

Corporate Credit & Issue Rating

New Update

Sector: Textile Manufacturing

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R A T I N G S		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	BBB (tr)	J2 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	J3
	International FC ICR Outlooks	Stable	Stable
	International LC ICR	BB	J3
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Stable	Stable
	National ISR	-	J2 (tr)
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB (Stable)	-
	Local Currency	BB (Stable)	-

* Assigned by JCR on May 31, 2021

Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating, has evaluated the 'Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş.' in the investment-level category and affirmed the Long-Term National Issuer Credit Rating as 'BBB (tr)' and the Short-Term National Issuer Credit Rating at 'J2 (tr)' with 'Stable' outlooks. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned as 'BB/Stable' as parallel to international ratings and outlooks of Republic of Turkey.

Operating in the textile sector, Ereğli Tekstil Sanayi ve Ticaret A.Ş. (referred to as 'Ereğli Tekstil' or '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, fabric dyeing services, contract manufacturing of all kind military textile 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% and the remaining 55% shares belongs to the Albayrak Family members. Ereğli Tekstil has two investments valued by equity method namely Trabzon Liman İşletmeleri A.Ş. (30.48%) 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 tractors 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 565 as of FYE2020.

Key rating drivers, as strengths and constraints, are provided below.

Strengths

- Tümosan Motor's weighted share in the Group's consolidated structure and its strong brand awareness in both agriculture and defense sectors with its long track record and solid R&D capabilities
- Improvement in receivables turnover, supporting the cash flow of the Group
- The turnover growth supported by the increase in engine sales, as well as the preserved tractor demand in line with the ongoing incentive-based structure of agriculture sector in 2021
- Improvement in the EBITDA generation capacity with increase in sales volume and the effective cost management
- Intra-group Synergy and diversified business activities with Investments valued by the Equity Method supported

Constraints

- Noteworthy need for capital increase and notably low level of paid in capital in compare to asset and equity size, continues its pressure on equity quality
- In addition to rising financing expenses due to high dependency on external resources, the ongoing loss from investments valued by equity method continue to pressure the bottom line profitability figures
- Notable contribution of non-cash revaluation to expansion of asset size and equity
- Increasing impairment receivables level in total receivables
- Despite the raise in EBITDA generation, increased short term debt service coverages in line with high inventory level policy
- The geopolitical risks stemming from the Russia-Ukraine tension increasing commodity prices and weakening the risk appetite towards EMs

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been affirmed 'BBB (tr)'. Expansion of asset size, increase in net sales, upward trend in EBITDA generation capacity, Tümosan Motor sector experience, brand awareness, and continual value-added investments have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are affirmed as 'Stable'. The Company's financial structure, efficiency of investments, the possible impacts of the Russia-Ukraine War on the global and Turkey's economy and its effects on the Company's activities are closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.

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

