

Corporate Credit Rating

New Update

Sector: Paper & Forest Products

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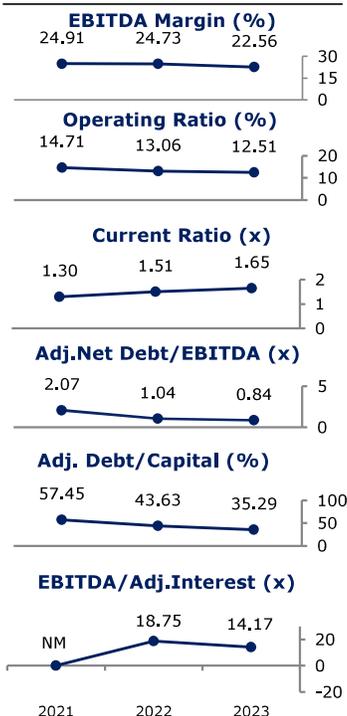
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| RATINGS | | Long Term | Short Term |
|--------------------------------------|-------------------------------|-------------|------------|
| ICRs (Issuer Credit Rating Profile) | National ICR | AA (tr) | J1+ (tr) |
| | National ICR Outlooks | Positive | 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 | - | - |
| | International FC ISR | - | - |
| Sovereign* | International LC ISR | - | - |
| | Foreign Currency | BB (Stable) | - |
| | Local Currency | BB (Stable) | - |

* Assigned by JCR on May 10, 2024



* NM: Not Meaningful

LİLA KAĞIT SANAYİ VE TİCARET A.Ş.

JCR Eurasia Rating has evaluated the consolidated structure of "Lila Kağıt Sanayi ve Ticaret A.Ş." in the investment grade category with very high credit quality, affirmed the Long-Term National Issuer Credit Rating at 'AA (tr)' and revised its outlook to 'Positive' from 'Stable'; affirmed the Short-Term National Issuer Credit Rating at 'J1+ (tr)' with 'Stable' outlook. On the other hand, the Long-Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were determined as 'BB/Stable' in line with the sovereign ratings and outlooks of Republic of Türkiye.

"Lila Kağıt Sanayi ve Ticaret A.Ş." (hereinafter referred to as "Lila Kağıt", "the Company" or "the Group") was established on January 17, 1984 in İstanbul, Türkiye. The Group, headquartered in İstanbul, operates in the production of jumbo roll, toilet paper, paper towels, paper napkins and tissue paper in its production facility built on an area of 300 thousand m² in Ergene, Tekirdağ. Lila Kağıt is one of the key players in the domestic tissue paper market with its registered brands (*Domestic Market; Sofia, Maylo, Ultra Berrak – Foreign Market; Nua, Nua Professional*) and private label products. The Company ranked 191st in the list of Türkiye's Top 500 Industrial Enterprises published by İstanbul Chamber of Industry in 2023 (2022: 153rd).

Lila Kağıt's shares with a nominal value of TRY 120mn were offered to the public on April 30 and May 1-2, 2024 at a price of TRY 37.39 and started to be traded on the Borsa İstanbul (BIST) with the ticker symbol "LILAK" on May 9, 2024.

The Company has a subsidiary established in Switzerland on January 19, 2023 with the trade name "Lila Paper Swiss AG". The Group has a total of 1,069 employees as of 1Q2024 (FYE2023: 1,079).

According to the information provided by the Company, as of 1H2024, the main ultimate controlling shareholder of the Company is Öğücü Family with 83% shares. The remaining 17% of the shares are publicly traded on the BIST.

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

Strengths

- Satisfactory sales volume and core profitability margins despite slight contraction in FY2023,
- Decreasing trend in net debt to EBITDA multiplier supporting financial structure in the analyzed periods,
- Positive cash flow metrics and net working capital easing liquidity management,
- Strengthened equity level mainly due to accumulated profit in FY2023 and share premiums through IPO in 2024 despite regular dividend payment,
- Net exporter status supported by geographical diversification over the analyzed periods together with long FX position in FY2023,
- Expected increase in production capacity with the completion of ongoing investments through a notable contribution of the funds obtained from the initial public offering,
- Low collection risk thanks to a diversified customer portfolio supporting asset quality,
- Enhanced practice of corporate governance principles thanks to the public offering process,
- Long lasting operating history.

Constraints

- Financing expenses mainly arising from FX losses pressuring on bottom-line results together with TAS 29 effect in FY2023,
- High level of operating ratio despite decreasing trend and long cash conversion cycle in the analyzed periods,
- Import dependency in product supply and competitive environment in the sector,
- Leading economic indicators signal global economic slowdown whereas quantitative tightening actions aim to restrict consumption growth and achieve a soft-landing in the domestic side.

Considering the aforementioned points, the Group's Long-Term National Issuer Credit Rating has been affirmed at 'AA (tr)'. The Group's satisfactory sales volume, decreasing net debt to EBITDA multiplier, low collection risk, positive cash flow metrics and NWC as well as high operating ratio, long cash cycle and slowdown signal in the global economy have been evaluated as important indicators for the stability of the ratings and the outlook for the Short-Term National Issuer Credit Ratings is determined as 'Stable'. Considering the expectation that investments will be made to increase production capacity and sales revenues in the coming periods with the contribution of the funds obtained from the public offering, the outlook for the Long-Term National Issuer Credit Rating is revised to 'Positive' from 'Stable'. The Group's financial structure, sales and profitability performance, liquidity and leverage indicators 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.