

## Corporate Credit Rating

New  Update

**Sector:** Textile

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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

## Merinos Halı Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating, has evaluated "Merinos Halı Sanayi ve Ticaret A.Ş." in the investment level category, revised the Long-Term National Issuer Credit Rating from 'BBB (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' as parallel to international ratings and outlooks of Republic of Türkiye.

**Merinos Halı Sanayi ve Ticaret A.Ş.** (hereinafter referred to as 'Merinos', 'the Company' or 'the Group') established in 1990 by Erdemoğlu Family, a well-known family in Gaziantep, is one of the world's leading machine-made carpet manufacturer. As a leading carpet producing company in Türkiye, Merinos, engages in production of carpet in Gaziantep 4rd O.S.B. which established on a 656.472 m<sup>2</sup> closed area. The main operating field of Group is production of yarn and various textile products from all kinds of carpets, synthetic and natural fibers and marketing, importing and exporting of these products. The annual machine-made carpet production capacity is 45mn m<sup>2</sup>, acrylic yarn production capacity is 16k tons, masterbatch dyeing capacity is 5.000 tons, polypropylene carpet yarn production capacity is 50,000 tons, polyester yarn production capacity is 55,000 tons. In addition, the acrylic yarn facility established in Besni Organized Industrial Zone has a closed area of 46.4k m<sup>2</sup>. While 16,000 tons of acrylic yarn production out of total 32,000 tons are produced in Besni, the rest was produced in Gaziantep. There is a tufted carpet production facility established in Gaziantep 4th Organized Industrial Zone with a closed area of 80,000 m<sup>2</sup> and a production capacity of 40,000,000 m<sup>2</sup>. The Group headquarters is located in Gaziantep with a labour force of 5,351 as of FYE2022 (FYE2021: 5,400).

The Group's ultimate control belongs to Erdemoğlu Holding A.Ş. with 100% shares as of FYE2022. As a worldwide carpet industry leader, the Erdemoğlu Holding A.Ş., through over 5.000 sales points, 14k employees, 2 million m<sup>2</sup> production area in 8 cities in Türkiye and in Russia, exports to 74 countries.

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

### Strengths

- Sustainable improvement in sales revenue and EBITDA generation capacity,
- Robust FFO and FOCF levels supporting liquidity structure despite deterioration in CFO indicator in FY2022,
- Low level of operating ratio and rapid cash cycle supporting efficiency,
- Geographical divergence contributing to risk mitigation supported by natural hedging opportunity in a certain extent,
- Having competitive advantages thanks to operational integration and ecological approach,
- Emphasis on innovation and R&D activities creating a competitive advantage through wide product range,
- The accumulated know-how in the sector and strong market influence particularly through registered brands and high production capacity,
- Reputable brand name of Erdemoğlu Holding and the synergy created within the group companies.

### Constraints

- Short-term weighted profile of total financial liabilities and comparatively high level of Net Debt to EBITDA multiplier despite improvement in FYE2022,
- Pressure on profitability indicators due to increasing financing costs mainly arising from FX losses despite enhancement in FY2022,
- Low level of paid-in capital within equity structure,
- Steadily increasing net working capital deficit leading external funding needs for ongoing investments,
- 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 revised to 'BBB+ (tr)' from 'BBB (tr)'. Considering the Group's long business track record, sustainable sales growth, world-wide recognition through established brands, exporter structure, solid market share both in national and international scale, low non-performing receivables level supported by successful risk management including receivable insurance and eliminates the pressure on asset quality derived from customer concentration through the strong credit profile of the customer portfolio, equity level, natural hedge mechanism through FX income generation capacity, expectation of improvement in profit generation capacity once completed investments, being one of the biggest players in the world machine-made carpet sector and capability to access funding resources along have been evaluated as important indicators for the stability of the ratings and the outlooks for long and short-term national ratings are determined as 'Stable'. Sales and profitability performance, EBITDA margin, progress on the ongoing investments and additional cash flows that will be generated by completed and ongoing investments, indebtedness structure, additional diversification in export markets, local and global macroeconomic indicators are the major issues which will be monitored by JCR Eurasia Rating in the upcoming period.

