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# What Are the Factors Affecting the Sukuk Rating in Indonesia?

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| Article Information | Abstract |
|---|---|
| | This study aims to identify the determinants of Indonesia's corporate Sukuk rating and attempts to find out which determinant has the most significant impact. The framework tries to establish a relationship between a firm's size, profitability, leverage, growth, Sukuk guarantee status, and types of Sukuk with Sukuk rating from the perspective of agency theory. Ordinary linear square regression is then used to find out the significant determinants of the Sukuk rating. This study found that only three variables significantly impact Sukuk's rating. The results showed that firm size, leverage, and type of Sukuk had a significant effect on the Sukuk rating, while profitability, guarantee status, and growth had no significant effect on the Sukuk rating. The results of this study have important implications for industry players, particularly issuers, investors, and policymakers. |
| | **Abstrak**<br>Penelitian ini bertujuan untuk mengidentifikasi peringkat sukuk perusahaan Indonesia dan mencoba untuk mengetahui determinan mana yang memiliki pengaruh paling signifikan. Kerangka tersebut mencoba membangun hubungan antara ukuran perusahaan, profitabilitas, leverage, pertumbuhan perusahaan, status penjaminan sukuk, dan jenis sukuk dengan peringkat sukuk dari perspektif Agency Theory. Studi ini menemukan bahwa hanya tiga variabel yang berpengaruh signifikan terhadap sukuk rating. Hasil penelitian menunjukkan bahwa firm Size, leverage, dan type of sukuk berpengaruh signifikan terhadap sukuk rating, sedangkan profitabilitas, guarantee status, dan growth tidak berpengaruh signifikan terhadap sukuk rating. Implikasi pada penelitian ini mencari variabel apa saja yang mempengaruhi sukuk rating. Hasil penelitian ini memiliki implikasi penting bagi pelaku industri, khususnya perusahaan penerbit, investor, dan pembuat kebijakan. |

## 1. Introduction

Indonesia is the second-largest country in the issuance of Sukuk, both state Sukuk, and corporate Sukuk. Indonesia accounts for 10% of Sukuk publishing worldwide. This number ranks Indonesia as the third-largest publishing country in the world. First place was Malaysia (46%), followed by the Gulf Cooperation Council (26%) consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates (IIFM, 2019).

The high growth of Sukuk from year to year shows that investor confidence in Sukuk is increasing, so many companies are issuing Sukuk. According to the data published by OJK, there are 143 Sukuk consisting of 93 Sukuk with Ijarah agreement, 44 Sukuk with Mudharabah agreement, 6 Sukuk with Wakalah agreement. Sukuk becomes one of the investment options because it has an advantage compared to other investments, such as providing income or a more competitive profit-sharing ratio, and is paid monthly (OJK, 2020).

The Sukuk rating is an indicator of the timeliness of principal and margin payments to a predetermined maturity. An independent rating agency issues Sukuk ratings. The Indonesian Securities Rating Agency (PEFINDO) is a separate debt securities rating agency. The Sukuk rating reflects the risk scale of all traded Sukuk, which shows the scale of the security of the Sukuk in paying its principal obligations and income promptly. The higher the rating, the more it indicates that the Sukuk is protected from the risk of default (Haraqi and Ningsih, 2017).

In this study, the researchers added a model of the Sukuk rating size approach based on Maqasid Syari'ah, which was needed in screening Sukuk that was closer to Islamic principles. Maqasid Syari'ah benchmarks with Islamic financial instruments in the religious category. Basic rights in the maintenance of religion or sharia so that the financial mechanism of sharia bonds (Sukuk) has and applies sharia values by carrying out da'wah on using the concept of rating Sukuk with Islamic values investors who want to invest in the Sukuk market.

Rating is a key indicator that is often seen by investors to measure the level of risk and return of Sukuk. The better the rating owned by Sukuk; the more attention will be paid by investors (Purwaningsih, 2013). Sukuk rating research by Borhan and Ahmad (2018) shows that three variables affect Sukuk rating, namely profitability (ROA), guarantee status, and type of Sukuk. In addition, Elhaj et al. (2015) research shows that Sukuk types positively affect Sukuk ratings. This research contradicts Malia and Andayani (2015) which showed that profitability cannot be influenced by Sukuk ratings. Murcia et al. (2014) and Raimuna and Mutia (2018) also found that leverage and liquidity can't affect Sukuk ratings.

The objective of this study is to find variables that are significant to the independent variables as follows; firm size, profitability, guarantee status, type of Sukuk, leverage, growth. This study adds Maqasid sharia as an approach in determining the rating of Sukuk that is close to Islamic sharia and is described in a Literatures study. The contribution of this research to stakeholders is to find out the most significant Sukuk on the variables tested so that it is easier to filter out the Sukuk that will be invested. For literature and researcher is found that this variable was not significant and significant because it was influenced by several factors such as differences in years, annual reports, and types of Sukuk issued.

The high growth of Sukuk from year to year shows that investor confidence in Sukuk is increasing, so many companies are issuing Sukuk. According to the data published by OJK, there are 143 Sukuk consisting of 93 Sukuk with Ijarah agreement, 44 Sukuk with Mudharabah agreement, 6 Sukuk with Wakalah agreement. Sukuk becomes one of the investment options because it has an advantage compared to other investments, such as providing income or a more competitive profit-sharing ratio, and is paid monthly (OJK, 2019).

This is due to the nature of the Sukuk which is a relatively safe investment instrument. income that is obtained from this Sukuk comes from the proper use of funds and is guaranteed by real assets. Besides being safe, Sukuk are also safe has been effectively used as a funding instrument for various state financial needs, both short-term and long-term (Kholis, 2011). Because the data from the OJK about the company's growth is increasing, it is necessary to examine why investors believe in corporate Sukuk as an investment instrument. Novelty in this study has managed to fill the gap in the existing literature because there are limited studies that focus on determinants of Sukuk rating in the context of Indonesia. However, several limitations may have impacted the results. First, the sample size used is relatively small because many selected Sukuk issuances failed

to meet the criteria intended for this study. The objectives of this study are testing the influence of firm size, profitability, guarantee status, type of Sukuk, leverage, growth on corporate Sukuk rating in Indonesia.

## 2. Literatures Review and Hypothesis
### 2.1 Literatur Review
2.1.1 Agency Theory

Agency theory explains the conflict of interest between shareholders and company managers. The theory states that Agents or managers may not always act in the best interest of shareholders when the control of a company is separate from its owner. Managers might be satisfiers rather than maximizers they tend to play it safe and seek an acceptable level of growth because they are more concerned with perpetuating their existence than with maximizing the value of the firm to its shareholders. But shareholders delegate decision-making authority to the agent (CEO) in their best interest (Bonazzi and Islam, 2007).

Agency theory explains the conflict of interest between shareholders and company managers. Agency problems occur due to the separation of ownership and control within the company resulting in potential conflicts between owners and managers (Sutino and Khoiruddin, 2016). The agency's conflict resulted in the opportunistic nature of management which would result in low-profit quality. Low quality of profit can lead to mistakes in decision-making, so the company's value will be reduced in the future (Prasetiyo and Rahardjo, 2010).

2..1.2 Sukuk

Sukuk in economic terms means a legal instrument, deed or check, while etymologically derived from Arabic صكوك which is a form of Jama' from the word صك (ṣakk), which means financial certificate and is similar to Sukuk.[1] Sukuk is explained in the Qur'an in surah Al-Baqarah verse 282, which reads:

يَا أَيُّهَا الَّذِينَ آمَنُوا إِذَا تَدَايَنْتُمْ بِدَيْنٍ إِلَىٰ أَجَلٍ مُسَمًّى فَاكْتُبُوهُ ۚ وَلْيَكْتُبْ بَيْنَكُمْ كَاتِبٌ بِالْعَدْلِ ۚ وَلَا يَأْبَ كَاتِبٌ أَنْ يَكْتُبَ كَمَا عَلَّمَهُ اللَّهُ

*O you who have believed, when you contract a debt for a specified term, write it down. And let a scribe write [it] between you injustice. Let no scribe refuse to write as Allah has taught him…" (Q.S. Al- Baqarah: 282).*

2.1.3 Benefits of Sharia Bonds (Sukuk)

Religion (Hifdzu ad-Din) is creating benchmarks of Islamic financial instruments (promoting Islamic values in financial products) Developing alternative investment instruments (one of the sharia-based investment models that will be supervisory so that Muslims will be able to financially and will not be shaken by their sense of faith in their God).

Soul (Hifdzu an-nafs) is financing the construction of infrastructure projects (construction of factories or state-owned enterprises/BUMD to accommodate productive age workers) Encourages the Growth and Development of Sharia Financial Markets in Indonesia (professional workers can fill opportunities in the Islamic financial industry).

Intellect (Hifdzu al-aql) is financing the construction of infrastructure projects (Schools, Madrasah, Boarding Schools and other educational institutions, both formal and informal) Optimizing the utilization of State Property (BMN) (it is expected that human resources can be creative and innovate, this is part of maximizing the potential of the reason that God gives to humans). Hereditary (Hifdzu an-Nasl); Encouraging the Growth and Development of Sharia Financial Markets in Indonesia (professional workers get wages/salaries from their jobs to support their families).

Property (Hifdzu al-Mal) is expanding the alternative sources of state budget financing (this is in the public interest, namely the public as a whole) Optimize the utilization of State Property (BMN) (BMN profits will benefit the public in general) Strengthen and increase the role of the domestic-based financial system (The state can manage well and people itself will feel the results) Expanding and diversifying the investor base Developing alternative investment instruments (seas one of the sharia-based investment models to accommodate the interests of Muslims, in general, the wider community) (Haerisma, 2017).

## 2.2 Previous research

There is a difference between this study and Borhan and Ahmad's (2018) research. Born and Ahmad's (2018) research uses multi nominal Logistic, while this study uses panel data regression and new variables in leverage and growth. The object examined in this study is corporate Sukuk in Indonesia which was listed on the stock exchange for five years in the 2015 and 2019 periods. Previous research examined 43 Sukuk in Malaysia. The similarity with this research is the use of variables. The variables used are company size, profitability, guarantee status, and Sukuk structure as a tool to test. Previous research has shown that 3 variables have a significant effect on Sukuk rating, namely profitability, guarantee status, while the size of the company does not affect Sukuk rating

The difference between this study and Purwaningsih (2013) is consistently corporate Sukuk issued for five consecutive years by the IDX period 2015-2019, while the object in Purwaningsih (2013) examined at earlier research was Sukuk in 2009-2012. The variables in this study are also different, namely firm size, profitability, guarantee status, type of Sukuk, leverage, and growth. The equation of this study is using the same variables, namely liquidity ratio, leverage, secure, and maturity variables. This research uses Eviews data processing, while previous research using SPSS shows a difference between SPSS and Eviews, namely in determining the model technique. The results showed that the study could use leverage, secure liquidity, and maturity ratios to predict Sukuk ratings in companies.

The research of Elhaj et al. (2015) had similarities with this study, namely the variables Sukuk structure and Sukuk rating. The difference in this study is used variables of firm size, profitability, guarantee status, type of Sukuk, leverage, and growth. The method is used Ordered Logit Regression Model, while this study used Regression Panel Data. The object examined in the previous research was Corporate Sukuk issued by the Malaysian Rating Corporation Berhad (MARC) for the 2008-2013 period, while this study was the corporate Sukuk ranked by PT Pefindo and listed on the Indonesia Stock Exchange (IDX) in the 2015-2019 period. The results showed that corporate governance, financial ratios, and Sukuk structure have significant influences on Sukuk ratings. The findings in this paper also suggest that Sukuk ratings are negatively related to financial leverages and positively related to profitability and issue size.

The difference between this research and Pebruary (2016) is used several variables of firm size, guarantee status, type of Sukuk, and growth, while the equation was used leverage, profitability, and Sukuk rating, while the equation is used leverage, profitability, and Sukuk rating variables. The results showed that profitability and leverage had a more significant influence than liquidity and interest income variables.

There is a difference between this study and Pramesti (2017) are used firm size, profitability, guarantee status, type of Sukuk, leverage, and growth variables, while Pramesti's (2017) research used profitability, firm size, and liquidity variables. The method of Pramesti's (2017) research used multiple linear regression, while this study used panel data regression processed in Eviews. The results showed that profitability, liquidity, and company size affect Sukuk's rating.

Haraqi and Ningsih (2017) research used Return on Assets (ROA), guarantee status, and maturity showed that ROA and maturity affect Sukuk rating, while guarantee status does not affect it. The difference

between this study and Haraqi and Ningsih's (2017) research was used firm size, profitability, guarantee status, type of Sukuk, leverage, and growth variables.

The difference between this study and Ni'mah et al. (2020) research was used firm size, profitability, guarantee status, type of Sukuk, leverage, and growth, while Ni'mah et al. (2020) was used ROA, Current Ratio, Debt to Equity Ratio, Growth, Securities Structure, Maturity, Bond Ratings, Sukuk Ratings. The method used in the previous study used Ordinal Logistic Regression, while this study used Panel Data Regression. Based on the results of the discussion, it can be concluded that leverage, firm size, security structure, and maturity date affect the probability of high or low corporate bond ratings, while profitability and liquidity are insignificantly influenced. Profitability, liquidity, and maturity date have a significant negative effect on the probability of high or low corporate Sukuk ratings, whereas leverage, firm size, and securities structure insignificantly influence ratings.

The difference between this study and the previous research above lies in the variables used, namely company size, profitability, guarantee status, type of Sukuk, leverage, growth using panel data analysis techniques. Meanwhile, other studies use different analytical techniques, including Ordinal Logistic Regression, Multiple Linear Regression, or the Ordered Logit Regression Model.

**2.3 Hypothesis Development**

2.3.1 Is Firm Size affect the rating of corporate Sukuk in Indonesia?

Sukuk rating research conducted by Borhan and Ahmad (2018) shows that the firm's size does not affect Sukuk's rating. This research contrasts with Murcia et al. (2014) study, which shows that firm's size has a positive relationship with credit ratings. Larger companies have a higher ability to absorb the impact of an economic crisis than smaller companies. Theory agency states that Firm Size is one component in investment policy. Large companies, in general, will be more transparent in carrying out their operational activities because the company will be more attentive to external parties, such as governments, investors, and creditors, to maximize the company's performance. It provides a contractual relationship that the company's size becomes one way to analyze if the company is feasible or not invested.

H1: Firm size affects sukuk rating

2.3.2 Is profitability affect the rating of corporate Sukuk in Indonesia?

Borhan and Ahmad (2018) and Elhaj et al. (2015) show that profitability affects Sukuk's rating. At the same time, Malia and Andayani (2015), Kusbandiyah and Wahyuni (2014), and Kurnianto (2016) state that profitability does not affect Sukuk's rating. Agency theory stated that the company's positive effect is due to various provisions of antitakeover and shareholder protection. It shows that high profitability illustrates that the company's performance is good. Otherwise, low profitability indicates that the company's performance has decreased. This increase and decrease are what managers avoid regarding performance assessment because investors prefer stability and income binding rather than volatile income. Investment decisions towards corporate Sukuk are more feasible to a place of investment.

H2: Profitability affects Sukuk rating

2.3.3 Is guarantee Status affect the rating of corporate Sukuk in Indonesia?

Borhan and Ahmad (2018) research stated that guarantee status has a significant influence on Sukuk rank. The study contradicts John et al. (2010) research which shows that bonds with similar ratings are valued differently. This research indicates that the bond guarantee status only impacts the bond price, but not its rating. Theory agency states that the guaranteed Sukuk will provide protection indirectly provided by the issuer as a Sukuk issuer to investors as Sukuk holders. Sukuk issued with guarantees will attract more investors to invest.

H3: Sukuk guarantee status affects sukuk rating

2.3.4 Is the type of Sukuk affect the rating of corporate Sukuk in Indonesia?

Research conducted by Borhan and Ahmad (2018) shows that the type of Sukuk has a positive influence on the Sukuk rating. In addition, this variable was also studied by Elhaj et al. (2015) Considering the impact of the Sukuk structure on the Sukuk rating. The research results show that the Sukuk structure positively influences the Sukuk. Research by Goldlewski et al. (2014) found that the market reacted positively to the issuance of Ijarah Sukuk compared to Musyarakah Sukuk because Ijarah Sukuk is debt-based instruments are not too risky. At the same time, Musyarakah Sukuk is based on the principle of profit and loss sharing. Agency theory states that the type of Sukuk has a positive impact on the Sukuk rating. This research shows that the Ijarah Sukuk is positively related to the Sukuk structure and the Sukuk rating relationship. the company's Sukuk structure makes a positive contribution to the Sukuk rating. Type of Sukuk is an essential factor that can help to find out the Sukuk from the Islamic finance literature.
H4: Type of sukuk affects sukuk rating

2.3.5 Is leverage affect the rating of corporate Sukuk in Indonesia?

Another financial factor is the leverage that can indicate the use of debt and the company's ability to pay debts. Debt is considered leverage that can increase the company's ability to make a profit Anwar (2019). The greater the risk faced by investors, the lower the Sukuk rating Pebruary (2016). research conducted by Murcia et al. (2014) and Purwaningsih (2013) stated that leverage affects Sukuk ratings, while Raimuna and Mutia (2018) find that liquidity and leverage do not affect Sukuk ratings. The theory that underlies Leverage (DER) is Agency Theory. The leverage ratio measures the balance of the proportion between assets funded by creditors and funded by company owners. If the leverage ratio is high, it means the company has a considerable enough debt, so the risk borne is also considered because there is a possibility that the company will have difficulty paying off its debts. The company will get a low rating when it has a high leverage ratio.
H5: Leverage affects Sukuk rating

2.3.6 Is growth affect the rating of corporate rating in Indonesia?

Arisanti et al. (2014) research stated that the company's growth does not affect the rating of Islamic bonds. This study is in contrast to Dewi and Mahardika (2019) and Saputri and Purbawangsa (2016) which state that company growth has a positive effect on bond ratings. Agency theory states that the calculation of firm growth is positively related to investor decisions by looking at the company's financial performance, which is a picture of the condition of a company. Funding activities will affect bond ratings and yields. Companies that have good cash flow will attract investors and have a high rating so that it has a positive effect on the Sukuk rating.
H6: Growth affects Sukuk rating

**3. Data and Method**

The population in this study is the index data of Sukuk corporation in Indonesia. Determination of the sample in this study using purposive sampling method with criteria determined by the researcher as follows Sukuk issued by corporations in the 2015-2019 period, issuers have published financial reports from 2015-2019 period both on the Indonesia Stock Exchange and their respective company websites, and consistent for five years from the initial issuance of the Sukuk. Samples will be taken in 5 years with index data each month, so the sample obtained in this study amounted to 125 samples.
The data source in this research is from www.ojk.go.id and www.pefindo.com. Data analysis techniques using data panel regression with the following research models:

$$SR_{it}= a+\beta_1 FR_{it} +\beta_2 ROA_{it} +\beta_3 DER_{it} +\beta_4 SGS_{it} +\beta_5 GR_{it} +\beta_6 TS_{it} +\varepsilon_{it}$$

where   Sukuk rating = Categorical variable 1 for Sukuk rated idAAA (sy); 2 for Sukuk rated idAA(sy); 3 for Sukuk rated idA(sy); 4 for Sukuk rated idBBB(sy); 5 for Sukuk rated idBB(sy)

FR= natural logarithm (total asset)

ROA= net income/total asset

DER= total liability/total equity

SGS= a dummy 1 for those guarantees Sukuk; Dummy 0 for a company that does not guarantee their Sukuk GR= total asset t – total asset t–1/total asset t–1

TS= a Dummy 1 for akad Ijarah; Dummy 0 for akad Mudharabah

## 4. Results

The findings of this research are divided into four sub-sections, as shown below. The first part describes the result analysis, which explains the correct model method between the three models, namely the common effect model, fixed effect model, random effect model. The second part presents the classic assumption test, which consists of the normality test, multicollinearity test, heteroscedasticity test, and autocorrelation test. The third part is about hypothesis tests, and there are three tests, namely Coefficient of Determination Test (R2), Model Feasibility Test (F-Test), and Independent Variables Significance Test (t-Test).

### 4.1 Result Analyze

Research on this paper using data panel regression model. Regression model testing conducted in this study included:

Chow test is a test to determine the most appropriate Common Effect (OLS) or Fixed Effect model used in estimating panel data. Decision-making criteria:

If F Count >F table then the better model is Fixed effect

If F Count <F table then a better model is Common effect

Here are the test results:

**Table 1. Chow Test**

| Effect Test | Statistic | d.f | Probability |
| --- | --- | --- | --- |
| Cross-section F | 34.622095 | (24,94) | 0.0000 |
| Cross-section Chi-square | 285.802946 | 24 | 0.0000 |

The chi-square cross-section probability value is more than the alpha probability value, so the fixed effect model is used.

Hausman Test Hausman test is a statistical test to choose whether the Fixed Effect or Random Effect model is the most appropriate to use. Decision-making criteria:

If Chi-square count > Chi-square table then the better model is Fixed effect

If Chi-square count < Chi-square table then the better model is Random effect

**Table 2. Hausman Test**

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
| --- | --- | --- | --- |
| Cross-section random | 61.076076 | 6 | 0.0000 |

The value of the chi-square distribution is 61.076076 with a probability of 0.000 (less than 5%), so the correct model used is the Fixed effect estimation model (Agung, 2014).

**4.2 Classic Assumption Test**

4.2.1 Normality Test
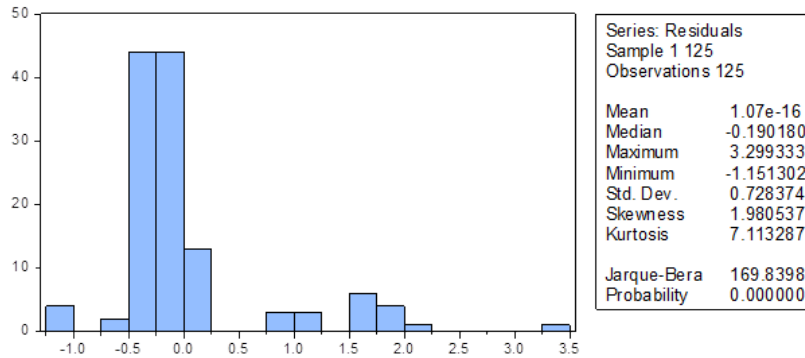


**Picture 1. Normality Test**

The Normality Test is not a BLUE (Best Linear Unbias Estimator) requirement based on the Central Limit Theorem, which states that data with a sample size of more than 100 samples is considered normal. The normality test is intended for data with a small selection so that the standard with a large model can be assumed to be expected. The normality test is only used if the number of objects is less than 100 to determine whether the error term is close to a normal distribution. If the number of observations is more than 100 objects, the Normality Test can be passable because the distribution of the sampling error term is close to normal (Gujarati and Porter, 2009).

4.2.2 Multicollinearity Test

**Table 3. Multicollinearity Test**

| Variable | Coefficient Variance | Uncentered VIF | Centered VIF |
|----------|---------------------|----------------|--------------|
| C | 0.486947 | 109.1799 | NA |
| FR | 0.001273 | 103.3434 | 1.570611 |
| ROA | 8.283370 | 1.713665 | 1.095713 |
| DER | 0.000166 | 1.338672 | 1.139066 |
| SGS | 0.057440 | 2.472752 | 1.997984 |
| GR | 0.117708 | 1.330757 | 1.227614 |
| TS | 0.031119 | 5.414403 | 1.212826 |

There is no high correlation between independent variables above $> 10$, so it can be said that there is no multicollinearity between independent variables.

4.2.3 Heteroscedasticity Test

**Table 4. Heteroscedasticity Test**

| Heteroskedasticity Test: Breusch-Pagan-Godfrey | |
|-----------------------------------------------|---|
| F-statistic | 1.243404 |
| Obs*R-squared | 7.433047 |
| Scaled explained SS | 20.24677 |
| Prob. F (6,118) | 0.2892 |

| Prob. Chi-Square (6) | 0.2826 |
|---|---|
| Prob. Chi-Square (6) | 0.0025 |

There is no problem with heteroskedasticity because the probability of the six variables is more than 0.05 (Ghozali and Ratmono, 2017).

4.2.4 Autocorrelation Test

**Table 5. Autocorrelation Test**

| Breusch-Godfrey Serial Correlation LM Test: | |
|---|---|
| F-statistic | 42.40147 |
| Obs*R-squared | 52.78990 |
| Prob. F (2,116) | 0.0000 |
| Prob. Chi-Square (2) | 0.0000 |

LM test results are the same as the Durbin-Watson test, which suggests an autocorrelation in the regression model. Autocorrelation treatment uses the differentiation method by adding the estimated differentiation to the estimated Eviews (Winarno, 2017).

**Table 6. Autocorrelation LM Test**

| Breusch-Godfrey Serial Correlation LM Test: | | | |
|---|---|---|---|
| F-statistic | 1.785337 | Prob. F (2,115) | 0.1724 |
| Obs*R-squared | 3.734175 | Prob. Chi-Square (2) | 0.1546 |

After the differentiation, the result of Obs*R-squared is 0.1546, which means that above > 0.5%, so there is no autocorrelation.

**4.3 Hypothesis Tests**

**Table 7. Hypothesis Test Result Use Fixed Effect Method**

| Variable | t-Statistic | Probability |
|---|---|---|
| C | -1.945188 | 0.0547 |
| FR | 2.358619 | 0.0204 |
| ROA | 1.816707 | 0.0724 |
| DER | -6.472476 | 0.0000 |
| SGS | 0.197699 | 0.8437 |
| GR | -0.187913 | 0.8513 |
| TS | 6.122948 | 0.0000 |
| R-squared | 0.930726 | |
| Adjusted R-squared | 0.908618 | |
| S.E. of regression | 0.266693 | |
| Sum squared resid | 6.685741 | |
| Log-likelihood | 5.653724 | |

| F-statistic | 42.09789 |
|---|---|
| Prob(F-statistic) | 0.000000 |

4.3.1 Coefficient of Determination Test (R2)
The R-squared is 0.908618 so that it can explain the dependent variable of 90.86%. At the same time, the rest of the other variables outside the model can explain 9.14%.

4.3.2 Model Feasibility Test (F Test)
The regression results show that the probability value (F-statistics) is 42.09789, where is the calculated of F value > F Table (9.185695 > 2.1750) or significance < 0.05 (0.000000 < 0.05). This indicates that the model is feasible. The firm size, ROA, guarantee status, type of Sukuk, DER, and growth variable simultaneously affect the Sukuk rating.

4.3.3 Independent Variables Significance Test (T-Test)
Firm size, DER, and type of Sukuk partially have a significant effect on the Sukuk rating because the probability value is less than 0.05, while ROA, guarantee status, growth partially has no significant effect on the Sukuk rating because the probability value is greater than 0.05.

**5. Discussion**
The effect of firm size on Sukuk rating is significant. These results are supported by Murcia et al. (2014), Pribadi and Wibowo (2019), Elhaj et al. (2015), Yoshua and Asandimitra (2021) states that firm size is significant to the Sukuk rating. The larger a company's size reflects its asset numbers, the higher the company's Sukuk rating. This data may occur because a company with many assets can guarantee all its obligations, including a maturity obligation for Sukuk and regular profit-sharing duties for Sukuk investors, thereby reducing the risk of default. Agency theory states that Firm Size is one component in investment policy. Large companies, in general, will be more transparent in carrying out their operational activities because the company will pay more attention to external parties such as the government, investors, and creditors to maximize company performance. Contractual relationship Provides that company size is one way to analyze whether a company is worth investing in or not (Murcia et al., 2014).

The effect of ROA on to Sukuk rating is insignificant. These results are supported by Elhaj et al. (2015), Nyamboga et al. (2014), Cultrera and Bredart (2016), and Meirinaldi and Astuti (2017) state that profitability is insignificant to Sukuk rating. The probability of bankruptcy was higher for firms with lower liquidity, profitability, debt structure, and added value ratios; their research suggests that the smaller and younger Belgian SMEs are more likely to go bankrupt. Therefore, we recommend that these firms closely follow up the evolution of the key analyzed ratios. Agency theory states that the company's positive impact is due to various anti-takeover provisions and shareholder protection. High profitability describes a good company performance. On the other hand, low profitability indicates that the company's performance has decreased. These increases and decreases are things that managers avoid in terms of performance appraisals because investors prefer stability and binding earnings over volatile earnings. Investment decisions on corporate Sukuk are more suitable for a place of investment (Elhaj et al., 2015).

The effect of Leverage (DER) on Sukuk's rating is significant. These results are supported by Murcia et al. (2014), Hamid et al. (2014), and Saputri and Purbawangsa (2016) state that leverage is significant to Sukuk's rating. The amount of debt used compared to the amount of equity can increase the risk. The company is related to financial difficulties, but the study results show that leverage affects the bond rating because not all companies with high leverage levels will experience default. The company can manage the funds borrowed

properly, and they will be able to make a profit. For example, the company uses it to expand, add new products, make investments, and open factories to get a yield greater than the loan that the company can use to pay its obligations. So not all companies financed by capital from external parties will get a rating. Low or non-invested grade bonds. Agency theory states that the leverage ratio measures the balance of the proportion between assets funded by creditors and funded by company owners. A company will get a low rating when it has a high leverage ratio. If the leverage ratio is high, the company has a reasonably large debt, so the risk borne is also considered because there is a possibility that the company will have difficulty paying off its debts (Murcia et al., 2014).

The effect of guarantee status on Sukuk rating is insignificant. These results are supported by John et al. (2010), Haraqi and Ningsih (2017), and Saputri and Purbawangsa (2016) state that guarantee status is insignificant to Sukuk rating. Haraqi and Ningsih (2017) state that the companies that do not provide guarantees for Sukuk issued are required to meet certain agreed conditions. The company is included in the company category that has a good reputation. Other than that, most companies that do not provide collateral for Sukuk have formed a reserve fund. The level of satisfaction and Investor confidence is still maintained because the company has reduced the risk accepted by its ability to fulfill obligations when they fall due. Saputri and Purbawangsa (2016) explain that guarantee status increase in collateral is not supported by the company's value in guaranteeing the bonds issued. The value of the collateral used must be greater than the value of the bonds issued. The guarantees are divided into two, namely general guarantees and special guarantees. General guarantees are guarantees that are given without giving the right to precede (concurrent) between one creditor and another creditor, and special guarantees are guarantees given to special bondholders to claim the guarantee first if the company fails to fulfill its obligations after those only bondholders who. Agency theory states that guaranteed Sukuk will provide indirect protection by the issuer as a Sukuk issuer to investors as Sukuk holders. Sukuk issued with collateral will attract more investors to invest (John et al., 2010).

The effect of growth on Sukuk's rating is insignificant. These results are supported by Arisanti et al. (2014), Saputri and Purbawangsa (2016), Widiastuti and Rahyuda (2016) states that growth is insignificant to sukuk rating. The factors used by PT. Pefindo in assessing corporate bonds, one of which is industry competition, industry prospects & market share, and does not assess the company's growth based on the company's investment capabilities related to asset management. The bond agreement states that the issuer will pay a certain amount of interest or often also referred to as a coupon, periodically then on the maturity date, the principal debt will be returned to the bondholder. Agency theory states that the calculation of company growth is positively related to investor decisions by looking at the company's financial performance, which is a picture of a company's condition. Funding activities will affect the rating and unbalanced bond yields. Companies with good cash flow will attract investors and have a high rating to impact the Sukuk rating positively (Arisanti et al., 2014).

The effect of the type of Sukuk to Sukuk rating is significant. These results are supported by Borhan and Ahmad (2018), and Godlewski et al. (2014) state that the type of Sukuk is significant on the Sukuk rating. Ijarah structures may benefit the most from the expansion of Sukuk markets because of the better investor reaction to them compared to other structures. One of the constraints for ijarah Sukuk expansion, despite is its requirement in terms of existing assets that could be relaxed looking forward to financing new assets. Agency theory states that the kind of Sukuk has a positive impact on the Sukuk rating. This study shows that the Sukuk Ijarah is positively related to the structure of the Sukuk and the relationship between Sukuk rank. The company's Sukuk structure contributes positively to the Sukuk rating. The type of Sukuk is an essential factor that can help to identify Sukuk from Islamic finance literature (Borhan and Ahmad, 2018).

## 6. Conclusion and Implication

### 6.1 Conclusion

Considering the issuance of Sukuk as a method of raising capital, evidence that companies with earnings tend to get higher ratings indicates that the company must consistently maintain high levels of profits to ensure that rating companies highly rate them. Moreover, they must consider issuing debt-based Sukuk such as Sukuk Ijarah and Sukuk Murabahah rather than Equity-based Sukuk such as Musyarakah Sukuk to have a high rating. New issuing companies should also consider providing third-party guarantors to increase the likelihood get a higher rank. Rating company is because a third-party guarantor will guarantee the capital payments to Sukuk holders in the event of bankruptcy or liquidation, thereby increasing the possibility of the newly issued Sukuk having a high rating. The existing Sukuk issuers are: currently, in a lower-ranking category, they should consistently generate higher profits throughout the life of their Sukuk to be upgraded to a higher rank. Second, Understanding the determinants of Sukuk ratings can also help investors make strategic investment decisions in selecting and investing in Sukuk that are under their risk appetite. For risk-averse investors, they should consider supporting in highly profitable and guaranteed places Sukuk are like senior Ijarah Sukuk or senior Murabahah Sukuk because these Sukuk have a high rank and have a higher level of security and priority in the event of default and liquidation. Investors also have to look for Sukuk that provides third-party guarantors because the investors are guaranteed in terms of capital repayment in the event of liquidation.

### 6.2 Implication

The results of this study potentially have several important implications for the industry players, particularly the issuing firms, investors, and policymakers. First, for new firms considering issuing Sukuk to raise capital, the evidence that firms with higher profits tend to get higher ratings suggests that they should consistently maintain a high-profit level to ensure that they are rated highly by rating companies. In addition, they must consider issuing debt-based Sukuk such as Sukuk Ijarah and Sukuk Murabahah instead of equity-based Sukuk such as Sukuk Musyarakah for them to be highly rated. Second, the company can't use the Sukuk instrument as an optimally positive signal to potential investors, so that every resource utilization decision corporate funding, especially Sukuk must be carefully considered. Third, investors must be more careful in making investment decisions, because the issuance of Sukuk does not guarantee an increase in the value of the company and the welfare of shareholders. This means that more supporting information is needed in determining their investment choices so that the hope of security and return on their investment can be realized.

### 7. Suggestion

The researcher suggests that further researchers use other research models to increase the variation in the valuation of Corporate Sukuk. The research suggests that further researchers add the number of samples and research period. In future research, it is recommended to add other factors as independent variables in influencing the Sukuk rating, such as industry risk factors, business risks, and other financial factors such as liquidity ratios and solvency.

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