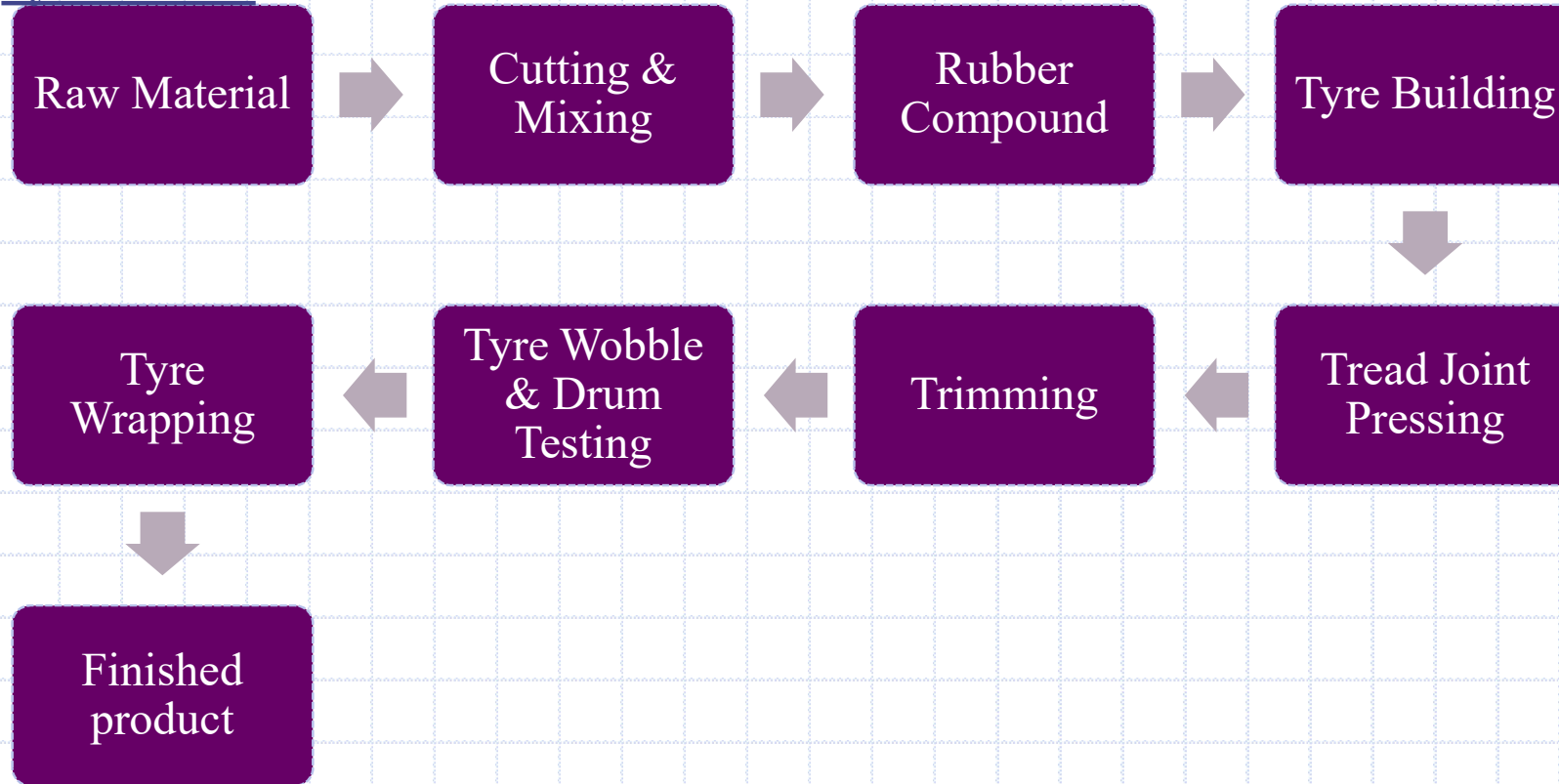


TYRE SECTOR OVERVIEW

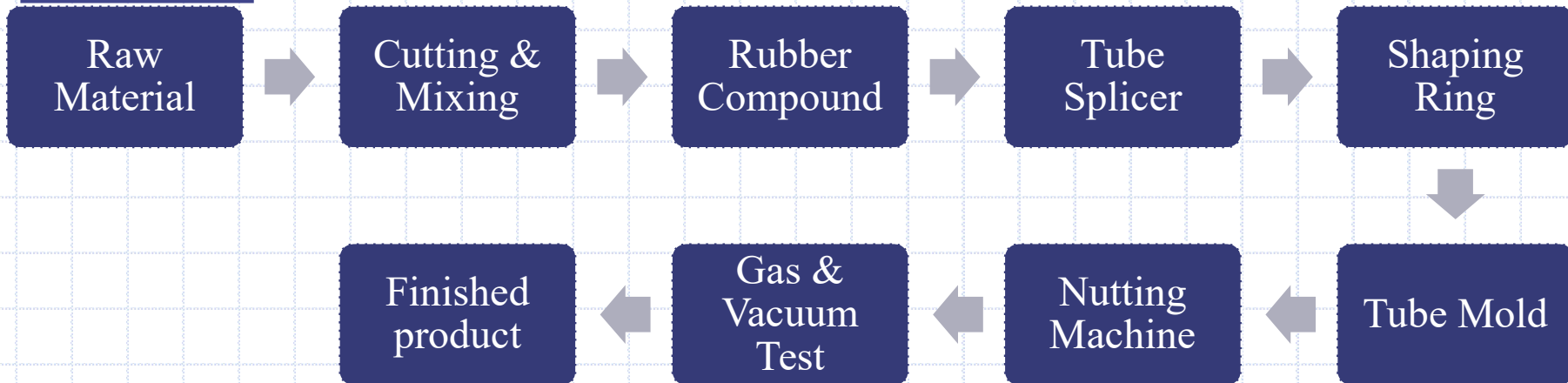
October 2018

TYRE & TUBE | MANUFACTURING PROCESS

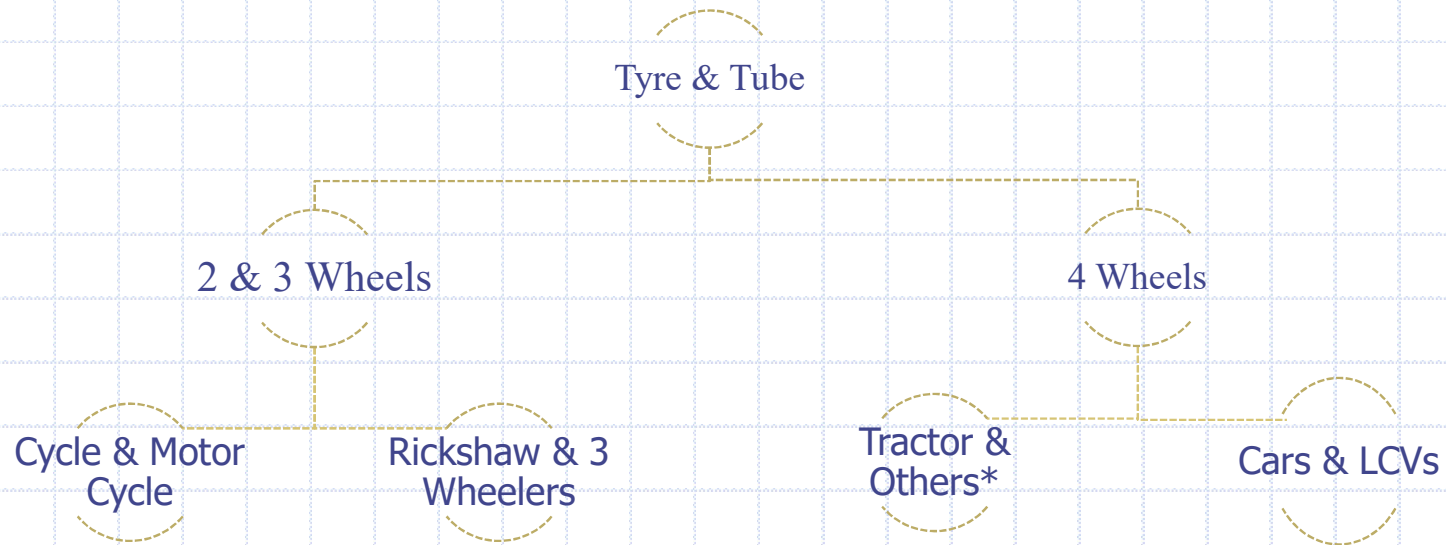
Tyre Process



Tube Process



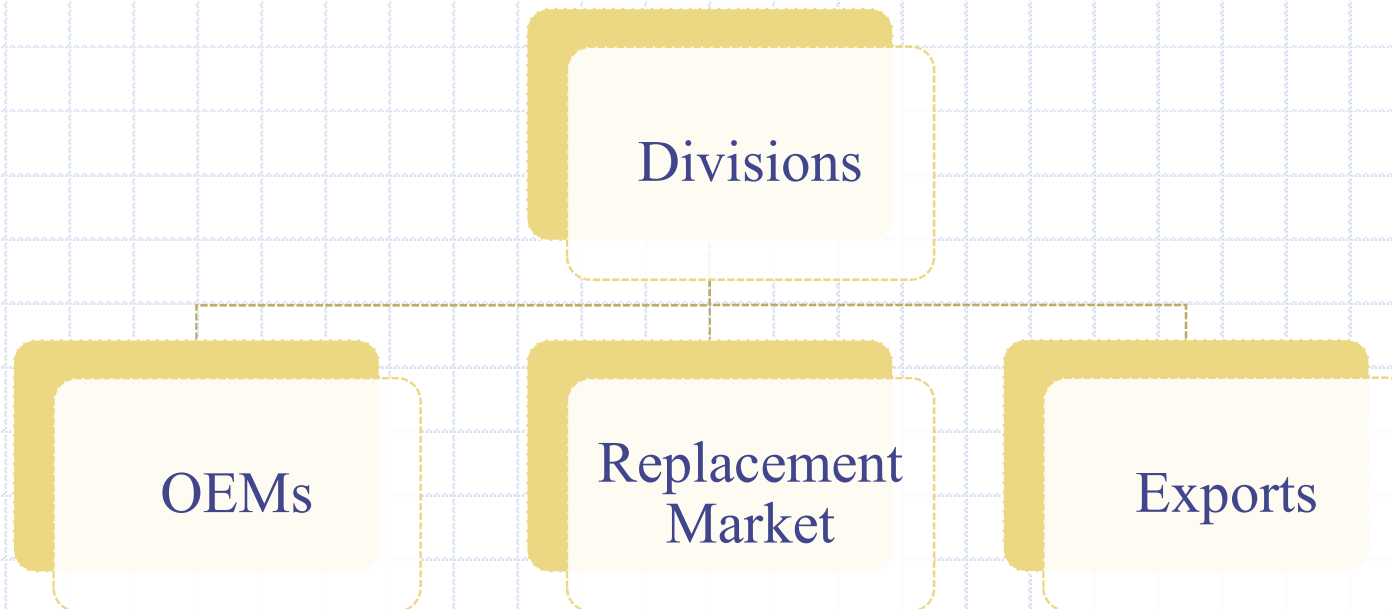
INDUSTRY FRAGMENTATION



- In 2 & 3 wheels segment, motor cycle industry dominates the revenue.
- Installed capacity is more than demand so local manufacturers are not affected by imports
- Tractor tyres sales contribute majority of the revenue for this segment.
- Demand from OEMs comprises of less than ~30% of total tyre demand while remaining demand is being generated through replacement market.

*Others include trucks and buses

INDUSTRY DIVISION



- The Original Equipment Manufacturers (OEMs) are local assemblers of Bikes, Cars, LCVs, Buses, Trucks and Tractors. Revenue from this division is dependent upon growth of respective OEMs.
- Main OEMs manufacturers in Pakistan include Pak Suzuki Motor Company Limited, Indus Motor Company Limited, Honda Atlas Cars (Pakistan) Limited, Al-Ghazi Tractors Limited, Millat Tractors and others.
- Replacement Market is the secondary market for tyre manufacturers. The replacement market comprises of distributors, wholesalers and retailers.
- Only 2 & 3 wheelers' tyres and tubes are currently exported, while sales of other vehicles' tyres is concentrated in local market.

INDUSTRY SNAPSHOT | GLOBAL

INTERNATIONAL

- World demand for tyres is projected to rise 4.1 percent per year to 3.0 billion units in FY2019. In value terms sales of tyres is expected to advance 7% to reach \$258 billion.
- Due to improvement in tyre quality over recent decade with advancement in technology, the replacement market is expected to remain under pressure.
- Replacement cycle for commercial vehicles is around 12 months and passenger cars and two vehicles is 3-4 years.
- Growth is primarily expected to be driven by OEMs on the back of higher auto sales emanating from Asia-Pacific region.
- Asia-Pacific region accounts for 38% of the global market share, whereas, it also manufactures 60% of global supply due to low labor costs and favourable government policies.
- The global market is dominated by flagship brands like Bridgestone, GoodYear, Michelin, Yokohama, Continental and Pirelli. However, in recent times the flagships are experiencing tough competition from Chinese manufacturers.

INDUSTRY SNAPSHOT | LOCAL

- According to an estimate, the domestic tyre industry is valued at above PKR~85 billion as at June 2018.
- Pakistan's tyre industry is growing at a CAGR of ~6-7%.
- The Industry contributed ~0.24% to total GDP of Pakistan in FY18.

2 & 3 Wheelers:

- Tough pricing competition remains to exist in the 2 & 3 wheeler tyre Industry amongst the local players comprising Servis, Panther, Diamond, Ghauri and General.

4 Wheelers – CARS & LCVs:

- In 4 wheeler Industry, General tyres continues to be the only local manufacturer for Cars and LCVs. This replacement market is highly dominated by Imported tyres.
- Majority of imports are of European and Asian brands imported through Middle East, China and East Asia. Imports are either through green channel or grey channel.

4 Wheelers – Tractors:

- In tractors segment, General tyres and Panther tyres are the major manufacturers of tyres.

INDUSTRY SNAPSHOT | LOCAL CONT-

- Two Categories of tyres manufactured in Pakistan are:

Radial Tyres:

- These tyres vary in design from the bias Tyres as the cord plies are arranged at 90 degrees, or radially to the direction of travel.
- They have many advantages over bias Tyres which include:
 - reduced fuel consumption
 - smoother rides

Bias Tyres:

- A bias tyre consists of multiple rubber plies overlapping each other
- In comparison to radial tyres, bias tyres are old technology that are majorly:
 - less flexible
 - more sensitive to heating

INDUSTRY | DEMAND ANALYSIS CONT-

Two & Three Wheeler	Units Produced by OEMs in FY18	Tyres Demand		
		OEMs	Replacement	Total
	2 & 3 Wheelers	20%*	80%*	100%
		Tyres		
Bikes	1,854,416	3,708,832	14,835,328	18,544,160
Three Wheeler	72,272	216,816	867,264	1,084,080
Total	1,926,688	3,925,648	15,702,592	19,628,240
Portion in Total Tyre Demand				62%
Four Wheeler	Cars & LCVs	Tyres		
		OEMs	Replacement	Total
Cars & LCVs	408,889	2,044,445	8,177,780	10,222,225
Tractor & Others	81,865	347,402	1,389,608	1,737,010
Total	490,754	2,391,847	9,567,388	11,959,235
Portion in Total Tyre Demand				38%
Total Tyre Demand				31,587,475

- Although major number of tyres are consumed in 2 & 3 wheeler market but in revenue term four wheeler market dominates the sector.

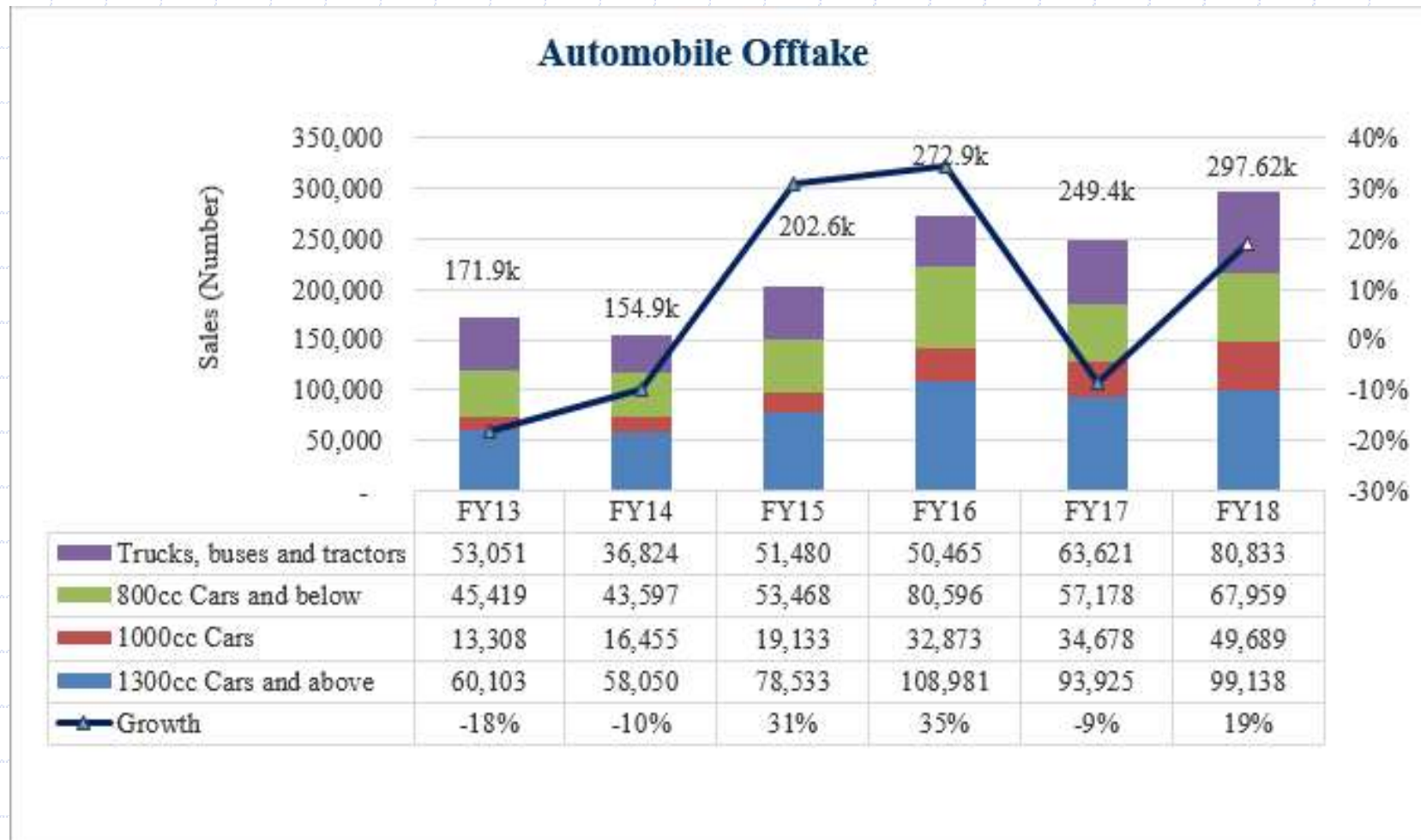
*Based on estimates.

COMPETITIVE ENVIRONMENT | DOMESTIC PLAYERS

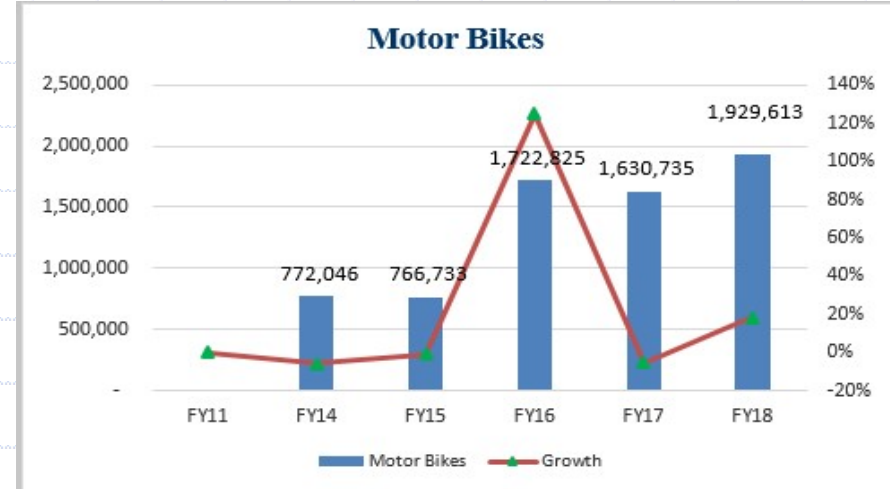
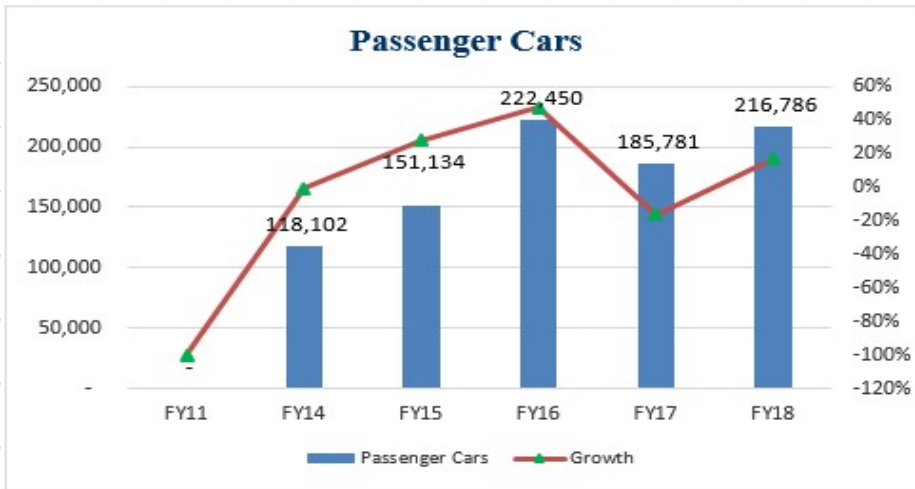
Installed Capacity			
Financial Indicators			
	General Tyre	Service Industries	Panther Tyres
	FY18	FY18	FY18
Revenue (PKR million)	11,785	13,020*	8,575
G.P Margin (%)	18%	16%	13%
Net Income (PKR million)	716	456	362
Net Income Margin	6%	4%	4%
*Expected based on Quarterly Account			

- Revenue of the companies increased during the period due to strong demand from both OEMs and replacement market.
- Tractor segment contributes massively to the top line even with limited production due to high per unit price.
- GP margin reduced during FY2018 due to a increase in prices of raw material.

Automobile Offtake | Trend

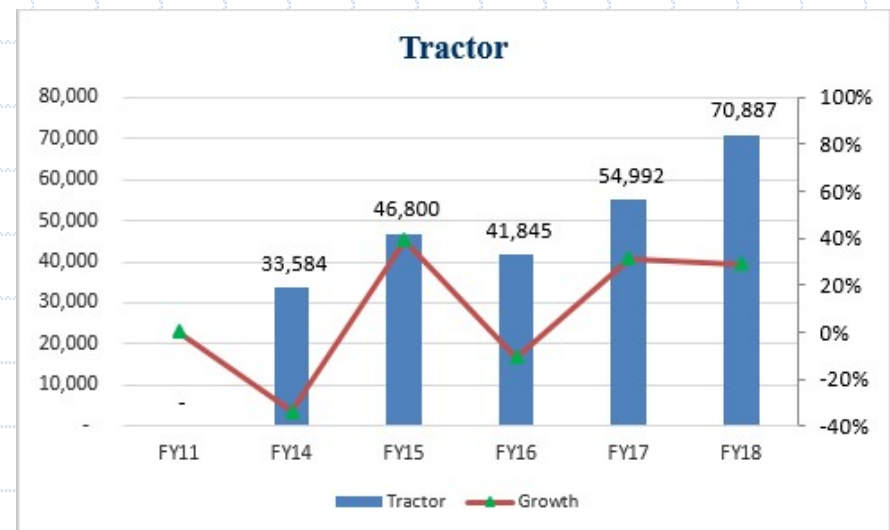
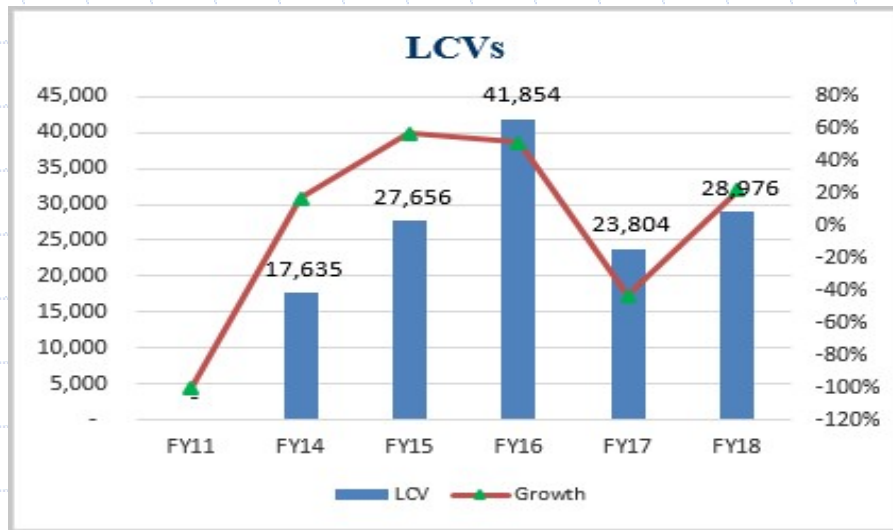


Auto Sector | Trend Analysis



- Passenger Cars have showed 16% growth in FY18 primarily on the back of high credit offtake. Introduction of new OEMs is likely to result in increased competition translating into further growth as pricing will be improved.
- New FBR rules, to restrict sales of new vehicles to non-filers and rising interest rates will create pressure on sales going forward.

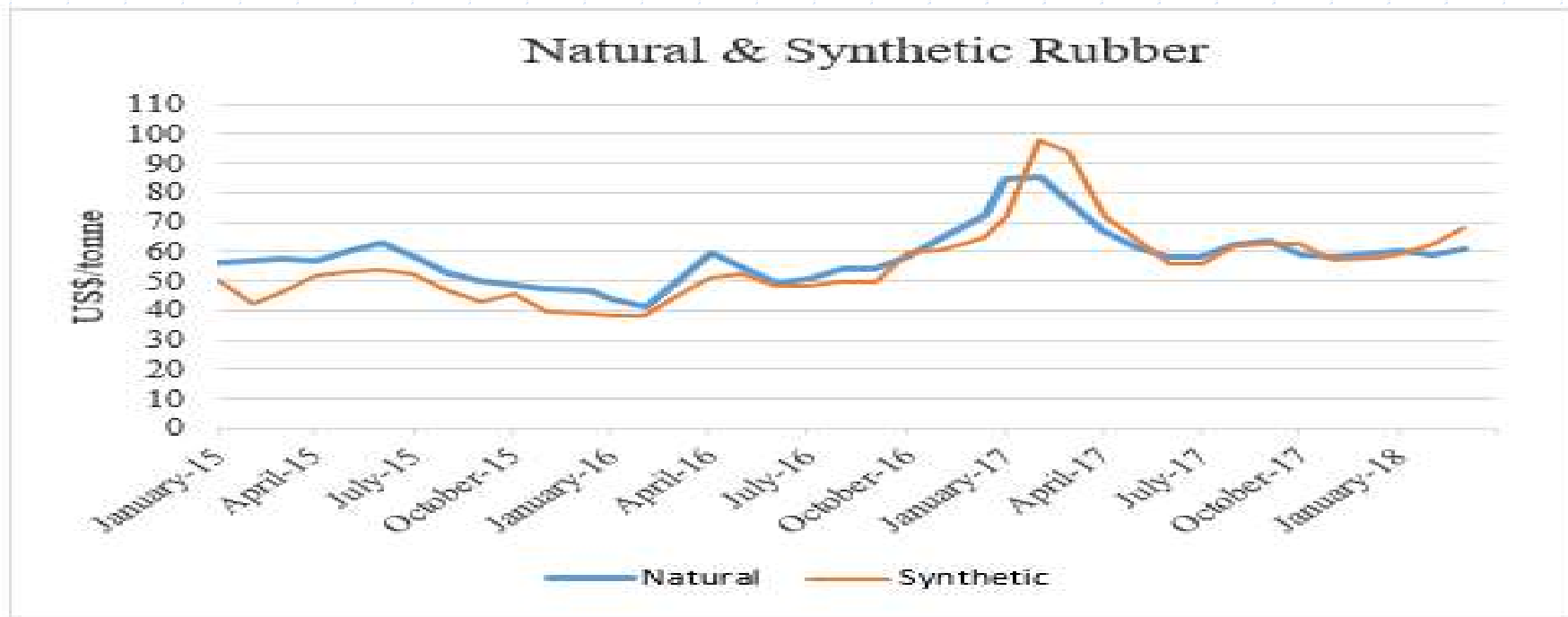
- Motor bikes have demonstrated robust growth during FY18. Recent increase in price of motor bikes due to increase in imported parts of manufacturing is expected to reduce the growth in motor bikes sales.



- Growth in LCVs has improved in FY18, the growth is likely to reduce due to the factors mentioned above.

- Tractor offtake continued to rise, the demand emanating from improved agricultural growth backed by government subsidies to farmers.

Raw Material | Price Trend



- Natural Rubber is traded on Malaysian Rubber Exchange
- Synthetic rubber is another source of raw material
- The price of natural rubber was on decline since start of CY17 leading to strategic buying by Pakistani tyre manufacturers but started to increase again in FY18.
- Synthetic rubber is not exchange traded
- It is a by product of crude oil, hence the price is directly proportional to movement in crude oil prices

DUTY STRUCTURE

CURRENT DUTY STRUCTURE ON TYRES

HS CODE	CATEGORY	CUSTOM DUTY	ADDL. CD	RD
4011.1000	PASSENGER CAR TYRE	16%	1%	20%
4011.2011 & 2019	LIGHT TRUCK TYRE	16%	1%	20%
4011.2091 & 2099	TRUCK BUS TYRE *	3%	1%	35%
4011.7000	FARM TYRE	20%	1%	0%

*In case of chinese TB tyres, duty is ZERO % but 1% Addl. duty will be levied at any case

DUTY STRUCTURE ON RAW MATERIALS

Tyre Raw Material - C&F (in case of Imported)		Custom Duty	Add. CD
1	Raw (Natural) Rubber	0%	2%
2	Synthetic Rubber	3%	2%
3	Butyl	3%	2%
4	Bead Wire	11%	2%
5	Nylon Cord	0%	2%
6	Carbon Black	20%	2%



Opportunities & Risks

Opportunities

- Improvement in infrastructure will drive growth in light commercial vehicles, trucks and buses segment.
- Agricultural growth along with government subsidies to the sector will continue to lead towards strong tractor demand.
- Domestic players are poised for growth on the back of influx of new OEMs in auto sector under the new auto policy.
- Collaboration of International OEMs with local conglomerates for setup in Pakistan will increase the landscape of opportunities for tyre segment.

Risks

- Imported and grey channel tyres continued to possess threat to replacement market.
- Surge in synthetic rubber prices on the back of crude oil.
- Increase in Policy rate by State Bank of Pakistan (SBP) is likely to affect demand for car financing and hence Auto sales.
- FBR rule, to restrict registration of new vehicle to non-active taxpayers is likely to add effect on OEMs sales.

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Muhammad Nadeem Sheikh
Financial Analyst
nadeem.sheikh@pacra.com

Saniya Tauseef
Supervisory Senior
saniya.tauseef@pacra.com

Jhangeer Hanif
Unit Head – Ratings
jhangeer@pacra.com

Contact Number: +92 42 3586 9504

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