

## Sadaqat Limited

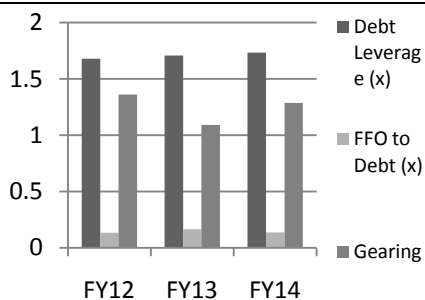
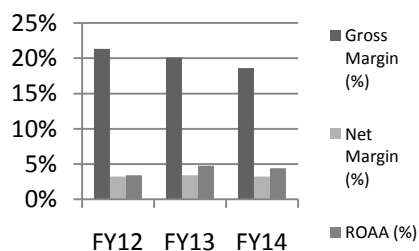
Chairman: Mr. Mukhtar Ahmed, Chief Executive Officer: Mr. Khurram Mukhtar,

December 29, 2013

**Analysts:** Maimoon Rasheed  
Maham Qasim

Category	Latest	Previous
Entity	A-/A-2 Dec 29, '14	A-/A-2 Apr 23, '13
Outlook	Stable Dec 29, '14	Stable Apr 23, '13

### Key Financial Trends



(Rs. million)	FY12	FY13	FY14
Net Sales	6,123	9,099	10,249
Net Profit	199	311	331
Equity (incl. surplus on PPE)	2642	2953	3283
Total Debt	2744	3038	3978
Gearing	1.36	1.29	1.46
Debt Leverage (x)	1.68	1.71	1.73
FFO	364	497	540
FFO/Total Debt (%)	13.3%	16.4%	13.6%
ROAE	10.5%	14.2%	13.0%
ROAA	3.4%	4.8%	4.4%

### Rating Rationale

Sadaqat Limited (SL) has showed steady growth over the years as an export oriented company having a niche in value added fabrics and home textile. With 3 year CAGR around 20%, the company is one of the largest exporters of textile with the annual sales figure crossing Rs. 10b. The management has undertaken regular business expansion coupled with focus on diversification to increase their local and global outreach. In the wake of diversifying its customer base, SL has setup local retail stores in different cities while tapping new export markets including countries like Australia and South Africa. The management plans to open few more local retail outlets in the ongoing year.

SL has been effectively utilizing its resources with capacity utilization remaining above 90%. The margins, though declined slightly on a timeline basis, continue to remain relatively high owing to focus on value addition and improving efficiencies.

The local cotton prices exhibited decrease during FY14, in lieu with drop in international prices. However, Pakistan has been recently awarded GSP (Generalized System of Preferences) Plus status which will allow duty free access of Pakistani products to EU. Previously, Pakistan textile exports to the EU attracted an 11% duty. While globally there can be dampened demand for yarn from China, export revenues are likely to increase, going forward.

Recently, the company procured alternative sources of energy to ensure smooth operations by curtailing breakdowns in production process. The company also added thermosol dyeing machine to its product range to enhance efficiency. To meet the CAPEX requirements, SL availed long-term syndicated loan worth about Rs. 1b in FY14. In the ongoing year, SL plans to procure automatic stitching machine that is likely to enhance stitching capacity by two-folds. Going forward, the company plans to consolidate its textile operations while diversifying into ventures other than its core business.

By end-FY14, leverage indicators stood slightly higher on account of increase in borrowings; however the same has remained within manageable limits. Moreover, with the increase in FFO, the debt servicing capacity continues to depict sound liquidity. At current debt levels, the principal payments due in the ongoing year are expected to be comfortably met through internal cash generation. Meanwhile, the company plans to issue rights shares worth Rs. 250m in the ongoing year; which would result in improved gearing. The management also intends to enlist SL on the stock exchanges that will be done either through issuing new equity or by partially selling the existing shares of sponsor directors. JCR-VIS will closely monitor the above mentioned plans of the company and may take a necessary action, if required.

### Overview of the Institution

The primary activities of SL are manufacturing and sale of fabric and home textile products. The manufacturing units of the company comprise are located in Faisalabad and consist of 1200 stitching machines, 23 quilting machines and 305 embroidery machines other than complete setups for processing and wadding. The company's external are Hyder Bhimji & Co. who are on SBP's 'A' panel of auditors.