

Corporate Credit Rating

New Update

Sector: Iron & Steel

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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

İZMİR DEMİR ÇELİK SANAYİ A.Ş. and its subsidiaries

JCR Eurasia Rating, has evaluated the consolidated "İzmir Demir Çelik Sanayi A.Ş." (referred to as "the Company" or "İzmir Demir Çelik")." in the investment grade category and assigned / affirmed the Long-Term National Note at 'BBB- (Trk)' and the Short-Term National Note at 'A-3 (Trk)' with 'Stable' outlooks. On the other hand, the Long Term International Foreign and Local Currency ratings and outlooks were assigned as 'BB/Stable' as parallel to international ratings and outlooks of Republic of Turkey.

"İzmir Demir Çelik Sanayi A.Ş." (hereinafter referred to as "İzmir Demir Çelik" or the "The Company"), was established in 1975 in Izmir with the aim of producing long rolled products. The rolling mill facilities of the company were put into operation in 1983, and the steel mill in 1987. The company continues its production in an area of over 500 thousand square meters in the Alağa/Izmir heavy industry zone. The steel mill production capacity of the company was increased to 1,400,000 tons/year, and the bar rolling mill production capacity was increased to 900,000 tons/year. In 2013, a medium profile rolling mill with a capacity of 400,000 tons was put into operation. The main field of activity of the company and its subsidiaries is production, sales and marketing of iron and steel as well as ship activities, port services, energy generation and trade. The shares of the company have been traded on the Istanbul Stock Exchange (Borsa Istanbul A.Ş.) since 24.01.1986. The paid-in capital of the company was increased to TRY 1.5 billion with the last increase in 2021. The average number of personnel employed within the Company and its subsidiaries in 2020 is 1.790 (2019: 1.711).

The Company's main ultimate controlling shareholder is Şahin-Koç Çelik Sanayi A.Ş. with 58% share.

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

Strengths

- Strong sales and profit figures in the first 9 months of 2021,
- Sizeable cash capital injection in 2021 supporting equity level,
- Low level of trade receivables compared to asset size,
- Long-lasting presence in the sector,
- Group operations providing logistical advantages,
- Potential effect of ongoing new meltshop investment,

Constraints

- Notably high debt ratio and financial expenses pressures on profitability,
- Short-term weighted borrowing profile,
- Net loss due to notable increase of financing expense in the last 3 financial periods,
- High level of cost of sales due to the nature of the business,
- Sectoral high import dependency of the main raw material used in production,
- High non-cash contribution of revaluation gains from tangible assets to growth in equity,
- Sharp FX depreciation and significant volatility, deteriorating balance sheets, affecting debt service capacity of corporates and increasing uncertainty,

Considering the aforementioned points, the Company's the Long-Term National Rating has been assigned/affirmed as 'BBB- (Trk)'. Strong sales and profit figures in the first 9 months of 2021, sizeable cash capital injection supporting equity level in 2021, long-lasting presence in the sector and advantages of other group operations that provide advantages on company's operations and potential effect of ongoing meltshop investment as important indicators for the stability of the ratings and the outlooks for Long and Short-Term National ratings are determined as 'Stable'. The Company's debt and equity level, cash flow and liquidity level, realized production levels, 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.

The Sponsor Support notes and associated risk assessments reflect the financial and non-financial positions of the controlling shareholder of the Company, and its ability to provide liquidity and equity if such a need arise. It is considered that the Company's shareholders have the willingness to supply liquidity and equity within their financial capability when liquidity needs arise in the short or long-term perspective. In this regard, the Company's Sponsor Support Grade has been assigned as (2) in JCR Eurasia Rating's notation scale.

The Company's 'Stand Alone Rating' has been assigned with respect to the Company's over 45 years of experience in the industry, the Company's market share in operating segments, sales growth and EBITDA generation capacity. When the above factors are considered, our opinion is that İzmir Demir Çelik has the desired level of experience, know-how and other required capabilities to manage the occurring/and potential additional risks in its financial structure through internal means. In this respect, the "Stand-Alone" rating of Company has been assigned as "B" in JCR Eurasia Rating notation system.

