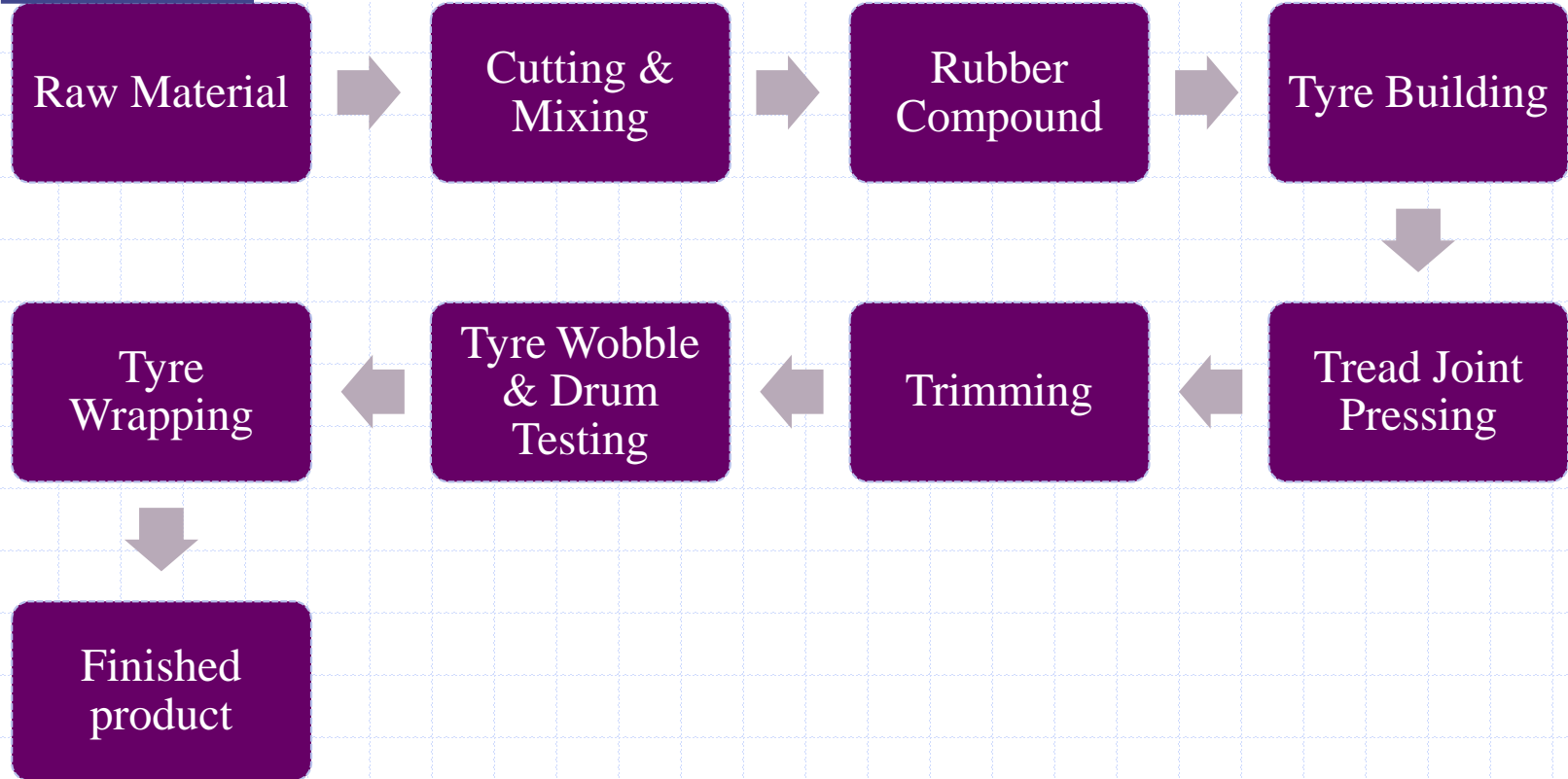


TYRE SECTOR OVERVIEW

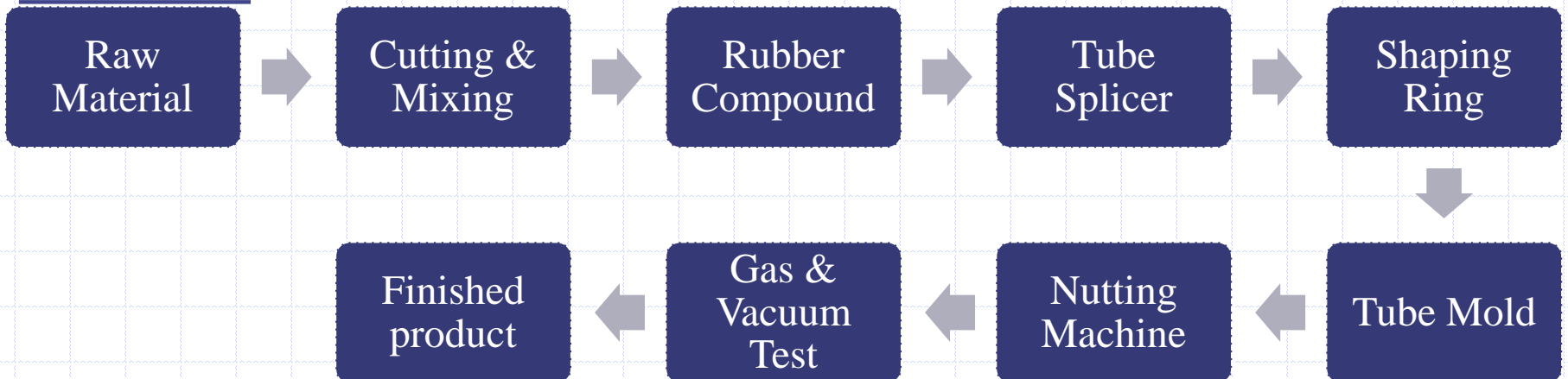
November 2017

TYRE & TUBE | MANUFACTURING PROCESS

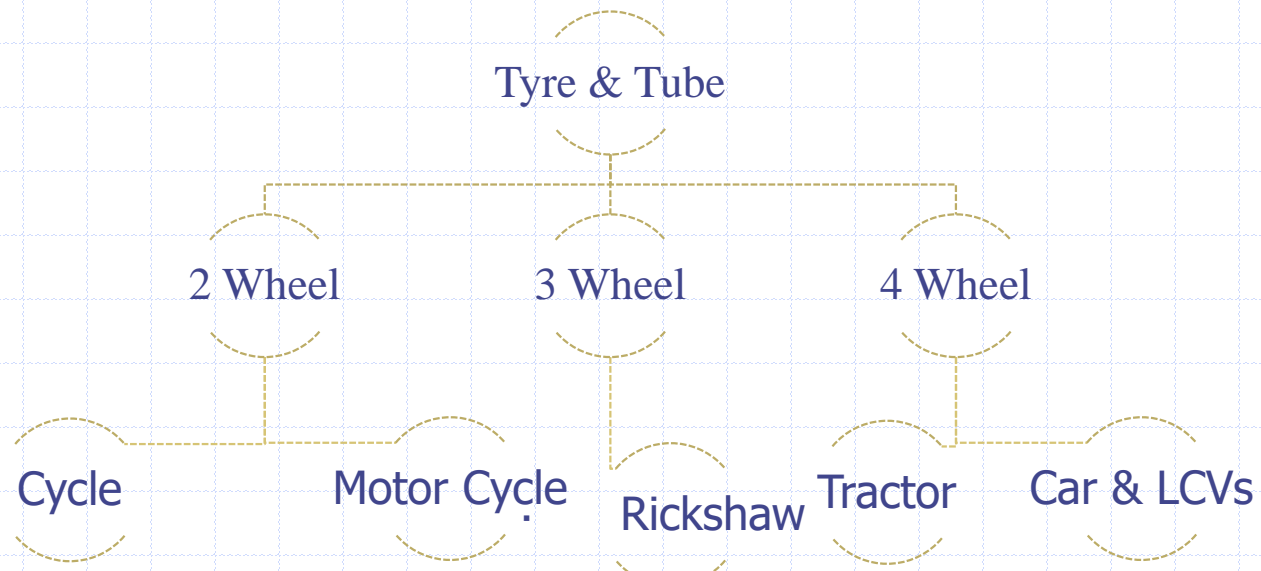
Tyre Process



Tube Process



INDUSTRY FRAGMENTATION

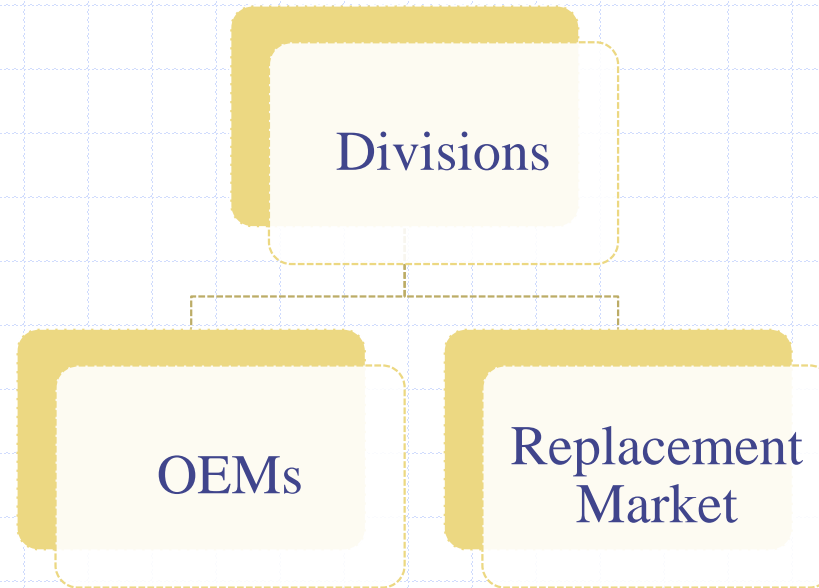


- In 2 wheel segment, motor cycle industry dominates the revenue
- Replacement market business is high

- The 3 wheel segment comprises rickshaws
- Revenues from this segment are low as compared to 2 wheel

- Tractor industry contributes the majority of the revenue from this segment
- Passenger Car tyre is popular among OEMs

INDUSTRY FRAGMENTATION



- The Original Equipment Manufacturer (OEMs) are local assemblers of bikes, cars and tractors. Revenue from this division is dependent upon growth of respective OEMs.
- Replacement Market is the secondary market for tyre manufacturers. The replacement market comprises of distributors, wholesalers and retailers.
- In Pakistan, approximately 70% of the revenue is driven from replacement market.

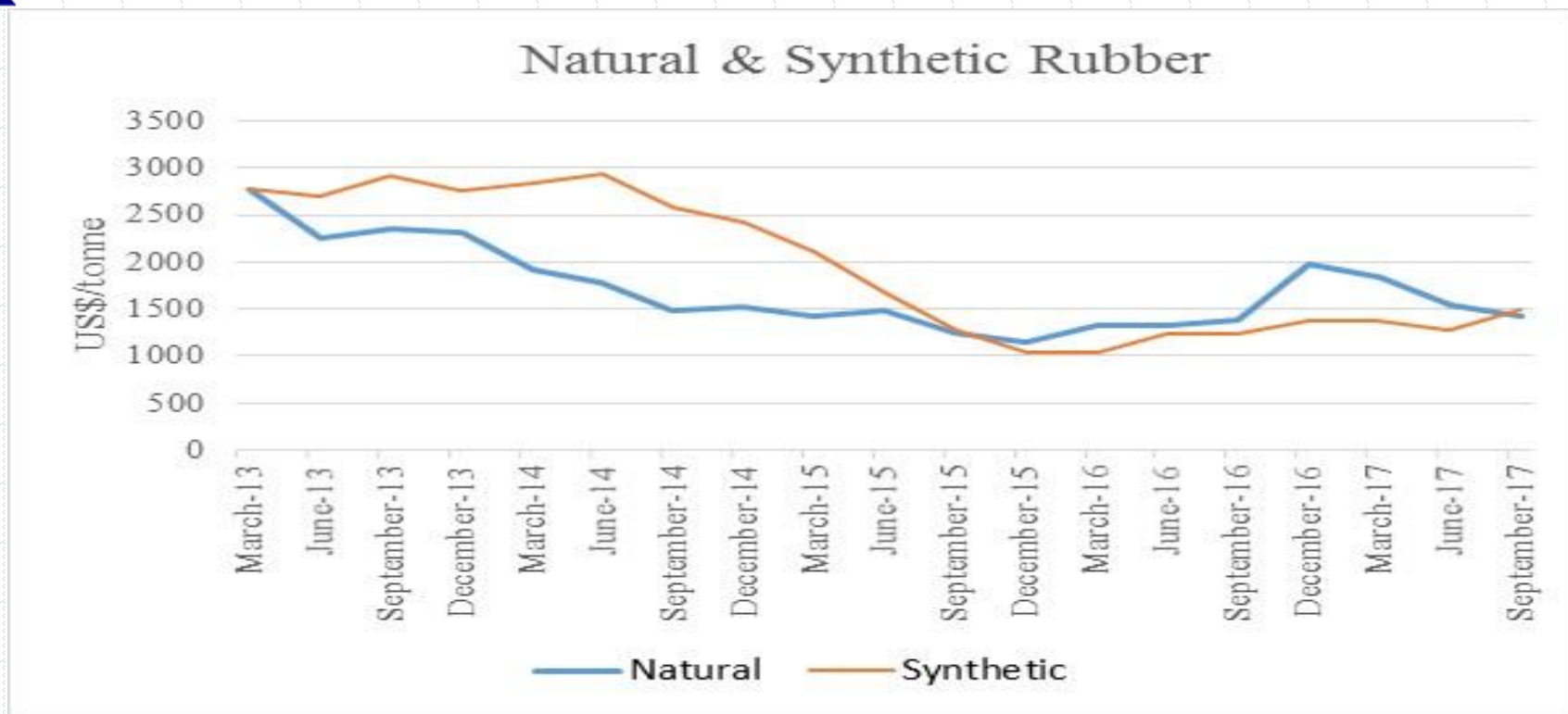
INDUSTRY SNAPSHOT

- The global tyre industry supplied ~2bln units of tyre in 2016. The industry is projected to grow at 4.1% per annum till 2019. Revenues are expected to reach ~\$258bln demonstrating 7% growth per annum.
- Due to improvement in tyre quality over recent decade with advancement in technology, the replacement market is expected to remain under pressure.
- However, growth will primarily be driven by OEMs on the back of higher auto sales emanating from Asia-Pacific region. Global auto sales is expected to reach 77.8mln units by end 2017.
- 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 with the likes of Bridgestone, GoodYear, Michelin, Yokohama, Continental and Pirelli. However, in recent times the flagships are experiencing tough competition from Chinese manufacturers.

INDUSTRY SNAPSHOT

- According to an estimate, the domestic tyre industry is valued at PKR 120bln.
- Domestic manufacturers account for 30% of the market while the remaining 70% is bridged through imports.
- 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, wherein, smuggled tyres have captured the majority of the market imported via Afghanistan and China.
- There are six renowned domestic players. According to market share based on revenue these are 1) General Tyres (PKR 9.5bln), 2) Servis Tyres (PKR 9.2bln), 3) Panther Tyres (PKR 7.2bln), 4) Diamond Tyres (PKR 2.5bln), 5) Ghauri Tyres (PKR 1bln) and 6) Crown Lefan (PKR 0.4bln).
- Top three domestic players also export the finished product to Middle East, Europe and Africa.
- Total Installed Capacity of tyre and tube industry stands at ~28mln and ~70mln respectively.
- Majority of the capacity is for 2 and 3 wheel tyres and tubes whereas, only General Tyres is manufacturing radial tyres for passenger cars. Local players are catering to entire tractor tyres demand.
- Raw material used by domestic players is imported which includes natural rubber, synthetic rubber and butyle. These are imported from Malaysia, Indonesia and Thailand.

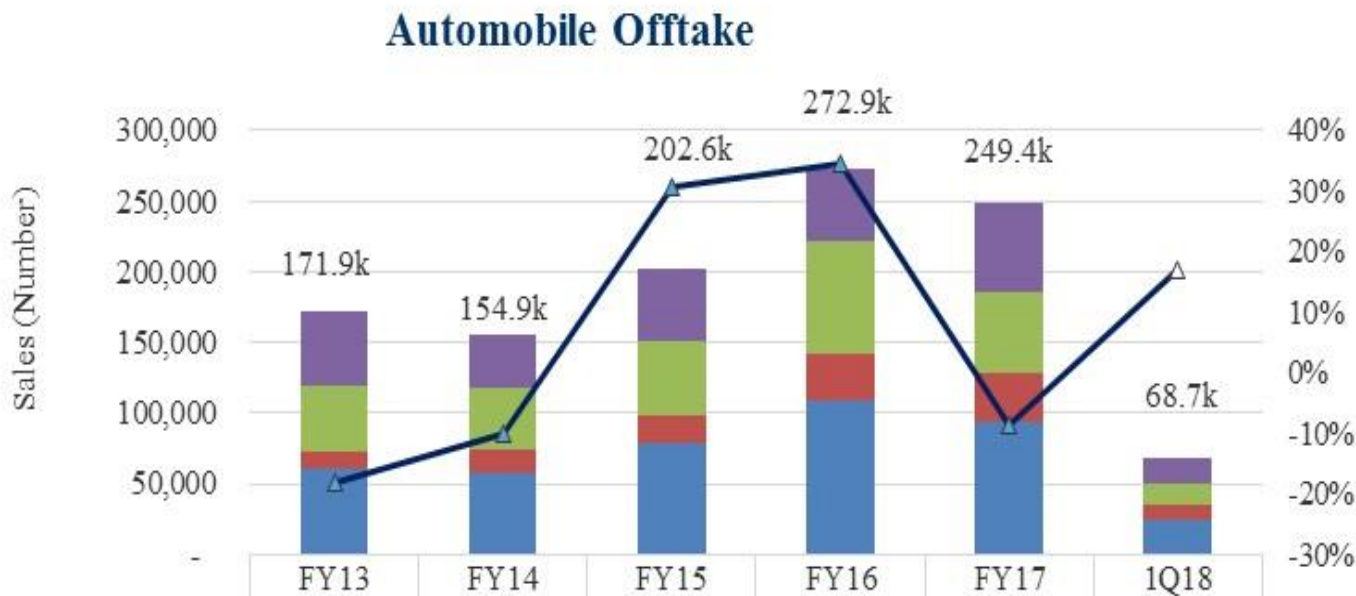
Raw Material | Price Trend



**Synthetic price is derived from movement in crude oil price*

- Natural Rubber is traded on Malaysian Rubber Exchange
- Prices are volatile throughout the year due to seasonality effect
- The price of natural rubber is on decline since start of CY17 leading to strategic buying by Pakistani tyre manufacturers
- Synthetic rubber is another source of raw material
- 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

Automobile Offtake | Trend

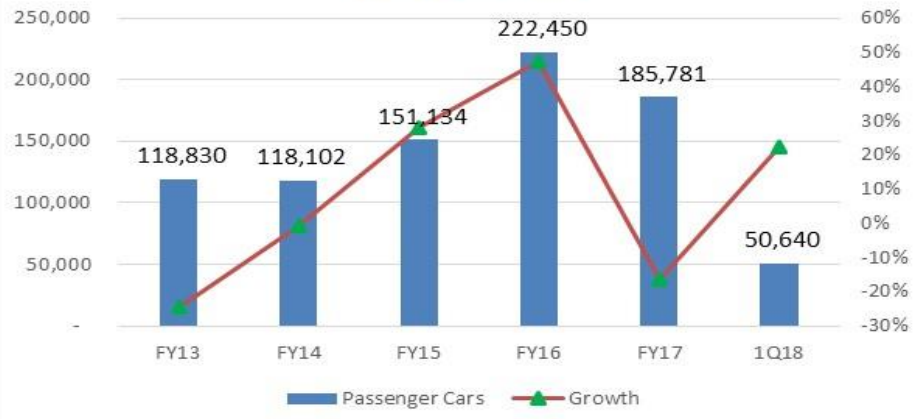


Trucks, buses and tractors	53,051	36,824	51,480	50,465	63,621	18,156
800cc Cars and below	45,419	43,597	53,468	80,596	57,178	15,327
1000cc Cars	13,308	16,455	19,133	32,873	34,678	10,970
1300cc Cars and above	60,103	58,050	78,533	108,981	93,925	24,343
Growth	-18%	-10%	31%	35%	-9%	17%

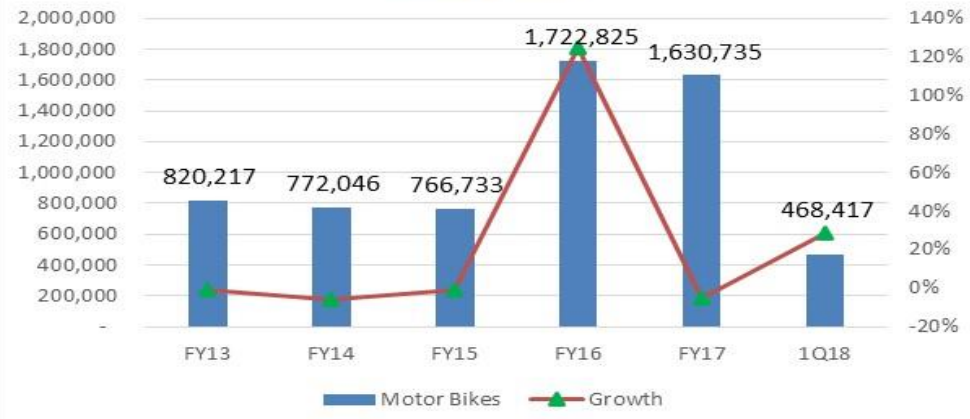


Auto Sector | Trend Analysis

Passenger Cars



Motor Bikes



- Passenger Cars have continued to be on growth trajectory over the past two years (excluding CAB schemes), primarily on the back of higher credit offtake. The strong trend continued during 1QFY18.
- Introduction of new OEMs is likely to result in increased competition translating into further growth as pricing will be improved.

- Motor bikes have demonstrated tremendous growth during FY16 and FY17. Local players have expanded their production capacities to cater to rising demand. Similarly tyre manufacturers have also expanded capacities for 2W segment.

LCVs



Tractor



- Growth in LCVs has stagnated however it is likely to pick up due to increased activity driven by CPEC projects.

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

Tyre | Peer Comparison

	General		Servis		Panther	
Segments	4W (Car, Tractor & LCVs)		2W & 3W(Bicycle, Motor Cycle & Rickshaw)		2W, 3W & 4W (Bicycle, Motor Cycle, Rickshaw and Tractor)	
Products	Tyres only		Tyres & Tubes		Tyres & Tubes	
Financial Indicators	FY17	FY16	CY16	CY15	FY17	FY16
Revenue (PKR mln)	9.5	9.5	9.3	8.2	7.2	5.6
GP Margin (%)	24%	20%	20%	17%	14%	14%
Net Income (PKR mln)	1,032	733	610	444	294	224
Installed Capacity (units in mln)	3.2	3.1	Tyre: 14 Tube: 36.3	Tyre: 12.9 Tube: 30.2	Tyre: 7.9 Tube: 26	Tyre: 6.2 Tube: 19.7
Capacity Utilization (%)	73.2%	73.4%	Tyre: 75.7% Tube: 94.7%	Tyre: 70.5% Tube: 89.4%	Tyre: 70.5% Tube: 89.4%	Tyre: 70.5% Tube: 89.4%

- General Tyres is the only manufacturer producing PCRs (Passenger Car Radials) in Pakistan.
- Tractor segment contributes massively to the top line even with limited production due to concentrated demand. The segment has the highest GP margin.
- Top 3 players are in expansion phase.
- GP margin improved during 2016 due to a slump in raw material prices resulting in strategic buying by players.

Tyre Industry | Opportunities & Risks

Opportunities

- Higher consumer financing will continue to drive growth in auto sector.
- Improvement in infrastructure will drive growth in light commercial vehicles 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.

Risks

- Smuggled tyres continue to pose threat to local industry.
- Surge in synthetic rubber prices on the back of crude oil.

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