

## Sadaqat Limited (SL)

**REPORT DATE:**

January 08, 2016

**RATING ANALYSTS:**

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### RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
<b>Entity</b>	A-	A-2	A-	A-2
<b>Rating Date</b>	31 Dec' 15		01 Jan'15	
<b>Rating Outlook</b>	Stable		Stable	
<b>Outlook Date</b>	31 Dec' 15		01 Jan'15	

### COMPANY INFORMATION

<b>Incorporated in 1987</b>	<b>External auditors:</b> M/s. Kreston Hyder Bhimji & Company
<b>Public Limited Company</b>	<b>Chairman:</b> Mr. Mukhtar Ahmed
<b>Key Shareholders (with stake 5% or more):</b>	<b>Chief Executive Officer:</b> Mr. Khurram Mukhtar
Mian Khurram Mukhtar – 24.62%	
Mian Hamid Mukhtar - 24.62%	
Mr. Awais Mukhtar - 24.62%	
Mr. Shoaib Mukhtar - 24.62%	

### APPLICABLE METHODOLOGY(IES)

JCR-VIS Entity Rating Criteria *Industrial Corporate (Oct 2003)*<http://www.jcrvis.com.pk/images/IndustrialCorp.pdf>

## Sadaqat Limited

### OVERVIEW OF THE INSTITUTION

Sadaqat Limited was incorporated in Pakistan initially as a private limited company in 1987 under the Companies Ordinance. Subsequently in 2008 it was changed into a public limited company. The company is engaged in manufacturing and sale of fabric and home textile products. The manufacturing units and head office of the company is located in Faisalabad.

### RATING RATIONALE

Ratings assigned to Sadaqat Limited (SL) take into account its prominent position in the value added segment and home textile. The ratings also take into account company's stable revenues, adequate coverages and long term association with its customer base involving internationally recognized brands. Leverage indicators have also improved owing to issuance of rights shares during the outgoing year.

The revenues of the company have remained fairly stable with sales amounting to Rs. 9.2b during FY15 (FY14: Rs. 10.2b). Given focus of SL on value addition, revenue is mainly export driven. Concentration in the revenue mix remains high with top ten customers representing 72% (80%) of total sales. Gross margins of the company reduced to 15.8% during FY15 (FY14: 18.6%) on account of lower average selling price and volumetric reduction in sales. While benchmark rates decline, finance cost increased on account of higher average borrowing. With decline in gross margins, bottom line of the company reduced to Rs. 234.3m during FY15 (FY14: Rs. 330.7m). In the next five years, sales of the company are projected to grow at a compound annual growth rate of 11%. Gross margins are expected to largely sustain while improved revenues would positively reflect on the bottom line and cashflows of the company.

In the recent years, the management focus has remained on upgrading production facilities in order to achieve higher operational efficiency. The management has installed Texpa machine and digital printing machine to further optimize production facilities. Funding from the upcoming CAPEX is projected to be arranged mainly through external sources. Other future plans include setting up a power plant and vertical integration into retail segment; timeline for these projects is yet to be finalized.

Total debt increased to Rs. 4.2b at end-FY15 (FY14: Rs. 3.98) on account of increase in short term borrowings. The company plans to raise Rs. 625m long term loan to install latest machines. At current debt levels, principal payments due in the on-going year are expected to be met by the internal cash generation. Efficiency enhancements from the planned capex are likely to strengthen company's cash flows to meet debt servicing requirements over the medium to long term.

With lower profitability, Funds from operations (FFO) declined to Rs. 477.4m (FY14: Rs. 539.5m). As a result FFO to total debt declined to 0.11x (FY14: 0.14x). Tier-1 equity increased to Rs. 3.2b (FY14: Rs. 2.7b) by end-FY15 on account of profit retention and issuance of right shares amounting to Rs. 250m. Resultantly, gearing and leverage improved to 1.31x (FY14: 1.5x) and 1.6x (FY14: 1.7) at end FY15.

SL plans to implement Oracle E-Business Suite has witnessed delays; the same is now planned for the ongoing year. The new system is expected to strengthen the MIS and will assist the management in informed decision making. A corporate planning and control unit was set up during FY15 which is headed by the CFO and director strategic planning.

**Sadaqat Limited****Appendix I**

Name	Designation	Qualification	Profile
Osman Mukhtar	General Manager – HR/Admin/Compliance	Masters in HR-CIPD	He carries more than 15 years of international experience in various sectors
Irfan Amir	General Manager – Finance	MBA in Banking and Finance	Mr. Amir has served in the banking industry for more than 12 years
Muhammad Naeem Haider	General Manager – Audit	FCMA	Mr. Haider carries 21 years experience of textile sector

## Sadaqat Limited

## Appendix II

<b>FINANCIAL SUMMARY</b> <i>(amounts in PKR millions)</i>			
<b><u>BALANCE SHEET</u></b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014</b>	<b>JUN 30,2013</b>
Fixed Assets	5228.8	3438.1	3133.3
Stock-in-Trade	1915.2	2296.6	1994.7
Trade Debts	1392.2	1156.7	1117.2
Cash & Bank Balances	73.8	66.8	46.7
Total Assets	9587.0	7995.3	6982.7
Trade and Other Payables	792.8	666.2	940.7
Long Term Debt	1353.	1586.83	439.3
Short Term Debt	2876.3	2390.9	2598.8
Total Equity	4516.7	3283.3	2952.7
<b><u>INCOME STATEMENT</u></b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014</b>	<b>JUN 30,2013</b>
Net Sales	9196.6	10249.0	9098.9
Gross Profit	1456.6	1908.7	1831.1
Operating Profit	296.4	411.9	373.0
Profit After Tax	234.3	330.7	310.6
<b><u>RATIO ANALYSIS</u></b>	<b>JUN 30, 2015</b>	<b>JUN 30, 2014</b>	<b>JUN 30,2013</b>
Gross Margin (%)	15.8%	18.6%	20.1%
Net Working Capital	246.5	1204.2	92.9
FFO to Total Debt (x)	0.11	0.14	0.16
FFO to Long Term Debt (x)	0.35	0.34	1.1
Debt Servicing Coverage Ratio (x)	1.4	2.1	2.0
ROAA (%)	2.6%	4.4%	4.8%
ROAE (%)	7.9%	13.0%	14.2%

**ISSUE/ISSUER RATING SCALE & DEFINITIONS**

**Appendix III**

Medium to Long-Term

**AAA**

Highest credit quality; the risk factors are negligible, being only slightly more than for risk-free Government of Pakistan's debt.

**AA+, AA, AA-**

High credit quality; Protection factors are strong. Risk is modest but may vary slightly from time to time because of economic conditions.

**A+, A, A-**

Good credit quality; Protection factors are adequate. Risk factors may vary with possible changes in the economy.

**BBB+, BBB, BBB-**

Adequate credit quality; Protection factors are reasonable and sufficient. Risk factors are considered variable if changes occur in the economy.

**BB+, BB, BB-**

Obligations deemed likely to be met. Protection factors are capable of weakening if changes occur in the economy. Overall quality may move up or down frequently within this category.

**B+, B, B-**

Obligations deemed less likely to be met. Protection factors are capable of fluctuating widely if changes occur in the economy. Overall quality may move up or down frequently within this category or into higher or lower rating grade.

**CCC**

Considerable uncertainty exists towards meeting the obligations. Protection factors are scarce and risk may be substantial.

**CC**

A high default risk

**C**

A very high default risk

**D**

Defaulted obligations

Short-Term

**A-1+**

Highest certainty of timely payment; Short-term liquidity, including internal operating factors and /or access to alternative sources of funds, is outstanding and safety is just below risk free Government of Pakistan's short-term obligations.

**A-1**

High certainty of timely payment; Liquidity factors are excellent and supported by good fundamental protection factors. Risk factors are minor.

**A-2**

Good certainty of timely payment. Liquidity factors and company fundamentals are sound. Access to capital markets is good. Risk factors are small.

**A-3**

Satisfactory liquidity and other protection factors qualify entities / issues as to investment grade. Risk factors are larger and subject to more variation. Nevertheless, timely payment is expected.

**B**

Speculative investment characteristics; Liquidity may not be sufficient to ensure timely payment of obligations.

**C**

Capacity for timely payment of obligations is doubtful.

**Rating Watch:** JCR-VIS places entities and issues on 'Rating Watch' when it deems that there are conditions present that necessitate re-evaluation of the assigned rating(s). Refer to our 'Criteria for Rating Watch' for details. [www.jcrvis.com.pk/images/criteria\\_watch.pdf](http://www.jcrvis.com.pk/images/criteria_watch.pdf)

**Rating Outlooks:** The three outlooks 'Positive', 'Stable' and 'Negative' qualify the potential direction of the assigned rating(s). An outlook is not necessarily a precursor of a rating change. Refer to our 'Criteria for Rating Outlook' for details. [www.jcrvis.com.pk/images/criteria\\_outlook.pdf](http://www.jcrvis.com.pk/images/criteria_outlook.pdf)

**(SO) Rating:** A suffix (SO) is added to the ratings of 'structured' securities where the servicing of debt and related obligations is backed by some sort of financial assets and/or credit support from a third party to the transaction. The suffix (SO), abbreviated for 'structured obligation', denotes that the rating has been achieved on grounds of the structure backing the transaction that enhanced the credit quality of the securities

and not on the basis of the credit quality of the issuing entity alone.

**'p' Rating:** A 'p' rating is assigned to entities, where the management has not requested a rating, however, agrees to provide informational support. A 'p' rating is shown with a 'p' subscript and is publicly disclosed. It is not modified by a plus (+) or a minus (-) sign which indicates relative standing within a rating category. Outlook is not assigned to these ratings. Refer to our 'Policy for Private Ratings' for details. [www.jcrvis.com.pk/images/policy\\_ratings.pdf](http://www.jcrvis.com.pk/images/policy_ratings.pdf)

**'SD' Rating:** An 'SD' rating is assigned when JCR-VIS believes that the ratee has selectively defaulted on a specific issue or obligation but it will continue to meet its payment obligations on other issues or obligations in a timely manner.

REGULATORY DISCLOSURES				Appendix IV	
<b>Name of Rated Entity</b>	Sadaqat Limited				
<b>Sector</b>	Textile				
<b>Type of Relationship</b>	Solicited				
<b>Purpose of Rating</b>	Entity Rating				
<b>Rating History</b>	<b>Rating Date</b>	<b>Medium to Long Term</b>	<b>Short Term</b>	<b>Rating Outlook</b>	<b>Rating Action</b>
	<b><u>RATING TYPE: ENTITY</u></b>				
	12/31/2015	A-	A-2	Stable	Reaffirmed
	01/01/2015	A-	A-2	Stable	Reaffirmed
	04/23/2013	A-	A-2	Stable	Reaffirmed
3/16/2012	A-	A-2	Stable	Reaffirmed	
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