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APPLICABLE METHODOLOGY(IES):

VIS Entity Rating Criteria Methodology – Industrial Corporates
(https://docs.vis.com.pk/docs/CorporateMethodology.pdf)

Rating Scale
(https://docs.vis.com.pk/docs/VISRatingScales.pdf)

Instrument Rating
(https://docs.vis.com.pk/Methodologies-2025/IRM-Apr-25.pdf)

RS. MILLION	FY23 (A)	FY24 (A)	FY25 (M)
Total Revenue	39,732	41,694	42,013
PBT	1,817	1,306	1,948
PAT	1,432	802	705
Paid up capital	4,920	4,920	4,920
Equity (incl. surplus on PEE)	25,951	23,630	24,334
Total Debt	21,263	19,299	17,987
Debt Leverage (x)	2.01	1.85	1.78
Gearing (x)	1.60	1.32	1.17
FFO	3,570	3,122	3,095
FFO/Total Debt (x)*	0.17	0.16	0.17
NP Margin	3.6%	1.9%	1.7%

A: audited accounts
M: management accounts

SADAQAT LIMITED

Chairman: Sheikh Mukhtar Ahmed

Chief Executive: Khurram Mukhtar

RATING DETAILS

RATINGS CATEGORY	SUKUK RATING
SHORT TERM SUKUK (STS)	A1 (plim)
RATING ACTION	Preliminary
RATING DATE	September 17, 2025

RATING RATIONALE

Sadaqat Limited ('SL' or 'the Company') is a vertically integrated textile manufacturer, primarily focuses on exporting premium value-added products like garments and home textiles. SL plans to issue a short-term rated, secured, privately placed Sukuk ('STS' or 'the Issue') to eligible investors amounting to Rs. 2,000m inclusive of a Green Shoe Option of Rs. 500m. This Issue will be utilized by SL to finance working capital requirements and will have a tenure of up to six months starting from the issue date. Profit will be payable at maturity of STS on the outstanding principal amount. Profit payment will be at a proposed rate of 6M Kibor + 1.35%. Assigned rating reflects the proposed security structure of the instrument with ranking charge over Company's current assets with 25% margin, lien over export document, lien over DPA established with Askari Bank Limited (AKBL) for the benefit of Issue Agent/Investors. SL shall maintain a dedicated Debt Payment Account ('DPA') under lien, to be build up in the following manner - upfront 20% of the Sukuk Issue from the proceeds of the disbursement and remaining 80% DPA buildup to start from 5th month on an equal weekly basis and to be fully funded 10 days before maturity. Financial assessment shows stable growth in net sales and slightly weaker profitability, however, liquidity profile and debt servicing coverage ratios depicted slight improvement. Moreover, capitalization ratios improved by end-FY25.

SUKUK ISSUE DETAILS

SL plans to issue a short-term rated, secured, privately placed Short-Term Sukuk (STS) to eligible investors amounting to Rs. 2,000m inclusive of a Green Shoe Option of Rs. 500m. This will be the Company's first short-term Sukuk (STS) issuance.

<u>Purpose:</u> The Issue will be utilized by SL to finance working capital requirement for the funding export order.

Tenor & Repayments: The instrument will have a tenor of six months starting from the date of drawdown. The profit/rental payment will be paid at maturity.
Profit Rate: The instrument carries profit rate of 6 Month KIBOR + 1.35%.
Security Structure: The security structure will be secured by ranking charge over Company's current assets with 25% margin, lien over export document and lien over DPA established with AKBL for the benefit of Issue Agent / Investors.
Debt Payment Account (DPA): The Issuer shall maintain a dedicated Debt Payment Account ("DPA") under lien, to be build up in the following manner:

- Upfront 20% of the Sukuk Issue from the proceeds of the disbursement;
- Remaining 80% DPA buildup to start from 5th month on an equal weekly basis and to be fully funded 10 days before maturity.

COMPANY PROFILE

SL was incorporated in 1987 in Pakistan under the Companies Ordinance, 1984 (Companies Act, 2017), in the name "Sadaqat Textile Mills (Private) Limited", subsequently in 2008 converted into a public limited company. The Company is engaged in the business of textile manufacturing consisting vertically integrated processes of spinning, weaving, knitting, yarn dyeing, bleaching, dyeing, printing, stitching. The Company's core focus is the export of premium value-added products, including garments and home textiles. The Company's head office and main production facility is located at Khurrianwala, Faisalabad. SL's stitching unit 1 is located at Small Industrial Estate, Daewoo Road, Faisalabad.

GOVERNANCE

The sponsors bring over five decades of experience in the textile sector, and the senior management team is composed of experienced professionals. The organizational structure remains effectively organized with dedicated heads, directors, and sales teams to manage operations smoothly. The board consists of seven members, including two independent directors. To ensure robust oversight, dedicated committees for Audit, HR, and Remuneration, each led by independent members, work alongside the internal audit function. SL publishes and shares its Annual Report and Sustainability Report with stakeholders, demonstrating its commitment to governance and transparency. The Company's external auditor, Kreston Bhimji & Co. Chartered Accountants, have a valid QCR rating and appear as a category 'A' rated auditor. They issued unqualified audit opinions for FY23 and FY24 indicating no significant issues with the Company's financial statements.

INDUSTRY PROFILE & BUSINESS RISK

The business risk profile of Pakistan's textile sector is shaped by economic cyclicality, intense competition and structural challenges. The sector is highly sensitive to domestic and international demand fluctuations, making it vulnerable to broader economic conditions. In FY24, Pakistan's cotton production surged by 79% compared to FY23, though this increase was largely due to the low base in FY23. However, cotton production decreased by 59.4% YoY by October 2024, with a total of 2.04 million bales. The USDA forecasts a rebound to 5.55 million bales in

FY25, contingent on overcoming several challenges, including a declining area under cotton cultivation, rising energy costs, and adverse climatic conditions such as heatwaves, floods, and pest infestations that have further pressured yields. Pakistan's textile exports in 3QFY25 demonstrated growth, primarily fueled by the value-added segment, despite challenges in domestic cotton production necessitating reliance on imported cotton. Exporter profitability remains vulnerable to cotton market volatility, inflationary pressures, and exchange rate fluctuations, while persistently high energy costs continue to strain overall cost structures. Furthermore, rising input costs and regulatory changes are creating a challenging environment for the sector.

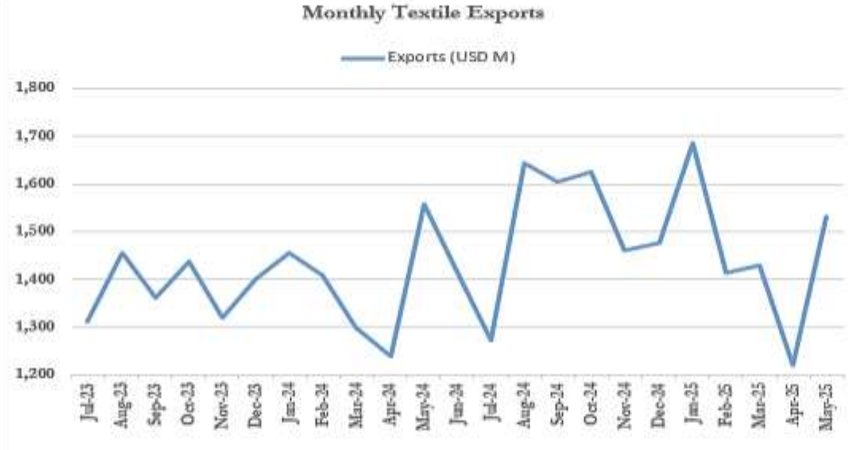

Figure 1: MoM Textile Exports (USD Million)
Source: PBS

Product profile and Capacity

Amid absence of significant capital expenditure, the Company's production capacity has largely remained stable, and is not projected to increase in the coming year. As a result of stable demand, overall capacity utilization has improved slightly on account of consistent demand from existing clients. Production levels in knitting and processing have particularly increased on account of higher output of finished fabrics, resulting in an improvement in capacity utilization to 95% (FY24: 90%) and 88% (FY24: 87%) in FY25.

Production figures *(in millions)*			
Spinning	**FY23**	**FY24**	**FY25**
Installed Capacity Bags	-	0.219	0.219
Actual Production Bags	-	0.212	0.217
Capacity Utilization	**0%**	**97%**	**99%**
Weaving	**FY23**	**FY24**	**FY25**
Installed Capacity in meters	18	18	18
Actual Production in meters	14	15	15
Capacity Utilization	**78%**	**83%**	**83%**
Knitting Processing	**FY23**	**FY24**	**FY25**
Installed Capacity in kgs	6.72	6.72	6.72

Actual Production in kgs	5.70	5.80	5,90
Capacity Utilization	**85%**	**87%**	**88%**
Knitting Conversion in kgs	**FY23**	**FY24**	**FY25**
Installed Capacity in kgs	4.03	4.03	4.03
Actual Production in kgs	3.20	3.60	3.80
Capacity Utilization	**80%**	**90%**	**95%**
Processing	**FY23**	**FY24**	**FY25**
Installed Capacity in meters	90	90	90
Actual Production in meters	77	78	79
Capacity Utilization	**86%**	**87%**	**88%**

FINANCIAL RISK

Capital Structure

Improvement in capitalization profile was observed in the review period. Tier-1 equity strengthened to Rs. 15.4b (end-FY24: Rs. 14.4b) by end-FY25, on the back of profit retention. Tier-1 equity includes a sponsor loan of Rs. 477.5m, which is interest free loan from CEO and Directors of the Company, repayable at the discretion of the Company. Gearing ratio declined to 1.17x (end-FY24: 1.32x) by end-FY25, attributable to lower borrowings (end-FY25: Rs. 18.0b, end-FY24: Rs. 19.3b). Leverage also slightly improved to 1.78x (end-FY25: 1.85x), on account of higher equity. Capitalization indicators are anticipated to remain intact in the coming year.

Profitability

SL's topline remained largely unchanged at Rs. 42.0b (FY24: Rs. 41.7b) in FY25, on account of stable volumes and prices. Exports comprised 93.7% (FY24: 94.7%) of revenue in FY25. SL benefits from long-standing relationships with leading retail and clothing brands such as Primark, Asda Stores and Target, alleviating offtake risk and ensuring consistent demand. Gross margin remained mostly intact (FY25: 21.9%, FY24: 22.7%). Operating costs decreased to Rs. 3.7b (FY24: Rs. 3.9b) in FY25 due to lower depcreciation and travelling expenses and reduction in unrealized loss on derivative financial instruments. Finance costs decreased to Rs. 3.5b (FY24: Rs. 4.3b) in FY25, due to lower borrowings and declining policy rates. Net profit slightly decreased to Rs. 704.5m in FY25 from Rs. 802.3m in FY24, primarily due to increased taxation, which included a deferred tax adjustment from the prior year. Consequently, net margin declined to 1.7% (FY24: 1.9%) in FY25. Management expects bottom-line to increase in FY26 on the back of lower financial charges.

Debt Coverage & Liquidity

Although profit margins were lower, funds from operations (FFO) and the FFO to total debt coverage remained stable in FY25. However, debt service coverage ratio (DSCR) improved to 1.23x in FY25 (FY24: 1.14x) due to a reduction in finance cost payment. Improvement in liquidity position was observed as current ratio increased to 1.12x (end-FY24: 1.04x), and short-term debt coverage strengthened to 1.35x (end-FY24: 1.21x) at end-FY25, mainly due to higher trade debts and stock-in-trade. However, room for improvement exists as slower inventory turnover resulted in an extended cash conversion cycle of 110 days (FY24: 101) in FY25.

FINANCIAL SUMMARY

BALANCE SHEET *(Rs. in millions)*	FY22 (A)	FY23 (A)	FY24 (A)	FY25 (M)	FY26 (P)
Property, plant and equipment	30,448.1	31,903.2	30,690.2	29,019.5	29,248.0
Stock-in-Trade	8,327.2	7,704.4	7,783.2	8,994.6	8,765.4
Trade Debts	7,391.1	6,585.3	7,123.1	7,990.3	7,871.3
Tax Refunds due from the GoP	2,378.8	2,706.7	1,389.4	1,581.7	1,960.3
Cash & Bank Balances	484.8	161.5	162.9	291.2	636.0
Total Assets	**52,398.2**	**52,614.5**	**50,701.7**	**51,745.7**	**50,685.8**
Long Term Debt (incl. current maturity)	7,502.1	7,620.2	6,944.9	5,422.2	4,334.1
Short Term Debt	13,948.9	13,642.9	12,354.0	12,564.6	10,856.6
Total Debt	**21,451.0**	**21,263.1**	**19,299.0**	**17,986.8**	**15,190.7**
Trade and Other Payables	6,035.1	4,516.5	3,740.6	5,088.1	4,455.9
Total Liabilities	**28,299.1**	**26,663.1**	**27,071.8**	**27,411.4**	**23,431.0**
Paid Up Capital	4,920.0	4,920.0	4,920.0	4,920.0	4,920.0
Tier-1 Equity	**10,915.2**	**13,285.1**	**14,381.8**	**15,361.0**	**18,006.8**
INCOME STATEMENT *(Rs. in millions)*	**FY22 (A)**	**FY23 (A)**	**FY24 (A)**	**FY25 (M)**	**FY26 (P)**
Net Sales	37,635.0	39,732.4	41,694.2	42,013.1	53,000.0
Gross Profit	6,602.0	8,536.1	9,470.0	9,192.0	11,660.0
Finance Costs	1,325.5	3,231.5	4,262.3	3,538.4	3,314.1
Profit Before Tax	1,580.6	1,816.9	1,305.9	1,947.8	3,870.2
Profit After Tax	**1,145.4**	**1,432.2**	**802.3**	**704.5**	**2,461.7**
RATIO ANALYSIS	**FY22 (A)**	**FY23 (A)**	**FY24 (A)**	**FY25 (M)**	**FY26 (P)**
Gross Margin	17.5%	21.5%	22.7%	21.9%	22.0%
Net Margin	3.0%	3.6%	1.9%	1.7%	4.6%
Net Working Capital *(Rs. in millions)*	(440.9)	75.0	688.5	2,328.8	4,425.6
Trade debts/Sales	19.6%	16.6%	17.1%	19.0%	14.9%
Current Ratio (x)	0.98	1.00	1.04	1.12	1.26
Cash Conversion Cycle (days)	87	96	101	110	89
FFO *(Rs. in millions)*	3,020.3	3,570.0	3,122.1	3,095.4	4,140.9
FFO to Total Debt (x)	0.14	0.17	0.16	0.17	0.27
FFO to Long Term Debt (x)	0.40	0.47	0.45	0.57	0.96
Debt Servicing Coverage Ratio (x)	1.64	1.44	1.14	1.23	1.80
Short-term Debt Coverage (x)	1.13	1.05	1.21	1.35	1.53
Gearing (x)	1.97	1.60	1.32	1.17	0.84
Leverage (x)	2.59	2.01	1.85	1.78	1.30
ROAA (%)	2.6%	2.7%	1.6%	1.4%	4.9%
ROAE (%)	11.3%	11.9%	5.8%	4.7%	13.7%

A: Audited accounts
M: Management accounts
P: Management projections

REGULATORY DISCLOSURES						Annexure I
Name of Rated Entity	Sadaqat Limited					
Sector	Textile					
Type of Relationship	Solicited					
Purpose of Rating	Instrument Ratings					
Rating History	**Rating Date**	**Medium to Long Term**	**Short Term**	**Rating Outlook/Watch**	**Rating Action**	
	RATING TYPE: ENTITY					
	19/12/2024	**A**	**A2**	**Stable**	**Reaffirmed**	
	10/10/2023	A	A2	Stable	Reaffirmed	
	22/06/2022	A	A2	Stable	Maintained	
	24/06/2021	A	A2	Positive	Maintained	
	15/04/2020	A	A2	Rating Watch - Negative	Maintained	
	18/07/2019	A	A2	Stable	Reaffirmed	
	23/02/2018	A	A2	Stable	Reaffirmed	
	RATING TYPE: Sukuk (STS)					
	17/09/2025		**A1 (plm)**		**Preliminary**	
Instrument Structure	STS: SL plans to issue a short-term rated, secured, privately placed Sukuk ('STS' or 'the Issue') to eligible investors amounting to Rs. 2,000m inclusive of a Green Shoe Option of Rs. 500m. This Issue will be utilized by SL to finance working capital requirements and will have a tenure of up to six months starting from the issue date. Profit will be payable at maturity of STS on the outstanding principal amount. Profit payment will be at a proposed rate of 6M Kibor + 1.35%. Assigned rating reflects the proposed security structure of the instrument providing ranking charge over Company's current assets with 25% margin. In addition, lien over export document and maintenance of DPA established with Askari Bank Limited (AKBL) provides comfort.					

Instrument Name:	Details
Nature of Instrument	STS
Tenure of Instrument	6 months
Size of the Issue	PKR 3b (PKR 1b green shoe option)
Principle Redemption Schedule	Profit will be payable at maturity of STS on the outstanding principal amount.
Interest Redemption Schedule	Profit payment will be at a proposed rate of 6M Kibor + 1.35%.
Issue Date	n/a
Grace Period	n/a
Redemption Date	n/a
Nature of Security (in case of secured instrument)	The security structure will be secured by ranking charge over Company's current assets with 25% margin, lien over export document and lien over DPA established with AKBL for the benefit of Issue Agent / Investors. The Issuer shall maintain a dedicated Debt Payment Account ("DPA") under lien, to be build up in the following manner: • Upfront 20% of the Sukuk Issue from the proceeds of the disbursement; • Remaining 80% DPA buildup to start from 5th month on an equal weekly basis and to be fully funded 10 days before maturity.
Rating	A1
Name of Trustee	Pak Oman Investment Company

Statement by the Rating Team	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	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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Due Diligence Meeting Conducted	Name / Designation / Date: N/A