



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-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 over the years resulting in various locations across Karachi and recent expansion into Sukkur. Lately, the education sector has shown noticeable competition, however, Ziauddin University has maintained an adequate position. The University enjoys an adequate risk profile and continues to increase its revenues driven by capacity enhancement. The introduction of new programs and campus to accommodate additional students is expected to soar up the revenue stream and hence support further expansion in the future. The University has maintained healthy margins and primarily funds expansionary plans through equity. The management remains confident in the ability of the University to generate surplus for future expansion plans. The ratings draw strength from the University's adequate financial profile represented by moderately leveraged capital structure, stable coverages, and adequately managed working capital cycle. 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. 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-21),Criteria Correlation Between Long-term & Short-term Rating Scales(Jun-21),Criteria Rating Modifiers(Jun-21)
Related Research	Sector Study Education(May-22)
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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 which provides higher education services. It is accredited and recognized by the Higher Education Commission of Pakistan. The University has its branch campuses in Karachi and Sukkur.

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 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 17 colleges/departments. The University has student enrollment of 5,000+ students. The University has separate dedicated faculty teams for each individual educational department and currently has 485 faculty members employed with 59 PhDs. The main campuses in Karachi have been constructed on land owned by the trust 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 is the highest authority of the University for formulating policies and plans pertaining to the academic and administrative affairs of the University. The Board of Governors has the supervisory responsibility for all the activities and working plans of the University. It is also responsible for taking initiatives as it may deem necessary for the efficient and effective management and functioning of the University. The members of the Board of Governors and their positions have been defined in the ordinance of the University. It comprises 11 members currently.

Members' Profile The Board of Governors members have diversified educational backgrounds and vast experience which provides seasoned guidance to the University. The Chairman of the Board of Governors, Dr. Asim Hussain, is the chairman of the Board and the Trust, and 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 Board of Governors provides useful insight into the education sector. The Board meets twice a year. The Board 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-21. 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 Board of Governors. 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 FY21, the total revenue of the University stood at PKR 1,779mln (FY20: PKR 1,712mln, FY19: PKR 1,297mln) witnessing increase of ~4% YoY.

Margins The Gross margin stood at 30.6% during FY21 witnessing increase from 27.2% in FY20 (FY19: 31.4%). Operating margin stood at 14.6% during FY21 (FY20: 17.8%, FY19: 22.8%). Similar trend has been witnessed in the University's net profit margin owing to minimal finance cost and tax-exemption status. At net level, the University posted net surplus of PKR 307mln during FY21 (FY20: PKR 355mln, FY19: PKR 426mln). Subsequently, net surplus percentage stood at 17.2% during FY21, (FY20: 20.7%, 32.8%).

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

Financial Risk

Working Capital The salaries of the employees are the trade payables and the receivables from students are the trade receivables. The net working capital days of the University stood at ~110 days owing to receivable days standing at ~120 days and payable days standing at ~10 days in FY21.

Coverages During FY21, the University registered an improvement in FCFO which stood at ~PKR 523mln (FY20: PKR 469mln). Increased FCFO can be seen as an effect of high income during the year. On the funding side, the University's finance cost stood at PKR 30mln in FY21 (FY20: PKR 18mln) resulting in strong interest coverage ratio of 18.9x (FY20: 28.9x). The University also has strong debt coverage ratio which stood at 4.5x in FY21 (FY20: 22.7x).

Capitalization The University's low leveraged capital structure is categorized minimal 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 186mln as of FY21 (FY20: PKR 7mln) and short-term debt stood at PKR 166mln as of FY21 (FY20: 200mln). Total debt stood at PKR 353mln as of FY21 (FY20: PKR 207mln) against equity base (accumulated fund) of PKR 2,888mln (FY20: 2,582mln) resulting in leveraging ratio of ~11% (FY20: ~7%).



Ziauddin University Education	Jun-21 12M	Jun-20 12M	Jun-19 12M	Jun-18 12M
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A BALANCE SHEET

1 Non-Current Assets	2,040	1,729	1,296	1,100
2 Investments	418	274	323	381
3 Related Party Exposure	325	452	393	219
4 Current Assets	1,223	996	839	753
a Inventories	-	-	-	-
b Trade Receivables	678	489	278	205
5 Total Assets	4,006	3,450	2,851	2,454
6 Current Liabilities	765	661	612	624
a Trade Payables	46	46	11	33
7 Borrowings	353	207	13	15
8 Related Party Exposure	-	-	-	-
9 Non-Current Liabilities	-	-	-	-
10 Net Assets	2,888	2,582	2,227	1,815
11 Shareholders' Equity	2,888	2,582	2,227	1,815

B INCOME STATEMENT

1 Sales	1,779	1,712	1,297	1,111
a Cost of Good Sold	(1,235)	(1,247)	(890)	(767)
2 Gross Profit	544	465	407	344
a Operating Expenses	(284)	(161)	(111)	(97)
3 Operating Profit	261	304	296	247
a Non Operating Income or (Expense)	76	69	135	78
4 Profit or (Loss) before Interest and Tax	337	373	431	326
a Total Finance Cost	(30)	(18)	(5)	(2)
b Taxation	-	-	-	-
6 Net Income Or (Loss)	307	355	426	323

C CASH FLOW STATEMENT

a Free Cash Flows from Operations (FCFO)	523	469	513	392
b Net Cash from Operating Activities before Working Capital Changes	524	481	529	409
c Changes in Working Capital	(4)	(141)	(379)	(33)
1 Net Cash provided by Operating Activities	520	340	149	376
2 Net Cash (Used in) or Available From Investing Activities	(452)	(503)	(233)	(378)
3 Net Cash (Used in) or Available From Financing Activities	(82)	194	(11)	(9)
4 Net Cash generated or (Used) during the period	(14)	32	(95)	(11)

D RATIO ANALYSIS

1 Performance				
a Sales Growth (for the period)	3.9%	32.0%	16.7%	--
b Gross Profit Margin	30.6%	27.2%	31.4%	31.0%
c Net Profit Margin	17.2%	20.7%	32.8%	29.1%
d Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	29.2%	19.2%	10.3%	32.3%
e Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Sh	11.2%	14.8%	21.1%	17.8%
2 Working Capital Management				
a Gross Working Capital (Average Days)	120	82	68	67
b Net Working Capital (Average Days)	110	76	62	56
c Current Ratio (Current Assets / Current Liabilities)	1.6	1.5	1.4	1.2
3 Coverages				
a EBITDA / Finance Cost	19.1	29.3	112.3	300.0
b FCFO / Finance Cost+CMLTB+Excess STB	4.5	22.7	50.1	64.5
c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	0.4	0.0	0.0	0.0
4 Capital Structure				
a Total Borrowings / (Total Borrowings+Shareholders' Equity)	10.9%	7.4%	0.6%	0.8%
b Interest or Markup Payable (Days)	10.0	16.8	0.0	0.0
c Entity Average Borrowing Rate	9.9%	14.8%	32.9%	9.0%

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+	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	
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.

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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):

<p>Entities</p> <ul style="list-style-type: none"> a) Broker Entity Rating b) Corporate Rating c) Financial Institution Rating d) Holding Company Rating e) Independent Power Producer Rating f) Microfinance Institution Rating g) Non-Banking Finance Companies (NBFCs) Rating 	<p>Instruments</p> <ul style="list-style-type: none"> a) Basel III Compliant Debt Instrument Rating b) Debt Instrument Rating c) Sukuk Rating
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- (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)
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- (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)

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