

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)	J3 (tr)
	National ICR Outlooks	Stable	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

SÖKTAŞ TEKSTİL SANAYİ VE TİCARET A.Ş.

JCR Eurasia Rating, has evaluated "Söktaş Tekstil Sanayi ve Ticaret A.Ş." in the investment grade category and revised the Long-Term National Issuer Credit Rating from 'BBB (tr)' to 'BBB- (tr)' and the Short-Term National Issuer Credit Rating from 'J2 (tr)' to 'J3 (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-/Stable'.

"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. According to Söktaş Tekstil's PDP announcement dated December 25, 2024, Efeler Çiftliği, a 100% subsidiary of the Company, was sold.

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 employs 678 personnel as of September 2024 (FYE2023: 689).

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

Strengths

- Significant cash injection from the sale of a subsidiary and subsequent reduction of financial debt in 4Q2024,
- Customer portfolio constituting well-known brands structure mitigating the collection risk, despite partial concentration risk,
- Relatively short cash conversion cycle compared to the sector dynamics,
- Long-standing industry experience and compliance with corporate governance practices.

Constraints

- Negative EBITDA and operating loss in 2022 and 2023 though positive realization in 3Q2024, mainly due to IAS-29 effect and recently terminated dairy farming business,
- High leverage and weak coverage metrics, even though cash injections were realized in 4Q2024,
- High level of OpEx pressuring efficiency due to the limited increase in exchange rates and constraints in reflecting cost increases to sales prices compared to the inflation,
- Notable level of cumulative losses, despite equity base mainly increased by non-cash revaluation gains,
- Partial decline in sales volumes in 3Q2024 due to the squeeze in the textile sector,
- Short-term weighted liabilities caused inadequate liquidity structure in the analyzed periods,
- In the shadow of geopolitical risks, leading economic indicators point to continued weakness in global demand conditions, whereas actions for a soft-landing are at the forefront.

EBITDA Margin (%)



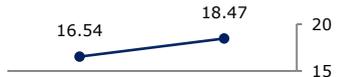
NWC / Total Assets (%)



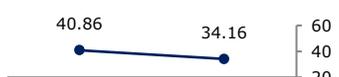
Current Ratio (x)



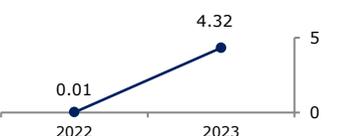
OpEX / Net Sales (%)



Adj. Debt/Capital (%)



Gross Profit Margin (%)



Considering the aforementioned points, the Company's Long-Term National Issuer Credit Rating has been revised from 'BBB (tr)' to 'BBB- (tr)'. Söktaş Tekstil's reduced financial borrowings in 4Q2024 via the funds obtained from a subsidiary sale, being a supplier of well-known brands, negative profitability margins, high inflation compared to the exchange rate and inability to reflect cost increases to sales prices, corporate governance principles, and short cash conversion cycle are important indicators for the stability of the ratings and the outlooks for Long and Short-Term National Issuer Credit Ratings are affirmed at 'Stable'. The Company's indebtedness structure, sales performance and profitability margins, liquidity metrics, 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.