Corporate Credit Rating

☐New ☒Update

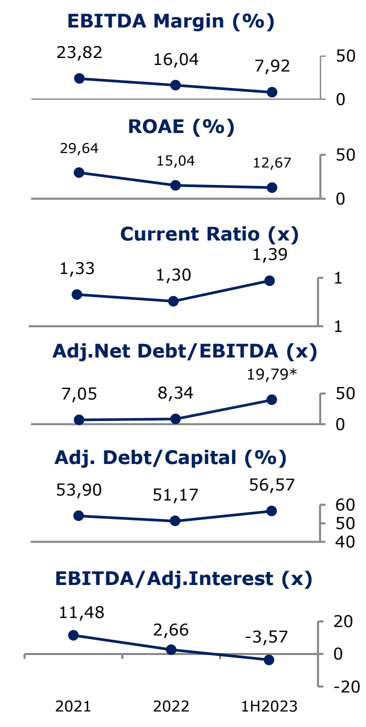
Sector: Textile Manufacturing
Publishing Date: 15.12.2023

Team Leader
Deniz Ustabaş
+90 212 352 56 73
deniz.ustabas@jcrer.com.tr

Senior Analyst
Sinem Elif Savaş
+90 212 352 56 73
elif.savas@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*



**annualized*

Korteks Mensucat Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating has evaluated the consolidated structure of **"Korteks Mensucat Sanayi ve Ticaret A.Ş."** in the investment grade category and revised the Long-Term National Issuer Credit Rating from **'A-(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/Negative'** in line with the global and national scale rating matching published by JCR Eurasia Rating.

Korteks Mensucat Sanayi ve Ticaret A.Ş. (referred to as 'Korteks or 'the Group') which was established in 1976 in Bursa, Türkiye to manufacture polyester yarn and to make export, is one of the textile manufacturing companies of Zorlu Textile Group besides Zorluteks Tekstil. Korteks commenced operation in 1989 with the manufacture of yarns under the "TAÇ YARN" brand. Since its foundation, the Group invested significantly in integrating recent and pioneering technologies into its production process, positioning Korteks as a major player. In addition to its dominant position in Türkiye, Korteks is known as a prominent yarn manufacturer in the European market with global export capabilities. The Group's wide and diversified product range include various types of polyester yarns to be used in ready-made garments, home textile, medical textile, carpets, automotive textile and sportswear in its two major integrated production facilities in Bursa Organized Industrial Zone. At its plants located in Bursa, Korteks produces the superior-quality yarns demanded by textile manufacturers.

The Group maintains its operations by 4.515 employees as of 1H2023 (FYE2022: 5.082) and its subsidiaries are as follows; Zorluteks Tekstil Sanayi ve Ticaret A.Ş. (Türkiye), Zorlu Dış Ticaret A.Ş. (Türkiye), Zorluteks SNG (Moscow), Zorluteks D.O.O. (Macedonia) and Zorlu UK Ltd. (England). Korteks, through its subsidiaries, manage several brands including 'Taç', 'Linens', 'Valeron', 'Casabel' and 'Brielle'. The Group is ultimately owned by Zorlu Family members, via Zorlu Holding A.Ş.

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

Strengths	Constraints
• Rising sales revenues underpinned by the increase in unit prices in FY2022 • Substantial net profit generation particularly arising from FX gains from financing over the analyzed periods • Ongoing positive cash flow metrics • Operating with net working capital surplus and adequate level of current ratio in the reviewed periods • Variety of products underpinning sales and competition • Ultimate controlling shareholders' operating history dating back to 1950s	• Leveraged financial structure coupled with notably high FC-denominated overall debt level and remarkable worsening net debt/EBITDA multiplier in 1H2023 • Distorting effect of sizable volume of intra-company financing on asset quality • Contraction in profitability ratios in FY2022 originating from rising input costs and further significant deterioration according to the partially audited report of 1H2023 • Delinquency records throughout FY2022 and up to November,2023 although not seen recently • Insignificant growth in sales revenue in 1H2023 compared to the same period of previous year • Impaired receivables on a cumulative basis pressuring on asset quality • High non-cash contribution of revaluation gains from tangible assets in equity • 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, Korteks's the Long-Term National Issuer Credit Rating has been revised from **'A- (tr)'** to **'BBB (tr)'**. Korteks's long-lasting proven track and being one of the important players in yarn manufacturing & home textile sector in Türkiye along with its high debt burden, contraction in profit margins in FY2022 and further deterioration in 1H2023 and notably high related party receivables 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 revenue growth, EBITDA generation capacity, profitability and leverage, equity level, profit margins and solvency performance 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.