An Empirical Analysis of Default Risk for Listed Companies in India: A Comparison of Two Prediction Models

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Abstract

This paper evaluates the predictive ability of two default prediction models: the Z-score model using discriminant analysis, and the logit model on a dataset of 60 defaulted and 60 solvent companies. Furthermore, for logistic regressions, an attempt is made to combine macro variables and dummy industry variables along with accounting ratios to test the predictive ability of the model. The new Z-score model developed exhibits a high classification power on both estimated and hold out sample. The research findings establish the superiority of logit model over discriminant analysis and demonstrate the significance of accounting ratios in predicting default.

Key words: Default Risk, Discriminant Ratios, Logistic Ratios