Corporate Credit Rating

☐New ☒Update

Sector: Textile, Denim
Publishing Date: May 25, 2022
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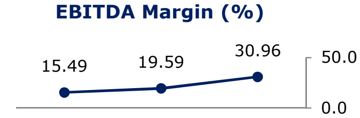
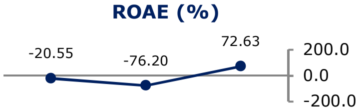
RATINGS		Long Term	Short Term
ICRs (Issuer Credit Profile)	**National ICR**	**A- (tr)**	**J2 (tr)**
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	J3
	International FC ICR Outlooks	Stable	Stable
	International LC ICR	BB	J3
	International LC ICR Outlooks	Stable	Stable
ISRs (Issue Specific Profile)	National ISR	A-(tr)	J2 (tr)
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Stable)	-
	Local Currency	BB (Stable)	-

** Assigned by JCR on May 31, 2021*

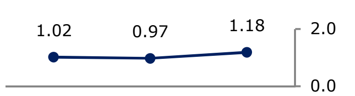
EBITDA Margin (%)



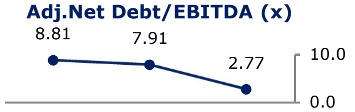
ROAE (%)



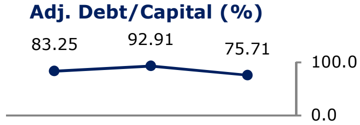
Current Ratio



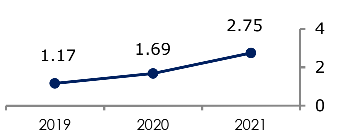
Adj.Net Debt/EBITDA (x)



Adj. Debt/Capital (%)



EBITDA/Adj.Interest (x)



Çalık Denim Tekstil Sanayi ve Ticaret Anonim Şirketi

JCR Eurasia Rating has upgraded **Çalık Denim Tekstil ve Sanayi ve Ticaret A.Ş**. (hereinafter 'the Company', 'Group' or 'Çalık Denim') from **'BBB+ (tr)'** to **'A- (tr)'** on the Long-Term National Issuer Credit Rating and **'J2 (tr)'** on the Long-Term National Issuer Credit Rating 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'**.

Çalık Denim Tekstil Sanayi ve Ticaret A.Ş. 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 Company had a total annual production capacity of 55mn meters produced in its integrated manufacturing facilities in an area of 777k m^2, 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 Turkey.

Çalık Holding A.Ş. (rated by JCR Eurasia Rating on August 31, 2021 as **A+(Trk)/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 22 countries and a workforce of approximately 40,000. 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. Company headquarters is located in Istanbul and R&D and production activities are run in Malatya with a labour force of 3,961 in FY2021 (FY2020: 3,378). The Company included into the Turquality program, which was positioned as a branding support platform.

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

Strengths	Constraints
• As one of Turkey's leading yarn and premium denim fabric manufacturers, steady success in sustainable cotton textile production • Notable improvement in profitability and EBITDA performances • Diversified funding profile with bond issuances mostly used for loan payments and improved financial leverage indicators • Improved equity level through cash injection and internal resource generation • Strong inter/national client base attached with world-wide famous brands sustaining sales revenue with diversified product portfolio • Supported asset quality with receivable insurance policies • 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	• Determining role of cotton prices on textile sector's sales revenue and profitability margins • High cash conversion cycle • Short-term weighted structure of financial debt • The geopolitical risks stemming from the Russia-Ukraine tension

Considering the aforementioned points, the Company's Long-Term National Issuer Credit Rating upgraded to **'A- (tr)'** from **'BBB+ (tr)**. Taking into account market position, improved financial leverage levels with strengthened equity via capital increase and internal resource generation capacity, strengthened EBITDA generation capacity and EBITDA margins, solid credit profile of the customer portfolio, manufacturing facilities that are compliant with international quality standards and synergies created by Çalık Group constitute the main factors in determining Long and Short Term Notes of Company with **'Stable'** outlook. JCR Eurasia Rating will continue to monitor the developments regarding the global and domestic macroeconomic indicators, in particular with respect to the size and scope of the post-pandemic recovery, financial leverage levels, EBITDA generation capacity, the role of dependence on the import of raw materials and the price volatility on the sales revenues, effects of FX movements and interest payments on profitability, the volatile profitability margins due to increasing cotton prices, the attainability of the Company's budget projections; and the generation of internal resources and cash flows to meet debt payments are the principle factors that will be monitored by JCR Eurasia Rating in the upcoming period.