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The Effect Of Debt Ratio, Net Working Capital, Profitability And Company Size On Cash Holdings

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Abstract

This research analyzed the impact of debt levels, net working capital, profitability, and company size on cash holdings. The research variables used sample data from manufacturing entities specializing in the food and beverage sector listed on the Indonesia Stock Exchange for 2023-2025. The sample was obtained through purposive sampling, based on specific conditions, such as entities consistently publishing financial reports with positive profits during the 2023-2025 period. The resulting sample consisted of 177 data sets, consisting of 59 entities over three years. However, there were 15 outliers (45 data sets), resulting in 132 data sets, or 44 entities, over three years. The method used in this research was multiple regression analysis. The findings illustrate that debt levels, net working capital, profitability, and company size simultaneously impact cash holdings. Meanwhile, the partial correlations indicate that net working capital and profitability have a positive impact on cash holdings, while debt levels and company size have no impact on cash holdings.

Keywords: Debt Level, Net Working Capital, Profitability, Company Size, Cash Holdings

JEL Codes: G32, G31, M41

1. Introduction

Cash holdings are often used as a key indicator for making strategic financial decisions, as they reflect an entity's ability to maintain liquidity, meet operational needs, fund investments, and cope with various business uncertainties (Fatima, 2024). From an entity's financial perspective, cash is the most liquid asset; consequently, its availability is crucial for ensuring business continuity and mitigating the risk of financial difficulties (Silaban & Benarda, 2023). An optimal level of cash holdings enables an entity to finance its operational activities without having to rely excessively on external funding, which is generally more expensive and carries risks (Syifa *et. al.* 2026). On the other hand, holding too much cash can result in opportunity costs, as the funds lie idle and are

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not used for productive investment (Yefrinanda & Nyale, 2026). Consequently, cash holdings are a crucial area of research as they reflect an entity's efforts to balance liquidity needs with the aim of maximising shareholder welfare (Prihartini & Oktaryani, 2025). Furthermore, in an increasingly dynamic and uncertain economic climate, an entity's ability to manage its cash reserves is a determining factor in its long-term resilience and competitiveness (Zalsabila *et. al.* 2023).

The food and beverage industry, as a sector, makes a significant contribution to the Indonesian economy and has shown relatively stable growth compared with other sectors (Yefrinanda & Nyale, 2026). However, this industry faces a variety of risks, including fluctuating commodity prices, shifting customer preferences, inflationary pressures, supply chain disruptions, and increasingly intense competition (Silaban & Benarda, 2023). These conditions mean that food and beverage entities require sufficient cash reserves to maintain smooth operations, meet working capital requirements, and respond swiftly to market changes (Prihartini & Oktaryani, 2025). This phenomenon, observed over several periods, indicates that food and beverage entities tend to increase their reserves as a precautionary measure against global economic uncertainty and rising operational risks (Zalsabila *et. al.* 2023). On the other hand, an excessive increase in cash holdings may indicate inefficiencies in the management of the entity's resources, particularly if cash funds are not utilised for business expansion or value-adding investments (Fatima, 2024). Therefore, the food and beverage industry provides a relevant context for examining the factors influencing cash holdings, given that the industry's characteristics require high cash levels whilst simultaneously facing pressure to continually enhance the welfare of shareholders and stakeholders (Syifa *et. al.* 2026).

In response to this analysis, a number of financial indicators have become the focus of research (Syifa *et. al.* 2026). The debt ratio, for example, is often considered to play a significant role as it is closely linked to financial risk and an entity's ability to meet its current and non-current liabilities (Yefrinanda & Nyale, 2026). Entities with high debt ratios face higher interest and principal repayment burdens and therefore require adequate cash reserves to avoid the risk of default (Fatima, 2024).

Furthermore, net working capital also plays a significant role in influencing cash holdings, as it is used to assess an entity's ability to meet its current liabilities with its current assets (Syifa *et. al.* 2026). An entity with high net working capital tends to hold lower levels of cash, as other current assets can be relatively easily converted into cash to meet operational needs and short-term obligations (Zalsabila *et. al.* 2023). Conversely, entities with low net working capital face greater liquidity risk and are therefore inclined to maintain higher levels of cash holdings as a financial buffer (Fatima, 2024).

Another factor influencing cash holdings is profitability, which is used to assess an entity's ability to generate profits from its operational activities (Zalsabila *et. al.* 2023). Entities with high profitability generally generate high internal cash flows and thus have a greater capacity to accumulate cash reserves (Fatima, 2024). On the other hand, entities with high profitability are also better able to generate cash flows on a sustainable basis, meaning they do not always need to hold large amounts of cash to anticipate future funding requirements (Mariska *et. al.* 2025).

Company size can also influence cash holdings, as it reflects the scale of operations, resource capacity and the entity's access to financial markets (Syifa *et. al.* 2026). Larger entities have easier access to external sources of funding; consequently, the incentive to hold high levels of cash as a reserve is relatively lower (Mariska *et. al.* 2025). Furthermore, large entities enjoy more stable and

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diversified cash flows, thereby minimising the risk of a cash shortfall (Yefrinanda & Nyale, 2026).

Several studies have highlighted the relationship between financial ratios and cash holdings. Fatima (2024) found that leverage and net working capital have a negative impact on cash holdings, whilst profitability has a positive impact on cash holdings; company size, however, has no impact on cash holdings. Another study showed that leverage has a negative effect on cash holdings, whilst profitability and firm size have a positive effect on cash holdings (Yefrinanda & Nyale, 2026). Further research also confirmed that profitability has no effect on cash holdings (Anggraeni & Syahzuni, 2025). Research by Silaban & Benarda (2023) states that net working capital and leverage have a positive impact on cash holdings. Research by Zalsabila *et. al.* (2023) indicates that firm size has no impact on cash holdings, whilst net working capital has a positive impact on cash holdings. Research by Mariska *et. al.* (2025) indicates that profitability, firm size and net working capital have a positive impact on cash holdings, whilst leverage has no impact on cash holdings. Research by Prihartini & Oktaryani (2025) shows that leverage has a positive impact on cash holdings, and that net working capital has no impact on cash holdings. Research by Syifa *et. al.* (2026) indicates that net working capital and leverage have a positive impact on cash holdings, profitability has a negative impact on cash holdings, and firm size has no impact on cash holdings. Research by Maryanto & Cahyono (2024) shows that profitability has a positive impact on cash holdings, whilst leverage and firm size have no impact on cash holdings. Research by Hidayati & Rahmawati (2024) indicates that profitability and leverage positively affect cash holdings, while firm size has no impact. However, this study differs in that it utilises entities from the food and beverage sub-sector listed on the Indonesia Stock Exchange. Furthermore, this study covers the period 2023–2025.

This research aims to empirically review financial ratios in relation to cash holdings in manufacturing entities in the food and beverage sub-sector during 2023–2025. This will help internal managers implement strategies to maintain flexibility and support the sustainability of the entities' operations, and it will also help shareholders assess the entities' financial condition, risk levels, and prospects when making investment decisions.

2. Literature review

2.1 Signalling Theory

Signalling theory, as proposed by Spence (1976), posits that entities convey information to the stock market in the form of data intended to signal that the entity is of high quality. Cash holdings serve as a signal sent by managers to shareholders and external parties regarding the entity's financial situation and future prospects (Zalsabila *et. al.* 2023). There is an information gap between managers and shareholders, meaning that external parties do not possess the same level of comprehensive information regarding the entity's internal conditions (Firdaus & Mauludi, 2024). Therefore, an adequate level of cash holdings can serve as a positive signal, indicating that the entity possesses strong liquidity, the capability to meet financial obligations, and the readiness to cope with business uncertainties and manage investment prospects profitably (Fatima, 2024). Shareholders tend to interpret high cash reserves as an indication that the entity is achieving optimal financial performance and has good growth prospects (Yefrinanda & Nyale, 2026). However, if the level of cash holdings is too high and is not accompanied by productive use, shareholders may assess the entity as being inefficient in managing its resources (Maryanto & Cahyono, 2024). Consequently, cash holdings act as a signal that can influence shareholders' assessment of an entity's risks and opportunities, making them a crucial factor in the formulation

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of investment decisions (Hidayati & Rahmawati, 2024).

2.2 Cash Holdings

Cash holdings refer to the amount of cash and cash equivalents held by an entity to meet its operational needs, maintain liquidity, anticipate uncertainties, and support future investment opportunities (Fatima, 2024). In the literature on corporate finance, cash holdings are regarded as a key financial policy as they relate to management's decisions in determining the optimal level of cash (Hidayati & Rahmawati, 2024). According to Keynes (1936), an entity holds cash for three main reasons: the transaction motive to meet day-to-day operational needs; the precautionary motive to cope with risks and uncertainties; and the speculative motive to capitalise on profitable investment opportunities. Therefore, cash holdings not only reflect an entity's liquidity position but also illustrate its strategy for managing financial resources to support business continuity and enhance financial flexibility (Prihartini & Oktaryani, 2025).

2.3 Debt Level

The debt level is the most important aspect to consider when explaining variations in an entity's cash holdings (Zalsabila *et. al.* 2023). The debt level, as measured by the debt-to-equity ratio, illustrates the extent to which an entity uses liabilities rather than equity to finance its activities (Hermanto & Alfiah, 2024). An entity with a high debt ratio is likely to maintain high cash holdings in order to anticipate the risk of financial difficulties (Firdaus & Mauludi, 2024). Conversely, entities with easier access to external financing through debt may reduce their high cash holdings, as their funding needs can be met by creditors when required (Yefrinanda & Nyale, 2026).

2.4 Net Working Capital

Net working capital is calculated as current assets minus current liabilities and reflects an entity's ability to meet its current liabilities (Fatima, 2024). Net working capital is regarded as a substitute for cash because current asset components such as trade receivables and inventories can be converted into cash when the entity requires funds (Silaban & Benarda, 2023). Therefore, an entity with high net working capital is likely to hold lower amounts of cash, as its liquidity needs can be met through other current assets (Mariska *et. al.* 2025). Conversely, entities with low net working capital have more limited financial flexibility and are therefore inclined to hold larger cash reserves to anticipate operational needs or conditions of uncertainty (Yefrinanda & Nyale, 2026). As well as serving as an alternative source of liquidity, net working capital also reflects the effectiveness of an entity's management of current assets and liabilities, which can influence managers' decisions regarding the optimal estimation of cash holdings (Syifa *et. al.* 2026).

2.5 Profitability

Zullaicha & Purwaningsih (2026) describe profitability as a key factor influencing the sustainability of an entity's business operations. One indicator used to measure profitability is the net profit margin, which compares operating profit to total sales (Suryani & Wahyudi, 2025). High profitability generates greater internal cash flow and leads an entity to prioritise the use of internal funds over external financing (Hermanto & Alfiah, 2024). This situation enables the entity to accumulate higher cash reserves as a source of funding for both operational needs and future investments. Profitable entities are better equipped to cope with business uncertainties and maintain financial flexibility through adequate cash holdings (Silaban & Benarda, 2023). However, from another perspective, as highly profitable entities also have relatively stable cash flows, their cash holdings may be lower because they are able to generate funds on a sustainable

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basis (Syifa *et. al.* 2026).

2.6 Company Size

Company size describes the scale of an entity's operations, as measured by its total assets. Company size is measured using the natural logarithm of the entity's total assets over a specific period (Omega & Simanungkalit, 2026). These total assets reflect all the economic resources controlled by the entity, including both tangible assets, such as land, buildings and equipment, and intangible assets, such as patents, trade marks and other intellectual property (Keys & Edastami, 2024). The larger the total assets held, the greater the scale of the entity. According to Otoritas Jasa Keuangan (2017), entities can be categorised by asset size as follows: small-scale entities with total assets not exceeding Rp50 billion; medium-scale entities with total assets between Rp50 billion and Rp250 billion; and large-scale entities with total assets above Rp250 billion. Having substantial assets makes it easier for entities to access capital markets and financial institutions, enabling them to secure external funding at relatively low costs (Syifa *et. al.* 2026). This situation means that large entities tend not to hold excessively high levels of cash, as their funding needs can be met more easily through external sources (Yefrinanda & Nyale, 2026). Furthermore, large entities have stable cash flows and a lower risk of bankruptcy compared to small entities (Hidayati & Rahmawati, 2024).

3. Methodology

This study employs a quantitative approach and a causal research design to examine the impact of financial ratios on cash holdings. The independent variable is the level of debt, proxied by the debt-to-equity ratio, which is calculated by comparing an entity's total liabilities to its total equity (Yefrinanda & Nyale, 2026). Net working capital is measured as current assets minus current liabilities divided by total assets (Fatima, 2024). Profitability is measured by the net profit margin, which is the ratio of net profit after deducting tax liabilities divided by total sales (Yefrinanda & Nyale, 2026). The firm size measure is a ratio using the natural logarithm of total assets (Fatima, 2024). The dependent variable is cash holdings, measured as a ratio of cash and cash equivalents divided by total assets minus total cash (Fatima, 2024).

The data source is secondary data, utilising information contained in the financial statements of manufacturing entities within the food and beverage sub-sector for the period 2023–2025. The data was obtained from the official websites of each entity and via www.idx.co.id. Data was collected by searching for and recording financial data and other necessary information from official sources. The research was conducted at the Indonesia Stock Exchange between March and July 2026.

The research population comprised food and beverage companies listed on the Indonesia Stock Exchange, comprising 104 companies and covering a three-year analysis period. The population identified in this study consisted of 312 companies that published comprehensive annual reports. The sample utilised non-probability sampling, specifically purposive sampling, with the criteria that food and beverage entities regularly publish annual reports and have recorded consecutive profits over the last three years. After processing the data according to these criteria, the study obtained a sample of 59 companies over a three-year period, resulting in 177 data points.

This study utilised statistical software and descriptive statistics, as well as tests of classical assumptions such as normality, heteroscedasticity, autocorrelation and multicollinearity. Subsequently, hypothesis testing was conducted to examine the impact of the independent

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variables on the dependent variable. Hypothesis testing utilised the F-test, the t-test, and the coefficient of determination. Furthermore, this study applied multiple regression analysis and its various forms (Ghozali, 2018). The formula is as follows:

$$\mathbf{CH = \alpha + \beta1.DER + \beta2.NWC + \beta3.NPM + \beta4.FS + \varepsilon}$$

Notes:
CH = Cash Holdings
α = Constant
β1 β2 β3 β4 = Regression coefficients
DER = Debt-to-Equity Ratio
NWC = Net Working Capital
NPM = Profitability (Net Profit Margin)
FS = Firm Size
ε = Error

4. Results and Discussion

4.1. Descriptive Statitics

Table 1. Results of Descriptive Statistical Tests

Variabel	N	Minimum	Maximum	Mean	Std. Dev
DER	132	.0292	4.9831	.785580	.8083456
NWC	132	.0002	.7206	.289504	.1814894
NPM	132	.000039	.4267	.105188	.0923426
FS	132	25.5691	33.0154	29.131639	1.7966821
CH	132	.0101	1.3446	.201914	.2273872
Valid N (*listwise*)	132				

Source: Data processed (2026).

The sample yielded 177 data points comprising 59 entities over a three-year period; however, 15 outliers (45 data points) were removed, leaving 132 data points (44 entities) over the three-year period.

According to the findings of the descriptive statistical analysis in table 1, the minimum debt ratio was recorded at 0.0292 for PT. Pulau Subur Tbk in 2024, whilst the maximum was 4.9831 for PT. Sawit Sumbermas Sarana Tbk in 2023. The average debt ratio stood at 0.78558, indicating that entities in the food and beverage sector optimised their use of debt by 78.558 per cent. The standard deviation was 0.8083456 < the mean, indicating a normal distribution of the data.

According to the findings of the descriptive statistical analysis, the minimum value for net working capital was recorded as 0.0002 at PT. Wilmar Cahaya Indonesia Tbk for the 2023 period, whilst the maximum value was 0.7206 at PT. Dharma Satya Nusantara Tbk for the 2023 period. The average net working capital value stood at 0.289504, indicating that entities in the food and beverage sector manage their current assets and meet their short-term liabilities to the extent of 28.895 per cent. The standard deviation of 0.1814894, which is greater than the mean, indicates that the data is variable.

According to the findings of the descriptive statistical analysis, the minimum value for profitability

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was recorded at 0.000039 at PT. Asia Sejahtera Mina Tbk for the 2023 period, whilst the maximum value was 0.4267 at PT. Pulau Subur Tbk for the 2024 period. The average profitability value stands at 0.105188, indicating that entities in the food and beverage sector have the potential to generate a profit of 10.5188 per cent. The standard deviation is 0.0923426 < the mean, indicating a normal distribution of the data.

According to the descriptive statistical analysis, the minimum company size was 25.5691, equivalent to Rp73,484,014,157 at PT Era Mandiri Cemerlang Tbk for the 2025 period, while the maximum was 33.0154, equivalent to Rp217,981,765,000,000, at PT Indofood Sukses Makmur Tbk for the 2025 period. The average company size is 29.131639, equivalent to Rp4,484,459,090,315, indicating that entities in the food and beverage sector are classified as medium-sized entities as they have an average asset value of 29.131639, equivalent to Rp4,484,459,090. 315. The standard deviation is 1.7966821 > the mean, indicating that the data is variable.

According to the findings of the descriptive statistical analysis, the minimum value for cash holdings was recorded as 0.0101 at PT. Pulau Subur Tbk in 2024, whilst the maximum value was 1.3446 at PT. Sawit Sumbermas Sarana Tbk in 2023. The average value of cash holdings stands at 0.201914, indicating that entities in the food and beverage sector hold cash and cash equivalents sufficient to cover operational activities up to 20.1914 per cent. The standard deviation of 0.2273872, which is greater than the mean, indicates that the data is variable.

Table 2. Results of the Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		132
Normal Parameters[a,b]	Mean	.0000000
	Std. Deviation	.75148286
Most Extreme Differences	Absolute	.057
	Positive	.027
	Negative	-.057
Test Statistic		.057
Asymp. Sig. (2-tailed)		.200[c,d]

Source: Data processed (2026).

In accordance with the normality findings in table 2, the significance level exceeds 0.05 at 0.200, indicating that the residual variables are normally distributed and the research may proceed.

Table 3. Results of the Multicollinearity Test

		Collinearity Statistics	
Model		Tolerance	VIF
1	(Constant)		
	DER	.486	2.058
	NWC	.790	1.266
	NPM	.551	1.815
	FS	.739	1.353

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Source: Data processed (2026).

The multicollinearity test in table 3 shows a tolerance exceeding 0.10, whilst the Variance Inflation Factor (VIF) is below 10. The findings show that the debt ratio has a tolerance of 0.486 and a VIF of 2.058, net working capital has a tolerance of 0.790 and a VIF of 1.266, profitability shows a tolerance of 0.551 and a VIF of 1.815, whilst firm size has a tolerance of 0.739 and a VIF of 1.353. This means there is no indication of multicollinearity.

Table 4. Results of the Heteroscedasticity Test

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	.864	4.415	.196	.845
	DER	-.376	.293	-1.287	.201
	NWC	-.431	.231	-1.869	.064
	NPM	-.159	.225	-.705	.482
	FS	-.148	.137	-1.076	.284

Source: Data processed (2026).

Regarding the heteroscedasticity test in table 4, which was carried out using the Glazer method, if the p-value is greater than 0.05, this indicates that there is no heteroscedasticity. However, if the p-value is less than 0.05, this indicates the presence of heteroscedasticity. The findings show that the debt ratio is 0.201 > 0.05, net working capital is 0.064 > 0.05, profitability is 0.482 > 0.05, and firm size is 0.284 > 0.05. These findings indicate that there is no heteroscedasticity.

Table 5. Results of the Autocorrelation Test

Runs Test	
	Unstandardized Residual
Test Value[a]	1.82463
Cases < Test Value	66
Cases >= Test Value	66
Total Cases	132
Number of Runs	68
Z	.175
Asymp. Sig. (2-tailed)	.861

Source: Data processed (2026).

Based on the table output in table 5, it can be concluded that the Asymp. Sig. (2-tailed) value of 0.861 is above the 5% confidence level; therefore, H_0 can be accepted. This means that the data used are randomly distributed. It can be seen that there is no issue of autocorrelation between the independent variables, so the regression model is suitable for use.

4.2. Regression Result

Table 6. Results of Multiple Linear Regression Analysis

Model		Unstandardized Coefficients		t	Sig.
		B	Std. Error		
1	(Constant)	-2.680	1.389	-1.930	.056

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DER	-.050	.092	-.541	.589
NWC	.444	.073	6.119	.000
NPM	.365	.071	5.155	.000
FS	.077	.043	1.780	.077

Source: Data processed (2026).

To determine the multiple regression equation in table 6, an analysis of the regression coefficients was carried out:

Y = -2.680 – 0.050.DER + 0.444.NWC + 0.365.NPM + 0.077.FS

The test results show a constant of -2.680, meaning that for every unit increase in the debt ratio, cash holdings decrease by 2.680. The debt ratio coefficient of -0.050 means that for every one per cent increase in the debt ratio, cash holdings decrease by 0.050. The net working capital coefficient of 0.444 means that for every one per cent increase in net working capital, cash holdings increase by 0.444. The profitability coefficient of 0.365 means that for every one per cent increase in profitability, the impact of profitability on cash holdings increases by 0.365. And the firm size coefficient of 0.077 means that for every one per cent increase in firm size, the impact of firm size on cash holdings increases by 0.077.

Table 7. Results of the Simultaneous F-Test

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	63.976	4	15.994	27.457	.000[b]
	Residual	73.979	127	.583		
	Total	137.956	131			

Source: Data processed (2026).

Based on the F-test or ANOVA analysis in table 7, the calculated F-value was greater than the table F-value (27.457 > 2.44), indicating that the variables were statistically significant overall, with a p-value of 0.000. This value is below 5 per cent (0.000 < 0.05), meaning that the variables of debt ratio, net working capital, profitability and firm size have a simultaneous impact on cash holdings.

Table 8. Results of Partial Tests (t)

Description	Hypothesis	Beta	t	Sig. < 0.05	Result
DER → CH	Positive	-0,050	-0,541	0,589	H1 Rejected
NWC → CH	Positive	0,444	6,119	0,000	H2 Accepted
NPM → CH	Positive	0,365	5,155	0,000	H3 Accepted
FS → CH	Positive	0,077	1,780	0,077	H4 Rejected

Source: Data processed (2026).

Based on table 8, the debt ratio showed a significance level of 0.589 and a calculated t-value of -0.541, where -0.541 is less than 1.979, with a beta coefficient of -0.050. This indicates that there is no impact of the debt ratio on cash holdings. Net working capital showed a significance level of 0.000 and a t-statistic of 6.119, where 6.119 is greater than 1.979, with a beta coefficient of 0.444. This indicates that net working capital has a significant positive impact on cash holdings. Profitability has a significance level of 0.000 and a t-statistic of 5.155, where 5.155 is greater than 1.979, with a beta coefficient of 0.365. This indicates that profitability also has a significant

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positive impact on cash holdings. Company size has a significance value of 0.077 and a t-statistic of 1.780, where 1.780 is less than 1.979, with a beta coefficient of 0.077. Consequently, company size has no impact on cash holdings.

Table 9. Results of the Coefficient of Determination Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.681[a]	.464	.447	.7632255

Source: Data processed (2026).

According to the analysis of the coefficient of determination (R) in table 9, which shows a value of 0.681, there is a strong relationship between cash holdings and the level of debt, net working capital, profitability and firm size, as the correlation coefficient exceeds 0.50. The adjusted R-squared value stands at 0.447, meaning that 44.7 per cent of the variation in cash holdings can be explained by debt levels, net working capital, profitability and company size, whilst the remaining 55.3 per cent stems from other factors not examined in this study.

4.3. Discussion

The Effect of Debt Levels on Cash Holdings

The findings indicate that the level of debt has no impact on cash holdings; consequently, H1 is rejected. The lack of influence of the level of debt on cash holdings in food and beverage entities suggests that the amount of debt held by an entity does not directly determine the amount of cash held (Halim & Novianty, 2023). This situation may arise because entities in the food and beverage sector generally have relatively stable operating cash flows due to the essential nature of the products in demand; this sends a positive signal that the need for cash holdings is met more by the proceeds of operating activities than through increased debt (Mariska *et. al.* 2025). Entities, whether they have high or low levels of debt, must still maintain a certain level of cash availability to fund their working capital requirements, including the purchase of commodities, payment of staff salaries, distribution, and coping with fluctuations in raw material prices (Prihartini & Oktaryani, 2025). Entities that obtain funding through debt often allocate these funds to long-term investments or the expansion of production capacity, rather than to increase their idle cash balances (Zalsabila *et. al.* 2023). Consequently, changes in debt levels were not accompanied by significant changes in cash holdings (Fatima, 2024). These findings suggest that decisions by entities in the food and beverage sector to hold cash are influenced more by operational needs, cash flow stability and liquidity management policies than by the entities' level of leverage (Yefrinanda & Nyale, 2026). These findings are consistent with the research by Halim & Novianty (2023); Mariska *et. al.* (2025) also found that leverage has no impact on cash holdings.

The Effect of Net Working Capital on Cash Holdings

The findings indicate that net working capital has a positive impact on cash holdings; therefore, H2 is accepted. In line with signalling theory, an entity's financial information can serve as a signal to shareholders and stakeholders to assess the entity's situation and opportunities (Mariska *et. al.* 2025). High net working capital reflects an entity's ability to manage its current assets and meet its current liabilities, thereby indicating a sound liquidity position (Fatima, 2024). Entities with strong net working capital possess greater financial flexibility and the ability to generate more stable operating cash flows, which ultimately enables them to maintain higher levels of cash holdings (Zalsabila *et. al.* 2023). These findings are consistent with the research by Zalsabila *et.*

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al. (2023); Mariska *et. al.* (2025); Syifa *et. al.* (2026), which found that net working capital has a positive impact on cash holdings.

The Effect of Profitability on Cash Holdings

The findings show that profitability has a positive impact on cash holdings; therefore, H3 is accepted. High profitability reflects an entity's ability to generate substantial profits from its operations, meaning the entity has more internal funding to accumulate in the form of cash (Fatima, 2024). In line with signalling theory, an entity that is able to maintain high levels of profitability and cash holdings will send a positive signal to shareholders regarding its financial health, operational efficiency, and its ability to cope with business uncertainty and capitalise on future investment opportunities (Mariska *et. al.* 2025). Food and beverage entities achieving high profitability will be able to generate greater cash flows and maintain adequate cash reserves to support working capital requirements, business expansion, and product development (Hidayati & Ratnawati, 2024). Consequently, the higher the profitability of an entity in the food and beverage sector, the greater its capacity to increase its cash holdings (Yefrinanda & Nyale, 2026). These findings are consistent with the research by Silaban & Benarda (2023); Zalsabila *et. al.* (2023); Maryanto & Cahyono (2024); Fatima (2024); Hidayati & Ratnawati (2024); Mariska *et. al.* (2025); Yefrinanda & Nyale (2026) that profitability has a positive impact on cash holdings.

The Effect of Company Size on Cash Holdings

The findings show that company size has no impact on cash holdings; therefore, H4 is rejected. The lack of influence of company size on cash holdings in entities within the food and beverage sector indicates that the size of an entity's total assets is not a key factor in determining cash holding policies (Zalsabila *et. al.* 2023). This sends a positive signal that, as both large and small entities must maintain adequate cash levels to support their operational activities including the procurement of commodities, production, product distribution, and the fulfilment of short-term obligations (Romel & Ekadjaja (2023). Large entities do indeed have easier access to external sources of financing , so they do not need to hold large amounts of cash as reserves (Maryanto & Cahyono, 2024). Conversely, smaller entities tend to align their cash holdings with operational needs and their ability to generate cash flow, so they do not necessarily hold less cash (Hidayati & Ratnawati, 2024). The characteristics of the food and beverage industry, which is characterised by relatively rapid inventory and sales turnover, mean that cash requirements are influenced more by the efficiency of working capital management, operational cycles and the ability to generate cash flow than by the size of the assets held (Mariska *et. al.* 2025). Consequently, company size is not a determining factor in the level of cash holdings within food and beverage entities; rather, it is management's policies regarding the management of cash holdings and the entity's operational requirements (Fatima, 2024). These findings are consistent with the research by Zalsabila *et. al.* (2023); Romel & Ekadjaja (2023); Maryanto & Cahyono (2024), which found that company size has no impact on cash holdings.

5. Conclusion

This study utilised a sample of 132 financial statements from 44 entities in the food and beverage sector, covering a three-year period from 2023 to 2025. The findings indicate that debt levels, net working capital, profitability and firm size collectively influence cash holdings. Furthermore, the findings also reveal that net working capital and profitability have a positive impact on cash holdings, whilst debt levels and company size have no impact on cash holdings.

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Limitations of the study include the fact that some entities still incurred losses, the presence of outlier data from 15 entities (or 45 data points) covering the three-year period from 2023 to 2025, and an adjusted R-squared value below 50 per cent, meaning the research findings are not yet representative. Therefore, it is hoped that future research will include additional variables such as corporate governance; as with sound corporate governance in place, entities holding large amounts of cash are subject to oversight by the board of directors, the board of commissioners and the audit committee, ensuring that available cash can be utilised for unforeseen needs at any time.

For internal stakeholders, particularly managers, the research findings can serve as a basis for formulating optimal cash management policies by focusing more closely on aspects that have been shown to influence cash holdings, thereby enabling the entity to maintain its cash without holding excessive amounts that could result in opportunity costs. Furthermore, the research findings can be used as a basis for evaluation in working capital management, improving profitability, and planning funding to support the entity's operational continuity and investment. Meanwhile, for external parties, such as shareholders and creditors, this research provides information on the factors influencing an entity's cash holding policy, which can serve as a basis for assessing the entity's ability to meet its current liabilities and maintain financial stability. For regulators and academics, the research findings may also serve as a reference in policy development and further research relating to cash holdings, particularly within food and beverage entities.

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