

22 August 2017

**Credit Rating**

**Rating**

**(National): Long Term**

**(TR) BBB**

**Outlook:**

**Positive**

**Rating**

**(National): Short Term**

**(TR) A3**

**Outlook:**

**Positive**

**Söktaş Tekstil Sanayi ve Ticaret  
A.Ş.**

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**SÖKTAŞ TEKSTİL SANAYİ ve TİCARET A.Ş.**

**Rating Summary**

Söktaş Tekstil Sanayi ve Ticaret A.Ş., (the "Group", "Söktaş") was founded in 1971 at Söke, Aydın. The Company separated its operations on fabric production and agri-dairy operations with a partial division following the extraordinary general shareholders' meeting which took place on January 19, 2011. Its main activities as of this date are equity investments and management, and cotton yarn production and sales. Establishment and registration of the companies formed after partial division was completed on January 31, 2011. Starting from February 1<sup>st</sup> 2011, Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş. overtook the woven fabric production activities in Turkey and Efeler Çiftliği Tarım ve Hayvancılık A.Ş. have begun to pursue the agriculture and dairy farming activities. The Company maintains its strategy of expansion into new markets through innovation and efficient marketing in the textile industry while continuing to conduct studies to save and improve efficiency. Söktaş continues production in facilities located in Söke, Aydın and has a liaison office at Beyoğlu-Istanbul and a branch at Biella-Italy. Company's Aegean Free Zone branch was closed on February 2016.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, SÖKTAŞ received a (National) long term rating of BBB.

Previous Rating: Long Term (TR) BBB  
Short Term (TR) A3

**Outlook**

Ending the loss-generating activities harming Söktaş enabled the creation of financial resources with a consolidated EBITDA margin of 19%. However a total of TL 294 million of financial debt, of which TL 130 million is short-term, has a negative impact on the profitability of the Company. In this context, interest rates and exchange rates constitute the Company's underlying risk factors.

Despite the attained gross profit, the Company cannot achieve a net profit due to financing expenses. Ratio of the Company's EBITDA to sales has been around 20% as of the last two fiscal periods. However, net financial expenses of TL 48.3 million in 2015 have risen to around TL 62.1 million in 2016 due to depreciation of the Turkish Lira and increased indebtedness. The most important item affecting the non-operating profit of Söktaş is the Euro's value against the TL. A 10% appreciation of Euro against the TL decreases the net profit of the Company by TL 15.7 million. In addition, the average capacity utilization rate of the Company in 2016 was around 70%. This rate is below the average of the textile sector which reached 77% in 2016 and in an increasing trend in 2017.

Söktaş largely completed its ongoing investments which have been continuing since 2008. A total of more than USD 150 million is invested on fixed assets for fabric production and on biological asset purchases for milk production. In order to reduce financial liabilities, the Company has applied to the official authorities for the change of the construction plan of the factory owned and it has been approved. In addition to this positive development, the Company's outlook is evaluated as positive considering factors such as the capital increase, the sale of the subsidiary in Romania and the spread of financial liabilities to long term.

## Methodology

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SAHA's credit rating methodology is composed of quantitative and qualitative sections to affect the final note with specific weights. Quantitative analysis components consist of SAHA Z-Score, company's distance from the point of default, its performance compared to the sector, analysis of the financial risks, and the assessment of cash flow projections. Default point analysis measures the distance from the point of default and it is based on relevant sector firms' past financial performances, ratios derived from a distinctive default statistics, and statistically derived coefficients. This analysis is based on genuine statistical study of SAHA, covering companies in the textile industry in Turkey. Comparative performance analysis of the sector determines the position of the company concerned in comparison with the sector firms' recent financial performances. Financial risk analysis covers the evaluation of the company's financial ratios on the basis of objective criteria. Liquidity, leverage, asset quality, profitability, volatility and concentration are treated as sub-headings in this analysis. Finally, scenario analysis tackles the company's future base and stress scenario projections subject to scrutiny in the context of the firm's financing tool and assesses the risks of fulfillment of obligations.

Qualitative analysis covers operational issues such as sector and company risks as well as administrative risks in the context of corporate governance practices. Sector analysis evaluates the nature and rate of growth of the sector, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. Company analysis discusses market share and efficiency, growth trend, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency outshines once again in the current global financial crisis we witness. Our methodology consist of four main sections; shareholders, public disclosure and transparency, stakeholders, and board of directors. The corporate governance methodology of SAHA can be accessed at [www.saharating.com](http://www.saharating.com).

## Rating Definitions

Our long term credit rating results start from AAA showing the highest quality and continue all the way to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction between the categories of AA and CCC.

Companies and securities rated with long-term AAA, AA, A, BBB and short-term A1 +, A1, A2, A3 categories should be considered “investment worthy” by the market.

Short Term	Long Term	Rating Definitions
(TR) A1+	(TR) AAA (TR) AA+ (TR) AA (TR) AA-	The highest credit quality. Ability to meet financial obligations is extremely high. If securities; carries a little more risk than the risk-free government bonds.
(TR) A1	(TR) A+ (TR) A	Credit quality is very high. Very high ability to fulfill financial obligations. Sudden changes at the company and economic and financial conditions may increase investment risk, but not at a significant level.
(TR) A2	(TR) A- (TR) BBB+	High ability to fulfill financial obligations, but may be affected by adverse economic conditions and changes.
(TR) A3	(TR) BBB (TR) BBB-	Sufficient financial ability to fulfill its obligations, but carries more risk in adverse economic conditions and changes. If securities; has adequate protection parameters, but issuer’s capacity to fulfill its obligations may weaken due to adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B, C categories should be considered “speculative” by the market.

(TR) B	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but face to face with negative financial and economic conditions. If securities; under the investment level, but on-time payment exist, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may appear.
(TR) C	(TR) B+ (TR) B (TR) B-	Currently has the capacity to fulfill financial obligations, but highly sensitive to adverse economic and financial conditions. If securities; there is a risk of on-time payment. Financial protection factors can show high fluctuations according to the status of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below the category of investment. In danger, and economic, sectoral and financial conditions should have a positive development to fulfill its financial obligations. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. Company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

## Disclaimer

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