



25 November 2021

Credit Rating

Long-term (National):

(TR) BBB

Outlook:

Stable

Short-term (National):

(TR) A3

Outlook:

Stable

Expiry Date:

25 November 2022

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., ("Söktaş", the "Company") was established in 1971 at Söke, Aydın and separated its operations on fabric manufacturing and agri-dairy activities in Turkey through a partial division in 2011. Its main activities as of this date are cotton yarn production and sales and management of subsidiary investments. Following the partial division, The woven fabric production activities in Turkey were undertaken by Söktaş Dokuma İşletmeleri Sanayi ve Ticaret A.Ş. ("Söktaş Dokuma") and the agriculture and dairy farming activities were persued by Efeler Çiftliği Tarım ve Hayvancılık A.Ş. ("Efeler Çiftliği"). In December 2018, Söktaş Dokuma, with all its assets and liabilities, was incorporated into Söktaş Tekstil. 51% of the Company shares are owned by the Kayhan family, and the remaining 49% are traded on the BIST since 1995 with the ticker code SKTAS. The application of the Company to the Capital Markets Board regarding the transition to the registered capital system and amendment of the articles of association of Efeler Çiftliği, which is an 84% subsidiary, has been approved. According to the declaration of the Company officials, a public offering in the 1st quarter of 2022 is anticipated. Within the registered capital ceiling of TL 350 millions, the Company's issued capital of TL 78.2 millions has been increased by TL 75.6 millions, all in cash, by using the pre-emptive rights of its existing partners, and reached TL 153.8 millions. The cash inflow provided by the capital increase was used to reduce the Company's financial liabilities.

The Company has four branches in Biella (Italy), the Atatürk Airport Free Zone, Istanbul Beyoğlu and Izmir Konak while its manufacturing activities are carried out at its facilities in Söke-Aydın. In addition, its dairy farming operations take place at Efeler Çiftliği in Aydın Germencik district.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market history and position, Söktaş received a long-term rating of **(TR) BBB** and a short-term rating of **(TR) A3**.

Outlook

The EBITDA margin of Söktaş was 17.9% at the end of 2019, 24% at end-2020 and 37.0% as of September 2021. Although the Company has achieved an average of over 30% gross profit in the last 5 years analyzed, it has not achieved a net profit due to financial expenses. The Company's financial liability principal balance, which was TL 122.2 millions and € 28.0 millions at the end of 2020, decreased to TL 110.9 millions and € 22.9 millions as of September 2021 (2019: TL 83.6 millions and € 32.9 millions).

As of the last two accounting periods, the Company's ratio of EBITDA to sales is 21% on average. Financial expenses, which were TL 81.9 millions net at the end of 2019, increased to TL 90.3 millions as of end-2020. Net financing expense as of September 2021 is TL 71.2 millions. Since 47.1% of the Company's financial liabilities was based on floating interest rates and 72.6% was in foreign currency borrowings as of the same date, the most important factors affecting its non-operating profitability have been the changes in foreign exchange rates and interest rates.

The average capacity utilization rate of the Company in 2020 is 72%. According to the 2020 data on Capacity Utilization Rate of the Manufacturing Industry announced by the CBT, the average rate for the "Textile Products Manufacturing Industry" is 69%, and the average for the "Manufacturing Industry" is 71.9%.

In addition to all these factors, Söktaş's short and long-term outlook has been determined as **"Stable"**, taking into account the Company's shareholding structure and industry experience, as well as the uncertainties caused by the Covid-19 outbreak in the global trade environment and money markets.

Methodology

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 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 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. Our methodology consists 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.

Rating Definitions

Our long-term credit ratings reflect our present opinion regarding the mid to long term period of one year and above; Our short-term credit ratings reflects our opinion regarding a period of one year. Our long -erm credit rating results start from AAA showing the highest quality grade and continue downward to the lowest rating of D (default). Plus (+) and minus (-) signs are used to make a more detailed distinction within categories AA to 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. Indicates that ability to meet financial obligations is extremely high. For securities, it is an indication of no more than a slight additional risk as compared to 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 level and/or economic and financial conditions may increase investment risk, but not significantly.
(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 in face of adverse economic conditions and changes.

Companies and securities rated with long-term BB, B, CCC, and short-term B1, B2, C categories should be considered “speculative” by the market.

(TR) B1	(TR) BB+ (TR) BB (TR) BB-	Carries minimum level of speculative features. Not in danger in the short term, but faces negative financial and economic conditions. If securities; below investment level, but on-time payments prevail, or under less danger than other speculative securities. However, if the issuer’s capacity to fulfill its obligations weakens, serious uncertainties may unfold.
(TR) B2	(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 in due payment. Financial protection factors can show high fluctuations depending on the conditions of the economy, the sector, and the issuer.
(TR) C	(TR) CCC+ (TR) CCC (TR) CCC-	Well below investment grade. In considerable danger of default. Fulfillment of its financial obligations depends on the positive performance of economic, sectoral and financial conditions. If securities; there are serious uncertainties about the timely payment of principal and interest.
(TR) D	(TR) D	Event of default. The company cannot meet its financial obligations or cannot pay the principal and/or interest of the relevant securities.

Disclaimer

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