# CHAPTER II
# LITERATURE REVIEW

## 2.0 Introduction

This chapter provides information regarding the empirical review of previous research on the concept of factors influencing bond ratings.Property, Real Estate and Building Construction CompanyThis company listed on the Indonesia Stock Exchange (IDX) explains the application of the theory and determines how the independent variables affect the dependent variables as well as the conceptual framework proposed to be used in this study and the hypotheses established during the study.

## 2.1 Theoretical basis

### 2.1.1 Signal Theory

Signaling theory suggests how companies should signal to users of financial statements. The signal is information about what management has done to realize the owner's wishes. The signal can be promotional information or other information stating that the company is better than other companies. This signaling principle teaches that every action contains information. Information on the provision of published bond ratings is expected to be a signal of the company's financial condition and describe the possibilities that occur in connection with the debt it has. The level of information asymmetry depends on the condition of the company with the level of openness of each different management, companies tend to maintain the privacy and security of company data. Company managers have more information than investors.

According to Prog et al (2008) Signal theory suggests how companies should provide signals to users of financial reports. Published bond rating information is expected to be a signal of the company's financial condition and describe the possibilities that occur in relation to the debts held. One type of information issued by a company that can be a signal to parties outside the company, especially investors, is the annual report.

The desire of companies to disclose financial statement information to third parties is explained by signaling theory. There is an information imbalance between the company and outside parties, which is the reason why companies want to disclose information. They defend themselves by asking for low costs for the company because of the lack of external information about them. Reducing knowledge asymmetry allows companies to increase company value (Hanafi, 2004). Publicly available bond ratings should provide information about the company's financial position and outline the potential returns associated with its debt.

This signaling principle teaches that every action contains information. This is because asymmetric information has a condition where one party has more information than the other party. Company managers have more information than investors. The level of information asymmetry depends on the condition of the company with the level of openness of each different management, companies tend to maintain the privacy and security of company data both from the management system, financial performance, company value conditions, productivity and so on. The influence or relationship of this signaling theory has an impact on the ratio of financial reports related to the condition of the company's performance that can be accessed or analyzed by users in order to understand the current condition as information about the company.

### 2.1.2 Bond Rating

Understanding the factors that influence bond ratings is crucial for investors as it enables them to make informed investment decisions, manage risk effectively, and align their investments with their financial goals. This knowledge empowers investors to navigate the bond market with greater confidence and achieve the outcomes they desire. Bond ratings can provide signals about the probability of a company defaulting on its debts. However, ratings issued by rating agencies are inconsistent due to biased information.

Bonds are long-term, non-transferable debt instruments that indicate that the bond issuer borrows a certain amount of cash from investors with an obligation to pay interest at certain periods and repay the principal debt at a

specified time to the bondholder, either the government or the company issuing the bonds. Corporate bonds are seen as more profitable than government bonds, as seen from the higher yields compared to government bonds. Furthermore, corporate bonds are dominated by domestic investors who tend to pay more attention to domestic economic indicators compared to government bonds, while 38% of outstanding bonds are owned by foreigners, making them more vulnerable to global concerns.(Dewi & Utami, 2020).

Bonds are one of the financial instruments and as one of the proofs of debt ownership shown by the company to the bondholders who must pay the principal of the loan and the amount of interest agreed upon with the company each period (Adrian, 2011). Bond investment is one of the investments that is of interest to investors because it has a fixed income. The fixed income is obtained from the interest that will be received periodically and the principal of the bond at maturity. For issuers, bonds are safe securities because the issuance costs are cheaper than stocks. Issuance of bonds is also to avoid bad investor assessments compared to if the company issues new shares, this is because shares experience fluctuating price changes compared to bonds (Husnan (in Adrian, 2011)).

Bonds before being offered must be rated by a bond rating agency or agency. A bond rating agency is an independent agency that provides risk scale rating information, one of which is bond securities as an indication of the extent of a bond's security for investors. Bond rating agencies recognized by Bank Indonesia include Fitch Ratings, Moody's Investor Service, Standard and Poor's, PT Fitch Rating Indonesia, ICRA and Pefindo. Since 1995, debt securities, especially those issued through public offerings, are required to be rated by a rating agency registered with the Capital Market Supervisory Agency. In Indonesia, there are two debt securities rating agencies, namely PT. PEFINDO (Pemeringkat Efek Indonesia) and PT. Kasnic Credit Rating Indonesia.

Rating is one of the references of investors when deciding to buy a bond. Information issued by the rating agency is very helpful for investors to choose which bond securities are right. A good rating not only shows the company's ability to pay off its obligations, but also shows that the company's performance is

effective and efficient because it is able to manage debt for the progress of the business being run (Ninik Amalia, 2013).

Financial report analysis in the form of financial ratio analysis and statistical calculations can be used to detect under or overvalued securities. Research on financial ratios in Indonesia is often associated with stock prices or company performance. A number of studies examining bond ratings in Indonesia are still relatively rare. This is due to limited bond data and investor knowledge of bonds (Ni Made Estiyanti and Gerianta Wirawan Yasa, 2012). In addition, with the bond rating by a rating agent, investors can calculate the return to be obtained and the risk borne. In general, bonds are divided into two ratings, namely investment grade (AAA, AA, A, BBB) and non-investment grade (BB, B, CCC, and D)

Bond rating is an opinion about the creditworthiness of a bond issuer based on relevant risk factors. The rating given is not a recommendation to buy, sell or maintain a bond. This opinion focuses on the capacity and willingness of the bond issuer to meet obligations in a timely manner. The opinion given is also not specific to a bond but to the company issuing the bond. The bond rating provides an analysis of the company's creditworthiness so that it can be used for various financial and commercial purposes such as negotiating long-term leases or minimizing letters of credit for vendors. In addition, the company can choose to publish the rating obtained to the public or keep it confidential (Linandarini, 2010).

Bond ratings can be influenced by several factors within the company. Companies generally try to maintain their bond ratings because it is beneficial to the company. Some of the benefits that can be obtained are the ability to issue commercial paper, access to capital markets and investors and better relationships with third parties. Bond ratings are opinions about the creditworthiness of the bond issuer based on relevant risk factors.

These benefits encourage companies to maintain bond ratings by reducing the use of debt when approaching the issuance of bond ratings. The use of less

debt can prevent a decrease in bond ratings and encourage an increase in the bond rating (Kisgen, 2006). Among the factors that affect bond ratings are as follows:

1. Company Liquidity

   Liquidity ratio or smoothness ratio is a ratio that shows the level of smoothness of a company in meeting its short-term obligations (Gumanti, 2011: 112). A company that has healthy liquidity has at least a current ratio of 100%. The measure of a company's liquidity that better describes the level of the company's liquidity is shown by the cash ratio (cash to current liabilities).

2. Corporate Leverage

   Leverage ratio is a financial ratio that describes the relationship between a company's debt to capital and assets (SofyanSyafri2013: 306). This ratio is used to measure the extent to which a company uses debt to finance its investments. The greater the company's leverage ratio, the greater the risk of company failure. The lower the company's leverage, the better the rating given to the company (Herwidi, 2005).

3. Company Productivity

   The main measure used to measure the performance of operations management is productivity. Productivity is a term used to measure the production capacity of a business or a production factor (Henry Faizal 2009: 80).

4. Company Profitability

   Company profitability shows the company's ability to generate profits through all existing capabilities and resources such as sales activities, cash and capital (SofyanSyafri2013: 304). Profitability provides an overview of the extent to which a company is effective in generating profits for the company. Companies with increasing or stable profits are considered to have professionalism in managing funds, assets, debts, capital structures owned so that they are considered qualified to be entrusted with funds by investors in the form of bonds. Bond rating companies assess that companies with high and stable profit levels and are able to minimize

losses will be smooth in paying bond installments according to the agreement set with investors so as to avoid payment delays.

5. Company Growth

   Company growth is a ratio that describes the percentage growth of company items from year to year (Sofyansyafri2013: 309). Company growth is basically influenced by several factors, namely: external factors, internal factors, and the influence of the industrial climate.

   Investment activities, usually investors prefer instruments issued by large companies. The reason investors choose large companies is because large companies have good management and good performance, so the level of risk in investing is lower than small companies.

6. CEO Power

   CEO dominance indicates how much decision-making power is concentrated in the hands of the CEO. There are four sources of CEO power, namely: (1) structural power, (2) ownership power, (3) expert power, and (4) prestige power (Liu and Jiraporn, 2010). Structural power is the most frequently cited in the literature and is based on formal organizational structure and authority. This study focuses on structural power, especially the power of the CEO over the top executive team.

   The main dimension of the characteristics of the management team is the distribution of decision-making power. If the decision-making activities of a company are more concentrated in the hands of the CEO, then the CEO will have more discretion in influencing decisions, so that his opinion is directly reflected in the company's results. Bebchuck et al. (2009) said that strong CEO dominance is associated with lower firm value and poor accounting profitability. Adam et al. (2005) said that strong CEOs are less likely to compromise with other executives and the variability in firm performance increases with the level of CEO influence because decision-making is more likely to be taken when the CEO is more dominant. The results of Liu and Jiraporn's (2010) study showed that companies with

stronger CEO power have lower credit ratings, and thus tend to experience higher bond financing costs.

7. Size

   Company size is basically a grouping of companies into several groups, namely large, medium, and small companies. According to Suwito and Herawaty (2005) company scale is a measure used to reflect the size of a company based on the company's total assets. Measurement methods in company size can use various methods, such as total assets, log size, stock market value, and others Saputri, DPOS, & Purbawangsa, IBA, (2016). In this study, the benchmark used to measure company size is using total assets because the company's total assets are of great value.

   Yuliani (2011) said that the bigger the company and the better known it is by the public, the more information investors can obtain and the smaller the uncertainty investors have. Another reason is that with the size of the company, investors can find out the company's ability to pay bond interest periodically and pay off the principal which can increase the company's bond rating. According to Meutia (2016:607) large companies have a relatively smaller risk compared to small companies. The bigger the company, the greater the potential to diversify non-systematic risk, thus reducing the company's bond risk. The results of research by Surya and Wuryani (2014) show that the variable size has an effect on bond ratings.

8. Maturity

   Maturity is the date on which the bondholder will receive repayment of the principal or nominal value of the bond they own. The maturity period of bonds varies from 365 days to over 5 years. Bonds that will mature within 1 year will be easier to predict, so they have a smaller risk compared to bonds that have a maturity period of 5 years. In general, the longer the maturity of a bond, the higher the coupon or interest (Sapto Rahardjo, 2003). Investors tend not to like bonds with a longer life because the risk that will be obtained will also be greater. So that the short life of the bond

actually shows the investment grade bond rating (DW Diamonds in Luciana S. Almilia & Vieka Devi, 2007).

9. Guarantee

   The level of risk contained in a bond is influenced by the collateral that accompanies a bond. Based on this, bonds are distinguished between secured and unsecured bonds. According to Widya Andry (2005) debenture or unsecured bond is a bond that is not secured by certain assets but by the general assets of the issuer. While corporate bonds have a general claim on the business assets of the company. The assets of the bond guarantor hold the highest priority claim on the specific assets of the issuer. If the bond is secured by high-value assets, the bond rating will be good.

   Collateral is one of the important aspects of bonds because the existence of collateral on bonds means that the company can reduce the risk of default for bondholders. Andry (2005) stated that if the company's assets are used as collateral for bonds, the bond rating will improve so that the bonds can be categorized as safe. A high bond rating signals a low probability of a company's debt payment failure. If bonds are secured by high-value assets, it will provide a sense of security to investors because the company can convince investors that the company can meet the interest and principal requirements well through the collateralized assets, so that the risk of default faced by investors will be reduced. Bonds that are secured will provide a high rating for the company.

10. Auditor Reputation

   The higher the auditor's reputation, the higher the level of certainty of a company being audited. In other words, the higher the auditor's reputation, the less likely the company is to fail. A high bond rating signals a low probability of a company's debt payment failure. Arthur C. Allen (Magreta & Poppy Nurmayanti, 2009) stated that in Indonesia, issuers audited by big 4 auditors will have investment grade bonds because the better the auditor's reputation, the better the bond rating. With a good auditor

reputation, it will provide reliable audit results. The list of big 4 auditors is: (a) Pricewaterhouse Coopers; (b) Deloitte Touche Tohmatsu; (c) Ernst and Young; (d) KPMG.

11. Non-Economic Factors of Bond Ratings

    Non-economic in this case is not directly related to financial statements. Securities and Exchange (SEC) in its report on the role and function of rating agencies stated that the importance of bond ratings for investors has increased significantly so that it affects the capital structure of financial transactions, bond issuers' access to capital and investors' ability to invest and rating agencies are one of the most influential institutions in the capital market. The benefits of bond ratings that will be obtained by issuers are (Cahyono, 2014) as follows: first, where business information from the company as a fund booster knows the business conditions and business performance when compared to other similar companies. Second, in determining the structure, the current condition of the bond, the company can review matters related to it such as interest rates, bond types, terms, amount of funds issued and various other supporting information. Third, there is performance support where when the company gets a good or high bond rating, namely AAA, the company will definitely be able to provide collateral funds, collateral assets and so on as an alternative credit when various possible risks occur. Fourth, namely a marketing tool as a bond rating that has market appeal or selling appeal so that it can attract investors to invest or buy the bond. Fifth, as a means of placing investor trust, where independent bond ratings are considered to provide a sense of security, confidence, and trust with a more secure investment value.

### 2.1.3 Profitability

One of the financial indicators that need to be considered in assessing bond ratings is profitability. Profitability measures a company's ability to generate corporate profits, sales, certain total assets and profits from equity. Raharja and Sari (2008) stated that the higher the level of company profitability, the lower the

risk of inability to pay obligations or default. Profitability provides an overview of the extent to which the company is effective in generating profits for the company, the higher the profitability, the company is considered effective in generating profits so that the company's ability to repay the principal and pay interest is better and its bond rating will be high. The higher the bond rating, the signal is that the probability of the company's risk of failure to meet its obligations is lower.

Profitability ratio is a ratio that measures a company's ability to generate profits or gains.(Dewi & Utami, 2018). According to Horne and Wachowicz (2009), the profitability ratio connects income with expenses and sales. The total effectiveness of the company's operations will be displayed by this ratio. Profitability will display the state of business income. Profitability is the company's ability to make a profit in relation to sales, total assets and equity. Profitability itself is influenced by many factors. According to Hery (2016:193), the higher the return on assets means the higher the amount of net profit generated from each rupiah of funds invested in total assets. High profitability reflects good performance. Bond issuers who have high profitability will be ranked well because the profits generated can be used to pay off debts.

Profitability indicates the capacity of capital allocated to total assets to generate profits. High profit margins are more common in companies with high profitability levels. Investors considering investing will definitely take into account the profitability of the company. Investors' perceptions of security against loss or default will be maintained. (default risk)(Izdihar, 2017).

Profitability is the company's ability to earn profit in relation to sales, total assets and equity (Sartono, 2002) in (Adrian, 2011). While profitability is a ratio that measures the company's ability to generate profit at a certain level of sales, assets and share capital (Mamduh and Abdul Halim, 2000) in (Adrian, 2011). Investment in the form of bonds directly does not actually affect the company's profitability, because it still receives the amount of interest that has been determined. However, analysts are still interested in the company's profitability because profitability may be the only best indicator of the company's financial

health. The profitability ratio measured by ROA has a positive effect on profit growth because this ratio measures the company's ability to generate net profit based on a certain level of assets (Almilia and Devi, 2007). If the company's profit is high, it will also give an increased ranking.

According to Parulian and Suprihatin (2018)Bond ratings are not affected by profitability as proxied by Return on Assets. Return on Assets (ROA) of banking institutions varies. Corporations generally experience a decline in net income, followed by a decline in assets; this indicates that the company is unable to utilize its assets profitably.

### 2.1.4 Leverage

Leverage is a financial ratio that shows the proportion of debt used to finance investment to the capital owned (Raharja and Sari, 2008). This ratio is used to measure the extent to which a company uses debt to finance its investment. A company that does not have leverage means using 100% of its own capital. One of the tools used to measure leverage is by using the debt to total asset ratio. This indicates that companies with high levels of leverage tend to have low ability to meet their obligations. The higher this ratio means that most of the assets are funded by debt. This condition causes the company to face default risk or low bond ratings. The higher the leverage, the greater the risk of company failure (Lina, 2010) in Adrian (nd). Thus, the lower the company's leverage, the higher the rating given to the company (Wijayanti and Priyadi, 2014).

The leverage ratio is measured to determine how much a company is funded by debt. Excessive use of debt can threaten a company because it can plunge the company into an extreme leverage category where the company is trapped in a high level of debt and it will be difficult for the company to release the debt burden.(Simatupang & Naz'aina, 2022).

According to Brigham and Houston (2014), this ratio is intended to assess the company's capacity to pay off all its debts, both current and future debts, if the business is dissolved or liquidated. A business without leverage shows that their capital is used to fund all aspects of their business. On the other hand, excessive

dependence on debt or outside investment indicates that the business is more likely to experience default and bankruptcy.

According to researchImam Rohtuah Damanik (2021)The financial component ratio of leverage ratio is calculated using the debt-to-equity ratio approach. The study found that leverage ratio has a strong impact on bond ratings. The research conducted by Parulian and Suprihatin (2018)states that leverage has no effect on bond ratings. In this situation, investors are less likely to invest because the risk they bear increases if they continue to invest leverage ratio is measured to determine how much a company is funded by debt. Excessive use of debt can threaten a company because it can plunge the company into an extreme leverage category.

### 2.1.5 Company Size

Firm size is a proxy for longevity and market power (Pettit et al., 2004). Firm size is a measure of the size of small firms. Firm size is measured by converting total firm assets into natural logarithm form. Assets indicate assets used for the firm's operational activities. An increase in assets followed by an increase in operational costs will increase external trust in the firm, the possibility of creditors being interested in investing the firm's funds(Fachreza et al., 2018).

Company size is determined based on the company's total assets because one of the benchmarks that indicates company size is the size of the company's assets (Machfoedz, 1994). On the other hand, according to Skaife et al. (2006), company size as a control variable because larger companies face lower risks, and are thus expected to have higher bond ratings.

Bonds in large companies are less risky than small companies (Onji, 2013). In addition, company size can also have a correlation with the level of bankruptcy or failure risk so that it can affect bond ratings. Because total debt and company size have a strong and positive correlation, company size can also be used as a proxy to measure liquidity (Andry, 2005) in (Almilia and Devi, 2007). In general, large companies will provide good ratings (investment grade). In

addition, company size can also have a correlation with the level of bankruptcy or failure risk so that it can affect bond ratings.

Research conducted byImam Rohtuah Damanik (2021)stated that company size has a significant effect on bond ratings. This research is in line with research conducted byIzdihar (2017)concluded that there is a significant influence between company size as a determining factor for bond ratings in the Property, Real Estate and Building Construction sectors. This is not in line with research according toFachreza et al. (2018)which states that company size has no effect on bond ratings.

## 2.2 Previous Research

Before conducting this research, the author has found several previous studies that serve as references and comparisons for the author related to Profitability Ratio, Debt Ratio, Company Performance, and Bond Rating. Several previous studies with similar topics can be seen in the table below:

**Table 2.1**

**Previous Research Results**

| Research Title | Year | Variables | Research result |
|---|---|---|---|
| Analysis of Factors Affecting Bond Ratings on Companies Listed in Indonesia Stock Exchange<br><br>Researcher Name:<br>1. Imam Rohtuah Damanik<br>2. Erlina<br>3. Erwin Abubakar | 2021 | Independent: Debt, Profitability, Liquidity, Company Size, Cash Flow from Operating Activities, Audit Quality<br><br>Dependents:<br><br>Bond Rating | The partial research results only show that the leverage ratio variable has a positive and significant effect on bond ratings, while the liquidity, profitability, company size and cash flow from operating activities variables do not affect bond ratings. Simultaneously, the leverage ratio, liquidity, profitability, company size and cash flow from operating activities |

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| | | | variables have a significant effect on bond ratings. |
| Determinant Factors of Bond Ratings (Study on Property and Building Construction Companies Listed on the Indonesia Stock Exchange in 2013-2017)<br><br>Researcher Name:<br><br>Zaneta Azzahra Izdihar | 2017 | Independent: Profitability Ratio, Debt Ratio, Liquidity Ratio, Company Size<br><br>Dependent : Bond Rating | The research findings show that leverage and company size have a significant effect on corporate bond ratings. On the other hand, liquidity does not have a significant effect on corporate bond ratings. However, inconsistent results are shown in leverage. Leverage as measured by ICR (interest coverage ratio) shows a relationship with corporate bond ratings, while leverage as measured by DER (debt to equity ratio) does not affect corporate bond ratings. Based on the four independent variables, profitability is the most dominant variable affecting corporate bond ratings. |
| The Effect of Company Profitability, Leverage, and Firm Size on<br><br>Bond Ranking of Banking Companies Registered on The Indonesian<br><br>Stock Exchange (IDX) | 2020 | Independent: Profitability, Leverage, Company Size<br><br>Dependent : Bond Rating | The results of this study indicate that profitability does not affect bond ratings, leverage does not affect bond ratings, company size does not affect bond ratings. Profitability does not |

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|---|---|---|---|
| for the Period 2015 – 2019<br><br>Researcher Name:<br>1. Parulian<br>2. Nurul Suprihatin | | | affect bond ratings. Leverage does not affect bond ratings. In this condition, the tendency of investors to invest decreases because if investors continue to invest, the risks faced will be higher. Company size affects bond ratings. If the larger the company has the potential to diversify, the unsystematic risk will also be greater so that the company's bond risk will decrease. |
| Factors Affecting Bond Ratings On Banking Companies On<br>The Indonesian Stock Exchange, 2012-2016<br><br>Researcher Name:<br>1. Fadilla Yadinanti<br>2. David Arifin<br>3. Rindi Andika | 2022 | Independent : Debt Ratio, Liquidity Ratio, Profitability Ratio, Bond Age, Collateral<br>Dependent: Bond Rating | Based on the results of the research and discussion, there are three variables that have the most dominant influence on bond ratings, namely, current ratio, bond age, collateral. While the other two variables have a negative effect on bond ratings, namely the debt to equity ratio variable, return on assets. While partially showing the current ratio variable, bond age, collateral show the most dominant influence on bond ratings in banking |

| | | | |
|---|---|---|---|
| | | | companies. |
| Study on Determining Factors of Bond Rating in Property Industry, Real Estate, and Building Construction Companies Listed on the IDX for the Period 2013-2017<br><br>Researcher Name:<br><br>1. Tatiek Ekawati Permana<br><br>2. Ruli Mochammad Chaerudin<br><br>3. Darul Wiyono | 2021 | Independent: CEO Power, Leverage, Firm Size, Profitability | The panel data regression results show a negative relationship between leverage and bond rating. Meanwhile,<br><br>that, CEO power, Size (company size),<br><br>and profitability does not seem to be<br><br>has a significant impact on ranking<br><br>bonds (bond rating) in the industry<br><br>property companies, real estate and<br><br>building construction company that<br><br>listed on the Indonesia Stock Exchange.<br><br>The relationship between CEO power, profitability<br><br>is beyond expectations, because<br><br>contrary to theory and a number of<br><br>previous research. While<br><br>leverage has a |

relationship like that

expected.

Source: Processed Data (2024)

## 2.3 Conceptual Framework

Independent Variables Dependent Variable

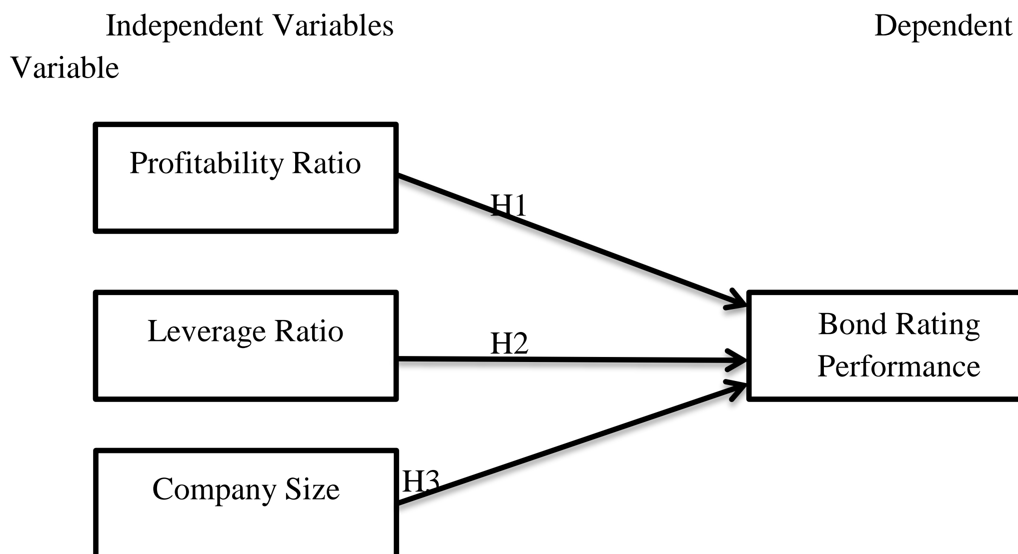


**Figure 2.1Conceptual Framework**

## 2.4 Hypothesis Development

According to Sugiyono (2017) a hypothesis is a temporary answer to a problem formulation because it is still temporary, so it must be proven with empirical data collected. This study develops three hypotheses that are in line with what will be studied. The hypotheses below are formulated with the aim of measuring whether factors such as profitability, leverage, and company size have an influence on bond ratings.

Based on the above framework of thought, we can determine the research hypothesis as follows:

### 2.4.1 Profitability

One of the financial indicators that need to be considered in assessing bond ratings is profitability. Profitability measures a company's ability to generate corporate profits, sales, certain total assets and profits from equity. Raharja and

Sari (2008) stated that the higher the level of company profitability, the lower the risk of inability to pay obligations or default. Profitability provides an overview of the extent to which the company is effective in generating profits for the company, the higher the profitability, the company is considered effective in generating profits so that the company's ability to repay the principal and pay interest is better and its bond rating will be high. The higher the bond rating, the signal is that the probability of the company's risk of failure to meet its obligations is lower.

Profitability is a company's ability to generate profits related to sales, total assets, and equity. Profitability itself is influenced by many factors. According to Hery (2016), the greater the return on assets, the greater the net profit created from each fund combined in the total assets. High profitability reflects good performance. Bond issuers with high profitability will have a good rating because the profits generated can be used to pay debts. The higher the level of company profitability, the lower the risk of inability to pay obligations or default.

Companies with increasing or stable profits are considered to have professionalism in managing funds, assets, debts, capital structures owned so that they are considered qualified to be entrusted with funds by investors in the form of bonds. Bond rating companies assess that companies with high and stable profit levels and are able to minimize losses will be smooth in paying bond installments according to the agreement set with investors so as to avoid payment delays. Profit, gain, net income are important aspects in financial reports that are often or frequently assessed by external parties in analyzing a company's financial condition. This is considered important because companies that generate minimal profits are considered unproductive, unprofessional, unable to manage assets and even unable to make sales properly so that the company's income is empty. Profit can affect bond ratings due to external assessment factors, namely investors, the public and bond rating companies that constantly monitor the development of the company so that when the company is unproductive, unable to generate profits to pay bond installments, the bond rating on the company is considered to have decreased.

This is in line with research conducted byIzdihar, (2017)AndImam Rohtuah Damanik (2021)which states that profitability has a significant influence on bond ratings.

H1: Profitability has a significant effect on Bond Rating.

### 2.4.2 Leverage or Debt

Leverage is one measure of how much a company is funded by debt. Excessive use of debt will harm the company because the company will fall into the extreme leverage category, namely the company is trapped in a high level of debt and has difficulty releasing the burden of the debt. Conversely, a low leverage ratio indicates that only a small portion of its assets are supported by debt, thus reducing the risk of company failure. As a result, the lower the leverage of a company, the better its ranking.

Debt or often referred to as liabilities is one of the financial ratios that describes how much of the total assets are used or derived from debt. Debt is a company burden that can reduce the company's profit and a good company is always able to manage and manage debt so that it does not swell, especially related to the burden of interest costs that must be paid by the company per period according to the company's agreement with the bank or creditor. Companies with high debt in this study did not have a significant impact on bond ratings because the company tried to find alternative funding other than bonds and bank debt or debt from creditors due to the impact of inflation, the strengthening dollar and the weakening rupiah, causing interest rates to increase. The current global economic conditions are causing companies to rethink their strategies for funding from bonds or debt.

The alternative is to seek funds from the sale of shares because the sale of shares depends on the distribution of profits based on the share price, the company tends to be safe and not burdened with interest rates such as bonds that must be paid at any time according to mutual agreement. The company's shares or stock value can be controlled by the company, so that the selling value of the shares remains stable and even tends to increase, the company prefers the alternative of selling shares rather than bonds so that the company's debt value

does not have a significant impact on the bond rating even though the direction of the influence shows a negative direction where it is in accordance with that the increasing debt, the bond rating company considers it as a company burden that can reduce profits so that it is suspected that it can lower the bond rating.

This is in line with research according toImam Rohtuah Damanik (2021)The financial component of the leverage ratio is calculated using the debt-to-equity ratio. The study concluded that the leverage ratio has a strong positive impact on bond ratings.

H2: Leverage has a significant effect on Bond Rating.

### 2.4.3 Company Size

Company size is a measure of the size of a company. This size is measured by converting the company's total assets into natural logarithm form. Assets indicate assets used for the company's operational activities. An increase in assets followed by an increase in operational costs will increase external trust in the company, the possibility of creditors being interested in investing company funds.(Fachreza et al., 2018)

Basically, according to Eddy Suwito and Arleen Herawati (2005), company size is only divided into three categories, namely large firms, medium firms, and small firms. Company size can be seen through the total assets of the company. JP Ogden (1987) in Widya Andry (2005) argues that total debt and company size have a strong and positive correlation. In general, large companies will provide a good rating (investment grade). In addition, company size can also have a correlation with the level of risk of bankruptcy or failure so that it can affect bond ratings.

This is related to research conducted byImam Rohtuah Damanik (2021)states that company size significantly affects bond ratings.

H3: Company size has a significant influence on Bond Rating.