

SADAQAT LIMITED

Analyst:

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RATING DETAILS

RATINGS CATEGORY	Preliminary Sukuk Rating
SHORT-TERM SUKUK-2	A1 (Plim)
RATING ACTION	Preliminary
RATING DATE	March 13, 2026

Shareholding (5% or More)

Hamid Mukhtar ~ 24.6%
 Awais Mukhtar ~ 24.6%
 Shoaib Mukhtar ~ 24.6%
 Khurram Mukhtar ~ 14.6%
 Hamza Mukhtar ~ 10.0%

Other Information

Incorporated in 1987
 Public Limited Company
 Chairman: Sheikh Mukhtar Ahmed
 Chief Executive Officer: Khurram Mukhtar
 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://docs.vis.com.pk/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 incorporated in 1987. The Company's operations span spinning, weaving, knitting, processing, stitching, and exports of value-added garments and home textiles. Its head office and production facilities are based in Faisalabad.

The rating takes into account the experience of sponsors and well-established footprint of the Company in the textile sector amidst elevated business risk for textile exporters due to declining domestic cotton availability, reliance on imported raw material, high energy costs, and policy inconsistencies affecting yarn demand, alongside potential pressures from global tariffs. The Company has shown resilience amidst these pressures as it completed vertical integration and enabling a shift toward higher-margin products. Gearing, coverage ratios and liquidity indicators modestly improved in FY25.

SL plans to issue a short-term rated, secured, privately placed Short-term Sukuk 2 (STS-2) amounting to Rs. 2,500m (inclusive of a Green Shoe Option of Rs. 1,000m). This instrument 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 documents and defined DPA (debt payment account) mechanism or financial guarantee AA rated bank/FI of similar amounts.

The Company's Short-term Sukuk 1 (STS-1) is due for maturity on March 21, 2026; however, the company using its call option right plan to settle the existing Sukuk on March 13, 2026. The preliminary rating assigned to the Company's STS-2 hinges on timely redemption of outstanding STS-1.

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. Total employee count stood 6,851 (June'2024: 6,866) as of June'2025.

Proposed Sukuk Structure

SL plans to a Short-term Sukuk 2 (STS-2) amounting up to PKR 2,500m (inclusive of a green shoe option of up to PKR 1,000m) for a tenure of six months from issue date, to finance working capital requirements. The principal/profit payment will be paid as bullet payment. The instrument carries profit rate at 6 Months KIBOR + 1.35%. Profit will be payable at the time of redemption of the instrument on the outstanding principal amount and will be calculated on a 365/366-day year basis.

The security structure of STS-2 is as follows:

10% upfront DPA (debt payment account) to be maintained in cash and cash equivalents or financial guarantee from AA rated bank/FI of similar amounts, DPA buildup of 90% in last month - 30% of payment amount buildup 30 days before maturity, another 30% buildup 20 days before maturity and remaining 30% 10 days before maturity. Ranking charge of 25% margin over the current assets of the Company. Lien over export documents.

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 FY24 and FY25 indicating no significant issues with the Company's financial statements.

Business Risk

INDUSTRY

Pakistan's cotton sector remained under pressure in FY25, with area under cultivation declining by 15% YoY to 2.0 mln hectares and yield falling to 0.6 MT/ha (FY24: 0.7 MT/ha), resulting in a 30.7% YoY drop in production. Cotton arrivals stood at ~7.1 mln bales, well below the target of 10.8m bales, largely due to adverse weather conditions, alongside pest infestations. Additionally, the imposition of 18% sales tax on local cotton, compared to duty-free imported cotton, dampened early-season demand for domestic output. For FY26, while the production target is set at 10.2m bales, actual output is estimated at only 6.85m bales, as cultivation reached just 2.0mn hectares, about 11.5% below the target. The shortfall in domestic supply has been offset by a sharp increase in cotton imports, which rose ~234% YoY to meet industry demand.

During FY25, Pakistan's textile exports grew by 7.4% YoY to USD 17.9bn, driven mainly by higher demand from North America and Europe for value-added products such as knitwear, bedwear, garments, and towels. In volumes, knitwear, bedwear, and garments posted mid-single-digit growth, while exports of traditional segments, yarn and cotton cloth, declined sharply due to higher domestic energy and manufacturing costs relative to regional peers. Textile imports surged by about 54% YoY to USD 4.2bn in FY25, primarily on account of a sharp rise in raw cotton imports amid a significant drop in domestic cotton production. However, during 5MFY26, export growth moderated to ~2.7% YoY, while imports rose modestly by ~5.0%, with raw cotton imports declining as local arrivals partially recovered.

PRODUCTION PROFILE

The Company has implemented energy cost-cutting measures, with utility costs controlled after full solar installation, providing SL self-sufficiency during day shift. Per unit cost is Rs. 10.5 to 11.0 per unit. The Company has fully integrated biomass to replace costly coal-based power generation. The Company's knitting, weaving, and processing capacities remained unchanged during the year and are not expected to expand. Stable orders from existing customers led to a modest improvement in overall capacity utilization. In FY25, the spinning facility was fully capitalized and became operational, achieving healthy utilization supported by in house demand. Notably, higher production of finished fabrics drove throughput in the knitting and processing divisions, lifting capacity utilization to 95% (FY24: 90%) and 88% (FY24: 87%), respectively, in FY25.

	UoM	FY24	FY25
Processing			
Installed capacity for the year	Meters	90,000,000	90,000,000
Capacity utilized for the year	Meters	75,500,000	78,500,000
Capacity utilization		84%	87%
Knitting Conversion			
Installed capacity for the year	KGs	4,320,000	4,320,000
Capacity utilized for the year	KGs	3,888,000	3,920,000
Capacity utilization		90%	91%
Knitting Processing			
Installed capacity for the year	KGs	9,000,000	9,000,000
Capacity utilized for the year	KGs	7,650,000	7,690,000
Capacity utilization		85%	85%
Weaving			
Installed capacity for the year	Meters	18,000,000	18,000,000
Capacity utilized for the year	Meters	17,100,000	17,145,000
Capacity utilization		95%	95%
Spinning			

Installed capacity for the year	Lbs		28,728,000
Capacity utilized for the year	Lbs		26,460,000
Capacity utilization			92%

SALES & PROFITABILITY

In FY25, net sales grew to Rs. 42.3b (FY24: Rs. 41.7b), owing to shift in sales mix towards higher margin knitwear alleviating the decline in sales of made-ups. The contribution of made-ups decreased to 60.9% (FY24: 70.6%) owing to subdued demand, while the woven and knitwear sales surged by 35.7% and 46.5% in FY25 aligning with a broader industry shift towards higher-margin products. Revenue from processing services rose to 4.1% (FY24: 3.4%) of the total net sales in FY25. In addition to evolving its product mix, SL is also navigating a shift in geographic footprint towards the United States. While majority of revenue remains concentrated in Europe, the revised tariff structure under the Trump administration has improved Company's competitiveness relative to peers in the US market, with sales gaining traction, reflected in recent acquisition of JC Penney. Customer concentration remains high, with top 10 clients accounting for 80% (FY24: 78%) of revenue in FY25. Nevertheless, this risk is partially mitigated by long standing relationships with leading global retailers like Primark, Asda Stores, and Target, supporting stability in offtake.

While the gross margin remained firm at 22.92% (FY24: 22.71%) in FY25, operating expenses increased on account of one-off receivable write-off and rising sales commissions, leading to decline in operating margins. The deleveraging efforts and easing interest rates led to a reduction in finance costs, which reduced to Rs. 3.56b (FY24: Rs. 4.26b) in FY25. However, despite these savings, the net margin dipped to 1.66% (FY24: 1.92%), on account of a higher tax incidence during the period.

In 1QFY26, sales and margins have remained stable compared to SPLY. Looking forward, management remains cautiously optimistic, forecasting a 14-15% increase in net sales on the back of favorable pricing and US expansion. With the impact of debt reduction visible in lower financial charges, the Company's bottom-line is projected to moderately increase in FY26.

Financial Risk

CAPITAL STRUCTURE

The gearing ratio continued its downward trajectory, improving to 1.21x at end-FY25 (end-FY24: 1.34x; end-FY23: 1.60x), primarily supported by a stronger equity base and ongoing repayment of long-term borrowings. Tier-1 equity increased to PKR 15.4b (FY24: PKR 14.4b), driven by profit retention and an interest-free sponsor loan of PKR 477.5m. Leverage, however, edged up to 1.95x (end-FY24: 1.88x; end-FY23: 2.12x), mainly due to elevated trade creditors, tax liabilities, and payments toward employee provident fund. At end-1QFY26, leverage improved to 1.70x on the back of a reduction in trade creditors, while gearing remained broadly stable at 1.27x.

Leverage is expected to increase moderately, driven mainly by higher working capital requirements and for planned additions for efficiency gains. However, in the medium term, capitalization metrics are expected to stabilize as profitability gains start contributing.

DEBT COVERAGE & LIQUIDITY

Steady FFO (funds from operations) and debt repayments contributed to modest improvement in debt coverage metrics in FY25. DSCR (debt service coverage ratio) improved to 1.29x (FY24: 1.14x) in FY25 while FFO to long-term and total debt coverage also strengthened slightly.

Liquidity metrics showed modest improvement, with the current ratio strengthening to 1.09x at end-FY25 (end-FY24: 1.04x, end-FY23: 1.00x). However, the cash conversion cycle lengthened to 108 days (FY24: 101 days, FY23: 96 days), primarily reflecting higher working capital requirements following the commencement of spinning operations. Additionally, geopolitical challenges, along with a shift in product mix, led to slower receivables recovery and weaker inventory turnover during the year, contributing to working capital extension.

FINANCIAL SUMMARY						
Balance Sheet (PKR Millions)	FY23A	FY24A	FY25A	1QFY26M	FY26P	FY27P
Property, plant and equipment	31,903	30,690	29,247	28,865	40,356	37,379
Stock-in-trade	7,704	7,783	9,122	9,217	9,578	10,057
Trade debts	6,585	7,123	8,760	10,938	9,198	9,658
Cash & Bank Balances	162	163	327	263	343	360
Other Assets	5,950	4,695	4,982	5,006	6,003	5,912
Total Assets	52,615	50,702	52,636	54,477	65,666	63,546
Creditors	6,035	4,517	3,741	1,779	6,114	6,175
Long-term Debt (incl. current portion)	7,620	6,945	5,431	4,882	8,060	7,078
Short-Term Borrowings	13,643	12,354	12,451	14,838	14,451	15,174
Total Debt	21,263	19,299	17,882	19,720	22,511	22,252
Other Liabilities	858	3,957	5,108	5,028	1,728	1,876
Total Liabilities	28,156	27,772	26,730	26,526	30,352	30,302
Paid up Capital	4,920	4,920	4,920	4,920	4,920	4,920
Revenue Reserve	7,888	8,984	9,961	10,667	10,946	12,550
Sponsor Loan	478	478	478	478	478	478
Equity (excl. Revaluation Surplus)	13,285	14,382	14,729	15,587	15,866	17,948
Income Statement (PKR Millions)	FY23A	FY24A	FY25A	1QFY26M	FY26P	FY27P
Net Sales	39,732	41,694	42,302	10,852	48,500	55,775
Gross Profit	8,536	9,470	9,695	2,304	10,670	12,382
Finance Costs	3,232	4,262	3,564	1,180	4,296	4,271
Profit Before Tax	1,817	1,306	1,830	790	2,278	3,166
Profit After Tax	1,434	802	702	390	985	1,604
Ratio Analysis	FY23A	FY24A	FY25A	1QFY26M	FY26P	FY27P
Gross Margin	21.48%	22.71%	22.92%	21.23%	22.00%	22.20%
Operating Margin	12.71%	13.35%	12.75%	10.87%	13.56%	13.33%
Net Margin	3.61%	1.92%	1.66%	1.48%	2.03%	2.88%
Funds from Operation (FFO) (PKR Millions)	3,570	3,122	3,106	437	3,159	3,739
FFO to Total Debt	17%	16%	17%	9%	14%	17%
FFO to Long Term Debt	47%	45%	57%	36%	39%	53%
Gearing (x)	1.60	1.34	1.21	1.27	1.42	1.24
Leverage (x)	2.01	1.88	1.95	1.70	1.91	1.69
Debt Servicing Coverage Ratio (x)	1.44	1.14	1.29	1.12	1.40	1.54
Current Ratio (x)	1.00	1.04	1.09	1.30	1.13	1.16
(Stock in trade + trade debts) / STD (x)	1.14	1.31	1.55	1.20	1.40	1.40
Return on Average Assets	2.7%	1.6%	1.4%	1.2%	1.7%	2.5%
Return on Average Equity	11.9%	5.8%	4.8%	4.2%	6.4%	9.5%
Cash Conversion Cycle (days)	96	101	108	120	99	93

A - Actual Accounts

M - Management Accounts

P - Management Projections

*Annualized

REGULATORY DISCLOSURES						Appendix I
Name of Rated Entity	Sadaqat Limited					
Sector	Textile					
Type of Relationship	Solicited					
Purpose of Rating	Sukuk Ratings					
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook/Watch	Rating Action	
	RATING TYPE: ENTITY					
	06/03/2026	A	A2	Stable	Reaffirmed	
	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-2)					
	16/03/2026		A1 (plm)		Preliminary	
	RATING TYPE: Sukuk (STS-1)					
	16/03/2026				Matured	
	08/01/2026		A1		Final	
17/09/2025		A1 (plm)		Preliminary		
Instrument Structure	Instrument Name:		Details			
	Nature of Instrument		Short-term Sukuk (STS-1)			
	Tenure of Instrument		6 months			
	Size of the Issue		PKR 1,500m (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		24-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			
	Instrument Name:		Details			
	Nature of Instrument		Short-term Sukuk-2 (STS-2)			
	Tenure of Instrument		6 months			
	Size of the Issue		PKR 2,500m (PKR 1,000m 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	pending		
	Grace Period	n/a		
	Redemption Date	pending		
	Nature of Security (in case of secured instrument)	Ranking charge over current assets with a 25% margin lien over export document 10% upfront DPA (debt payment account) to be maintained in cash and cash equivalents or financial guarantee from AA rated bank/FI of similar amounts, DPA for 90% in last month - 30% of payment amount buildup 10 days before maturity, another 30% buildup 20 days before maturity and remaining 30% 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 Meetings Conducted		Name	Designation	Date
		Umar Mukhtar	Director	07-Jan-26
		Jasim Ayyub	CFO	