

Corporate Credit Rating

New Update

Sector: Electronic and Optical Products Manufacturing

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R A T I N G S		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	AA (tr)	J1+ (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Negative	-
	National ISR	-	-
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

* Assigned by JCR on Aug 18, 2022

Karel Elektronik Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating has evaluated the consolidated structure of "Karel Elektronik Sanayi ve Ticaret A.Ş." in an investment grade category with very high credit quality and affirmed the Long-Term National Issuer Credit Rating as 'AA (tr)' and the Short-Term National Issuer Credit Rating as 'J1+ (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/Negative', parallel to the international ratings and outlooks of the Republic of Türkiye.

Karel Elektronik Sanayi ve Ticaret A.Ş. (hereinafter referred to as "Karel" or "the Company" or "the Group") was established in 1986 and is headquartered in Istanbul, Türkiye. The core activity of the Company is the design, production, development and marketing of a diverse of telecommunication devices and electronic systems. The company provides its communication solutions for various sectors such as cargo transportation, hotels and touristic facilities, public institutions, hospitals and medical institutions, universities and educational institutions, factories and industrial production facilities, merchandising and retail business, banks, leasing and factoring companies, equity houses, and other financial institutions. In time, the Company has enriched its business with new activities in EMS, defence and large-scale turnkey project areas. With EMS activity covering all processes from design to production, Karel provides electronic manufacturing services to its local and international customers. White goods electronic board production has an important share in its EMS business. The Company also designs defence solutions using its R&D power and telecommunication know-how and manufactures and sells them to domestic and international military organizations. The main customers of Karel in turnkey projects are telecommunication service providers. Besides infrastructure solutions, the Company provides installations, maintenance and support services to operators. Karel was located in "The Most Valuable 100 Brands in Turkey" published by Brand Finance in 2022. The consolidated assets of the Company were approximately TRY 4.51bn and revenues were approximately TRY 3.44bn as of December 31, 2022. The average number of people employed across the Group as of 31 December 2022 is 3,682 (31 December 2021: 3,277). Karel went public in October 2006 and its 30.96% shares are traded on the Borsa Istanbul under the ticker symbol "KAREL".

In June 30, 2022, Karel's 40% shares (with a controlling interest of 55.55% according to the Public Disclosure Platform data) were acquired by Öncü Girişim Sermayesi Yatırım Ortaklığı A.Ş. which is a subsidiary of Doğan Şirketler Grubu Holding A.Ş. ("Doğan Holding"). The main activity fields of Doğan Holding are electricity production, petroleum products retail, industry and trade, automotive trade and marketing, financing and investment, internet and entertainment and real estate investments. 35.87% shares of Doğan Holding are traded on the Borsa Istanbul under the ticker symbol "DOHOL".

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

Strengths

- Improvement in revenues and EBITDA generation in FY2022 despite contraction in EBITDA margin
- Revenue diversification owing to operating activities in different segments
- Diversified borrowing sources via corporate bond issuances
- The well-known customer portfolio in public and private institutions, and low level of doubtful trade receivables minimizing credit risk
- Attaching importance on R&D, innovation, design, know-how, and quality standards
- Broad sales and after-sales service network
- Operating under the control of Doğan Şirketler Grubu Holding A.Ş.
- High level of compatibility with the corporate governance practices

Constraints

- Short-term weighted maturity profile of borrowings and notable increase in Net Debt/EBITDA multiplier
- Concentration regarding customer portfolio
- Long cash conversion cycle despite decreasing trend
- Restricted net profit margin in FY2022 due to financing expenses
- Dependency on raw material prices, and ongoing global chip shortages
- Tight financial conditions, accompanied by global banking concerns, disrupt global growth projections
- Potential negative effects of recent massive earthquakes

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been affirmed as 'AA (tr)'. Considering improvement in revenues and EBITDA generation in FY2022, diversified borrowing sources, short-term weighted maturity profile of financial debts, deterioration in net debt/EBITDA multiplier, restricted net profit margin as well as tight financial conditions; the outlook for Long-Term National Issuer Credit Ratings has been determined as 'Stable'. The Company's revenue and EBITDA generation performance, profitability ratios, indebtedness structure, liquidity profile, equity level, sovereign risk exposure will be 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.

