JCR-ER JCR Eurasia Rating
"JCR-ER, Group of Japan Credit Rating Agency, Ltd." JCR

EREGLi TEKSTiL

Corporate Credit & Issue Rating

☐New ☒Update

Sector: Textile, Tractor
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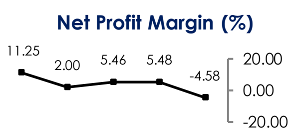
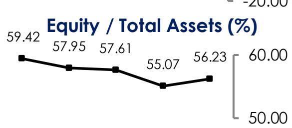
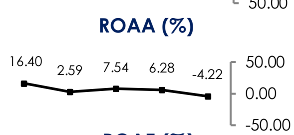
RATINGS

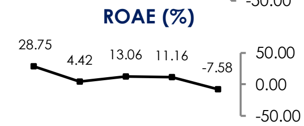
			Long	Short
International	Foreign C		BBB-	A-3
	Local C		BBB-	A-3
	Outlook	FC	Stable	Stable
		LC	Stable	Stable
	Issue Rating		-	-
National	Local Rating		BBB(Trk)	A-3(Trk)
	Outlook		Stable	Stable
	Issue Rating		BBB(Trk)	A-3(Trk)
Sponsor Support			2	-
Stand-Alone			B	-
Sovereign*	Foreign C		BBB-	-
	Local C		BBB-	-
	Outlook	FC	Stable	-
		LC	Stable	-

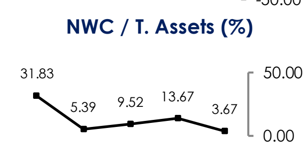
*Affirmed by JCR on November 10, 2017

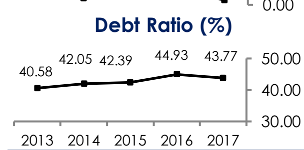












Ereğli Tekstil Turizm San. ve Tic. A.Ş. and Its Subsidiaries

Company Overview

Financial Data	2017*	2016*	2015*	2014*	2013*
Total Assets (000 USD)	204,777	170,819	170,633	188,089	196,982
Total Assets (000 TRY)	780,281	601,148	496,134	436,160	420,418
Equity (000 TRY)	438,782	331,076	285,811	252,759	249,824
Net Profit (000 TRY)	-26,513	27,537	25,982	8,742	51,270
Sales (000 TRY)	578,573	502,453	476,156	436,355	455,860
Net Profit Margin (%)	-4.58	5.48	5.46	2.00	11.25
ROAA (%)	-4.22	6.28	7.54	2.59	16.40
ROAE (%)	-7.58	11.16	13.06	4.42	28.75
Equity / Total Assets (%)	56.23	55.07	57.61	57.95	59.42
Net Working Capital / T. Assets (%)	3.67	13.67	9.52	5.39	31.83
Debt Ratio (%)	43.77	44.93	42.39	42.05	40.58
Asset Growth Rate (%)	29.80	21.17	13.75	3.74	9.11

* Audited financial statements

Operating in the textile sector, **'Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş.'** (herein referred to as 'Ereğli Tekstil', 'the Company', or 'the Group') was founded in 1937 by Sümerbank and purchased by the Albayrak Group in 1997. The Group mainly operates in the production and sale of tractors and all kinds of fabrics, fabric dyeing services, and the manufacturing and sales services of textile and garment products through its subsidiaries and affiliates.

Albayrak Turizm Seyahat İnşaat Ticaret A.Ş., controlled by members of the Albayrak Family, is the main shareholder of Ereğli Tekstil, holding 45% of shares. Following the recent takeover of 40% of Trabzon Liman Isletmeleri A.Ş. and 42% of Varaka Kağıt, Eregli Tekstil has two investments valued by equity method. The subsidiary Tümosan Motor, producing diesel engine cars under its own brand, held the largest share in the consolidated structure of Ereğli Tekstil in terms of assets, sales, generated profit, and resources. The Group is headquartered in İstanbul and operates in fully integrated high-tech plants with a consolidated staff force of 568 as of FYE2017. Ereğli Tekstil is a significant provider of clothing to the Turkish Armed Forces.

Strengths

- Strong brand value both in national and international markets thanks to Tümosan Motor activities and its weighted share in the Group's consolidated structure in terms of the assets, sales, and generated profit
- Diversity of operational fields through recently acquired affiliates and expected positive contribution to the Company balance sheet
- Inclusion of Varaka Kağıt's shares on the balance sheet on behalf of its existing receivables from Albayrak Inşaat leading a drop in due from related parties despite ongoing transactions
- Tümosan Motor's human resources and know-how, contributing to the expansion of the Group's operating field via on-going investments
- Increasing utilization of marketable securities creating fund diversification to be maintained in the on-going financial year
- Broad experience of Albayrak Group and financial and operational support to the Company
- Reduction of transport and cargo expenses in the tractor field via an expanding dealer structure providing customer satisfaction
- Proactive efficiency management by the separation and authorization of the sales and marketing departments and focusing of profitable product lines such as high profit margin spare parts and online orders

Constraints

- Significantly increased research and development expenses covering the cancellation of the Power Group Development Project, pressuring on profitability
- Insufficient internal profitability generation capacity to support the Group's equity
- Inadequate level of gross revenue resulting from the high cost of sales level, FX increase in imported raw materials and taxes
- High appraisal surpluses largely dominated in Company balance sheet not contributed in cash inflows
- Augmented financial costs due to interest payments for bank loans and bond issuances
- Possible pressure on resource reduction from the distribution of accumulated retained earnings in consequence of the non-inclusion of an important portion of the capital resources and low paid-in capital compared to asset size
- Slowdown in textile facilities due to the non-opening new tenders depending on a single textile customer leading a business risk concentration
- Growing perception of pressure in the markets through risks arising from the current social unrest, political instability on economic influences and global environment and pressure in sales revenue due to seasonal fluctuations and pricing strategies

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