

14 July 2017

Credit Rating

Rating
(National): Long Term

(TR) A+

Outlook:

Stable

Rating
(National): Short Term

(TR) A1

Outlook:

Stable

Koton Mağazacılık Tekstil
Sanayi ve Ticaret A.Ş.
Maslak Ayazağa Yolu,
No: 3A/B, Sarıyer, İstanbul

KOTON MAĞAZACILIK TEKSTİL SANAYİ VE TİCARET A.Ş.

Rating Summary

Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş., (the "Group", "Koton") has started its operations in 1988 engaging in design and production of all kinds of textile products and sale through a network of wholesale or wholly owned retail stores. Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş. was found in 1988 by Yılmaz family. Together with increasing the variety of products and introducing large-scale stores, the Company realized its first jump in growth by expanding its design team in 2001. As of 2016, 144 strong design team introduced customers with 30,000 new models each year. Company operates in the apparel retailing sector under Koton, Ole, Koton Beachwear, Partywear, Kids and Denim brand names. As of end 2016 the Company owned 481 stores and reached to approximately 89 million unit sales.

Following our comparative analysis of the sector and examination of financial/operational risks carried by the Company, as well as its domestic market position, KOTON received a long term rating of (TR) A+ and a short term rating of (TR) A1.

Previous rating (July 14, 2016) Long Term	(TR) A+
Short Term	(TR) A1

Strengths and Risks

Approximately 40% of the collections in Koton's domestic store sales are cash, and 60% consist of credit cards. Such a success on debt collection allows for more effective management of resources. The Turkish retail market has been growing thanks to a young and urbanizing population, increasing number of organized retail market share and shopping centers. In addition, variety of products sold and the pricing policy is in line with the strategy to address the ever-expanding middle-upper income groups in Turkey. With its dynamic and fast structure, Koton is capable to sell high value-added products based on fast fashion at affordable rates in line with the expectations of different customer segments.

The performance of the retail garment sector varies according to season and fashion influences in the context of economic conditions and customer preferences. These changes have a significant impact on inventory of apparel retailers, as products are usually ordered before the scheduled season. If the sales cannot meet the expectations, having excess inventory can lead to high discounts and therefore lower profit margins than planned. If the Company cannot successfully manage its inventories, gross profitability may decrease and storage and logistics costs may increase. Koton's inventory level corresponds 53% of its current assets and 37% of total assets. In addition, the Company has been growing rapidly during the last five accounting periods.

Activities carried out in various regions of the world have led to an annual revenue increase of 19.3%(in real terms). Continuation of sales growth at reasonable levels is crucial for the outlook. Cash and short-term sales is still an advantage. Driving affect of domestic demand on Turkey's growth and Koton's serious share in domestic market is its one of the most important advantages.

When these factors are considered the Company's outlook is determined as Stable.

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 textile and apparel industry 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. 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.

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

This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş. and is based on information disclosed to public by Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş.

This report, conducted by SAHA A.Ş. analysts and based on their best intentions, knowledge base and experience, is the product of an in depth study of the available information which is believed to be correct as of this date. It is a final opinion about the overall credibility of the institutions and/or debt instruments they have issued. The contents of this report and the final credit rating should be interpreted neither as an offer, solicitation or advice to buy, sell or hold securities of any companies referred to in this report nor as a judgment about the suitability of that security to the conditions and preferences of investors. SAHA A.Ş. makes no warranty, regarding the accuracy, completeness, or usefulness of this information and assumes no liability with respect to the consequences of relying on this information for investment or other purposes.

SAHA A.Ş. has embraced and published on its web site (www.saharating.com) the IOSCO (International Organization of Securities Commissions) Code of Conduct for Credit Rating Agencies and operates on the basis of independence, objectivity, transparency, and analytic accuracy.

© 2017, Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. All rights reserved. This publication or parts thereof may not be republished, broadcast, or redistributed without the prior written consent of Saha Kurumsal Yönetim ve Kredi Derecelendirme A.Ş. and Koton Mağazacılık Tekstil Sanayi ve Ticaret A.Ş.

Contact:

S.Suhan Seçkin
suhan@saharating.com
Mehmet İnhan
minhan@saharating.com
Ömer Ersan
uersan@saharating.com

Address:

Hacı Mansur Sk. No:3 Meşrutiyet Mahallesi,
34363 Şişli / İstanbul, Turkey