



The Pakistan Credit Rating Agency Limited

Rating Report

University of Management and Technology

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Rating Rationale and Key Rating Drivers

University of Management and Technology ('UMT' or 'the University') is a non-profit private organization established in 2004. The University is a distinguished institution that has risen to prominence in the realm of higher education. The University boasts a significant footprint in the academic sector, offering a comprehensive suite of programs, and is characterized by a robust enrollment and a dedicated faculty. Strategic expansionary measures, in synergy with a literacy-focused populace, have catalyzed the University's exponential growth over the years. Amidst the competitive landscape of the educational sector, the University has preserved its commendable standing through the establishment of a multitude of schools and institutes that proffer in excess 190 accredited programs, 83% of students strength is enrolled in the top 50. The university is renowned for its distinguished business school, attracting a substantial number of students owing to the exceptional quality of its faculty. Other than business studies, the most demanding programs are BS in Computer Science, BS in Software Engineering, and Doctor of Physiotherapy. Furthermore, the university is actively pursuing diversification into the field of medical sciences and is making significant strides towards the completion of this strategic initiative. The university is concurrently investing in cutting-edge disciplines such as AI and data analytics, demonstrating a proactive commitment to advancing in these fields, evidenced by a notable increase in student enrollment. The institution boasts a robust risk profile and has consistently amplified its revenue streams, primarily attributable to its escalated capacity for accommodating an increasing student body. The University has consistently sustained healthy margins. The leadership team reflect a positive perspective on the University's potential to cultivate a financial surplus, vital for underpinning future growth endeavors. The ratings draw strength from the University's strong financial profile represented by moderately leveraged capital structure, strong coverages, and efficient working capital management. Moreover, the presence of renowned educationists on the Board of Governors and Board Trustees ensures stable governance framework adding strength to the University's profile. The University has an array of national accreditations and international linkages.
The ratings are dependent upon the management's ability to sustain margins while remaining self-sufficient and in surplus for expansionary measures. Prudent management of the working capital, maintaining sufficient cash flows, and coverages remain imperative for the ratings. Any significant deterioration in coverages and/or margins will adversely impact the ratings.

Disclosure table with rows: Name of Rated Entity (University of Management and Technology), Type of Relationship (Solicited), Purpose of the Rating (Entity Rating), Applicable Criteria (Methodology | Corporate Rating(Jul-23)), Related Research (Sector Study | Education(Jul-23)), Rating Analysts (Muhammad Zain Ayaz | zain.ayaz@pacra.com | +92-42-35869504)

Profile

Legal Structure University of Management and Technology ('UMT' or 'the University') was established through ACT XV of 2004 (University of Management and Technology, Lahore Act 2004) by the Provincial Assembly of the Government of Punjab. The University is a non-profit institution which provides higher education services. It is accredited and recognized by the Higher Education Commission of Pakistan. The University has its branch campuses in Lahore and Sialkot.

Background The establishment of the University is attributable to the formation of Institute of Leadership and Management Trust ('ILM Trust') by renowned educationist Dr. Hasan Sohaib Murad in 1990. ILM Trust was principally engaged in providing technical diplomas initially, and later launched degree programs. Currently, along with the University, ILM Trust has also franchised numerous TKS Schools and ILM Colleges which have substantial presence in the country's education sector.

Operations The University offers degrees and programs in 55+ educational disciplines which are broadly classified as Engineering, Sciences, Life Sciences, Social Sciences and Management Sciences. The University also has 3 institutes in the fields of Islamic studies, aviation studies, and liberal arts. The University has student enrollment of 25,000+ students. The University has separate dedicated faculty teams for each individual educational department and currently has 700+ faculty members employed with 220 PhDs.

Ownership

Ownership Structure The University, a non-profit educational institute Chartered by the Government, is an independent corporate body run by the Board of Governors which include professionally qualified personnel from various disciplines.

Stability The structure is seen as stable as the second generation of Murad family has been inducted in the operations of ILM Trust and the University.

Business Acumen The members from the Board of Governors and Board of Trustees are highly dedicated individuals having sufficient experience and strong acumen of the domestic and international dynamics of the education sector.

Financial Strength The financial strength of the University remains adequate owing to the growing performance over the years.

Governance

Board Structure The Board of Governors is the highest authority of the University for formulating policies and plans pertaining to the academic and administrative affairs of the University. The members of the Board of Governors and their positions have been defined in the Ordinance of the University. It comprises 12 members currently. The Board of Trustees is the authoritative body for the ILM Trust and includes 10 members.

Members' Profile The Board of Governors includes representatives from the ILM Trust, Government and Regulatory Bodies. The Board of Governors is Chaired by Dr. Ahmad Omer Murad. He is also the Chairman of Board of Trustees, and a PhD in Biochemistry with over 3 decades of experience in research and teaching.

Board Effectiveness The sufficient experience of majority of the Board members on the Board of Governors and Board of Trustees provide useful insight into the education sector. Both the Boards meet twice a year. The Boards are assisted by the Academic Council and Audit Committee.

Financial Transparency Alam and Aulakh Chartered Accountants are the external auditors of the University. The auditor has expressed an unqualified opinion on the financial statements for year end Jun-23. The firm is QCR rated, however, not on SBP's panel of auditors.

Management

Organizational Structure The University's organizational structure has been optimized according to its operating and administrative needs. The University mainly operates through administration, treasurer, academic, internal audit, research and compliance functions. The Rector oversees all departments and reports to the President who then reports to the Board of Governors. The Head of Internal Audit reports directly to the Board's Audit Committee.

Management Team All the members of the strategic management group have experience of at least two decades. The President, Mr. Ibrahim Hasan Murad, has Master's degree in Educational Leadership and Management and has been associated with the University for over a decade. Mr. Murad is a Pakistani educationist, philanthropist and technocrat. Rector, Dr. Asif Raza, has PhD in Communication and Electronic Systems and has experience of over four decades in the fields of engineering and academics. Mobeen Asghar, FCA, with almost two decades of extensive experience at various prominent organizations, currently serves as the CFO of UMT.

Effectiveness The long-standing association of the senior management of the University has ensured consistency in the overall policies, and strengthening of the management structure.

MIS The University has deployed proper technology infrastructure to effectively manage the information related to its main activities. The University uses Microsoft Dynamics 365 as its ERP software. Reports are regularly shared with the management of the University.

Control Environment There is proper segregation of all the duties which provides support to the control environment of the University. Furthermore, in-house presence of internal audit department ensures that the policies and procedures are implemented.

Business Risk

Industry Dynamics The education industry has experienced strong expansion due to growing education importance, increasing enrollment ratios. The vast youth population coupled with strong government incentives are the major factors pioneering growth in the Asia Pacific region, with China, India and Indonesia being the frontrunners. In Pakistan, the education sector can be characterized as a competitive industry with a large number of players. The demand for education has been elevating due to population growth and increasing literacy rates over the past years.

Relative Position The University has considerable market share in the education sector of Punjab. The University is amongst the top five universities of Lahore based on the programs being offered to students, enrolment and faculty.

Revenues The income of the University is majorly driven by tuition fee, and minorly by hostel fees, and transport fees. Owing to the increase in the recent years in enrolment and expansion projects undertaken by the University, revenues have witnessed increase. During FY23, the total revenue of the University stood at PKR 6.2bln (FY22: PKR 5.5bln, FY21: PKR 3.8bln) witnessing average revenue growth of 13%

Margins The major costs incurred by the University are salaries and wages to the staff. The adequate gross margin witnessing stability over the years. Similarly, net profit margins witnessed similar trend and stood at 12.9% during FY23 (FY22: 12.4%). The University's minimal finance cost and tax-exempt status has meant that net profit margin has grown steadily as well. At net level, the University posted net surplus of PKR 799mln during FY23 (FY22: PKR 681mln).

Sustainability Going forward, the University aims to expand its operations by establishing a separate medical and dental college along with a teaching hospital. The project is to be funded by a mix of equity and debt.

Financial Risk

Working Capital The working capital requirements of the University are a function of its trade receivables and trade payables. The salaries of the employees and purchases of materials are the trade payables; the receivables from students and advances to vendors are the trade receivables. The net working capital days of the University have hovered around ~6 days over the years and gross working capital stood at ~19 days.

Coverages During FY23, the University witnessed slight dip in net cashflow from operating activities which stood at ~PKR 861mln (FY22: PKR 1,465mln). On the funding side, the University's finance cost stood at minimal level and resulting in strong interest coverage ratio of 8.2x (FY22: 9.3x). The interest coverage ratio has remained strong over the years owing to higher free cash flows and low finance costs. The University also has strong debt coverage ratio which stood at 3x in FY23 (FY22: 2.4x).

Capitalization The University's moderately leveraged capital structure is categorized by long-term debt undertaken for expansionary measures and short-term running finance for working capital requirements. The University's he university's long-term debt decreased from the previous year, while short-term debt remained constant. resulting in leveraging ratio of ~19% in FY23 (FY22: ~31%).



		Jun-23	Jun-22	Jun-21
		12M	12M	12M
A BALANCE SHEET				
1	Total Assets	5,685	4,965	3,784
2	Net Assets	3,628	2,828	2,148
B INCOME STATEMENT				
1	Sales	6,190	5,478	3,883
2	Net Income Or (Loss)	799	681	642
C CASH FLOW STATEMENT				
1	Net Cash provided by Operating Activities	861	1,465	(279)
2	Net Cash (Used in) or Available From Investing Activities	(506)	(2,394)	(372)
3	Net Cash (Used in) or Available From Financing Activities	(312)	407	101
D RATIO ANALYSIS				
1	Performance			
	a Sales Growth (for the period)	13.0%	41.1%	10.5%
	b Net Profit Margin	12.9%	12.4%	16.5%
	c Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	16.2%	28.9%	-5.5%
	d Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	24.8%	27.4%	35.2%
2	Working Capital Management			
	a Gross Working Capital (Average Days)	19	17	17
	b Net Working Capital (Average Days)	5	8	13
	c Current Ratio (Current Assets / Current Liabilities)	0.8	1.1	1.5
3	Coverages			
	a EBITDA / Finance Cost	8.2	9.3	13.8
	b FCFO / Finance Cost+CMLTB+Excess STB	3.0	2.4	1.8
	c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.7	1.2	0.8
4	Capital Structure			
	a Total Borrowings / (Total Borrowings+Shareholders' Equity)	19.3%	31.7%	28.0%
	b Interest or Markup Payable (Days)	0.0	0.0	26.1
	c Entity Average Borrowing Rate	25.0%	21.1%	8.2%

Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	Very high credit quality. Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	High credit quality. Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	Good credit quality. Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	Moderate risk. Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	High credit risk. A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. "CC" Rating indicates that default of some kind appears probable. "C" Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



*The correlation shown is indicative and, in certain cases, may not hold.

Outlook (Stable, Positive, Negative, Developing) Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

Rating Watch Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

Suspension It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

Withdrawn A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults, or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

Harmonization A change in rating due to revision in applicable methodology or underlying scale.

Surveillance. Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

Note. This scale is applicable to the following methodology(s):
 a) Broker Entity Rating
 b) Corporate Rating
 c) Debt Instrument Rating
 d) Financial Institution Rating
 e) Holding Company Rating
 f) Independent Power Producer Rating
 g) Microfinance Institution Rating
 h) Non-Banking Finance Companies Rating

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(1) Rating is just an opinion about the creditworthiness of the entity and does not constitute recommendation to buy, hold or sell any security of the entity rated or to buy, hold or sell the security rated, as the case may be | Chapter III; 14-3-(x)

2) Conflict of Interest

- i. The Rating Team or any of their family members have no interest in this rating | Chapter III; 12-2-(j)
- ii. PACRA, the analysts involved in the rating process and members of its rating committee, and their family members, do not have any conflict of interest relating to the rating done by them | Chapter III; 12-2-(e) & (k)
- iii. The analyst is not a substantial shareholder of the customer being rated by PACRA [Annexure F; d-(ii)] Explanation: for the purpose of above clause, the term "family members" shall include only those family members who are dependent on the analyst and members of the rating committee

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- (4) PACRA does not disclose or discuss with outside parties or make improper use of the non-public information which has come to its knowledge during business relationship with the customer | Chapter III; 10-7-(d)
- (5) PACRA does not make proposals or recommendations regarding the activities of rated entities that could impact a credit rating of entity subject to rating | Chapter III; 10-7-(k)

Conduct of Business

- (6) PACRA fulfills its obligations in a fair, efficient, transparent and ethical manner and renders high standards of services in performing its functions and obligations; | Chapter III; 11-A-(a)
- (7) PACRA uses due care in preparation of this Rating Report. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. PACRA does not, in every instance, independently verifies or validates information received in the rating process or in preparing this Rating Report | Clause 11-(A)(p).
- (8) PACRA prohibits its employees and analysts from soliciting money, gifts or favors from anyone with whom PACRA conducts business | Chapter III; 11-A-(q)
- (9) PACRA ensures before commencement of the rating process that an analyst or employee has not had a recent employment or other significant business or personal relationship with the rated entity that may cause or may be perceived as causing a conflict of interest; | Chapter III; 11-A-(r)
- (10) PACRA maintains principal of integrity in seeking rating business | Chapter III; 11-A-(u)
- (11) PACRA promptly investigates, in the event of a misconduct or a breach of the policies, procedures and controls, and takes appropriate steps to rectify any weaknesses to prevent any recurrence along with suitable punitive action against the responsible employee(s) | Chapter III; 11-B-(m)

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- (12) PACRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on PACRA's opinions or other analytical processes. In all instances, PACRA is committed to preserving the objectivity, integrity and independence of its ratings. Our relationship is governed by two distinct mandates i) rating mandate - signed with the entity being rated or issuer of the debt instrument, and fee mandate - signed with the payer, which can be different from the entity
- (13) PACRA does not provide consultancy/advisory services or other services to any of its customers or to any of its customers' associated companies and associated undertakings that is being rated or has been rated by it during the preceding three years unless it has adequate mechanism in place ensuring that provision of such services does not lead to a conflict of interest situation with its rating activities; | Chapter III; 12-2-(d)
- (14) PACRA discloses that no shareholder directly or indirectly holding 10% or more of the share capital of PACRA also holds directly or indirectly 10% or more of the share capital of the entity which is subject to rating or the entity which issued the instrument subject to rating by PACRA; | Reference Chapter III; 12-2-(f)
- (15) PACRA ensures that the rating assigned to an entity or instrument is not be affected by the existence of a business relationship between PACRA and the entity or any other party, or the non-existence of such a relationship | Chapter III; 12-2-(i)
- (16) PACRA ensures that the analysts or any of their family members shall not buy or sell or engage in any transaction in any security which falls in the analyst's area of primary analytical responsibility. This clause shall, however, not be applicable on investment in securities through collective investment schemes. | Chapter III; 12-2-(l)
- (17) PACRA has established policies and procedure governing investments and trading in securities by its employees and for monitoring the same to prevent insider trading, market manipulation or any other market abuse | Chapter III; 11-B-(g)

Monitoring and review

- (18) PACRA monitors all the outstanding ratings continuously and any potential change therein due to any event associated with the issuer, the security arrangement, the industry etc., is disseminated to the market, immediately and in effective manner, after appropriate consultation with the entity/issuer; | Chapter III | 17-(a)
- (19) PACRA reviews all the outstanding ratings periodically, on annual basis; Provided that public dissemination of annual review and, in an instance of change in rating will be made; | Chapter III | 17-(b)
- (20) PACRA initiates immediate review of the outstanding rating upon becoming aware of any information that may reasonably be expected to result in downgrading of the rating; | Chapter III | 17-(c)
- (21) PACRA engages with the issuer and the debt securities trustee, to remain updated on all information pertaining to the rating of the entity/instrument; | Chapter III | 17-(d)

Probability of Default

(22) PACRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability). PACRA's transition studies capture the historical performance behavior of a specific rating notch. Transition behavior of the assigned rating can be obtained from PACRA's Transition Study available at our website. (www.pacra.com). However, actual transition of rating may not follow the pattern observed in the past; | Chapter III | 14-3(f)(vii)

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