

Corporate Credit Rating

New Update

Sector: Automotive

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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	-
ISRs (Issue Specific Rating Profile)	International LC ICR Outlooks	Negative	-
	National ISR	-	-
	International FC ISR	-	-
Sovereign*	International LC ISR	-	-
	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 the "Karsan Otomotiv Sanayi ve Ticaret A.Ş." in the investment-level category and 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 were assigned as 'BB/Negative' as parallel to international ratings and outlooks of Republic of Türkiye.

Karsan Otomotiv Sanayi ve Ticaret A.Ş. (Karsan or the "Company") was established in 1966 by 269 investors, and in 1979 Koç Holding acquired the majority shares of the Company and operated as a subsidiary of Koç Group until 1998. With the acquisition of the majority shares of the Company by İnan Kırış, the new group of the Company became Kırış Holding. The Company shares were offered to the public in 2000. As of the report date, 63.46% of the Company is owned by Kırış Holding A.Ş., 34.56% is publicly held and 1.98% is owned by other investors.

Karsan develops and manufactures a wide range of products from passenger cars to buses, minivans to heavy trucks. While the Company produces and sells its products under the Karsan brand, it also produces orders for its customers on behalf of companies with strategic partnerships and in return for contracts. The Company also conducts domestic and international marketing, sales, and after-sales service activities for Karsan brand vehicles. The Company, headquartered in Bursa/Nilüfer, has three facilities in Hasanağa Organized Industrial Zone (2) and Bursa Organized Industrial Zone. The Company employed 1,079 employees as of FYE2021 (FYE2020: 1,073).

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

Strengths

- Uptrend in nominal sales revenues in FYE2021 and sustainable EBITDA generation capacity,
- Revenue diversification provided by business model,
- Thanks to having R&D center creating technology power and facilitating to launch new products and to adapt to the rising trend in electric vehicles,
- Long-lasting track record in the automotive sector, one of the leading manufacturers and exporters of Türkiye and a high level of emphasis on sustainability,
- High compliance with corporate governance practices owing to listed status.

Constraints

- Continued uptrend in financial liabilities, negative net working capital due to increase in short-term financial debts in FYE2021,
- Rising financing expenses mainly arising from unrealized foreign exchange losses pressuring bottom-line result,
- Although slightly increased in 2021, capacity utilization rates are still low,
- Relatively low equity level despite continuous non-cash revaluation gains,
- High correlation with macroeconomic dynamics in sector, and contraction in the global economic outlook,
- Global chip shortage stands out as a potential risk ahead for the Company and industry,
- The geopolitical risks stemming from the Russia-Ukraine tension causing uncertainty.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been affirmed as 'A-(tr)'. Production power performance, sales revenues supported by export, revenue diversity, strong brand, and wide distribution network, 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.

