**DETERMINANTS OF OPTIMAL CASH HOLDING RATIO AND FIRM'S PROFITABILITY: EVIDENCE FROM PAKISTANI LISTED COMPANIES**

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**Abstract**

**Purpose:**

This study investigates the significant factors of optimal cash holding ratio and threshold that affect Pakistani listed firms' profitability.

**Design Methodology/ Approach:**

The trade-off and pecking order theories are studied to formulate hypotheses to test the cash holding threshold effect on a firm's profitability on selected companies extracted from the Osiris database from 2009 to 2018.

**Findings:**

The findings suggest that cash holdings and operating cash flows have a positive and significant impact on profitability. The cash holding ratio and firm profitability have a two-threshold effect. The coefficient value is positive but tends to decline when the ratio of cash holdings below 5.3% depicts a non-linear relationship.

**Originality/ Value:**

This study analyzes the factors determining the optimal cash holding ratio that Pakistani firms must maintain to ensure cash sustainability. Previous research has only focused on the factors and motives for cash holding, but it has never addressed what percentage of cash a company should retain to achieve long-term profitability or cash autonomy.

**Keywords:**

Cash holding; firm's profitability; threshold regression; panel data

**JEL Classification Codes**:

G30, G32, C24, C33

**Article Classification:**

Research Paper