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Effect of Financial Ratios on Net Profit Growth in Manufacturing Companies in the Basic and Chemical Industry Subsectors Listed on the Indonesia Stock Exchange

Adella Viona[1]* , Maya Syaula[2], Noni Ardian[3]

[1,2,3], Department of Management, Universitas Pembangunan Panca Budi

*Email: adellaviona469@gmail.com,

ABSTRACT

This study was conducted to find out how the influence of *current ratio, debt to equity ratio*, *return on assets*, *total assets turnover* and *price to book value* on net profit growth in manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange. Data is taken from www.idx.co.id. Data used from 2017-2023. The research was conducted in 2024. The population in this study is 61 companies with a sample of 38 companies. This study uses quantitative data processed with the Eviews 9 application using the panel data regression method. The test results gave the conclusion that only the *return on assets* variable partially had a positive and significant effect on net profit growth, while *the current ratio. debt to equity ratio*, *total assets turnover* and *price to book value* partially did not have a significant effect on net profit growth. Simultaneously, *the current ratio*, *debt to equity ratio*, *return on assets*, *total assets turnover* and *price to book value* have a positive and significant effect on the growth of net profit of manufacturing companies in the basic and chemical industry sectors. The contribution given by the variables *of current ratio, debt to equity ratio*, *return on assets*, *total asset turnover* and *price to book value* to net profit growth was 26.05%, while the level of tightness of the variables *current ratio, debt to equity ratio*, *return on assets*, total *assets turnover*, and *the price to book value* to net profit growth is quite tight or strong enough.

Keywords:
Financial Ratios, Net Profit Growth, Manufacturing, Indonesia Stock Exchange.

1. Introduction

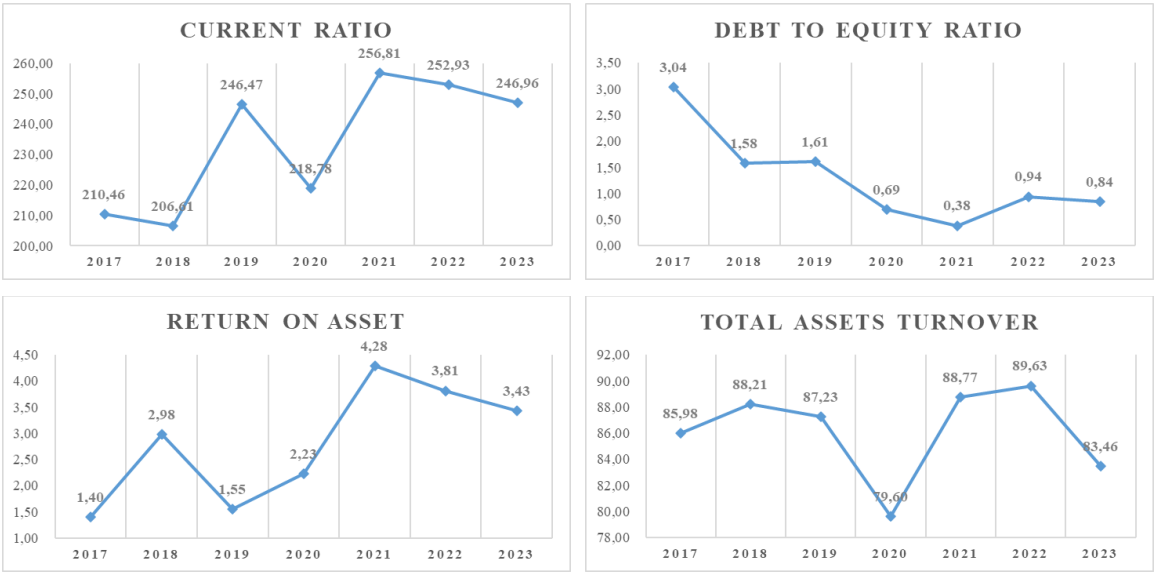
Manufacturing companies in the basic and chemical industries in Indonesia play an important role in the economy by producing goods on a large scale and supporting various industries (Freitas & Annisa, 2024). These companies provide essential raw materials and basic products for sectors such as pharmaceuticals, automotive, and

construction. In addition, the contribution of this sector to economic growth includes job creation, increased exports, and government revenue (Pebrian et al., 2024).

The role of companies in this sector is strengthened by government support through investment and infrastructure policies (Latifah et al., 2024). The company also relies on various sources of capital for growth, including internal funds, loans, and stock issuance (Aslah, 2023). Financial ratios, such as *the current ratio* and *debt to equity ratio*, are important tools for investors to assess a company's financial performance before investing (Windi et al., 2023). Net profit growth is a key indicator of success and attractiveness for investors (Amrullah & Widyawati, 2021).

Steady net profit growth not only reflects management efficiency, but also increases investor confidence, strengthens the company's access to capital, and allows the company to invest in innovation and expansion (Yulianta & Nurjaya, 2021). However, in 2019 and 2020, companies in this sector experienced fluctuations in profits due to the Covid-19 pandemic, which reduced consumer purchasing power and caused losses for some companies (Zakaria et al., 2014). This highlights the importance of corporate adaptation in facing unexpected economic challenges (Syaula, 2023).

Annual net profit growth is always expected as an indicator of continuous improvement in company performance (Song et al., 2023). The average development of *current ratio, debt to equity ratio, return on assets, total assets turnover, price to book value,* and net profit growth of manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange from 2017 to 2023 can be seen in the following chart:



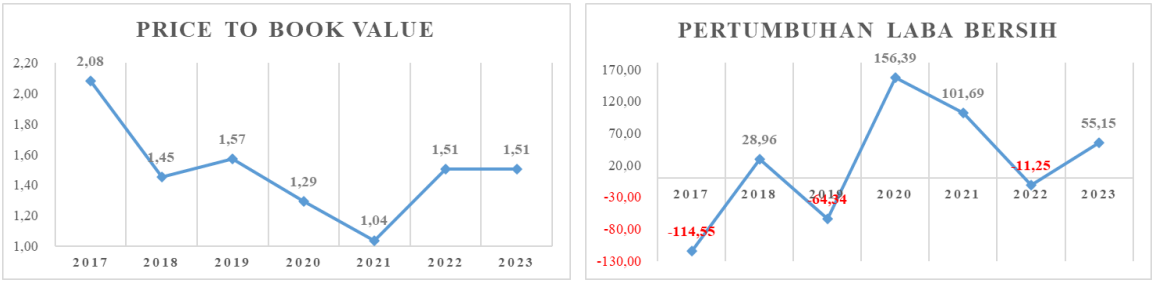


Figure 1. Development of *Current Ratio, Debt to Equity Ratio, Return on Assets, Total Assets Turnover, Price to Book Value*, and Net Profit Growth of Manufacturing Companies in the Basic and Chemical Industry Sectors Listed on the Indonesia Stock Exchange from 2017 to 2023

The chart from the financial ratio data above shows that *the current ratio* measures the company's liquidity in fulfilling its short-term obligations. From the data, it can be seen that this ratio is quite stable during 2017-2023, although there are some fluctuations. From 2017 to 2018, *the current ratio* decreased from 210.46% to 206.61%, but increased again from 2019 to 2021, reaching a peak of 256.81% in 2021. This increase may reflect an increase in current assets or a decrease in short-term liabilities. However, in 2022 and 2023, the ratio decreased slightly to around 246%, which still indicates a strong liquidity position. The stability of *the current ratio* above 200% indicates that the company has quite good liquidity during this period.

The Debt to Equity Ratio (DER) describes how much a company is financed by debt compared to its equity. In 2017, the DER reached 3.04, indicating a high dependence on debt. However, in 2018, this ratio dropped drastically to 1.58 and continued to decline until 2021, reaching a low of 0.38. This decline signifies that the company is reducing its dependence on debt and improving its capital structure. In 2022 and 2023, the ratio rose slightly to around 0.84, but remained at a relatively low level, reflecting more prudent debt management.

Return on Assets (ROA) measures the efficiency of a company in using assets to generate profits. In 2017, the company's ROA was quite low at 1.4%, but experienced a significant increase in 2018 to 2.98%. However, there was a decrease in 2019 at 1.55%. From 2020 to 2021, ROA increased again, peaking at 4.28% in 2021. This increase shows that the company is increasingly efficient in managing its assets to generate profits. In 2022 and 2023, ROA decreased slightly to around 3.43%, but still showed solid performance compared to previous years.

Total Asset Turnover (TATO) reflects how effective a company is in utilizing assets to generate revenue. Data shows that the company's TATO was quite stable during the 2017-2023 period, with a value between 79.6% to 89.63%. The increase in TATO occurred from 2017 to 2022, signifying that the company was able to increase its revenue even though the assets remained relatively the same. The small decline in 2023 to 83.46% may be due to a change in strategy or a faster increase in assets compared to revenue growth. Overall, however, the company's TATO remains in a healthy range, demonstrating good asset management.

Price to Book Value (PBV) measures how the market values a company's equity book value. In 2017, the PBV was at 2.08, but it gradually decreased until 2021 to 1.04. This decline may reflect a lower market valuation of the company's equity or a decline in the company's performance in creating value for shareholders. In 2022 and 2023, the PBV increased slightly to around 1.51, indicating a recovery in market prices against the company's book value. This trend may reflect market optimism about the improvement in corporate performance post-pandemic.

The growth of net profit of manufacturing companies in the basic and chemical industry sectors showed significant fluctuations from 2017 to 2023. Sharp declines in 2017 (-114.55%) and 2019 (-64.34%) indicate operational or market problems. Major recoveries occurred in 2020 (156.39%) and 2021 (101.69%) in line with improvements in efficiency and debt management. However, net profit fell again in 2022 (-11.25%), despite some positive financial ratios, possibly due to external factors. In 2023, there will be a resurgence (55.15%), which indicates economic stabilization and post-pandemic operational recovery.

a. *Pecking Order Theory*

The pecking order theory states that companies prefer internal funding over external funding, safe debt over risky debt and the last is ordinary shares (Fahmi, 2020). *The Pecking Order Theory* proposed by Corey and Myers in Fahmi (2020) uses the basis of the idea that there is no specific *debt to equity ratio* target where there is only a hierarchy of funds sources that are most preferred by the company. The essence of this theory is that there are two types of capital*: external financing* and *internal financing*. This theory explains why profitable companies generally use small amounts of debt. This is not because the company has a low debt ratio target , but because they need little *external financing*. Less *profitable* companies will tend to use larger debt for two

reasons, namely; (1) internal funds are insufficient, and (2) debt is the preferred external source. Therefore, this pecking order theory creates a hierarchy of sources of funds, namely from internal (retained earnings), and external (debt and stocks).

2. Method

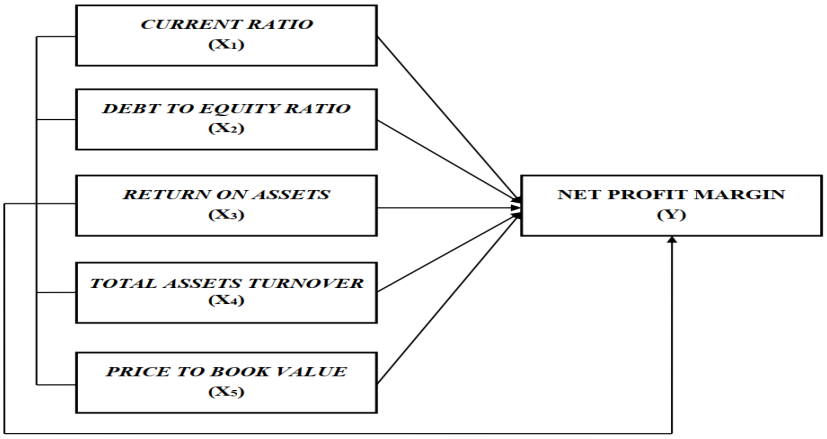


Figure 2 Conceptual Framework of the Research

Five independent variables, namely *Current Ratio* (X1), *Debt to Equity* Ratio (X2), *Total Assets Turnover* (X3), *Return on Assets* (X4), and *Price to Book Value* (X5) along with the dependent variable, Net Profit Growth (Y), are measured as follows:

This study targets pharmaceutical companies listed on the Indonesia Stock Exchange, with a population consisting of all manufacturing companies in the basic industry and chemical sectors on the stock exchange, totaling 61 companies and a sample of 38 companies. The *purposive sampling method* was applied, following the following criteria: (1) manufacturing companies in the basic and chemical sectors listed on the Indonesia Stock Exchange from 2017 to 2023, (2) companies in this sector that released financial statements during the period 2017–2023, and (3) companies that reported profits during this period.

3. Results and Discussion

a. Panel Regression Results

From the results of the Chow Test, Hausman Test, and Lagrange Multiplier Test, it is concluded that the Fixed Effect Model (FEM) is the most suitable, because the Chow Test and the Hausman Test point to FEM, while the Lagrange Multiplier Test shows the General Effect Model (CEM). Given that two of the three tests support the FEM, this study adopts this model as the most appropriate.

The Fixed Effects Model (FEM) is a panel data regression model that assumes unique differences among individuals or entities, captured through various interceptions. FEM is appropriate when there is a correlation between independent variables and error terms, allowing for more accurate estimates by taking into account the specific characteristics of each entity (Rusdi et al., 2019).

Table 2. Panel Regression Results with Fixed Effects Model (FEM)

Variable	*Coefficient*	*STD error.*	*t-Statistics*	*Prob.*
Constanta	-272.7173	175.8991	-1.550419	0.1225
Current Ratio (X1)	**-0.072878**	0.256924	**-0.283655**	**0.7769**
Debt to Equity Ratio (X2)	**-3.788572**	8.862745	**-0.427472**	**0.6694**
Return on Assets (x3)	**28.05448**	5.267057	**5.326406**	**0.0000**
Total Assets Turnover (x4)	**2.519012**	1.871072	**1.346293**	**0.1796**
Price to Book Value (x5)	**13.79900**	27.22281	**0.506891**	**0.6127**

Based on the analysis of panel data using the Fixed Effect Model (FEM) approach from the table above, the results of the regression equation are as follows:

$$NPG\ (Y) = \alpha it + \beta 1CRit + \beta 2DERit + \beta 3ROAit + \beta 4TATOit + \beta 5PBVit + \varepsilon it$$

$$NPG\ (Y) = -272.7173 - 0.072878CRit - 3.788572DERit + 28.05448ROAit + 2.519012TATOit + 13.79900PBBit + \varepsilon it$$

The regression results of the panel using the Fixed Effect Model (FEM) provide insight into the relationship between the independent variable and the dependent variable, Net Profit Growth (Y). Here's a detailed explanation of the results:

1) **Constant (Interception):** The coefficient of the constant is -272.7173, with a standard error of 175.8991. This negative constant suggests that when all independent variables are zero, net profit growth will theoretically be negative. However, the high standard error suggests that the forecast is subject to considerable uncertainty.

2) ***Current Ratio* (X1): The** coefficient for *the current ratio* is -0.072878, with a standard error of 0.256924. This negative coefficient indicates that an increase *in the current ratio* slightly decreases net profit growth. However, small coefficient values and relatively large standard errors suggest that this effect is weak and not statistically significant.

3) ***Debt to Equity Ratio* (X2): The** coefficient for *the debt to equity ratio* is -3.788572, with a standard error of 8.862745. This negative coefficient implies that higher debt relative to equity tends to reduce net profit growth. However, due to large standard errors, this relationship is also not statistically significant.

4) ***Return on Assets* (X3): The** coefficient for *return on assets* is 28.05448, with a standard error of 5.267057. This positive and relatively large coefficient shows a strong and significant positive relationship between ROA and net profit growth. The increase in ROA led to a substantial increase in profit growth, and the low standard error supported the reliability of this forecast.

5) ***Total Assets Turnover* (X4): The** coefficient for *total assets turnover* is 2.519012, with a standard error of 1.871072. This positive coefficient indicates that higher asset turnover leads to increased net profit growth, although the effect is moderate. The standard error indicates some uncertainty, but the coefficient is not very large.

6) ***Price to Book Value* (X5): The** coefficient for *price to book value* is 13.79900, with a standard error of 27.22281. This large positive coefficient suggests that an increase in PBV can lead to higher net profit growth.

Among the independent variables, *Return on Assets* (X3) had the most significant and substantial positive effect on Net Profit Growth, indicating that efficient asset management contributed significantly to profitability. Other variables, including *Current Ratio* (X1), *Debt to Equity Ratio* (X2), *Total Assets Turnover* (X4), and *Price to Book Value* (X5), have a weaker and statistically insignificant impact, as shown by large standard coefficients and errors. This shows that factors beyond these financial ratios can affect the profit growth of manufacturing companies.

b. Hypothesis Testing with t-Test and F-Test

The results of the t-test using Eviews 9 can be seen in the following table:

Table 3. t-Test Results

Variable	*t-Statistics*	*Prob.*
Constanta	-1.550419	0.1225
Current Ratio (X1)	**-0.283655**	**0.7769**
Debt to Equity Ratio (X2)	**-0.427472**	**0.6694**
Return on Assets (x3)	**5.326406**	**0.0000**
Total Assets Turnover (x4)	**1.346293**	**0.1796**
Price to Book Value (x5)	**0.506891**	**0.6127**

The t-table values for the panel regression model can be found using the t-distribution table. The degree of freedom (df) is calculated as df = n – k = 266 – 6 = 260. Based on the t-table, the t-critical value is 1.969. To assess the significance of each independent variable, we compared the p-value with a significance level of 0.05 and the t-statistic with a critical t-table value of 1.969. A variable is considered significant if the p-value is less than 0.05 and the t-statistic is greater than 1.969 if the t-statistic is positive or -1.969 is greater than the t-statistic if the t-statistic is negative (in absolute terms). Explanation of T-Test Results below:

1) **Constant (α):** The constant is not statistically significant because the p-value (0.1225) is greater than 0.05. This shows that the interception did not have a significant impact on Net Profit Growth when all independent variables were zero.

2) ***Current Ratio* (X1):** *The Current Ratio* (X1) has no statistically significant effect on Net Profit Growth, as its p-value (0.7769) is greater than 0.05, and its t-statistic (-0.283655) is less than the critical t-value (1.969). This shows that the change in *the current ratio* has no significant effect on the company's net profit growth.

3) ***Debt to Equity Ratio* (X2):** Similar to *the Current Ratio*, *the Debt to Equity Ratio* (X2) is not statistically significant, with a p value of 0.6694 and a statistically t of -0.427472, both of which indicate that this variable has no significant influence on net profit growth.

4) ***Return on Assets* (X3):** *The Return on Assets* (X3) is very significant, as shown by the t-stats (5.326406) and the p-value of 0.0000, which is well below the threshold of 0.05. This shows that the increase *in return on assets* has a strong positive impact on net profit growth.

5) ***Total Assets Turnover* (X4):** Although *Total Assets Turnover* (X4) has a positive t-statistic (1.346293), it is not statistically significant because the p-value (0.1796) is greater than 0.05. This shows that *total assets turnover* does not significantly affect net profit growth.

6) ***Price to Book Value* (X5):** *The Price to Book Value* (X5) is insignificant, as its p-value (0.6127) is greater than 0.05, and its t-statistic (0.506891) is less than the critical t-value. This shows that *price to book value* has no significant effect on net profit growth.

The results of the F-test processed using Eviews 9 can be seen in the following table:

Table 4. F-Test Results

Weighted Statistics			
F-stats	**2.870829**	Durbin-Watson Statistics	2.490071
Prob(F-stats)	**0.002072**		

The values of the F table for the panel regression model can be found using the distribution table F. The degrees of freedom are df1 = k – 1 = 6 – 1 = 5 and df2 = n – k = 266 – 6 = 260. Based on the F-table, the F-critical value is 2,246.

The F-statistic (2.870829) is greater than the critical value of F (2.246), and the p-value (0.002072) is less than 0.05. This shows that the independent variables (*current ratio*, *debt to equity ratio*, *return on assets*, *total assets turnover* and *price to book value*) collectively have a statistically significant effect on net profit growth. In other words, at least one independent variable is significantly related to the dependent variable, justifying the overall significance of the regression model.

c. Determination test

The results of the determination test processed using Eviews 9 can be seen in the following table:

Table 5. Determination Test Results

Weighted Statistics		
R-squared	**0,260548** Average dependent var	21,72252
R-squared adjusted	0,121279 S.D. depends on var	458,0679

The R-square value of 0.260548 shows that 26.05% of the variation of the dependent variable, Net Profit Growth, is taken into account by the independent variables *current ratio*, debt to equity ratio, *return on assets*, *total assets turnover*, and *price to book value* in the regression model. This implies that the remaining 73.95% of the variance in net profit growth is due to other factors that are not included in the model.

The Adjusted R-squared, at 0.121279, corrects the number of predictors in the model, avoiding the increased explanatory power due to additional variables that may

not substantially improve the model. This adjusted value of 12.13% offers a more accurate measure of the model's fit, taking into account the number of predictors.

An adjusted R-square of only 12.13% indicates a weak relationship between independent variables and net profit growth. Although the model is statistically significant based on the F-test, a low R-squared value indicates that the model has limited predictive effectiveness.

d. Discussion

1. Effect *of Current Ratio* (X1) on Net Profit Growth (Y)

The H1 hypothesis argues that the *current ratio* will have a significant partial influence on net profit growth among manufacturing companies in the basic and chemical industry sectors listed on the Indonesia Stock Exchange from 2017–2023. However, the t-test results reveal that the t-statistic (-0.283655) lies within the acceptance interval of -1.969 < -0.283655, with a probability of 0.7769 where the value is well above the significance threshold of 0.05. This shows that *the current ratio* does not have a significant partial effect on net profit growth. In addition, regression analysis showed a negative coefficient (-0.072878), indicating a negative but not statistically significant influence on profit growth.

The lack of significance in the current ratio effect implies that it does not affect net profit growth too much and can be overshadowed by other factors, such as operational efficiency and broader market dynamics (Damayanti & Rahayu, 2018). External factors during the period studied, such as fluctuating raw material costs and economic uncertainty, may also have mitigated the impact of the current ratio. Thus, although *the Current Ratio* may affect profitability to some extent, the effect remains inconsistent and not significant enough to explain financial performance within the sector (Amin et al., 2022).

2. Effect *of Debt to Equity Ratio* (X2) on Net Profit Growth (Y)

The H2 hypothesis argues that *the Debt to Equity Ratio* (DER) will have a significant partial effect on the growth of net profit of manufacturing companies in the basic and chemical sectors listed on the Indonesia Stock Exchange from 2017–2023. However, the t-test results showed a t-value of -0.427472, which was lower than the critical t-value of 1.969, with a probability of 0.6694, exceeding the significance level of 0.05. Thus, it was concluded that DER did

not have a significant partial influence on net profit growth. Regression analysis showed a negative coefficient of -3.788572, indicating a negative but statistically insignificant influence, leading to the rejection of the H2 hypothesis.

Although DER has a negative impact, its insignificance indicates that this relationship is not strong or consistent enough to be a determining factor in net profit growth. Factors such as operational management, market conditions, and external influences such as global market dynamics and raw material prices may have a greater influence on profit growth than DER (Digdowiseiso & Santika, 2022). In addition, companies in this sector can effectively manage their debt, reducing their negative influences. Therefore, DER cannot be considered a reliable indicator to assess financial performance in manufacturing companies in the basic and chemical industries (Maryati & Siswanti, 2022).

3. The Effect *of Return on Assets* (X3) on Net Profit Growth (Y)

The H3 hypothesis shows that *return on assets* (ROA) has a significant partial effect on net profit growth for manufacturing companies in the same sector and period. The t-test results showed a t-value of 5.326406, which exceeded the critical t-value of 1.969, with a probability of 0.0000, significantly below the threshold of 0.05. This confirms that ROA has a significant partial effect on net profit growth, with a positive regression coefficient of 28.05448, supporting the H3 hypothesis.

During the 2017-2023 period, despite external challenges such as fluctuations in raw material prices and regulatory changes, companies with higher ROAs are in a better position to adapt and maintain profitability (Firdaus & Sulistiyo, 2023). Overall, the high ROA reflects the company's ability to optimize its resources, contributing positively and significantly to the growth of net profit in this sector (Fawzi, 2022).

4. The Effect *of Total Assets Turnover* (X4) on Net Profit Growth (Y)

The H4 hypothesis proposes that *Total Assets Turnover* (TATO) significantly impacts net profit growth for the targeted company from 2017 to 2023. However, the t-test results produced a t-value of 1.346293, below the critical t-value of 1.969, with a probability of 0.6127, higher than 0.05. This shows that TATO has no significant partial effect on net profit growth, despite a positive regression coefficient of 2.519012. Therefore, the H4 hypothesis is rejected.

Although TATO does affect profit growth, the effect is insignificant, implying that asset efficiency alone cannot explain the change in net profit in the manufacturing sector. Factors such as raw material prices, production costs, and market fluctuations also play an important role in influencing profitability (Nasution & Sitorus, 2022). Therefore, even if a company increases its sales through asset efficiency, high production costs or low profit margins may limit the impact on net profit. Varied business models and external challenges during 2017-2023, such as fluctuations in commodity prices and global economic uncertainty, further reduced the direct influence of TATO on profit growth (Yantri & Merliana, 2024).

5. Effect of *Price to Book Value* (X5) on Net Profit Growth (Y)

The H5 hypothesis argues that *Price-to-Book Value* (P/BV) has a significant partial effect on net profit growth in certain sectors. However, the t-test revealed a t-value of 0.506891, less than the critical t-value of 1.969, with a probability of 0.6127, which exceeded the threshold of 0.05. Although the regression coefficient was positive at 13.79900, the P/BV effect was statistically insignificant, resulting in a rejection of the H5 hypothesis.

These findings contradict previous studies by Rahayua & Arita (2024) and Siska et al. (2024), "which show that P/BV has a positive and significant impact on net profit growth". Their research shows that changes in P/BV contribute positively to the company's profit growth.

The lack of significance can be attributed to several factors. P/BV reflects market perception rather than actual financial performance, which means that stock prices may rise for speculative reasons or future expectations, not necessarily due to operational improvements. External challenges between 2017 and 2023, such as commodity price fluctuations and regulatory changes, further limited P/BV's ability to significantly impact net profit growth in the industry (Arnetta & Rahman, 2024).

6. The effect *of Current Ratio* (X1), *Debt to Equity* Ratio (X2), *Return on Assets* (x3), *Total Assets Turnover* (x4), and *Price to Book Value* (x5) on net profit growth (y) simultaneously

The H6 hypothesis shows that *the current ratio*, DER, ROA, TATO, and P/BV together significantly affect the growth of net profit of manufacturing companies in the basic and chemical sectors listed on the Indonesia Stock Exchange from 2017–2023. The F-test results show a calculated F-value of 2.870829, which is higher than the F-table value of 2.246, with a probability of 0.002072, well below the threshold of 0.05.

This shows that these financial ratios collectively have a significant impact on net profit growth. The regression analysis of the Fixed Effect Model (FEM) panel revealed that, of these variables, only ROA had a positive and significant effect on net profit growth.

Although each variable exhibits different individual effects, when combined, they all contribute positively to net profit growth. This study confirms that *Current Ratio*, DER, ROA, TATTOO, and P/BV together positively and significantly affect the profitability of manufacturing companies in the basic and chemical sectors. Therefore, the H6 hypothesis is accepted, as the results are aligned with the research hypothesis. This study discusses the research problem, which seeks to determine whether these financial ratios have a significant impact on net profit growth if analyzed simultaneously in the context of Indonesia's manufacturing industry (Syairozi et al., 2022).

Based on several related research results, the relationship between variables and *current ratio*, *debt to equity ratio*, *return on assets*, *total assets turnover*, and *price to book value* on net profit growth in this study is described in the form of a conceptual framework as follows:

4. Conclusion

Based on the results of the tests and analyses that have been carried out, the following conclusions can be drawn:

- *The current ratio* partially has a negative but insignificant effect on the growth of net profit in manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange from 2017-2023 with a probability value of 0.7769.
- *The debt to equity ratio* is partially negative but not significant to the growth of net profit in manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange from 2017-2023 with a probability value of 0.6694.
- *Return on assets* partially has a positive and significant effect on net profit growth in manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange from 2017-2023 with a probability value of 0.0000.

- *Total assets turnover* partially had a positive but not significant effect on net profit growth in manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange from 2017-2023 with a probability value of 0.1796.
- *The price to book value* is partially positive but not significant to the growth of net profit in manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange with a probability value of 0.6127.
- *Current ratio*, *debt to equity ratio*, *return on assets*, *total assets turnover*, and *price to book value* simultaneously have a positive and significant effect on net profit growth in manufacturing companies in the basic and chemical industries listed on the Indonesia Stock Exchange from 2017-2023 with a probability value of 0.002072.

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