

## SADAQAT LIMITED

**Analyst:**

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## RATING DETAILS

RATINGS CATEGORY	Initial Rating
	Medium to Long-term
INSTRUMENT (SUKUK-1)	A+ (plim)
RATING OUTLOOK	Stable
RATING ACTION	Preliminary
RATING DATE	July 3, 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 (Unlisted)

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 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.

Assigned rating reflects the security structure of the Sukuk-1, supported by first pari passu charge over all present and future fixed assets (including land & building) and current assets with 25% margins, along with lien and set-off rights over key project accounts. A structured payment mechanism is in place where 10% of revenues are routed through a Collection Account (CA), which funds the Finance Payment Account (FPA) to ensure timely servicing of quarterly profit and principal obligations. The FPA will be built through monthly deposits of one-third of upcoming installments. Any shortfalls will be covered by the issue or sponsors, who provide an irrevocable undertaking to support the funding needs. The rating remains contingent on the

Company's disciplined financial management to meet prescribed undertakings during the Sukuk-1 tenure, as well as expected profitability and cash flow generation for timely repayment of the instrument dues.

## 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 raise a secured Sukuk (Sukuk-1), amounting to Rs. 2,500m for a tenure of six years, including one year grace period commencing from the date of issuance of first tranche. Funds from instrument will be utilized to finance working capital requirements of Rs. 2,000m while the remaining Rs. 500m will be allocated to BMR for energy optimization. The profit rate will be set to 3M KIBOR + 1.80bps, with the profit payments made in quarterly arrears. The first profit payment shall become due three months from the date of first issuance and subsequently every three months thereafter. Profit shall be calculated on the basis of the actual number of days elapsed in a year of 365/366 days. Principal shall be redeemed in twenty equal quarterly instalments. The first principal redemption shall fall due three months after lapse of grace period and subsequently every three months thereafter, until full redemption of the Sukuk.

Assigned rating reflects the security structure of Sukuk which includes first Pari Passu Hypothecation or Joint Pari Passu charge on all present & future Fixed Assets of the Company, including Equitable Mortgage of Land & Building, with a 25% margin, first Pari Passu hypothecation charge over all present and future current Assets of the Company, with a 25% margin, lien and set-off rights in respect of relevant Project Accounts, including but not limited to the **Finance Payment Account (FPA)**, **Finance Service Reserve Account (FSRA)**, and **Collection Account (CA)**. The collection and account maintenance mechanisms are as follows:

- **CA mechanism:** The Issuer shall maintain a Collection Account with the Accounts Bank and shall be obligated to route 10% revenues generated. The Collection Account shall be utilized to fund the FPA on the basis of agreed FPA Maintenance Mechanism. The detailed routing mechanism and related modalities shall be set out in the Finance Documents.
- **FPA mechanism:** The Issuer shall establish and maintain an FPA with the Accounts Bank, into which it will deposit the one-third of upcoming installment amount on monthly basis (comprising Profit and Principal components) in advance of each payment date. The Issuer shall ensure that one-third (1/3) of the upcoming quarterly installment shall be transferred monthly from the CA to FPA, so that the account is fully funded as at due date. The Issuer shall issue debit authority in favor of the Accounts Bank, authorizing it to debit the Collection Account to fund the required instalment in the FPA as per the agreed mechanism and schedule on Monthly Basis. In the event the Collection Account does not have sufficient funds, the Issuer shall be obligated to fund the FPA from its other sources. The detailed

funding modalities of FPA shall be set out in the Finance Documents. The FPA shall be remunerative in nature.

Furthermore, the Sponsors shall irrevocably undertake to fund any shortfalls in the Project Accounts, including but not limited to the Collection Account, Finance Payment Account, and Finance Service Reserve Account.

## 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. During 9MFY26, export growth moderated by 0.5% YoY, while imports rose by 21.1%, with raw cotton imports increasing amidst domestic cotton shortfall, shift towards value-added products and supply chain disruptions due to geopolitical challenges.

### 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
<b>Processing</b>			
Installed capacity for the year	Meters	90,000,000	90,000,000
Capacity utilized for the year	Meters	75,500,000	78,500,000
<b>Capacity utilization</b>		<b>84%</b>	<b>87%</b>
<b>Knitting Conversion</b>			
Installed capacity for the year	KGs	4,320,000	4,320,000
Capacity utilized for the year	KGs	3,888,000	3,920,000
<b>Capacity utilization</b>		<b>90%</b>	<b>91%</b>
<b>Knitting Processing</b>			
Installed capacity for the year	KGs	9,000,000	9,000,000
Capacity utilized for the year	KGs	7,650,000	7,690,000
<b>Capacity utilization</b>		<b>85%</b>	<b>85%</b>
<b>Weaving</b>			
Installed capacity for the year	Meters	18,000,000	18,000,000
Capacity utilized for the year	Meters	17,100,000	17,145,000
<b>Capacity utilization</b>		<b>95%</b>	<b>95%</b>
<b>Spinning</b>			
Installed capacity for the year	Lbs		28,728,000
Capacity utilized for the year	Lbs		26,460,000
<b>Capacity utilization</b>			<b>92%</b>

## 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 modest 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.

<b>FINANCIAL SUMMARY</b>			
<b>Balance Sheet (PKR Millions)</b>	<b>FY24A</b>	<b>FY25A</b>	<b>1HFY26M</b>
Property, plant and equipment	30,690	29,247	28,447
Stock-in-trade	7,783	9,122	10,556
Trade debts	7,123	8,760	9,646
Cash & Bank Balances	163	327	471
Other Assets	4,695	4,982	5,040
<b>Total Assets</b>	<b>50,702</b>	<b>52,636</b>	<b>54,339</b>
Creditors	3,741	6,053	2,380
Long-term Debt (incl. current portion)	6,945	5,431	4,570
Short-Term Borrowings	12,354	12,451	15,919
<b>Total Debt</b>	<b>19,299</b>	<b>17,882</b>	<b>20,489</b>
Other Liabilities	4,032	4,723.1	6,677
<b>Total Liabilities</b>	<b>27,072</b>	<b>28,658</b>	<b>29,546</b>
Paid up Capital	4,920	4,920	4,920
Revenue Reserve	8,984	9,961	10,491
Sponsor Loan	478	478	478
<b>Equity (excl. Revaluation Surplus)</b>	<b>14,382</b>	<b>14,729</b>	<b>15,888</b>
<b>Income Statement (PKR Millions)</b>	<b>FY24A</b>	<b>FY25A</b>	<b>1HFY26M</b>
Net Sales	41,694	42,302	22,733
Gross Profit	9,470	9,695	4,792
Operating Profit	5,568	5,394	2,587
Finance Costs	4,262	3,564	1,582
Profit Before Tax	1,306	1,830	1,006
<b>Profit After Tax</b>	<b>802</b>	<b>702</b>	<b>460</b>
<b>Ratio Analysis</b>	<b>FY24A</b>	<b>FY25A</b>	<b>1HFY26M</b>
Gross Margin	22.71%	22.92%	21.08%
Operating Margin	13.35%	12.75%	11.38%
Net Margin	1.92%	1.66%	2.02%
Funds from Operation (FFO) (PKR Millions)	3,122	3,106	1,301
FFO to Total Debt	16.20%	17.40%	12.70%
FFO to Long Term Debt	45.00%	57.20%	56.92%
Gearing (x)	1.34	1.21	1.29
Leverage (x)	1.88	1.95	1.86
Debt Servicing Coverage Ratio (x)	1.14	1.29	1.22
Current Ratio (x)	1.04	1.09	1.12
(Stock in trade + trade debts) / STD (x)	1.31	1.55	1.38
Return on Average Assets	1.60%	1.40%	1.72%
Return on Average Equity	5.80%	4.80%	6.01%
Cash Conversion Cycle (days)	101	108	130

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
	<b>RATING TYPE: ENTITY</b>				
	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
<b>RATING TYPE: Long Term Sukuk (SUKUK)</b>					
	03/07/2026	A+(plim)		Stable	Preliminary
<b>RATING TYPE: Sukuk (STS-2)</b>					
	15/05/2026		A1		Final
	16/03/2026		A1 (plm)		Preliminary

Instrument Structure	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	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	
Instrument Name:	Details	
Nature of Instrument	Sukuk-1	
Tenure of Instrument	6 years	
Size of the Issue	PKR 2,500m	
Principle Redemption Schedule	Principal shall be redeemed in twenty equal quarterly instalments. The first principal redemption shall fall due three months after lapse of grace period and subsequently every	

		three months thereafter, until full redemption of the Sukuk.								
	Interest Redemption Schedule	365/366-day basis.								
	Issue Date	TBD								
	Grace Period	1 year								
	Redemption Date	TBD								
	Nature of Security (in case of secured instrument)	First Pari Passu Hypothecation or Joint Pari Passu charge on all present & future Fixed Assets of the Company, including Equitable Mortgage of Land & Building, with a 25% margin, located at 02 KM, Sahianwala Road, Khurrianwala, Faisalabad First Pari Passu hypothecation charge over all present and future current Assets of the Company, with a 25% margin Lien and set-off rights in respect of relevant Project Accounts, including but not limited to the Finance Payment Account (FPA), Finance Service Reserve Account (FSRA), and Collection Account (CA).								
	Rating	A+								
	MLAAs	Askari Bank Limited ("AKBL"), The Bank of Punjab ("BOP"), JS Bank Limited ("JSBL"), Dubai Islamic Bank Pakistan Limited ("DIBPL"), Saudi Pak Industrial & Agricultural Investment Company Ltd ("SAPICO")								
<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>	<table border="1"> <thead> <tr> <th>Name</th> <th>Designation</th> <th>Date</th> </tr> </thead> <tbody> <tr> <td>Jasim Ayyub</td> <td>CFO</td> <td rowspan="2">14 May 2026</td> </tr> <tr> <td>Arslan Mohy-ud-din</td> <td>AGM Finance</td> </tr> </tbody> </table>	Name	Designation	Date	Jasim Ayyub	CFO	14 May 2026	Arslan Mohy-ud-din	AGM Finance	
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