

## **The Influence of Working Capital and Inventory Turnover on Profitability in Auto Components Companies Listed**

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**Abstract:** This study was studied to determine the effect of Working Capital and Inventory Turnover on Profitability in Auto Components Sub-Sector Companies listed on the Indonesia Stock Exchange in 2023-2024. The sampling method in this study uses the purposive sampling technique so that the number of samples selected is 12 companies. The data analysis method used in this study is multiple linear regression analysis using an analysis tool, namely SPSS 26. Based on the results of the partial test, working capital has a calculated  $t$  value of  $2.893 > t$  table  $2.035$  and a significance level of  $0.007 < 0.05$  which means that working capital has an effect on profitability. The results of the partial test of inventory turnover have a calculated  $t$  value of  $0.606 < t$  table of  $2.035$  and a significance level of  $0.548 > 0.05$  which means that inventory turnover has no effect on profitability. Meanwhile, the results of the simultaneous test of working capital and inventory turnover have a calculated  $f$  value of  $4.325 > f$  table  $3.28$  and a significance level of  $0.021 < 0.05$  which means that working capital and inventory turnover have an effect on profitability in Auto Components sub-sector companies listed on the Indonesia Stock Exchange in 2023-2024. The determination coefficient that can be seen from the Adjusted R-Square value of  $0.160$ , this can be interpreted as the ability of Working Capital and Inventory Turnover to affect Profitability of  $16.0\%$ .

**Keywords:** working capital, inventory turnover, profitability, inventory turnover

### **INTRODUCTION**

In general, the establishment of a company aims to maximize profits or profits obtained so that the survival of the business is guaranteed and can develop its business (Heikal et al., 2022). In the very great competition in the free market, it is increasingly felt by industrial companies to be able to market their production products and get a fixed market in the community (Oreskes & Conway, 2023). Every company must be able to manage the company effectively and efficiently in order to develop in accordance with the objectives set in the company's policy (Hasanudin, 2024). Therefore, a company will try to meet the needs of the community by providing goods or services produced and it is hoped that the community can accept and be satisfied with these results. A large part of

the challenge is the competition that will come as a result of industries that produce similar products into the market. Therefore, an initiative from the management is needed to be able to increase competitiveness in marketing the products produced both in quality and selling price .

Profitability is a measurement of a company's performance that can be measured in ratios to describe the company's ability to generate profits through all the capabilities and resources that the company has (Sari & Daryanto, 2021). The higher the level of a company's profitability ratio, the better the company will make a profit. Profitability in an automotive company is a company whose main activity is to produce goods related to the automotive sector such as transportation equipment and supporting parts (Kumajas et al., 2021). The large market for transportation equipment in Indonesia, both mass and private, creates opportunities for automotive companies to maximize profits (Lanori & Supriyanto, 2023).

Working capital is a very important issue for every company. Working capital is needed to finance the company's daily operations and greatly affects the continuity of the company itself (Muigai & Nasieku, 2021). If working capital is managed properly, the company will not determine many difficulties and obstacles in carrying out the company's operating activities (Rey-Ares et al., 2021). On the other hand, improper management of working capital will cause the company's operational activities in maintaining the survival of the company itself.

With sufficient working capital, it will benefit the company, because the company will be able to produce goods at the time of order rather than having to accumulate a lot of inventory managed by the company, so that the company's operations will run economically and efficiently. Inventory turnover is an asset that is ready to be sold or further processed to become finished goods and then sold as the company's main activity (Rajagukguk & Siagian, 2021). In principle, inventory facilitates or smoothens the running of company operations which must be carried out in succession to produce goods and distribute them to customers.

The higher the turnover of goods inventory, the higher the costs that can be suppressed, so that the greater the profit of a company. On the other hand, if the slower the turnover of the inventory of goods, the smaller the profit. Achieving inventory turnover is not as easy as it seems. There are many things that must be considered by the company in the company's own operating activities. Among them are regular and efficient inventory management, improving the quality of goods, and meeting what consumers want. Thus, the rapid turnover of inventory is expected to increase the company's profitability.

## **THEORETICAL REVIEW**

### **Profitability**

Profitability refers to a company's ability to generate profit from its business activities over a certain period (Pangestuti et al., 2022). It reflects the efficiency and effectiveness of a company in utilizing its resources to produce income and maximize shareholder value (Kurniawan, 2021). In financial analysis, profitability is often measured using various ratios such as Return on Assets (ROA), Return on Equity (ROE), and Net Profit Margin. These indicators help assess how well a company is performing

in terms of earning profits relative to its assets, equity, or sales (Rashid, 2021). High profitability indicates good financial health, operational efficiency, and the potential for sustainable growth, making it a crucial factor for investors, management, and other stakeholders in evaluating a company's performance.

### **Working Capital**

Working capital is a financial metric that represents the difference between a company's current assets and current liabilities (Mazanec, 2022). It indicates the company's short-term financial health and its ability to meet operational obligations. A positive working capital means the company has enough assets to cover its short-term debts, which is essential for maintaining day-to-day operations such as paying suppliers, employees, and covering other expenses (Kumar Saxena, 2024). Efficient management of working capital ensures smooth cash flow, minimizes financial risk, and supports business growth (Anorue & Ugwoke, 2022). Conversely, inadequate working capital may lead to liquidity problems, affecting the company's ability to operate effectively.

### **Working Capital Ratios**

Working capital ratios are financial indicators used to assess a company's efficiency in managing its short-term assets and liabilities (Herison et al., 2022). These ratios provide insights into the company's liquidity, operational efficiency, and overall short-term financial health (Fikri & Yolanda, 2023). One commonly used ratio is the current ratio, which evaluates the company's ability to meet its short-term obligations using its current assets; a higher ratio generally indicates stronger liquidity. Another important metric is the quick ratio or acid-test ratio, which offers a more conservative view by excluding inventory from current assets, thus showing whether the company can meet its liabilities without relying on inventory sales (Blessing & Sakouvogui, 2023). Additionally, the working capital turnover ratio measures how effectively a company utilizes its working capital to generate sales; a higher ratio signifies greater efficiency in using short-term resources. Together, these ratios help stakeholders understand how well a company is managing its day-to-day financial operations.

### **Working Capital Turnover**

Working capital turnover shows how much the company is able to utilize working capital to generate net sales (Pardanawati, 2021). To assess the effectiveness of the working capital position, the ratio between total sales and the average working capital amount (working capital turnover) can be used. Low working capital turnover indicates that there is an excess of working capital caused by low inventory turnover or a cash balance that is too large. And conversely, a high level of working capital turnover will show that the efficiency of working capital use is getting better

### **Inventory Turnover**

Inventory is an asset that is shown for sale or in further process to become finished goods and then sold as the main activity of the company (Purnamasari et al., 2021). Good merchandise for trading ventures. Inventory is the main activity of working capital and is an asset that is always in a state of rotation. Inventory can be differentiated, being inventory in trading companies and inventory in manufacturing companies.

## METHODS

This research was conducted on auto components companies listed on the Indonesia Stock Exchange (IDX) during the period 2023–2024. The study utilized a secondary research method by collecting data and information through internet access, specifically from the official IDX website at [www.idx.co.id](http://www.idx.co.id). The population in this research consists of 13 auto components companies, of which 12 companies were selected as samples based on predefined criteria. Data analysis was carried out using the Statistical Package for the Social Sciences (SPSS) version 26 for Windows.

The data analysis method employed in this study includes the descriptive method and multiple linear regression analysis. The descriptive method serves to present a general overview of the research object through the sample or population data. This method describes the data based on minimum value, maximum value, mean, and standard deviation without drawing general conclusions. It helps in understanding the characteristics of each variable used in the study.

Multiple linear regression analysis was employed to examine the effect of several independent variables—namely working capital and inventory turnover—on the dependent variable, profitability. This analysis was conducted using SPSS version 26. The regression equation used in this research is:

$$Y = a + b_1X_1 + b_2X_2 + e \dots \dots \dots (1)$$

where:

- Y = Profitability,
- a = Constant,
- b1, b2 = Regression Coefficients,
- X1 = Working Capital,
- X2 = Inventory Turnover,
- e = Standard Error.

In addition, a classical assumption test was carried out to ensure the validity of the regression model, which includes the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The measurement of research variables refers to the definition provided by Sugiyono (2010:38), who states that "a research variable is something that takes the form of whatever the researcher determines to be studied so that information about it is obtained." Each variable in this study was measured in accordance with the research objectives and data availability.

## RESULTS

### Descriptive Statistical Test

Descriptive statistics provide an overview or description related to research data. To conduct descriptive statistical testing of the variables Profitability, Working Capital and Inventory Turnover measured with ratio data is explained starting from minimum, maximum, mean and standard deviation.

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
ROA	36	,0020	,2140	,058861	,0517014
CR	36	,6570	6,1670	2,204722	1,4064953
ITR	36	,3610	9,1810	4,304111	1,9461355
Valid N (listwise)	36				

**Figure 1.** Descriptive Statistical Test

Based on figure 1, the descriptive statistical analysis shows the following results. The profitability variable, with a sample of 36 company observations, has a minimum value of 0.0020, which is owned by PT Astra Otoparts Tbk, and a maximum value of 0.2140, which is owned by PT Selamat Sempurna Tbk. The average (mean) profitability is 0.058861 with a standard deviation of 0.0517014, indicating a moderate level of variation among the companies observed. For the working capital variable, the minimum value recorded is 0.6570, owned by PT Goodyear Indonesia Tbk, while the maximum value is 6.1670, owned by PT Indospiring Tbk. The average working capital across the sample is 2.204722 with a standard deviation of 1.4064953, suggesting a relatively wide distribution of working capital among the companies. Meanwhile, the inventory turnover variable shows a minimum value of 0.3610, owned by PT Prima Alloy Steel Tbk, and a maximum value of 9.1810, owned by PT Astra International Tbk. The average turnover is 4.304111 with a standard deviation of 1.9461355, indicating substantial variability in how efficiently companies manage their inventory.

### Normality Test

The normality of the data was tested using the Kolmogorov-Smirnov test by looking at the significance of the resulting residual and the normal probability plot graph approach. Based on the results in figure 2, it shows that the value of Asymp. Sig is 0.200 > 0.05. This means that the residual data is distributed normally.

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		36
Normal Parameters, b	Mean	.0000000
	Std. Deviation	.04602029
Most Extreme Differences	Absolute	.091
	Positive	.091
	Negative	-.051
Test Statistic		.091
Asymp. Sig. (2-tailed)		.200c,d

**Figure 2.** Normality Test Results

**Multiple Linear Regression Analysis**

The main function of multiple linear equations is to determine how much influence independent variables have on dependent variables. The data was processed using the SPSS 26 program.

		<b>Coefficient</b>				
		Unstandardized Coefficients		Standardized Coefficients		
Type		B	Std. Error	Beta	t	Sig.
1	(Constant)	.022	.025		.856	.398
	LnCR	.042	.014	.484	2.893	.007
	ITR	.003	.004	.102	.606	.548

**Figure 3.** Multiple Linear Regression Test Results

Based on figure 3, the regression equation is obtained as follows:

$$Y = 0,022+0,042+0,003+e$$

The constant is 0.022 which means that if the value of the independent variable consisting of Working Capital, Inventory Turnover is 0, then the Profitability value is 0.022. The regression coefficient of the Working Capital variable is 0.042 (positive), which means that every 1% increase in the Working Capital variable will experience an increase in Profitability of 0.042. The value of the regression coefficient of the Inventory Turnover variable is 0.003 (positive), which means that every 1% increase in the Inventory Turnover variable will result in an increase in Profitability by 0.003.

**DISCUSSION**

**The Influence of Working Capital on Profitability**

Based on the results of the partial test, the Working Capital variable (X1) has a value of t calculated > t of the table where 2.893 > 2.035 with a significance level of 0.007 < 0.05 so that it can be stated that the Working Capital variable (X1) has an effect on the Profitability variable (Y). Based on the results of the above research test, it can be concluded that the influence and significance of working capital is due to the high turnover rate of working capital of auto components companies, which means that the auto components sub-sector companies are able to process their working capital well so that it has a good impact on the company's profitability.

**The Effect of Inventory Turnover on Profitability**

Based on the results of the partial test, the Inventory Turnover variable (X2) has a value of t calculated < t table where 0.606 < 2.035 with a significance level of 0.548 > 0.05 so that it can be stated that the Inventory Turnover (X2) has no significant effect on the Profitability variable (Y). Based on the results of the above research test, it can be concluded that the insignificance of the inventory turnover is due to the low inventory turnover rate of auto components sub-sector companies or the auto components sub-sector companies are unable to manage their inventory turnover, which results in poor

inventory turnover from year to year and tends to show a small turnover figure, so that it is possible to The company is getting smaller and smaller.

### **The Influence of Working Capital and Inventory Turnover on Profitability**

Based on the results of the simultaneous test, the value of F calculated  $>$  F table is  $4.325 > 3.28$  with a significance level of  $0.021 < 0.05$ , it means that Working Capital (X1), Inventory Turnover (X2), simultaneously have a significant effect on profitability (Y).

### **CONCLUSION**

Based on the results of the study, several conclusions can be drawn. First, the working capital variable has a regression coefficient value of 0.042 with a significance level of 0.007, which is less than 0.05. This indicates that working capital has a significant effect on profitability. Second, the inventory turnover variable has a regression coefficient value of 0.003 with a significance level of 0.548, which is greater than 0.05. Therefore, it can be concluded that inventory turnover does not have a significant effect on profitability. Third, the simultaneous test shows that the calculated F-value is 4.325, which is greater than the F-table value of 3.28, with a significance level of 0.021 (less than 0.05). This means that working capital and inventory turnover together have a significant effect on profitability. Lastly, the coefficient of determination (Adjusted R-Square) is 0.160 or 16%, indicating that the relationship between the independent variables and profitability is very low, as also reflected in the correlation coefficient table.

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