

Corporate Credit & Issue Rating

New  Update

Sector: Denim Manufacturer, Textile

Publishing Date: 31/05/2018

Analyst(s)

Merve Hayat

+90 212 352 56 73

merve.bolukcu@jcrer.com.tr

RATINGS

		Long	Short
International	Foreign	BBB-	A-3
	Local Currency	BBB-	A-3
	Outlook	FC	Stable
		LC	Stable
Issue Rating	n.a.	n.a.	
National	Local Rating	BBB+(Trk)	A-2(Trk)
	Outlook	Stable	Stable
	Issue Rating	n.a.	n.a.
Sponsor Support	Stand-Alone	2	-
	Foreign	BBB-	-
Sovereign*	Local Currency	BBB-	-
	Outlook	FC	Stable
		LC	Stable

\*Affirmed by JCR on November 10, 2017

Çalık Denim Tekstil San. ve Tic. A.Ş. and its Subsidiaries  
 Company Overview

Financial Data	1Q2018**	2017*	2016*	2015*	2014*
Total Assets (000 USD)	423,422	367,809	306,502	326,226	294,629
Total Assets (000 TRY)	1,668,282	1,387,337	1,078,641	948,535	683,215
Equity (000 TRY)	845,571	551,846	207,699	219,528	189,835
Net Profit (000 TRY)	19,845	5,956	4,178	35,229	13,009
Sales (000 TRY)	221,971	610,968	420,150	402,016	504,701
Net Profit Margin (%)	8.94	0.97	0.99	8.76	2.58
ROAA (%)	n.a.	0.55	-0.86	0.88	0.20
ROAE (%)	n.a.	1.79	-4.07	3.51	0.69
Equity / Total Assets (%)	50.69	39.78	19.26	23.14	27.79
Net Working Capital/T. Assets (%)	13.08	10.81	-22.80	-3.92	4.24
Debt Ratio (%)	49.31	60.22	80.74	76.86	72.21
Asset Growth Rate (%)	20.25	28.62	13.72	38.83	23.42

\*End of year \*\*Unaudited 1Q2018

Çalık Denim Tekstil ve Sanayi ve Ticaret A.Ş. (hereinafter 'the Company', 'Group', or 'Çalık Denim') was founded in Malatya in 1987 and operates as one of the leading integrated textile companies in the fields of open-end yarn and ring and uneven ring and denim fabric production. The first industrial investment of Çalık Holding A.Ş., the Company has a total annual production capacity of 44mm meters in its integrated manufacturing facilities. Çalık Denim supplies a wide range of high quality products and services to local and international clients via its subsidiaries as one of the primary denim manufacturers in Turkey.

Çalık Holding A.Ş. (rated by JCR Eurasia Rating on July 12, 2017 as **A-(Trk)/Stable** on the long term national scale) is the largest shareholder (99%) of Company. Considered a reliable and strong supplier to world famous prestigious brands, the Company contributes to further growth in export levels via a wide network channels, international operations, and expanding sales offices. Company headquarters is located in Istanbul with R&D and production activities in Malatya with a labor force of 2,106 in FYE2017 (FYE2016: 1,601). The Company became involved in the Turquality program, which was positioned as a branding support platform, in December 2016.

Strengths

Constraints

- Prestigious position in the sector through R & D, innovation, and human resource investments
  - As the debt to Çalık Holding A.Ş. was reduced through a capital increase from capital advance account, accelerating equity level, positively contributing to equity quality and balance sheet
  - Strong brand reputation both in national and international markets thanks to being listed in top 10 global denim manufacturers supported with a wide network of channels, international operations, and expanding sales offices
  - Pioneering practices in environmental sustainability with nature-sensitive products in the gabardine fabric and denim segment
  - Experienced and well-functioning management team bolstering the quality of the receivables portfolio and negligible level of non-performing loans and asset quality supported by receivable insurance policies
  - Çalık Group's brand identity and shareholder support in both financial and operational aspects and increasing group synergy
  - Broad customer base and established knowhow thanks to high-tech integrated production facilities
  - Advantage in marketing and branding activities thanks to active R&D center and participation in the Turquality programme
  - Improved net working capital and progressive income generations thanks to ongoing renewal investments, technologies, and full capacity utilization
  - Natural hedging through matching service revenues denominated to a large extent with foreign currencies
  - Reliable supplier for leading global brands, enabling economies of scale and scope
- Ongoing high level of uncollectable receivables from a former related party pressuring assets quality despite investment properties acquired on behalf of these receivables
  - High financial expenses due to high dependence on external funding to finance its assets
  - Depreciation of the TRY and the sustainability of the short FX position as a result of weighted financial liabilities denominated in foreign currency despite the decrease in FX risk resulted from the addition to capital and large percentage of receivables denominated in foreign currencies.
  - Dependency on imports of raw materials and breakability against price volatility
  - Growing perception of pressure in the markets through risks arising from the current social unrest and political instability on economic influences and global environment

