The Pakistan Credit Rating Agency Limited

Rating Report

Ziauddin University

Report Contents

Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-May-2023	BBB	A2	Stable	Maintain	-
23-May-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ziauddin University (‘the University’) was established in 1995 as a medical university. Over time the University has evolved and, currently, has substantial presence in the academic disciplines of Health Sciences, Law, Politics & Governance, Pharmacy, Engineering, Science, Technology & Management, Eastern Medicine & Natural Sciences, Liberal Arts & Human Sciences, Nursing & Midwifery and Veterinary & Animal Sciences. The University has also diversified by introducing sizable program offerings, enrollment, and faculty. Expansionary measures coupled with literacy driven populace has helped the University grow, resulting in various locations across Karachi and recent expansion in Sukkur. The University has also installed nuclear radioactive device with the approval of the Government for purposes of teaching nuclear studies. The education sector has shown noticeable competition, however, the University has maintained an adequate position. The University enjoys an adequate risk profile and continues to increase its revenues driven by capacity enhancement along with miniscule increase in the fee. The introduction of new programs and campus to accommodate additional students may soar up the revenue stream. This will be further benefitted once Sukkar campus becomes fully operational. The University has managed to generate adequate margins and primarily funds expansionary plans through debt. However, the management remains confident in the University's ability to generate surplus for repayment and to fulfill cash requirement for future expansions. The ratings draw strength from the University’s adequate financial profile represented by moderately leveraged capital structure and coverages. While, the working capital cycle remains adequate. The University also owns substantial land. On the qualitative front, an association of the Board of Governors with the University ensures a stable governance framework. Moreover, the University has an array of national accreditations and international linkages supplementing its ranking.

The ratings are dependent upon the management’s ability to sustain margins while remaining self-sufficient and in surplus for expansionary measures. Sound financial discipline remains critical. Prudent management of the working capital, maintaining sufficient cash flows, and coverages remain crucial for the ratings. Any deterioration in coverages and margins leading to higher financial risk or substantial losses will adversely impact ratings. Management of reputational risk is also important for ratings. Successful and timely materialization of expansionary plans remains imperative for the ratings.

Disclosure

Name of Rated Entity	Ziauddin University
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology | Corporate Rating(Jun-22),Methodology | Correlation Between Long-term & Short-term Rating Scales(Jun-22),Methodology | Rating Modifiers(Jun-22)
Related Research	Sector Study | Education(May-22)
Rating Analysts	Faiqa Qamar | faiqa.qamar@pacra.com | +92-42-35869504

Profile

Legal Structure Ziauddin University ('the University') was established through ACT VI of 1995 (Ziauddin Medical University ACT) by the Provincial Assembly of the Government of Sindh. The University is a non-profit private institution accredited and recognized by the Higher Education Commission of Pakistan.

Background The establishment of the University is attributable to the formation of Dr. Ziauddin Hospitals Trust ('the Trust') in the 1980s by educationists Dr. Ajaz Fatima and Dr. Tajammul Hussain, daughter and son-in-law of Dr. Ziauddin Ahmad (former rector of Aligarh Muslim University), respectively. Over the years, the Trust has successfully launched multiple educational projects. Ziauddin Medical University was officially formed in 1995 to provide higher education in the field of medical sciences and later evolved into providing higher education in diverse academic disciplines.

Operations The University has its branch campuses in Karachi and Sukkur and offers over 90 undergraduate and post graduate degree programmes in the fields of mainly medical and health sciences, social sciences, technology and management, and liberal arts. The University has 8 different faculties and 25 colleges/departments. The University has student enrollment of 5,000+ students. The University has dedicated faculty for each department and currently has 485 faculty members employed with 59 PhDs. The main campuses in Karachi have been constructed on trust owned land and host over 4,000 students. The Sukkur campus is nearing its completion stage. The purpose-built campus comprises buildings for different departments with classrooms, cafeterias, auditorium rooms and halls for catering students and faculty. The University's library for faculty members and students has substantial number of resources available.

Ownership

Ownership Structure The University being non-profit educational institute chartered by the Government, is a corporate body having perpetual succession.

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

Business Acumen The members from the Trust who are majorly in control of the University are highly dedicated individuals having sufficient experience and strong acumen of the domestic and international dynamics of the education sector.

Financial Strength Since the University operates along side the Trust, the financial standing of the Trust and the personal wealth of the members provide comfort in the welfare of the University.

Governance

Board Structure The Board of Governors (BoG), comprising 11 members, is the highest authority of the University for formulating its policies and plans pertaining to the academic and administrative affairs. The BoG is also responsible for taking initiatives as it may deem necessary for the management efficacy and functioning of the University. The members of the BoG and their positions have been defined in the ordinance of the University.

Members' Profile The BoG members have diversified educational backgrounds and vast experience which provides seasoned guidance to the University. The Chairman of the BoG, Dr. Asim Hussain, is the Chairman of both, the Board and the Trust. He is a doctor of surgery and has over 3 decades of experience in research and teaching.

Board Effectiveness The sufficient experience of majority of the members on the BoG provides useful insight into the education sector. The BoG meets twice a year and is assisted by the Academic Council and Audit Committee.

Financial Transparency BDO Ebrahim & Co. Chartered Accountants are the external auditors of the University. The auditor has expressed an unqualified opinion on the financial statements for year end Jun-22. The firm is QCR rated and placed under category 'A' of SBP's panel of auditors.

Management

Organizational Structure The University mainly operates through administration, treasury, academics, internal audit, research and compliance functions. The Pro Chancellor oversees all departments and reports to the Chancellor who then reports to the BoG. The Head of Internal Audit reports directly to the Board's Audit Committee.

Management Team The Chancellor, Dr. Asim Hussain, is a doctor of surgery and has over 3 decades of experience in research and teaching. Pro-Chancellor, Dr. Nida Hussain is a doctor of medicine and has overall experience of 16 years in the fields of medicine and teaching.

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 Oracle 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 Sindh. The University is amongst the top five universities of Sindh based on the programs being offered to students, enrolment and faculty.

Revenues Owing to the increase in the recent years in enrolment and expansion projects undertaken by the University, revenues have witnessed increase. During FY22, the total revenue of the University stood at PKR 1,961mln (FY21: PKR 1,779mln) witnessing increase of ~10% YoY. Going forward, the revenues are expected to further increase owing to additional enrolments at the new campus in Sukkur.

Margins Substantial increase in cost led the gross margins post a dip (FY22: ~17.8%, FY21: ~30.6%). Moreover, operating margins posted a dip due to trickle down effect (FY22: ~0.5%, FY21: ~14.6%). Resultantly, the University's net profit margin tailed off owing to higher finance cost amidst increasing interest rates (FY22: ~ 5.9%, ~17.2%). Going forward, margins are expected to squeeze as operational costs are inclining.

Sustainability Going forward, the University aims to expand its operations by constructing Sukkur campus. The projected is funded by a mix of equity and debt.

Financial Risk

Working Capital Receivable from students are trade receivable for the University, while employee salaries are the trade payables. In FY22, the net working capital days of the University increased (FY22: 132 days, FY21:110 days) mainly due to an increase in the receivable days (FY22: 145 days, FY21:120 days). This increase was due to higher intake of students along with an increase in fee structure as per PMCs regulations. The University's payable days also increased (FY22: 13 days, FY21: 9 days) due to delayed in payments to employees. The University holds minimal borrowing cushion at trade level and is expected to remain the same.

Coverages In FY22, the University registered a reduction in FCFO (FY22: PKR 391mln, FY21: PKR 523mln) due to lower profitability during the year. Moreover, the University's finance cost inclined (FY22: PKR 109mln, FY21: PKR 30mln) owing to increased interest rates. This led to reduced interest coverage ratios (FY22: 13.0x, FY21: 18.9x). The University holds a moderate debt coverage ratio (FY22: 1.1x, FY21: 4.5x). Going forward, coverages are expected to remain stretched.

Capitalization The University's leverage ratio witnessed an increase, however remain moderate (FY22: ~31%, FY21: ~11%). The increase is mainly due to increase in total borrowings (FY22: PKR 1.4bln, FY21: PKR 353mln). In FY22, the University has loaded substantial long-term debt on its balance sheet to fund the construction of Sukkar Campus (FY22: PKR 734mln, FY21: PKR 97mln). Moreover, short term debt also posted an increase to fund higher working capital requirement (FY22: PKR 290mln, FY21: PKR 166mln). The University's equity base posted minimal increase (FY22: PKR 3bln, FY21: PKR2.8bln). Going forward, leveraging is expected to remain moderate.

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Financial Summary
PKR mln

Ziauddin University Education	Jun-22	Jun-21	Jun-20
	12M	12M	12M
A BALANCE SHEET			
1 Non-Current Assets	2,785	2,040	1,729
2 Investments	496	418	274
3 Related Party Exposure	473	325	452
4 Current Assets	1,760	1,223	996
a Inventories	-	-	-
b Trade Receivables	*883*	*678*	*489*
5 Total Assets	5,514	4,006	3,450
6 Current Liabilities	1,145	765	661
a Trade Payables	*98*	*46*	*46*
7 Borrowings	1,365	353	207
8 Related Party Exposure	-	-	-
9 Non-Current Liabilities	-	-	-
10 Net Assets	3,004	2,888	2,582
11 Shareholders' Equity	3,004	2,888	2,582
B INCOME STATEMENT			
1 Sales	1,961	1,779	1,712
a Cost of Good Sold	*(1,612)*	*(1,235)*	*(1,247)*
2 Gross Profit	349	544	465
a Operating Expenses	(340)	(284)	(161)
3 Operating Profit	9	261	304
a Non Operating Income or (Expense)	*215*	*76*	*69*
4 Profit or (Loss) before Interest and Tax	225	337	373
a Total Finance Cost	*(109)*	*(30)*	*(18)*
b Taxation	-	-	-
6 Net Income Or (Loss)	116	307	355
C CASH FLOW STATEMENT			
a Free Cash Flows from Operations (FCFO)	*391*	*523*	*469*
b Net Cash from Operating Activities before Working Capital Changes	*388*	*524*	*481*
c Changes in Working Capital	*(194)*	*(4)*	*(141)*
1 Net Cash provided by Operating Activities	193	520	340
2 Net Cash (Used in) or Available From Investing Activities	(1,079)	(452)	(503)
3 Net Cash (Used in) or Available From Financing Activities	972	(82)	194
4 Net Cash generated or (Used) during the period	86	(14)	32
D RATIO ANALYSIS			
1 Performance			
a Sales Growth (for the period)	10.3%	3.9%	32.0%
b Gross Profit Margin	17.8%	30.6%	27.2%
c Net Profit Margin	5.9%	17.2%	20.7%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	10.0%	29.2%	19.2%
*e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh*	3.9%	11.2%	14.8%
2 Working Capital Management			
a Gross Working Capital (Average Days)	145	120	82
b Net Working Capital (Average Days)	132	110	76
c Current Ratio (Current Assets / Current Liabilities)	1.5	1.6	1.5
3 Coverages			
a EBITDA / Finance Cost	13.4	19.1	29.3
b FCFO / Finance Cost+CMLTB+Excess STB	1.1	4.5	22.7
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.0	0.4	0.0
4 Capital Structure			
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	31.2%	10.9%	7.4%
b Interest or Markup Payable (Days)	9.2	10.0	16.8
c Entity Average Borrowing Rate	3.5%	9.9%	14.8%

Credit Rating

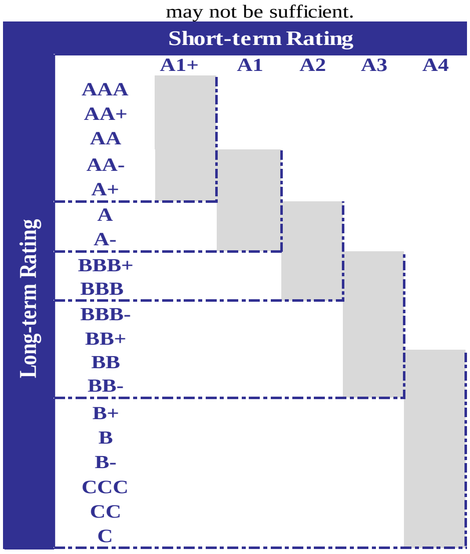
Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Long-term Rating

Scale	Definition
AAA	**Highest credit quality.** Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+ 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.
A+ 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.
BBB+ 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.
BB+ 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.
B+ 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.
CCC CC C	**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.
D	Obligations are currently in default.

Short-term Rating

Scale	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
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 surveill 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

Regulatory and Supplementary Disclosure
(Credit Rating Companies Regulations,2016)

Rating Team Statements
(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

Restrictions
(3) No director, officer or employee of PACRA communicates the information, acquired by him for use for rating purposes, to any other person except where required under law to do so. | Chapter III; 10-(5)
(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)

Independence & Conflict of interest
(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 | 18-(a)
(19) PACRA reviews all the outstanding ratings on semi-annual basis or as and when required by any creditor or upon the occurrence of such an event which requires to do so; | Chapter III | 18-(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 | 18-(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 | 18-(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-(f-VII)
Proprietary Information