



The Pakistan Credit Rating Agency Limited

Rating Report

Dr. Ziauddin Hospital Trust

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Rating History

Dissemination Date	Long Term Rating	Short Term Rating	Outlook	Action	Rating Watch
28-Dec-2023	A-	A2	Stable	Initial	-

Rating Rationale and Key Rating Drivers

The Dr. Ziauddin Hospital Trust (“the trust”, “the hospital” or ‘ZHT”) rating emanates from the strapping profile of the trust in the private hospital industry of Pakistan. Three entities primarily operate under the umbrella of the Ziauddin group, which includes Ziauddin Hospital Trust, Ziauddin Memorial Hospital and Ziauddin University. The group has expanded their business diversity by venturing into the education field and establishing university and education board. The hospitalization industry is highly fragmented and primarily dispensed into the public and private sectors. According to data published by the Health Economic Survey of Pakistan as of 2021, the public sector operators with a capacity of ~1,276 hospitals, accompanied by 282,383 registered doctors and 146,053 units of beds. The prime challenges specific to the private hospital industry are reputational risk followed by capacity and infrastructure development, ensuring the quality-of-care standards and managing the high cost of import coupled with escalated energy requirements. The ZHT is in process of installing solar plant to manage escalated energy cost risk. To ensure sustainable organic growth in business the trust has optimally diversified its geographical presence and revenue streams in all income tiers of society. The trust has generated a revenue of PKR 8.04bln during FY23(FY22: PKR 7.04bln) reflecting a growth of 14.2% YoY basis with a capacity of more than 600 beds. In terms of the number of patients treated branch-wise annually, the majority of the volume has been served in the North Nazimabad branch followed by Clifton and Kemari. During FY23, the margins of the ZHT showed a slight dip mainly on the back of expensive procurement of imported consumables coupled with the recruitment of highly qualified physicians and surgeons on the payroll and a consistent surge in policy rate. The ZHT has provided 32 different therapeutic services and currently is in the process of commencement of the Cyclotron project for the diagnoses of cancer through the production of isotopes and strategic expansion by the opening of the Sukkur campus which includes a capacity of 180 beds. The Board of the Trust is more of an advisory nature dominated by Medical Professionals and guides the management in the execution of multiple operations. The top-tier management of the hospital is highly qualified along with adequate delegation of authority matrix. The financial risk profile of the trust is considered moderate as they aptly manage their working capital requirement through short-term borrowings and internally generated cashflows. The trust has a low-leveraged capital structure along with moderate coverages and cashflows.

The ratings are dependent on the consistent sustainable growth in the top line while maintaining profitability matrix, coverages and cashflows at an optimal level. Going forward, adherence to the debt matrix at an adequate level is a prerequisite for assigned ratings. The prudent management of reputational risk and alignment of the financial projections with the performance of the trust remain critical for the ratings.

Disclosure

Name of Rated Entity	Dr. Ziauddin Hospital Trust
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 Healthcare(Dec-23)
Rating Analysts	Muhammad Harris Ghaffar harris.ghaffar@pacra.com +92-42-35869504

Profile

Legal Structure Dr. Ziauddin Hospital Trust ("the Trust" or "the Hospital" or "ZHT") is registered under section 16-A of the Sindh Trust Act 2020, valid till April 2024, to be renewed as per Sindh Trust Act 2020.

Background Dr. Ziauddin Memorial Hospital began in 1957 at Nazimabad, Karachi, when Sir Dr Ziauddin Ahmed's daughter, Dr Aijaz Fatima (Late) and her husband Dr Tajamul Hussain (Late), established a 25-bed maternity home. This laid the foundation for the entire Dr. Ziauddin Group of Hospitals, one of the largest healthcare groups in the country. Dr. Ziauddin Hospital Trust was established in 1976 and the first campus opened in North Nazimabad, Karachi.

Operations The trust operates with three campuses: North Nazimabad Campus, Clifton Campus, and Keamari Campus. The hospital has a workforce of highly qualified doctors leading various departments. The Hospital currently operates in Karachi only however from the first quarter of calendar year 2024, sukkur campus is expected to be fully operational with a capacity 180 beds.

Ownership

Ownership Structure The Hospital is in the ownership of the trust and is run by the Board of Trustees.

Stability The Group includes Ziauddin Group of Hospitals, Ziauddin University, Ziauddin School and College.

Business Acumen Dr. Asim Hussain, Chairman of the Group, holds a portfolio of Chairperson Education City Board, Sindh. He also previously chaired Sindh Higher Education Commission, the National Reconstruction Bureau, and also served as Federal Minister Petroleum and Natural Resources. The Group prioritizes quality, transparency, and efficiency.

Financial Strength The financial strength of the group is primarily vested in the performance of Ziauddin Hospital Trust and Ziauddin University.

Governance

Board Structure The Trust is governed by a six-member Board of Trustees. The Chief Trustee is Dr. Asim Hussain. The Board plays a vital role in ensuring effective oversight, decision-making, and in driving the Trust's operations and upholding best practices in their respective areas of focus.

Members' Profile The board members are highly qualified having considerable industry-specific exposure. The Board is dominated by Medical Professionals. Dr. Asim Hussain, is Chairman and Chief Trustee of ZHT and Chancellor of Ziauddin University. In recognition of his services to the nation in the fields of education and healthcare, he was conferred with the Sitara-i-Imtiaz and Nishan-e-Imtiaz.

Board Effectiveness Board oversight is considered effective with board meetings held frequently on need basis.

Financial Transparency BDO Ebrahim & Co., Chartered Accountants are the Company's external auditors. The audit of financial statements as of FY23 is in process and expected to be completed in December 2023. The auditors had issued an unqualified opinion on financial statements as of FY22. The auditors are listed on the SBP "A" category panel of auditors.

Management

Organizational Structure The Hospital has a lean organizational structure as all departmental heads related to medical services are reportable to the CEO through Medical Director and Campuses are managed by respective COOs. The internal committees are responsible for overseeing operations and conducting regular assessments of internal controls.

Management Team Dr. Ashar Ekhlakh Ahmed (MRCP) is the Medical Director (MD) of the Hospital and has ~02 decades of experience in the field of Rheumatology. Mr. Osama Ahmad, with over 3 years of experience at Ziauddin Hospital, is the Group Financial Advisor, reporting to the CEO. He previously held roles as Director Finance at NUST Islamabad. The management team comprises of qualified and experienced professionals.

Effectiveness The departmental heads are responsible for their respective departments' operational activities and ensure the enforcement of SOPs required to maintain standards of quality. The management team has an adequate delegation of authority matrix.

MIS The Hospital employs a Hospital Management System (HMIS) covering patient care aspects such as patient registration, ER, pharmacy and other relevant areas. Finance, billing, and supply chain are managed in Oracle ERP, fully integrated with HMIS. To ensure business continuity, security, integration and efficient operations, Hyper Converged Infrastructure (HCI) has also been installed including other I.T controls and applications.

Control Environment The control environment is supplemented through a range of committees overseeing critical areas such as Hospital Management Committees, OT Management, AMS (Antimicrobial Stewardship), Monthly Coordination and Integration Committee. Further policies has been implemented in all important areas including Procurement Policy, HR Policy, Anti-Harassment Policy and Patient Complaint Procedures etc. Internal Audit Department has an ongoing role to assess the operational efficiency and mitigate the anomalies.

Business Risk

Industry Dynamics According to data published by the Health Economic Survey of Pakistan as of 2021, the public sector operators with a capacity of ~1,276 hospitals, accompanied by 282,383 registered doctors and 146,053 units of beds. During FY23, the total federal health budget is ~PKR 37bln. As per the data available on PBS, the Medical equipment imports in Pakistan as of FY22 were PKR 422bln and PKR 80bln during 3QFY23. The prime challenges specific to the private hospital industry are reputational risk followed by capacity and infrastructure development, ensuring the quality-of-care standards and managing the high cost of import coupled with escalated energy requirements.

Relative Position The Hospital industry is highly fragmented. The ZHT consists of more than 600 beds reflecting an adequate market share in the hospital industry of Pakistan in terms of the total number of beds.

Revenues During FY23, the top line of the trust showed an increase of 14.2% YoY basis and stood at PKR 8.04bln (FY22: PKR 7.04bln) mainly driven by the pharmacy store, followed by the laboratory, radiology etc. The top ten services contributed ~ 6.0bln in the topline. The campus-wise annually, the majority of the revenue has been generated by the North Nazimabad branch followed by Clifton and Kemari.

Margins During FY23, the Trust generated a Profit after tax of PKR 304mln (FY22: PKR 476mln). The margins of the ZHT showed a slight dip mainly on the back of expensive procurement of imported consumables, coupled with the recruitment of highly qualified physicians and surgeons on the payroll and a consistent surge in policy rate (N.P Margin: FY23: 3.8%, FY22: 6.8%).

Sustainability They have imported cyclotron and a PET-CT machine for cancer detection through the production of an isotope, expected to commence production by January 2024. Additionally, a new 180-bed facility in Sukkur and expansion of beds at the Clifton campus 5th floor are underway and expected to be completed by 1QCY24. The management is dedicated to aligning the performance of the hospital with its financial projections.

Financial Risk

Working Capital The Trust aptly manages working capital requirements through short-term borrowings and internal cashflows. During FY23, the short-term trade leverage showed improvement and stood at 36.2% (16.6%) reflecting moderate excess room to borrow. The current ratio is 1.4x (FY22: 1.2x).

Coverages The Trust's FCFO was PKR 869mln in FY23 (FY22: PKR 921mln). The dip is mainly on the back of higher finance costs and tax burden. The EBITDA / Finance Cost ratio stood at 4.8x during FY23 (FY22: 8.8x).

Capitalization The Trust maintains a low leveraged capital structure, with leverage at 25.5% in FY23 (FY22: 18.8%). In future, some change in leveraging is expected after the off-loading of debt, utilized for expansion. The borrowings are dominated by long-term borrowings which stood at PKR 1,798mln as of FY23. The ZHT has Short-term borrowings of PKR 252mln. The Trust has availed subsidized borrowing from SBP under the category of TERF and Refinance Facility for Combating COVID - 19 (RFCC). The equity base of the Trust stood at PKR 7.3bln mainly supplemented through an Unappropriated Profit of PKR 2.9bln during FY23.



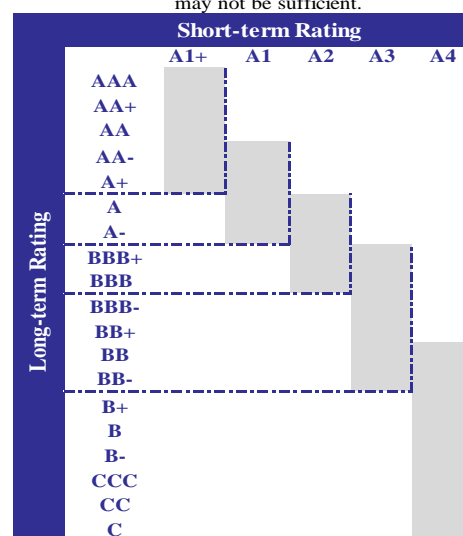
Dr. Ziauddin Hospital Trust Healthcare		Jun-23	Jun-22	Jun-21
		12M	12M	12M
A BALANCE SHEET				
1	Total Assets	11,689	10,462	9,169
2	Net Assets	7,310	7,006	6,530
B INCOME STATEMENT				
1	Sales	8,040	7,043	6,065
2	Net Income Or (Loss)	304	476	360
C CASH FLOW STATEMENT				
1	Net Cash provided by Operating Activities	371	555	652
2	Net Cash (Used in) or Available From Investing Activities	(1,318)	(1,590)	(805)
3	Net Cash (Used in) or Available From Financing Activities	823	753	408
D RATIO ANALYSIS				
1	Performance			
	a Sales Growth (for the period)	14.2%	16.1%	N/A
	b Net Profit Margin	3.8%	6.8%	5.9%
	c Cash Conversion Efficiency (FCFO adjusted for Working Capital/Sales)	7.7%	9.4%	12.3%
	d Return on Equity [Net Profit Margin * Asset Turnover * (Total Assets/Shareholders' Equity)]	4.2%	7.0%	5.5%
2	Working Capital Management			
	a Gross Working Capital (Average Days)	67	60	63
	b Net Working Capital (Average Days)	11	5	5
	c Current Ratio (Current Assets / Current Liabilities)	1.4	1.2	1.3
3	Coverages			
	a EBITDA / Finance Cost	4.8	8.8	12.6
	b FCFO / Finance Cost+CMLTB+Excess STB	1.3	2.0	2.1
	c Debt Payback (Total Borrowings+Excess STB) / (FCFO-Finance Cost)	3.4	1.8	1.1
4	Capital Structure			
	a Total Borrowings / (Total Borrowings+Shareholders' Equity)	25.5%	18.8%	12.1%
	b Interest or Markup Payable (Days)	20.2	14.5	27.4
	c Entity Average Borrowing Rate	10.4%	9.6%	7.5%

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

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- 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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- (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)

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- (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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- (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)
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- (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)

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- (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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