



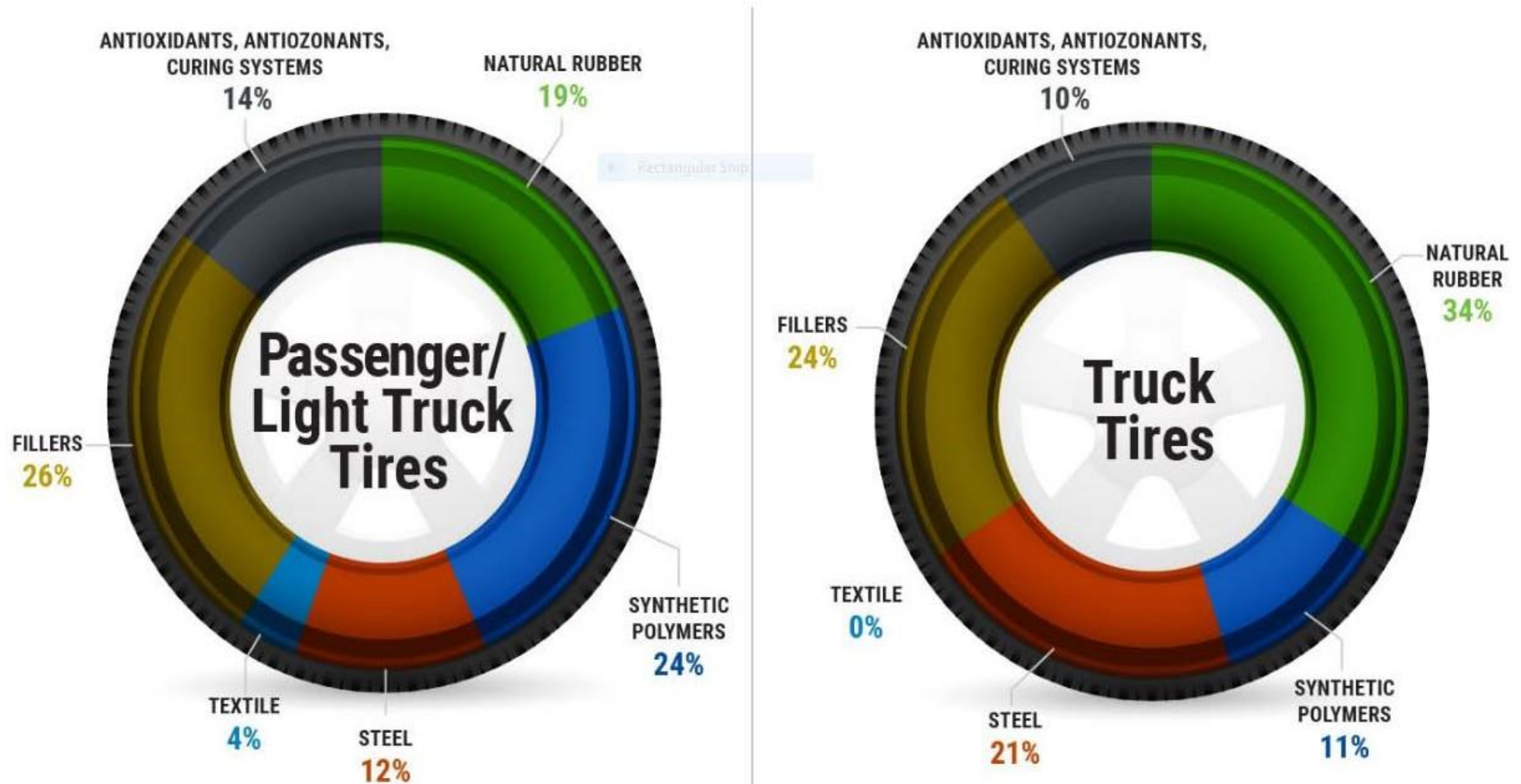
Tyres

Sector Study

TABLE OF CONTENTS

Contents	Page.	Contents	Page.
Introduction	1	Market Segments	18
Global Overview	3	Capacity & Utilization	20
Automobile & Tyre Correlation	4	Business Risk	21
Global Production	5	Financial Risk Margins & Cost Breakup	22
Market Shares	6	Financial Risk Working Capital Management	23
Exports	7	Financial Risk Borrowing Mix	24
Imports	8	Regulatory Framework	25
Country-wise Trade	9	Custom Duty Structure	26
Natural Rubber Prices	10	Rating Chart	27
Crude Oil Prices	11	SWOT Analysis	28
Local Introduction	12	Outlook	29
Local Overview	13	Bibliography	30
Industry Structure	14		
Raw Material	15		
Production	16		

Introduction | Composition of Tyres



*Synthetic Polymer is same as Synthetic Rubber

Introduction | Market Segments

By Design

- Radial Tyres
- Bias Tyres

By Region

- North America
- Asia Pacific
- Europe
- Latin America
- Middle East & Africa



By Demand

- Original Equipment Manufacturers (OEM)
- Replacement Market

By Vehicle Type

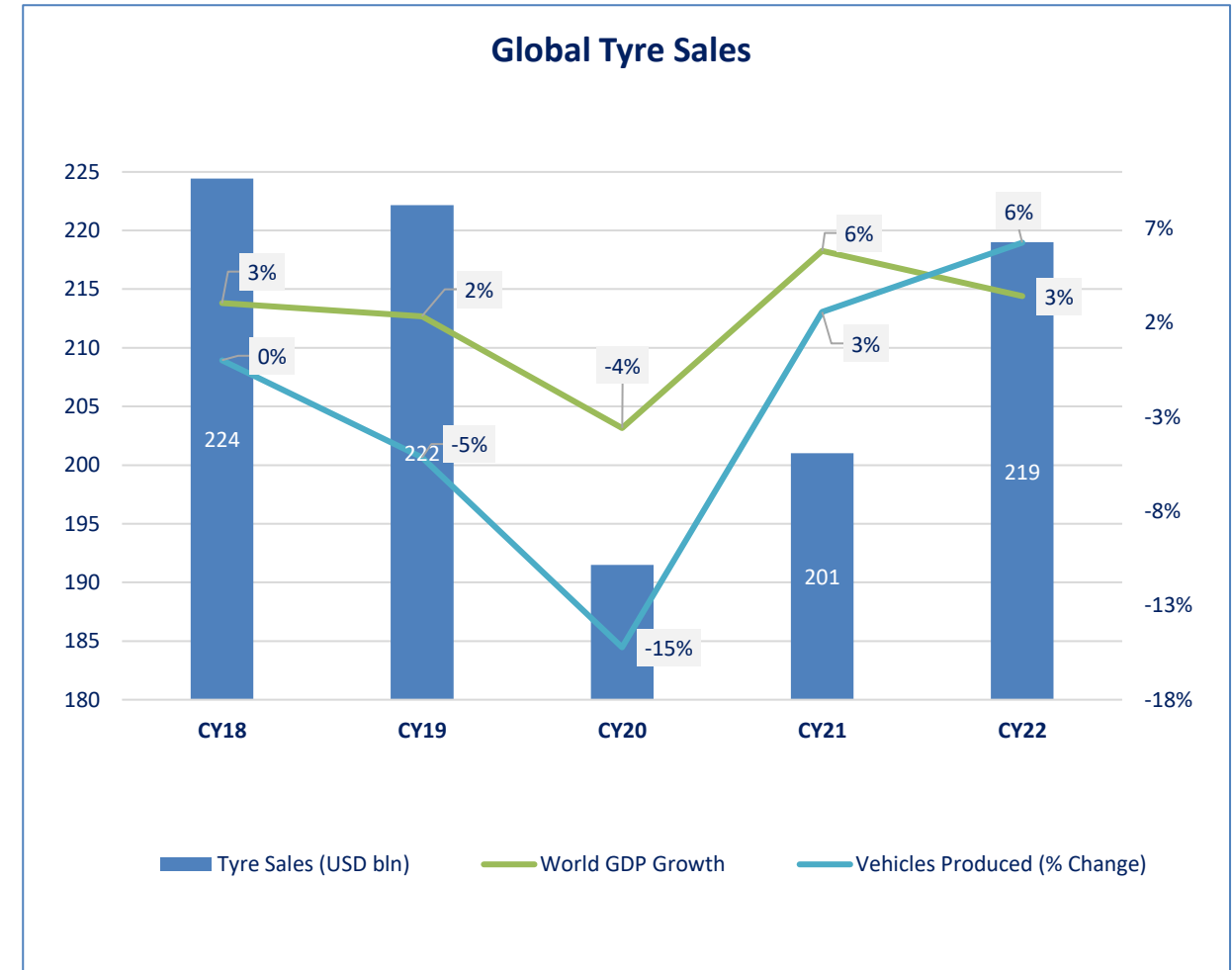
- Passenger Cars
- Light Commercial
- Medium & Heavy Commercial
- Two & Three Wheelers
- Off-the-road (OTR)

Global | Overview

- The Global market for the Tyres Sector was recorded at USD~219bln in CY22 (CY21: USD~201bln), registering a ~9% YoY increase. Escalating sales of automobiles, growing demand from developing regions and the evolution in the Global Tyres technology are driving the growth in the Tyres Sector. The Sector's revenue is forecasted to reach to USD~453bln by CY28, exhibiting a CAGR of ~6.3% during CY23-28.
- The growing popularity of Sport Utility Vehicles (SUVs), along with the rising popularity of passenger car tyres with a high safety quality, better grip and stopping power, is currently driving the Global Tyres Sector growth especially in countries such as China, East Europe, South America, and India. The total number of Tyres produced in CY22 stood at ~3.6bln units as compared to ~3.5bln units in CY21.
- Demand for the Tyres Sector is derived mainly from the growth in Automobile Sector, which, in turn, is dependent upon factors such as economic growth, per capita disposable incomes and demand from emerging economies. The global Tyres Sector is being driven by the increasing number of cars produced in China (the world's largest exporter of Tyres).
- The Tyres Sector is dominated by the top four players (Michelin, Bridgestone, Goodyear and Continental) which made up ~48% of the Global market in terms of revenue in CY22.

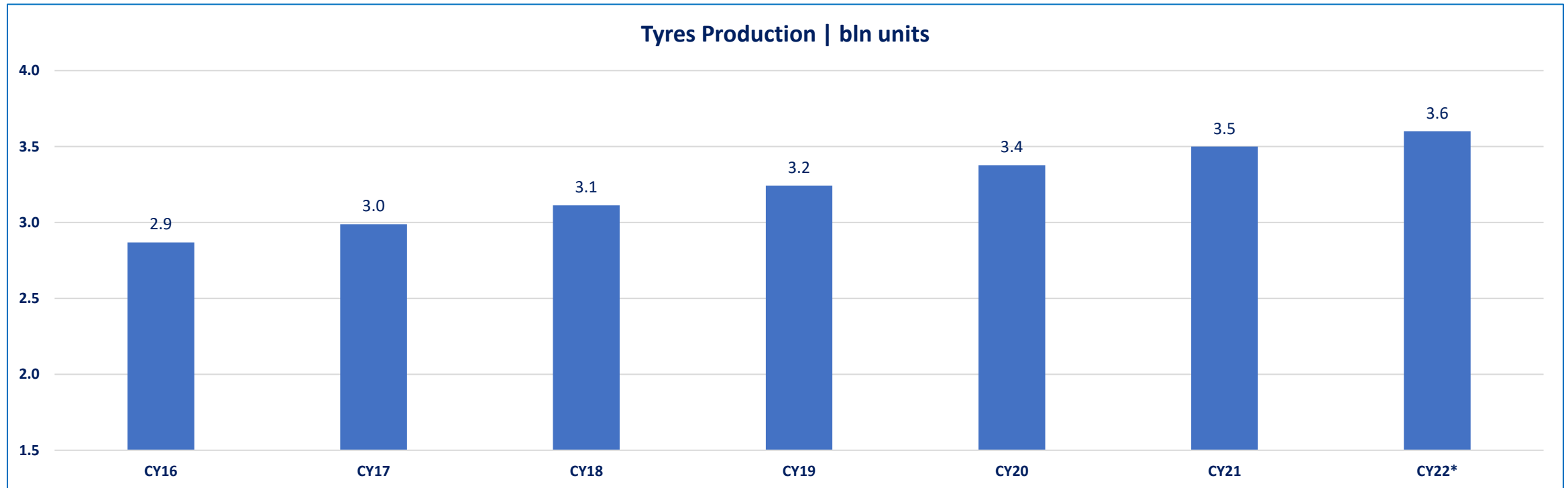
Global | Automobiles & Tyre Correlation

- The global Tyres Sector derives its demand from the global automobile industry. An increase of ~6% was witnessed in the Global production of motor vehicles during CY22 (CY21: ~3%).
- During CY22, global Tyres sales was recorded at USD~219bln, exhibiting an increase of ~9% YoY from USD~201bln in CY21. This increase in sales is due to the growing population levels as well as increase in disposable incomes.
- Additionally, growing popularity of EV is going to stir the growth for the Tyres Sector in the years to follow. By CY30, EVs are expected to range from ~15%-30% of total vehicles sales. Moreover, the increased utilization of equipment automation in the Tyres Sector is driving the Sectors' expansion.
- However, with rising inflation and a concomitant rise in interest rates by the Central Banks across the world, global GDP growth is projected to fall from an estimated ~3.5% in CY22 to ~3% percent in both CY23 and CY24 depicting an economic slowdown (IMF Jul'23 Outlook). Based on these estimates, the global Tyres Sector might also be expected to witness some downside risks in its growth.



Global | Production

- In CY22, global production of Tyres reached to ~3.6bln units (CY21:~3.5bln units), exhibiting a CAGR of ~4% during a 7-year period (CY16-22).
- The largest share of production is concentrated in the Asia & Pacific Region, wherein Japan and China play pivotal roles, collectively contributing ~48% to the total global Tyres production in CY22.
- In CY22, North and South America held a combined share of ~32% in global Tyres production, while the remainder of the world, including Europe, Africa, and the Middle East, accounted for ~20% of the global production.

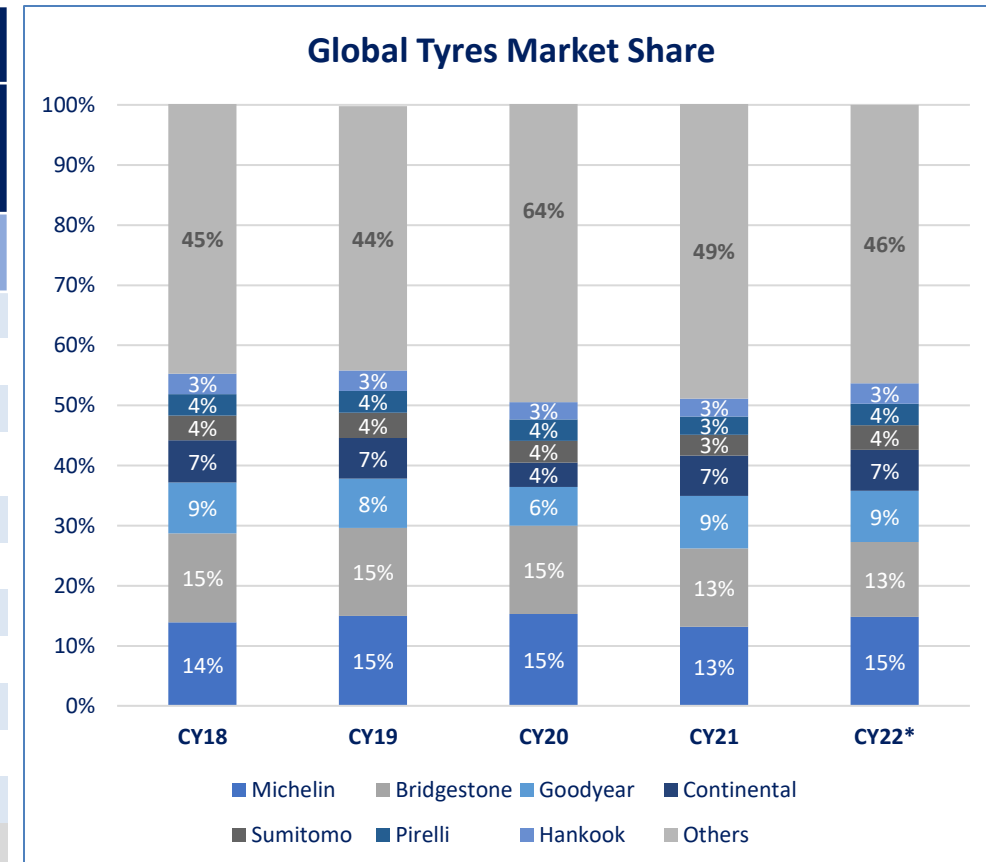


*Tyres production is estimated using CAGR of ~4% during 7-year period (CY16-22).

Global | Market Share

- In terms of sales, the Global Tyres Sector is primarily dominated by Michelin, Bridgestone, Goodyear, Continental, and Sumitomo, which hold market shares of ~15%, ~14%, ~9%, ~7%, and ~4%, respectively in CY22. Remarkably, these companies have managed to sustain their market shares over the past five years (CY18-22).

Global Tyres Sales (USD bln)								
Sr.	Top 10 players	Countries	CY18	CY19	CY20	CY21	CY22	
							USD bln	%
1	Michelin	France	26	27	23	28	32	15%
2	Bridgestone	Japan	34	32	28	29	27	13%
3	Goodyear	USA	16	15	12	18	19	9%
4	Continental	Germany	12	12	6	13	14	7%
5	Sumitomo	Japan	8	8	7	8	8	4%
6	Pirelli	Italy	6	6	5	6	7	3%
7	Hankook	South Korea	6	6	6	6	7	3%
8	Yokohama	Japan	6	6	4	6	6	3%
9	ZC Rubber	China	4	4	4	5	5	2%
10	Toyo Tyres	Japan	4	3	3	4	4	2%
	Others		62	58	41	79	81	37%
Total			184	177	139	202	210	100%



Global | Exports

- In CY22, the Global exports of Tyres reached to USD~86bln, showing a YoY increase of ~6.3% (CY21: USD~85bln). China held the largest share in these exports, accounting for ~22% of the total global Tyres exports. Following China were Thailand (~8%), Germany (~7%), Japan (~6%), and the USA (~5%). South Korea contributed ~4%, Poland, Spain, France and Netherlands each made up ~3% of the total Tyres exports.
- Regarding regional export contributions, shipments from Asia constituted ~50% of the world's total exports during CY22, while Europe accounted for ~38% of the global Tyres exports.

World Exports (USD bln)	CY18	CY19	CY20	CY21	CY22*	Market Share CY22 (%)
China	15.1	14.8	13.3	15.1	18.9	22.0%
Thailand	4.9	5.6	5.2	6.3	6.6	7.7%
Germany	6.0	5.7	4.9	5.7	5.9	6.8%
Japan	5.1	5.2	4.1	5.0	5.5	6.3%
United States	5.1	5.0	4.0	4.5	4.9	5.8%
South Korea	3.5	3.3	2.8	2.9	3.2	3.7%
Poland	2.4	2.1	2.0	2.5	2.9	3.3%
Spain	2.5	2.4	2.2	2.6	2.8	3.2%
France	2.8	2.7	2.3	2.6	2.6	3.0%
Netherlands	2.3	2.5	2.1	2.6	2.4	2.8%
Others	31.2	29.7	26.8	35.1	30.3	45.0%
World Total	80.8	79.0	69.7	84.9	86.0	100%

Global | Imports

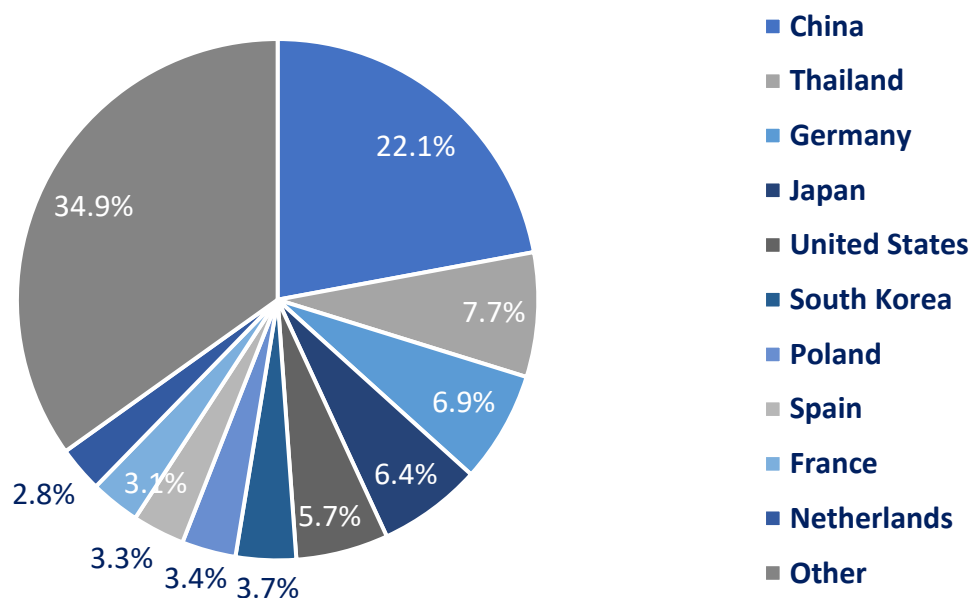
- In CY22, the Global imports of Tyres reached to USD~86bln reflecting a slight YoY decrease of ~0.2% (CY21: USD~86.2bln). USA held the largest share in these imports, accounting for ~25.3% of the total global Tyres imports. USA has consistently maintained its position as the leading Tyres importer since CY18.
- Following USA were Germany ~8.8%, France ~4.9%, Mexico ~4.9%, and Canada ~4.2%. Netherlands, United Kingdom, Australia Italy and Netherlands contributed ~3.6%, ~3.5%, ~3.4%, ~3.3% and ~2.3% to the total Tyres imports, respectively.

World Imports (USD bln)	CY18	CY19	CY20	CY21	CY22*	Market Share CY22 (%)
USA	15.3	15.5	14.1	17.2	21.8	25.3%
Germany	7.3	6.6	6.0	7.2	7.6	8.8%
France	3.9	3.6	3.1	4.1	4.2	4.9%
Mexico	3.3	3.2	2.5	3.4	4.2	4.9%
Canada	3.2	3.1	2.5	3.2	3.6	4.2%
Netherlands	2.7	2.6	2.4	3.1	3.1	3.6%
United Kingdom	2.9	2.8	2.3	3.0	3.0	3.5%
Australia	2.2	2.3	2.1	2.6	2.9	3.4%
Italy	2.4	2.4	2.1	2.7	2.8	3.3%
Spain	1.9	1.7	1.5	1.9	2.0	2.3%
Others	35.7	35.2	31.1	36.5	30.8	35.8%
World Total	80.8	79.0	69.7	84.9	86.0	100%

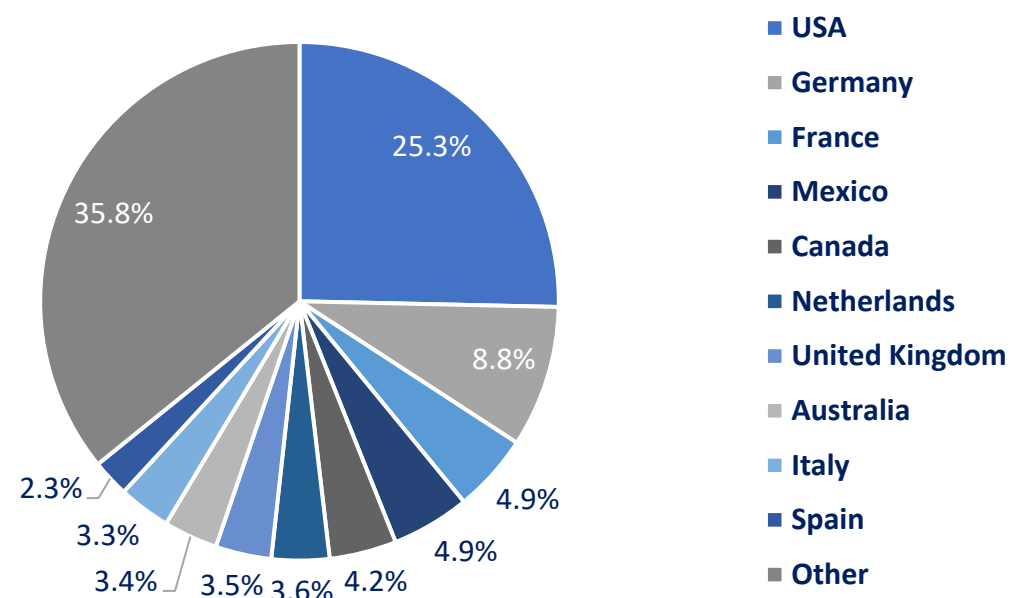
Country-Wise Trade

- China has been the leading exporter of Tyres in the last five years (CY18-22), with Thailand and Germany ranking second and third, respectively. In CY22, China's exports of Tyres clocked in at USD~18.9bln (CY21: USD~15.1bln) followed by Thailand at USD~6.6bln (CY21: USD~6.3bln), whereas exports of Germany stood at USD~5.8bln (CY21: USD~5.7bln).
- During the last five years (CY18-22), top three global importers of Tyres have been the USA, Germany and France. Tyres imports of USA during 6MCY23 stood at USD~8.5bln (6MCY22: USD~10.9bln), while those for Germany were recorded at USD~3.5bln during the same period (6MCY22: USD~3.8bln).

Tyre Exports by Country

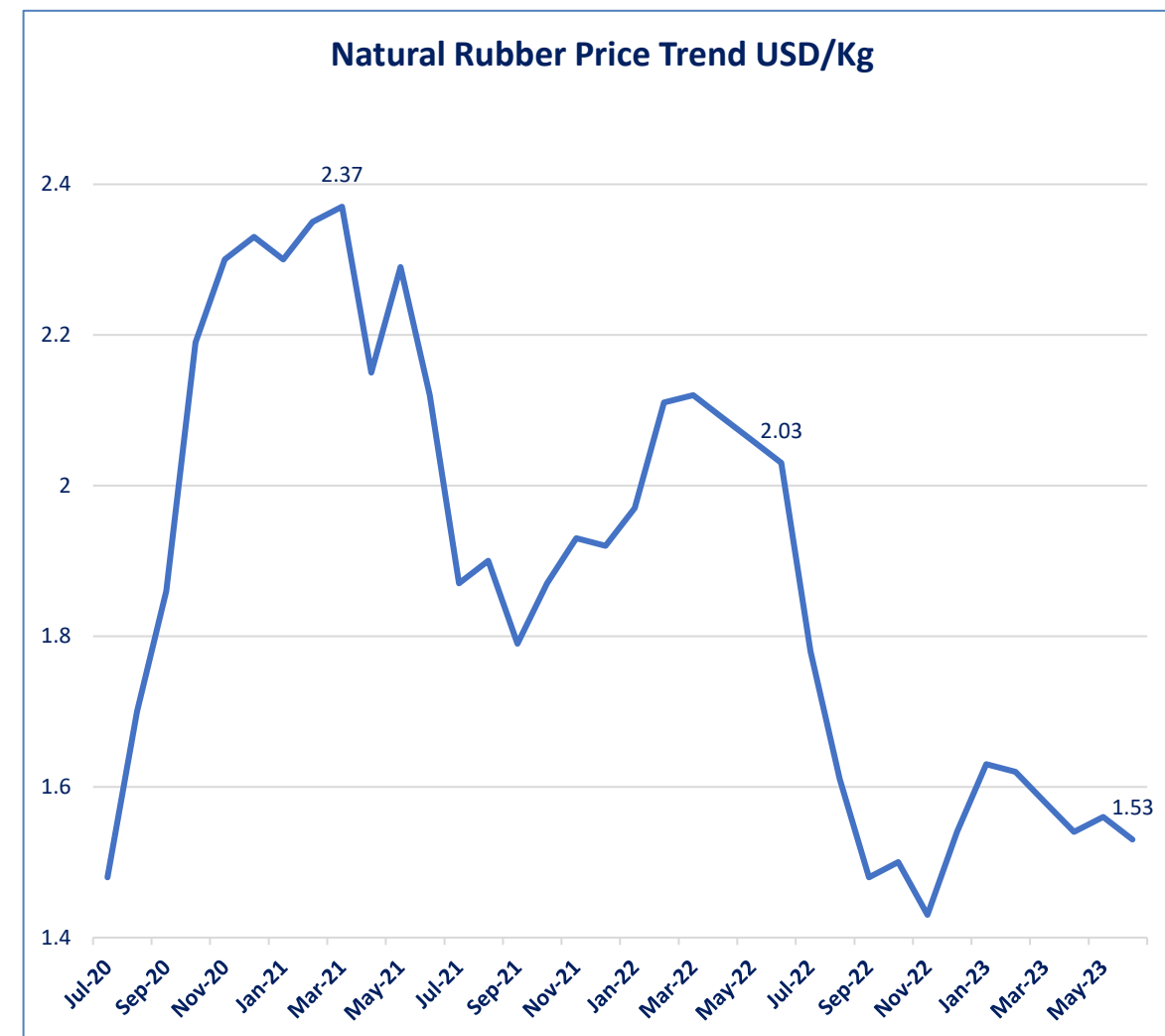


Tyre Imports by Country



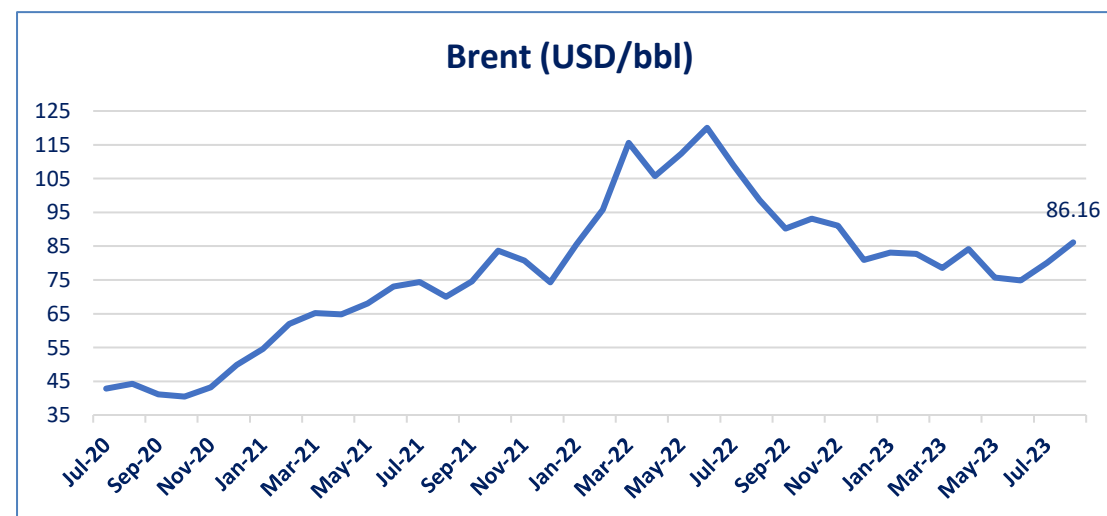
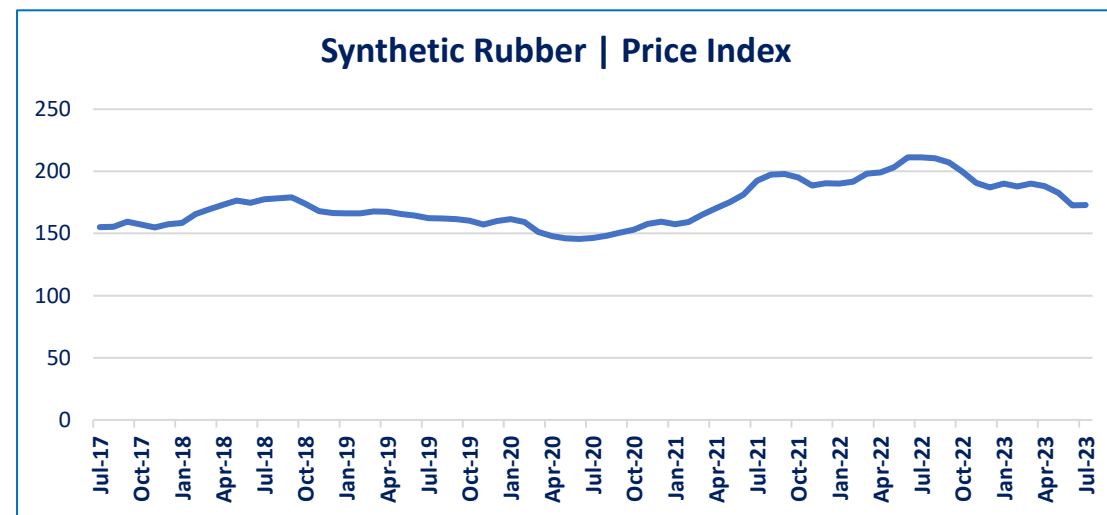
Global | Natural Rubber Price

- Global prices of natural rubber have historically (CY17-23) exhibited high volatility and remain influenced by the supply and demand factors.
- Prices of natural rubber exhibited a growing trend and reached USD~2.37/Kg in Mar'21. This resulted from a rebound in demand from the Tyres Sector, particularly from China, where manufacturing operations accelerated as a result of China's decision to re-open its borders post-pandemic. China, being the largest exporter of Tyres, depends on rubber imports to meet its needs for natural rubber.
- In addition, rubber plays a crucial role in the manufacture of latex gloves, belts, catheters, and other industrial durables, therefore, the demand for these products drove up the price of rubber.
- The price of natural rubber was recorded at USD~1.5/Kg as of Jun'23 (SPLY: USD~2.0/Kg), a decline of ~24.6% YoY. The fall in rubber price can be attributed to lower demand from China as a result of economic deceleration.
- The global natural rubber market is expected to exhibit a CAGR of ~3.4% from CY23-28. Future price of natural rubber as compared to synthetic rubber can be anticipated to rise firstly as a result of rising environmental awareness since natural rubber is made from plants, biodegrades, is renewable, and has less of an impact on the environment than synthetic rubber. Secondly, amid rising crude oil prices (USD~86.16/bbl as at Aug'23), consumption of synthetic rubber that is derived from crude will fall resulting in rise in the demand of natural rubber.



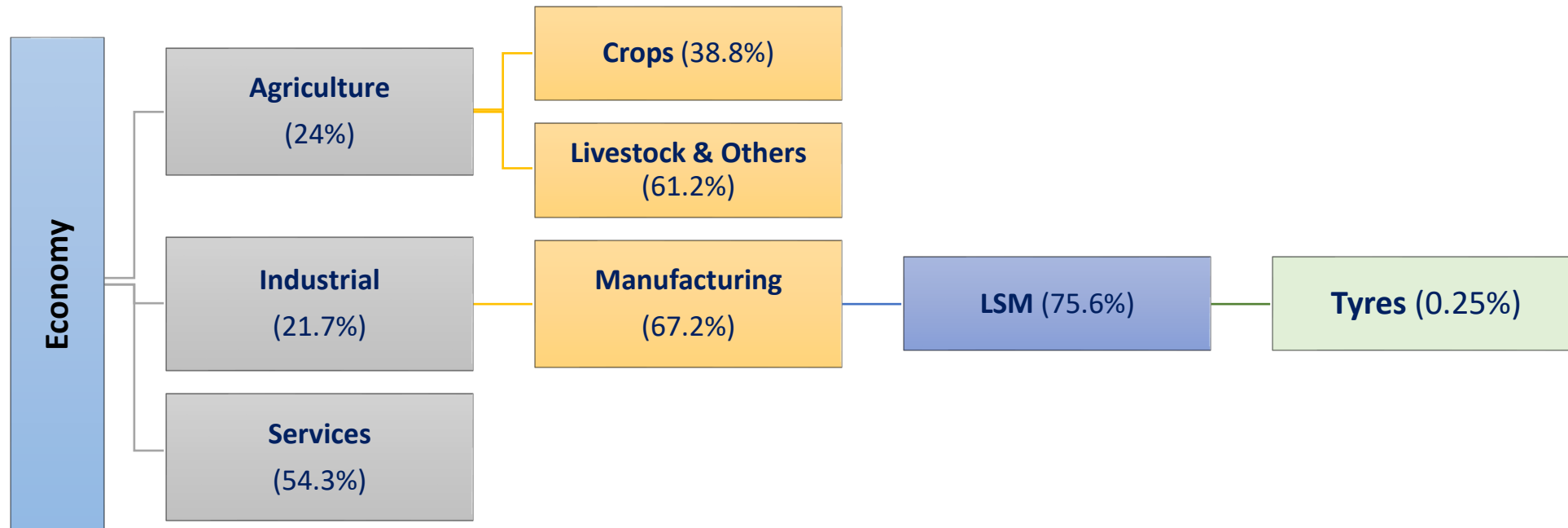
Global | Crude Oil Price

- Synthetic rubber, a key raw material of various types of tyres, is a derivative of crude oil. Therefore, its pricing remains exposed to the variation in the international crude oil price.
- Crude oil, being a highly price vulnerable commodity, fell to its lowest level in the last two decades (FY03-23) in Apr'20, when it clocked in at USD~16.5/bbl due to the global lockdown amid the pandemic. However, with the re-opening of the borders, both trade and travel activities rebounded, crude oil prices started picking up the pace in the upward direction. The price stood at USD~86.2/bbl in Aug'23.
- Volatility in crude oil can be partially attributed to ongoing Russia-Ukraine conflict as well as strategic decisions by OPEC+ countries (Saudi Arabia and Russia) to manage outputs.
- The price of Brent crude oil stood at USD~86.2/bbl in Aug'23. Going forward, it is anticipated that if OPEC+ countries decide to make further supply cuts in future, it might result in Brent crude oil prices exceeding the USD~100/bbl level in the first half of FY24. However, the market is expected to remain tight in the presence of muted demand from China.



Local | Introduction

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.3trn (FY22: PKR~63.3trn) and posted a growth in real terms of ~0.29% (FY22: ~6.1%). Industrial activities in FY23 represented ~18.5% share of the GDP (taken at constant prices).
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth, considering its linkages with other sectors, as it represents ~75.6% value of all manufacturing activities in FY23. The QIM dipped by ~10.3% during FY23 when compared with the same period of the last year (SPLY).
- The Tyres Sector is classified as a Large Scale Manufacturing (LSM) industrial component within the country's industrial Sector holding ~0.25% share in the QIM. During FY23, the Sector's market capitalization stood at PKR~198bIn (FY22: PKR~158bIn).

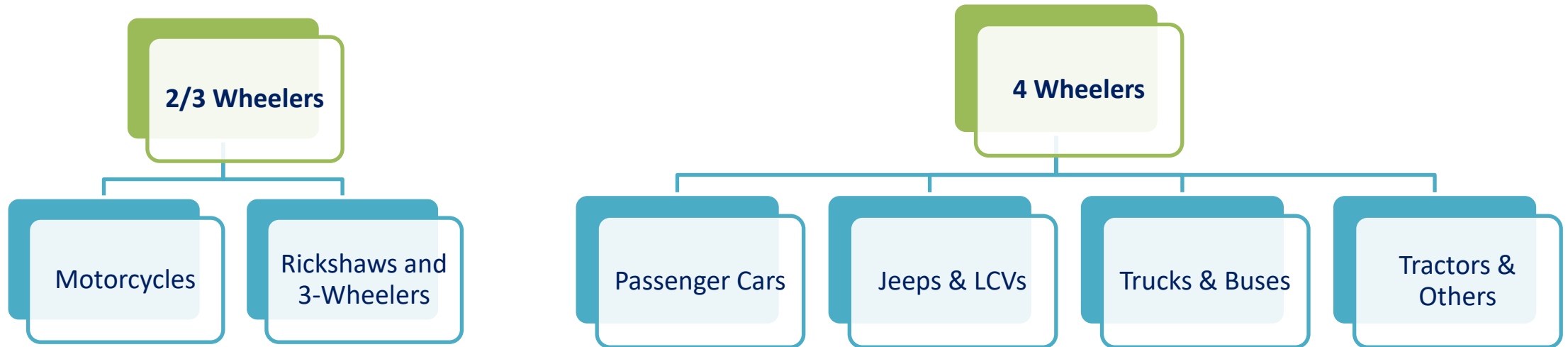


Local | Overview

- The local Tyres Sector heavily relies on demand from the automobile industry, which encompasses several categories - passenger cars, primarily used for personal transportation, Jeeps, LCVs, and pickups utilized for transporting goods, trucks and buses serving as public transportation, tractors for agricultural purposes, and 2 & 3 wheelers, predominantly used for commuting.
- The Tyres Sector can be broadly divided into two segments: OEM (Original Equipment Manufacturer) and RM (Replacement Market). The replacement market constitutes an average share of ~80%, although this varies among different types of Tyres. Estimated market size of Tyres Sector in FY23 stood at PKR~198.3bln (FY22: PKR~158.2bln). Key players in the Tyres Sector include Ghandhara Tyre and Rubber Company, Panther Tyres Ltd, Service Industries Ltd and Service Long March Tyres Pvt Ltd.
- It is worth noting that Gandhara Tyres is the sole local producer of Tyres for passenger cars, even though the market is largely dominated by imports. Local production caters entirely to the demand for the 2 & 3 wheeler segment, with players like Panther Tyres and Service Industries Ltd holding significant market shares. Additionally, grey channel procurement still retains a substantial portion of the Tyres market, particularly in the four-wheel category.
- During 2MFY24, ~2.18mln units of Tyres were produced in comparison to ~2.92mln units SPly. In FY23, Pakistan's Tyres Sector experienced an estimated production of ~16mln units (FY22: ~27mln units), marking a significant decline of ~70% compared to FY22, and reflecting a challenging year for the automotive industry due to operational difficulties resulting from import restrictions imposed by the SBP from May'22 to Jun'23. However, with the removal of import restrictions, the market is anticipated to experience growth in the projected period spanning from CY24-32, achieving a CAGR of ~8.8%. This growth is expected to result in the market reaching ~41.4mln units by CY27.
- The import of Tyres and Tubes clocked in at PKR~2.8bln during 2MFY24 (2MFY23: PKR:6.0bln). During FY23 imports declined to PKR~22bln, in contrast to PKR~38bln in FY22, representing a decline of ~42% YoY. This decrease can be attributed to the imposition of additional taxes on imported automobiles, including a 25% higher rate of sales tax.

Sector Overview	FY21	FY22	FY23
Estimated Market Size (PKR bln)	130.6	158.2	198.3
Contribution to GDP (%)	0.25%	0.25%	0.25%
YoY Growth (%)	16.77%	21.08%	25.38%
Total number of Listed Players	3	3	3
Production of 2,3 Wheelers (mln units)	19.28	18.47	11.95
Production of 4 Wheelers (mln units)	4.11	6.13	3.31
Production of Trucks, Buses & Tractors (mln units)	1.62	1.91	1.04
Import Value (PKR bln)	60.08	38.07	21.59
Import Volume (mln units)	7.13	5.48	3.04
Industry Association	Pakistan Association of Automotive Parts & Accessories Manufacturers		

Local | Industry Structure



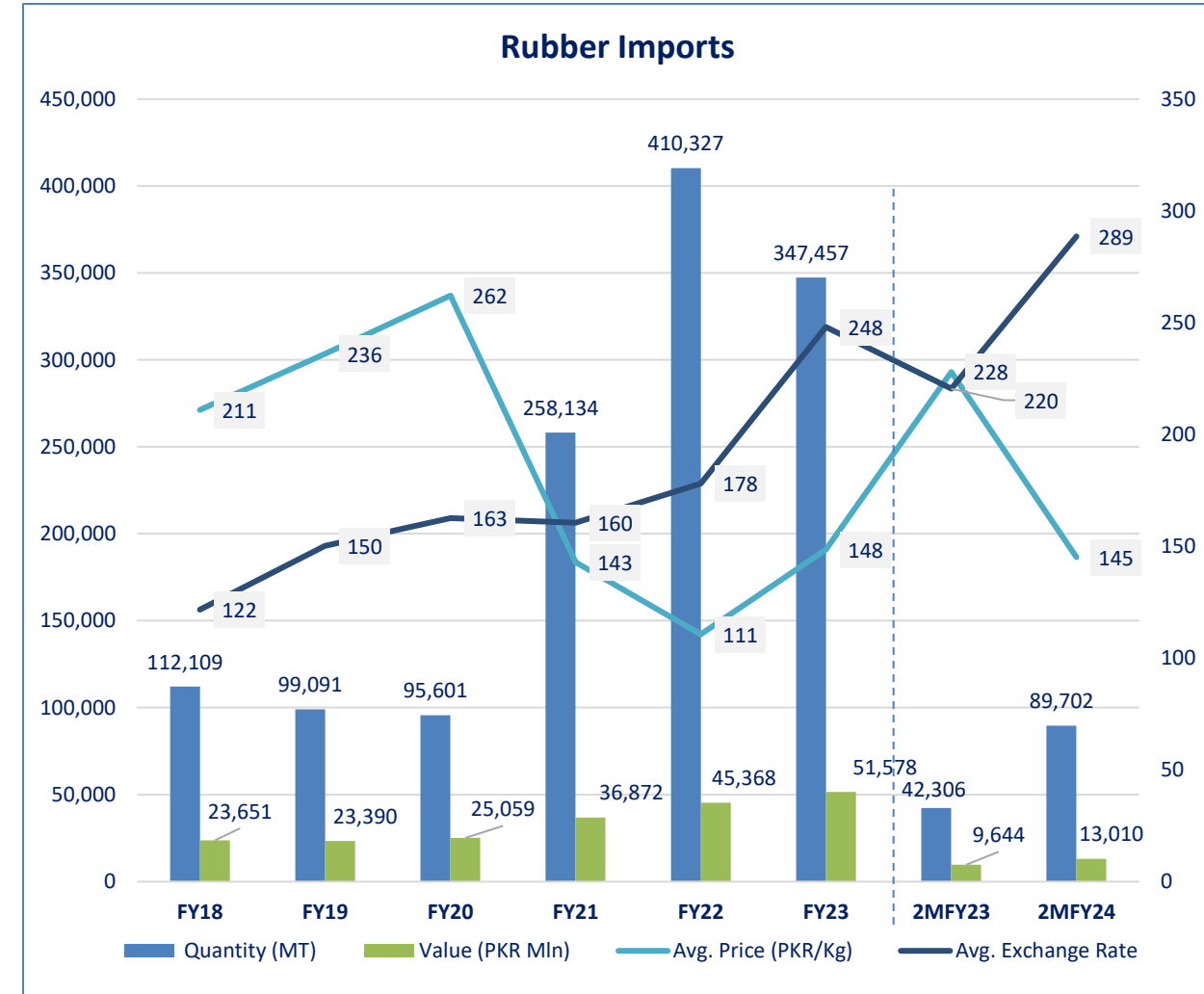
Demand	~80% Replacement
	~20% OEMs

Supply	100% Local Production
	Major Players: <ul style="list-style-type: none"> Panther Tyres Service Industries

~75.5% Replacement ~24.5% OEMs	~92.4% Replacement ~7.6% OEMs	~73.2% Replacement ~26.8% OEMs	~80% Replacement ~20% OEMs
~31% Local, ~69% Imports (Legal + Grey Channel) Major Players: Gandhara Tyres	~10% Local ~90% Imports (legal + Grey Channel)	~10% Local, ~90% Imports (legal + Grey Channel)	~39% Local, ~61% Imports (legal + Grey Channel)

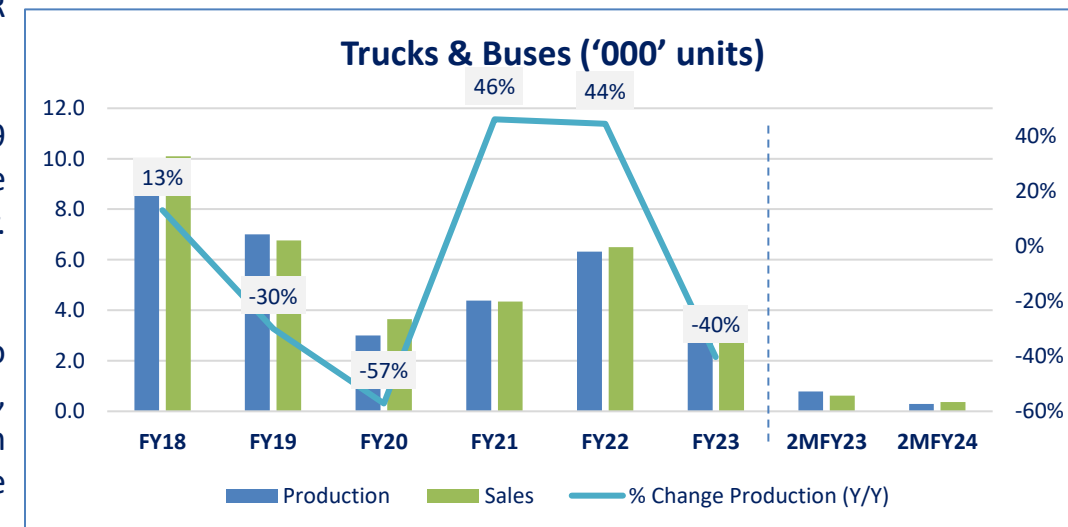
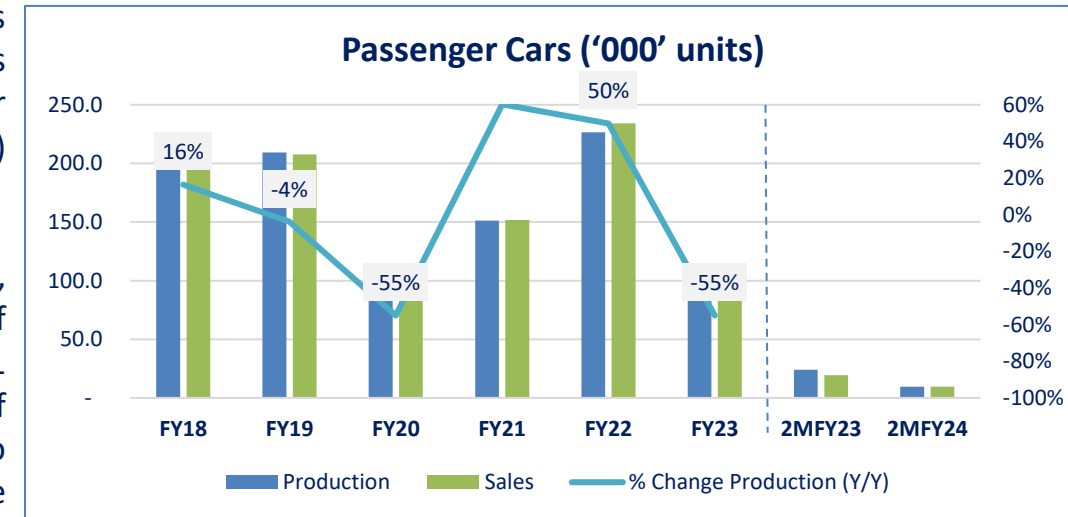
Local | Raw Material

- The primary raw material used in Tyres production is rubber, encompassing both natural and synthetic varieties. In FY23, there was a notable decline of ~60% in the quantity of rubber imports, dropping from ~410,327 MT in FY22 to ~347,457 MT in FY23, largely due to the import restrictions imposed by the SBP from May'22 to Jun'23.
- Despite the decrease in imports in FY23, there was a ~14% increase in value in terms of PKR, rising from PKR~45bln in FY22 to PKR~52bln FY23. This was primarily a result of a significant depreciation of the PKR against the USD in FY23, with a depreciation of ~39% YoY (FY23: USD/PKR~248; FY22: USD/PKR~178). Consequently, there was a ~33% rise in the average import price of rubber per kg from PKR~111/kg in FY22 to PKR~148/kg in FY23.
- In 2MFY24, rubber imports amounted to ~89,702 MT, a significant increase of ~112% compared to 2MFY23 level of ~42,306 MT. This demonstrates that the Tyres Sector is likely to benefit from the removal of import restrictions.
- The average price of rubber imports in 2MFY24 stood at PKR~145/kg, compared to PKR~228/kg in 2MFY23, despite higher import volumes (2MFY24: ~13,010 MT; 2MFY23: ~9,644 MT). This suggests that rubber was imported at a lower cost per MT to offset the impact of higher USD/PKR exchange rate. Looking ahead, it can be anticipated that the price of rubber imports per kg may continue to decline due to the ongoing appreciation of the PKR against the USD since Sep'23.



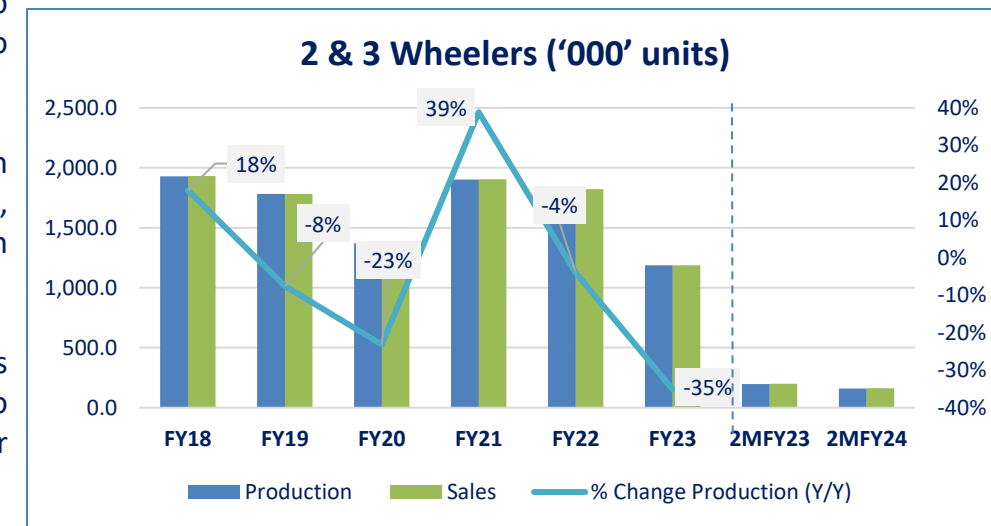
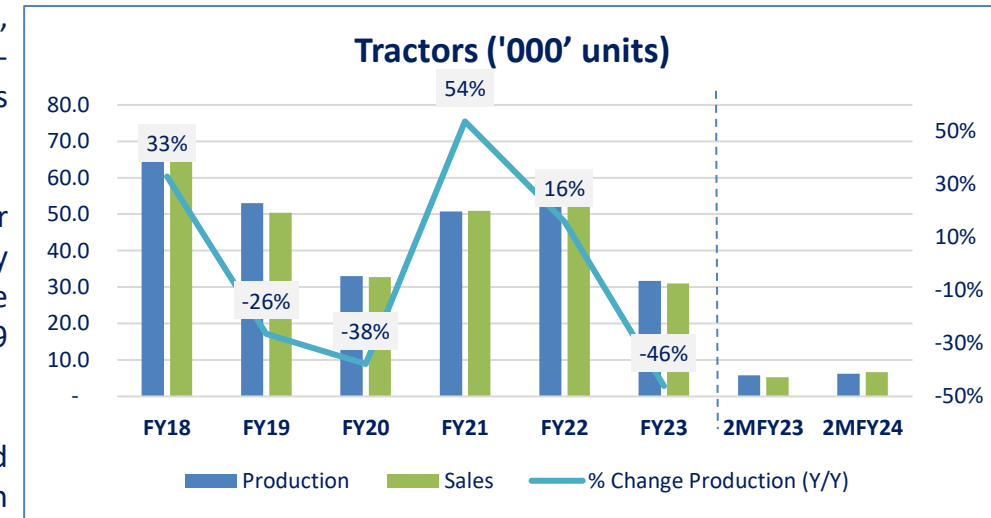
Local | Production

- The local automotive industry experienced a substantial decrease in the production levels from July'22 to June'23. This decline was primarily attributed to the import restrictions imposed by the SBP, which also encompassed essential raw materials required for car assembly, including Completely Knocked Down (CKD) and Semi-Knocked Down (SKD) automobile kits needed for local automotive part manufacturing.
- Consequently, the production of Passenger Cars in FY23 witnessed a sharp decline of ~55%, reaching ~101,984 units compared to ~226,433 units in FY22. Concurrently, the sales of Passenger Cars experienced a staggering YoY drop of ~59%, with sales clocking in at ~96,811 units in FY23 compared to ~234,180 units in FY22. During 2MFY24, the production of Passenger Cars continued to decline by ~59%, with ~9,729 units produced compared to ~24,019 units in 2MFY23. This decline can be attributed to high input costs resulting from the significant devaluation of PKR against the USD (2MFY24: USD/PKR ~289; 2MFY23: USD/PKR ~220) as well as lower demand amid economic slowdown.
- Likewise, in 2MFY24, the production of Trucks and Buses stood at ~289 units (2MFY23: ~789 units) depicting a decline of ~63%. The production of Trucks and Buses experienced a decline of ~40% in FY23, with ~3,773 units produced compared to ~6,320 units during the last year. Sales of Trucks and Buses also declined by ~41% due to increasing prices of these vehicles.
- This decline in production for both Passenger Cars and Trucks & Buses can also be linked to other economic challenges, including: (i) Significant depreciation of PKR of ~39% during FY23, (ii) elevated policy interest rates by ~7.2% (Average FY23: ~21%; FY22: ~13.8%), (iii) Increase in Sales Tax, rising from 17% in FY22 to 18% in FY23 and (iv) The introduction of a capital value tax (CVT) of ~1% on motor vehicles with engine capacities exceeding 1300cc.



Local | Production

- The domestic Tractor Sector plays a pivotal role in fulfilling the needs of the farming community. As a result, in FY23, measures were taken to facilitate farm mechanization. This included allowing the import of 0-5-year-old Tractors with reduced duty and reducing the duty on Completely Knocked Down (CKD) Tractors from ~35% to ~15% to support new Tractor manufacturers.
- Furthermore, in FY23, GST of ~5% on tractors was withdrawn, and custom duty of ~0%-2% was waived for the import of agricultural machinery. During FY23, the number of operational tractors across the country stood at ~692,626 units compared to ~670,000 in FY22. However, the number of Tractors currently available for the agricultural sector fall short of adequate levels, as the overall Tractor engine power available is ~0.9 horsepower (HP)/acre, below the required power level of ~1.4 HP/acre.
- During 2MFY24, a total of ~6,189 Tractors were produced, compared to ~5,810 units in the SPLY. Sales stood at ~6,645 units in 2MFY24 and ~5,219 units in 2MFY23, representing a rise of ~7% and ~27% in production and sales, respectively. However, in FY23, the number of Tractors produced was ~31,726 units, compared to ~58,880 units in FY22, marking a decline of ~46% YoY. Similarly, the number of Tractors sold in FY23 also declined by ~48% to ~30,942 units (FY22: ~58,947 units).
- Conversely, the 2 & 3 Wheeler segment experienced a notable and substantial decrease in both production and sales, with both declining by ~35%. In FY23, the production of 2 & 3 Wheelers stood at ~1.185mIn units, compared to ~1.826mIn units in FY22, while sales in FY23 clocked in at ~1.187mIn units (FY22: ~1.821mIn units). This declining trend persisted during 2MFY24, with both production and sales decreasing by ~19%.
- 2 & 3 Wheelers are known for providing an affordable means of transportation for lower-income individuals but are highly sensitive to price fluctuations. The significant exchange losses experienced in FY23 led to widespread inflationary pressures, necessitating price increases that subsequently reduced the demand for 2 & 3 Wheelers.



Local | Market Segments | Demand Wise

Market Segments	Type of Vehicles				
	2 & 3 Wheelers	Passenger Cars	Jeeps & LCVs	Trucks & Buses	Tractors
Original Equipment Manufacturers (OEM)	20.0%	24.5%	7.6%	26.8%	20.0%
Replacement Market (RM)	80.0%	75.5%	92.4%	73.2%	80.0%

Estimated Tyre Demand	Type of Vehicles														
	2 & 3 Wheelers			Passenger Cars			Jeeps & LCVs			Trucks & Buses			Tractors		
	FY22	FY23	2MFY24	FY22	FY23	2MFY24	FY22	FY23	2MFY24	FY22	FY23	2MFY24	FY22	FY23	2MFY24
OEM Sales	1,821,885	1,186,969	161,906	234,180	96,811	9,611	45,087	30,067	3,060	6,498	3,836	362	58,947	30,942	6,645
Sales Growth Rate (YoY)	-4%	-35%	-19%	49%	-57%	-50%	49%	-33%	-30%	49%	-41%	-63%	16%	-48%	27%
Estimated No. of Tyres	2 & 3			4			4			6			6		
OEM Tyre Sales (A)	3,693,815	2,393,268	326,793	936,720	387,244	38,444	180,348	120,268	12,240	38,988	23,016	2,172	353,682	185,652	39,870
Estimated RM Tyres (B)	14,775,260	9,573,072	1,307,172	2,886,627	1,193,344	118,470	2,192,652	1,462,206	148,813	106,490	62,865	5,932	1,414,728	742,608	159,480
Total Tyres Demand (A+B) (Units)	18,469,075	11,966,340	1,633,965	3,823,347	1,580,588	156,914	2,373,000	1,582,474	161,053	145,478	85,881	8,104	1,768,410	928,260	199,350

Note: Assumptions are based on the market data.

Local | Market Segments | Supply Wise

Supply Channels	Type of Vehicles				
	2 & 3 Wheelers	Passenger Cars	Jeeps & LCVs	Trucks & Buses	Tractors
Local Production	100%	31%	10%	10%	39%
Imports	-	51%	30%	42%	17%
Grey Channels	-	18%	60%	48%	44%

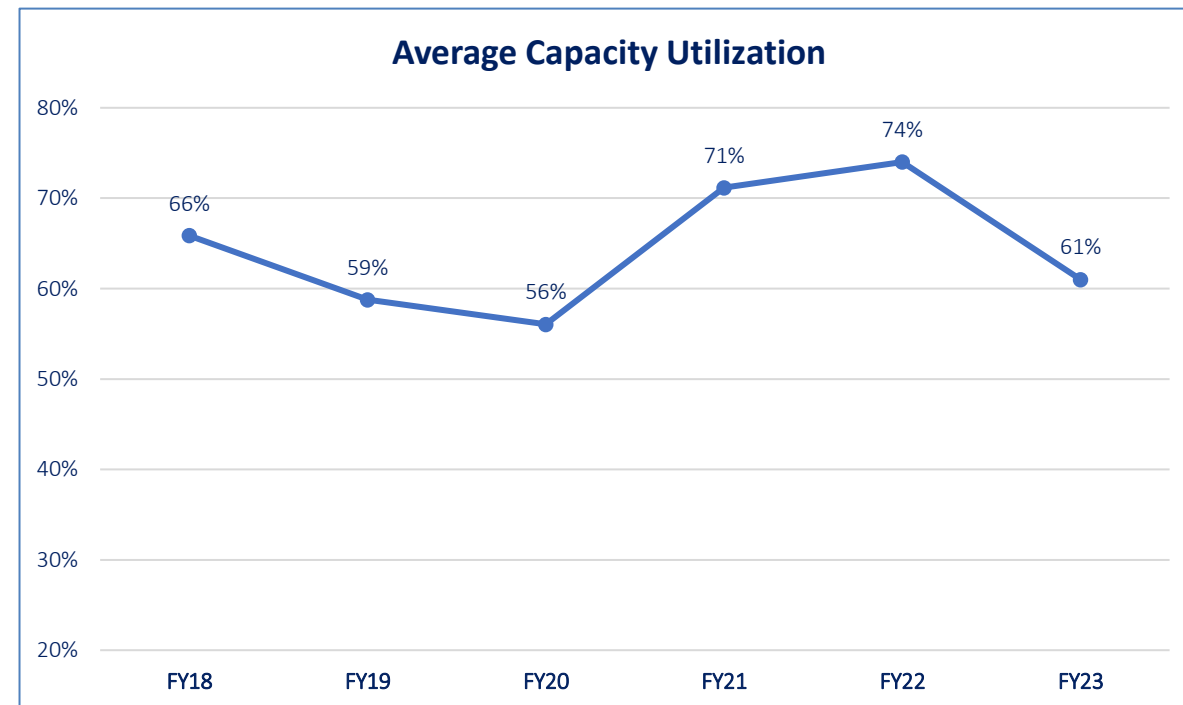
Estimated Tyres Supply	Type of Vehicles														
	2/3 Wheelers			Passenger Cars			Jeeps & LCVs			Trucks & Buses			Tractors		
	FY22	FY23	2MFY24	FY22	FY23	2MFY24	FY22	FY23	2MFY24	FY22	FY23	2MFY24	FY22	FY23	2MFY24
Local Production	18,474,065	11,948,300	1,608,280	1,175,631	516,164	49,241	233,795	164,911	21,590	14,149	8,447	647	688,896	371,194	72,411
Imports	-	-	-	1,934,103	849,173	81,009	701,384	494,732	64,769	59,427	35,477	2,717	300,288	161,803	31,564
Grey Channels	-	-	-	682,625	299,708	28,591	1,402,768	989,463	129,537	67,917	40,546	3,106	777,216	418,783	81,695
Total Tyres Supply (Units)	18,474,065	11,948,300	1,608,280	3,792,359	1,665,045	158,841	2,337,947	1,649,105	215,895	141,493	84,470	6,470	1,766,400	951,780	185,670

Note: Assumptions are based on the data provided by a sector player in FY19.

Local | Capacities & Utilization

- The top players within the local Tyres Sector have achieved significant capacity enhancements in the past few years. The total installed capacity of the Tyres Sector increased by ~7% to ~35.1mln units in FY23 (FY22: ~32.8mln units). Overall, the average capacity utilization decreased by ~13% YoY to record at ~61% (FY22: ~74%).
- Additionally, any further increase in the policy rate, which currently stands at ~22% as of Sep'23, would serve to lower the demand for autos vis-à-vis high borrowing costs, which would likely result in driving down the demand, and hence production, of Tyres.

Major Sector Players	Installed Capacity (mln units)					
	FY18	FY19	FY20	FY21	FY22	FY23
General Tyres	3.6	3.9	3.9	4.0	4.3	3.9
Panther Tyres	8.0	7.7	8.1	8.1	8.1	9.8
Service Industries	17.1	18.5	19.1	19.4	20.4	19.0
Service Long March Tyres*	N/A	N/A	N/A	N/A	N/A	2.4
Total Capacity	28.6	30.1	31.2	31.5	32.8	35.1



Note: The installed capacity and utilized capacity data is reflective of PACRA rated clients for different periods (Gandhara 3QFY23, Panther and Service Long March 9MFY23 and Service Industries CY22)

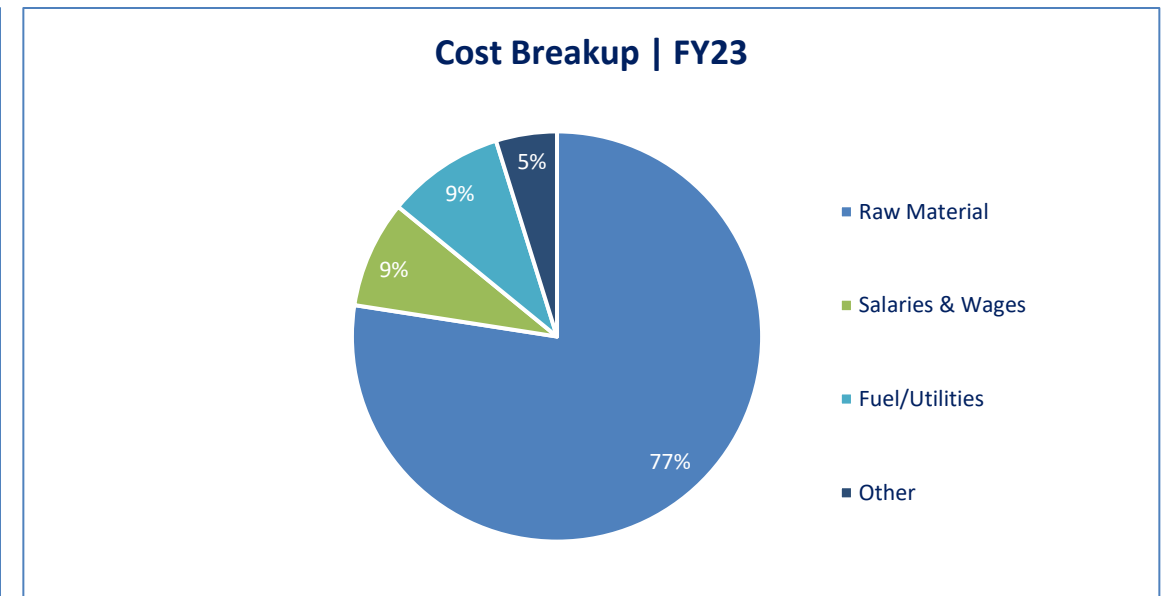
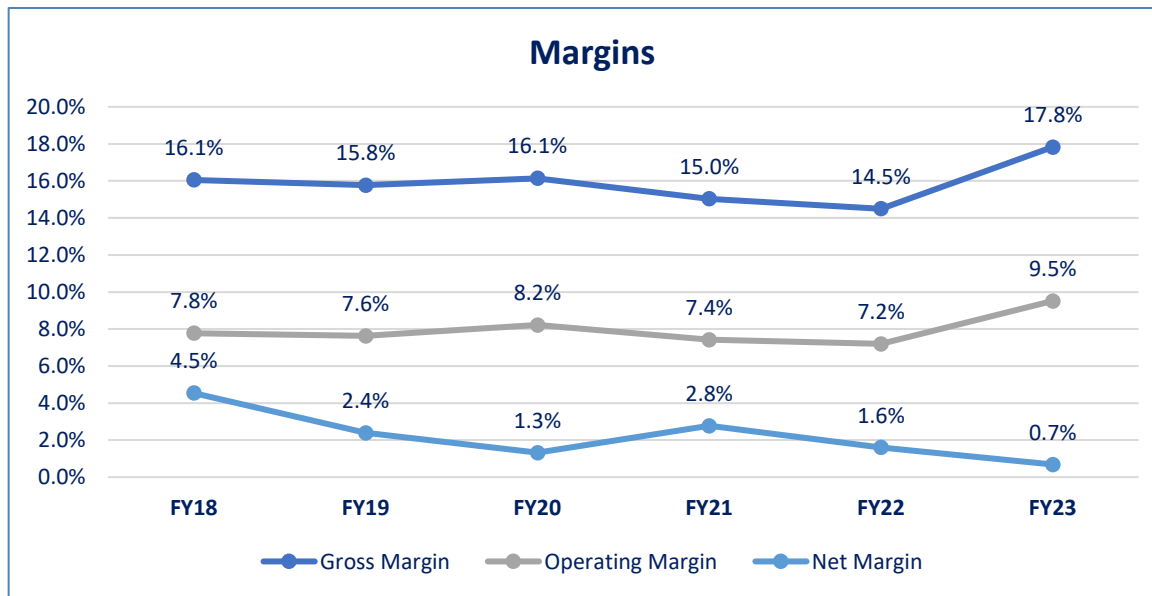
*New client

Local | Business Risk

- **Demand:** Over the recent years, the slowdown in automobile demand (automobiles sold in FY23: ~1.9mln units; FY22: ~2.2mln units) had a negative impact on the demand for Tyres (sales in FY23; ~22mln units; FY22: ~25mln units). However, there is limited impact as the OEM market is a relatively smaller segment as compared to the replacement market segment in which demand is less volatile and linked to the usage cycle of the Tyres.
- **Impact of Interest Rates:** Automobile demand also dampened because of the higher interest rates (FY23: ~21%; FY22: ~13.8%) which had adverse impact on auto financing since it became more expensive. This also translated into lower demand for Tyres from the OEMs segment.
- **Raw Material:** The Tyres Sector's raw materials, such as rubber and carbon black, are largely imported and the sector remains exposed to volatile international prices and exchange rate risk. Devaluation in the currency (~39% in FY23) , led to higher prices of imported raw material and put pressure on margins. Additionally, the import restrictions imposed from May'22-Jun'23 resulted in an unavailability of the raw materials needed to manufacture Tyres and hence a considerable decline in the production levels of all types of Tyres was witnessed in FY23.
- **Grey Channel:** The players operating in 4 wheeler segments, such as Passenger Cars, LCVs & Buses occupy a considerably lower presence in the market as compared to the imported Tyres. Tyres imported through grey channels in particular dominate these segments leading to high levels of competition. The GoP has been making concerted efforts through strict enforcement and border management to curb the smuggling of various goods. This is likely to benefit local manufacturers who may be able to increase their market shares in these segments.

Local | Margins & Cost Structure

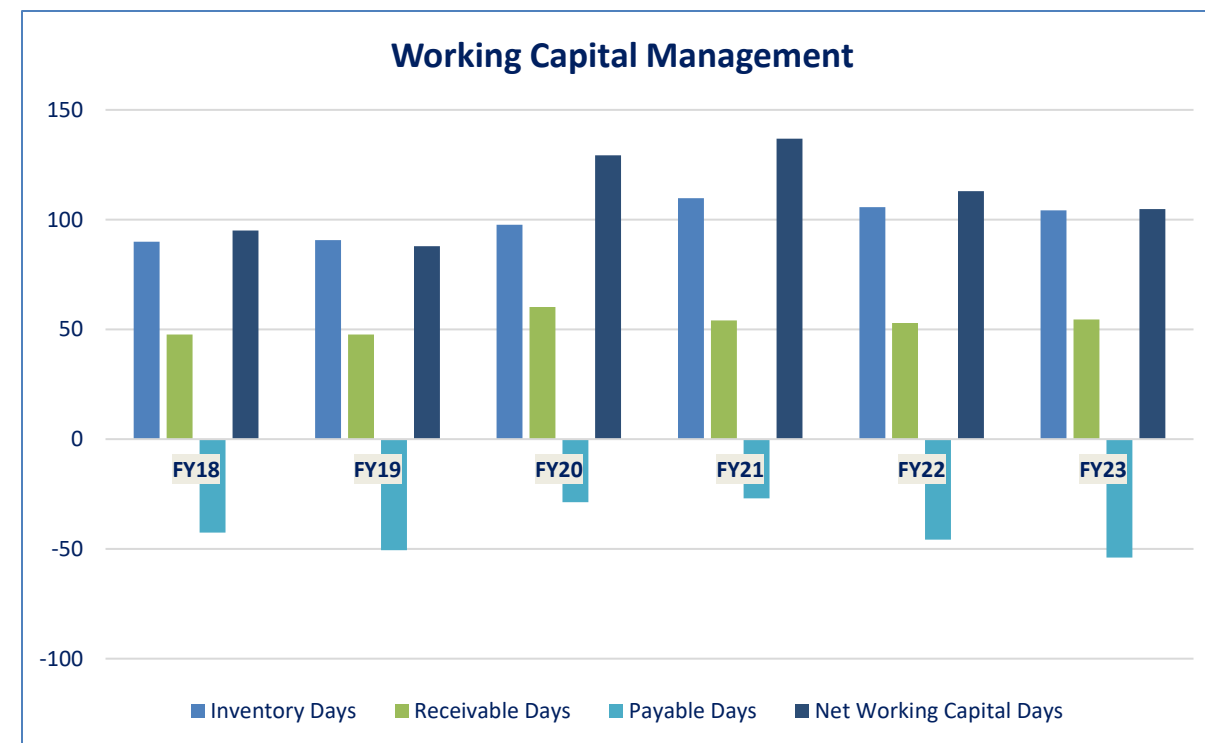
- The presence of imported Tyres, as well as price elastic demand for the Sector, particularly in the 4-Wheeler segment, exerts pressure on the Sector's average margins since it is difficult to maintain volumes, especially of high-priced units, if prices are on an increasing trend. On the other hand, 2 & 3-Wheeler market is less price sensitive with low import dependency.
- In FY23, average gross margins of the Sector stood at ~17.8% (FY22: ~14.5%), a rise in margin of ~3.3% is due to increase in sales volumes outpacing the rise in cost of sales, with the latter remaining lower due to low import levels. The operating margin rose from ~7.2% in FY22 to ~9.5% in FY23, owing to a decline in the administrative and selling & marketing expenses. However, average net margins declined from ~1.6% in FY22 to ~-0.7% in FY23, reflecting higher finance costs which likely resulted from elevated policy rates.
- The cost of goods sold for the Sector rose by ~14.1% in FY23. Raw material is the most significant component of the Sector's direct costs (~77%) and comprises natural and synthetic rubber, as well as carbon black and other chemicals.



Note: Margins and cost break up are reflective of 4 listed/rated sector players.

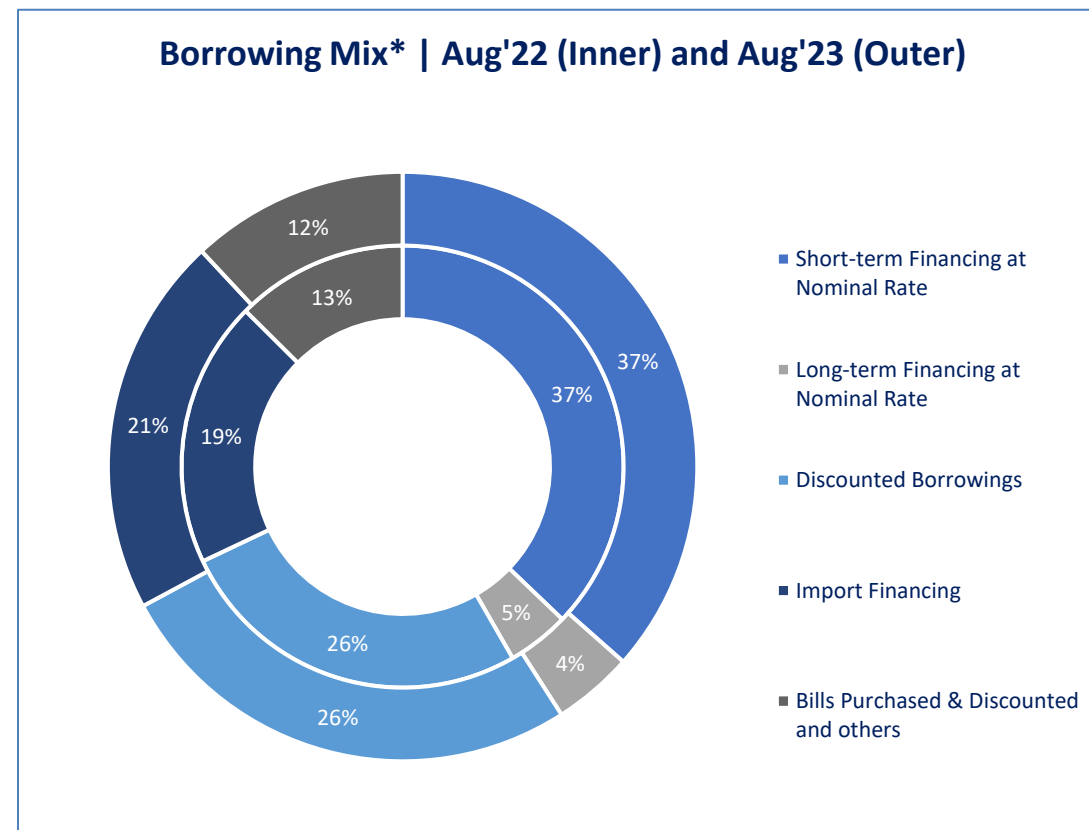
Local | Financial Risk

- The Tyres Sector's working capital is largely a function of inventory and trade receivables and is financed through a combination of short-term borrowings and internal capital.
- The average net working capital cycle for the Sector over the last five years (FY19-23) was ~114 days. The rising trend in inventory days in the Tyres Sector depicts inventory piling up because of lower demand.
- However, during the FY23, Sector's average net working capital days was ~8 days less than FY22 and recorded at ~105 days (FY22: ~113 days). This was due to relatively lower inventory days recorded at ~104 days in FY23 (FY22: ~106 days), which reflected, which is likely reflective of the impact of import restrictions on the Sector players' inventory levels. Moreover, there was an increase in receivable days from ~53 days in FY22 to ~55 days in FY23. Average payable days also rose from ~46 days to ~54 days that reduced the Sector's net working capital cycle and is indicative of Sector players' lower cash generation to meet their financial obligations.



Local | Financial Risk

- The total borrowing of the Tyres Sector stood at PKR~34,057mln as at Aug'23, compared against PKR~35,686mln as at Aug'22.
- This decrease of ~5% firstly reflects a decline in short-term financing at nominal rates which stood at PKR~12,439mln as at Aug'23 (Aug'22: PKR~13,254mln) and secondly, ~8% decline in long-term financing to PKR~1,501mln, from PKR~1,626mln in Aug'22. Additionally, bills purchased and discounted borrowings component of the total borrowings also fell by ~9% and 5%, respectively.
- However, there was an increase in import financing by ~2% from PKR~6,951mln in Aug'22 to PKR~7,118mln in Aug'23. The SBP had imposed import restrictions in May'22 and lifted them in Jun'23, therefore, import financing increased as a result of SBP's decision to lift restrictions on imports including raw materials needed to make Tyres.
- In Aug'23, the largest component in total borrowing was short-term borrowing at normal rates which accounted for ~37% of the total borrowing (Aug'22: ~37%), followed by contribution of discounted borrowings ~26% (Aug'22: ~26%), the fall in the discounted borrowings is due to the discontinuation of TERF.
- Leverage for the Tyres Sector stands at ~60% as at FY23 (FY22: ~64%), indicating that the Sector is moderately leveraged.



Note: Average leverage figure is reflective of ~4 listed/rated players in Tyres Sector

*Borrowing figures are representative of 'Manufacture of Rubber Tyres and Tubes; Retreading and Rebuilding of Rubber Tyres'.

Local | Regulatory Framework

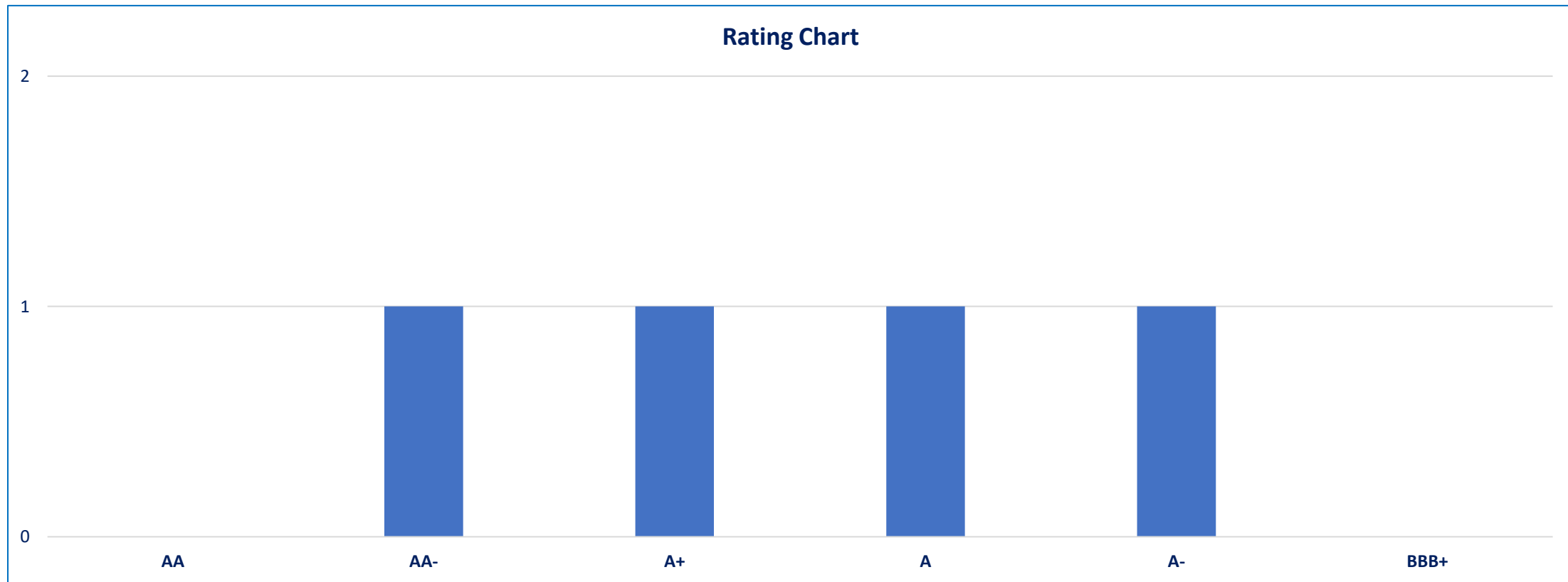
- With respect to the Income Tax, the Tyres Sector falls under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.25% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against the future tax liabilities for the next 5 years.
- In addition, sales tax of 18% is applicable on both the raw material, i.e. rubber and carbon black, as well as finished goods, i.e. Tyres. Further to Sales Tax, there is an Advance Tax of 1% applicable on the import of these products. However, the amount of Advance Tax is adjustable against final income tax liability.
- In addition, the SBP increased the monetary policy rate to 22% which increases the sector's finance costs.
- There have been no changes in the custom duty structure applicable to the sector which provides protection to the local manufacturers.
- Although some Tyres manufacturers are members of Pakistan Association of Automotive Parts & Accessories Manufacturers, there is no dedicated industry representative body for the local Tyres manufacturers. The Pakistan Tyre Importers & Dealers Association is the representative body for Tyres importers.

Local | Duty Structure

HS Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Raw Materials									
2803.0010	Carbon Black (Rubber Grade)	16%	16%	4%	4%	0%	0%	20%	20%
4001.1000	Natural Rubber	0%	0%	0%	2%	0%	0%	0%	2%
4002.1100	Synthetic Rubber	0%	0%	0%	0%	0%	0%	0%	0%
Finished Goods									
4011.1000	Tyres - Used on motor cars	16%	16%	4%	4%	20%	20%	40%	40%
4011.2011	Tyres - Used on Light Trucks	16%	16%	4%	4%	20%	20%	40%	40%
4011.2091	Tyres - Used on Buses	3%	3%	2%	2%	25%	25%	30%	30%
4011.4000	Motorcycle Tyres	20%	20%	6%	6%	0%	0%	26%	26%
4011.7000	Tyres - Used on Agricultural Machines	20%	20%	6%	6%	0%	0%	26%	26%
40.13	Inner Tubes	3-20%	3-20%	2-7%	2-6%	0%	0%	5-27%	5-26%

Rating Chart

PACRA rates 4 entities in the Tyres Sector with a long-term rating bandwidth of A- to AA-



SWOT Analysis

- Availability of ample capacity to meet any increase in demand.
- Effective and efficient labor market.
- Government incentives and favorable policies for auto and allied industries.

- Devaluation of currency and volatile imported raw material prices.
- Significant competition from import segment.



- Reliance on imported raw material with volatile prices and exchange rate risk
- Partial dependence on automobile industry
- Low market share of local producers in 4 Wheeler segment.

- Growth in Pakistan's urban population
- Recovery in overall economic conditions
- Custom duty structure which protects local manufacturers.
- Greater border controls, leading to less competition from grey channel
- Usage of electric vehicles (EV)
- 2/3 wheeler (EV)

Outlook: Negative

- Pakistan's economy posted a real GDP growth of ~0.29% (FY22: ~6.1%) in FY23, while the LSM sector declined by ~10.3% (FY22: ~11.8%) owing majorly to supply chain disruptions due to import restrictions and sluggish demand across major industrial sectors. Additionally, due to high financing rates, tight prudential regulations for auto loans, price hikes and component shortages due to import restrictions, many automobile plants were shut down and as a result vehicle production of all categories experienced massive declines in FY23. The production of Passenger Cars, LCV's & Jeeps, Tractors, Trucks and Buses and 2 & 3 Wheelers witnessed a sharp decline of ~55%, ~29%, ~46% ~40% and ~35% respectively in FY23. During 2MFY24, the production of Passenger Cars continued to decline by ~59%, Jeep & Pickups fell by ~39%, Trucks & Buses by ~63% and 2 & 3 wheelers dipped by ~19%, whereas, production of Tractors rose by ~7% from the SPLY.
- The subdued vehicle sales and production had negative implications on the Tyres Sector. During FY23, the total Tyres production declined by ~41% YoY (FY23: ~16mln; FY22: 27mln). While the replacement market, representing ~80% share of the Tyres Sector, is dominated by imports and grey channel sales which keeps the local manufacturers pricing power under pressure. Moreover, the legally imported Tyres are often under-invoiced negating protection tariffs. On the other side, local manufacturers take the load of duties and taxes on the import of raw material which further aggravates their competitive position.
- The total borrowing of the Tyres Sector stood at PKR~34,057mln as at Aug'23, as compared to PKR~35,686mln as at Aug'22. The average leveraging for the Tyres Sector stands at ~60% as at FY23 (FY22: ~64%) (highly leveraged). During the FY23, Sector's average net working capital days was ~8 days less than FY22 and recorded at ~105 days (FY22: ~113 days). This was due to relatively lower inventory days recorded at ~104 days in FY23 (FY22: ~106 days), which reflected, which is likely reflective of the impact of import restrictions on the Sector players' inventory levels. Moreover, there was an increase in receivable days from ~53 days in FY22 to ~55 days in FY23. Average payable days also rose from ~46 days to ~54 days that reduced the Sector's net working capital cycle and is indicative of Sector players' lower cash generation to meet their financial obligations.
- In FY23, average gross margins of the Sector stood at ~17.8% (FY22: ~14.5%), a rise in margin of ~3.3% is due to increase in sales volumes outpacing the rise in cost of sales, with the latter registering ~14.1% increase. The operating margin rose from ~7.2% in FY22 to ~9.5% in FY23, owing to a decline in the administrative and selling & marketing expenses. However, average net margins declined from ~1.6% in FY22 to ~-0.7% in FY23, reflecting higher finance costs which likely resulted from elevated policy rates.
- Given the macroeconomic vulnerabilities, mounting cost pressures (PKR devaluation of ~39%, keeping import cost high), subdued production and demand in the automotive sector, high volatility in rubber prices, scarcity of raw materials and the influx of illicitly imported Tyres, the financial performance and stability of the sector are expected to remain at risk particularly in the short term. These issues are posing significant hardships to thrive in the current economic climate, hence, the sector assigned a negative outlook for the short-term.

Bibliography

- State Bank of Pakistan (SBP)
- Pakistan Bureau of Statistics (PBS)
- PACRA Database
- Economic Survey
- Federal Board of Revenue (FBR)
- Pakistan Stock Exchange (PSX)
- Investing.com
- World Bank Pink Sheet
- Singapore Commodity Exchange
- Statista
- World Bank
- Bridgestone
- Pakistan Automotive Manufacturers Association (PAMA)
- Worldstopexporters.com
- UN comtrade
- Tyrepress.com
- Expert Market Research

Research Team	Saniya Tauseef Senior Manager Research saniya.tauseef@pacra.com	Ayesha Wajih Supervising Senior Research ayesha.wajih@pacra.com	Sabeen Mirza Research Analyst sabeen.mirza@pacra.com
Contact Number: +92 42 35869504			

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.