

THE IMPACT OF FINANCIAL INDICATORS ON SUKUK RATINGS: AN EMPIRICAL STUDY OF INDONESIAN ISSUERS (2018–2022)



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Abstract

This study examines how leverage, liquidity, and profitability influence the sukuk ratings of Indonesian corporate issuers over the 2018–2022 period. Adopting a quantitative correlational approach, the research analyzes data from 25 firms issuing sukuk and listed on the Indonesia Stock Exchange, with rating information obtained from PEFINDO. Given the ordinal nature of sukuk ratings, the analysis employs an ordinal logistic regression model. The findings reveal that profitability has a significant positive effect on sukuk ratings, suggesting that firms with stronger profit performance are more likely to receive higher ratings. In contrast, leverage and liquidity are found to have no significant impact. These results are consistent with signaling theory, which posits that profitability serves as a key indicator of financial strength and credibility in the assessment of sukuk. Overall, the study contributes to the Islamic finance literature by highlighting profitability as the dominant determinant of sukuk ratings. It also offers practical implications for issuers, investors, and regulators, particularly in strengthening financial transparency and enhancing confidence in the sukuk market.

Keywords: Sukuk, Leverage, Liquidity, Profitability, Rating

INTRODUCTION

Sukuk, as a Sharia-based financial instrument, has grown rapidly in the global financial system. The total value of global sukuk issuance reached USD 194 billion in 2022, with Indonesia being one of the largest sukuk issuers, along with Saudi Arabia and Malaysia ((ICD), 2023). However, the high volume of issuance is not accompanied by comprehensive understanding of the risk assessment and rating mechanisms of sukuk, especially in the domestic market. Ratings of sukuk are an important instrument that contributes to increased investor confidence. Most evaluation systems adopt conventional bond-based methods without adapting to Sharia characteristics, leading to information distortions affecting the perception of risks and prices in the sukuk market. Against this background, research on the determinants of sukuk ratings in Indonesia is increasingly relevant in the context of Sharia economic growth and strengthening the national Sharia capital market.

Thus, one of the most prominent gaps in the literature at present is that there is a lack of a specific investigation into the role of sukuk ratings through financial ratios, such as leverage, liquidity, and profitability. In theory, however, these are the three most basic variables underlying the credit risk assessment of sukuk by rating agencies (Qizam & Fong, 2019). In Indonesia, for instance, the Financial Services Authority noted that the number of corporate sukuk issuances increased from 39 in 2018 to 65 as of the end of December 2022, but the contribution of retail investors is still low ((OJK), 2023). This means that a gap in information has existed continuously, along with distrust in the quality of corporate sukuk instruments. Sukuk issuance without a complete understanding of the factors contributing to ratings could increase the likelihood of default and damage market integrity.

Empirical studies indicate that leverage has a significant negative association with credit ratings because increasing debt can increase the possibility of default (Balli et al., 2022). On the contrary, liquidity provides a positive signal for corporate financial soundness, potentially improving sukuk ratings. However, profitability in the context of sukuk is still debatable. A number of studies found that profitability does not significantly impact sukuk ratings because Islamic financial structure characteristics emphasize underlying assets and clarity of contract, among other things (Melzatia et al., 2019). Therefore, revisiting the contribution of all three financial ratios together in explaining sukuk ratings in Indonesia is of importance.

The limitations of previous research are also evident in the methodologies used. Most studies employ linear regression or binary logit models, which simplify the rating data structure into two categories, such as investment grade and non-investment grade. In reality, sukuk ratings are ordinal with several levels, such as AAA, AA, A, and so on. Statistical models such as ordinal logistic regression are more suitable for handling this type of data because they can capture the hierarchical relationship between rating categories (Arundina et al., 2016). Therefore, this study chose a quantitative approach using this method to produce more accurate and policy-relevant findings.

Theoretically, this study is grounded on Agency Theory and Signaling Theory. Agency Theory expounds that managers tend to make decisions that favor maximizing their self-interest, which may be manifested in high leverage. Conversely, Signaling Theory posits that liquidity and profitability indicators are positive signals to the market over the financial soundness of an institution. In the context of the current study, Grassa & Miniaoui (Grassa

& Miniaoui, 2018) explain that by testing the impact of the three variables on sukuk ratings, this research seeks to establish whether, indeed, these signals are consistently decoded by rating agencies even within the realm of Islamic finance. This research also addresses calls by previous studies for the need for research to be informed by local, updated data. For instance, Low et al. (Low et al., 2025) highlights differences in rating determinants between the sukuk market and conventional bonds, as well as the importance of incorporating local institutional context. In Indonesia, the characteristics of the capital market, OJK supervision, and issuer profiles have their own unique features that need to be analyzed contextually. Using data from 2018 to 2022, this study accommodates post-COVID-19 pandemic changes that have significantly impacted corporate liquidity and profitability.

Based on the above description, the main objective of this study is to determine the extent to which leverage, liquidity, and profitability affect the rating of corporate sukuk in Indonesia. This study also aims to provide empirical contributions to the development of Islamic finance theory and serve as a reference for regulators and investors in evaluating sukuk risk. This study is expected to bridge the gap between theory and practice in sukuk rating, as well as provide relevant statistical evidence for sharia investment decision-making. The research questions posed in this study are: (1) Does leverage have a significant effect on sukuk ratings in Indonesia? (2) Does liquidity have a positive effect on sukuk ratings? (3) Does profitability have a significant relationship with the increase in corporate sukuk ratings? These three questions are answered through an ordinal logistic regression model based on quantitative data from the financial statements of companies that issued sukuk and were listed on the IDX between 2018 and 2022.

The research hypotheses proposed include: H1 – Leverage has a negative effect on sukuk ratings; H2 – Liquidity has a positive effect on sukuk ratings; and H3 – Profitability has a positive effect on sukuk ratings. These hypotheses are based on prior findings and the theoretical framework mentioned above. The testing of hypotheses is done through a quantitative statistical approach using Eviews, and the output will make sure that the results are scientifically and objectively accountable. The practical contributions of this research are not confined to theoretical development but extend to strategic recommendations for sukuk issuers, investors, and regulators. By comprehending the major variables driving ratings, issuers can devise an optimal financial strategy that could make their instruments more attractive in the market. Regulators such as the OJK also have the potential to design more adaptive policies of ratings, fitting the characteristics of Islamic finance. Investors can make more informed and risk-based decisions.

REVIEW OF LITERATURE

Concept and Characteristics of Sukuk

Sukuk is a Sharia-based financial instrument that represents ownership of tangible assets (underlying assets) and is not merely a debt security like conventional bonds. According to the Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI), sukuk are certificates representing proportional ownership in specific assets, usufructs, or services that comply with Sharia principles. Meanwhile, the Indonesian Financial Services Authority (OJK) defines sukuk as Sharia securities in the form of certificates representing partial ownership of assets or specific investment projects. The

fundamental difference between sukuk and conventional bonds lies in the principles of risk sharing and asset-backing rather than debtor–creditor relationships. In the context of Indonesia’s Islamic capital market, sukuk plays an essential role as an alternative financing instrument that aligns with Islamic principles and supports real sector development. As emphasized by Homsy and Sori (2023), the presence of underlying assets provides assurance for investors against default risk and enhances market confidence in sukuk as a secure Islamic investment instrument.

Sukuk Rating as a Risk Assessment Instrument

Sukuk rating refers to the process of evaluating an issuer’s ability to meet financial obligations related to sukuk instruments. The primary purpose of such ratings is to provide investors with information on the issuer’s risk level and creditworthiness. Rating agencies such as PEFINDO employ both qualitative and quantitative approaches that assess financial performance, contractual structure, and Sharia compliance. According to Roslen and Chua (2024), sukuk rating mechanisms must consider financial structure and market risk characteristics distinct from those of conventional bonds, as sukuk involves ownership elements and operational risks. The ordinal structure of sukuk ratings (AAA, AA, A, etc.) provides a hierarchical indication of an issuer’s ability to meet returns and principal obligations. Therefore, sukuk ratings are vital tools for investors in evaluating risk and assessing the stability of sukuk issuers in Indonesia’s Islamic capital market.

Agency Theory and Signaling Theory in Sukuk Risk Assessment

Agency Theory explains that conflicts of interest between management and investors may generate agency costs. High leverage increases this risk, as companies rely more on external financing, potentially leading to lower sukuk ratings (Balli et al., 2022). Conversely, Signaling Theory posits that financial indicators such as profitability and liquidity serve as positive signals that reflect a company’s quality and credibility. According to Grassa and Miniaoui (2018), high profitability is a strong signal for rating agencies to assign higher ratings since it demonstrates a firm’s sustainable income generation capacity. In the context of Indonesia’s sukuk market, both theories complement each other: agency theory explains the potential risks derived from capital structure, whereas signaling theory emphasizes the importance of financial performance indicators as signals of issuer credibility in Sharia-compliant investments.

Financial Factors Determining Sukuk Ratings

The financial factors most frequently examined in sukuk rating studies include leverage, liquidity, and profitability. Leverage reflects the proportion of debt financing relative to equity and is commonly measured using the Debt-to-Equity Ratio (DER). Liquidity represents a firm’s ability to meet short-term obligations, usually measured through the current ratio. Profitability, often measured by Return on Assets (ROA), indicates the firm’s ability to generate earnings from its assets. Low et al. (2025) found that profitability and sustainability performance are positively associated with the quality of Islamic financial instruments. In contrast, higher leverage tends to reduce rating agencies’ confidence in the issuer’s repayment capacity. Liquidity, while a short-term indicator of solvency, often appears insignificant in sukuk assessments since agencies prioritize long-term stability. This aligns with Ulfa and Atikah (2024), who reported that profitability significantly affects sukuk ratings in Indonesia, whereas leverage and liquidity exert weaker influences.

Empirical Review and Research Gap

Empirical studies on sukuk rating determinants reveal that financial factors vary in influence depending on the characteristics of national markets and regulatory frameworks. Homsy and Sori (2023) emphasized that profitability is the dominant determinant of sukuk ratings in Malaysia, while leverage and liquidity show no significant effect. Similarly, Roslen and Chua (2024) discovered that financial risks exhibit asymmetric effects on sukuk market development, implying that financial variables play differing roles under varying economic conditions. In Indonesia, Nurohman, Lutfiana, & Khoirawati (2020) found that profitability significantly influences sukuk ratings, whereas leverage and liquidity remain insignificant, suggesting that Indonesia's sukuk market is more sensitive to profitability performance than to capital structure composition.

In addition, Kusumanisita and Yusuf (2021) identified that non-financial variables, such as firm size and the existence of sukuk guarantees, also influence ratings. However, most previous studies relied on conventional statistical approaches—such as linear regression or binary logit models—that oversimplify ordinal data into limited categorical forms. This methodological limitation results in the loss of valuable information about the hierarchical nature of sukuk ratings (AAA, AA, A, BBB, etc.). Hence, the use of ordinal logistic regression is necessary to capture the ordered structure of rating scales more precisely.

A clear research gap remains in the post-COVID-19 context, where corporate liquidity and profitability conditions in Indonesia have shifted significantly. Prior studies have not explicitly adapted their models to reflect these economic transformations that affect sukuk issuers' financial performance. By integrating the local institutional context with agency and signaling theory, this study contributes to advancing understanding of how financial indicators shape rating agencies' risk assessments in Indonesia's sukuk market and provides an empirical foundation for strengthening Islamic capital market policies.

Conceptual Framework of the Study

Based on the theoretical and empirical literature, the relationship between leverage, liquidity, and profitability on sukuk ratings is explained through a conceptual model that integrates agency theory and signaling theory. Leverage is hypothesized to have a negative effect on sukuk ratings, as higher debt increases the potential for default (agency cost), whereas liquidity and profitability are expected to positively influence ratings by signaling financial strength. Profitability is considered the most dominant factor in improving sukuk ratings, as confirmed by Ulfa and Atikah (2024), who found that profitability significantly enhances sukuk credit quality, while leverage and liquidity have weaker effects. Their findings reinforce signaling theory, indicating that profitability serves as a positive signal of financial stability and a company's capability to fulfill its Sharia-compliant obligations. Therefore, the conceptual model illustrates that a combination of sound capital structure and strong financial performance enhances rating agencies' perceptions of sukuk quality. This research enriches the Islamic finance literature by validating the relevance of agency and signaling theory within Indonesia's post-pandemic capital market context.

RESEARCH METHOD

This research uses a quantitative approach with a correlational design that seeks to analyze the relationship between leverage, liquidity, and profitability on corporate sukuk ratings in Indonesia. The type of research design used is correlational because it aligns with the objective of the research, which is to ascertain the direction and strength of the relationship between financial variables and sukuk ratings. The design allows this study not only to describe the phenomenon of finance but also to test, through statistical means, the relationship that exists between the variables. This is very important because sukuk ratings are the result of a comprehensive evaluation of performance and the financial condition of a company. Hence, this approach is expected to yield empirical findings that will be relevant for practices in the Indonesian Islamic capital market (Hair et al., 2021).

Secondary data are used in this research, obtained from annual financial reports of sukuk emitters listed on the IDX. Furthermore, the rating data of sukuk was obtained from publications by official rating agencies, such as PEFINDO and annual reports published by the OJK. Secondary data were used because it is considered more objective, standardized, and verifiable compared to primary data. It is also relevant to support long-term analysis of sukuk issuance trends and associated determinants. With secondary data, it will avoid subjective bias from respondents, which usually happens in primary data (Creswell & Creswell, 2020).

The observation period in this research was chosen to be within a five-year range: between 2018 and 2022, covering the last five years of sukuk issuance. This period was chosen because it could provide a description of the dynamics of the Indonesian sukuk market comprehensively amidst changes in economic conditions during the COVID-19 pandemic. The five-year period is sufficient to vary the data in testing the relationship between variables. Besides that, this period reflects a time when sukuk issuance grew significantly in both domestic and global markets. With this coverage, the study can capture changes in the pattern of financial variables' influence on sukuk ratings (Sekaran & Bougie, 2020).

The population in this study consists of all sukuk issuers listed on the Indonesia Stock Exchange (IDX) that have obtained an official rating from PEFINDO during the research period. This population was selected because sukuk issuers are the most relevant entities for testing the relationship between financial indicators and credit risk assessment. Sukuk that did not have complete data or did not obtain an official rating were excluded from the research population. With a clearly defined population, the research results are expected to be more accurate and representative. This study attempts to capture the diversity of industrial sectors in the population to improve generalization. Definition of the population in quantitative research is crucial to avoid bias, according to (Neuman, 2020).

The purposive sampling technique means the selection of samples that follow specific criteria relevant to the research objectives. As such, the selection criteria included: (1) the companies which issued sukuk in the period of 2018–2022; (2) the companies whose annual financial reports for the calculation of financial ratios are complete; and (3) the companies having Sukuk ratings from PEFINDO consistently. Based on these criteria, 25 companies were found as research samples. This purposive sampling method was chosen because not all sukuk-issuing companies had complete data for analysis. Thus, the results of this research focus more on the most relevant companies.

In this research, the instruments are the financial ratios that are calculated from the financial statements. Variable X1, leverage, is measured by the DER, variable X2, liquidity, by the current ratio, while variable X3 is profitability, measured by using ROA. The dependent variable, sukuk rating, was transformed into an ordinal scale referring to the rating categories of PEFINDO. These range from AAA (idn) with a value of 1 through to BB+ (idn) or lower with a value of 11. Financial indicators referred to common practices in credit rating research. All calculations of financial ratios in this research follow financial accounting standards. Validity is assured through standard calculation procedures that are internationally accepted (Brigham & Ehrhardt, 2021).

Data validity was tested by making sure that all financial reports came from official sources, namely the Indonesia Stock Exchange (IDX) and the OJK. Instrument reliability was tested by independently recalculating the financial ratio data. The consistency of the calculation results was used as an indicator of reliability in this study. Thus, the instruments used were not only conceptually valid but also technically consistent. This is very important in ensuring the credibility of quantitative research. Validation and reliability in quantitative research need to be done rigorously. According to Sekaran and Bougie (Sekaran & Bougie, 2020), in carrying out quantitative studies, it is important to ensure that the instruments are valid and reliable. The data analysis techniques used in this study are descriptive and inferential statistics. Descriptive statistics are used to describe the distribution of mean values, standard deviations, minimum values, and maximum values of each variable. Descriptive analysis helps to understand the basic characteristics of the research sample. Inferential statistics are used for hypothesis testing regarding the effect of leverage, liquidity, and profitability on sukuk ratings. Through this approach, researchers can draw conclusions from sample data to generalize to the population. It is common to use both descriptive and inferential statistics together in a quantitative research study. According to Field (Field, 2020), in a quantitative research study, both descriptive and inferential statistical methods can be used together.

The ordinal logit regression is used as the main analysis model because the dependent variable consists of ordinal data. Meanwhile, ordinal logit regression measures how changes in independent variables influence the probability of placing issuers at specific sukuk ratings. In this respect, the goodness-of-fit test can perform better using this model compared to linear regression because it considers the ordinal categorization of the dependent variable. This model can also permit the results of this research to provide more accurate estimates of coefficients for interpretation. Selection of the ordinal logit model in this research is appropriate and in line with best practices in international credit rating research studies (Greene, 2020). Therefore, regression assumption tests were performed to guarantee that the data qualified for analysis. Assumptions that have been tested include multicollinearity among independent variables, heteroscedasticity, and error independence. Testing for multicollinearity refers to the value of the VIF, while heteroscedasticity is tested using the Breusch-Pagan test. If any problems are identified with the assumptions, further data processing would be needed through transformation or selection of an alternative model. It is essential to test these assumptions because it will ensure the regression results are valid. Assumption testing is crucial to ensure the result of the analysis is free from bias (Hair et al., 2021).

In this study, the hypotheses were tested at a 5% significance level, with $\alpha = 0.05$; if the p-value was less than 0.05, then the alternative hypothesis would be accepted, and vice versa. These hypotheses are: H1, leverage affects sukuk ratings; H2, liquidity affects sukuk ratings; and H3, profitability affects sukuk ratings. This test was performed by comparing the regression coefficient results with the probability value. Thus, the research results can empirically support or reject the proposed hypotheses. The use of hypothesis testing with a significance level of 5% is standard practice, according to Field (Field, 2020).

Data analysis was performed using EViews, version 12, which supports ordinal logit regression analysis. EViews was chosen because it can process panel and cross-section data whose results can be interpreted econometrically. It generates output with regression coefficients, probability values, log likelihood, pseudo R-squared, and likelihood ratio statistics. The results of the analysis from this software will be interpreted in the form of tables and graphs. This requires the use of econometric software to ensure that the statistical calculations are accurate. For the analysis, EViews has become the standard for many quantitative studies (Brooks, 2014).

Besides ordinal logit regression, the research also applies the Pearson correlation analysis, which will indicate the strength of the relationship between independent variables. It helps detect multicollinearity issues before performing a regression. These correlation results are presented in matrix form, showing the relationship of leverage, liquidity, and profitability. This analysis is the first step before testing the regression model. Thus, researchers can understand how variables interact with each other. In general, correlation analysis is widely used in quantitative research (Pallant, 2020). Data obtained from the financial statements first went through cleaning: a check for extreme values was performed, including checking recording errors. Extreme values that may disturb the distribution were rechecked to see whether they should be deleted or retained. This cleaning procedure was done so that the results of analyses would not be biased due to technical errors; with clean data, research results would be more credible and accountable. Data cleaning remains one of the very important steps in secondary data-based studies (Neuman, 2020).

The research methodology is designed to allow other researchers to conduct similar research under similar conditions. From the selection of the design, data collection, sample selection, and measurement of variables, to the techniques of analysis, everything is described in detail. Therefore, this study not only helps to update the literature but it also provides a reference for other researches that may be conducted in the future. The first distinctive characteristic of a quantitative approach which enhances the external validity of the findings is its ability to be replicated. Hence, the methodology forms the backbone of this study in an explicit and detailed manner (Creswell & Creswell, 2020).

RESULTS AND DISCUSSION

This section presents the results of data analysis obtained from 96 observations of sukuk issuing companies during the research period. The entirety of the analysis was conducted in stages through an ordinal logistic regression approach, in which the dependent variable takes the form of sukuk rating categories, ordinal, and there is a hierarchical relationship between classes. Research results will be described by the authors through several stages of statistical tests, namely: descriptive statistics, multicollinearity tests, model

feasibility tests, pseudo R-square evaluations, parallel lines assumption tests, simultaneous and partial significance tests, and interpretation of odds ratio. It is presented in a systemic way to enable the empirical findings to be understood in a coherent, in-depth manner, and able to answer the research objectives that have been previously formulated. In addition, the meaning of each finding is also provided to give a comprehensive picture of how the independent variables contribute to the variation in sukuk ratings.

Descriptive Statistics

Table 1.
Results of descriptive statistics

	Y	X1	X2	X3
Mean	3.572917	0.549563	0.840259	0.044036
Median	3.500000	0.047700	0.776500	0.024950
Maximum	8.000000	4.835500	2.857700	1.290000
Minimum	1.000000	0.003500	0.004000	-0.060000
Std. Dev.	2.570049	0.881113	0.832435	0.133160
Skewness	0.188529	2.263391	0.646316	8.656601
Kurtosis	1.355547	8.862795	2.374509	81.55267
Jarque-Bera	11.38559	219.4565	8.248547	25881.08
Probability	0.003370	0.000000	0.016175	0.000000
Sum	343.0000	52.75800	80.66490	4.227500
Sum Sq. Dev.	627.4896	73.75427	65.83006	1.684497

Source: processed data (2025)

Descriptive statistical analysis provides an initial overview of the characteristics of the distribution of research variables. The dependent variable, namely sukuk rating (Y), has an average of 3.57 with a range of 1 to 8, indicating that the variation in the quality of sukuk included in the sample is relatively high. The standard deviation of 2.57 reinforces the existence of a fairly wide distribution of categories, which may indicate differences in fundamental conditions between issuers. The leverage variable (X1) has an average of 0.55, indicating that sukuk issuing companies finance an average of 55% of their assets using debt. However, the fairly high standard deviation (0.88) and skewness value of 2.26 indicate that a small number of companies have extreme leverage levels, resulting in an asymmetrical distribution.

The liquidity variable (X2) has an average of 0.84 and a standard deviation of 0.83, indicating considerable variation in companies' ability to meet their short-term obligations. The absence of distribution normality (as indicated by a Jarque-Bera p-value < 0.05) reinforces the understanding that liquidity conditions vary greatly between companies, with uneven ownership of current assets across sectors being one of the main causes. The profitability variable (X3) has an average of only 0.044, indicating that most sukuk issuers operate with relatively narrow profit margins. The very high skewness value (8.65) illustrates that only a small number of companies are able to record profitability levels that are significantly above average.

Overall, descriptive statistics show that the research sample includes companies with very heterogeneous financial profiles, making further analysis using the ordinal logistic

regression method highly relevant for capturing differences in sukuk rating categories based on variations in financial characteristics.

Multicollinearity Test

A multicollinearity test was conducted to ensure that the independent variables—leverage (X1), liquidity (X2), and profitability (X3)—did not have too high a correlation. A good ordinal logistic regression model requires that the correlation values between independent variables be below the general tolerance limit of 0.80. Based on the data processing results, the following correlation table was obtained:

Table 2.
Summary of Correlation

	X1	X2	X3
X1	1	0.4493	-0.0503
X2	0.4493	1	-0.03534
X3	-0.0503	-0.03534	1

Source: processed data (2025)

The multicollinearity test using the correlation matrix shows that there are no pairs of independent variables with a correlation > 0.80 . This means that each independent variable (leverage, liquidity, and profitability) does not overlap excessively in explaining the variation in sukuk ratings.

The absence of multicollinearity has two important implications:

1. The regression model can estimate the coefficients of each variable more accurately.
2. The interpretation of the influence of each variable on sukuk ratings can be done more independently without distortion between variables.

Thus, the ordinal logistic regression model has a strong statistical foundation for further analysis.

Model Feasibility Test, Pseudo R-Square Test, Parallel Lines Test, Simultaneous Significance Test, Partial Significance Test, Odds Ratio Interpretation.

Table 3.
Summary of Correlation

Variable	Coefficient	Std. Error	z-Statistic	Prob.
X1	0.379284	0.209886	1.807099	0.0707
X2	0.312229	0.233325	1.338172	0.1808
X3	3.339515	1.310099	2.549055	0.0108
Pseudo R-squared	0.045073	Akaike info criterion		3.207344
Schwarz criterion	3.474463	Log likelihood		-143.9525
Hannan-Quinn criter.	3.315318	Restr. log likelihood		-150.7472
LR statistic	13.58931	Avg. log likelihood		-1.499505
Prob(LR statistic)	0.003521			

Source: processed data (2025)

1. Model Fit Test (Goodness of Fit Test)

With the Likelihood Ratio (LR) statistic estimated at 13.59 and a p-value of 0.0035, it means that the model meets the goodness-of-fit criteria since the probability value falls below 0.05. This indicates that the model with leverage, liquidity, and profitability explains sukuk ratings significantly better compared to the null model. According to Homsy and Sori (2023), a good model in sukuk rating assessment should be able to capture nonlinear relationships between financial variables that reflect an issuer's credit quality. The model's fit shows that these financial indicators are jointly predictive of explaining the fluctuation of sukuk ratings, though non-financial factors such as governance and market conditions could also be influential. This finding is in line with Roslen and Chua (2024), who found that combining multiple financial risk indicators improves predictive accuracy in Islamic bond markets. This model provides a sound statistical basis for hypothesis testing and financial inference

2. Pseudo R-Square Test (Nagelkerke R^2 atau McFadden R^2)

The McFadden Pseudo R^2 value of 0.045 represents that about 4.5% of the variation in sukuk ratings is explained by leverage, liquidity, and profitability in the model. Though this value seems small, it is rational within an ordinal logistic regression context in which complex financial outcomes are determined by so many external factors such as managerial reputation and macroeconomic dynamics. As Sadallah (2025) noted, the low pseudo R^2 is not indicative of weakness in the model but rather a testament to qualitative and governance factors coming into play in explaining the variation in sukuk rating. The rating agencies like PEFINDO also issue ratings in Indonesia based on qualitative dimensions, such as Sharia compliance or stability of underlying assets, among others. Thus, the value of this pseudo R^2 highlights how quantitative and qualitative approaches interact in analyzing sukuk risk. Similarly, Cortelezzi and Ferrari (2022) argued that Islamic financial instruments possess inherently complex risk mechanisms, requiring contextual and interpretive care in statistical evaluation.

3. Parallel Lines Test (Proportional Odds Assumption)

The result of the Parallel Lines Test, with the p-value being greater than 0.05, indicates that the model satisfies the proportional odds assumption; this is to say, the relationship between the independent variables and the probability of a shift between categories of sukuk ratings is consistent across thresholds. Meeting this assumption justifies the use of the ordinal logistic regression model instead of resorting to generalized alternatives. The result supports the statistical soundness of the model since the consistent relationship among variables ensures stability in interpreting changes in rating categories. As pointed out by da Cruz (2025), consequently, the probabilistic relationships that are consistent across data points increase reliability in financial models. In other words, in Islamic finance markets, this means that increased profitability or liquidity operates uniformly on different levels of sukuk risks. Thus, the model exhibits statistical robustness and empirical relevance for evaluating sukuk investments.

4. Simultaneous Significance Test

The Likelihood Ratio test thus provides a p-value of 0.0035 (< 0.05), which indicates that the three chosen financial variables, leverage, liquidity, and profitability,

are jointly significant in determining sukuk ratings. This means a company's financial condition strongly jointly determines the quality of its issued sukuk instruments. The finding is in agreement with Sadallah (2025), who indicated that the combined financial factors significantly influence the decisions of rating agencies in assessing sukuk creditworthiness. In practice, this underscores the importance of maintaining sound financial management and balanced capital structure to strengthen investor confidence. The simultaneous significant variables of ordinal logistic regression also support the effectiveness in analyzing the multi-dimensional relationship between financial indicators and Islamic credit ratings. Thus, the simultaneous hypothesis of this study will be accepted since it has been analyzed to confirm the collective relevance of financial structure in sukuk rating determination.

5. Partial Significance Test (Uji Wald / Z-Test)

The result of the Wald test indicates that leverage with a p-value of 0.0707 and liquidity with a p-value of 0.1808 are insignificant, while profitability is positive and significant with a p-value of 0.0108. The signs of insignificance for leverage and liquidity might be due to the possibility that Indonesian rating agencies assess these indicators in terms of industry-wide tolerance levels and a long-term perspective, rather than as direct measures of credit risk. This supports the findings of Roslen and Chua (2024), which found that financial ratios have asymmetric impacts on the market risk and are dependent on economic conditions and the composition of assets. The significant effect of profitability, on the other hand, reinforces the Signaling Theory, wherein high earnings performance can convey positive signals to both investors and rating agencies. This result therefore aligns with Homsy and Sori (2023), who identified ROA to be the main determinant of sukuk rating. Hence, in this model, only profitability hypothesis is accepted while leverage and liquidity hypotheses are rejected.

6. Interpretation of Odds Ratio

The profitability variable, X3, has a coefficient of 3.339; its Odds Ratio is 28.2, implying a significant influence on sukuk ratings. In other words, for every one-unit increase in profitability, the likelihood that a firm moves to a higher category in sukuk ratings increases approximately 28 times. This result is consistent with Low et al. (2025), which stressed that profitability and sustainability performance are positively related to market risk perception and Islamic credit quality. On the other hand, leverage and liquidity have confidence intervals passing through zero, confirming that they are statistically insignificant. This outcome suggests that in asset-based instruments like sukuk, long-term earnings capability is the only valid determinant of financial quality. Hence, profitability emerges as the leading determinant, enhancing the credibility of issuers and strengthening sukuk in the Indonesian Islamic financial market.

These findings reveal that profitability has a significant influence on sukuk ratings, consistent with the signaling theory, which emphasizes that companies with good financial performance will send positive signals to the market. A high degree of profitability reflects a company's ability to generate stable profits; hence, the rating agencies consider companies like this to be better at paying the obligations towards sukuk yields. On the other hand, the insignificance of leverage and liquidity reveals that the theories explaining the relationship between capital structure or short-term liquidity and debt quality are not always relevant in

sukuk, due to its asset-based characteristic and different risk mechanism as compared to conventional bonds, which make the rating agencies emphasize a company's ability to generate long-run cash flows over the short-run financial ratios or funding structures.

These findings, when compared with past research, support the fact that profitability is one of the important indicators in gauging the quality of debt securities, including sukuk. However, the inconsistency of results on the variables of leverage and liquidity tends to differ from several previous studies that found that high leverage can lower ratings.

This difference can be explained by the characteristics of companies in Indonesia, which generally have relatively high leverage, especially in manufacturing and the telecommunications sector, such that rating agencies perceive high leverage as normal. In addition, asset structure is such that with high leverage, companies can still pay their obligations. The results on liquidity also differ because rating agencies are long-term oriented and focused on profitability and cash flow generation. Hence, the current ratio is not an attractive measure to assess sukuk risk. Another important thing that may influence the difference in findings from previous studies is the diversity of industries involved in each sample, as every industry has different levels of risk and financial characteristics. Sukuk applies asset-based principles so that rating agencies put more emphasis on the soundness and sustainability of the assets and projects related to its issuance. Non-financial factors, such as corporate governance, managerial reputation, and operational track record, which are excluded from the model, may influence sukuk ratings significantly. Furthermore, prevailing macroeconomic conditions over the 2018–2022 period, including the COVID-19 pandemic, may change the priorities of rating agencies regarding the assessment of risk so that some financial factors may not be taken into consideration in the review process.

The findings have strategic implications for various parties. First, for sukuk issuers, profitability has been proven to be one of the key variables that could enhance sukuk ratings; therefore, companies have to give priority to operational efficiency and profit-enhancing strategies. It can be used as an important indicator by investors in assessing investment risk in sukuk issues because of the strong association shown with the quality of these instruments. Rating agencies may reconsider giving weight to each financial ratio in their assessment models. Regulators need to increase financial transparency policies so that the ratings are based on more comprehensive information. This study makes an important contribution to the sukuk literature by confirming that financial ratios, particularly profitability, play a central role in determining sukuk ratings. However, the current study also has limitations: it lacks non-financial variables; the sample size is comparatively small; and, it only adopted the ordinal regression analysis method. The future research is recommended to supplement other variables like corporate governance, company size, project risk, and industry factors, adopting alternatives for methods of analysis like machine learning techniques that could extend the observation period and capture longer-term economic dynamics.

CONCLUSION

This research was done to gauge the influence of leverage, liquidity, and profitability on sukuk ratings in Indonesia during 2018–2022 by utilizing an ordinal logistic regression model. The results of the study explained that only profitability has a significant and positive effect on sukuk ratings, while leverage and liquidity did not affect them significantly. These findings corroborate the hypothesis that the higher the profitability of a company, the better

the sukuk grade it will receive, as the level of profitability signals consistent capability regarding the generation of earnings for the purpose of meeting sukuk payments. On the contrary, the hypotheses involving leverage and liquidity were rejected, which implies that the two financial ratios are not the main determinants of the assessment of sukuk ratings by Indonesian rating agencies.

This evidence, from a theoretical standpoint, corroborates the signaling theory, which suggests that the high level of profitability sends a positive signal to the market with respect to the firm's financial performance and debt repayment ability. However, the insignificant impacts of leverage and liquidity indicate that traditional theories related to the capital structure and liquidity risk need re-evaluation in the context of sukuk as asset-based Islamic financing instruments. At a practical level, the implications are that sukuk issuers must improve profitability and operating efficiency to achieve higher ratings. In addition, investors can consider profitability as the key variable in assessing the risk associated with sukuk investment. Finally, regulators and rating agencies may use these findings to enhance rating models so that they reflect better the nature and pattern of risk factors associated with the Islamic capital market.

This study acknowledges several limitations, including the exclusion of non-financial variables such as corporate governance, managerial reputation, and project-specific risks, which may also affect sukuk ratings. Furthermore, the limited observation period and sample size may constrain the generalizability of the findings. Future research is recommended to expand the dataset, include non-financial determinants, and employ more advanced analytical techniques such as structural equation modeling or machine learning to improve the predictive accuracy of sukuk rating assessments. In conclusion, this study contributes to the growing body of Islamic finance literature by empirically confirming that profitability serves as the main determinant of sukuk ratings. The results provide valuable insights for enhancing financial management strategies, improving sukuk rating methodologies, and guiding regulatory policies toward a more resilient and transparent Islamic capital market in Indonesia.

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