



Automotive Parts

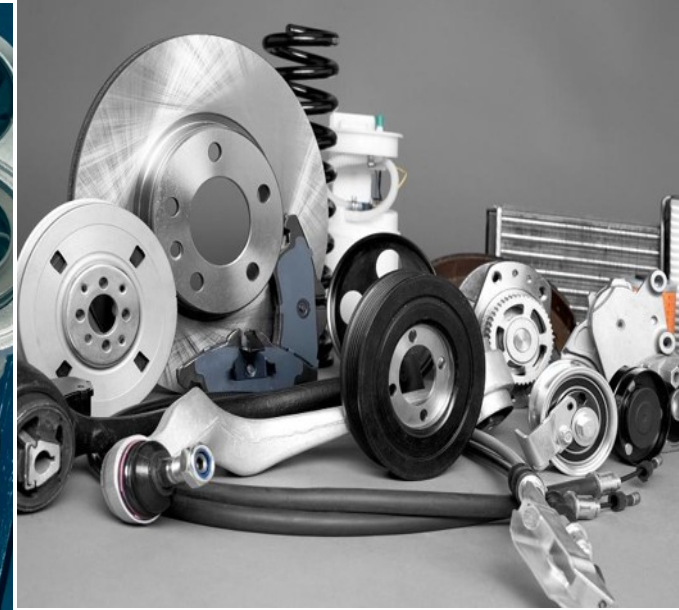
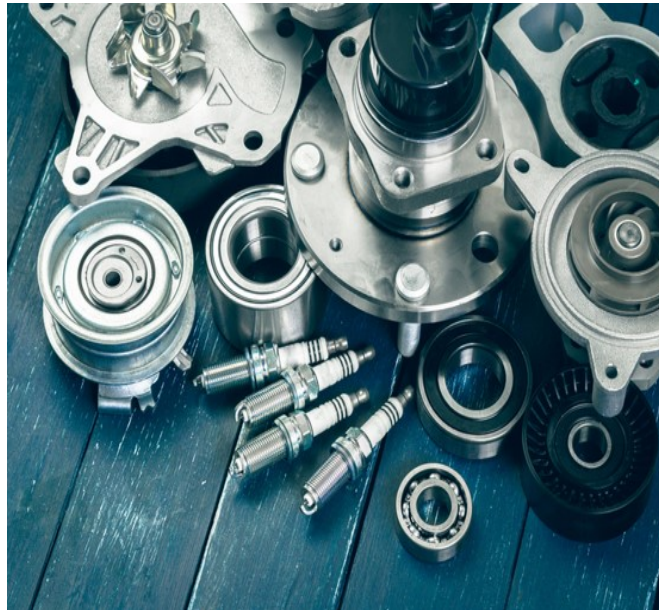
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Automotive Parts

Contents

Contents	Pg.	Contents	Pg.
Introduction	1	Working Capital Management	16
Global Overview	2	Financial Risk	17
Global Imports	3	Duty Structure	18
Global Exports	4	Rating Curve	19
Local Overview	6	SWOT	20
Local Demand	8	Outlook	21
Local Imports & Exports	11	Bibliography	22
Business Risk	12		
Margins & Cost Structure	13		
Raw Materials	15		

Automotive Parts

Introduction

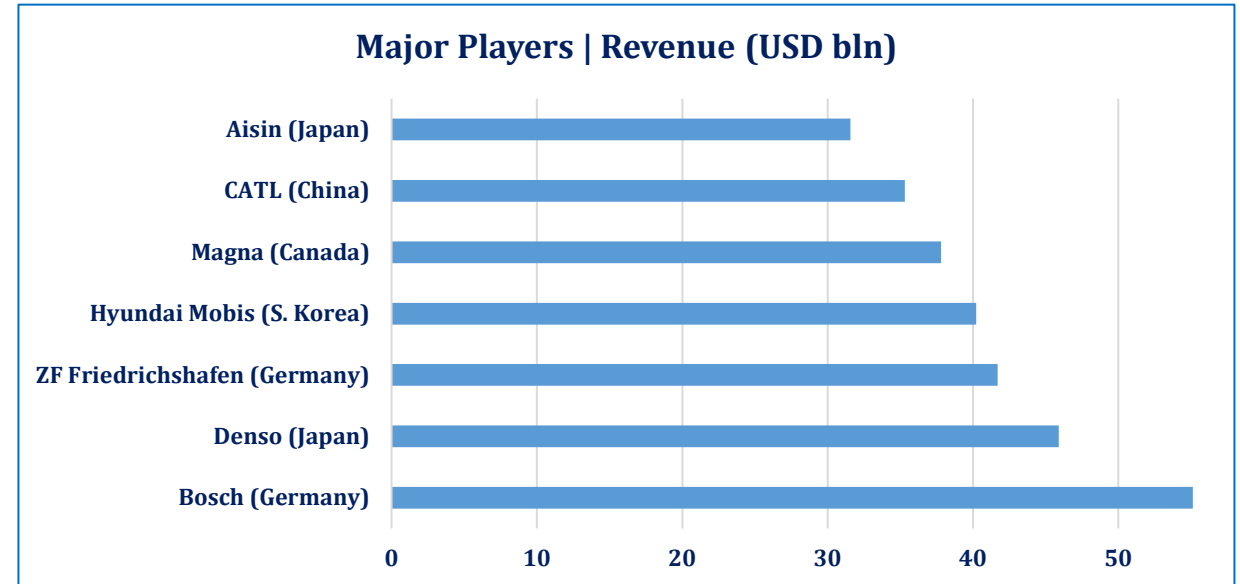
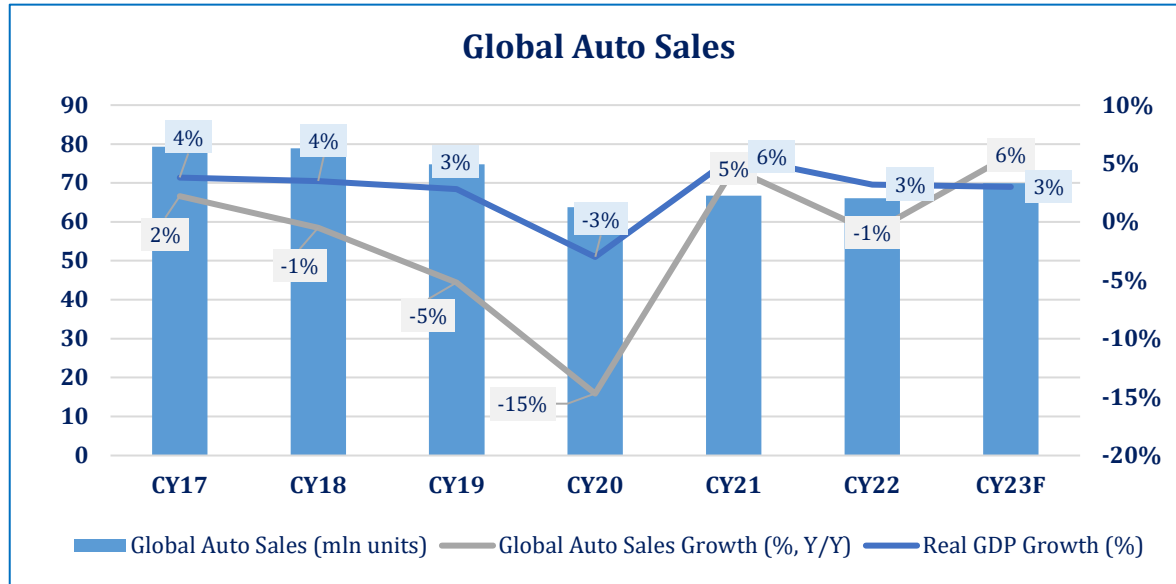
- Automobile Parts and Accessories are the complex components which make up all automobiles and ensure their ability for efficient and long-term functioning.
- While there are a large number of individual Automotive parts, they can be broadly categorized according to certain functions:
 - i. **The Chassis:** Includes the frame, suspension system, axles and wheels.
 - ii. **The Engine:** Includes exhaust system, cooling system, ignition, pistons and valves.
 - iii. **The Transmission System:** Includes the clutch, gearbox, propellor shaft and axle.
 - iv. **The Body:** Consists of the the external structure usually made from steel or aluminium. It also includes the bumpers, mirrors and windshield.
 - v. **The Control Systems:** Consists of the steering system and braking system.
 - vi. **The Auxiliaries:** These components are not essential but add comfort for passengers such as the air-conditioning system.



Automotive Parts

Global | Overview

- Global demand for Automotive Parts is a function of the Automobile industry. The annual sales for Automobiles declined to ~66mln units in CY22, down ~1.5% YoY (CY21: ~67mln units). However, these are expected to increase to ~70mln units in CY23, growing by ~6% YoY.
- For CY23-24, consumer demand is expected to remain reasonably strong. However, it may be partially offset by higher inflationary trends and subsequent central bank rate hikes. The revenue of the global Automotive Parts and Accessories Sector decreased at a CAGR of ~6.3% over the period of CY18-CY22 and is expected to reach USD~1.9trn in CY23 (CY22: USD~2.2trn). This includes a forecast stagnation in CY23 amid rising interest rates across various countries that has discouraged new car sales.
- The five largest players for Automotive Parts, namely, Bosch, Denso, ZF Friedrichshafen, Hyundai Mobis and Magma, occupied ~12% of the total market share in CY22. Germany and Japan both have two Sector players each in the top ten list, while South Korean player ranks fourth and Canadian player ranked fifth in CY22.



Automotive Parts

Global | Imports

- Global imports of Automotive Parts amounted to USD~423bln in CY22. Global imports increased by ~3% on average since CY20 when these had been valued at USD~341bln.
- The top seven importing countries of Automotive Parts and Accessories cumulatively comprised ~54.5% of international spending on imported Automotive. Collectively, buyers in European countries spent the most on imported Automotive Parts during CY22 with purchases amounting to USD~183.1bln (~43.1% of the world total). While, ~19.5% of Automotive Parts imported worldwide were delivered to Asia.
- Individually, United States of America has maintained first rank in importing Automotive Parts across the globe comprising ~20% share, Germany (~9%), Mexico (~7%), China (~6%) and France (~4%), collectively representing ~46.6% of the total global imports.

World Imports (USD mln)							
Country	CY18	CY19	CY20	CY21	CY22	8MCY23	CY22 Share (%)
USA	71,436	69,635	59,896	74,077	86,226	50,671	20%
Germany	43,871	39,542	33,444	37,856	39,667	27,983	9%
Mexico	27,365	27,159	21,933	25,962	29,472	15,896	7%
China	29,319	25,221	25,767	30,280	25,239	N/A	6%
France	17,672	16,702	12,908	16,357	17,002	N/A	4%
Canada	20,169	19,828	14,409	14,218	16,986	10,141	4%
Spain	17,790	16,816	14,542	16,125	16,073	9,549	4%
Rest of the World	188,636	178,618	157,361	191,479	192,590	86,925	46%
Total	416,258	393,521	340,260	406,354	423,255	201,165	100%

Note: Import Data pertains to the HS code - 8708.

Automotive Parts

Global | Exports

- CY22 brought about an increase in the global trade of Automotive Parts by USD~423bln (~4% YoY) from USD~406bln in CY21. This increase was driven by rising demand for passenger vehicles.
- The top five exporting countries of Automotive Parts contributed ~52% to total exports in CY22. Germany is the largest Automotive market in Europe and ranked the first in terms of production and sales, accounting for over ~14% of global exports of Automotive parts.
- China ranked second in terms of Automotive Parts' exports and is expected to take fair share of German exports on the back of growing overseas demand for its new energy vehicles. Electric cars are becoming the new driver of China's Automotive Parts exports.
- Among the top exporters in CY22, the fastest-growing Automotive Parts exporters, compared to CY21, were Mexico (up ~24%), USA (up 14%) and China (up ~9%), while the top countries that posted decline in their exports of Automotive Parts were Germany (down ~5%) and Japan (down ~11%).

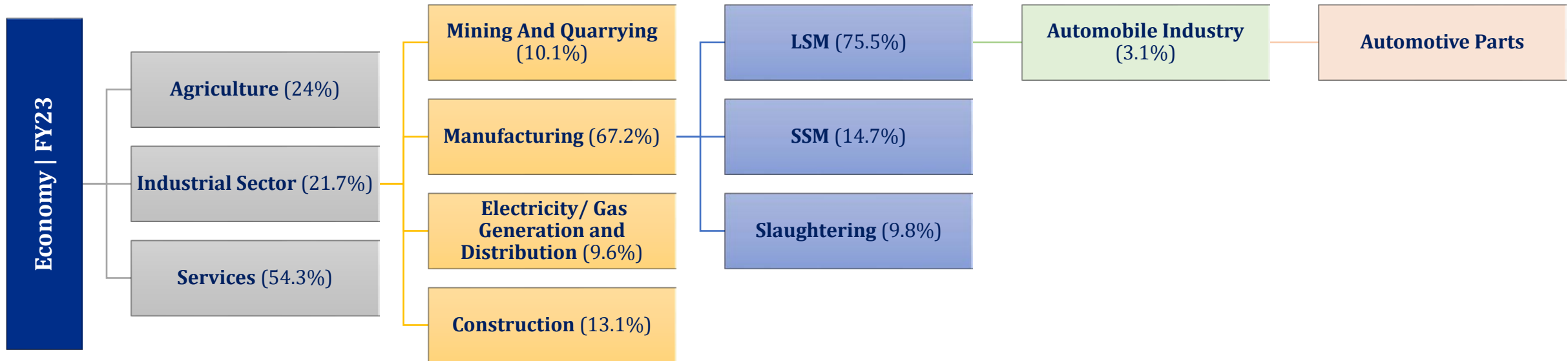
World Exports (USD mln)							
Country	CY18	CY19	CY20	CY21	CY22	8MCY23	CY22 Share (%)
Germany	67,426	61,796	54,445	63,945	60,739	38,738	14%
China	34,850	33,626	32,942	45,566	49,733	N/A	12%
USA	45,703	43,019	33,264	35,640	40,735	27,855	10%
Mexico	29,727	30,660	26,702	30,525	37,931	19,983	9%
Japan	35,873	32,697	27,042	32,549	29,094	15,030	7%
Rest of World	202,680	191,723	165,865	198,129	205,022	85,736	48%
Total	416,258	393,521	340,260	406,354	423,255	187,342	100%

Note: Export Data pertains to the HS code - 8708.

Automotive Parts

Local | Overview

- 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). Pakistan’s economy is classified into three main sectors: Agriculture, Industrial Sector and Services.
- 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).
- Automobile Industry is classified as a Large Scale Manufacturing (LSM) industrial component within the country’s industrial sector. Automotive Parts is directly linked with Automobile industry. During FY23, the Sector's market capitalization stood at PKR~43.2bln.



Automotive Parts

Local | Overview

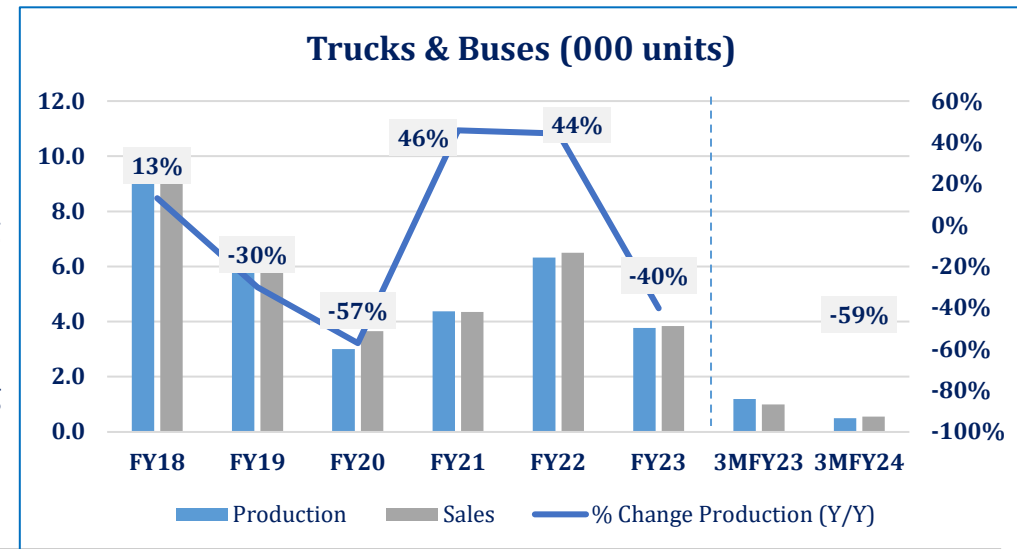
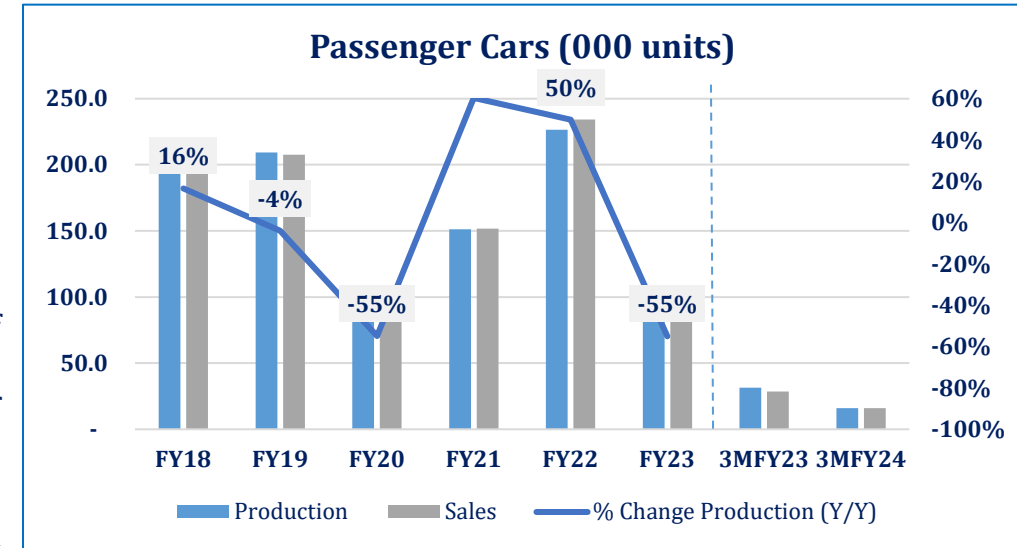
- Pakistan’s Automotive Parts industry is fairly fragmented with a large numbers of players. There are over ~2,000 Automotive Parts vendors in Pakistan, of which ~400 vendors belong to Tier-1 category and are suppliers for the OEM market.
- Demand for the local Automotive Parts Sector emanates from the following sources -
 - Original Equipment Manufacturers (OEMs): These are local assemblers of bikes, passenger cars, LCVs, buses, trucks and tractors. Major players include Pak Suzuki, Indus Motor, Honda Atlas and Millat Tractors.
 - Replacement Market: this is the secondary market consisting of distributors, wholesalers and retailers of auto parts and accessories.
 - Export Market: only a limited number of auto parts manufacturers are catering to demand from the export market due to high quality standards and lack of cost competitiveness.
 - Remaining demand of the OEM segment is met through imports. During FY23, Pakistan imported Automotive Parts and Accessories worth USD~281mln (or PKR~66,989mln), registering ~47% decline YoY. The country majorly imports these from Thailand, Japan, China and Indonesia (covered later in the Study).

Particulars	FY20	FY21	FY22	FY23
Est. Market Capitalization (PKR mln)	46,066	65,479	45,806	43,167*
Est. No. of Players	>2,000			
Workforce Employed	>140,000			
Import Value (USD mln)	263	405	527	281
Export Value (USD mln)	16	20	27	22
Industry Association	Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM)			

Automotive Parts

Local | Demand

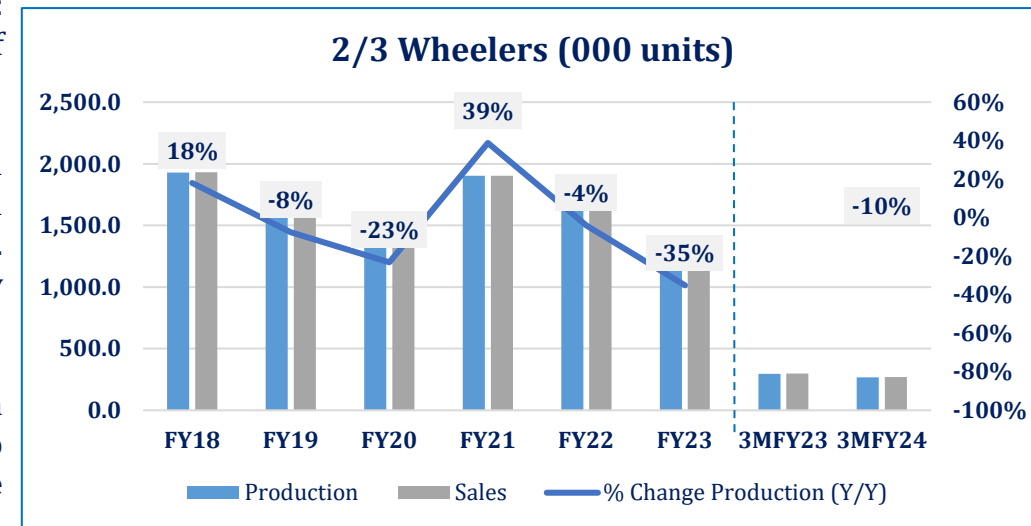
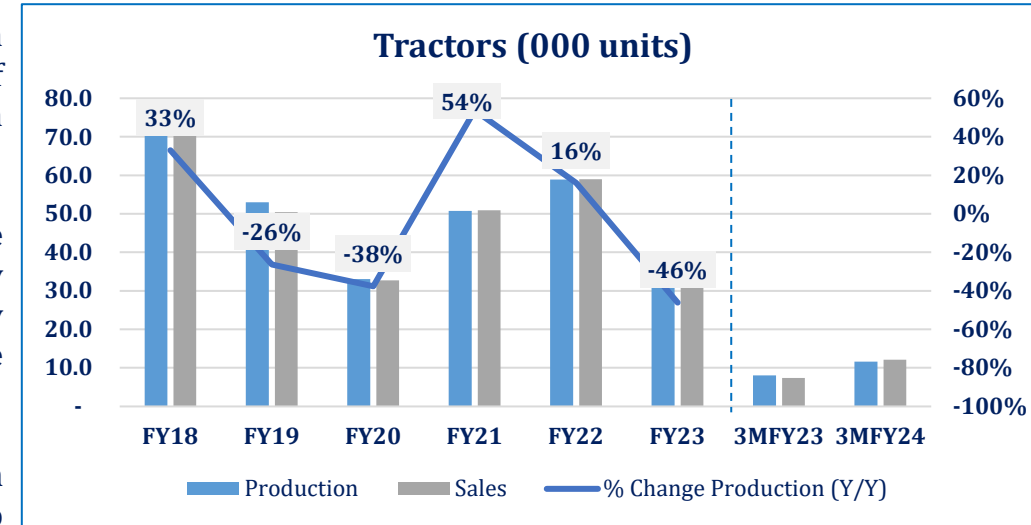
- The local Automotive industry experienced a substantial decrease in the production levels from July'22 to June'23. This decline was primarily attributed to the import restrictions imposed by the SBP, which also encompassed essential raw materials required for car assembly, including Completely Knocked 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 3MFY24, the production of Passenger Cars continued to decline by ~79%, with ~15,993 units produced compared to ~31,417 units in 3MFY23. This decline can be attributed to high input costs resulting from the significant devaluation of PKR against the USD (3MFY24: USD/PKR ~298; 3MFY23: USD/PKR ~220) as well as lower demand amid economic slowdown.
- Likewise, in 3MFY24, the production of Trucks and Buses stood at ~489 units (3MFY23: ~1,194 units), depicting a decline of ~59% YoY. 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) Introduction of a capital value tax (CVT) of ~1% on motor vehicles with engine capacities exceeding 1300cc.



Automotive Parts

Local | Demand

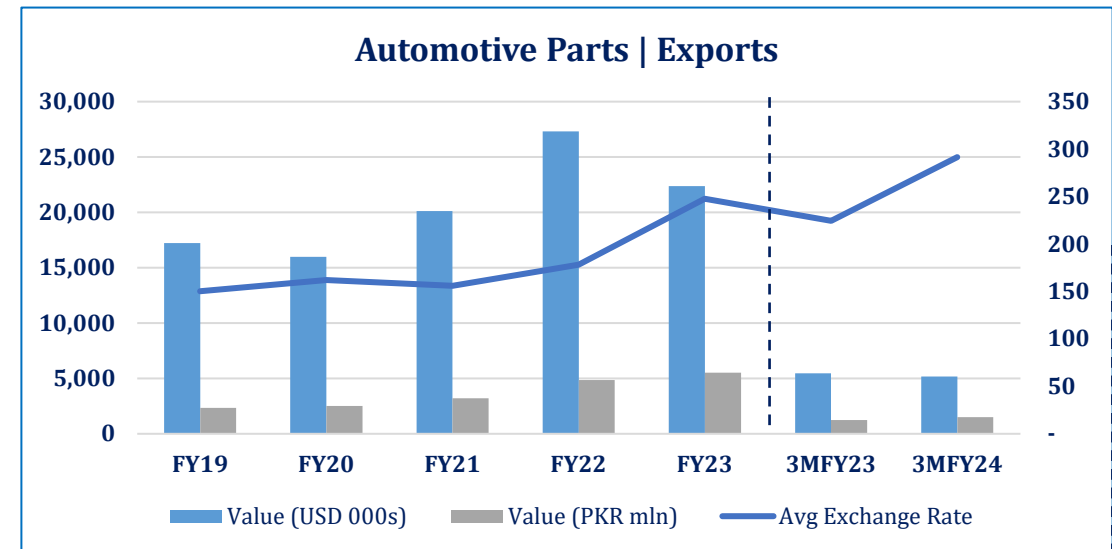
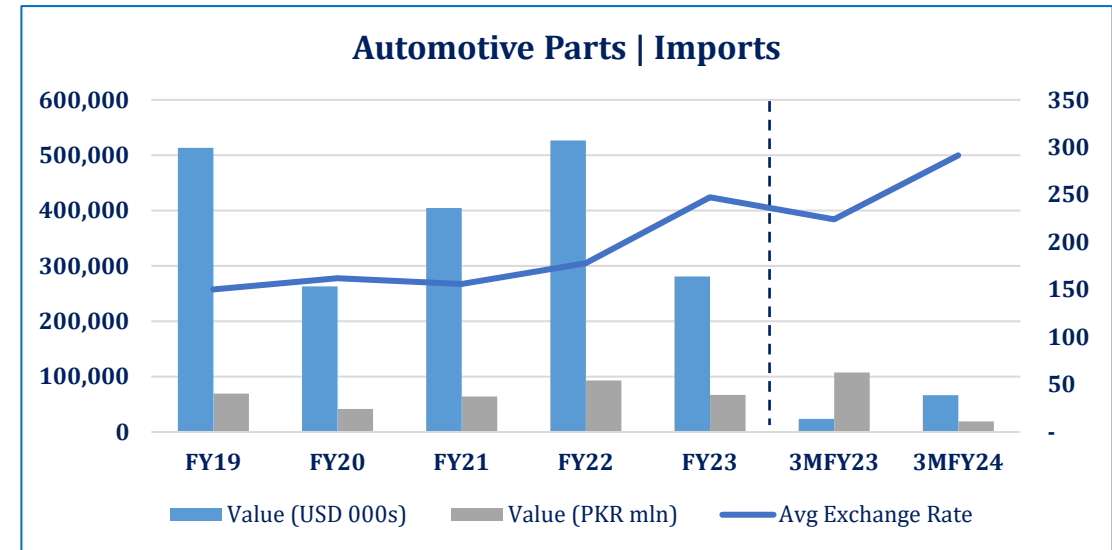
- The Tractor segment plays a pivotal role in fulfilling the needs of the farming community and in FY23, measures were taken to facilitate farm mechanization. This included allowing the import of 0-5-year-old Tractors with reduced duty and reducing the duty on Completely Knocked Down (CKD) Tractors from ~35% to ~15% to support new Tractor manufacturers.
- In FY23, GST of ~5% on tractors was withdrawn, and custom duty of ~0%-2% was waived for the import of agricultural machinery, while the number of operational Tractors across the country stood at ~692,626 units (FY22: ~670,000 units). 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.
- In FY23, the number of Tractors produced was ~31,726 units (SPLY: ~58,880 units), 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). During 3MFY24, ~11,586 Tractors were produced (SPLY: ~7,991 units), while sales stood at ~12,090 units (SPLY: ~7,368 units), representing increase of ~45% and ~64%, respectively.
- Conversely, the 2/3 Wheeler segment experienced a notable and substantial decline in production and sales, both declining by ~35% YoY in FY23. Production of 2/3 Wheelers stood at ~1.185mln units (SPLY: ~1.826mln units), while sales clocked in at ~1.187mln units (FY22: ~1.821mln units). This declining trend persisted during 3MFY24, with both production and sales decreasing by ~10%.
- 2/3 Wheelers provide an affordable means of transportation for low-income individuals but remain highly sensitive to price fluctuations. Significant exchange losses experienced in FY23 led to widespread inflationary pressures, necessitating price increases that subsequently reduced the demand for 2/3 Wheelers.



Automotive Parts

Local | Imports & Exports

- During FY23, imports of Automotive Parts stood at USD~281mln (or PKR~67bln), a YoY decline of ~47% in USD terms (or ~28% in PKR terms). This contraction on imports resulted from SBP's import restrictions that were in place during May'22-Jun'23. These had been imposed in order to curb the country's dwindling foreign exchange reserves and keep in check the current account deficit.
- Besides steep ~39% YoY PKR depreciation in FY23 against the greenback, the decline of ~28% likely came on the back of sharp reduction in volumetric reduction in imports.
- During the same period, the demand-side factors also remained muted, particularly Automotive production across all segments as recorded by Original Equipment Manufacturers (OEMs) (i.e., decline of ~55% in Passenger Cars, ~40% in Trucks & Buses, ~46% in Tractors and ~35% in 2,3 Wheelers).
- This was not without demand for Automotives dampening as well, which resulted due to inflation registering record-highs (~38% in May'23) and soaring prices, as well as high interest rates. These dynamics naturally undermined growth patterns of Automotive Parts manufacturers.
- In FY23, exports of Automotive Parts clocked in at USD~22mln (or PKR~6bln), falling by ~19% YoY in USD terms (or in PKR terms, increasing by ~20% YoY). The increase in PKR terms reflects currency depreciation, which rendered exports competitive in the international market. Major export destinations (covered later in detail) include Europe and the USA.



Automotive Parts

Local | Export Destinations

- Only a small share of locally manufactured Automotive Parts and Accessories is exported. These majorly include bumpers, radiators, and batteries. In CY22, exports to Italy formed ~27% of country's total exported Automotive Parts, while USA was the second largest export destination. Total exports for CY22 amounted to USD~24mln, a meager increase of ~2.5% YoY (CY21: USD~23mln). Other export destinations are spread across Europe along with a few Asian countries.
- For 2MCY23, total exports of Automotive Parts and Accessories stood at USD~3.6mln where Italy remained the top buyer, making up ~24% share of total exports. Germany and USA rank second and third, respectively.

Pakistan Export Destinations														
CY19	USD (000)	%	CY20	USD (000)	%	CY21	USD (000)	%	CY22	USD (000)	%	2MCY23	USD (000)	%
USA	3,950	23%	Italy	2,993	21%	USA	6,172	27%	Italy	6,257	27%	Italy	853	24%
Italy	3,237	19%	USA	2,689	19%	Italy	5,655	25%	USA	5,743	24%	Germany	676	19%
UK	1,302	8%	UAE	1,705	12%	Germany	2,424	11%	Germany	3,055	13%	USA	628	17%
Spain	1,251	7%	Germany	1,046	7%	UK	1,584	7%	UK	1,931	8%	Spain	331	9%
UAE	977	6%	UK	926	6%	Netherlands	1,282	6%	Spain	1,089	5%	UK	247	7%
Bangladesh	725	4%	Netherlands	888	6%	UAE	891	4%	Netherlands	946	4%	Netherlands	204	6%
Germany	723	4%	Tanzania	493	3%	Belgium	803	3%	Belgium	604	3%	Belgium	139	4%
Netherlands	682	4%	Belgium	487	3%	Spain	692	3%	UAE	604	3%	UAE	128	4%
Belgium	655	4%	Spain	351	2%	Turkiye	583	3%	Turkiye	446	2%	Kyrgyzstan	92	3%
Nigeria	332	2%	Kenya	339	2%	Romania	516	2%	Bangladesh	345	1%	Romania	51	1%
Other	3,240	19%	Other	2,439	17%	Other	2,352	10%	Other	2,499	11%	Other	244	7%
Total	17,074	100%	Total	14,356	100%	Total	22,954	100%	Total	23,519	100%	Total	3,592	100%

Note: Export Data pertains to the HS code - 8708.

Automotive Parts

Local | Import Destinations

- Pakistan’s total imports for Automotive Parts and Accessories was dominated by Asian countries in CY22, with Thailand comprising ~42% of the country’s total imports which amounted to USD~243mln. Total Automotive Parts imports witnessed a YoY decline of ~21% in CY22 as compared to CY21 (USD~308mln).
- Japan and China have also continually held a sizable portion of the import market, accounting for ~19% and ~17% of all imports for CY22. Major imported items include engine and suspension parts. In 2MCY23, total imports stood at USD~25mln, with Thailand making up ~45% share of total imports and China ranking second, forming ~28% share of total imports.

Pakistan Import Destinations														
CY19	USD (000)	%	CY20	USD (000)	%	CY21	USD (000)	%	CY22	USD (000)	%	2MCY23	USD (000)	%
Thailand	63,560	35%	Thailand	45,122	15%	Thailand	145,586	47%	Thailand	102,044	42%	Thailand	11,135	45%
Japan	34,796	19%	China	29,215	10%	Japan	56,546	18%	Japan	45,155	19%	China	6,900	28%
China	33,045	18%	Japan	25,541	9%	China	44,402	14%	China	40,295	17%	Japan	2,971	12%
Indonesia	24,308	13%	Indonesia	6,331	2%	Indonesia	15,399	5%	Indonesia	17,323	7%	Indonesia	1,356	5%
UAE	4,448	2%	UAE	5,187	2%	South Korea	9,788	3%	South Korea	10,898	4%	UAE	700	3%
South Korea	4,044	2%	South Korea	4,079	1%	UAE	7,268	2%	UAE	5,803	2%	South Korea	496	2%
Turkey	2,907	2%	Turkey	3,960	1%	Turkey	6,872	2%	Bulgaria	3,766	2%	Türkiye	438	2%
Malaysia	2,559	1%	Malaysia	2,258	1%	Asia, nes	4,109	1%	Türkiye	3,277	1%	Malaysia	337	1%
Bulgaria	1,534	1%	Taipei	1,804	1%	Bulgaria	3,325	1%	Malaysia	2,614	1%	Asia, nes	156	1%
Australia	1,478	1%	Bulgaria	1,717	1%	Malaysia	3,293	1%	Asia, nes	2,496	1%	Other Europe	76	0%
Other	11,123	6%	Other	167,192	57%	Other	11,262	4%	Other	8,986	4%	Other	400	2%
Total	183,802	100%	Total	292,406	100%	Total	307,850	100%	Total	242,657	100%	Total	24,967	100%

Note: Import Data pertains to the HS code - 8708.

Automotive Parts

Business Risk

- The local Automotive Parts Sector derives its demand entirely from the Automobile Sector. As a result, the challenges faced by the Automobile manufacturers have also had a detrimental impact on the sale of Automotive Parts, especially during FY23.
- Moreover, increase in Automobile prices on the back of rising inflation and exchange rates resulted in a declining trend in Automobile demand.
- The Sector also faces stiff competition from the import segment which occupies significant market share in both OEM and replacement market. It also faces risk due to exchange rate volatility owing to reliance on imported raw material.
- The targeted production capacity by AIDEP 2021-2026 included the following -
 - i. 650,000 Cars, LCVs (Light Commercial Vehicles), and SUVs annually.
 - ii. 100,000 Tractors annually.
 - iii. 20,000 HCVs (Heavy Commercial Vehicles) annually.
 - iv. 7mln 2-3 wheelers per annum.
- Pakistan’s Automotive Development Policy 2021-26 (AIDEP) was launched in CY21 by the Ministry of Industries & Production (MoIP) and outlined regulations and incentives applicable for the next five years.
- OEMs to consider export of parts and vehicles for a minimum of 10% of C&F value of their total imports by end of Policy period, i.e. June 30,, 2026, through their global supply chains or global distribution channels/networks. Values to be calculated in USD or equivalent.

Localization Levels *	
Passenger Cars & LCVs	~50%
Trucks/Buses	~20-25%
Tractors	~95%
Motorcycles	~95%

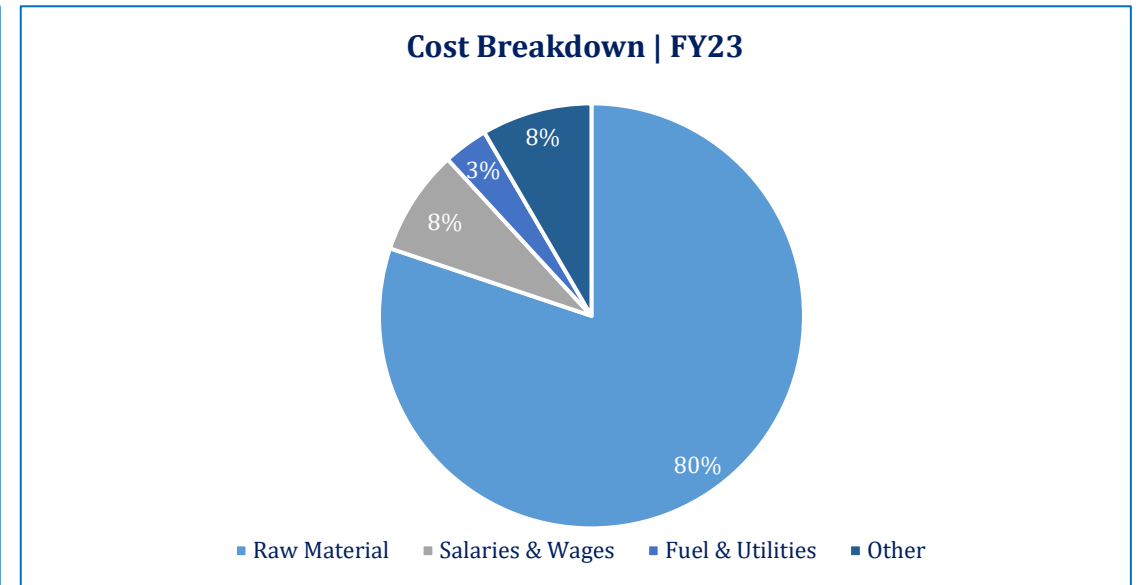
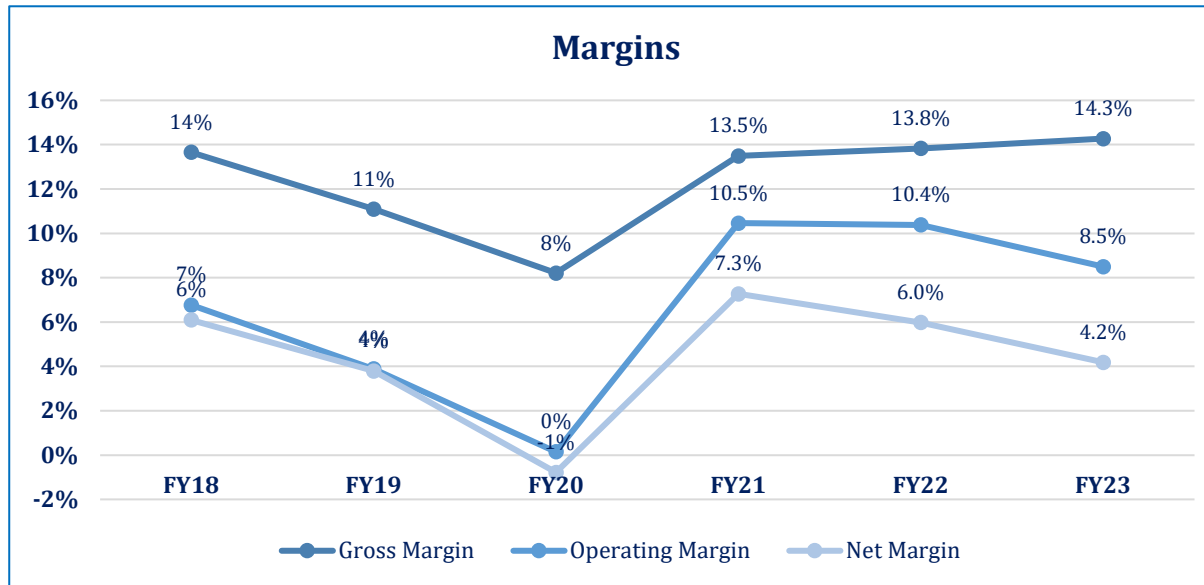
Products	Deletion Achieved
Suzuki Mehran Car, 800 CC	73%
Suzuki Cultus Car, 1000 CC	69%
Suzuki Pickup, 800 CC	70%
Suzuki Bolan Van, 800cc	68%
Suzuki Swift Car	38%
Suzuki Cargo Van	68%
Suzuki Wagon	32%
Toyota Corolla XLI/GLI (M/AT) 1.3 CC	65%
Toyota Corolla (A/T) 1.6 CC	60%
Toyota Corolla (M/T) 1.8 CC	60%
Honda Civic VTI - MT/AT 1.3/1.5	58%
Honda City MT /AT 1.3/ASP 1.5/1.3	68%

*Latest available estimates. **Note:** Table 2 pertains to localization levels as disclosed by AIDEP 2021-2026

Automotive Parts

Business Risk | Margins & Cost Structure

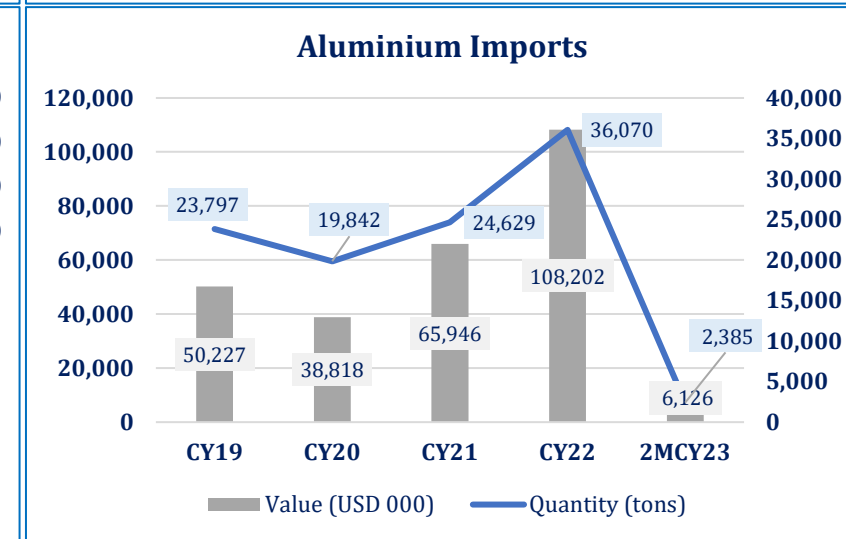
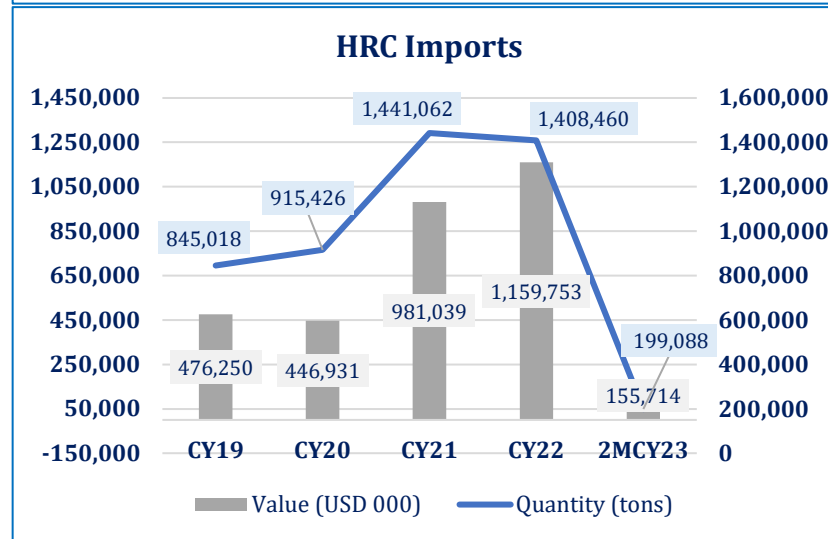
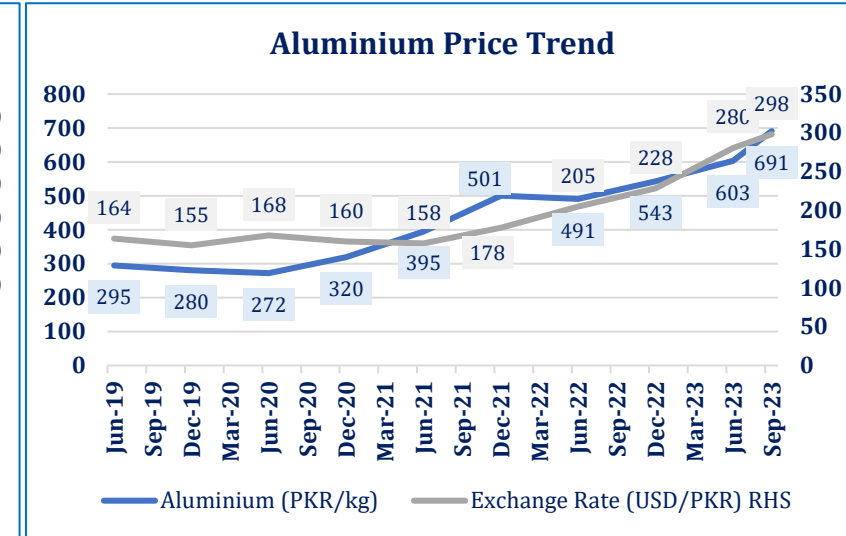
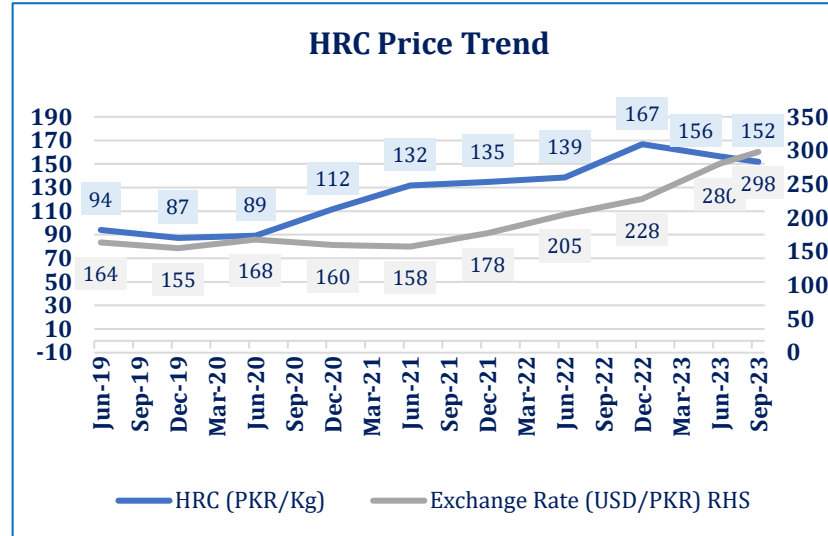
- For the period ranging FY18-20, Sector's overall average margins declined by ~11% YoY. A more pronounced dip was observed in FY20, most likely due to COVID-19 restrictions and the consequent demand destruction. Post-pandemic economic recovery (FY21) witnessed a YoY ~12.8% growth in average gross margins for the Sector, signaling a tentative rebound in sales. In FY23, average gross margins clocked in at ~14.3%, reflecting steady momentum in sales growth. Average operating margins dipped by ~1.9% YoY, owing to high raw material costs and overall inflationary pressures.
- Average net margins followed suit and witnessed a decline of ~1.8% YoY during FY23. This can be attributed to increasing finance costs which increased by ~67% as compared to previous year and can further be explained by policy rate hike of ~15% during FY23, to stand at 22% as of End-Jun'23.
- Going forward, margins are expected to stabilize in the presence of favorable monetary policy (policy rate has been maintained at 22% during 4MFY24) as well as lifting of import restrictions by the SBP in Jun'23.
- The Sector's direct costs largely comprise imported raw materials (Steel, Rubber, Plastic and Aluminum), with these making up ~80% of the total cost of production. Moreover, cost behavior is subject to fluctuations in exchange rate and international price trends, since these raw materials are usually imported.



Automotive Parts

Raw Materials

- A variety of raw materials are used in the production of automotive parts and accessories. The most significant of these are steel and aluminum which are used alongside other metals and alloys.
- There has been significant increase of ~99% in prices of Hot-Rolled Coil (HRC) during a five-year period (FY18-23). HRC imports in quantitative terms remained relatively stable until CY20, and grew exponentially by ~57% in CY21. Later, in CY22, these dipped by ~2% YoY, whereas imports in USD terms remained slightly elevated, most likely on the back of ~11% YoY PKR devaluation during the year.
- In 8MCY23, the total imports of HRC remained rangebound, recording at USD~518mln (CY22: USD~1160mln).
- Aluminum prices have also exhibited a rising trend with a ~132% increase over the past five years (FY18-23), although this is majorly attributable to the increase in exchange rate where PKR depreciated by ~130% during the same period.
- Prices of Aluminum in international market remained stable. In 8MCY23, the total imports of aluminum recorded at USD~25mln (CY22: USD~36mln). Aluminum is also available through local suppliers who in turn import it from the international market.

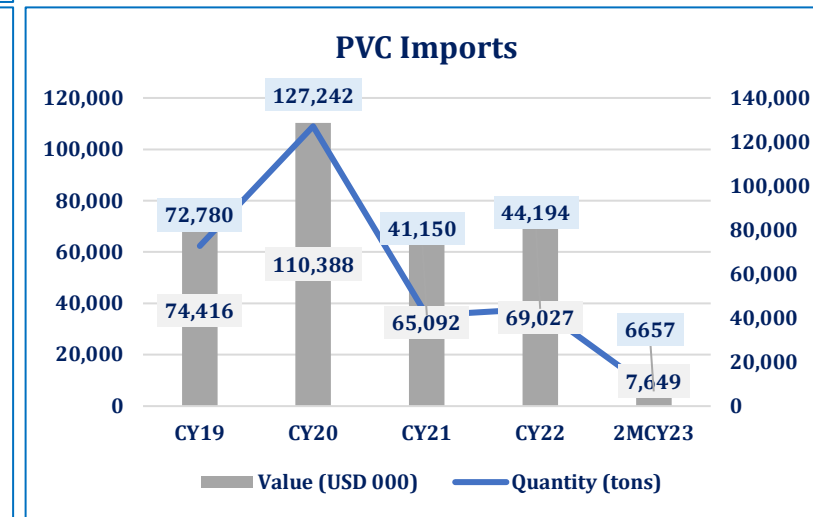
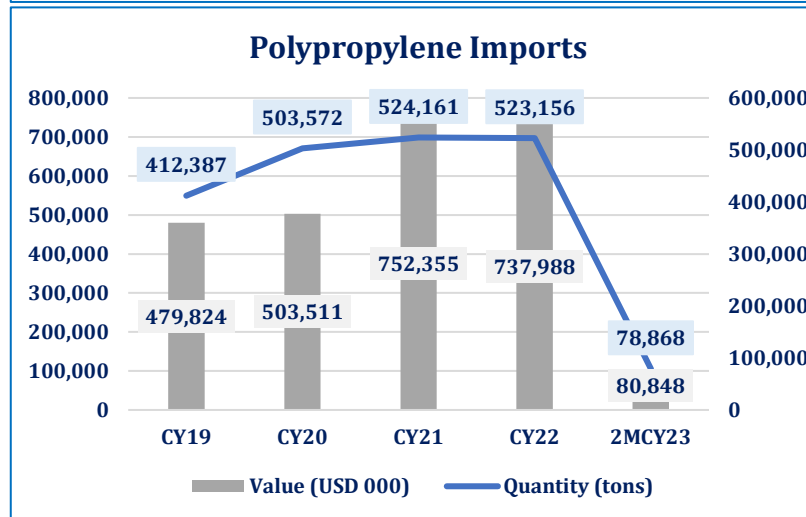
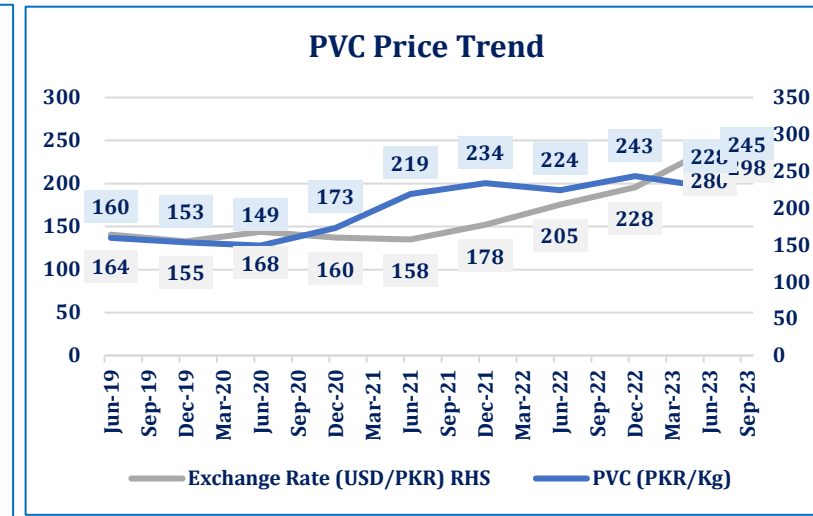
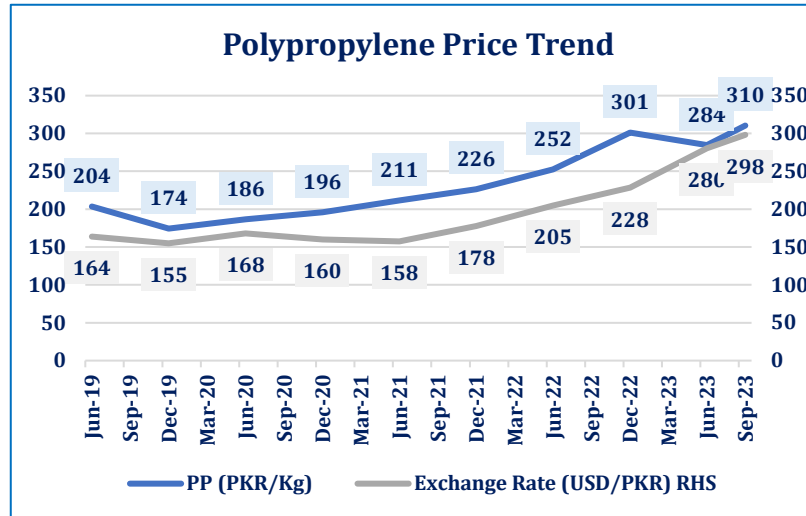


Note: Import Data pertains to the HS codes – (HRC) 7208 & (Aluminum) 7601.

Automotive Parts

Raw Materials

- Another major raw material for the Sector is plastics. There are various types of plastics that offer different qualities suitable for auto parts such as durability and heat resistance. The use of plastics reduces overall vehicle weight which improves fuel efficiency.
- Polyvinyl Chloride (PVC) and Polypropylene (PP) are two commonly used plastics. They can be found in bumpers, cable insulation, instrument panels and door parts.
- Between FY18-23, there was a significant uptick of ~68% in the prices of Polypropylene (PP). In terms of quantity, PP imports remained consistently stable from CY20-23. However, in USD valuation, there was a slight increase, likely influenced by the depreciation of the PKR during this period.
- In 8MCY23, aggregate imports of PP sustained a steady trend, registering at USD~418mln, in contrast to the preceding figure of USD~738mln recorded in CY22.
- Over the five-year period (FY18-23), there was a notable surge of ~82% in PVC prices. In terms of quantity, PVC experienced fluctuations starting from CY20. In CY21, there was a significant decline of ~68% in imports. However, in CY22, the situation improved with a modest growth of ~7%.

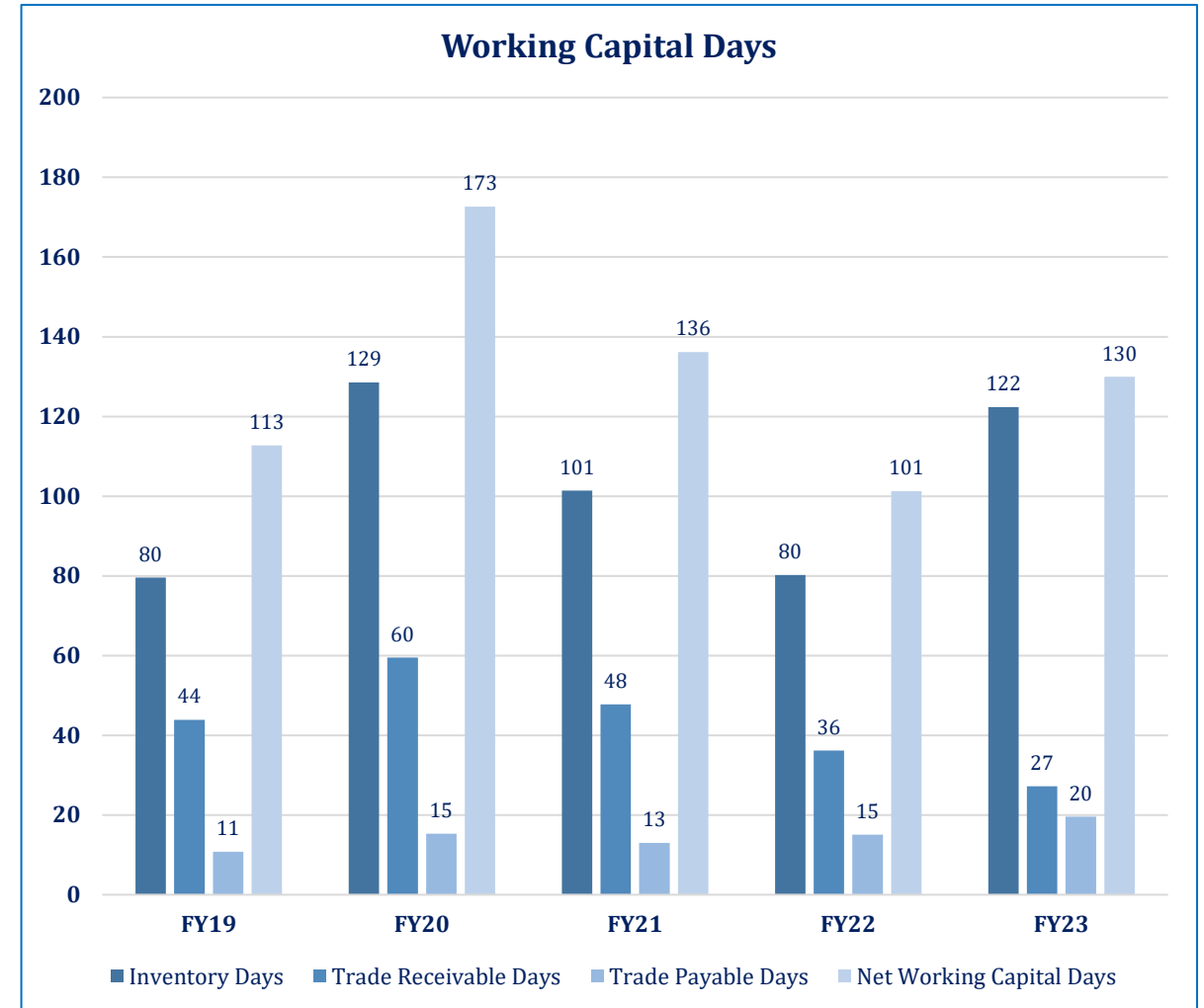


Note: Import Data pertains to the HS codes - (PP) 390210 & (PVC) 3904

Automotive Parts

Financial Risk | Working Capital Management

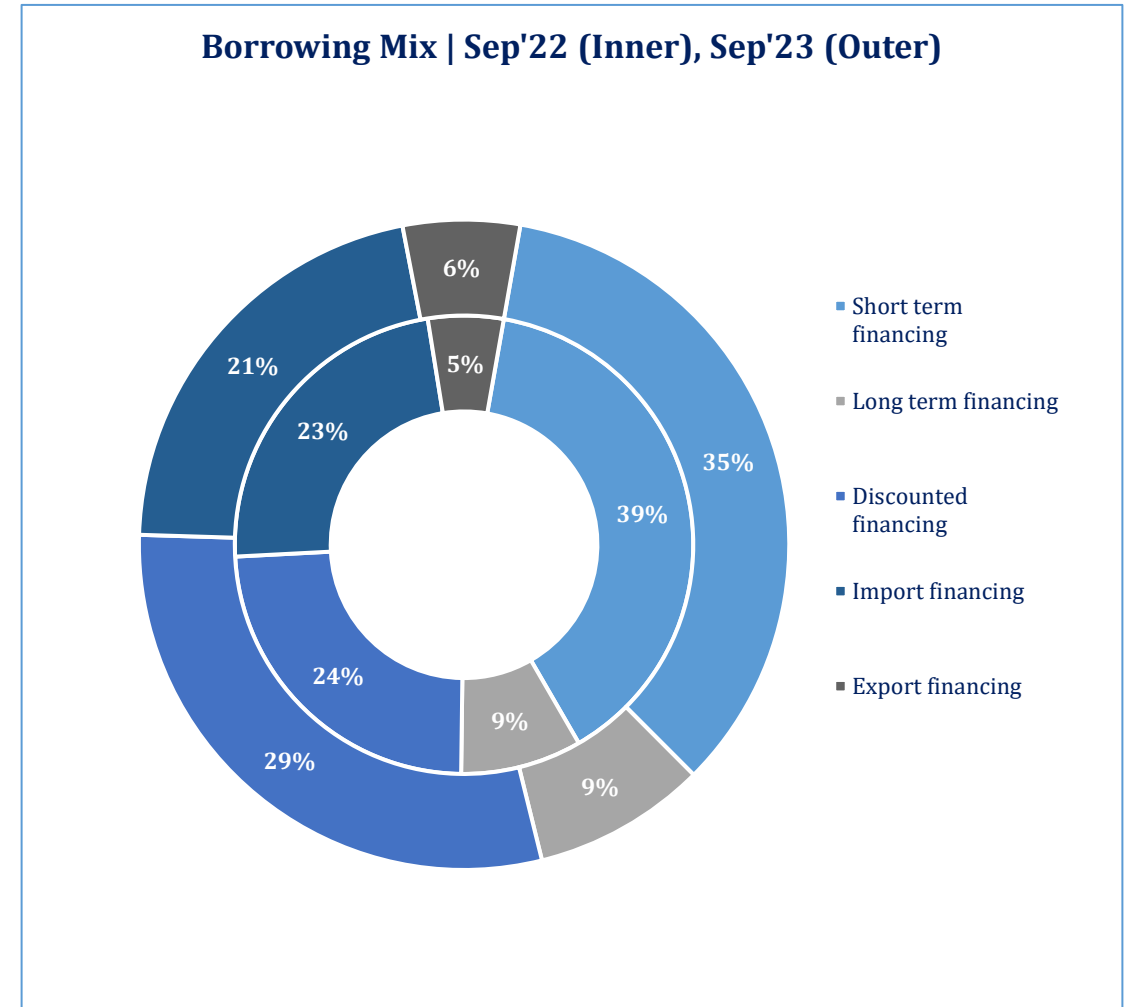
- The Sector’s working capital cycle is generally a function of inventory and trade receivables.
- Due to rising inventory days, payable days and declining receivable days, net working capital days declined slightly to ~130 days in FY23 from ~136 days at End-FY22. High inventory days during FY23 reflected lower demand emanating from the Automotive industry.
- In FY23, there was a sector-wide increase in finance costs, rising by ~67%. Consequently, trade payables extended from ~15 days in FY20 to ~20 days in FY23, reflecting Sector players’ lower repayment capacity.
- Working capital is partially financed through short-term borrowing which is the largest component of the Sector’s total borrowing (~35% of total borrowings). Sector’s overall short-term borrowing went up ~3.3% YoY as at End-Jun’23, reflecting the Sector’s greater need to finance working capital.



Automotive Parts

Financial Risk | Borrowing Mix

- Overall, the Automotive Parts Sector has historically (FY20-22) remained moderately leveraged maintaining average leverage of ~18.4%. During FY23, leverage increased to ~23.1% (FY22: ~20.7%), reflecting greater borrowings during the period.
- Total borrowings of the industry stood at PKR~34,379mln as at End-Sep'23 as compared to PKR~37,751mln in Sep'22, a decline of ~8.9% YoY.
- Short-term borrowings constitute the majority of total borrowings and stood at PKR~14,675mln as at End-Sep'23, comprising ~35% (SPLY: ~39%) of the Sector's total borrowings.
- Another major component of the borrowing mix is Discounted financing which stood at PKR~10,086mln, making up ~29% of total borrowing as of Sep'23 (SPLY: ~24%). This is followed by Import Financing which stood at PKR~7,383mln as of End-Sep'23 and comprised ~21% of Sector's total borrowings (SPLY: ~23%).



Automotive Parts

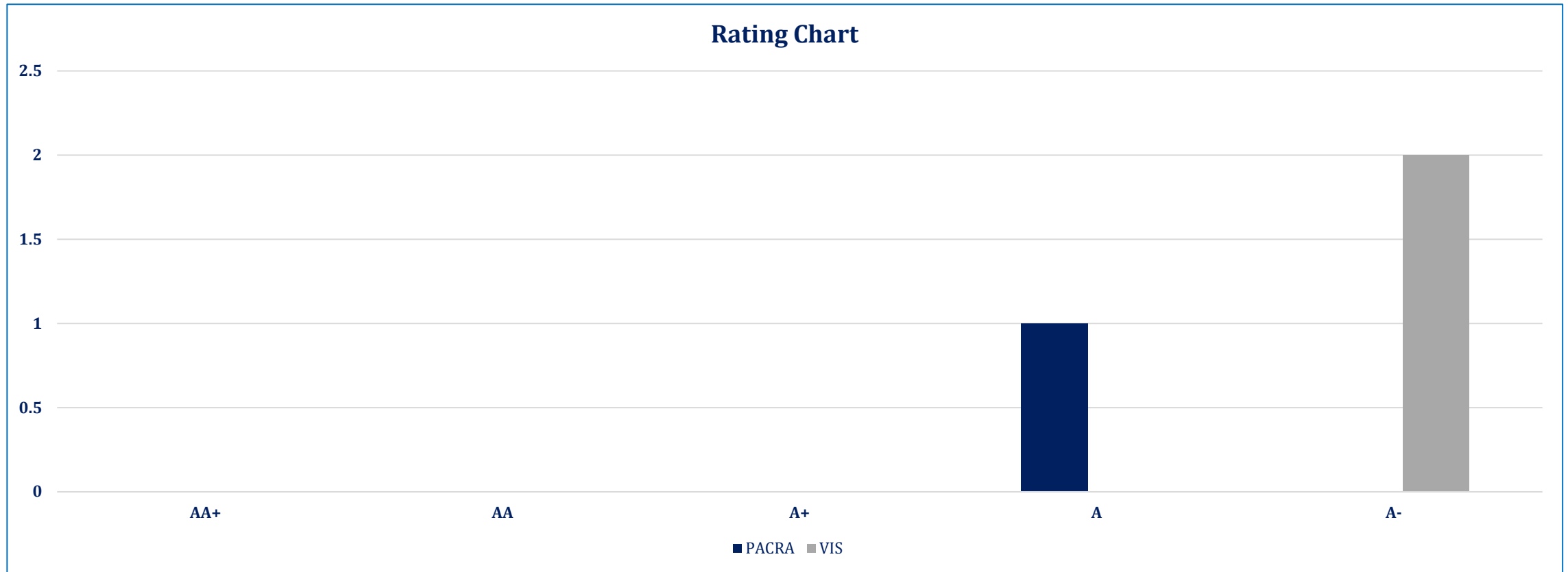
Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
Raw Materials									
76.01	Unwrought Aluminum	2%	2%	0%	0%	10%	10%	12%	12%
76.04	Aluminum bars, rods and profiles	2%-7%	2%-6%	3%-20%	3%-20%	0%	0%	5%-27%	5%-26%
76.06	Aluminum plates, sheets and strips	2%	2%	0%-11%	0%-11%	0%	0%	2%-11%	2%-11%
72.08	Flat- rolled products of iron or non- alloy steel, of a width of 600 mm or more, hot- rolled, not clad, plated or coated. (HRC)	2%-7%	2%	11%-20%	0%	12.5%	5%	25%-40%	7%
39.04	Polymers of vinyl chloride or of other halogenated olefins, in primary forms. (PVC)	2%-7%	2%-6%	11%-20%	3%-20%	0%	0%	13%-27%	5%-26%
3902.1	Polypropylene	2%	2%	11%	3%	0%	0%	13%	5%
Finished Goods									
87.08	Parts & Accessories for Motor Vehicles	7%	7%-11%	35%	35%	0%	0%	42%	7%-46%

Automotive Parts

Rating Curve

PACRA rates 1 player from Automotive Parts Industry with a long-term rating bandwidth to A.



Automotive Parts

SWOT

- Diversified product mix.
- Availability of low cost labor.
- Strong industry association (PAAPAM) resulting in high lobbying power.

Strengths

Weaknesses

- Low localization resulting in higher import bills
- Decline in per capita income and thus reduced purchasing power of end consumers. This negatively impacts both OEM and Replacement markets.
- Supply chain issues such as raw material and cargo container shortages.

- Increase in exchange rate and volatility of imported raw material prices.
- Availability of high quality imports which reduce opportunity for localization in OEM market.
- Uncertainty in the industry following economic slowdown in FY23.

Threats

Opportunities

- Entrance of new auto players provides opportunity for local auto parts players to increase their market shares.
- Potential for technological collaborations with OEMs to improve quality of products and introduce latest technology.
- Unutilized potential and untapped markets in the Automobile sector.

Automotive Parts

Outlook: Negative

- Demand for Automotive Parts is driven by automotive sales. The main variables to consider when assessing the Sector's performance include inflation, interest rates, and exchange rate fluctuations. With GDP growth slowing down to ~0.29% during FY23 (SPLY: ~6.0% growth), factors like soaring prices and high inflation dampened demand for Automotive vehicles during the year. Inflation grew ~29.4% YoY during FY23, which eroded consumers' purchasing power vis-à-vis lower disposable incomes. Inflation during Sep'23 was recorded at ~31.4%, a ~26% YoY increase. Total number of vehicles sold across all segments in FY23 was recorded at ~1.4mln units, ~38% lower YoY, where ~2.2mln units were sold. More recently, the total number of vehicles sold in 3MFY24 reached ~302,610 units, of which ~89% comprised 2/3 wheelers. Moreover, the PKR depreciated by ~37% YoY during FY23, which resulted in more expensive imports for the Sector.
- With respect to supply-side dynamics, due to restrictions imposed by SBP on the import of Completely Knocked Down (CKD) kits, the Automotive industry witnessed a significant decline. Production of passenger cars declined by ~55% YoY, whereas tractors produced declined by ~46% YoY. Meanwhile, production of truck and buses went down ~40% YoY, whereas 2/3 wheelers produced registered a decline of ~35% YoY. This decrease highlights the substantial reductions in production and sales across various segments of the Automotive industry in FY23.
- In FY23, average gross margins clocked in at ~14.3%, reflecting steady momentum in sales growth. Average operating margins dipped by ~1.9% YoY, owing to high raw material costs and overall inflationary pressures. Average net margins followed suit and witnessed a decline of ~1.8% YoY during FY23. This can be attributed to increasing finance costs which increased by ~67% as compared to previous year and can further be explained by policy rate hike of ~15% during FY23, to stand at 22% as of End-Jun'23. With raw material sourced majorly through imports, the Sector remains exposed to exchange rate volatility, given especially that ~80% of the total cost of production comprises cost of raw material. However, during 3MFY24, the PKR has registered recovery since End-Jun'23, appreciating ~2.4%.
- Going forward, margins are expected to stabilize in the presence of favorable monetary policy (policy rate has been maintained at 22% for 4MFY24) as well as lifting of import restrictions by the SBP in Jun'23. The elimination of the fixed tax structure on Asian-manufactured vehicles exceeding 1,300cc is expected to stimulate local Automotive demand, though the impact may be modest. Additionally, the reduction in customs duty on specific Completely Knocked Down (CKD) components for Heavy Commercial Vehicles (HCV) from 10% to 5% is seen as a favorable development. However, a 10% super tax applicable on the Automotive industry might continue posing a challenge for the Sector. Further, localization levels in the Automotive industry achieved thus far remain low, therefore exchange rate volatility remains a risk for the Sector. With inflation levels still recording in double digits, demand for Automotive Parts is likely to remain muted.

Automotive Parts

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