Bond Rating Prediction and it's Determinant

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Abstract
This research was conducted to examine the company's growth, profitability, liquidity, guarantees, bond age, company size and auditor's reputation on the bond rating of companies listed on the Indonesia Stock Exchange.

Keywords: *bond, bond rating, company growth, profitability, liquidity*

Introduction

A company can issue financial instruments in the capital market in an effort to obtain funds. This is related to one of the functions of the capital market, which is facilitating the transfer of funds from surplus parties to those who need these funds (Utami, 2010).

Bonds are one of the financial assets that have been developed to date and can be traded and are quite attractive to capital owners in investing in the capital market. For capital owners, bonds are more attractive in terms of the certainty of the return compared to investing in stocks. Investors will get interest at a rate that has been determined during the bond period, so the bond can be called an investment that provides fixed income. Bond interest payments must also take precedence before the bond issuer pays dividends to shareholders. Like stock investments, bonds also have the opportunity to get capital gains by selling bonds on the secondary market. In the event of liquidation in the company, the bond owner also obtains the first rights to the assets owned by the company compared to the shareholders, so that investment in bonds is safer than if the capital owner invests in shares.

Capital owners who are interested in buying bonds, should pay attention to bond ratings because these ratings provide information and give signals about the probability of a company's debt failure. Bond rating is the risk scale of all traded bonds. To invest in bonds, in addition to having sufficient funds, capital owners also need sufficient knowledge about bonds and are followed by good business sense to be able to analyze or estimate factors that can influence investment in bonds, where bond ratings can be an indicator main.

Before being offered, bonds must be rated by an agency or rating agency. Bond rating agencies are independent institutions that provide risk scale rating information, where one of them is bond securities as a guide to the extent of the security of a bond for investors. This security is demonstrated by the ability of a company to pay interest and pay off the principal. So investors can use the services of the bond rating agency to get information about the bond rating.

This rating process is carried out to assess the company's performance, so that the rating agency can state whether or not the bonds are worth investing. Although bonds are considered a safe investment, bonds still carry risks. One of the risks is the company's inability to repay bonds to investors. The bond rating phenomenon can be seen in the case of Mobile 8 Telekom, where in 2010 the company failed to pay its 12th interest. In March 2009, IDX also suspended FREN shares and bonds because it could not pay the bond interest of Rp 675 billion. With defaults, the rating agency PEFINDO downgraded the company's bonds to "D" from "CC".

Bond ratings are important because they provide informative statements and give signals about the probability of a company's debt default. Debt ratings also serve to help public policy limit the speculative investment of institutional investors such as banks, insurance companies and pension funds. The quality of a bond can be monitored from its ranking information. Since 1995, debt securities specifically issued through a public offering are required to be rated by a rating agency registered with Bapepam (now the Financial Services Authority - OJK)

In Indonesia there are two debt securities rating agencies, namely PT. Pefindo (Indonesian Rating Agency) and PT. Kasnic Credit Rating Indonesia. However, the current research refers more to Pefindo (Indonesian Rating Agency.

In accordance with the above background, the researcher tries to formulate the problem as follows: What is the accounting factor, which is the company's growth (growth), company size (size), profitability, and liquidity, and non-accounting factors, namely guarantee (secure), bond age (maturity)), and the auditor's reputation can affect the predictions of bond ratings of manufacturing companies on the Indonesia Stock Exchange.

Based on the background and problems above, it is necessary to hold a problem limitation, namely regarding the factors that are suspected to affect bond ratings. The factors thought to influence bond ratings are grouped into two, namely accounting factors and non-accounting factors. Accounting factors are proxied by company growth, company size, profitability and liquidity. Non-accounting factors are proxied by guarantees, age of bonds and auditor's reputation. This research is focused on companies listed on the IDX in 2018 and also registered with Pefindo.

Signal Theory

Signal theory explains why companies have the drive to provide information to external parties. The company's push to provide information is because there is information asymmetry. Vulnerable asymmetry of information occurs between management and external parties of companies that have different interests. Signal theory explains that giving signals by managers aims to reduce information asymmetry.

The implications of signal theory in this study are used to explain the variables used in this study, namely company growth, company size, profitability, liquidity, guarantees, bond age and auditor reputation and bond ratings.

Bonds Definition

According to Tandelilin (2010), from the company's point of view, bonds state the company's debt to its holders, while from the perspective of investors, corporate bonds are an investment that is different from ordinary shares. Hartono (2014), defines long-term debt that will be repaid at maturity with fixed interest.

The benefits offered by bonds are very attractive to investors. According to Maharti (2011) investors have the choice of each of the securities to be chosen in investing in the capital market, one of which is bonds. The following can be considered from the excess bond investment: a) Interest, Interest is paid regularly until maturity and is determined as a percentage of the face value, b) Capital Gain, Before maturity, bonds are usually traded in the secondary market, so investors have the opportunity to obtain capital gains.

If the issuer goes bankrupt or is liquidated, the bondholder as a creditor has the first claim rights to the company's assets.

Nevertheless bonds are also not risk free. The bond risks are: (a) **Risk of default**, Default risk is the risk borne by investors because the issuer is unable to pay off bonds when they are due. The consequence is the decline in bond prices and investors are not interested in the company because it has a big risk, (b) **Lower callability**, Callability is repayment due. This situation occurs when an issuer withdraws or repurchases bonds that have been issued before maturity. This results in investors losing money and unable to refuse the withdrawal of the bonds. (c) **Currency exchange risk**, Currency exchange risk is a form of risk that arises because of changes in the exchange rate of one currency against another currency. This risk can occur with bonds purchased in other units of the balance sheet.

Bond Rating

Definition of Bond Rating

A financier who is interested in buying bonds must of course pay attention to the rating of a bond (bond ratings). It can be said that the bond rating tries to measure the risk of failure, namely the chance that the issuer or borrower will experience conditions unable to meet financial debt.

Table 1. Definition of Bond Rating

Rating	Description
idAAA	The debt rating with AAA rating is the highest rated debt effect from PT PEFINDO supported by the obligor's relatively superior ability compared to other Indonesian entities to meet long-term financial debt in accordance as promised
idAA	Debt securities with AA ratings have a credit quality slightly below the highest bond rating, supported by the obligor's very strong ability to meet long-term financial debt in accordance with what was promised relative compared with other Indonesian entities.
idA	Debt securities rated A have the support of the obligor's strong ability compared to other Indonesian entities to meet their long-term financial debt as promised, but are quite sensitive to adverse changes.
idBBB	Debt securities with BBB are supported by the obligor's adequate ability relative to other Indonesian entities to meet financial debt, but this ability can be weakened by changes in business conditions and adverse economy.
idBB	Debt securities with a BB rating indicate a relatively weak obligor's ability to support relative to other entities to meet long-term financial debt in accordance with that agreement, and be sensitive to uncertain business and economic conditions.
idB	The debt effect rated B shows very weak protection parameters. Although the obligor still has the ability to meet long-term financial debt, but there is changes in business and economic conditions, agreement, and be sensitive to uncertain business and economic conditions.
idCC	Debt securities rated B indicate that adverse debt effects will worsen the obligor's ability to meet its financial debt.
idCCC	Debt securities with CCC ratings indicate debt effects that are no longer able to meet debt financially, and only depends on the improvement of external circumstances.
idD	Debt securities with a D rating indicate an effect bad debt. The publishing company has stopped trying.

The "id" code in front of the bond rating is an abbreviation of Indonesia. Investment grade bonds are included in one category with ratings from AAA to BBB. While bonds that are speculative and not investment-worthy (non-investment grade) are BB to C or D. Lower-ranking bonds, called junk bonds, are bonds that are not suitable for investment.

One of the products from Pefindo is issuing a rating outlook, which is an assessment of the medium and long-term prospects of the institution rated including an evaluation of changes in the economy and business. Ratings from AA to B can be modified by adding plus (+) or minus (-). The plus sign (+) or minus (-) is used to indicate the relative strength of the ranking category (www.pefindo.com). For example the idA + rating has the prospect of rising to idAA rating, on the contrary the idAA rating- has the potential to go down to idA rating A.

General Requirements for Rating of PT PEFINDO

PT PEFINDO provides several requirements for issuers to be rated, including: (a) In general, the company operates for more than 5 years, although Pefindo also ranks companies that have operated for less than 5 years. b) The financial statements have been audited by a public accountant registered with Bapepam with an unqualified opinion. c) The last audited financial statements do not exceed 180 days from the closing date of financial reporting. If it exceeds the limit, it must be accompanied by statements of directors, commissioners and public accountants that the report truly reflects the company's financial condition. d) Provide basic information and other supporting data needed by Pefindo to complete the rating determination. e) Paying fees for rating.

Benefits of Bond Rating

The general benefits of the bond rating process are (Rahardjo, 2004); a) A transparent market openness information system involving various bond products will create a healthy and transparent bond market. b) Cost efficiency. A good bond rating results usually provide benefits, namely avoiding debt financial requirements that usually burden the company, such as the provision of sinking funds and collateral assets. c) Determine the magnitude of the coupon rate, the better the rating, tends to be the lower the coupon rate and vice versa. d) Provide objective and independent information regarding the ability to repay debt, the level of investment risk that may arise, and the type and level of the debt. e) Able to describe bond market conditions and economic conditions in general.

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