



Tyres

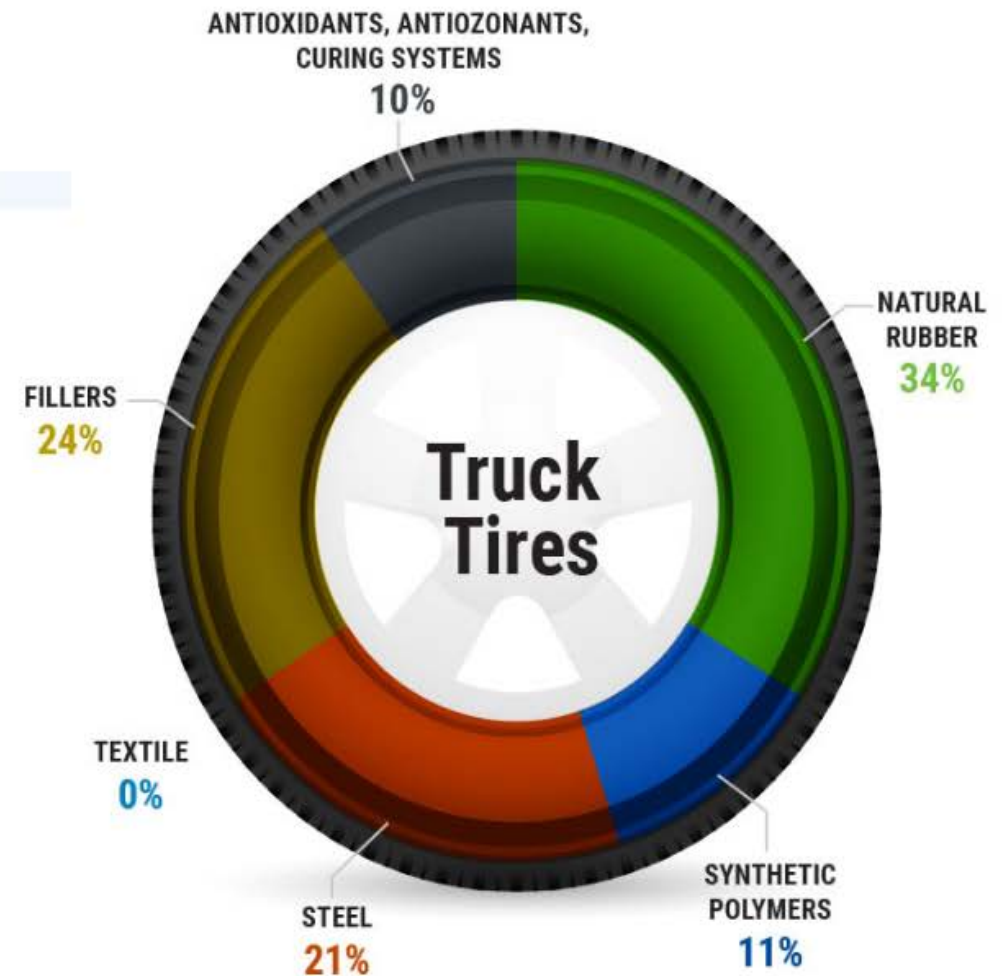
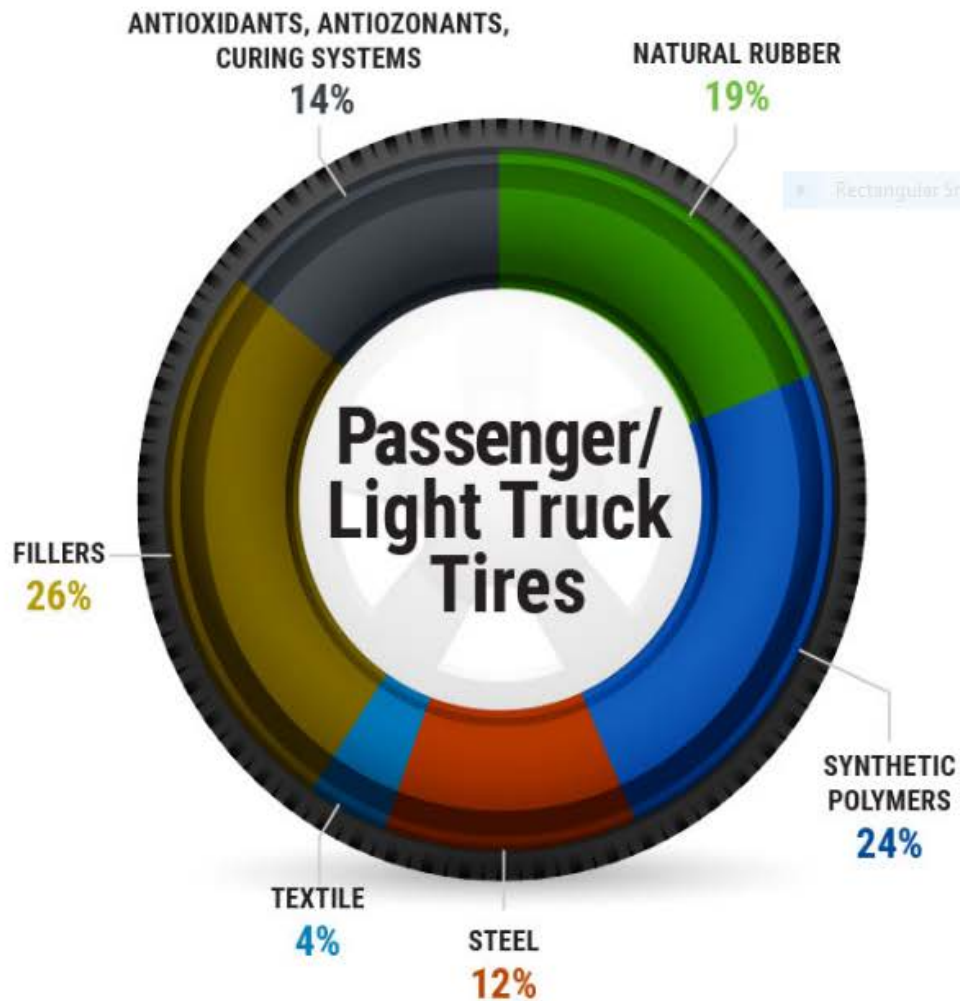
Sector Study

TABLE OF CONTENTS



Contents	Page No.	Contents	Page No.
Introduction	1	Capacity & Utilization	17
Global Overview	3	Business Risk	18
Automobile & Tyre Correlation	4	Margins & Cost Structure	19
Global Production	5	Financial Risk Working Capital Management	20
Market Shares	6	Financial Risk Borrowing Mix	21
Exports	7	Regulatory Framework	22
Country Wise Trade	8	Custom Duty Structure	23
Natural Rubber Prices	9	Rating Curve	24
Crude Oil Prices	10	SWOT Analysis	25
Local Overview	11	Outlook & Future Prospects	26
Industry Structure	12	Bibliography	27
Raw Material	13		
Supply	16		

Composition of Tyres



*Synthetic Polymer is same as Synthetic Rubber



Market Segments

By Design:

- Radial Tyres
- Bias Tyres

By Region:

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



By End Use:

- Original Equipment Manufacturers (OEM)
- Replacement Market

By Vehicle Type:

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



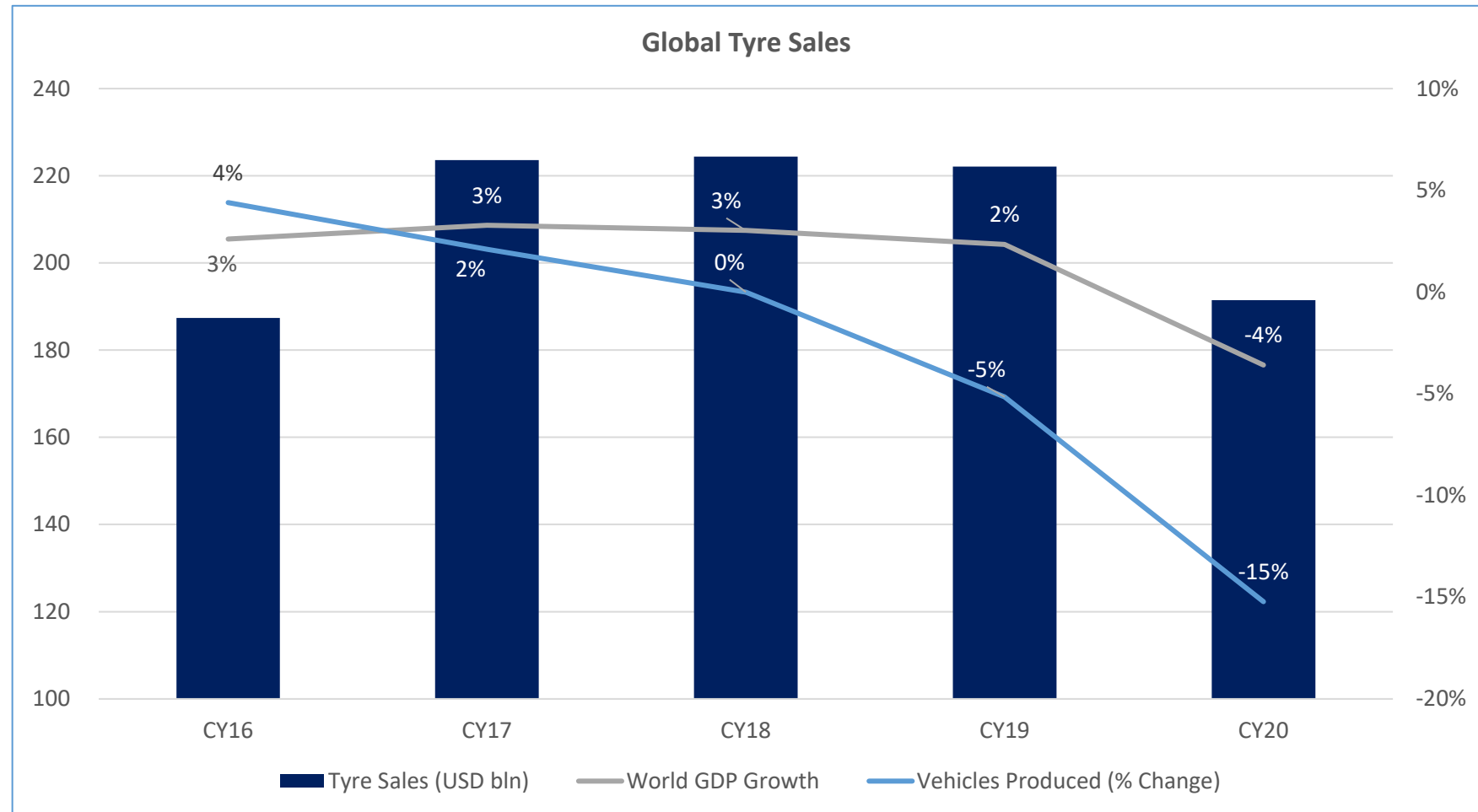
Overview



- Total market size was recorded at USD~191bln in CY20 (USD~222 billion in CY19). Global tyre market declined by ~13% in CY20 mainly due to slowdown in economic activity including motor vehicle sales due to the COVID-19 pandemic.
 - The Average CAGR of the Industry, has historically remained at ~4% and is expected to continue a similar trend. Demand is expected to recover in CY21 as the pandemic has subsided resulting in the resumption of economic activity across the globe.
 - The total volume of tyres produced during CY20 stood at ~3.4bln units as compared to ~3.2bln units in the previous year.
-
- Tyre demand is derived mainly from the growth in automobile sector, which, in turn, is dependent upon economic growth, per capita disposable incomes and demand from emerging economies.
 - The industry is dominated by the top four players which make up ~40-45% of the global market in terms of revenue.
 - The demand for light vehicles and thus LVH Tyres has been rapidly increasing over the last five years in emerging economies like China, East Europe, South America, and India.

Automobiles & Tyre Correlation

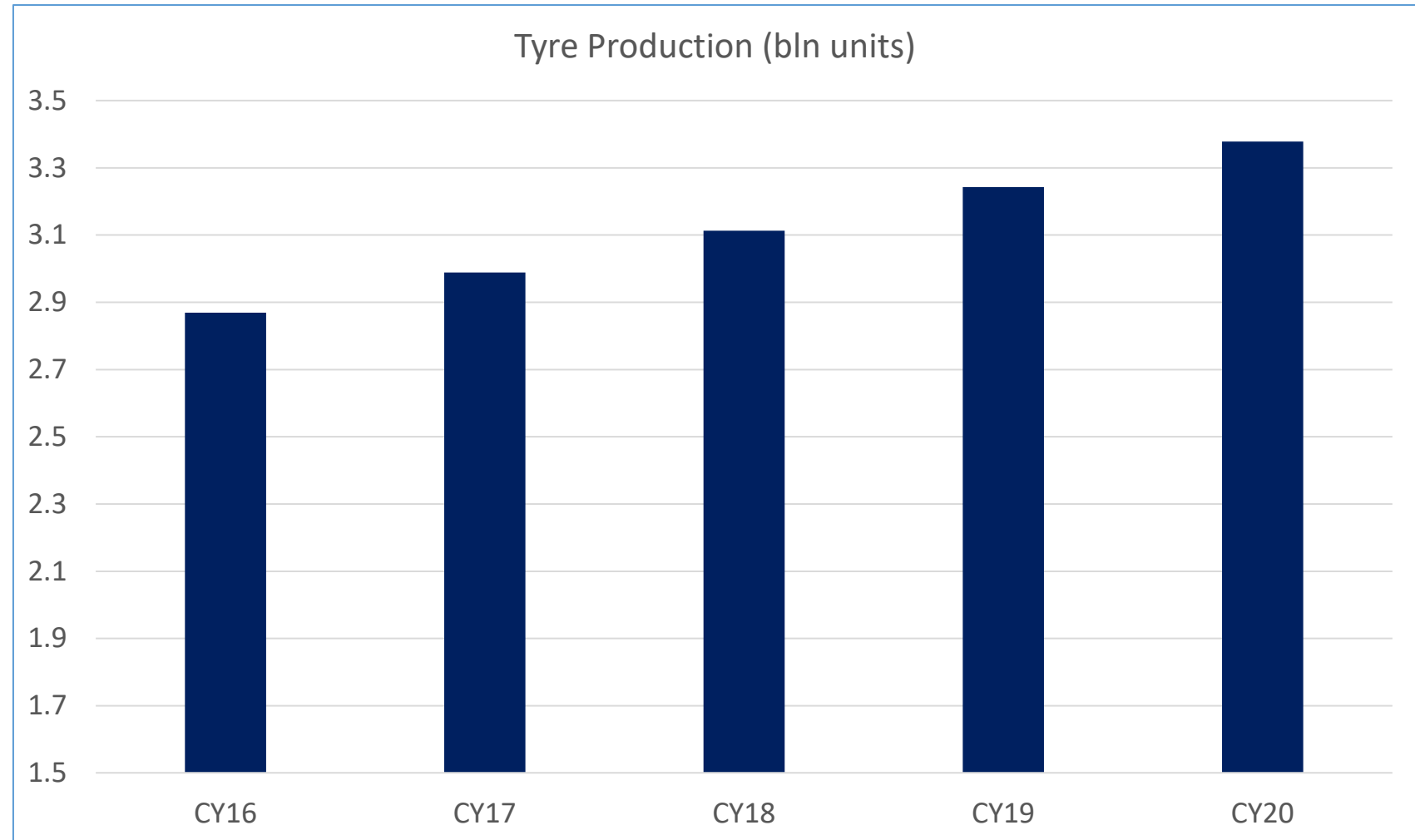
- The global tyre industry derives its demand from the global automobile industry.
- During CY20, global tyre sales stood at USD~191bln, exhibiting a decline of ~14% from USD~222bln in the previous year. A similar decline of ~15% was witnessed in the global production of motor vehicles during CY20 .
- Going forward, the resumption in economic activity across the globe is expected to bolster demand for both automobiles and tyres.



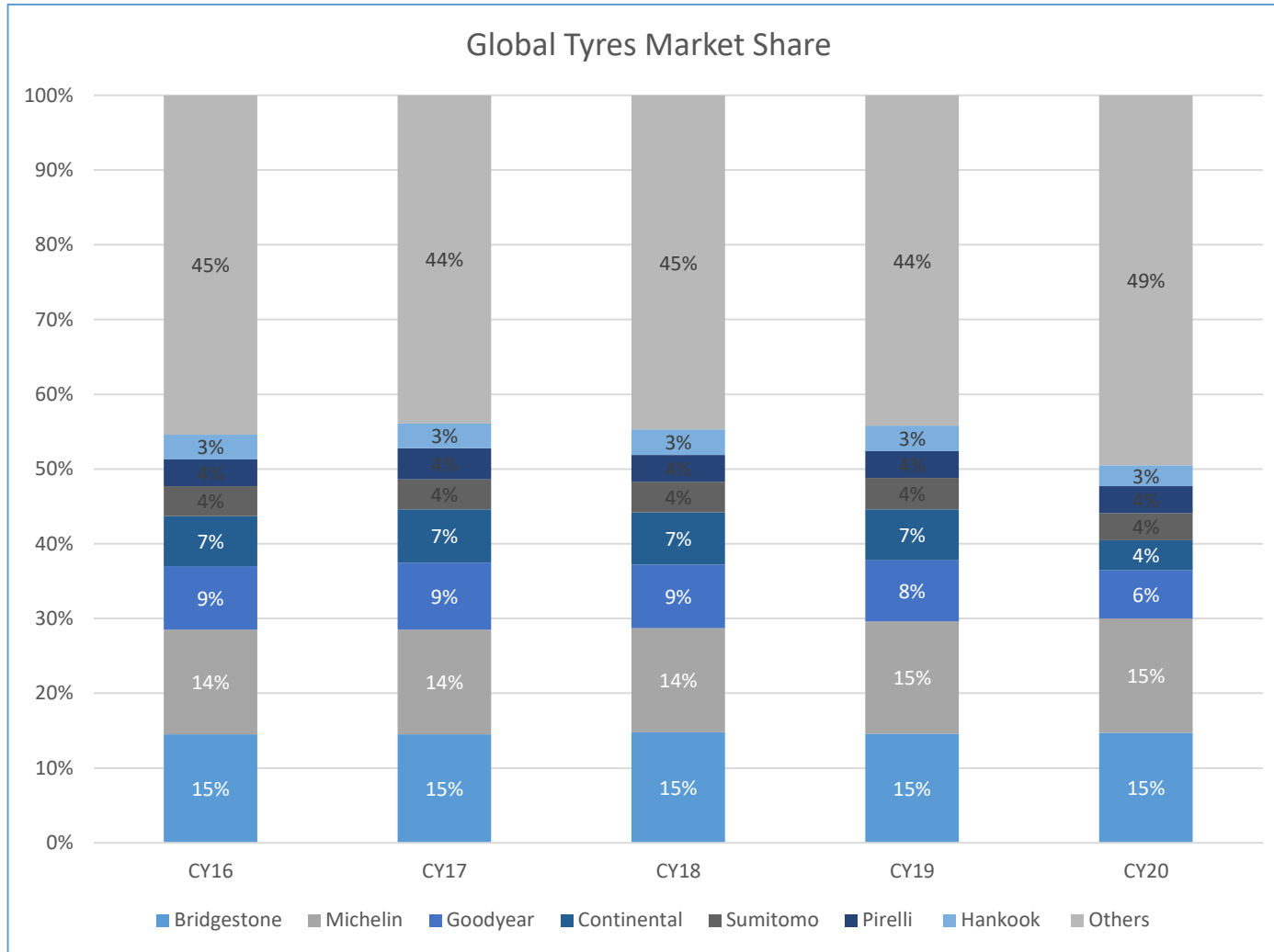


Production

- In CY20, global tyre production reached ~3.4bln units, exhibiting a CAGR of ~4% during a 5 year period.
- The largest regional share is occupied by Asia & Pacific region with Japan and China being the major players and contributed ~49% to total global production in CY20.
- North & South America have a combined share of ~33% in total global tyre production while the rest of the world, including Europe, Africa and the Middle East, accounts for ~18% of global production.



Market Share



Top Tyre Producers	Headquarters
Bridgestone	Japan
Michelin	France
Goodyear	USA
Continental	Germany
Sumitomo	Japan
Pirelli	Italy
Hankook	South Korea

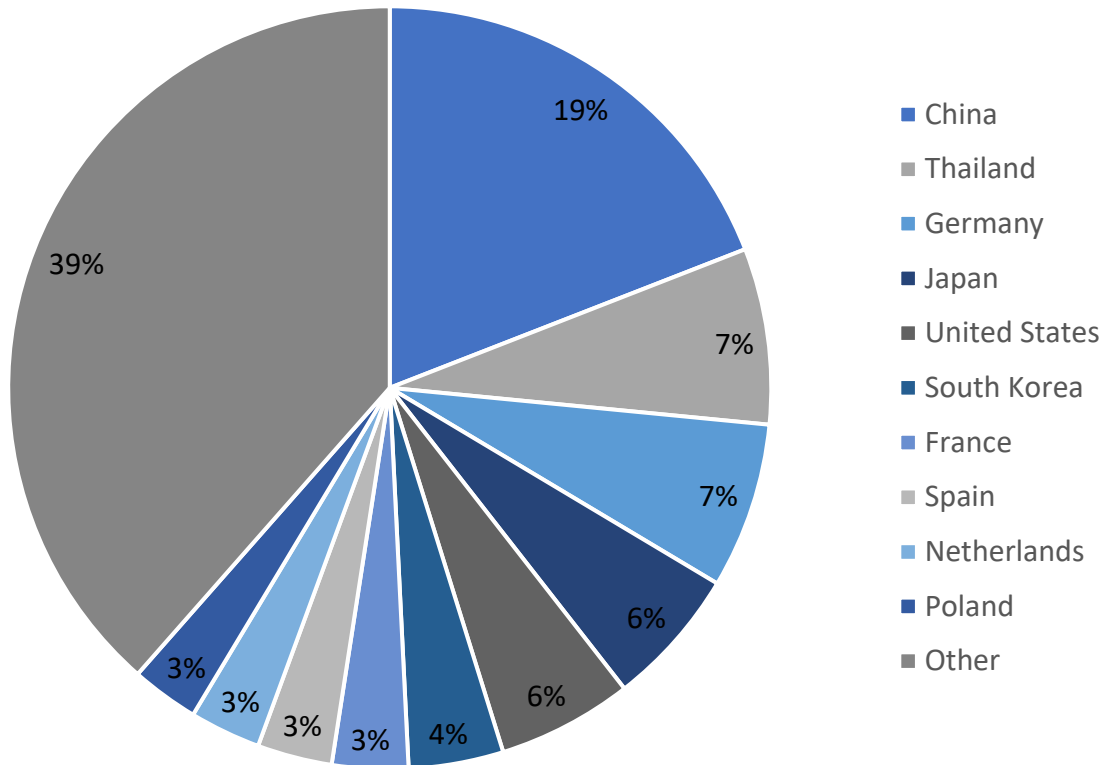
Exports

- The global export of new rubber tyres totalled USD~70bln in CY20, declining ~12% from the previous year. The largest share in exports is held by China, contributing ~19% to the total exports.

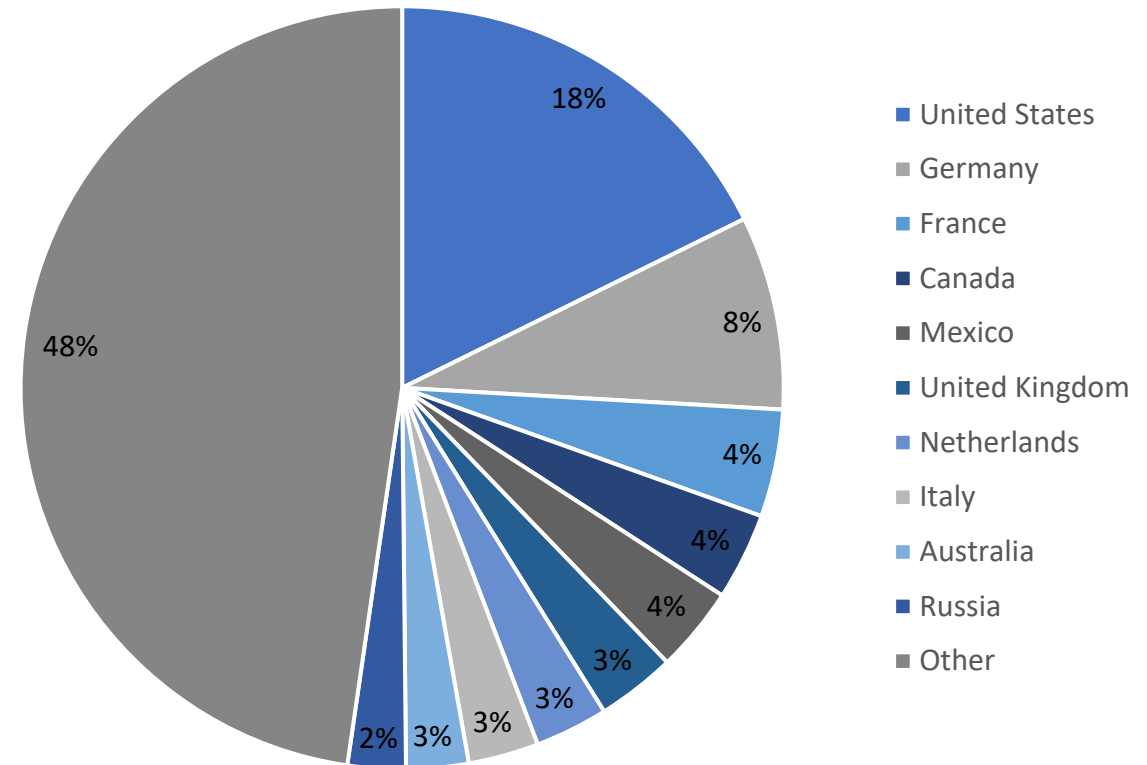
World Exports (USD bln)	CY16	CY17	CY18	CY19	CY20
China	12.89	14.16	15.11	14.80	13.30
Thailand	3.56	4.39	4.90	5.60	5.20
Germany	5.49	5.89	6.02	5.70	4.90
Japan	4.78	4.85	5.10	5.20	4.10
United States	4.47	4.66	5.09	5.00	4.00
South Korea	3.41	3.44	3.47	3.30	2.80
France	2.50	2.56	2.77	2.70	2.25
Spain	2.05	2.22	2.50	2.40	2.21
Netherlands	2.32	2.37	2.30	2.51	2.10
Poland	1.97	2.14	2.39	2.10	2.00
Other	26.89	29.34	31.16	29.69	26.84
World Total	70.34	76.02	80.81	79.00	69.70

Country Wise Trade

Tyre Exports by Country

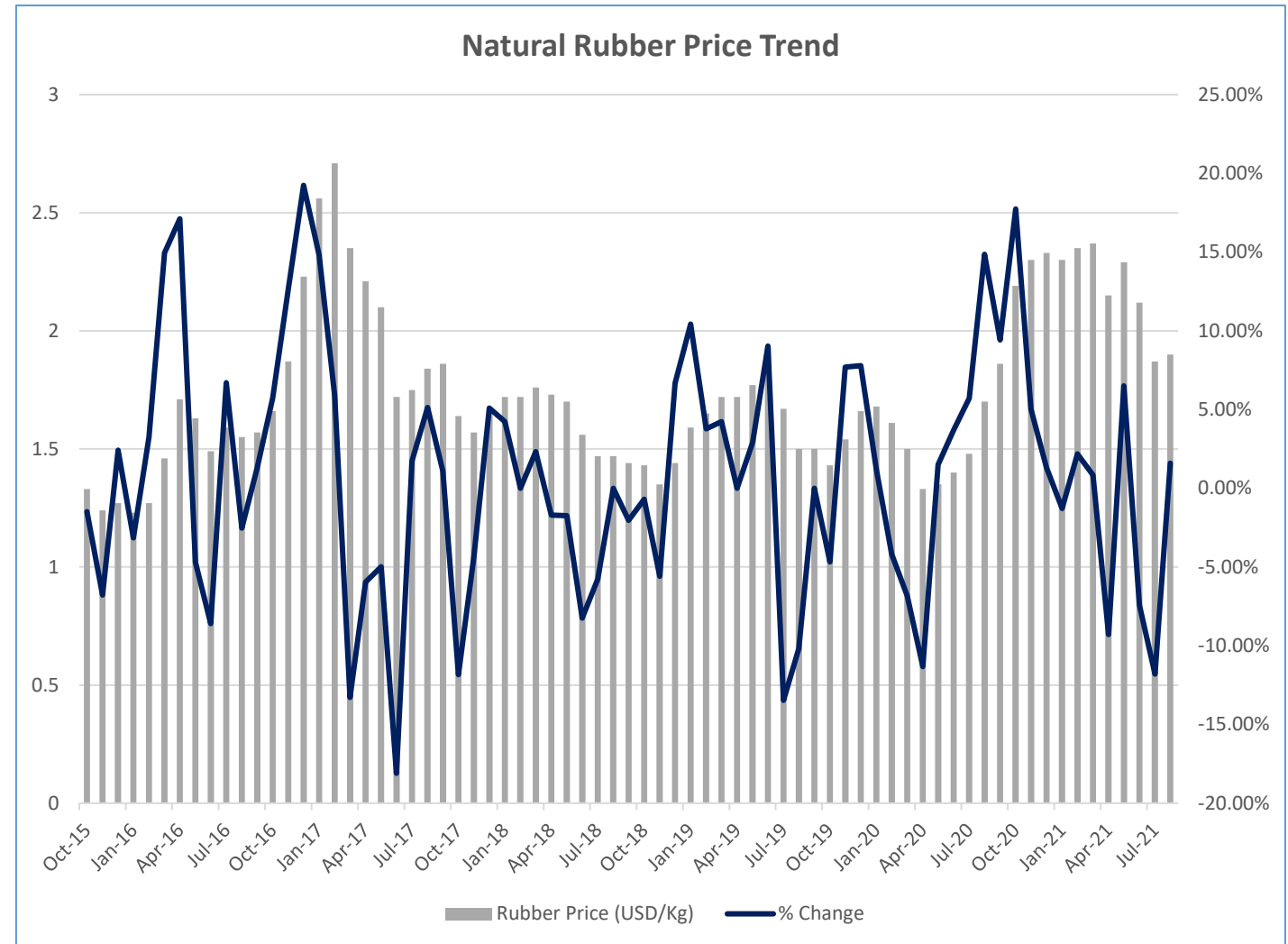


Tyre Imports by Country



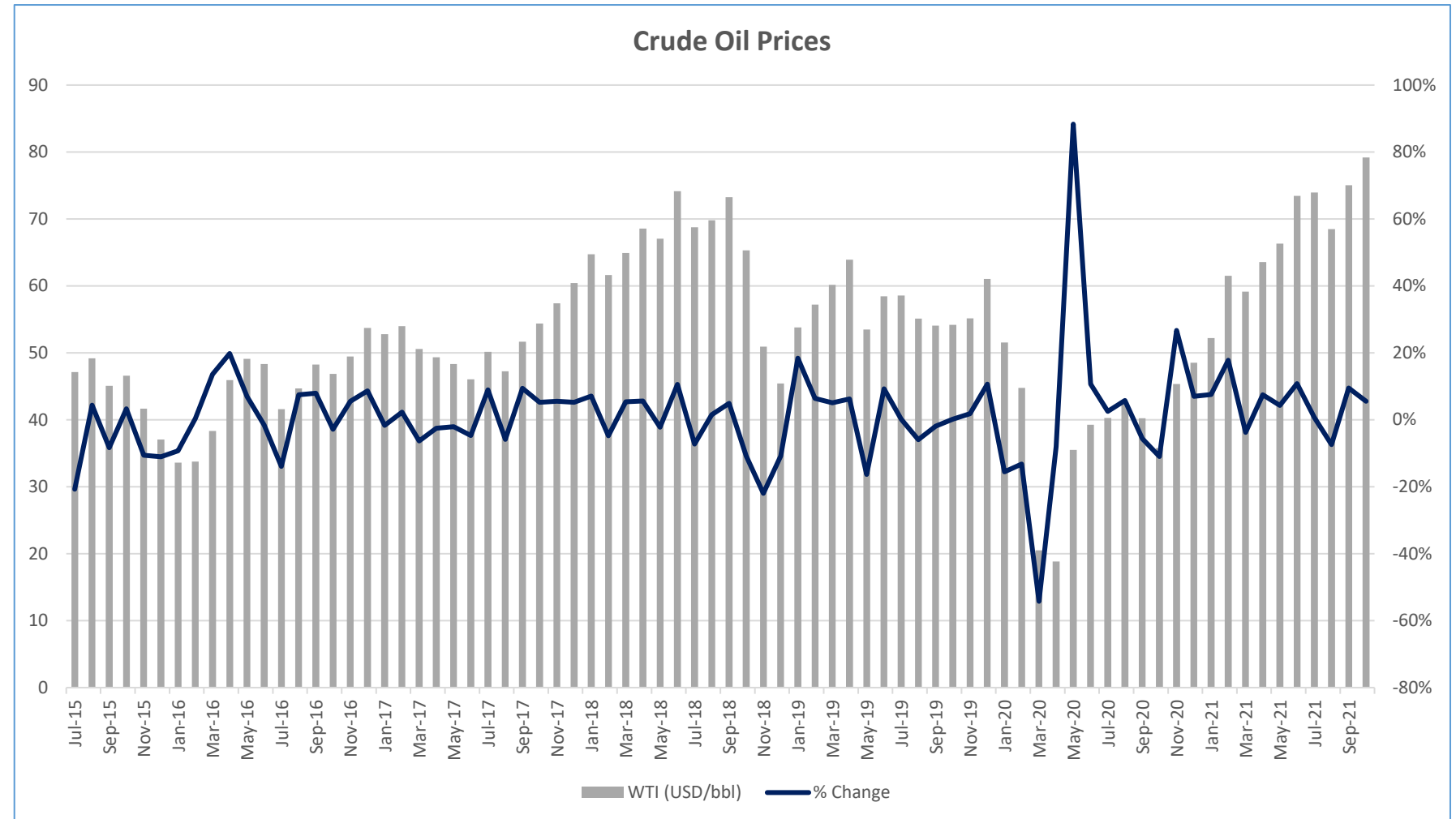
Natural Rubber Price

- The price of natural rubbers in the international market are significantly volatile and are determined by demand and supply factors.
- Prices have exhibited a rising trend since the 2H CY20, due to a revived demand from the tyre industry, particularly from China where manufacturing activities have picked up pace. In addition, rubber is also a key component in latex gloves, the demand for which increased due to the pandemic and pushed up the rubber prices.
- However, demand and supply disruptions continue to create volatility with recent semiconductor chip shortages leading to decline in automobile production and thus contract in demand for rubber. On the supply side, adverse weather conditions and labour shortages due to border restrictions are having a detrimental impact on global rubber production.
- The price of natural rubber stood at USD~1.9 per kg in Aug'21. Looking forward, the prices are expected to continue to recent declining trend as automobile demand has slowed down on the back of chip shortage.



Crude Oil Price

- Synthetic rubber, which is a key component of various types of tyres, is a derivative of crude oil. Therefore, its pricing remains exposed to the vicissitudes in International crude oil price.
- Crude oil, being a highly price vulnerable commodity, experienced historic volatility during CY20 due to the COVID-19 pandemic.
- Moreover, prices have exhibited an overall increasing trend since the 2HCY20.
- Price of WTI crude oil currently stands at USD~79/bbl. Looking forward, prices are expected to continue to increase due to supply constraints with OPEC+ announcing to implement only modest boost in production.





Tyres | Local Industry

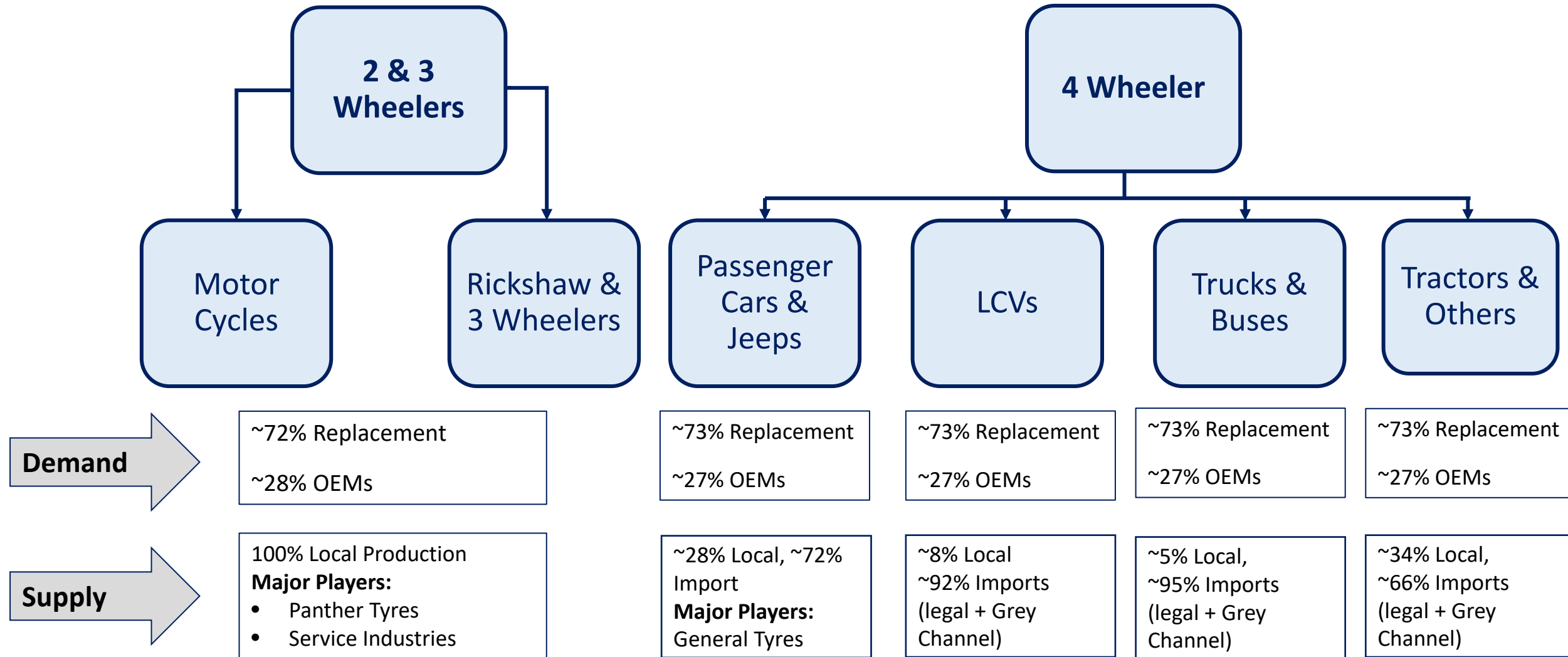
Overview

- Pakistan's tyre sector had an approximate market size of PKR~64bln in FY21 (excluding imports), growing ~41% from PKR~45bln in FY20. The growth has come on the back of resumption in economic activities after initial slowdown due to COVID-19 and greater automobile demand leading to higher demand for tyres in the OEMs segment.
- In addition, the import of tyres and tubes during FY21 more than tripled and stood at PKR~60bln as compared to PKR~17bln in FY20. The increase is attributable to higher demand in automobile industry as well as government crackdown on smuggled goods leading to higher level of imports from legal channels. However, tyres procured through grey channels still account for a considerable share of the tyres market particularly in the 4 wheel category.
- The tyres sector can be broadly segmented into the OEM and replacement markets. The average share of replacement market is ~80%, however this varies for each type of tyre.
- With respect to types of tyres, the sector can also be categorized according to 2 or 3 wheel segment and 4 wheel segment. The 4 wheel segment has further categories such as passenger cars, LCVs, buses and trucks.
- The demand for 2 and 3 wheel segment is entirely catered to by local production where players such as Panther Tyres and Service Industries hold significant market shares. Meanwhile, General Tyres is the only local producer of tyres for passenger cars, although it amounts to a moderate market share as there is significant presence of imports.

Sector Overview	FY19	FY20	FY21
Market Size [Estimate] (PKR bln)	42	45	64
Import Value (PKR bln)	19	17	60
Import Volume (mln Units)	3.3	2.5	7.1
Industry Association	Pakistan Association of Automotive Parts & Accessories Manufacturers		

Tyres | Local Industry

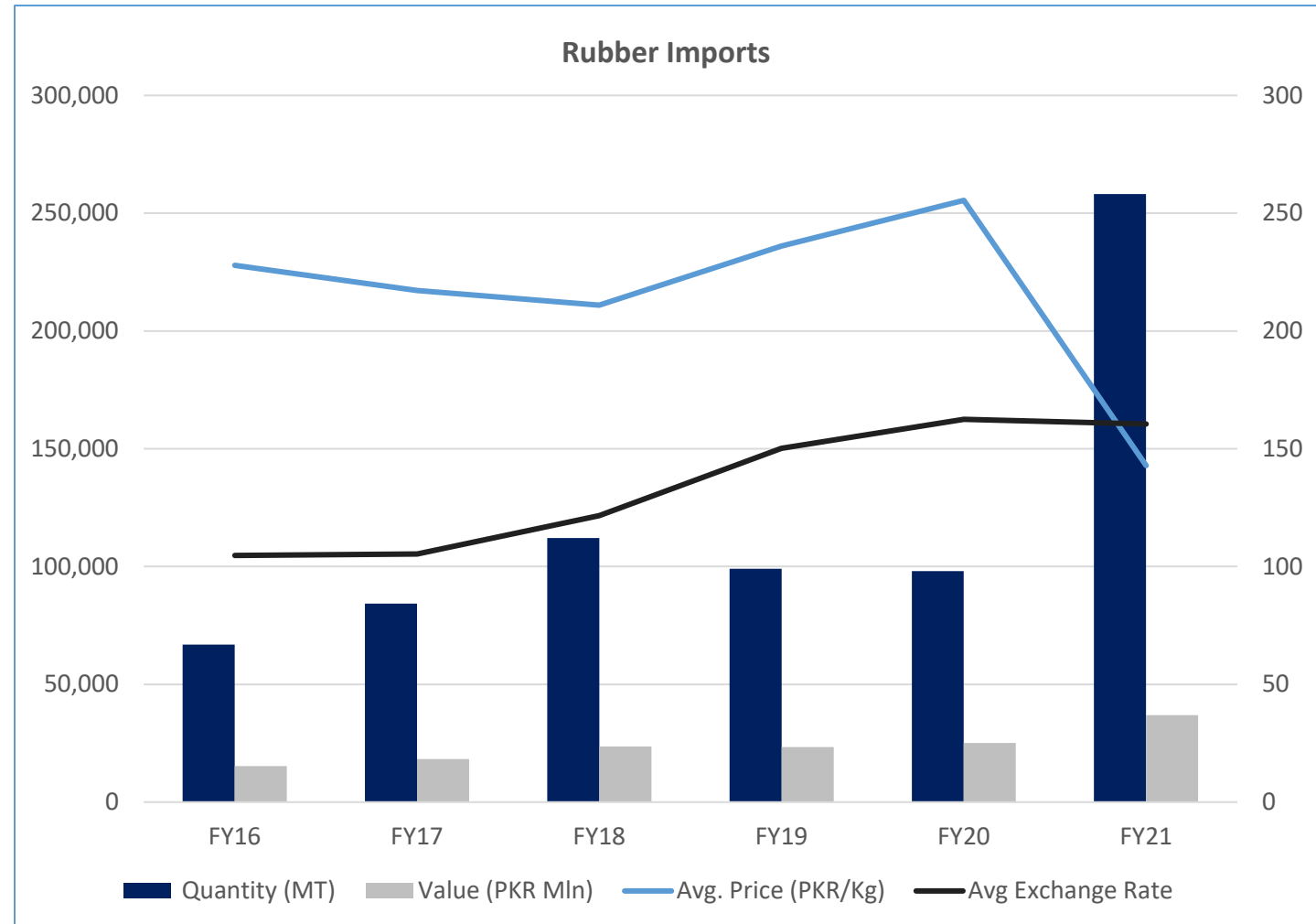
Industry Structure



Note: Percentages are based on assumptions.

Raw Material

- The major raw material used in the production of tyres is rubber, both natural and synthetic.
- There was a massive increase of ~163% in the quantitative imports of all types of rubber, from ~98,000 MT in FY20 to ~258,134 MT in FY21. The increase in value terms was more muted, although still significant at ~47%, rising from PKR~25bIn in FY20 to PKR~37bIn in FY21.
- The increased demand from the automobile industry likely drove up the raw material imports, as automobile production and sales both picked up during FY21, strengthened further by low interest rate environment which increased demand for auto-financing.
- The decline in average import price was also a key element, falling from PKR~255 per Kg in FY20 to PKR~143 per kg in FY21. This decline is partially attributable to low crude oil prices during the 1HFY21, since it is a major driver of synthetic rubber prices.

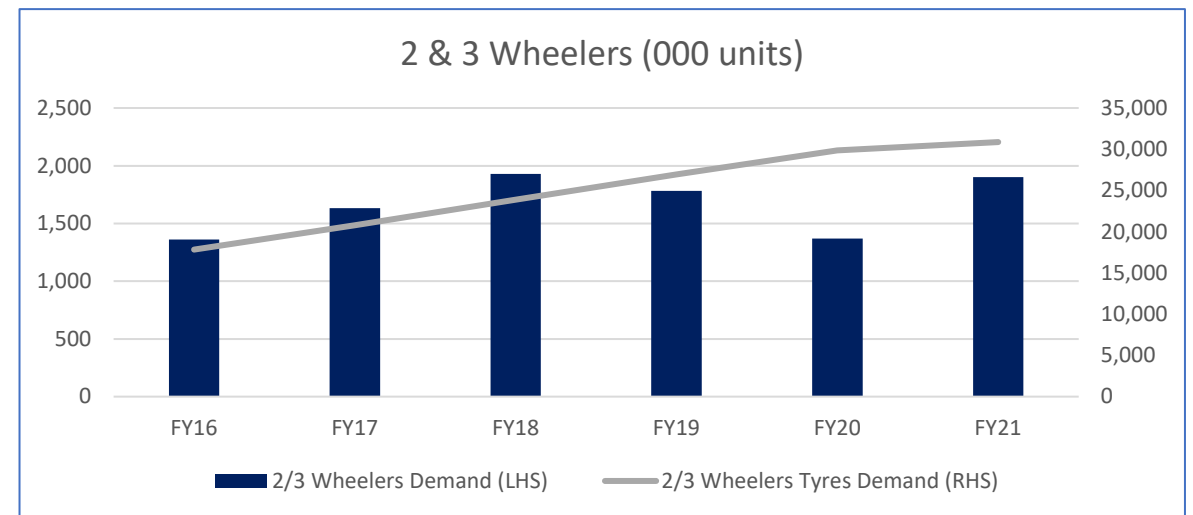
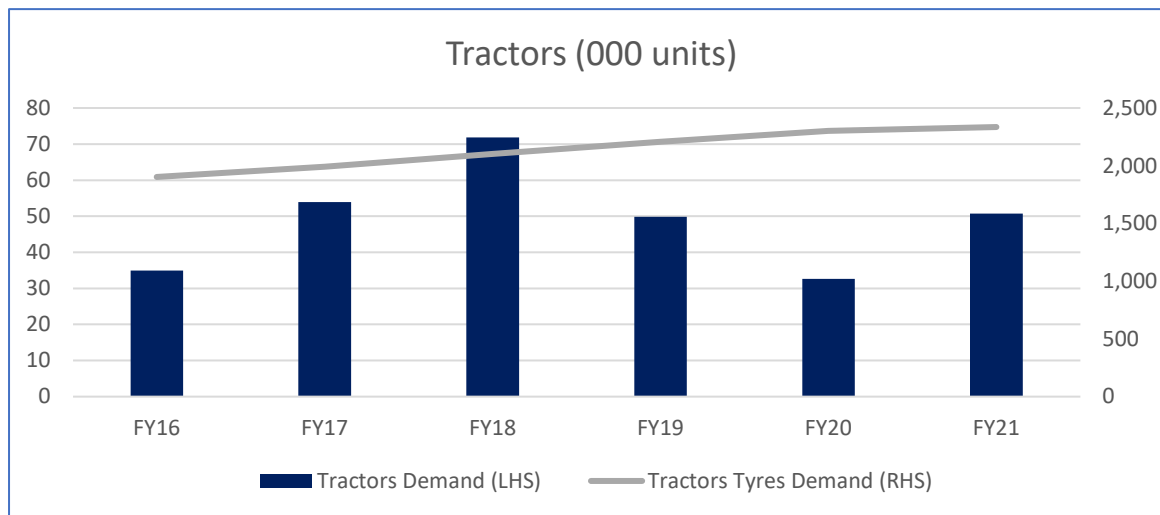
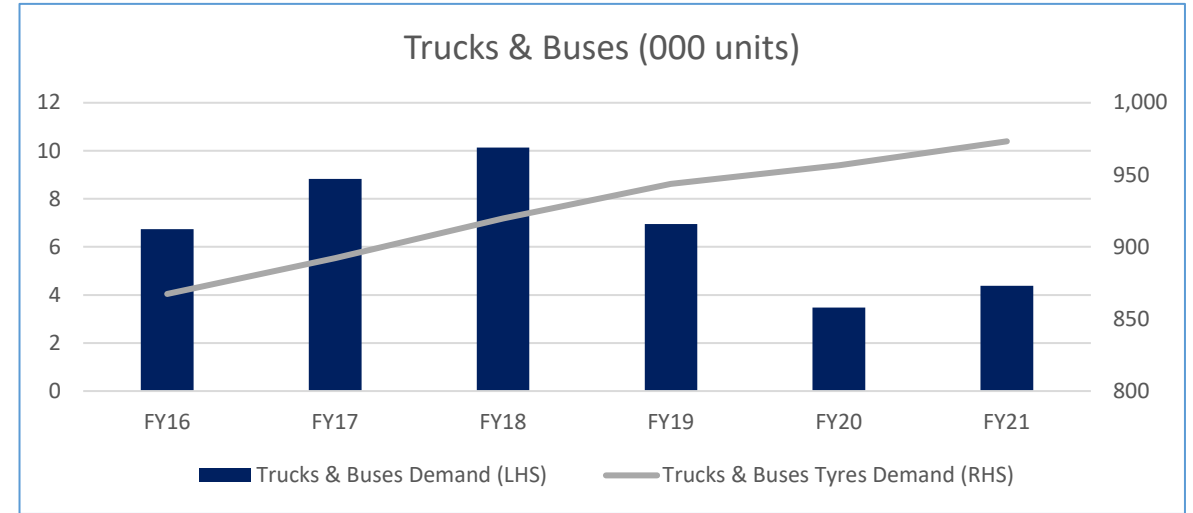
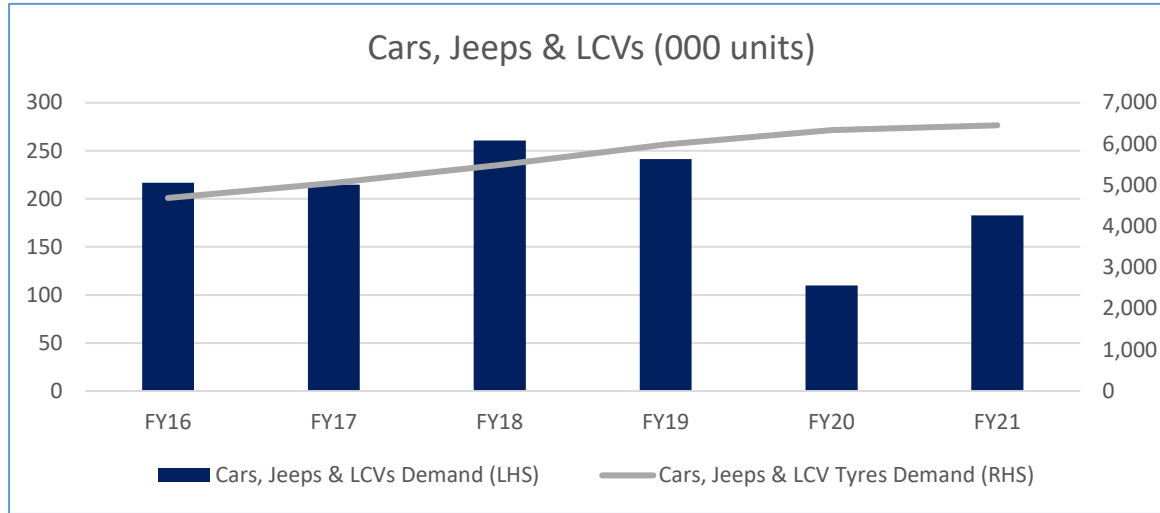


Demand

CY20	2 & 3 Wheelers	Passenger Cars & Jeeps	LCVs	Trucks & Buses	Tractors & Others	TOTAL
Registered Motor Vehicles (Units)	23,646,752	3,772,835	171,231	549,801	9,119,875	37,260,494
Estimated Tyres (Units)	48,232,888	15,091,340	684,924	3,379,296	7,295,900	74,684,348
Market Categories						
Replacement Market	72%	73%	94%	89%	85%	
OEM	28%	27%	6%	11%	15%	
Replacement Cycle Years <i>*Assumption</i>	2	5	5	5	5	
Tyres Demand						
Replacement Market	17,363,840	2,203,336	128,766	601,515	1,240,303	21,537,759
OEMs	13,505,209	4,074,662	41,095	371,723	1,094,385	19,087,073
Total Demand (Units)	30,869,048	6,277,997	169,861	973,237	2,334,688	40,624,832
Total Demand – CY19 (Units)	29,887,531	6,447,494	251,907	664,135	2,303,151	39,554,219

Total Demand assumes standard replacement cycles for different categories of tyres, which can vary. This demand is catered through local sales & imports.

Automobile & Tyre Demand



Note: Tyres demand is based on calendar year (CY), Assumptions in previous slide regarding market segmentation and replacement cycle were used to estimate tyre demand.

Tyre Supply is met through local sales & imports in Pakistan:

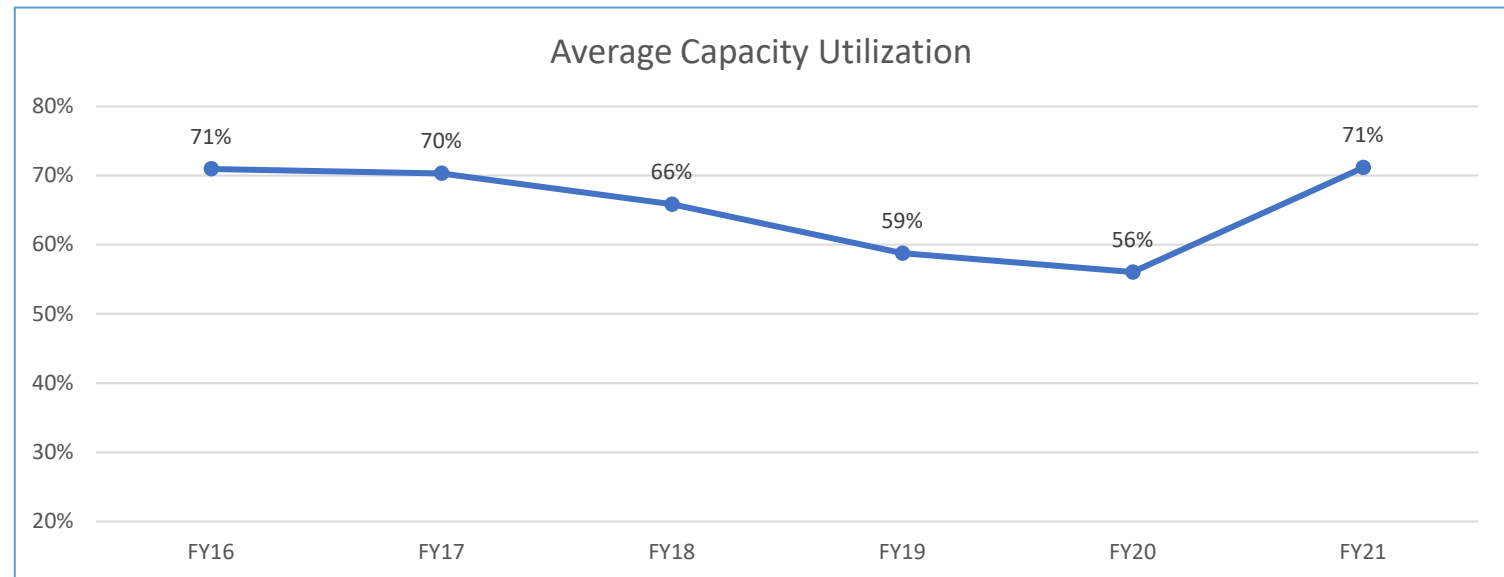
CY20	2 & 3 Wheelers	Passenger Cars & Jeeps	LCVs	Trucks & Buses	Tractors & Others	Total
Local Sales	100%	28%	8%	5%	34%	35%
Imports (Legal Channels)	0%	24%	19%	13%	9%	13%
Grey Channel	0%	48%	73%	82%	57%	52%
UNITS						
Local Sales	30,869,048	1,757,839	13,589	48,662	793,794	33,482,932
Imports (Legal Channels)	-	1,506,719	32,274	126,521	210,122	1,875,636
Grey Channel	-	3,013,439	123,999	798,055	1,330,772	5,266,264
Total Units	30,869,048	6,277,997	169,861	973,237	2,334,688	40,624,832

- In unit terms, imports, both through legal and grey channels, account for only ~18% of the total market. This is because local production caters to the entirety of demand in 2 and 3 wheeler segment which is the largest in unit terms.
- However, imports (legal and grey channel) dominate in value terms as they have dominant contribution to all other segments which are also relatively higher priced.

Capacity & Utilization

- The top players within the tyres sector have achieved significant capacity enhancements in the past few years.
- While total installed capacity remained stable in FY21, the capacity utilization increased significantly to ~71% as compared to ~56% in FY20. Since FY20 was adversely impacted by the COVID-19 pandemic, resulting in suspension of operations and decline in demand, the increase reflects resumption of normal business activities and gradual economic recovery.
- Moreover, reduction in policy rate also increased demand for automobiles through financing which in turn had a positive impact on demand for tyres.

Tyres Capacity Installed						
	FY16	FY17	FY18	FY19	FY20	FY21
General Tyres	3,230,820	3,407,100	3,558,862	3,933,850	3,947,553	3,969,656
Panther Tyres	6,279,000	7,929,000	7,965,000	7,650,000	8,100,000	8,100,000
Servis Industries	12,906,000	14,085,900	17,053,960	18,534,780	19,114,360	19,406,624
Total Capacity	22,415,820	25,422,000	28,577,822	30,118,630	31,161,913	31,476,280

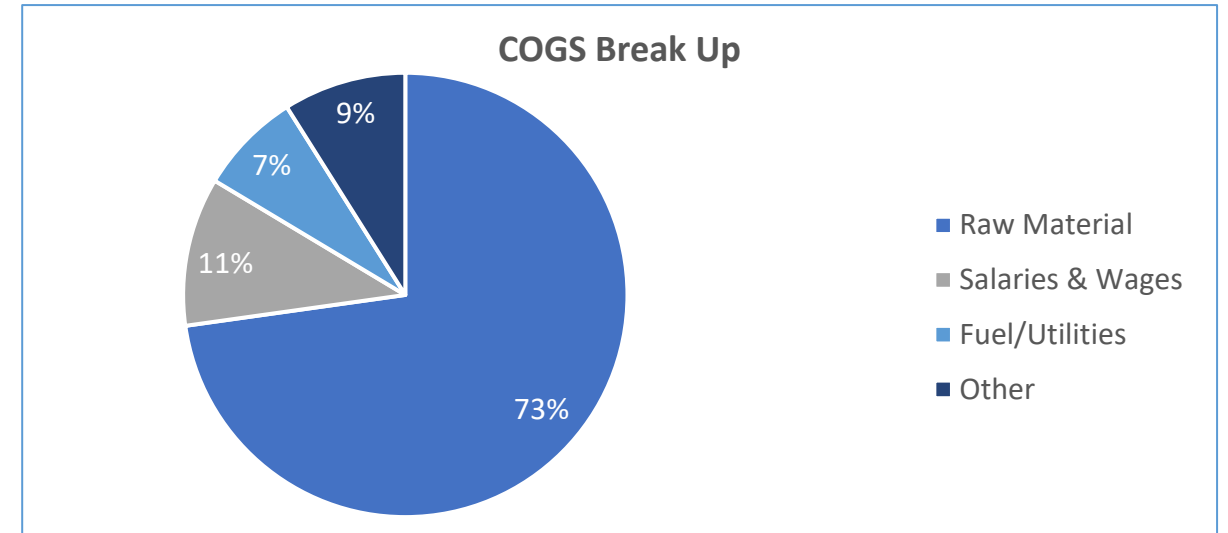
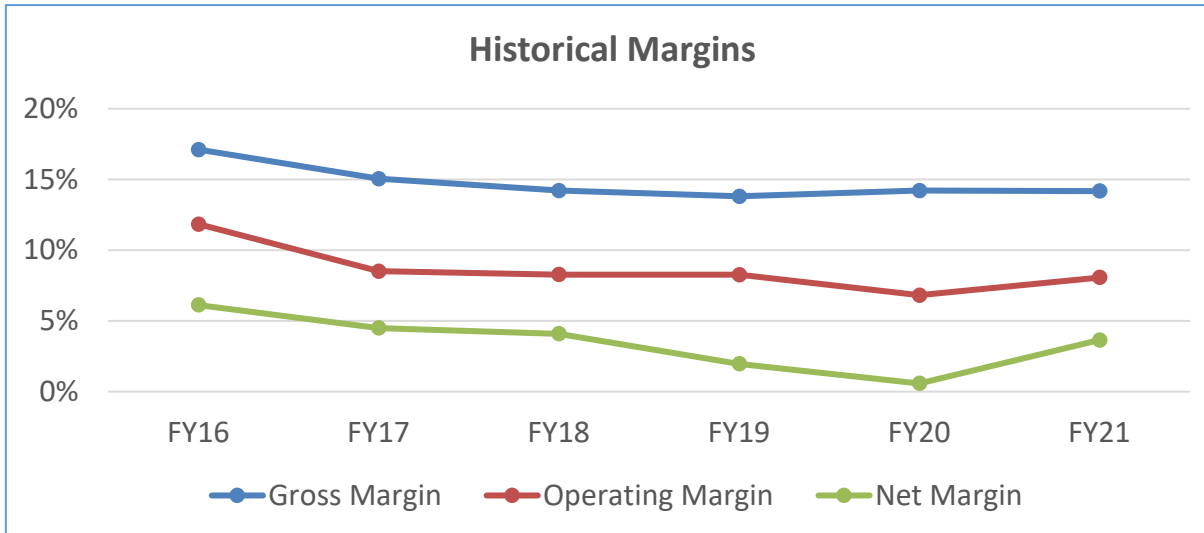


Business Risk

- **Demand:** The tyres sector derives its demand from the auto industry. In previous years, slow down in automobile demand also had a detrimental impact on the demand for tyres. However, there is limited impact as the OEM market is a relatively smaller segment as compared to the replacement market segment, where demand is less volatile and not linked to the auto industry.
- **Impact of interest rates:** The increase in automobile demand has been bolstered by the low interest rate environment as there is greater demand of auto financing. This also translates into higher demand for tyres from OEMs segment. Going forward, increase in the interest rates and recent measures by SBP to moderate demand growth, such as reducing maximum auto financing tenure from 7 to 5 years and increasing minimum down payment to 30% from 15% will restrict demand for automobiles and tyres.
- **Raw material:** The tyre sector's raw materials, such as rubber and carbon black, are largely imported and the sector has to deal with volatile prices and exchange rate risk. Recent devaluation in the currency, combined with higher global freight costs, will lead to higher prices of imported raw material and put pressure on margins.
- **Grey channel:** The players operating in 4 wheel segments, such as passenger cars, LCVs and bus segments, occupy considerably lower presence in the market as compared to imported tyres. Tyres imported through grey channels in particular dominate these segments leading to a high level of competition. Recently, the government has made 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.

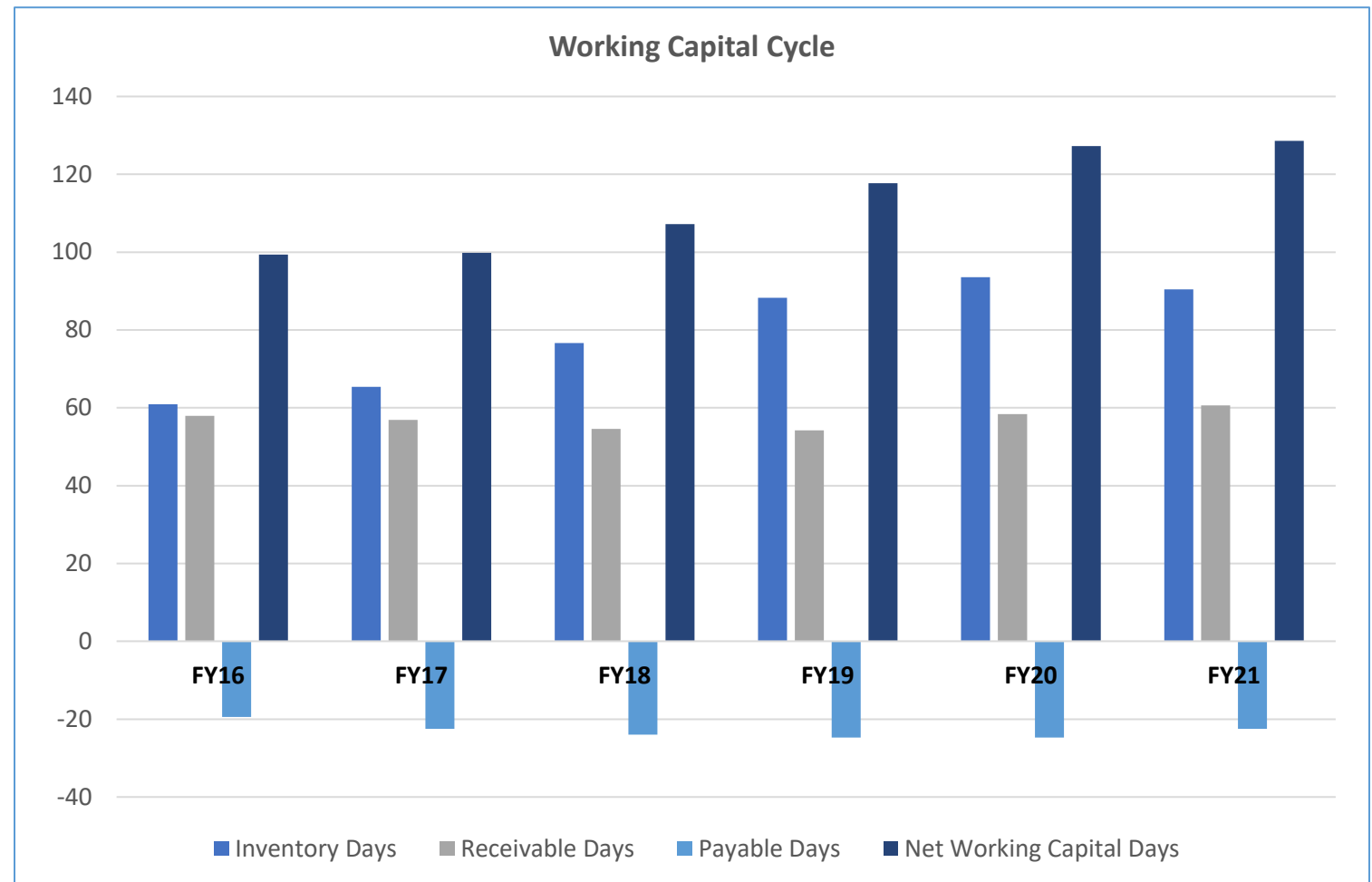
Margins & Cost Structure

- The tyre sector’s average margins have remained relatively stable in recent years. The five year (FY16-FY20) average for gross margin stood at ~15% while the average net margins for the same period clocked in around ~3%.
- The presence of imported tyres as well as price elasticity, particularly in 4 wheel segment creates pressure on margins as it is difficult to maintain volumes, specially of high-priced units, if prices are increased. On the other hand, 2 & 3 wheeler market is less price sensitive and import dependency is lower too.
- During FY21, gross margins sustained at ~14% YoY basis. Meanwhile, net margins improved from ~1% in FY20 to ~4% in FY21, most likely attributable to reduction in finance cost on the back of lower policy rate.
- Raw material is the most significant component of the sector’s direct costs (~73%). The sector’s raw material consists of materials such as natural and synthetic rubber, carbon black and other chemicals.



Financial Risk – Working Capital

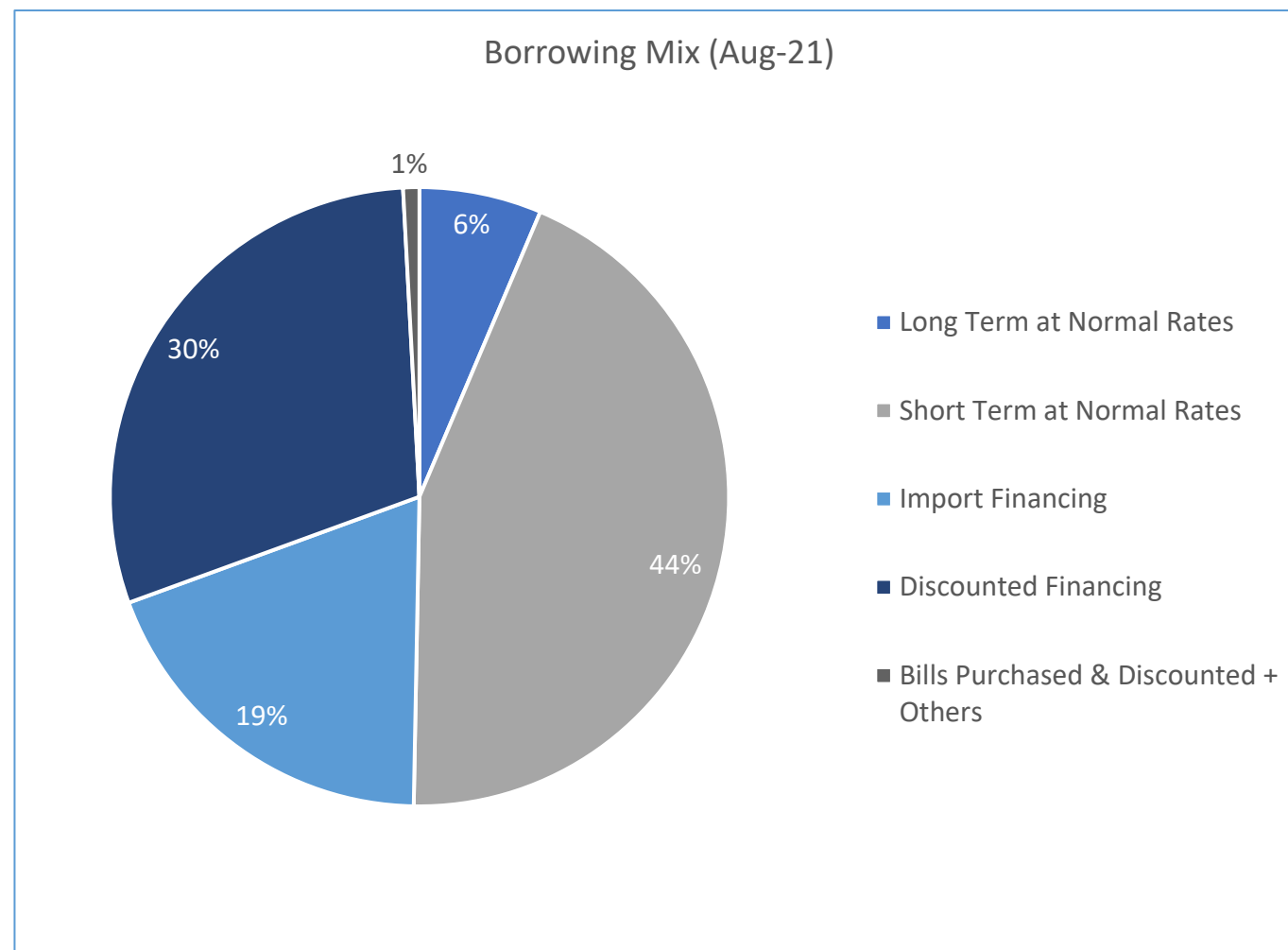
- The tyre sector’s working capital is largely a function of inventory and trade receivables and is financed through a combination of short term borrowing and internal capital.
- The tyre sector’s average net working capital cycle in the last five years has averaged around 110 days. The sector has exhibited a rising trend largely due to an increase in inventory days, particularly in FY20 when suspension of operations along with lower levels of demand resulted in inventory pile-ups.
- During FY21, the net working capital days stood at 129 days, relatively stable as compared to 127 days in FY20.





Financial Risk – Borrowing Mix

- The total borrowing of the tyre sector stands at PKR~20,089mln as at End-Aug'21, as compared to PKR~11,537mln as at End-Aug-20.
- The increase of ~74% in total borrowing came on the back of significant increase in discounted borrowing which stands at PKR~5,970mln as at End-Aug'21 and contributes ~30% to total borrowing. Previously, discounted borrowing was only ~2% of total borrowing in Aug'20. ~97% of discounted borrowing consists of Long Term Finance Facility (LTFF) and Temporary Economic Refinance Facility (TERF).
- The largest component in total borrowing is short term borrowing at normal rates which stands at PKR~8,819mln as at End-Aug'21 (End-Aug'20: PKR~6,408mln) and accounts for ~44% of total borrowing.
- The average leveraging for the tyre sector stands at ~58% (moderately leveraged)



Regulatory Framework

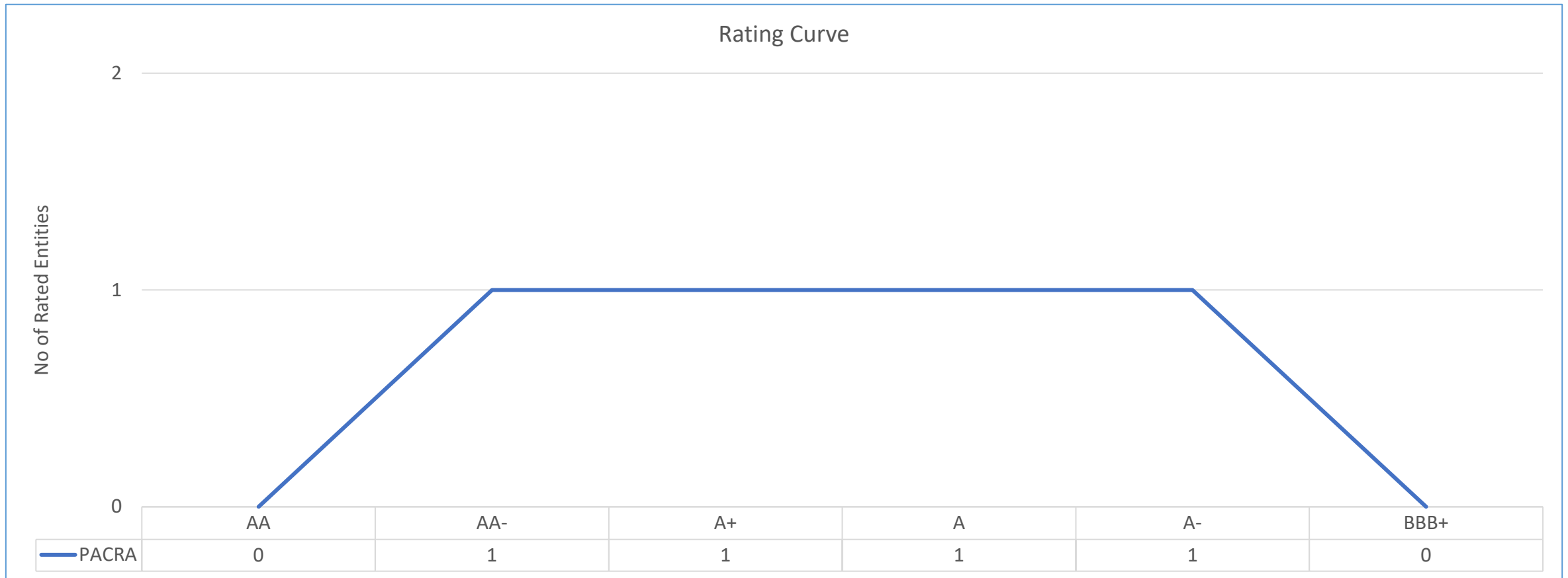
- With respect to Income Tax, the tyre sector is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.5% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future tax liabilities for the next 5 years.
- In addition, sales tax of 17% is applicable on both the raw material, i.e. rubber and carbon black, as well as finished goods, i.e. tyres. In addition to Sales Tax, there is 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 response to the COVID-19 pandemic, SBP introduced several measures intended to provide relief to the industries. These measures included loan extension and refinancing, loan for payment of employee salaries and wages and facilitation of new investment, expansion and BMR activities through the Temporary Economic Refinance Facility (TERF).
- In addition, SBP also reduced the monetary policy rate by 625bps to 7% which significantly reduced the sector's finance costs. The policy rate has recently been increased by 25 basis points to 7.25%.
- There have been no changes in the custom duty structure applicable for the sector which provides protection to the local manufacturers.
- Although some tyre manufacturers are members of Pakistan Association of Automotive Parts & Accessories Manufacturers, there is no dedicated industry representative body for local tyre manufacturers. Moreover, the Pakistan Tyre Importers & Dealers Association is the representative body for tyre importers.

Custom Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
Raw Materials									
28.03	Carbon Black (Rubber Grade)	16%	16%	4%	4%	0%	0%	20%	20%
40.01	Natural Rubber	0%	0%	0%	0%	0%	0%	0%	0%
40.02	Synthetic Rubber	0%	0%	0%	0%	0%	0%	0%	0%
Finished Goods									
4011.1	Tyres - Used on motor cars	16%	16%	4%	4%	20%	10%	40%	30%
4011.2011	Tyres - Used on Light Trucks	16%	16%	4%	4%	20%	10%	40%	30%
4011.2091	Tyres - Used on Buses	3%	3%	2%	2%	25%	15%	30%	20%
4011.4	Motorcycle Tyres	20%	20%	6%	7%	0%	0%	26%	27%
4011.7	Tyres - Used on Agricultural Machines	20%	20%	6%	7%	0%	0%	26%	27%
40.13	Inner Tubes	3-20%	3-20%	2-7%	2-7%	0%	0%	5-27%	5-27%

Rating Curve

- PACRA rates 4 entities in the tyre 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.

- 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.



- Devaluation of currency and volatile imported raw material prices.
- Uncertainty due to the continuing COVID-19 pandemic.
- Significant competition from import segment.

- Growth in Pakistan's urban population
- Recovery in overall economic conditions
- Agriculture and Construction industry growth in FY21
- Custom duty structure which protects local manufacturers.
- Greater border controls, leading to less competition from grey channel

Outlook: STABLE

- The domestic economy has started to gradually recover from the impact of the COVID-19 pandemic which slowed down industrial activities and brought various businesses to a halt. Despite steady increase in the rate of vaccinations, uncertainty regarding the pandemic remains which may hinder economic activity.
- The economic recovery is exhibited by the GDP growth of ~3.9% during FY21 (based on provisional figures). Among the contributors of GDP growth is industrial activity which has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~15% YoY during FY21.
- During FY21, the production and sales of automobiles recovered significantly, exhibiting an increase of ~41% as compared to the previous year which was negatively impacted by the pandemic. This in turn also boosted the demand for tyres particularly in the OEM segment.
- Meanwhile, local tyre producers continue to face significant competition in the 4 wheeler segment from imports, through both legal and grey channels. During FY21, imports of tyres and tubes stood at PKR~60bln as compared to PKR~17bln in FY20. The increase came on the back of higher automobile and tyre demand as well as restriction of grey channels as a result of government measures for stricter enforcement and border management in order to curb smuggling of goods.
- Meanwhile, the low interest rate environment continues although SBP has recently slightly increased the Monetary Policy Rate by 25 basis points to 7.25%. Any further increases are expected to be gradual. However, SBP has also introduced measures to restrict demand for auto financing which includes reduction of maximum finance period from 7 to 5 years and increase in minimum down payment from 15% to 30%.
- In addition, there has been significant currency depreciation since the start of current fiscal year with exchange rate rising ~8% in the period. This will increase the costs of both imported raw materials as well as finished goods, going forward.

- State Bank of Pakistan (SBP)
- Pakistan Bureau of Statistics (PBS)
- PACRA Database
- Economic Survey
- Pakistan Automotive Manufacturers Association (PAMA)
- Dawn News (<https://www.dawn.com/news/1623855>, <https://www.dawn.com/news/1648050>)
- Federal Board of Revenue (FBR)
- Pakistan Stock Exchange (PSX)
- Investing.com
- Trading Economics
- Singapore Commodity Exchange
- Statista
- World Bank
- Bridgestone
- Worldstopexporters.com (<https://www.worldstopexports.com/rubber-tires-exports-country/>)
- Tyrepress.com
- Expert Market Research (<https://www.expertmarketresearch.com/reports/tire-market#:~:text=In%202020%2C%20the%20global%20demand,4111.02%20million%20units%20by%202026.>)

Research Team	Saniya Tauseef <i>Asst. Manager</i> saniya.tauseef@pacra.com	Insia Raza <i>Research Analyst</i> insia.raza@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.