

SADAQAT LIMITED

Analyst:

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RATING DETAILS

| RATINGS CATEGORY | Latest Rating | Initial Rating |
|--------------------|---------------|----------------|
| | Short-term | Short-term |
| INSTRUMENT (STS-2) | A1 | A1 (plim) |
| RATING ACTION | Final | Preliminary |
| RATING DATE | May 15, 2026 | March 16, 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 and remained largely stable in 1HFY26.

SL placed a privately rated, secured, privately Short-term Sukuk 2 (STS-2) amounting to Rs. 2,500m (inclusive of a Green Shoe Option of Rs. 1,000m) on March 18, 2026. The instrument has a tenure of up to six months and is expected to mature on August 18, 2026. This funds from the debt instrument are being utilized by SL to finance working capital requirements. Profit will be payable at maturity of STS on the outstanding principal amount. Profit payment was set 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 documents and defined DPA (debt payment account) mechanism.

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 issued a privately rated, secured Short-term Sukuk 2 (STS-2) amounting to Rs. 2,500m (inclusive of a Green Shoe Option of Rs. 1,000m) on March 18, 2026. The instrument has a tenure of up to six months and is scheduled to mature on August 18, 2026. This funds from the debt instrument are being utilized by SL to finance working capital requirements. Profit will be payable at maturity of STS on the outstanding principal amount. Profit payment was set at 6M KIBOR + 1.35%. Profit is payable at the time of redemption of the instrument on the outstanding principal amount and calculated on a 365/366-day year basis.

The security structure of STS-2 is as follows:

- Ranking charge over current assets with a 25% margin
- Lien over export document
- Lien over DPA established with Askari Bank Limited for the benefit of Trustee
- 10% upfront DPA (debt payment account) from the proceeds of disbursement, DPA for 90% in last month on an equal weekly basis and to be fully funded 10 days before maturity

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 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 1HFY26, sales and margins remained relatively stable compared to SPLY. Looking forward, management remains cautiously optimistic, forecasting a 14-15% increase in net sales on the back of favorable pricing. 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-1HFY26, leverage and gearing remained broadly stable. 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 reaching 1.09x at end-FY25 (end-FY24: 1.04x). However, the cash conversion cycle lengthened to 108 days (FY24: 101 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) | FY24A | FY25A | 1HFY26M | FY26P | FY27P |
|---|---------------|---------------|----------------|---------------|---------------|
| Property, plant and equipment | 30,690 | 29,247 | 28,447 | 40,356 | 37,379 |
| Stock-in-trade | 7,783 | 9,122 | 10,556 | 9,578 | 10,057 |
| Trade debts | 7,123 | 8,760 | 9,646 | 9,198 | 9,658 |
| Cash & Bank Balances | 163 | 327 | 471 | 343 | 360 |
| Other Assets | 4,695 | 4,982 | 5,040 | 6,003 | 5,912 |
| Total Assets | 50,702 | 52,636 | 54,339 | 65,666 | 63,546 |
| Creditors | 3,741 | 6,053 | 2,380 | 6,114 | 6,175 |
| Long-term Debt (incl. current portion) | 6,945 | 5,431 | 4,570 | 8,060 | 7,078 |
| Short-Term Borrowings | 12,354 | 12,451 | 15,919 | 14,451 | 15,174 |
| Total Debt | 19,299 | 17,882 | 20,489 | 22,511 | 22,252 |
| Other Liabilities | 4,032 | 4,723.1 | 6,677 | 1,728 | 1,876 |
| Total Liabilities | 27,072 | 28,658 | 29,546 | 30,352 | 30,302 |
| Paid up Capital | 4,920 | 4,920 | 4,920 | 4,920 | 4,920 |
| Revenue Reserve | 8,984 | 9,961 | 10,491 | 10,946 | 12,550 |
| Sponsor Loan | 478 | 478 | 478 | 478 | 478 |
| Equity (excl. Revaluation Surplus) | 14,382 | 14,729 | 15,888 | 15,866 | 17,948 |
| Income Statement (PKR Millions) | FY24A | FY25A | 1HFY26M | FY26P | FY27P |
| Net Sales | 41,694 | 42,302 | 22,733 | 48,500 | 55,775 |
| Gross Profit | 9,470 | 9,695 | 4,792 | 10,670 | 12,382 |
| Operating Profit | 5,568 | 5,394 | 2,587 | 6,574 | 7,437 |
| Finance Costs | 4,262 | 3,564 | 1,582 | 4,296 | 4,271 |
| Profit Before Tax | 1,306 | 1,830 | 1,006 | 2,278 | 3,166 |
| Profit After Tax | 802 | 702 | 460 | 985 | 1,604 |
| Ratio Analysis | FY24A | FY25A | 1HFY26M | FY26P | FY27P |
| Gross Margin | 22.71% | 22.92% | 21.08% | 22.00% | 22.20% |
| Operating Margin | 13.35% | 12.75% | 11.38% | 13.56% | 13.33% |
| Net Margin | 1.92% | 1.66% | 2.02% | 2.03% | 2.88% |
| Funds from Operation (FFO) (PKR Millions) | 3,122 | 3,106 | 1,301 | 3,159 | 3,739 |
| FFO to Total Debt | 16.20% | 17.40% | 12.70% | 14.00% | 16.80% |
| FFO to Long Term Debt | 45.00% | 57.20% | 56.92% | 39.20% | 52.80% |
| Gearing (x) | 1.34 | 1.21 | 1.29 | 1.42 | 1.24 |
| Leverage (x) | 1.88 | 1.95 | 1.86 | 1.91 | 1.69 |
| Debt Servicing Coverage Ratio (x) | 1.14 | 1.29 | 1.22 | 1.40 | 1.54 |
| Current Ratio (x) | 1.04 | 1.09 | 1.12 | 1.13 | 1.16 |
| (Stock in trade + trade debts) / STD (x) | 1.31 | 1.55 | 1.38 | 1.40 | 1.40 |
| Return on Average Assets | 1.60% | 1.40% | 1.72% | 1.70% | 2.50% |
| Return on Average Equity | 5.80% | 4.80% | 6.01% | 6.40% | 9.50% |
| Cash Conversion Cycle (days) | 101 | 108 | 130 | 99 | 93 |

A - Actual Accounts

M - Management Accounts

P - Projected Accounts

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) | | | | | |
| | 14/05/2026 | | A1 | | Final |
| | 16/03/2026 | | A1 (plm) | | Preliminary |

| Instrument Structure | Instrument Name: | Details |
|----------------------|--|---|
| | | Nature of Instrument |
| | 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 | March 18, 2026 |
| | Grace Period | n/a |
| | Redemption Date | August 18, 2026 |
| | 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 Askari Bank Limited for the benefit of Trustee 10% upfront DPA (debt payment account) from the proceeds of disbursement, DPA for 90% in last month on an equal weekly basis and to be fully funded 10 days before maturity |
| | Rating | A1 |
| | Name of Trustee | Pak Oman Investment Company |

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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 |
| | Arslan Mohy-ud-din | AGM Finance | 13-Mar-2026 |