

Corporate Credit Rating

□New ☒Update

Sector: Textile Manufacturing
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RATINGS		Long Term	Short Term
ICRs (Issuer Credit Profile)	National ICR	A-(tr)	J2 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
ISRs (Issue Specific Profile)	National ISR	A-(tr) (Stable)	J2(tr) (Stable)
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

* Assigned by JCR on Aug 18, 2022

ÇALIK DENİM TEKSTİL SANAYİ VE TİCARET ANONİM ŞİRKETİ

JCR Eurasia Rating has evaluated "Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi" in the high investment level category, and affirmed the Long-Term National Issuer Credit Rating as 'A-(tr)' and the Short-Term National Issuer Credit Rating as 'J2 (tr)' with 'Stable' outlooks. On the other hand, the Long-Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned as 'BB/Negative' in parallel to the international ratings and outlooks of Republic of Türkiye.

Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi (hereinafter "Çalık Denim" or "the Group") 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 Group had a total annual production capacity of 55mn meters produced in its integrated manufacturing facilities in an area of 777k m², 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 Türkiye.

Çalık Holding A.Ş. (rated by JCR Eurasia Rating on September 26, 2022 as AA-(tr)/Stable on Long-Term National Issuer Credit Rating) is the main shareholder (99%) of the Company which operates in the energy, construction, mining, textile, finance, telecom, and digital sectors with an operation network spread over 31 countries and a workforce of approximately 14,000. 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. Group headquarters is located in Istanbul and R&D and production activities are run in Malatya with a labor force of 1,874 as of FYE2022 (FYE2021: 3,961). The Group included into the Turquality program, which was positioned as a branding support platform.

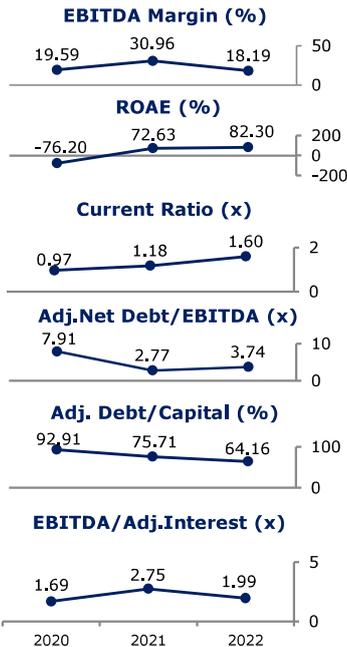
Key rating drivers, as strengths and constraints, are provided below:

Strengths

- As a prominent player in Türkiye's yarn and high-quality denim fabric industry, the Group consistently achieves success in the realm of sustainable cotton textile manufacturing,
- Sustainable operational performance generating an anticipated level of profitability,
- Effective net working capital turnover ratio,
- A robust global and domestic clientele, characterized by varied range of products and close ties with well-known brands, supports consistent sales revenue,
- Established track record of Çalık Holding A.Ş. and mitigated market and geographic risk exposures through wide range of activities of Çalık Family.

Constraints

- Deterioration in profitability ratios in 2022 due to increasing cost though still standing at adequate levels,
- Long cash conversion cycle due to maintaining of inventories as its business case,
- Negative CFO and FOCF metrics, due to change in working capital,
- Slowdown coverage ratios and deterioration in leverage metrics caused by indebtedness,
- Intense competition in the sector,
- The devastation caused by the earthquakes in February 2023 in the regions of operation.



Considering the aforementioned points, the Group's Long-Term National Issuer Credit Rating has been affirmed as 'A-(tr)'. No separate rating report has been compiled as the resources obtained from the bond issue will be carried in the Group's balance sheet and has been subject to analysis in the corporate credit rating report. The planned bond issue carries no difference in comparison to the Group's other liabilities with respect to its legal standing and collateralization. As such, the notations outlined in the corporate credit rating report also reflect the issue rating but do not cover any structured finance instruments. Issue ratings are assigned for both outstanding and prospective debt instruments and incorporate assessments until their maturities. Additionally, the Group's market position, operational performance, long term customer structure, cash flow metrics, profitability indicators, leverage level, manufacturing facilities that are compliant with international quality standards and synergies created by Çalık Group, indebtedness structure and the effects of the earthquake, as well as, vulnerability of the sector to macroeconomic conditions and sectoral metrics have been evaluated as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are determined as 'Stable'.

The Group's financial structure and attainability of the Group's budgeted projections will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators in national and international markets, as well as market conditions and legal framework about the sector will be monitored as well.