

Corporate Credit & Issue Rating

New Update

Sector: Automotive

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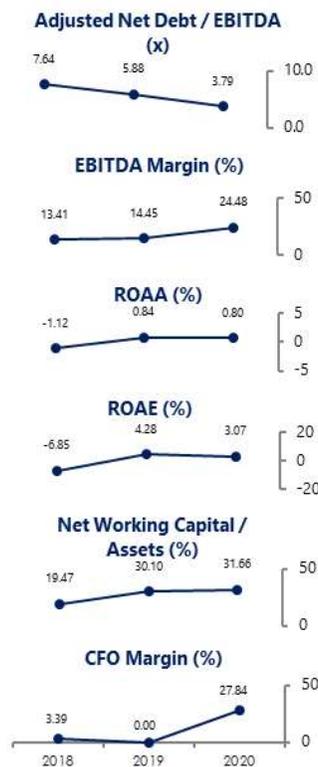
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RATINGS

		Long Term	Short Term	
National	Local Rating	A- (Trk)	A-1 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	-	-	
International	Foreign Currency	BB	B	
	Local Currency	BB	B	
	Outlook	FC	Stable	Stable
		LC	Stable	Stable
Sponsor Support	1	-		
Stand-Alone	B	-		
Sovereign*	Foreign Currency	BB	-	
	Local Currency	BB	-	
	Outlook	FC	Stable	-
		LC	Stable	-

*Assigned by JCR on May 31, 2021



Karsan Otomotiv San. ve Tic. A.Ş. and Its Subsidiaries

JCR Eurasia Rating has evaluated **Karsan Otomotiv San. ve Tic. A.Ş. and Its Subsidiaries** in an investment-grade category and assigned the ratings as **'A- (Trk)'** on the Long-Term National Scale and as **'A-1 (Trk)'** on the Short-Term National Scale with **'Stable'** outlooks. On the other hand, the Long Term International Foreign and Local Currency Ratings have been assigned as **'BB'** with **'Stable'** outlook.

Karsan Otomotiv San. ve Tic. A.Ş. (hereinafter "the Company" or "Karsan"), which was established by 269 investors in 1966. In 1979, the majority of shares were purchased by Koç Holding. The Company operated under the umbrella of Koç Group between 1979-1998, and was incorporated into Kıraca Holding in 1998 when İnan Kıraca acquired the majority shares. Karsan, aims to develop and produce a wide range of products from passenger cars to buses, minivans to heavy trucks, produces under license H350 model panel vans, minibuses and chassis pickup trucks, Menarinibus brand buses of Industria Italiana Autobus S.p.A., and Karsan JEST, Karsan ATAK, Karsan STAR, e-JEST, e-ATAK, e-ATA vehicles under its own brand in its facilities located in Bursa. The Company also carries out domestic and international marketing, sales and after-sales service activities for Karsan brand vehicles.

In the current situation, 63.46% share of the Company belong to Kıraca Holding A.Ş., 34.57% is traded in the stock market and 1.97% belongs to other investors. The Company's paid-in capital is TRY 900mn as of FYE2020. As of December 31, 2020, the consolidated asset size was approximately TRY 2,717mn, the turnover amounted to TRY 1,560mn. Headquarters of the Company is located in Bursa and the Company employed 1,073 employees as of YE2020 (YE2019: 1,088).

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

Strengths

- Increase in Profitability Metrics
- Sustainable EBITDA generation capacity
- Strong sales and service network supported by wide range of products
- Income diversity provided by the business model
- High emphasis on R&D, innovation and new market trends
- Strengthened capital structure by notable paid-capital increase in 2019
- Successful track record and being one of the leading manufacturers and exporters of Turkey in terms of revenue and exports volumes
- High level of compliance regarding corporate governance implementations

Constraints

- Although partially mitigated through export revenues, notable foreign currency short position carried on the balance sheet resulting remarkable FX losses suppresses the Company's profit generation capacity and equity level
- Deterioration in current ratio due to increase in short-term financial liabilities by the end of the first half of 2021
- Ongoing deterioration of cash conversion cycle
- Low capacity utilization rates and weak sales performance in the recent periods
- Contraction in the global automotive sector
- Raw material costs, currency rate fluctuations and freight costs may put a strain profit margins
- Pandemic on global and local economies overhang as a systematic risk

Considering the aforementioned points, the Company's Long Term National Rating has been assigned as **'A- (Trk)'**. The Company's strengthened capital structure, income diversification, EBITDA generation capacity and strong partnership structure have been evaluated as important indicators for the stability of the ratings and the outlooks for Long- and Short-Term National ratings are determined as **'Stable'**. The Company's financial structure, indebtedness level, sales and profitability performance, EBITDA generation capacity, cash flow and liquidity metrics, domestic/global sectoral developments, possible effects of the Covid-19 outbreak on the Company will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions will be monitored as well.

The Sponsor Support notes and risk assessments reflect the financial strength and expected assistance of the controlling shareholders. It is considered that Kıraca Holding, shareholders, have the tendency and satisfactory financial strength to offer financial support when liquidity needs arise in the short- or long-term perspective. Based on these assessments, the Sponsor Support Note of the Company has been assigned as **'1'**, which denotes a strong external support possibility. The Stand-Alone grade reflects the Company's financial resilience and capacity to meet its commitments and obligations through internal means and resources without resorting to its shareholders. The Company's 'Stand-Alone Rating' has been constituted with respect to the Company's experience and expertise in its sector, sales revenues, customer portfolio, export sales, debt and equity structure, risk management practices, and the development of existing risks in the markets and business environment. Within this context, the Stand-Alone grade of the Company has been assigned as **(B)** in the JCR Eurasia Rating notation system.