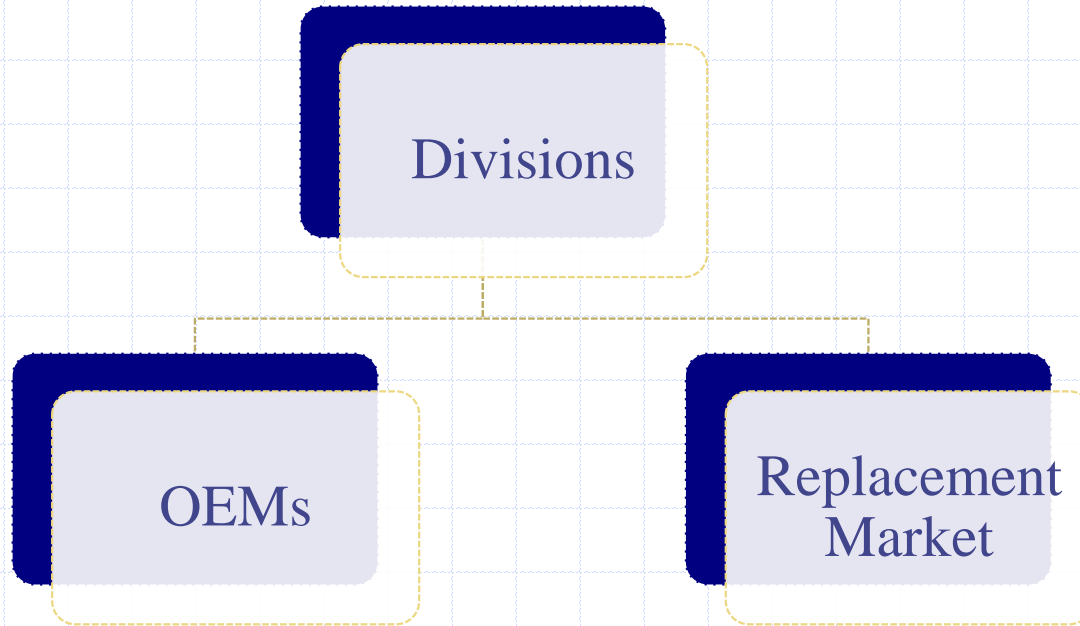




AUTOMOTIVE PARTS SECTOR OVERVIEW

October 2019

INDUSTRY DIVISION



- There are two segments in the automotive parts sector: sales to OEMs for assembly into new cars, and the replacement market.
- The OEMs provide a blueprint that is manufactured to the exact specifications required by the local firm.
- Replacement markets comprise various accessories suppliers and component replacement suppliers. Further, the industry value chain consists of service enablers, such as repairing services and entertainment service providers.

GLOBAL INDUSTRY OVERVIEW

- Auto parts' global trade is worth more than \$800 billion, which is expected to cross \$1 trillion till 2023.
- The value of auto parts exports rose by an average 10.1% for all exporting countries since 2014 when auto parts shipments were valued at \$374.3 billion. Year over year, the value of global automotive parts exports accelerated by 5.8% in CY18.
- International purchases of imported automotive parts cost a total US\$418.2 billion in 2018. The total imports rose by 11.7% since 2014 when international purchases of auto parts were valued at \$374.3 billion. Year over year, imported automotive parts appreciated by 7.5% in CY18.

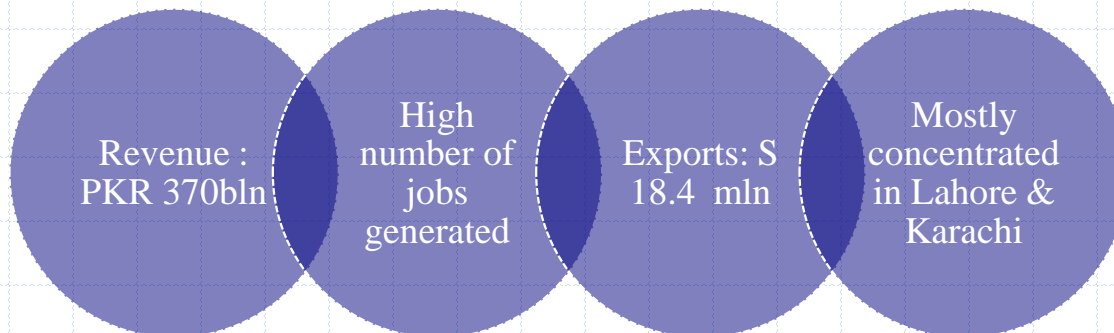
Country Name	Amount Exported(bln\$)	%	Country Name	Amount Imported(bln\$)	%
Germany	67.1	18%	United States	71.5	17%
United States	45.5	12%	Germany	43.8	10%
Japan	35.9	10%	China	29.3	7%
China	34.8	9%	Mexico	27.4	7%
Mexico	29.7	8%	Canada	20.2	5%
Total Exports	374		Total	418.2	

Source: <http://www.worldstopexports.com/automotive-parts-exports-country/>
<http://www.worldstopexports.com/automotive-parts-imports-by-country/>

PAKISTAN INDUSTRY OVERVIEW

- More than 1100 manufacturers provide direct employment to around 500,000 personnel with an indirect employment of 2.4 million.
- Different categories of work including forging, machining, sheet metal work, plastics, chemicals, electronics and electrical work.
- Industry's total revenue amounts to PKR 370bln; while contributing PKR 110bln per annum in taxes and has an import substitution of \$3.3bln. Exports are about \$18.4mln and are made to the US, Europe and a number of African countries.
- Concentration is mostly in Lahore, followed by Karachi. In Lahore, most auto parts makers are for tractors and motorcycles as market expansion has been witnessed there.
- Vendorization began back in 1976 which was started by Millat Tractors. Before that, parts used to be imported. Cars came a decade later and it's vendors are mostly based in Karachi.
- Since the industry is highly fragmented, direct competition in similar parts is seldom witnessed. Most companies manufacture different parts and focus on their respective niche.

Imports(\$mln)	Exports(\$mln)	Net(\$mln)
345	18.4	-326.6



AUTOMOTIVE PARTS COMPONENTS

• Metal Parts

Fuel Tanks,
Metal Sheets
Belts



• Engine Parts

Exhaust
Systems,
Cooling
Systems,
Pistons,
Valves,
Radiators



• Transmission

Clutches,
Axel, Steering,
Wheels, Gears



• Electrical Components

Plugs,
Ignition,
Power
Windows



• External Equipment

Side Mirrors,
Bumpers



• Suspension & Braking

Shock
Absorbers,
Brake
Assemblers



OEMs

- The benefits of relationship with OEMs are the knowledge spill overs in the production process, and the certainty of orders that allows the part manufacturers to undertake investments.
- There are numerous instances of successful collaborations such as Loads Limited and Thal Engineering ; they have entered into successful agreements with the OEMs, thus ensuring a steady and stable stream of orders.
- The products that are used in local OEM value chains are tested in a two-stage process. First, the part itself is tested, and second, it is used to assemble a vehicle, which is sent in CBU for trail. Therefore the quality complied with by the local firms manufacturing for OEMs is set and enforced by the OEMs.
- The scale of Pakistani firms is too low compared to other regional competitors, and this, combined with the scarce availability of raw material, provides other countries a comparative advantage.
- The availability of cheap labour in Pakistan is an advantage to the OEM.

REPLACEMENT MARKET

- Many parts manufacturers cater to the replacement market, which is several times larger than that for new cars and is less restrictive in terms of quality.
- Some manufacturers export a part of their production, focusing typically on niche markets such as replacement markets for outdated models and/or in developing countries, particularly Africa. In such markets, large-scale Chinese manufacturing firms find volumes too low for profitable operations.
- The replacement parts manufacturing segment is largely dispersed across various cities predominantly consisting of clusters in large cities of Pakistan. The major clusters located around Lahore and adjoining areas with more than 50% of Pakistan's informal establishments.
- These businesses use an outdated manual and labor-intensive model, with only large manufacturers using sophisticated technology whereas medium and small manufacturers employ limited technology.
- The main reason for lack of automation and mechanization in this segment is due to unavailability of funds to the small manufacturers for purchase and installation of such equipment

AUTOMOTIVE DEVELOPMENT POLICY 2016-2021

- The auto industry is governed by the Automotive Development Policy (ADP) 2016-21 under this policy, all APMs (auto parts manufacturers) are registered with Engineering Development Board (EDB), who govern and monitor all imports of their raw materials to safeguard against misuse of concessionary duties fixed in the ADP.
- Under the SRO 655 and as per the Automotive Development Policy 2016-21, parts manufacturers in the auto sector pay regulatory duties of 1pc, 10pc and 20pc against the imports of raw material, components and sub-assembly of cars respectively.

Source

[http://download1.fbr.gov.pk/SROs/2013811082624459UpdatedSRO655\(I\)2006June2013.pdf](http://download1.fbr.gov.pk/SROs/2013811082624459UpdatedSRO655(I)2006June2013.pdf)

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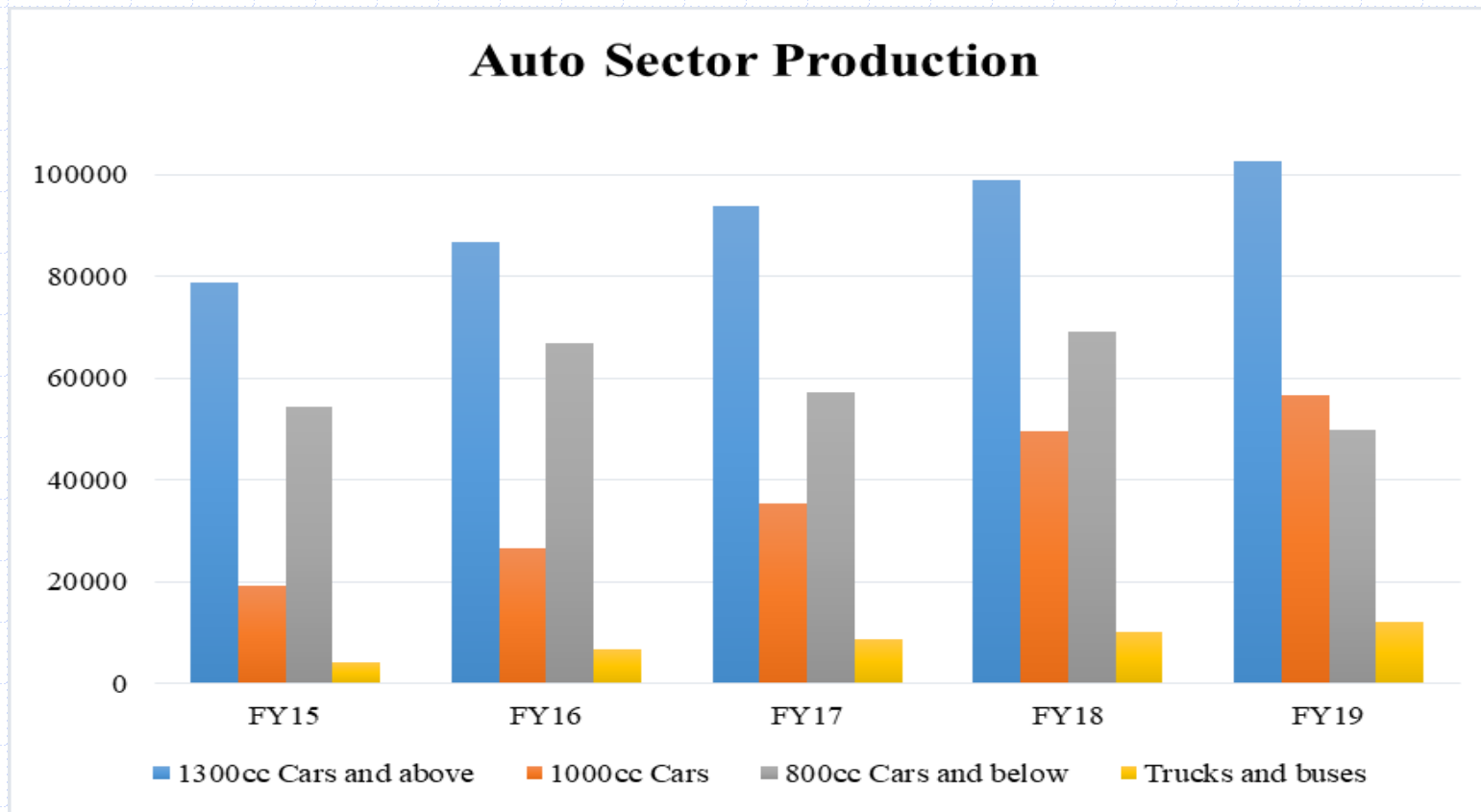
LOCALISATION

- Localization levels in the automotive industry is different for different sectors—in the motorcycle sector, about 92 percent; trucks 20-22 percent, LCVs more than 30 percent while tractors are localized up to 90 percent. In the cars segment, Suzuki has more than 70 percent localization, Toyota more than 55 and Honda has 51 percent localization.
- Soaring imports of raw material is one of the main issues for not achieving higher localization on which the vending industry relies heavily. Any change in rupee-dollar parity raises cost of imports. Vendors have already been struggling to get exemption of regulatory duty (RD) on import of steel parts.
- High volumes are critical to increase localization. With each change in model beside the design, the technology is changed as well, which requires substantial investments of billions of rupees. In tractors and motorcycles as models do not change radically if at all, thus more localization is possible due to higher volumes.
- Another reason for not achieving desired results towards indigenization was low number of joint ventures. Furthermore, the technical fees and royalties that Pakistan pays are a fraction of what Malaysia, Thailand, Vietnam and India pays. Even that is taxed by provincial and Federal tax authorities.

Source: <https://www.brecorder.com/2018/07/09/427349/auto-parts-exports-to-cross-500-million-by-2023/>

Auto Sector | Trend Analysis

- Demand for auto components is mainly driven by production for automobiles and new vehicles.
- The sector is geared for further growth with entry of new players under the automotive development policy – this bodes well for the entire sector.
- The current market structure of the industry is concentrated. It is largely dominated by Japanese players: Toyota, Suzuki and Honda. The three players have deep rooted presence in Pakistan. Kia, Hyundai & United are new additions to the sector.
- Following illustrations highlight the production pattern in different categories of the Auto Sector.



Automobile Players

Some of the market players are given below. The mention of these players does not reflect ranking of any sort.



Loads Limited

Loads Limited

Radiator Assembly

Silencer Assembly

Protector Fuel Tank



Thal Engineering

Condenser

Compressor

Reserve Tank



Yousaf Auto Industries (Pvt) Limited

Brake Assemblies

Axle

Fuel Tanks



Agri Auto Stamping Company (Pvt)Ltd

Press Low Tensils Parts

Press High Tensils Parts

Weld Sub Assembly Parts



Razi Sons (Pvt.) Ltd

Leather Seats

Moulded Carpets

Door Trims



Alsons Autoparts

Speedometer

Window Front

Switch Assembly

Opportunities & Risks

Risks

- Devaluation of local currency leading to high prices of the Automobiles.
- Increase in Policy rate by State Bank of Pakistan (SBP) to affect demand for auto financing and hence Auto sales.
- FBR rule, to restrict registration of new vehicle to non-active taxpayers to add effect on OEMs sales.
- Increasing Non Production Days in Auto Plants due to declining demand.

Opportunities

- Import substitution; local players replacing imports.
- Domestic players are poised for growth on the back of new OEMs in auto sector under the new auto policy.
- Positive impact to be driven from CPEC projects.

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