SUMMARY

Analysis of Working Capital Management and Its Impact on The Profitability and Firm’s Value
(Case Studies in Metal Industry in Indonesia Stock Exchange)
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Every company in conducting its activities are always in need of funds. Funds needed by companies to finance day-to-day operation called working capital. Working capital management designed and implemented with both expected to contribute positively to the company's profit and value creation. This study aims to (1) analyze the cash conversion cycle and its components (the number of days accounts receivable, inventories, and accounts payable) and the company’s financial ratios, (2) analyzing the company’s working capital policy and its impact on the profitability of the company, (3 ) to analyze the effect of the conversion cycle cash as well as its components (the number of days accounts receivable, inventories, and accounts payable), current ratio, debt ratio and return on assets prior periods, as well as the size of company to company profitability, and (4) Analyze the effects of total asset turnover, current ratio, debt ratio, company size, and company profits on firm value.

The analytical method used is descriptive statistical analysis, cross tabulation, working capital policy, Du Pont, and panel data regression. The type of data used are secondary data from the Annual Financial Statements have been audited and the company’s Annual Report in 2010, 2011 and 2012, which is a publication of data that can be accessed on the company's website the Indonesia Stock Exchange (www.idx.co.id). Object of this study includes 15 public company that is included in the metal industry in IDX.

The results showed that the average collection period of the receivables in the metal industry in IDX is 68 days, the average inventory turnover is 108 days, the average period is 42 days for payment of debt, and the cash conversion cycle is 134 days. Industrial metal in the BEI had an average of Net Operating Profit (NOP) is low (8%). It is seen from the average Coversion Cash Cycle (CCC) 134 days and is positive, meaning that the company has aged receivable greater than the life of their business debt. In other words, industrial metal in the BEI tend to be conservative in the management of working capital. Value of the lowest CCC (-14 days) and is negative indicates that showed greater age aged receivable debt. In this case, the company is able to negotiate a period of time or maturing debt payments with creditors. Then Financial Debt Ratio (FDR) the highest of 243% or has a greater amount of debt than the sum of its assets. Shortage of capital is expected to be eliminated through the Debt to Equity Swap.

Most of the metal in the BEI company adheres to a conservative working capital policy. This is indicated by net working capital is positive and the average value of the existing CCC where the value is positive and mostly pendananaanya source of equity to finance the majority of its fixed assets and its current assets. Theoretically, this conservative policy has a low risk, high cost and low yield. But such is not the case in the metal industry in IDX. Companies that embrace conservative development policy would have a net operating profit higher than
the companies that adopt an aggressive approach to the composition of their funding comes largely from short-term loans. This is because the risk factors facing the metal industry in the country is classified into two, namely the micro and macro risks. Macro risk, including credit risk, currency risk, interest rate risk, liquidity risk and price risk. Risk macro side, covering market prices, the level of fuel and gas prices, foreign currency exchange rates, economic growth, and a stable supply of raw materials. Moreover, in terms of cost structure, Cost of Goods Sold (COGS) account for 90% of total costs. Increased cost of sales was in line with the average increase sales volume. Forming a large component of COGS is the cost of raw materials. The increase in the raw material cost component accounted for 79% of the total increase in cost of goods sold. The rising cost of raw materials is mainly due to the increase in the procurement price of imported raw materials. The character of the metal industry business is business to business (B2B). This is evident from the cash component, accounts receivable, and a large inventory on the composition of current assets. Industrial metals are categorized as high-margin industries tend to be slow due to the rotation of its assets and its leverage was lelatif low that the profit margin is the dominant factor for the high ROE in the metal industry.

Regression results show a significant negative correlation between receivables collection period, the cash conversion cycle, current ratio, debt ratio, and the ratio of fixed assets to total assets at net operating profitability and a significant positive relationship between firm size and net operating profit. Furthermore, this study found no significant difference between the inventory turnover in days and the average repayment period of debt to operating profit. The study also found a significant negative relationship between the current ratio and the value of the company and significant positive net operating income and the value of the company.

These results indicate that the metal in the BEI industry should embrace an aggressive policy in the management of working capital. It aims to increase the net operating profit by shortening the cash conversion cycle. However, the aggressive policy of the company is exposed to liquidity risk due to the short-term funding sources have a short maturity, so companies do not have the flexibility in repayment means the company has a security level (margin of safety) is small. In this aggressive approach, the company bold enough to risk large, while the trade-off is expected to gain a larger profit. In addition, because most of the metal companies import raw materials from abroad then to anticipate the risk of the exchange rate at the cost of the funding is to hedge to protect a company from exposure to the exchange.

**Key words**: working capital management, cash conversion cycle, profitability, firm’s value