

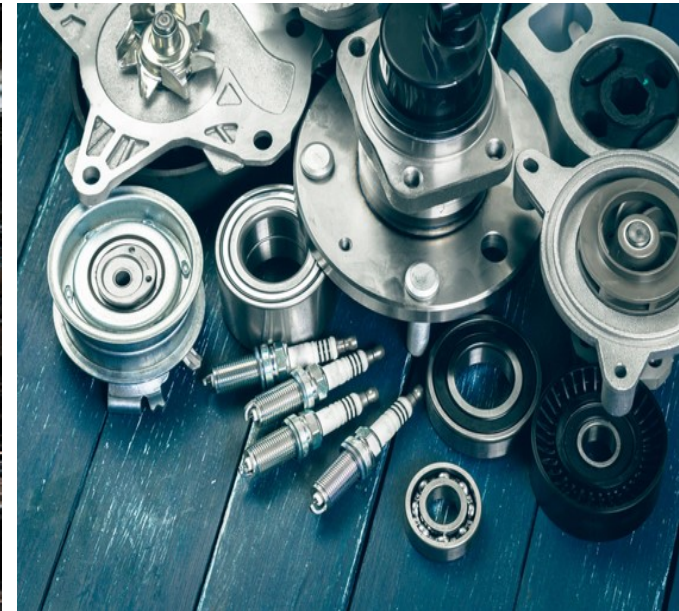
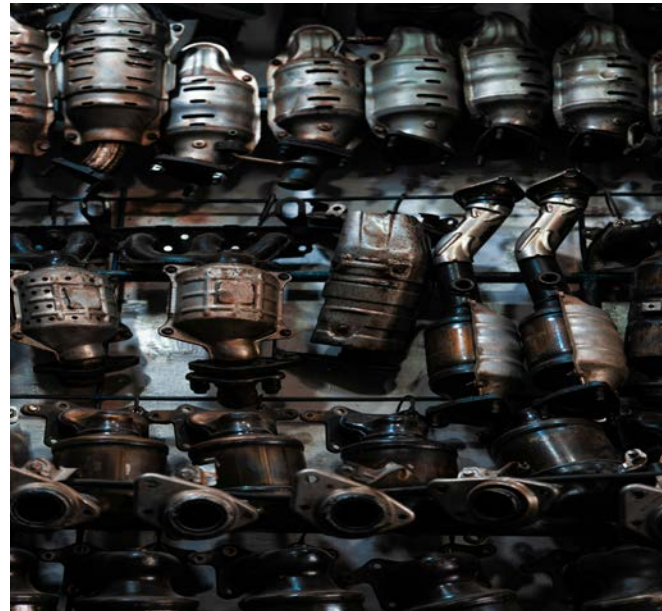


Automotive Parts

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Automotive Parts

Contents	Page.	Contents	Page.
Global		Business Risk	13
Introduction	1	Business Risk Margins	14
Raw Materials	2	Financial Risk Leverage & Coverage	15
Overview	3	Financial Risk WCM	16
Imports	4	Borrowing Mix	17
Exports	5	Regulatory Duty	18
Local		Rating Chart	19
Overview	6	SWOT Analysis	20
Snapshot	7	Outlook	21
Demand	8	Bibliography	22
Trade	10		
Raw Material	11		

Automotive Parts

Introduction

- Automotive Parts and Accessories are the complex components that make up all automobiles and ensure their ability for efficient and long-term functioning. They can be broadly categorized into several types:
 1. **Engine Parts:** These include components like pistons, cylinders, and crankshafts that are essential for the engine's operations.
 2. **Transmission Parts:** Such as gears, clutches, and torque converters, which facilitate the transfer of power from the engine to the wheels.
 3. **Braking System Parts:** Include brake pads, rotors, calipers, and master cylinders, crucial for vehicle safety.
 4. **Suspension Parts:** Components like shock absorbers, springs, and control arms that help maintain vehicle stability and comfort.
 5. **Electrical Parts:** Include batteries, alternators, starters, and wiring, which power various electrical systems in the vehicle.
 6. **Cooling System Parts:** Such as radiators, water pumps, and thermostats, which regulate engine temperature.
 7. **Fuel System Parts:** Include fuel pumps, injectors, and filters that manage fuel delivery and efficiency.
 8. **Body Parts:** Exterior components like doors, hoods, fenders, and bumpers form the vehicle's structure.
 9. **Interior Parts:** Include seats, dashboards, and various controls that enhance comfort and usability.



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Raw Material

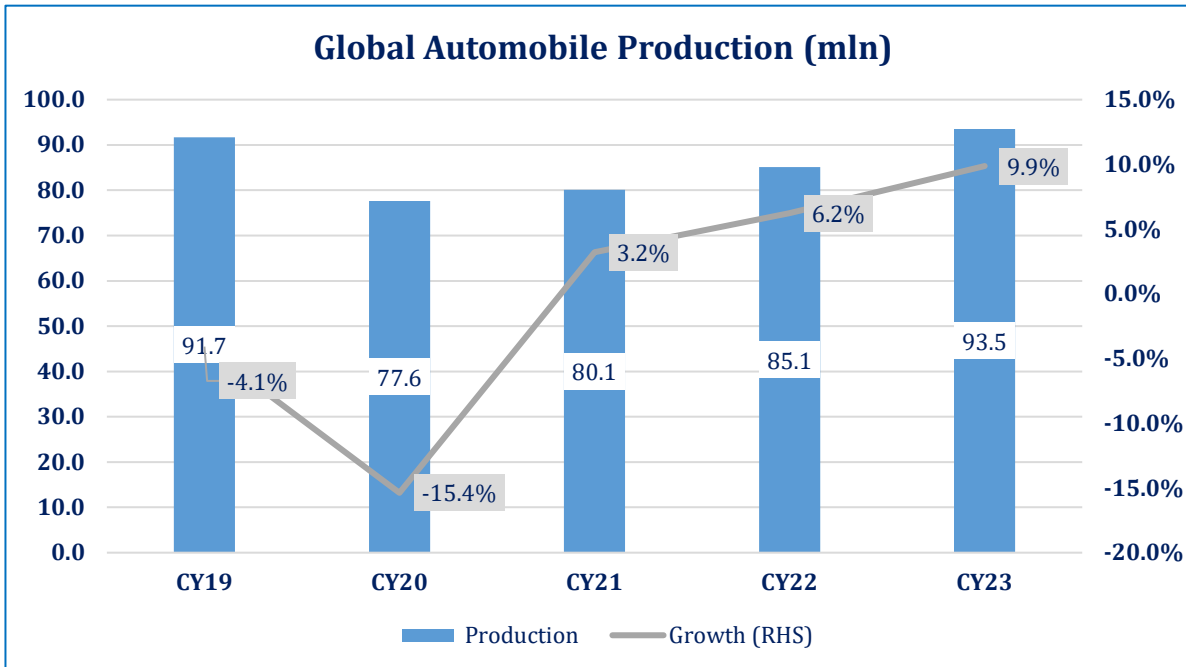
Steel	On an average, each new car requires ~900Kg of steel for the chassis, body, roof, door panels, and beams between doors.
Plastics	On an average, a new car requires ~200Kg of plastics. These include Polypropylene (e.g. interior flooring), Polyvinyl Chloride (e.g. dashboards), Polycarbonate (e.g. car bumpers) and Acrylonitrile Butadiene Styrene (e.g. steering wheel covers).
Aluminum	On an average, a new car requires ~205Kg of the metal. It can be utilized to produce engines, transmissions, suspension, wheels, brake components etc.
Rubber	Used for tyres, belts, hoses, and seals for car engines. The automotive industry is the largest global consumer for rubber (~75% of the global rubber production is utilized to manufacture tyres).
Silica Sand	Key ingredients in the production of automotive glass, used for making windows and windshields etc. It is also used as a filler material and reinforcing agent in the production of tyres.
Semi-conductor Chips	Every vehicle contains at least ~2-3 dozen chips while luxury use more. Neon gas is an essential raw material for chips. These serve functions including engine temperature and pressure sensor data analysis, among others.



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Global | Overview

- Global demand for the Automotive Parts is directly related to the number of automobiles produced. The global Automobile production during CY23 clocked in at ~93.5mln (CY22:~85.1mln) a YoY increase of ~9.8%. However, for CY24, automobile production figure is estimated to reach ~105.1mln a YoY increase of ~12.3%.
- During CY23, among the major players for Automotive parts, Bosch headquartered in Germany recorded the highest revenue of USD ~60.7bln, a YoY increase of ~9.9%. While Denso, ZF Friedrichshafen, Hyundai Mobis, and Magna witnessed an increase of ~5.4%, ~10.5%, ~12.9%, and ~13.1% YoY in revenue during CY23.



Major Players Revenue (USD bln)			
Company	CY22	CY23	YOY
Bosch (Germany)	55.2	60.7	9.9%
Denso (Japan)	45.9	48.4	5.4%
ZF Friedrichshafen (Germany)	41.9	46.3	10.5%
Hyundai Mobis (South Korea)	40.2	45.4	12.9%
Magna (Canada)	37.8	42.7	13.1%

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Global | Imports

- During CY23, global Automotive Parts imports clocked in at USD~434.3bln (CY22: USD~414.9bln), a YoY increase of ~4.7%. Over the period of five years (CY19-23), global Automotive Parts imports have increased at a CAGR of ~1.6%.
- Top 7 Automotive Parts importing countries comprised ~56.2% of the total imports, as their imports clocked in at USD~243.9bln during CY23 (CY22: USD ~231.2bln) a YoY increase of ~5.5%.
- The USA remained the top importer of Automotive Parts as its imports clocked in at USD~87.8bln during CY23 (CY22: USD ~86.2bln) a YoY increase of ~1.8%. The USA contributed ~20.2% in global Automotive Parts imports.

Global Imports (USD bln)					
Countries	CY19	CY20	CY21	CY22	CY23
USA	69.6	60.0	74.1	86.2	87.8
Germany	40.3	34.4	38.7	40.4	47.2
Mexico	27.2	21.9	25.9	29.5	32.4
China	25.2	25.8	30.3	25.2	21.4
Canada	19.9	14.4	14.2	16.9	20.3
Spain	16.8	14.5	16.1	16.1	15.6
France	16.7	12.9	16.3	16.9	19.2
Rest of the World	184.6	156.2	189.9	183.6	190.4
Total	400.3	340.2	405.6	414.9	434.3

Automotive Parts

Global | Exports

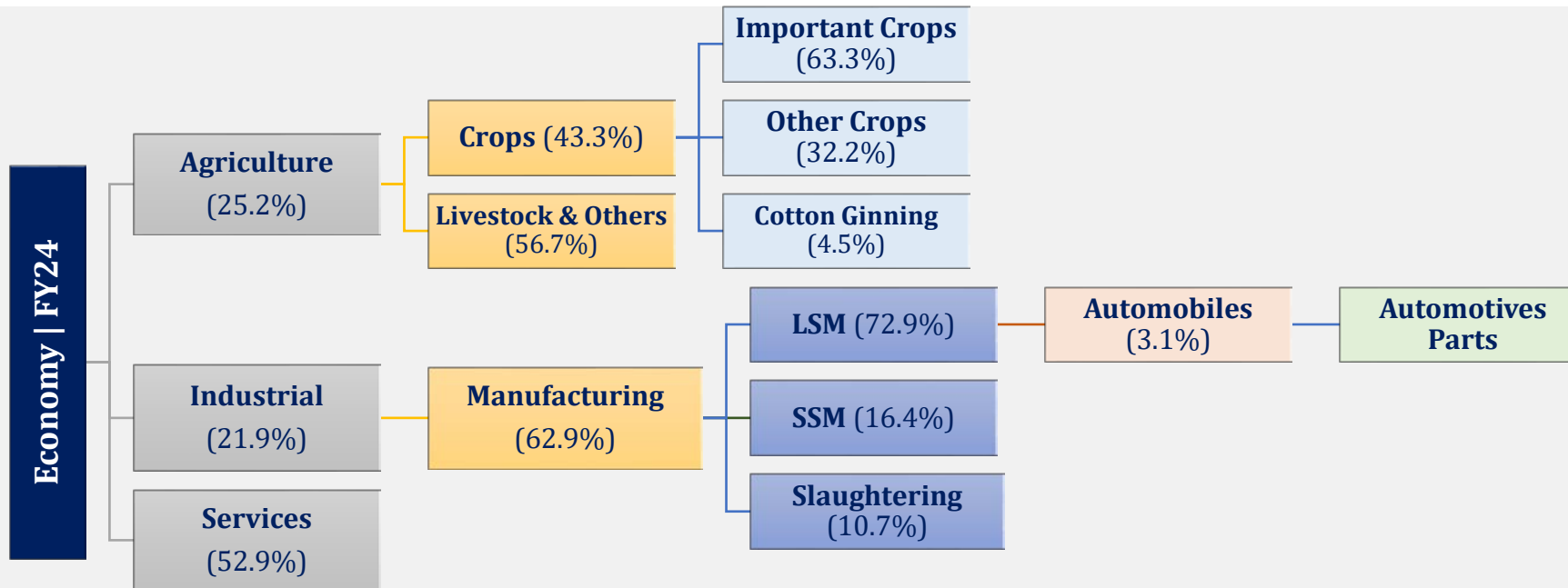
- Top 7 Automotive Parts exporting countries comprised ~62.1% of the total exports, as their exports clocked in at USD~269.8bln during CY23 (CY22: USD~248.3bln), a YoY increase of ~8.6%.
- Germany remained the top exporter of Automotive Parts as its exports clocked in at USD~66.5bln during CY23 (CY22: USD~61.6bln) a YoY increase of ~7.9%. Germany contributed ~15.3% in the global Automotive Parts exports during CY23. Germany and China remained the net exporters while the USA remained the net importer during CY23.

Global Exports (USD bln)					
Countries	CY19	CY20	CY21	CY22	CY23
Germany	62.2	54.5	64.4	61.6	66.5
China	43.0	32.9	45.3	49.7	53.2
USA	33.6	33.2	35.6	40.7	47.5
Mexico	30.8	26.8	30.5	37.9	40.5
Japan	32.7	27.1	32.5	28.8	27.2
Poland	14.3	12.3	14.3	15.1	18.0
Czechia	15.2	13.2	14.7	14.5	16.9
Rest of the World	168.5	140.3	168.3	166.6	164.5
Total	400.3	340.2	405.6	414.9	434.3

Automotive Parts

Local | Overview

- In FY24, Pakistan’s GDP (nominal) stood at PKR~106.0trn (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% decline). Industrial activities in FY24 held ~21.9% share in the GDP while manufacturing activities made up ~62.9% of the value addition. In 4QFY24, Pakistan’s GDP (nominal) stood at PKR~25.1trn (4QFY23: PKR~21.1trn), rising in real terms by ~3.1% YoY (3QFY24: ~2.4% YoY). Real GDP growth rate(~1.1%) for 4QFY24 signals a improvement in economic activity as compared to SPLY.
- Large Scale Manufacturing (LSM) in Pakistan is essential for economic growth considering its linkages with other sectors, as it represented ~72.9% of the manufacturing activities in FY24. Overall, the LSM fell by ~10.3% YoY in FY23 (FY22: ~11.7%), however, it inched up ~0.9% YoY in FY24. While during 2MFY25 LSM performance declined by ~0.2% YoY. The “Automobiles sector” is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, its weight was recorded at ~3.1%, while the sector’s growth slowed down by ~25.0% YoY during the year.



Automotive Parts

Snapshot

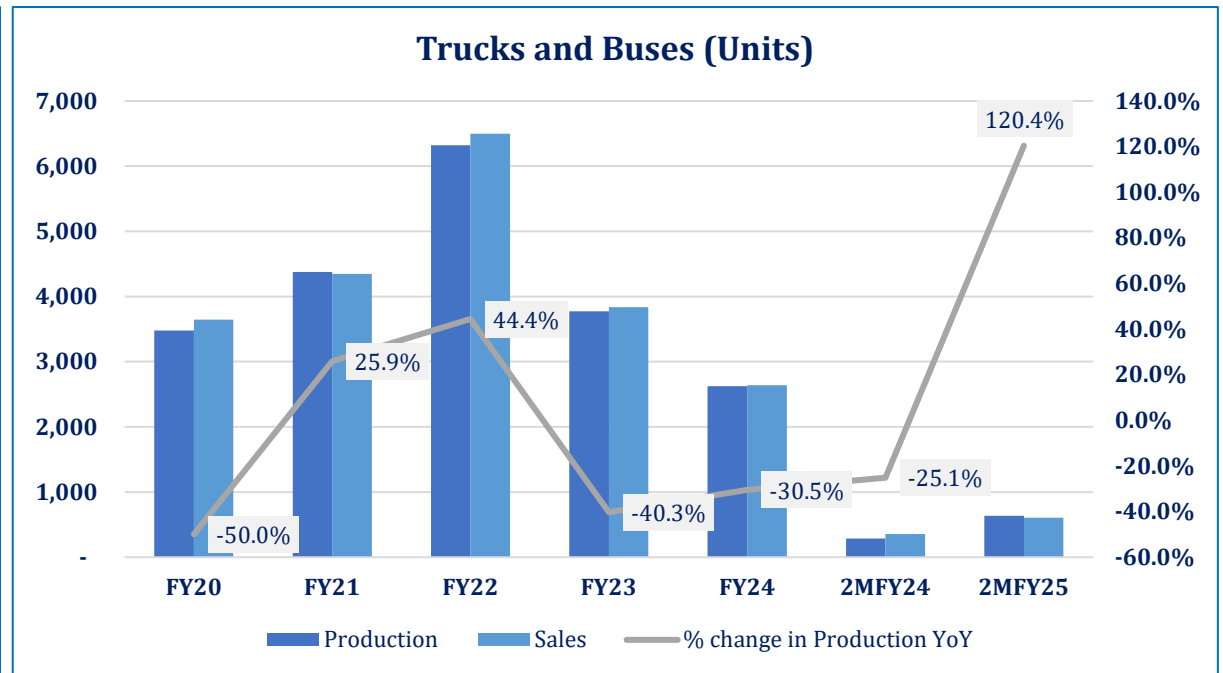
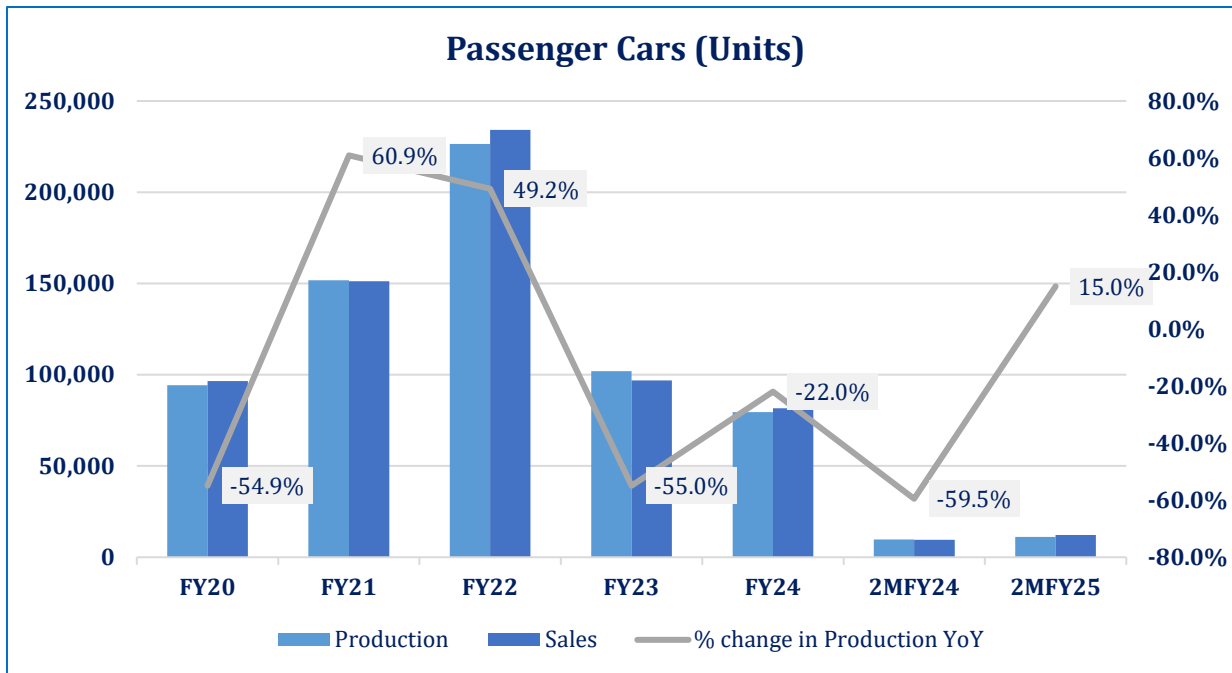
- Pakistan’s Automotive Parts industry is fairly fragmented with a large number of players. There are over ~2,000 Automotive Parts vendors in Pakistan, of which ~400 vendors belong to the Tier-1 category and are suppliers for the OEM market.
- Demand for the local Automotive Parts Sector emanates from the following sources:
 - Original Equipment Manufacturers (OEMs): These are local assemblers of bikes, passenger cars, LCVs, buses, trucks, and tractors. Major players include Pak Suzuki, Indus Motor, Honda Atlas, and Millat Tractors.
 - Replacement Market: This is the secondary market consisting of distributors, wholesalers, and retailers of Automobile Parts and accessories.
 - Export Market: Only a limited number of automotive parts manufacturers are catering to demand from the export market due to high-quality standards and lack of cost competitiveness.
- The remaining demand of the OEMs segment is met through imports. During FY24, Pakistan imported Automotive Parts and Accessories worth USD~259.8mln (or PKR~73.6bln), registering a ~9.4% decline YoY. The country majorly imports these parts from Thailand, Japan, China, and Indonesia.

Particulars	FY21	FY22	FY23	FY24
Est. No. of Players	>2,000			
Workforce Employed	>140,000			
Import Value (PKR mln)	64.5	93.0	67.3	73.6
Export Value (PKR bln)	3.2	4.9	5.5	6.7
Industry Association	Pakistan Association of Automotive Parts & Accessories Manufacturers (PAAPAM)			

Automotive Parts

Local | Demand

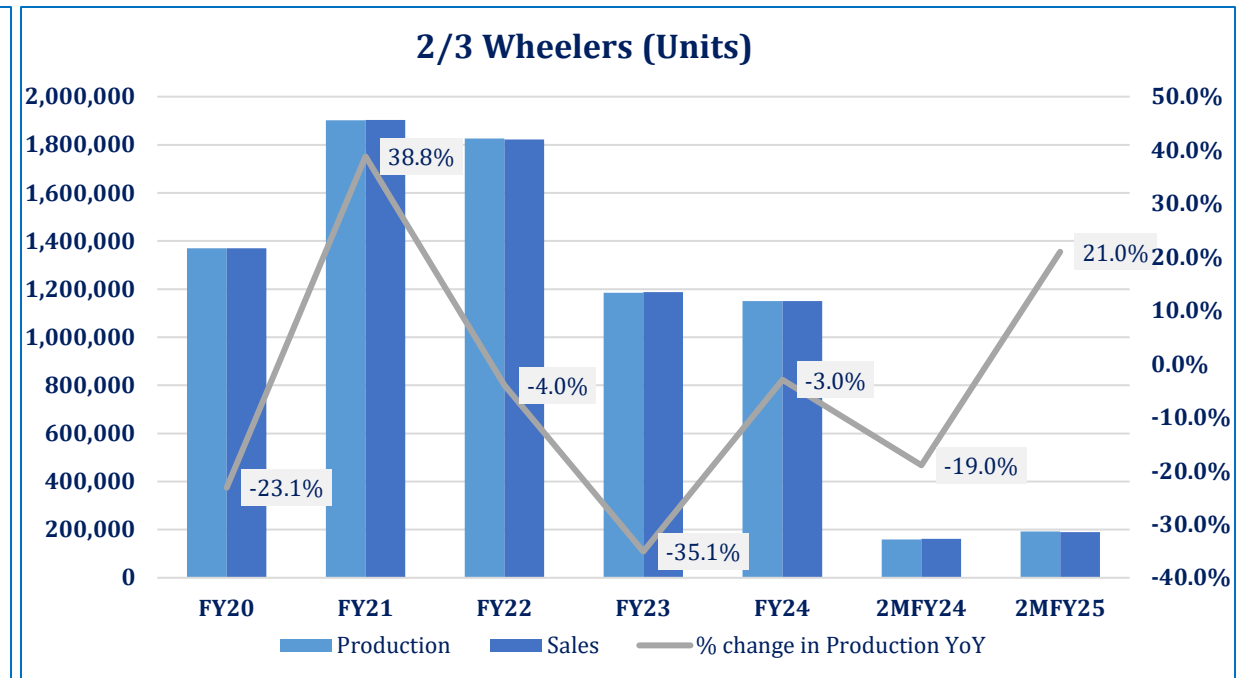
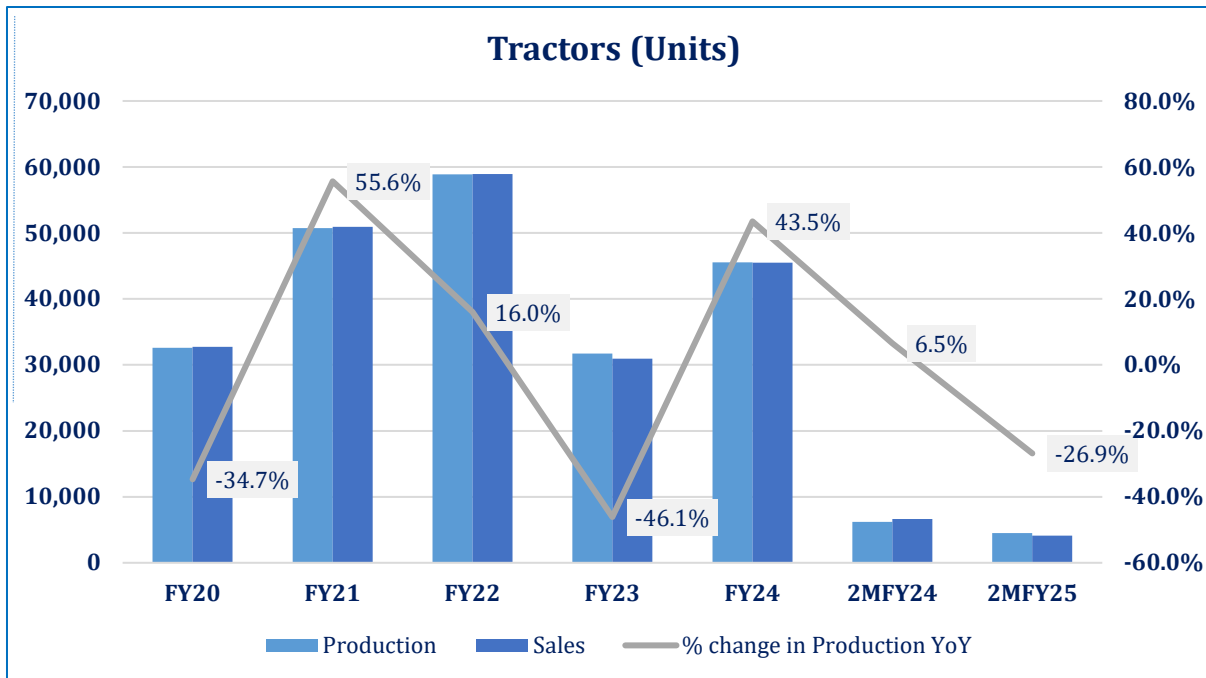
- During FY24, passenger cars production clocked in at ~79,573 units (FY23:~101,984) a YoY decline of ~21.9%. Concurrently, the sales of passenger cars also dropped to ~81,577 Units (FY23:~96,811 Units) a YoY decrease of ~15.7% in FY24. However, during 2MFY25, production and sales of passenger cars showed signs of recovery as these by ~15.1% and ~27.7% YoY, respectively.
- While truck & buses production decreased to ~2,623 units during FY24 (FY23:~3,775 Units), a YoY decrease of ~30.5%. Similarly, sales of trucks and buses also declined to ~2,641 units (FY23:~3,836 units), a YoY decline of ~45.2%. During 2MFY25, production and sales of trucks and buses increased by ~120.4% and ~70.9% YoY, respectively.



Automotive Parts

Local | Demand

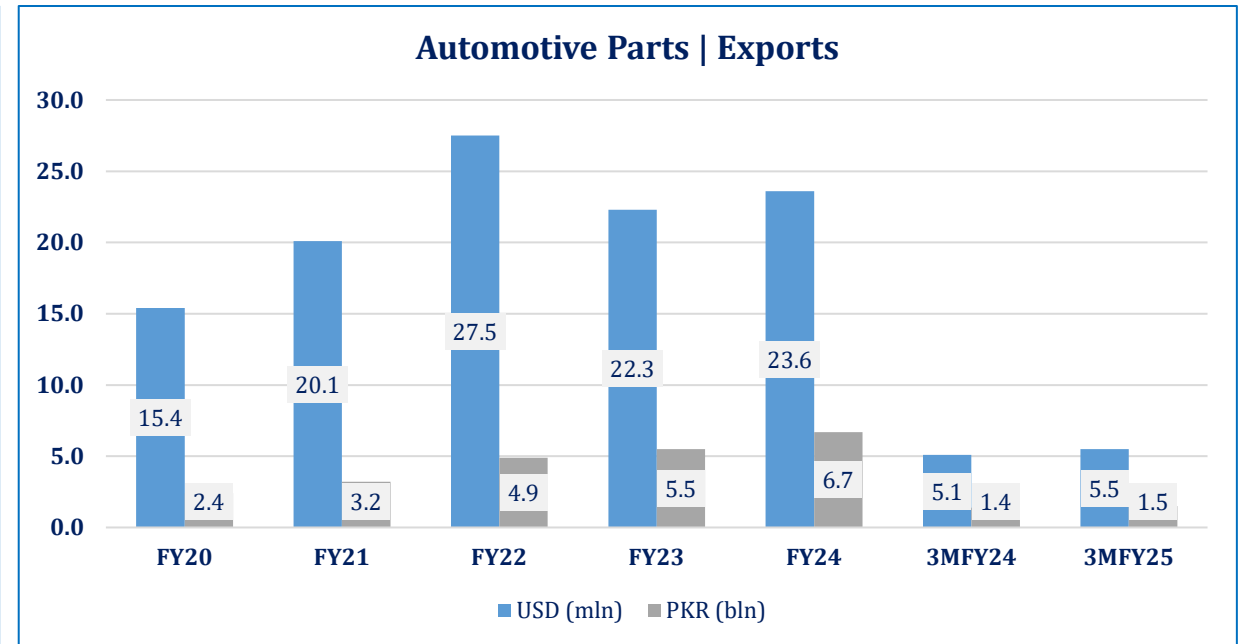
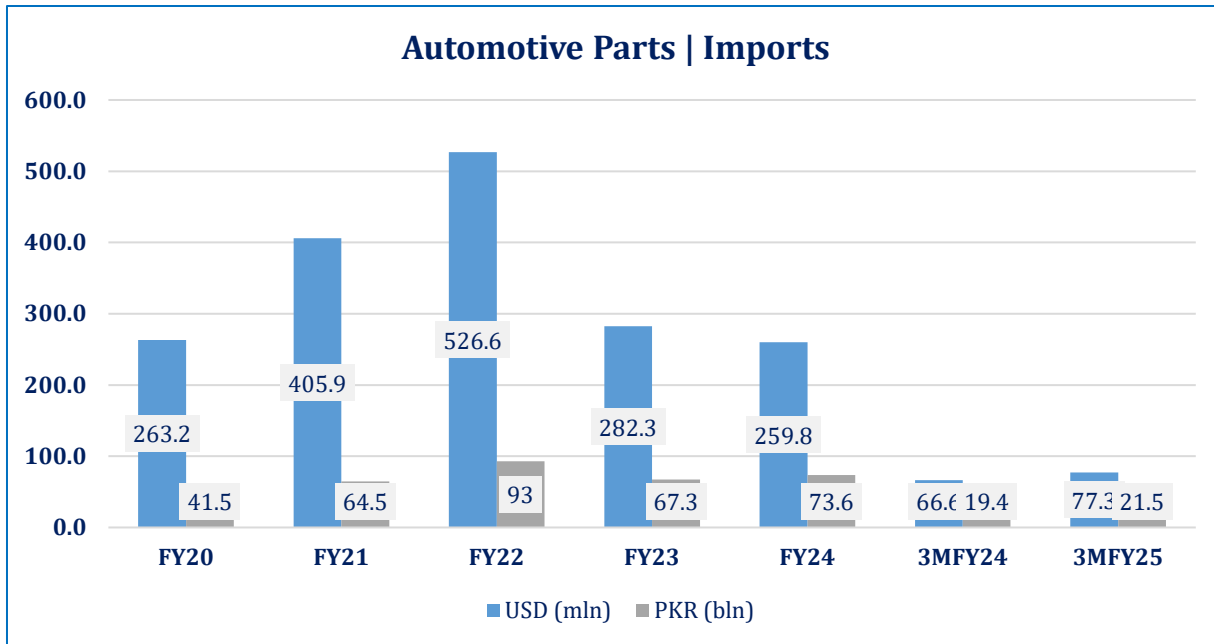
- During FY24, tractors production clocked in at ~45,529 units (FY23:~31,726 units), a YoY increase of ~43.5%. Concurrently, the sales of tractors also increased to ~45,494 Units (FY23:~30,942 units), a YoY increase of ~47.0% in FY24. However, during 2MFY25, production and sales of tractors dropped by ~26.8% and ~37.8% YoY, respectively.
- Meanwhile, the 2 & 3 wheelers production decreased to ~1,150,090 units during FY24 (FY23:~1,185,532 units), a YoY decrease of ~2.9%. Similarly, the sales of 2 & 3 wheelers also declined to ~1,150,112 units (FY23:~1,186,968 units), a YoY decline of ~3.1%. During 2MFY25, production and sales of 2 & 3 wheelers increased by ~20.9% and ~16.8 YoY, respectively.



Automotive Parts

Local | Trade

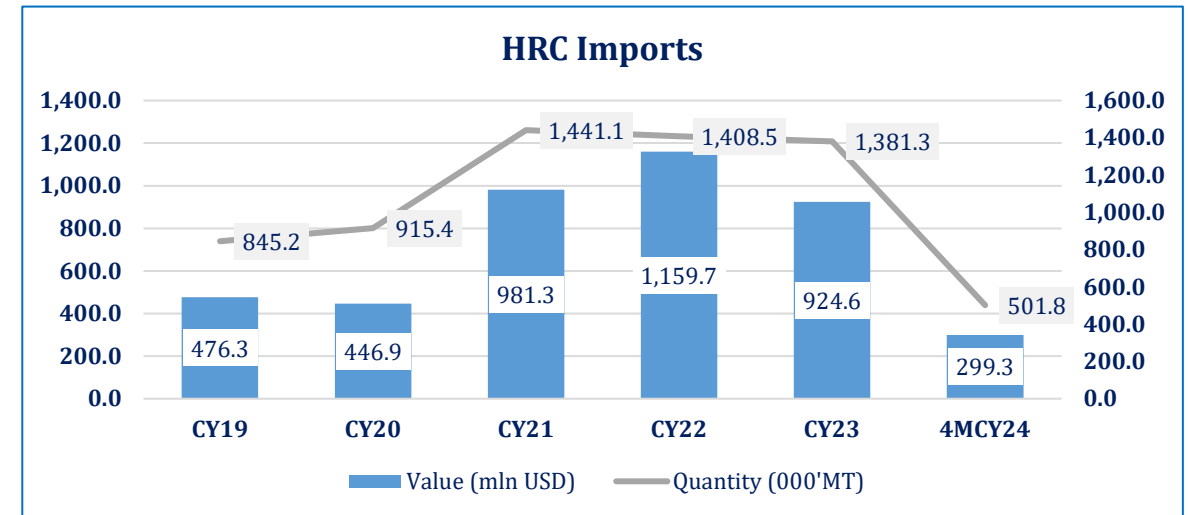
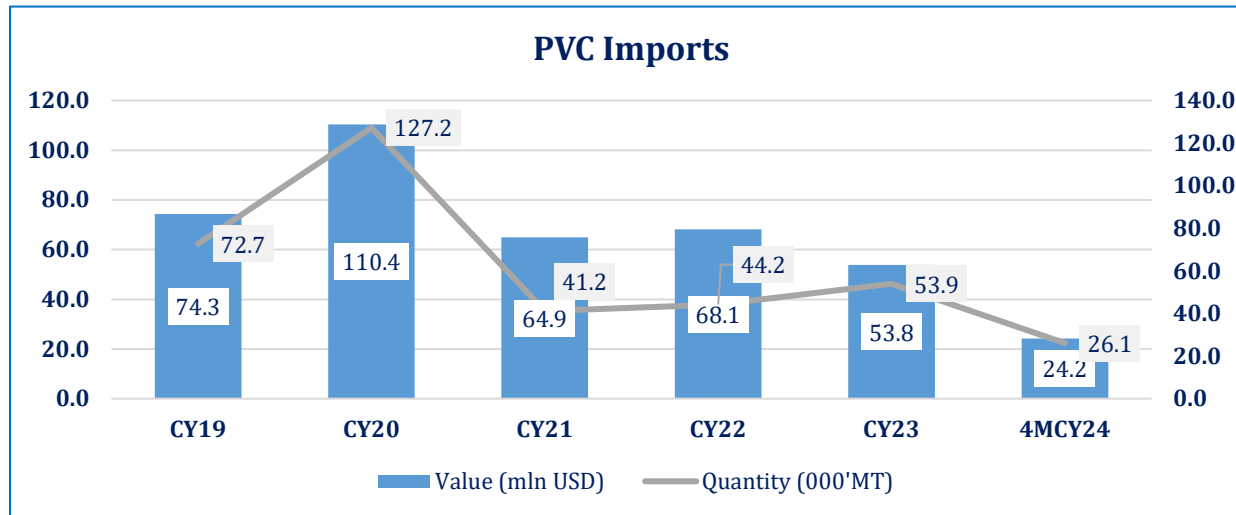
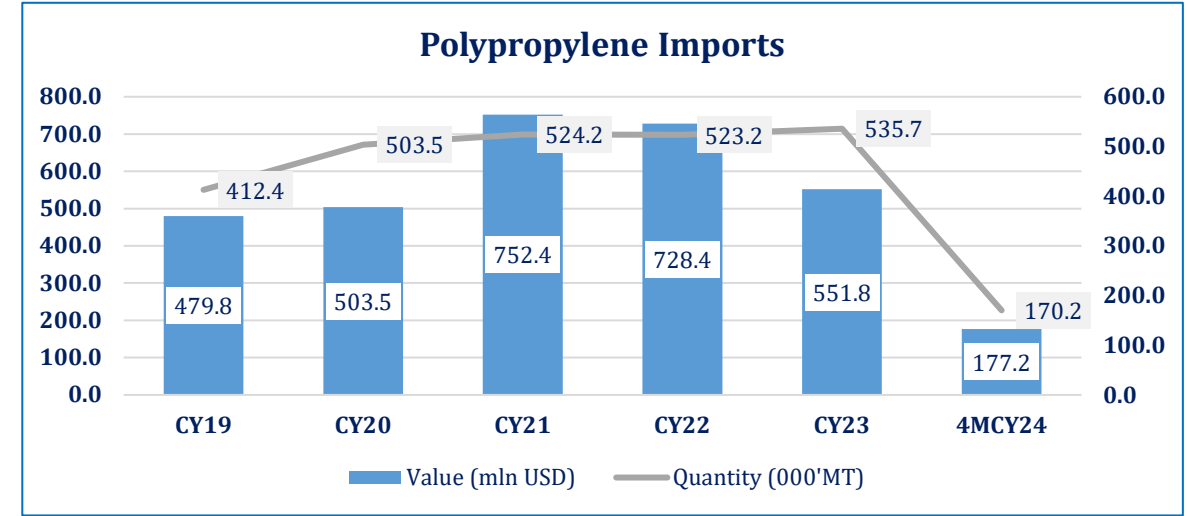
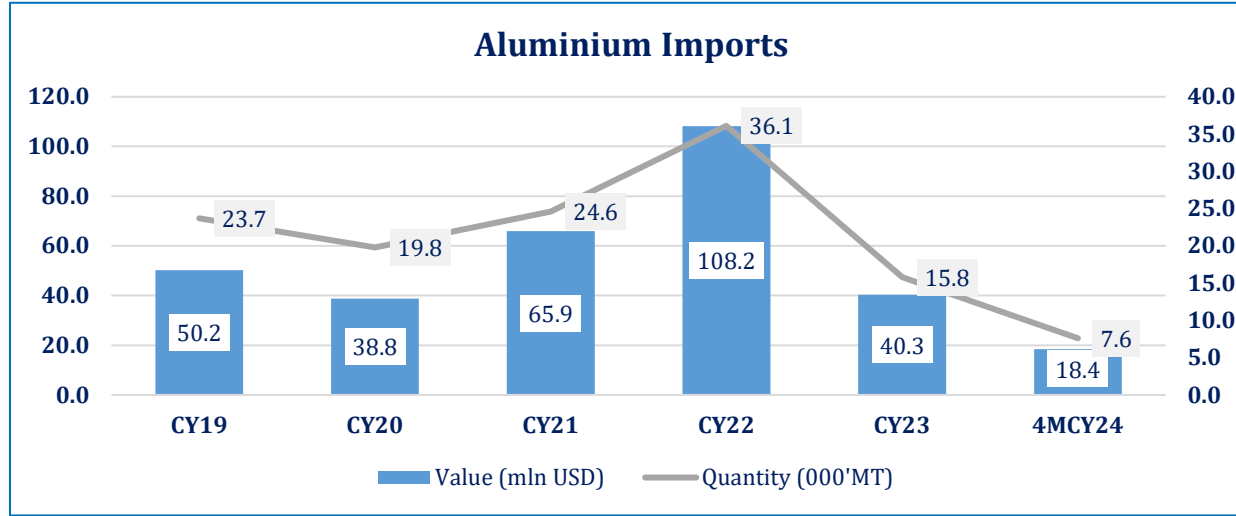
- During FY24, the imports of Automotive Parts clocked in at PKR~73.6bln (FY23: PKR~67.3bln), a YoY increase of ~9.4%. The demand-side factors also remained low during FY24, particularly Automotive production across all segments except tractors as recorded by Original Equipment Manufacturers (OEMs) (i.e., a decline of ~21.9% in Passenger Cars, ~30.5% in Trucks & Buses, and ~2.9% in 2 & 3 Wheelers).
- Meanwhile, the Automotive Parts exports increased to PKR~6.7bln in FY24 (FY23: PKR ~5.5bln), a YoY increase of ~21.8% as Germany, Italy, and the USA remained the top export destinations with ~24.2%, ~23.4% and ~16.5% shares, respectively. During 3MFY25, exports increased to PKR~1.5bln (3MFY24:PKR~1.4bln).



Note: Trade data pertains to HS code "8708"

Automotive Parts

Raw Material Imports

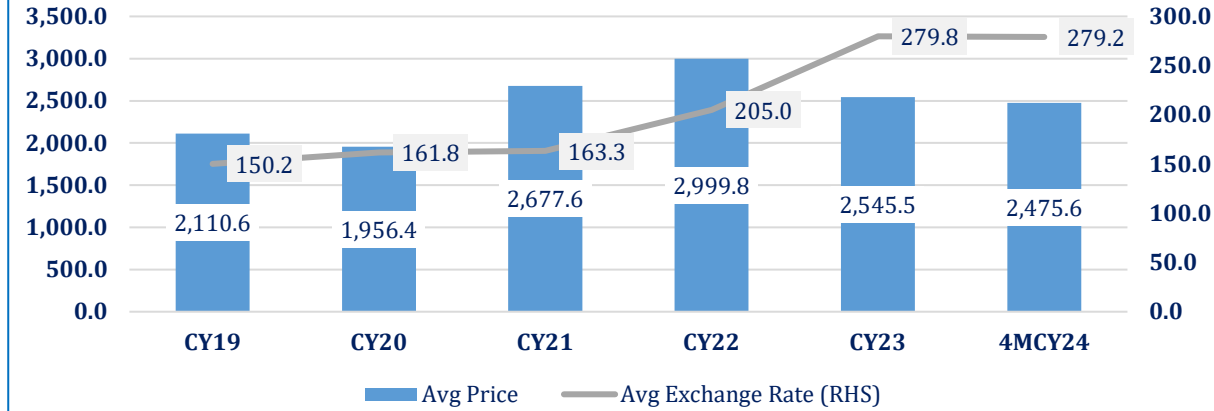


Note: Trade data pertains to HS code "7601, 902.1000, 3904 and 7208"

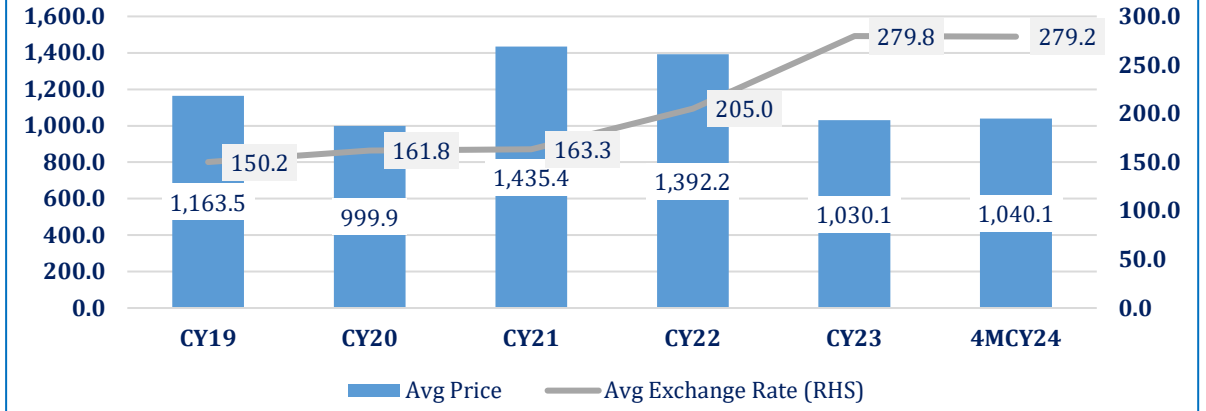
Automotive Parts

Raw Material Prices

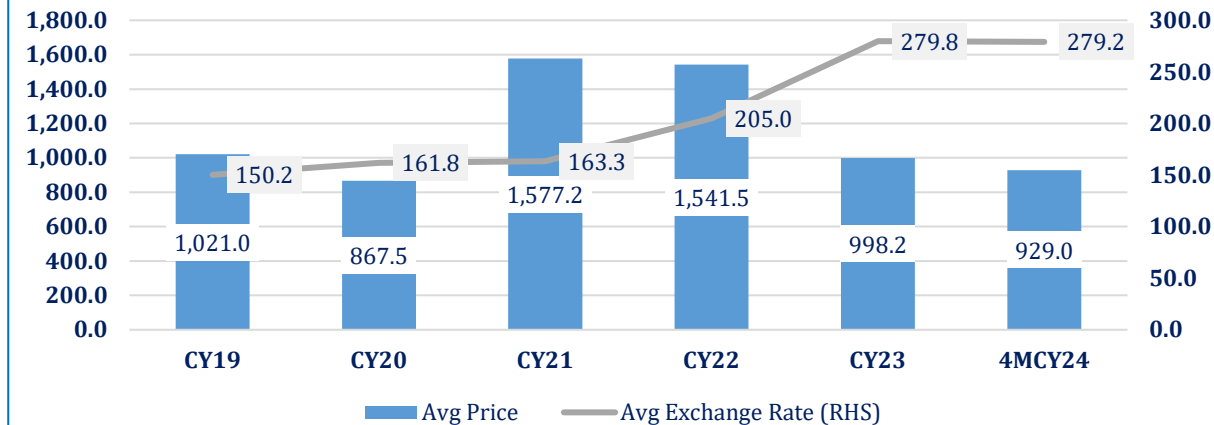
Aluminium Price (USD/MT)



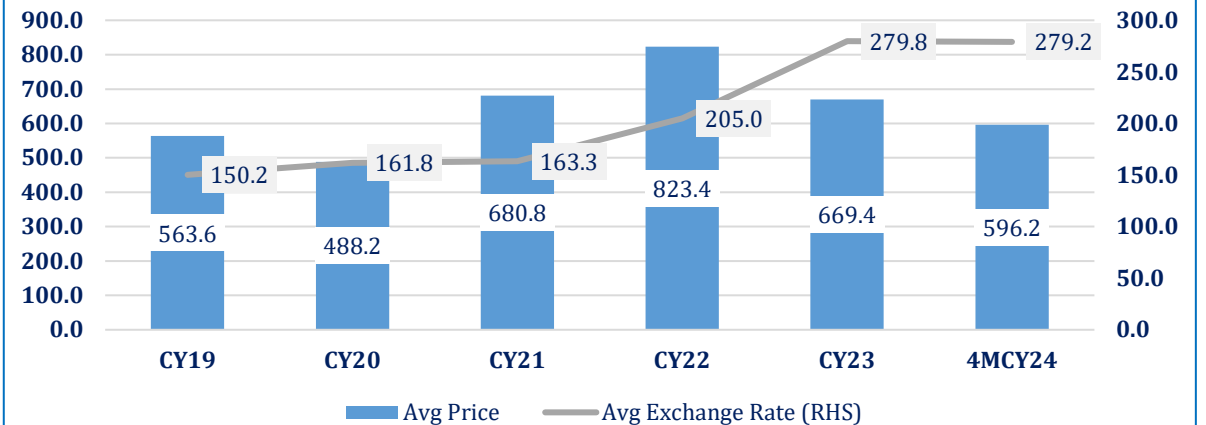
Polypropylene Price (USD/MT)



PVC Price (USD/MT)



HRC Price (USD/MT)



Automotive Parts

Business Risk

- The local Automotive Parts Sector derives its demand entirely from the Automobile Sector. As a result, the challenges faced by the Automobile manufacturers have also had a detrimental impact on the sale of Automotive Parts, especially during FY23.
- Moreover, the increase in Automobile prices on the back of rising inflation and exchange rates resulted in a declining trend in the Automobile demand.
- The sector also faces stiff competition from the import segment which occupies a significant market share in both OEMs and replacement markets. It also faces risk due to exchange rate volatility owing to reliance on imported raw materials.
- The targeted production capacity by Auto Industry Development and Export Policy (AIDEP) 2021-2026 included the following:
 - 1) 650,000 Cars, LCVs (Light Commercial Vehicles), and SUVs annually.
 - 2) 100,000 Tractors annually.
 - 3) 20,000 HCVs (Heavy Commercial Vehicles) annually.
 - 4) 7mln 2 & 3 wheelers per annum.
- AIDEP was launched in CY21 by the Ministry of Industries & Production (MoIP) and outlined regulations and incentives applicable for the next five years.
- Under this policy, the OEMs are to consider export of parts and vehicles for a minimum of 10% of the C&F value of their total imports by the end of the policy period, i.e. June 30, 2026, through their global supply chains or global distribution channels/networks. Values are to be calculated in USD or equivalent.

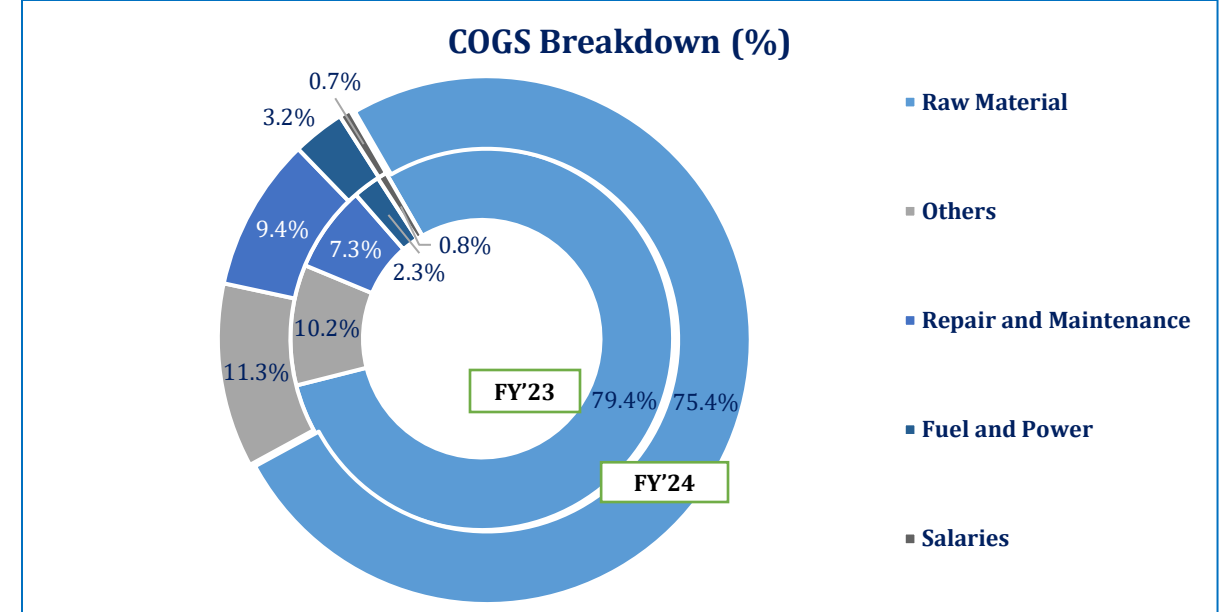
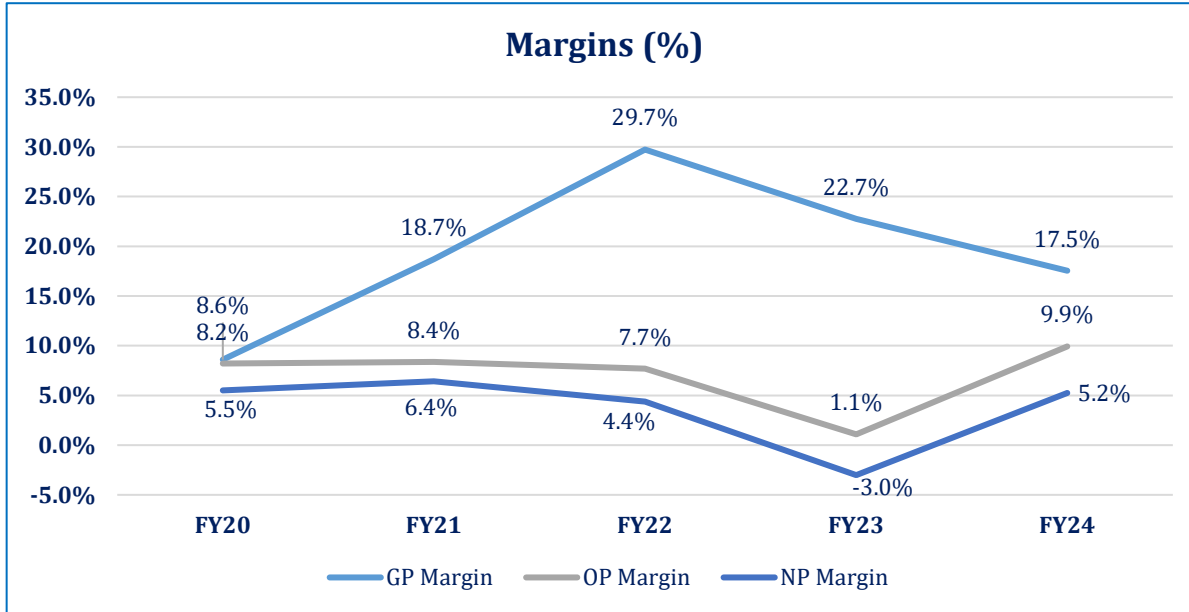
Localization Levels	
Passenger Cars & LCVs	~50%
Trucks & Buses	~25%
Tractors	~95%
Motorcycles	~95%

Products	Deletion Achieved (CY21)
Suzuki Cultus Car, 1000 CC	69%
Suzuki Pickup, 800 CC	70%
Suzuki Bolan Van, 800cc	68%
Suzuki Swift Car	38%
Suzuki Cargo Van	68%
Suzuki Wagon	32%
Toyota Corolla XLI/GLI (M/AT) 1.3 CC	65%
Toyota Corolla (A/T) 1.6 CC	60%
Toyota Corolla (M/T) 1.8 CC	60%
Honda Civic VTI - MT/AT 1.3/1.5	58%
Honda City MT /AT 1.3/ASP 1.5/1.3	68%

Automotive Parts

Business Risk | Margins

- During FY24, the sector's gross revenue dropped by ~2.8% YoY (FY23: ~-41.2% YoY) while cost of sales rose by ~3.7% YoY, resulting in gross profits to decrease by ~23.5% YoY in FY24 (FY23: ~-55.3% (base year effect)) . Therefore, average gross margins lowered to ~17.5% during FY24 (FY23: ~22.7%).
- Moreover, operating profit increased by ~100.6% YoY in FY24 (FY23: ~92.1%), while the net profit registered ~269.1% YoY growth resulting in average net margins improving to ~5.2% in FY24. During the year, finance the sector's costs rose by ~35.8%, while other income was up ~50.4% YoY due to higher return on investments as policy rate were increased by SBP to ~22.0% during Jun'23-Apr'24, which started to decline in Jun'24 and was further reduced to ~15.0% in Nov'24.
- The sector relies heavily on raw materials as it comprised ~75.4% of the total costs in FY24. During FY24, prices for the main raw materials used in Automotive Parts manufacturing including Aluminum, Polypropylene, PVC and HRC decreased by ~15.1%, ~26.7, ~35.2% and ~18.7% respectively, owing to the lower demand by the Automotive Sector.

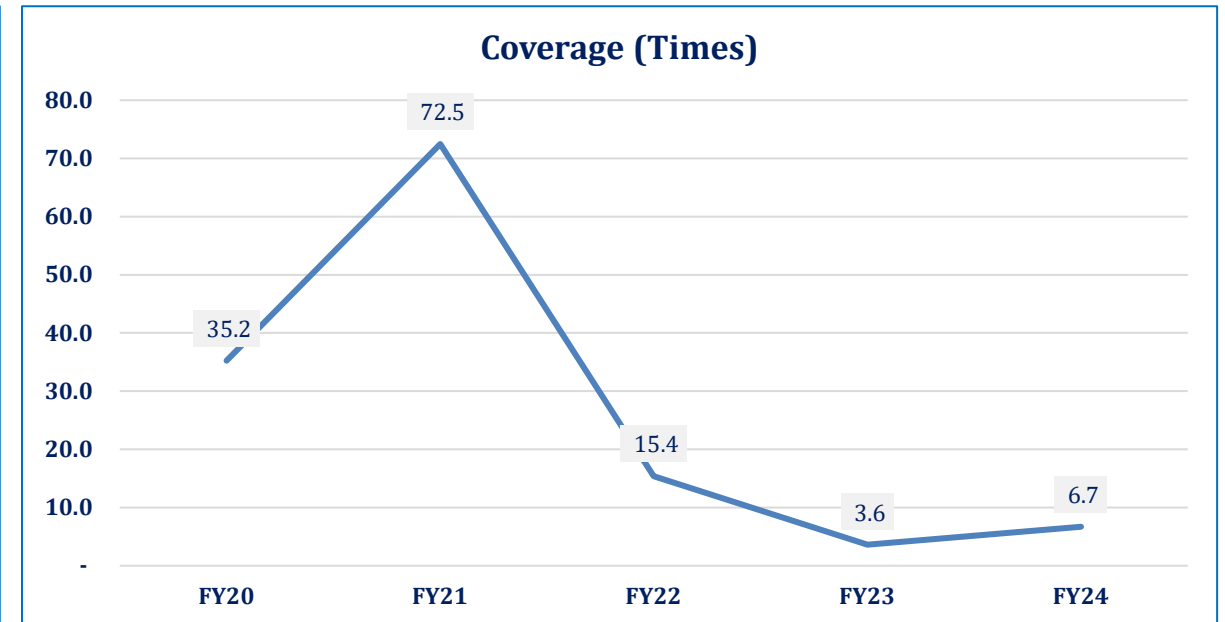
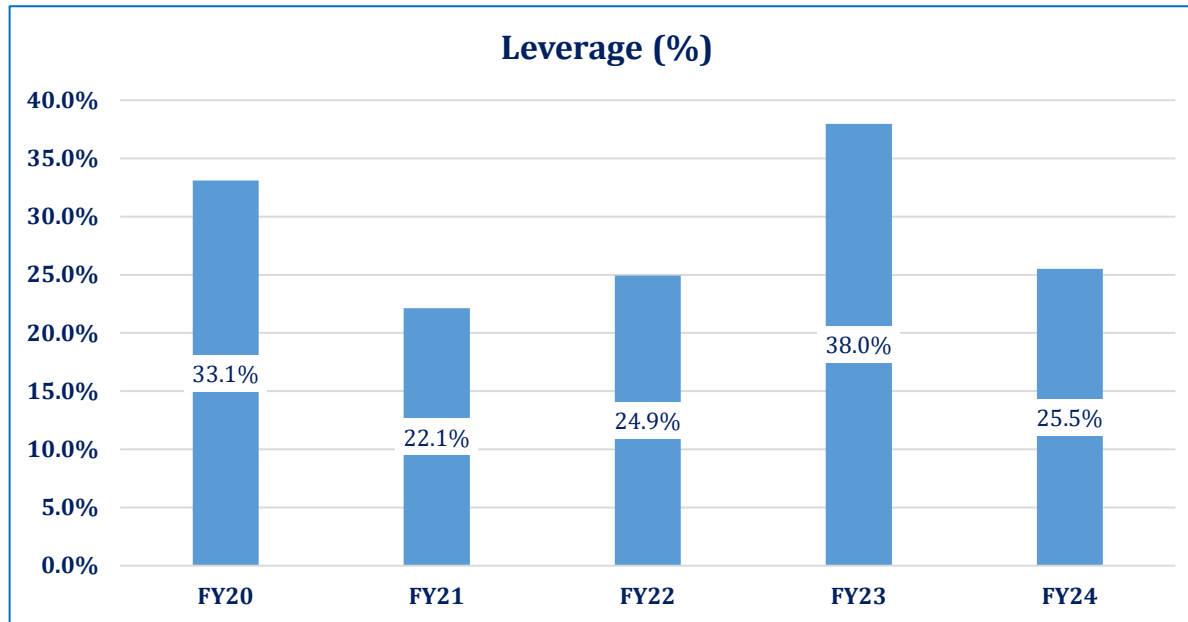


Note: Data is reflective of ~4 PACRA rated/Listed sector players in FY24, while margins are revenue weighted

Automotive Parts

Financial Risk | Leverage and Coverage

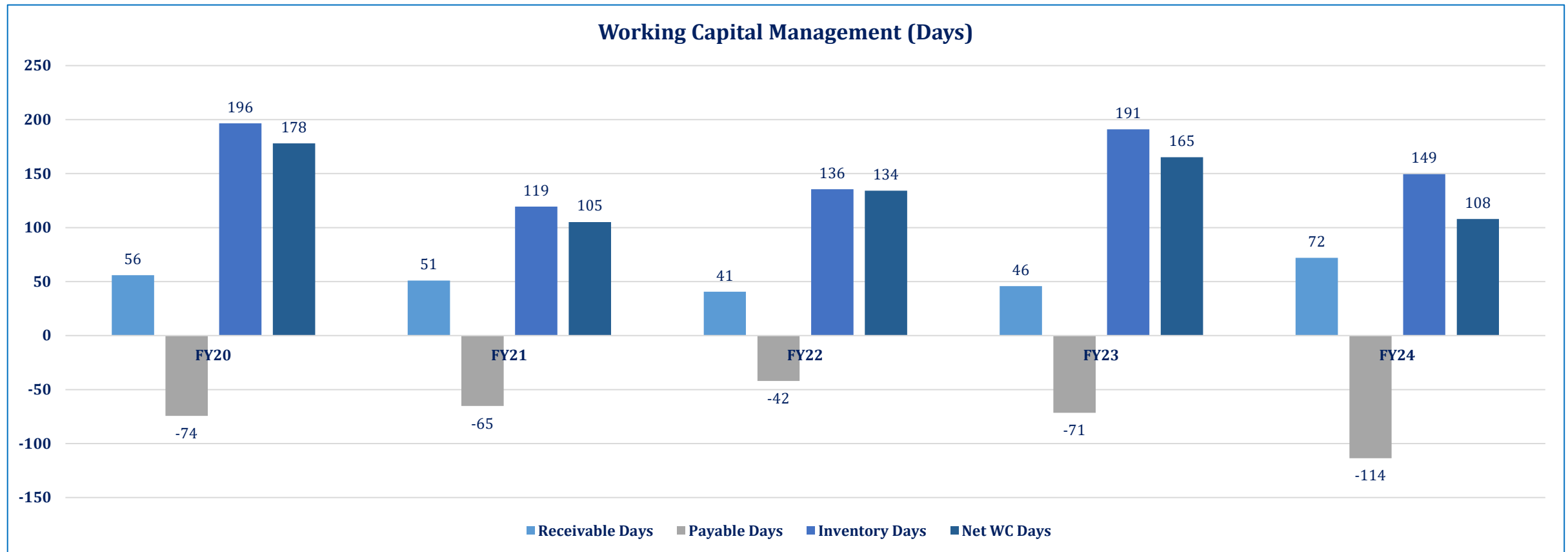
- The total borrowings stood at PKR~6.1bln as at end-June'24 (4 listed players), (PKR~6.6bln as at end-June'23), down ~7.5% YoY. Short-term borrowings accounted for ~39.4% of the total borrowings and declined by PKR~341mln during the year (or ~13.9% YoY). Long-term borrowings accounted for ~60.6% of the total borrowings as at end-June'24 and stood at PKR~3.9bln (PKR~4.1bln as at end-June'23). The decline in debt leverage to ~25.5% in FY24 from ~38.0% in FY23 is partially attributable to lower borrowings during FY24, while equity, on the other hand, increased by 5.8% during FY24.
- The sector's average interest coverage increased to ~6.7x in FY24 (FY23: ~3.6x), In addition to SBP's contractionary monetary policy during the FY24 policy rate was raised to ~22.0% for the period of 11 months (Jun'23-Apr'24) therefore as at end-June'24 finance costs increased by ~35.8% YoY, while operating income also increased by ~100.6% YoY resulting in coverage to improve by 6.7x.



Automotive Parts

Financial Risk | Working Capital Management

- The sector's working capital cycle is generally a function of its inventory and trade receivables. During FY24, inventory days decreased in contrary to the increase in payable days and receivable days, resulting in net working capital days declining to ~108 days from ~165 days as at end-June'24. Low inventory days reflected a demand pick-up during FY24 emanating from the Automotive Industry.

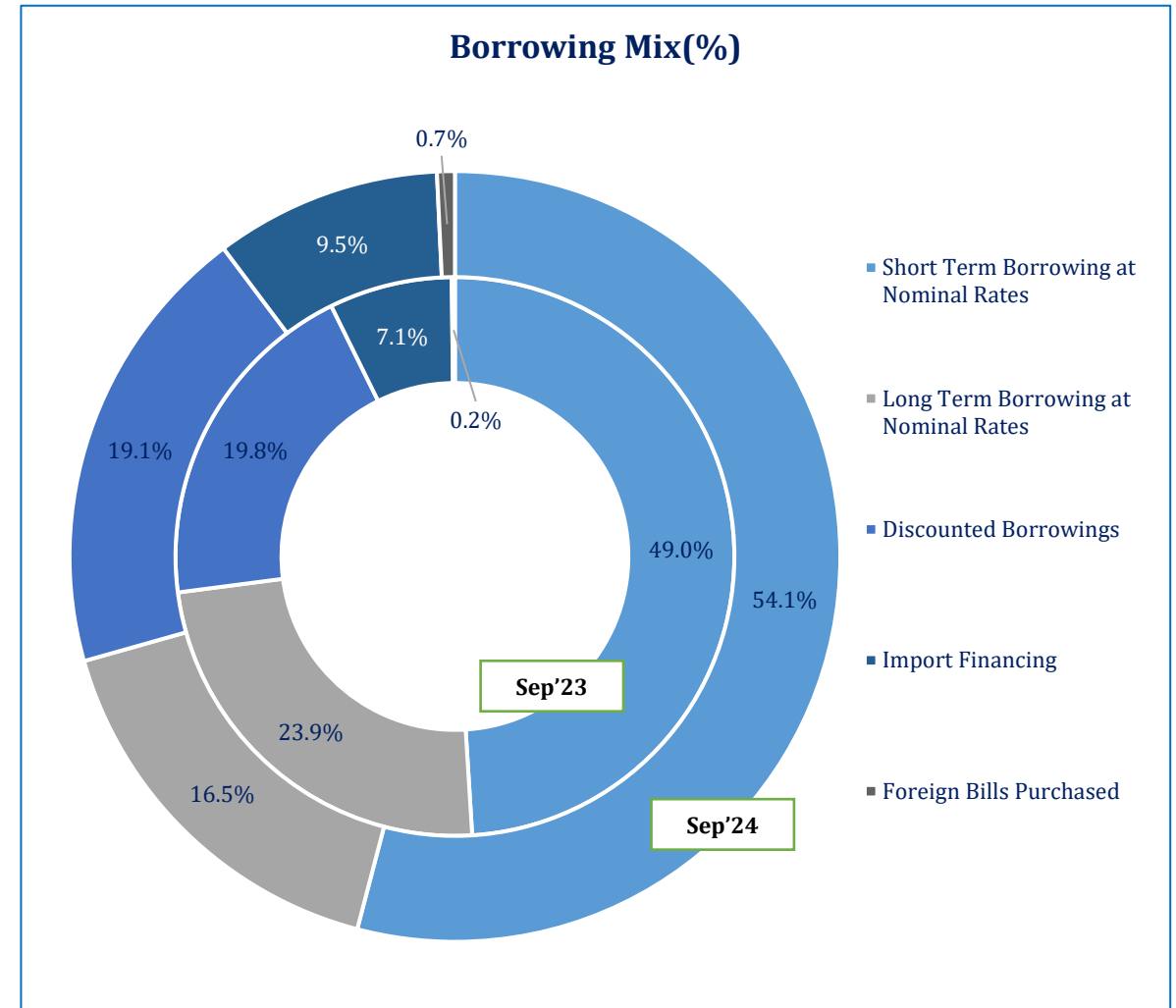


Note: Data is reflective of ~4 PACRA rated/Listed sector players in FY24, while margins are revenue weighted

Automotive Parts

Borrowing Mix

- As of end-Sep'24, the sector's overall borrowings stood at PKR~15.9bln, up ~4.2% YoY (End-Sep'23: PKR~15.2bln).
- Short-term borrowings (STBs) at a nominal rate stood at PKR~8.6bln, up ~27.9% YoY, and held the largest share in the sector's borrowing mix at ~54.1% (SPLY: ~49.0%).
- Long-term borrowings (LTBs) at nominal rate stood at PKR~2.6bln, down ~27.9% YoY and held a share of ~16.5% in overall borrowings (End-Sep'23: ~23.9%).
- Discounted borrowing (LTFF & EFS) stood at PKR~3.1bln (End-Sep'23: ~3.0bln), down ~0.1% YoY and held a share of ~19.1% in the overall borrowing mix.
- Meanwhile, import financing stood at PKR~1.5bln (End-Sep'23: PKR~1.1bln), up ~39.2% YoY as of End-Sep'24, and held ~9.5% share in the total borrowing mix during the period.



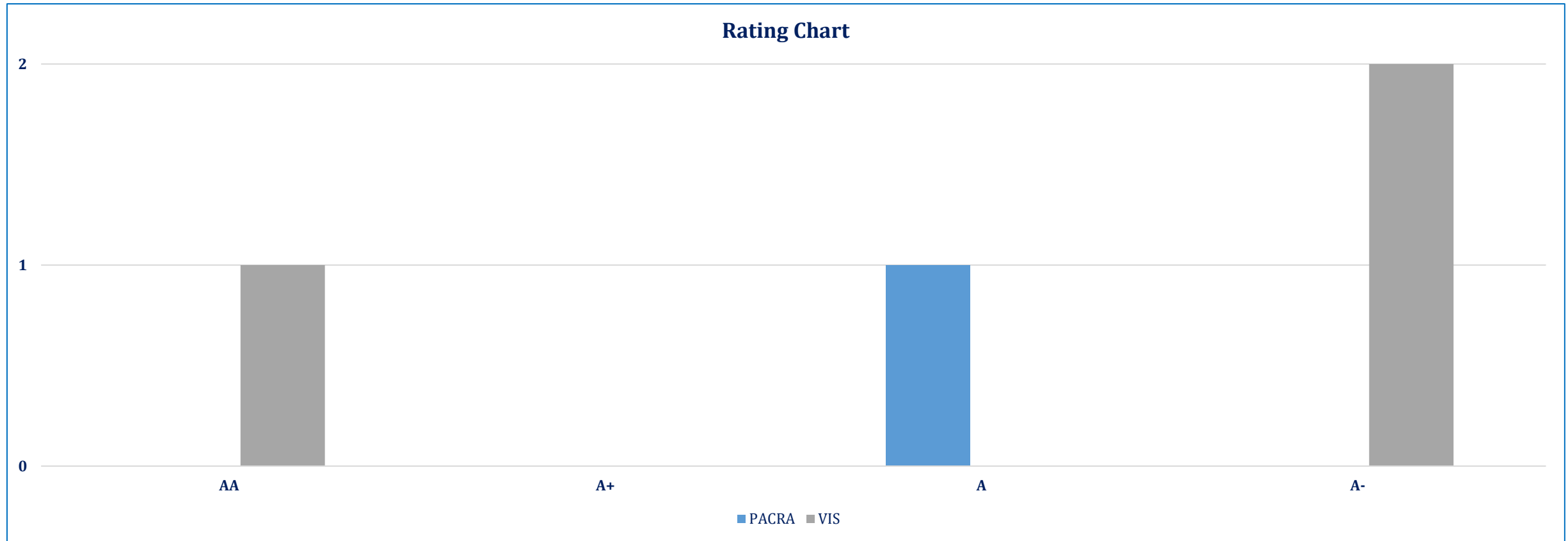
Automotive Parts

Regulatory Duty

PCT Code	Description	Additional Duty		Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
Raw Material									
7609.0000	Unwrought Aluminium	2%	6%	0%	20%	0%	0%	2%	26%
7604.1010	Bars of Aluminium, Rods	2%	2%	3%	3%	0%	0%	5%	5%
7606.9110	Aluminium Plates, Sheets	2%	2%	0%	0%	0%	0%	2%	2%
3902.1000	Polypropylene	2%	2%	3%	3%	0%	0%	5%	5%
7208.1010	HRC	2%	2%	0%	0%	5%	5%	7%	7%
3904.2100	PVC	4%	4%	16%	16%	0%	0%	20%	20%
Finished Goods									
8708.1090	Bumper & Parts	7%	7%	35%	35%	0%	0%	42%	42%
8708.9190	Radiators	7%	7%	35%	35%	0%	0%	42%	42%
8708.2939	Body Parts of Other Vehicle	7%	7%	35%	35%	0%	0%	42%	42%
8708.4010	Gear Box Tractor	7%	7%	35%	35%	0%	0%	42%	42%
8708.2931	Body Parts Cars	7%	7%	35%	35%	0%	0%	42%	42%

Rating Chart

- PACRA rates 1 player from the Automotive Parts sector with a long-term rating bandwidth of A.



Automotive Parts

SWOT Analysis

- Diversified product mix.
- Availability of low-cost labor.
- Strong industry association (PAAPAM) resulting in high lobbying power



- Low localization level resulting in a higher import bill.
- Decline in per capita income and thus reduced purchasing power of end consumers. This negatively impacts both OEM and Replacement markets.
- Supply chain issues such as raw material.

- Increase in exchange rate and volatility of imported raw material prices.
- Availability of high-quality imports which reduce opportunity for localization in OEMs market.
- Uncertainty in the industry following economic slowdown in FY24.

- Entrance of new OEMs provides opportunity for local auto parts players to increase their market shares.
- Potential for technological collaborations with OEMs to improve quality of products and introduce latest technology.
- Unutilized potential and untapped markets in the Automobile sector.

Automotive Parts

Outlook: Stable

- Pakistan's GDP (nominal) stood at PKR~106.0trn in FY24 (FY23: PKR~83.9trn), increasing, in real terms, by ~2.4% YoY (FY23: ~-0.21% decline). Industrial activities in FY24 held ~21.9% share in the GDP while manufacturing activities made up ~62.9% of the value addition. In 3QFY24, Pakistan's GDP (nominal) stood at PKR~25.4trn (3QFY23: PKR~20.6trn), rising in real terms by ~2.1% YoY (2QFY24: ~1.8% YoY). Real GDP growth rate (~2.1%) for 3QFY24 signals a moderate improvement in the economic activity as compared to SPLY. The "automobile sector" is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. In FY24, its weight was recorded at ~3.1%, while the sector's growth slowed down by ~25.0% YoY during the year.
- During FY24, the automobile sector witnessed a decline of ~1.8% and ~1.2% in production and sales volume, respectively. However, during 3MFY25 a recovery in the sales and production of the automobile sector was recorded on the back of macroeconomic factors stabilizing as inflation dropped to ~6.9% YoY during Sep'24, while the policy rate was also lowered to ~15.0% w.e.f 04 Nov 2024 providing a more favorable lending environment for the sector.
- The automobile sector is the main driver of the Automotive Parts sector growth. During 3MFY25, automobile sector has depicted a positive trend with production and sales in the sector increasing by ~19.5% and ~16.0%, respectively, leading to a corresponding increase in Automotive Parts demand. Furthermore, a reduction in the raw material prices along with a ~3.8% appreciation of the PKR in 3MFY25 to USD/PKR~278 has also eased some pressure on the raw material costs.
- The sector's overall margins have also shown improvement. During FY24, gross margins dropped by ~5.2%, operating margins grew by ~8.8% and net margins were up by ~8.2% on the back of an increase in the other income of the sector by ~50.4%. During 3MFY25, gross profit margins have improved by ~4.0%~5.0% on the back of demand pickup and stable economic indicators.
- Going forward, the Automotive Parts sector is expected to continue on the path of recovery, as macroeconomic indicators, particularly interest rates and exchange rates, reflect a favorable outlook and the demand for the automobile sector is also finding some breather during 3MFY25. Also, with the Automotive Industry Development and Export Plan 2021-26 in place, exports of ~10.0% percent of the imported vehicles will be mandatory by FY26. Therefore, it is expected that demand for automobiles will pick up pace resulting in improved performance for the sector.

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