# SECTORWATCH | CORONAVIRUS | TYRES

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and now capturing almost the entire planet, all major economies and markets have been adversely impacted. Pakistan has also been severely impacted by the pandemic. Economic activity, after coming to a halt for almost two months, is beginning a start, albeit, slow and disruptive. Pakistan experienced contraction in demand and output as well as disruption in international trade. It is clear that credit conditions are under stress with consequent pressure on credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the COVID-19 is impacting various sectors in Pakistan.

| SECTOR | SUB-SECTOR |
|---|---|
| AUTO & ALLIED | TYRES |
| SIZE | - Market size of Pakistan's tyres sector is estimated to be USD ~1 Billion growing at a pace of 6-7% annually. Demand for tyres is estimated at ~31Mln units annually (18 Mln in two-wheeler segment and 13 Mln in four and three-wheeler segment). The local industry suffers from the drag of undocumented or smuggled influx that cater to around half of the total demand. Rest of the demand is shared almost equally between the local production and formal import.<br>- The market is dominated by replacement tyres (local/imported/smuggled) and this segment accounts for ~70% of total market, followed by OEM segment (i.e. tyres for newly produced local vehicles). |
| NUMBER OF PLAYERS | - There are five major local players; three players hold ~80% of total production.<br>- Fragmented informal sector, mainly engaged in production of bicycle tyres and tubes.<br>- A large number of commercial importers and grey channel players are involved in imported segment of the industry. |
| PACRA PENETRATION | - PACRA rates two companies from the sector holding ~50% market share in total domestic production. |
| IMPACT | - Tyres market can be split into two distinct segments: Two Wheels and Four Wheels. The Four Wheels segment can be further subcategorized into: Passenger Cars (PC), Light Commercial Vehicle (LCV), Heavy Commercial Vehicle (HCV).<br>- Demand drivers of tyres sector are highly correlated with auto sales, economic growth, employment, disposable income and consumer confidence. The sector also exhibits seasonality and cyclicality. The pronounced cyclicality is reflected in volatile revenue, earnings and cash flows which make business risk high. Meanwhile, smuggled tyres continue to pose a threat to local industry.<br>- The sector relies mostly on South East Asia for supply of natural rubber and China for supply of synthetic rubber. This exposes local players to supply chain and foreign exchange risks.<br>- The COVID-19 outbreak, initially perceived as a supply shock, has now affected output and growth in almost all areas of the economy. Even before the outbreak, the domestic sector was experiencing reduced demand amid subdued auto sales and lower discretionary income. Further devaluation of local currency is adding to the challenge of stimulating demand and keeping costs in check.<br>- The lockdown from March to May resulted in closure of plant operations of auto companies along with car dealerships across the country. Only tractor industry was allowed to resume from mid-April due to upcoming harvest season. Latest figures for auto sector paint a dismal picture for tyres demand. According to data of Pakistan Automotive Manufacturers Association (PAMA) for 11MFY20, production and sales of passenger cars have declined by 54% to 89,130 units.<br>- The sector is relatively leveraged with mostly short term borrowings. Due to devaluation of PKR and inventory build-up, working capital lines remained stretched and lower cash inflows have diluted the financial strength of the sector. However, SBP's rate cut of 625bps and other measures are expected to provide relief in debt servicing and cool off the financial risk. |



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