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Effects Of Current Ratio, Debt-To-Asset Ratio, And Inventory Turnover On Manufacturing Firms' Profit Growth

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Abstract

This study examines the effects of the Current Ratio (CR), Debt-to-Asset Ratio (DAR), and Inventory Turnover (ITO) on profit growth among manufacturing companies in the industrial subsector listed on the Indonesia Stock Exchange (IDX) during the 2022–2025 period. Previous studies have reported inconsistent findings regarding the influence of liquidity, leverage, and inventory efficiency on corporate profit growth, indicating an unresolved empirical gap. This study addresses this gap by investigating the simultaneous and partial effects of these financial ratios using recent financial data from Indonesian manufacturing firms. A quantitative explanatory research design was employed using purposive sampling, resulting in 23 companies with 92 firm-year observations. Data were analyzed using multiple linear regression with SPSS version 26. The findings reveal that Current Ratio and Debt-to-Asset Ratio negatively and significantly affect profit growth, whereas Inventory Turnover has no significant effect. Simultaneously, all independent variables significantly explain profit growth, with an adjusted R^2 of 73.2%. This study contributes to the financial performance literature by providing updated empirical evidence from the post-pandemic manufacturing environment and highlighting the importance of balancing liquidity and leverage to sustain corporate profit growth.

Keywords: Current Ratio; Debt-to-Asset Ratio; Inventory Turnover; Profit Growth; Manufacturing Companies

INTRODUCTION

Profit growth represents one of the most important indicators used to evaluate a firm's financial performance and long-term sustainability. Investors, creditors, and corporate managers rely on profit growth information to assess business prospects,

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operational efficiency, and future investment opportunities. Consistent profit growth generally reflects effective resource management and competitive advantages, whereas declining profits may indicate operational inefficiencies or financial distress (Harahap & Siregar, 2025).

The manufacturing sector plays a strategic role in Indonesia's economic development because it consistently contributes the largest share of the national Gross Domestic Product (GDP). According to Statistics Indonesia (BPS, 2024), the manufacturing industry contributes approximately 19% of Indonesia's GDP, making corporate financial performance within this sector essential for sustaining national economic growth. However, despite the post-pandemic recovery experienced in 2022, manufacturing companies continued to face numerous challenges during 2023–2025, including increasing production costs, inflationary pressures, weakening purchasing power, supply chain disruptions, and global economic uncertainty. Consequently, manufacturing firms exhibited varying levels of profitability, with some companies successfully improving their earnings while others experienced declining profits.

Financial ratio analysis has long been recognized as an effective approach for evaluating corporate performance because it provides quantitative information regarding liquidity, solvency, and operational efficiency. Among the most frequently examined financial indicators are the Current Ratio (CR), Debt-to-Asset Ratio (DAR), and Inventory Turnover (ITO). These ratios reflect different dimensions of corporate financial management that may directly influence a company's ability to generate sustainable profit growth.

The Current Ratio measures a firm's ability to fulfill short-term obligations using current assets. Although high liquidity generally indicates financial stability, excessive liquidity may also imply inefficient utilization of current assets, leading to idle resources and lower profitability (Oktaviani et al., 2023). Meanwhile, the Debt-to-Asset Ratio represents the proportion of assets financed by liabilities. Higher leverage increases financial risk through greater interest obligations, potentially reducing future earnings, although debt financing may also support business expansion when managed efficiently (Septiany & Damayanti, 2024). Inventory Turnover reflects inventory management efficiency by measuring how rapidly inventory is converted into sales. Efficient inventory management minimizes holding costs and improves operational performance, thereby potentially enhancing profit growth (Sulistianingsih et al., 2025).

Numerous empirical studies have investigated the relationship between financial ratios and corporate profit growth; however, their findings remain inconclusive.Several

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studies reported that Current Ratio negatively influences profit growth because excessive liquidity indicates underutilized current assets (Maheni et al., 2022; Widiyasrani & Astuti, 2023). In contrast, Oktaviani et al. (2023) found a positive relationship, suggesting that sufficient liquidity enhances operational continuity and profitability.

Similarly, previous findings regarding Debt-to-Asset Ratio remain inconsistent. Septiany and Damayanti (2024) demonstrated that leverage significantly affects profit growth, whereas Istiqomah and Andayani (2023) concluded that DAR has no significant impact on corporate earnings.

Empirical evidence concerning Inventory Turnover is equally inconsistent. Sulistianingsih et al. (2025) reported a positive and significant influence on profit growth, while Lay (2024) found no statistically significant relationship.

These contradictory findings indicate that the influence of liquidity, leverage, and inventory efficiency on corporate profit growth remains unresolved, particularly within Indonesian manufacturing companies during the post-pandemic recovery period.

Compared with previous studies, this research offers several important differences.First, it focuses specifically on manufacturing companies in the industrial subsector listed on the Indonesia Stock Exchange.Second, this study utilizes the most recent observation period (2022–2025), which captures post-pandemic business dynamics and changing macroeconomic conditions.Third, this study simultaneously examines liquidity, leverage, and inventory management as determinants of profit growth, providing updated empirical evidence regarding financial performance in Indonesian manufacturing firms.

Objectives

This study aims to:

1. Examine the effect of the Current Ratio on profit growth;
2. Analyze the influence of the Debt-to-Asset Ratio on profit growth;
3. Investigate the effect of Inventory Turnover on profit growth; and
4. Evaluate the simultaneous effects of Current Ratio, Debt-to-Asset Ratio, and Inventory Turnover on profit growth among manufacturing companies listed on the Indonesia Stock Exchange.

The novelty of this study lies in its provision of updated empirical evidence regarding the determinants of profit growth in Indonesian manufacturing companies during the post-pandemic period (2022–2025). While previous studies have extensively

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examined the effects of liquidity, leverage, and operational efficiency on corporate performance, their findings remain inconsistent, particularly concerning the roles of the Current Ratio, Debt-to-Asset Ratio, and Inventory Turnover. This study addresses these inconsistencies by simultaneously examining the three financial ratios within the industrial manufacturing subsector listed on the Indonesia Stock Exchange (IDX), thereby offering a more comprehensive understanding of their combined and individual effects on profit growth. Furthermore, this research extends the application of Signaling Theory by demonstrating how financial ratio information serves as a signal of corporate financial performance and future profitability under conditions of post-pandemic economic uncertainty. Accordingly, this study contributes to the existing literature by providing more recent empirical evidence and practical insights for managers, investors, and other stakeholders in evaluating corporate financial performance

LITERATUR REVIEW

Signaling Theory

Signaling Theory, introduced by Spence (1973), explains that companies provide signals to external stakeholders through information disclosed in their financial statements to reduce information asymmetry between management and investors. This information serves as a basis for investors in evaluating a company's financial condition and future prospects. In this study, Current Ratio (CR), Debt to Asset Ratio (DAR), and Inventory Turnover (ITO) are considered financial signals that reflect a company's ability to generate profit growth.

Profit Growth

Profit Growth is an indicator that measures a company's ability to increase its net income from one period to the next. Higher profit growth reflects improved financial performance and provides a positive signal to investors regarding the company's future prospects (Harahap & Siregar, 2025). The formula for Profit Growth is:

Profit Growth = (Current Net Profit − Previous Net Profit) / Previous Net Profit × 100%

Current Ratio (CR)

Current Ratio (CR) is a liquidity ratio used to measure a company's ability to meet its short-term obligations using its current assets. A favorable Current Ratio indicates that the company can maintain smooth business operations, thereby supporting potential profit growth. The formula for Current Ratio is:

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CR = Current Assets / Current Liabilities × 100%

Debt to Asset Ratio (DAR)

Debt to Asset Ratio (DAR) is a solvency ratio that measures the proportion of a company's assets financed by debt. A higher DAR indicates greater reliance on debt financing, which increases the company's financial risk. The formula for Debt to Asset Ratio is:

DAR = Total Liabilities / Total Assets × 100%

Inventory Turnover (ITO)

Inventory Turnover (ITO) is an activity ratio that measures how effectively a company manages its inventory. A higher Inventory Turnover indicates that inventory is converted into sales more quickly, reflecting greater operational efficiency. The formula for Inventory Turnover is:

ITO = Cost of Goods Sold / Average Inventory × 100%

Hypotheses Development

Current Ratio reflects a company's ability to fulfill its short-term obligations. Strong liquidity helps maintain operational continuity and may contribute to higher profit growth. Syarafina et al. (2024) found that Current Ratio significantly affects profit growth, whereas Lesmana et al. (2022) reported no significant effect. Therefore, the following hypothesis is proposed:

H1: Current Ratio has a significant effect on Profit Growth.

Debt to Asset Ratio represents the company's financing structure. A higher proportion of debt may increase financial risk and influence the company's ability to generate profits. Previous empirical studies have reported inconsistent findings; therefore, this relationship requires further investigation.

H2: Debt to Asset Ratio has a significant effect on Profit Growth.

Inventory Turnover reflects the effectiveness of inventory management. Faster inventory turnover enables companies to increase sales and improve profitability. Sulistianingsih et al. (2025) found that Inventory Turnover has a significant effect on profit growth.

H3: Inventory Turnover has a significant effect on Profit Growth.

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RESEARCH METHODE

Research Approach

This study employed a quantitative research approach with an explanatory research design to examine the influence of Current Ratio (CR), Debt to Asset Ratio (DAR), and Inventory Turnover (ITO) on profit growth among manufacturing industrial sub-sector companies listed on the Indonesia Stock Exchange (IDX) during the 2022–2025 period. The quantitative approach was selected because the study aims to test causal relationships among variables using statistical analysis based on secondary numerical data.

Types of Research Data

This study utilized secondary quantitative data obtained from audited annual financial statements of manufacturing industrial sub-sector companies listed on the Indonesia Stock Exchange. The data consisted of financial information required to calculate Current Ratio, Debt to Asset Ratio, Inventory Turnover, and Profit Growth for each company during the observation period from 2022 to 2025.

Research Data Sources

Research data were collected from publicly available sources, including: audited annual financial statements published by the Indonesia Stock Exchange (IDX); annual reports available on each company's official website; and supporting scientific literature, including books and peer-reviewed journal articles relevant to financial ratio analysis and earnings growth.

Technique for Determining Respondents (Sampling Technique)

The population consisted of 65 manufacturing industrial sub-sector companies listed on the Indonesia Stock Exchange during 2022–2025. The study employed purposive sampling to obtain companies that satisfied predetermined research criteria. The sample selection criteria were: Manufacturing industrial sub-sector companies listed on the Indonesia Stock Exchange during 2022–2025. Companies publishing complete audited annual financial statements throughout the observation period. Companies presenting financial statements in Indonesian Rupiah. Companies reporting positive net income during 2022–2025. Companies providing complete information required to calculate Current Ratio, Debt to Asset Ratio, Inventory Turnover, and Profit Growth.

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Based on these criteria, 23 companies met the sampling requirements, producing 92 firm-year observations over the four-year observation period.

Research Instruments

The primary research instrument was a documentation sheet (data extraction form) developed to record financial statement data and calculate each research variable. Variable measurements were based on standardized financial ratio formulas for Current Ratio, Debt to Asset Ratio, Inventory Turnover, and Profit Growth derived from audited annual financial statements.

Data Collection Techniques

Data were collected using two techniques. First, library research was conducted by reviewing books, scientific journals, and previous empirical studies related to liquidity, leverage, activity ratios, and earnings growth. Second, the documentation method was employed by collecting audited annual financial statements from the Indonesia Stock Exchange website and each company's official website. These financial statements were then used to calculate all research variables.

Theoretical Framework

This study adopted Signaling Theory as its primary theoretical framework. The theory explains that financial ratios disclosed in annual reports serve as signals regarding a firm's financial condition and future performance. Current Ratio reflects corporate liquidity, Debt to Asset Ratio represents financial leverage, while Inventory Turnover indicates operational efficiency. These financial indicators are expected to influence stakeholders' perceptions regarding future profit growth.

Data Analysis Techniques

Data analysis was performed using IBM SPSS Statistics version 26. The analytical procedures included: Descriptive statistical analysis to summarize the characteristics of each variable. Classical assumption tests consisting of: normalitytest, multicollinearitytest, heteroscedasticity test, autocorrelation test. Multiple linear regression analysis to examine the influence of Current Ratio, Debt to Asset Ratio, and Inventory Turnover on Profit Growth. Hypothesis testing using: partial significance test (t-test), simultaneous significance test (F-test), and coefficient of determination (Adjusted R^2) to evaluate the explanatory power of the regression model.

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Data Credibility

Data credibility was ensured by utilizing audited annual financial statements obtained from official sources, namely the Indonesia Stock Exchange and company websites. To enhance reliability, all financial data were cross-checked across multiple official publications before ratio calculations were performed. Furthermore, standardized financial ratio formulas and consistent measurement procedures were applied throughout the analysis to minimize measurement errors and improve the validity of the research findings

RESULTS AND DISCUSSION

Overview of the Research Object

The object of this research is manufacturing companies in the industrial sub-sector listed on the Indonesia Stock Exchange (IDX) for the 2022–2025 period. The manufacturing industrial sub-sector was chosen as the research object because its operational activities are closely related to asset management, inventory, and the company's funding structure. This condition is relevant to the research variables, namely *Current Ratio* (CR), *Debt to Asset Ratio* (DAR), and *Inventory Turnover* (ITO), which may influence changes in company profit.

The population of this research consists of 65 manufacturing companies in the industrial sub-sector listed on the Indonesia Stock Exchange during the 2022–2025 period. Sample selection was carried out using the *purposive sampling* method based on predetermined criteria. The sample selection process yielded 23 companies that met the research criteria. An observation period of four years produced a total of 92 (23 x 4) financial statement data points. The data used in this research are the companies' annual financial statements obtained through Indonesia Stock Exchange publications. This data was used to determine the effect of *Current Ratio* (CR), *Debt to Asset Ratio* (DAR), and *Inventory Turnover* (ITO) on Profit Growth in manufacturing companies in the industrial sub-sector during the 2022–2025 period.

Descriptive Statistical Analysis Results

The descriptive statistical analysis in this research aims to provide a comprehensive overview of the characteristics and distribution of the research variables' data, namely profit growth, *Current Ratio* (CR), *Debt to Asset Ratio* (DAR), and *Inventory Turnover* (ITO), over the research period with a total of 92 observations. The data description was carried out by evaluating the minimum, maximum, mean, and standard

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deviation values in order to determine the central tendency and the degree of data dispersion for each variable. All statistical indicators presented represent the actual observation values used to describe the general condition of the companies in the research sample as well as the variation in data occurring between companies.

Table 4.1 Descriptive Statistical Analysis

	N	Minimum	Maximum	Mean	Std. Deviation
Profit Growth	92	-2.357088	10.012170	.44516910	1.672441935
CR	92	.187381	12.607271	3.25743292	2.932492189
DAR	92	.043937	12.607271	.42403589	.472226273
ITO	92	.398687	2.722749	4.86301886	4.393944199
Valid N (Listwise)	92				

Based on Table 4.1 above, the descriptive statistics results show that the number of data points used in this research is 92 samples. Based on the processed data, the profit growth variable has a minimum value of -2.3570 and a maximum value of 10.0122, with a mean of 0.4452 and a standard deviation of 1.6724. This indicates that, on average, company profit growth is positive, although some companies experienced a decline in profit, and the degree of data dispersion is fairly high. The *Current Ratio* (CR) variable has a minimum value of 0.1874 and a maximum of 12.6073, with a mean of 3.25743 and a standard deviation of 2.9325, indicating that companies generally have good liquidity, although there are fairly large differences between companies. The *Debt to Asset Ratio* (DAR) variable shows a mean value of 0.4240, with a minimum of 0.0439 and a maximum of 2.7227, and a standard deviation of 0.4722, meaning that on average companies use debt equivalent to 42% of total assets, although capital structure varies between companies. Meanwhile, the *Inventory Turnover* (ITO) variable has a mean value of 4.8630, with a minimum of 0.3987 and a maximum of 22.8727, and a standard deviation of 4.3939, indicating that the efficiency of inventory turnover among companies is fairly diverse. Overall, all variables show fairly high data variation between companies in the research sample.

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Classical Assumption Test Results

Normality Test

Table 4.2 Normality Test Results

Statistic	Value
Number of Observations (N)	92
Kolmogorov–Smirnov Statistic	0.128
Asymp. Sig. (2-tailed)	0.001

The normality test aims to examine whether the residuals in the regression model are normally distributed. The test in this study was conducted using the One-Sample Kolmogorov–Smirnov test in SPSS. Based on Table 4.2, the Test Statistic is 0.128, with an Asymp. Sig. (2-tailed) value of 0.001 based on 92 observations. Statistically, the significance value is lower than the significance level of 0.05 (0.001 < 0.05), indicating that the residuals are not perfectly normally distributed. Nevertheless, the normality assumption is considered satisfied based on the Central Limit Theorem (CLT). Since the sample size exceeds 30 observations (N = 92), the sampling distribution is assumed to approach normality, making the regression estimates and statistical inference valid. Therefore, the regression model satisfies the normality assumption and can be used for further analysis.

Multicollinearity Test

The multicollinearity test was conducted to determine whether a high correlation exists among the independent variables. A regression model is considered free from multicollinearity if the Tolerance value is greater than 0.10 and the Variance Inflation Factor (VIF) is less than 10.00.

Table 4.3 Multicollinearity Test Results

Variable	Tolerance	VIF
Current Ratio (CR)	0.997	1.003
Debt to Asset Ratio (DAR)	0.992	1.008
Inventory Turnover (ITO)	0.990	1.010

Based on Table 4.3, the Current Ratio (CR) variable has a Tolerance value of 0.997 and a VIF value of 1.003. The Debt to Asset Ratio (DAR) variable has a Tolerance

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value of 0.992 and a VIF value of 1.008, while the Inventory Turnover (ITO) variable has a Tolerance value of 0.990 and a VIF value of 1.010. Since all Tolerance values are greater than 0.10 and all VIF values are below 10.00, it can be concluded that no multicollinearity exists among the independent variables. Therefore, the regression model satisfies the multicollinearity assumption and is appropriate for multiple linear regression analysis.

Heteroscedasticity Test

The heteroscedasticity test was conducted using the Scatterplot method by examining the distribution of standardized residuals against standardized predicted values.

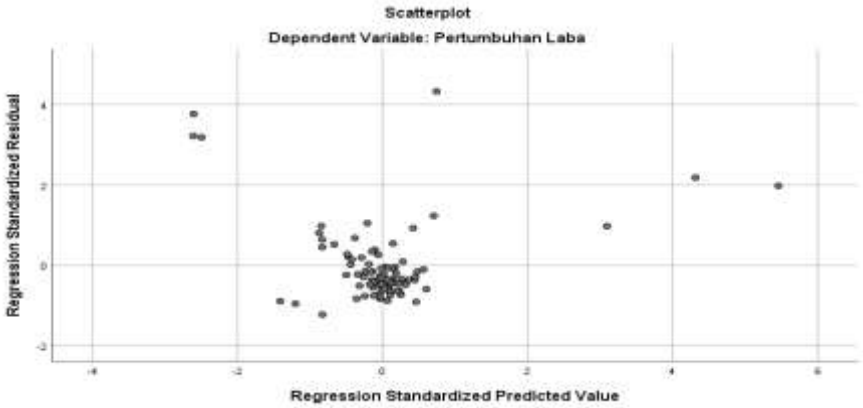


Figure 4.1 Heteroscedasticity Test Results

Based on Figure 4.1, the residuals are randomly scattered above and below the zero line without forming any specific pattern. This indicates that the regression model does not exhibit heteroscedasticity. Therefore, the assumption of homoscedasticity is satisfied, and the regression model is appropriate for further analysis.

Multiple Linear Regression Analysis

Multiple linear regression analysis was conducted to examine the effects of Current Ratio (CR), Debt to Asset Ratio (DAR), and Inventory Turnover (ITO) on Profit Growth. The estimated regression model is expressed as follows:

$$PG=1.533-0.141LN_CR-1.427LN_DAR-0.005LN_ITO+\varepsilon$$

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Table 4. Multiple Linear Regression Results

Variable	B	Std. Error	Beta	t	Sig.
Constant	1.533	0.165	–	9.277	0.000
LN_CR	-0.141	0.030	-0.256	-4.714	0.000
LN_DAR	-1.427	0.096	-0.814	-14.931	0.000
LN_ITO	-0.005	0.020	-0.013	-0.244	0.808

Dependent Variable: Profit Growth

The regression results demonstrate that all three independent variables exhibit negative regression coefficients, indicating an inverse relationship with Profit Growth. Specifically, the estimated regression equation shows that a one-unit increase in LN_CR, LN_DAR, and LN_ITO is associated with decreases of 0.141, 1.427, and 0.005 units in Profit Growth, respectively, assuming the other variables remain constant. Among the explanatory variables, Debt to Asset Ratio (LN_DAR) has the largest standardized regression coefficient ($\beta = -0.814$), suggesting that leverage is the strongest predictor of Profit Growth in the model. Current Ratio (LN_CR) also exhibits a significant negative coefficient ($\beta = -0.256$), whereas Inventory Turnover (LN_ITO) has a relatively small standardized coefficient ($\beta = -0.013$), indicating only a marginal contribution to explaining changes in Profit Growth.

Hypothesis Testing

Partial Significance Test (t-test)

The t-test was conducted to evaluate the individual contribution of each independent variable to Profit Growth. The significance level adopted in this study was 5% ($\alpha = 0.05$). Variables with probability values below 0.05 are considered to have a statistically significant effect on the dependent variable.

Table 5. Partial Regression Results (t-test)

Variable	t-value	Sig.	Decision
LN_CR	-4.714	0.000	H1 Accepted
LN_DAR	-14.931	0.000	H2 Accepted
LN_ITO	-0.244	0.808	H3 Rejected

The results indicate that Current Ratio and Debt to Asset Ratio significantly influence Profit Growth, as evidenced by probability values below 0.05. The negative t-

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values indicate that both variables have inverse relationships with Profit Growth. This finding suggests that increases in liquidity and leverage are associated with lower levels of profit growth during the observation period. In contrast, Inventory Turnover produces a t-value of −0.244 with a significance level of 0.808, which exceeds the 5% threshold. Therefore, Inventory Turnover does not have a statistically significant effect on Profit Growth. Consequently, hypotheses H1 and H2 are supported, whereas H3 is rejected.

Simultaneous Significance Test (F-test)

The F-test was performed to examine whether the independent variables jointly explain variations in Profit Growth. This test evaluates the overall significance of the regression model by assessing whether all explanatory variables collectively contribute to predicting the dependent variable.

Table 6. F-test Results

F	Sig.
83.712	0.000

The regression model yields an F-statistic of 83.712 with a significance level of 0.000, indicating that the model is statistically significant at the 1% level. These results demonstrate that Current Ratio, Debt to Asset Ratio, and Inventory Turnover collectively explain a significant proportion of the variation in Profit Growth. The significance of the F-test also confirms that the estimated regression model is appropriate for hypothesis testing and subsequent interpretation. Therefore, the independent variables are considered to have a simultaneous effect on Profit Growth.

Coefficient of Determination

The coefficient of determination was used to assess the explanatory power of the regression model in predicting Profit Growth. The R^2 statistic indicates the proportion of variance in the dependent variable that can be explained by the independent variables included in the model.

Table 7. Model Summary

R	R^2	Adjusted R^2	Std. Error
0.861	0.741	0.732	0.866

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The model produces an R value of 0.861, indicating a strong correlation between the observed and predicted values of Profit Growth. Furthermore, the R^2 value of 0.741 suggests that approximately 74.1% of the variation in Profit Growth is explained by Current Ratio, Debt to Asset Ratio, and Inventory Turnover. After adjusting for the number of explanatory variables, the Adjusted R^2 remains high at 0.732, indicating that the explanatory capability of the model remains robust. The remaining 26.8% of the variation in Profit Growth is attributable to other variables not included in the regression model. Additionally, the standard error of the estimate (0.866) indicates that the model provides a relatively good fit for the observed data.

DISCUSSION

Effect of Current Ratio on Profit Growth

The empirical findings indicate that the Current Ratio (CR) has a negative and statistically significant effect on profit growth among manufacturing companies in the industrial subsector listed on the Indonesia Stock Exchange during 2022–2025. This finding implies that an increase in liquidity, as measured by the Current Ratio, tends to be followed by a decline in profit growth. Therefore, the first hypothesis (H1) is accepted.

Although liquidity is generally regarded as an indicator of financial strength, an excessively high Current Ratio may reflect inefficient utilization of current assets. Companies with substantial cash balances, slow-moving inventories, or uncollected receivables may possess sufficient resources to meet short-term obligations, yet these resources are not fully allocated to productive investments capable of generating additional profits. Consequently, excess liquidity may create opportunity costs that reduce operational efficiency and ultimately constrain profit growth.

The negative relationship observed in this study can also be explained by the characteristics of the Indonesian manufacturing sector during the 2022–2025 period. Manufacturing firms experienced increasing production costs, higher raw material prices, inflationary pressures, and supply chain disruptions. Under these circumstances, companies tended to maintain larger working capital reserves to reduce operational risks. However, retaining excessive liquid assets reduced the availability of funds for expansion, technological investment, and production efficiency, thereby limiting profit growth.

From the perspective of Signaling Theory, financial ratios communicated through annual reports represent important signals for external stakeholders. A moderate Current Ratio sends a positive signal regarding a firm's ability to fulfill its short-term

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obligations. Conversely, an excessively high Current Ratio may generate a negative interpretation because investors may perceive that management is unable to allocate current assets efficiently. Rather than reflecting financial strength, excessive liquidity may indicate conservative asset management and underutilized productive resources, thereby weakening expectations regarding future earnings growth.

The findings are consistent with those reported by Maheni et al. (2022), Widiyasrani and Astuti (2023), and Riyanto (2023), who also documented a significant negative relationship between Current Ratio and profit growth. These studies argue that maintaining excessive current assets does not necessarily improve profitability because idle resources reduce operational efficiency. However, the findings differ from those of Syarafina et al. (2024), who reported a positive relationship between liquidity and profit growth. Such inconsistencies suggest that the effect of liquidity largely depends on how effectively companies manage their working capital and convert current assets into productive investments.

From a managerial perspective, these findings imply that companies should not merely pursue high liquidity ratios but instead maintain an optimal level of working capital. Efficient management of cash, inventories, and receivables enables firms to satisfy short-term obligations while simultaneously maximizing operational performance and sustainable profit growth.

Effect of Debt to Asset Ratio on Profit Growth

The results demonstrate that the Debt to Asset Ratio (DAR) has a negative and statistically significant effect on profit growth. This indicates that firms with higher leverage tend to experience lower profit growth. Accordingly, the second hypothesis (H2) is accepted.

A higher Debt to Asset Ratio indicates that a greater proportion of corporate assets is financed through external debt. Although debt financing can support business expansion and investment activities, excessive leverage also increases fixed financial obligations in the form of interest expenses and principal repayments. These financial commitments reduce the amount of earnings available to shareholders and limit managerial flexibility in allocating financial resources to productive investments. As a result, firms with high leverage may experience slower profit growth than firms relying more heavily on equity financing.

The findings are particularly relevant in the context of the manufacturing industry during 2022–2025. During this period, companies encountered significant economic

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challenges, including rising inflation, volatile commodity prices, increasing borrowing costs, and global economic uncertainty. Under these conditions, firms with higher debt burdens became more vulnerable to financial distress because increasing financing costs directly reduced operating profits. Consequently, leverage became an important determinant limiting corporate earnings growth.

According to Signaling Theory, capital structure represents one of the financial signals evaluated by investors when assessing corporate financial health and future prospects. A moderate debt level signals that management utilizes external financing efficiently to support business operations. Conversely, a high Debt to Asset Ratio may be interpreted as a negative signal because it reflects greater financial risk and stronger dependence on debt financing. Investors may therefore perceive highly leveraged firms as having lower future profitability and greater financial uncertainty.

The present findings support previous studies conducted by Indaryani et al. (2022), Widiyasrani and Astuti (2023), and Septiany and Damayanti (2024), all of whom reported that leverage significantly affects profit growth. Their findings suggest that excessive borrowing increases financial costs that eventually reduce corporate profitability. Nevertheless, the present findings differ from those of Harahap and Siregar (2025), who reported no significant relationship between leverage and profit growth. This discrepancy may be attributable to differences in industrial sectors, observation periods, and macroeconomic conditions that influence firms' ability to utilize debt efficiently.

From a practical perspective, these findings emphasize the importance of maintaining an optimal capital structure. Companies should carefully balance debt financing with internally generated funds to minimize financial risk while preserving sufficient flexibility to support productive investment and long-term earnings growth.

Effect of Inventory Turnover on Profit Growth

The empirical results indicate that Inventory Turnover (ITO) does not have a statistically significant effect on profit growth in manufacturing companies during the 2022–2025 observation period. Therefore, the third hypothesis (H3) is rejected.

Although Inventory Turnover is widely recognized as an indicator of inventory management efficiency, the findings suggest that inventory rotation alone is insufficient to explain variations in corporate profit growth. Faster inventory turnover generally reflects stronger sales performance and improved inventory management; however, increased sales volume does not automatically translate into higher profits when accompanied by rising production costs, higher distribution expenses, inflationary

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pressures, or declining profit margins. Consequently, efficient inventory movement does not necessarily improve corporate earnings.

This finding also reflects the operational conditions experienced by Indonesian manufacturing firms throughout 2022–2025. During this period, many companies successfully maintained inventory circulation despite increasing production costs and unstable raw material prices. As a result, improvements in inventory turnover were frequently offset by higher operating expenses, limiting their contribution to profit growth. Therefore, inventory management efficiency alone cannot fully explain firms' financial performance.

Within the framework of Signaling Theory, Inventory Turnover serves as an operational signal indicating how efficiently firms manage inventory resources. Nevertheless, investors generally evaluate corporate performance using broader financial indicators beyond inventory efficiency alone. Profitability, cost control, leverage, market demand, pricing strategy, and operational productivity collectively provide more comprehensive information regarding future earnings prospects. Consequently, Inventory Turnover may provide only a limited signal regarding sustainable profit growth.

The results are consistent with those reported by Bactiar et al. (2022) and Lay (2024), who concluded that Inventory Turnover does not significantly influence profit growth. Their studies argue that inventory efficiency alone cannot guarantee improved profitability because profit generation depends on multiple operational and financial factors. However, these findings differ from Sulistianingsih et al. (2025), who found a positive relationship between Inventory Turnover and profit growth. Such differences indicate that the effectiveness of inventory management may vary across industries, market conditions, and corporate operational strategies.

Managerially, these findings suggest that firms should not rely solely on accelerating inventory turnover to improve profitability. Instead, inventory management should be integrated with effective production planning, cost control, pricing strategies, and supply chain management to enhance sustainable profit growth. By combining efficient inventory practices with broader operational improvements, firms are more likely to achieve stronger long-term financial performance.

CONCLUSSION

This study aims to examine the effect of Current Ratio (CR), Debt to Asset Ratio (DAR), and Inventory Turnover (ITO) on profit growth among manufacturing industrial sub-sector companies listed on the Indonesia Stock Exchange during the 2022–2025

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period. The study is grounded in Signaling Theory, which explains that financial ratios serve as important signals regarding a company's financial condition and future performance.

The literature review indicates that previous empirical findings remain inconclusive regarding the influence of liquidity, leverage, and inventory management on profit growth. While several studies reported positive relationships, others documented negative or insignificant effects. These inconsistencies highlight the need for further empirical investigation, particularly within the context of Indonesia's post-pandemic manufacturing sector.

This study contributes to the literature by simultaneously examining the effects of Current Ratio, Debt to Asset Ratio, and Inventory Turnover on profit growth using recent data from manufacturing industrial sub-sector companies. The findings are expected to enrich empirical evidence concerning financial ratio analysis and provide practical implications for corporate managers, investors, creditors, and policymakers in evaluating firms' financial performance and future growth prospects.

Future studies are encouraged to incorporate additional financial and non-financial variables, extend the observation period, and employ alternative analytical approaches to provide a more comprehensive understanding of the determinants of profit growth.

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