

RATING REPORT

Sadaqat Limited (SL)

REPORT DATE:

February 23, 2018

RATING ANALYSTS:

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RATING DETAILS

Rating Category	Latest Rating		Previous Rating	
	Long-term	Short-term	Long-term	Short-term
Entity	A	A-2	A	A-2
Rating Date	23 Feb'18		27 Dec' 16	
Rating Outlook	Stable		Stable	
Outlook Date	23 Feb'18		27 Dec' 16	

COMPANY INFORMATION

Incorporated in 1987	External auditors: EY Ford Rhodes Chartered Accountants
Public Limited Company	Chairman: Mr. Mukhtar Ahmed
Key Shareholders (with stake 5% or more):	Chief Executive Officer: Mr. Khurram Mukhtar
Mr. Khurram Mukhtar- 24.6%	
Mr. Hamid Mukhtar- 24.6%	
Mr. Awais Mukhtar- 24.6%	
Mr. Shoaib Mukhtar- 24.6%	

APPLICABLE METHODOLOGY

Rating Methodology: Industrial Corporate (May 2016)

<http://www.jcrvis.com.pk/kc-meth.aspx>

Sadaqat Limited

OVERVIEW OF THE INSTITUTION

Sadaqat Limited was incorporated initially as a private limited company in 1987 under the Companies Ordinance. Subsequently in 2008, it was converted into a public unlisted company. The company is engaged in the manufacturing and sale of home textile and value added products. The manufacturing unit and head office of the company is located in Faisalabad.

Profile of Chairman

Mr. Sheikh Mukhtar Ahmed is the Chairman of Sadaqat Limited. Mr. Mukhtar Ahmed has almost 46 years of experience in the field of textile.

Profile of CEO

Mr. Khurram Mukhtar holds the position of CEO. Mr. Khurram Mukhtar is responsible for supervision of all divisions of the company.

Financial Snapshot

Equity: 1HFY18: Rs. 7,253.0m, FY17: Rs. 6,713.4m, FY16: Rs. 5,279.9m

Net Profit: 1HFY18: Rs. 539.6m, FY17: Rs. 468.8m, FY16- Rs. 763.2m

RATING RATIONALE

The ratings assigned to Sadaqat Limited (SL) take into account its prominent position in the value added niche and home textile. The ratings also incorporate company's largely maintained financial risk profile. While client-wise concentration remained high, the company long-term association with internationally renowned brands and its ability to add new clients on an ongoing basis, mitigate the associated risk to a certain extent.

Asset Mix

Asset base of the company stood higher at Rs. 14.80b (FY16: Rs. 11.24b) by end-FY17. The increase was mainly manifested in fixed assets, which increased on account of considerable capital expenditure (Rs. 2.09b) and adjustment due to revaluation surplus during the outgoing year. Stock in trade also stood higher at Rs. 2.88b (FY16: Rs. 2.04b) mainly due to bulk buying of raw material, predicting future growth in sales. Moreover, subsequent result of increase in stock in transit was witnessed due to change in accounting policies regarding sales recognition. Loans and advances to suppliers increased on account of bulk buying. Balances with statutory authorities increased mainly on account of duty drawback on taxes.

Profitability

Net revenue decreased slightly during FY17 mainly due to change in accounting policy regarding recognition of sales. Products prices remained mainly the same during the period under review. Revenue represented mostly export sales with a negligible portion of local sales. With higher depreciation charge along with some additional provisions in cost of sales, gross margin stood lower at 15.5% (FY16: 17.5%) during FY17. Finance cost decreased mainly on the back of low cost borrowing under central bank's special export program. With lower gross profit and slight increase in operating expenses margins, net profit declined to Rs. 469m (FY16: Rs. 763m). With additional capex primarily for improving operational efficiencies coming online, the company posted considerable increase in sales during 1HFY18. Net profit also stood higher at Rs. 540m. Over the next three years, SL's sales are projected to increase at a healthy compounded annual growth rate of around 19.3%.

Liquidity

With higher depreciation charge, Funds from Operations (FFO) of the company remained comfortable at Rs. 932.5m (FY16: Rs. 1.0b). With relatively lower FFO and higher level of borrowings, FFO to total debt decreased to 0.15x (FY16: 0.21x) The company maintains healthy debt service coverage ratio, which stood at 2.53x (FY17: 1.79x; FY16: 2.20x) at end-1HFY18. Trade debts include Rs. 29m due over one year that primarily represents amount dues from an associate company. Going forward, coverages are projected to remain at comfortable level.

Capitalization & Funding

The equity base stood higher on account of internal capital generation. Both long term and

short term loan increased in FY17; gearing increased marginally to 1.35x (FY16: 1.21x) by end-FY17. The company plans a capex of around Rs. 300-400m in FY19 for processing and circular knitting project, which is currently being outsourced. The capex is projected to be funded through a combination of equity and debt. With considerable increase in equity base, debt leverage is projected to decline, going forward.

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Technical Partner – IIRA, Bahrain | JV Partner – CRISL, Bangladesh

Sadaqat Limited

Appendix 1

BALANCE SHEET	31-Dec-17	30-Jun-17	30-Jun-16
Fixed Assets	8,340	8,414	5,856
Stock-in-Trade	3,088	2,879	2,044
Trade Debts	2,324	1,600	1,861
Loans & Advances	400	469	38
Balances with Statutory Authority	725	446	149
Tax Refund Due From The Government	650	606	663
Cash & Bank Balances	150	108	111
Other Assets	367	288	525
Total Assets	16,044	14,810	11,247
Trade and Other Payables	2,065	1,758	974
Long Term Debt (<i>*incl. current maturity</i>)	1,440	1,565	1,185
Short Term Debt	5,161	4,638	3,734
Other Liabilities	125	135	74
Tier-1 Equity	5,150	4,571	4,053
Surplus on Revaluation of Operating Fixed Assets	2,103	2,143	1,227
INCOME STATEMENT	31-Dec-17	30-Jun-17	30-Jun-16
Net Sales	7,659	10,893	11,420
Gross Profit	1,347	1,683	1,998
Operating Expenses	583	918	873
Other Income	105	150	166
Operating Profit	871	915	1,291
Financial Costs	262	396	459
Profit After Tax	540	469	763

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<u>RATIO ANALYSIS</u>	31-Dec-17	30-Jun-17	30-Jun-16
Gross Margin (%)	17.6	15.5	17.5
Net Working Capital	-82	-547	219
FFO to Total Debt (x)	0.23	0.15	0.21
FFO to Long Term Debt (x)	1.06	0.60	0.87
Debt Servicing Coverage Ratio (x)	2.53	1.79	2.20
Gearing	1.28	1.36	1.21
Debt Leverage	1.71	1.77	1.47
ROAA (%)	7.0	3.6	7.3
ROAE (%)	22.2	10.9	20.9

ISSUE/ISSUER RATING SCALE & DEFINITIONS

Appendix II

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

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

(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

'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.

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REGULATORY DISCLOSURES				Appendix III	
Name of Rated Entity	Sadaqat Limited				
Sector	Textile				
Type of Relationship	Solicited				
Purpose of Rating	Entity Rating				
Rating History	Rating Date	Medium to Long Term	Short Term	Rating Outlook	Rating Action
	RATING TYPE: ENTITY				
	02/23/2018	A	A-2	Stable	Reaffirmed
	12/27/2016	A	A-2	Stable	Upgrade
	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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