

Corporate Credit & Issue Rating

**Manufacturing
[Specialty Vehicles & Equipment]**

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş.		Long Term	Short Term	
International	Foreign currency	BBB-	A-3	
	Local currency	BBB-	A-3	
	Outlook	FC	Stable	Stable
		LC	Stable	Stable
Issue Rating	n.a.	n.a.		
National	Local Rating	A- (Trk)	A-1 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	A- (Trk)	A-1 (Trk)	
Sponsor Support		2	-	
Stand Alone		B	-	
Sovereign*	Foreign currency	BBB-	-	
	Local currency	BBB-	-	
	Outlook	FC	Stable	-
		LC	Stable	-

KATMERCİLER ARAÇ ÜSTÜ EKİPMAN SANAYİ VE TİCARET A.Ş.						
Financial Data	2017H1	2016*	2015*	2014*	2013*	2012*
Total Assets (000 USD)	115,580	83,361	78,647	91,464	110,994	86,047
Total Assets (000 TRY)	405,351	293,364	228,675	212,095	236,895	152,958
Equity (000 TRY)	77,701	72,175	62,680	43,362	30,863	40,020
Net Profit (000 TRY)	6,012	9,601	18,630	9,174	-7,923	9,271
Sales (000 TRY)	72,720	144,584	310,673	169,794	146,424	153,115
Net Profit Margin (%)	8.27	6.64	6.00	5.40	-5.41	6.06
ROAA (%)	N/A	4.43	10.78	4.21	-4.08	9.20
ROAE (%)	N/A	17.14	44.79	25.45	-22.34	35.67
Equity / T. Assets (%)	19.17	24.60	27.41	20.44	13.03	26.16
NWC / T. Assets (%)	29.54	22.27	28.89	25.88	15.60	18.16
Debt Ratio (%)	80.83	75.40	72.59	79.56	86.97	73.84
Asset Growth Rate (%)	38.17	28.29	7.82	-10.47	54.63	29.50

* End of year, NWC: Net Working Capital, 2017H1: June-end 2017

Overview

Katmerciler Araç Üstü Ekipman Sanayi ve Ticaret A.Ş. (hereinafter "the Company", "Katmerciler" or "the Group") is a producer of specialty vehicles, equipment and machinery such as firefighting, garbage, jetting, rescue and tipping trucks and water cannon vehicles (Toma) based in Çiğli/Izmir. Founded in 1985, the Company has a wide exports network reaching more than 50 countries in the Middle East, Europe, Africa and Asia. Katmerciler was ranked as the 370th largest industrial corporation in Turkey in terms of revenues generated from production according to the Istanbul Chamber of Commerce's Second Top 500 List as of 2016 (2015: 409th in the Top 500 list). The Company was also ranked as the 518th largest exporter of Turkey by the Turkish Exporters Assembly's List of 2015.

In addition to its core competence and traditional business segment of specialty vehicles, Katmerciler also invested in the defense industry with a new plant in Ankara that became operational as of August 2016. In this regard, the Company obtained its *Facility Security Clearance* and *Production Permit* accreditations in 2013 and 2015, respectively, from the Ministry of National Defense which allows Katmerciler to participate in National Security tenders and serve the needs of the security forces. Second and third phases of the Ankara production facility investment were ongoing as of the report date. The Company also established a joint venture with the Limak Holding in 2017 to exploit further opportunities in the defense industry in the following periods.

The Group is founded and managed by the Katmerci Family, who owns the majority of shares. The Company went public on 2010 and 36.29% of Company shares have been traded publicly on the Borsa Istanbul (BIST) as of the report date. As of June 2017, the Group employed a workforce of 392 (FYE2016: 353).

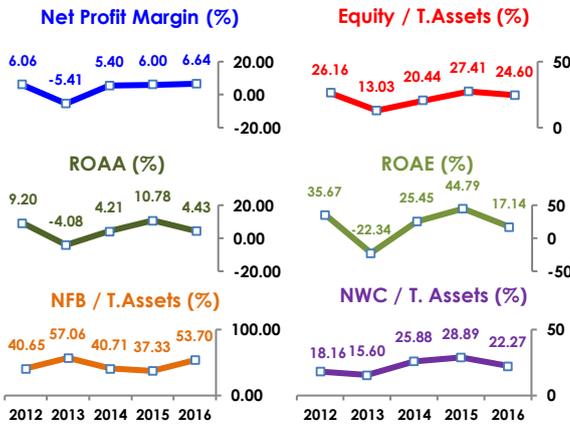
Constraints

- Robust increase in financial borrowings and leverage as of FYE2016 and 2017H1
- Lengthening of cash turnover cycle increasing the Company's operating net working capital financing needs that is financed by additional short-term financial borrowings deteriorating the liquidity position
- Robust decrease in sales revenues and unit sales in FY2016, despite increases in gross profit, EBITDA and net profit margins
- High dependence on public institutions such as municipalities and government departments for sales performance
- Pressurized political and economic outlook in Turkey and ongoing uncertainties and conflicts in the Middle East region increasing the operational risks
- High competition in the recently ventured armored vehicle manufacturing sector
- Import dependency of certain core components in various high value-added products
- Notable financing expenses constraining the profitability potential to a certain extent
- Room for improvement in the corporate governance framework in particular with respect to the covenants concerning the election of the board members

* Affirmed by Japan Credit Rating Agency, JCR on October 7, 2016

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(*) NFB: Net Financial Borrowings, NWC: Net Working Capital

Strengths

- Leading player in the domestic market with a proven track record extending over three decades
- Strong foray into the defense industry and ongoing investments preparing the Company for robust sales growth in future periods
- Effective export network and export focused production and sales, diminishing the country risk and providing hedging against FX exposure
- Experienced management and adherence to the corporate governance practices contributing to the efficient management of the Company
- Improving profit margins in FY2016 as well as recent foray into the defense sector highlighting the Company's strong profit generation capacity
- Strategic vision to form partnerships and foundation of R&D center contributing to the operational performance and future growth potential of Company operations
- Modest collection risk due to the customer profile populated with Government entities and major vehicle producers
- The expectation of notable increase in sales revenues starting from FY2018

Publication Date: October 20, 2017

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