



Original Article

The Effect of Current Ratio, Debt to Equity Ratio and Return on Equity Ratio on Stock Prices

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Abstract:

This study aims to determine the influence of Current Ratio, Debt to Equity Ratio, Return on Equity on Stock Prices. The study was conducted on Automotive & Component Subsector Companies listed on the Indonesia Stock Exchange for the period 2019-2024. Sample selection was carried out using the purposive sampling technique and 9 companies were obtained, with a total of 54 observation data. The findings of the study showed that the Current Ratio had no effect, while the Debt To Equity Ratio and Return On Equity Ratio partially succeeded in having a positive effect on stock prices.

Keywords: Current Ratio, DER, ROE, Stock price

Introduction

The automotive industry and its components are one of the strategic sectors that contribute to the national economy. The value chain in this industry includes various activities, from component production, vehicle assembly, to distribution and after-sales services, including a network of workshops and the provision of spare parts throughout Indonesia. The high demand for private vehicles among the public is the main factor driving the growth of this industry. This condition also attracts investors to invest in national automotive companies ([Purba & Marendra, 2024](#)).

The stock price circulating in the market can reflect a company's performance. Stock prices are also an indicator of success in company management. If the stock price continues to increase, it shows that investors and potential investors consider the company to be able to manage its business well. The trust of investors or potential investors is very valuable to the company, because the more parties believe in the company, the greater the interest in investing ([Pajriah, 2023](#)).

Some investors conduct fundamental analysis through financial ratios such as the current ratio and debt to equity ratio and return on equity ratio contained in the company's financial statements, because financial statements are a reflection of the company's performance. The performance of a company will generally affect the company's stock price ([Firmansyah & Maharani, 2021](#)).



<https://jurnal.usk.ac.id/riwayat>

Current Ratio is a general scale used for a company's short-term ability to meet its debt needs when due, when the amount of current assets will be paid ([Kurniawan & Marjohan, 2024](#)). As the results of the study stated that the Current Ratio has a significant effect on Stock Prices ([Suryani et al., 2022](#)). In contrast to the results of the study which stated that the Current Ratio does not have a significant effect on Stock Prices ([Suprpta et al., 2021](#)).

Debt to Equity Ratio is a reflection of the company's ability to meet all its obligations. The lower the DER ratio, the higher the company's ability to meet all its obligations. Total debt or liabilities here are obligations that the company must pay in cash within a certain period of time ([Purba & Marendra, 2024](#)). The results of previous studies stated that the Debt To Equity Ratio has a significant effect on Stock Prices ([Virgia & Khoirawati, 2022](#)). In contrast to the results stating that the Debt To Equity Ratio with Stock Prices ([Mandager et al., 2023](#)).

Return On Equity is a measure of profitability that contrasts net profit after tax with the capital invested by shareholders. This ratio adepts the company in obtaining net profit that can be distributed to owners and investors ([Deliana & Syakhril, 2024](#)). The results of previous studies stated that Return On Equity does not have a significant effect on Stock Prices ([Sinaga & Nisrina, 2025](#)). In contrast to researchers who stated that Return On Equity has a significant effect on Stock Prices ([Royhan & Yuniati, 2021](#)).

Methods

This type of research uses associative research using quantitative data. Associative research is research that is used by looking for relationships between variables. In this study, the type of data used in the form of secondary data. To determine the relationship between two or more dependent variables (X) and independent variables (Y), multiple linear analysis is used which is presented in the form of a regression equation. There is some assumption tests classic used as prerequisites that must be met fulfilled in testing hypothesis with SPSS including;

Normality Test

The Kolmogorov-Smirnov (KS) test will be used in this study because of its superior representativeness. The Kolmogorov-Smirnov (KS) test criteria are: (1) If the p-value (Asymp.Sig.) greater than 0.05 indicates that the model or variables used in the research are normally distributed. (2) If the p-value (Asymp.Sig.) is less than 0.05, it means that the variables in the research are not normally distributed.

Multicollinearity Test

The classical assumption test is an analysis carried out to provide an assessment or certainty that the regression equation obtained has accuracy in estimation, is unbiased, and consistent. ([Ghozali, 2018, pp. \(107–108\)](#)) The multicollinearity test aims to test whether the regression model finds a correlation between independent variables. A good regression model should not have a correlation between independent variables. If the independent variables are correlated with each other, then these variables are not orthogonal. Orthogonal variables are independent variables whose correlation value between independent variables is equal to zero.

Autocorrelation Test

The autocorrelation test aims to test whether the linear regression model between the disturbance error in period t and the disturbance error in period t-1

(previously). If there is a correlation, then it is called an autocorrelation problem. Autocorrelation arises because sequential observations over time are related to each other. There are several ways that can be used to detect the presence or absence of autocorrelation. One of them is by using the Urbin Watson Test (DW test) ([Ghozali, 2018, pp. 111–112](#))

Heteroscedasticity Test

The heteroscedasticity test aims to test whether in the regression model there is inequality of variance from the residuals of one observation to another. If the variance from the residuals of one observation to another remains, it is called Homoscedasticity and if it is different, it is called Heteroscedasticity. ([Ghozali, 2018, pp. 137–138](#)) .

Multiple Linear Regression Analysis

Multiple regression analysis is carried out by researchers to predict changes in the value of the dependent variable if two or more values of the independent variables are increased or decreased ([Ghozali, 2021, p. 145](#)) .

$$Y = a + b_1X_1 + b_2X_2 + b_3X_3 + e$$

Simultaneous Correlation Test (R)

The multiple correlation coefficient is a number that shows the direction and strength of the relationship between two or more independent variables together and the dependent variable. The R value ranges from 0 to 1, if the value is getting closer to 0 then it indicates a weak relationship.

Coefficient of Determination (R²)

A small (R²) value means that the ability of independent variables to explain the variation of dependent variables is very limited. The higher the R² value (approaching 1) reflects how strong it is in explaining changes in the dependent variable and the closer it is to 0, the weaker the influence of the variable on the independent variable on the dependent variable ([Ghozali, 2018, p. 97](#)) .

Hypothesis Test (t-Test)

The t-statistic test basically shows how far the influence of one explanatory/independent variable individually explains the independent variable ([Ghozali, 2021, p. 148](#)) .

Results

Multicollinearity Test

The results of the multicollinearity test can be seen as follows:

Table 1
Multicollinearity Test Results

Variables	Tolerance	VIF	Information
Current ratio	0.764	1,571	There is no multicollinearity
DER	0.802	1,832	There is no multicollinearity
ROE	0.730	1,645	There is no multicollinearity

Source: SPSS Output

Based on table 1 above, the results of the multicollinearity test Current ratio, Debt to equity ratio, and return on Equity are good for tolerance value. and the Variance Inflation Factor (VIF) value meets the requirements that there is no multicollinearity between the independent variables .

Normality Test

The way to identify the normality test is to use the One-Sample Kolmogorov-Smirnov Test analysis, which in this test is carried out on the residual data of the research variables.

Table 2
Normality Test Results
One-Sample Kolmogorov-Smirnov Test

		Unstandardized Residual
N		54
Normal Parameters ^{a,b}	Mean	.0000000
	Std. Deviation	10.35537239
Most Extreme Differences	Absolute	.085
	Positive	.072
	Negative	-.085
Test Statistics		.085
Asymp. Sig. (2-tailed)		.200 ^{c,d}

a. Test distribution is Normal.

Source: SPSS Output

The normality test shows a significant value of 0.200 which is greater than alpha 0.05, so all independent and dependent variables used in the test have a normal distribution, so that further testing can be carried out because the assumption of data normality has been met.

Autocorrelation Test

The results of the autocorrelation test using the Durbin-Watson numbers will be seen in the following table:

Table 3
Autocorrelation Test Results

Durbin-Watson Value	dL	dU	provision	Information
2,218	1.4464	1,6800	Du < Dw < 4-Du (1.6800 < 2.218 < 2.32)	No autocorrelation occurs

Source: SPSS Output

It can be said that there is no autocorrelation because it is known from table 3 that the Durbin Watson value is 2.218. The decision-making requirements in the autocorrelation test can be known by comparing the Durbin Watson table value with the Durbin Watson value in the summary model, so this study can use a formula that shows no autocorrelation in the regression model.

Heteroscedasticity Test

The results of the heteroscedasticity test can be seen in the following table:

Table 4
Heteroscedasticity Test Results

Variables	Sig	Information
Current Ratio	0.292	There is no heteroscedasticity
DER	0.159	There is no heteroscedasticity
ROE	0.922	There is no heteroscedasticity

Source: SPSS output

Based on the table above, the variable data has been transformed into natural logarithm (LN) and Glejser test, so that the liquidity variable has a significant value of $0.292 < 0.05$, which means that this regression model has heteroscedasticity, leverage has a significant value of $0.159 > 0.05$, which means that this regression model does not have heteroscedasticity, and Profitability has a significant value of $0.922 > 0.05$, this regression does not have heteroscedasticity.

Multiple Linear Regression Analysis

Table 5
Multiple Linear Analysis Test Results

Model		Unstandardized Coefficients		Standardized Coefficients Beta
		B	Std. Error	
1	(Constant)	.461	.523	
	Current Ratio	-.173	.112	-.129
	DER	.485	.223	.174
	ROE	.312	.031	.259

a. Dependent Variable: Stock Price

b. Source: SPSS Output

$$\text{Stock price} = 0.461 + -0.173 \text{ CR} + 0.485 \text{ DER} + 0.312 \text{ ROE} + e$$

Based on the equation above, it can be explained as follows:

- The constant value a of 0.461 indicates that the Current Ratio, Debt to Equity Ratio, and Return on Equity are considered constant, so the share price value of the Automotive and Components sub-sector companies is 0.461.
- The regression coefficient of the Current Ratio (X_1) is -0.173, indicating that if the Current Ratio increases by one unit, the stock price will decrease by -0.173, assuming other variables remain constant.
- The regression coefficient of Debt to Equity Ratio (X_2) is 0.485, meaning that if DER increases by one unit, the share price of the Automotive and Components sub-sector companies will increase by 0.485, assuming other variables remain constant.
- Regression coefficient for Return on Equity (X_3) is 0.312. This means that if the increase in DER by one unit will have an impact on increasing the stock price by 0.312 assuming the other variables do not change.

Simultaneous Correlation Test (R)

Table 6
Anova Test Results
Model Summary^b

Model	R	R Square	Adjusted R Square	F	Sig
1	.621 ^a	.473	.418	9,462	.000 ^b

a. Predictors: (Constant), (CR), (DER), (ROE)

b. Dependent Variable: Stock Price

Based on table 6, the simultaneous correlation coefficient is 0.621 or 62.1% if connected based on the correlation table, then there is a fairly strong relationship between the independent variables Current Ratio (X₁), Debt to Equity Ratio (X₂), and Return On Equity (X₃) with the dependent variable, namely Stock Price (Y).

The coefficient of determination (R²) with an R Square value of 0.473 means that the independent variables Current Ratio (X₁), Debt to Equity Ratio (X₂), and Return On Equity (X₃) have an influence on Stock Price (Y) of 47.3% while the remaining 62.7% is influenced by other independent variables that were not studied.

Hypothesis Test (t-Test)

Statistical test t to determine the effect of independent variables partially on dependent variables. The results of the t test can be seen in the following table:

Table 7

Hypothesis Test Results (T-Test)

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	.461	.523		.893	.321
	Current Ratio	-.173	.112	-.129	-1,526	.142
	DER	.485	.223	.174	2,624	.027
	ROE	.312	.031	.259	7,657	.010

a. Dependent Variable: Stock Price

b. Source: SPSS Output

The Effect of Current Ratio on Stock Prices

Current ratio as part of measuring liquidity is an important indicator in evaluating a company's ability to meet its short-term obligations. The current ratio is often used to measure the efficiency of a company's current asset management, which can affect market perception of its financial performance. The higher the value of this ratio, the better the company's ability to meet its short-term obligations, which in turn can affect the company's stock price.

If a company is able to maintain a high level of liquidity, this can increase investor confidence, thereby increasing demand for its shares and driving up share prices. However, if liquidity is too high, there is a risk that the company is not utilizing its current assets optimally to generate additional profits, which can ultimately limit the potential for share price growth.

Based on the research results, the Current ratio does not have a negative effect on stock prices. This finding shows similarities with that expressed by [\(Isnaini et al., 2023\)](#) where Liquidity has no effect on stock prices. This result also shows a difference with the statement [\(Pamela & Nyale, 2023\)](#) ; [\(Jan et al., 2022\)](#) in which in their research the current ratio has an effect on stock prices.

The Influence of Debt to Equity Ratio on Stock Prices

Debt to Equity Ratio (DER) is an important indicator of solvency in analyzing a company's financial structure. Based on research that has been conducted, Debt to

Equity Ratio does not have a significant effect on stock prices. This shows that the company's debt level, both compared to total assets and equity, is not always the main factor influencing investor decisions in assessing the value of a company's shares.

However, companies still need to maintain their solvency levels so as not to rely too much on debt, because high DAR and DER can increase financial risks that have the potential to reduce investor confidence. On the other hand, stable solvency can provide a positive signal to the market regarding the company's ability to meet its long-term obligations.

In other words, although the Debt to Asset Ratio and Debt to Equity Ratio do not directly affect stock prices, good solvency management is still important to maintain the company's reputation in the eyes of investors and ensure long-term business continuity.

From the results of partial testing, the effect of DER on stock prices with a sig value of $0.027 < 0.05$ indicates that there is an effect on stock prices. It can be concluded that DER has a positive and significant effect on stock prices. Based on the theory that the higher the DER and maximized, it reflects the positive performance of the company's management so that it has a positive impact on stock prices.

However, the higher the DER, the greater the risk of the company being unable to pay its debts, such as the risk of bankruptcy that many investors avoid. Investors will avoid high DER values because they see the ratio value as a significant part of their own capital to meet the company's obligations. So many investors are not interested in companies with high DER because of this. As a result, the company's stock value can decrease. The findings of this study are not in line with Research ([Dekrijanti et al., 2023](#)) which emphasizes that DER does not have a significant effect on stock prices.

The Effect of Return On Equity on Stock Prices

Based on the results of this study, it was found that the significance value of Return On Equity (ROE) was $0.010 < 0.05$ indicating that ROE had an effect on stock prices. So it can be concluded that profitability has an effect on stock prices. ROE is a company that generates profit using its equity. A good ROE means that the company is able to manage and make capital efficient and is able to manage capital well so that it produces sustainable ROE and increases over time, indicating that the company's management is smart and wise in managing it. Based on the ROE level, investors can assess how the company manages its capital. So the better the ROE, the more investor confidence will increase in investing in a company. Companies that have a better ROE level indicate that the company has good financial performance and has good prospects for the future. This is able to increase investor interest and confidence in investing their capital so that stock prices will also increase. This finding does not support Research ([Janaina & Yudiantoro, 2022](#)) that ROE has no effect on stock prices. This illustrates that the company's ability to generate profits by utilizing its capital is a standard for investors to understand the company's ability to generate profits by utilizing capital.

Conclusion

Based on the analysis and discussion that has been presented previously, it can be emphasized that *the current ratio* does not affect the Stock Price. Partially, Debt to equity ratio and return on equity have a positive effect on the Stock Price.

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