

Corporate Credit Rating & Issue Rating

New Update

Sector: Textile Manufacturing
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Team Leader

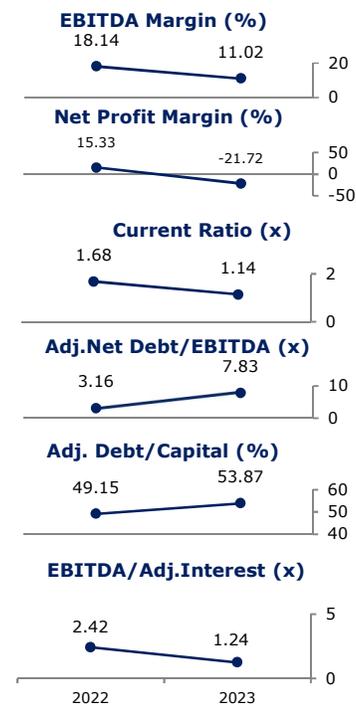
Demet Kizginel
 +90 212 352 56 73
demet.kizginel@jcrer.com.tr

Senior Analyst

Cihat Keskin
 +90 212 352 56 73
cihat.keskin@jcrer.com.tr

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	Stable	-
	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 (Stable)	-
	Local Currency	BB (Stable)	-

* Assigned by JCR on May 10, 2024



Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi

JCR Eurasia Rating has evaluated the consolidate structure of "Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi" in the investment grade category with high credit quality and has affirmed the Long-Term National Issuer Credit Rating at 'A- (tr)' and 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 have been determined as 'BB/Stable' in line with the sovereign 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, 2023 as AA- (tr)/Stable on Long-Term National Issuer Credit Rating) is the main shareholder (99%) of the Group which operates in the energy, construction, mining, textile, finance, telecom and technology sectors with an operation network spread over 31 countries and a workforce of approximately 13,000. As a reliable supplier to world famous brands, the Group contributes further growth in export levels via a wide network channels, international operations and expanding sales offices. The Group headquarter is located in Istanbul and R&D and production activities are run in Malatya with a labor force of 2,303 as of FYE2023 (FYE2022: 1,874). The Group included into the Turqualy program, which was positioned as a branding support platform.

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

Strengths

- As one of Türkiye's leading yarn and premium denim fabric manufacturers, steady success in sustainable cotton textile production,
- Strong inter/national client base attached with world-wide famous brands supporting receivable quality,
- Expected contribution to 2024 financials from the new brands added to the customer portfolio increasing sales activities in the Asian market,
- Having prestigious certificates enhancing quality standards and environmentally friendly approaches with varied nationwide product range including nature-sensitive products,
- Established track record of Çalık Holding A.Ş. and mitigated market and geographic risk exposures through wide range of activities of Çalık Family.

Constraints

- Significant decrease in business volume and revenue in FY2023 due to the earthquake in the operating region despite expected recovery in 2024 financials,
- Declining EBITDA generation capacity with lower margins as well as additional borrowings distorting the financial position and coverage metrics as of FYE2023,
- Remarkable profit erosion driven by high financial expenses,
- Short-term weighted structure of financial liabilities together with negative cash flows deteriorating liquidity metrics,
- Long cash conversion cycle due to carrying high inventory level,
- Intense competition in the sector on a national and global scale,
- Leading economic indicators signal global economic slowdown as quantitative tightening actions aim to restrict consumption growth and achieve a soft-landing in the domestic side.

Considering the aforementioned points, the Group's Long-Term National Issuer Credit Rating has been affirmed at '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. 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, 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 and diminishing 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 also be monitored.