Sadaqat Limited

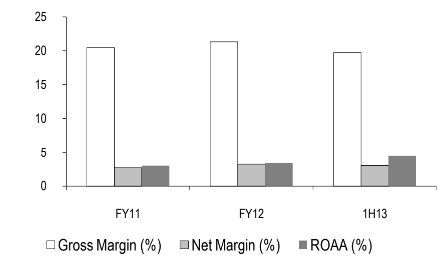
Chairman: Mr. Mukhtar Ahmed, Chief Executive Officer: Mr. Khurram Mukhtar,

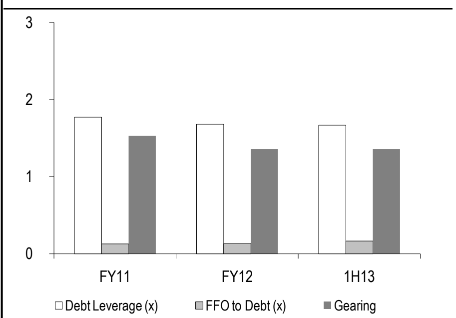
April 23, 2013

Analysts: Maimoon Rasheed
Usman Ali Khan

Category	Latest	Previous
Entity	A-/A-2	A-/A-2
	Apr 23,'13	*Mar 16, '12*
Outlook	***Stable***	Stable
	Apr 23, '13	*Mar 16, '12*

Key Financial Trends





(Rs. million)	FY11	FY12	1H13
Net Sales	5,912	6,123	4,624
Net Profit	159	199	140
Equity (incl. surplus on PPE)	2443	2642	2782
Total Debt	2718	2744	2967
Gearing	1.53	1.36	1.36
Debt Leverage (x)	1.77	1.68	1.67
FFO	341	364	491*
FFO/Total Debt (%)	12.6%	13.3%	16.5%*
ROAE	9.1%	10.5%	13.4%*
ROAA	3.0%	3.4%	4.5%*

*Annualized

Rating Rationale

Over the years, Sadaqat Limited (SL) has evolved into a steadily growing export oriented company having a niche in value added fabrics and home textile. With a healthy CAGR of around 35% over the past decade, the company falls amongst large exporters of textile with annual sales likely to reach around Rs. 10b in FY13. The management has undertaken regular business expansion in anticipation of higher demand for quality products. Foreseeing opportunity arising as a spillover from some non-performing exporting units, SL tapped the related business. SL has been effectively utilizing its resources with capacity utilization remaining above 90%. While the management has taken various initiatives to ensure smooth operations, energy related constraints continue to remain major impediment towards cost rationalization.

After posting healthy profits in prior year, FY12 was a tough year for the textile sector. The cotton prices remained under considerable pressure since last quarter of FY11, primarily an outcome of pile up of excess cotton inventories. The local production of cotton reached a record level of 14.8m bales resulting in excess supply of raw material. Resultantly, prices of finished goods also trended downwards. This coupled with persisting energy crises resulted in pressure on profit margins during FY12. The performance of textile sector in the on-going year remains largely a function of demand pattern of importing economies.

Unlike some prominent market participants, SL managed to increase sales and margins (FY12: 21.3%; FY11: 20.5%) during FY12. This was attributable to rupee devaluation against other major currencies, continued focus on value addition and cost control. The company incurred sizable capital expenditure of Rs. 445m and Rs. 397m in FY12 and 1H13, respectively, primarily in lieu of addition in buildings, procurement of stitching unit and rotary printing machine. With notable capacity enhancement, sales registered a considerable increase during 1H13. Despite lower margins and higher operating and financial expenses, bottom line exhibited healthy growth in 1H13.

Concentration in sales improved, though still remained high as top ten customers generated 50% (FY11: 75%) of total sales. Going forward, SL aims to achieve further diversification by opening retail chain stores locally while tapping new customers in Africa, Turkey and Europe. In order to minimize outsourcing, SL also intends to procure Thermosol dyeing machine in FY14 with a capex of Rs. 110m, which will be financed through a long-term loan. An additional regular capex of around Rs. 150-200m is forecasted in the upcoming year that is planned to be funded through internal cash generation.

In spite of considerable capex, the company has managed to improve gearing levels during FY12 while maintaining these levels in 1H13. Short term loans comprised around 90% of the total debt. Borrowings mobilized under export refinance schemes comprised over half of the short term loans with the remaining being loans from various banking companies. With higher cash flows generation during 1H13, FFO (annualized) to total debt improved to 16.5% (FY12: 13.3%; FY11: 12.6%).

Overview of the Institution

The principal activities of SL are manufacturing and sale of fabric and home textile. Manufacturing units of the company are located in Faisalabad and consist of 24 quilting machines, 900 stitching machines, 5 computerized embroidery machines and 300 embroidery machines other than complete setups for processing and wadding. The external auditors of the company are Hyder Bhimji & Co. who are on SBP's 'A' panel of auditors JCR-VIS

Rating Date	Medium to Long Term	Outlook	Short Term	Rating Action
		RATING TYPE: Entity		
23-Apr-13	A-	Stable	A-2	Reaffirmed
16-Mar-12	A-	Stable	A-2	Reaffirmed
15-Apr-10	A-	Stable	A-2	Reaffirmed