



## Trucks & Buses Sector Study



## Table of Contents

Contents	Page No.	Contents	Page No.
Global Overview	1	Financial Risk - Borrowings	14
Region Wise Production	2	Rating Curve	15
Global Market Share	3	SWOT Analysis	16
Local   Overview	4	OUTLOOK	17
Local   Snapshot	5	BIBLIOGRAPHY	18
Local   Supply	6		
Local   Demand	8		
Operating Environment - Duties & Taxes	9		
Operating Environment – Localization Lagging Behind	10		
Demand Dynamics	11		
Business Risk	12		
Financial Risk – Working Capital	13		

---



# Trucks & Buses

## Global Overview

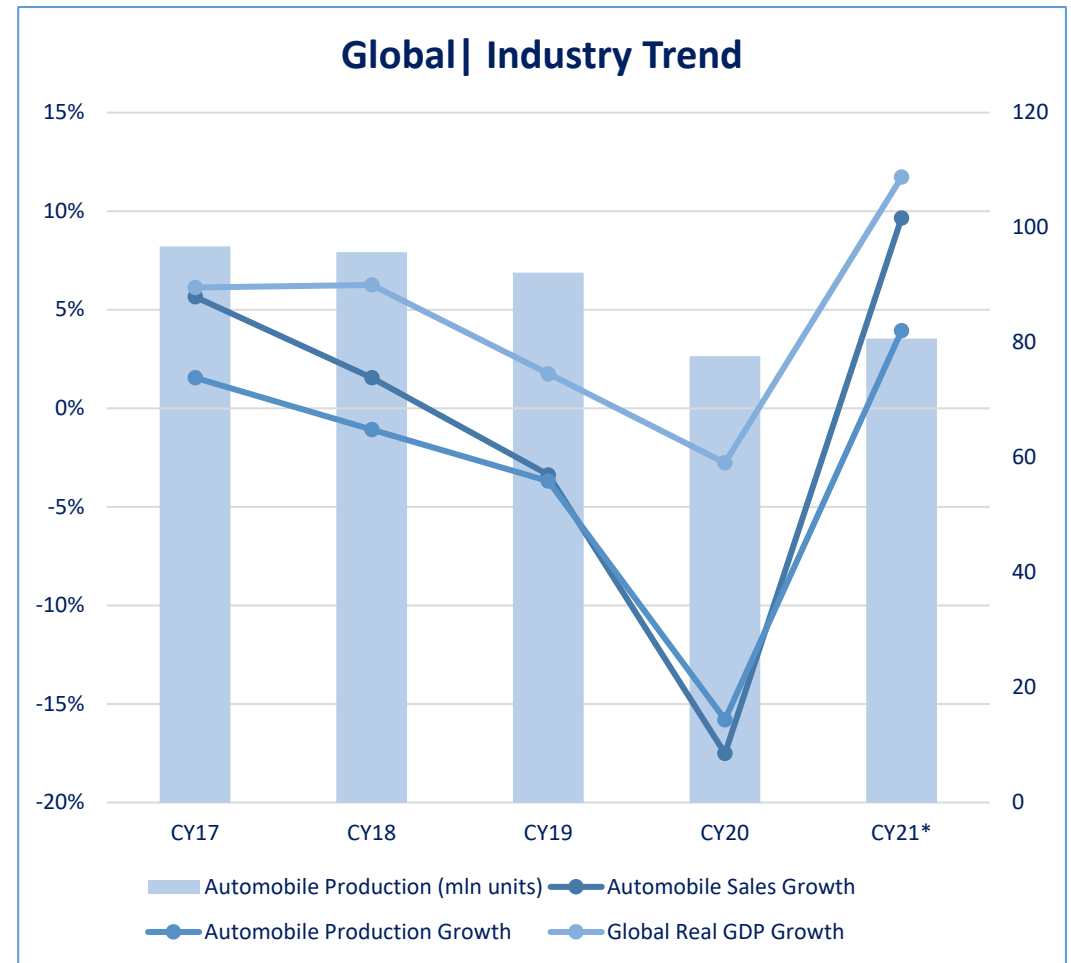
- The **Trucks & Buses** sector is a subgroup of the automotive industry. It comprises entities that are involved in manufacturing, assembling, marketing and distribution of Trucks and Buses.
- Automobiles and related products are among the most traded goods in the world.
- Although the global automobile manufacturing industry faced a negative YoY growth rate of ~-17.5% in CY20 (CY19 ~-0.3%); 1HCY21 sales volumes have rebounded by ~29.4% YoY and by CY21 end the industry is expected to generate revenues of USD~2,689.1bln (CY20: USD~2,452.3bln) representing ~2.8% of the expected CY21 GDP.

### Trucks:

- A truck or motortruck is defined as a vehicle meant for hauling cargo or transportation of goods. Generally trucks with a Gross Vehicle Mass (GVM) of less than 3.5 tons are considered as light, between 3.5 and 12 tons are considered as medium and greater than 12 tons are considered heavy.
- The Global Truck manufacturing industry is expected to grow by ~10% YoY in CY21, boasting expected revenues of USD~221.9bln.

### Buses:

- A bus is defined as a motor vehicle designed to carry more than 10 passengers and is used for transporting people.
- The Global Bus manufacturing industry is expected to grow by ~8% YoY, with expected revenues of USD~41.2bln in CY21.



\*includes estimations.

## Region Wise Production

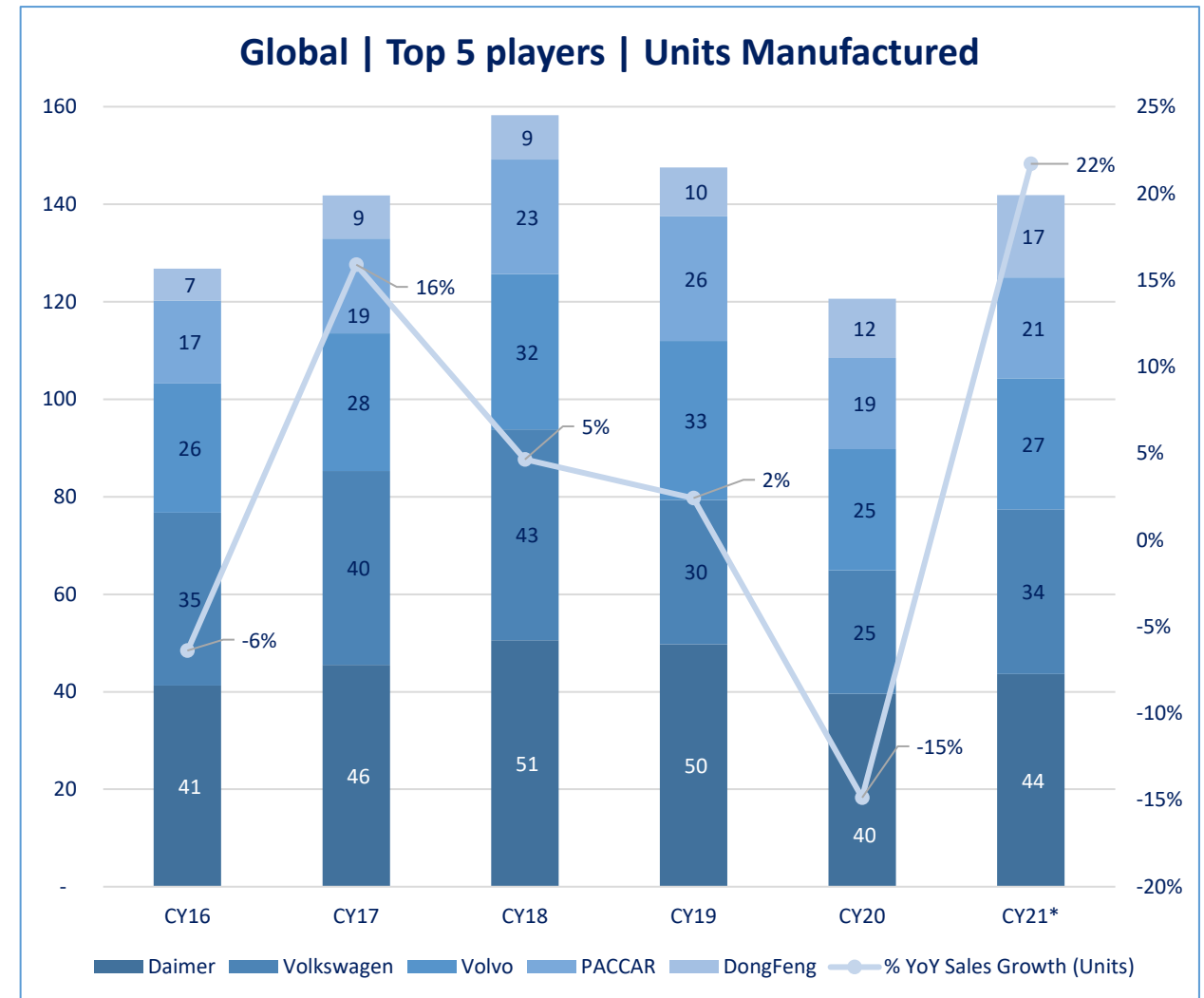
Region/Country Production (in '000') and Share												
Region/Country	CY16		CY17		CY18		CY19		CY20		1HCY21	
	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share
<b>China</b>	1,946	50.6%	2,436	54.6%	2,284	50.9%	2,358	53.4%	3,080	67.2%	1,613	62.2%
<b>North &amp; South America</b>	498	13.0%	572	12.8%	681	15.2%	725	16.4%	495	10.8%	318	12.2%
<b>Japan</b>	518	13.5%	528	11.8%	527	11.8%	516	11.7%	410	9.0%	262	10.1%
<b>Europe</b>	273	7.1%	316	7.1%	352	7.9%	335	7.6%	265	5.8%	170	6.6%
<b>India</b>	346	9.0%	326	7.3%	444	9.9%	321	7.3%	159	3.5%	140	5.4%
<b>Rest of Asia</b>	212	5.5%	243	5.4%	156	3.5%	125	2.8%	144	3.1%	76	2.9%
<b>Africa &amp; Middle East</b>	42	1.1%	29	0.7%	29	0.6%	29	0.7%	23	0.5%	13	0.5%
<b>Pakistan</b>	8	0.2%	9	0.2%	9	0.2%	5	0.1%	3	0.1%	3	0.1%
<b>Totals</b>	<b>3,844</b>	<b>100.0%</b>	<b>4,458</b>	<b>100.0%</b>	<b>4,483</b>	<b>100.0%</b>	<b>4,414</b>	<b>100.0%</b>	<b>4,581</b>	<b>100.0%</b>	<b>2,595</b>	<b>100.0%</b>

- Trucks and Buses witnessed a production CAGR of ~3.6% from CY16 to CY20; with China emerging as the world leader in both Bus and Truck manufacturing holding ~47.1% and ~68.2% share respectively and a ~67.2% in total.
- In CY20 global truck manufacturing volumes grew by ~5.3% YoY (CY19: ~-1.4%); while global bus manufacturing volumes declined by ~19.2% YoY (CY19: ~-3.3%); however as global truck manufacturing volumes are on average 15 times the manufacturing volumes of buses, the overall sector grew by ~3.8% (CY19: ~-1.5%) YoY.

# Trucks & Buses

## Global Market Share

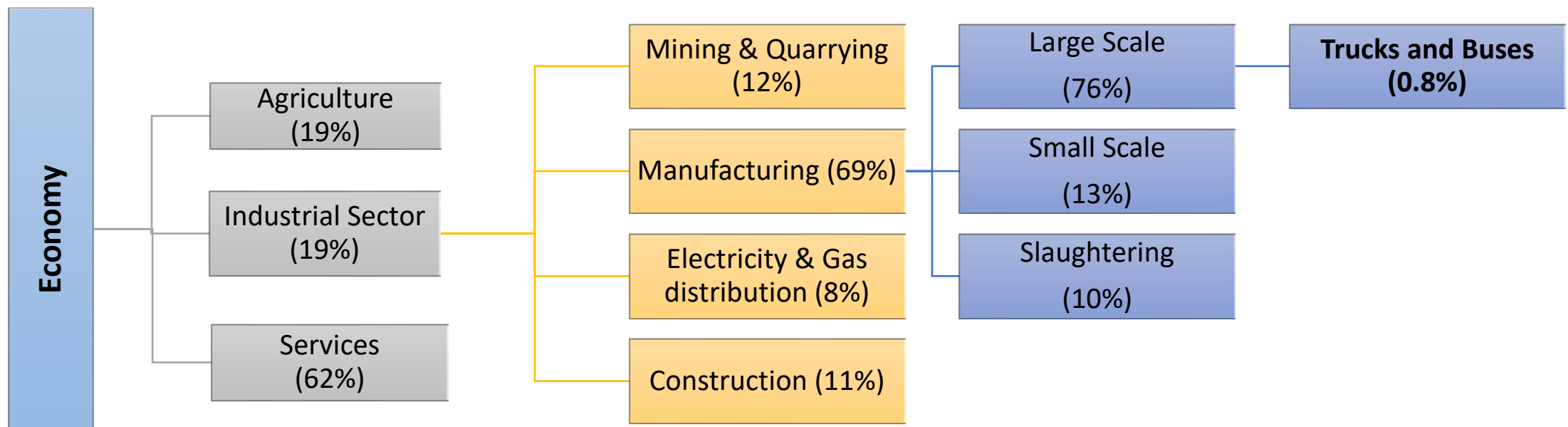
- The global trucks and buses industry is dominated by 5 major players: Daimler AG (Germany), Volvo Trucks Corporation (Sweden), Volkswagen (Germany), PACCAR (USA) and Dongfeng (China).
- CY21 expected revenues from truck and bus divisions of top 5 players are expected to clock in at USD~142bln (CY20: USD~121bln); while CY21 sales volumes are expected to grow by ~22% (CY20: ~-15%) as total units delivered reached ~1.3mln in 3QCY21, compared to ~0.97mln in 3QCY20.
- All top players are aggressively working towards developing environment friendly low emission trucks and buses. Moreover, electric trucks and buses have also been under focus.
- Another upcoming innovation is vehicle platooning, which is expected to improve fuel efficiency, reduce CO2 emission and make roads safer.



# Trucks & Buses

## Local | Overview

- IN FY20, Large-Scale Manufacturing (LSM) had been in distress due to COVID-19 related restrictions, however in FY21 it posted a growth of ~17.4% YoY (FY20: ~-2%) while remaining ~1.8% below pre-COVID levels (on real basis) and making a contribution of ~9.5% (FY20: ~9.3%) to the national GDP.
- Although in FY21 Truck and Bus manufacturing sector posted a growth of ~16.3% (FY20: ~-2.8%) but they only contributed ~0.8% (FY20: ~0.8%) to the LSM sector compared to its pre-COVID contribution of ~1.3%. The Sector's overall CAGR from FY17-FY21 clocked in at ~-2.7%.
- Despite its economic significance, the growth in trucks and buses industry has remained historically laggard. Trucks and buses are either imported in the country as Completely Built Units (CBU) or imported in parts and assembled locally (Completely knocked down units (CKD)). Localization levels in this segment are still the lowest as compared to other segments of the automobile Industry.



# Trucks & Buses

## Local | Snapshot

- Pakistan trucks and buses manufacturing industry posted a revenue of PKR~35.8bln in FY21 (FY20: PKR~30.7bln).
- In FY21, the industry also posted growth in terms of both volumes produced and sold by ~25.9% (FY20: ~-50%) and ~19.2% (FY20: ~-46.1%) respectively.
- The Industry is dominated by the following companies:
  - **Gandhara Industries Ltd. (GHNI)**; Brands: Isuzu
  - **Gandhara Nissan Ltd. (GHNL)**; Brands: JAC, Nissan, Renault, Dongfeng
  - **Hinopak Ltd. (HINO)**; Brands: Hino
  - **Master Motor (PVT) Ltd.** ; Brands: Foton, Fuso, Yutong
  - **Al-Haj FAW motors (PVT) Ltd.** ; Brands: FAW
  - **Afzal Motors (PVT) Ltd.** ; Brands: Daewoo, King long
- The industry is not regulated by a particular government body per se, however following regulations apply to all automotive manufactures in Pakistan; emissions and noise standards by Ministry of Environment, import/export polices of Ministry of Commerce, manufacturing standards by Pakistan Standards and Quality Control Authority and Automotive development policy by Ministry of Industries and Production.

Overview	FY20	FY21
Gross Revenue (PKR bln)	30.7	35.8
Contribution to LSM	0.84%	0.84%
Major Sector Players	6	6
Trucks on Road	325,600	313,300
Buses on Road	193,700	164,600
Trucks Manufactured <i>(during the year)</i>	2,945	3,808
Buses Manufactured <i>(during the year)</i>	532	570
Trucks Sold <i>(during the year)</i>	3,088	3,695
Buses Sold <i>(during the year)</i>	559	652
Sector Structure	Oligopoly	
Associations	PAMA	

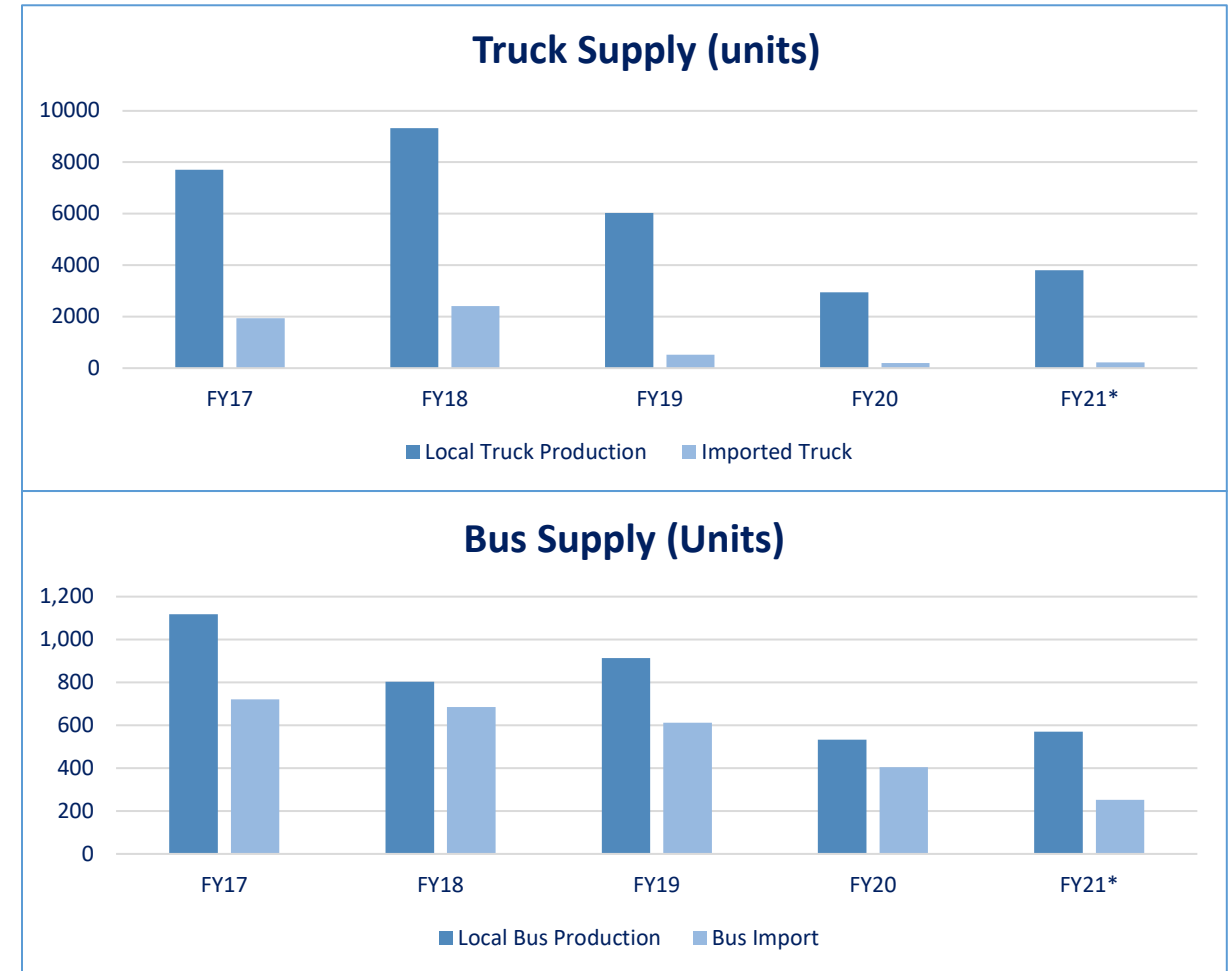
*(Based on publicly available data)*



# Trucks & Buses

## Local | Supply Side

- In FY21, around 3,080 (FY20: ~2,945) trucks were locally assembled while ~225 trucks (FY20: ~204) of various classes were imported as CBU; making the local assembly to import ratio of 94:6 (FY20: 93:7).
- In FY21, around 570 (FY20: ~532) buses were locally assembled while ~252 (FY20: ~404) buses were imported as CBU; making the local assembly to import ratio at 69:31 (FY20: 57:43). While this number seems promising in terms of local assembly, it is pertinent to mention that the localization levels in local assembly are still very low (discussed later), thus still creating a high dependency on imports.
- There was a significant uptick in truck supply in FY21, as it grew by ~28.1% YoY (FY20: ~-52%); meanwhile, bus supply declined by ~-12.2% YoY (FY20: ~-38.6%); Overall, the average CAGR of both segments from FY17-FY21 clocked in at ~-16% and ~-14.9% respectively.
- In value terms, the FY21 Trucks and Buses related imports clocked in at PKR~474,150mIn (FY20: PKR~244,239mIn) representing a share ~17.2% (FY20: ~19.7%) in Transport Group imports; while Transport Group imports represented a ~5.3% (FY20: ~3.5%) share in the country's total imports bill.



(Dongfeng, FAW, Daewoo, Volvo and Renault figures not published by PAMA)  
 (Imported trucks and buses include, Buses, Trolley Buses, Special Lorries Trucks & Vans)  
 \*FY21 figures prorated on 9MFY21 figures



# Trucks & Buses

## Local | Supply

- As of FY21, ISUZU (operated by Ghandhara Industries Ltd.) dominated local truck manufacturing with a ~48% share (FY20: ~50.3%). It was followed by Master Motors (representing Foton and Fuso trucks) which overtook HINOPAK with a ~28.3% (FY20: ~12.1%) share; HINOPAK held a ~16.6% (FY20: 35.2%) share while JAC (Operated by Ghandhara Nissan Ltd.) represented a 7.1% (FY20: 2.4%) share.
- While bus manufacturing in FY21 was dominated by Master Motors (representing Fuso and Yutong buses) as it overtook HINOPAK and captured a market share of ~56% (FY20: ~33.3%), while HINOPAK held a market share of ~28.5% (FY20: ~48.9%) and ISUZU (Ghandhara Industries Ltd.) held ~14.6% (~17.9%) of the market share.
- Local truck manufacturing experienced a major uptick in 4MFY22 as it grew by a massive ~86% YoY, with Master Motors increasing its share to ~33.4%(FY21: ~28.3%); while total bus manufacturing in 4MFY22 remained unchanged compared to same period last year. HINOPAK managed to increase its market share to ~35% (FY21: 28.5%), cutting ISUZU's share to ~7.5% (FY21: 14.6%).

Local Trucks Production (Units)	FY17	FY18	FY19	FY20	FY21	4MFY21	4MFY22
<b>ISUZU</b>	2,862	3,786	2,981	1,481	1,827	498	954
<b>MASTER</b>	1,140	1,579	1,302	356	1,078	318	654
<b>HINO</b>	2,988	3,960	1,752	1,036	633	200	312
<b>JAC</b>	0	0	0	72	270	36	36
<b>Nissan</b>	722	1	0	0	0	0	0
<b>Total</b>	<b>7,712</b>	<b>9,326</b>	<b>6,035</b>	<b>2,945</b>	<b>3,808</b>	<b>1,052</b>	<b>1,956</b>

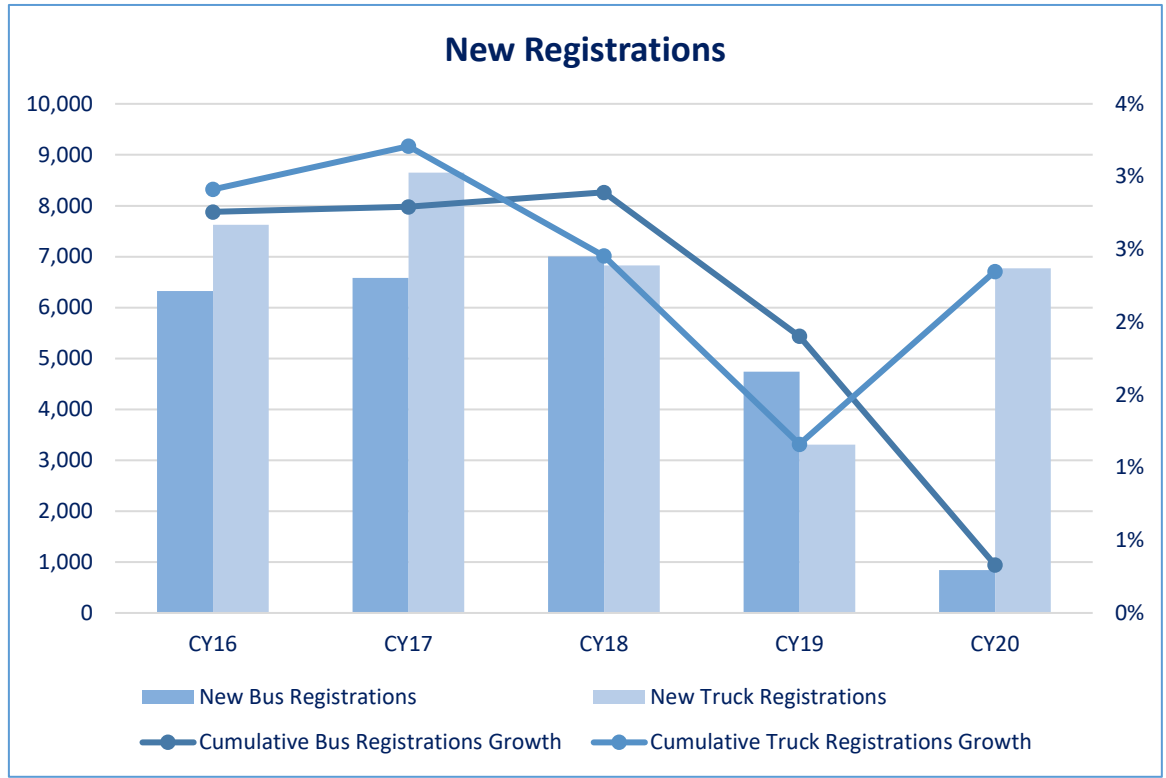
Local Bus Production (Units)	FY17	FY18	FY19	FY20	FY21	4MFY21	4MFY22
<b>MASTER</b>	178	304	254	177	319	88	92
<b>HINO</b>	682	340	442	260	168	54	56
<b>ISUZU</b>	258	159	217	95	83	18	12
<b>Total</b>	<b>1,118</b>	<b>803</b>	<b>913</b>	<b>532</b>	<b>570</b>	<b>160</b>	<b>160</b>

(Dongfeng, FAW, Daewoo, Volvo and Renault figures not published by PAMA)

# Trucks & Buses

## Local | Demand

- As of CY20 ~6,770 (CY19:~3,304) new trucks and ~839 (CY19: ~4,741) new buses were registered, of which ~45% truck sales were locally produced trucks; while ~57% of bus registrations were locally produced buses.
- In terms of cumulative growth of new registrations, CY20 truck registrations experienced a minor uptick to ~2.3% (CY19: ~1.2%) while bus registrations dipped further to ~0.3% (CY19: ~1.9%).



Local Truck and Bus Sales (Units)		FY17	FY18	FY19	FY20	FY21	4MFY21	4MFY22
<b>ISUZU</b>	<b>Truck</b>	2,640	3,878	2,801	1,582	1,907	568	940
	<b>Bus</b>	263	122	219	120	113	27	30
<b>Master</b>	<b>Truck</b>	1,115	1,561	1,219	424	897	295	691
	<b>Bus</b>	158	306	274	177	355	87	103
<b>HINO</b>	<b>Truck</b>	3,042	3,874	1,808	1,038	668	181	305
	<b>Bus</b>	709	334	442	262	184	72	51

(Dongfeng, FAW, Daewoo, Volvo and Renault figures not published by PAMA)

## Operating Environment - Duties & Taxes

- Four of the major players are members of the Pakistan Automotive Manufacturers Association which is a trade group of automobile manufacturers that operate in Pakistan. It is the leading advocacy group for the auto industry in Pakistan and is licensed by the Ministry of Commerce under the Trade Organizations Ordinance 2007.
- Custom Duty for Electric truck components and CBUs were introduced recently in the beginning of FY21.
- With respect to income tax, the industry is under Normal Tax Regime (NTR). Further, minimum tax @1.5% of turnover is applicable if tax liability under NTR is lower than minimum tax.

PCT Code	Description	Custom Duty	
		FY21	FY20
<b>Trucks</b>			
4011.2011	New pneumatic tires	16%	16%
4013.1010	Inner Tubes	3%	3%
8426.1110	Works trucks fitted with a crane (Not Exceeding 400 metric ton)	11%	11%
8427.1000	Self- propelled trucks powered by an electric motor	0%	0%
8704.1010	Components for assembly/manufacture of Dump trucks designed for off highway use	30%	30%
8704.9020	Components for the assembly / manufacture of Electric trucks, in any kit form	30%	
8704.9030	Electric trucks (CBU)	30%	
<b>Buses</b>			
8702.9020	Components for assembly / manufacture of Fully dedicated LNG/ LPG or CNG buses	20%	20%
8702.9030	Fully dedicated LNG buses (CBU)	20%	20%
8702.9040	Fully dedicated LPG buses (CBU)	20%	20%
8702.9050	Fully dedicated CNG buses (CBU)	20%	20%
8708.2920	Long members for frame	35%	35%

# Trucks & Buses

## Operating Environment – Localization Lagging Behind

- Trucks and buses in Pakistan have the lowest localization levels compared to other segments of the Automobile Industry.
- Both trucks and buses are either only assembled in Pakistan or directly imported in Completely Built-Up form (CBU).
- This is mainly due to the fact that demand for trucks and buses is low on a national level and setting up production plants would require intensive capital investment. This is also partially because of the earlier reliance on policies which promoted an import led economic growth.
- Moreover, the trucks and buses industry has historically been dominated by a few players which have focused primarily on assembling and distribution rather than enhancing local production. However, new entrants in the market in the previous years are expected to lead and promote a greater level of localization among trucks and buses.
- In value terms, FY21 import bill of truck and bus CBUs was worth PKR~20,035mIn (FY20: PKR~18,704mIn), while import bill of truck and bus CKDs was worth PKR~61,563mIn (FY20: ~29,386mIn); marking the CKD to CBU mix of 75:25 (FY20: 62:38).

		Imports and Local Assembling				
		FY17	FY18	FY19	FY20	FY21*
Trucks	Imports-CBU	1,939	2,411	519	204	225
	Local Assembling (CKD)	7,712	9,326	6,035	2,945	3,808
	<b>Total</b>	<b>9,651</b>	<b>11,737</b>	<b>6,554</b>	<b>3,149</b>	<b>4,033</b>
Buses	Imports-CBU	720	685	611	404	252
	Local Assembling (CKD)	1,118	803	913	532	570
	<b>Total</b>	<b>1,838</b>	<b>1,488</b>	<b>1,524</b>	<b>936</b>	<b>822</b>

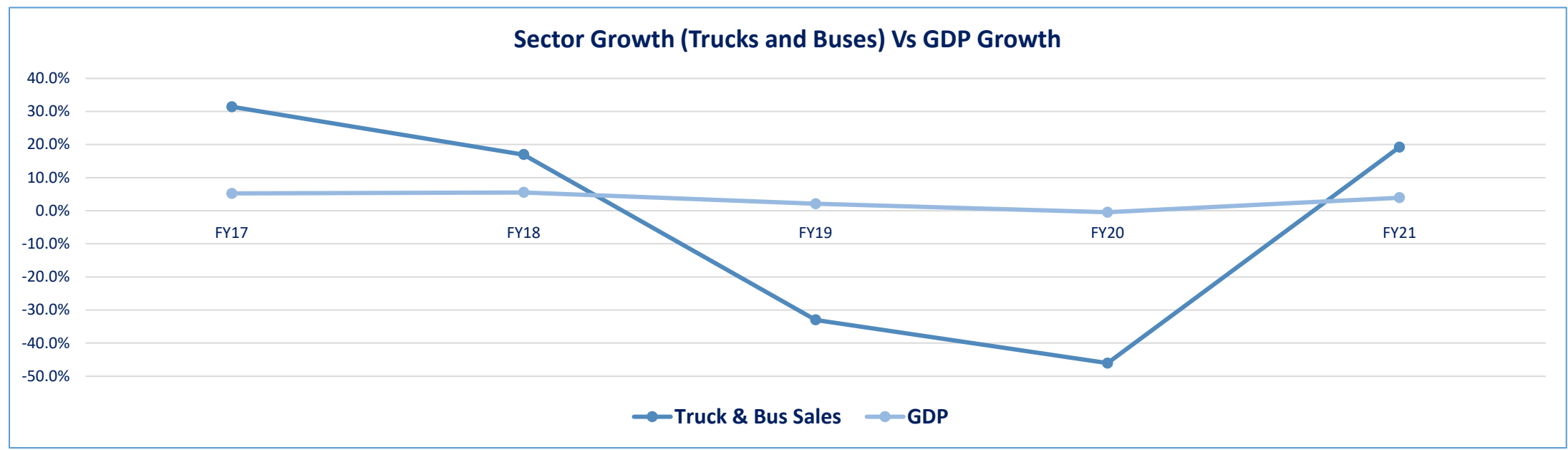
\*Provisional

Localization Levels	
Passenger Cars & LCVs	50-60%
Trucks/Buses	~30%
Tractors	~85%
Motorcycles	~90%

# Trucks & Buses

## Demand Dynamics

- Trucks and buses demand has a high dependency on the industrial activities and economic growth as trucks and buses sales growth and GDP growth have a coefficient of correlation of 0.94.
- In FY20, as the economy slowed down and GDP recorded a negative growth (~-0.4%) for the second time in the country’s history. The sector sales volumes also plummeted by ~-46%. However with the economic recovery of ~4% in FY21, sector sales volumes rebounded by ~19% and 4MFY22 figures have also shown promising results as sector sales volumes grew by ~70% compared to the same period last fiscal year.
- Going forward the demand for trucks and buses is expected to rise due to low COVID-19 related travel restrictions and increased economic activity to meet CPEC related material and freight transport needs.

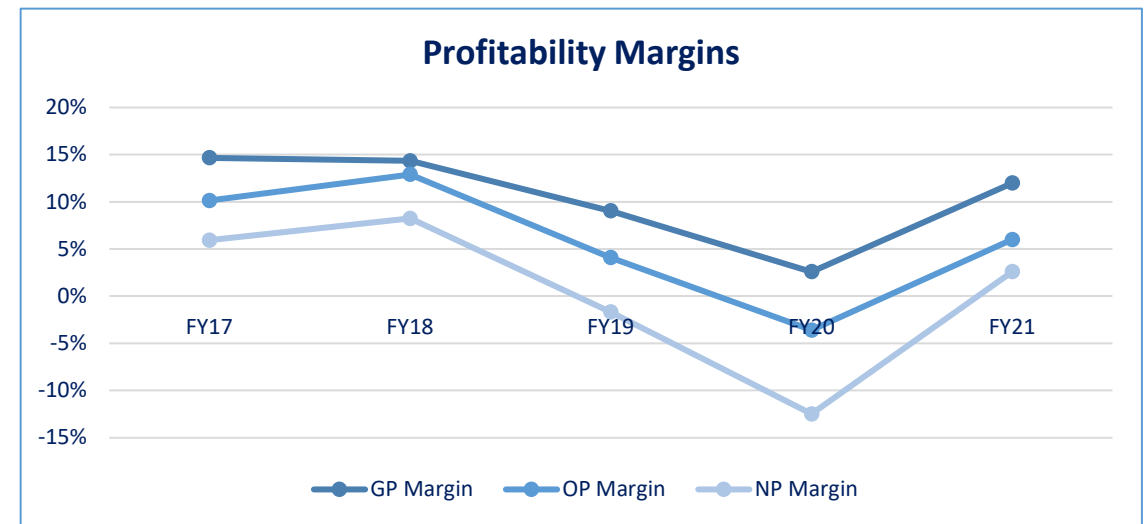
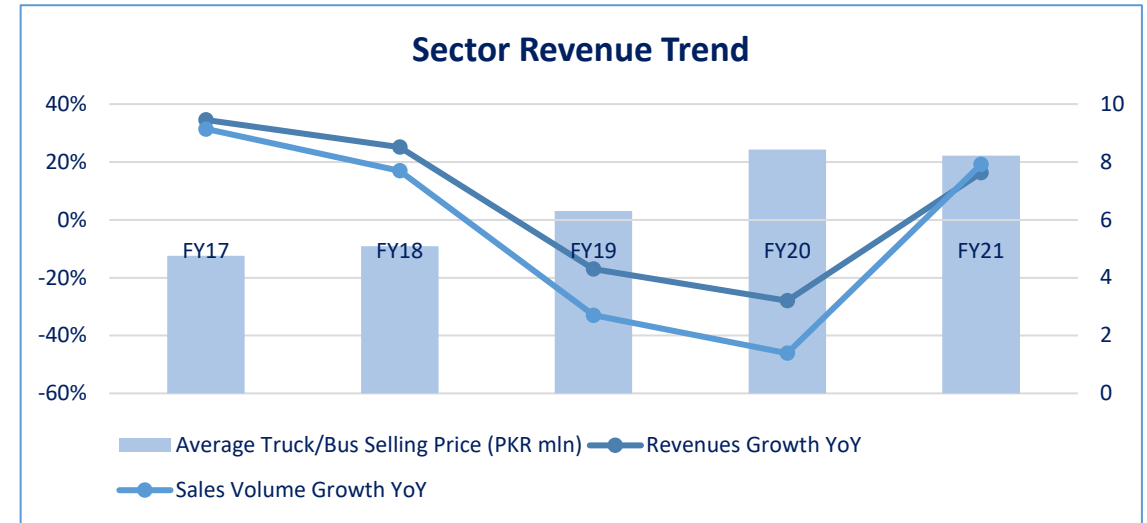




# Trucks & Buses

## Business Risk

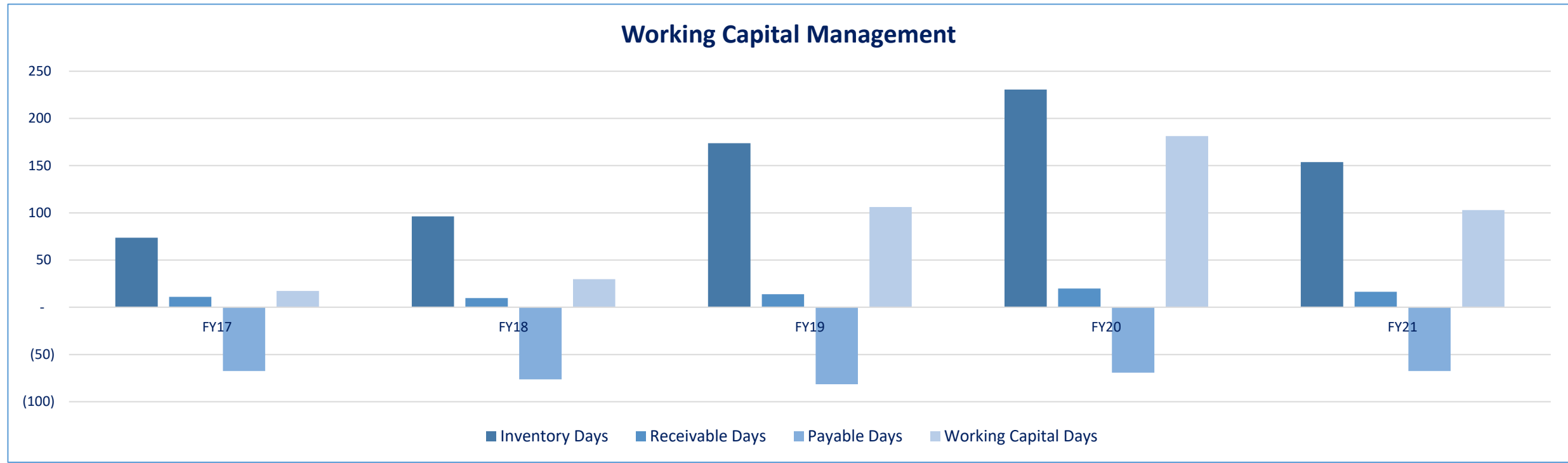
- In FY21, the sector experienced sales volume growth of ~19.2% (FY20: -46.1%). However, the sector's performance still remains well below the highest recorded revenues of PKR~51.4bln in FY18. Since then, the sector revenues had a negative CAGR of ~-11.4% from FY18 - FY21 while FY21 sales volumes are still ~41% lower than pre-COVID-19 five years' average FY15 -FY19 of 7,346 unit sales.
- Nonetheless, FY21 yielded positive results in terms of both top-line and bottom-line as overall revenues rebounded by ~16.3% (FY20: ~28%) owing in part to higher volumes as well as improved pricing (compared to pre-COVID levels); gross margins also increased to ~12% (FY20: ~2.6%), higher revenues were complimented by lower costs as COGS per rupee of revenue decreased to PKR~0.88 compared to PKR~0.97 in FY20.
- In FY21, the sector's operating margins also improved to ~6% (FY20: ~-3.6%), even though other income decreased by ~16.6%.
- Resultantly, in FY21, the sector's net margins improved to ~2.6% (FY20: ~-12.5%) after 2 congestive years of losses, as finance cost decreased by ~64% and tax expenses also reduced by ~21%, supporting the higher retention carried by higher gross profits and operating profits.



# Trucks & Buses

## Working Capital Management

- In FY20, lower demand caused major financial distress in the sector, as inventories started piling up, pushing inventory days up to ~231 by End-FY20 (it was under 100 days just 2 years prior); while receivable and payable days remained largely stable; this caused net working capital days to reach ~181, leading to higher need of STBs.
- With inventory days coming down to ~154 in FY21 amid accelerated demand, the net working capital days have diluted to ~103 days, enabling the sector to release its STBs stress.

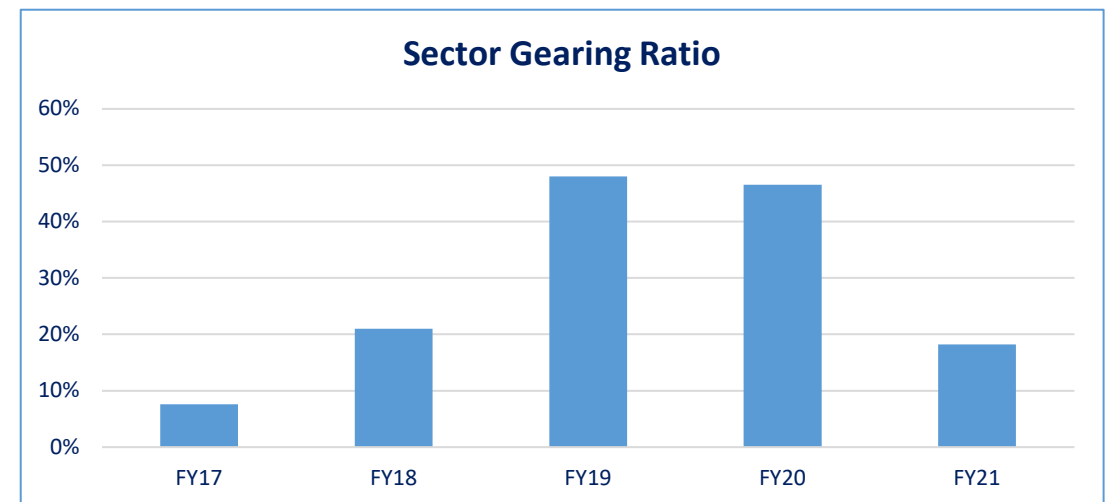
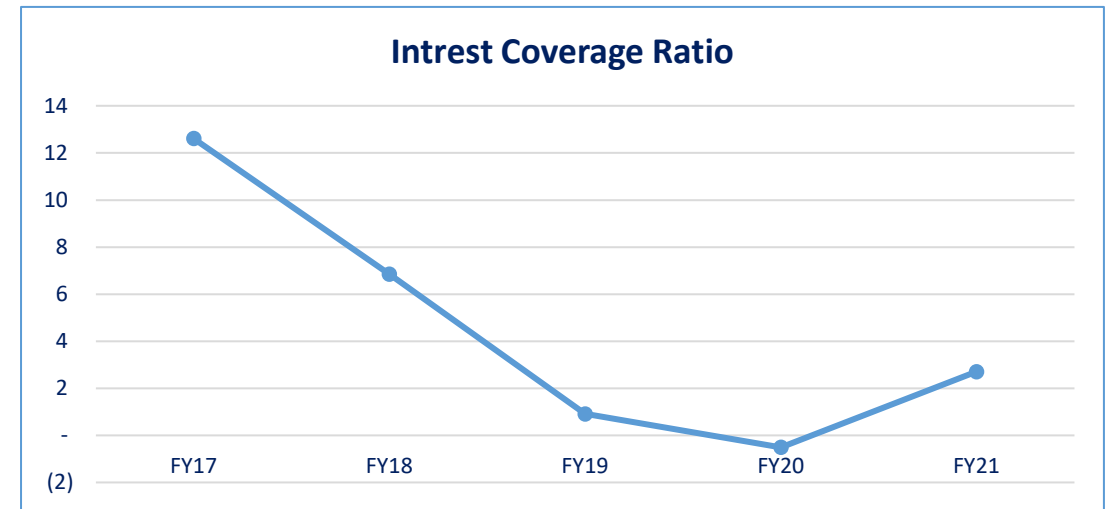


\*Includes Gandhara Industries, Gandhara Nissan, Hino Pak and Master Motors

# Trucks & Buses

## Financial Risk - Borrowings

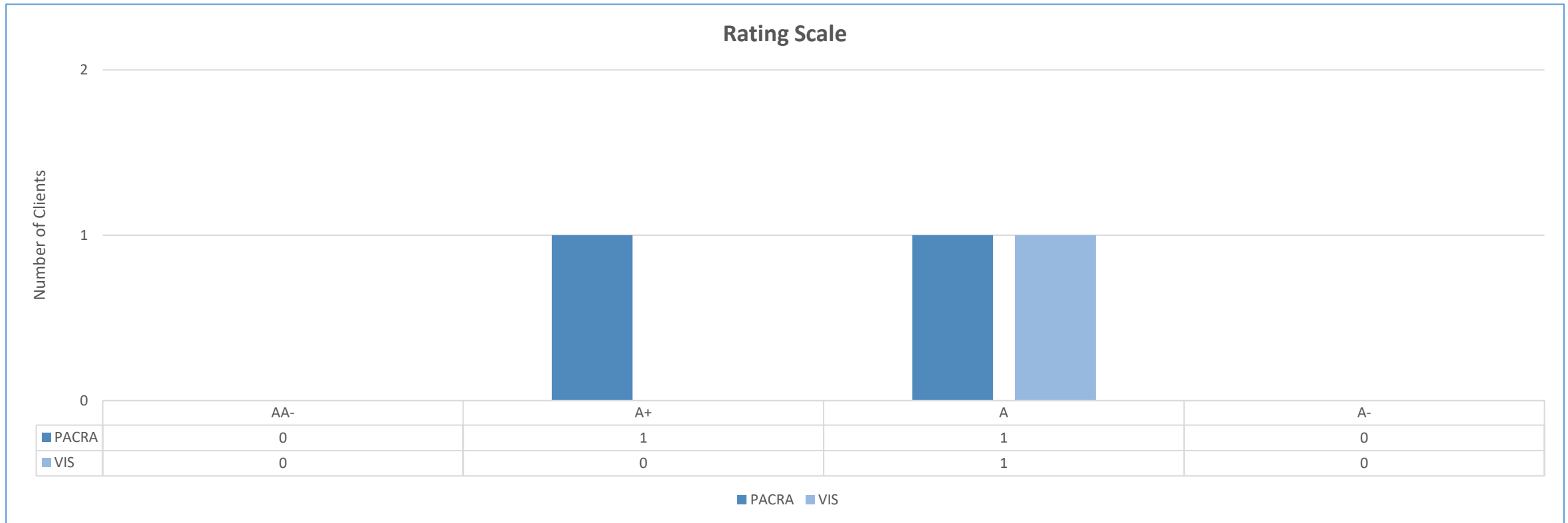
- The sector’s financial risk profile had been under stress due to COVID-19 induced lower demand and unfavorable business environment in general, causing FY20 interest coverage ratio to dip to ~-0.51x (FY19: 0.91x). Financial distress pushed the industry’s Short Term Borrowings (STBs) to grow by ~258% in FY19 to PKR~15bln and by End-FY20, STBs stood at PKR~13bln, reducing by a ~12%.
- However, since the economic recovery in FY21, sector margins improved resulting in improved interest coverage ratio of 2.7x, significantly reducing financial pressure.
- The sector gearing (total debt to equity) also saw significant reduction and by End-FY21 stood at ~18.2% (FY20: ~46.5%), owing to massive reduction in sector STBs by ~70.3%. Lower debt in the industry’s capital structure would benefit in reducing its finance cost amid recently increased policy rate of 8.75%.
- The latest growth of ~82% 4MFY22 in sales volumes further indicates that sector margins are likely to make further recovery, which would also enhance sector’s ability to keep its financial risk profile intact.





## Rating Curve

- PACRA rates:
  - Gandhara Industries Ltd.
  - Gandhara Nissan Ltd.





# Trucks & Buses

## SWOT Analysis



## OUTLOOK: STABLE

- Since FY21, the economy as well as the industry is on the path to recovery. The truck and buses sector is highly correlated to the economic growth and industrial activities, therefore, the recent hike of 150 basis points in the policy rate and any further expected increase may lead to contraction in the economic growth and discourage auto financing, which may impacted the sector adversely, as witnessed in the prior years.
- The average inflation rate during FY21 stood at ~8.9% as compared to an average inflation rate of ~10.7% during FY20. Till October 2021, the inflation level in the country has increased to ~9.2%. Moreover, the PKR has depreciated by 9.44% during the ongoing fiscal year, till October 2021. This will have a negative impact on the local vehicle trucks and buses assembling as it is heavily dependent on imported inventory.
- CPEC related activities and stability of policy and exchange rate are key drivers for the future progress of the sector. The government is paying keen attention to CPEC related projects which are key drivers for the trucks and buses industry in Pakistan.
- Under the Automotive Development Policy (ADP) 2016- 2021, it was intended to increase production of trucks and buses to 12,000 and 2,200 by 2021 respectively. However this was not achieved but reflects government's commitment to improving the sector. Furthermore, increasing competition due to new Chinese entrants in the market will improve quality and increase price sensitivity of the products addressing low localization levels of trucks in Pakistan.
- Tourism, over the past few years has increased, owing to the government's consistent effort in its promotion. As the effects of COVID-19 subside and tourism resumes rising pace, buses are expected to see an increase in demand.
- 4MFY22 figures were highly encouraging for the trucks and manufacturing industry as 1,956 trucks were produced and 2,011 trucks were sold, this reflects a ~86% and ~82% growth compared to same period previous fiscal year; local bus production numbers were however same as the previous year for trucks while bus sales declined nominally compared to the same period last year. Trucks represent ~92% of the Sector volume. Going forward, the offtake pattern of trucks and buses amid tightening monetary and fiscal measures are the key indicators to determine the performance of the sector.

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Pakistan Automotive Manufacturers Association (PAMA)
- Federal Board of Revenue (FBR)
- Pakistan Economic Survey
- PACRA database

<b>Research Team</b>	<b>Saniya Tauseef</b> <i>Asst. Manager</i> <a href="mailto:saniya.tauseef@pacra.com">saniya.tauseef@pacra.com</a>	<b>Muhammad Usman Sarwar</b> <i>Research Analyst</i> <a href="mailto:usman.sarwar@pacra.com">usman.sarwar@pacra.com</a>
<b>Contact Number: +92 42 35869504</b>		

## DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.