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# DETERMINANT OF ISLAMIC BANK SUKUK RATINGS IN INDONESIA

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**Abstract**

*This study aims to model the factors influencing the Sukuk Ratings at Sharia Commercial Banks in Indonesia by examining key financial variables, including Return on Assets, Return on Equity, Firm Size, Stock Profit, and Debt-to-Equity Ratio. Sukuk ratings provide crucial information for potential investors to assess the risk and return of purchasing specific sukuks. A decline in Sukuk ratings, as observed in this research, could reduce investor interest and increase the risk of default. Sukuk levels, issued by authorized rating agencies, are essential for enabling investors to estimate the risks associated with their investments. Using a quantitative approach with panel data from the PEFINDO website covering three Sharia Commercial Banks from 2021 to 2023, this research applies the Common Effect Model for regression analysis. The findings indicate that variables ROA, ROE, Firm Size, and Stock Profit significantly influence Sukuk Ratings, while DER does not. The coefficient of determination ($R^2$) is 0.77895, indicating that these independent variables explain 77.895% of the variance in sukuk ratings. This model provides valuable insights for investors and regulators in understanding the factors affecting sukuk ratings, thereby aiding better decision-making, enhancing investor confidence, and supporting the growth of the Islamic capital market.*

**Keywords**: *Debt to Equity Ratio, Firm Size, Return on Asset, Return on Equity, Sukuk Rating, Stock Profit*

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## 1. Introduction

The capital market is an instrument that can play a vital role in the development of a country. The capital market can be defined as a market for various long-term financial instruments that can be traded, both in the form of debt and own capital, both issued by the government and private companies (Alexander Thain, 2022). Companies need additional capital when deciding to expand. The issuance of securities in the capital market is one way to get additional capital without depending on bank loans. Regarding the place used for securities transactions issued by related institutions or professions, namely the capital market (Flannery, 2017). Thus, the capital market functions as a place to bring together sellers and buyers who usually offer business fields such as stocks, sukuks, stock certificates, or securities in general.

The importance of Sukuk in Indonesia's financial sector has been widely acknowledged, mainly as it provides an alternative investment that adheres to Islamic principles (Setiawan, 2024). Despite their growth, gaps remain in understanding the factors influencing sukuk ratings in Sharia commercial banks. Previous studies have often focused on Sukuk ratings in broader contexts without explicitly examining the unique characteristics of Indonesia’s Islamic banking sector (Aman *et al.*, 2024). Additionally, some research has overlooked key financial variables such as ROA, ROE, and firm size, which play significant roles in determining creditworthiness. This lack of focus creates a research gap that limits stakeholders' ability to assess the risk and potential of Sukuk investments effectively (Ouma et al., 2024; Nyabaga et al., 2020).

Profitability is the ability of a company to earn profits in relation to sales, total assets, and capital. Profitability is a ratio used to assess a company's ability to obtain profits by providing the level of management effectiveness of a company (Ferri Alfadri et al., 2022). The greater the profit obtained from the sources, the greater the company's ability to pay off its debts, including sukuks, and this will affect the level of assessment of sukuk rating agencies. Profitability can be measured by financial ratios, namely Return On assets (ROA). ROA is used to measure the ability of bank management to obtain overall profits (Abdul Nasser Hasibuan et al., 2022).

Solvency is a ratio used to measure a company's ability to meet its obligations. The solvency ratio is used to measure the extent to which a company's assets are financed by debt, and the solvency ratio is used to measure the company's ability to meet all forms of obligations or debts (Nur Bayyinah, 2017). The larger this ratio, the more the company's assets are financed by debt, and the greater the risk in the accuracy of the company's sukuk forest extraction (Nisa & Hamidi, 2025). Good solvency management will be able to balance the high rate of return and the level of risk faced (Yenni et al., 2021). Company size is a company that is grouped on the basis of the scale of operations using benchmarks, namely total sales, total equity, and total assets (Utami, 2017). Logarithmic results from assets, sales, and internal-external activities can reflect the size of a company (Danmash et al., 2021).

**Table 1 Data on ROA, DER, Firm Size and Sukuk Rate**

| Year | ROA | DER | *Firm Size* | Sukuk Rate |
|---|---|---|---|---|
| 2015 | 0,751 | 72,813 | 22,688 | 13 |
| 2016 | 0,223 | 85,789 | 22,893 | 13 |
| 2017 | 11,227 | 238,522 | 22,878 | 14 |
| 2018 | 0,237 | 51,214 | 22,894 | 13 |
| 2019 | 0,118 | 34,445 | 23,133 | 13 |
| 2020 | 0,001 | 19,287 | 23,148 | 13 |
| 2021 | 5,671 | 31,590 | 23,392 | 13 |
| 2022 | 1,693 | 80,433 | 23,417 | 13 |

This study addresses these gaps by developing a quantitative model that evaluates the determinants of sukuk ratings in Sharia commercial banks in Indonesia. By analyzing key financial variables and employing a panel data regression approach, the research aims to fill the void left by previous studies and provide insights tailored to the Indonesian context. This model not only supports investors in making informed decisions but also equips regulators with a deeper understanding of the risks associated with sukuk, fostering stability and growth in the Islamic finance market. In this study, the researcher will examine several independent variables that can affect the level of sukuks, namely profitability, solvency, and company size.

## 2. Literature Review

### 2.1 Sukuk Rating

Sukuk is a feature of conventional and equity sukuks that strictly follow Islamic practices (Hasan & Parveen, 2019). Sukuk should not consist of additional costs such as interest (Riba'), and all agreements must be detailed and also straightforward to both parties, e.g., uncertainty (Radji & Lewis, 2015). Sukuk ratings are of utmost importance because they can help investors to make correct and informed investment decisions. The primary purpose of sukuk ratings is to reduce information asymmetry between companies and investors (Amalia & Nurnasrina, 2019). All sukuk must be assessed, and the rating must be updated annually to reflect the issuer's actual creditworthiness. Investors who are less careful and cannot predict the expected performance of sukuk are highly dependent on sukuk ratings (Vensca et al., 2024). Despite its strategic value, factors affecting sukuk ratings have been a concern for researchers lately. Various studies try to explain the determinants of sukuk longings, such as the board of directors (Elhaj, Muhammed, & Ramli, 2018); internal factors, such as profitability, leverage, liquidity, and reputation of auditors; external factors, such as macroeconomics and types of industries (Arudina, Kartiwi & Omar, 2016).

### 2.2 The Relationship between DER and Sukuk Rating

Debt to Equity Ratio measures the proportion of funds sourced from debt to finance a company's assets. The larger this ratio, the more significant the proportion of debt users in financing investments in assets, which also means that the company's financial risk increases (Elkasysyaf & Astuti, 2023). Research by Kurniasih (2019) shows that DER affects sukuk. With a positive relationship direction, it shows an increase in demand obtained by investors. The larger the DER, the greater the business profit channeled to pay off the company's obligations; in a study by Hamida (2017), it was found that DER has a positive effect on Sukuk.

### 2.3 The Relationship between ROA and Sukuk Rating

Profitability is one of the keys to financial ratios that measure the fundamental ability of a company to generate profits from sales and investment income. Profitability describes the level of efficiency and effectiveness of a company's operations in order to earn profits. In this research, the profitability ratio is proxied by Return On Assets (ROA). In research by Surya Asih and Irawan (2021), it was shown that the regression coefficient of ROA showed a negative sign; this means that an increase in ROA will lead to an increase in sukuk prices. Likewise, a decrease in ROA will lead to an increase in sukuk prices.

### 2.4 The Relationship between Firm Size and Sukuk Rating

Firm size is one of the factors that must be considered when determining investment; firm size significantly affects investment. Frim Size is a measure of the size of a company, which can be seen from the size of the equity value, selling value, and asset value. The size of the company will reflect the company's ability to finance its capital needs (investment opportunities) in the future. So, it can be said that the size of the company has a positive influence on investment (Ismail & Wahyundaru, 2020). Based on research, Setiawati et al. (2020) show that firm size does not have a direct influence on the ranking of Sukuk. This is because the sukuk rating in size measurement should be seen in terms of the company's liabilities rather than its total assets.

### 2.5 The Relationship between ROE and Sukuk Rating

According to Anggriani and Amin (2022), ROE is a performance indicator that will provide an overview of how well the company is able to generate a net profit on the equity invested. ROE is the key to assessing a company's competitiveness and sustainability. Through changes in managing its debt ratio, it can provide valuable insights for investors and stakeholders (Dewi & Soedaryono, 2023). Research conducted by Khan and Siddiqui (2018) found that the issuance of sukuk partially does not have a significant effect on the ROE of Sharia Banks. According to Djatnika (2021), the issuance of sukuk does not have a significant influence; the issuance of sukuk is not a source of external capital that has such an impact.

### 2.6 The Relationship between Stock Profit and Sukuk Rating

Stock profits and sukuk have an observable relationship through the influence of equity-based investment portfolios and Islamic debt-based instruments on investor returns. Sukuk is a Sharia securities that represents the ownership of certain assets or projects and provides fixed returns in accordance with Sharia principles. Meanwhile, stock profit comes from an increase in the value of shares or dividends distributed by issuers. Previous research has shown that sukuk-based investments can provide higher return stability over the long term, particularly during volatile stock market conditions (Ahmed & Rosly, 2018). In a mixed portfolio, the combination of Sukuk and stocks can increase portfolio efficiency as well as provide optimal diversification (Alvi & Noor, 2020). The results of this research are reinforced by other studies that found that diversification with sukuk reduces systematic risk and helps maintain the profitability of equity investments (Khan et al., 2022). Therefore, the relationship between stock profits and sukuk lies in the role of both in creating a balance between risk and return on investment.

## 3. Research Methods

This study adopts a quantitative approach using panel data regression to analyze the determinants of sukuk ratings for Islamic Commercial Banks in Indonesia. The data was obtained from the PT PEFINDO website, which consistently lists three Islamic Commercial Banks from 2021 to 2023. The independent variables in this research include Return on Assets (ROA), Return on Equity (ROE), Firm Size, Earnings Per Share (Stock Profit), and Debt-to-Equity Ratio (DER). In contrast, the dependent variable is the Sukuk Rating. Panel data regression analysis was employed, and model selection tests, including the Chow Test, Hausman Test, and Lagrange Multiplier Test, were conducted to determine the most appropriate model. Based on these tests, the Common Effect Model (CEM) was chosen as the best fit for the data. Statistical analysis was performed using RStudio software to ensure the accuracy and reliability of the results.

## 4. Results and Discussion

### 4.1 Result

#### 4.1.1 Regression Model and Statistical Tests

**Table 2 Panel Data Regression Model and Statistical Tests**

| Test Type | p-Value | Decision | Best Model |
|---|---|---|---|
| Chow Test | 0.1989 | p-value > 0.05 | Common Effect Model |
| Hausman Test | 0.01909 | p-value < 0.05 | Random Effect Model |
| Lagrange Test | 0.1338 | p-value > 0.05 | Common Effect Model |

In panel data regression analysis, several tests are conducted to determine the appropriate model between the Common Effect Model, Random Effect Model, or Fixed Effect Model. Here is an explanation of the results of the tests you mentioned:

Based on the R Result, because p-value = 0.1989 where the p-value > 0.05. The Chow Test is used to test if there is a significant difference between the pooled model (Common Effect Model) and a model that accounts for individual differences (Fixed Effect Model). A p-value > 0.05 indicates that there is no significant difference between these two models, suggesting that the Common Effect Model is more appropriate. Based on the R Result, because p-value = 0.01909 where the p-value < 0.05. The Hausman Test is used to compare the Random Effect Model and the Fixed Effect Model. A p-value < 0.05 suggests that the Fixed Effect Model is more appropriate. However, in this case, the low p-value indicates that the Random Effect Model might be better, assuming that individual-specific effects are uncorrelated with the explanatory variables.

Based on the R result, because p-value = 0.1338 where the p-value > 0.05. The LM Test is used to check if the pooled model (Common Effect Model) or the random effect model is more appropriate. A p-value > 0.05 indicates that there is no sufficient evidence to prefer the Random Effect Model, suggesting the Common Effect Model. Based on the results from Rstudio, the panel data regression model was obtained as follows:

**Sukuk Rating = (-77,089) + 5,114 ROA - 1,02 ROE + 3,195FRIM SIZE – 0,05 Stock Profit – 0,325 DER**

Intercept -77.089 is the constant term of the regression equation. It represents the predicted sukuk rating when all the independent variables (ROA, ROE, Firm Size, Stock Profit, and DER) are equal to zero. The coefficient for ROA is 5.114. This suggests that for every one-unit increase in ROA, the sukuk rating is expected to increase by 5.114 points, assuming all other variables are held constant. The coefficient for ROE is -1.02. This implies that for every one-unit increase in ROE, the sukuk rating is expected to decrease by 1.02 points, assuming all other variables are held constant. The coefficient for Firm Size is 3.195, meaning that for every one-unit increase in Firm Size, the sukuk rating is expected to increase by 3.195 points. The coefficient for Stock Profit is -0.05, suggesting that a one-unit increase in Stock Profit will result in a decrease of 0.05 points in the Sukuk rating. The coefficient for DER is -0.325, which indicates that a one-unit increase in DER results in a decrease of 0.325 points in the Sukuk rating.

### 4.1.2 Pearson Correlation Test

**Table 3 Key Metrics**

| Metric | Value |
|---|---|
| Pearson Correlation | 91.71% |

| | |
|---|---|
| Coefficient of Determination ($R^2$) | 77.895% |

This metric measures the strength and direction of the linear relationship between the observed values and the predicted values of sukuk ratings. A 91.71% correlation indicates a strong positive relationship. In other words, the model does a good job of predicting the sukuk rating based on the independent variables.

#### 4.1.3 Coefficient of Determination ($R^2$)

$R^2$ represents the proportion of the variance in the dependent variable (Sukuk Rating) that is predictable from the independent variables (ROA, ROE, Firm Size, Stock Profit, DER). An $R^2$ value of 77.895% means that approximately 77.9% of the variation in Sukuk ratings can be explained by the five independent variables in the model. The remaining 22.1% of the variation is due to other factors not included in the model.

#### 4.1.4 Statistical Tests

**Table 4 Statistical Tests on Independent Variables**

| Variable | Significance | Impact on Sukuk Ratings |
|---|---|---|
| ROA | Significant | Positive impact (5.114) |
| ROE | Significant | Negative impact (-1.02) |
| Firm Size | Significant | Positive impact (3.195) |
| Stock Profit | Significant | Negative impact (-0.05) |
| DER | Not Significant | Negative impact (-0.325) |

This variable is significant, meaning that it has a statistically meaningful relationship with Sukuk ratings. The positive impact (5.114) indicates that as ROA increases, the sukuk ratings tend to increase as well. A higher ROA suggests that the company is generating more profit relative to its assets, which positively affects investor confidence and, thus, sukuk rating. ROE is also significant. However, the impact is negative (-1.02), meaning that as ROE increases, sukuk ratings tend to decrease. This could suggest that a higher ROE while indicating strong profitability, might also be linked with increased risk (for example, excessive leverage), which negatively impacts Sukuk ratings.

This variable is significant, and its impact on the sukuk rating is positive (3.195). Larger firms are often perceived as more stable, which can lead to higher Sukuk ratings. The larger the firm, the better it can diversify risk, improving its ability to meet sukuk holder obligations. Significant with a negative impact (-0.05). This suggests that as stock profit increases, sukuk ratings decrease slightly. While stock profit growth might indicate better market performance, it could also imply that profits are volatile or speculative, potentially raising concerns among sukuk investors. This variable is not significant, meaning it does not have a meaningful impact on the sukuk rating based on the analysis. However, it does show a negative impact (-0.325), indicating that when the DER increases, sukuk ratings tend to decrease, but this relationship is not strong enough to be considered statistically significant.

### 4.2 Discussion

The analysis of the relationship between financial variables and sukuk ratings provides valuable insights into how different financial performance indicators influence investor perceptions and creditworthiness.

#### 4.2.1 Return on Assets (ROA) and Sukuk Rating

The findings indicate that ROA has a significant and positive impact on sukuk rating, with a coefficient of 5.114. This aligns with the theoretical framework, suggesting that a higher ROA reflects a company's ability to utilize its assets to generate profits efficiently. Return on Asset (ROA) is a financial performance indicator that measures the company's ability to generate profits from the total assets owned. A high ROA shows the efficiency of the company's asset management in creating profitability. In the context of sukuk rating, ROA is one of the important variables that rating agencies pay attention to because it reflects the company's financial health and ability to meet its obligation to pay returns to sukuk investors. Companies with high ROA tend to get better sukuk ratings, as they are considered to have lower financial risk and a strong ability to maintain payment stability to sukuk holders. According to previous studies, firms with higher ROA are perceived as financially healthier and more capable of meeting debt obligations, leading to improved sukuk ratings. The positive association is supported by agency theory, which posits that efficient asset utilization mitigates agency costs and enhances firm value, thereby fostering investor confidence.

#### 4.2.2 Return on Equity (ROE) and Sukuk Rating

Despite its importance as a profitability measure, the analysis reveals that ROE has a significant but negative impact on the sukuk rating (-1.02). This counterintuitive finding suggests that higher ROE might be linked with increased financial risk, such as higher leverage levels. A high Return on Equity (ROE) is usually considered a positive indicator of a company's ability to generate profits from shareholders' capital. However, in some cases, a high ROE can have a negative effect on the sukuk rating. This can happen if a high ROE results from the use of significant debt, which increases the company's financial risk. Companies that rely too heavily on debt to maximize equity can face liquidity and financial stability issues, which in turn reduces their ability to meet sukuk payment obligations. This result resonates with prior research indicating that excessive reliance on debt to enhance equity returns can compromise a firm's financial stability, ultimately lowering sukuk ratings. The pecking order theory supports this notion, arguing that firms preferring debt financing over equity issuance may face more significant financial distress, which sukuk rating agencies consider when evaluating creditworthiness.

### 4.2.3 Firm Size and Sukuk Rating

Firm size demonstrates a significant and positive effect on the sukuk rating, with a coefficient of 3.195. Larger firms generally have greater access to financial resources, diversified revenue streams, and established market positions, which contribute to their perceived stability. Firm size or company size is one of the important factors that affect the sukuk rating. The size of a company is typically measured based on total assets, revenue, or market capitalization. Large companies tend to have more stable financial structures, easier access to funding sources, and better resilience to business and economic risks. This makes companies with large firm sizes more trusted by rating agencies in fulfilling financial obligations to sukuk holders. Previous empirical studies corroborate this relationship, emphasizing that large firms benefit from economies of scale, risk diversification, and more substantial market influence, all of which positively influence their Sukuk ratings. Resource-based theory further supports this perspective by highlighting how large firms leverage their assets and capabilities to enhance financial resilience.

### 4.2.4 Stock Profit and Sukuk Rating

The analysis indicates that stock profit has a significant but negative effect on the sukuk rating (-0.05). This finding suggests that an increase in stock profits, while beneficial from an equity market perspective, may introduce concerns regarding profit volatility and speculative investment behavior. High stock profits are usually a positive indicator of a company's performance, but in some conditions, they can have a negative effect on the sukuk rating. This happens if the increase in stock profits is caused by market speculation that does not reflect the company's healthy fundamentals. Stock price movements that are too volatile or an increase in stock profits that are not balanced with the company's financial stability can increase overall investment risk, including for sukuk holders. Companies that focus too much on increasing stock profits can ignore long-term obligations such as sukuk yield payments. Previous research has shown that high stock returns often correlate with increased market speculation and earnings management practices, which can undermine sukukholder confidence. The trade-off theory of capital structure explains this dynamic by emphasizing the conflicting interests between equity and debt investors.

### 4.2.5 Debt-to-Equity Ratio (DER) and Sukuk Rating

Although the DER variable exhibits a negative impact on the sukuk rating (-0.325), it is not statistically significant. This implies that while higher leverage levels may raise concerns about financial risk, their effect on Sukuk ratings is not strong enough to draw definitive conclusions. Debt to Equity Ratio (DER) is an indicator that measures the proportion of debt to a company's equity. Although DER is often used to assess a company's financial risk, in the context of Sukuk ratings, its effect is not always significant. This is because sukuk rating agencies focus more on the company's ability to comply with Sharia principles and consistency in yield payments rather than just the debt-to-equity ratio. Previous studies have provided mixed results on the influence of leverage on Sukuk ratings, with some suggesting that moderate debt levels can enhance value through tax benefits. In contrast, excessive leverage may increase default risk. The findings align with the signaling theory, where firms with high leverage might send negative signals to sukuk investors, affecting their credit assessments.

## 5 Conclusions

This study models the Sukuk Rating for Islamic Commercial Banks in Indonesia by examining the effects of several financial variables, including ROA, ROE, Firm Size, Earnings Per Share, and DER. The regression analysis using the Common Effect Model (CEM) approach found that ROA, ROE, Firm Size, and Earnings Per Share significantly influence Sukuk ratings. In contrast, DER does not have a significant effect. The regression model demonstrates that 77.895% of the variance in Sukuk ratings can be explained by the selected independent variables, highlighting the model's robustness. The novelty of this research lies in its focus on Islamic Commercial Banks in Indonesia, contributing to the limited literature on Sukuk ratings. The study offers practical implications for stakeholders, suggesting that Islamic banks should prioritize enhancing key financial metrics to strengthen Sukuk ratings and attract investors. These findings provide valuable insights for policymakers and financial institutions aiming to foster the growth and sustainability of Islamic financial instruments in Indonesia.

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