



FINANCIAL MODELLING - 534E7B

CASE STUDY

Financial Health Assessment Using Altman Z-Score Model

Background:

ABC Enterprises is a consulting firm specializing in financial risk analysis. The firm has been approached by a group of investors who want to evaluate the bankruptcy risk and financial stability of three companies from different sectors:

1. Public Manufacturing Company – listed on the stock exchange, facing moderate growth but higher market scrutiny.
2. Private Manufacturing Company – closely held, steady growth, limited access to equity markets.
3. Non-Manufacturing Company – service-oriented business with high sales turnover and low capital intensity.

The investors wish to use the Altman Z-Score model, which is a widely used financial formula for predicting the probability of bankruptcy within the next two years. Different variants of the model exist depending on the type of company:

- Original Altman Z-Score: For public manufacturing companies.
- Modified Z'-Score: For private manufacturing companies.
- Z''-Score: For non-manufacturing or service companies.

Financial Data Provided (₹ '000)

Component	Value
Total Assets	1,50,000
Working Capital	60,000
Retained Earnings	40,000
EBIT	30,000



Component	Value
Equity (Market Value if public, Book Value if private)	60,000
Total Liabilities	1,50,000
Sales (Revenue)	1,00,000

Questions:

1. Calculate X_1 to X_5 .
2. Compute Z-Scores:
 - Compute Z for the public manufacturing company.
 - Compute Z' for the private manufacturing company.
 - Compute Z'' for the non-manufacturing company.
3. Interpret the results for each of the above company