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UNSTABLE GROWTH COMPANY VS. ITS BENCHMARK FIRM: IS IT FINANCIALLY HEALTHY? A CASE STUDY USING FINANCIAL PERFORMANCE ANALYSIS

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Abstract: *Growth is something that must be upheld throughout the existence of a company. It is vital to be pursued to keep the business running towards their goals. Growth can be seen from a healthy or competent financial condition that makes the firm has a competitive position in the marketplace. Thus, growth of a company must be stable in order to make more accurate measures for the long-term period. Therefore, this study aims to identify the financial strengths and weaknesses of PT Catur Sentosa Adiprana Tbk (CSAP) in terms of their unstable growth and aggressive target which can be attained through financial performance analysis. Financial performance analysis can be done by using financial ratio that has been standardized and able to be compared across firms in the industry. The results showed that the firm have poor performance in liquidity, debt, and profitability ratios. In which, the firm is not capable enough in meeting their short-term liabilities, has high level of financial risks, and poor in doing their operations. On the other hand, the firm is able to performs well in doing their business practices which can be seen from its activity ratio. Nevertheless, the firm position is still below its emulated company and they need to find an appropriate strategy to improve their performance so that CSAP can achieve their vision to be as good as the emulated company.*

Keywords: *Stable Growth, Financial Performance Analysis, Financial Ratio, Financial Position, PT Catur Sentosa Adiprana Tbk (CSAP)*

Introduction

Growth is something that must be upheld throughout the existence of a company. It is vital to be pursued to keep the business running towards their goals (Dugguh, Isaac, & Isaac, 2018). In other words, growth is very important for businesses because they will not able to survive in the long-term without the desire to evolve. Therefore, with the necessity for companies to always develop, growth cannot be avoided from the existence of a company (Rosenzweig, 2017).

In the competition for investor capital, companies need to have good financial positions in order to be preferable for investors. This condition happens because investors want bigger returns for what they have invested. Good financial positions make them more safe to invest since the company is financially competent. There are a lot to see in the company's financial positions and one of the most important aspect is revenue growth (Darrol & Nikolai, 2017). Stable growth is very important for a company to have since it allows them to make predictions about the future, budget their purchases, set more accurate long-term goals, and create better experiments (Alton, 2017). Unlike PT Catur Sentosa Adiprana Tbk (CSAP), who has unstable growth for the last five years but took the courage to set an aggressive target which is major expansion (PT Catur Sentosa Adiprana Tbk, 2018). In the case of expansion, having a steady stream of revenue will be able to lead on more accurate measure how the expansion may affect the company (Alton, 2017). Therefore, this study aims to identify the financial strengths and weaknesses of PT Catur Sentosa Adiprana Tbk (CSAP) in terms of their unstable growth and aggressive target which can be attained through financial performance analysis.

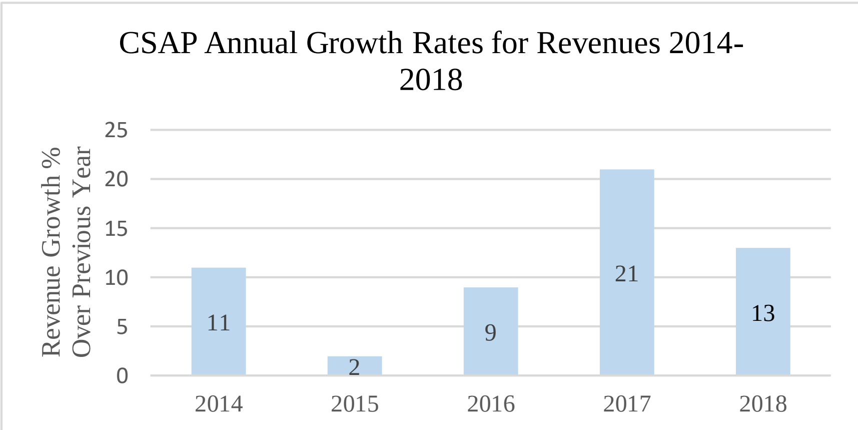

Figure 1: CSAP Annual Revenue Growth Rates (2014-2018)

Source: (CSAP Annual Report and Author's Calculation)

Financial performance refers to the accomplishment of financial feats as result of a firm's policies and operations in monetary terms (Trivedi, 2010). This analysis used as a measurement of a firm's overall financial health. The results of financial performance calculation show whether a firm is doing well or badly (vulnerable) (Marsha & Murtaqi, 2017). In this term, good financial performance indicates a healthy financial condition and bad financial performance represents a poor financial condition (Sultan, 2014). Hence, the purpose of this study is to see the firm's financial health due to unstable growth and aggressive target and compared to other company within the industry.

Literature Review

Definition of Financial Performance Analysis

Financial performance analysis aims to see the firm's financial condition in order to improve its competitive position in the marketplace (Pandian & Narendran, 2015). The results of this analysis show whether a firm has a healthy financial condition or not. Financial performance is calculated as financial ratio that has been standardized and able to be compared across firms in the industry. Financial ratio could show the relationship between the accounts referred in the ratio (Anwar, Marliani, & Gunawan, 2016). In order to calculate financial ratio, data from financial statements are required. While financial statements are the formal record of company activities that follow accounting standard referred to as generally accepted accounting principles or GAAP (Weygandt, Kimmel, & Kieso, 2013).

Meanwhile, there are three financial statements which common to be used in the estimation, namely balance sheet, income statement and cash flow statement. Balance sheet is an overview of how company maintaining its assets, liability and equity at a specific date while income statement presents the company revenues and expenses which result in net income or net loss and cash flow statement summarizes information about the company cash inflows and outflows for a specific period of time (Weygandt, Kimmel, & Kieso, 2013).

In this study, the calculation of financial performance analysis use the annual reports of PT Catur Sentosa Adiprana Tbk. that have been published on their website since the company went public in 2011 (Indonesia Stock Exchange, 2019). Annual reports of the company consist of those three required financial statements (balance sheet, income statement and cash flow statement).

Financial Ratio

There are several methods for calculating the relative or ratio measurement of the company's performance. The ratio measurement is known as financial ratio analysis which analyses and monitors the firm's performance. Financial ratios can be divided into five basic categories: liquidity ratio, activity ratio, debt ratio, profitability ratio, and market ratio. The first three of them (liquidity, activity, and debt ratios) focus on measuring risk, while profitability ratio measures return and market ratio captures both risk and return. The use of each financial ratio's type represents different financial performance based on the variables used. In this research, it uses various financial ratios so that author can see how the firm performs from several aspects. Furthermore, financial ratios from different aspects can give a better picture on how the firm really performs (Gitman & Zutter, 2012).

In this study, the ratios used are as follow: liquidity ratios (current and quick ratio), activity ratios (inventory and total asset turnover), debt ratios (debt to asset and debt to equity ratio), and profitability ratios (gross profit margin, operating profit margin, net profit margin, return on asset, return on equity, and earnings per share). The first three of them (liquidity, activity, and debt ratios) focus on measuring risk, while profitability ratio measures return and market ratio captures both risk and return (Gitman & Zutter, 2012).

Liquidity ratios tell us the firm's ability in meeting their short-term liabilities. Higher ratios can be interpreted that the firm is more capable to fulfil their obligations (Fitriyah & Hariyati, 2013). Then, activity ratio shows the firm's effectiveness in doing their business practices especially the funding source (Restianti & Agustina, 2018). The high results could possibly indicate that the firm is more effective in doing the business process. Moreover, debt ratios explain the use of debt in funding the business. High debt ratios indicate that the firm is more dependent on debt rather than equity which is more risky (Azhari & Soekarno, 2010). And the last ratio, profitability, explain about firm's capability in generating profits from each sales made. The higher the results, the more capable the firm is to generate more profits (Atmini & Andayani, 2005).

However, financial ratio analysis is not just simply the calculation of given variables. The importance of financial ratio analysis is that the result can be interpreted. Data for comparison is needed to know whether the ratio of the firm is too high or too low and whether it is good or bad. Hence, there are three types of ratio comparisons according to Gitman & Zutter (2012). The first type of ratio comparison is cross-sectional analysis. This analysis involves the comparison of different firms' financial ratio at the same time-period within its industry. It measures the performance of a firm towards other firm in the same industry and see how well the firm performs compared to the other. Since PT Catur Sentosa Adiprana Tbk does not has competitor with similar size and scope as them, this analysis will use the company that has the best performance within the industry which is PT Ace Hardware Indonesia Tbk (ACES). In this case, PT Ace Hardware Indonesia Tbk (ACES) was chosen as an emulated or benchmark company because the firm has the best performance in the industry by getting an award from Forbes Indonesia as the best public company with the most outstanding long term performance in 2018 (PT Ace Hardware Indonesia Tbk, 2018)

The second type of ratio comparison is time-series analysis. Different from cross-sectional analysis, the comparison does not come from other company within the industry, rather than using the historical ratio from the same company. It evaluates the performance of a firm overtime by comparing the current and past ratios. The analysis can be done by using multi-year comparison and the result reflects the firm progress within that certain period. Then, the third and the last type of ratio comparison is combined analysis. This analysis combines both cross-sectional and time-series analysis. The combination makes it possible to see how the firm has performed over the year in relation within its industry in the same multi-year comparison.

Methodology

The data obtained in this study are categorized as secondary data. They are gathered from various platforms mainly from websites since the firms are publicly listed companies. The data are taken from IDX website and firms' annual reports for the past five years (2014-2018). The study calculates firm's financial performance analysis by using financial ratios (liquidity, activity, debt, and profitability ratio) in three kind of approaches (time-series, cross-sectional, and combined analysis).

Results and Analysis

In measuring the financial performance analysis of PT Catur Sentosa Adiprana Tbk, the author done financial ratio analysis in three ways, namely time-series, cross-sectional, and combined analysis. The data used in financial ratio calculation are retrieved from analysed firms' financial statements in 2014 until 2018.

Time-Series Financial Ratio Analysis

Table 1: CSAP Financial Ratio 2014 - 2018

Financial Ratio		2014	2015	2016	2017	2018
Liquidity Ratio	Current ratio	1.13	1.09	1.26	1.16	1.24
	Quick ratio	0.58	0.51	0.60	0.60	0.59
Activity Ratio	Inventory turnover	5.00	4.66	4.20	4.69	4.39

Financial Ratio		2014	2015	2016	2017	2018
Activity Ratio	Total asset turnover	2.16	2.07	1.88	1.88	1.88
Debt Ratio	Debt to asset ratio	0.75	0.76	0.67	0.70	0.66
	Debt to equity ratio	3.04	3.13	2.00	2.37	1.98
Profitability Ratio	Gross profit margin (GPM)	13.04%	13.44%	13.80%	13.83%	14.13%
	Operating profit margin (OPM)	3.38%	2.13%	2.51%	2.32%	2.43%
	Net profit margin (NPM)	1.61%	0.59%	0.94%	0.92%	0.82%
	Return on asset (ROA)	3.47%	1.22%	1.76%	1.73%	1.55%
	Return on equity (ROE)	14.01%	5.04%	5.29%	5.84%	4.62%
	Earnings per share (EPS)	Rp40	Rp15	Rp18	Rp22	Rp20

Source: (CSAP Annual Report and Author's Calculation)

Liquidity Ratio

Liquidity ratio tells about the firm's ability to meet their short-term obligation (Ahmad, 2016). As seen from the current ratio, CSAP did not go through any difficulties in repaying their short-term liabilities as the ratios are above 1 over a five year period of 2014 to 2018. Even though the current ratios are not quite stable over time, but they are still able to fulfilled the short-term liabilities. In this case, ratio above 1 indicates that the company has larger current assets than its current liabilities which categorized as a healthy financial performance. The up and down trends in current ratio happened because the increase in current assets sometimes larger or smaller than the increase in current liabilities. The continuous improvements in current assets are caused by sales growth every year (PT Catur Sentosa Adiprana Tbk, 2018).

However, the firm current position seems to be less liquid if the inventory was excluded from the current asset. It can be seen from the low quick ratios that are below 1 from 2014 to 2018. The firm can only manage to have quick ratios between 0.5 and 0.6 which indicate that they are not doing well in meeting their short-term liabilities and make them more risky for investors. The results show a significant gap between current and quick ratio because the firm has a high level of inventory. It can be seen from the firm's balance sheet that their inventories always increasing every year. Nevertheless, many financial analysts believe that quick ratio is a better way to check company's financial performance than current ratio. It because they have argument that inventories should not be included in the formula since no-one knows how long it would take to liquidate inventories (Vaidya, 2016).

Activity Ratio

Activity ratio shows the firm's effectiveness in doing their business practices especially the funding source (Restianti & Agustina, 2018). As seen from the results, the inventory turnover indicated that PT Catur Sentosa Adiprana Tbk is getting less effective in managing their inventory as the ratio is decreasing approximately 14% from 5 in 2014 to 4.39 in 2018. It means that the firm is more rare to "turned" or sold the inventory during the period since inventory turnover indicates how many times a company has sold and replace their inventory during a given period (in this case is one year).

On the other hand, their total asset turnover also shown deterioration over the year by approximately 15% from 2.16 in 2014 to 1.88 in 2018. The result indicated that PT Catur Sentosa Adiprana Tbk is less effective in using its assets to generate revenue. However, the ratios are still above 1 which indicate that the firm can generate more revenue per dollar of assets. Therefore, based on the firm's activity ratio, the firm is still in the safe zone regarding how they perform the business practices, although they showed a decline over the year.

Debt Ratio

Debt ratio indicates a firm's degree of leverage. If the ratio is below 1, it means that the debt level is low and vice versa. Low debt level puts the firm in the safer zone because it has lower financial risk (Kenton & Hayes, 2019). In this case, the firm's debt to asset ratio is lower than 1 during the 5 years period (2014 to 2018) which indicates that the asset is bigger than its debt and the debt level is low. The result also translates to the fact that a greater portion of the company's asset is funded by equity. However, their debt to equity ratio indicated that they have large amount of debt to finance the business growth. But, the company is able to manage its debt over the year since the ratio is declining 54% from 2014 to 2018, although the ratio in 2018 is still larger than 1.

Profitability Ratio

Profitability ratio shows the efficiency of the company's operations (Fardiansyah, Achsani, & Juanda, 2016). As seen from the ratios, PT Catur Sentosa Adiprana Tbk has an increasing GPM over the year starting from 2014 until 2018 even though it is not too significant (only 1.09% from 2014 to 2018). The increase means that the sales growth could surpass the cost of goods sold growth well. However, their OPM are slightly decreasing by 0.95% over the period. The falling phenomena indicates that the firm is less efficient to manage their operating expenses over the year. Then, the firm's NPM also falling during the 5 years period by 0.79%. In other words, by having a decrease in NPM means that the company is not financially healthy since they are not able to generate that much profit because of the high level of expense. It also can be seen from their ROA and ROE that show decline during these 5 years in which they have not been able to effectively utilize the assets and equity to generate profit. Furthermore, the firm's EPS also slightly declining. Declining of EPS in 2018 is because of larger number of shares common stock outstanding that caused by firm's action on private placement in July 2018 (PT Catur Sentosa Adiprana Tbk, 2018).

Cross-Sectional Financial Ratio Analysis

To do cross-sectional analysis, PT Catur Sentosa Adiprana Tbk will be compared to its emulated firm, PT Ace Hardware Indonesia Tbk (ACES) within the period of 2018. The results will be calculated by averaging two firms (including PT Catur Sentosa Adiprana Tbk) as the industry average. Comparable firms or key competitors were not included or chosen in the analysis because there is no other company that have similar size or scope as CSAP within the industry (Indonesia Stock Exchange, 2019).

Table 2: CSAP Financial Ratio Compared to ACES

2018		CSAP	ACES	Avg.
Liquidity Ratio	Current ratio	1.24	6.49	3.87
	Quick ratio	0.59	2.50	1.55
Activity Ratio	Inventory turnover	4.39	1.51	2.95
	Total asset turnover	1.88	1.36	1.62
Debt Ratio	Debt to equity ratio	1.98	0.26	1.12
	Debt to asset ratio	0.66	0.20	0.43
Profitability Ratio	Gross profit margin (GPM)	14.13%	47.56%	30.85%
	Operating profit margin (OPM)	2.43%	16.98%	9.71%
	Net profit margin (NPM)	0.82%	13.48%	7.15%
	Return on asset (ROA)	1.55%	18.35%	19.90%
	Return on equity (ROE)	4.62%	23.05%	27.67%
	Earnings per share (EPS)	Rp20	Rp57	Rp38.5

Source: (CSAP & ACES Annual Report and Author's Calculation)

Liquidity Ratio

Compared to its emulated company, the liquidity ratios of CSAP are scored below. According to that, CSAP scored under the industry average as well. For the current ratio, CSAP did not go through any difficulties in meeting their short-term liabilities, even though the ratio is not as high as ACES score. In other words, CSAP is still in a safe financial position regarding their short-term debt fulfilment. But, ACES is five times better in satisfying their short-term debt. However, when inventories were excluded from the calculation, CSAP is having difficulties in meeting their current obligations while ACES still has a strong position of current assets compared to its current liabilities. It can be seen from CSAP quick ratio that is below 1. Therefore, despite having a current ratio above 1, CSAP still has not done well in the liquidity aspect. The firm needs to control their short-term liabilities so that it does not surpass the current assets in order to be as good as ACES liquidity ratio.

Activity Ratio

In terms of activity ratio, CSAP is able to exceed ACES and the industry average. CSAP inventory turnover is three times bigger than ACES score in which CSAP is more often to sold and replace the inventory. However, inventory turnover that is too high also not a good thing since it means that the company has insufficient inventory during the period. But, according to CSI Market, retail and distribution companies tend to have higher or even the highest inventory turnover compared to other industry. This condition means that CSAP is more effective in managing their inventories compared to ACES. The same result also occur in total asset turnover in which CSAP is more capable to use its assets to generate revenues because of the higher total asset turnover score. Therefore, CSAP has done well in activity ratio aspect and needs to be maintained.

Debt Ratio

However, CSAP is having ratios above ACES and the industry average in debt ratio aspect. The results could be a negative sign as the firm has higher debt dependency and risk in failing to meet the debt payments compared to ACES. In this case, ACES keep their debt level between 0.2 until 0.3 which categorized as low debt dependency and low financial risk.

Profitability Ratio

And the last ratio is the profitability, which CSAP scored poorly in all aspects compared to ACES and the industry average. The GPM percentage is much more lower than ACES in 2018 which can be caused by ACES cost of goods sold that is too high since their sales is increasing in 2018 even though the growth is not as big as in 2017. Moreover, the OPM also scored much lower than ACES because CSAP operating expenses are too big according to its income statements in 2018. When viewed from its NPM, CSAP can only manage to earn a little profit compared to ACES. Furthermore, the ROA and ROE are also scored much below ACES which means CSAP is not as effective as CSAP in utilizing their assets and equity to generate profits. This condition also makes the firm's EPS is not as good as ACES since CSAP is not able to generate much profit.

Combined Analysis

This analysis combines both time-series and cross-sectional analysis by comparing PT Catur Sentosa Adiprana Tbk ratios to the industry average in 2014 until 2018. The industry average is calculated by averaging two firms in the industry, including PT Catur Sentosa Adiprana Tbk itself. The comparison firm included is PT Ace Hardware Indonesia Tbk (ACES).

Liquidity Ratio

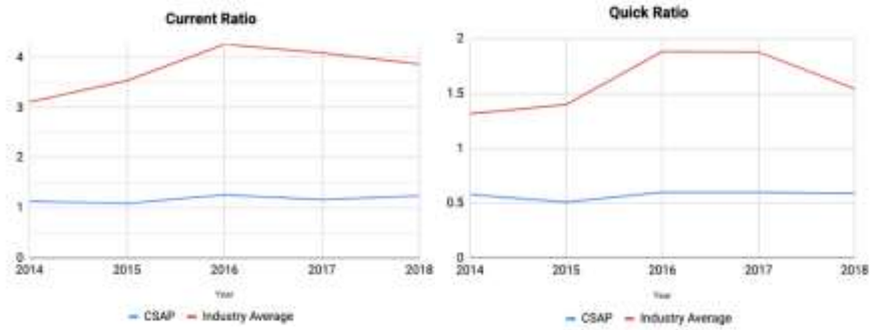

Figure 2: Liquidity Ratio of CSAP Compared to Industry Average

Source: (CSAP & ACES Annual Report and Author's Calculation)

As explained in the time-series analysis, PT Catur Sentosa Adiprana Tbk did not find any difficulties in repaying their short-term liabilities since the current ratios are above 1 from 2014 until 2018. Compared to the industry average, CSAP scored much below. This condition makes CSAP is not as capable as the industry for meeting their short-term obligations. But, CSAP financial position is still in the safe range since the score is above 1. Moreover, in the quick ratio, where inventory was excluded, CSAP positions are also below the industry average within these 5 years. These ratios show that PT Catur Sentosa Adiprana Tbk is less liquid compared to the industry average. Therefore, the firm should find an appropriate strategy to improve their liquidity so that CSAP can achieve their vision to be as good as the emulated company.

Activity Ratio

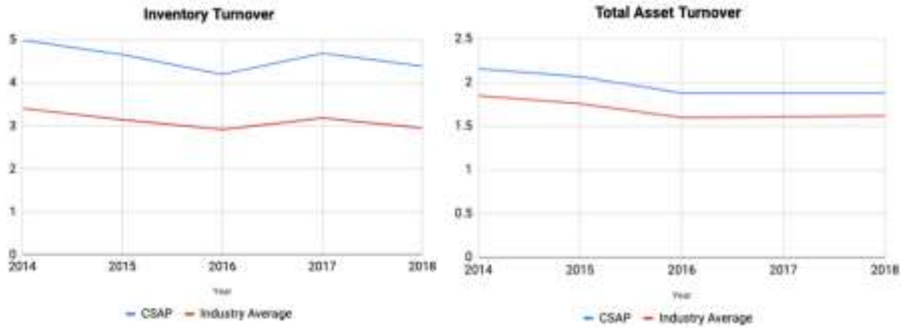

Figure 3: Activity Ratio of CSAP Compared to Industry Average

Source: (CSAP & ACES Annual Report and Author’s Calculation)

In terms of effectiveness in managing inventory and utilizing assets, PT Catur Sentosa Adiprana Tbk performed considerably well by surpassing the industry average. The trend in the 5 years period shows a decline especially in 2014 but maintained stable afterwards for both PT Catur Sentosa Adiprana Tbk and the industry average. The gap between PT Catur Sentosa Adiprana Tbk and the industry average also the same every year, showing that the firm is able to maintain the effectiveness above to its emulated company. From this condition, the firm has a good performance and must always do so to stay on top of the emulated company.

Debt Ratio

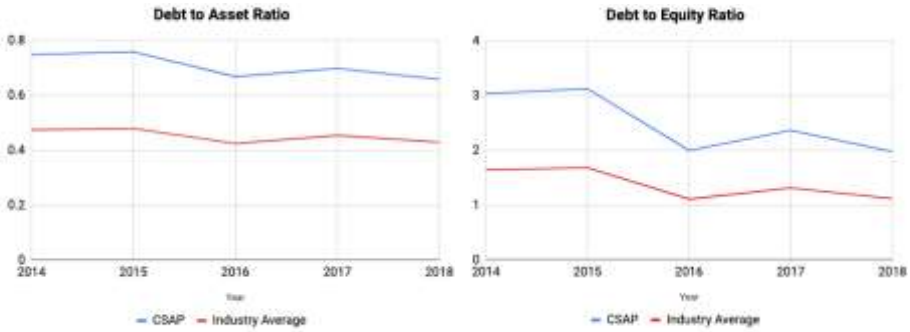

Figure 4: Debt Ratio of CSAP Compared to Industry Average

Source: (CSAP & ACES Annual Report and Author’s Calculation)

PT Catur Sentosa Adiprana Tbk has higher debt ratio compared to the industry average. In debt to asset ratio, the firm’s score is still below 1, meaning that the firm use their own equity to cover its assets. Thus, the ratio is still above the industry average which makes them have a higher financial risk. On the other hand, the debt to equity ratio is above 1. Meaning that the firm use a large portion of debt rather than using their own equity to fund the business. This condition makes the firm has a higher risk in fulfilling debt obligations. However, the high debt ratio of CSAP is because they use more debt to fund their expansion for each year. It can be seen from the firm’s annual report that they always have plans for opening a new branch or cooperate with new brands every year (PT Catur Sentosa Adiprana Tbk, 2018).

__Profitability Ratio__

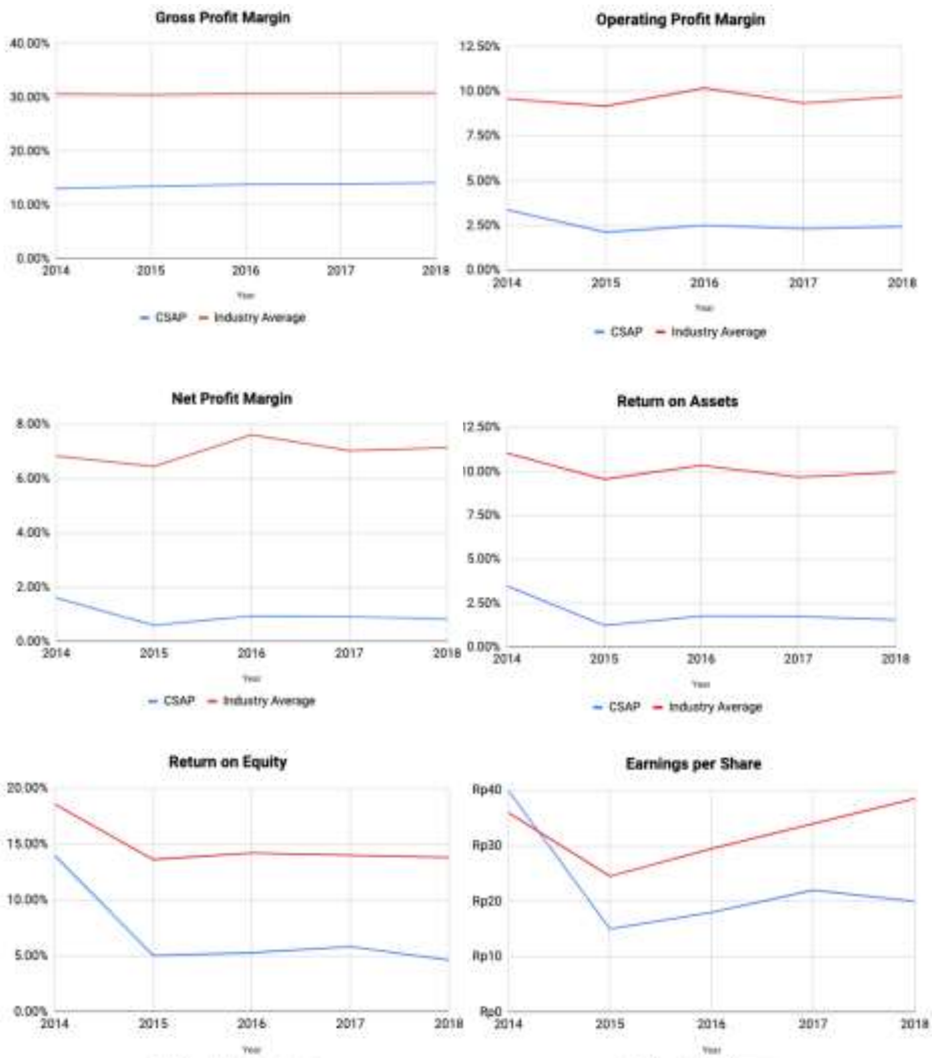

Figure 5: Profitability Ratio of CSAP Compared to Industry Average

Source: (CSAP & ACES Annual Report and Author's Calculation)

The last ratio is profitability ratios. Noticed both PT Catur Sentosa Adiprana Tbk and the industry average are sloping downward in 2014 to 2015 except for Gross Profit Margin. The decline phenomena is caused by slow economic growth in 2015. CSAP can only manage to have sales growth of 2% while their selling expenses, G/A expenses, and other operating expenses were rising rapidly as much as 12.15%, 13.13%, and 251.74% (PT Catur Sentosa Adiprana Tbk, 2018). This condition makes CSAP's net income drop by 63.6% in 2015. Nevertheless, the firm is able to increase their net income afterwards which is reflected in the ratio. Then, CSAP ratio starts to decline again in 2018 where the industry average or its emulated company actually climbing. It proved that PT Catur Sentosa Adiprana Tbk still performed poorly compared to its emulated company especially in controlling their operating expenses.

Conclusions

For the financial performance analysis, this study used financial ratio and analyzed by using time-series, cross-sectional, and combined approach. Seeing from all three analyses output, the results could be concluded as follows:

a. In terms of firm's liquidity, PT Catur Sentosa Adiprana performs quite poorly. Even though the current ratio is above 1 and the trend is pretty stable, both ratios are still scored below the industry average or its emulated company, PT Ace Hardware Indonesia Tbk. In this case, the firm has a low quick ratio, which is below 1, that indicates the firm has a high level of inventory. This explains why the company, especially its retail business, Mitra10, did stock clearance by giving massive discounts up to 70% for their customers as they could not manage to sold them well (PT Catur Sentosa Adiprana Tbk, 2018).
b. For the activity ratio, PT Catur Sentosa Adiprana Tbk performs well. The results show a quite steady trend and could exceed the industry average or its emulated company.
c. PT Catur Sentosa Adiprana Tbk has a high dependency to debt as seen from the poor performance in debt ratio in which could be a negative sign that leads the firm for having a higher financial risk compared to PT Ace Hardware Indonesia Tbk. Even though the firm's debt to asset ratio is still below 1, but both of the ratios are scored under the industry average.
d. Lastly, PT Catur Sentosa Adiprana Tbk performs poorly in almost all profitability ratios, except for gross profit margin which moderately performed. This condition happens because the firm is still able to have a positive growth within the 5-years period even though they scored below the industry average. Unlike gross profit margin, other firm's profitability ratios are poor. It is because of the unsteady trends in which sometimes the ratios are increasing and sometimes they actually decrease. Moreover, the firm also performed worse than the industry average. This could be interpreted that the firm is unable to manage and control their operating expenses below the level of revenue they are able to generate, or the other way around, which the firm is unable to generate enough revenue to cover all their expenses.

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