Corporate Credit Rating

☐New ☒Update

Sector: Metal Industry
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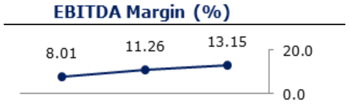
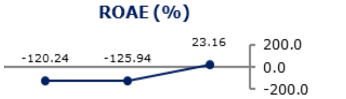
RATINGS		Long Term	Short Term
ICRs (Issuer Credit Rating Profile)	National ICR	BBB (tr)	J2 (tr)
	National ICR Outlooks	Positive	Stable
	International FC ICR	BB	-
	International FC ICR Outlooks	Negative	-
	International LC ICR	BB	-
	International LC ICR Outlooks	Negative	-
ISRs (Issue Specific Rating 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*

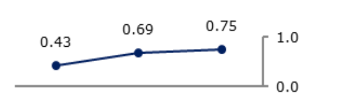
EBITDA Margin (%)



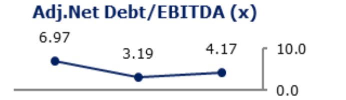
ROAE (%)



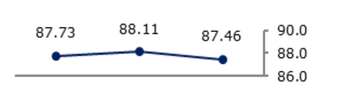
Current Ratio



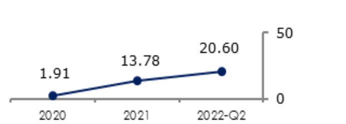
Adj.Net Debt/EBITDA (x)



Adj. Debt/Capital (%)



EBITDA/Adj.Interest (x)



İZMİR DEMİR ÇELİK SANAYİ A.Ş.

JCR Eurasia Rating, has evaluated **"İzmir Demir Çelik Sanayi A.Ş."** in the investment level category and revised the Long-Term National Issuer Credit Rating from **'BBB- (tr)'** to **'BBB (tr)', outlook from 'Stable' to 'Positive' and** the Short-Term National Issuer Credit Rating at **'J2 (tr)'**with **'Stable'** outlook. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned as **'BB/Negative'.**

İzmir Demir Çelik Sanayi A.Ş." (hereinafter referred to as "İDÇ", "the Company" or "the Group"), was established in 1975 in İzmir with the aim of producing construction iron. The rolling mill facilities of the Company were put into operation in 1983, and the steel mill in 1987. İDÇ continues its production activities in an area of over 550,000 m² in Aliağa Heavy Industry Zone in İzmir. The steel mill production capacity of the Company was increased to 1,5mn tons/year, and the bar rolling mill production capacity was increased to 1mn tons/year over time. In 2013, İDÇ took over a profile rolling mill with an annual capacity of 400,000 tons to expand its product range. In current status, the main field of activity of the Company and its subsidiaries is production, sales and marketing of iron and steel products as well as shipping activities, port services, energy generation and trade. In the list of Türkiye's 500 largest industrial enterprises published every year by the Istanbul Chamber of Industry, the Company ranked 37th in the general ranking in 2021. The shares of İDÇ have been traded on the Istanbul Stock Exchange (BIST) since 24.01.1986 with the ticker of IZMDC. The average number of personnel employed within the Company and its subsidiaries as of September 2022 is 1,921 (FY2021: 1,843)

İDÇ's main ultimate controlling shareholder is Şahin-Koç Çelik Sanayi A.Ş. with 58.13% share. The remaining 41.87% shares are publicly traded.

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

Strengths

- The robust performance of the energy segment contrary to the slowdown in steel sector in Q3 2022, supporting the revenue growth,
- The sustained increase in EBITDA generation capacity with reasonable margins mainly driven by energy segment in Q3 2022, thanks to efficient cost management,
- Improvement in net debt/EBITDA metric mainly in Q3 2022,
- Improvement in profitability indicators over the periods,
- Receiving certain level of advances for the orders and cash-basis business model relieving the cash flow and supporting the receivable quality, particularly in steel business,
- Competitiveness and diversification provided by the support of other group companies,
- Expected increase in sales and profitability figures with the completion of ongoing new steel mill investment,
- High level of compliance with the corporate governance practices as a publicly listed company for a long period.

Constraints

- High financial expenses suppressing the bottom line profitability,
- The ongoing negative realizations of net working capital owing to short-term weighted funding profile,
- Low level of equity compared to the asset size despite the noteworthy contribution of non-cash revaluation gain,
- High dependence on external financing due to operating cycle and ongoing investments,
- The highly correlated nature of revenue and profitability with demand and raw material prices in the steel industry,
- Global recession and geopolitical risks stemming from the Russia-Ukraine tension increasing uncertainty and monetary tightening across the globe deteriorating growth projections.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been revised from **'BBB- (tr)'** to **'BBB (tr)'**. Additionally, the steady growth in sales revenues, EBITDA generation capacity, improvement in profitability indicators, short collection period of trade receivables along with the decrease in the doubtful trade receivables, vertically integrated group structure, expected contribution of the ongoing new steel mill investment with the completion and high level of compliance with corporate governance structure have been evaluated as important indicators for the stability of the ratings and the outlook for Long -Term National Issuer Credit Rating is revised as **'Positive'** and the Short-Term National Issuer Credit Ratings affirmed as **'Stable'**.

The Company's debt and equity level, cash flow and liquidity metrics, asset quality, financial risk indicators, profit margins and sectoral regulations 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.

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