

Corporate Credit Rating

New Update

Sector: Textile Industry

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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	-
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

SÖKTAŞ TEKSTİL SANAYİ VE TİCARET A.Ş.

JCR Eurasia Rating, has evaluated "Söktaş Tekstil Sanayi ve Ticaret A.Ş." in the investment level category and assigned the Long-Term National Issuer Credit Rating as 'BBB (tr)' and the Short-Term National Issuer Credit Rating as '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'.

"Söktaş Tekstil Sanayi ve Ticaret A.Ş." (referred to as "Söktaş Tekstil" or "the Company" or "the Group"), was established in 1971 in Söke, Aydın. Söktaş Tekstil started its production activities with the yarn factory established in 1973. Through an extraordinary general meeting on January 19, 2011, Söktaş Tekstil separated its textile manufacturing and agricultural livestock activities in Türkiye via a partial demerger. The main activities thereafter included managing subsidiaries, handling cotton and staple fiber yarns, and trading yarns and fabrics.

After the demerger, Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş. (Söktaş Dokuma) has continued fabric production, and Efeler Çiftliği Tarım ve Hayvancılık A.Ş. (Efeler Çiftliği) has continued agriculture and livestock activities since February 1, 2011. The merger of Söktaş Dokuma, through "simplified merger" method, was registered on December 31, 2018, within Söktaş Tekstil. The Company employs 691 (FYE2022: 738 personnel) personnel as of September 2023.

The Company conducts production activities in Söke-Aydın and has branches in Biella, Italy, Atatürk Airport Free Zone, İstanbul, and İzmir. Söktaş Tekstil's shares have been traded on Borsa İstanbul since 1995. The Kayhan family is the ultimate controlling shareholder.

The Company has been rated mainly due to its cash and non-cash credit limit/risk level.

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

Strengths

- Turnover growth driven by volume increase, in contrast to the contraction in the textile sector, thanks to the tailored product portfolio,
- Easing liquidity management in a certain extent in line with the refinanced loans in 4Q2023,
- Asset quality supported by low collection risk, thanks to customer portfolio constituting well-known brands and their suppliers,
- High level of compliance with the corporate governance practices as a publicly listed company.

Constraints

- Residual debt from terminated operations, distorting leverage outlook, despite the EUR based decline in financial borrowings,
- Current borrowing mix increasing fragility to increasing interest rates on the back of quantitative tightening in the domestic side,
- Declining current ratio along with negative net working capital,
- Cumulative net losses together with non-cash revaluation gains distorting equity structure,
- Leading economic indicators signal global economic slowdown.

Considering the aforementioned points, the Company's Long-Term National Issuer Credit Rating has been assigned as 'BBB (tr)'. Söktaş Tekstil's increase in sales revenue and volume, collaboration with global brands, capacity to generate foreign exchange income, and asset quality are 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 profitability metrics, cash flow indicators, debt structure, and cash loan exposure trend 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.

