ABSTRACT

The company's financial health is viewed as a critical driver for credit score. In this regard, the focus of the study is to analyze the probability of default given its financial structure during the financial crisis of 2008. Using annual series that spam from 2004-2009, this paper covers both the booming period and the financial crisis period. The analysis is done by evaluating credit risk as a function of probability to default which is related to company's financial health. The study attempts to build a linear model in parameters by using conditional logit fixed effects model at the aggregate level and tested at 5% significance level. The findings of the paper conclude that debt-to-equity ratio is the most significant factor influencing the probability of default. The results have several implications for analysts, regulators and managers in analyzing financial health of a company.