

Corporate Credit & Issue Rating

New Update

Sector: Denim Manufacturer  
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**RATINGS**

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

\* Assigned by JCR on April 10, 2020

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

| Financial Data                   | 2019*     | 2018*     | 2017*     | 2016*     | 2015*   |
|----------------------------------|-----------|-----------|-----------|-----------|---------|
| Total Assets (000 USD)           | 350,469   | 317,951   | 367,809   | 306,502   | 326,226 |
| Total Assets (000 TRY)           | 2,081,857 | 1,672,707 | 1,387,337 | 1,078,641 | 948,535 |
| Equity (000 TRY)                 | 307,433   | 382,803   | 551,846   | 207,699   | 219,528 |
| Net Profit (000 TRY)             | -70,935   | -162,276  | 5,956     | 4,178     | 35,229  |
| Sales (000 TRY)                  | 1,112,999 | 923,504   | 610,968   | 420,150   | 778,915 |
| Net Profit Margin (%)            | -6.37     | -17.57    | 0.97      | 0.99      | 4.52    |
| ROAA (%)                         | -5.65     | -14.85    | 0.55      | -0.86     | 2.13    |
| ROAE (%)                         | -30.74    | -48.63    | 1.79      | -4.07     | 8.49    |
| Equity / Total Assets (%)        | 14.77     | 22.89     | 39.78     | 19.26     | 23.14   |
| Net Working Capital/T.Assets (%) | -0.69     | -27.96    | 10.81     | -22.80    | -3.92   |
| Debt Ratio (%)                   | 85.23     | 77.11     | 60.22     | 80.74     | 76.86   |
| Asset Growth Rate (%)            | 24.46     | 20.57     | 28.62     | 13.72     | 38.83   |

\*End of year

**Çalık Denim Tekstil ve Sanayi ve Ticaret A.Ş.** (hereinafter 'the Company', 'Group' or 'Çalık Denim') was founded in Malatya in 1987 as the first industrial investment of Çalık Holding A.Ş. 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 Company had a total annual production capacity of 50mm meters produced in its integrated manufacturing facilities in an area of 777k m<sup>2</sup>, supplying 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 23, 2019 as **A(Trk)/Stabil** on the long term national scale) is the main shareholder (99%) of the Company. As a reliable supplier to world famous brands, the Company contributes further growth in export levels via a wide network channels, international operations and expanding sales offices. Company headquarters is located in Istanbul and R&D and production activities are run in Malatya with a labour force of 3,308 in FY2019 (FY2018: 3,062). The Company included into the Turquality program, which was positioned as a branding support platform.

**Strengths**

- Steadily increasing revenue to world-wide brands as one of the primary denim manufacturers in Turkey
- Notably high level of paid in capital positively contributed on equity quality
- The accumulated know-how in denim sector and expansion of its operating field via on-going investments
- Inter/nationally strong brand reputation through nationwide customer base, reliable supplier for leading global brands and participation in a branding support platform of Turquality programme
- Varied nationwide product range including nature-sensitive products in the gabardine fabric and denim segment via continual investments, R&D activities and innovation
- Established track record of Çalık Holding A.Ş. and mitigated market and geographic risk exposures through wide range of activities of Çalık Family expanded to world-wide and intra-group synergy
- Well-organized risk management frame and minimized international receivable risk through receivable insurance policies named by 'Coface', all contributes on asset quality

**Constraints**

- Pressure in gross profit due to notably increasing cost of sales
- High debt ratio and downward trend in capitalization level due to external financing need in order to fund the Company's growth
- The weighted share of short-term financial liabilities continue to pressure liquidity
- In addition to high financing costs, general administrative and marketing activities' expenses and increasing cost of goods all pressured the profit figures
- The sustainability of the short FX position through depreciation of the TRY as a result of weighted financial liabilities denominated in foreign currency
- Need in improving concentration level on client basis despite softened risk through strong credit profile of the customer portfolio and receivable insurance policies
- Further improvement needs in corporate governance practices
- A conservative view on income generation and asset quality of corporates, considering the strong negative risks arising from global recession concerns and the impact of the epidemic Covid-19 virus and its effects on the global and Turkey's economy

