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MENGUNGKAP FAKTOR-FAKTOR PENENTU PERINGKAT OBLIGASI PERUSAHAAN: BUKTI DARI PASAR NEGARA BERKEMBANG DAN PASAR NEGARA MAJU

UNVEILING THE DRIVERS OF CORPORATE BOND RATINGS: EVIDENCE FROM EMERGING AND DEVELOPED MARKETS

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ABSTRAK

Penelitian ini dilakukan untuk memperoleh bukti empiris mengenai pengaruh ukuran perusahaan yang diproksikan oleh total aset (TA), profitabilitas yang diproksikan oleh return on assets (ROA), usia obligasi yang diproksikan oleh variabel dummy, leverage yang diproksikan oleh rasio utang terhadap ekuitas (DER), dan likuiditas yang diproksikan oleh rasio lancar (CR) terhadap peringkat obligasi. Objek penelitian ini adalah perusahaan non-keuangan yang terdaftar di Bursa Efek Indonesia (BEI) dari tahun 2020 hingga 2022 dan menerbitkan obligasi yang diberi peringkat oleh PT Pemeringkat Efek Indonesia (PEFINDO) dari tahun 2021 hingga 2023. Pemilihan sampel dilakukan dengan menggunakan metode purposive sampling yang menghasilkan total 18 perusahaan non-keuangan. Data yang digunakan dalam penelitian ini adalah data sekunder, yaitu laporan keuangan dan daftar peringkat obligasi yang diterbitkan oleh PT PEFINDO. Analisis data dilakukan menggunakan SPSS versi 26. Metode analisis data yang digunakan adalah regresi logistik ordinal, suatu metode yang digunakan dalam penelitian dengan variabel dependen dalam bentuk ordinal (peringkat). Hasil penelitian menunjukkan bahwa (1) ukuran perusahaan yang diproksikan oleh total aset memiliki pengaruh positif dan signifikan terhadap peringkat obligasi; (2) profitabilitas yang diproksikan oleh ROA memiliki pengaruh positif dan signifikan terhadap peringkat obligasi; (3) umur obligasi yang diproksikan oleh variabel dummy tidak memiliki pengaruh yang signifikan terhadap peringkat obligasi; (4) leverage yang diproksikan oleh DER memiliki pengaruh negatif dan signifikan terhadap peringkat obligasi; (5) likuiditas yang diproksikan oleh CR tidak memiliki pengaruh yang signifikan terhadap peringkat obligasi.

Kata Kunci: umur obligasi, rating obligasi, ukuran perusahaan, *leverage,* likuiditas, profitabilitas

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ABSTRACT

This study was conducted to obtain empirical evidence on the influence of company size proxied by total assets (TA), profitability proxied by return on assets (ROA), bond age proxied by dummy variable, leverage proxied by debt to equity ratio (DER), and liquidity proxied by current ratio (CR) on bond ratings. The object of this study is non-financial companies listed on the Indonesia Stock Exchange (IDX) from 2020 to 2022 and issuing bonds rated by PT Pemeringkat Efek Indonesia (PEFINDO) from 2021 to 2023.The sample selection was done using the purposive sampling method resulting in a total of 18 non-financial companies. The data used in this study were secondary data, namely financial statements and a list of bond ratings issued by PT PEFINDO. The data analysis was conducted using SPSS version 26. The data analysis method used was ordinal logistic regression, a method used in research with dependent variables in ordinal form (ratings). The results of the study indicate that (1) company size proxied by total assets has a positive and significant effect on bond ratings; (2) profitability proxied by ROA has a positive and significant effect on bond ratings; (3) bond age proxied by dummy variable has no significant effect on bond ratings; (4) leverage proxied by DER has a negative and significant effect on bond ratings; (5) liquidity proxied by CR has no significant effect on bond ratings.

Keywords*: bond age, bond rating, company size, leverage, liquidity, profitability*

1. INTRODUCTION

The capital market in Indonesia persists in its rise despite the Covid-19 pandemic. The data indicates a continual increase in the number of investors in the stock market from 2020 to 2022. As reported by PT (KSEI), the Indonesian capital market has attained 10 million investors, with local investors constituting 99.78% of this total. The rise in investors is due to the multitude of investment opportunities present in the capital market. Numerous instruments exist inside the capital market. Capital market instruments are items exchanged on the stock market, including stocks, bonds, mutual funds, derivatives, exchange-traded funds (ETFs), and other assets that are generally of a long-term nature (Shaid & Idris, 2022). Bonds are among the items traded on the Indonesia Stock Exchange (BEI). The Financial Services Authority defines bonds as medium- or long-term debt securities that are tradable. Bonds represent a commitment from the issuer to provide interest payments (coupons) over a designated period and to return the principle amount to the bondholder at a set time.

Handy Yunianto, the Head of Fixed Income Research at PT Mandiri Sekuritas, asserts that bonds may be a viable option during the pandemic due to

their adequate liquidity (Purnama, 2021). The exceptional bond data for the years 2020 to 2022 is presented below:

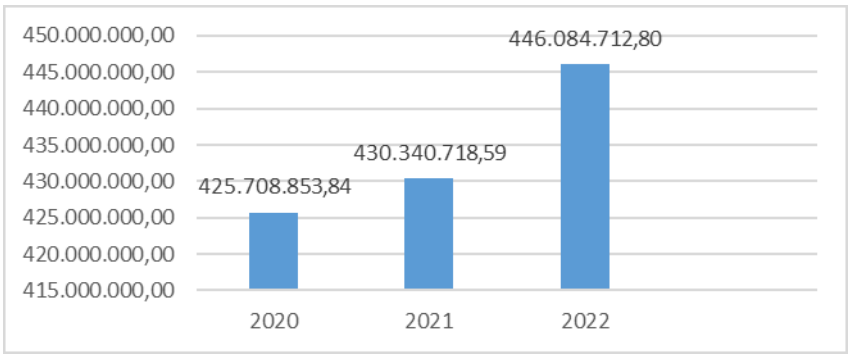

Figure 1
Outstanding Number of Corporate Bonds in 2020-2022 (in Millions of Rupiah)
Source: OJK (2022)

The Indonesian bond market remains attractive amid the trend of declining interest rates, which has created a more favorable environment for bond investment (Nurfitriyani, 2020). This condition has contributed to the growth of outstanding bonds, while average corporate bond yields continued to exceed the BI-rate over the 2020–2022 period. Corporate bond yields were recorded at 8.75% in 2020, declined to 7.81% in 2021, and increased slightly to 8.15% in 2022. In addition to offering coupon income and potential capital gains, bonds also involve several risks, including default risk, liquidity risk, and interest rate risk. Therefore, investors require adequate information to assess both the return potential and the associated risks of bond instruments. One important reference in this process is bond ratings, which reflect the issuer's ability to meet its financial obligations, including coupon payments and principal repayment (Bareksa, 2024).

In Indonesia, PT PEFINDO is one of the most established and reputable credit rating agencies, assessing bond ratings based on industry risk, company risk, and financial risk. Bond ratings are generally classified into two categories: investment grade and non-investment grade. Investment-grade bonds indicate that the issuer is considered capable of fulfilling its obligations, whereas non-investment-grade bonds suggest higher credit risk and lower investment worthiness.The data regarding the quantity of financial and non-financial

enterprises that obtained investment grade ratings from PT PEFINDO is presented here:

Table 1
Companies Received the Investment Grade Category

Year	Finance Corporation	Non-financial Corporation	Total
2020	12	23	35
2021	12	22	34
2022	11	24	35

Sumber: www.pefindo.com

Over three successive years, a greater number of non-financial corporations have attained investment grade status relative to finance corporations, indicating that the bonds issued by non-financial entities carry a lower risk. Research on firms in Austria also shows that family firms possess levels of profitability, leverage, and liquidity aligned with their credit ratings (Wiener, 2017).

Bond ratings are important to examine because they reflect the creditworthiness of bond issuers and their ability to repay both principal and interest to investors. Higher bond ratings can increase investor interest in the issued bonds, enabling companies to secure the required funding more quickly and create subsequent corporate strategies more effectively. Previous studies on the determinants of bond ratings in Indonesia have produced inconsistent findings, particularly regarding profitability, liquidity, leverage, firm size, and bond age. Therefore, this study seeks to provide additional empirical evidence on bonds rated by PEFINDO using a more recent observation period, thereby addressing the existing research gap.This study examines five characteristics believed to influence the bond ratings assigned by PT PEFINDO: company size, profitability, bond age, leverage, and liquidity.

The initial variable believed to affect bond ratings is company size. Dewi and Praptoyo (2022) assert that a firm's size reflects its scale, as evidenced by the capital employed, total assets held, and overall sales generated by the company. This study uses the natural logarithm of total assets as a proxy for company size. A company's overall assets directly correlate with its capacity to create cash

inflows. For instance, if a corporation possesses productive assets, production can occur rapidly, leading to increased output and labor efficiency, creating cash inflows. An increase in cash inflows enhances the capacity to service interest and repay the principal of the bonds, mitigating financial risk related to cash flow and liquidity safeguards. The industry risk associated with revenue and cost structure diminishes due to the company's capacity to enhance sales and execute cost savings, resulting in profit generation. The business risk associated with the procurement of raw materials due to the inability to sustain output will also diminish. The reduction in those hazards will enhance the rating assigned by PT PEFINDO. The research findings by Sulistiani and Meutia (2021) indicate that firm size affects bond ratings. Conversely, the study by Utami et al. (2021) indicates that firm size does not influence bond ratings.

The second independent variable assumed to affect bond ratings is profitability. Profitability is a metric that assesses a company's income or operational efficacy over a certain timeframe (Weygandt et al., 2022). In this study, profitability is represented by return on assets (ROA). Return on assets (ROA) is a metric that evaluates a company's capacity to create profit from its total assets (Purba & Mahendra, 2023). A higher ROA indicates a company's greater ability to utilize its assets effectively and efficiently, resulting in increased profitability. Utilizing machinery to enhance production speed and reduce manufacturing errors, thereby improving output and product quality. Furthermore, the incidence of spoilage and rework will diminish, enhancing cost efficiency. Through enhanced sales and cost effectiveness, the corporation will attain elevated operating profits. Elevated profits will mitigate the risk associated with the revenue and cost structure components of the sector linked to the failure to produce operating profit. Substantial profits signify that the company is capable of repaying the principal and interest on its bonds, therefore mitigating the financial risk linked to cash flow and liquidity safeguards. The company's capacity for cost efficiency demonstrates its proficiency in managing expenses, hence mitigating operational risks associated with cost control failures. The reduction in those hazards will enhance the rating assigned by PT PEFINDO. The findings of the

study by Purba and Mahendra (2023) indicate that profitability affects bond ratings. Conversely, the study of Sulistiani and Meutia (2021) indicates that profitability does not influence bond ratings.

The third independent variable believed to affect bond ratings is the bond's age. The maturity of a bond refers to the duration from its issuance till its maturity date (Utami et al., 2021). The methodology for assessing the age of a bond involves designating a value of 1 for bonds aged one to five years and a value of 0 for bonds over five years (Safitri et al., 2020). Bonds with shorter maturities exhibit reduced risk due to the enhanced predictability of future economic situations and fluctuations. This suggests that organizations see an enhanced ability to forecast industry growth and stability, as well as to identify appropriate short-term plans. Consequently, the industry risk about growth and stability associated with demand and supply, prospects, and market opportunities will diminish. Short-term market conditions are more predictable, enabling enterprises to precisely discern consumer requirements. This will mitigate company risks in marketing and distribution associated with the failure to identify customers and target markets, as well as the inability to comprehend consumer preference patterns. When the company successfully identifies the appropriate strategy and anticipates market conditions, it will produce greater cash inflows, hence enhancing its capacity to fulfill its responsibilities. Consequently, the financial risk associated with cash flow and liquidity protection will diminish. The reduction in those hazards will enhance the rating assigned by PT PEFINDO. The results of the research conducted by Safitri et al. (2020) state that the maturity of bonds has an influence on bond ratings. Conversely, the study by Suwarmelina (2021) indicates that bond maturity does not influence bond ratings.

The fourth independent variable believed to affect bond ratings is leverage. Leverage is a measure that indicates the extent to which a company's operating capital is financed by its debt (Kaltsum & Anggraini, 2021). This study uses the debt to equity ratio (DER) as a proxy for leverage. The debt to equity ratio (DER) quantifies the relationship between debt and equity utilized for funding a corporation (Silanno & Loupatty, 2021). If the debt-to-equity ratio (DER)

declines, the company's financing increasingly depends on equity, including retained earnings. Retained earnings can facilitate diversification, enabling the organization to access a wider market. For instance, procuring a company that manufactures the essential raw materials for production processes.

Consequently, the company can procure raw materials from its subsidiary, leading to reduced raw material expenses and a decline in the cost of goods sold. An augmentation in sales and a reduction in the cost of items sold will yield elevated earnings. This might mitigate industry risk about income and cost structure associated with the company's failure to make profit. An augmentation in earnings can mitigate the chance of the company defaulting on its bonds, thereby diminishing the financial risk associated with cash flow and liquidity. The business risk associated with the company's incapacity to manage diversity will also diminish. Mitigating those risks will enhance the bond ratings assigned by PT PEFINDO. The research findings by Sulistiani and Meutia (2021) indicate that leverage affects bond ratings. Another study conducted in an emerging market like Brazil, also shows that leverage affects credit ratings (Murcia et al., 2014). Conversely, the study of Pramesti (2022) indicates that leverage does not influence bond ratings.

The fifth independent variable believed to affect bond ratings is liquidity. Liquidity refers to a company's short-term capacity to fulfill its obligations and address unforeseen cash requirements (Weygandt et al., 2022). This study uses the current ratio (CR) as a proxy for liquidity. The current ratio assesses the capacity to fulfill short-term obligations using current assets (Weygandt et al., 2022). A high current ratio signifies that current assets exceed current liabilities, indicating substantial working capital. Working capital refers to the funds used to support the operational activities of the company. A large working capital signifies that the company possesses adequate liquidity, facilitating seamless operational activities, including the procurement of raw materials, production of items, enhancement of sales, and realization of cost efficiencies, ultimately resulting in increased profits.

An illustration of cost efficiency is acquiring raw materials and remitting payment within the discount period, thus decreasing the company's cost of goods sold. The company's earnings will increase due to increased sales and enhanced cost effectiveness. This helps mitigate the risk associated with the income segment and cost structure of the industry due to the failure to achieve operating profit. A high current ratio signifies that the corporation possesses substantial cash and cash equivalents. The funds can be used to fulfill the company's liabilities, thus mitigating financial risk concerning cash flow and liquidity preservation. Furthermore, the substantial cash reserves can be utilized by the corporation to acquire raw materials, fulfilling its requirements for these inputs. Consequently, the business risk associated with raw material purchase will diminish. As these risks diminish, the bond rating assigned by PT PEFINDO will enhance. The findings of Sulistiani and Meutia (2021) indicate that liquidity affects bond ratings. Conversely, the study of Agustinus and Yoewono (2022) indicates that liquidity does not influence bond ratings.

This research replicates the work by Sulistiani and Meutia (2021) with several advancements as follows first, this study introduces an independent variable, specifically the bond's age, as referenced in the research of Safitri et al., 2020. Second, this study focuses on non-financial companies listed on the Indonesia Stock Exchange (IDX) during the period 2021-2022, which were rated by PT PEFINDO for the period 2022-2023. In contrast, prior research examined financial service companies listed on the IDX from 2014 to 2018, also rated by PT PEFINDO for the same timeframe.

Considering the circumstances of the issue presented, the research challenge is articulated as follows: (1) Does firm size positively influence bond ratings?, (2) Does profitability positively influence bond ratings?, (3) Does the age of a bond positively influence its rating?, (4) Does leverage negatively influance bond ratings? (5) Does liquidity positively influence bond ratings?

2. LITERATURE REVIEW AND HYPOTHESIS

Signaling Theory

"Signal theory elucidates the interactions between two parties when they possess disparate information." Signal theory elucidates the measures employed by the signaler to affect the conduct of the signal receiver. This idea posits that management can convey signals on the company using various elements of financial information that investors may interpret as indicators (Ghozali, 2020). Published bond ratings can indicate the company's financial condition (Sulistiani & Meutia, 2021). A high bond rating or classification within the investment grade category may communicate positively to investors, whereas a low bond rating or classification within the non-investment grade category may signal negatively to investors (Kaltsum & Anggraini, 2021).

Signaling theory provides a useful lens for explaining the role of bond ratings in capital markets. Because issuers generally possess more private information about their financial condition and repayment capacity than investors, information asymmetry arises in the bond market. In this context, bond ratings function as credible external signals issued by rating agencies to communicate the issuer's credit quality and default risk to investors. Thus, bond ratings help reduce uncertainty, improve market assessment of creditworthiness, and facilitate investment decisions. Prior studies also support this view by showing that rating announcements contain informational value, reduce information asymmetry, and affect market liquidity and investor reactions (Hu et al., 2019; Jorion et al., 2005; Lovo et al., 2022).

Bonds

Bonds are a financial instrument issued by a firm to a bondholder, which includes a commitment to repay the principal and interest on the designated maturity date."Bonds differ from stocks, which confer ownership to their holders" (Hakim & Sudaryo, 2022). The benefits of investing in bonds include coupon payments, realizing capital gains, and experiencing reduced risk. The hazards include default, liquidity, and interest rate risks (Rizki, 2021).

Bond Rating

According to PT PEFINDO, bond ratings are an evaluation of the obligor's financial capacity and intent to meet their commitments (PEFINDO, 2024). PEFINDO's assessment methodology for the non-financial sector encompasses three primary risks: industry risk pertaining to growth and stability, income and cost structure, barriers to entry and competition, regulatory environment, and financial profile. Business risk pertains to market positioning, diversification, procurement of raw materials, marketing and distribution strategies, and operational management. Financial risks pertain to financial policies, capital structure, cash flow and liquidity safeguards, and financial adaptability (PEFINDO, 2023).

Firm's Size

Dewi and Praptoyo (2022) state that a firm's size reflects its scale, as evidenced by the capital employed, total assets held, and overall sales generated by the company. This study uses total assets as a proxy for company size. A corporation with substantial assets demonstrates its capacity to fulfill its responsibilities. Furthermore, the corporation possesses security in the form of assets should it default on its obligations. This may mitigate the risk of corporate default and enhance investor trust, therefore elevating the company's bond rating (Sulistiani & Meutia, 2021). The research findings by Sulistiani and Meutia (2021) indicate that firm size influences bond ratings. The subsequent hypothesis is derived from the description provided:

H1: The size of a company positively influences its bond ratings.

Profitability

Profitability ratios assess a company's income or operational performance over a defined timeframe (Weygandt et al., 2022). This study employs return on assets (ROA) as the metric for assessing profitability. The profit generated by the company through the utilization of its assets is referred to as ROA (Kieso et al., 2020).A corporation with great profitability have the capacity to earn substantial profits, therefore ensuring the availability of finances to meet its obligations.

Profitability also can obtain in companies that use their cash optimally in order to apply cost efficiency that will increase their earnings persistent in the future terms (Filio & Diana, 2024) Consequently, the company's default risk will diminish, leading to an enhancement in the bond rating (Purba & Mahendra, 2023). The findings of the study by Irene and Rousilita (2020) indicate that profitability influences bond ratings. From the preceding explanation, the subsequent hypothesis is derived:

H2: Profitability positively influences bond ratings.

Bond Age

Profitability ratios assess a company's income or operational performance over a defined timeframe (Weygandt et al., 2022). This study employs return on asset (ROA) as the metric for assessing profitability. The profit generated by a company through the utilization of its assets is referred to as ROA (Kieso et al., 2020).A corporation with great profitability indicates its capacity to earn substantial profits, thus having the resources to meet its obligations. Consequently, the company's default risk will diminish, resulting in an enhancement of the bond rating (Purba & Mahendra, 2023). The findings of Irene and Rousilita (2020) indicate that profitability influences bond ratings. From the preceding explanation, the subsequent hypothesis is derived:

H3: bond age positively influences bond ratings.

Leverage

Leverage is a ratio that quantifies the use of debt in executing investment activities. Increased leverage corresponds to a greater amount of debt held by the company (Sulistiani & Meutia, 2021). In this study, leverage is represented by the debt to equity ratio (DER). The DER quantifies the relationship between a company's debt and equity funding. High leverage may signify a substantial interest load stemming from considerable debt incurred to finance the company's activities, possibly leading to an inability to fulfill obligations and resulting in bankruptcy. Consequently, the bond rating diminishes (Kaltsum & Anggraini, 2021). The findings of Sulistiani and Meutia (2021) indicate that leverage

significantly influences bond ratings. From the preceding explanation, the subsequent hypothesis is derived below:
H4: Leverage negatively influances bond ratings.

Liquidity

Liquidity assesses a company's short-term capacity to fulfill its obligations and address unforeseen cash requirements. This study use the current ratio (CR) as a proxy for liquidity. The current ratio (CR) quantifies the capacity to fulfill short-term obligations using current assets (Weygandt et al., 2022). Elevated liquidity signifies that the company possesses the financial capacity to fulfill its obligations, thereby diminishing default risk and enhancing the company's bond rating. According to the research conducted by Safitri et al. in 2020, liquidity influences bond ratings. The subsequent hypothesis was derived from the description provided:
H5: Liquidity positively influences bond ratings.

Here is the research model from this study:

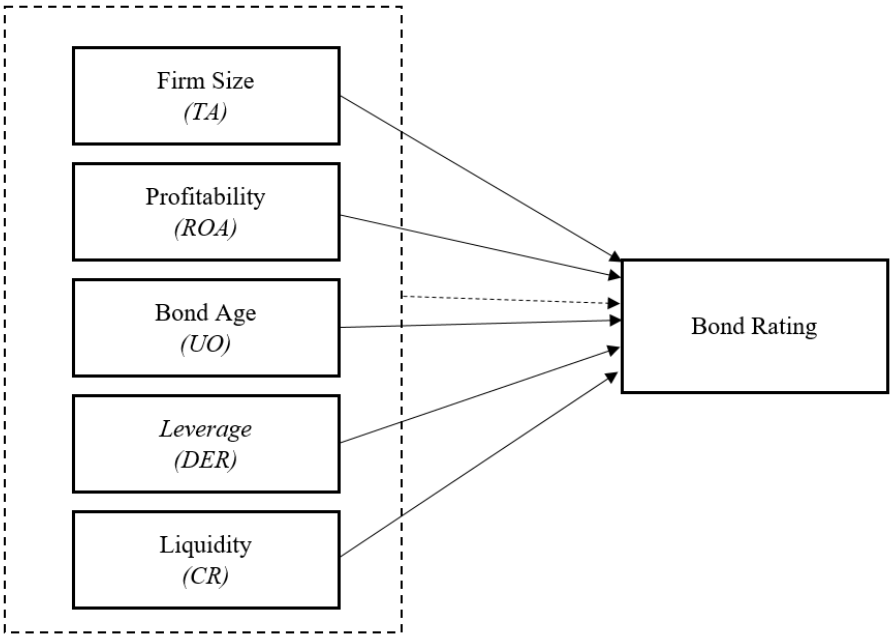

Figure 2
Research Model

3. RESEARCH METHODS

Population and Sample

This study utilizes secondary data. The secondary data comprise the financial statements of non-financial firms audited by independent auditors from 2020 to 2022, as well as the bond rating list of non-financial corporations released by PT PEFINDO for the year 2021-2023. Financial statement data are accessible at www.idx.co.id, while the bond rating list may be found at www.pefindo.com. This study's population comprises all non-financial enterprises that issue bonds and are rated by PT PEFINDO. The sample was selected using the purposive sampling approach. Of a total population of 48, only 18 companies satisfied the requirements for inclusion in the sample. The research duration was three years, yielding a total of 54 observations.

Dependent Variabel

The dependent variable in this study is the bond rating provided by PT PEFINDO (Indonesian Securities Rating Agency). The bond ratings are assessed with an ordinal scale. "An ordinal scale categorizes variables into groups while also ranking the categories" (Ghozali, 2021). This study assigns a maximum value of 18 to the highest rank, idAAA, and a minimum value of 1 to the lowest rank, idD.

Independent Variable

1. Company’s Size

   This study uses total assets as a proxy for company size. The company's size is quantified using a ratio scale. "A ratio scale is an interval scale characterized by a fixed base value that is immutable" (Ghozali, 2021). The equation employed to determine total assets as per Agustinus and Yoewono (2022) is as follows:

   TA=Ln (Total Asset)

2. Profitability

   In this study, profitability is represented by return on assets (ROA). ROA is a metric that assesses a company's capacity to create profit from its assets. Profitability is quantified using a ratio scale. Weygandt et al. (2022) state that return on assets can be computed using the subsequent formula:

$$Return\ on\ Asset = \frac{Net\ Income}{Average\ Total\ Asset}$$

3. Bond Age

   This study quantifies bond maturity with a dummy variable, assigning a code of 0 or 1. The bond's maturity is assessed on a nominal scale. "A nominal scale is a measurement scale that denotes categories or groups of a subject" (Ghozali, 2021). The bond's age is quantified by providing a value.

   1. (one): for bonds with a maturity ranging from one to five years 0 (zero): applicable to bonds with a maturity exceeding five years (Safitri et al., 2020).

4. *Leverage*

   In this study, leverage is represented by the debt-to-equity ratio (DER). DER is a ratio that assesses the relationship between debt and equity proportions. Leverage is quantified via a ratio scale. As per Weygandt et al. (2022). The DER can be computed via the formula:

$$DER = \frac{Total\ Liabilities}{Total\ Equity}$$

5. Liquidity

   This study use the current ratio (CR) as a proxy for liquidity. CR is a metric that assesses a company's capacity to fulfill short-term obligations utilizing current assets. Liquidity is quantified via a ratio scale. Weygandt et al. (2022) state that the current ratio can be computed using the subsequent formula:

$$CR = \frac{Current\ Assets}{Current\ Liabilities}$$

Data Analysis

The dependent variable in this study is the bond rating, which is ordinal; hence, the logistic analysis employs ordinal regression. "This test is performed to assess if the independent variable can predict the likelihood of the dependent variable's occurrence" (Ghozali, 2021). In this study, the ordinal logistic regression model used for hypothesis testing is as follows:

$$Logit\ (p1 + p2 + p3 + \cdots + p18) = \alpha + \beta_1 TA + \beta_2 ROA + \beta_3 UO - \beta_4 DER + \beta_5 CR$$

Remarks:

Logit (p1+p2+p3+⋯+p18) : Probability of the rating of idD, idCCC, up to idAAA

α : Konstanta

$\beta_1\ \beta_2\ \beta_3\ \beta_4 \beta_5$: Coefficients of independent variables proxied with *TA, ROA,* UO*, DER*, dan *CR*

TA : Total asset

ROA : Retun on asset

UO : Bond age

DER : Debt to equity ratio

CR : Current ratio

4. RESULTS AND DISCUSSION

Model Fitting Test

Model Fitting Information

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	206.791			
Final	123.857	82.935	5	.000

Link function: Logit.

Figure 3
Model Fiiting Result

Figure 3 illustrates a -2 log likelihood value of 206.791 for the intercept-only model, while the inclusion of independent variables (TA, ROA, UO, DER, and CR) results in a reduced -2 log likelihood value of 123.857 for the final model. The reduction is substantial at 0.000 (< 0.05). The inclusion of the independent variable enhances the model relative to the intercept-only model, so indicating that the model is appropriate.

Goodness-of-Fit

	Chi-Square	df	Sig.
Pearson	221.503	366	1.000
Deviance	123.857	366	1.000

Link function: Logit.

Figure 4
Regression Model Feasibility Test Results

Figure 4 indicates that the feasibility test of the regression model utilizing Pearson's method yields a Chi-Square value of 221.503 with a significance level of 1 (>0.05). Consequently, it suggests that the model aligns with the data. Consequently, the model is acceptable since it aligns with the empirical data.

Uji Pseudo R-Square

Pseudo R-Square

Cox and Snell	.785
Nagelkerke	.802
McFadden	.401

Link function: Logit.

Figure 5
Hasil Uji Pseudo R-Square

Figure 5 indicates that the coefficient of determination test, utilizing pseudo R-Square, yields a McFadden value of 0.401. This suggests that the factors of company size, represented by total assets, profitability indicated by return on assets (ROA), bond age denoted by a dummy variable, leverage measured by the Debt to Equity Ratio (DER), and liquidity reflected by the current ratio (CR)

account for 40.1% of the bond rating, whereas the remaining 59.9% is attributed to other unexamined variables in this study.

Parallel Lines Test

Test of Parallel Lines[a]

Model	-2 Log Likelihood	Chi-Square	df	Sig.
Null Hypothesis	123.857			
General	102.633[b]	21.224[c]	30	.881

The null hypothesis states that the location parameters (slope coefficients) are the same across response categories.

a. Link function: Logit.

b. The log-likelihood value cannot be further increased after maximum number of step-halving.

c. The Chi-Square statistic is computed based on the log-likelihood value of the last iteration of the general model. Validity of the test is uncertain.

Figure 6
Parallel Lines Test Result

Figure 6 indicates that the result of the parallel lines test is not significant (>0.05), with a value of 0.881. A significant value exceeding 0.05 suggests the absence of categorical distinctions among the variables employed in this investigation. An effective model is one that exhibits no categorical disparities among the employed variables. Consequently, it can be inferred that the ordinal logistic regression model is applicable in this study for hypothesis testing.

Parameter Estimates

Parameter Estimates

							95% Confidence Interval	
		Estimate	Std. Error	Wald	df	Sig.	Lower Bound	Upper Bound
Threshold	[PO = 9]	63.671	12.875	24.456	1	.000	38.436	88.906
	[PO = 12]	67.546	13.102	26.578	1	.000	41.867	93.226
	[PO = 13]	70.433	13.409	27.588	1	.000	44.151	96.715
	[PO = 14]	71.555	13.533	27.955	1	.000	45.029	98.080
	[PO = 15]	73.111	13.689	28.526	1	.000	46.282	99.941
	[PO = 16]	74.660	13.791	29.308	1	.000	47.630	101.690
	[PO = 17]	77.485	14.236	29.625	1	.000	49.583	105.387
Location	TA	2.300	.436	27.815	1	.000	1.445	3.154
	ROA	37.663	9.637	15.273	1	.000	18.775	56.552
	DER	-1.400	.356	15.439	1	.000	-2.098	-.702
	CR	-.149	.189	.626	1	.429	-.519	.221
	[UO=0]	.579	.857	.456	1	.500	-1.102	2.259
	[UO=1]	0[a]	.	.	0	.	.	.

Link function: Logit.

a. This parameter is set to zero because it is redundant.

Figure 7
Parameter Estimates Test Result

The parameter estimate test findings in Table 7 indicate that:
The variable representing company size, indicated by Total Assets (TA), yielded an estimated value of 2,300 with a significance level below 0.05, specifically 0.000. These data indicate that H1 is acceptable. This suggests that the variable of firm size, represented by total assets, exerts a strong positive influence on bond ratings.

The parameter estimate test findings indicate that firm size, represented by the natural logarithm of total assets, positively influences the bond rating. A company's total assets directly correlate with its capacity to create cash inflows, thereby enhancing the liquidity available for operational expenses, interest payments, and bond principal repayments. Furthermore, assets may serve as security for bonds, thus mitigating the risk of failing to fulfill financial obligations. Consequently, the rating assigned by PT PEFINDO will enhance. The findings of the studies by Sulistiani and Meutia (2021) and Agustinus and Yoewono (2022) indicate that firm size affects bond ratings.

The profitability variable, represented by Return on Assets (ROA), yielded an estimated value of 37.663 with a significance level below 0.05, namely 0.000. Consequently, it might be inferred that H2 is acceptable. This suggests that the profitability variable, represented by return on assets (ROA), exerts a considerable positive influence on bond ratings.

The parameter estimate test results indicate that profitability, represented by return on assets (ROA), positively influences bond ratings. A higher ROA indicates the company's capacity to utilize its assets effectively and efficiently, resulting in increased profitability. Increased profitability enables the organization to optimize asset use and attain cost efficiency, hence generating bigger profits. The earnings can be utilized by the corporation to settle its commitments, thereby enhancing the bond rating. The findings of the studies by Purba and Mahendra (2023) and Pramesti (2022) indicate that profitability affects bond ratings.

The bond age variable, represented by a dummy variable, yielded an estimated value of 0.579 with a significance level exceeding 0.05, namely 0.500. Consequently, it might be inferred that H3 is rejected. This suggests that the bond maturity variable, represented by the dummy variable, does not significantly influence the bond rating.

The results of this study indicate that bond age does not have a significant effect on bond ratings. One possible explanation is that, although most observations involve bonds with relatively short maturities, the bonds issued by the sampled firms are predominantly classified as investment grade. In addition, the issuing firms tend to maintain substantial cash positions sourced from borrowings, which are primarily used to refinance or repay short-term debt. This financing strategy may help preserve debt-servicing capacity and, therefore, does not necessarily increase the probability of default. As a result, shorter bond age does not appear to be a determining factor in the bond ratings observed in this study. From a signaling theory perspective, this finding suggests that bond age may not function as the main signal considered in the rating process. Instead, rating agencies may place greater weight on stronger signals of issuer quality,

such as repayment capacity, financial condition, and the firm's ability to manage its liquidity and liabilities.

This interpretation is consistent with signaling theory, which argues that market participants rely on credible signals to reduce information asymmetry, and with the credit-rating literature showing that ratings and rating disclosures serve as informational mechanisms in debt markets (Hu et al., 2019; Jorion et al., 2005; Lovo et al., 2022; Spence, 1973). It is also worth noting that prior evidence from Indonesia is not entirely consistent, as Ni'mah et al. (2020) found that maturity date significantly affected corporate bond ratings, suggesting that the role of bond age may depend on sample characteristics, market context, and model specification.But, the findings of this study align with the research conducted by Suwarmelina (2021) and Rianto et al. (2021), which indicates that the age of the bond does not significantly influence the bond rating.

The leverage variable, represented by the debt to equity ratio (DER), yielded an estimated value of -1.400 with a significance level below 0.05, namely 0.000. The results indicate that H4 is acceptable. This signifies that the leverage variable, represented by the debt to equity ratio (DER), exerts a substantial negative impact on bond ratings.

The parameter estimation test results indicate that leverage, represented by the debt to equity ratio (DER), adversely affects bond ratings. The corporation possesses substantial equity for expansion, enabling it to access a broader market. This can augment the company's profits, so improving its capacity to fulfill its responsibilities. Furthermore, firms exhibiting a high debt-to-equity ratio (DER) tend to possess minimal debt and interest obligations, hence mitigating the danger of default. Consequently, a lower debt-to-equity ratio (DER) correlates with a higher bond rating. The findings of the studies by Sulistiani and Meutia (2021) and Kaltsum and Anggraini (2021) indicate that leverage significantly influences bond ratings.

However, liquidity, as proxied by the current ratio, does not significantly affect bond ratings in this study. This finding suggests that a high current ratio does not necessarily reflect a stronger ability to meet bond-related obligations on

time. Although the current ratio indicates the adequacy of current assets relative to current liabilities, it may provide limited information about actual repayment capacity when those current assets are not readily available in cash form. In such circumstances, the ratio may overstate short-term financial strength and, therefore, fail to function as a strong determinant of bond ratings.

This result is consistent with prior evidence showing that liquidity does not always have a significant effect on bond ratings in the Indonesian context (Damanik et al., 2023). From a signaling theory perspective, this finding implies that the current ratio may be a relatively weak signal of credit quality because it does not directly represent effective cash-based debt-servicing ability. Under conditions of information asymmetry, rating agencies are more likely to rely on signals that more credibly reflect the issuer's financial strength and probability of meeting its obligations, rather than on broad liquidity measures whose informational value may be less precise (Connelly et al., 2011). The findings of this study align with the studies conducted by Agustinus and Yoewono (2022) and Utami et al. (2021), which indicate that liquidity does not influence bond ratings.

5. CONCLUSIONS AND SUGGESTIONS

Conclusion

The results obtained through this study are as follows. *First,* the company size, represented by total assets (TA), has an estimated value of 2,300 with a significance level below 0.05, particularly 0.000. These data indicate that Ha1 is approved. This signifies that the variable of firm size, represented by total assets, exerts a considerable positive influence on bond ratings. *Second,* profitability, as shown by the return on assets (ROA), is evaluated at 37.663 with a significance level below 0.05, namely 0.000. The data indicate that Ha2 is approved. This suggests that the profitability variable, represented by the return on assets (ROA), exerts a considerable positive influence on bond ratings. *Third*, the bond age represented by the dummy variable has an estimated value of 0.579, with a significance level exceeding 0.05, namely 0.500. Consequently, it might be inferred that Ha3 is rejected. This suggests that the bond maturity variable,

represented by the dummy variable, does not significantly influence the bond rating. *Four,* the leverage, indicated by the debt to equity ratio (DER), produces an estimated value of -1.400 with a significance level below 0.05, precisely 0.000. These data indicate that Ha4 is approved. This signifies that the leverage variable, represented by the debt to equity ratio (DER), exerts a substantial negative impact on bond ratings. *Five,* the current ratio (CR) indicates a liquidity value of -0.149, with a significance level exceeding 0.05, namely 0.429. Consequently, it might be inferred that Ha5 is rejected. This suggests that the liquidity variable, represented by the current ratio (CR), does not influence bond ratings.

This study provides several theoretical implications for the literature on bond ratings and reinforces the view that bond ratings are primarily determined by fundamental indicators of issuer quality. The positive effects of firm size and profitability, along with the negative effect of leverage, suggest that rating agencies place greater emphasis on financial strength, earnings capacity, and debt burden when assessing creditworthiness. Meanwhile, the insignificant effects of bond age and liquidity indicate that not all financial and bond-specific variables provide equally strong signals in the rating process. These findings support signaling theory by showing that rating agencies respond more strongly to indicators that more directly reflect the issuer's ability to meet its obligations.

This study also offers practical implications for several stakeholders in the bond market. For issuers, the findings imply that improving bond ratings requires greater attention to profitability, asset growth, and prudent leverage management. For investors, the results suggest that firm size, profitability, and leverage are more useful indicators for assessing bond quality than bond age or current ratio. For rating agencies and regulators, the study highlights the importance of focusing on variables that better capture the issuer's actual repayment capacity, rather than relying solely on broad accounting-based liquidity measures.

Limitation

This study has two limitations. First, the McFadden value is merely 0.401, suggesting that the variables of company size (measured by total assets), profitability (indicated by Return on Assets), bond age (represented by a dummy

variable), leverage (assessed through the Debt to Equity Ratio), and liquidity (evaluated by the Current Ratio) account for only 40.1% of the bond rating, leaving 59.9% attributable to unexamined variables. Second, this analysis uses bond ratings from PT PEFINDO, which may result in differing conclusions compared to other rating organizations.

Recommendations

In light of the findings and constraints of this study, the following recommendations for future investigations concerning bond ratings are proposed:

1. Incorporating additional independent variables, like bond guarantees, auditor reputation, and productivity, that are expected to influence bond ratings.
2. Subsequent studies may use alternative rating agencies, including Fitch Rating Indonesia and Kredit Rating Indonesia.

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