

## **Predicting Corporate Failure in License Finance Companies in Sri Lanka**

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### **Abstract**

The license finance industry in Sri Lanka plays a vital role in providing credit to businesses and individuals. However, the industry is not without risk, as evidenced by the number of LFCs that have failed in recent years. Corporate failure can have a significant impact on the economy, as it can lead to various kinds of negative consequences to the economy as well as to the whole nation. This study aims to develop a model to predict corporate failure in licensed finance companies (LFCs) in Sri Lanka. The Altman Z-Score, a widely used financial distress prediction model, was employed to identify distressed LFCs. To enhance the reliability of the model, the CAMELS rating system, a supervisory rating system for financial institutions, was also used to evaluate the performance of the identified distressed LFCs. The study found that the Altman Z-Score and CAMELS rating systems identified LFCs that were in corporate failure or had lower performance. The findings suggest that both models can be used as early warning systems for identifying distressed LFCs in Sri Lanka.

**Keywords:** Financial Distress, Altman Z-Score, CAMEL Rating System, License Finance Companies