

SADAQAT LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Latest Rating	Initial Rating
	Short-term	Short-term
INSTRUMENT (STS)	A1	A1 (plim)
RATING ACTION	Final	Preliminary
RATING DATE	January 8, 2026	September 17, 2025

Shareholding (5% or More)

Mr. Hamid Mukhtar ~ 24.6%

Mr. Awais Mukhtar ~ 24.6%

Mr. Shoaib Mukhtar ~ 24.6%

Mrs. Khurram Mukhtar ~14.6%

Mr. Hamid Mukhtar ~ 24.6%

Other Information

Incorporated in 1987

Public Limited Company (Unlisted)

Chief Executive Officer: Sheikh Mukhtar Ahmed

External Auditor: Kreston Bhimji & Co. Chartered Accountants

Applicable Rating Methodology

VIS Entity Rating Criteria Methodology – Corporates Ratings

<https://docs.vis.com.pk/docs/CorporateMethodology.pdf>

Instrument Rating

(<https://backupsqvis.s3.us-west-2.amazonaws.com/Methodologies-2025/IRM-Apr-25.pdf>)

Rating Scale

<https://docs.vis.com.pk/docs/VISRatingScales.pdf>

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 issued 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, on September 19, 2025. 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 is payable at maturity of STS on the outstanding principal amount. Profit payment is benchmarked at 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 will 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. The maturity date will fall on March 21, 2026.

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.

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.

Management and 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.

Business Risk

INDUSTRY

Pakistan's textile sector continues to face structural pressures amid declining domestic cotton availability and elevated cost structures. Cotton production fell sharply to 5.5 million bales in FY25 (FY24: 8.4 million bales), driven by climate shocks, water shortages, and rising input costs, thereby increasing reliance on imports, which currently provide both cost and quality advantages.

Textile exports, however, grew 7.9% YoY to USD 17.9 billion in FY25, supported by value-added segments, though profitability remained constrained by high energy tariffs and rising minimum wages. The recent reduction in US tariffs on Pakistani textiles offers some relief. The imposition of an 18% sales tax on imported cotton and yarn under the Export Facilitation Scheme is aimed at strengthening the local spinning industry. Nevertheless, refund delays under the scheme continue to strain exporter liquidity.

Export momentum carried into FY26, with textile shipments in July 2025 rising 32.1% YoY to USD 1.68 billion, driven by strong demand in the US retail market, carryover orders from June, and tariff disadvantages for competing suppliers. On the supply side, cotton production for FY26 is projected at 4.8 million bales, down 4% YoY, reflecting reduced cultivated area, weaker yields in Sindh, and significant flood-related damage in Punjab.

Cotton consumption is expected to ease to 10.5 million bales, with rising cost pressures, while imports are projected at 5.6 million bales to bridge the supply gap. Looking ahead, the government's approval of hybrid seed imports is expected to support yield recovery over the medium term, offering partial mitigation against recurring structural challenges.

PRODUCTION PROFILE

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.

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 depreciation 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	30,448.10	31,903.20	30,690.20	29,019.50	29,248.00
Stock-in-Trade	8,327.20	7,704.40	7,783.20	8,994.60	8,765.40
Trade Debts	7,391.10	6,585.30	7,123.10	7,990.30	7,871.30
Tax Refunds due from the GoP	2,378.80	2,706.70	1,389.40	1,581.70	1,960.30
Cash & Bank Balances	484.8	161.5	162.9	291.2	636.0
Total Assets	52,398.20	52,614.50	50,701.70	51,745.70	50,685.80
Long Term Debt (incl. current maturity)	7,502.10	7,620.20	6,944.90	5,422.20	4,334.10
Short Term Debt	13,948.90	13,642.90	12,354.00	12,564.60	10,856.60
Total Debt	21,451.00	21,263.10	19,299.00	17,986.80	15,190.70
Trade and Other Payables	6,035.10	4,516.50	3,740.60	5,088.10	4,455.90
Total Liabilities	28,299.10	26,663.10	27,071.80	27,411.40	23,431.00
Paid Up Capital	4,920.00	4,920.00	4,920.00	4,920.00	4,920.00
Tier-1 Equity	10,915.20	13,285.10	14,381.80	15,361.00	18,006.80
INCOME STATEMENT (Rs. in millions)	FY22 (A)	FY23 (A)	FY24 (A)	FY25 (M)	FY26 (P)
Net Sales	37,635.00	39,732.40	41,694.20	42,013.10	53,000.00
Gross Profit	6,602.00	8,536.10	9,470.00	9,192.00	11,660.00
Finance Costs	1,325.50	3,231.50	4,262.30	3,538.40	3,314.10
Profit Before Tax	1,580.60	1,816.90	1,305.90	1,947.80	3,870.20
Profit After Tax	1,145.40	1,432.20	802.3	704.5	2,461.70
RATIO ANALYSIS	FY22 (A)	FY23 (A)	FY24 (A)	FY25 (M)	FY26 (P)
Gross Margin	17.50%	21.50%	22.70%	21.90%	22.00%
Net Margin	3.00%	3.60%	1.90%	1.70%	4.60%
Net Working Capital (Rs. in millions)	-440.9	75	688.5	2,328.80	4,425.60
Trade debts/Sales	19.60%	16.60%	17.10%	19.00%	14.90%
Current Ratio (x)	0.98	1	1.04	1.12	1.26
Cash Conversion Cycle (days)	87	96	101	110	89
FFO (Rs. in millions)	3,020.30	3,570.00	3,122.10	3,095.40	4,140.90
FFO to Total Debt (x)	0.14	0.17	0.16	0.17	0.27
FFO to Long Term Debt (x)	0.4	0.47	0.45	0.57	0.96
Debt Servicing Coverage Ratio (x)	1.64	1.44	1.14	1.23	1.8
Short-term Debt Coverage (x)	1.13	1.05	1.21	1.35	1.53
Gearing (x)	1.97	1.6	1.32	1.17	0.84
Leverage (x)	2.59	2.01	1.85	1.78	1.3
ROAA (%)	2.60%	2.70%	1.60%	1.40%	4.90%
ROAE (%)	11.30%	11.90%	5.80%	4.70%	13.70%

A: Audited accounts

M: Management accounts

P: Management projections

REGULATORY DISCLOSURES

Appendix 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)				
	08/01/2026		A1		Final
17/09/2025		A1 (plm)		Preliminary	
Instrument Structure	Instrument Name:			Details	
	Nature of Instrument			Short-term Sukuk (STS)	
	Tenure of Instrument			6 months	
	Size of the Issue			PKR 2b (PKR 500m green shoe option)	
	Principle Redemption Schedule			Bullet principal repayment at maturity, with profit payable on the redemption date	
	Interest Redemption Schedule			365/366-day basis.	
	Issue Date			19-Sep-25	
	Grace Period			n/a	
	Redemption Date			21-Mar-26	
	Nature of Security (in case of secured instrument)			Ranking charge over current assets with a 25% margin lien over export document lien over DPA established with Investment Agent Upfront 20% of the Sukuk Issue from proceeds of the disbursement Remaining 80% DPA buildup to start from 5 th 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.				
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Credit Rating Company Limited

RATING REPORT

Due Diligence Meetings Conducted		Name	Designation	Date	
		N/A			