



The Pakistan Credit Rating Agency Limited

Rating Report

Ziauddin University

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
23-May-2024	BBB	A2	Stable	Maintain	-
23-May-2023	BBB	A2	Stable	Maintain	-
23-May-2022	BBB	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

Ziauddin University, established in 1995, has progressively expanded its academic portfolio to include a broad spectrum of disciplines, ranging from Health Sciences to Veterinary & Animal Sciences. On the governance front, the active engagement of the Board of Governors ensures a stable governance framework. The University's strategic diversification has been characterized by a significant enhancement in program offerings, student enrollment, and faculty recruitment. This expansion has been geographically mirrored by the establishment of multiple campuses within Karachi and a recent extension into Sukkur. During 2023 the university inaugurated a Clinical Trial Unit at the Clifton Campus, aimed at bolstering multi-project research capabilities, and a specialized facility on Link Road, Karachi, for the production of radioactive isotopes critical for cancer research and therapeutic applications. The introduction of new programs and the expansion of campuses, particularly the full operationalization of the Sukkur campus, are expected to contribute positively to the revenue streams. Despite the intense competition within the education sector, Ziauddin University has managed to uphold a satisfactory market stance. From a financial perspective, the University exhibits a sound risk profile with consistent revenue growth. The University has demonstrated prudent financial management, maintained satisfactory margins and leveraged debt financing for its expansion plans. The management remains confident regarding the University's surplus generation capabilities, which are expected to support debt repayment and fund future expansion endeavours. The University's creditworthiness is reinforced by a stable financial profile, marked by a moderately leveraged capital structure and satisfactory coverage ratios. The working capital cycle is efficiently managed. The University's standing is further enhanced by its comprehensive national accreditations and international affiliations, which contribute to its esteemed academic ranking.

The ratings are contingent on the management's proficiency in preserving margins, achieving self-sufficiency, and generating a surplus for expansion initiatives. The significance of stringent financial discipline is paramount. Astute handling of working capital, ensuring ample cash flows, and maintaining coverage ratios are vital for the ratings. Any decrease in coverage ratios and margins resulting in escalated financial risk or considerable losses will negatively influence the ratings. The management's effectiveness in handling reputational risk also plays a crucial role in the ratings. The swift and effective implementation of development plans is imperative for the ratings' stability.

Disclosure

Name of Rated Entity	Ziauddin University
Type of Relationship	Solicited
Purpose of the Rating	Entity Rating
Applicable Criteria	Methodology Corporate Rating(Jul-23),Methodology Correlation Between Long-term & Short-term Rating Scales(Jul-23),Methodology Rating Modifiers(Apr-23)
Related Research	Sector Study Education(Jul-23)
Rating Analysts	Usama Ali usama.ali@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 24 colleges/departments. The University has enrolment of above 6,500 students. The University has dedicated faculty for each department and currently has 559 faculty members employed with 88 PhDs. The main campuses in Karachi have been constructed on trust owned land and host over 4,000 students. The Sukkur campus is soon to be partially inaugurated. 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 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 field 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 in the Asia Pacific region presents both opportunities and risks. Growing emphasis on education and rising enrolment rates create demand for financing. China, India, and Indonesia lead the way. 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. Pakistan's competitive landscape requires prudent risk management. Diversification and ongoing monitoring are essential for lenders navigating this dynamic sector.

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. QS rating of Ziauddin stands at 29th position for Pakistan.

Revenues The income of the University is mainly driven by tuition fee, and minorly by hostel fees, and fines and penalties. 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 2478mln (FY22: PKR 1,961mln) witnessing increase of ~26.4% YoY. University continued this upward trajectory in 1HFY24 as total revenue stood at PKR 1448mln.

Margins The major costs incurred by the University are salaries and wages to the staff. The gross margin stood at ~19.5% in FY23 witnessing increase from ~17.8% in FY22. Operating margin stood at ~4.0% in FY23 (FY22: ~0.5%). Similar trend has been witnessed in the University's net profit margin owing to increase in revenue compared to last year. At net level, the University posted an increase in the net income of PKR 177mln in FY23 (FY22: PKR 116mln). Subsequently, net margin stood at ~7.2% in FY23, (FY22: ~5.9%). Management accounts of 1HFY24 shows that the company is improving these margins.

Sustainability The University is charting a course for growth with the strategic objective of finalizing the construction of its Sukkur campus. This ambitious project is slated to be financed through a strategic blend of equity and debt, ensuring a balanced approach to capital allocation.

Financial Risk

Working Capital The working capital requirements of the University are a function of its trade receivables and trade payables since the nature of the business does not require it to hold any inventories. The salaries of the employees are the trade payables and the receivables from students are the trade receivables. During FY23, the net working capital days of the University stood at ~107 days (FY 22:132 days) owing to receivable days for FY23 standing at ~126 days (FY 22:145 days) and payable days standing at ~18 days in FY23 (FY 22:13 days).

Coverages During FY23, the University registered an increase in FCFO which stood at ~PKR 603mln (FY22: PKR 391mln). Increase in FCFO can be seen as an effect of decreased cost during the year. On the funding side, the University's finance cost stood at PKR 213mln in FY23 (FY22: PKR 109mln) resulting in low interest coverage ratio of 12.3x (FY22: 13.4x). University also has less debt coverage ratio which stood at 2.4x in FY23 (FY22: 1.1x).

Capitalization The University's moderate leveraged capital structure is categorized by increased long-term debt undertaken for expansionary measures, leasing, and short-term running finance for working capital requirements. The University's long-term debt stood at PKR 745mln as of FY23 (FY22: PKR 186mln) and short-term debt stood at PKR 405mln as of FY23 (FY22: 290mln). Total debt stood at PKR 1,352mln as of FY23 (FY22: PKR 1356mln) against equity base (accumulated fund) of PKR 3,181mln (FY22: 3,004mln) resulting in leveraging ratio of ~30% (FY22: ~32%).



The Pakistan Credit Rating Agency Limited

Financial Summary

PKR mln

Ziauddin University Education	Dec-23 6M	Jun-23 12M	Jun-22 12M	Jun-21 12M	Jun-20 12M
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A BALANCE SHEET

1 Non-Current Assets	3,592	3,470	2,785	2,040	1,729
2 Investments	804	754	496	418	274
3 Related Party Exposure	255	610	473	325	452
4 Current Assets	786	1,391	1,760	1,223	996
<i>a Inventories</i>	-	-	-	-	-
<i>b Trade Receivables</i>	329	822	883	678	489
5 Total Assets	5,436	6,224	5,514	4,006	3,450
6 Current Liabilities	658	1,533	1,145	765	661
<i>a Trade Payables</i>	142	153	98	46	46
7 Borrowings	1,402	1,352	1,365	353	207
8 Related Party Exposure	-	158	-	-	-
9 Non-Current Liabilities	-	-	-	-	-
10 Net Assets	3,376	3,181	3,004	2,888	2,582
11 Shareholders' Equity	3,376	3,181	3,004	2,888	2,582

B INCOME STATEMENT

1 Sales	1,448	2,478	1,961	1,779	1,712
<i>a Cost of Good Sold</i>	(963)	(1,996)	(1,612)	(1,235)	(1,247)
2 Gross Profit	486	482	349	544	465
<i>a Operating Expenses</i>	(254)	(384)	(340)	(284)	(161)
3 Operating Profit	232	98	9	261	304
<i>a Non Operating Income or (Expense)</i>	121	292	215	76	69
4 Profit or (Loss) before Interest and Tax	353	391	225	337	373
<i>a Total Finance Cost</i>	(158)	(213)	(109)	(30)	(18)
<i>b Taxation</i>	-	-	-	-	-
6 Net Income Or (Loss)	195	177	116	307	355

C CASH FLOW STATEMENT

<i>a Free Cash Flows from Operations (FCFO)</i>	444	603	391	523	469
<i>b Net Cash from Operating Activities before Working Capital Changes</i>	286	444	388	524	481
<i>c Changes in Working Capital</i>	(96)	510	(194)	(4)	(141)
1 Net Cash provided by Operating Activities	190	954	193	520	340
2 Net Cash (Used in) or Available From Investing Activities	(269)	(1,218)	(1,079)	(452)	(503)
3 Net Cash (Used in) or Available From Financing Activities	50	(164)	972	(82)	194
4 Net Cash generated or (Used) during the period	(28)	(428)	86	(14)	32

D RATIO ANALYSIS

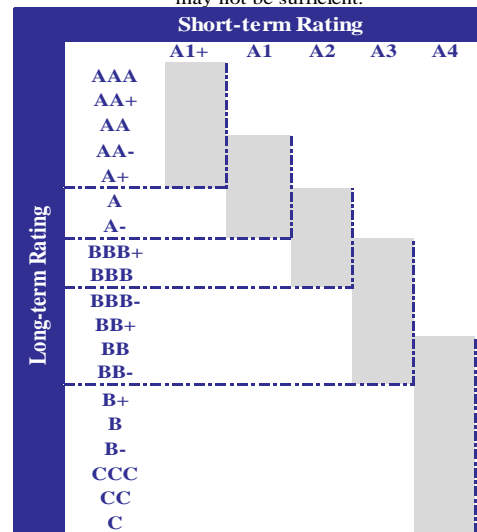
1 Performance					
<i>a Sales Growth (for the period)</i>	16.9%	26.4%	10.3%	3.9%	0.0%
<i>b Gross Profit Margin</i>	33.5%	19.5%	17.8%	30.6%	27.2%
<i>c Net Profit Margin</i>	13.4%	7.2%	5.9%	17.2%	20.7%
<i>d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)</i>	24.1%	44.9%	10.0%	29.2%	19.2%
<i>e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh</i>	11.9%	5.7%	3.9%	11.2%	13.8%
2 Working Capital Management					
<i>a Gross Working Capital (Average Days)</i>	73	126	145	120	104
<i>b Net Working Capital (Average Days)</i>	54	107	132	110	95
<i>c Current Ratio (Current Assets / Current Liabilities)</i>	1.2	0.9	1.5	1.6	1.5
3 Coverages					
<i>a EBITDA / Finance Cost</i>	12.1	12.3	13.4	19.1	29.3
<i>b FCFO / Finance Cost+CMLTB+Excess STB</i>	2.7	2.4	1.1	4.5	22.7
<i>c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)</i>	1.2	1.7	3.0	0.4	0.0
4 Capital Structure					
<i>a Total Borrowings / (Total Borrowings+Shareholders' Equity)</i>	29.3%	29.8%	31.2%	10.9%	7.4%
<i>b Interest or Markup Payable (Days)</i>	295.0	400.6	9.2	10.0	16.8
<i>c Entity Average Borrowing Rate</i>	5.4%	3.7%	3.5%	9.9%	7.9%

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+	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	
BBB-	
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	
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	Very high credit risk. Substantial credit risk "CCC" Default is a real possibility.
CC	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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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

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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).
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- (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)
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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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