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The Impact of Rights Issues on Capital Structure and Profitability of Banking Companies Listed on the Indonesia Stock Exchange: A Comparative Analysis Before and After Rights Issues

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Keywords : *Rights Issues, Financial Performance, Banking Sector, Indonesia Stock Exchange, Capital Structure*

Abstract: This study investigates the impact of rights issues on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. Using a comparative analysis of key financial ratios—Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price-to-Earnings Ratio (PER)—this research analyzez secondary data from the financial reports of banks conducting rights issues. Parametric and non-parametric statistical tests are employed to compare performance before and after the rights issues. The findings reveal that rights issues significantly improve liquidity (CR) and market valuation (PER) while reducing reliance on debt (DER). However, profitability ratios (ROA and NPM) decline, indicating inefficiencies in asset utilization and operational performance. The results align with the Signaling Theory and Pecking Order Theory, suggesting that rights issues send positive market signals but require better capital management to enhance profitability. This study contributes to the literature by providing sector-specific insights into the banking industry in an emerging market context, offering valuable implications for management and investors.

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Introduction

In the era of globalization, the rapid development of businesses has led to intense competition among companies, both small and large. This phenomenon has significantly impacted the global economy, creating a highly competitive market environment (Handy, 2023). Companies must continuously innovate and expand their operations to remain competitive; otherwise, they risk being outperformed by competitors and eventually pushed out of the market (Firdaus & Dara, 2020) In this context, capital markets play a crucial role in enabling companies to secure financing, which is essential for enhancing their competitiveness and sustaining growth (Sapruwan et al., 2024). Capital markets serve as a platform for companies and governments to raise funds from the public by issuing financial instruments such as stocks and bonds. These markets not only strengthen a nation's economy by facilitating private sector contributions but also reduce the financial burden on the government (Sapruwan et al., 2024).

The development of a country's capital market is often seen as a reflection of its economic health. An active and robust capital market indicates high investor confidence and contributes to the overall stability and growth of the economy (Setiawati & Lim, 2018). In Indonesia, the Indonesia Stock Exchange (IDX) is the primary institution responsible for regulating and facilitating capital market transactions. The IDX, under government supervision, provides a platform for companies to raise funds through the issuance of shares and other financial instruments, including right issues (Safitri, 2022). A right issue is a corporate action where a company issues new shares, and existing shareholders are given the priority right to purchase these shares at a predetermined price, usually lower than the market price (Runtung & Yadnya, 2018). The primary purpose of a right issue is to raise additional capital for business expansion, debt repayment, or improving the company's capital sructure. However, right issues also carry risks, such as the potential dilution of share value if existing shareholders do not participate, which could negatively impact the company's market reputation (Iksanto, 2020).

The banking sector in Indonesia plays a pivotal role in the economy, not only as a financial intermediary but also as an indicator of economic stability. Many banks listed on the IDX have conducted right issues to meet their capital needs, support growth, and enhance their market competitiveness (Sukmawati et al., 2024). Analyzing the financial performance of companies before and after a right issue is crucial for understanding the impact of such decisions on financial stability and profitability, particularly in the banking sector, where the frequency and volume of right issues are relatively high.

Financial performance is a critical measure of a company's health and operational efficiency. It is typically assessed using financial ratios, which provide valuable insights into a company's liquidity, solvency, profitability, and market valuation (Hasti et al., 2022). Financial ratios are essential tools for stakeholders, including investors, creditors, and management, as they help in making informed decisions based on the company's financial health (Antong & Menne, 2022). In the context of right issues, financial ratios such as the Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price

Earnings Ratio (PER) are particularly relevant. These ratios help in evaluating the impact of right issues on a company's liquidity, capital structure, profitability, and market valuation (Yanti et al., 2023).

Several studies have examined the impact of right issues on financial performance, with mixed results. For instance, Fauzi et al., (2023) found no significant differences in the Current Ratio, Total Assets Turnover, Debt to Equity Ratio, and Net Profit Margin before and after right issues in retail companies listed on the IDX. In contrast, Badariah, (2021) reported that ROA and NPM were significantly affected by right issues, while the Current Ratio showed no significant change. Similarly, Iman et al., (2024) found that the Current Ratio and Debt to Equity Ratio differed significantly before and after right issues, while Total Assets Turnover and Return on Assets showed no significant differences. These conflicting findings highlight the need for further research to better understand the impact of right issues on financial performance, particularly in the banking sector.

Despite the growing body of literature on right issues, there is a noticeable research gap in understanding how these corporate actions specifically affect the financial performance of banking companies in emerging markets like Indonesia. Most existing studies have focused on non-financial sectors or developed markets, leaving a gap in the literature regarding the banking sector in developing economies. This study aims to fill this gap by examining the financial performance of Indonesian banking companies listed on the IDX before and after conducting right issues. Specifically, this research seeks to answer the following research questions: (1) Are there significant differences in the Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price Earnings Ratio (PER) before and after right issues? (2) How do right issues impact the liquidity, capital structure, profitability, and market valuation of banking companies?

To address these questions, this study employs a comparative research approach, analyzing financial data from banking companies listed on the IDX over a five-year period (2019-2023). The findings of this research are expected to contribute to the existing literature by providing new insights into the impact of right issues on financial performance in the banking sector. Additionally, this study aims to offer practical recommendations for bank management and policymakers on how to optimize the use of funds raised through right issues to enhance financial stability and profitability.

That right issues are a common corporate action in the banking sector, often used to raise capital for expansion or to improve capital structure. However, the impact of these actions on financial performance remains unclear, particularly in the context of emerging markets like Indonesia. By examining the financial performance of banking companies before and after right issues, this study aims to provide a clearer understanding of the benefits and risks associated with this corporate action. The findings of this research will be valuable for investors, regulators, and bank management in making informed decisions regarding right issues and their potential impact on financial performance.

Literature Review

1. Introduction to Rights Issues

A rights issue is a corporate action in which a company offers existing shareholders the right to purchase additional shares at a discounted price, typically below the current market valu (Robiyanto & Yunitaria, 2022)(Işıker & Taş, 2021). This method of raising capital is often used by companies to strengthen their financial position, fund expansion projects, repay debt, or improve their capital structure (Işıker & Taş, 2021). Rights issues are particularly common in the banking sector, where regulatory requirements often necessitate maintaining a strong capital base to ensure financial stability and support growth(Malik, 2023)(Oyetade et al., 2021)(Işıker & Taş, 2021) (Bintoro & Rahmadhani, 2021) (Iksanto, 2020).

The primary advantage of a rights issue is that it allows companies to raise capital without incurring additional debt, thereby avoiding the financial burden of interest payments(Işıker & Taş, 2021)(Bolton & Samama, 2012). However, rights issues also come with risks, such as the potential dilution of existing shareholders' equity and the possibility of a decline in share prices if the market perceives the rights issue as a sign of financial distress (Calon & Suijanto, 2022). Despite these risks, rights issues remain a popular method of raising capital, particularly in emerging markets like Indonesia, where companies often rely on equity financing to support their growth strategies

2. Financial Performance and Key Ratios

Financial performance is a critical measure of a company's ability to generate profits, manage its resources efficiently, and create value for its shareholders. It is typically assessed using various financial ratios, which provide insights into different aspects of a company's financial health, such as liquidity, profitability, solvency, and market valuation (Hasti et al., 2022). In the context of rights issues, analyzing financial performance before and after the issuance can help determine the impact of the capital raised on the company's overall financial condition. The key financial ratios commonly used to assess financial performance include:

- Current Ratio (CR): This ratio measures a company's ability to meet its short-term obligations using its current assets. A higher CR indicates better liquidity and a stronger ability to cover short-term liabilities (Krizia et al., 2021).
- Debt-to-Equity Ratio (DER): This ratio assesses a company's financial leverage by comparing its total debt to its shareholders' equity. A lower DER suggests a more conservative capital structure with less reliance on debt financing (Kusumawardani, 2023).
- Return on Assets (ROA): This ratio evaluates a company's profitability by measuring how efficiently it uses its assets to generate profits. A higher ROA indicates better asset utilization and profitability (Chytia & Pradana, 2021).
- Net Profit Margin (NPM): This ratio measures the percentage of revenue that translates into net profit, reflecting a company's ability to control costs and generate profits from its operations (Badariah, 2021).
- Price-to-Earnings Ratio (PER): This ratio compares a company's share price to its earnings per share, providing insights into market valuation and investor expectations regarding future growth (Hulasoh & Mulyati, 2021).

3. Theoretical Framework

Several theories provide a foundation for understanding the impact of rights issues on financial performance. These include the Signaling Theory, the Pecking Order Theory, and the Agency Theory.

Signaling Theory: This theory suggests that corporate actions, such as rights issues, can send signals to the market about a company's financial health and future prospects. A rights issue can be perceived as a positive signal if it is used to fund growth opportunities, but it can also be seen as a negative signal if it is used to address financial distress (Sucipto & Sudiyatno, 2018). In the context of this study, the Signaling Theory helps explain how rights issues may influence investor perceptions and, consequently, a company's market valuation and financial performance.

Pecking Order Theory: This theory posits that companies prefer internal financing over external financing and will choose debt over equity when external funds are needed. According to this theory, companies resort to equity financing, such as rights issues, only when other sources of funding are exhausted (Ahmad & Pongoliu, 2021). The Pecking Order Theory is relevant to this study as it provides insights into why companies may choose to conduct rights issues and how this decision may impact their capital structure and financial performance.

Agency Theory: This theory examines the relationship between a company's management (agents) and its shareholders (principals). It suggests that conflicts of interest may arise when managers make decisions that benefit themselves at the expense of shareholders. In the context of rights issues, Agency Theory can help explain how the decision to issue new shares may affect shareholder value and financial performance (Jensen & Meckling, 1976).

4. Previous Studies on Rights Issues and Financial Performance

Several studies have examined the impact of rights issues on financial performance, with varying results. For example, Fauzi et al., (2023)found that rights issues did not significantly affect the current ratio, total asset turnover, debt-to-equity ratio, or net profit margin in retail companies listed on the Indonesia Stock Exchange (IDX). In contrast, Badariah, (2021) found that rights issues had a significant impact on ROA and NPM but not on the current ratio in banking companies. Similarly, Iman et al., (2024) found that the current ratio and debt-to-equity ratio differed significantly before and after rights issues, while total asset turnover and return on assets did not show significant changes.

These mixed findings highlight the need for further research to better understand the impact of rights issues on financial performance, particularly in the banking sector. The banking sector has unique characteristics, such as high regulatory requirements and a significant role in economic stability, which may influence the outcomes of rights issues differently compared to other sectors.

5. Rights Issues in the Banking Sector

The banking sector plays a critical role in the economy by facilitating financial intermediation, providing credit, and supporting economic growth. Given the importance of maintaining a strong capital base to ensure financial stability, banks often resort to rights

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issues to meet regulatory capital requirements and support their growth strategies (Sukmawati et al., 2024). However, the impact of rights issues on the financial performance of banks is not well understood, particularly in emerging markets like Indonesia.

In Indonesia, the banking sector is highly competitive, with many banks listed on the IDX conducting rights issues to strengthen their capital base and enhance their market position. However, the effectiveness of these rights issues in improving financial performance remains a subject of debate. Some studies suggest that rights issues can lead to improvements in liquidity and market valuation, while others indicate that they may negatively affect profitability and efficiency (Iksanto, 2020).

Research Method

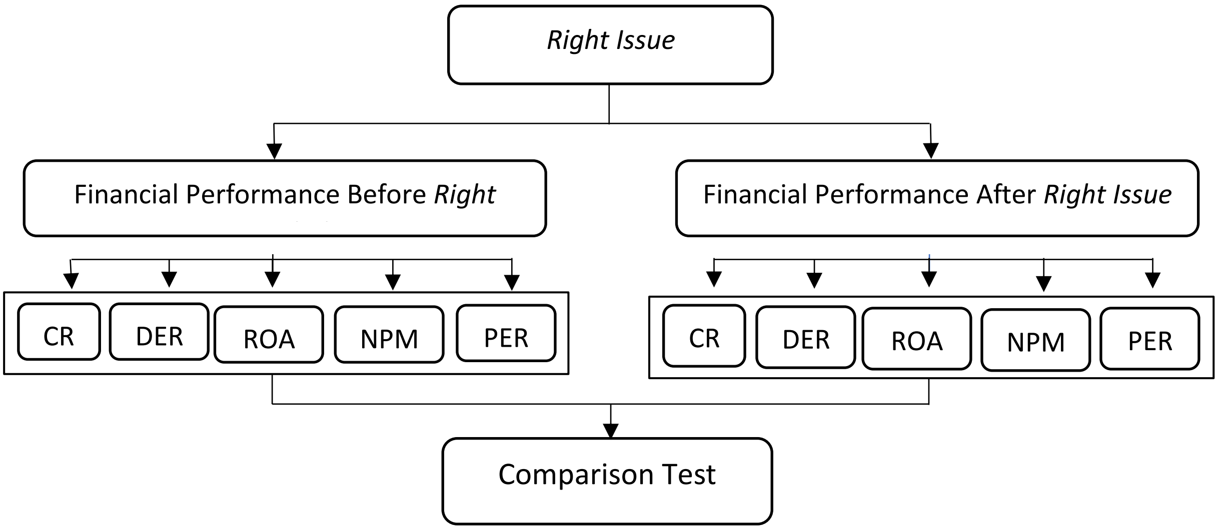

Figure 1. Conceptual Framework

This study employs a comparative research approach to analyze the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) before and after conducting right issues. The research focuses on evaluating five key financial ratios: Current Ratio (CR), Debt to Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price Earnings Ratio (PER). The primary objective is to determine whether there are significant differences in these financial ratios before and after the right issue, and to understand the impact of right issues on the financial performance of banking companies.

Research Location and Object

The research is conducted using data from banking companies listed on the IDX over a five-year period, from 2019 to 2023. The data is collected from the official websites of the IDX (www.idx.co.id) and the Financial Services Authority (OJK) (www.ojk.go.id). The study focuses on companies that conducted right issues during this period, as the right issue is a significant corporate action that can influence a company's financial structure and performance.

Type and Source of Data

The research uses secondary data, specifically financial reports published by the banking companies listed on the IDX. The data is quantitative, consisting of numerical values derived from the companies' financial statements, including balance sheets, income statements, and cash flow statements. The study adopts a descriptive comparative approach, which aims to identify differences in financial performance before and after the right issue.

Population and Sample

The population of this study consists of banking companies listed on the IDX that conducted right issues between 2019 and 2023. The sample selection is based on purposive sampling, a non-probability sampling method where samples are chosen based on specific criteria (Lenaini, 2021). The criteria for sample selection are as follows:

1. Banking companies listed on the IDX that conducted right issues between 2019 and 2023.
2. Companies that conducted more than one right issue during the research period were excluded to avoid data duplication.

Based on these criteria, the study selected **11 banking companies** that conducted right issues during the research period. Since the study covers a five-year period (2019-2023), the total number of observations is **55** (11 companies x 5 years).

Data Analysis Techniques

The data analysis in this study is divided into two main stages: descriptive statistical analysis and hypothesis testing using the Wilcoxon signed-rank test.

1. Descriptive Statistical Analysis

Descriptive statistics are used to summarize the financial ratios (CR, DER, ROA, NPM, and PER) before and after the right issue. This analysis provides an overview of the central tendency (mean), dispersion (standard deviation), and range (minimum and maximum values) of the financial ratios.

2. Wilcoxon Signed-Rank Test

The Wilcoxon signed-rank test is a non-parametric statistical test used to compare two related samples (in this case, financial ratios before and after the right issue). This test is chosen because it does not require the data to be normally distributed, making it suitable for financial data that may not meet the assumptions of parametric tests. The test evaluates whether there are significant differences in the financial ratios before and after the right issue. The hypotheses for each financial ratio are as follows:

H1: There is a significant difference in the Current Ratio (CR) before and after the right issue.

H2: There is a significant difference in the Debt to Equity Ratio (DER) before and after the right issue.

H3: There is a significant difference in the Return on Assets (ROA) before and after the right issue.

H4: There is a significant difference in the Net Profit Margin (NPM) before and after the right issue.

H5: There is a significant difference in the Price Earnings Ratio (PER) before and after the right issue.

The significance level (α) is set at 0.05. If the p-value (Asymp. Sig.) is less than 0.05, the null hypothesis is rejected, indicating a significant difference in the financial ratio before and after the right issue.

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Operationalization of Variables

The financial ratios used in this study are calculated as follows:

1. Current Ratio (CR) = Current Assets / Current Liabilities. Measures the company's ability to meet short-term obligations using its current assets.
2. Debt to Equity Ratio (DER) = Total Debt / Equity. Evaluates the company's capital structure by comparing its total debt to shareholders' equity.
3. Return on Assets (ROA) = Net Income / Total Assets. Assesses the company's efficiency in using its assets to generate profit.
4. Net Profit Margin (NPM) = Net Income / Operating Revenue. Measures the company's profitability by comparing net income to operating revenue.
5. Price Earnings Ratio (PER) = Earnings per Share / Market Price per Share. Reflects the market's valuation of the company's earnings potential.

Data Processing Tools

The data is processed using SPSS (Statistical Package for the Social Sciences) software, which is widely used for statistical analysis in social sciences and business research. SPSS is used to perform descriptive statistical analysis and the Wilcoxon signed-rank test.

Ethical Considerations

This study adheres to ethical research practices by ensuring that all data used is publicly available and properly cited. The research does not involve any manipulation or misrepresentation of data, and the findings are presented transparently and objectively.

Result and Discussion

Results

Wilcoxon Test

The Wilcoxon test was used to examine the significant differences between two paired conditions, specifically the values before and after the rights issue for each financial variable. If the sig. value is greater than 0.05, the hypothesis is rejected, indicating no significant difference after the treatment. Conversely, if the sig. value is less than 0.05, the hypothesis is accepted, indicating a significant difference after the treatment. Before presenting the results of the Wilcoxon test, Table 2 shows the ranking data (Ranks) of the sample before and after the rights issue, with indicators such as the Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price-to-Earnings Ratio (PER).

Table 2. Description of Data Rankings (*Ranks)*

		N	Mean Rank	Sum of Ranks
CR after – CR before	Negative Ranks	9	4.50	9.00
	Positive Ranks	46	12.20	244.00
	Ties	0		
	Total	55		
DER after – DER before	Negative Ranks	34	11.53	196.00
	Positive Ranks	21	11.40	57.00
	Ties	0		

	Total	55		
ROA after – ROA before	Negative Ranks	46	11.43	228.50
	Positive Ranks	9	12.25	24.50
	Ties	0		
	Total	55		
NPM after – NPM before	Negative Ranks	42	11.95	251.00
	Positive Ranks	13	2.00	2.00
	Ties	0		
	Total	55		
PER after – PER before	Negative Ranks	15	3.00	6.00
	Positive Ranks	40	12.35	247.00
	Ties	0		
	Total	55		

Source: Data processed using SPSS (2024)

Based on the table above, there are significant changes in the financial performance of companies before and after the rights issue. For the Current Ratio (CR), most companies experienced growth after the rights issue, as seen in 46 samples where the CR value after the rights issue was higher than before. This indicates an improvement in the company's liquidity after raising funds through the rights issue. On the other hand, the Debt-to-Equity Ratio (DER) shows that 34 companies experienced a decline, reflecting reduced reliance on debt after the rights issue, leading to a healthier capital structure.

However, for Return on Assets (ROA) and Net Profit Margin (NPM), the analysis results show a decline in performance. A total of 46 companies recorded a decrease in ROA, indicating a decline in asset utilization efficiency after the rights issue, likely due to the new funds not being fully utilized. Additionally, 42 companies recorded a decrease in NPM, suggesting an increase in operational costs or other factors that pressured the company's profitability. Meanwhile, the Price-to-Earnings Ratio (PER) shows that 40 companies experienced an increase, while 15 companies experienced a decline. The increase in PER reflects higher market expectations regarding the company's ability to generate profits in the future after the rights issue. After observing the ranking data (Ranks), the following are the results of the Wilcoxon test:

Table 3. *Wilcoxon Test Results*

	CR After – CR Before	DER After – DER Before	ROA After – ROA Before	NPM After – NPM Before	PER After – PER Before
Z	-3.815^{b}	-2.257^{c}	-3.312^{c}	-4.042^{c}	-3.913^{c}
Asymp. Sig. (2-tailed)	.000	.024	.001	.000	.000

Source: Data processed using SPSS (2024)

Based on the table above, the results show that each financial performance indicator tested shows a significant difference between the periods before and after the rights issue. CR has a significance value of 0.000, which is less than 0.05, so hypothesis H1 is accepted. This

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indicates that CR differs significantly between the periods before and after the rights issue. DER also shows a significance value of 0.024, which is less than 0.05, so hypothesis H2 is accepted, indicating a significant difference in DER between the two periods. Additionally, ROA has a significance value of 0.001, which is also less than 0.05, so hypothesis H3 is accepted, indicating a significant difference in ROA before and after the rights issue.

Furthermore, NPM also shows a significant difference with a significance value of 0.000, so hypothesis H4 is accepted, and it can be concluded that NPM differs between the two periods. Similarly, PER has a significance value of 0.000, so hypothesis H5 is accepted, indicating a significant difference in PER between the periods before and after the rights issue. This shows that the rights issue has a significant impact on all aspects of financial performance measured in this study.

Descriptive Statistical Analysis

Table. 4 Descriptive statistical results

	N	Minimum	Maximum	Mean	*Std. Deviation*
CR Before *Right Issue*	55	1.11	2.33	1.5373	.39281
CR After *Right Issue*	55	1.67	4.39	2.9955	1.01172
DER Before *Right Issue*	55	.15	6.16	1.2245	2.02599
DER After *Right Issue*	55	.12	3.28	.6627	1.06770
ROA Before *Right Issue*	55	.16	2.69	.7991	.70602
ROA After *Right Issue*	55	.11	1.78	.5982	.50141
NPM Before *Right Issue*	55	.13	1.38	.3836	.36305
NPM After *Right Issue*	55	.04	.96	.2491	.26365
PER Before *Right Issue*	55	.15	1.13	.3736	.31844
PER After *Right Issue*	55	.25	2.58	.9500	.66678
Valid N (listwise)	55				

Source: Data processed using SPSS (2024)

Based on the data in the table above, there are differences in the average values of financial performance before and after the rights issue. The average CR before the rights issue was 1.5373, and after the rights issue, the average CR increased to 2.9955. The average DER before the rights issue was 1.2245, and after the rights issue, DER decreased to 0.6627. The average ROA before the rights issue was 0.7991, and after the rights issue, ROA decreased to 0.5982. The average NPM before the rights issue was 0.3836, and after the rights issue, NPM decreased to 0.2491. The average PER before the rights issue was 0.3736, and after the rights issue, PER increased to 0.9500.

Discussion

The primary objective of this study was to examine the impact of rights issues on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) during the period 2019-2023. Specifically, the study aimed to determine whether there were significant differences in key financial ratios—Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price-to-Earnings Ratio (PER)—before and after the rights issue. The findings of this study provide valuable insights into how rights issues influence financial performance in the banking sector, addressing the research questions and confirming the hypotheses.

The results of this study confirm that rights issues have a significant impact on the financial performance of banking companies. The analysis revealed significant changes in all five financial ratios examined, indicating that rights issues influence liquidity, capital structure, profitability, and market valuation(-, 2023)(Hoque & Liu, 2021)(Sutikno, 2022)(Bahlous-Boldi, 2021)(Fibriyanti & Nurcholidah, 2021). Specifically, the significant increase in CR after the rights issue indicates an improvement in the company's liquidity. This suggests that the additional capital raised through the rights issue strengthened the company's ability to meet short-term obligations, aligning with the objective of understanding the impact of rights issues on liquidity. The significant decrease in DER reflects a reduction in the company's reliance on debt financing, leading to a healthier capital structure. This finding addresses the research objective of examining the impact of rights issues on capital structure(Goldstein et al., 2023)(The et al., 2022)(Işıker & Taş, 2021).

However, the significant decline in both ROA and NPM suggests that while the company's assets increased after the rights issue, the efficiency of asset utilization and profitability did not improve. This finding highlights the need for better management of the funds raised through rights issues to enhance profitability. On the other hand, the significant increase in PER indicates that the market responded positively to the rights issue, reflecting higher expectations for future earnings growth(Sanusi, 2023)(Sholatika & Triyono, 2022)(Işıker & Taş, 2021)(Burdeos, 2021). This addresses the research objective of understanding the impact of rights issues on market valuation.

The findings of this study are consistent with several theories and previous research. The increase in PER aligns with the Signaling Theory, which suggests that rights issues can send positive signals to the market about the company's growth prospects. The market's optimistic response, as reflected in the higher PER, indicates that investors viewed the rights issue as a positive step toward strengthening the company's financial position. The decrease in DER supports the Pecking Order Theory, which posits that companies prefer internal financing over external debt. By raising equity through a rights issue, the company reduced its reliance on debt, leading to a more conservative capital structure.The results of this study confirm that rights issues have a significant impact on the financial performance of banking companies (Goldstein et al., 2023)(Sutikno, 2022)(Papadaki & Pavlopoulou-Lelaki, 2021)(Klein et al., 2021)(Işıker & Taş, 2021). The analysis revealed significant changes in all five financial ratios examined, indicating that rights issues influence liquidity, capital structure, profitability, and market valuation. Specifically, the significant increase in CR after the rights issue indicates an improvement in the company's liquidity. This suggests that the additional capital raised through the rights issue strengthened the company's ability to meet short-term obligations, aligning with the objective of understanding the impact of rights issues on liquidity. The significant decrease in DER reflects a reduction in the company's reliance on debt financing, leading to a healthier capital structure. This finding addresses the research objective of examining the impact of rights issues on capital structure.

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However, the significant decline in both ROA and NPM suggests that while the company's assets increased after the rights issue, the efficiency of asset utilization and profitability did not improve. This finding highlights the need for better management of the funds raised through rights issues to enhance profitability. On the other hand, the significant increase in PER indicates that the market responded positively to the rights issue, reflecting higher expectations for future earnings growth. This addresses the research objective of understanding the impact of rights issues on market valuation (Hasibuan & Rahman, 2023)(Hidayah & Nurjanah, 2023)(Sanusi, 2023)(Permata, 2022)(Sholatika & Triyono, 2022).

The findings of this study are consistent with several theories and previous research. The increase in PER aligns with the Signaling Theory, which suggests that rights issues can send positive signals to the market about the company's growth prospects (Goldstein et al., 2023)(Reber et al., 2021)(Kumar & Dua, 2021)(Işıker & Taş, 2021) (Sanusi, 2023). The market's optimistic response, as reflected in the higher PER, indicates that investors viewed the rights issue as a positive step toward strengthening the company's financial position. The decrease in DER supports the Pecking Order Theory, which posits that companies prefer internal financing over external debt@. By raising equity through a rights issue, the company reduced its reliance on debt, leading to a more conservative capital structure.

Previous research also supports these findings. For example, Iman et al., (2024) found significant differences in CR and DER after rights issues, and Badariah, (2021) reported an increase in PER following rights issues. However, the decline in ROA and NPM contrasts with some studies, such as Fauzi et al., (2023), who found no significant changes in profitability ratios after rights issues. This discrepancy may be due to differences in sector characteristics or the specific use of funds raised through the rights issue.

This study contributes to the existing literature in several ways. First, it focuses specifically on the banking sector, which has unique characteristics such as high regulatory requirements and a critical role in economic stability. The findings provide sector-specific insights that are valuable for policymakers, investors, and bank management. Second, unlike previous studies that often focus on a limited set of financial ratios, this study examines five key ratios (CR, DER, ROA, NPM, and PER), providing a more holistic view of the impact of rights issues on financial performance. Third, the study is conducted in the context of an emerging market (Indonesia), where capital markets and corporate financing practices may differ from those in developed economies. The findings contribute to the understanding of how rights issues operate in such environments.

The findings of this study have important implications for both company management and investors. For management, the results suggest that while rights issues can improve liquidity and market valuation, they may not immediately enhance profitability. Management should focus on effectively utilizing the funds raised through rights issues to improve asset utilization and operational efficiency. Additionally, companies should communicate their strategic plans clearly to investors to maintain market confidence. For investors, the increase in PER indicates that the market views rights issues positively, but investors should also consider the potential short-term decline in profitability. A thorough analysis of how the company plans to use the additional capital is essential for making informed investment decisions.

While this study provides valuable insights, it has some limitations. First, the study focuses only on the banking sector, and the findings may not be generalizable to other industries. Future research could expand the scope to include other sectors to provide a more comprehensive understanding of the impact of rights issues. Second, the study uses a five-year period (2019-2023), which may not capture long-term effects. Future studies could extend the time frame to examine the long-term impact of rights issues on financial performance.

This study demonstrates that rights issues have a significant impact on the financial performance of banking companies in Indonesia. While CR and PER showed significant improvements, indicating better liquidity and market valuation, DER, ROA, and NPM experienced declines, highlighting the need for effective management of the funds raised. The findings align with theoretical frameworks such as the Signaling Theory and Pecking Order Theory and contribute to the literature by providing sector-specific insights and a comprehensive analysis of financial ratios. Future research should explore the long-term effects of rights issues and expand the scope to include other sectors.

Conclusion

This study examined the impact of rights issues on the financial performance of banking companies listed on the Indonesia Stock Exchange (IDX) from 2019 to 2023. The analysis focused on key financial ratios, including the Current Ratio (CR), Debt-to-Equity Ratio (DER), Return on Assets (ROA), Net Profit Margin (NPM), and Price-to-Earnings Ratio (PER). The findings revealed significant changes in these ratios before and after rights issues, indicating that rights issues have a substantial impact on liquidity, capital structure, profitability, and market valuation.

The results showed a significant improvement in the Current Ratio (CR) after rights issues, suggesting enhanced liquidity as companies were better able to meet short-term obligations. The Debt-to-Equity Ratio (DER) decreased significantly, reflecting a reduction in reliance on debt financing and a healthier capital structure. However, both Return on Assets (ROA) and Net Profit Margin (NPM) experienced significant declines, indicating that the additional capital raised was not effectively utilized to improve asset efficiency or profitability. On the other hand, the Price-to-Earnings Ratio (PER) increased significantly, signaling positive market expectations regarding future earnings growth.

These findings align with theoretical frameworks such as the Signaling Theory and Pecking Order Theory. The increase in PER supports the idea that rights issues can send positive signals to the market about a company's growth prospects. The decrease in DER is consistent with the Pecking Order Theory, which suggests that companies prefer equity financing over debt when raising external funds. However, the decline in ROA and NPM highlights the need for better management of the funds raised through rights issues to enhance profitability.

This study contributes to the literature by providing sector-specific insights into the impact of rights issues in the Indonesian banking sector. It also offers a comprehensive analysis of multiple financial ratios, providing a holistic view of how rights issues influence financial performance. The findings have important implications for bank management and

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investors, emphasizing the need for effective utilization of raised capital and clear communication of strategic plans to maintain market confidence.

Future research could expand the scope to include other sectors and extend the time frame to examine the long-term effects of rights issues on financial performance. Overall, this study underscores the significant impact of rights issues on the financial performance of banking companies in Indonesia, offering valuable insights for stakeholders in the capital market.

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