

27 May 2020

### Credit Rating

Long-term (National):

**(TR) AA**

Outlook:

**Stable**

Short-term (National):

**(TR) A1+**

Outlook:

**Stable**

### TAT GIDA SANAYİ A.Ş.

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### Rating Summary

Tat Gıda Sanayi A.Ş. ("Tat Gıda" or "the Company") was established on 1967 under the name of Tat Konserve Sanayi A.Ş. and has changed its title as Tat Gıda Sanayi A.Ş. on November 15, 2013. Tat and SEK brands operate under the umbrella of Tat Gıda. The Company's domestic marketing and sales activities are carried out by Düzey Tüketim Malları Sanayi Pazarlama ve Ticaret A.Ş. ("Düzey Pazarlama"), a Koç Group company. Tat Gıda shares are traded on Borsa İstanbul since 1993. As of end-2019, Tat Gıda is the market leader in tomato paste, ketchup and tomato products market with the Tat brand name and in pasteurized milk market with the Sek brand name.

Following our analysis of the position of the brands represented by the Company in the food and beverage sector, its financial performance, corporate structure as a Koç group of company as well as the level of its risk management, Tat Gıda's previous long term rating of AA (National) and the short term rating of A1+ (National) with Stable outlook dated May 23, 2019 has been reconfirmed as long term rating of **AA (National)** and short term rating of **A1+ (National)** with **Stable** outlook.

### Outlook

As of end-2019, the sales revenue of the Company increased by 9.6% and reached TL 1.14 billion (2018: TL 1.04 billion). Gross Profit, Real Operating Profit and Net Profit increased compared to 2018, reflecting a positive impact on profitability ratios.

Trade receivables of the Company increased by 18.7% as of end-2019, reaching TL 384 million (2018: TL 323 million). Inventory increased by 42.3% within the same period to TL 338 million (2018: TL 238 million). The increase in trade receivables and inventory created a need for financing, increasing the financial liabilities by 46% to TL 228 million (2018: TL 156 million). A positive aspect is that 73% (TL 166 million) of financial liabilities are long-term.

In addition to all these factors, the short and long term outlook of the Company has been determined as "**Stable**" by taking into consideration the issues such as Tat Gıda's shareholding structure and industry experience. However, as the World Health Organization declared a pandemic on March 12, 2020 in relation to the coronavirus (Covid-19) epidemic which initiated in China, the recent extraordinary developments in the global trade environment and money markets make the potential economic consequences of the pandemic extremely uncertain. There is an increase in demand of food in our country due to the measures taken to reduce the effects of the corona virus epidemic. When the 2020 Q1 financials of the Company are analyzed, it is seen that sales increased by 44% compared to the same period of the previous year and reached TL 377 million (2019 Q1: TL 262 million). In the same period, inventory decreased by 22% compared to the end of 2019 and fell to TL 263 million. The developments are closely monitored by us and if the tangible risks arise, changes can be made to the Company's rating and outlook.

## **Corporate Governance**

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The Company has provided substantial compliance with the Capital Markets Board's (CMB) Corporate Governance Principles and has implemented all of the necessary policies and measures. Management and internal control mechanisms have been created effectively and are in operation. All of the corporate governance risks are identified and managed actively. The rights of shareholders and stakeholders are respected in a fair manner and public disclosure and transparency is at superior levels. Structure and operation of the board of directors is in the category of best practice. There is almost no frailty in these areas.

## **Methodology**

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SAHA's credit rating methodology is composed of quantitative and qualitative sections contributing to the final grade with specific weights. The quantitative analysis components consist of SAHA Score which measures the Company's distance from the point of default, its performance compared to industry peers, analysis of the financial risks, and the assessment of cash flow projections. Default probability analysis measures a statistical distance to the point of default making use of industry specific significant financial ratios based on industry peer sample companies' past financial performance and default statistics. Comparative performance analysis determines the relative position of the company as compared with industry peers' financial performances and industry averages. The financial risk analysis of our methodology 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 evaluates the Company's performance with respect to its capability to fulfill its obligations under the future projections of a base and a stress scenario.

The qualitative analysis covers operational issues such as industry and company risks as well as administrative risks in the context of corporate governance practices. The industry analysis evaluates factors like the nature and rate of growth of the industry, its competitive structure, structural analysis of customers and creditors, and sensitivity of the sector to risks at home and abroad. The company analysis evaluates market share and efficiency, trends and volatilities in key performance indicators, cost structure, service quality, organizational stability, access to domestic and foreign funding sources, off-balance sheet liabilities, accounting practices, and parent / subsidiary company relationships if any.

Corporate governance plays an important role in our methodology. The importance of corporate governance and transparency is once again revealed 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 ratings reflects 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 term 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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This Credit Rating Report has been prepared by Saha Kurumsal Yönetim ve Kredi Derecelendirme Hizmetleri A.Ş. (SAHA Corporate Governance and Credit Rating Services, Inc.) in collaboration with Tat Gıda Sanayi A.Ş. and is based on information disclosed to the public by Tat Gıda Sanayi A.Ş.

This report, edited by SAHA A.Ş. analysts 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 decisions or other purposes.

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