et al., 2023; Zhang et al., 2023). Therefore, investors can consider other company performance measurements as a basis for valuing the company (Supsermpol et al., 2023; Zhang et al., 2023). One alternative measurement of company performance that can be used is to combine the book value and market value of equity, namely through Tobin's Q ratio. This ratio is measured from the market value of equity plus the book value of total liabilities, then divided by the book value of total assets (Hariati & Rihatiningtyas, 2016).

Net profit margin is a ratio used to indicate a company's ability to generate net profit after taxes. The greater the NPM, the more productive the company's performance will be, increasing investor confidence to invest in the company (Amalya et al., 2018). Net Profit Margin is a ratio that compares margin and sales and is measured as a percentage. A high profit ratio indicates the company's ability to generate net profit on certain deals. If the profit margin ratio increases, then future revenue is expected to increase; the net profit income is more significant than operating income, so the ability to generate net profit rises, eventually increasing revenue (Marlina, 2019). Net Profit Margin (NPM) is a ratio used to measure the overall effectiveness in generating sales and controlling costs. Net Profit Margin (NPM) is the last calculation of profit earned after deducting tax or can be said to be net profit. The greater the net profit value, the greater the Net Profit Margin value (Bionda & Mahdar, 2017).

Capital structure balances fixed short-term debt, long-term debt, preferred stock, and common stock. Capital structure is the mix or proportion of long-term permanent funding of an enterprise represented by debt, preferred stock, and common stock equity (Chen et al., 2023; Wang & Luo, 2024). This study uses Debt to Equity Ratio (DER) to provide capital structure variables. Capital structure refers to the composition of a company's sources of financing, including debt and equity. This is an important decision for companies because it affects the cost of capital, financial risk, and ability to conduct investment opportunities (Luo et al., 2023; Rehan et al., 2023). An optimal capital structure can increase the value of a company by minimizing financing costs and maximizing the use of financial leverage.

On the other hand, an inefficient or suboptimal capital structure can hinder value creation. A company's capital structure refers to the mix of debt and equity used to finance its operations. Decisions regarding optimal capital structure have been a topic of extensive research in corporate finance (Chen et al., 2023; Niu et al., 2023). According to traditional trade-off theory, companies aim to balance the tax advantages of debt and the costs associated with financial hardship. A company's value does not depend on its capital structure in a perfect capital market. However, in the real world, with taxes, bankruptcy fees, and agency issues, capital structure can affect a company's value. Many empirical studies have investigated the relationship between capital structure and firm value. Capital structure has a significant influence on the value of the company. Profitability has a positive and considerable impact on value (Yao & Luo, 2023).

This study empirically investigates the moderation of capital structure on the effect of net profit margin on company value. By examining these factors moderately and partially, we aim to

contribute to the existing literature and provide practical implications for decision-makers in the industry, theoretically contributing in the context of financial management.

## 2. RESEARCH METHOD

This study used a descriptive quantitative research method with a causal approach. The source of the retrieved data is secondary data. The researcher receives secondary data and directly measures the object under study. However, researchers use data from an institution whose data has been published. The population in this study is 213 manufacturing companies in Indonesia listed on the Indonesia Stock Exchange. In sampling, the author uses purposive sampling techniques in as many as thirty manufacturing company sectors published under the research variables that the author analyzed from 2015 to 2019. Data is collected by observation. Observations are made on all data sources under the unit of observation/analysis determined in the study. Data sources for the study were obtained from websites such as manufacturing sector companies in Indonesia, the Indonesia Stock Exchange website <http://www.idx.co.id>, and companies sampled in this study. This data analysis method makes it easier for researchers to manage and analyze data with the help of the SPSS version 26 program. This data was tested by descriptive analysis followed by classical assumption tests, including data normality, heteroscedasticity, diversity, and autocorrelation. Then, the authors continued with multiple linear regression tests. The authors used the t-test and moderating regression analysis (MRA) test to test the hypothesis. The author formulates research hypotheses, namely H1: net profit margin significantly affects company value, H2: capital structure significantly impacts company value, and H3: Capital structure moderates the effect of net profit margin on company value.

## 3. RESULTS AND DISCUSSIONS

Before conducting linear regression and moderating regression analyses, table 1 regarding data normality with One-Sample Kolmogorov-Smirnov Test. The following are the results of the classic assumption test from normality data that are proven to be normally distributed data, as seen in Table 2 below.

**Table 1.** One-sample kolmogorov-smirnov test

One-Sample Kolmogorov-Smirnov Test		Unstandardized Residual
N		149
Normal Parameters <sup>b</sup>	Mean	.0000000
	Std. Deviation	256.22275976
Most Extreme Differences	Absolute	.153
	Positive	.153
	Negative	-.116
Test Statistic		.153
Asymp. Sig. (2-tailed)		.121 <sup>c</sup>
a. Test distribution is Normal.		
b. Calculated from data.		
c. Lilliefors Significance Correction.		

Table 1 shows the magnitude of Kolmogorov-Smirnov's normality; the 2-tale significance normality test is Unstandardized Residual 0.121), which is residual data having a significance value greater than 0.05. It can be concluded that the data is typically distributed. The following multicollinearity test results can be seen in Table 2 below.

**Table 2.** Multiklonieritas test

Model	Tableicients <sup>a</sup>	Collinearity Statistics	
		Tolerance	VIF
1	Net Profit Margin	.467	2.142
	Struktur Modal	.512	1.954

a. Dependent Variable: Company Value

The multicollinearity test obtained a Variance Inflation Factor (VIF) value of  $> 10$  and a Tolerance value of  $> 10$ . The result of the decision for the multicollinearity test is that if the tolerance value  $< 0.10$  and  $VIF < 10$ , it can be interpreted that there are no symptoms of multicollinearity, so it can be concluded that the model used does not contain signs of multicollinearity. The results of linear regression analysis can be seen in Table 3 below.

**Table 3.** Regres regressionr test

Model	Coefficients a				
	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	57.548	56.550		1.018	.311
1 Net Profit Margin	.377	.070	.589	5.389	.000
Capital Structure	.744	.328	.237	2.268	.025
Moderating	-.001	.001	-.215	-2.040	.043

a. Dependent Variable: Company Value

The positive constant of 57,548 means that if the net profit margin and capital structure value are equal to zero, then the level or magnitude of the company's value is still 57,548. The regression coefficient of the net profit margin variable has a positive value of 0.377, which means that if the value of the net profit margin increases one hundred percent, then the company's value rises 0.377 times. The value of the regression coefficient of the capital structure variable is positive by 0.744. This explains that if the value of the capital structure increases by one hundred percent, then the variable value of the company increases by 0.744 times. The following are the results of the analysis in hypothesis testing presented in Table 4 below.

**Table 4.** Hipotesis test

Variable	T-value	P-values	Result
NPM → CV	5.389	.000	Accepted
CS → CV	2.268	.025	Accepted
NPM × CS → CV	-2.040	.043	Accepted

Source: Results of research data processing

The first finding in this study is the first hypothesis that the variable net profit margin affects the company's value. Net profit margin is a ratio used to indicate a company's ability to generate net profit after taxes. The greater the NPM, the more productive the company's performance will be, increasing investor confidence to invest in the company (Amalya et al., 2018). Net Profit Margin is a ratio that compares margin and sales and is measured as a percentage. A high profit ratio indicates the company's ability to generate net profit on certain sales. If the profit margin ratio increases, then future revenue is expected to increase; the net profit income is greater than the operating income, so the ability to generate net profit increases, ultimately increasing revenue (Marlina, 2019).

The second finding that became a hypothesis in this study was that capital structure variables affect company value. Capital structure balances fixed short-term debt, long-term debt, preferred stock, and common stock. Capital structure is the mix or proportion of long-term permanent funding of an enterprise represented by debt, preferred stock, and common stock equity (Chen et al., 2023; Wang & Luo, 2024). This study uses Debt to Equity Ratio (DER) to provide capital structure variables. Capital structure refers to the composition of a company's sources of financing, including debt and equity. This is an important decision for companies because it affects the cost of capital, financial risk, and ability to conduct investment opportunities (Luo et al., 2023; Rehan et al., 2023).

The third finding in this study is that moderating capital structure strengthens the effect of net profit margin on company value. An optimal capital structure can increase the value of a company by minimizing financing costs and maximizing the use of financial leverage. On the other hand, an inefficient or suboptimal capital structure can hinder value creation. A company's capital structure refers to the mix of debt and equity used to finance its operations. Decisions regarding optimal capital structure have been a topic of extensive research in corporate finance (Chen et al.,

2023; Niu et al., 2023). In contrast, Net Profit Margin (NPM) is a ratio used to measure all effectiveness in generating sales and control costs. Net Profit Margin (NPM) is the last calculation of profit earned after deducting tax or can be said to be net profit. The greater the net profit value, the greater the Net Profit Margin value (Bionda & Mahdar, 2017). Company value is the company's performance reflected by stock prices formed by demand and supply in the capital market, which reflects the public's assessment of the company's performance. Company value can be seen from the company's stock price; if the company's stock price is high, then the company's value will increase (Gu et al., 2024; X. Gu et al., 2023; Julia, 2019).

#### 4. CONCLUSION

From our research and discussion results, the author concludes, including the first hypothesis, the significant effect of net profit margin on company value. The second hypothesis suggests a considerable influence of capital structure on the company's value. Then, the theory of the three variables of moderating capital structure reinforces the effect of net profit margin on company value. To increase the company's value through the management of capital structure, profitability, and liquidity, the company must pay attention to the optimal composition of the capital structure, the level of profitability, and financial liquidity. Some things that can be done are increasing the company's profitability by increasing revenue, maintaining financial ratios so that the company's value becomes high, and paying attention to the optimal composition of the capital structure. The research has practical implications for managers, emphasizing the importance of making informed capital structure decisions, increasing profitability through operational efficiency, and driving market liquidity to increase company value. In addition, investors can leverage these findings to assess the factors driving a company's value in the manufacturing industry and make informed investment decisions. Policymakers can also leverage these findings to develop policies that facilitate access to financing, encourage profitability-enhancing initiatives, and promote a liquid market environment. The authors hope this research can theoretically contribute to this context's financial and banking management literature.

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