



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
Local Overview	3	SWOT Analysis	16
Local Snapshot	4-5	Outlook	17
Local Supply	6-7	Bibliography	18
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

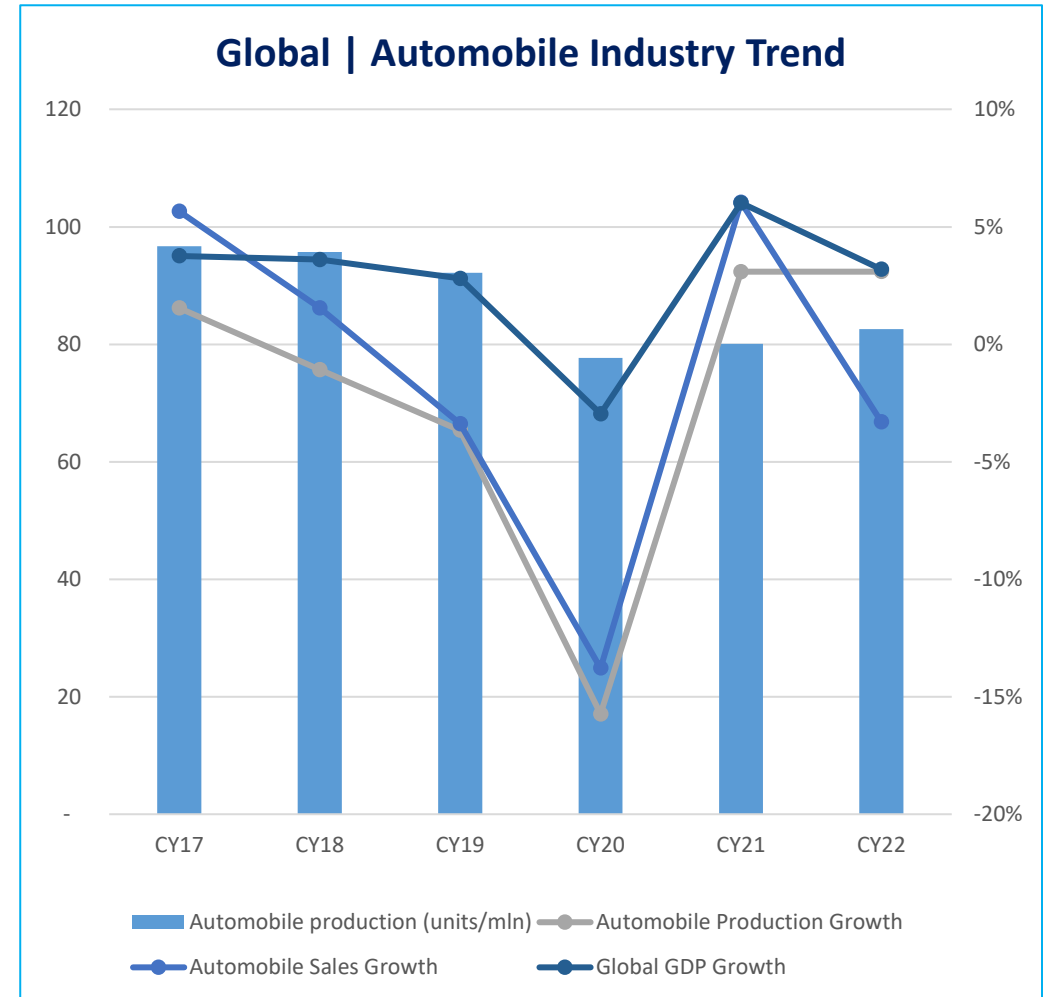
- The **Trucks & Buses** sector is a subgroup of the automotive industry. It comprises entities that are involved in manufacturing, assembling, marketing and distribution of Trucks and Buses.
- Automobiles and related products are among the most traded goods in the world. Although, the global automobile manufacturing industry is expected to maintain a YoY growth rate of ~3% in CY22 (CY21 ~3%); the sales volumes are expected to see a decline of ~3.3% YoY by CY22 end (CY21 ~6%). The industry is expected to generate revenues of USD~2,950bln in CY22 (CY21: USD~2,860bln).

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 ~8.6% YoY in CY22, boasting expected revenues of USD~206.5bln (CY21:USD~190.1bln).

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 ~10% YoY, with expected revenues of USD~45.4 in CY22 (CY21:USD~41.2bln) .



*includes estimations.

Region Wise Production

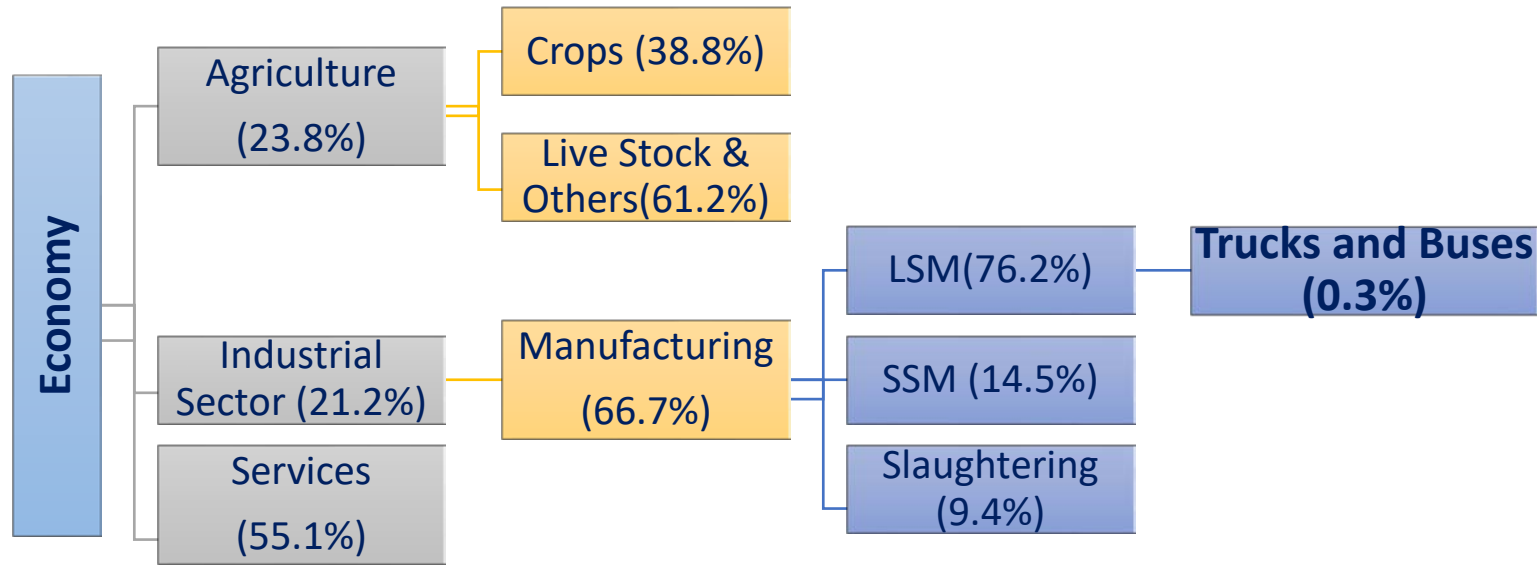
Region/Country Production and Share (volume in thousands)										
Region/Country	CY17		CY18		CY19		CY20		CY21	
	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share	Production Volumes	%share
China	2,436	54.6%	2,284	50.9%	2,358	53.4%	3,080	67.2%	2,503	55.7%
North & South America	572	12.8%	681	15.2%	725	16.4%	495	10.8%	645	14.4%
Japan	528	11.8%	527	11.8%	516	11.7%	410	9.0%	519	11.6%
Europe	316	7.1%	352	7.9%	335	7.6%	265	5.8%	344	7.7%
India	326	7.3%	444	9.9%	321	7.3%	159	3.5%	281	6.3%
Rest of Asia	243	5.4%	156	3.5%	125	2.8%	144	3.1%	167	3.7%
Africa & Middle East	29	0.7%	29	0.6%	29	0.7%	23	0.5%	28	0.6%
Pakistan	9	0.2%	9	0.2%	5	0.1%	3	0.1%	6	0.1%
Totals	4,458	100.0%	4,483	100.0%	4,414	100.0%	4,581	100.0%	4,492	100.0%

- Trucks and Buses witnessed a production CAGR of ~3.4% from CY17 to CY21; with China emerging as the world leader in both Bus and Truck manufacturing holding ~47.5% and ~56.0% share respectively and a ~55.7% in total.
- In CY21 global truck manufacturing volumes fell by ~1.5% YoY (CY20: ~5.2%); while global bus manufacturing volumes declined by ~36.6% YoY (CY20: ~-9.6%); however as global truck manufacturing volumes are on average 18 times the manufacturing volumes of buses, the overall sector saw a decline of by ~1.9% (CY20: ~3.8%) YoY.

Trucks & Buses

Local | Overview

- With an estimated GDP growth rate for FY22 clocking in at ~6.0% YoY (FY21: ~5.7%); Pakistan’s economy maintained its growth momentum. Among major segments; growth in industrial activities is estimated at ~7.2% YoY (FY21: 7.8%).
- The Large Scale Manufacturing (LSM) is a significant component of the Manufacturing Segment of the Industrial sector. It is considered essential for the country’s economic growth considering its strategic importance and linkages with other sectors of the economy. It contributes ~9.1% to the GDP and in FY22, it is estimated to have grown by ~10.5% YoY (FY21: 11.5%). In FY22, Trucks and Buses posted a growth of ~44.4% (FY21: ~25.9%) in production terms contributing only ~0.34% (FY21: ~0.8%) to the LSM sector
- 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~42.2bln in FY22 (FY21: PKR~23.7bln), a growth of ~ 54.5% YoY
- In FY22, the industry also posted growth in terms of both volumes produced and sold by ~44.4% (FY20: ~25.9%) and ~49.5% (FY20: ~19.2%) respectively which can be attributed to the economic recovery as the use of trucks and buses is directly related to economic activities.
- 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	FY21	FY22	1QFY23
Gross Revenue (PKR bln)	27.3	42.2	10.1
Contribution to LSM	0.84%	0.34%	0.34%
Major Sector Players	6	6	6
Trucks on Road	313,300	316,400	316,400*
Buses on Road	164,600	166,200	166,200*
Trucks Manufactured (<i>units (during the year)</i>)	3,808	5,659	1,249
Buses Manufactured (<i>units (during the year)</i>)	570	661	336
Trucks Sold (<i>units (during the year)</i>)	3,695	5,802	1,109
Buses Sold (<i>units (during the year)</i>)	652	696	210
Sector Structure	Oligopoly		
Associations	PAMA, FOAP		

(Based on publicly available data)

(*Latest available data for trucks and buses on roads is FY22.)

Trucks and Buses manufacturing and sales data is for 4MFY23

Local | Snapshot

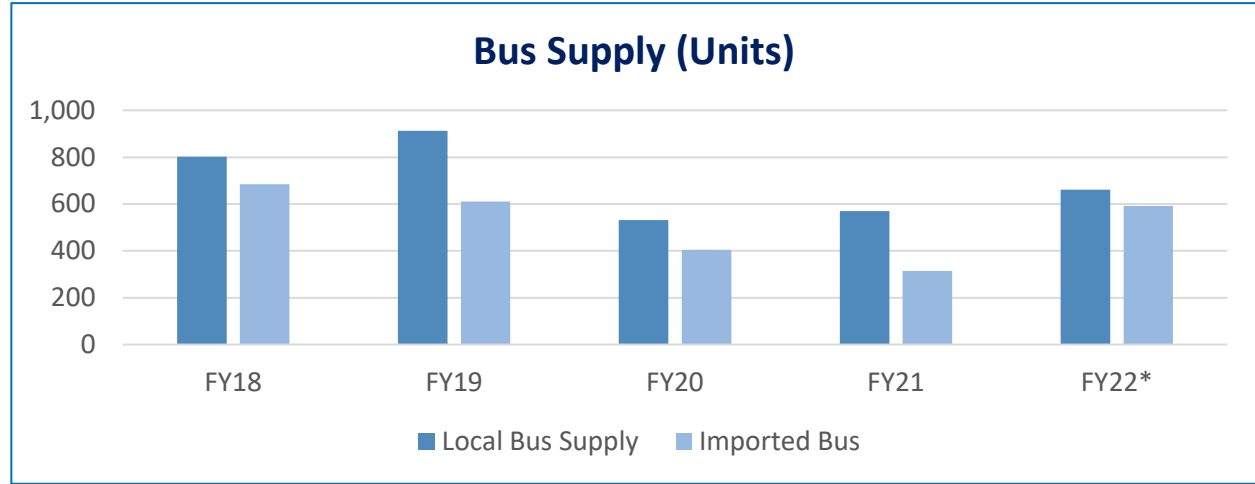
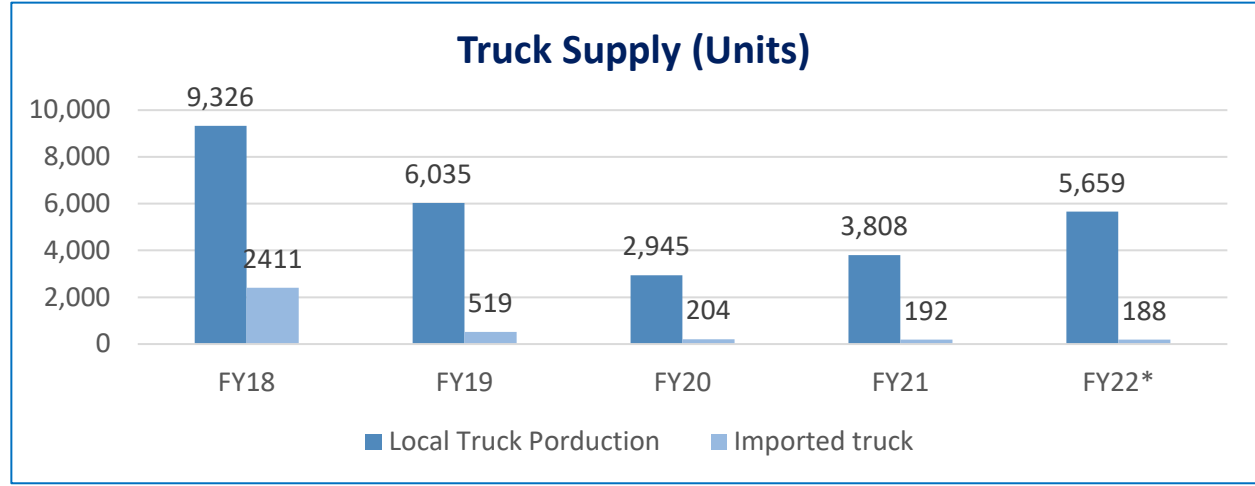
- Another component of the trucks and buses sector is the transport services provided by buses. Some of the buses are assembled in Pakistan such as Yutong Master, ZhongTong, Daewoo, Hino Pak etc for which the main parts are imported from abroad and assembled locally. However, majority of buses are imported as completely built units from different manufacturers around the world, like China, Korea etc. Most of these bus operators use Daewoo, Yutong, KingLong, ZhongTong, Volvo and Higer luxury buses.
- Major players that provide these transport services are Daewoo Express, Faisal Movers, Niazi Express, Bilal Travels and Kohistan Express.
- One of the leading transport company in this segment is Daewoo Express that provides intercity transport and has been operational for 24 years.
- The company has been operating a fleet of ~900 buses on intercity and intracity routes covering ~65 destinations across Pakistan with passenger influx of more than ~5.1 million in 2021.
- Daewoo Express diversified its revenue base significantly in last ten years from intercity operations to intracity bus operations and courier & logistics business. Due to its diversified revenue base, Daewoo Express is well positioned for growth in intercity bus operations and Logistic Services
- Due to growing acceptability of electric vehicles in inter-city transport business, company intends to replace current fleet from diesel to electric buses by adding 200 brand new buses. The company also intends to launch intra-city electric buses in major cities of Pakistan.



Trucks & Buses

Local | Supply Side

- In FY22, around 5,659 (FY21: ~3,080) trucks were locally assembled while ~188 trucks (FY20: ~192) of various classes were imported as CBU; making the local assembly to import ratio of 97:3 (FY21: 94:6).
- In FY22, around 661 (FY21: ~570) buses were locally assembled while ~592 (FY21: ~314) buses were imported as CBU; making the local assembly to import ratio at 53:47 (FY21: 69:31). This ratio does not look very promising as the localization levels in the industry are still very low (discussed later), thus still creating a high dependency on imports.
- There was a significant uptick in truck supply in FY22, as it grew by ~48.6% YoY (FY21: ~28.1%) ; meanwhile, bus supply increased by ~15.9% YoY (FY20: ~-12.2%); Overall, the average CAGR of both segments from FY17-FY21 clocked in at ~2% and ~-7% respectively.
- In value terms, the FY22 Trucks and Buses related imports clocked in at PKR~170,929mIn (FY21: PKR~81,586mIn) representing a share of ~21.6% (FY20: ~17.3%) in Transport Group imports; while Transport Group imports represented a ~5.5% (FY21: ~5.3%) share in the country's total imports bill. The value of imports of trucks and buses in 4MFY23 stood at PKR~ 43,931 a fall of ~14.8% from the same period last year.(4MFY22: PKR~51,538).



(Imported trucks and buses include, Buses, Trolley Buses, Special Lorries Trucks & Vans)
 *FY22 import figures prorated on 9MFY22 figures

Local | Supply

- As of FY22, ISUZU (operated by Ghandhara Industries Ltd.) dominated local truck manufacturing with a ~53.7% share (FY21: ~48.0%). It was followed by Master Motors (representing Foton and Fuso trucks) with a ~26.2% (FY21: ~28.3%) share; HINOPAK held a ~15.7% (FY21: 16.6%) share while JAC (Operated by Ghandhara Nissan Ltd.) represented a 4.4% (FY21: 7.1%) share.
- Bus manufacturing in FY22 was dominated by Master Motors (representing Fuso and Yutong buses) and captured a market share of ~55.8% (FY21: ~56.0%), while HINOPAK held a market share of ~24.2% (FY21: ~28.5%) and ISUZU (Ghandhara Industries Ltd.) held ~14.6% (FY21: ~20.0%) of the market share.
- Local truck manufacturing experienced a massive decline in 4MFY23 as it fell by ~36.1% YoY ; while total bus manufacturing in 4MFY23 increased by ~110% compared to same period last year. HINOPAK managed to increase its market share to ~39.8% (FY21: 35.0%), cutting MASTER's share to ~34.5% (FY21: 57.5%).

Local Trucks Production (Units)	FY18	FY19	FY20	FY21	FY22	4MFY22	4MFY23
ISUZU	3,786	2,981	1,481	1,827	3,044	954	620
MASTER	1,579	1,302	356	1,078	1,482	654	377
HINO	3,960	1,752	1,036	633	886	312	216
JAC	1	0	72	270	247	36	36
Total	9,326	6,035	2,945	3,808	5,659	1,956	1,249

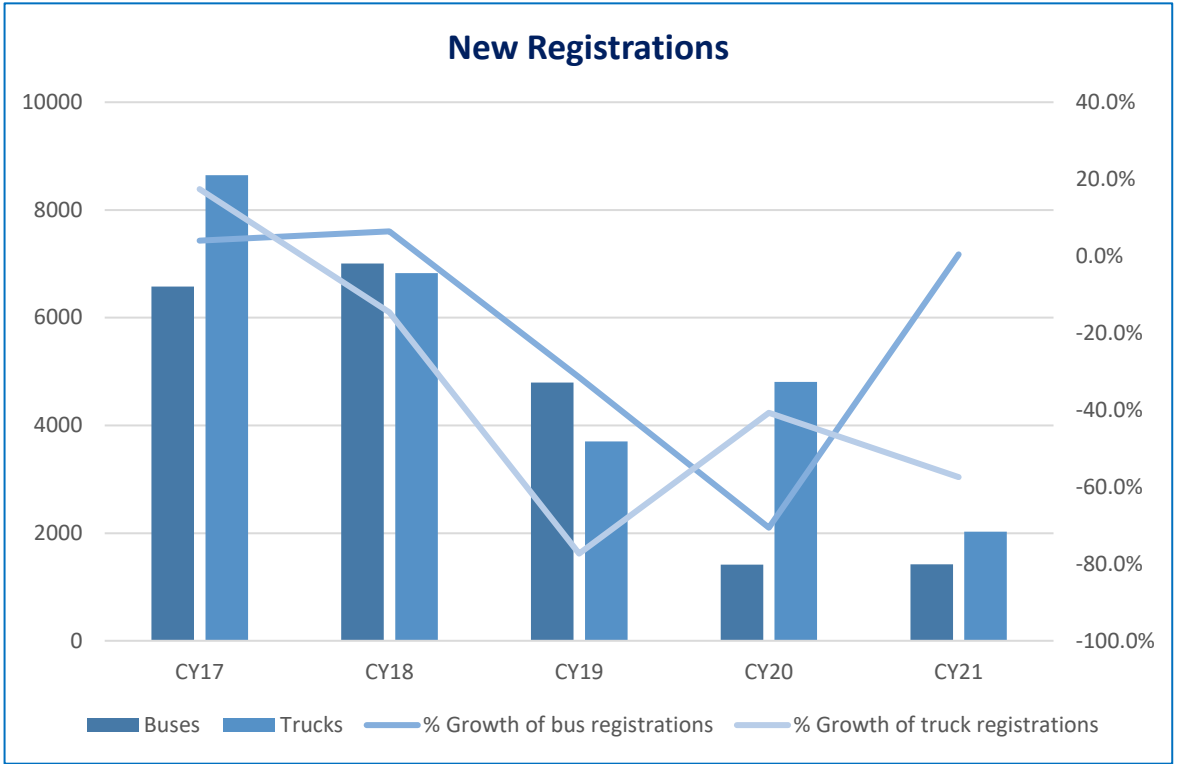
Local Bus Production (Units)	FY18	FY19	FY20	FY21	FY22	4MFY22	4MFY23
MASTER	304	254	177	319	369	92	116
HINO	340	442	260	168	160	56	134
ISUZU	159	217	95	83	132	12	86
Total	803	913	532	570	661	160	336

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

Trucks & Buses

Local | Demand

- During CY21 ~2,025 (CY20:~4,808) new trucks, a decrease of ~57.9% and ~1,420 (CY20: ~1,413) new buses were registered, growing by ~0.5%.
- In terms of sales, both the segments had a rising trend as the truck sales in FY22 rose by ~57%(FY21:~20%) and the bus sales grew by ~ 7% (FY21:~17%). The massive rise in the truck sales can be attributed to the boost in the economic activity which means more goods are traded and transported through trucks.



Local Truck and Bus Sales (Units)		FY18	FY19	FY20	FY21	FY22	4MFY22	4MFY23
ISUZU	Trucks	3,878	2,801	1,582	1,907	2,893	940	580
	Buses	122	219	120	113	123	30	17
MASTER	Trucks	1,561	1,219	424	897	1,731	691	269
	Buses	306	274	177	355	413	103	88
HINO	Trucks	3,874	1,808	1,038	668	889	305	213
	Buses	334	442	262	184	160	51	105
JAC	Trucks	18	0	44	223	289	75	47
	Buses	0	0	0	0	0	0	0

(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.
- 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	FY22
Trucks			
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%	30%
8704.9030	Electric trucks (CBU)	30%	30%
Buses			
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 (CBU) form.
- 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, FY22 import bill of truck and bus CBUs was worth PKR~53,756mIn (FY21: PKR~20,205mIn), while import bill of Trucks and Buses CKDs was worth PKR~117,173mIn (FY21: ~61,381mIn); marking the CKD to CBU mix of 69:31 (FY21: 75:25).

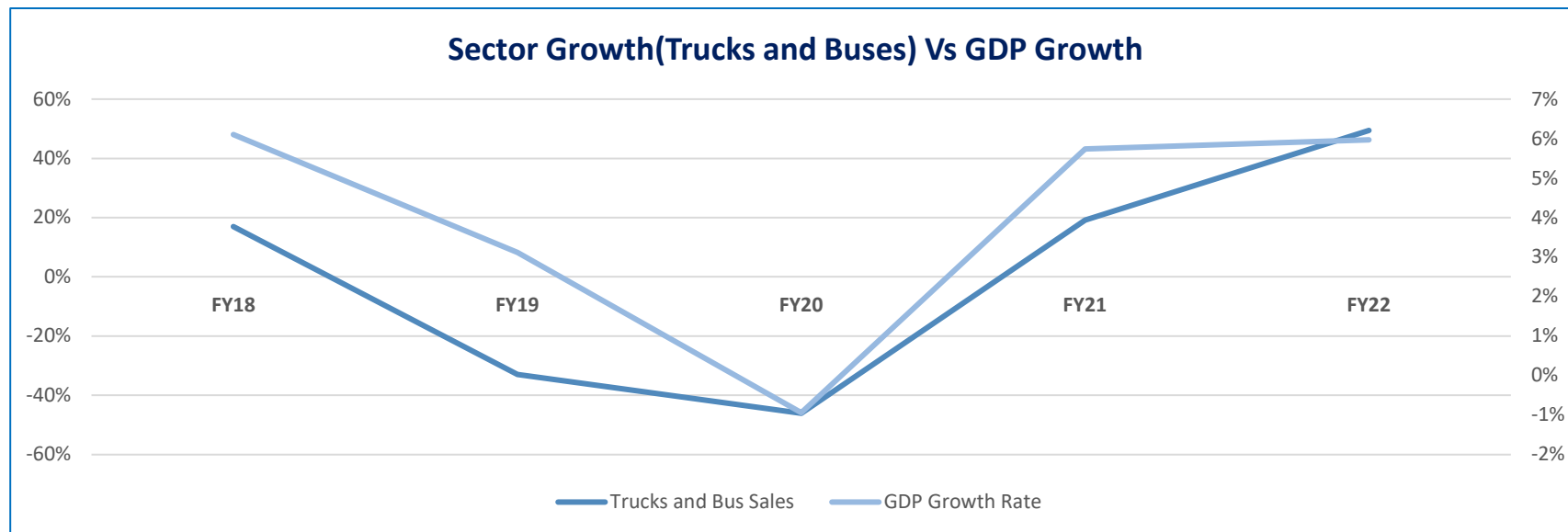
		Imports and Local Assembling				
		FY18	FY19	FY20	FY21	FY22*
Trucks	Imports-CBU	2,411	519	204	192	188
	Local Assembling (CKD)	9,326	6,035	2,945	3,808	5,659
	Total	11,737	6,554	3,149	4,033	5,847
Buses	Imports-CBU	685	611	404	314	592
	Local Assembling (CKD)	803	913	532	570	661
	Total	1,488	1,524	936	822	1253

**Provisional*

Localization Levels	
Passenger Cars & LCVs	~55%
Trucks/Buses	~30%
Tractors	~85%
Motorcycles	~85%

Demand Dynamics

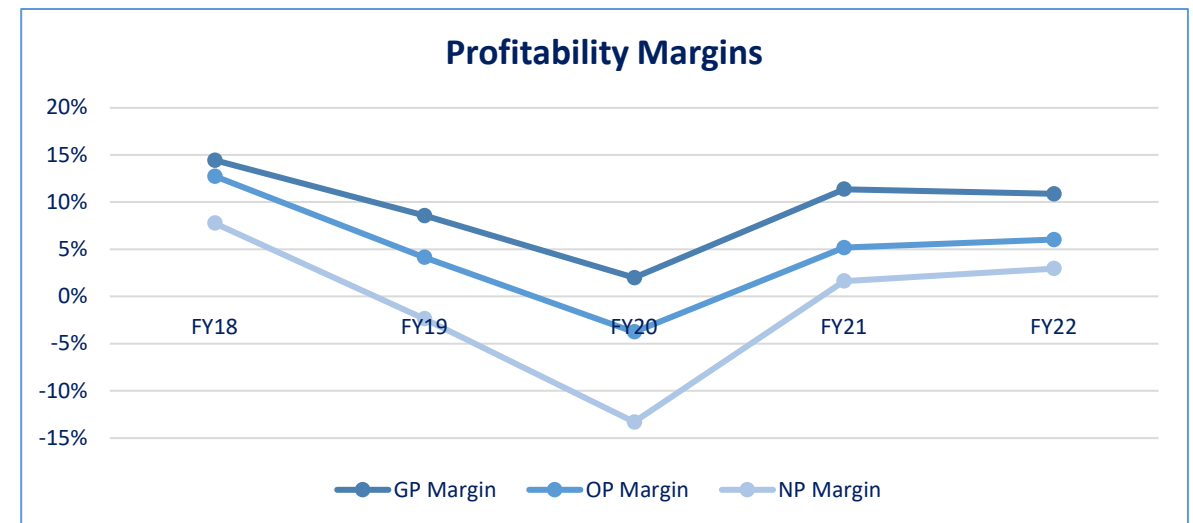
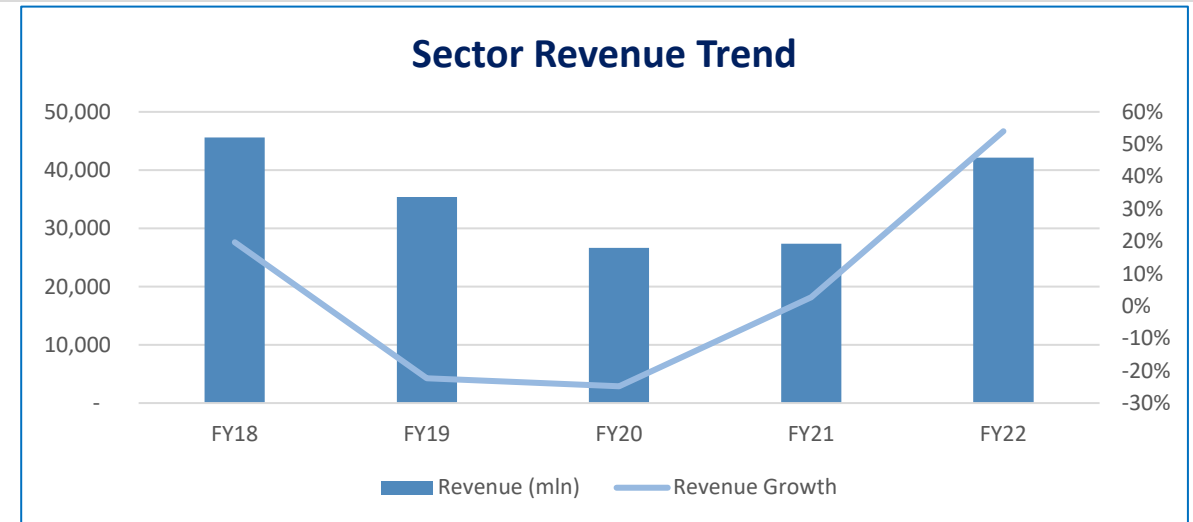
- Trucks and Buses demand has a high dependency on the industrial activities and economic growth as Trucks and Buses sales growth and GDP growth have a high coefficient of correlation.
- In FY21, the economy was moving towards recovery (GDP growth rate:~5.7%) and the Trucks and Buses sales saw a rise of ~19% YoY. This recovery boosted even more in FY22 with a GDP growth rate of ~5.97%. Sector sales volume also grew by ~49%. However, in 1QFY23, the Trucks and Buses sales volumes fell by ~42% as compared to the same period last fiscal year. In 1QFY23, the sector's sales volumes were recorded at 993 units whereas they were 1,711 units in 1QFY22.
- Going forward, the demand for Trucks and Buses is expected to see a declining trend due to the slowdown in the economic activities.



Trucks & Buses

Business Risk

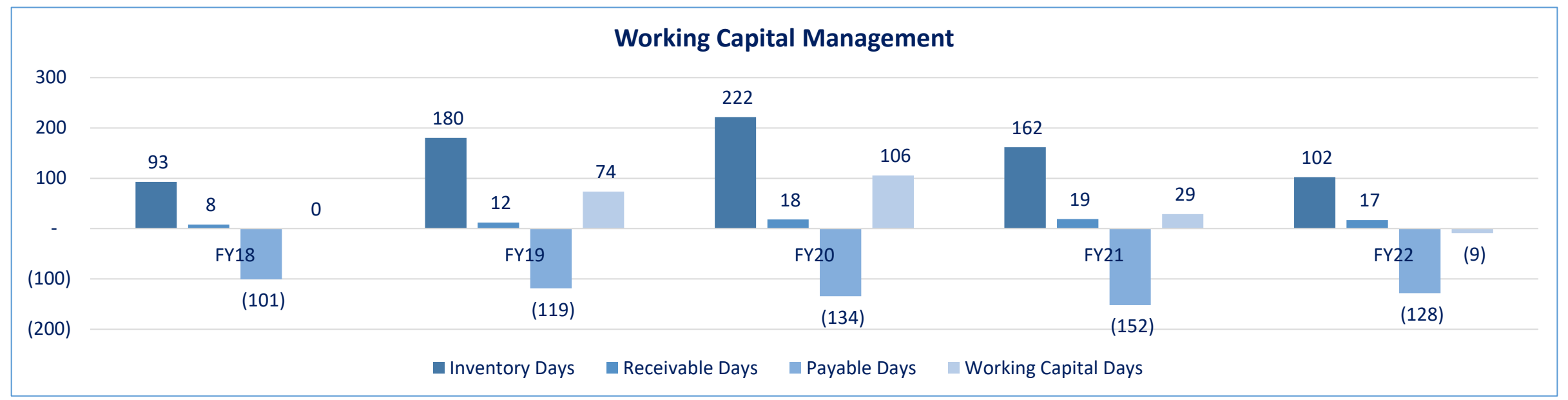
- In FY22, the sector experienced sales volume growth of ~49.5% (FY21: 19.2%). However, the sector’s performance still remains below the highest recorded revenues of PKR~45.6bln in FY18. Since then, the sector revenues had a CAGR of ~5.9% from FY18 - FY22.
- FY22 yielded positive results in terms of both top-line and bottom-line as overall revenues rebounded by ~54.1% (FY21: ~2.7%) owing in part to higher volumes as well as improved pricing (compared to pre-COVID levels); gross margins slightly fell to ~10.9% (FY21: ~11.4%), higher revenues were along with even higher costs resulted in this fall.
- In FY22, the sector’s operating margins also improved to ~6% (FY21: ~5.2%) which can be attributed to the rise of ~62.8% in the other income of the sector which majorly constitutes of the return from deposits and savings accounts. The returns rose on the back of increased interest rates.
- Resultantly, in FY22, the sector’s net margins improved to ~3.0% (FY21: ~1.6%) which resulted in two years of profitability after two congestive years of losses, as finance cost decreased by ~3.5% owing to the reduced markup on short term borrowings of one of the major players, supporting the higher retention carried by higher gross profits and operating profits.



Trucks & Buses

Working Capital Management

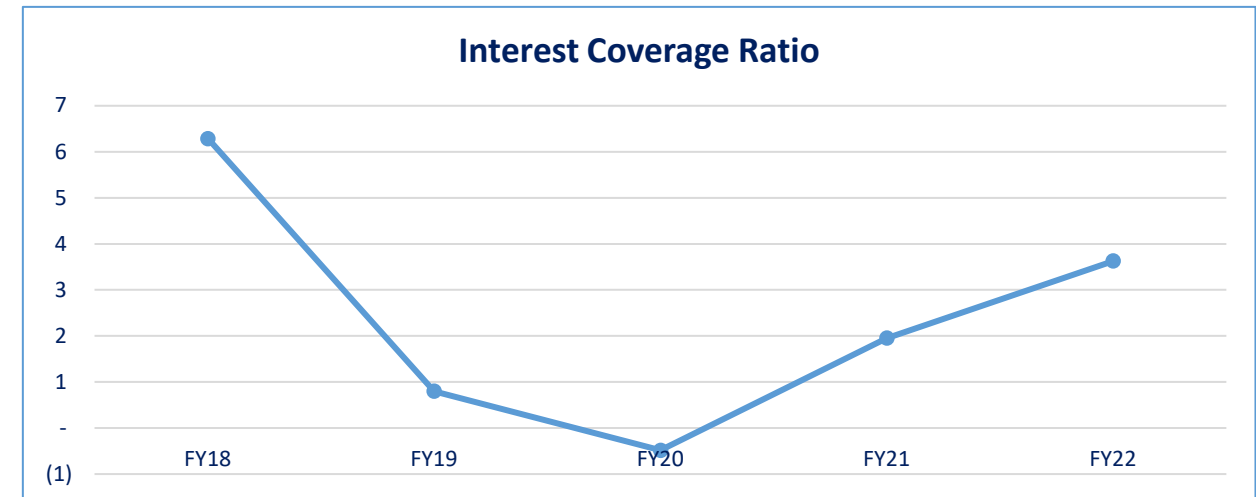
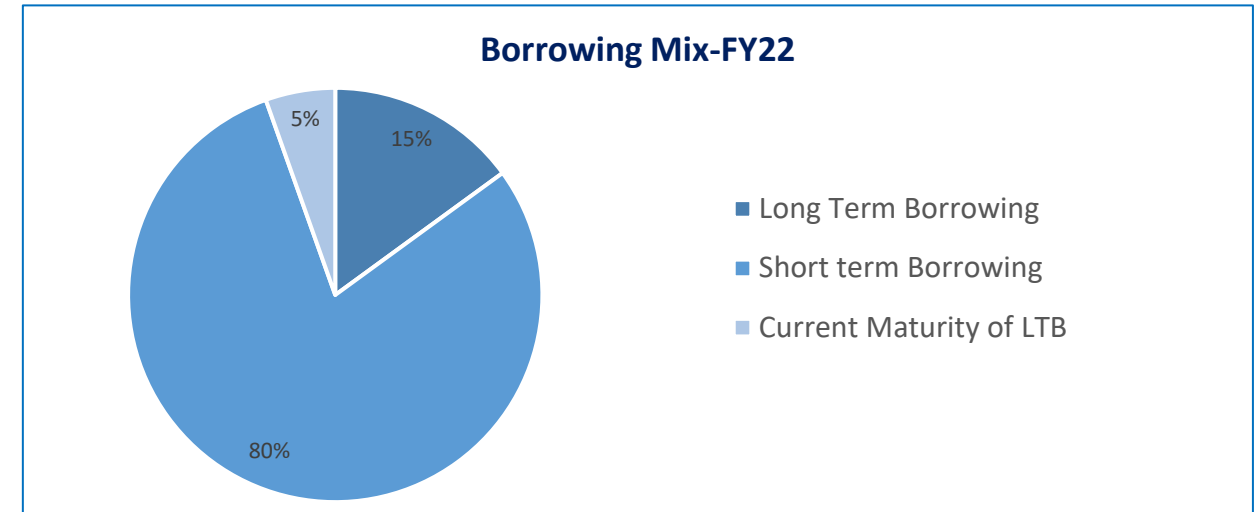
- The working capital requirement of the automobile sector emanates from financing inventories and trade payables for which it relies on internal cashflows and short-term borrowings
- In FY21, higher demand lowered financial distress in the sector, as inventories pile up reduced, pulling inventory days down to ~161 by End-FY21, while receivable and payable days remained largely stable; this caused net working capital days to reach ~29, leading to lower need of STBs.
- With inventory days coming further down to ~102 in FY22 amid accelerated demand in FY22 and payable days reduced to 128. Resultantly, the net working capital days diluted to ~(9) days on the back of increased sales in FY22 and timely payments made by the companies.



*Includes Gandhara Industries, Gandhara Nissan and Hino Pak

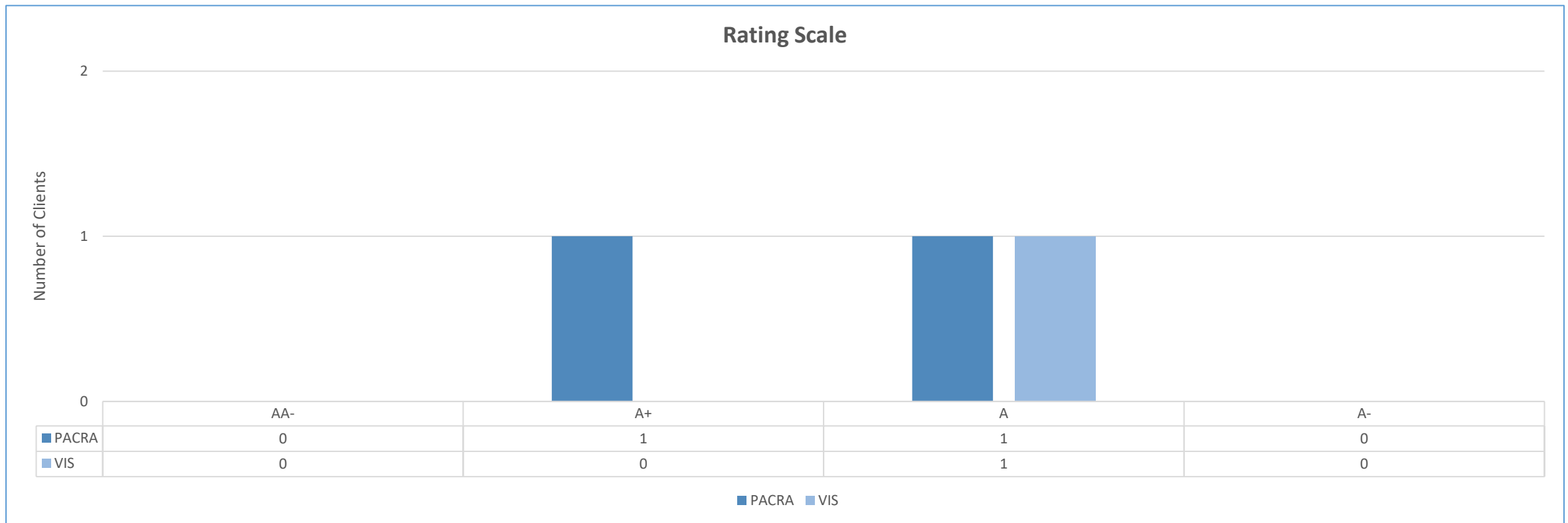
Financial Risk - Borrowings

- The total borrowings of the sector in FY22 stood at PKR~ 5646mln rising by ~66.3%(FY21: PKR~3394). This increase in total borrowing is due to an increase of in the short term borrowings to PKR~4493mln which accounts for ~80% of the total borrowings. Other components of the borrowing mix include long term borrowing accounting for ~15% and the current portion of long term borrowing which is ~5% of the total amount.
- The sector’s financial risk profile has been improving owing to the higher demand and favorable business environment in general, causing FY21 interest coverage ratio to rise to ~1.95x (FY20: -0.49x).
- Since the economic recovery in FY22, sector margins improved resulting in improved interest coverage ratio of 3.6x, significantly reducing financial pressure despite rising interest rate environment.
- The latest decline of ~41.9% 3MFY23 in sales volume as compared to the same period last year further indicates that sector margins are likely to fall, which can also impact the sector’s ability to keep its financial risk profile intact.



Rating Curve

- PACRA rates 2 Entities in the Trucks and Buses Sector:
 - Gandhara Industries Ltd.
 - Gandhara Nissan Ltd.



SWOT Analysis



OUTLOOK: WATCH

- In FY22, the GDP growth rose ~5.97% as the economy was moving towards recovery after the pandemic. Large scale manufacturing also witnessed a growth of ~10.5%. The first nine months of the fiscal year looked good for majority of the sectors however, after that the global economy started moving towards a slowdown as the Russia Ukraine war started. The local economy was suffering due to political unrest which was further worsened by the deadly flood that hit several areas in the country.
- The monetary side was also affected by all these conditions and the interest rates saw a constant rise since then. Recently, the policy rates has been hiked up by 100 basis points to 16%.
- The average inflation rate during FY22 stood at ~12.1% as compared to an average inflation rate of ~8.9% during FY21. Till November 2022, the inflation level in the country has increased to ~23.8%. Moreover, the PKR has depreciated by 8.8% during the ongoing fiscal year, till November 2022. This will have a negative impact on the local vehicle trucks and buses assembling as it is heavily dependent on imported inventory.
- The trucks and buses production in the country is already low and will keep the margins under pressure. The 4MFY23 data showed that the sector production saw a decrease of ~25.1% and the sales witnessed a fall of 39.9% which depicts that trucks and buses sector had an overall declining trend. Trucks represent ~78.8% of the sector production volume and the number of trucks produced fell to ~1,249 from ~1,956 a fall of ~36.1% from the same period last year. Even though, 1,249 trucks were produced, only 1,109 were sold. This can be owing to the reduced economic activity which results in less good being traded and transported.
- Bus production on the other hand saw an uptick of ~110% and the sales rose by ~14.1%. This can be attributed to the increased number of bus service projects that are launched by the government for effective and convenient public transport.
- Total borrowings of the sector rose to PKR~5,646mln in FY22 from PKR~3,394mln in FY21 mainly due to the increase in short term borrowings which account for ~80% of the total borrowings.
- The Sector's margins at the operating and net level have also come under distress in 1QFY23 owing to rising operating and financing costs. With a declined sales volume, the margins of the sector may remain under pressure in the short term.

- 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

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