The Pakistan Credit Rating Agency Limited

PRESS RELEASE

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SECTORWATCH | CORONAVIRUS | BATTERIES

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. Pakistan has also been severely impacted by the pandemic and saw most economic activity halt for a period of two months. With the outbreak showing no signs of abating, Pakistan can expect further contraction in demand and output as well as disruption in international trade. It is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	SUB-SECTOR
AUTO & ALLIED	BATTERIES
SIZE	- On average, production volume is ~800,000 batteries per month. - In the summers (March till June), production can sometimes peak at ~1,250,000 units per month. Rest of the year there is oversupply in the market.
NUMBER OF PLAYERS	- The sector is dominated by 3 players, having combined production of 660,000 units per month. - Apart from these 3 big players, smaller ones produce ~ 100,000 units per month.
PACRA PENETRATION	- PACRA rates one company from the sector, holding ~20% market share in total production.
IMPACT	- Major usage of batteries is in Automobiles and UPS (Uninterrupted Power Supply) solutions including backup/solar panels. The main component of batteries – lead – is predominantly imported, making cost of batteries directly susceptible to exchange rate fluctuations. - Demand drivers for batteries are highly correlated with macro-economic indicators such as employment, disposable income and consumer confidence. Also, demand for batteries is high in the summers due to its usage in power solutions. Due to this, the sector exhibits seasonality and cyclicality. - Before the COVID-19 outbreak, the domestic sector was already facing tough competition due to capacity expansion of existing battery plants, new entrants and inflow of imported batteries. Market dynamics are also changing i.e. subdued demand amid decline in auto sales, improved electricity availability, and lower discretionary income. - The outbreak was initially perceived as primarily a supply shock. However, since then it has impacted the overall economy, casting a bigger shadow on demand drivers of the sector. Recovery for this sector shall depend on how long the pandemic lasts, which is uncertain at this point. After contracting in FY20, the economy is projected to show only slight recovery in FY21, which does not bode well for future demand for batteries. Devaluation of local currency will add to existing challenges to keep costs in check. - The sector is mildly leveraged. Borrowing of the industry mostly constitutes short-term debt. The reliance on ST borrowings is an outcome of disequilibrium in cash cycle hence the need to fund working capital requirement. Post COVID-19, working capital lines will remain stretched as lower cash inflows may dilute financial strength of the sector. - SBP's rate cut of 625bps and other relief measures are expected to provide relief in debt servicing and cool off the financial risk.

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