ABSTRACT

The 1998 Tom Yum Kung crisis revealed that the collapse of companies in the financial industry then severely affected companies in other industries. Nowadays, the financial system represents the main blood of the Thai economy and positions in highest industry ranked by SET's market capitalization in the year 2012. If the financial industry malfunctions, the whole economy will be affected. The financial crisis will create a huge impact to the economy of the country and the world at large. The pre-alert system for financial companies will then be necessary in order to prevent future firm failure.

Hence, the objective of this study was to construct the econometric model to predict the possibility of bankruptcy of finance companies that are listed in the Stock Exchange of Thailand from year 2008 to 2012. It also aimed to determine the relationship between financial ratios and the possibility of bankruptcy. The econometric methodology used was the logistic regression. In this study, the sample consisted of 21 bankrupted companies and 198 non-bankrupted companies. The bankrupted companies are those delisted and/or assigned SP (Trading Suspension) or NC (Non-Compliance) sign.

The dependent variable for this study was the binary variable where "1" is bankruptcy and 0 is otherwise. The independent variables consist of eight financial ratios, classified into four categories. These are profitability, liquidity, asset management and business risk. Logistic regression analysis with backward stepwise was used to eliminate the least significant variables to obtain final best fit model. The result from this study shows that the bankruptcy prediction model contains only the current ratio. This current ratio is negatively related to the bankruptcy possibility. An increase in the current ratio is likely to reduce the chance of bankruptcy. In addition, it was found out that the prediction model is able to predict the likelihood of bankruptcy and classified the bankrupted and non-bankrupted companies with 86.67 percent of accurate classification. Thus, the current ratio is a key indicator to check the future bankruptcy possibility of companies. Management, financial controller, investor, etc. can apply the constructed model to adopt as one of the alternative choices for monitoring companies and industry performance in order to take necessary action for prevention and protection of their own wealth and propensity.