Corporate Credit Rating

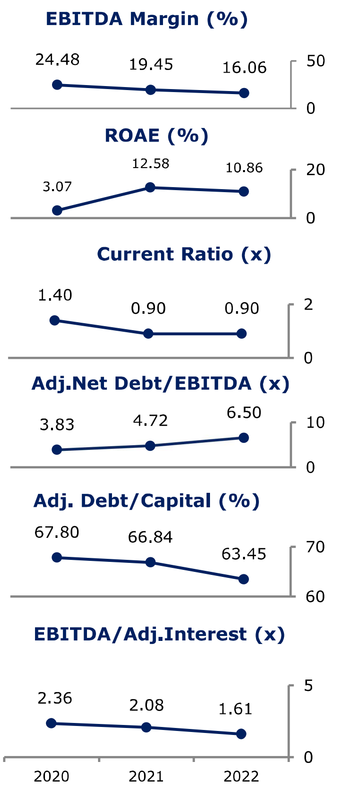
☐New ☒Update

Sector: Automotive
Publishing Date: 22/09/2023

Team Leader
Çetincan TOPÇU
+90 212 352 56 73
cetincan.topcu@jcrer.com.tr
Senior Analyst
Cemil ERKÜRK
+90 212 352 56 73
cemil.erkurk@jcrer.com.tr

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	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)	-

** Assigned by JCR on Aug 18, 2022*



Karsan Otomotiv Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating, has evaluated **"Karsan Otomotiv Sanayi ve Ticaret A.Ş."** in the investment-level category and revised the Long-Term National Issuer Credit Rating from **'A- (tr)'** to **'BBB+ (tr)'** and assigned 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 affirmed at **'BB/Negative'** as parallel to international ratings and outlooks of Republic of Türkiye.

Karsan Otomotiv Sanayi ve Ticaret A.Ş. (hereinafter referred to as 'Karsan' or 'the Company' or 'the Group') was established on August 27, 1966 by 269 investors. The majority of shares of the Company was acquired by Koç Holding in 1979 and had been operated as a subsidiary of Koç Group until 1998. With the acquisition of the majority of shares of the Company by İnan Kıraç, the new group of the Company became Kıraça Holding. The Company's shares have been traded on the stock exchange since 2000. As of the rating report date, 58.51% of the Company is owned by Kıraça Holding A.Ş., 34.58% is publicly held, and 6.91% is owned by other investors. Karsan made a name for itself by developing its production culture through collaborations with many global brands such as Renault, Renault Truck, Hyundai, and Peugeot until 2013. In line with its new strategy and goals, the Company produced and offered for sale the minibus named "Jest" under the Karsan brand in 2013 for the first time. After 2013, the Company continued its activities as an important public transportation vehicle manufacturer both locally and globally, with an increasing number of new Karsan-branded vehicle models. The Company, headquartered in Bursa/Nilüfer, has three facilities in Hasanağa Organized Industrial Zone (2) and Bursa Organized Industrial Zone. The Company employed 2,392 personnel as of 1H2023 (FYE2022: 1,880).

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

Strengths	Constraints
• As of 1H2023, enhancement in the number of vehicles produced and sold with an improvement in the capacity utilization rate, • Despite increasing costs and expenses, a rise in EBITDA generation capacity and EBITDA margin in 1H2023, • Expectation of an increase in export revenues due to remarkable order levels and motivation to enter new target countries, • Long-track experience in the automotive industry and income diversity, thanks to the tradition of producing in different product ranges, • Production culture that is fed by continuous R & D studies and can adapt quickly to innovation and developments in the automotive industry and achievement in sustainability, • High compliance with corporate governance practices owing to listed status.	• Deterioration in financial leverage metrics caused by the increase in financial liabilities, predominantly due to the rise in the exchange rate, • Long cash conversion cycle requiring short-term funding for continuity of operations, • Relatively low equity share in asset financing, despite the contribution of non-cash revaluation gains, • Global economic growth slows down evidenced by commodity prices and trade figures on the back of rapid monetary tightening, whereas domestic restrictive financial conditions limit access to finance.

Considering the aforementioned points, the Company's Long-Term National Issuer Credit Rating has been downgraded from **'A- (tr)'** to **'BBB+ (tr)'**. Innovative production culture, sustainable export revenues, deterioration in financial leverage metrics, and high dependence on external financing, along with ongoing uncertainties arising from geopolitical tensions as well as the 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 Company's profitability performance, cash level and cash generation capacity together with the trends in the industry 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 frame about the sector will be monitored as well.