

Corporate Credit Rating & Issue Rating

New Update

Sector: Textile Manufacturing
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Team Leader

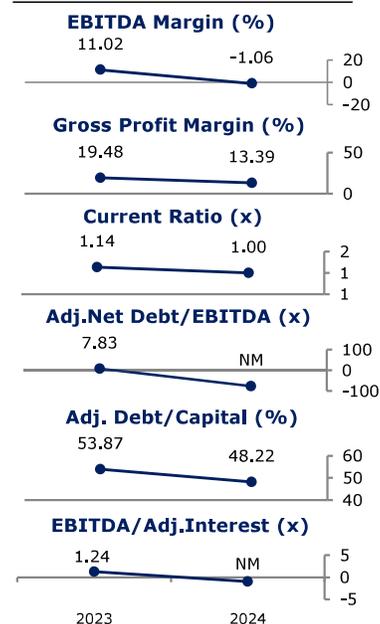
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RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	BBB (tr)	J2 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Stable	-
	International LC ICR	BB	-
ISRs (Issue Specific Rating Profile)	National ISR	BBB (tr) (Stable)	J2 (tr) (Stable)
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Stable)	-
	Local Currency	BB (Stable)	-

* Assigned by JCR on May 10, 2024



Çalık Denim Tekstil Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating, has evaluated the consolidate structure of "Çalık Denim Tekstil Sanayi ve Ticaret A.Ş." in the investment grade category and revised the Long-Term National Issuer Credit Rating from 'A- (tr)' to 'BBB (tr)' and affirmed the Short-Term National Issuer Credit Rating at '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/Stable' in line with the sovereign ratings and outlooks of Republic of Türkiye.

Çalık Denim Tekstil Sanayi ve Ticaret A.Ş. (hereinafter referred to as '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. Çalık Denim had a total annual production capacity of 52mn 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.

As of FYE2024, the paid-in capital of Çalık Denim is TRY 1,460.00mn. Çalık Holding A.Ş. (rated by JCR Eurasia Rating on September 26, 2024 as AA (tr)/Stable on Long-Term National Issuer Credit Rating) is the main shareholder (99.9%) of the Group which operates in the energy, construction, mining, textile, finance, telecom and technology sectors with an operation network spread over 34 countries and a workforce of approximately 16,000. As a reliable supplier to world famous brands, Çalık Denim contributes further growth in export levels via a wide network channels, international operations and expanding sales offices. Çalık Denim headquarter is located in Istanbul and R&D and production activities are run in Malatya with a labor force of 1,832 as of FYE2024 (FYE2023: 2,303). Çalık Denim included into the Turquality program, which was positioned as a branding support platform.

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

Strengths

- Positive measurement of CFO and FOCF metrics in FY2024,
- Reasonable share of export sales and FX-based sales enabling natural hedging against currency risk in a certain extent,
- Sustainable cotton textile production as one of Türkiye's leading yarn and premium denim fabric producers,
- Customer portfolio generally including globally well-known brands supporting asset quality,
- Having prestigious certificates enhancing quality standards and environmentally friendly approaches with varied nationwide product range including nature-sensitive products,
- Being a subsidiary of Çalık Holding with a deep-rooted history and operating in many sectors.

Constraints

- Inability to generate EBITDA due to high level of operating expenses with decreasing gross profitability in FY2024,
- Partial contraction in FX-based revenues in 2024,
- Notably high level of financial indebtedness with short-term weighted structure despite the decrease in FYE2024,
- Sizable net loss in the last two consecutive years due to high financing expenses though decrease in FY2024,
- Remarkably long cash conversion cycle due to carrying high inventory level,
- Intense competition in the sector on a national and global scale,
- As actions for a global soft landing gain prominence, decisions with the potential to adversely affect global trade are engendering considerable uncertainty.

Considering the aforementioned points, the Group's Long-Term National Issuer Credit Rating has been revised from 'A- (tr)' to 'BBB (tr)'. The Group's market position, FX based income structure, long term customer relations, high asset quality, manufacturing facilities that are compliant with international quality standards, synergies created by Çalık Group, experienced and qualified organizational structure, inability to generate EBITDA in FY2024 and notably high level of financial indebtedness, global market conditions of the sector as well as the geopolitical risks-driven uncertainties, and global interest rate hiking cycle 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 indebtedness volume, sales growth, profitability, and liquidity indicators will be closely monitored by JCR Eurasia Rating in upcoming periods. The macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector, will be monitored as well.