|  |  |  |
| --- | --- | --- |
| A  1.2 | Net Working Capital (NWC) to Total Assets | 100/1,000 = 0.1 x 1.2 =0.12 |
|  | NWC = Current Assets – Current Liabilities | Rs. 300 minus Rs. 200 = Rs. 100 cr |
| B  1.4 | Retained Earnings to Total Assets | 200/1,000 = 0.2 x 1.4 =0.28 |
| C  3.3 | Earnings Before Interest & Taxes to Total Assets | 120/1,000 = 0.12 X 3.3 =0.396 |
| D  0.6 | Market Value of Equity (MVE) to Long-Term Liabilities | MVE = 50 lakhs share x Rs. 250 = Rs. 125 cr  125/500 = 0.25 x 0.6 = 0.15 |
| E  1.0 | Sales to Total Assets | 800/1,000 = 0.8 x 1 = 0.8 |
|  | Z score (A + B+ C + D + E) | (0.12 + 0.28 + 0.396 + 0.15 + 0.8) = 1.746 comes under potential bankruptcy list |
|  |  | |

Since the Z score is 1.746 and falls below 1.8, this entity comes under “red zone.” Bank cannot consider credit facilities as it indicates that company is headed for bankruptcy depicted by red area.