

RATING REPORT

Sadaqat Limited (SL)

REPORT DATE:

December 28, 2016

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A-	A-2
Rating Date	27 Dec'16		31 Dec' 15	
Rating Outlook	Stable		Stable	
Outlook Date	27 Dec'16		31 Dec' 15	

COMPANY INFORMATION

Incorporated in 1987	External auditors: M/s. Kreston Hyder Bhimji & Company
Public Limited Company	Chairman: Mr. Mukhtar Ahmed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Khurram Mukhtar
Mr. Khurram Mukhtar- 24.6%	
Mr. Hamid Mukhtar- 24.6%	
Mr. Awais Mukhtar- 24.6%	
Mr. Shoaib Mukhtar- 24.6%	

APPLICABLE METHODOLOGY(IES)

Rating Methodology:IndustrialCorporate (May 2016)
<http://www.jcrvis.com.pk/kc-meth.aspx>

Sadaqat Limited

OVERVIEW OF THE INSTITUTION	RATING RATIONALE
<p>Sadaqat Limited was incorporated initially as a private limited company in 1987 under the Companies Ordinance. Subsequently in 2008 it was changed into a public unlisted company. The company is engaged in the manufacturing and sale of home textile and value added products. The manufacturing unit and head office of the company is located in Faisalabad.</p> <p>Profile of Chairman</p> <p>Mr. Sheikh Mukhtar Ahmed is the Chairman of Sadaqat Limited. Mr. Mukhtar Ahmed has almost 45 years of experience in the field of textile.</p> <p>Profile of CEO</p> <p>Mr. Khurram Mukhtar holds the position of CEO. Mr. Khurram Mukhtar is responsible for supervision of all divisions of the company.</p> <p>Financial Snapshot</p> <p>Equity: FY16- Rs. 5,279.9m, FY15- Rs. 4,516.7m</p> <p>Net Profit: FY16- Rs. 763.2m, FY15- Rs. 234.3m</p>	<p>Ratings assigned to SL take into account SL’s sustained performance in the home textile segment. Management’s initiatives to implement production related operational efficiencies are expected to positively reflect on SL’s competitiveness in the international market. The institution has established marketing channels in its key export markets. Concentration among customer base remains high; however, long-term association with customers involving internationally recognized brands mitigates the associated risks.</p> <p>Profitability</p> <p>Net revenues of the company improved to Rs. 11.6b (FY15: Rs. 9.2b) during FY16 on account of increase in volumetric sales and price of finished product. Given its focus on value added products, revenue of SL is mainly export driven. Gross margin of the company are strong and have further improved during the outgoing year on account of improved prices of finished products, lower average cost of raw material and reduced wastage. Increased margins and higher volumetric sales translated into improved bottom line with company reporting profit after tax of Rs. 763.2m (FY15: Rs. 234.3m). Over the next three years, SL’s sales are projected to increase at a compounded annual growth rate of around 10%.</p> <p>CAPEX</p> <p>In the recent years, management’s focus remained on upgrading production facilities in order to achieve higher operational efficiencies. During FY16, notable additions to plant and machinery included stentor machine, digital printing machine and TEXPA machine. A sizeable CAPEX is also planned for the ongoing year.</p> <p>Liquidity</p> <p>With improved profitability, Funds from Operations (FFO) of the company improved to 1.1b (FY15: RS. 477.2m). The company maintains adequate debt coverage with debt service coverage ratio reported at 1.3x at end-1QFY17 (FY16: 2.2x; FY15: 1.4x). Efficiency enhancements from the planned CAPEX are likely to further improve company’s cash flows enabling SL to meet higher debt servicing requirements over the medium to long term.</p> <p>Capitalization & Funding</p> <p>Capitalization indicators improved at end-FY16 on account of profit retention. Debt levels have increased with higher utilization of short term borrowings. Funding for upcoming CAPEX is projected to be arranged mainly through external sources.</p> <p>Information Technology</p> <p>SL is implemented enterprise wide SAP which will provide real time production related data allowing better decision making.</p>

JCR-VIS Credit Rating Company Limited

Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Sadaqat Limited

Appendix I

FINANCIAL SUMMARY <i>(amounts in PKR millions)</i>			
<u>BALANCE SHEET</u>	SEP 30, 2016	JUN 30, 2016	JUN 30, 2015
Fixed Assets	6,121.0	5,856.3	5,228.8
Stock-in-Trade	2,023.2	2,044.3	1,915.3
Trade Debts	2,024.5	1,993.2	1,392.2
Cash & Bank Balances	130.9	110.7	73.9
Total Assets	11,311.0	11,309.3	9,587.0
Trade and Other Payables	908.2	993.7	792.8
Long Term Debt <i>(*incl. current maturity)</i>	1,332.5	1,246.9	1,352.9
Short Term Debt	3,574.2	3,734.0	2,876.4
Total Equity	5,444.9	5,279.9	4,516.7
<u>INCOME STATEMENT</u>	SEP 30, 2016	JUN 30, 2016	JUN 30, 2015
Net Sales	3,094.3	11,583.7	9,196.7
Gross Profit	527.5	2,161.7	1,456.6
Operating Profit	290.6	1,288.4	741.7
Profit After Tax	165.0	763.2	234.3
<u>RATIO ANALYSIS</u>	SEP 30, 2016	JUN 30, 2016	JUN 30, 2015
Gross Margin (%)	17.0	18.7	15.8
Net Working Capital	146.8	198.9	246.6
FFO to Total Debt (x)	0.20	0.23	0.11
FFO to Long Term Debt (x)	0.74	0.91	0.35
Debt Servicing Coverage Ratio (x)	1.3	2.2	1.4
ROAA (%)	5.8	7.3	2.7
ROAE (%)	15.9	20.9	7.9

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

Medium to Long-Term

AAA

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

AA+, AA, AA-

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

A+, A, A-

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

BBB+, BBB, BBB-

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

BB+, BB, BB-

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

B+, B, B-

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

CCC

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

CC

A high default risk

C

A very high default risk

D

Defaulted obligations

Rating Watch: JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. www.jcrvis.com.pk/images/criteria_watch.pdf

Rating Outlooks: The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. www.jcrvis.com.pk/images/criteria_outlook.pdf

(SO) Rating: A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

Short-Term

A-1+

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

A-1

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

A-2

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

A-3

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

B

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

C

Capacity for timely payment of obligations is doubtful.

and not on the basis of the credit quality of the issuing entity alone.

'p' Rating: A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. www.jcrvis.com.pk/images/policy_ratings.pdf

'SD' Rating: An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

REGULATORY DISCLOSURES					Appendix III	
Name of Rated Entity	Sadaqat Limited					
Sector	Textile					
Type of Relationship	Solicited					
Purpose of Rating	Entity Rating					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action	
RATING TYPE: ENTITY						
	12/27/2016	A	A-2	Stable	Reaffirmed	
	12/31/2015	A-	A-2	Stable	Reaffirmed	
	01/01/2015	A-	A-2	Stable	Reaffirmed	
	04/23/2013	A-	A-2	Stable	Reaffirmed	
	3/16/2012	A-	A-2	Stable	Reaffirmed	
Statement by the Rating Team	JCR-VIS, the analysts involved in the rating process and members of its rating committee do not have any conflict of interest relating to the credit rating(s) mentioned herein. This rating is an opinion on credit quality only and is not a recommendation to buy or sell any securities.					
Probability of Default	JCR-VIS' ratings opinions express ordinal ranking of risk, from strongest to weakest, within a universe of credit risk. Ratings are not intended as guarantees of credit quality or as exact measures of the probability that a particular issuer or particular debt issue will default.					
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