

LIQUIDITY RATIOS AND SOLVENCY RATIOS THEIR IMPACT ON PROFIT PERFORMANCE OF MANUFACTURING COMPANIES IN THE TEXTILE AND GARMENT SUB-SECTOR LISTED ON THE INDONESIA STOCK EXCHANGE (IDX) 2020-2024

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Abstract. Profit growth is a key indicator of a company's financial performance and sustainability. In manufacturing industries, particularly the textile and garment subsector, effective financial management is essential to maintain stable profit growth amid dynamic economic conditions. This study aims to examine the effect of liquidity and solvency ratios on profit growth in textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. This research employs a quantitative approach using secondary data obtained from the annual financial statements of 10 selected companies, resulting in 50 observations collected through purposive sampling. Liquidity is measured using the Current Ratio, while solvency is proxied by the Debt-to-Equity Ratio (DER). Data analysis techniques include descriptive statistics, classical assumption tests, multiple linear regression analysis, and hypothesis testing using *t*-tests, *F*-tests, and the coefficient of determination (R^2). The empirical results indicate that neither liquidity nor solvency ratios individually exhibit a statistically significant influence on profit growth. Furthermore, when tested simultaneously, these financial ratios do not significantly explain variations in profit growth. The coefficient of determination shows that liquidity and solvency ratios account for only 11.6% of the variation in profit growth, suggesting that other factors play a more dominant role. From a managerial perspective, these findings imply that decision-makers should not rely solely on liquidity and solvency indicators when formulating strategies to enhance profit growth. Instead, managers are encouraged to consider additional factors such as operational efficiency, cost control, market conditions, and strategic investment decisions to achieve sustainable profitability.

Keyword: Liquidity Ratio, Solvency Ratio, Profit Growth

INTRODUCTION

Profit growth is broadly acknowledged as a key measure of a firm's financial performance and its ability to sustain operations over the long term (Machmuddah & Yuesti, 2025). Within the manufacturing industry, especially the textile and garment subsector, achieving consistent profit growth has become more complex due to volatility in production costs, intense market competition, and prevailing economic uncertainty. These challenges necessitate the adoption of sound financial management practices to ensure business continuity and performance stability (Alhasby, Fahmidin, Juliani, Umam, & Yulianto, 2024). From the perspective of business administration, analyzing the impact of financial ratios on profit growth plays a vital role in supporting managerial decision-making, financial planning, and strategic oversight (Safitri, Susanti, & Zulfatunisa, 2022). Financial ratios serve as important analytical tools that provide insight into a company's efficiency in resource utilization, capacity to fulfill financial obligations, and potential to generate future earnings. In this context, liquidity and solvency ratios are frequently employed to evaluate short-term financial soundness as well as the robustness of a firm's long-term capital structure (Fitriana, 2024).

Empirical research investigating the association between liquidity, solvency, and profit growth has yielded divergent results. Several studies indicate that liquidity and solvency ratios exert a significant influence on profit growth, suggesting that companies with stronger financial fundamentals are more likely to experience higher earnings expansion (Alhasby et al., 2024). In contrast, other findings reveal insignificant or even adverse effects, implying that maintaining excessive liquidity or operating with high levels of leverage does not automatically enhance profitability. Such inconsistencies reflect the lack of a definitive agreement regarding the contribution

of liquidity and solvency ratios to profit growth (Roslynwibowo & Suartana, 2025). Furthermore, the majority of existing research concentrates on manufacturing firms as a whole or on particular subsectors, such as food and beverages, property, and consumer goods, whereas empirical studies specifically addressing the textile and garment subsector remain relatively scarce (Victoria, Friyanto, & Haritsar, 2024). This subsector is characterized by a strong reliance on imported raw materials, labor-intensive production systems, and high exposure to global market dynamics, factors that may cause the relationship between financial ratios and profit growth to differ from those observed in other industries (Hariyanti & Syahza, 2024).

Based on these research gaps, this study seeks to empirically examine the effect of liquidity and solvency ratios on profit growth in textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. By focusing on this specific subsector and time frame, this research is expected to contribute to the business administration literature by providing sector-specific insights and offering practical implications for managerial financial decision-making.

LITERATUR RIVIEW

Liquidity Ratio and Profit Growth

Liquidity ratios represent a firm's capacity to fulfill short-term liabilities by utilizing its current assets. From the standpoint of business administration and financial management, maintaining an adequate level of liquidity is crucial to support uninterrupted operational processes, preserve relationships with suppliers, and prevent financial difficulties. The Current Ratio, commonly used as an indicator of liquidity, reflects the effectiveness of a company's working capital management in sustaining routine business activities (Firman & Rambe, 2021). According to Agency Theory by Misheleiloen (2024), managers are entrusted with the responsibility of efficiently allocating corporate resources in the interests of shareholders. Sound liquidity management signals managerial capability in aligning operational requirements with profit-oriented goals. However, holding excessive liquidity may suggest underutilized assets that are not productively invested, thereby constraining profit growth. In contrast, inadequate liquidity can hinder operational continuity and heighten financial risk, which may likewise have an adverse impact on earnings growth.

In addition, Financial Decision Theory suggests that working capital decisions play a crucial role in determining a firm's profitability. Managers must carefully allocate liquid assets to productive activities in order to maximize profit growth. Therefore, from a theoretical standpoint, liquidity ratio is expected to influence profit growth, although the direction of this relationship may vary depending on managerial effectiveness.

Solvency Ratio and Profit Growth

Solvency ratios assess a firm's capability to fulfill long-term financial commitments and describe the composition of its capital structure. The Debt-to-Equity Ratio (DER) reflects the extent to which a company relies on debt financing in comparison to shareholders' equity (Syamsuriani, 2022). From a managerial standpoint, decisions regarding capital structure constitute strategic financial choices that have a direct impact on business continuity and profitability (Bashori & Laily, 2025). In line with Agency Theory, the utilization of debt may function as a control mechanism that encourages managers to allocate resources more efficiently. Nevertheless, excessive leverage can elevate financial risk and interest burdens, thereby diminishing net income and constraining profit growth. Conversely, an optimal level of debt usage has the potential to increase firm value by supporting business expansion and enhancing operational efficiency.

Furthermore, Signaling Theory suggests that capital structure sends signals to investors regarding a firm's financial health and growth prospects. A moderate level of solvency may signal confidence in future earnings, attracting investment and supporting profit growth. Conversely, a high DER may signal financial distress, increasing investor uncertainty and limiting growth opportunities.

Thus, from a theoretical and managerial standpoint, solvency ratio is expected to have a significant relationship with profit growth, as it reflects management's ability to balance risk and return through effective financing decisions.

Liquidity, Solvency, and Profit Growth: An Integrated Perspective

From a business administration standpoint, liquidity and solvency ratios function as essential indicators of managerial financial decision-making. Liquidity management illustrates the efficiency of short-term operational activities, whereas solvency management reflects long-term strategic financing policies. Collectively, these ratios offer a holistic view of how management allocates and controls financial resources to support sustainable profit growth (Endaryono & Ariwibowo, 2021). When both liquidity and solvency are managed effectively, firms are more capable of preserving operational continuity, reducing financial risk, and capitalizing on growth opportunities. Consequently, from a theoretical perspective, liquidity and solvency ratios are expected to simultaneously affect profit growth, although empirical outcomes may differ across industries and under varying economic conditions.

RESEARCH METHOD

Hypothesis

From the business administration perspective, financial ratios serve as important instruments for assessing managerial performance in managing corporate resources and fulfilling financial responsibilities. Liquidity ratios indicate management's capability to sustain operational stability through efficient working capital management, whereas solvency ratios reflect strategic funding decisions that influence long-term business viability (Nur, 2024). These ratios are widely utilized by managers, investors, and other stakeholders to evaluate a company's financial health and its prospects for future profit growth (Seto et al., 2023). From a theoretical standpoint, sufficient liquidity supports the smooth execution of daily operations, mitigates financial risk, and ensures business continuity, which can contribute positively to profit growth. Likewise, maintaining an optimal solvency position enables firms to utilize external financing for expansion while keeping financial risk under control, thereby potentially improving profitability. Based on these managerial and theoretical considerations, liquidity and solvency ratios are expected to affect profit growth both partially and simultaneously (Nuralim, Rizky, & Aguspriyani, 2023).

Therefore, the hypotheses of this study are formulated as follows (Razali, 2023):

Conceptual Framework

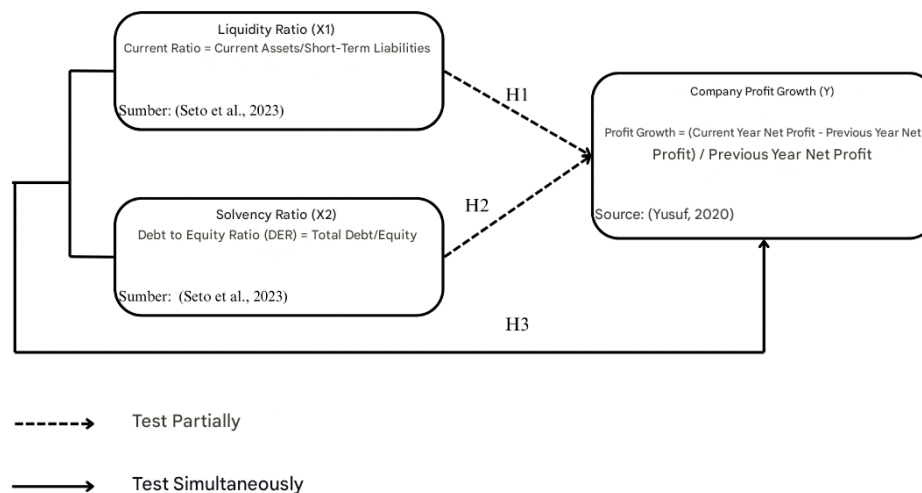


Figure 1. Conceptual Framework
Sourch: Researcher, 2025

Hypothesis

- H1: Liquidity ratio has a significant partial effect on profit growth in textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.
- H2: Solvency ratio has a significant partial effect on profit growth in textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.
- H3: Liquidity and solvency ratios simultaneously have a significant effect on profit growth in textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period.

Research Design and Period Justification

This study employs a quantitative research design, as it focuses on examining the causal relationship between financial ratios and profit growth using numerical data and statistical analysis. Quantitative methods are appropriate for testing hypotheses and identifying patterns in financial performance across companies and time periods (Susanto, 2020).

The research period covers 2020–2024, which is strategically selected due to its significance for the textile and garment industry. This period represents a phase of substantial economic disruption and recovery, beginning with the COVID-19 pandemic and continuing into the post-pandemic adjustment period. During these years, textile and garment manufacturing companies experienced fluctuations in demand, supply chain disruptions, changes in production costs, and financial restructuring. From a business administration perspective, analyzing this period allows for a more comprehensive understanding of how liquidity and solvency management influenced profit growth under conditions of economic uncertainty and industry pressure (Sahir, 2022).

Population and Sampling Technique

The population of this study consists of all textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Based on IDX classification, there are 23 companies included in this subsector. The sampling technique used in this study is purposive sampling, which involves selecting samples based on specific criteria relevant to the research objectives. This technique is appropriate because not all companies in the population meet the data requirements necessary for consistent financial analysis. The purposive sampling criteria applied in this study are as follows:

1. Textile and garment manufacturing companies that were consistently listed on the Indonesia Stock Exchange (IDX) throughout the 2020–2024 period.
2. Companies that published complete and audited annual financial statements for each year during the observation period.
3. Companies that reported financial data required to calculate the Current Ratio, Debt to Equity Ratio (DER), and Profit Growth.
4. Companies that did not experience delisting, suspension, or major restructuring that could significantly distort financial performance during the study period.
5. Companies with financial statements presented in comparable reporting formats, ensuring data consistency across years.

Based on these criteria, 10 companies were selected as the research sample, resulting in a total of 50 firm-year observations.

Data Source and Data Collection

The data used in this study are secondary data obtained from the official website of the Indonesia Stock Exchange (IDX), specifically the annual financial reports of textile and garment manufacturing companies for the 2020–2024 period. Data collection was conducted through document analysis and literature review, focusing on published financial statements and relevant academic references.

RESEARCH RESULTS

Partial Effect of Liquidity Ratio on Profit Growth

The empirical results demonstrate that the liquidity ratio, as measured by the Current Ratio, does not exert a statistically significant influence on profit growth in textile and garment manufacturing firms listed on the Indonesia Stock Exchange over the 2020–2024 period. This outcome indicates that a firm's capacity to fulfill short-term liabilities is not automatically associated with increased profit growth. Such findings are in line with prior research conducted by Ying & Chan, (2023), which similarly concluded that liquidity ratios have no significant impact on profit growth within manufacturing companies. These studies suggest that an excessive level of liquidity may reflect suboptimal utilization of current assets, as funds tend to be held in low-return assets instead of being allocated to productive investments capable of generating higher profits. Accordingly, a high liquidity position does not necessarily signify strong financial performance.

Nevertheless, other studies have reported that liquidity has a significant effect on financial performance in certain manufacturing subsectors (Ethera et al., 2024). These contrasting results may be attributed to variations in industry-specific characteristics. The textile and garment subsector is highly labor-intensive and particularly susceptible to fluctuations in raw material prices as well as changes in global demand, conditions that may weaken the direct link between liquidity and profit growth. From a business administration perspective, this finding suggests that managerial efforts should not be concentrated solely on maintaining high levels of liquidity as a means of enhancing profitability. Instead, liquidity management should focus on the efficient allocation of working capital, ensuring that liquid assets are utilized effectively to improve operational efficiency, control costs, and support revenue-generating activities. Maintaining liquidity at an optimal level, rather than merely maximizing it, is therefore essential for achieving sustainable profit growth.

The Effect of Solvency Ratio on Profit Growth

The findings further reveal that the solvency ratio, proxied by the Debt-to-Equity Ratio (DER), does not exhibit a statistically significant partial effect on profit growth. This suggests that differences in capital structure are not a direct determinant of changes in profit growth among the sampled companies. Such results are consistent with the study conducted by Mas'ud, Nurdin, &

Danintan, (2024), which concluded that leverage has no significant impact on profit growth in manufacturing firms. These findings imply that companies are generally capable of managing their debt levels effectively, such that interest costs and financial risks do not materially impair profitability. When debt is allocated efficiently, a higher level of leverage does not necessarily impede profit growth. Conversely, this outcome differs from studies reporting a significant negative relationship between solvency and profit growth, where excessive reliance on debt heightens financial risk and suppresses net income. The variation in empirical results suggests that the effect of solvency on profit growth is highly contingent upon managerial effectiveness, industry-specific characteristics, and prevailing macroeconomic conditions.

From an administrative and managerial standpoint, this finding highlights the importance of capital structure policy rather than debt minimization. Managers should focus on achieving an optimal capital structure that balances financial risk and return. Strategic use of debt for productive investment, expansion, or efficiency improvement can support long-term business sustainability, even if it does not immediately increase profit growth.

The Simultaneous Effect of Liquidity Ratios and Solvency Ratios on Profit Growth

The simultaneous testing results indicate that liquidity and solvency ratios jointly do not have a significant effect on profit growth. The low coefficient of determination further confirms that these financial ratios explain only a small proportion of the variation in profit growth, suggesting that other factors play a more dominant role. This finding supports previous research indicating that profit growth is influenced by a broader set of variables beyond basic financial ratios, such as operational efficiency, cost management, market competitiveness, innovation capability, and external economic conditions. In the context of the textile and garment industry, factors such as export demand, exchange rate volatility, labor costs, and supply chain stability may have a stronger impact on profit growth than liquidity and solvency indicators alone.

From a business administration perspective, this result implies that managers should adopt a holistic strategic approach to improving profit growth. Financial ratio analysis should be complemented with operational and strategic considerations, including production efficiency, market expansion strategies, and cost leadership initiatives. Relying solely on liquidity and solvency indicators may provide an incomplete basis for managerial decision-making.

CONCLUSION

This study examines the effect of liquidity and solvency ratios on profit growth in textile and garment manufacturing companies listed on the Indonesia Stock Exchange (IDX) during the 2020–2024 period. Based on the empirical findings, it can be concluded that liquidity and solvency ratios, both individually and simultaneously, do not have a significant influence on profit growth within the observed companies. These results indicate that profit growth in the textile and garment subsector cannot be sufficiently explained by short-term liquidity management or capital structure decisions alone.

Practical Implications

From a business administration and managerial perspective, the findings of this study suggest that managers should not rely solely on liquidity and solvency ratios as primary indicators for improving profit growth. While maintaining adequate liquidity and an appropriate level of leverage remains important for financial stability, these factors should be managed optimally rather than excessively. Managers are encouraged to focus on broader strategic and operational factors, such as improving production efficiency, controlling operational costs, strengthening supply chain management, and responding effectively to market dynamics. Integrating financial ratio analysis with

strategic management practices may provide a more comprehensive approach to achieving sustainable profit growth.

Research Limitations

This study has several limitations that should be acknowledged. First, the sample size is limited to textile and garment manufacturing companies listed on the IDX, which may restrict the generalizability of the findings to other industries or sectors. Second, the study only considers two financial ratios liquidity and solvency while profit growth may be influenced by various other financial and non-financial factors. Third, the research period focuses on a specific timeframe characterized by economic disruption and recovery, which may affect the stability of the observed relationships.

Recommendations for Future Research

Future research is recommended to expand the scope of analysis by incorporating additional variables such as profitability ratios, operational efficiency indicators, firm size, sales growth, and macroeconomic factors. Further studies may also consider using longer observation periods or comparative analyses across different manufacturing subsectors to enhance the robustness of the findings. In addition, applying alternative analytical methods, such as panel data regression or qualitative approaches, may provide deeper insights into managerial decision-making processes and their impact on profit growth.

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