

Corporate Credit Rating

New Update

Sector: Rug&Carpet Production and Trade
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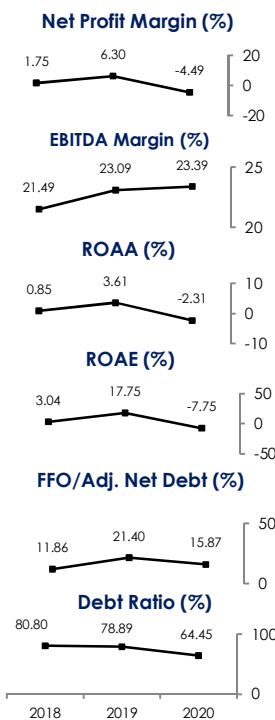
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RATINGS

		Long Term	Short Term	
National	Local Rating	BBB (Trk)	A-3 (Trk)	
	Outlook	Stable	Stable	
	Issue Rating	-	-	
International	Foreign Currency	BB	B	
	Local Currency	BB	B	
	Outlook	FC	Stable	Stable
		LC	Stable	Stable
Sponsor Support	2	-		
Stand-Alone	B	-		
Sovereign	Foreign Currency	BB	-	
	Local Currency	BB	-	
	Outlook	FC	Stable	-
		LC	Stable	-

*Assigned by JCR on May 31, 2021



Merinos Halı Sanayi ve Ticaret A.Ş.

JCR Eurasia Rating has evaluated Merinos Halı Sanayi ve Ticaret A.Ş. ('Merinos' or 'the Group') in the investment-level category of '**BBB (Trk)**' on the long-term national scale and '**A-3 (Trk)**' on the short-term national scale with '**Stable**' outlooks. Long Term International Local and Foreign Currency ratings of the Company are assigned as '**BB/Stable**', same as country ceiling.

Merinos Halı Sanayi ve Ticaret A.Ş. (referred to as '**Merinos**', '**the Company**' or '**the Group**') established in 1990 by Erdemoğlu Family, a well-known family in Gaziantep, is the one of world's leading machine-made carpet manufacturer. As a leading carpet producing company in Turkey, Merinos, engages in production of carpet in Gaziantep 4rd O.S.B. which established on a 442.000m2 closed area. The main operating field of Group is production of yarn and various textile products from all kinds of carpets, synthetic and natural fibers and marketing, importing and exporting of these products. The annual machine made carpet production capacity is 45mn m², acrylic yarn production capacity is 25k tons, masterbatch dyeing capacity is 2.500 tons, polypropylene carpet yarn production capacity is 40,000 tons, polyester yarn production capacity is 25,000 tons and fiber dyeing capacity is 27,000 tons. In addition, the acrylic yarn facility established in Besni Organized Industrial Zone has a closed area of 53k m². While 10,000 tons of acrylic yarn production out of total 25,000 tons are produced in Besni, the rest was produced in Gaziantep. In addition to factory and warehouse, the Group headquarters is located in Gaziantep with a labour force of 4,283 in FY2020 (FY2019: 3,958).

The Group is owned and managed by the Erdemoğlu Family, which also owns Erdemoğlu Holding A.Ş., the largest qualified corporate shareholder of Merinos Halı Sanayi ve Ticaret A.Ş. with a share of 96.82%. As a worldwide carpet industry leader, the Erdemoğlu Holding A.Ş., through over 5.000 sales points, 14k employees, 2.000.000 million m² production area in 8 cities in Turkey and in Russia, exports to 74 countries. Merinos took its place of 97th among the first 500 Industrial Enterprises in Turkey in 2020.

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

Strengths	Constraints
<ul style="list-style-type: none"> The accumulated know-how in the sector and strong market influence particularly through registered brands and high production capacity Diversified nationwide customer base and reliable supplier for leading global brands as one of the world's largest machine-made carpet manufacturers Operational integration producing its own acrylic yarn, polypropylene yarn and polyester yarn in their facilities for production Established track record with a solid export profile and sustainability in revenue and EBITDA generation capacity mainly triggered by international sales Emphasis on innovation and R&D activities creating a competitive advantage and participation in the Turquility programme Effective risk management and supported asset quality derived from receivable insurance policies Notably increased equity mainly supported by investments in equity instruments and strengthened equity level 	<ul style="list-style-type: none"> Steadily increasing net working capital deficit leading to more demanding external funding needs for continuous investments Currency risk exposure due to foreign debt amount leaving bottom line vulnerable to currency shocks despite providing a natural hedge in a certain extent through FX income generation capacity Pressure on profitability ratios due to increasing financing costs largely including exchange difference expenses Position in the publicly listed Group company with a commanding share in assets, inducing volatility in the equity through market valuations Ongoing uncertainties arising from the global pandemic and Covid-19 outbreak's unprecedented damage on the economic activities affecting investment plans

Considering the aforementioned factors, Company's the Long-Term National Rating has been assigned as '**BBB (Trk)**'. The Group's long business track record, sustainable sales growth, world-wide recognition through established brands, exporter structure, solid market share both in national and international scale, low non-performing receivables level supported by successful risk management including receivable insurance and eliminates the pressure on asset quality derived from customer concentration through the strong credit profile of the customer portfolio, equity level, natural hedge mechanism through FX income generation capacity, expectation of improvement in profit generation capacity once completed investments, being one of the biggest players in the world machine-made carpet sector and capability to access funding resources along with ongoing uncertainties due to the Covid-19 pandemic have been evaluated as important indicators for the stability of the ratings and the outlooks for long- and short-term national ratings are determined as '**Stable**'. Sales and profitability performance, EBITDA margin, progress on the ongoing investments and additional cash flows that will be generated by completed and ongoing investments, indebtedness structure, additional diversification in export markets, local and global macroeconomic indicators are the major issues which will be monitored by JCR Eurasia Rating in the upcoming period.

The controlling shareholder, namely **Erdemoğlu Holding A.Ş.** and ultimately the **Erdemoğlu Family**, are thought to possess the financial strength and willingness to provide long-term liquidity and equity to Merinos as well as providing effective operational support should such a need arise. Within this regard, the Company's **Sponsor Support** grade has been assigned as (2) in JCR Eurasia Rating's notation system, denoting an adequate level.

On the other hand, as JCR Eurasia Rating, regardless of the support at the shareholder level, taking into account Merinos's brand reputation both in national and international arenas, solid customer portfolio, EBITDA generation capacity, funding profile, strengthened equity level, immunity against FX losses and the development of existing risks in the markets and business environment by using its internal sources, presence of a skilled management team, the Company is assumed to have reached a level of experience to manage the incurred risks on its balance sheet provided that there is no significant deterioration in the macro-economic outlook and maintains the current customer base is deemed strong. Within this regard, the Company's **Stand-Alone Grade** has been assigned as (B) in JCR Eurasia Rating's notation system, denoting a moderate level.