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Market and Investment Brief

Tyre Manufacturing



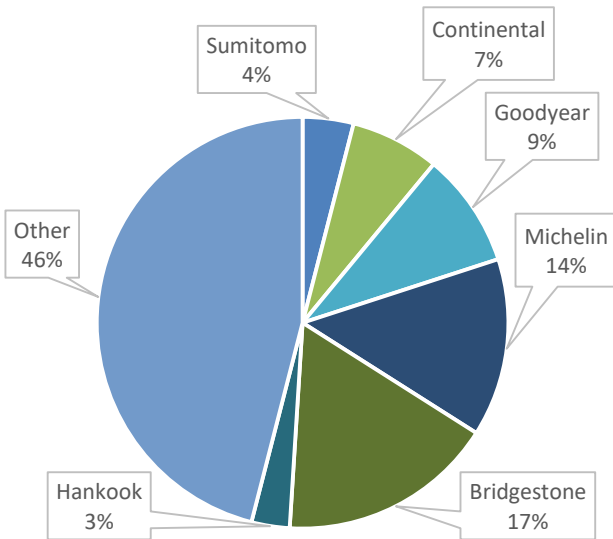
Projects & Policy Research
Department

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Tyres

A Tyre is a strong, flexible rubber casing attached to the rim of a wheel. Tyres provide a gripping surface for traction and serve as a cushion for the wheels of a moving vehicle. Tyres are found on automobiles, trucks, buses, aircraft landing gear, tractors and other farm equipment, industrial vehicles such as forklifts, and common conveyances such as baby carriages, shopping carts, wheel chairs, bicycles, and motorcycles.

% of Global Market



Global Industry Highlight

The Tyre sector is undoubtedly a growing market, even though it is defensive and resilient as replacement is compulsory and necessary for mid-range Tyres after 30-40,000 kilometers, implying on average four changes over the life of a vehicle. With over 70% of annual sales for private cars and vans, we estimate that growth in the market for replacement Tyres in 2017-20 should be driven by western countries. The recovery by industry could also have a positive impact on the market for truck and specialty Tyres. Overall, we estimate that the Tyre market should grow 3% in value terms in 2018.

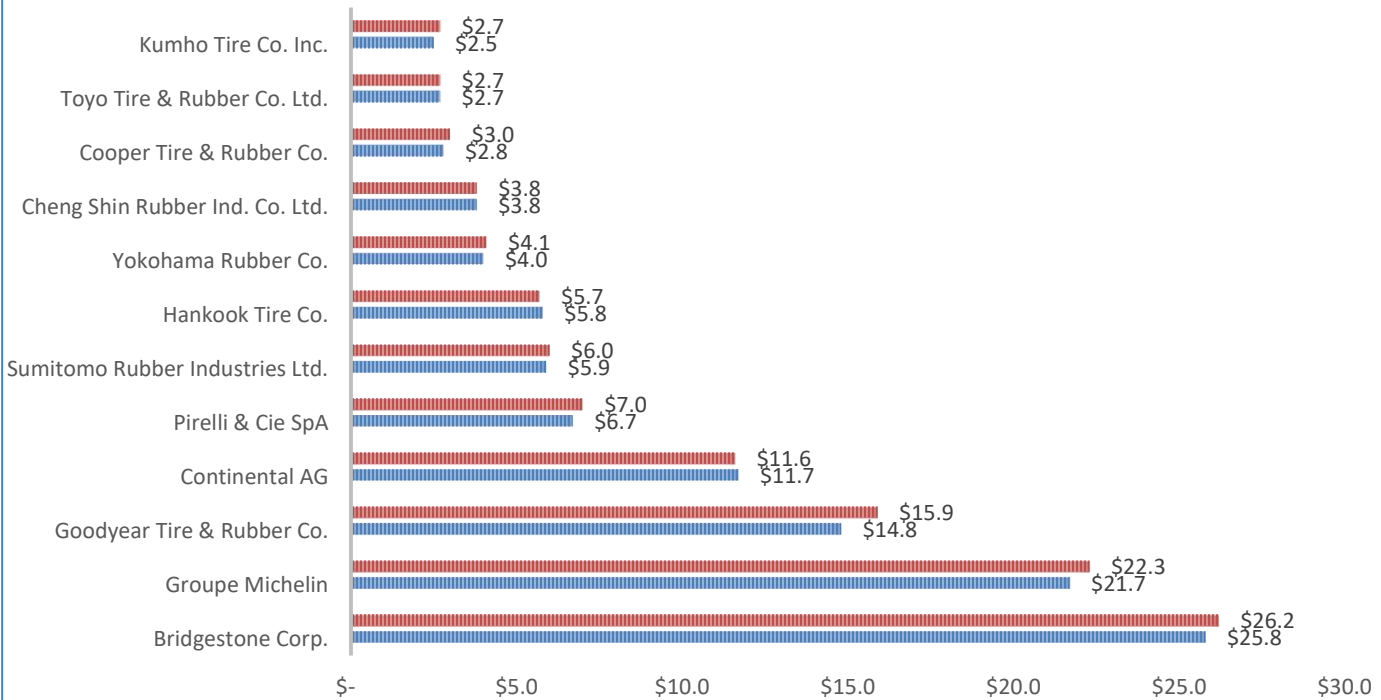
Global Key players and their Brands

Bridgestone	BRIDGESTONE Firestone BLIZZAK POTENZA ECOPIA LASSA DUELER DRIVEGUARD TURANZA
Michelin	MICHELIN BFGoodrich Kleber RIKEN KORMORAN TIGAR UNIROYAL U.S.
Goodyear	GOODYEAR DUNLOP Europe Sava FULDA DEBICA
Continental	Continental UNIROYAL Europe GENERAL TIRE Gislaved Matador Barum SEMPERIT Euzkadi VIKING
ChemChina	PIRELLI CEAT METZELER AEOLUS
Sumitomo	SUMITOMO FALKEN DUNLOP
Hankook	HANKOOK KINGSTAR LAUFENN AURORA
Yokohama	YOKOHAMA
Cheng Shin	CST
Cooper	COOPERTIRES AVON Mastercraft
Kumho	KUMHO TIRE
Toyo	TOYO TIRES SILVERSTONE
Triangle	TRIANGLE
Nokian	NOKIAN TYRES

Types of Tyres

CAR AND LIGHT TRUCK Tyres	<p>In FY 2016, Demand rose by 4% worldwide, with gains of 4% in Western Europe, 1% in North America, 9% in Africa/India/Middle East and 7% in Asia, where dynamic growth of 14% in China contrasted with declining demand in South Korea, ASEAN and Japan. Demand fell by 12% in Eastern Europe and by 12% in South America, with the market improving in Argentina and stabilizing in Brazil in the second half.</p>
Truck Tyres	<p>In FY 2016, Demand is overall stable, reflecting growth of 1% in Europe, 6% in Asia (excl. India) driven by China (+9%) and 5% in Africa/India/Middle East, a stabilization in Asia (up 1% overall and 9% in China), an expected decline of 19% in North America due to fleet overhauls, and a drop of 17% in South America.</p>
Specialty Tyres	<p>Agriculture Tyres Demand would show increase in both the original equipment and replacement markets.</p>
	<p>Earth Mover Tyres Due to the increase in mining in Pakistan the Mining Tyre demand will contracted significantly upward trend in the years to come. Infrastructure and quarry Tyre markets also declined.</p>
	<p>Material Handling Tyre Demand of MH Tyres would grow for Pakistan due to CPEC</p>
	<p>Multi-Purpose Tyre Demand of MP Tyres would grow for Pakistan due to CPEC</p>

WORLD DEMAND OF NEW TYRE SALES (FISCAL YEAR 2016,2015; IN BILLIONS OF U.S. DOLLARS)



Global JV in Tyre Market

- To create a joint venture owned 50%/50% by Michelin and Sumitomo Corporation of Americas

The JV was done to creating a best-in-class distributor with expanded geographic footprint, for a better availability of products at all price points, across all product categories.

- Focusing on the growing service and Tyre needs for fleets and personal vehicles
- Michelin to contribute USD 630m and TCI wholesale business
- This would become the fourth largest wholesale Tyre and service network in U.S.
- The collaboration has enabled both the parties to enhance the technology and capacity to facilitate the customers
- The JV would glorify the improvement of local setups and enrich the already working facilities nationally and internationally.
- This would ensure the availability of better products in the region

Continental AG of Germany has closed its acquisition of Fairlawn-based rubber company Veyance Technologies Inc

- The transaction is valued at 1.4 billion euros, or approximately \$1.6 billion
- This might be the most noteworthy deal of this era, says Continental AG
- The collective sales would also increase high
- Both the parties would intermingle to enhance the shared capacities and technical expertise
- This would also help in enhancing and expressively expanding our industrial and end-customer business

Pakistan Tyre Industry at a glance

The current status of the Tyre industry which includes 2/3 wheeler Tyre (includes Motorcycle, Rickshaws) has multiple market players whereas the 4 wheeler Tyres (includes PCR, tractors, trucks & buses) has no competition, yet, which identifies a plausible opening in the present Pakistani market. Demand for all kinds Tyres is being anticipated to have a rising trend due to the increase in automotive industry, CPEC and agriculture industry.

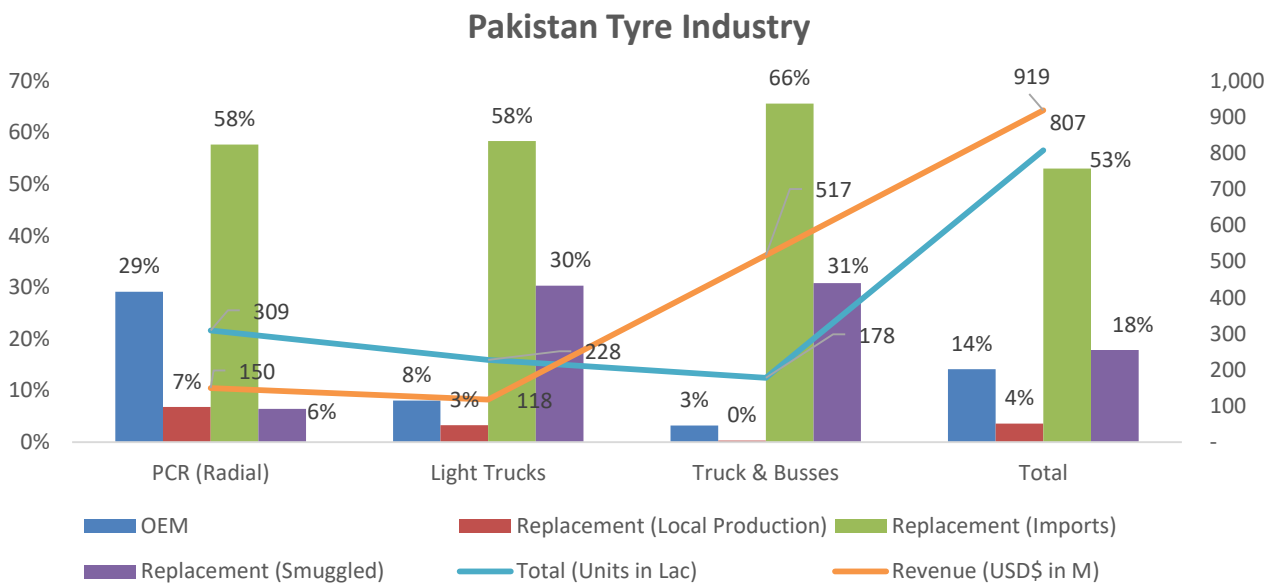
The Pakistani Tyre market is categorized into OEM, Replacement. OEM is the Tyre which come equipped when you buy and new vehicle. Replacement

Pakistan also exports all kinds of Tyres products to the Afghanistan, Egypt.

As of FY 16 the total units Produced and total revenue stood at 8.1 m units and \$ 919 million USD respectively.

In terms of Volume Passenger car radial (PCR) Tyre account for 38% of total production but only contributes 16% of the industry revenues.

In contrast truck and buses Tyre segment contributes 22% to the total Tyre production, but has the highest revenue share at 56%. More over Light truck segment @ 13% in terms of revenue accounts for 28% of Tyre production in Pakistan. (Source: PAPAM stats)



Most of the local Tyre manufacturing units produce two wheel or Rickshaw Tyres are located near the sources of raw materials. The PCR, trucks and buses Tyres are produced by General Tyres, only. No other market shareholder has the capacity of specified production.

The 2/3 wheeler industry is dominated by Servis and Panther Tyre Industries due to higher production capacity and well-developed distribution network in comparison to other small and medium units.

Replacement, OEM Tyres

- Replacement Tyres through local production and imports accounts for 4% and 53% respectively of the total market, by units produced.
- OEM (14%) and non record sales (18%) make up the rest.
- The major reason for high replacement share is due to the fact of the ratio of annual sales to the number of registered vehicles remains at a ratio of 1:6.
- There are 1.5 m registered vehicles in Pakistan as per PAPAAM's data.
- Approx. sales of vehicles in FY 16 were indicated to about 267,000

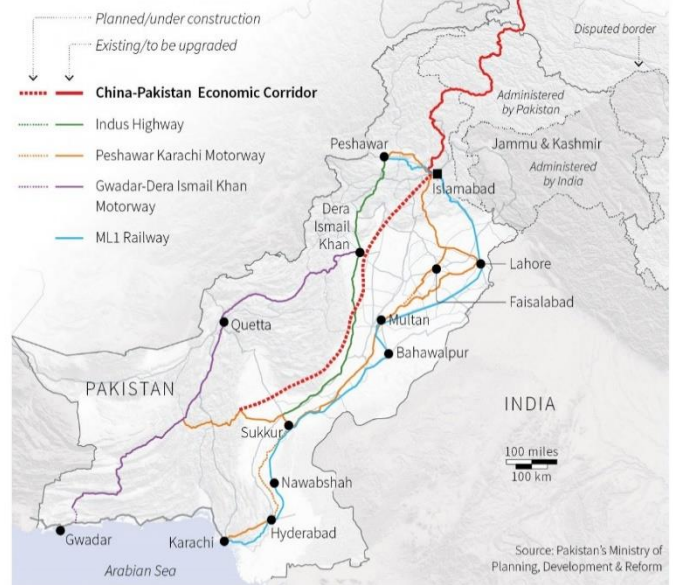
The case for investment

China Pakistan Economic Corridor (CPEC)

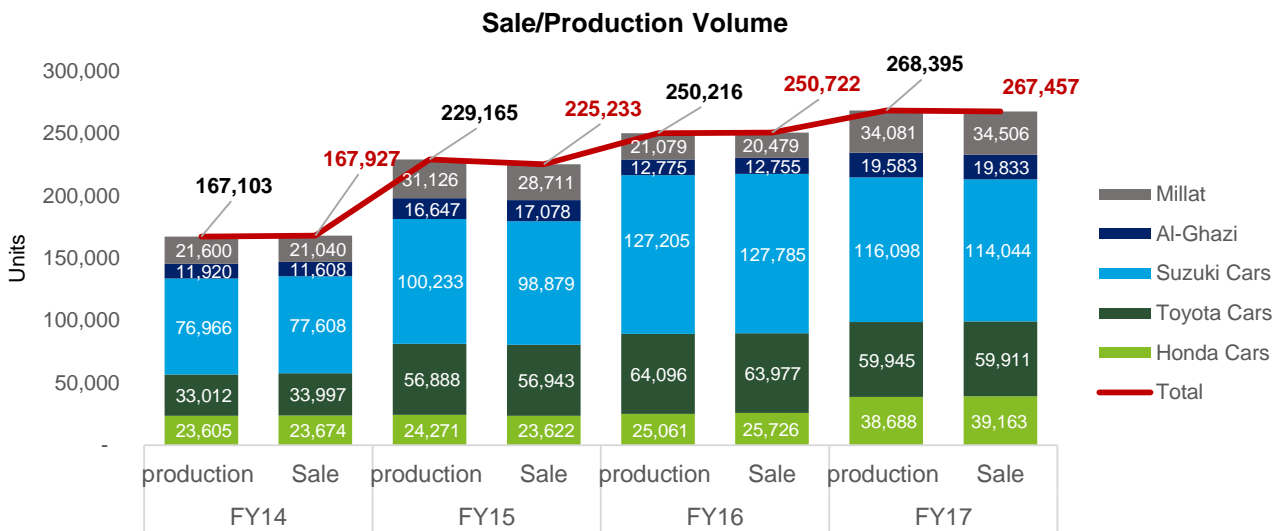
- The recent initiative taken by China and Pakistan under One Belt One Road known as China Pakistan Economic Corridor is a framework of regional connectivity.
- CPEC is a 2600 km road network which would entertain the heavy traffic and transport to travel all along from China to Pakistan and connecting it to the enTyre international region.
- Massive urbanization in road network in Pakistan will fuel further demand for automobiles and Tyres.

China-Pakistan Economic Corridor

A planned \$57 billion China-Pakistan economic corridor will link Gwadar, Pakistan, to China's far-western Xinjiang district.



Growth in Automobiles Sales



- Total vehicles produced & sold have increased from 167,103 & 167,927 unit to 268,395 & 267,457 units respectively from FY15 to FY17.
- Total car sales for first seven months of present financial year FY18 were recorded at 147,700 units against 118,416 in corresponding period last year FY17.
- This growth in record sales was stimulated according to analysts due to rise in demand from ride-hailing services and car loans being available at low interest rates.

Most of the vehicles are locally produced/assembled and sold in the local market

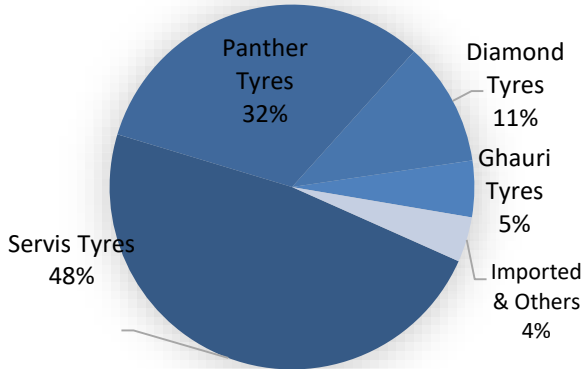
Major investments underway:

- Hyundai partnered with Pakistan's Nishat Group
- Kia partnered with Pakistan's Younus Brothers
- Renault partnered with UAE's Al Futtaim

Additionally around 50,000 used cars were imported in Pakistan in 2016.

2/3 wheeler Pakistani Market share of Local Tyre Manufacturers

2017



Major Local Players

Market Leaders

- General Tyres & Rubber of Pakistan Ltd.
- Servis Industries Ltd.
- Panther Tyres

Other Players

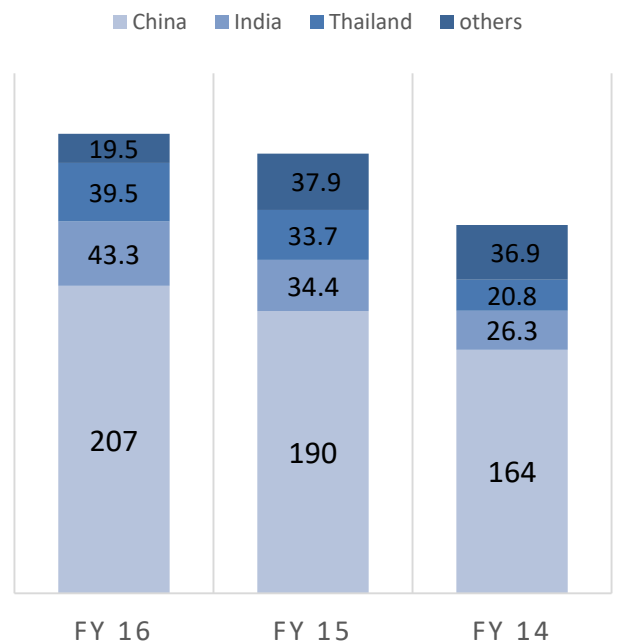
- Diamond Tyres
- Ghauri Tyres
- CECO Tyre

Local Import and Export trend

Import

Pakistan Tyre import has increased at a steady rate of 15% from FY 14-16 and stood at USD \$326 million. China, India and Thailand imports of Tyres continues to pose a threat to the Pakistan Tyre industry across all Tyre categories. During FY 14-16 the imports have grown by 12.3%, 28.3%, and 37.8% respectively China, India and Thailand. More over the overall imports from China and Thailand has shown a rising trend, whereas imports from India has down surged by 15% during the same period.

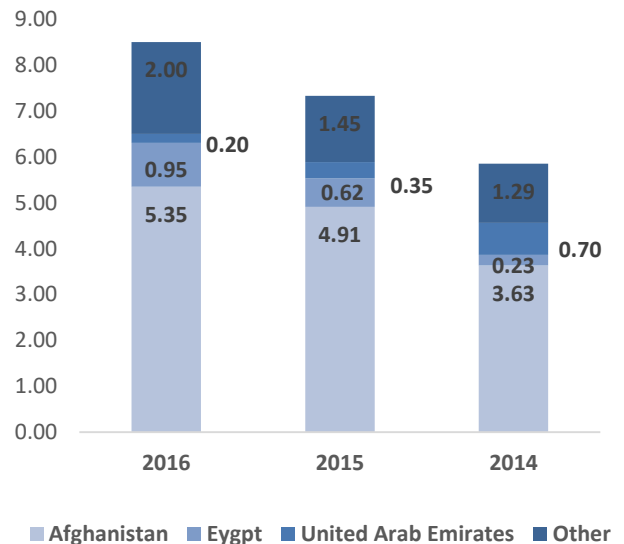
IMPORT OF RUBBER TYRE IN \$ MILLIONS



Exports

Pakistan Tyre export has increased at a steady rate of 12% from FY 14-16 and stood at USD \$8.5 million. It was witnessed that Afghanistan and Egypt imports around 63% and 11% of Pakistan total Tyre exports in FY 16. Moreover during the same period over all export of Pakistan to Afghanistan and Egypt has shown a decreased trend and down surged by 21% and 25% respectively whereas rubber Tyre exports have shown a surge of 16% and 63% during the same period.

Exports of Rubber Tyres in \$ millions



Forecasted demand for 4 wheel vehicles Tyres in Pakistan

Annual units of cars sold in Pakistan during FY 16-17 were 0.18 million. The car market shows a CAGR of 11% over a period of 10 years.

Annual units of Trucks and Buses sold were 8830. This market showed a CAGR of 12% over a 10 year period.

In FY 16-17 total tractors sold, were 54,992 units and the CAGR of this market showed a growth of 3% over a 5 year period.

If we assume that the market is to follow the same growth trends in future, these markets would require 0.7 million units for the car market, would require another 0.25 million Tyre for rest of the market for the new produced vehicles in the coming years.

Over 1.5 million cars have been sold in the previous 10 year which would also require Tyres according to Pakistan Automotive Manufacturing Association.

Cost of Utilities

Electricity PKR19/unit Off-peak and
 PKR22/unit Peak hour Source: -'NEPRA,
 LESCO'

Natural Gas US\$182.2/ BTU
 minimum/month since 2016
 (OGRA)US\$/Kw

- NEPRA can be requested as it deals with varied rates as per the case.
- The Punjab Board of Investment and Trade would ensure the best possible facilitation for the establishment of factory.

Fatima Fertilizer did a long term contract with Natural gas supplier Mari Gas Company limited in 2006. The Licence shall be valid from 17th October, 2006 (effective date) for a period of 30 years or till the expiry of the Gas Purchase and Sale Agreement between Mari Gas Company Limited (MGCL) and the Licensee, whichever comes first, unless the Licence is revoked earlier under the provisions of the Ordinance and the Rules.

Proposed Location

Land is available at Faisalabad Industrial Estate Development and Management Company (FIEDMC) and other special economic zones. Faisalabad is the industrial hub of Pakistan, 120km away from Lahore, the capital city of Punjab Province of Pakistan. The direct access reduces the traveling time through motorway.

FIEDMC is near the motorway M3. M3-IC is located at motorway M-3 at Sahianwala Interchange near Faisalabad.

Value Added City is located near Lahore-Faisalabad Express Way , Khurrianwala near Faisalabad. Both the industrial estates are connected through dual carriage way at a distance of approx. 12 Kilomètres.

Average land cost is USD6000/acre at FIEDMC with Commercial Development cost of USD25.31/sq-ft of covered area.

Ports available in Pakistan

The most active is the Karachi Port (SEZ to Port- 1,180.1km).

The new Gwadar Port expected operation in this year - 1763.3km.

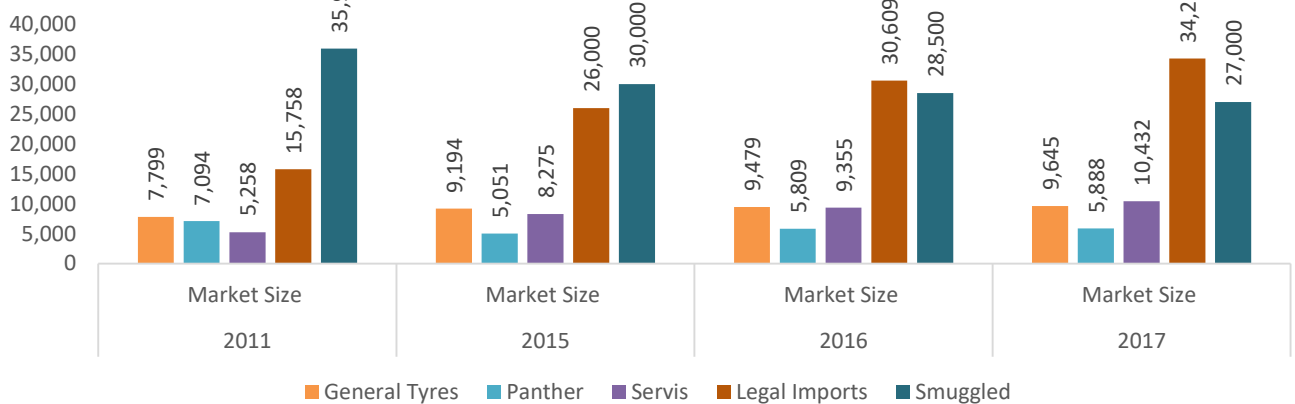
Tyre Manufacturing Unit in Pakistan

Major Exporting Countries for TBR

Country	Qty.	Value (PKR)
China	1,073,845	14,255,874,976
India	247,547	3,185,031,758
Thailand	150,692	2,399,803,877
Vietnam	13,065	176,303,763
Japan	12,440	238,453,908
Egypt	9,756	197,677,803

The above countries are the major importers of TBR Tyres. Where China dominates the import of Tyres all categories the Local partner interested to manufacturer. However, India, Thailand, Vietnam, Japan and Egypt are the other major importers of TBR Tyres.

Market Size of Tyre Sector



In FY 2011, the major market share *was held* by smuggled Tyres (48%) which is hurting the local manufacturers and new entrants in the Tyre industry. Over the period under review (2011-2017) the current market structure has changed positively, local players are increasing there market size and smuggled Tyre market has shown a down surge and decreased at a CAGR of 4.7% and 5.1% from last 7 and 3 years respectively.

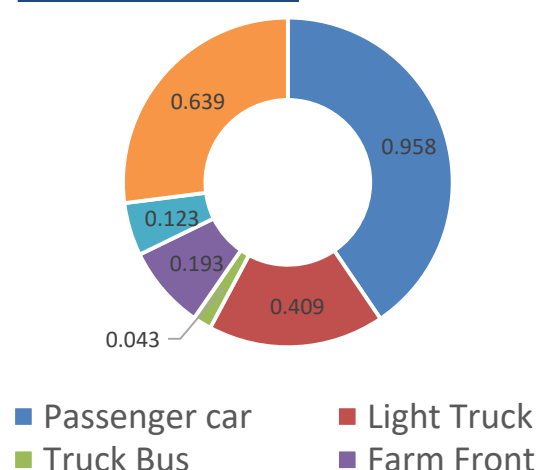
In FY 2017, the over all Tyre market had shown a growth of 5.4% and increased to 91b units as compared to 86b units in previous year. Servis Tyres and General Tyres represents more that 10% of market share each and shown a positive growth throughout the period under review. Moreover, legal imported Tyres representing the majority of the market share (38%) has shown considerable growth and shown 14.9 % and 13.8 % increase in previous 7 and 3 years respectively.

Largest local Tyre manufacturer

General Tyre has four market segments to cater to. These are:

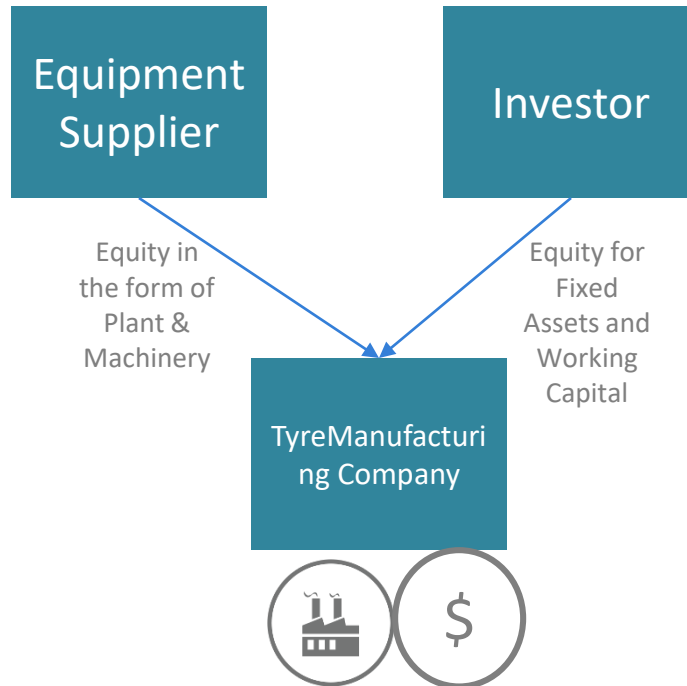
- ✓ The Original Equipment Manufacturers – Vehicle assemblers
- ✓ The Replacement or the After market
- ✓ Government Departments/Institutions
- ✓ The Export Market
- ✓ It has offices / warehouses in four major cities of Pakistan and intends to add another new office soon. All automotive Tyres produced by us are covered with warranty.

General Tyre Production in FY 2016 in Millions

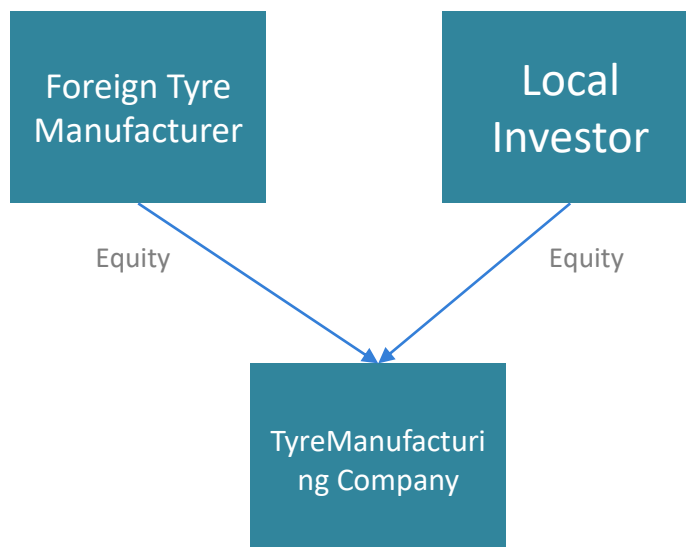


Transaction Structures

1 Equipment Supplier – Investor Joint Venture

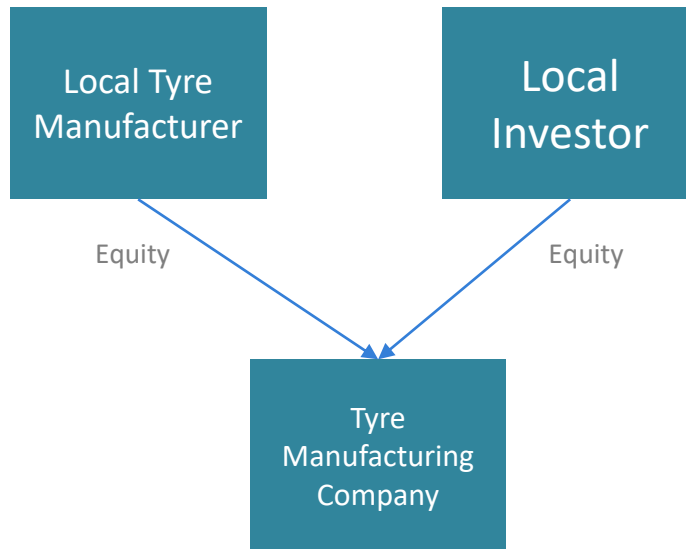


2 Foreign Manufacturing Firm – Local Investor Joint Venture

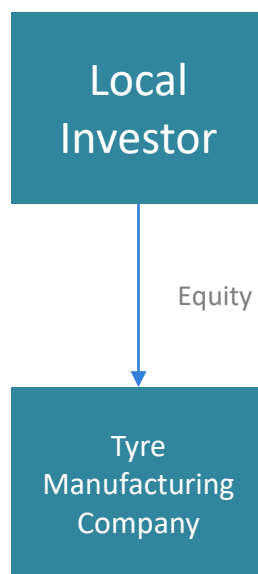


Transaction Structures

3 Local Manufacturing Firm – Local Investor Joint Venture



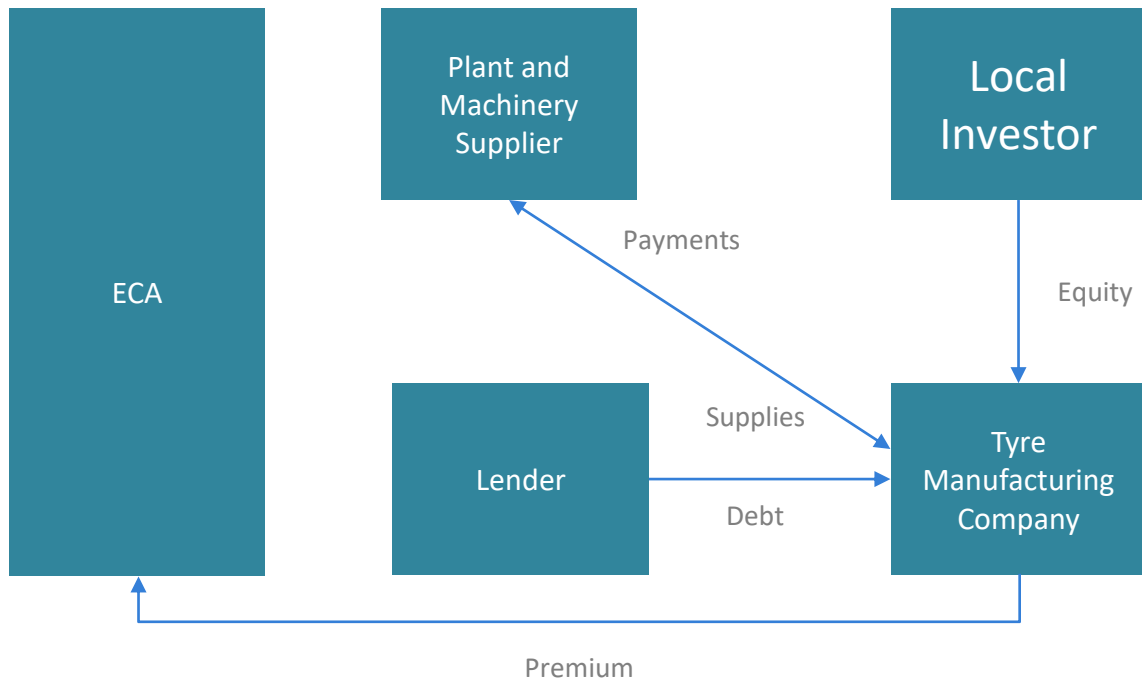
4 100% Equity Ownership of Local Investor



Transaction Structures

5

100% Equity Ownership of Local Investor with ECA financing



ABOUT US

Punjab board of investment & trade is a provincial trade and investment promotion agency established by the Government of Punjab in 2009. In today's global economy, trade and investment play an increasingly important role in generating means for transformative change. At PBIT, we strive to ensure that this transformative change is sustainable and more impactful. PBIT is committed to enhancing the global competitiveness of Punjab and its business. To this end, we work to attract new investments in the region and strengthen the existing ones by promoting local investment opportunities, facilitating businesses and highlighting the distinct advantages of Punjab as a business location.

Incorporated under Section 42 under the Companies Ordinance of 1984, Punjab Board of Investments & Trade (PBIT) assists companies which intend to invest in the manufacturing and services sectors of Punjab. The wide range of services provided by PBIT include providing information on the opportunities for investments, as well as facilitating companies which are looking for joint venture partners. PBIT acts as Punjab's marketing arm and actively promotes the province worldwide as one of the best investment hubs in Asia. PBIT as Special Economic Zone Authority Punjab also evaluates the applications/proposals from Developers to declare their Industrial Parks as Special Economic Zones. For granting one time import duty exemption on machinery, equipment, spare parts, consumables in Special Economic Zones, PBIT is responsible to issue a confirmation Letter on the status of the applicant prior to seeking the permission from the relevant department/agencies to claim for the exemption. Investors are always encouraged to discuss their project interests with PBIT officers, wherein Information can be obtained on major public/private projects, prevailing sectoral policy framework, existing incentive regime, financing options, trade statistics etc. Punjab Board of Investment & Trade is a Steering Committee Member and the Director of South Asia at the World Association of Investment Promotion Agencies (WAIPA) - a prestigious world association of organizations similar to PBIT created by UNCTAD.

Projects and Policy Research Department

Punjab Board of Investment and Trade targets a socio-economic growth through its P&PR. The department plans to fortify its deep roots, both locally and internationally, by reaching out to leading businesses for discussing the panoramic commercial opportunities. As per the initiative of inventiveness, the department plans to provide a transaction advisory as defined in its role to bring-in the investments and establish new businesses. For this purpose, Pitch books of different identified sectors are a new resourcefulness of this department which would target to develop the in-house capacity of production by connecting the local and international market players. This would not only ensure the technology transfer but also create several jobs in the province. The department plans to connect through the regional IPAs, financial institutions, the embassies in different countries and local chambers as well so as to fast-track the process of economic growth and industrialization in Punjab in regard to its recognition as 'The Land of Opportunities

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