

## RATING REPORT

## Sadaqat Limited

**REPORT DATE:**

April 15, 2020

**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
TFC (Preliminary)	A		A	
Rating Outlook	Rating Watch – Negative		Stable	
Rating Date	15 April'20		29 Jan'20	

## COMPANY INFORMATION

Incorporated in 1987	External auditors: EY Ford Rhodes Chartered Accountants
Public Limited (Unlisted) Company	Chairman: Sheikh Mukhtar Ahmed Chief Executive Officer: Mr. Khurram Mukhtar
<b>Key Shareholders (with stake 5% or more):</b>	
Mr. Khurram Mukhtar- 24.6%	
Mr. Hamid Mukhtar- 24.6%	
Mr. Awais Mukhtar- 24.6%	
Mr. Shoaib Mukhtar- 24.6%	

## APPLICABLE METHODOLOGY(IES)

VIS Entity Rating Criteria: Corporates (May 2019)

<http://www.vis.com.pk/kc-meth.aspx>

## Sadaqat Limited

OVERVIEW OF  
THE  
INSTITUTION

Sadaqat Limited was incorporated in 1987 under the repealed Companies Ordinance, 1984 (now the Companies Act, 2017) as a private limited company. It was subsequently converted into public limited company in 2008. SL is an export-oriented textile unit, involved in manufacturing and sale of home textile products.

**Profile of Chairman**

Sheikh Mukhtar Ahmed is the Chairman of SL. He has almost 47 years of experience in the field of textiles.

**Profile of CEO**

Mr. Khurram Mukhtar holds the position of CEO and is responsible for supervision of all divisions of the company.

**Financial Snapshot**

**Tier-1 Equity:** end-1HFY20: Rs. 7.4b; end-FY19: Rs. 7b; end-FY18: Rs. 5.7b.

**Assets:** end-1HFY20: Rs. 23b; end-FY19: Rs. 21.5b; end-FY18: Rs. 17b.

**Profit After Tax:** end-1HFY20: Rs. 426m; end-FY19: Rs. 1.3b; end-FY18: Rs. 1.1b.

## RATING RATIONALE

Sadaqat Limited (SL) is one of the well-known value-added textile units operating from Faisalabad. SL is mainly involved in manufacturing and export of a wide range of home textile products and holds nearly 5% - 7% market share of annual bed ware exports. The assigned ratings take into account experience of sponsoring family in the textile industry, healthy growth in sales and profits on account of higher demand for existing made-ups and addition of new garments and knitting capacities. The ratings also take into account adequate debt service coverage and liquidity profile, however, debt leverage has increased due to higher trade & other payables and increased utilization of debt for working capital and capex requirements despite enhanced equity base.

**Key Rating Drivers**

SL is a value-added textile unit which generates almost all of its sales from export of home textile products. The company has exhibited healthy growth in revenue and profits over the past two and a half year period, driven largely by enhancement of production capacities and improved selling prices. Net sales of the company increased by 31% to Rs. 19.6b during FY19 (FY18: Rs. 15b; FY17: Rs. 10.9b). Growth mainly emanated from Europe as made-ups exports to the U.K. increased to Rs. 11.7b (FY18: Rs. 8.7b), Spain Rs. 1.8b (FY18: Rs. 1.2b), and Germany Rs. 899m (FY18: Rs. 690m). Exports to Australia also increased to Rs. 1.1b during FY19 (FY18: Rs. 278m). SL reported net profit of Rs. 1.3b for FY19 (FY18: Rs. 1.1b; FY17: Rs. 469m), though net margin was slightly lower at 6.8% (FY18: 7.2%; FY17: 4.3%). Net sales and profit amounted to Rs. 11.2b and Rs. 426m, respectively, during 1HFY20.

Liquidity position is mainly supported by generation of funds from operations (FFO) which amounted to Rs. 1.5b during FY19 (FY18: Rs. 1.5b; FY17: Rs. 1.1b). Current ratio has remained on the lower side, standing at 1.03x at end-1HFY20 (FY19: 1.03x; FY18: 0.99x). Gearing and debt leverage levels stood higher at 1.38x (FY19: 1.26x; FY18: 1.2x) and 1.83x (FY19: 1.78x; FY18: 1.61x) respectively, by end-1HFY20, mainly on account of increased utilization of both long-term and short-term borrowings.

With the advent of global Coronavirus disease (COVID-19) pandemic, the demand outlook for textile products in general and especially value added export oriented units looks weak. Given SL is entirely dependent on exports sales for cash flows generation and servicing of its financial obligations, status of the assigned rating is therefore uncertain as an event of deviation from expected trend has occurred; additional information will be necessary to take any further rating action, warranting a 'Rating-Watch' status. With the demand compression emerging from ongoing global economic crisis and continued lockdown situation, ratings are being placed on 'Negative' outlook. The ratings are dependent upon maintenance of overall sales, market share in exports, profit margin, debt service coverage, and gearing ratios at an adequate level, with outlook subject to be reviewed once the situation stabilizes.

**Sadaqat Limited**
**Annexure I**

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>				
<b>BALANCE SHEET</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>1HFY20</b>
Property, Plant and Equipment	8,379	8,548	9,540	10,494
Long-term Advances	1	123	251	206
Other Fixed Assets	55	50	70	81
Stores, Spares. And Loose Tools	193	212	389	326
Stock-in-Trade	2,879	3,060	4,088	4,129
Trade Debts	1,600	2,557	4,933	4,638
Balances With Statutory Authorities	446	1,094	1,235	866
Tax Refund Due From Government	606	402	423	1,403
Loans and Advances	469	602	226	584
Short-term Investment	-	50	140	-
Cash and Bank Balance	108	198	131	115
Other Current Assets	74	98	95	115
<b>Total Assets</b>	<b>14,810</b>	<b>16,995</b>	<b>21,521</b>	<b>22,957</b>
Trade and Other Payables	1,758	2,166	3,440	3,031
Other Liabilities	139	133	235	282
Short-Term Borrowings	4,638	5,678	7,264	8,255
Long-Term Borrowings <i>(Inc. current matur)</i>	1,561	1,223	1,574	2,015
<b>Total Liabilities</b>	<b>8,096</b>	<b>9,200</b>	<b>12,513</b>	<b>13,583</b>
Tier-1 Equity	<b>4,571</b>	<b>5,732</b>	<b>7,015</b>	<b>7,415</b>
Revaluation Surplus	2,143	2,063	1,992	1,958
Paid-up Capital	1,200	1,200	2,400	2,400
<b>INCOME STATEMENT</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>1HFY20</b>
Net Sales	10,893	15,023	19,618	11,248
Gross Profit	1,683	2,735	2,769	1,947
Operating Profit	765	1,417	1,016	918
Profit Before Tax	518	1,226	1,501	516
Profit After Tax	469	1,081	1,333	426
FFO	1,076	1,489	1,493	n.a
<b>RATIO ANALYSIS</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19</b>	<b>1HFY20</b>
Gross Margin (%)	15.5	18.2	14.1	17.3
Net Margin (%)	4.3	7.2	6.8	3.8
Net Working Capital	(547)	(69)	351	299
FFO to Long-Term Debt	0.69	1.22	0.95	n.a
FFO to Total Debt	0.17	0.22	0.17	n.a
Debt Servicing Coverage Ratio (x)	1.79	2.18	2.09	n.a
Gearing (x)	1.36	1.20	1.26	1.38
Debt Leverage (x)	1.77	1.61	1.78	1.83
Current Ratio	0.92	0.99	1.03	1.03
Inventory + Receivable/Short-term Borrowings (x)	0.97	0.99	1.24	1.06

\*Annualized

**ISSUE/ISSUER RATING SCALE & DEFINITION**

**Annexure II**

**VIS** Credit Rating Company Limited

**RATING SCALE & DEFINITIONS: ISSUES / ISSUERS**

**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

**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.

**Rating Watch:** 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.vis.com.pk/images/criteria\\_watch.pdf](http://www.vis.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.vis.com.pk/images/criteria\\_outlook.pdf](http://www.vis.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 and not on the basis of the credit quality of the issuing entity alone.

**(blr) Rating:** A suffix (blr) is added to the ratings of a particular banking facility obtained by the borrower from a financial institution. The suffix (blr), abbreviated for 'bank loan rating' denotes that the rating is based on the credit quality of the entity and security structure of the facility.

**'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.vis.com.pk/images/policy\\_ratings.pdf](http://www.vis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when 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.

REGULATORY DISCLOSURES		Annexure III			
<b>Name of Rated Entity</b>	Sadaqat Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Ratings				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	04/15/2020	A	A-2	Rating Watch – Negative	Maintained
	07/18/2019	A	A-2	Stable	Reaffirmed
	02/23/2018	A	A-2	Stable	Reaffirmed
	12/27/2016	A	A-2	Stable	Upgrade
	12/31/2015	A-	A-2	Stable	Reaffirmed
	01/01/2015	A-	A-2	Stable	Reaffirmed
	<b><u>RATING TYPE: TFC</u></b>				
	04/15/2020	A		Rating Watch – Negative	Maintained
12/13/2019	A		Stable	Preliminary	
<b>Instrument Structure</b>	The proposed TFC is of amount Rs. 1.5b. Tenor of TFC will be 5 years, including grace period of 1 year. TFC will be redeemed in 8 equal semiannual installments. The issuer would have an option to prepay the issue amount after the expiry of the grace period with thirty days prior written irrevocable notice to the trustee/issue agent in multiples of Rs. 250m. The instrument will carry profit rate of 3-month KIBOR (Base Rate) plus a spread of 225 bps. Profit will be payable quarterly in arrears.				
<b>Statement by the Rating Team</b>	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.				
<b>Probability of Default</b>	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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<b>Due Diligence Meetings Conducted</b>	<b>Name</b>	<b>Designation</b>	<b>Date</b>		