

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 | Stable | Stable |
| | International FC ICR | BB | - |
| | International FC ICR Outlooks | Negative | - |
| ISRs (Issue Specific Rating Profile) | International LC ICR | BB | - |
| | International LC ICR Outlooks | Negative | - |
| Sovereign* | National ISR | - | - |
| | International FC ISR | - | - |
| | International LC ISR | - | - |
| Sovereign* | Foreign Currency | BB (Negative) | - |
| | Local Currency | BB (Negative) | - |

* Assigned by JCR on Aug 18, 2022

İZMİR DEMİR ÇELİK SANAYİ A.Ş.

JCR Eurasia Rating, has evaluated "İzmir Demir Çelik Sanayi A.Ş." in investment-level category and affirmed the Long-Term National Issuer Credit Rating at 'BBB (tr)' and the Short-Term National Issuer Credit Rating at 'J2 (tr)'. In addition, the Company's Long-Term National Issuer Credit Rating Outlook has been revised from 'Positive' to 'Stable' and the Short-Term National Issuer Credit Rating Outlook affirmed as 'Stable'. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were affirmed at 'BB/Negative' as parallel to international ratings and outlooks of Republic of Türkiye.

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. At present, the main activities of the Company and its subsidiaries are the production, sales and marketing of iron and steel products as well as shipping activities, port services, energy generation and trading. In the list of Türkiye's 500 largest industrial enterprises published every year by the Istanbul Chamber of Industry, the Company ranked 42th (2021: 37th) in the general ranking in 2022. Moreover, İDÇ ranked 131st in the general ranking and 19th in the sector ranking in the Top 1000 list for 2022 announced by the Turkish Exporters Assembly. 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 Group as of September 2023 is 1,984 (FY2022: 1,980).

The main ultimate controlling shareholder of İDÇ is Şahin-Koç Çelik Sanayi A.Ş., holding a 58.13% stake, while the remaining 41.87% of shares are publicly traded.

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

Strengths

Constraints

- Improvement in profitability in 2022 with the cash contribution of the non-core sectors,
- Escalated EBITDA generation capacity led to a significant improvement in leverage metrics by the end of 2022, though partial worsening in 9M2023,
- Enhancement of the equity level in the balance sheet composition, coupled with sufficient paid-in capital,
- Maintenance of competitiveness and revenue diversification, with vertically integrated structure of group companies,
- Preserving the advance based business model in iron and steel segment contributing the risk management in some extent,
- Expected increase in capacity and strengthened market position by completing ongoing steel mill investments,
- High level of compliance with the corporate governance practices as a publicly listed company since 1986.
- Persistent high pressure of foreign exchange-denominated loans on bottom line profitability and equity,
- Continuity of the negative trend in NWC and insufficient liquidity outlook owing to short-term weighted funding structure,
- Shrinking cash flow from operating activities (CFO) and negative free operating cash flow (FOCF) due to working capital needs and increased capital expenditure,
- Increased level of doubtful receivables in 3Q2023,
- Continued high dependence on external financing due to the operating cycle and ongoing investments,
- Leading economic indicators signal global economic slowdown as quantitative tightening actions aim to restrict consumption growth and achieve a soft-landing in the domestic side.

Considering the aforementioned points, the Company's the Long-Term National Issuer Credit Rating has been affirmed at 'BBB (tr)'. Additionally, improvement in profitability, increased EBITDA generation, leverage metrics, reasonable equity level in the balance sheet composition, the positive impact of the group structure on operations, advance based working model, the anticipation of capacity increase with new investments, and a high level of corporate governance structure as well as the net loss in 3Q2023, tight competition, fluctuating pattern of the commodity prices 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 revised from 'Positive' to 'Stable' and the Short-Term National Issuer Credit Rating Outlook affirmed as 'Stable'.

The Group's production and other activities, debt and equity level, cash flow and liquidity metrics, asset quality, financial risk indicators, profit margins, customer portfolio and sectoral regulations, financial results of factory investment with expected capacity increase and the outlook of the metal industry 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.

