SADAQAT LIMITED

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RATING DETAILS	
RATINGS CATEGORY	PRELIMINARY SUKUK RATING
INSTRUMENT (STS-III)	A1 (Plim)
RATING ACTION	Preliminary
RATING DATE	SEPTEMBER 09, 2026

Shareholding (5% or More)	Other Information
Hamid Mukhtar ~ 24.6%	Incorporated in 1987
Awais Mukhtar ~ 24.6%	Public Limited Company (Unlisted)
Shoaib Mukhtar ~ 24.6%	Chairman: Sheikh Mukhtar Ahmed
Khurram Mukhtar ~14.6%	Chief Executive Officer: Khurram Mukhtar
Hamza Mukhtar ~ 10.0%	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-2026/IRM-2026.pdf

Rating Scale

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

Rating Rationale

The rating of the proposed instrument considers the underlying security structure and the entity's credit profile. The assigned rating reflects Sadaqat Limited's established position in the vertically integrated textile sector, experienced management team, strong export franchise, and long-standing relationships with leading international retailers. The Company's predominantly export-oriented business model, with exports contributing 94.4% of sales, together with increasing traction in the US market, provides a degree of geographic diversification. Despite a challenging operating environment and shipment disruptions arising from the Middle East situation, revenues remained resilient, while profitability showed modest recovery, supported in part by lower financial charges. Capitalization has strengthened over the past five years, although the leverage profile remains elevated. Working capital metrics moderated during FY26, while debt-servicing capacity remained adequate. Going forward, the rating will remain sensitive to sustained improvement in revenues and profitability, prudent management of working capital, and maintenance of adequate liquidity buffers.

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.

Proposed Short Term Sukuk III

Sadaqat Limited ('SL' or 'the Company') plans to raise a secured, privately placed debt instrument, Short-term Sukuk 3 (STS-3), amounting to Rs. 2,000m (inclusive of Rs. 750m green shoe option). The tenure will be six months, and the funds will be utilized to fulfilling the Company's working capital requirements related to funding export orders. The profit rate is yet to be finalized. Profit will be payable at the time of redemption of respective instrument on the outstanding principal amount. The principal will be redeemed as bullet payment six months after the Issue Date.

The instrument is secured by way of the following security structure:

- Ranking charge over Company's current assets with 25% margin
- Lien on cash equivalent security covering up to 5%* of the issue amount
- Lien over export document
- 5% upfront DPA (debt payment account) from the proceeds of disbursement, DPA for 95% in last month on an equal weekly basis and to be fully funded 10 days before maturity

Outstanding Sukuk table	Rating	Issuance date	Maturity date	Latest rating date/action
STS-2	A1	18-Mar-26	18-Sep-26*	15-May-26/Final
Sukuk-1	A+	TBD	TBD	03-Jul-26/Preliminary

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, appear as a category 'A' rated auditor. They issued unqualified audit opinions for FY25 indicating no significant issues with the Company's financial statements.

Business Risk

INDUSTRY

In FY26, Pakistan's cotton sector remained under strain. Despite a target of 10.2 million bales, actual production is estimated at only 6.85 million bales as cultivation missed targets by 11.5%. In FY26, Pakistan's cotton cultivation area stagnated at approximately 2.01 million hectares, missing official sowing targets by about 11.5%. Although yields showed a marginal 1.1% recovery to 0.76 MT/ha (763 kg/ha), overall production is estimated at around 6.85 to 7.1 million bales. This output remains nearly 31% below the government's 10.2–10.3 million bale targets, keeping overall factory arrivals constrained. However, this modest crop recovery allowed raw cotton imports to decline ~43% YoY as mill inventories stabilized. Textile export growth remained effectively stagnant in FY26, edging up by just 0.26% YoY as high energy tariffs, uncompetitive manufacturing costs, and sluggish global demand weighed on the sector. Performance was uneven: readymade garments grew 3.9% and cotton yarn rebounded 12.4%, but key segments like knitwear, towels, and cotton cloth contracted.

Looking ahead, mid-single-digit export growth could be unlocked by anticipated interest rate cuts, stabilized currency conditions, and inventory restocking in Western markets led by garment exporters. However, prohibitive electricity tariffs will continue to squeeze operating margins for upstream yarn and fabric producers, while improved local harvests should keep raw material import requirements in check.

PRODUCTION PROFILE

Property, Plant, and Equipment (PPE) expanded significantly to PKR 43b at end-FY26 (end-FY25: PKR 29b), primarily driven by total non-cash revaluation gain of PKR 15b in freehold land, buildings, and plant machinery. Operational capacity remained unchanged in FY26. To enhance operational efficiency, the Company installed three high-end, multi-head embroidery machines, driving higher production speeds and reduced unit costs. Capital expenditure for FY26 totaled PKR 416.4m (FY25: PKR 567.9m), deployed primarily toward the procurement and installation of this equipment.

SALES & PROFITABILITY

The Company's net sales have continued to grow gradually, reaching PKR 43.2b in FY26 (FY25: PKR 42.3b; FY24: PKR 41.6b), supported by steady underlying demand. Exports remained the core revenue driver, accounting for 94.4% of sales in both FY25 and FY26. Geographically, SL is increasingly pivoting toward the United States market. However, FY26 performance was impacted by the Middle East crisis, with disruptions resulting in certain planned shipments not materializing during the year. While the majority of revenue remains concentrated in Europe, revised trade and tariff dynamics under the Trump administration improved the Company's relative competitiveness against competing region suppliers in the US market. Traction in US sales is underscored by major supply contracts with major US retailers like JC Penney. However, customer concentration risks remain pronounced, with the top 10 clients generating approximately 80% of total sales across FY24–FY26. However, this risk is hedged by entrenched, long-standing relationships with high-volume global retailers, including Primark, Asda Stores, and Target, providing revenue visibility and baseline offtake stability. Gross profit margins demonstrated stability across FY24–FY26, consolidating at 22.7%. Meanwhile, net margin recovered slightly and reached 2.0% in FY26 from 1.7% in FY25 (FY24: 1.9%), primarily driven by reduced financial charges. Orders in hand for the next 6 months amount to PKR 34.4b (USD 126.2m) and the execution of which during the ongoing year remains key for credit profile. Going forward, sustained expansion in revenues and profitability will remain important for ratings.

Financial Risk

CAPITAL STRUCTURE

The Company's capitalization profile has improved over the past five years, with gearing and leverage declining from 1.97x and 2.59x in FY22 to 1.25x and 1.94x, respectively, by FY26. While leverage remains relatively elevated, the improvement reflects gradual strengthening in the equity base, partly aided by remeasurement arising from the revaluation of property, plant and equipment, in addition to earnings retention. Equity increased to PKR 17.2b at end-FY26 from PKR 15.3b at end-FY25, supported by retained earnings as well as the annual transfer of incremental depreciation on revalued PPE from the revaluation surplus to retained earnings. The debt profile has also shifted increasingly toward short-term borrowings, which represented 81% of total debt at end-FY26 (FY25: 70%; FY24: 64%), although long-term facilities continue to support recent capital expenditure. Going forward, upcoming Sukuk issuances may result in a temporary increase in gearing; however, leverage is expected to remain broadly stable, with the Company's capitalization profile continuing to benefit from internal equity generation.

DEBT COVERAGE & LIQUIDITY

Funds Flow from Operations (FFO) decreased to Rs. 2.43b in FY26 (FY25: Rs. 3.06b), impacted by a one-off income tax payment triggered by an upward revaluation of Property, Plant, and Equipment (PPE). This temporary tax outlay squeezed key leverage and coverage metrics, reducing the Debt Service Coverage Ratio (DSCR) to 1.18x (FY25: 1.28x) and FFO-to-Debt coverage to 11.4% (FY25: 17.1%). Management expects debt coverage ratios to recover in FY27 as FFO normalizes.

SL managed to keep a stable current ratio above 1.05x, though a widening cash conversion cycle (FY26: 150 days, FY25: 131 days, FY24: 110 days) reflected sluggish inventory turnover and delayed receivable collections. Stock-in-trade and trade debts to short-term debt coverage also weakened to 1.11x (end-FY25: 1.44x) at end-FY26. Looking ahead, prudent working capital deployment and maintaining liquidity buffers, will remain important for ratings.

FINANCIAL SUMMARY				
BALANCE SHEET (PKR in millions)	**FY24 (A)**	**FY25 (A)**	**FY26 (M)**	**FY27 (P)**
Property, plant and equipment	30,690.2	29,247.3	42,677.2	40,784.9
Stock-in-Trade	7,783.2	9,122.1	9,774.6	10,067.9
Trade Debts	7,123.2	8,759.9	9,688.4	9,979.1
Cash & Bank Balances	163.0	326.9	322.2	338.3
Other assets	4,942.2	5,180.2	5,227.8	5,381.0
Total Assets	**50,701.7**	**52,636.4**	**67,690.4**	**66,551.2**
Trade Creditors	2,219.9	3,499.6	2,214.9	4,398.8
Long Term Debt (incl. current maturity)	6,944.9	5,430.9	3,988.5	5,096.5
Short Term Debt	12,354.0	12,451.1	17,459.2	18,865.9
Total Debt	**19,299.0**	**17,882.0**	**21,447.7**	**23,962.4**
Other liabilities	5,552.7	6,923.4	9,767.4	6,165.4
Total Liabilities	**27,071.6**	**28,304.9**	**33,430.0**	**34,526.6**
Paid Up Capital	4,920.0	4,920.0	4,920.0	4,920.0
Unappropriated Profit	8,984.3	9,961.0	11,817.1	12,991.1
Core Equity	**14,381.8**	**15,358.5**	**17,214.6**	**18,388.6**
Total Equity	**23,629.8**	**24,331.8**	**34,260.1**	**32,025.0**
INCOME STATEMENT (PKR in millions)	**FY24 (A)**	**FY25 (A)**	**FY26 (M)**	**FY27 (P)**
Net Sales	41,694.2	42,301.6	43,285.5	48,912.6
Gross Profit	9,470.0	9,695.3	9,775.2	10,858.6
Operating Profit	5,568.0	5,292.0	5,340.9	5,747.6
Finance Cost	4,262.3	3,564.2	3,145.3	3,465.1
Profit Before Tax	1,305.9	1,829.8	2,220.6	2,282.5
Profit After Tax	**802.3**	**701.9**	**853.9**	**1,174.0**
RATIO ANALYSIS	**FY24 (A)**	**FY25 (A)**	**FY26 (M)**	**FY27 (P)**
Gross Margin (%)	22.7%	22.9%	22.6%	22.2%
Operating Margin (%)	13.4%	12.5%	12.3%	11.8%
Net Margin (%)	1.9%	1.7%	2.0%	2.4%
Net Working Capital	688.8	2,192.2	299.1	1,012.7
Trade debts/Sales	17.1%	20.7%	22.4%	20.4%
Current Ratio (x)	1.04	1.11	1.01	1.04
Cash Conversion Cycle (days)	110	131	150	137
Funds from Operations (PKR in millions)	3,067.5	3,063.1	2,435.2	2,829.4
FFO to Total Debt (%)	15.9%	17.1%	11.4%	11.8%
FFO to Long Term Debt (%)	44.2%	56.4%	61.1%	55.5%
Debt Servicing Coverage Ratio (x)	1.13	1.28	1.18	1.56
(Stock in Trade+Trade Debts)/STD (x)	1.21	1.44	1.11	1.06
Gearing (x)	1.34	1.16	1.25	1.30
Leverage (x)	1.88	1.84	1.94	1.88
ROAA (%)	1.6%	1.4%	1.4%	1.7%
ROAE (%)	5.8%	4.7%	5.2%	6.6%

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	Sukuk Ratings

Rating History

Rating Date	Medium to Long-term	Short Term	Rating Outlook/Watch	Rating Action
March 6, 2026	A	A2	Stable	Reaffirmed
December 19, 2024	A	A2	Stable	Reaffirmed
October 10, 2023	A	A2	Stable	Reaffirmed
June 22, 2022	A	A2	Stable	Maintained
June 24, 2021	A	A2	Positive	Maintained
April 15, 2020	A	A2	RW - Negative	Maintained
RATING TYPE: Short-term Sukuk 3 (STS-3)				
September 09, 2026		**A1 (plim)**		**Preliminary**
RATING TYPE: Long-term Sukuk (Sukuk 1)				
July 3, 2026	A+ (plim)		Stable	Preliminary
RATING TYPE: Short-term Sukuk-2 (STS-2)				
May 15, 2026		A1		Final
March 16, 2026		A1 (plim)		Preliminary

Instrument Structure

Instrument Name	STS-3
Nature of Instruments	Short-term Sukuk
Tenure of Instrument	6 months
Size of the Issue	PKR 2,000m (inclusive of PKR 750m green shoe option)
Principle Redemption Schedule	Bullet
Interest Redemption Schedule	365/366-day basis.
Nature of Security/Credit Enhancement	Ranking charge over Company's current assets with 25% margin Lien on cash equivalent security covering up to 5%* of the issue amount Lien over export document 5% upfront DPA (debt payment account) from the proceeds of disbursement, DPA for 95% in last month on an equal weekly basis and to be fully funded 10 days before maturity
Rate	Yet to be finalized
Lead Arranger Bank	Askari Bank Limited

Instrument Name	STS-2
Nature of Instruments	Short-term Sukuk
Tenure of Instrument	6 months
Size of the Issue	PKR 2,500m (inclusive of PKR 1,000m green shoe option)
Principle Redemption Schedule	Bullet
Interest Redemption Schedule	365/366-day basis.
Issue Date	March 18, 2026
Grace Period	-

Redemption Date	September 18, 2026
Nature of Security/Credit Enhancement	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
Rate	6M KIBOR + 1.35%
Name of Trustee	Pak Oman Investment Company

Instrument Name	Sukuk-1
Nature of Instruments	Long-term Sukuk
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/Credit Enhancement	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+
Rate	Yet to be finalized
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")

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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Due Diligence Meetings Conducted	Name	Designation	Date
	Jasim Ayub	CFO	01-Sep-2026