

Corporate Credit Rating

New Update

Sector: Steel Pipe

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

* Assigned by JCR on Aug 18, 2022

ERCİYAS ÇELİK BORU SANAYİ A.Ş.

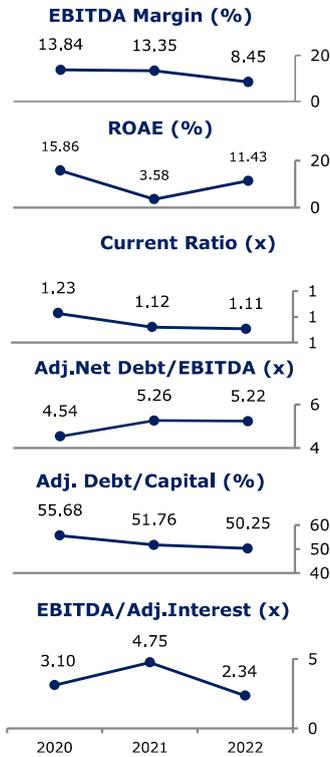
JCR Eurasia Rating has evaluated the consolidated structure of "Erciyas Çelik Boru Sanayi A.Ş." in the investment-level category and affirmed the Long-Term National Issuer Credit Rating as 'A-(tr)' and the Short-Term National Issuer Credit Rating as 'J2 (tr)' with 'Stable' outlooks. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were affirmed as 'BB/Negative' in parallel to international ratings and outlooks of Republic of Türkiye.

Erciyas Çelik Boru Sanayi A.Ş. (hereinafter referred to as "Erciyas Çelik" or "the Group") was established in 1990 in Izmit in order to produce spiral welded steel pipes. The main activity of the Company is to manufacture spiral welded steel pipes of all kinds of steel and to coat the inside and outside of these pipes with epoxy, concrete, polyethylene, polypropylene, polyurethane, polyurethane, fusion bonded epoxy suitable for drinking water in accordance with international standards in order to protect the pipes from external factors. The company manufactures natural gas, petrochemical and oil pipes, drinking water pipes, piling pipes, steel structure pipes, general and special purpose pipes and fittings.

Erciyas Çelik merged with Özbal Çelik Boru, a group company of Erciyas Holding, on December 31, 2021 and operates in two different regions of Türkiye. The Group continues its production in Düzce and Mersin production facilities. The total annual production capacity is approximately 600,000 tonnes of spiral welded steel pipe.

Erciyas Çelik, which carries out a large part of its production for overseas projects and attaches great importance to brand awareness, is the first spiral steel pipe manufacturer in its sector to take a step in this regard by being included in the Turquality programme, which is Türkiye's first and only branding programme implemented under the ownership of the Ministry of Economy of the Republic of Türkiye in 2016. As of FYE2022, the Group's average number of personnel working during the year was 459. (FYE2021: 399). The head office of the Company is located in Istanbul. Erciyas Çelik has been listed on Borsa İstanbul (BIST) since January 13, 2022. Currently, 21.10% of its shares are traded on BIST under the code "ERCB". The Group's main ultimate controlling shareholder is Erciyas Holding A.Ş. with 42.77% share.

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



Strengths

- Solid market impact supported by business volume expansion and geographical diversification,
- The fact that the Group's sales revenues mainly consist of export sales and foreign currency dominated sales revenue providing a natural hedge up to a large point,
- Diversified borrowing sources through the issuance of corporate bonds and lease certificates,
- Sustained equity level proven by equity to total assets ratio,
- Short cash conversion cycle pointing to improvement in operational efficiency,
- Environmentally conscious production approach and having prestigious certificates enhancing quality standards,
- Competitive advantage gained through production capacity and sector experience,
- As a publicly traded company, high level of compliance with Corporate Governance Practices.

Constraints

- Contraction in profitability margins due to the target of market share growth by entering in new markets and increasing costs in parallel with the sector in FY2022,
- Increase in operating expenses due to freight costs caused by the expansion in overseas operations,
- Continuation of the high share of related party receivables in assets as of FYE2022,
- Decline in coverage metrics and continuation of relatively high net debt to EBITDA ratio in FY2022,
- Uncertainties created by the slowdown in global economic growth and contraction in production,
- Despite the expansion in pipeline production, uncertainties created by the slowdown and contraction in global economic growth on the steel production sector,
- High level of energy and commodity imports in steel production in Türkiye.

Considering the aforementioned points, the Group's Long-Term National Issuer Credit Rating has been affirmed as 'A-(tr)'. The Group's increasing market influence, share of exports in sales, diversified financing structure, short cash conversion cycle, brand reputation and the Group's proven track record 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 profit and equity indicators, market position, debt structure, the sustainability of domestic and international demand and economic conditions in Türkiye 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 also be monitored.