

Corporate Credit Rating

New Update

Sector: Commercial Vehicles & Defense

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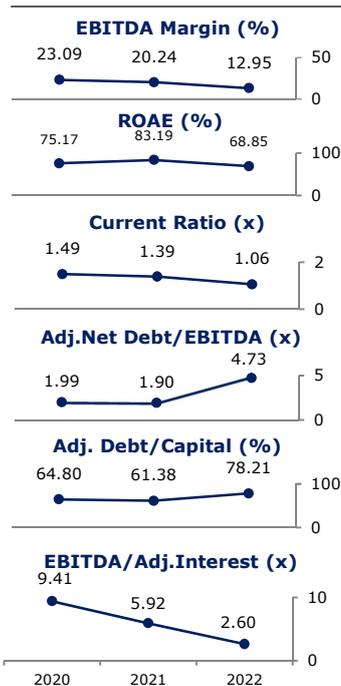
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R A T I N G S		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	AA (tr)	J1+ (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
ISRs (Issue Specific 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



Otokar Otomotiv ve Savunma Sanayi A.Ş.

JCR Eurasia Rating has evaluated "Otokar Otomotiv ve Savunma Sanayi A.Ş." (Otokar /the Company) in the investment level category with very high credit quality and revised the Long-Term National Issuer Credit Rating from 'AA+ (tr)' to 'AA (tr)' and affirmed 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 assigned as 'BB/Negative' as parallel to international ratings and outlooks of Republic of Türkiye.

Otokar was established in 1963 in Türkiye, to produce the first intercity buses of the country. The Company, produces buses and light trucks in the commercial vehicles segment, and a variety of tactical wheeled and tracked armored vehicles and turret systems for the defense industry at its Arifiye (Sakarya) plant with 552,000 m² production area. The Company offers solutions tailored to customer needs with its technologies, designs and applications. Otokar products are currently sold and used in over 75 countries and 5 continents. Otokar shares have been traded on Borsa Istanbul since April 24, 1995 with ticker symbol "OTKAR". The Company had a work force of 2,942 people as of FYE2022 (FYE2021: 2,286).

The Koç Group is Türkiye's largest industrial and services group in terms of revenues, exports, number of employees and market capitalization. Koç Group has leading brands in energy, automotive, consumer durables, finance sectors. Combined revenues of the Koç Group correspond to ~8% of Türkiye's GDP and Group's exports account for ~7% of Türkiye's total exports. As of 31st of December 2022, Koç Holding and publicly traded companies of the Group at BIST 100 accounted for ~19% of the total market capitalization of the companies listed on BIST 100.

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

Strengths

- Sales revenue growth especially stemming from commercial vehicle business with rising sales figures in FY2022
- High level of export share in the turnover providing natural hedge
- Considerable liquid asset level, easing liquidity management in a certain extent
- Competitive advantages through strong R&D center and new product-brand creation power
- Diversified external financing sources through bond issuance in FY2023
- Strong presence in Turkish defense industry and commercial vehicle industry with reputable brands and proven successful track record in various countries
- High level of compliance regarding corporate governance implementations
- Being a subsidiary of one of the Türkiye's leading investment holding companies; Koç Holding

Constraints

- Decreasing trend in operational profit margins in two consecutive years and net loss in 1Q2023
- Notable increase in financial leverage and decreasing equity share
- Negative cash flow generation from operations in FY2022 mainly due to high level of working capital needs
- High level of inventory due to risk management measures against supply chain bottlenecks
- Increasing share of short-term financial debt in the funding structure, pressuring liquidity metrics
- High correlation with macroeconomic dynamics of the automotive sector
- Defense industry specific operational risk related with trade barriers of countries
- Tight financial conditions, accompanied by global banking concerns, disrupt global growth projections

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been revised from 'AA+ (tr)' to 'AA (tr)'. Proven successful track record in Türkiye and various countries, increasing sales volume, sustaining export share in the turnover and capability to access funding resources as well as geopolitical risks-driven uncertainties and 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 sales and profitability performance, backlog, cash flow generation capacity, trend of financial indebtedness, asset and equity growth, inventory level, FX position, regulation's effect on the performance, asset quality will be closely monitored by JCR Eurasia Rating in the upcoming periods.