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# THE EFFECT OF DEBT TO EQUITY RATIO, CURRENT RATIO, AND DEBT TO ASSETS RATIO ON RETURN ON ASSETS IN NON FINANCIAL COMPANIES LISTED ON THE LQ45 INDEX AND THE SET50 INDEX

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**Abstract**

This study aims to examine and analyze the effect of Debt to Equity Ratio (DER), Current Ratio (CR), and Debt to Assets Ratio (DAR) on Return on Assets (ROA) in non-financial companies listed on the LQ45 index in Indonesia and the SET50 index in Thailand during the 2022–2024 period. This research employed a quantitative approach using secondary data obtained from companies' financial statements. The purposive sampling technique yielded 18 LQ45 companies and 35 SET50 companies, with a total of 159 observations. Panel data regression using EViews software was applied, alongside the Mann–Whitney difference test. Results indicate that for LQ45 companies, DER has a positive but insignificant effect on ROA; CR has a positive and significant effect on ROA; and DAR has a positive but insignificant effect on ROA. For SET50 companies, DER has a negative but insignificant effect on ROA; CR has a positive and significant effect on ROA; and DAR has a negative but insignificant effect on ROA. Simultaneously, DER, CR, and DAR do not significantly affect ROA in LQ45 companies but significantly affect ROA in SET50 companies. The Mann–Whitney test reveals significant differences in DER, DAR, and ROA between LQ45 and SET50 companies, while CR shows no significant difference. These findings indicate that liquidity plays a crucial role in improving profitability in both indices, while the effect of debt structure on profitability differs according to market and firm characteristics.

**Keywords:** Current Ratio, Debt to Asset Ratio, Debt to Equity Ratio, LQ45, Return on Assets, SET50.

## INTRODUCTION

Indonesia and Thailand, two of Southeast Asia's leading economies, have experienced significant macroeconomic shifts in the post-pandemic recovery phase. The Asian Development Bank (2022) noted that in 2022, fiscal stability in Southeast Asia improved alongside gains in trade balances and favorable international commodity prices. However, these advances were uneven across countries. The World Bank (2023) reported that Indonesia's economy displayed consistent growth above 5% GDP since 2022, driven by rising consumer purchasing power and more accommodating fiscal policies. Thailand, in contrast, experienced a GDP decline from 2.6% in 2022 to 1.9% in 2023 due to structural bottlenecks hampering its recovery (Asia Fund Managers, 2024). These divergent macroeconomic conditions created variations in the resilience and financial performance of firms, particularly in the non-financial sector a key driver of both nations' economies.

In Indonesia, the corporate sector showed improved post-pandemic financial performance, reflected in rising trading activity on the LQ45 index (IDX Channel, 2023). In Thailand, however, firms listed on the Stock Exchange of Thailand (SET) faced challenges in 2023, with total net profit declining approximately 10.7% compared to the prior year (Nation Thailand, 2024). These contrasting performances highlight how return on assets (ROA), as a measure of profitability, does not move uniformly across firms in both markets.

This study focuses on non-financial companies because this sector directly reflects business activity responses to economic conditions and has fundamentally different capital structures from the financial sector. Financial ratios such as DER, CR, and DAR cannot be interpreted equivalently across financial and non-financial companies (Brealey et al., 2020; Damodaran, 2020). Indonesia and Thailand were selected as the research objects because both are major developing countries in Southeast Asia with relatively active capital markets. According to

the World Federation of Exchanges (2023), both countries lead ASEAN in market capitalization and liquidity. Despite sharing an emerging market status, they differ in institutional characteristics and capital market maturity, making them ideal for cross-country comparative analysis (Yusrianti et al., 2016; Safitri et al., 2024).

ROA is a critical measure of how efficiently a firm utilizes its assets to generate net profit. A high ROA indicates effective management of assets, while a low ROA signals operational inefficiency (Kusuma, 2021; Piesiewicz & Kufel, 2025). Alongside ROA, DER, CR, and DAR provide important insights into capital structure, liquidity, and solvency, and their variation across LQ45 and SET50 companies reflects differing financing approaches and risk management strategies that directly impact profitability.

The novelty of this study lies in its comparative approach: examining the effect of financial ratios on ROA across two distinct equity indices from different ASEAN countries, combined with the Mann Whitney test to assess structural differences. Prior studies have largely focused on single-country samples; thus, this cross-country comparison contributes new empirical evidence on how country-specific institutional and market characteristics moderate the relationship between financial ratios and profitability. This study addresses the following research questions: (1) Do DER, CR, and DAR individually affect ROA in LQ45 and SET50 non-financial companies? (2) Do DER, CR, and DAR jointly affect ROA in both indices? (3) Are there significant differences in DER, CR, DAR, and ROA between LQ45 and SET50 companies?

## LITERATURE REVIEW

### A. Trade-Off Theory

Trade-Off Theory, foundationally developed by Modigliani and Miller (1963), posits that firms can utilize debt to obtain tax advantages through interest deductibility (tax shield), thereby increasing net income and Return on Assets (ROA). Kraus and Litzenberger (1973) extended this concept through the Static Trade-Off Theory, suggesting that firms optimize their capital structure at a point where the marginal benefit of tax shields equals the marginal cost of financial distress. Furthermore, the Dynamic Trade-Off Theory (Myers, 2001) explains that firms continuously adjust their capital structure toward an optimal target in response to market conditions, investment opportunities, and managerial decisions. Within this framework, Debt to Equity Ratio (DER) and Debt to Assets Ratio (DAR) act as flexible financial instruments that adapt to internal and external conditions, directly influencing profitability as measured by ROA (Brealey et al., 2020; Esghaier, 2024).

Although the Current Ratio (CR) is not a direct component of capital structure, it plays a crucial supporting role. Adequate liquidity enables firms to sustain operations and avoid financial distress, thus supporting profitability. However, excessively high CR may indicate inefficient cash utilization (Huynh et al., 2025), while very low CR signals liquidity risk (Vu, 2024). Therefore, CR indirectly affects ROA.

### B. Return on Assets (ROA)

Return on Assets (ROA) measures a company's ability to generate profit from its total assets and is calculated as: ROA = (Net Income / Total Assets) × 100%

A higher ROA reflects greater managerial efficiency in utilizing company resources (Hoang, 2023; Chang et al., 2023). In this study, ROA serves as the primary dependent variable because it captures both operational performance and asset management effectiveness.

### C. Debt to Equity Ratio (DER)

Debt to Equity Ratio (DER) compares total debt to shareholders' equity, indicating the extent to which a firm relies on external financing. According to Kasmir (2016), a higher DER increases financial obligations and risk exposure, while Menicucci (2018) emphasizes its importance as an indicator of financial health.

Within the Trade-Off Theory framework, moderate levels of debt can enhance profitability through tax benefits. However, excessive leverage increases interest burdens and financial risk, potentially reducing firm performance (Brigham & Ehrhardt, 2013).

### D. Current Ratio (CR)

The Current Ratio (CR) measures a firm's short-term liquidity and is calculated as: CR = Current Assets / Current Liabilities

It reflects the company's ability to meet short-term obligations (Hery, 2015). A higher CR generally supports operational stability and positively influences ROA. However, an excessively high CR may indicate underutilized assets and inefficiency (Anton & Nucu, 2021).

### E. Debt to Assets Ratio (DAR)

Debt to Assets Ratio (DAR) is calculated as: DAR = Total Debt / Total Assets

This ratio measures the proportion of a firm's assets financed through debt. A higher DAR indicates greater dependence on creditors and increased financial risk (Kasmir, 2016). According to Trade-Off Theory, an optimal level of DAR can enhance profitability, while excessive levels may reduce it due to increased financial costs.

### F. Research Hypotheses

Based on the theoretical framework and prior empirical studies, the following hypotheses are proposed:
**H1:** DER has a positive and significant effect on ROA in LQ45 companies.
**H2:** DER has a positive and significant effect on ROA in SET50 companies.
**H3:** CR has a positive and significant effect on ROA in LQ45 companies.
**H4:** CR has a positive and significant effect on ROA in SET50 companies.
**H5:** DAR has a positive and significant effect on ROA in LQ45 companies.
**H6:** DAR has a positive and significant effect on ROA in SET50 companies.
**H7:** DER, CR, and DAR simultaneously have a significant effect on ROA in LQ45 and SET50 companies.
**H8:** There are significant differences in DER, CR, DAR, and ROA between LQ45 and SET50 companies.

## METHOD

This study employed a causal-associative quantitative research design to examine the effect of Debt-to-Equity Ratio (DER), Current Ratio (CR), and Debt-to-Assets Ratio (DAR) as independent variables on Return on Assets (ROA) as the dependent variable. The data used in this study were secondary data obtained from annual reports and financial statements of non-financial companies consistently listed on the LQ45 index (Indonesia) and SET50 index (Thailand) for the period 2022–2024.

The data were accessed through the official websites of the Indonesia Stock Exchange and the Stock Exchange of Thailand. The sampling technique used was purposive sampling with the following criteria: (1) non-financial companies, (2) companies consistently listed during 2022–2024, and (3) companies reporting financial statements in domestic currency (IDR for LQ45 and THB for SET50). Based on these criteria, the final sample consisted of 18 LQ45 companies and 35 SET50 companies, resulting in a total of 159 observations.

**Table 1. Operational Definition of Variables**

| Variable | Definition | Formula | Scale |
|---|---|---|---|
| Return on Assets (ROA) — Y | Ratio measuring the firm's ability to generate profit from total assets (Kasmir, 2016) | *(Net Income / Total Assets) × 100%* | Ratio |
| Debt to Equity Ratio (DER) — X1 | Ratio measuring the extent to which a firm uses debt relative to equity (Kasmir, 2016) | *Total Debt / Total Equity* | Ratio |
| Current Ratio (CR) — X2 | Liquidity ratio measuring the firm's ability to meet short-term obligations with current assets (Hery, 2015) | *Current Assets / Current Liabilities* | Ratio |
| Debt to Assets Ratio (DAR) — X3 | Ratio measuring the proportion of total assets financed by debt (Kasmir, 2016) | *Total Debt / Total Assets* | Ratio |

**Source:** Kasmir (2016); Hery (2015)

The data analysis technique used panel data regression with EViews software. The model selection procedure consisted of three stages: (1) Chow Test to determine the appropriate model between Common Effect Model (CEM) and Fixed Effect Model (FEM); (2) Hausman Test to choose between FEM and Random Effect Model (REM); and (3) Lagrange Multiplier Test to determine the best model between CEM and REM.

Additionally, classical assumption tests were conducted, including multicollinearity testing using Variance Inflation Factor (VIF), heteroscedasticity testing, and autocorrelation testing using the Durbin–Watson statistic. Furthermore, the Mann–Whitney U test was applied to examine differences in financial performance between LQ45 and SET50 companies.

**Table 2. Sample Selection Process — LQ45**

| No. | Criteria | Excluded | Total |
|---|---|---|---|
| 1 | Companies listed on the LQ45 index | — | 45 |
| 2 | Companies not consistently listed during 2022–2024 | -15 | 30 |
| 3 | Companies not reporting financial statements in IDR | -7 | 23 |
| 4 | Financial sector companies | -5 | **18** |

**Source:** Processed by researcher, 2026

**Table 3. Sample Selection Process — SET50**

| No. | Criteria | Excluded | Total |
|---|---|---|---|
| 1 | Companies listed on the SET50 index | — | 50 |
| 2 | Companies not consistently listed during 2022–2024 | -9 | 41 |
| 3 | Companies not reporting in local currency (THB) | 0 | 41 |
| 4 | Financial sector companies | -6 | **35** |

**Source:** Processed by researcher, 2026

## RESULTS AND DISCUSSION

### A. DESCRIPTIVE STATISTICS

**Table 4. Descriptive Statistics — LQ45 (n = 54)**

| Statistic | ROA (Y) | DER (X1) | CR (X2) | DAR (X3) |
|---|---|---|---|---|
| Mean | 9.35 | 1.07 | 1.77 | 0.41 |
| Median | 7.92 | 0.72 | 1.48 | 0.42 |
| Maximum | 28.81 | 6.47 | 5.65 | 0.87 |
| Minimum | -6.25 | 0.03 | 0.02 | 0.03 |
| Std. Dev. | 7.53 | 1.22 | 1.36 | 0.21 |
| Skewness | 0.90 | 2.38 | 0.99 | 0.25 |
| Kurtosis | 3.98 | 9.24 | 3.37 | 2.59 |

Source: Processed by researcher using EViews (2026)

The descriptive statistics for LQ45 companies show that Return on Assets (ROA) has a mean value of 9.35% and a median of 7.92%, indicating that most firms generate positive profitability. The maximum ROA reaches 28.81%, while the minimum value is -6.25%, suggesting that some firms experienced losses during the observation period.

The Debt-to-Equity Ratio (DER) has an average value of 1.07, reflecting a moderate use of debt financing relative to equity. The Current Ratio (CR) shows a mean of 1.77, indicating that companies generally have sufficient liquidity to meet their short-term obligations. Meanwhile, the Debt-to-Asset Ratio (DAR) averages 0.41, meaning that approximately 41% of total assets are financed through debt.

In terms of distribution, all variables exhibit positive skewness, indicating that the data are right-skewed. The kurtosis values, particularly for DER (9.24), indicate a leptokurtic distribution, suggesting a higher peak and the presence of extreme values compared to a normal distribution.

**Table 5. Descriptive Statistics — SET50 (n = 105)**

| Statistic | ROA (Y) | DER (X1) | CR (X2) | DAR (X3) |
|---|---|---|---|---|
| Mean | 5.02 | 1.74 | 2.06 | 0.57 |
| Median | 3.57 | 1.50 | 1.29 | 0.60 |

| | | | | |
|---|---|---|---|---|
| Maximum | 35.79 | 8.11 | 63.98 | 0.89 |
| Minimum | -8.58 | 0.00 | 0.07 | 0.00 |
| Std. Dev. | 6.85 | 1.34 | 6.20 | 0.18 |
| Skewness | 1.98 | 2.23 | 9.63 | -0.92 |
| Kurtosis | 9.09 | 10.45 | 96.68 | 3.89 |

Source: Processed by researcher using EViews (2026)

The descriptive statistics for SET50 companies show that Return on Assets (ROA) has an average value of 5.02%, which is lower than that of LQ45 companies, indicating relatively lower profitability. The median value of 3.57% further supports that most firms generate modest returns, although the maximum value reaches 35.79%, suggesting the presence of highly profitable firms, while the minimum value of -8.58% indicates that some companies experience significant losses.

The Debt-to-Equity Ratio (DER) has a mean value of 1.74, which is higher than that of LQ45, indicating a greater reliance on debt financing among SET50 companies. Similarly, the Debt-to-Asset Ratio (DAR) averages 0.57, meaning that approximately 57% of total assets are financed by debt, reflecting a more leveraged capital structure.

The Current Ratio (CR) shows an average of 2.06, suggesting that companies generally maintain sufficient liquidity to meet short-term obligations. However, the maximum value of 63.98 indicates the presence of extreme outliers, which significantly influence the distribution.

In terms of distribution, most variables exhibit high skewness and kurtosis values. In particular, CR shows extremely high kurtosis (96.68), indicating a leptokurtic distribution with extreme observations. This suggests that the data are not normally distributed and contain significant outliers.

## B. MANN–WHITNEY DIFFERENCE TEST

**Table 6. Mann–Whitney U Test Results**

| Variable | Mean Rank LQ45 | Mean Rank SET50 | Mann–Whitney U | Asymp. Sig. | Result |
|---|---|---|---|---|---|
| ROA (Y) | 103.09 | 68.12 | 1,588.00 | 0.000 | Significant difference |
| DER (X1) | 54.55 | 93.09 | 1,460.50 | 0.000 | Significant difference |
| CR (X2) | 88.10 | 75.83 | 2,397.50 | 0.112 | No significant difference |
| DAR (X3) | 54.44 | 93.15 | 1,454.50 | 0.000 | Significant difference |

Source: Processed by researcher, 2026

## C. MODEL SELECTION

The Chow Test indicated FEM is preferable to CEM for both LQ45 (F = 4.585, p = 0.0001) and SET50 (F = 5.711, p = 0.0000). The Hausman Test showed REM is preferable for LQ45 (Chi-sq = 2.920, p = 0.4041), while FEM is preferable for SET50 (Chi-sq = 10.834, p = 0.0127). The Lagrange Multiplier test for LQ45 confirmed REM over CEM (Breusch-Pagan: 14.019, p = 0.0002). Therefore, the Random Effect Model (REM) was applied to LQ45, and the Fixed Effect Model (FEM) was applied to SET50.

## D. PANEL DATA REGRESSION RESULTS

**Table 7. Regression Results — LQ45 (Random Effect Model)**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| Constant (C) | 0.440 | 5.454 | 0.081 | 0.9360 |
| DER (X1) | 1.349 | 1.861 | 0.725 | 0.4719 |
| CR (X2) | 2.541 | 1.160 | 2.190 | 0.0332 |
| DAR (X3) | 7.203 | 12.709 | 0.567 | 0.5734 |

Source: Processed by researcher, 2026

| Indicator | Value | Indicator | Value | Prob. |
|---|---|---|---|---|
| Adj. $R^2$ | 0.0506 | F-Statistic | 1.942 | 0.1348 |

Source: Processed by researcher, 2026

**Table 8. Regression Results — SET50 (Fixed Effect Model)**

| Variable | Coefficient | Std. Error | t-Statistic | Prob. |
|---|---|---|---|---|
| Constant (C) | 23.066 | 5.748 | 4.013 | 0.0002 |
| DER (X1) | -0.998 | 1.509 | -0.661 | 0.5106 |
| CR (X2) | 0.102 | 0.055 | 1.836 | 0.0000 |
| DAR (X3) | -29.213 | 12.736 | -2.294 | 0.1243 |

Source: Processed by researcher, 2026

| Indicator | Value | Indicator | Value | Prob. |
|---|---|---|---|---|
| Adj. $R^2$ | 0.8529 | F-Statistic | 17.296 | 0.0000 |

Source: Processed by researcher, 2026

**a) Effect of DER on ROA**

For LQ45 companies, DER has a positive but insignificant effect on ROA (coefficient = 1.349, p = 0.4719), rejecting H1. For SET50 companies, DER has a negative but insignificant effect on ROA (coefficient = -0.998, p = 0.5106), rejecting H2. These results indicate that the debt-to-equity ratio is not a primary driver of profitability in either market. From a Trade-Off Theory perspective, firms in both indices may not yet have reached the optimal leverage point where tax benefits outweigh financial distress costs. The contrasting signs—positive in LQ45, negative in SET50—suggest different structural contexts: Indonesian non-financial companies may have benefited marginally from moderate leverage, while Thai counterparts face greater financial pressure from debt. These findings are consistent with Andarinasa (2025), Novita (2022), Alfiani (2024), and Sukmayanti & Sembiring (2022), who found that DER does not significantly determine ROA in non-financial companies.

**b) Effect of CR on ROA**

CR has a positive and significant effect on ROA in LQ45 companies (coefficient = 2.541, p = 0.0332), supporting H3. For SET50 companies, CR also has a positive and significant effect (coefficient = 0.102, p = 0.0000), supporting H4. These results are robust across both indices and underscore the central role of liquidity in sustaining profitability. Firms with sufficient current assets relative to current liabilities are better positioned to maintain smooth operational activity, reduce short-term default risk, and utilize assets efficiently—all of which contribute positively to ROA. These findings align with Prasertthongkorn & Jan-ngam (2024) and Anton & Nucu (2021), who confirm that liquidity management is positively linked to profitability.

**c) Effect of DAR on ROA**

For LQ45 companies, DAR has a positive but insignificant effect on ROA (coefficient = 7.203, p = 0.5734), rejecting H5. For SET50 companies, DAR has a negative but insignificant effect (coefficient = -29.213, p = 0.1243), rejecting H6. The opposing signs reflect differing financial environments: Indonesian firms with moderate asset-debt ratios may leverage assets productively, while Thai firms with higher average DAR (0.57) may face margin compression from debt costs. Neither effect is statistically significant, suggesting other factors dominate ROA variation in both markets. These results are consistent with Alfiani (2024) and H. Sjahruddin (2025).

**d) Simultaneous Effect (F-Test)**

For LQ45, the F-statistic of 1.942 (p = 0.1348) indicates that DER, CR, and DAR jointly do not significantly influence ROA, partially rejecting H7. The Adjusted $R^2$ of 5.06% implies that approximately 94.94% of ROA variation is explained by factors outside the model. For SET50, the F-statistic of 17.296 (p = 0.0000) confirms that DER, CR, and DAR collectively have a significant effect on ROA, supporting H7 for this index. The high Adjusted $R^2$ of 85.29% indicates strong explanatory power for the SET50 model. This difference highlights a fundamental contrast: in Indonesia, profitability is driven more by idiosyncratic factors (industry characteristics, management quality, commodity cycles), whereas in Thailand, systemic financial ratios play a more dominant role.

**Table 9. Summary of Hypothesis Testing Results**

| H | Hypothesis | Finding | Decision |
|---|---|---|---|
| H1 | DER → ROA (LQ45) | +, Not Sig. (p=0.472) | Rejected |
| H2 | DER → ROA (SET50) | -, Not Sig. (p=0.511) | Rejected |
| H3 | CR → ROA (LQ45) | +, Sig. (p=0.033) | Supported |
| H4 | CR → ROA (SET50) | +, Sig. (p=0.000) | Supported |
| H5 | DAR → ROA (LQ45) | +, Not Sig. (p=0.573) | Rejected |
| H6 | DAR → ROA (SET50) | -, Not Sig. (p=0.124) | Rejected |
| H7a | DER+CR+DAR → ROA (LQ45) | F=1.942, p=0.135 | Rejected |
| H7b | DER+CR+DAR → ROA (SET50) | F=17.296, p=0.000 | Supported |
| H8 | Differences LQ45 vs SET50 | ROA, DER, DAR differ; CR does not | Partially Supported |

Source: Processed by researcher, 2026

## CONCLUSION

This study examined the effects of Debt to Equity Ratio (DER), Current Ratio (CR), and Debt to Assets Ratio (DAR) on Return on Assets (ROA) in non-financial companies listed on the LQ45 (Indonesia) and SET50 (Thailand) indices from 2022 to 2024. The main conclusions are as follows:

First, DER has a positive but insignificant effect on ROA in LQ45 companies, and a negative but insignificant effect in SET50 companies, suggesting that debt leverage is not a determining factor in either market's profitability during the study period. Second, CR has a positive and significant effect on ROA in both LQ45 and SET50 companies, confirming that liquidity management is a critical driver of profitability across both indices. Third, DAR has a positive but insignificant effect on ROA in LQ45, and a negative but insignificant effect in SET50, indicating that asset-financing structure does not meaningfully explain ROA in these markets.

Fourth, the simultaneous test reveals that DER, CR, and DAR jointly do not significantly affect ROA in LQ45 (Adj. $R^2$ = 5.06%), but do significantly affect ROA in SET50 (Adj. $R^2$ = 85.29%). Fifth, the Mann–Whitney test shows significant differences in ROA, DER, and DAR between LQ45 and SET50 companies, but no significant difference in CR, confirming that while liquidity levels are comparable, capital structures and profitability differ meaningfully across the two markets.

These findings have practical implications for corporate managers, investors, and policymakers. Firms in both markets should prioritize maintaining optimal liquidity levels, as CR consistently predicts ROA. Investors should incorporate multi-dimensional ratio analysis rather than focusing on single leverage metrics. Future research should extend the sample period, include additional macroeconomic and firm-specific control variables, and explore non-linear effects of leverage on profitability to deepen understanding of financial performance across ASEAN emerging markets.

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