

Corporate Credit Rating

New Update

Sector: Food Products Industry

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Team Leader

Firat Tunc

+90 212 352 56 73

firat.tunc@jcrer.com.tr

Analyst

Ahmet Bircan KARA

+90 212 352 56 73

ahmetbircan.kara@jcrer.com.tr

RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	A+ (tr)	J1 (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

KERVAN GIDA SANAYİ VE TİCARET A.Ş.

JCR Eurasia Rating, has evaluated the consolidated structure of "Kervan Gıda Sanayi ve Ticaret A.Ş." in the investment level category and assigned the Long-Term National Issuer Credit Rating at 'A+ (tr)' and the Short-Term National Issuer Credit Rating at 'J1 (tr)' with 'Stable' outlooks. On the other hand, the Long-Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were determined as 'BB/Negative' in line with sovereign ratings and outlooks of Republic of Türkiye.

Kervan Gıda Sanayi ve Ticaret A.Ş. (hereinafter "the Company", "the Group" or "Kervan Gıda"), was founded by Mehmet Şükrü Başar, Fahrettin Çezik and Burhan Başar in equal shares on September 01, 1994. The primary operational domains of the Company, along with its subsidiaries, encompass the manufacturing, distribution, and promotion of various confectionery items such as soft candies (including jelly, licorice, and marshmallow), hard candies, chewing gum, dragee chocolate, surprise eggs, and toy products under the brand names "Bebeto" and "Cosby" as well as other proprietary labels. Confectionery production occurs within a fully enclosed area totaling 116,000 square meters across 8 production facilities in Türkiye, Poland and Egypt, as of FYE2023. The Group's yearly production capacity stands at 113,900 tons and 80 million units.

The ownership of the Group is held by multiple families, with 27.51% of the Company's shares being publicly traded as of reporting date on the Borsa Istanbul (BIST) under the ticker symbol "KRVDG". Kervan Gıda's headquarters is situated in Beylikdüzü, Istanbul, Türkiye. The Group employed a staff force of 3,337 (FYE2022:3,210) through 16 subsidiaries and 1 affiliate under its umbrella as of FYE2023.

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

Strengths

- Improvement in gross profit margin supported by international operations,
- Export sales offsetting the currency risk to a certain extent,
- Positive NWC and access to international funding resources supporting liquidity management,
- Internal equity generation capacity underlying equity structure,
- Asset quality bolstered by the low collection risks,
- High levels of transparency regarding adherence to corporate governance as an entity subject to Capital Market Law.
- Broad range of products and successful track record in the sector.

Constraints

- Negative CFO and FOCF creating external funding need for operational cycle,
- Weak EBITDA to interest expense metric surpassing coverage outlook given the mounting borrowing cost,
- High operating ratio and long cash cycle pressuring efficiency profile,
- Leading economic indicators signal global economic slowdown as quantitative tightening actions aim to restrict consumption growth and achieve a soft-landing in the domestic side.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been assigned at 'A+ (tr)'. Increasing gross profit margin, export sales acting as naturel hedging mechanism, positive NWC, improving equity structure, high collection capability, long-lasting track record and high levels of transparency, as well as negative cash flow metrics, weak coverage metrics, high operating ratio and long cash conversion 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 financial structure, tight economic conditions and Türkiye's economy and its effects on the Company's activities will be closely monitored by JCR Eurasia Rating in the 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.

