

## Corporate Credit Rating

New  Update

Sector: Agrochemicals

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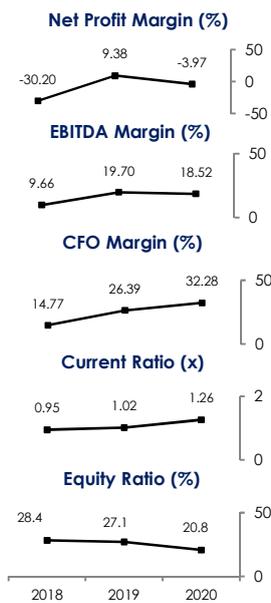
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## RATINGS

		Long Term	Short Term
National	Local Rating	<b>A (Trk)</b>	<b>A-1 (Trk)</b>
	Outlook	Stable	Stable
	Issue Rating	-	-
International	Foreign Currency	BB	B
	Local Currency	BB	B
	Outlook	FC: Stable LC: Stable	Stable Stable
Sponsor Support	2	-	-
Stand-Alone	AB	-	-
Sovereign*	Foreign	BB	-
	Local Currency	BB	-
	Outlook	FC: Stable LC: Stable	- -

\*Assigned by JCR on May 31, 2021



## Bagfaş Bandırma Gübre Fabrikaları A.Ş. and its Subsidiaries

JCR Eurasia Rating has evaluated consolidated structure of **Bagfaş Bandırma Gübre Fabrikaları A.Ş. (Bagfas/Company)** in a high-level 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/ Stable”**.

**Bagfas** was established by local farmers and merchants headed by Recep Gençer who had seen the increasing fertilizer requirements in the region back in year 1969. Bagfas shares have been quoted in the stock market since 1986 with ticker of BAGFS. In 1978, the headquarters were agreed to be moved to Istanbul. The company operates in the fields of chemical fertilizer and acid manufacture, import, internal and external sales. Main products of the Company are aluminum sulfate (AS), diammonium phosphate (DAP), calcium ammonium nitrate (CAN), and composite fertilizers. In addition to fertilizers, Bagfas also produces sulfuric acid, phosphoric acid and nitric acid, which are used extensively in fertilizer production. The Company conducts production activities in its factory located in Bandırma, Erdek. The plants use raw materials sulphur and phosphate rock to produce acid and fertilizers. In YE2020, fertilizer sales volume of the Company reached 797.000 tons and acid sales volume reached 206,000 tons. Sales revenues reached TRY 1,037mn in YE2020 and 50% of revenues constituted of calcium ammonium nitrate (CAN) sales. Total asset size of the Company was TRY 2,290mn as of 1H2021. The Company had shares in 5 subsidiaries as of 1H2021 and employed an average workforce of 353 in 1H2021. (YE2020: 348).

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

### Strengths

- One of the prominent players in the sector with its capacity, wide dealer network and high experience
- Cash flow generation capacity and favorable EBITDA margins along with increasing trend of sales volume in 2019 and 2020
- Liquid asset level exceeding short-term financial liabilities and mainly long-term structure of financial debt easing liquidity management
- Moderate share of export sales among net sales and geographical diversification of exports
- Asset quality strengthened by operational efficiency and low collection risks
- Investment-incentives and tax advantages
- High level of compliance regarding corporate governance implementations

### Constraints

- Import dependence in raw material supply and fluctuations of the commodity prices
- Compliance and regulatory risk on company's operations due to nature of the industry
- Decreasing sales and production volume of fertilizers in 1H2021 despite the increase in sales revenues and semi-finished product sales volume
- Capacity utilization rates which are not at desired levels yet
- Foreign currency risk exposure despite providing natural hedge to a certain extent
- Liability of EUR 24.5mn regarding ongoing litigation process with the contractor of the last established plant, exerting pressure on profitability and posing a possible negative effect on cash flow
- Covid-19 outbreak creating vagueness on global and local economic activity

Considering the aforementioned points, the Long-Term National Rating of Bagfas Bandırma has been assigned as **‘A (Trk)’**. The Company's successful track-record in the sector with reputable brand name, cash flow generation capacity, solid liquidity structure and capability to access funding resources along with tight geopolitical risks-driven uncertainties, ongoing uncertainties due to the Covid-19 pandemic and sector-specific regulations have been evaluated as important indicators for **‘Stable’** outlooks of long and short-term national ratings. On the other hand, the Company's sales volume, revenue and profitability performance, liquidity position, asset quality, FX position and local and global macroeconomic indicators during Covid-19 pandemic will be closely monitored by JCR Eurasia Rating.

The Sponsor Support notes and associated risk assessments reflect the financial and non-financial positions of the controlling shareholders of the Company. Main shareholder, Recep Gençer, is considered to have the willingness and experience to ensure long-term liquidity and equity of the Company and to provide efficient operational support to the Company. In this regard, the Company's Sponsor Support Grade has been assigned as **‘2’**.

The Stand-Alone Note is constituted regarding assets quality, equity structure, risk management practices, growth rates and development of market and operational condition risk. JCR Eurasia Rating has determined that Bagfas has reached sufficient knowledge and experience to manage the risk in their balance sheet without shareholder support. The Stand-Alone grade has been assigned as **(AB)** considering the ability of the Company to manage its undertaken incurred risks based on its own and current capitalization.