

Corporate Credit Rating

☐ New ☒ Update

Sector: Fleet Leasing

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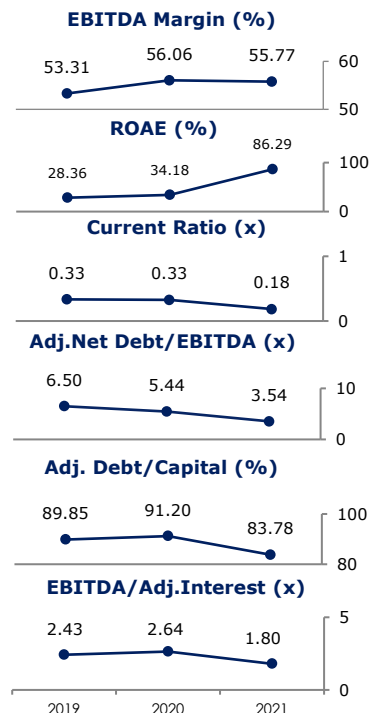
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RATINGS		Long Term	Short Term
ICRs (Issuer Credit Profile)	National ICR	A (tr)	J1 (tr)
	National ICR Outlooks	Stable	Stable
	International FC ICR	BBB	-
	International FC ICR Outlooks	Stable	-
	International LC ICR	BBB	-
ISRs (Issue Specific Profile)	National ISR	-	-
	International FC ISR	-	-
	International LC ISR	-	-
Sovereign*	Foreign Currency	BB (Negative)	-
	Local Currency	BB (Negative)	-

* Assigned by JCR on August 18, 2022



VDF FİLO KİRALAMA A.Ş.

JCR Eurasia Rating, has evaluated the "VDF Filo Kiralama A.Ş." (referred to as "the Company" or "VDF Filo") in the investment-level category and affirmed the Long-Term National Issuer Credit Rating at 'A (tr)' and the Short-Term National Issuer Credit Rating at 'J1 (tr)' with 'Stable' outlooks. On the other hand, the Long Term International Foreign and Local Currency Issuer Credit Ratings and outlooks were assigned as 'BBB/Stable'.

VDF Filo was established in 2016 in Istanbul and operates in the field of fleet leasing business of motor vehicles. The Company, which employs 65 employees as of FYE2021 (FYE2020: 57), has continued to invest since the day it started to operate in the sector and became one of the important players in Türkiye with 14,166 contracts as of FYE2021 (FYE2020: 12,011, FYE2019: 8,027). The Company has 15,364 vehicles as of FYE2021 (FYE2020: 13,712, FYE2019: 8,089).

The Company is managed by Volkswagen (%51) and Doğuş (%49) Groups. The Volkswagen Group has more authority on the management of the Company and the Company's activities are constantly monitored. In addition, the most important part of the Company's vehicles is Volkswagen brand and supplied from Doğuş Group. Besides Volkswagen, Renault, Fiat, Toyota, Peugeot, Ford and other brand vehicles are also used in the activities.

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

Strengths

- Strong profitability margins
- Continuous growth in business volume especially with the impact of second-hand vehicle sales in 2021
- Loan and borrowing usage from Volkswagen Group as a significant portion of total liabilities
- Diversified top-tier clientele structure supporting asset quality
- Multiyear contracts providing earnings predictability
- Asset structure, capable of converting into cash rapidly
- Expected positive outlook in the medium and long term of fleet leasing sector due to willingness of companies to prefer leased vehicles

Constraints

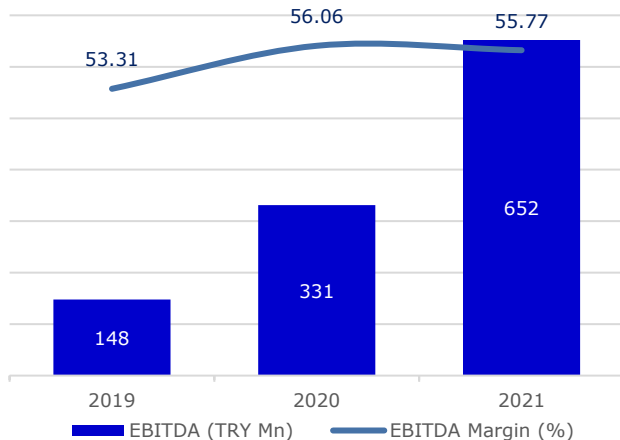
- Due to adopting growth strategy continuing net working capital deficit and high financial leverage, though approx. half of borrowings are due from related parties
- Exposure to fluctuations in used-car prices in the market
- Global chip shortage stands out as a material risk ahead for the Company and industry
- Sector-specific regulations and high correlation with macroeconomic dynamics may result fluctuations in demand
- The geopolitical risks stemming from the Russia-Ukraine tension increasing uncertainty

Considering the aforementioned points, the Company's Long-Term National Rating has been affirmed at 'A (tr)'. Strong and satisfactory EBITDA metrics, growing business volume, providing loan and borrowings from shareholders, domestic market share and asset structure 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'. On the other hand, the Company's revenue and profitability performance, trend of trade receivables, risk impacts of TRY's depreciation on activities and local and global macroeconomic indicators at national and international markets, as well as market conditions and legal framework about the sector will be monitored.

1. Rating Rationale

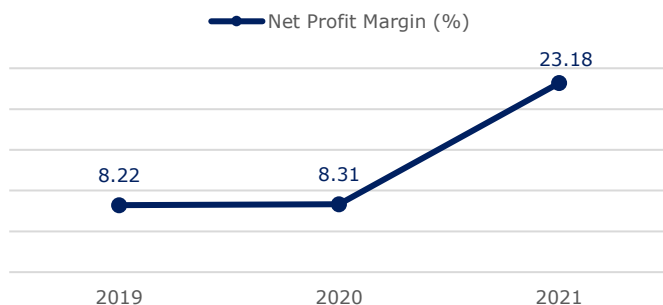
Strong Profitability Margins

The majority of profitability ratios of the Company are at high level during the reviewed periods. EBITDA, one of the most important profitability indicators, increased from TRY 331.3mn to TRY 652.1mn in 2021 due to rise in revenues. On the other hand, EBITDA margin, has been at similar levels since 2019.



In 2021, due to paying off all bank loans denominated in foreign currencies, FX losses arising from financing expenses decreased proportionally. Therefore, the net profit margin has increased.

*mn TRY	2019	2020	2021
Revenue	277.3	591.0	1,169.2
Net FX Losses from Financing Activities (-)	91.1	190.7	43.1
Net FX Losses / Revenue (%)	32.85	32.27	3.69



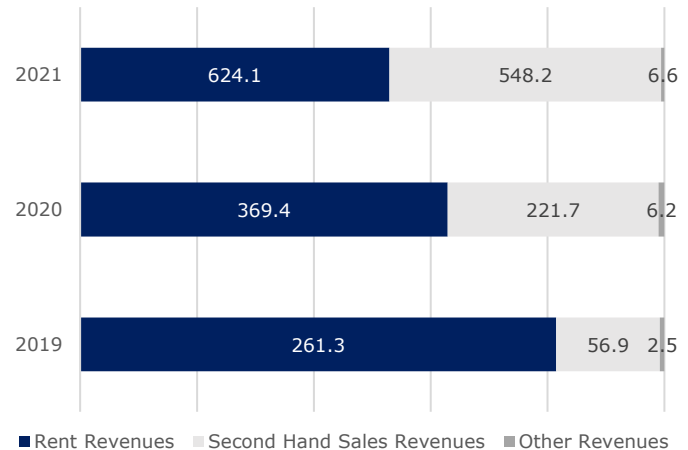
Continuous Growth in Business Volume Especially with the Impact of Second-Hand Vehicle Sales in 2021

Established in 2016, the Company continuously increases its business volume with new vehicle investments. The Company's revenues were TRY

1,169.2mn as of FYE2021, an increase of 97.84% (FYE2020: TRY 591mn, FYE2019: TRY 277.7mn).

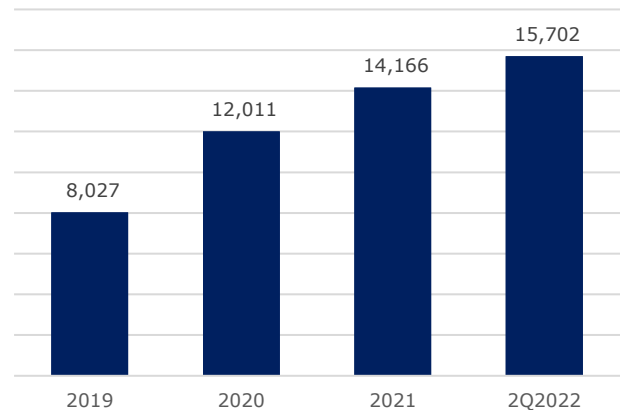
The Company's revenues rose as a result of the increase in the number of contracts and the sale of vehicles whose contracts were completed as second-hand. The dramatically increase in second-hand vehicle prices market in 2021 was also effective in increasing business volume.

Total Revenues in TRY mn



As of the 2Q2022, the Company has 15,702 active contracts.

of Contracts



As a result of new vehicle investments and increasing prices in the second-hand automobile market, the Company's revenues are expected to increase in the upcoming periods.

Loan and Borrowing Usage from Volkswagen Group as a Significant Portion of Total Liabilities

The Company is exposed to high borrowing due to the nature of the business. Due to the growth strategy, its total liabilities increased by 22.73% to TRY 2,808.8mn as of FYE2021. (FYE2020: TRY 2,288.5mn, FYE2019: TRY 1,070.4mn) Total bank borrowings and trade

payables increased by 21.26% to TRY 2,730.6mn as of FYE2021. (FYE2020: TRY 2,251.9mn, FYE2019: 1,065.8mn) A significant portion of the related borrowings are from Volkswagen Group. Borrowing from related parties is more cost effective than other sources. Volkswagen brand vehicles are supplied from Doğuş Group on a term basis, while other brand vehicles are supplied in cash. Therefore, bank borrowing is increasing.

*in TRY mn	2019	2020	2021
Total Liabilities	1,070.4	2,288.5	2,808.8
Total Liabilities from Related Parties	525.7	1,322.8	1,506.5
Total Liabilities from Third Parties	544.7	965.7	1,302.3
Ratio of Liabilities from Related Parties to Total (%)	49.1	57.8	53.6
Total Financial Liabilities	963.1	1,852.0	2,322.0
Financial Liabilities from Related Parties	427.0	951.6	1,117.6
Financial Liabilities from Third Parties	536.1	900.4	1,204.4
Ratio of Financial Liabilities from Related Parties to Total (%)	44.3	51.4	48.1
Total Trade Payables	102.7	399.9	408.6
Trade Payables from Related Parties	98.8	371.2	388.9
Trade Payables from Third Parties	3.9	28.7	19.7
Ratio of Trade Payables from Related Parties to Total (%)	96.2	92.8	95.2

As of FYE 2021 the Company's adjusted net debt/EBITDA metric including financial liabilities from related parties was calculated as 3.54x (FYE2020: 5.44x, FYE2019: 6.50x). This metric was calculated as 1.85x when debts from related parties are not considered as of FYE2021 (FYE2020: 2.72x, FYE2019: 3.63x). These metrics and related party borrowings reflected positively on the ratings.

Diversified Top-Tier Clientele Structure Supporting Asset Quality

VDF Filo works mainly with international and local corporate clients. Corporate clients usually fulfil their obligations even if they face difficulties as they need the vehicles for their activity. Having reputable customers decreases the risk of the Company's collection since customers do not have payment difficulties and increases the brand awareness of the Company in its sector. On the other hand, VDF Filo's client portfolio is also well diversified. The share of the top 10 customers in the total fleet is 24% while the Company has diversified client structure in terms of industry. Despite the pandemic effect on the market conditions, diversified client portfolio enables Company to take comfortable position against possible collection crisis that may arise from pandemic. Doubtful trade

receivables are at low levels compared to the total business volume of the Company while collection rate has improved over the years.

Multiyear Contracts Providing Earnings Predictability

As of FYE2021, the Company has 14,166 operational leasing contracts that increasing visibility of the revenues in the upcoming years. Operational leasing contracts of the Company are mainly 3 year.

As can be seen from the table above, contract maturities are generally concentrated on long-term.

*in mn	TRY	EURO
2022	640.3	0.4
2023	1,011.0	-
2024	1,076.3	-
2025	85.6	-
Total	2,813.2	0.4

Asset Structure, Capable of Converting into Cash Rapidly

The Company has ability to convert its assets to cash very quickly since majority of the assets consist of vehicles. As of FYE2021, assets used in operational lease comprise 86.7% of the Company's total assets. Renewing its fleet periodically, significant cash inflow occurs to the Company in certain periods. Even though fluctuations in used car prices create uncertainties for the Company, the asset structure which can be converted into cash rapidly, has been evaluated as an advantage for the VDF Filo. Considering the increase in second-hand vehicle prices in 2021, a significant cash flow is expected from the sales of used cars which were purchased before price increases. As of FYE2021, VDF Filo generated TRY 548.2mn revenue from sales of used car while the same figure was TRY 221.7mn in the previous year.

In addition, volume discount provided to the Company in the purchase of new vehicles increases the profitability of VDF Filo in used car sales for fleet renewal. Considering the used vehicles kept ready for sale by the Company, it is estimated that there will be a significant increase in the debt payment service of the Company in 2022 when the used vehicles are sold. Additionally, Motor vehicles returned at the end of contracted lease terms and held for sale are classified from "assets used in operational leases" to inventories. Moreover, the chip shortage in the automotive sector may increase the price of used vehicles in Türkiye, as

well as the increase in the used vehicles' prices will make the Company's used car sales more profitable.

Expected Positive Outlook in the Medium and Long Term of Fleet Leasing Sector due to Willingness of Companies to Prefer Leased Vehicles

Operational fleet leasing offers companies some financial and operational advantages. With this application, they don't need for capital and credit limit for vehicle purchasing. All the expenses like maintenance, repair, insurance, taxes etc. are included in the rental fee and there are no need additional personnel for fleet management and control. In this operational manner, car rental is more advantageous compared to purchasing. From this point of view, operational fleet leasing sector expected to be developed in following years since it increases efficiency for companies.

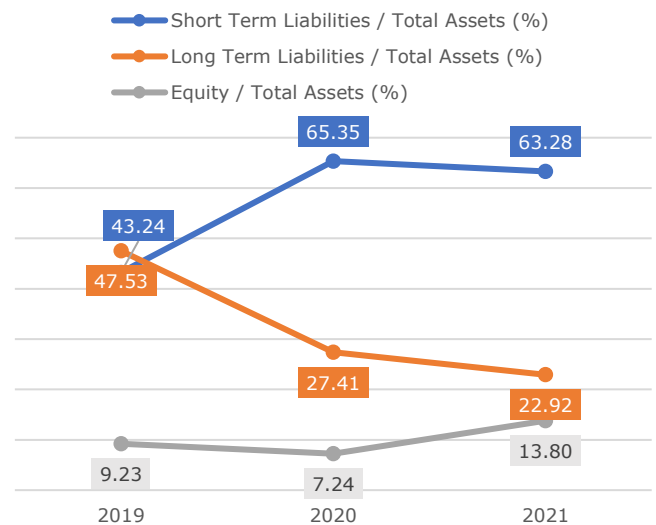
On the other side, the increasing demand for individual vehicles caused by the pandemic is driving companies to show a positive trend in terms of providing vehicles to their employees or extending car rentals.

Due to Adopting Growth Strategy Continuing Net Working Capital Deficit and High Financial Leverage, Though Approx.

Total liabilities of the Company constitute high portion of its total sources during the reviewed periods despite debt ratio of the Company decreased in 2021 due to internal resource generation capacity and strengthening equity level. The Company finances high portion of its vehicles by external funds. Total liabilities constitute 86.2% of total sources as of FYE2021 (FYE2020: 92.76%, FYE2019: 90.77%).

The Company's liabilities are mainly composed of bank loans for vehicle purchases. 82.7% of total liabilities were constituted of financial liabilities as of FYE2021 (FYE2020: 80.9%, FYE2019: 90%). 69.3% of total liabilities is in the short term (FYE2020: 64.3%).

The Company's total financial liabilities amounted to TRY 2,322mn as of FYE2021 increasing from the level of TRY 1,852mn as of FYE2020 with 25% increase. Additionally, VDF Filo's adjusted net debt amount increased to TRY 2,307.2mn with 28% increase as of FYE2021 from TRY 1,802.1mn as of FYE2020. Decrease in the Company's paid-in capital of TRY 100mn will be able to increase the debt ratio in consideration of the reduction.

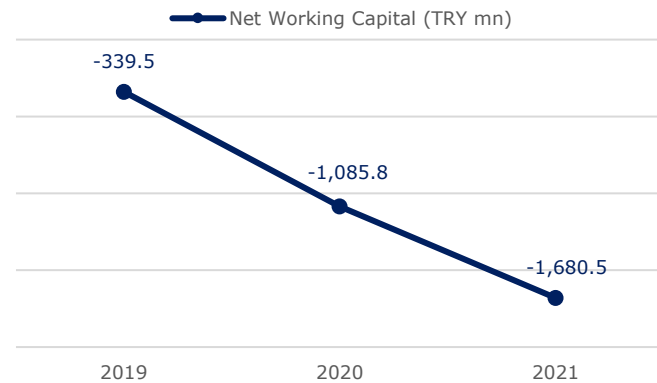


Due to the adopted growth strategy, vehicle investments are made continuously. Due to the impact of investments, the Company was also exposed to a cash deficit as of reviewed periods. The cash shortfall is financed by financial liabilities. A significant part of the financial liabilities is from related parties, and in 2021 the amount of TRY 1,117.6mn and 48.1% were from related parties. (FYE2020: TRY 951.6mn, FYE2019: TRY 427mn)

*in TRY mn	2019	2020	2021
Total Liabilities	1,070.4	2,288.5	2,808.8
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The Company's CFO was calculated as TRY -135.1mn as of FYE2021 (FYE2020: TRY -736.6mn, FYE2019: TRY -49.9mn).

As of FYE2021, the Company's cash items of TRY 14.8mn remained below the short-term financial liabilities of TRY 1,594.8mn. And also, the current asset did not cover the short-term liabilities. Accordingly, over the examined period, net working capital to total assets ratio is maintained high level and stood at negative side. The Company's net working capital amounted negative TRY 1,680.5mn as of FYE2021, decreasing from the level of negative TRY 1,085.8mn attained as of FYE2020.



*Net Working Capital: Current Assets-Short-Term Liabilities

In fleet leasing companies, high portion of vehicles are financed by mainly long-term bank loans with 3-4 years maturity and balloon payments depending on the contracts. Operational leasing contract receivables in the upcoming periods could not be seen in the balance sheet since they are not invoiced to customer yet. Despite the net working capital deficit, the Company's current assets plus operational leasing receivables in 1 year compensates all of its short-term liabilities. Also, the Company has fixed asset structure that converting into cash quickly since 86.7% of the total assets consist of vehicles used in operational leasing.

Exposure to Fluctuations in Used-Car Prices in the Market

Covid-19 outbreak, which influenced the whole world in 2020, significantly affected the automotive industry and fleet leasing companies faced some problems in the sector due to price fluctuation in vehicles. Many automakers put production activities on hold to protect workers' health. This created an important supply and resource problem in the new-car market. Also, with the increasing need for isolated travel owing to the Covid-19 pandemic and low-interest loans offered by public banks, the demand for automobiles increased, but the supply decreased with the slowdown of vehicle production. Accordingly used-car prices rose rapidly due to both the coronavirus pandemic and the currency effect. Hedef Filo is affected positively by the price increase in the used-car market in 2021 and in 2020. However, high volatility and inverse price movements in the market may affect the Company negatively despite the high precautions taken by the Company. Additionally, the composition of car prices in Türkiye consists of taxes, which constitutes a significant portion. The Special Consumption Tax, which is determined according to the engine size and net price base, is applied as at least 45%. Considering the

fluctuations in the SCT to be applied in the automotive sector in Türkiye, a dramatic decrease in the special consumption tax will bring down the vehicle prices, thus creating a risk of inventory depreciation for the Company.

It must be noted that, the Company shows its tangible assets, which are mainly composed of vehicles, at cost value and does not subject them to revaluation. Therefore, used-car prices affect directly the Company's profitability due to the gain/loss on sales of vehicle rather than the stability of asset value.

Global Chip Shortage Stands Out as a Material Risk Ahead for the Company and Industry

Chips, semiconductors, are used in everything from cars to home appliances, shortly the brain within every electronic device in the world. However, the stay-at-home and working from home caused by Covid-19 pushed global computer demand upward and spurred growth in sales of laptops to its highest level in a decade, impacted the availability of key chips for the manufacturing phase of electronics. Beyond the technology sector, the chip shortage is affecting other sectors including household goods and automotive industries. Since global advanced chip production capacity is limited, new level of demand could not meet by these producers. Accordingly, the gap between ordering and taking delivery has been increasing steadily. Thus, shortage disrupted the supply chain and will constrain the production of many electronic equipment types in 2021. Furthermore, chip shortage also pushing unit prices upward which would likely affect consumers as well as demand. On one hand, the extent and magnitude of the scarcity remain uncertain. On the other hand, shortage will likely not ease before the second half of 2022, according to analyst while it's expected that some products continuing to be delayed by a deficiency of chips in 2023. Magnitude of the scarcity remains uncertain and stands out as a threat ahead for sales volume of the Company.

Sector-Specific Regulations and High Correlation with Macroeconomic Dynamics May Result Fluctuations in Demand

Regulations and macroeconomic indicators may have significant effects on the performance of fleet leasing companies. In 2018, regulations related with converting rent income's currency types into TRY had caused deterioration in profitability of the companies

mainly due to high share of FX financial liabilities of the companies in their total debt. Fleet leasing industry is also very sensitive to macroeconomic indicators since the interest rates and foreign exchange rates are the most important factors on determining price and demand. Vehicle park size of the sector is in decreasing trend since 2017 mainly due to the changing regulations and depreciation of TRY.

In addition, regulations have been made in the tax laws with the Law No. 7194. A number of restrictions for the expenses of passenger cars have entered into force as of 01.01.2020. According to this law, in passenger car rentals a discount of rental expense up to TRY 8,000 per month for 2021 is accepted and the excess part will be declared as non-legal expense. VAT, which corresponds to the portion exceeding TRY 8,000, will not be subject to discount, nor will it be possible to deduct it as an expense. On the other hand, this limitation does not apply to payments made for passenger cars acquired through financial leasing. However, this does not mean that all financial lease payments can be deducted. 70% of the portion of financial lease payments that hit the interest is accepted as tax deduction. Rental payments made after 2020 for vehicles rented before this date are within the scope of the limitation. With this regulation fleet leasing sector could be faced some problems. Companies will no longer be able to deduct the entire expenses of their passenger cars as tax deductible as before, and this may lead to a contraction in demand level especially in luxury segment vehicles.

The Geopolitical Risks Stemming from the Russia-Ukraine Tension Increasing Uncertainty

When Türkiye's location is identified, it is observed that it brings many pros and cons to the corporations. For instance, the country is positioned in a highly strategic route between Europe, Caucasus, Asia and the Middle East which plays a vital role in terms of trade and economic growth. On the other side, the instability in the surrounding regions greatly increases the possibility of being affected by factors such as political disagreements, military conflicts, and economic disruptions.

The recent situation of Russia invaded Ukraine in late February, 2022, targeting its finance, energy and military-industrial sectors as well as individuals, all countries around the world started to impose economic and other sanctions on Russia. Russia is an important

exporter of oil, gas, coal, industrial and precious metals, fertilizers as well as soft commodities such as cereals. Moreover, Ukraine is an important transit location for Russian oil and gas for western countries. Accordingly, oil&gas, commodity and agrochemical prices surged amidst geopolitical tensions and increasing uncertainty due to intensifying war in Ukraine. On one hand, the jump in prices is expected to add more inflationary pressures, which central banks may be forced to tighten economies sharply by interest rate hikes earlier than expected in upcoming periods. On the other hand, uncertainty arisen from conflict in Ukraine which may lead another concern for global growth would lead policymakers to halt interest rate hikes to not to add more volatility on economies as well as markets. All in all, uncertainties arisen from war overhang as major threat for all sectors including pricing, demand, supply chain in global trade which will be closely monitored by JCR Eurasia Rating.

With respect to the factors mentioned above, JCR Eurasia Rating has affirmed the Long-Term National Issuer Credit Rating of VDF Filo at '**A (tr)**' and the Short-Term National Issuer Credit Rating as '**J1(tr)**' in JCR Eurasia Rating's notation system which denote investment grades.

When German automobile manufacturer Volkswagen Group's 51% share in VDF Filo's shareholder structure is considered, the Company's Long-Term International Issuer Credit Rating is assigned at '**BBB**' respectively.

2. Rating Outlook

JCR Eurasia Rating has assigned "**Stable**" outlooks on the short and long-term national ratings perspectives of VDF Filo considering upward sales figure, internal resource generation capacity, satisfactory profitability indicators, increasing equity level and liquidity position along with ongoing uncertainties due to the Russia-Ukraine War and global chip shortage.

Factors that Could Lead to an Upgrade

- Improvement of the operating environment in the domestic and international markets
- Increase in revenues and EBITDA
- Improvement in profitability indicators
- Significant increase in market share
- Further increase in equity ratio and decrease in financial leverage

- Rapid improvements in global market volatility and outlook that positively impact macroeconomic growth rates and consumer confidence.

Factors that Could Lead to a Downgrade

- Significant and unavoidable decrease in the debt loss-absorption capacity
- Contraction of sales performance and cash generation resulting structural deterioration in liquidity
- Notable increase in the residual value risks leading to sustained net losses from fleet disposals materially impacting negatively earnings capability and profitability
- A sharp slump in growth in the domestic and international markets
- Negative impact on the industry due to the prolonged Russia-Ukraine War and global chip shortage

3. Projections

The Company has not prepared a balance sheet, income statement or cash flow projection for future periods. The Company aims to increase its business volume and share in the sector with the synergy from the Volkswagen Group in the coming periods. In addition, the Company aims to reduce the pressure of financing costs with lower cost financing resources.

As of reporting date, VDF Filo has no issued debt instrument in financial markets.

4. Company Profile & Industry

a. History and Activities

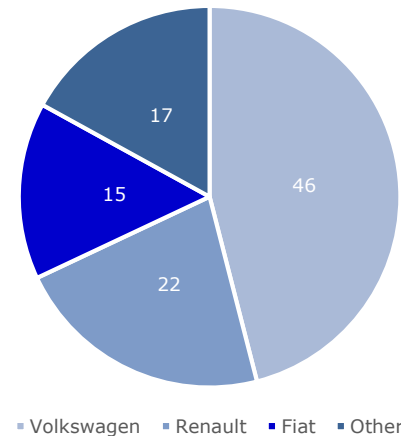
VDF Filo was established in 2016 in Istanbul and operates in the field of fleet leasing business of motor vehicles. The Company employs 65 employees as of FYE2021 (FYE2020: 57). The Company have continued to invest since the day it started to operate in the sector and became one of the important players in Türkiye with 14,166 contracts as of FYE2021. (FYE2020: 12,011, FYE2019: 8,027) The Company has 15,364 vehicles as of FYE2021. (FYE2020: 13,712, FYE2019: 8,089) Although the Company was established in 2016, it started its main activities in 2017. After 2017, the number of vehicles has increased every year.

The Company is managed by Volkswagen (%51) and Doğuş (%49) Groups. The Volkswagen Group has more authority on the management of the Company and the

Company's activities are constantly monitored. In addition, the most important part of the Company's vehicles is Volkswagen brand and supplied from Doğuş Group. Besides Volkswagen, Renault, Fiat, Toyota, Peugeot, Ford and other brand vehicles are also used in the activities.

The brand distribution of vehicles contracted by the Company at the end of June/2022 is as follows:

Brand Distribution (%)



b. Shareholders, Subsidiaries and Affiliates

As of the June/2022, the shareholders structure is shown in the table below.

Shareholder Structure of VDF Filo Kiralama A.Ş.

Shareholder	Share (%)	TRY
VDF Servis ve Tic. A.Ş.	100	46,942,217
Total	100	46,942,217

Shareholder Structure of VDF Servis ve Tic. A.Ş.

Shareholder	Share (%)	TRY
Volkswagen Financial Services A.G.	51.00	3,297,325
Doğuş Otomotiv Servis ve Tic. A.Ş.	48.98	3,154,365
Doğuş Holding A.Ş.	0.02	13,654
Total	100	6,465,344

The paid-in capital of the Company has been reduced from TRY 146.9mn to TRY 46.9mn in 2022/June.

The Company's Board comprises of 7 members. VDF Filo's board members are as follow;

Board Members of VDF Filo

Member	Duty
Christian DAHLHEIM	Chairman
Muhittin Bülent ÖNDER	Board Member
Ralf Erich TEICHMANN	Board Member
Arturo ROMANIN	Board Member
Jan EBERT	Board Member
Hüsnü AKHAN	Board Member
Emir Ali BİLALOĞLU	Board Member

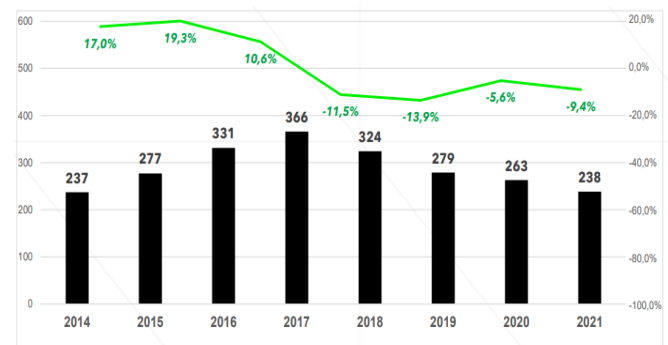
VDF Filo has no subsidiary or joint venture as of FYE 2021.

c. Industry Assessment

Fleet leasing defined as meeting the companies' fleet demands under proper conditions and in long term by a professional fleet leasing company for 1 year to 4 years without purchasing. With this service, companies don't utilize their capital and they don't undertake the amortization, cash management, maintenance & repair or financial risks such as robbery of their vehicles. In other words, operational leasing is an alternative financial and operational instrument for ownership. During rental period the company only pays monthly rental fee. All the other expenses related to vehicle in rental period paid by the operational leasing company.

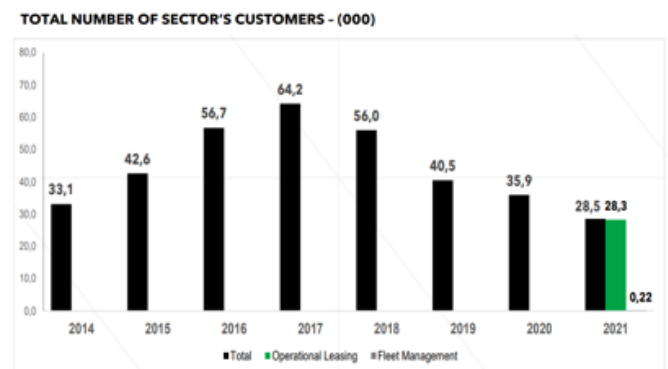
The number of companies operating in the sector has increased rapidly until the 2000s. Before the 2000s, while daily leasing transactions were mainly carried out in Türkiye, after that long-term rental companies started to become the most preferred vehicle financing model due to its tax advantages. At this stage, companies have increased their vehicle purchases and made their model use more flexible. This means that more vehicles are purchased as a result of the sectoral effect, and the demand for the banking and leasing sector, the insurance sector, the vehicle service operations sector and the spare parts sector increases with the reflection. In the last years companies prefer operational leasing rather than ownership because operational leasing offers operational, financial and tax advantages. Therefore, it is expected that operational leasing sector would increase in short and mid-term in Turkish Automotive Market. Service provider companies aims to continue to improve, in this growing market with the service quality and standards.

According to data of FYE2021 provided by TOKKDER (Association of Car Rental Institutions), In 2021, operational leasing sector has invested TRY 17.2bn and the sector's asset size reached up to TRY 52.2bn in Türkiye. The sector has contracted by 11.5% in 2018, 13.9% in 2019 and 5.6% in 2020. At the end of 2021, the total number of vehicles in the sector decreased by 9.4% compared to 2020 and decreased to 238,200 units. Considering that the vehicle park size of the sector reached 366 thousand at the end of 2017, there was a 35% shrinkage in the last 4 years. Estimated vehicle park size through the years is given as below (in thousand).



Source: TOKKDER

Additionally, total number of sector customer has been decreased 44% to 35.9 thousand as of FYE 2020 from 64.2 thousand FYE2017. The contraction in the number of customers in the sector continued and realized as 28.5 thousand as of 2021.



Source: TOKKDER

Average price for purchased vehicle has been increased 231% to TRY 220.8 thousand in 2020 from TRY 93.9 thousand in 2017 while the same figure realized as TRY 285.5mn as of 2021. On the other hand, number of purchased vehicles has been decreased to 58 thousand

in 2020 from 148 thousand in 2017 while the same figure slightly increased and realized as 60 thousand as of end of 2021. Last but not least, value of purchased vehicles in 2021 exceed the 2017 level for the first time, which is caused by the significant increase in vehicle prices, and realized at TRY 17.2bn (2017: TRY 13.9bn, 2018: TRY 10.5bn, 2019: TRY 5.5bn, 2020: TRY 12.7bn).

According to the data provided by TOKKDER operational leasing sector provided a significant tax input to the national economy in 2021 by purchasing significant portion of the new cars sold in Türkiye. In this context, the operational leasing sector, which paid approximately TRY 6.7bn in 2020, continued its contributions to the national economy by paying approximately TRY 8.7bn in 2021.

Also, TOKKDER report draws attention that, in operational car rental companies, 47.7% of the leases consist of contracts that will last between 30 and 42 months while contracts of 43 months or more are preferred with a share of 20.2 % the increase in contracts for 43 months or more.

Maturity Distribution of Lease Contracts (%)	2021	2020
< 18 months	15.3	11.6
18 – 30 months	16.8	17.9
30 – 42 months	47.7	52.2
>43 months	20.2	18.3

Source: TOKKDER

5. Additional Rating Assessments

Credit Risk

The risk of a financial loss to the Company due to the failure of one of the parties to the financial instrument to fulfill its contractual obligation is defined as credit risk. The Company is exposed to credit risk due to trade receivables and bank deposits.

As part of credit risk management, the customer's credit quality is monitored with scorecards created by the Company. Score and rating models used in credit risk measurement are statistical models and are monitored by analytical methods within the framework of model risk management. Bank-based limits have also been established in response to credit risk arising from deposits. Deposits held in each bank are limited

and limits constantly monitored by the Volkswagen Group.

As of FYE 2021, trade receivables of the Company amounted at TRY 36mn. The same figure was TRY 25.7mn in 2020. In addition, the Company has future minimum lease receivables under non-cancellable operating leases not recognized at balance sheet amounted at TRY 1,490.3mn as of FYE2021. (FYE2020: TRY 995.1mn)

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices as well as residual values of the vehicles that will affect the Company's income.

Foreign exchange risk caused by foreign currency assets and liabilities. This risk is managed by natural hedging methods formed by offsetting foreign currency assets and liabilities.

The Company's foreign exchange risk is exposed to bank loans, cash and cash equivalents, and derivative assets. As of FYE2021, the Company had no bank borrowing in foreign currency due to the fact that all revenues are denominated in TRY.

FX Position			
*in TRY mn	2019	2020	2021
Assets	50.1	59.7	1.6
Liabilities	-594.4	-405.2	-3.2
Net FX Position	-544.3	-345.5	-1.6

The Company is exposed to interest rate risk by fluctuations in the market values of balance sheet items (price risk) or by sudden rate changes of its assets and liabilities that are sensitive to interest. Interest rates in Türkiye are highly variable. Because of this, interest rate risk takes an important part in the management of the Company's assets and liabilities. The sensitivity of assets and liabilities to interest is trying to be balanced by the Company's management.

Expected repricing and maturity dates do not differ significantly from contract dates and the Company does not have variable rate financial instruments.

In response to interest rate risk, the Company uses shorter-term loans during periods when interest rates

rise. In addition, most of the loans used are from the finance institutions of the Volkswagen Group.

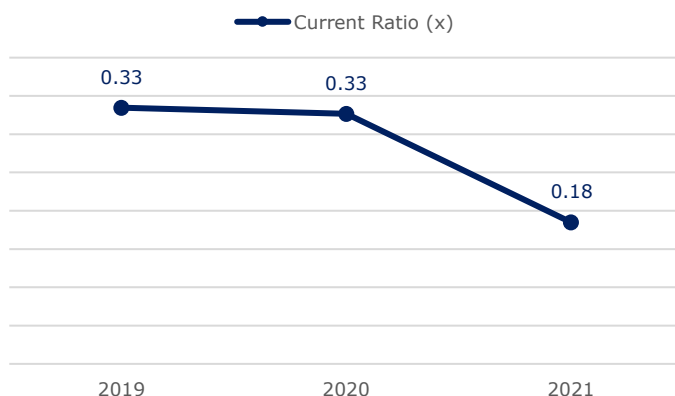
Liquidity Risk

The Company's liquidity management consists of matching the maturities of financial assets and liabilities and closely monitors the cash flows generated from operations. The Company monitors the cash flows tied to the development stages in its projects, payment schedules and additional funding requirements regularly. In addition to preserving a liquidity buffer for contingent outflows, the Company maintains lines from various credit institutions and holds sufficient cash reserves.

The Company's net working capital* amounted negative TRY 1,640.5mn as of FYE2021, decreasing from the level of negative TRY 1,085.8mn attained at FYE2020. The Company's net working capital to total asset ratio stood at -51.57% as of FYE2021. Since the Company generates rental income from the assets used in operational leasing, the total receivables from the lease agreements that cannot be canceled for the year of 2022 is TRY 798.5mn which compensates the 49.61% of the short-term financial debt as of 31 December 2021. In addition, the Company has fixed asset structure that converting into cash quickly.

*Net Working Capital: Current Assets – Short-Term Liabilities

The Company's maturity composition of funding structure has been predominantly constituted of short-term borrowings. The short-term liabilities among total assets showed an increase in 2021 and realized as 63.28%, caused by loans usage.



In response to liquidity risk, additional financial support can be provided from the Volkswagen Group where necessary. Volkswagen Financial Services AG is the VDF

Filo's lender of last resort, which significantly reduces the Company's liquidity risk.

Letter of Comfort from Volkswagen Financial Services AG:

According to Volkswagen Financial Services AG's annual report for the end of 2020, Volkswagen Financial Services AG declares that, as the shareholder of its affiliated companies, over which it has managerial control and/or in holds a direct or indirect majority share of share capital, it will exert its influence to ensure that the latter meet their liabilities to lenders in the agreed manner. Moreover, Volkswagen Financial Services AG confirms that, for the term of the loans, it will make no changes to the share structures of these companies which would adversely affect the letter of comfort without informing the lenders.

Operational Risk

Operational risk is the risk of direct or indirect loss arising from a wide variety of causes associated with the Company's processes, personnel, technology, suppliers and infrastructure. The operational risks arising from the nature of the business are well identified and closely monitored by the management. The Company conducts quantitative and qualitative analyses annually to measure the financial losses that may arise from operational risk. These analyses cover operational risks that may arise due to technology, employee and external factors. Basel scenarios are used for external factor-related risk.

VDF FİLO KİRALAMA ANONİM ŞİRKETİ

Balance Sheet (000' TRY)

	2021	2020	2019
TOTAL ASSETS	3,258,389	2,467,128	1,179,245
CURRENT ASSETS	381,365	526,341	170,651
Cash and Cash Equivalents	14,767	49,910	1,817
Trade Receivables	36,023	25,701	12,600
Trade Receivables from Related Parties	3,571	2,489	1,385
Trade Receivables from Third Parties	32,452	23,212	11,215
Other Receivables	76,412	201,000	0
Other Receivables from Related Parties	72,013	201,000	0
Other Receivables from Third Parties	4,399	0	0
Derivative Instruments	0	21,725	41,520
Prepaid Expenses	51,662	42,162	24,195
Current Tax Assets	0	295	25
Other Current Assets	202,501	185,548	90,494
FIXED ASSETS	2,877,024	1,940,787	1,008,594
Derivative Instruments	0	513	8,605
Tangible Fixed Assets	2,831,951	1,916,699	970,511
Operational Lease Assets	2,823,645	1,910,819	967,214
Other Tangible Fixed Assets	8,306	5,880	3,297
Right-of-Use Assets	148	284	372
Intangible Fixed Assets	11,906	8,954	6,760
Prepaid Expenses	597	1,667	0
Deferred Tax Asset	32,422	0	2,818
Other Current Assets	0	12,670	19,528
TOTAL LIABILITIES & EQUITY	3,258,389	2,467,128	1,179,245
SHORT TERM LIABILITIES	2,061,853	1,612,179	509,956
Short Term Borrowings	1,048,576	532,736	53,439
Short Term Borrowings from Related Parties	476,574	231,200	3,929
Short Term Borrowings from Third Parties	572,002	301,536	49,510
Short Term Portion of Long-Term Borrowings	560,998	657,392	349,450
Short Term Portion of Long-Term Borrowings from Related Parties	244,752	357,866	114,467
Short Term Portion of Long-Term Borrowings from Third Parties	316,246	299,526	234,983
Trade Payables	408,559	399,915	102,680
Trade Payables to Related Parties	388,949	371,230	98,750
Trade Payables to Third Parties	19,610	28,685	3,930
Employee Benefits	255	194	138
Other Payables	6,652	6,355	3,186
Deferred Income	22,470	11,869	0
Current Tax Liabilities	7,098	1,400	0
Short Term Provisions	6,940	2,101	851
Other Short-Term Liabilities	305	217	212
LONG TERM LIABILITIES	746,946	676,277	560,484
Long Term Borrowings	712,435	661,859	560,188
Long Term Borrowings from Related Parties	396,229	362,550	308,576
Long Term Borrowings from Third Parties	316,206	299,309	251,612
Deferred Income	33,802	10,179	0
Long Term Provisions	709	437	296
Deferred Tax Liabilities	0	3,802	0
EQUITY	449,590	178,672	108,805
Controlling Interest	449,590	178,672	108,805
Share Capital	146,942	146,942	121,942
Other Accumulated Comprehensive Income (Expenses) That Will Not Be Reclassified to Profit or Loss	-331	-183	-84
Restricted Reserves	901	249	249
Previous Years Profits or Losses	31,011	-17,472	-36,081
Net Profit or Loss	271,067	49,136	22,779

- Including JCR Eurasia Rating's adjustments where applicable,

VDF FİLO KİRALAMA ANONİM ŞİRKETİ

Income Statement (000' TRY)

	2021	2020	2019
Revenue	1,169,234	591,013	277,274
Cost of Sales	-486,138	-244,185	-130,313
GROSS PROFIT (LOSS)	683,097	346,829	146,960
General and Administrative Expenses	-35,993	-20,400	-13,386
Marketing Expenses	-1,659	-1,083	-303
Other Operating Income	42,773	69,694	50,643
Other Operating Expenses	-1,101	-2,822	-2,787
OPERATING PROFIT (LOSS)	687,117	392,219	181,127
OPERATING PROFIT (LOSS) BEFORE FINANCING ACTIVITIES	687,117	392,219	181,127
Financing Income	27,872	61,129	27,993
Financing Expenses	-466,210	-395,123	-178,831
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	248,778	58,224	30,289
Tax Income Expense from Continuing Operations	22,288	-9,088	-7,509
Current Tax (Expense) Income	-13,899	-1,400	0
Deferred Tax (Expense) Income	36,187	-7,687	-7,509
NET PROFIT FROM CONTINUING OPERATIONS	271,067	49,136	22,779
NET PROFIT (LOSS) FOR THE PERIOD	271,067	49,136	22,779
Parent Shares	271,067	49,136	22,779

- Including JCR Eurasia Rating's adjustments where applicable,

VDF FİLO KİRALAMA ANONİM ŞİRKETİ

Key Ratios & Metrics

	2021	2020	2019
PROFITABILITY			
EBITDA Margin (%)	55.77	56.06	53.31
EBIT Margin (%)	55.20	55.05	48.06
CFO Margin (%)	-11.55	-124.63	-17.99
Return on Average Assets (ROaA) (%)	9.47	2.70	2.19
Return on Average Equity (ROaE) (%)	86.29	34.18	28.36
Net Profit Margin (%)	23.18	8.31	8.22
Operating Profit Margin (%)	58.77	66.36	65.32
Gross Profit Margin (%)	58.42	58.68	53.00
LIQUIDITY			
FFO Debt Service Coverage (x)	0.19	NM	NM
Current Ratio (x)	0.18	0.33	0.33
LEVERAGE			
FFO / Adjusted Net Debt (%)	0.19	NM	NM
Adjusted Net Debt / EBITDA (x)	3.54	5.44	6.50
Adjusted Debt / Capital (%)	83.78	91.20	89.85
Adjusted Short-Term Net Debt / EBITDA (x)	2.45	3.44	2.71
EFFICIENCY			
RoC (Return on Capital) = EBIT / Avg. Capital (%)	26.88	20.97	13.81
Operating Ratio (%) = OPEX / Net Sales	3.22	3.63	4.94
Equity Turnover (x)	3.72	4.11	3.45
Cash Conversion Cycle (days)	-294	-364	-186
Account Receivables Turnover (x)	37.89	30.86	22.33
Payables Turnover (x)	1.20	0.97	1.80
COVERAGE			
EBITDA / Adjusted Interest (x)	1.80	2.64	2.43
FFO Interest Coverage= (FFO + Adj. Int. Paid) / Adj. Int. Paid (x)	1.01	NM	NM
GROWTH			
Sales Growth (%)	97.84	113.15	76.78
EBITDA Growth (%)	96.83	124.13	78.89
Asset Growth (%)	32.07	109.21	30.80

NM: Not Meaningful

- Including JCR Eurasia Rating's adjustments where applicable,

Rating Info

Rated Company:	VDF Filo Kiralama A.Ş. Merkez Mah. Bağlar Cad. No:14/A Tekfen Ofispark A Blok Kağıthane / İstanbul Telephone: 444 90 96
Rating Report Preparation Period:	22.08.2022-15.09.2022
Rating Publishing Date:	22.09.2022
Rating Expiration Date:	1 full year after publishing date, unless otherwise stated
Audited Financial Statements:	FYE 2018-2019-2020-2021 / Solo
Previous Rating Results:	22.09.2021 / Long Term National Scale / A (tr) / Stable
Rating Committee Members:	Ş. Güleç (<i>Executive Vice President</i>) , Z. M. Çoktan (<i>Executive Vice President</i>) , O. İnan (<i>Senior Chief Analyst</i>) , B. Pakyürek (<i>Chief Analyst</i>) , K. F. Özudoğru (<i>Chief Analyst</i>)

Disclaimer

The ratings affirmed by JCR Eurasia Rating are a reflection of the Company's independent audit reports prepared in conformity with Turkish Financial Reporting Standards (TFRS) and International Financial Reporting Standards (IFRS), on and off-balance sheet figures, general market conditions in its fields of activity, unaudited financial statements, information and clarifications provided by the Company, and non-financial figures. Certain financial figures of the Company for previous years have been adjusted in line with the JCR Eurasia Rating's criteria.

The Company's balance sheet composition, asset quality, risk management practices, business profile, liquidity management, history in the sector, profitability figures, revenues, debt structure e, growth rates, off-balance sheet commitments, and the financial and non-financial positions of the main shareholders were taken into consideration while determining the risk assessment of the long-term international local currency and foreign currency ratings as well as national ratings.

Considering the fact that there are no additional legal or financial collateral guarantees provided separately for the repayment of the bonds issued, the note assigned for the TRY dominated bond issuance is assigned as the same as the Company's Long and Short Term National Local Ratings, unless otherwise stated.

Previous rating results and other relevant information can be accessed on www.jcrer.com.tr

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This rating report has been composed within the methodologies registered with and certified by the SPK (CMB-Capital Markets Board of Türkiye), BDDK (BRSA-Banking Regulation and Supervision Agency) and internationally accepted rating principles and guidelines but is not covered by NRSRO regulations.

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