

Corporate Credit & Issue Rating

New Update

Sector: Textile & Tractor

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Senior Analyst

Merve HAYAT

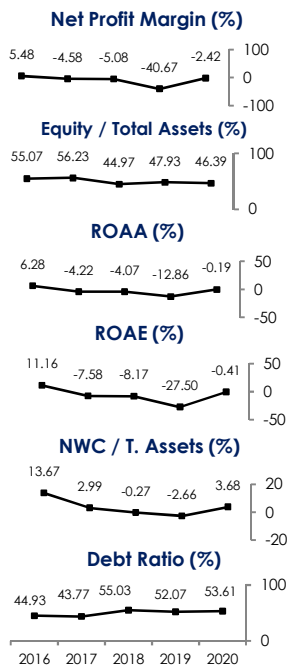
+90 212 352 56 73

merve.hayat@jcrer.com.tr

RATINGS

		Long Term	Short Term
National	Local Rating	BBB (Trk)	A-3 (Trk)
	Outlook	Stable	Stable
	Issue Rating	BBB (Trk)	A-3 (Trk)
International	Foreign Currency	BB	B
	Local Currency	BB	B
	Outlook	FC Negative LC Negative	Negative Negative
Sovereign	Sponsor Support	2	-
	Stand-Alone	B	-
	Foreign	BB+	-
Sovereign	Local Currency	BB+	-
	Outlook	FC Negative LC Negative	- -

*Assigned by JCR on April 10, 2020



EREĞLİ TEKSTİL TURİZM SANAYİ VE TİCARET A.Ş.

JCR Eurasia Rating evaluated the consolidated structure of “Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş.” in an investment-grade category and affirmed the ratings of the Long Term National Scale as “BBB(Trk)” and “A-3 (Trk)” on the Short-Term National Scale with ‘Stable’ outlooks. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as ‘BB/Negative’.

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, 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 with a share of 45%. Ereğli Tekstil has two investments valued by equity method namely Trabzon Liman İşletmeleri A.Ş. (33.03%) and Varaka Kağıt (31.5%), in addition to its subsidiary of Tümosan Motor. Tümosan Motor, the first diesel engine manufacturer in Turkey and produces diesel engine cars under its own brand, held the largest share in the consolidated structure of Ereğli Tekstil. The Group is headquartered in İstanbul and operated in fully integrated high-tech plants with a staff force of 578 as of FY2020.

Strengths	Constraints
<ul style="list-style-type: none"> In contrast to slowdown in agriculture sector in the previous years, improved sales and profitability figures of the Group thanks to positive contribution of the increasing demand for tractor with the financial incentives provided to the agricultural sector in 2020 Tümosan Motor’s weighted share in the Group’s consolidated structure and its strong brand awareness in both agriculture and defence sectors with its deep-rooted history and solid R&D capabilities Operating in a less affected sector by the Covid-19 pandemic compared to other sectors, supported with rise in sales and production amount Established track record of the Group and Group companies through diversified business activities Limited exposure of financial figures to currency fluctuations Diversified funding base through issued capital market instruments in addition to available bank loans 	<ul style="list-style-type: none"> Noteworthy need for paid-in capital increase and notably low level of paid in capital in compare to asset and equity size, continues its pressure on equity quality Despite an improvement still insufficient level of cash generation capacity to fulfil its opex, external dependency and interest expenses High contribution of non-cash re-valuation to expansion of asset size and equity As a locomotive company of the Group, pressure on asset quality due to continuity of high receivables from related parties, mainly from main shareholder In addition to rising financing expenses due to high dependency on external resources, the valuation loss from investment property valued by equity method continue to pressure the profit figures

Considering the aforementioned points, the Long-Term National Rating of Company’s has been affirmed as ‘BBB (Trk)’. Strong brand identity of Tümosan Motor through large nationwide number of dealers and sales points; the accumulated know-how and expansion of its operating field via on-going investments of Tümosan Motor; varied nationwide product range through continual investments and developing projects to compensate for the probable lost momentum in sales; augmenting related party transactions’ pressure on asset quality; high external dependency and the synthetic growth with revaluation increases; positive contribution of the recovery in tractor sectors to Company’s sales and production amounts underlying the assignment of the outlooks for the Long and Short-Term National Ratings with “Stable” outlooks. Besides low level of paid in capital in compare to asset and equity size, continues to be a pressuring issue on notes. The Group’s strategy of expansion of the Group’s operational areas and creation of a variety of products and markets; the improved effect of the Group’s ongoing investments in the field of Varaka Kağıt on net working capital via generated cash once the investments completed; activities in the field of textiles with new tenders; the prevalence and activity level of the epidemic Covid-19 virus and its effects on the global and Turkey’s economy and its slowing effects on the Group’s activities, and the probability of realization relating to the Company’s future growth plan; and generation of internal resources and cash flows to meet debt payments are all factors that will continue to be monitored by JCR Eurasia Rating.

No separate rating report has been compiled as the resources obtained from the bond issue will be carried in the Company’s balance sheet and has been subject to analysis in the corporate credit rating report. The planned bond issue carries no difference in comparison to the Company’s other liabilities with respect to its legal standing and collateralization. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments.

Taking into consideration the publicly traded shares of the Group’s main subsidiary Tümosan Motor and the track-record in various sectors, investments, and activities of the main shareholders, Albayrak Turizm Sey. İnş. Tic. A.Ş. and the Albayrak Family, despite the non-change notably low paid-in capital structure for years, the Company’s Sponsor Support grade has been determined as (2).

Taking into account the Company’s brand and market awareness, competitive advantage from providing sales to a large number of customers with expanding dealer network, and internal equity generation capacity in mid and long term supported by high sales volume of Group’s recent investments, we, as JCR Eurasia Rating, are of the opinion that Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş. has reached the level of adequate experience and facilities to manage the incurred risks on its balance sheet regardless of any assistance from the shareholders, provided that it improves its current customer level, efficiency, and existing macroeconomic level in the market. Within this context, the Stand Alone grade of the Company has been determined as (B) in the JCR Eurasia Rating notation system, indicating an adequate level.