



Activity Ratio and Profitability Ratio Analysis to Know Causes of Decreasing Profit (Case Study at the Village Credit Institution of the Suwat Village)

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Abstract: *The Village Credit Institution (LPD) of Desa Pakraman Suwat has productive assets in the form of loans provided to the community. The loan disbursed fluctuated from 2019-2021. Based on the report on activities and credit developments at the Pakraman Suwat Village LPD, the loans granted in 2019-2021 are fully eligible for current collectability. However, this is not in line with the development of LPD profits which have decreased in 2020 and 2021. This study aims to analyse the causes of the decline in LPD profits in terms of credit turnover, BOPO, net profit margin, return on equity, and return on assets. The type of research used in this research is descriptive research with a qualitative approach. The analysis techniques in this research are activity ratio analysis, profitability ratio analysis, and trend analysis. The results of this study indicate that the level of LPD activity in Pakraman Suwat Village has decreased which can be seen based on the credit turnover which has decreased from 2019-2021. The decrease in credit turnover was caused by a small amount of collectible loans so that loan interest income decreased so that it affected the decline in LPD profitability. The level of profitability of the LPD Pakraman Suwat Village also experienced a decrease which can be seen from the BOPO ratio and the decline in the ratio of NPM, ROE, and ROA. This decrease in profitability was due to operating expenses, decreased operating income, decreased other operating income, the company's capital being not managed optimally, and the company's assets being not managed optimally.*

Keywords: credit turnover, BOPO, NPM, ROE, ROA

1. Introduction

The economic development of a country is strongly supported by the economic development of its people. Financial institutions are one of the factors that support the country's economy by contributing to the business and business world, because they function as financial institutions that collect funds from people who have excess funds (surplus units) in the form of deposits or savings and channel them back to those who lack funds (deficit units) in the form of loans. LPD is one of the financial institutions located in the village of Pakraman which was developed by the Regional Government of the Province of Bali with the aim of encouraging the community's economy by receiving/raising funds from village manners and overcoming community capital problems, especially in rural areas through effective loan distribution. Based on the Regional Regulation Of The Province Of Bali Number 3 Of 2017, the Village Credit Institution (LPD) is a financial institution belonging to the Pakraman Village which is domiciled in the Pakraman Village authority [2], [3], [4]. Pakraman Village is a unit of customary law community

in Bali Province which has a unity of traditions and manners of social life of the Hindu community from generation to generation in the ties of Kahyangan Tiga or Kahyangan Desa which has a certain area and its own assets and has the right to take care of its own household.

LPD Pakraman Suwat Village is one of the LPDs located in the Gianyar District. The existence of the LPD in Pakraman Suwat Village is also very helpful for the community's economy, such as raising public funds and meeting community capital needs which are used for business purposes, financing ceremonies and other personal needs. In its operations, LPD Desa Pakraman Suwat collects public funds in the form of savings and time deposits (deposits). Therefore, a situation must be created where the villagers feel safe in saving their money. To maintain a sense of public confidence in the safety of storing excess funds in the LPD, the LPD should improve financial performance to increase its profitability in order to maintain the trust of the public or customers so that it will support the development of the LPD in the future. The condition of profitability or the ability to generate profits is of course almost experienced by all LPDs, including the LPD of Desa Pakraman Suwat. The LPD of Desa Pakraman Suwat has decreased in profit since 2019-2021 which can be seen in the table below.

Table 1.1 Development of Earning Assets & Profit of LPD Pakraman Suwat Village

Years	Loans Given	Development of Loans Provided	Net profit	Net Profit Development	Net Profit Growth on Earning Assets
2019	1.312.250.939	0	115.626.643	0	8,81%
2020	1.370.953.423	4,47%	64.756.920	-43,99%	4,72%
2021	1.059.150.139	-19,29%	31.701.130	-72,58%	2,99%

Source: Balance Sheet & Profit and Loss Report of LPD Pakraman Suwat Village

Based on table 1.1, LPD Desa Pakraman Suwat has productive assets in the form of loans given to the community. The loan provided fluctuated, namely from 2019 to 2020, it increased by 4.47%, while in 2021 it decreased by 19.29% compared to 2019. Based on the report on activities and loan developments at LPD Desa Pakraman Suwat, the loan given in 2019-2021 is fully classified as current collectability. However, this is not in line with the development of LPD profits which have decreased for 2 consecutive years. Where productive assets are the main source of income from the activities of banking companies. So that the higher the productive assets, the greater the profit generated because the collectability of loans in LPD Pakraman Suwat Village is completely smooth. However, if viewed based on table 1.1 above, the development of profits on productive assets has decreased from 2019-2021. The decline in profits that occurred in the LPD of Pakraman Suwat Village could result in a decrease in the level of public trust or investors who wish to save or invest their funds in the LPD. This condition must be followed up by conducting studies and evaluations related to financial management so that the causes of the decline in profits can be identified.

The level of profitability of financial institutions is strongly influenced by the number of loans disbursed in the period. This means that the more loans disbursed, the greater the profit that can be obtained by the financial institution. This is because one source of income from the LPD comes from lending to the public. The higher the loan disbursement, the higher the amount of interest income so that it can increase the profitability of the LPD [5]. The level of lending to the public can be measured by the credit turnover ratio. Credit turnover is a ratio that serves to determine how fast the loan rotates during a period. The credit turnover ratio is obtained by comparing the total loan in a period with the average loan [6]. If the loan collection process is problematic, it will have a negative impact on LPD profits. Through the credit turnover ratio, it is possible to know the period of collectible credit turnover. The credit cycle period is very important for LPDs because the LPD's main income comes from loans distributed to the community. In addition to the level of lending to the public, operational efficiency can

also affect the level of LPD profitability. Operational efficiency is the bank's ability to manage its operating activities properly between the income earned and the costs incurred. Operational efficiency can be measured by the BOPO ratio, that is, the ratio to measure the comparison between operating costs and operating income. The lower the BOPO ratio, the better the bank's performance in using its resources, on the contrary, the higher the costs incurred, it means that the bank is less efficient in using its resources, especially in managing its operational costs, so that profitability or profits will be smaller [7]. The operational costs in question are costs incurred by the LPD while carrying out its main business activities such as interest costs, labor, and others. While operating income is the main income received by LPD such as interest income from placement of funds in the form of loans and other operating placements [8]. In addition to credit turnover and BOPO, according to [9] there are four types of ratios that can be used to assess the level of profitability, namely Gross Profit Margin (GPM), Net Profit Margin (NPM), Return On Equity (ROE), and Return On Assets (ROA). However, in this study, the measurement of profitability is only limited to the use of NPM, ROE, and ROA. Net Profit Margin (NPM) is a ratio used to measure a bank's ability to generate net profit from its operating activities [9]. Return On Equity (ROE) is a ratio used to measure the ability of bank management to manage their capital to earn a profit [9]. Return On Assets (ROA) is a ratio used to measure a bank's ability to generate profits by utilizing assets owned by the company [10].

Based on the description above, an analysis will be carried out on one of the financial ratios, namely the profitability ratio to find out the causes of the decline in LPD profits in Pakraman Suwat Village in 2019-2021 by taking the title "Activity Ratio Analysis and Profitability Ratio to Find Out the Causes of Declining Profits (Case Study at the Village Credit Institution (LPD) of Pakraman Suwat Village). So that this research is expected to be able to provide clearer information about the financial condition of the LPD in Pakraman Suwat Village so that the LPD can make further decisions. The difference between this research and previous research is in the place of research, and in the year of research. Meanwhile, the similarity between this research and previous research is that they both analyze profitability.

2. Method

This research was conducted at the LPD of Pakraman Village, Suwat Gianyar. The time of the research starts from February 2022 to July 2022. The data collection techniques in this study are using interview and documentation techniques. The data analysis techniques used are ratio analysis (activity ratio and profitability ratio) and trend analysis

3. Result and Discussion

3.1 Result

Credit turnover is a ratio that serves to determine how fast loan collections are. The credit turnover ratio is obtained by comparing the total loan in a period with the average loan [6].

Table 4. 1 Credit Turnover Ratio of LPD Pakraman Suwat Village 2019-2021

Years	Credit Turnover	Credit Turnover Trend	Difference	Collection Time
2019	1,11	100%	0%	330
2020	1,02	92%	-8%	357
2021	0,87	79%	-21%	419

BOPO ratio is a ratio to measure the comparison between operating costs and operating income. The formula used to calculate BOPO is:

Table 4. 2 BOPO Ratio of LPD Pakraman Suwat Village 2019-2021

Years	BOPO	BOPO Trend	Difference
2019	61%	100%	0%
2020	76%	125%	25%
2021	87%	141%	41%

Net Profit Margin (NPM) is a ratio used to measure a bank's ability to generate net profit from its operating activities [9]. The formula that can be used to obtain the NPM value is as follows:

Table 4. 3 Net Profit Margin Ratio (NPM) of LPD Pakraman Suwat Village 2019-2021

Years	NPM	NPM Trend	Difference
2019	39%	100%	0%
2020	24%	61%	-39%
2021	13%	34%	-66%

Return On Equity (ROE) is a ratio used to measure the ability of bank management to manage their capital to earn a profit [9]. The formula that can be used to get the ROE value is as follows:

Table 4. 4 Return on Equity (ROE) Of LPD Pakraman Suwat Village 2019-2021

Years	ROE	ROE Trend	Difference
2019	40%	100%	0%
2020	21%	53%	-47%
2021	10%	25%	-75%

Return on Assets (ROA) is a ratio used to measure a bank's ability to generate profits by utilizing assets owned by the company [10]. The formula that can be used to obtain the ROA value is as follows:

Table 4. 5 Return on Assets (ROA) Of LPD Pakraman Suwat Village 2019-2021

Years	ROA	ROA Trend	Difference
2019	7%	100%	0%
2020	4%	51%	-49%
2021	2%	28%	-72%

4. Discussion

4.1 Activity Ratio

The calculation of the LPD activity ratio in this study uses the credit turnover ratio. Based on the results of the calculations in table 4.4 above, it can be seen that the credit turnover of the Pakraman Suwat Village LPD in 2019 was 1.11 times, in 2020 it was 1.02 times, and in 2021 it was 0.87 times. This

indicates that in 2019 loans given in one period (365 days) were embedded or the length of collection of loans given was 330 days. In 2020, loans granted are embedded for 357 days. Meanwhile, in 2021 the loans granted are embedded for 419 days. So it can be interpreted that the condition of the LPD credit turnover ratio of Pakraman Suwat Village has decreased in 2020 and 2021 and has a long time span because it exceeds one period (365 days).

Based on the results of the trend analysis that has been carried out, it was found that the trend of LPD credit turnover in Pakraman Suwat Village in 2020 was 92% and in 2021 it was 79% with the base year 2019. The results of this trend were obtained by dividing the credit turnover ratio in the comparison year with the year 2019, base 2019, then multiplied by one hundred percent. This means that credit turnover at the end of 2020 decreased by 8% compared to credit turnover in 2019. Then, credit turnover in 2021 fell by 21% when compared to credit turnover at the end of 2019. The impact of this declining trend in credit turnover indicates that the longer the loan can be collected so that it delays the receipt of loan interest income so that it affects the decline in profitability. This is in accordance with the theory put forward by Kasmir (2014) which states that the higher the loan turnover from the disbursement of loans made, it will be followed by an increase in profit, so that it will increase profitability. This decrease in credit turnover was caused by the loan being collected slightly so that the interest income on the loan decreased, thus affecting the decline in the profitability of the LPD.

4.2 Profitability Ratio

a. BOPO

Based on the results of the calculation of the BOPO ratio in table 4.5 above, it shows that the BOPO ratio of LPD Pakraman Suwat Village in 2019 was 61%. This shows that the company's level of efficiency in managing operational costs to its operating income is 61%. Then in 2020 there was an increase in the value of BOPO to 76% and in 2021 to 87%. This shows that there is a decrease in the level of operational cost efficiency on the operating income of LPD Pakraman Suwat Village, thus potentially reducing the company's ability to obtain optimal profits. Based on the results of these calculations, it can also be seen that the financial performance ratio of BOPO in 2019 was 61%, which means that every Rp. 1.00 of operational income received will be charged to operating costs of Rp. 0.61. The BOPO ratio in 2020 is 76%, which means that every Rp. 1.00 of operating income received will be charged to operating costs of Rp. 0.76, and in 2021 the BOPO ratio is 87%, which means that every Rp. 1.00 of operating income received will be charged to operating costs amounting to Rp0.87.

Based on the results of the calculation of the BOPO ratio of LPD Pakraman Suwat Village in 2019-2021 it is known that the trend of the BOPO ratio in 2020 is 125% and in 2021 it is 141% with the base year 2019. This means that the BOPO ratio at the end of 2020 will increase by 25% and in 2021 it will increase by 41% when compared to the BOPO ratio in 2019. This increasing trend has an impact on the decreasing level of LPD BOPO efficiency, thus potentially reducing the LPD's ability to earn profits. This is in accordance with [11] which states that the smaller the percentage of BOPO shows the more efficient the operating costs incurred by the company, on the contrary if the percentage of BOPO is greater, the efficiency of operational costs will decrease so that it affects the decline in profit. The increase in the BOPO ratio was caused by several factors, namely:

- 1) Increased operational expenses issued by LPD Pakraman Suwat Village in 2019-2021. This is indicated by rising labor costs in 2019-2021, increasing depreciation costs, as well as increasing doubtful borrowing costs.
- 2) The decrease in operating income obtained by LPD Pakraman Suwat Village in 2019-2021. This can be seen from the decrease in the amount of interest income from loans disbursed in 2019-2021, where interest income on this loan is the main income from LPD operational activities. In addition, there was a decrease in other operating income originating from administrative fees and stamp duty fees collected by the LPD.

b. Net Profit Margin (NPM)

Based on the results of the NPM calculation in table 4.6 above, it can be seen that the NPM value in 2019 was 39%. This shows the company is able to generate a net profit of 39% of each income that occurs. In 2020 the NPM value decreased to 24%, this shows the company's ability to generate net profit on each income decreased, which only generates a net profit of 24% of each income that occurs. The decline in the NPM value will occur again in 2021, which is 13%. This shows that in 2021 the company's ability to generate net profit will decrease to 13% of every sale that occurs. Based on the results of the calculation of the Net Profit Margin analysis, it can be seen that in 2019 the net profit margin of LPD Pakraman Suwat Village is 39%. This shows that every Rp1.00 of sales will generate a net profit of Rp.0.39. The Net Profit Margin of LPD Pakraman Suwat Village from 2019-2021 has decreased. This is due to a change in the net profit and income obtained by the company, where there is a decrease in operating income and also a decrease in net profit earned by the company.

Based on table 4.6, it can also be seen that the trend of the NPM ratio for LPD Pakraman Suwat Village in 2020 is 61% and in 2021 it is 34%. This shows that the NPM ratio in 2020 fell by 39% when compared to the NPM ratio in 2019. Then the NPM ratio in 2021 fell by 66% when compared to the ratio in 2017. The impact of the decline in the trend of the NPM ratio is that the company is declared to be declining. the company's ability to generate profits. This is in line with Rini (2019) which states that the greater the NPM value, the more productive the company's performance is, so it is considered that the better the company's ability to earn high profits [12].

The decline in the NPM ratio of the LPD in Pakraman Suwat Village was caused by several factors, namely:

- 1) Decreased net profit earned by LPD Desa Pakraman Suwat
- 2) Decreased income derived from lending to the public
- 3) Increased labor costs
- 4) Increased depreciation cost

c. Return On Equity (ROE)

Based on the results of the calculations in table 4.7 above, it is known that the ROE value of the LPD Pakraman Suwat Village in 2019 is 40%. This shows that the level of the company's ability to generate net profit from the management of capital owned is 40%. However, in 2020 the ROE value decreased to 21% and in 2021 it decreased again to 10%. This shows that there is a decrease in the company's ability to generate net profit from each use of the company's capital. Based on the calculation results, it shows that the ROE of LPD Des Pakraman Suwat in 2019 is 40%, meaning that every IDR 1.00 of capital owned by the LPD can generate a net profit of IDR 0.40. In the period 2019-2021 ROE of LPD Pakraman Suwat Village tends to decrease from year to year. This is because LPDs have not been able to manage their capital efficiently. This can be seen from the increase in the amount of capital owned by the LPD which is not followed by the development of declining profits.

Based on table 4.7 above, it can be seen that the ROE ratio trend in 2020 is 53% and in 2021 it is 48% with the base year 2019. This means that the ROE ratio at the end of 2020 has decreased by 47% when compared to the ROE ratio in 2019 Then the ROE ratio in 2021 decreased by 75% when compared to the ratio at the end of 2019. The impact of this declining trend in the ROE ratio is customer dissatisfaction with the rate of return on capital invested in LPD Desa Pakraman Suwat. This is in accordance with the statement of Harmono (2016) which states that the higher this ratio, the higher the level of profit obtained by the company's shareholders. This high return on capital (ROE) exceeds the cost of capital used, it means the company has been efficient in using its own capital, so that the profit generated has increased from previous years.

The decline in the return on equity ratio of LPD Pakraman Suwat Village was caused by the following factors:

- 1) Company capital that is not managed optimally.
- 2) The amount of income generated from the management of the company's capital did not experience a significant increase and even tended to decrease thereby reducing the profit generated because the costs incurred were quite high.

d. Return On Assets (ROA)

Based on the results of the calculations in table 4.8 above, it is known that the ROA value in 2019 was 7%. This shows that the company is able to generate a net profit of 7% from the utilization of assets owned by the company. Then in 2020 the ROA value decreased to 4%, this shows that the company's ability to utilize its assets to earn a profit has decreased to 4%. The decline in the value of ROA also occurred in 2021 to 2%, which indicates a decline in the company's performance in generating profits from the use of assets owned. Based on the results of these calculations, it shows that the ROA in 2019 is 7%, meaning that every IDR 1.00 of capital invested in all assets can generate a profit of IDR 0.07. In the period 2019-2021 ROA tends to decrease from year to year. This is due to an increase or decrease in net income and assets obtained.

Based on table 4.8, it can be seen that the trend of the ROA ratio of LPD Pakraman Suwat Village in 2020 is 51% and in 2021 it is 28% with the base year 2019. This means that the ROA ratio at the end of 2020 decreased by 49% when compared to the ROA ratio at the end of the year. 2019. Then the ROA ratio in 2021 decreased by 72% when compared to the ROA ratio in 2019. The impact of this declining trend in the ROA ratio is customer dissatisfaction with investments made in LPDs. This is in line with Harmono (2016)) statement which states that the greater the company's ROA, the greater the company's position and the better the company's position in terms of using assets to gain profits. The decrease in the value of the ROA ratio was caused by several factors, namely:

- 1) There is a buildup of cash in 2019-2021. This can be seen from the increasing amount of cash held by the LPD which indicates that cash is underutilized to earn profits.
- 2) Increasing the amount of allowance for doubtful accounts.
- 3) Increased accumulated depreciation of fixed assets and LPD inventory.

5. Conclusion

Based on the discussion described above, it can be concluded that the causes of the declining profit of LPD Pakraman Suwat Village in 2019-2021 are:

1. Activity Ratio

The level of LPD activity in Pakraman Suwat Village has decreased from 2019-2021. This can be seen from the decline in credit turnover. The decrease in credit turnover was caused by a small amount of uncollectible loans so that loan interest income decreased, thus affecting the decline in LPD profitability.

2. Profitability Ratio

The profitability level of LPD Pakraman Suwat Village has decreased from 2019-2021. This can be seen from the BOPO ratio which has increased and the ratio of NPM, ROE, and ROA which has decreased from 2019-2021. The increase in BOPO and decrease in NPM, ROE, ROA was caused by several things, namely:

- a. The increase in LPD operating expenses, namely the increase in labor costs, the increase in depreciation costs, and the increase in the cost of doubtful loans.
- b. The decrease in operating income obtained by LPD is the decrease in the amount of interest income from loans disbursed in 2019-2021.
- c. The decrease in other operating income derived from administrative fees and stamp duty fees collected by the LPD.

- d. The company's capital is not managed optimally, the volume of income generated from the management of the company's capital does not experience a significant increase and even tends to decrease.
- e. Company assets that are not managed optimally. This can be seen from the accumulation of cash in 2019-2021 which indicates the underutilization of cash for profit, an increase in the amount of reserves for doubtful accounts, an increase in accumulated depreciation of fixed assets and LPD inventory.

6. Implication

The results of this study are about profitability analysis to determine the cause of the decline in profits at LPD Pakraman Suwat Village. Based on the results of the study, it is known that there is a decrease in the ability of the LPD to obtain profits or profits in terms of credit turnover, BOPO, net profit margin ratios, return on equity, and return on assets. The research that has been carried out on financial institutions, the conclusions drawn certainly have implications in the field of financial institutions, especially LPDs. In this regard, the implications are as follows:

1. Although every year the company still earns profit, but if there is a continuous decline in profits, the company should re-evaluate its financial performance periodically so that management decision making can be right on target because it already knows the company's financial condition.
2. To increase profits, the company should re-evaluate each cost item that if it can be minimized, utilize and manage assets and equity owned by the company properly to get a profit.

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