Analysis of Net Profit Margin, Return on Asset, Inflation on CAR and Fintech Firm Value

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Abstract. This study explores the relationship between capital adequacy and financial stability within Indonesian fintech companies operating under a dynamic economic environment. The research addresses challenges related to technology development costs and risk management, particularly credit and cybersecurity risks. Investments in digital technology, while essential, can sometimes result in downturns that limit banks' ability to raise capital and extend credit, thereby affecting economic growth. Accordingly, this study examines the impact of Net Profit Margin (NPM), Return on Assets (ROA), and inflation on the Capital Adequacy Ratio (CAR) and fintech firm value. A quantitative approach was employed using secondary data from audited annual reports of fintech companies listed on the Indonesia Stock Exchange for the period 2019–2023. The data were analyzed using the Smart Partial Least Squares method, incorporating NPM, ROA, inflation, CAR, and fintech firm value as variables. The results indicate that NPM, ROA, and inflation positively influence fintech firm value, and these effects are further strengthened when moderated by CAR. Practically, fintech companies should prioritize both profitability and capital ade-quacy to enhance investor confidence and maintain corporate stability in uncertain economic conditions. This study contributes to the literature by identifying key determinants of capital adequacy and financial stability and offers directions for future research on the long-term effects of regulatory reforms on the profitability and sustainability of Indonesian fintech companies.

Keywords: Net Profit Margin, Return On Asset, Inflation, CAR, Firm Value.

1 Introduction

In a competitive economic environment, companies develop strategies to achieve both short-term and long-term objectives [1]. Typically, short-term goals focus on profit maximization, while long-term objectives aim to enhance firm value [2]. Firm value represents the overall performance and sustainability of a company and is commonly reflected through its stock price in capital markets. Stock prices capture investors' perceptions, which are shaped by supply and demand as well as anticipated future growth. A higher firm value indicates efficiency, profitability, and resilience, thereby fostering investor confidence and encouraging capital allocation. Within the fintech sector, firm value not only represents financial performance but also highlights how innovation,

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effective risk management, and adherence to regulatory standards can strengthen market credibility and competitive advantage [3].

Internal, or micro-fundamental, factors play a critical role in shaping a company's financial health and market valuation. These factors are usually divided into company policies and performance metrics. Performance is assessed through financial statements and ratios, providing insight into profitability, cash flow, and other indicators that influence stock returns. This study examines micro-fundamentals through Net Profit Margin (NPM), Return on Equity (ROE), Return on Assets (ROA), and Capital Adequacy Ratio (CAR), which together provide a holistic view of resource management, earnings generation, and resilience against financial risks in fintech companies [4]. Prior studies show mixed results regarding NPM, with some reporting a positive effect on firm value [5] while others report a negative relationship [6]. Similarly, ROA has been found to positively influence firm value by reflecting efficient asset utilization [7], although some studies show no significant effect [8]. Leverage, measured through the Debt to Equity Ratio (DER), is also a determinant of firm value, influencing Price to Book Value by demonstrating the balance between debt and equity [9].

External, or macro-fundamental, factors such as systemic risks also affect firm value. These risks stem from factors beyond a company's control, including government policies, political stability, and macroeconomic conditions such as inflation and interest rates [10]. Inflation can increase operating costs while reducing consumer purchasing power, which in turn impacts revenue and profit margins [11]. Interestingly, some evidence shows that certain economies, such as Türkiye, experienced profit-driven inflation where profit margins increased despite rising costs [12]. Therefore, understanding how inflation interacts with company performance is essential for assessing financial stability and firm valuation.

Fintech companies introduce disruptive innovations by unbundling traditional financial services, creating novel business models, and redistributing market power across the financial industry [13]. The ongoing evolution of fintech necessitates close monitoring by stakeholders to evaluate its impact on both financial stability and the operations of traditional institutions [14]. NPM and ROA reflect a firm's operational efficiency and profitability, while inflation represents external pressures that can influence financial performance. Studying the interplay between these variables and CAR is critical to understanding their combined effect on firm value and provides actionable insights for management, investors, and regulators.

The Capital Adequacy Ratio (CAR) measures a bank or financial institution's capacity to maintain sufficient capital and signals management's ability to identify, evaluate, and mitigate risks [15,16]. A higher CAR indicates stronger financial resilience and stability, allowing firms to absorb potential losses while maintaining sustainable profitability. CAR also moderates the impact of NPM and ROA on firm value, as investors perceive profits as more reliable when supported by adequate capital buffers [17,18,19,20]. Nevertheless, a very high CAR may limit funds available for investment or expansion, potentially constraining growth opportunities.

Despite growing research on fintech performance, empirical evidence examining the combined effect of NPM, ROA, and inflation on CAR and firm value remains limited.

Existing studies suggest that profitability metrics are crucial in reflecting financial performance, while inflation acts as an external factor influencing firm stability and valuation. CAR serves as a moderating variable that can enhance or attenuate the impact of financial performance indicators on firm value. A comprehensive understanding of these relationships is essential given the complex and evolving dynamics of the fintech industry. This study aims to contribute both theoretically and practically by providing insights into determinants of fintech firm value and offering guidance for strategic decision-making by management, investors, and regulators.

2 Literature Review

Recent research highlights that Net Profit Margin (NPM) is a key metric for evaluating a firm's ability to generate net income from its sales [21]. Evidence indicates that NPM has a significant positive effct on firm value, suggesting that higher net profits in infrastructure-related firms enhance overall corporate value [22]. In Islamic banking, NPM is influenced by factors such as risk aversion, operational inefficiency, diversification, and prevailing economic conditions. Conversely, in conventional banks, profit margins are positively linked to market concentration and risk aversion, while being negatively affected by specialization, diversification, inefficiency, and liquidity. Additionally, macroeconomic shocks, including the COVID-19 pandemic, have been shown to impact NPM, highlighting the sensitivity of profitability to external economic conditions [23].

Return on Assets (ROA) is also recognized as a crucial determinant of firm value [24]. A higher ROA signals more effective utilization of assets to generate profits, thereby increasing firm value. In the context of Islamic banking, ROA reflects the ability to optimize resources and reduce operational costs, supporting profitability and enhancing market valuation [25]. Moreover, ROA affects a bank's capacity to meet capital adequacy requirements; institutions with higher asset returns are better able to absorb risks and maintain sufficient capital, whereas banks with a higher share of risky assets face greater challenges in preserving capital adequacy.

Inflation continues to pose a significant challenge for many economies, particularly when government policies fail to effectively control its growth. In Türkiye, studies indicate that inflation in the real sector not only maintained but also increased profit margins, reflecting the prevalence of profit-driven inflation during the period observed [12]. In contrast, the Nigerian banking sector is vulnerable to external shocks due to its dependence on foreign exchange inflows, which can limit the effectiveness of domestic monetary policy. Nevertheless, the Central Bank of Nigeria has shown relative success in stabilizing prices and mitigating inflation through adjustments in interest rates [26].

The Capital Adequacy Ratio (CAR) serves as a fundamental indicator of financial resilience, representing a bank's ability to sustain adequate capital and manage potential risks [15]. Aligned with Basel III regulations, CAR requires banks to allocate a minimum portion of assets as capital to absorb unexpected losses [25]. In Nigeria, regulatory authorities enforce a minimum CAR of 15% for international banks and 10%

for domestic banks, highlighting the importance of capital adequacy as a stabilizing mechanism within the broader monetary policy framework [27].

Overall, these findings illustrate that firm value is influenced by both internal financial performance and external macroeconomic conditions. NPM and ROA contribute positively to firm value by reflecting profitability and efficient asset management. Simultaneously, external factors such as inflation and global economic disruptions can significantly affect profit margins and operational performance. Within the banking and financial sectors, CAR functions as a key stability metric, ensuring sufficient capital to absorb risks while demonstrating compliance with monetary policy and international standards. Together, the interaction between profitability, capital adequacy, and macroeconomic conditions determines firm resilience and long-term value in the financial industry.

2.1 Relationship between Net Profit Margin and Firm Value

Net Profit Margin (NPM) represents the proportion of profit a company earns from its total sales or revenue and serves as a key indicator of the company's ability to generate net income from its operations. This ratio reflects the overall efficiency of the organization, encompassing production, human resources, marketing, and financial management [28]. A higher NPM indicates greater operational efficiency, making it a crucial factor to consider when assessing a company's firm value [29]. For investors in the capital market, understanding NPM is essential, as it provides insight into whether a company is operating profitably or facing potential losses.

Empirical studies on the relationship between NPM and firm value have produced mixed results. Research by Putri [18] indicates that NPM has a significant effect on firm value, suggesting that higher profitability enhances market valuation. In contrast, findings by Prakoso [20] report no significant relationship between NPM and firm value, highlighting that the impact of profitability on firm valuation may vary depending on industry characteristics, firm strategy, or market conditions. These conflicting results underscore the importance of examining NPM alongside other financial indicators and contextual factors when evaluating its influence on firm performance.

- **H1**: Net Profit Margin has a significant impact on Firm Value of fintech companies

2.2 Relationship between Return on Assets and Firm Value

Return on Assets (ROA) is a widely used profitability ratio that measures a company's capacity to generate net earnings from its total assets. It is calculated by dividing earnings before interest and taxes (EBIT) by total assets, providing insight into management's efficiency in utilizing resources to create value. A higher ROA indicates that a company is effectively leveraging its asset base to achieve superior returns, signaling stronger operational performance. In fintech companies, ROA is particularly important because asset-light business models rely more on technological infrastructure and intangible resources rather than traditional fixed assets. Therefore, ROA serves not only as a measure of profitability but also as an indicator of how effectively fintech

firms use their unique asset structures to maintain competitiveness and enhance firm value [30].

ROA is also employed to assess past profitability and to project future earnings, reflecting management's effectiveness in generating overall profits [31]. A higher ROA corresponds to greater profitability and demonstrates efficient asset utilization. Empirical findings support the relevance of ROA to firm value. While some studies, such as Prakoso [20], suggest that Net Profit Margin has no effect on firm value, other research, including Silaban [24], confirms that ROA significantly influences a company's market valuation. These findings highlight ROA as a critical metric in evaluating both financial performance and the potential for value creation in firms, especially within the fintech sector.

- **H2**: Return on Assets has a significant impact on Firm Value of fintech compa-nies

2.3 Relationship between Inflation and Firm Value

A high inflation rate reflects a general increase in the prices of goods, which reduces consumers' purchasing power and can negatively impact investment decisions. As purchasing power declines, investor interest tends to decrease, potentially leading to a reduction in the company's stock price and diminishing the competitiveness of its securities [32]. Elevated inflation may also compress company profits, further reducing the attractiveness of the firm to potential investors.

However, empirical evidence suggests that the impact of inflation can vary across sectors. For instance, research in Türkiye's real sector indicates that inflation not only preserved but also enhanced profit margins despite rising costs, suggesting the presence of profit-driven inflation during the observed period [12]. This implies that in certain economic contexts, firms may successfully maintain or even improve profitability in response to inflationary pressures.

- **H3**: Inflation has a significant impact on the Enterprise Value of fintech compa-nies

2.4 Capital Adequecy Ratio Relationship between Net Profit Margin and Firm Value

The Capital Adequacy Ratio (CAR) is a key component of the CAMEL framework used to assess a bank's financial health. CAR represents the proportion of a bank's own capital combined with external funding sources, such as public deposits or loans, relative to the total risk-weighted assets, including loans, investments, securities, and receivables [33]. Maintaining an adequate CAR ensures that financial institutions, including fintech companies, can absorb potential losses, sustain operations during economic fluctuations, and comply with regulatory requirements.

CAR plays a crucial role in strengthening the relationship between Net Profit Margin (NPM) and fintech firm value, as it reflects the company's capacity to absorb risks while sustaining profitability [17]. Although a high NPM indicates that a fintech company is efficient in generating profits, its contribution to firm value is amplified

when supported by a robust CAR [18]. Investors perceive profits as more sustainable and of higher quality when the firm maintains sufficient capital to manage operational and financial risks. Moreover, a strong CAR enhances market confidence, supports strategic investments, and provides a buffer against unexpected financial shocks. Consequently, CAR serves as a moderating factor that not only strengthens the positive impact of profitability on firm value but also reinforces the overall resilience and stability of fintech companies in dynamic economic environments.

- **H4**: Capital Adequecy Ratio strengthens Net Profit Margin on Firm Value of fintech companies

2.5 Capital Adequecy Ratio Relationship between Return on Assets and Firm Value

The Capital Adequacy Ratio (CAR) reflects a bank's capacity to maintain sufficient capital and indicates management's competence in identifying, assessing, monitoring, and controlling risks that may impact the bank's capital levels [15]. CAR serves not only as a regulatory measure but also as an important signal to investors regarding a company's financial resilience and risk management capabilities. Companies with higher Return on Assets (ROA) are generally able to generate greater profits, which enhances investor confidence and contributes positively to firm value. ROA also provides an indication of how efficiently a company utilizes its assets to achieve operational effectiveness and sustainable growth.

In the context of fintech firms, CAR strengthens the relationship between ROA and firm value by reflecting the company's ability to maintain financial stability and absorb risks arising from operational activities [19]. While a high ROA demonstrates effective asset utilization and profitability, its impact on enhancing firm value is magnified when supported by a robust CAR. Adequate capital reassures investors that profits are sustainable and that the company is well-positioned to withstand financial shocks, thereby increasing confidence in long-term performance and ultimately driving higher firm value [20]. Moreover, a strong CAR allows fintech firms to strategically invest in innovation and growth initiatives without compromising financial stability, making it a crucial moderating factor in the relationship between profitability and firm value.

- **H5**: Capital Adequecy Ratio strengthens Return on Assets on Firm Value of fintech companies

2.6 Capital Adequecy Ratio Relationship between Inflation and Firm Value

Capital is the main thing for a fintec company, in addition to supporting the opera-tional activities of a bank, capital is also a buffer against possible losses. This capital is also related to banking activities in carrying out its function as an intermediary institu-tion for funds received by customers, [34]. The Capital Adequacy Ratio (CAR) is a measure that reflects a bank's capacity to allocate funds for business development while absorb-ing potential losses arising from its operational activities [31].

CAR can enhance the link between inflation and fintech firm value, as adequate capital equips firms with greater financial resilience to withstand economic pressures caused by inflation. High inflation usually has a negative impact on operational costs, consumer purchasing power, and company financial performance, but with a strong CAR, fintech companies are able to absorb these risks and maintain financial stability, [35]. This makes the company still able to operate effectively, maintain investor confidence, and ultimately the company's value can be maintained or even increased even in inflationary conditions.

- **H6**: Capital Adequecy Ratio strengthens Inflation on Firm Value of fintech companies

Based on the literature and previous studies, we build a conceptual framework for this study, which is shown in Figure 1,

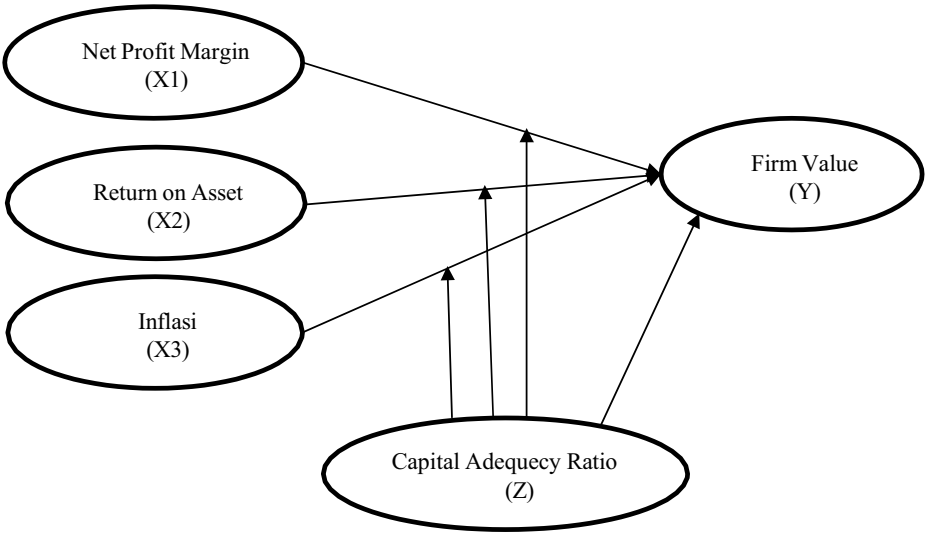

Fig. 1. hypothesis and Conceptual Framework. Source: Author elaborations, 2025.

3 Methodology

3.1 Research Design

This study employs a quantitative research approach, which involves the systematic examination of data in numerical form. This methodology allows for the measurement and analysis of variables such as company profitability, total revenue, financial ratios, and other monetary indicators. To facilitate data collection, a structured questionnaire

was designed and distributed to multiple fintech companies. The gathered data were subsequently analyzed using statistical techniques to examine the relationships among the study's key constructs and to draw empirically supported conclusions.

Secondary data was used in the research, and purposive sampling as a technique in sampling. The author sets the criteria for this research sample, namely: 1) Fintech lending companies in Indonesia that have been registered with the Financial Services Authority (OJK) in 2024. 2) Fintech lending companies in Indonesia that have published financial reports during the 2021-2024 period. 3) Financial reports of fintech lending companies that provide sufficient information regarding the required data. From these criteria, 31 fintech lending companies in Indonesia were obtained with a period of four years so that the number of observations used was 124 data.

3.2 Data Collection and Analysis

The data collection approach in this research relies on secondary data, which refers to information gathered by external sources rather than directly collected by the researchers from their subjects, typically presented as existing documentation or report data, with the secondary data utilized comprising audited annual reports of fintech companies listed on the Indonesia Stock Exchange (IDX) for the years 2021–2024, accessed through the official websites www.idx.co.id and www.bps.go.id; the methodology involves gathering all secondary data from the official IDX website (www.idx.co.id) and company websites, subsequently processed and tailored to meet the study's requirements using Partial Least Squares Structural Equation Modeling (PLS-SEM), a robust analytical tool designed to handle nonlinear data and often termed soft modeling as it does not necessitate the stringent assumptions of Ordinary Least Squares (OLS) regression, such as multivariate normality or the absence of multicollinearity among exogenous variables [36]; a critical financial metric for assessing a company's ability to fulfill short-term liabilities is the liquidity ratio, whereas the Net Profit Margin (NPM) evaluates the company's proficiency in generating profits from its sales [37], the ratio determining net profit after tax relative to the company's total assets and equity is also considered [38], inflation data expressed as a percentage was sourced from the Central Statistics Agency's website, www.bps.go.id [39], the Capital Adequacy Ratio (CAR) indicates a bank's capacity to absorb potential losses through maintained capital reserves to mitigate adverse scenarios [40], and the firm value ratio serves as an indicator to assess a company's market price in relation to its book value [41].

4 Results

According to Ghozali and Latan [42], the outer model is used to evaluate the validity and reliability of a research model, focusing on reflective indicators to measure latent constructs. Convergent validity assesses the correlation among indicators within the same construct, while discriminant validity ensures each construct is distinct and not highly correlated with others. Composite reliability checks the internal consistency of

indicators, and Cronbach's alpha measures the reliability of the parameter block. The evaluation results are presented below.

Table 1. Measurement Model Assessment

Variable	Composite Reliability	Cronbach's Alpha	Average Variance Extracted (AVE)
Net Profit Margin	1,000	1,000	1,000
Return on Asset	1,000	1,000	1,000
Inflation	1,000	1,000	1,000
Firm Value	1,000	1,000	1,000
Capital Adequecy Ratio	1,000	1,000	1,000

Source: Author elaboration, 2025.

The validity of the constructs was evaluated using both model validity and reliability measures. Convergent validity assesses how strongly the items within each construct are correlated. As shown in Table 1, the Average Variance Extracted (AVE) and factor loadings (indicator reliability) for all constructs exceed 0.5, indicating satisfactory model reliability. Specifically, the AVE values confirm that each indicator consistently measures its intended construct. In addition, the Cronbach's alpha and Composite Reliability (CR) values, also presented in Table 1, are all above 0.6, providing further evidence of the reliability and validity of the variables and items used. Therefore, all established criteria for construct validity and reliability have been successfully met.

The assessment of the structural model offers a detailed insight into how NPM, ROA, and inflation relate to the enterprise value of fintech companies. Path analysis indicates a significant positive relationship ($\beta = 0.317$, $p < 0.00$) between NPM and enterprise value. This suggests that companies that cultivate a supportive and innovative environment tend to perform better. As a result, higher NPM contributes to improved operational efficiency, strengthens investor confidence, and ultimately increases the overall firm value.

Path analysis demonstrates that ROA exerts a positive and significant influence on the firm value of fintech companies ($\beta = 0.250$, $p < 0.05$), indicating that greater profitability from total assets translates into higher firm value.

The analysis also reveals a significant positive relationship between inflation and fintech firm value ($\beta = 0.335$, $p < 0.04$), suggesting that rising inflation can enhance firm value by enabling fintech firms to preserve profit margins and attract investors, particularly under volatile economic conditions.

Furthermore, the moderating role of CAR is evident, as the interaction between NPM and CAR shows a strong positive effect on firm value ($\beta = 0.449$, $p < 0.001$). This underscores that improvements in NPM, supported by adequate capital, send a favorable signal to investors regarding risk management and long-term stability.

Similarly, ROA moderated by CAR has a significant positive effect on firm value ($\beta = 0.265$, $p < 0.048$), reinforcing the importance of capital adequacy in strengthening the impact of asset profitability.

Finally, inflation moderated by CAR exhibits a significant positive association with fintech firm value ($\beta = 0.514$, $p < 0.013$), highlighting that sufficient capital adequacy enables firms to withstand inflationary pressures while enhancing their value.

Table 2. Structural Model Assessment (Path coefficient)

Hypotheses	Relationship	Original sample (O)	Average sample (M)	Standard deviation (STDEV)	T statistic (|O/STDEV|)	P values (P values)
H1	NPM -> Firm Value	0,371	0,380	0,073	5,092	0,000
H2	ROA -> Firm Value	0,250	0,272	0,089	2,813	0,005
H3	Inflasi -> Firm Value	0,335	0,309	0,164	2,040	0,041
H4	CAR x NPM -> Firm Value	0,449	0,425	0,141	3,183	0,001
H5	CAR x ROA -> Firm Value	0,265	0,278	0,134	1,982	0,048
H6	CAR x Inflasi -> Firm Value	0,514	0,507	0,206	2,495	0,013

Source: Author elaboration, 2025.

5 Discussion

The findings of this study are consistent with Putri [18], who reported that Net Profit Margin (NPM) significantly influences firm value. In contrast, Prakoso [20] found no significant impact of NPM on firm value, highlighting variations in empirical evidence across different contexts. Similarly, the results support Silaban [24], who demonstrated a significant positive effect of Return on Assets (ROA) on firm value, whereas Veronica [8] presented opposing results indicating no effect. Additionally, our findings corroborate the dynamic capabilities perspective, as discussed by Yilmaz [12], showing that inflation in Türkiye's real sector not only maintained but also increased profit margins despite rising costs, suggesting the prevalence of profit driven inflation during the analyzed period.

Furthermore, the results align with the dynamic capabilities framework proposed by Olawale [25]. The analysis indicates that the Capital Adequacy Ratio (CAR) and firm size positively contribute to bank stability, whereas non-performing loans (NPL) and

loan assets (LA) exert negative effects. Monetary policy and capital regulation are critical in sustaining financial stability. Strengthening capital adequacy and expanding firm size enhance resilience, while effective management of NPLs and prudent implementation of monetary policy can reduce financial instability. Accordingly, banks are advised to reinforce risk management frameworks, ensure Basel III compliance, and enhance credit monitoring practices to maintain long-term stability and operational efficiency

Recent literature also highlights that banks provide services that are critical to economic activity, including lending to firms and individuals. [43] Results show that banking crises have significant economic costs and that the economic benefits of ensuring banks are resilient enough to absorb large losses. The benefits of increased capital requirements are particularly large when initial capital adequacy ratios are low. This means that the economic costs are higher if banks adjust to capital adequacy ratios that are too low than those that are too high. [44], One potential limitation of our methodology lies in the univariate approach applied to the analysis of the CAR series. For future studies, employing a multivariate analysis that incorporates macroeconomic variables such as GDP and monetary policy rates could enable the identification of cross-correlation parameters, capturing possible lags between the CAR series and the economic cycle. Such an approach would provide a more robust basis for making prudential decisions aligned with different phases of the economic cycle

6 Conclusion

6.1 Conclusion and Implications

This study finds that NPM, ROA, and inflation have a positive effect on the value of fintech companies in Indonesia, with an even stronger effect when moderated by the Capital Adequacy Ratio (CAR). The contribution of this study lies in identifying CAR as an important factor that strengthens the relationship between financial performance and company value, as well as highlighting the role of monetary policy and capital regulations in maintaining the stability of the fintech sector. However, this study is limited to the 2019–2023 period with secondary data from fintech companies listed on the Indonesia Stock Exchange, so generalization still needs to be tested in a broader period and context. Practically, the research results imply that fintech companies need to balance profitability and capital adequacy as key strategies to increase investor confidence and maintain sustainability amid uncertain financial market dynamics.

6.2 Limitations and Future Research

Although this study provides valuable insights, it is important to acknowledge some limitations, such as the limited data of fintech companies used, the relatively short observation period that may not reflect long-term conditions, and the research variables that are still limited to NPM, ROA, Inflation, and CAR that do not include other factors that also potentially affect firm value. It is recommended that future researchers focus on the area of regulatory authority and supervisory policy, to ensure that the benefits of

the banking reform process and fintech regulation are truly effective in strengthening financial system stability and increasing firm value.

Fintech companies are advised to continue to maintain profitability and Capital Adequacy Ratio (CAR) to increase value and investor confidence, while the government needs to strengthen regulations and monetary policies that support the stability of the fintech industry to remain resilient in the face of economic dynamics. Future research can use interest rates, monetary policy, or the advancement of financial technology to enhance insights into the factors influencing fintech firm value, as well as using longer data periods and comparing across countries to make the results more comprehensive and applicable to regulators and investors.

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