

FINANCIAL RATIO ANALYSIS OF PT KRAKATAU STEEL LTD: PRE AND POST MINISTRY OF HOME AFFAIRS REGULATION

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ABSTRACT

PT. Krakatau Steel (Persero) LTD is a state-owned company with the largest steel in Indonesia, and it was founded in 1970 at Cilegon, Banten. Based on the data that was found, there were drastic changes in numbers and this might have happened because of their internal issues within the company. This research aimed to measure the financial performance of the PT Krakatau Steel LTD and to examine the differences before and after the regulation made by the Ministry of Home Affairs to PT Krakatau Steel (Persero) LTD. The purpose of this journal is to analyze financial performance through financial ratio analysis and a statistical t-test using a financial statement from PT Krakatau Steel (Persero) LTD from 2016 - 2019. The results of this research can conclude that PT Krakatau Steel (Persero) LTD conducts Ministry of Home Affairs regulation Number 22, 2018, which gave a significant impact to PT Krakatau Steel (Persero) LTD. The company had a slump during 2018 and slowly began to rise the performance percentage afterward, even though the numbers themselves still are considered very low than average for 5 years.

Key words: Financial Performance, Financial Ratio Analysis, Ministry of Home Affairs Regulation

RESEARCH OBJECTIVE

In order to make this research be more direct, the authors provide research limitations to aim:

- Analyze whether there are significant differences in the company financial performance two years pre (2016-2017) and post (2018-2019) based on t-test statistical method
- Analyze the financial ratio analysis pre (2016-2017) and post (2018-2019) of PT Krakatau Steel (Persero) LTD through financial ratio analysis

INTRODUCTION

State-Owned Enterprise (SOE) is a form of business organization formed by the government through legal means, therefore it could do commercial activities on behalf of the government. Usually, they are managed and controlled by the government. The majority of the shareholders are usually owned by the government and play important roles in economics, especially in Asia. (ADBI,2019) Therefore it's important to know the financial performance of the firms. The financial performance is to measure capability and evaluate the performance from the firms and be the decision making from the company to decide to plan, organize and how to apply it in order to make the firms run smoothly. (Chashmi NA, Fadaee M, 2016)

Krakatau Steel is an Indonesian State-Owned Enterprise engaged in the steel industry since 1970. Krakatau Steel ability to provide additional strength for partners, through every asset that is owned both in terms of Human Resources and Infrastructure capabilities. They have twenty subsidiaries with a diversified business empire, which includes high-added-value steel production, utility industry, infrastructure industry, engineering procurement and construction services, and information technology and medical services for both the domestic and the international market products consisting of PT Krakatau Wajatama (steel and reinforcement manufacturer), PT Krakatau Daya Listrik (distributor and producer of electricity), PT KHI Pipe Industries (steel pipe manufacturer), PT Krakatau Industrial Estate Cilegon (real estate and hotels), PT Krakatau Engineering (engineering and construction), PT Krakatau Information Technology (information technology), PT Meratus Jaya Iron & Steel (Iron and steel manufacturing), PT Krakatau National Resources (mining product processing industry) and others.

PT Krakatau Steel (Persero) LTD still posted losses over the past year. It was recorded that the company suffered a net loss of US \$ 171.69 million. In the company's financial statements, the net loss suffered by this state-owned steel company was recorded to have decreased by 46.35 percent from US \$ 320.02 million in 2015. The decrease in losses was due to the company's revenue growing even though it was thin, namely 1.51 percent to US \$ 1.34 billion from the previous US \$ 1.32 billion. The increase in revenue was certainly supported by the increase in the company's sales volume over the past year. PT Krakatau Steel (Persero) LTD recorded a loss throughout 2017. This steel producer is the only state-owned company that has performed poorly under the guidance of the deputy in the mining business and strategic industries. PT Krakatau Steel (Persero) recorded a loss of IDR 1.17 trillion in 2017 or down from its 2016 position of IDR 1.92 trillion. In 2018, Quoted from the Annual Report, the company posted a loss for the year of 77.16 million US dollars or around Rp 234 billion. This loss was caused by debt restructuring which continued to accumulate up to trillions.

Therefore, the reason the authors decided to choose this topic with the title Financial Ratio Analysis of PT Krakatau Steel LTD: Pre and Post Ministry of Home Affairs Regulation because, first, PT Krakatau Steel LTD is one of the state-owned enterprises that has a not-good impression in terms of debt and drastic inclined in economic, when SOE supposed to survive to make the activities of the business keep running. In addition, during 2018 the company identified the impact that drastically changed caused by the emergence of Ministry of Home Affairs Regulation number 22 in 2018, which regarding the regulation of steel imports to

Indonesia, that gave impact to the competitiveness of the firm. The import from China, has much lower price compared to PT Krakatau Steel LTD, which leads to drastic decrease of financial performance from the company. Hence, according to the situation, authors wanted to see the financial performance throughout the years and measure whether the company still considered performing well despite the drastic inclined changes because of the regulation and also would like to know how the company situation would be after the revision of the regulation by the end of 2018.

LITERATURE REVIEW

a. The Regulation of Minister of Home Affairs Number 22 (2018)

PT Krakatau Steel LTD has been experiencing sales pressure due to the high consumption of imported steel compared to domestic local steel. These conditions prevented Krakatau Steel from maximizing its sales in the country, even though the company currently holds the largest market share in the country. The large number of imported steel products that have entered Indonesia so far is due to the existence of Regulation of the Minister of Home Affairs (PERMENDAG) Number 22 in 2018 which is considered to be detrimental to the domestic steel industry. How could it not be, importers use the rules to change the harmonized system number (HS number) from carbon steel to alloy steel. Even though this rule is actually intended to speed up dueling time, it is actually used to avoid taxes and import duties into Indonesia. Before the regulation was revised, last year domestic demand for steel reached 13.6 million tons. Of this need, 52% is met from imported products, while the rest is only covered by local products. Then, in 2018 the import portion actually increased to 55% of the total national need which reached 14.2 million tons. In terms of the trade balance, the deficit experienced as a result of steel imports reached US \$ 4.56 billion, with steel exports at US \$ 3.34 billion and steel imports at US \$ 7.99 billion.

b. Previous Financial Analysis

A lot of studies have already been published with how financial performance could be measured by Financial Ratio Analysis and t-test statistical methods. In order to write a research, authors decided there is relevant study literature that is in-line with our research. First, with a title 'Analysis of Financial Performance Development of PT Krakatau Steel (PERSERO) LTD due to Financial Restructuring and Investment to Improve Competitiveness' by Jesselyn Evania Iskandar. The study explained using a descriptive method and by using data taken by the annual report of PT Krakatau Steel in 2014-2018. This research is about explaining the financial restructuring and development of financial performance from the company based on the result from financial ratio analysis. The purpose of the research is to know why the effort of financial restructuring and investment programs that the company conducted seemed to be ineffective and want to know what is the problem that made those programs didn't work out.

The other one is The Financial Performance Analysis of Indonesia State-Owned Mining Companies: Pre & Post Sub-holdings Reformation (Saham Dwiwarna). The purpose of this literature is to analyze the implications of the sub-holdings reformation by estimating crucial differences in the financial performances pre and post-sub-holdings reformation based on the official audited financial reports in 2016 – 2019. The method that is used by the literature is measurement by financial ratio analysis and t test statistical method. The study also mentioned that by using the t test statistical method, it could compare means between two groups and could test whether the differences are significant statistically between them. After knowing the differences between the objectives, the research mentioned there is no significant difference for the rest of the company's financial performance for two years pre (2016-2017) and post (2018-2019) the sub-holding reformation. Hence after the reformation, the company was able to strengthen their position in the mining industry by raising their business capacity in the middle of the intense industry competition.

The last is The Financial Reports of PT Krakatau Steel (PERSERO) LTD in the 2010-2014 year, and aims to find out profit growth in 2010-2014. The methods used in this research are the statistical test results or partial test current ratio. There is no influence between the current ratio against the profit growth. Variable total asset turnover there was no influence between total asset turnover against profit growth at PT Krakatau Steel (Persero) LTD 2010-2014 period. After knowing the differences between the objectives, the research mentioned there is no significant difference for the variable ratio in current ratio towards growth profit in PT Krakatau Steel (PERSERO) LTD in the 2010-2014 year. For the financial ratio analysis, PT Krakatau Steel (PERSERO) LTD in the 2010-2014 fluctuated. The low financial ratios at PT. Krakatau Steel (Persero) LTD from 2010-2014 is a sign of the company's ability to managing the assets in fulfill its obligations current account, in measuring the ratio between total debt and total assets, and in meeting the company's overall capabilities in make a profit with the total amount of available assets in the company.

METHODOLOGY

Research Design

This study aimed to know about the performance of PT Krakatau Steel Financial Ratio Analysis Pre and Post Ministry of Home Affairs Regulation. The major problems that the company faces are financial crises that need to be fixed caused by internal and external problems.

Research Approach

With the data collected, Authors will explain the research using quantitative methods.

Method of Analysis

The Method of Analysis of this research will be mostly represented with financial ratio analysis and T-test statistical method. For primary data, we used Regulation data from the Ministry of Home Affairs and for secondary data, we used journals and articles from websites as data support.

Financial Ratio Analysis

Financial statements aimed to get information regarding the overall performance and activities of the organization or firms to all the interested parties. Therefore through financial statements, it could show financial strength and weaknesses from the organization in order to know what they should do and fix regarding the matters and also could help investors to know more about the firms. Therefore, to get the financial statement, ratio analysis is one of the methods to measure or get the financial statement. The investors usually use this ratio to measure and to know about the actual performance of the organization. (Adedeji, E. A., 2014)

The variables that this research used to test the hypothesis:

a. Profitability Ratio

Profitability ratios are usually being used to show the company's success in generating profits. (Anthony, R.N., Hawkins, D.F., Merchant, K.A., 2012)

ROA used to measure how much the firm had collected on the investment of all the financial materials dedicated to the firm. (Daryanto, W. M., Taufiqurrohman, & Hestiningrum, N., 2020)

Return of Assets (ROA)	$(\text{Net Income} / \text{Total Assets}) \times 100 \%$
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ROE is to evaluate a company's funds invested by shareholders. (Daryanto, W. M., Taufiqurrohman, & Hestiningrum, N., 2020)

Return of Equity (ROE)	$(\text{EBIT} + \text{Depreciation} / \text{Capital Employed}) \times 100\%$
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ROIC used to calculate the efficiency of the company in allocating capital to invest that can be profitable. (Daryanto, W. M., Dewanti, R. W., & Farras, R., 2020)

Return on Invested Capital (ROIC)	$(\text{Net Income} + \text{Interest} (1 - \text{Tax Rate}) / (\text{Long-term Liabilities} + \text{Shareholders' Equity}))$
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b. Liquidity Ratio

The ratio is used to explain an ability of organizations to complete their short-term obligations. (Octaviani & Komalasari, 2017).

Cash Ratio used to measure a company's liquidity, specifically the ratio of a company's total cash and cash equivalents to its current liabilities. (Daryanto, W. M., Fathina, D., & Anisah, F. I., 2020)

Cash Ratio	$(\text{Cash} + \text{cash equivalents}) / \text{Current Liabilities} \times 100\%$
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Current Ratio is a liquidity ratio that measures a firm's ability to pay off its short-term liabilities with its current assets. (Marsha & Murtaqi, 2017)

Current Ratio	$(\text{Current Assets} / \text{Current Liabilities}) \times 100\%$
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Collection Period identifies the average days needed for a firm to get from Account Receivable for (Daryanto, W. M., Taufiqurrohman, & Hestiningrum, N., 2020)

Collection Period	$(\text{Average AR} / \text{Sales Revenue}) \times 365 \text{ Days}$
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c. Activity Ratio

Activity Ratio used to calculate the efficiency level of utilization of firms resources or evaluate the firm's ability to do daily activities. (Daryanto, W. M., Dewanti, R. W., & Farras, R., 2020)

Inventory Turnover Ratio used to calculate the number of times funds are invested in inventory turnover in a period. (Daryanto, W. M., Dewanti, R. W., & Farras, R., 2020)

Inventory Turnover Ratio	$\text{Cost of Goods Sold} / \text{Average Inventory}$
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Total Assets Turnover Ratio used to identify the turnover of all assets owned by an organization and measure how many sales are achieved. (Irman, Purwati, Julianti, 2020)

Total Assets Turnover Ratio	$(\text{Sales Revenue}/\text{Total Assets}) \times 100\%$
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d. Solvency Ratio

The ratio that measures a relation between a company's debt to capital or assets. (Octaviani & Komalasari, 2017).

Total Equity to Total Assets to measure Solvency and is decided based on information derived from a firm's balance sheet.(Kantrovich, 2011)

Total Equity to Total Assets	$(\text{Total Equity}/\text{Total Assets}) \times 100\%$
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The debt-to-equity used to measure the comparison between total capital and total assets. (Octaviani & Komalasari, 2017)

Total Liabilities to Total Equity	$(\text{Total Liability}/\text{Shareholder's Equity}) \times 100\%$
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The Debt to asset is calculated on how much of the firm is debt financed. (IOWA State University Website, 2013)

Total Liabilities to Total asset	Total Liability/Total Assets
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T-test

T-test Statistical method used to test the hypothesis to compare statistical techniques assumed between two groups in the dependent variable fits a normal distribution. Data should be scaled to interval or ratio data. The T- test statistic produces a t-value. T-values are an extension of z-scores, also representing how many standard units the means of the groups are apart. (William Sealy Gosset, 2008). The t-test is a parametric test of difference, meaning that it makes the same assumptions about your data as other parametric tests. The apply this test through popular statistical software; statistical package for social sciences (SPSS), option can be found in the following menu. There are three types of student t-test:

- One sample T-Test : The company with different comparisons of the years
- Independent samples T-Test : An example of two companies that are not related to each other and have different years
- Paired samples T-Test : Comparing two paired samples, namely the comparison of the pretest to the post test

T-test can be used in the difference between groups Null hypothesis (H0) is that the true difference between these groups means zero and Alternate hypothesis (H1) is that the true difference is different from zero. The Paired sample t-test is sometimes called the dependent t-Test. It is used to determine whether two paired observations are statistically significant. Same subjects are measured at two different time points or observed by two different methods. (Mishra, Prabhaker, et al., 2019). Furthermore, it was used by Daryanto and Purwanto (2021) to measure the financial ratio Analysis of PT Krakatau Steel LTD: Pre and Post Ministry of Home Affairs Regulation.

Hypotheses

- H1: There is a significant difference ROIC Analysis between pre and post Ministry Home Affairs Regulation
- H2: There is a significant difference ROE Analysis between pre and post Ministry Home Affairs Regulation
- H3: There is a significant difference ROA Analysis between pre and post Ministry Home Affairs Regulation
- H4: There is a significant difference Cash Ratio Analysis between pre and post Ministry Home Affairs Regulation
- H5: There is a significant difference Current Ratio Analysis between pre and post Ministry Home Affairs Regulation
- H6: There is a significant difference Collection Period Analysis between pre and post Ministry Home Affairs Regulation
- H7: There is a significant difference Inventory Turnover Analysis between pre and post Ministry Home Affairs Regulation
- H8: There is a significant difference Total Asset Turnover Analysis between pre and post Ministry Home Affairs Regulation
- H9: There is a significant difference Total Equity to Total Asset between pre and post Ministry Home Affairs Regulation
- H10: There is a significant difference Liability to Equity Ratio Analysis between pre and post Ministry Home Affairs Regulation
- H11: There is a significant difference Liability to Total Asset Ratio Analysis between pre and post Ministry Home Affairs Regulation

ANALYSIS AND RESULT

Based on the methodology that the authors used, therefore the result from analysis of financial ratio that explained from t-test can be seen below.

Table 4.1 Comparison of Financial Ratio Analysis and Sample T-test

No	Variables	Periods	Means	Std.Deviation	Paired sample t-test (p-value)	Decision
1	ROIC	2016	-0,04	0,02828	0,469	Reject the first hypothesis
		2017				
		-0,06	-0,02			
		2018	2019	-0,255		
		-0,08	-0,43			
2	ROE	2016	-0,075	0,03536	0,454	Reject the second hypothesis
		2017				
		-0,1	-0,05			
		2018	2019	-0,81		
		-0,2	-1,42			
3	ROA	2016	-0,03	0,01414	0,05	Accept the third hypothesis
		2017				
		-0,04	-0,02			
		2018	2019	-0,07		
		-0,04	-0,1			
4	Cash Ratio	2016	0,21130515	0,13053	0,79	Reject the fourth hypothesis
		2017				
		0,21638	0,20623			
		2018	2019	0,074711011		
		0,09719	0,05224			
5	Current Ratio	2016	0,78233539	0,4545	0,164	Reject the fifth hypothesis
		2017				
		0,81447	0,7502			
		2018	2019	0,40798619		
		0,539	0,27697			
6	Collection Period	2016	54,7146264	1,54157	0,655	Reject the fifth hypothesis
		2017				
		53,6246	55,8047			
		2018	2019	52,81803137		
		48,575	57,061			
7	Inventory Turn Over	2016	2,5136971	0,00565	0,373	Reject the sixth hypothesis
		2017				
		2,5097	2,51769			
		2018	2019	4,242914633		
		3,09041	5,39541			
8	Total asset Turn Over	2016	0,34688348	0,0075	0,179	Reject the seventh hypothesis
		2017				
		0,34158	0,35218			
		2018	2019	0,459294645		
		0,48639	0,4322			
9	Total equity to Total Asset	2016	0,458818751	0,01201	0,113	Reject the eight hypothesis
		2017				
		0,46731	0,45032			
		2018	2019	0,169331491		
		0,22975	0,10892			
10	Liability to Equity Ratio	2016	1,180257135	0,05708	0,305	Reject the ninth hypothesis
		2017				
		1,13989	1,22062			
		2018	2019	5,792382475		
		3,3526	8,23216			
11	Liability to Total Asset Ratio	2016	0,541181249	0,01201	0,118	Reject the tenth hypothesis
		2017				
		0,53269	0,54968			
		2018	2019	0,833431106		
		0,77025	0,89661			

Based on data from the table 4.1 comparison of financial ratio analysis and Sample T-test of PT. Krakatau Steel debt to equity ratio p-value score is less than 0,05 and has insignificant differences according to the Ministry of Home Affairs Regulation. The result is that the second hypotheses of ROA are accepted and the others are rejected.

Profitability Ratio

The figure 1,2,3 shows the trend of PT Krakatau Steel LTD profit Return on Invested Capital, return on asset and return on equity by its percentage from pre (2016-2017) until post (2018-2019). The ROIC of the company from 2016 to 2017 increased to -0,06 to -0,02, decreased in 2018 to -0,08 then decreased to -0,43 in 2019. The result is similar with the ROE of the company from 2016 to 2017 increased to -0,1 to -0,05, decreased to -0,2 from 2018 and decreased to -1,42 in 2019. The company profitability ratio is considered constantly decreased throughout the year. There are differences in the ROA percentage from 2016 to 2017, Krakatau Steel increased to -0,04 to -0,02. In 2018, it decreased to -0,04 and increased to -0,04 to 0,1 in 2019. According to the t-test the profitability ratios of ROIC and ROE was Rejected and the ROA was accepted. The company profitability ratio is considered constantly decreased throughout the year.

Liquidity Ratio

Figure 4 and 5 demonstrates PT Krakatau Steel LTD liquidity by its cash ratio, current ratio, and collection period from pre (2016-2017) until post (2018-2019). The cash ratio is a measure of the liquidity of a firm, namely the ratio of the total assets and cash equivalents of a firm to its current liabilities. As a result, the cash ratio of the company from 2016 to 2017 decreased from 0,2163 to 0,20623 then decreased to 0,09 in 2018 and decreased to 0,05 in 2019. It shows a significant decrease from 2016 until 2019. The average collection period is the amount of time it takes for a business to receive payments owed by its clients in terms of Account Receivable. The result is similar with the Current Ratio of the company from 2016 to 2017 decreased 0,81 to 0,75, decreased to 0,75 to 0,53 in 2018 and then decreased to 0,53 to 0,27 in 2019. The company liquidity ratio is considered constantly decreased throughout the year. There are differences in the Collection Period from 2016 to 2017 increased 53,624571 to 55,804, decreased to 48,575 in 2018 and increased to 57,061 in 2019. According to the t-test the liquidity ratios of cash ratio, current ratio and collection period was Rejected.

Activity Ratio

Ratio that measures the efficiency level of utilization of firms resources or evaluates the firm's ability to do daily activities is called activity ratio. From the table above, for total asset turnover and Inventory turnover, both have an upward trend continuously throughout the years even though there was a slightly different trend in 2019. PT Krakatau Steel (PERSERO) LTD total assets turnover ratio shows the increase in the efficiency of utilizing their assets to increase sales. Even Though the number increased but the number was still considered low, therefore the turnover assets were not performed optimally. In 2016 it was 0,3415 and kept increasing in 2018 by 0,4863, however the numbers slightly decreased in 2019 with 0,4322. The inventory turnover ratio shows an increased trend, from 2,5097 in 2016 to 2,517 in 2017, then keep increasing to 3,0904 in 2018 and 5,3954 in 2019. And after being examined using t test, the numbers showed no significant difference with a p-value > 0.05 (0.373 > 0.05), meaning that the firm was still not capable of selling their inventories each year and increased significantly after the emergence of Ministry of Home Affairs regulations.

Solvency Ratio

Solvency Ratio can help to measure a company's debt to capital or assets and shows short- and long-term responsibility, if the company is liquidated. From table 4.1, The authors can see, the total equity to total assets ratio began decreasing each year, and got a major downward trend after the regulation in 2008. The average value shows a significant difference between before and after the implementation of the regulation. Before the regulation the average value was 0,4588 and after the regulation it was decreased to 0,1693. Based on the table and after the authors examine the data using the T-test, there is no significant difference that can be seen with a p-value > 0.05 (0,113 < 0.05). The result showed there was not a significant difference in numbers of assets that can be claimed by shareholders.

As for liabilities to equity ratio and liabilities to assets ratio, both went through a rise up in numbers after the implementation of the regulation. For the latter, the table showed that in 2016 it was 0,5326 and kept increasing in 2008 with 0,7702 and increased again to 0,8896 in 2019. Along with it, the liabilities to equity ratio, more like the same with the increasing numbers each year. It was 1,1398 in 2016, 1,2206 in 2017 and lastly it got higher after the regulation by reaching 8,2321 in 2019. After the T-test, it also showed no difference between pre and post the issuance of the Ministry of Home Affairs, with a p-value > from 0.05 (0.118 > 0.05) for liabilities to assets ratio and for liabilities to equity ratio got a p-value > from 0.05 (0.305 > 0.05).

Conclusion

The objective of this journal is to see the differences for financial performance of PT Krakatau Steel (PERSERO) LTD between pre and post of the implementation of Ministry of Home Affairs regulations regarding the steel import law using financial ratio analysis and paired T- Test and because of the data limitation, this study only explained 4 years, that is 2016, 2017, 2018 and 2019. Based on 11 variables of financial ratio and based on hypotheses performed, 1 variable of financial ratio analysis which is ROA are significantly accepted, while the other 10 variables of financial ratio analysis (ROE, ROIC, Cash Ratio, Current Ratio, Collection Period, Inventory Turnover, Total Asset Turnover, Total Equity to Total Asset, Liability to Equity Ratio, and Liability to Total Asset Ratio) are not significantly different post of the implementation. Overall, this study found that there weren't any significant differences in PT Krakatau Steel LTD, between 2 years before and 2 years after the implementation of the Ministry of Home Affairs Regulation.

Recommendations

The Industry of Steel itself gave a major impact to the nation and became one of the main industries that has a main role to the economic development. Therefore, the government should regulate properly and make the market compete with local companies properly. For example, As for PT Krakatau Steel, in terms of technology PT Krakatau Steel might still be far behind compared to their competitors from foreign markets. Therefore, even though most of the nation's projects are for our infrastructure, they choose to use foreign steel production because of the cheaper price. In this situation, as can be seen, the government should set the bar for competitive prices therefore even local companies, such as PT Krakatau Steel can also contribute to produce steel to the nation.

Furthermore, the rising for another player from the nation could rise to make the market more competitive. The authors recommend PT Krakatau Steel to restructure properly, in order to not let down any other parties that gave the trusts to support the company to restructure and can carry out its obligations to settle loans and also produce steel therefore that the company could get the profit it should as much as they could. Companies must be able to optimize the ongoing production because it will determine the company's future and is expected to continue to make efficiency in order to increase productivity. There is also a need for regular performance evaluations, the company should also remind the employees about the company's code ethics regarding the behavior that must be carried out in the company environment and also get help from a third party to do the financial audit for the company. This study is also expected to help the firm to optimize the performance of their company, in order to survive and avoid any bankruptcy in the future, and also give insight when making decisions to be more efficient and avoid any risks. In addition, authors encourage the firm to make any innovations or other advancement to make the company have more prospects.

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