

Corporate Credit Rating

New Update

Sector: Textile Manufacturing

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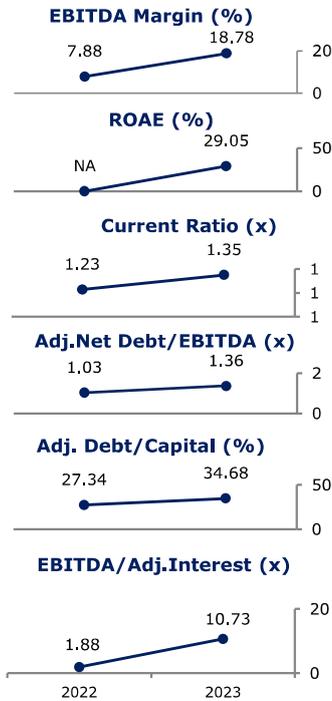
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R A T I N G S		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	BBB (tr)	J2 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Stable	-
	International LC ICR	BB	-
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Stable	-
	National ISR	-	J2 (tr) (Stable)
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	Foreign Currency	BB (Stable)	-
	Local Currency	BB (Stable)	-

* Assigned by JCR on May 10, 2024



NA: Not Applicable *Financial investments were considered as cash and cash equivalents in net debt calculation.

EREĞLİ TEKSTİL TURİZM SANAYİ VE TİCARET A.Ş.

JCR Eurasia Rating, has evaluated "Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş." in the investment grade category and revised the Long-Term National Issuer Credit Rating from 'BBB+ (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', as parallel to international ratings and outlooks of Republic of Türkiye.

Operating in the textile sector, Ereğli Tekstil Turizm Sanayi ve Ticaret A.Ş. (referred to as 'Ereğli Tekstil' or 'the Company' or 'the Group'), was founded in 1937 by Sümerbank and purchased by the Albayrak Group in 1997. The Company with its consolidated structure mainly operates in the production and sale of tractors, fabric dyeing services, contract manufacturing of all kind military textile products.

Albayrak Turizm Seyahat İnşaat Ticaret A.Ş., controlled by members of the Albayrak Family, is the main shareholder of Ereğli Tekstil with a share of 45% and the remaining 55% shares belongs to the Albayrak Family members. Ereğli Tekstil has two investments valued by equity method namely Trabzon Liman İşletmeleri A.Ş. (30.48%) and Varaka Kağıt (31.55%), in addition to its subsidiary of Tümosan Motor ve Traktör Sanayi A.Ş. (60.87%) and Karnawall Maroc SA (51%), a textile manufacturing company located in Morocco and acquired by Ereğli Tekstil in February, 2023. Tümosan Motor, the first diesel engine manufacturer in Türkiye and produces diesel engine tractors under its own brand, held the largest share in the consolidated structure of Ereğli Tekstil. The Group is headquartered in İstanbul and operated in fully integrated plants with a staff force of 726 as of June, 2024 (FYE2023: 1,388).

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

Strengths

- Access to financing through share pledges of Tümosan,
- Robust equity contribution mainly fed by inflation-adjusted retained earnings in reviewed periods, despite low level of paid-in capital,
- Satisfactory net working capital and moderate level of liquid assets in the reviewed periods,
- Relatively low level of doubtful receivables in the reviewed periods,
- Investment in diversified business lines through consolidation and valued by equity method decreasing sectoral concentration risk to some extent.

Constraints

- Absence of current tender in the textile business line except for the limited production activities in the facility abroad against high fixed costs point to high idle capacity and inefficiency,
- Significantly declined revenue and profitability margins in 1H2024 through decreasing sales volume and market share of Tümosan, consequently delivered negative bottom-line,
- Elevated financial indebtedness coupled with remarkable decline in EBITDA generation deteriorated leverage metrics in 1H2024,
- Distorted coverage metrics in 1H2024, expected to further decline considering the ongoing indebtedness despite limited revenue, as reflected in 3Q2024 solo provisional tax return,
- Prolonged cash conversion cycle and high level of operating ratio pressuring efficiency,
- Increased receivables from related parties and negative CFO and FOCF metrics in FY2023 and 1H2024,
- As actions for a global soft-landing gain prominence, decisions with the potential to adversely affect global trade are engender considerable uncertainty.

Considering the aforementioned points, the Company's Long-Term National Issuer Credit Rating has been revised from 'BBB+ (tr)' to 'BBB (tr)'. Access to financing with share pledges of Tümosan Motor, robust equity contribution, satisfactory net working capital and moderate level of liquid assets, low level of doubtful receivables, investments in diversified business lines through consolidation as well as absence of current tender in textile business, significantly declined revenue and profitability, elevated financial indebtedness and deteriorated leverage metrics, distorted coverage metrics, prolonged cash conversion cycle and high operating ratio, increased receivables and negative CFO and FOCF 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 affirmed at 'Stable'. The Company's indebtedness level, negative cash flow indicators, order book amount in the textile side, contribution of the abroad investment to financials and equity structure 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.

No separate rating report has been compiled as the resources obtained from the bond issue will be carried in the Company'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 Company'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.