(Corporate cash holding and its optimum level effect on value of Islamic firms.)

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Abstract: -

Cash holding is the most important liquid asset of any firm. Cash holding is treated as a very important asset in banking side due to its nature of sensitivity so in this context Islamic firms also manage their functions according to the rules described by the shariah compliance board. This research paper was produced to check the importance of cash holding for firm's value. There is a concept that cash do not generate any return so it is considered as an asset that do not increase the profitability so this study is started with a problem statement of that is there any optimal point where cash holding will maximize the firm value. And if there exists a optimal point so if there is any deviation of cash holding from its optimal point so how it will affect firm value. Deviation will decrease the firm value or not. so different variables are used as a measure or representative of both terms. Cash ratio and cash square are used as representative of cash holding while Tobin q and market value to total assets are both used as representative of firm value. While there are also some controlled variables which are used in the study, first important controlled variable is the firm size, second controlled variable used is firm leverage and the last variable used as ratio of capital expenditure. While Islamic firms are used as a sample. Only those firms are selected which are listed in KMI-30. So 24 firms are used as a sample which are continuously listed in the KMI-30 from 2009-2015 so relevant data has been taken from balance sheet analysis and internet sources. Overall results of the study confirmed all previous studies that there is an Optimal point where cash holding maximizes the firm value and deviation from that optimal point will decrease the firm value. While determinants of cash holding are also checked. Dividends and cash flows are variables used. Which showed that more cash flows will be so firms will hold more cash as asset. While leverage and cash flow showed a negative relationship which means that the more a firm will be leveraged, firm will hold less cash. Size of the firm and cash holding have a positive significant relationship which means that as size of firm grows so more cash holding will be kept as asset by firms. So all results in this study confirmed previous studies which are performed in the same context.

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