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FACTORS INFLUENCING A BOND RATING ON A MANUFACTURING COMPANY

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ABSTRACT
The most important factor in managing a company is the company's financial resources. Companies can issue bonds as a form of financing. Investing in bonds is like lending money to issuers such as corporations or governments. When a company issues bonds, the funds increase business, such as working capital, debt repayment, expansion and other needs. The object of this study was production companies listed on the IDX in 2017-2019, which PT Pefindo classified. The ranking is carried out on the official website of PT Pefindo and the Indonesia Stock Exchange (IDX). The analysis results show that listeners do not affect warning ratings. This can be proven by the high-profit value of 0.884, which is greater than 0.05, and leverage does not affect bonding valuations which can be considered significant leverage. 0.257, which is greater than 0.05.

Keywords: bond rating, profitability, leverage, liquidity, size

INTRODUCTION

The most important factor in managing a company is the company's financial resources. Companies can issue bonds as a form of financing. Investing in bonds is like lending money to issuers such as corporations or governments. When a company issues bonds, the funds are used for business development, such as working capital, debt payments, expansion, etc. Bonds are a type of long-term letter owned by a company or government that can be transferred, in which it contains an agreement between the borrower of the bond and the bondholder (Surabaya et al., 2001), the bonds themselves can be traded and can be in demand in the capital market.

Bond investment is a type of investment that investors are interested in because bonds have a fixed type of funding. Therefore, bonds are in great demand in the capital market. Investments are mostly long-term capital investments involving all assets or buying stocks and other securities to gain profit (OJK, 2021). Based on Sari and Raharja (2008), it is very important to have a bond rating for investors because it can provide clear news and determine the company's condition; besides that, it can save costs and time (Ang, 2007). Based on the Investment Coordinating Board (BKPM), investment achievements for the first quarter (January – March) of 2021 amounted to IDR 219.7 trillion, or 4.3% higher when compared to the first quarter of 2020. Meanwhile, when compared using the quarterly period Previously, investment in Indonesia was relatively high. This resulted in investors starting to look at manufacturing companies.
Investing in bonds is fairly safe because investors buy company debt securities, but the bonds themselves also have risks, namely interest rates and the risk of the company not being able to pay its bond debt; of course, bonds also have bond ratings that can be used to minimize bond risk.

LITERATURE REVIEW

Definition of Bonds

Bonds are a type of long-term liquidity document that can be easily transferred by the bond issuer, in which there is an agreement between the issuer and the bond borrower to pay interest for a period determined by the bond borrower (Indonesia et al., 2010).

According to Fakhrudin and Hardianto (2001), bonds are securities with the contents of the contract between the borrower and the lender. Other experts also mention that bonds are a form of long-term contracts that require funds approved to carry out a transaction that follows the nominal and interest agreed in that period (Brigham & Ehrhardt, 2005). According to Fabozzi (2007), bonds are a category of fixed-income securities, which are an agreement to pay at a certain period in the future.

Definition of Bond Rating

Bond ratings are an important factor in a company. Because bond ratings have a risk of default. According to Hanafi and Halim 2003, bond ratings are a measure of the creditworthiness of a company. The bond rating itself affects the rate of return on the bond. The higher the return, the worse the condition will be; besides that, bonds with a high rating will have bond quality in good condition and a low coupon rate (Dermawan, 2007).

In general, the company will maintain the conditions on the rating of the bonds it has to make a profit or increase the company's income because the gains or additions obtained will support the company in maintaining the condition of the existing bond ratings by reducing debt when issuing bond ratings. Debt in little conditions will encourage increasing or increasing existing bonds (Kisgen, 2006).

Based on Hamdi (2013: 71), bond ratings are issued specifically by institutions authorized to give ratings regarding bond issuance. This was done so that investors could measure and estimate the risks faced when buying bonds in the company. Many bond rating companies are in the Indonesian capital market, including PT Pemeringkat Efek Indonesia or PT Pefindo.

The following is the rating of the bonds issued by PT Pefindo, including:

Table 1. The Bonds issued by PT Pefindo

Symbol	Makna
idAAA	Term bonds with the symbol idAAA have the highest ability to meet the financial obligations of these notes.
idAA	IdAA's rating code has the strongest ability to meet these financial obligations and will not affect the deterioration of business, economy and finance.
idA	The idA rating symbol for long-term debt instruments has good instrument capability to meet the debt instrument's financial obligations. The ability to meet these financial obligations was affected by deteriorating business, economic and financial conditions.
idBBB	The long-term debt nature of the idBBB classification code indicates the sufficient ability to meet the financial obligations of the debt securities. The weakening trade, economic and financial situation influenced the fulfilment of these financial obligations.
idBB	Long-term debt instruments with an idBB rating code have a rather weak ability to meet the debt instrument's financial obligations. The weakening economy, business and economy severely hindered the fulfilment of these financial obligations.
idB	Long-term debt instruments with the idB rating symbol need to improve their ability to meet the financial obligations of these notes. Fulfilment of these financial obligations could be in better condition, resulting in an inability to meet existing financing.
idD	For long-term debt instruments with the idD classification code, there is a possibility that the financial obligations of the debt instrument cannot be fulfilled.

Source: Processed data

Benefit from Bond Ratings

There is a very important influence on bond ratings because bond ratings explain the potential default for the company, both investors and the company. In general, bond ratings help investors in making investment decisions. The following are the benefits of having a bond rating:

The market information system will create a healthy bond market. Can define or describe market and economic conditions in general.Provide objective information regarding the ability to make debt payments and the level of risk in investing.

According to Darmadji (2012: 44), the advantages of rating securities for investors are as follows:

As a criterion or reference for determining a reasonable rate of return.Reducing the cost of obtaining information about investment risks.The prospect of different investment options depends on the risks involved.

Provide information about the risks taken by investors.Apart from investors, issuers also benefit from bond ratings, including:The company can find out and compare the business position of the business owned by similar companies.If the rating is good, the company must provide alternative credit guarantees.For independent bond ratings, investor confidence must be adequately maintained to provide security and greater investor confidence.

Factors Affecting Bond Ratings

Current bond ratings can make it easier for investors to analyze which bonds are suitable for assessing debt and risk. According to Mahatin (2011), factors that can affect the classification of bonds are:

Profit Factor

According to Raharja and Sari (2008), profitability ratios are useful for measuring a company's ability to obtain profits relative to sales, assets and equity capital. This ratio is expressed as Return on Equity (ROA). Meanwhile, according to Linandarin (2010), company profits prove the good financial position of the issuer by demonstrating the company's ability to obtain high profitability ratios to operate and pay off its debts.

Liquidity Factor

According to Sartono (2006), liquidity is a company's ability to make payments per its financial obligations. The liquidity ratio is a financial indicator measured by the short-term fulfilment of the company's ability.

Company Size Factor

Based on Andry (2005) explains or indicates that the total debt and size owned by the company have a very strong and positive relationship. Another term for firm size can be used to measure total existing debt so that company size affects bond ratings.

Leverage Factor

Based on Raharja and Sari (2008) state that the leverage ratio is a ratio or comparison that shows the level of use of debt in investment funding. Meanwhile, based on Husnan (2007), the Pecking Order Theory states that the source of corporate funding is internal financing. If internal funding is still insufficient, it is needed from debt proceeds and issuing new shares.

Bond Age Factor

Based on Husnan (2007), maturity is when the bond owner recovers the loan. The terms vary widely, from one year to five years. The smaller the time interval, the easier it is to predict, which reduces the risk involved.

METHODS

Object of research

The subject of this research is the manufacturing industry in the Indonesian capital market from 2017 to 2019 which PT Pefindo followed up on. The ranking is carried out on the official website of PT Pefindo and the Indonesia Stock Exchange (IDX).

Sample and Population

The sample is the IDX product industry that issues PT Pefindo 2017-2019 bonds and ratings. The research was carried out on one sample using an appropriate sampling technique. Sample requirements are:

Manufacturing Industry listed on the IDX. PT Rating Pefindo in a manufacturing company. Manufacturing company bonds that continued to circulate during 2017-2019. Manufacturing companies that do not experience losses.

Data Types and Sources

Collecting data sources for this research is the quantitative method. According to Arikunto (2006:12), the quantitative method is a research method using numbers, collecting data, and interpreting existing data, and the results are presented. Meanwhile, according to Creswell (2012: 13), qualitative research is the obligation of the researcher to explain the variables that affect other variables.

Analysis Techniques

Analysis of the data used to test this research focuses on the t-test, f-test, and test the coefficient of determination with the test results obtained from the acquisition of SPSS. Data analysis techniques are carried out based on decision-making as follows:

T-test

If the array value <0.05> t, variable X affects variable Y.

If the sig value > 0.05 or t count <, In table t, variable X does not affect variable Y.

$$\begin{aligned} \text{table} \quad &= t\left(\frac{\alpha}{2}; n-k-1\right) \\ &= t\left(\frac{0{,}05}{2}; 10-4-1\right) \\ &= t(0{,}025\,; 5) \\ &= 2.571 \end{aligned}$$

F test

If Table <0.05> the significance value is F, then there is an influence between the X and Y variables.

If the sign value is > 0.05 or the number f <; F table, there is no influence between variables X and Y.

$$\begin{aligned} \text{F table} &= F(k\,; n-k) \\ &= t(4; 10-4) \\ &= t(4\,; 6) \\ &= 6,16 \end{aligned}$$

RESULTS AND DISCUSSION

T Test

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	-1.108	1.834		-.604	.572
	Profitabilitas (X1)	-.005	.030	-.107	-.153	.884
	Leverage (X2)	.026	.020	1.119	1.280	.257
	Size (X3)	-7.791E-14	.000	-1.224	-2.681	.044
	Liquidity (X4)	.015	.007	1.280	2.088	.091

a. Dependent Variable: Peringkat Obligasi (Y)

Figure 1. Coefficients
Source : Smart PLS

The results from the table above are:

First Hypothesis (H1)

The results showed that the significance value of the t variable that affected Y to X1 was 0.884 > 0.005. Moreover, the calculated t value is -0.153<; 2,571. This shows that H1 is not accepted, so it cannot be said that profitability reduces bankruptcy risk.

This test is supported by Aries Veronica's research results, which show that profitability has no effect on existing bonds. Because even in statistical tests, it does not have a significant effect.

Second Hypothesis (H2)

The research results show that the effect of the t-variable X2 Y is 0.257 > 0.05. Moreover,the calculated t value is 1.280 <2.571; From this, it can be interpreted that H2 is not accepted, which means that X2 has no effect on Y or indicates that the lever variable has no significant effect on the switch rating.

This test is supported by the results of previous research, namely by Aries Veronica, who found that the leverage variable has no effect on existing bonds. Likewise, according to the research results by Melani and Paulus (2013), the effect of leverage does not affect bond valuations.

Third Hypothesis (H3)

The significance value of the t variable, the effect of X3 on Y, is 0.044 <; 0.05. With a calculated t value - 2.681 <2.571, it can be seen that H3 is accepted, ie. H. X3 affects Y, or the size variable significantly influences the relationship's evaluation.

This research is supported by previous research, especially by Veronica Aries, which shows that size has an effect on existing relationships. However, it is inversely proportional to the research of Eka Nuraini Rachmawat and Hengki Junius Sihombing (2015), which according to him, has no effect on the classification of corporate bonds.

Fourth hypothesis (H4)

The warning of the significant value of the t variable has an effect of X4 on the Y value of 0.091 <; 0.05. with a T-score of 2.088<; 2,571, it can be concluded that H1 is rejected, which means that X4 has no effect on Y or bond ratings have no significant effect on liquidity.

This research is also supported by previous studies, especially Oinas Veronica, whose liquidation reports have no effect on warning ratings. However, it is inversely proportional to the research of Hengki Junius Sihombing and Eka Nuraini Rachmawati (2015) that warning ratings have a negative effect on liquidity.

F test

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.957	4	1.739	2.454	.176[b]
	Residual	3.543	5	.709		
	Total	10.500	9			

a. Dependent Variable: Peringkat Obligasi (Y)

b. Predictors: (Constant), Liquidity (X4), Profitabilitas (X1), Size (X3), Leverage (X2)

Figure 2. Anova
Source : Smart PLS

From the data above, it can be seen that the significant value of the simultaneous effect of X1, X2, X3 and X4 on Y is 0.176 > 0.05, and the calculated F value is 2.454 <; 6.16; From this, it can be concluded that (H5) is rejected, meaning that there is no simultaneous effect on Y between X1, X2, X3 and X4.

This underlines the negative reaction of investors who see the company's financial statements because several company financial measures indicate significant liabilities. This is supported by research by Sumarto and Susiloeat (2010), who used the variables of bond liquidity, yield, size and age to understand the factors that affect bond ratings. This test shows that only the liquid variable can affect the warning rating, while other variables do not significantly affect the warning rating (Y).

Coefficient of Determination

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.814[a]	.663	.393	.842

a. Predictors: (Constant), Liquidity (X4), Profitabilitas (X1), Size (X3), Leverage (X2)

Figure 3. Model Summary
Source : Smart PLS

Based on these data, the R-squared result is 0.663; This shows that the variables X1, X2, X3 and X4 affect the Y variable by 66.3% simultaneously, while 33.7% can be represented outside the research model with other variables.

CONCLUSION

Earnings do not affect bond ratings with evidence of a significant profit value of 0.884 which is greater than α (0.05). Leverage has no effect on bond ratings, as evidenced by the significant leverage value of 0.257, greater than α (0.05). The size or scale of the company affects the relationship ranking, as evidenced by a significant size score of 0.044, which is smaller than α (0.05). Liquidity does not affect bond ratings. This can be demonstrated by the significant value of liquidity of 0.091, which is greater than α (0.05). At the same time, bond ratings do not significantly affect the probability of return, leverage, size and liquidity. This can be proven by the sig value of 0.176, greater than α (0.05).

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