SECTOR STUDY . OCTOBER 2024

Together. Creating Value.

TYRES

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Tyres

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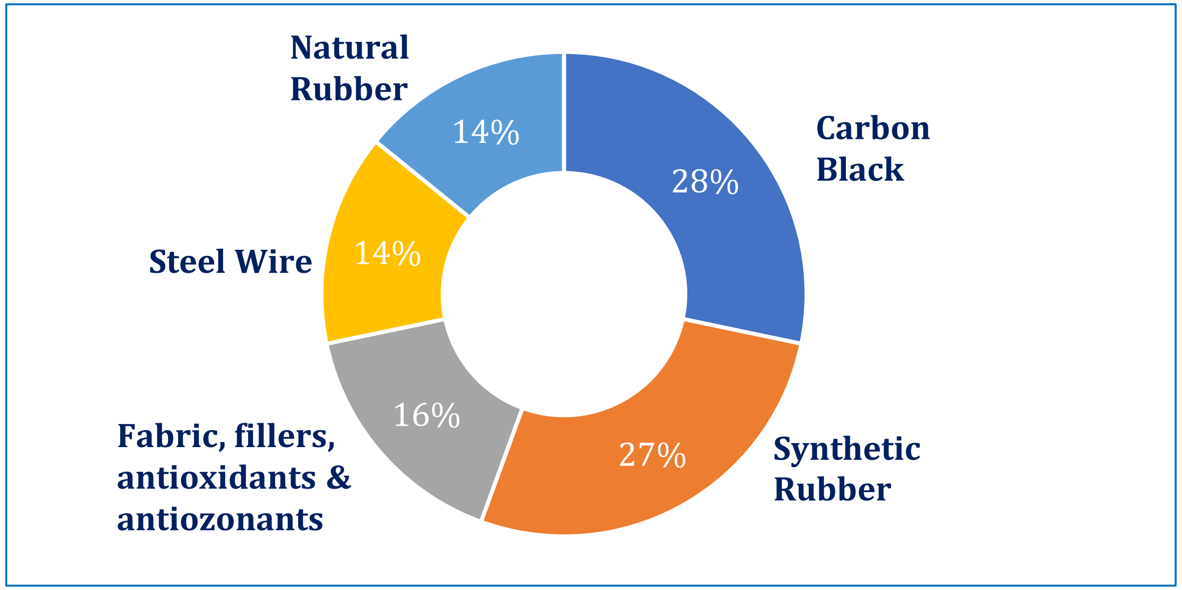
Tyres

Introduction | Composition of Tyres

- Tyres comprise various components, primarily Carbon Black, Natural Rubber, Synthetic Rubber, Steel Wire, Fabric Fillers, and Antioxidants.
- Among the components, Carbon Black has a significantly higher proportion ~28.0%, followed by rubber which includes Synthetic Rubber (~27.0%) and Natural Rubber (~14.0%).
- Steel Wire and different fabrics, fillers, antioxidants, and antiozonants comprise ~14.0% and ~16.0% respectively.
- These components are essential for the tyre's stability, durability, resilience, and flexibility.



Tyres

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Introduction | Market Segments

By Design
- Radial Tyres
- Bias Tyres

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

By Demand
- Original Equipment Manufacturers (OEM)
- Replacement Market

By Vehicle Type
- Passenger Cars
- Light Commercial
- Medium & Heavy Commercial
- Two & Three Wheelers

Source: Expert Market Research

Tyres

Global | Overview

- The global tyres sector revenue was recorded at USD~226.9bln in CY23 (CY22: USD ~219.0bln), up ~3.6%. The revenue is expected to grow to USD~239.9bln in CY24. Moreover, global tyre sales are expected to reach USD~339.3bln by CY30 at a CAGR of ~5.9%.

- In volumetric terms, the global tyres sector sales rose to ~2,388mln in CY23. By CY32, volumetric sales are projected to increase to ~3,012mln tyres at a CAGR of ~2.6%.

- The growth of the tyres sector is driven by advancements in technology, stricter environmental regulations promoting eco-friendly tyre manufacturing, and economic development in emerging economies, which has resulted in higher vehicle ownership and increased demand for tyres.

- The Asia-Pacific region leads the global tyres sector exports. China alone accounts for ~24.0% of the total market export share which is driven by its expansive automobile sector. Japan contributes through its advanced technological innovations, while India's rapid growth further strengthens the region's dominance.

- In the USA and Canada, the mature tyres sector sees steady demand for replacement tyres, with a growing focus on green technologies and specialized designs for electric and hybrid vehicles. In Africa, the focus is on the affordability and durability of tyres.

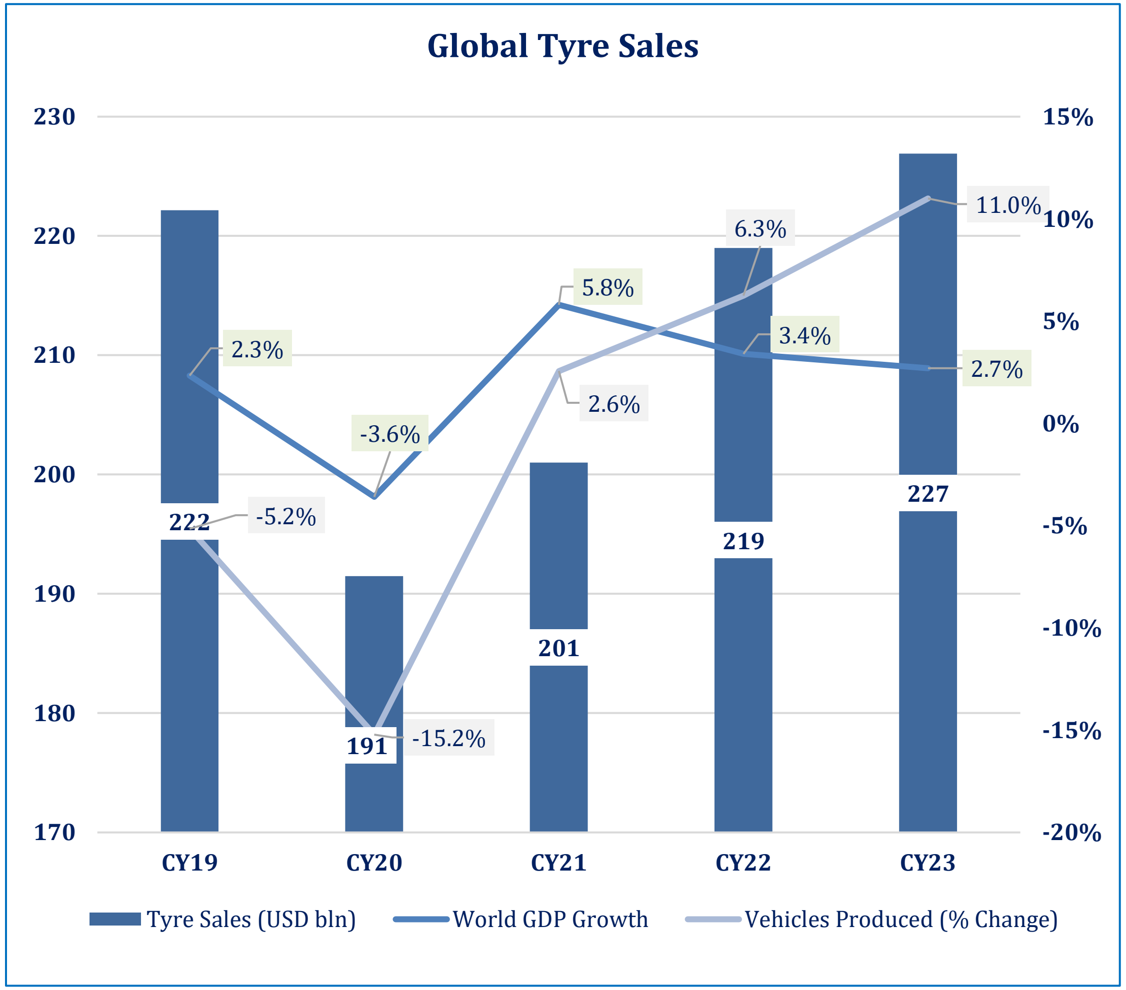
- Global tyres sector sales are predominantly controlled by four major players: Michelin Group, Bridgestone Corporation, Goodyear Tire & Rubber Company, and Continental AG. In CY23, these companies had a collective market share of ~60.0% in terms of revenue.

Source: Research and Markets

Tyres

Global | Automobiles & Tyre Correlation

- The global tyres sector derives its demand from the global automobile sector. An increase of ~11.0% (YoY) was witnessed in the global production of motor vehicles during CY23 (CY22: ~6.3% YoY).
- During CY23, global tyres sales were recorded at USD~227bln, exhibiting an increase of ~3.7% YoY (CY22: USD~219bln). This increase in sales was mainly due to the economic development in emerging countries leading to an increase in vehicle ownership and tyre demand.
- Additionally, advancements in sustainable tyres, the emergence of green tyre technology and the growing adoption of electric vehicles (EVs) are expected to further drive growth in the tyres sector. By CY30, EVs are projected to account for ~15-30% of total vehicle sales.
- Global economic growth remained steady at ~3.0% for CY23, and is forecasted to rise to ~3.2% in CY24, while global inflation is expected to ease from ~6.8% in CY23 to ~5.9% during this same period.
- China held ~24.0% of global tyre exports during CY23 while the USA accounted for ~22.0% of the global imports.



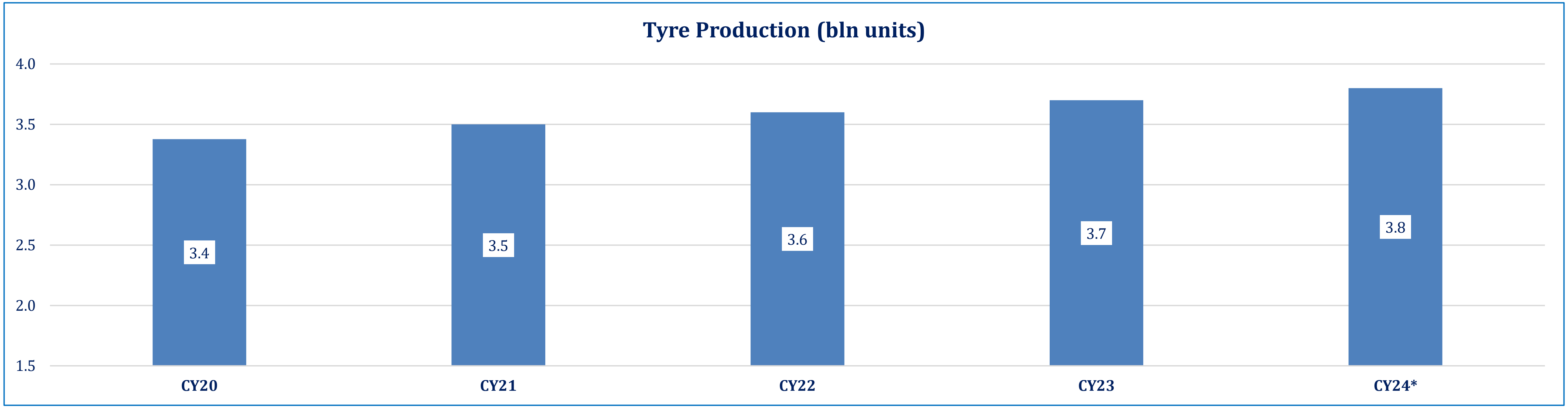
**Latest available data.*

Source: World Bank, IMF, Bridgestone, expert market research

Tyres

Global | Production

- In CY24, global production of tyres is expected to reach ~3.8bln units (CY23: ~3.7bln units), exhibiting a CAGR of ~4% during a 5-year period (CY20-24).
- The Asia-Pacific region holds the largest share of global tyre production, with Japan and China playing key roles. India, as the third-largest producer and fourth-largest consumer of rubber, offers a significant growth potential in tyre manufacturing, particularly in the commercial and two-wheeler segments.
- The automobile sector of the USA and Canada has a steady demand for replacement tyres. In the Middle East, consumers have luxury and high-performance vehicle preferences, hence the demand for premium tyres is high. Meanwhile, African regions mostly focus on affordability and the ability to withstand rough terrain.



Note: Tyres production is estimated using CAGR of ~4.0% during 5-year period (CY20-24)
**Projected*

Source: Expert Market Research

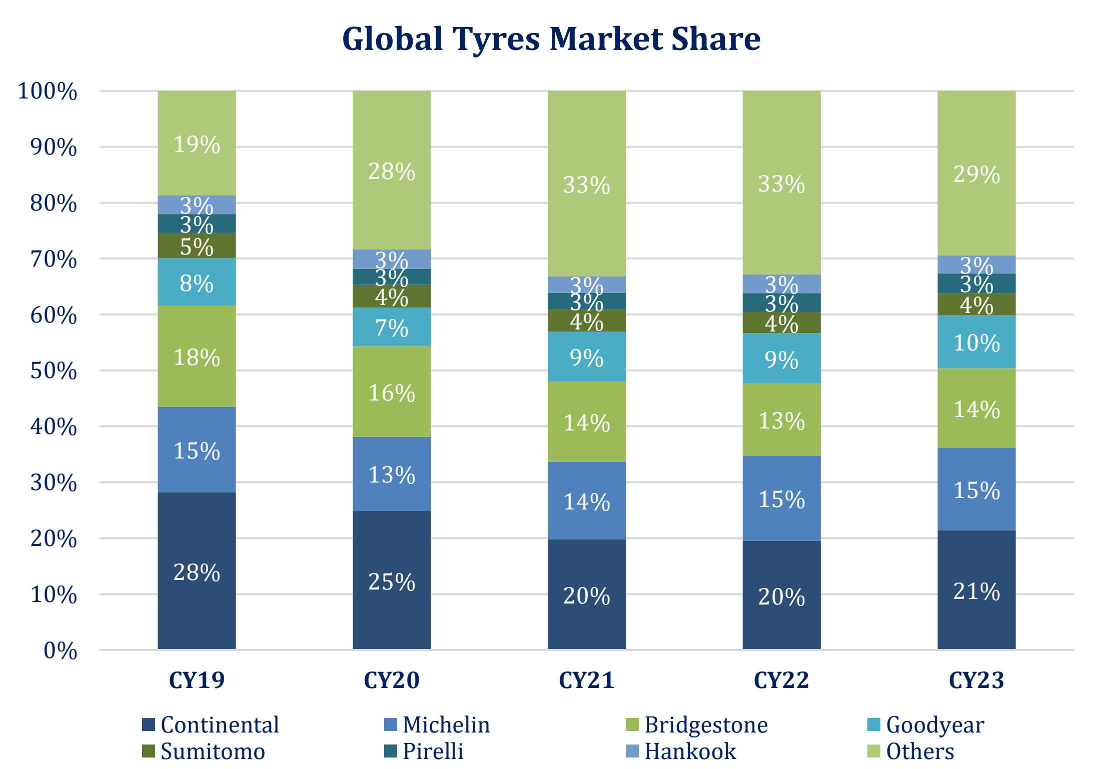
Tyres

Global | Market Share

- In CY23, global tyre sales were primarily dominated by Continental, Michelin, Bridgestone, Goodyear, and Sumitomo, holding market shares of ~21.0%, ~15.0%, ~14.0%, ~10.0%, and ~4.0%, respectively.
- These companies have maintained their market dominance consistently over the past five years (CY19-CY23), collectively commanding the industry with ~60.0% of the total global market share in CY23.

Global Tyres Sector by Revenue

S.No	Top 10 players	Countries	CY19	CY20	CY21	CY22	CY23	
			USD (bln)					% share CY23
1	Continental	Germany	50	43	40	41	45	21%
2	Michelin	France	27	23	28	32	31	15%
3	Bridgestone	Japan	32	28	29	27	30	14%
4	Goodyear	USA	15	12	18	19	20	10%
5	Sumitomo	Japan	8	7	8	8	8.4	4%
6	Pirelli	Italy	6	5	6	7	7.3	3%
7	Hankook	South Korea	6	6	6	7	6.9	3%
8	Yokohama	Japan	6	4	6	6	6.9	3%
9	ZC Rubber	China	4	4	5	5	4.9	2%
10	Toyo Tyres	Japan	3	3	4	4	3.9	2%
11	Others		20	38	52	54	46.2	22%
Total			**177**	**173**	**202**	**210**	**210.5**	**100%**



**Latest data available*

Source: Bridgestone Data, Tyrepress.com

Tyres

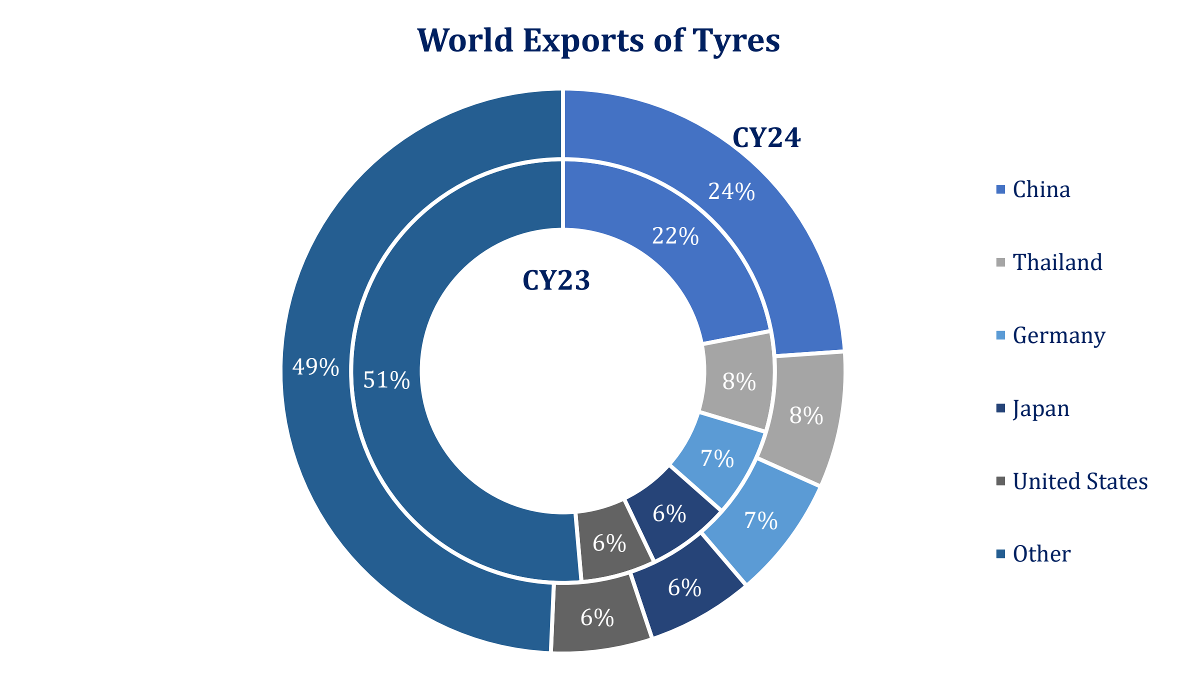
Global | Exports

- During CY23, total global tyre trade reached USD ~89.6bln. China has been dominating the export market over the past five years (CY19-23). China's market share grew from ~22.0% in CY22 to ~23.9% in CY23, with tyre exports valued at USD~21.4bln in CY23, (CY22: USD~18.9bln)

- Thailand ranked second, with exports worth USD ~7.0bln (CY22: USD ~6.6bln), followed by Germany with tyre exports valued at USD~6.3bln, up from USD~5.9bln in CY22.

- Regionally, Asia contributed ~50-55% of the world's total tyre exports in CY23, while Europe accounted for ~38.0% of the global tyre exports.

World Exports (USD bln)	CY19	CY20	CY21	CY22	CY23	% share in CY23
China	14.8	13.3	15.1	18.9	21.4	24%
Thailand	5.6	5.2	6.3	6.6	7.0	8%
Germany	5.7	4.9	5.7	5.9	6.3	7%
Japan	5.2	4.1	5.0	5.5	5.5	6%
United States	5.0	4.0	4.5	4.9	5.2	6%
Others	42.7	38.2	49.6	44.2	44.2	49%
World Total	**79.0**	**69.7**	**86.2**	**86.0**	**89.6**	**100%**



**Latest available data of HS Code 4011.*

Source: UN Comtrade

Tyres

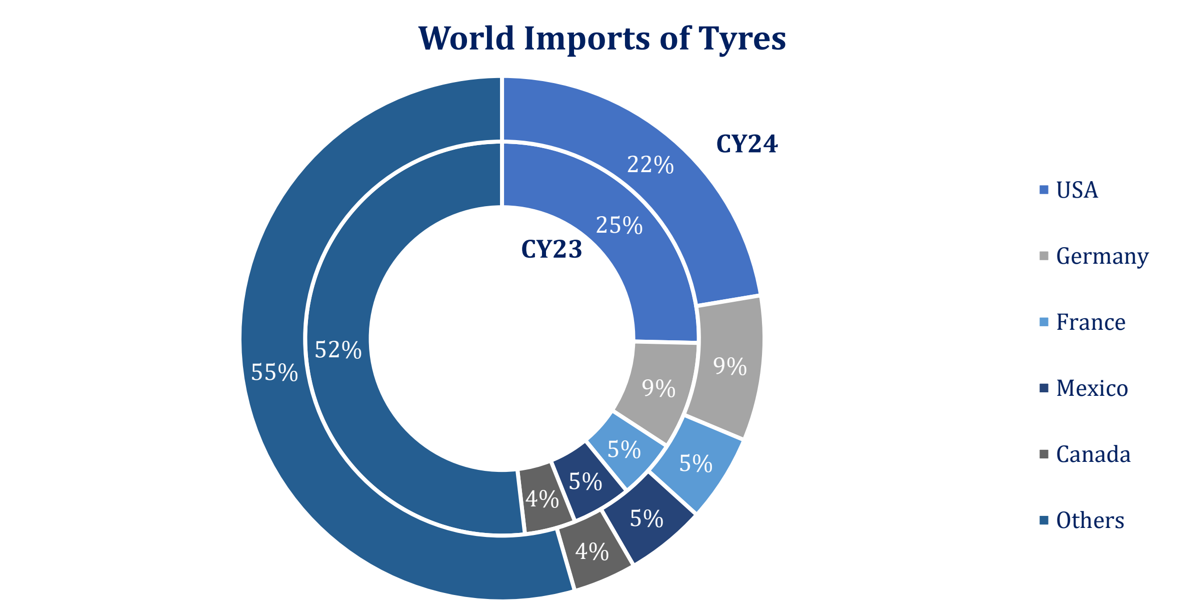
Global | Imports

- In terms of tyre imports, the USA, Germany and France consistently remained the top three global importers for the past five years (CY19-23).

- In CY23, the USA's tyre imports were valued at USD~19.5bln, down from USD~21.8bln in CY22, representing ~22.0% of the global imports. Germany's tyre imports during the same period were valued at USD~7.8bln, accounting for ~9.0% of the global share. Meanwhile, both France and Mexico contributed ~5% each to the total global import share.

- The USA, Germany, and France benefit from strong domestic markets, supported by stable growth in both the automobile sector and replacement tyre demand. Meanwhile, Mexico and Canada are emerging as rising automobile sectors, driving an increase in tyre imports to meet the growing demand in these markets.

World Imports (USD bln)	CY19	CY20	CY21	CY22	CY23	% Share for CY23
USA	15.5	14.1	17.2	21.8	19.5	22%
Germany	6.6	6.0	7.2	7.6	7.8	9%
France	3.6	3.1	4.1	4.2	4.7	5%
Mexico	3.2	2.5	3.4	4.2	4.3	5%
Canada	3.1	2.5	3.2	3.6	3.4	4%
Others	47.0	41.5	51.1	44.6	49.9	54%
World Total	**79.0**	**69.7**	**86.2**	**86.0**	**89.6**	**100%**



**Latest available data of HS Code 4011.*

Source: UN Comtrade

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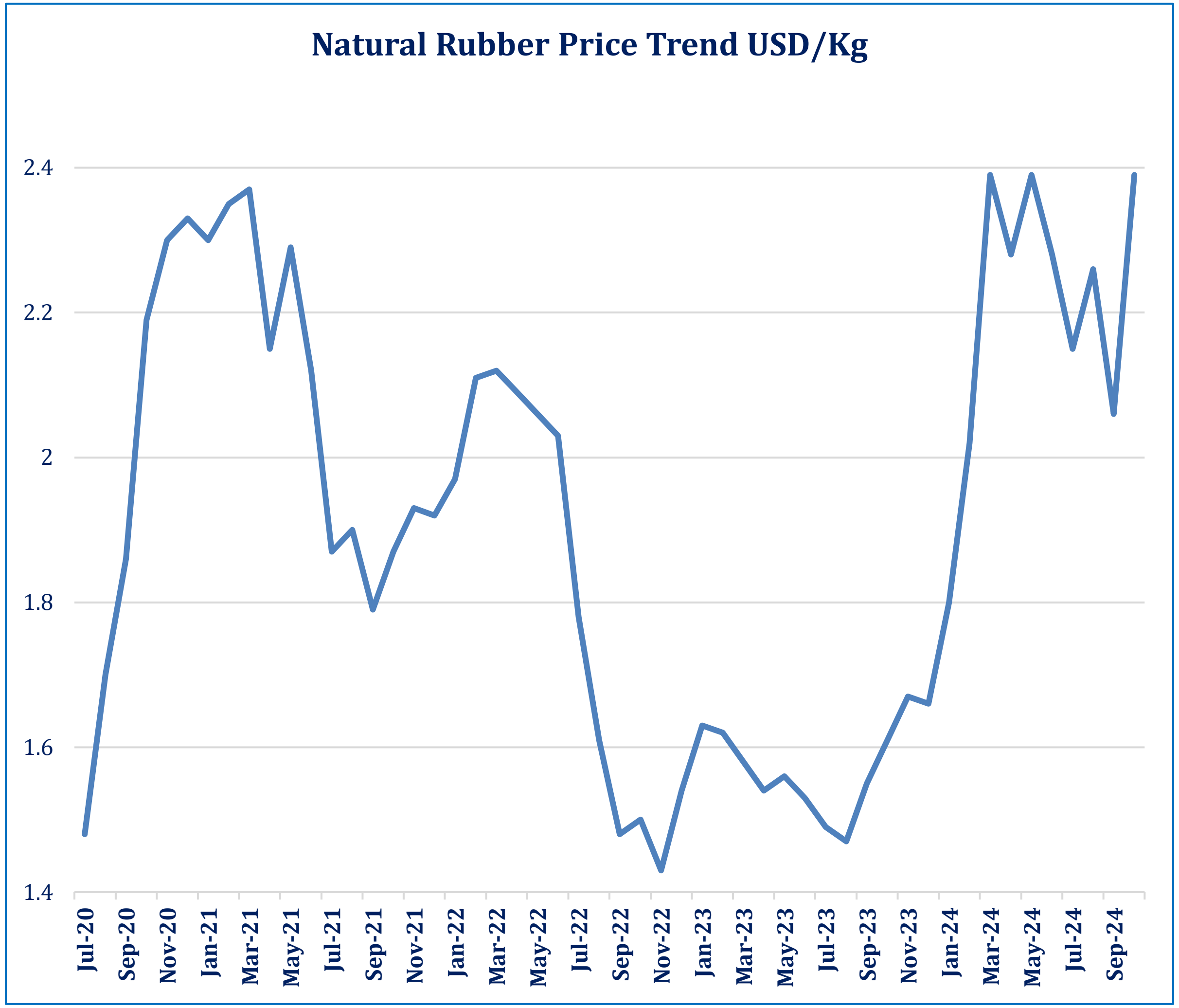
Global | Natural Rubber Price

- Global prices of natural rubber have historically (CY17-23) exhibited high volatility and remain influenced by supply and demand factors.
- In CY23, global rubber demand remained low, driving prices down. Price volatility was due to adverse weather, stable supply, and China's post-pandemic recovery, which focused more on services than commodities.
- Prices of natural rubber exhibited a volatile trend during CY24 and reached USD~2.39/Kg (End-Oct'24).
- China, being the largest exporter of tyres, depends on rubber imports to meet its needs for natural rubber while India is the third largest producer and the fourth largest consumer of rubber.
- The global natural rubber market is expected to grow at a ~3.4% CAGR from CY23 to CY28. Price increases are likely due to rising environmental awareness, as natural rubber is biodegradable and renewable, and higher crude oil prices (USD ~77.5/bbl, End-Oct'24), making synthetic rubber less cost-effective.
- With rising demand and limited supply, natural rubber prices are expected to remain high, significantly impacting the automobile sector, which consumes ~75.0% of the global rubber production.

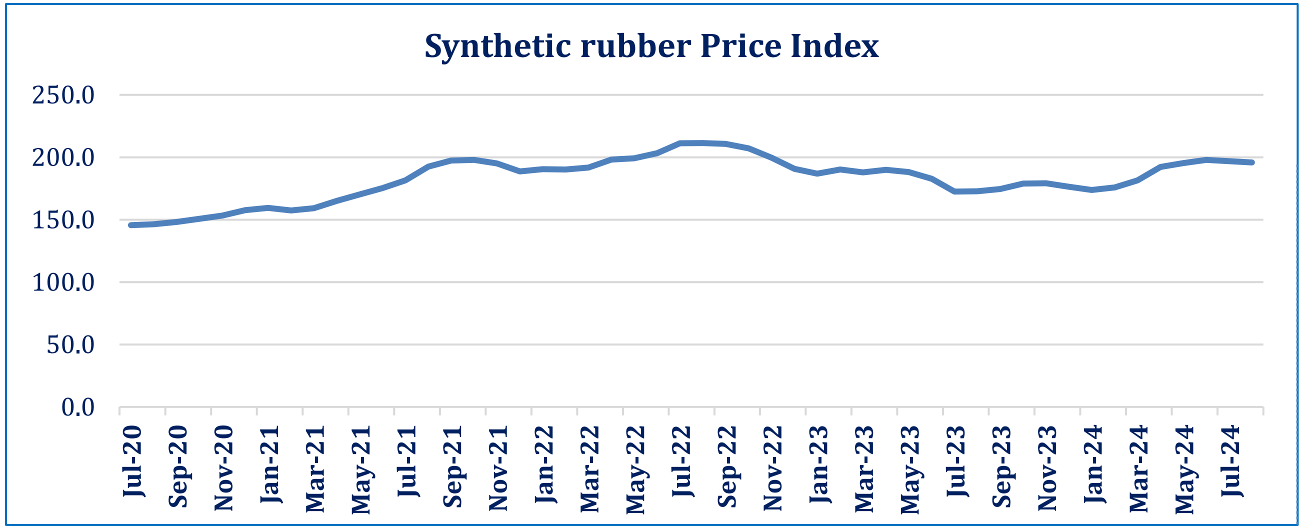


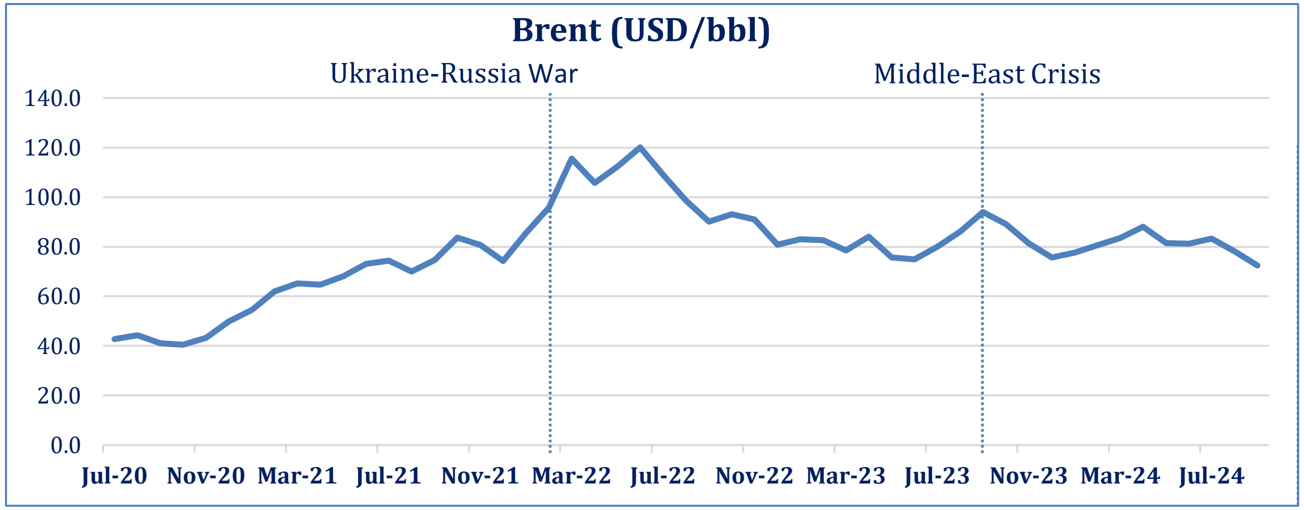
Source: Singapore Commodity Exchange , World Bank

Tyres

Global | Brent Crude Oil Price

- Synthetic rubber which makes up ~27.0% of a tyre's composition, is derived from Brent crude oil, making its pricing highly vulnerable to fluctuations in global oil markets.
- Brent crude prices hit a two-decade low and fell to USD ~16.5/bbl in CY20 due to the global pandemic lockdowns, drastically affecting the supply-demand balance.
- Post-pandemic recovery saw a rebound in trade and travel, pushing crude oil prices on average USD~70.4/bbl. In CY22, the Russia-Ukraine war further pushed Brent oil prices on average to USD~99.8/bbl.
- During CY23, prices started to ease due to monetary policy tightening and fear of recession which brought crude prices down to USD~82.1/bbl.
- Volatility in crude prices during 9MCY24 was driven by rising tensions in the Middle East pushing prices as high as USD~88.0/bbl during this period. However, prices now stood at USD~72.42 as of End-Sep'24.
- Rising oil price increases the cost of synthetic rubber leading to higher production costs for tyres. This results in tighter profit margins for manufacturers and potential price hikes for consumers, especially in cost-sensitive markets, which could dampen demand and slow down growth in the automobile sector.



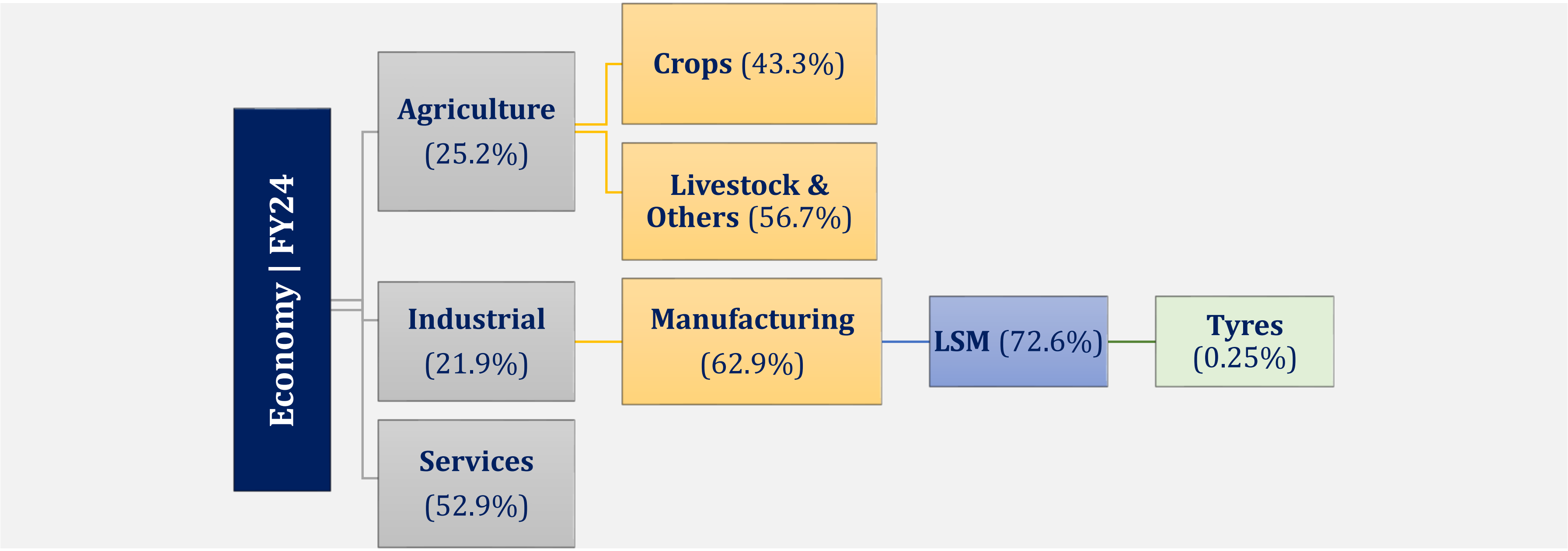


Source: World Bank Pink Sheet, Global News Wire

Tyres

Local | Introduction

- In FY24, Pakistan's GDP (nominal) stood at PKR ~106trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% growth).
- Industrial activities in FY24 held ~21.9% share in the GDP while the manufacturing activities made up ~62.9% of the value addition.
- Large Scale Manufacturing (LSM) in Pakistan is essential for economic growth considering its linkages with other sectors, as it represents ~72.6% of the manufacturing activities in FY24.
- The LSM fell by ~10.3% YoY in FY23 (FY22: ~11.7%), however, it inched up ~0.92% YoY in FY24.
- The tyre sector is classified as a Large-Scale Manufacturing (LSM) industrial component within the country's industrial sector holding ~0.25% share in the QIM.
- In 2MFY25, Large Scale Manufacturing (LSM) output increased by ~2.4% (End-July'23: ~-5.4%) showing signs of improved market conditions.



Tyres

Local | Overview

- The local tyres sector heavily relies on demand from the automobile sector, which encompasses several categories - Passenger Cars, Jeeps, LCVs/Pickups, Tractors and 2 & 3 Wheelers.
- The tyres sector is divided into OEM (Original Equipment Manufacturer) and RM (Replacement Market), with the replacement market holding an average share of ~80.0%, varying by the tyre type.
- The tyres sector revenue stood at PKR~141.9bln in FY24 (FY23: PKR~105.7bln). Key players in the tyres sector include Ghandhara Tyre and Rubber Company, Panther Tyres Ltd, Service Industries Ltd and Service Long March Tyres Pvt Ltd.
- Ghandhara Tyres is the only local producer of tyres for passenger cars, though imports dominate the market. Local production mainly serves the 2 & 3-wheeler segment, where Panther Tyres and Service Industries Ltd have significant shares.
- Grey channel procurement still retains a substantial portion of the tyres sector, particularly in the four-wheel category.
- In 2MFY25, ~2.6mln tyre units were produced, compared to ~2.2mln units last year. Meanwhile, sales reached ~2.5mln units during 2MFY25, up from ~2.2mln units in the SPLY.
- The sector's growth during 2MFY25 has been driven by improved economic conditions such as reduced inflation and interest rates. During 2MFY25, inflation dropped to ~9.6% while the policy rate reduced to ~19.5%, providing a positive outlook for economic recovery and expansion.

Sector Overview	Units	FY21	FY22	FY23	FY24
Estimated Sector Revenue (4 Market Players)*	**PKR bln**	62.9	126.4	105.7	141.9
YoY revenue Growth	*%*	*40.0*	*101.0*	*-16.4*	*34.0*
Number of Listed Players	**No.**	3			
Production of 2,3-Wheeler Tyres	**mln units**	19.3	18.5	12.0	11.6
Production of 4 Wheelers Tyres	**mln units**	4.1	6.1	3.3	2.4
Production of Trucks, Buses & Tractors Tyres	**mln units**	1.6	1.9	1.0	1.4
Import Value	**PKR bln**	60.1	38.1	51.6	71.9
Import Volume	**mln units**	7.1	5.5	3.0	4.4
Industry Association	Pakistan Association of automobile Parts & Accessories Manufacturers				

**Estimated Revenue is pro-rated for FY24*

*Sector's Market capitalization has been computed using its share in QIM

PBS, PACRA Database, PES

Tyres

Local | Industry Structure

- **2 & 3 Wheelers**
  - Motorcycles
  - Rickshaws and 3-Wheelers
- **4 & 6 Wheelers**
  - Passenger Cars
  - Jeeps & LCVs
  - Trucks & Buses
  - Tractors & Others

	2 & 3 Wheelers	Passenger Cars	Jeeps & LCVs	Trucks & Buses	Tractors & Others
Demand	~80% Replacement ~20% OEMs	~75.5% Replacement ~24.5% OEMs	~92.4% Replacement ~7.6% OEMs	~73.2% Replacement ~26.8% OEMs	~80% Replacement ~20% OEMs
Supply	100% Local Production **Major Players:** • Panther Tyres • Service Industries	~31% Local, ~69% Imports (Legal + Grey Channel) **Major Players:** Ghandhara Tyres	~10% Local ~90% Imports (legal + Grey Channel)	~10% Local, ~90% Imports (legal + Grey Channel)	~39% Local, ~61% Imports (legal + Grey Channel)

Tyres

Local | Raw Material

- The primary raw material used in tyre production is rubber, encompassing both natural and synthetic varieties. Pakistan majorly relies on China, Malaysia, and Thailand for the imports of rubber.

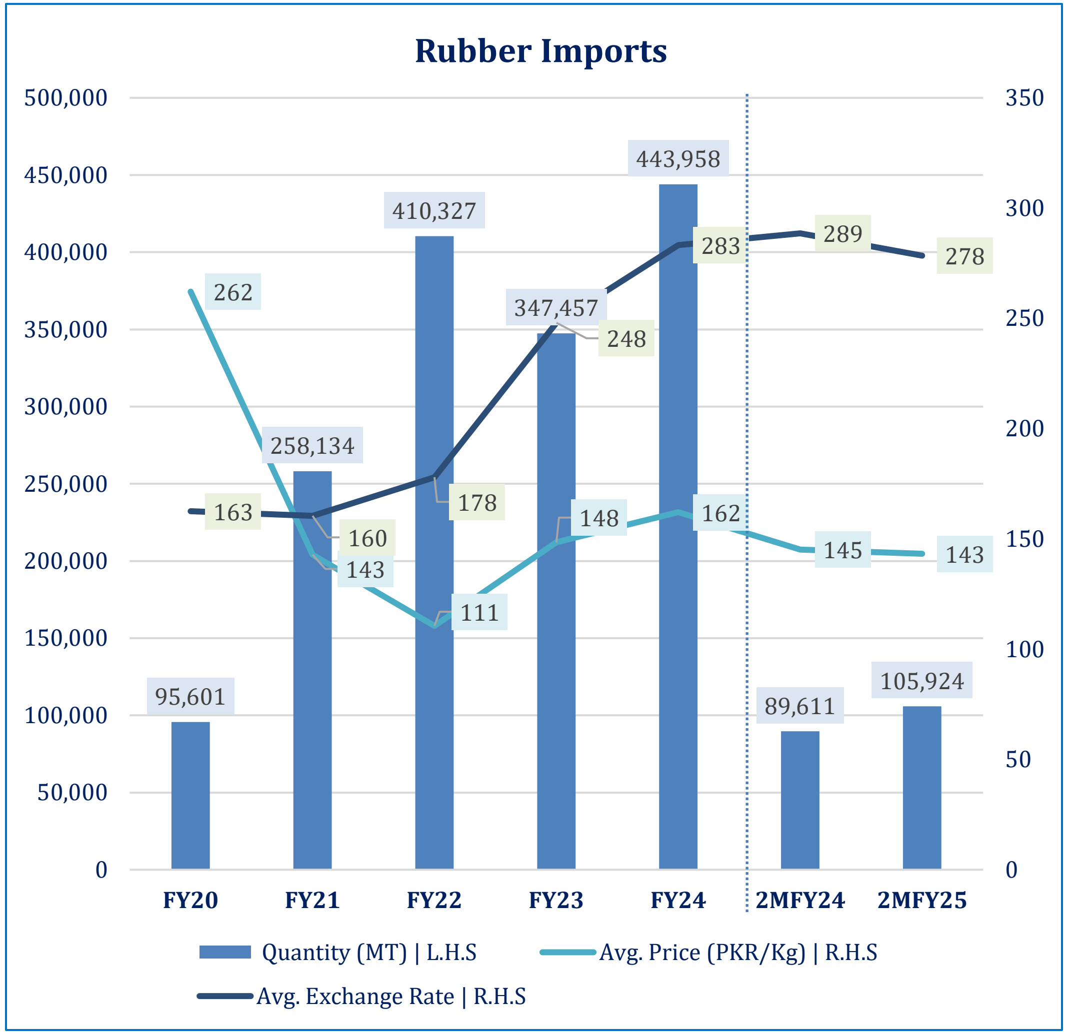
- In FY24, there was a notable increase of ~27.8% in the quantity of rubber imports, increasing from ~347,457MT in FY23 to ~443,958MT in FY24, largely due to the import restrictions being lifted by the SBP in FY24.

- The value in terms of PKR, increased by ~39.4% to PKR ~71.9bln compared to PKR ~51.6bln in FY23**.** This was primarily a result of a currency depreciation against the USD in FY24 as well as the ~27.8% increase in the quantity**.**

- During FY24. Pakistan's currency depreciated by ~14.0% YoY to USD/PKR~283 (FY23: USD/PKR~248)**.** Consequently, there was a ~9.5% rise in the average import price of rubber per kg from PKR~148/kg in FY23 to PKR~162/kg in FY24.

- In 2MFY25, rubber imports amounted to ~105,924 MT, an increase of ~18.2% (2MFY24: ~89,611 MT). This demonstrates that the tyres sector has likely benefited from the removal of import restrictions even though the exchange rate remained high.

- Similarly, the average price of rubber imports in 2MFY25 stood at PKR~143/kg, compared to PKR~145/kg in 2MFY24, depicting a fall in prices of PKR~2/kg**.** The PKR also appreciated by ~3.8% compared to 2MFY24 hence improving the rubber imports overall.



Tyres

Local | Production

Overview: The local automobile sector in FY24 continued to see a decline in its production and sales. Total production of automobiles declined by ~4.1% falling from ~1.3mln units in FY23 to ~1.2mln units in FY24. The adverse situation of the automobile sector may be attributable to the unfavorable macroeconomic indicators in FY24. During FY24, the average inflation remained extraordinarily high at ~24.5% (FY23: ~29.0%), the currency depreciated by ~14% YoY to USD/PKR~283 while the policy rate remained at ~22.0% for 11MFY24.

Segment-Wise Performance

- In comparison to FY23, the production of LCVs/Jeeps declined the most in FY24 (~32.7%), followed by Trucks and Buses (down ~30.5% YoY), Passenger Cars (down ~22.0% YoY) and 2 & 3 Wheelers (down ~3.0% YoY). Only farm tractors experienced an increase in production (~43.5% YoY) from ~31,726 units in FY23 to ~45,529 units in FY24.
- The downward trend in the automobile sector trickled down to the tyres sector as well in FY24. The tyre production fell by ~5.2% YoY compared to FY23.
- Similar to the automobile sector, the production of tyres for Jeeps/LCVs & Pickups was the most affected and experienced a decline of ~32.7% YoY, followed by a reduction in the production of tyres for trucks and buses, cars and 2 & 3 wheelers (~30.5% YoY, ~22% YoY, ~2.7% YoY, respectively).
- 2 & 3 wheelers remained resilient due to their affordability while farm tractors' survival owed to the government's subsidies and incentive policies to protect farmers amid economic crisis.

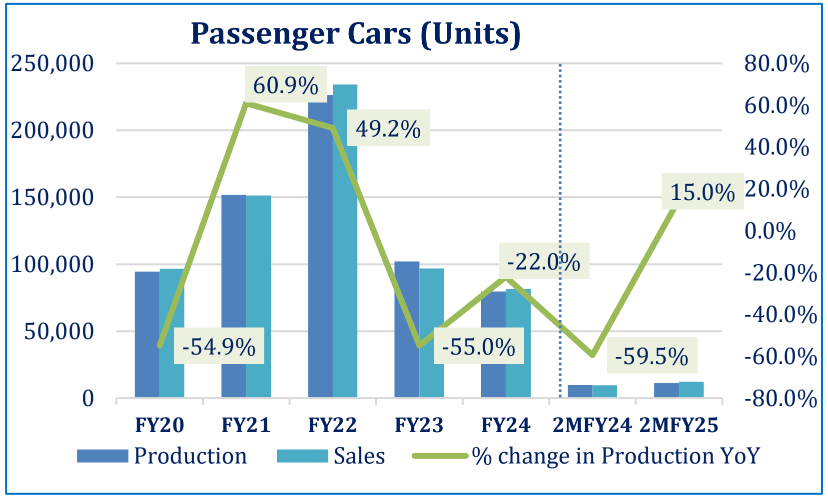
FY25 and future outlook:

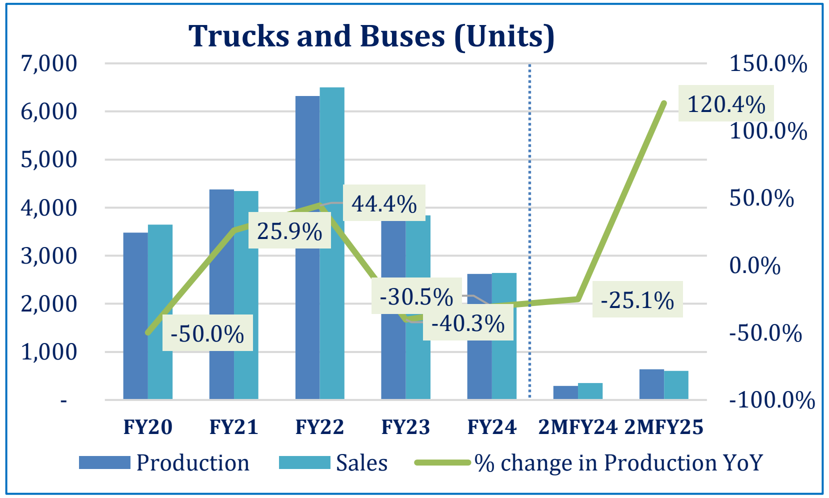
- The economic situation in the country improved significantly during 2MFY25. Inflation dropped to ~9.6%, the currency appreciated by ~3.8% to PKR~278 while the policy rate was reduced to ~17.5%.
- The improvement in the economy was portrayed by the improvement in the automobile sector where overall production in 2MFY25 increased by ~19.5% to clock in at ~214,632 units, compared to the same period last year (2MFY24: ~179,590 units)
- Among the automobile segments, during 2MFY25, the production of Trucks and Buses skyrocketed by ~120.0% YoY followed by LCVs/Jeeps by ~36.8% YoY, 2 & 3 Wheelers by ~21.0% YoY and Passenger Cars by ~15.0% YoY.
- However, farm tractor production fell by ~27.0% to ~4,527 units in 2MFY25 from ~6,189 units in 2MFY24 while the same trend was followed by their tyres sector as well. The decline in farm tractors pertains to the closures of manufacturing units, removal of subsidies and an additional ~10.0% sales tax.
- Overall, with significant improvement in the macroeconomic outlook coupled with the improvement in the automobile and tyres sector, the future outlook looks stable.

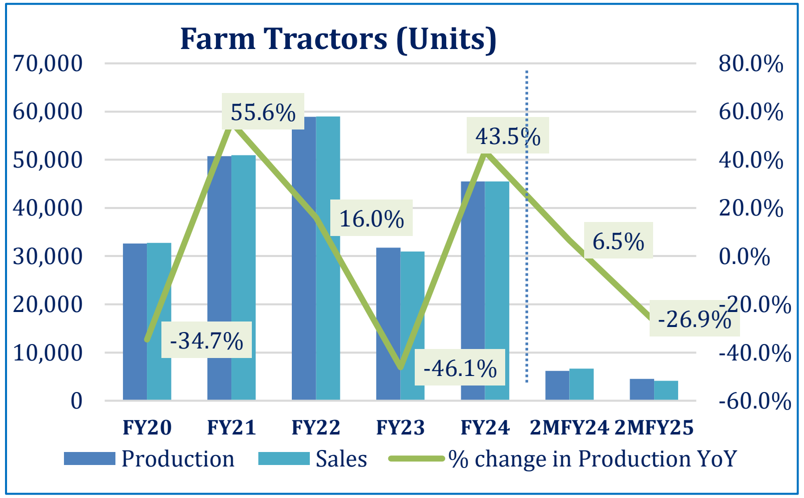
Source: PAMA, PACRA Database, PES

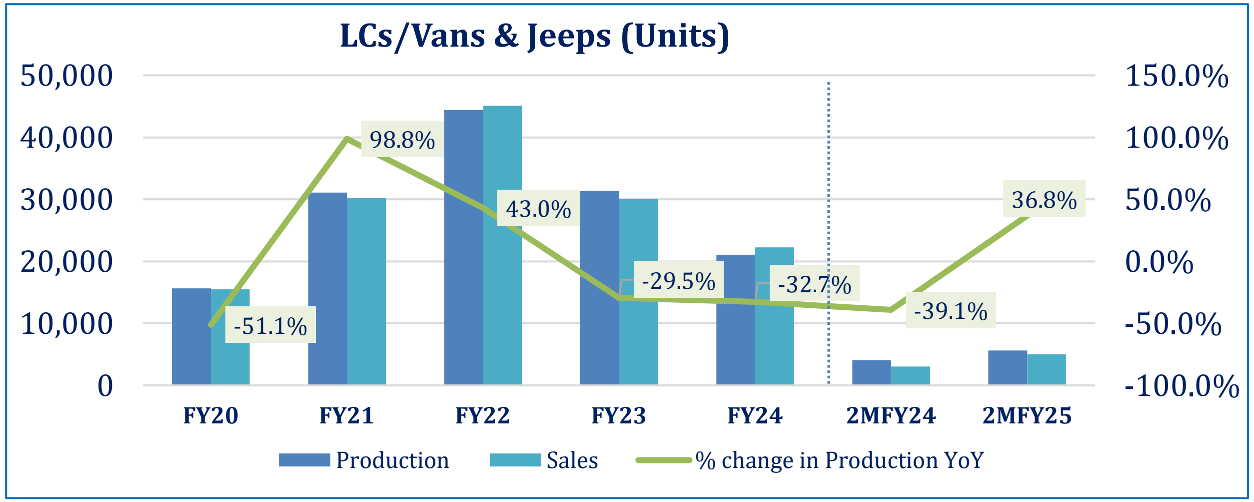
Tyres

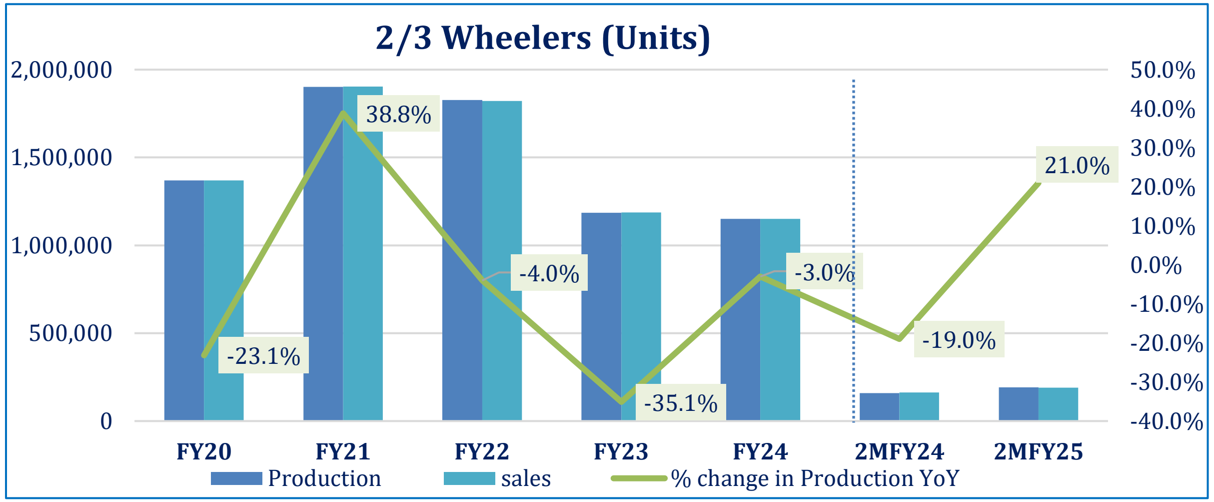
Local | Production & Sale Automobiles











Source: PAMA, PACRA Database

Tyres

Local | Market Segments

The local tyre market in Pakistan is divided into two key segments: Original Equipment Manufacturers (OEM) and the Replacement Market (RM).

OEM Segment: Tyre manufacturers cater to local assemblers across multiple segments, such as passenger cars, LCVs/jeeps, farm tractors, two- and three-wheelers, and trucks and buses. The revenue from this segment is closely linked to the growth of new vehicle sales, making it highly vulnerable to fluctuations in the automotive sector.

Replacement Market: The replacement market, however, is the primary market for the demand for tyres, contributing ~80.0% of overall tyre consumption, though the contribution varies across different vehicle segments.

- Passenger car tyres generally have a lifespan of ~45,000 to ~70,000km or around 5 years, driving about ~75.5% of the demand for replacement tyres.
- LCV tyres typically last between ~3 to ~6 years, resulting in a substantial replacement market, accounting for ~92.4% of demand.
- Tractor tyres typically last around ~50,000 to ~70,000km or approximately 6 years, with replacement tyres comprising about 80.0% of their total demand.
- 2/3 wheeler tyres typically last ~5 years or ~12,000km, resulting in a potential replacement market of ~80.0%.
- Trucks and buses, designed for heavy-duty operations, have tyres with a lifespan of about ~125,000km or ~6 years, supporting a replacement market of ~73.2%.

Source: Bridgestone, PAMA, PACRA Database

Tyres

Local | Market Segments | Consumption Wise

Market Segments	Type of Vehicles				
	2 & 3 Wheelers	Passenger Cars	Jeeps & LCVs	Trucks & Buses	Tractors
Original Equipment Manufacturers (OEM)	20.0%	24.5%	7.6%	26.8%	20.0%
Replacement Market (RM)	80.0%	75.5%	92.4%	73.2%	80.0%

Estimated Tyres Sales | Segment-wise	2/3-Wheelers ('000' units)				Passenger Cars ('000' units)				Jeeps & LCVs ('000' units)				Trucks & Buses ('000' units)				Farm Tractors ('000' units)			
	FY23	FY24	2MFY24	2MFY25	FY23	FY24	2MFY24	2MFY25	FY23	FY24	2MFY24	2MFY25	FY23	FY24	2MFY24	2MFY25	FY23	FY24	2MFY24	2MFY25
OEM Sales	1,186.9	1,150.1	161.9	189.2	96.8	81.6	9.6	12.3	30.1	22.3	3.1	5.1	3.8	2.6	0.4	0.6	30.9	45.5	6.6	4.1
Sales Growth Rate (YoY)	-35.0%	-3.0%	-18.6%	17.0%	-57.0%	-16.0%	-50.3%	28.0%	-41.0%	-26.0%	-29.8%	64.0%	-41.0%	-31.0%	-42.3%	71.0%	-48.0%	47.0%	27.3%	-38.0%
Estimated No. of Tyres	2, 3				4				4				6				6			
OEM Tyre Sales (A)	2,393.3	2,324.7	326.8	383.5	387.2	326.3	38.4	49.1	120.3	89.0	12.3	20.1	23.0	15.8	2.1	3.6	185.7	272.9	39.8	24.8
Estimated RM Tyres (B)	9,573.1	9,298.6	1,307.2	1,533.8	1,193.3	1,005.6	118.5	151.3	1,462.2	1,082.1	148.7	243.8	62.8	43.3	5.8	9.9	742.6	1,091.8	159.5	99.1
Total Tyre Consumption (A+B) (Units)	**11,966.3**	**11,623.3**	**1,633.9**	**1,917.2**	**1,580.5**	**1,331.8**	**156.9**	**200.4**	**1,582.5**	**1,171.0**	**161.0**	**263.8**	**85.9**	**59.1**	**7.9**	**13.6**	**928.3**	**1,364.8**	**199.3**	**123.9**

Note: *Assumptions are based on the market data.*

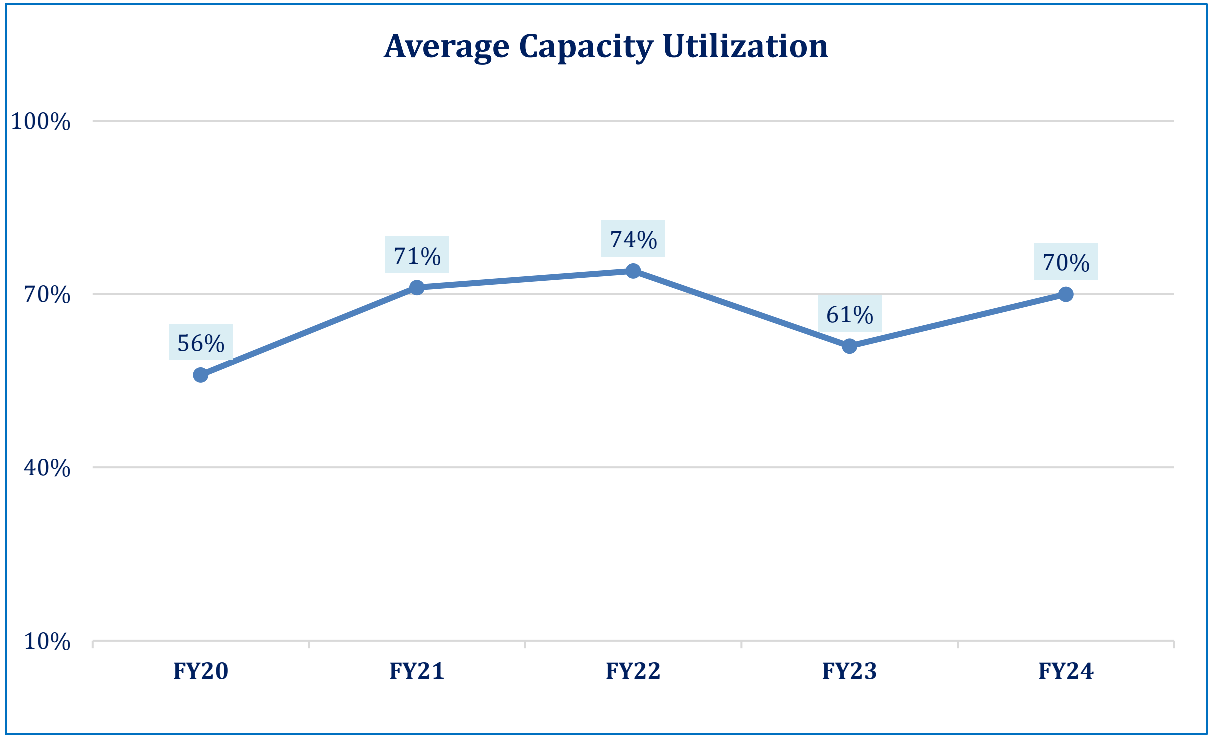
Sources: PAMA, PACRA Database

Tyres

Local | Capacities & Utilization

- The top players within the tyres sector have achieved capacity enhancements in the past few years. The total installed capacity of the tyres sector increased by ~6.4% to ~41.5mln units in FY24 (FY23: ~35.1mln units). During FY24, average capacity utilization increased to ~70.0% (FY23: ~61.0%).
- Additionally, any further decrease in the policy rate, which currently stands at ~17.5% w.e.f September 12, 2024, would serve to increase the demand for autos vis-à-vis low borrowing costs. This would likely result in driving up the demand, giving the incentive to maximize production, and hence more capacity is expected to be utilized.

Installed Capacity (mln units)					
Major Sector Players	**FY20**	**FY21**	**FY22**	**FY23**	**FY24**
Ghandhara Tyres	3.9	4.0	4.3	3.9	4.3
Panther Tyres	8.1	8.1	8.1	9.8	9.8
Service Industries	19.1	19.4	20.4	19.0	25.0
Service Long March Tyres	N/A	N/A	N/A	2.4	2.4
Total Capacity	**31.2**	**31.5**	**32.8**	**35.1**	**41.5**



Note: *The installed capacity and utilized capacity data is reflective of PACRA rated clients for different periods*

Source: SBP, PACRA Database

Tyres

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Local | Business Risk

- **Demand:** In recent years, the decline in automobile demand (FY24:~1.3mln units; FY23:~1.4mln units) negatively impacted the tyre sales (FY24:~15.5mln units; FY23:~16.1mln units). However, the effect was limited as the OEM segment is smaller than the replacement market, where demand is steadier and linked to tyre usage cycles. In 2MFY25, improved economic conditions, such as lower interest rates and currency appreciation, boosted production by ~19.5%. Sales also increased by ~16.3% compared to the same period last year.

- **Impact of Interest Rates:** Automobile demand in FY24 was further dampened by higher interest rates (~20.5% in FY24, compared to ~18.0% in FY23), which made auto financing more expensive. This led to reduced demand for tyres from the OEM segment as vehicle sales dropped. However, in 2MFY25, SBP lowered interest rates (~19.5%), which stimulated demand in the auto sector, subsequently boosting tyre demand.

- **Raw Material:** The tyre sector's raw materials, such as rubber and carbon black, are largely imported and the sector remains exposed to volatile international prices and exchange rate risk. During FY24, currency depreciated by ~14%.0 YoY to USD/PKR~283.0 (FY23: USD/PKR~248.0) which led to higher prices of imported raw materials and consequently put pressure on the margins. 2MFY25 started with an improved exchange rate and lower policy rate, while manufacturing costs remained significantly high. Further improvements in both the exchange rate and policy rate are needed to alleviate the financial pressure on the sector.

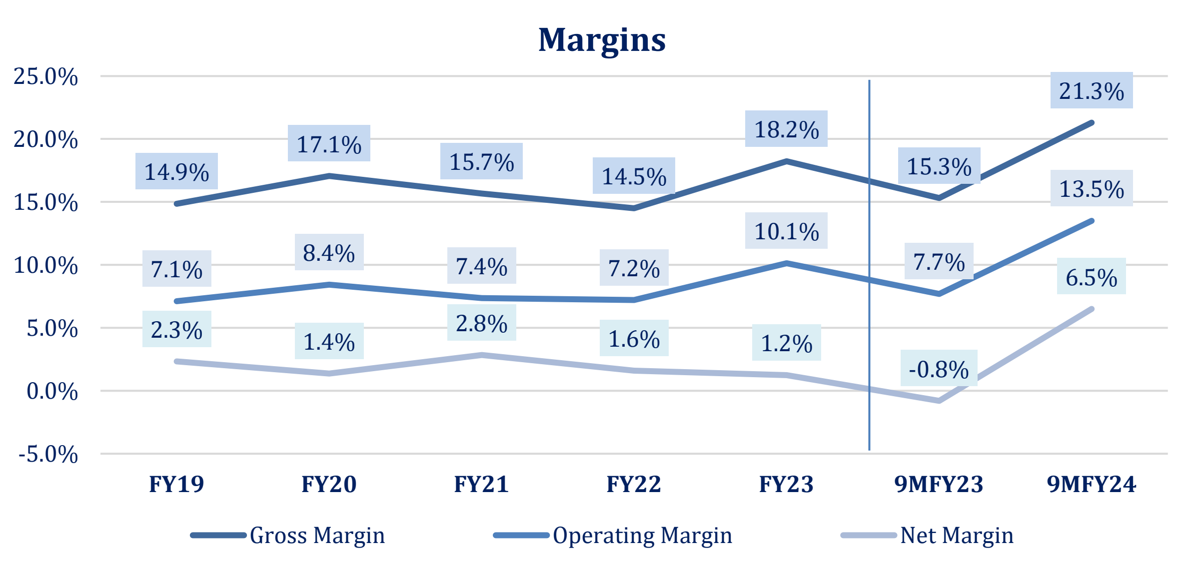
- **Grey Channel:** The players operating in 4-wheeler segments, such as Passenger Cars, LCVs/Jeeps and Trucks & Buses hold a relatively smaller share of the market as compared to the imported tyres. Tyres imported through grey channels in particular dominate these segments leading to high levels of competition. The government of Pakistan has been making 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.

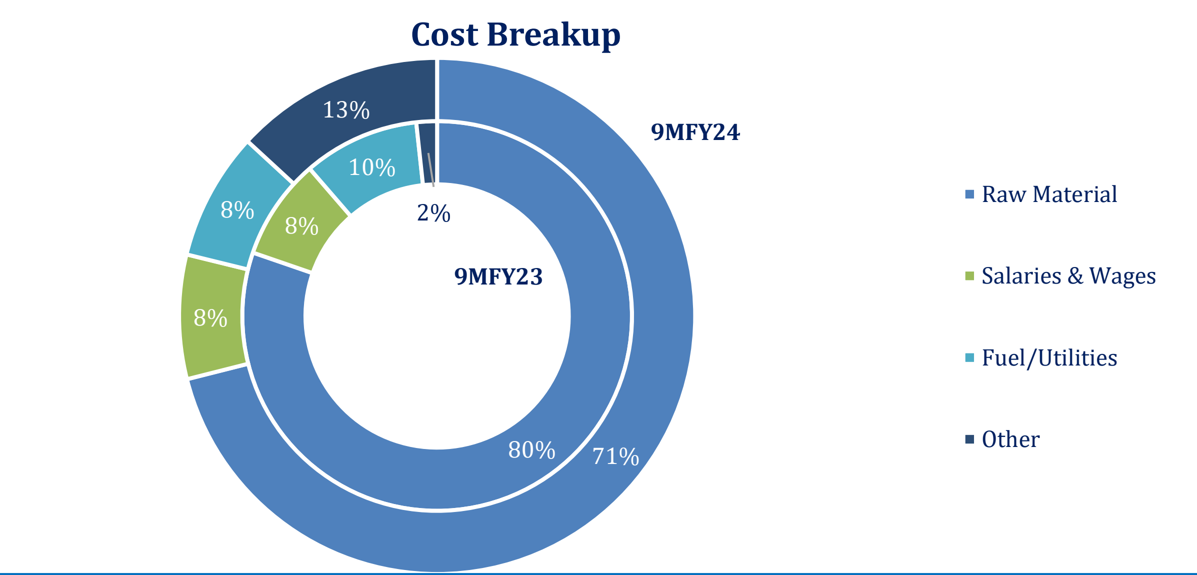
Source: Dawn News, PACRA Database

Tyres

Local | Margins & Cost Structure

- The presence of imported tyres, as well as the relatively elastic demand of the sector, particularly in the 4-wheeler segment, exerts pressure on the sector's average margins since it is difficult to maintain volumes, especially of high-priced units, if prices are on an increasing trend. On the other hand, the 2 & 3-wheeler market is less price sensitive with low import dependency.
- During 9MFY24, the average gross margin for the sector rose to ~21.3% (9MFY23: ~15.3%), an increase of ~6% driven by higher sales volumes as the sector experienced growth. Operating margin also grew from ~7.7% in 9MFY23 to ~13.5% in 9MFY24, reflecting reduced administrative and selling & marketing expenses.
- Furthermore, sectors net margin turned around from ~-0.8% in 9MFY23 to ~6.5% in 9MFY24, despite an increase in finance costs. The positive net margins indicate strong sales performance and effective cost control across the board.
- The cost of goods sold (COGS) for the sector increased by ~45.0% in 9MFY24 compared to the same period last year. Raw materials, which make up ~71.0% of the sector's direct costs, are the primary driver of this rise. These materials include natural and synthetic rubber, carbon black, and various other chemicals essential for tyre production.





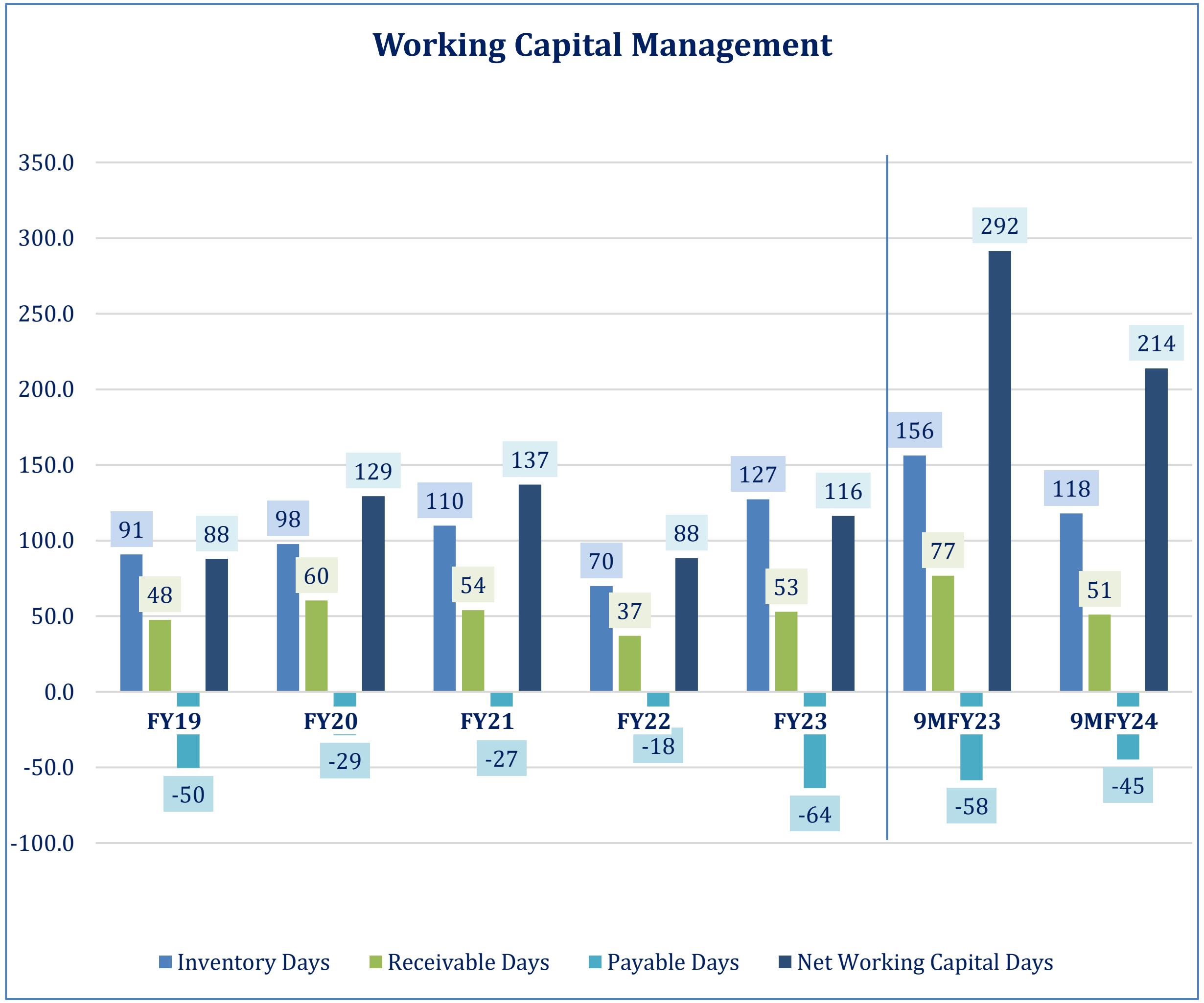
Note: Margins and cost break up are reflective of 4 listed/rated sector players.

Source: PACRA Database

Tyres

Local | Financial Risk

- The sector's working capital is largely a function of inventory and trade receivables and is financed through a combination of short-term borrowings and internal capital.
- The average net working capital cycle for the sector over the last five years (FY20-24) was ~137 days. The rising trend in inventory days in the tyre sector depicts inventory piling up because of lower demand.
- However, during the 9MFY24, average net working capital days of the tyres sector was ~78 days less than 9MFY23 and clocked in at ~214 days (9MFY23: ~292 days). This was mainly due to both lower inventory days and receivable days. Inventory days were reduced by ~38 days from ~156 days in 9MFY23 to ~118 days in 9MFY24, while receivable days decreased by ~26 days from ~77 days in 9MFY23 to ~51 days in 9MFY24.
- The primary reason behind the improvement in working capital management in the sector is the relaxation of import duties by SBP after almost 2 years in FY24.



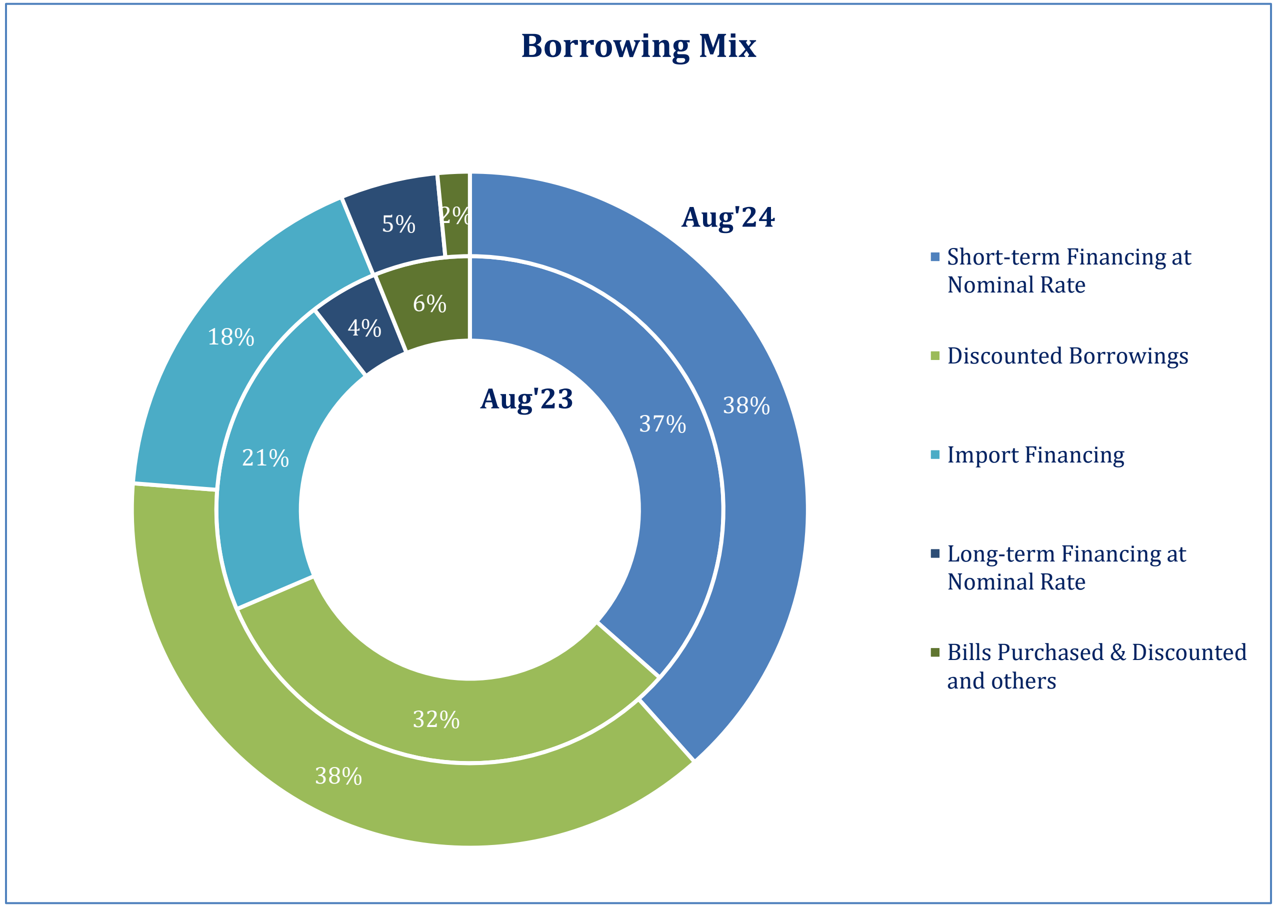
Note*: Working capital figures are reflective of 4 listed/rated sector players.*
** 9MFY24*

Source: PSX, PACRA Database

Tyres

Local | Financial Risk

- The total borrowing of the tyres sector stood at PKR~36,223mln as at End-Aug'24 (End-Aug'23: PKR~34,057mln).
- This increase of ~6.4% of total borrowing firstly, reflects a rise in short-term financing at nominal rates which stood at PKR~13,916mln as of End-Aug'24 (End-Aug'23: PKR~12,439mln) and secondly depicts ~12.6% increase in long-term financing to PKR ~1,690mln as at End-Aug'24, (End-Aug'23: PKR~1,501mln).
- Additionally, discounted borrowings also increased by ~25.0% as at End-Aug'24 compared to SPLY.
- However, there was a decrease in import financing by ~10.7% from PKR~7,118mln as at End-Aug'23 to PKR~6,356mln in End-Aug'24.
- As of End-Aug'24, both short-term financing and discounted borrowings held the largest component in the sector's total borrowing and each accounted for ~38.0% of the total borrowing (End-Aug'23:~37.0% & ~32.0% respectively).
- The rise in discounted borrowings is attributed to increased export financing.



Note: *Average leverage figure is reflective of ~4 listed/rated players in Tyres Sector*
**Borrowing figures are representative of 'Manufacture of Rubber Tyres and Tubes; Retreading and Rebuilding of Rubber Tyres' as per SBP.*

Source: PACRA Database, SBP

Tyres

Local | Regulatory Framework

- The tyres sector operates under the Normal Tax Regime (NTR) and is subject to a minimum tax rate of ~1.25% of turnover, applicable if the tax liability under NTR is lower than the minimum tax. However, any additional tax paid under the minimum tax regime can be adjusted against future tax liabilities for up to five years, providing some relief and flexibility for the sector.

- In addition, a sales tax of ~18.0% is applicable on both the raw material, i.e. rubber and carbon black, as well as finished goods, i.e. tyres. Further to Sales Tax, there is an Advance Tax of 1.0% applicable on the import of these products. However, the amount of Advance Tax is adjustable against final income tax liability.
- In addition, the SBP kept the monetary policy rate at ~22.0% for most of FY24, which increased the sector's finance costs.

- There have been no changes in the custom duty structure applicable to the sector which provides protection to the local manufacturers.

- Although some tyre manufacturers are members of the Pakistan Association of Automotive Parts & Accessories Manufacturers, there is no dedicated industry representative body for the local tyre manufacturers. The Pakistan Tyre Importers & Dealers Association is the representative body for tyre importers.

Source: FBR, SBP

Tyres

Local | Duty Structure

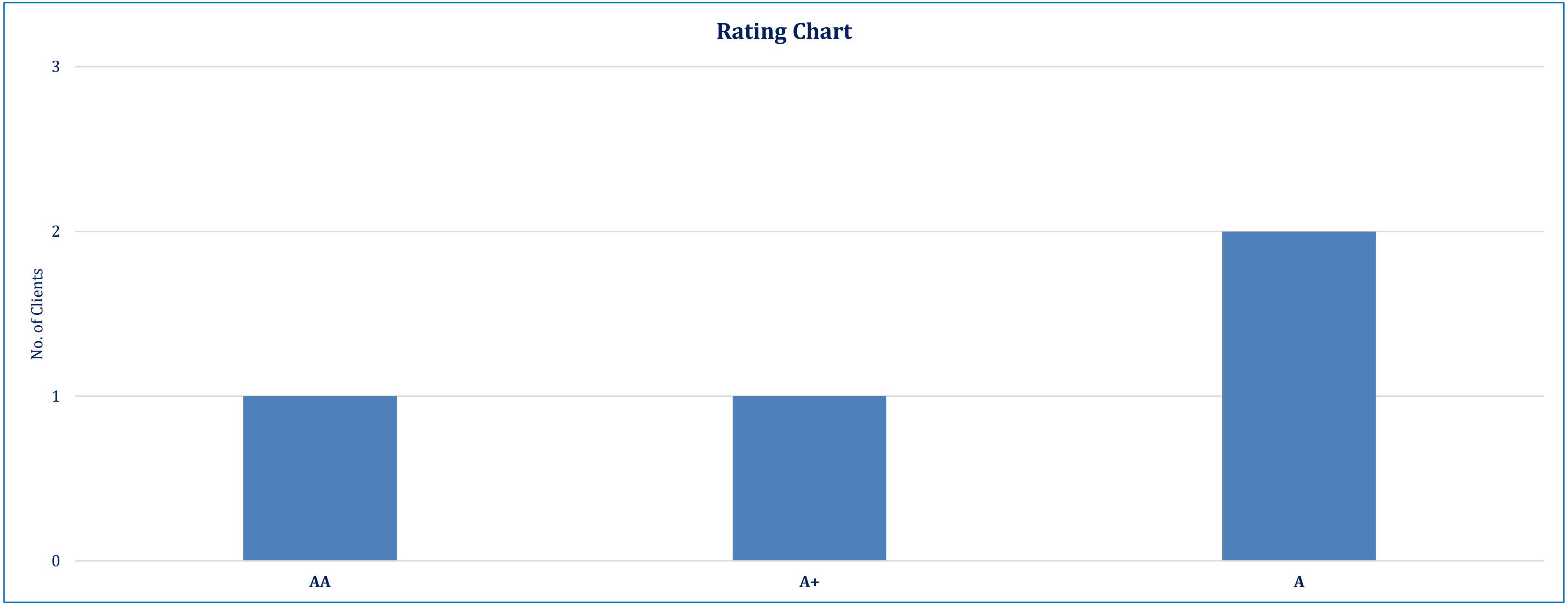
HS Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Raw Materials									
2803.001	Carbon Black (Rubber Grade)	16%	16%	4%	4%	0%	0%	20%	20%
4001.1	Natural Rubber	0%	0%	2%	2%	0%	0%	2%	2%
4002.11	Synthetic Rubber	0%	0%	0%	2%	0%	0%	0%	2%
Finished Goods									
4011.1	Tyres - Used on motor cars	16%	16%	4%	11%	20%	20%	40%	47%
4011.2011	Tyres - Used on Light Trucks	16%	16%	4%	11%	20%	20%	40%	47%
4011.2091	Tyres - Used on Buses	3%	3%	2%	2%	25%	25%	30%	30%
4011.4	Motorcycle Tyres	20%	20%	6%	11%	0%	0%	26%	31%
4011.7	Tyres - Used on Agricultural Machines	20%	20%	6%	6%	0%	0%	26%	26%
8481.301	Tyre Tubes	3-20%	16%	2-7%	4%	0%	20%	5-27%	40%

Source: FBR

Tyres

Rating Chart

PACRA rates 4 entities in the tyres sector with a long-term rating bandwidth of A to AA.



Tyres

SWOT Analysis

Strengths

- Availability of ample capacity to meet any increase in demand.
- Effective and efficient labour market.
- Government incentives and favorable policies for auto and allied industries.

Weaknesses

- Reliance on imported raw materials with volatile prices and exchange rate risk
- Partial dependence on automobile sector
- Low market share of local producers in the 4-Wheeler segment.

Threats

- Devaluation of currency and volatile imported raw material prices.
- Significant competition from the import segment.

Opportunities

- Growth in Pakistan's urban population
- Recovery in overall economic conditions
- Custom duty structure which protects local manufacturers.
- Greater border controls, leading to less competition from the grey channel
- Usage of electric vehicles (EV)
- 2 & 3-wheeler (EV)

Tyres

Outlook: Stable

- The tyres sector has been under pressure due to challenging economic conditions over the past two years. In FY24, demand for tyres declined by ~4.0% YoY, closely linked to the downturn in the automobile sector, which suffered from rising inflation, a depreciating currency, and high interest rates. Raw material costs, particularly rubber, increased significantly and remained at PKR~145/kg due to the ~14.0% depreciation of the currency, further straining production costs.
- As FY25 began, signs of recovery emerged. In 2MFY25, tyre demand grew by ~17.0% compared to the same period last year, driven by improved economic indicators. Large-scale manufacturing (LSM), which includes the tyres sector, grew by ~2.4%, and inflation dropped to ~9.6%, signaling to ease of inflationary pressures. Additionally, the SBP lowered the policy rate to ~17.5%, providing a more favorable lending environment for businesses.
- The automobile sector, closely linked to the tyres sector, has also shown a positive turnaround in 2MFY25. Production and sales in the sector increased by ~19.5% and ~16.0%, respectively, leading to a corresponding increase in tyre demand. The ~3.8% appreciation of the currency in 2MFY25 to USD/PKR~278 has also eased some pressure on raw material costs, particularly rubber import prices which reduced to PKR~143/kg.
- Furthermore, the sector's overall margins have also shown positive growth. In comparison to the same period last year, gross margins rose by ~6%, operating margins grew by ~13.5% and net margins were up by ~6.5%.
- Going forward, the tyres sector is expected to stabilize and potentially grow in FY25. With macroeconomic indicators such as inflation easing, a stable exchange rate, and policy support from the central bank, the tyres sector is positioned for recovery.
- The automobile industry will continue to be a key driver for the demand and supply of tyres.
- In summary, after two years of economic decline, the tyre market is on track for a more stable FY25, driven by improving domestic and global conditions. The market is expected to recover from past supply-demand imbalances and sustain growth throughout the fiscal year. However, recent developments related to IMF conditionality and the Extended Fund Facility (EFF), may introduce some uncertainty as the fiscal year progresses.

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