Foundation Securities
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PAKISTAN

November 18, 2021

Foundation Alert

GTYR: 1QFY22 Analyst Briefing Takeaways

Event

- The General Tyre & Rubber (GTYR PA) held its Analyst Briefing today to discuss 1QFY22 financial results. Following are the key takeaways of the briefing.

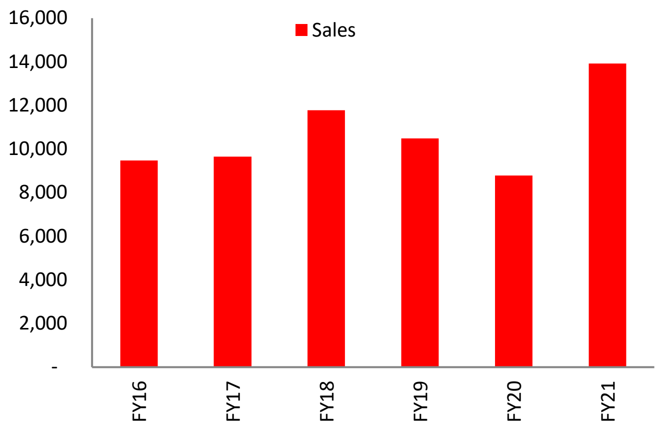
Impact

- To recall company reported a profitability of Rs130mn (EPS 1.07) in 1QFY22, up by 4% YoY, compared to Rs126mn (EPS 1.03) in 1QFY21.
- GTYR management has shared that company has achieved highest ever quarter sales of Rs4.2bn in 1QFY22. Management has attributed higher growth in sales to (1) increase in passenger vehicles (PC) manufacturing, (2) increasing replacement market penetration, and (3) presales order from farmers for tractors. Going forward as freight charges normalize the management aims to resume its export sales.
- Management also shared the prices in replacement market are gradually increasing, however prices in OEMs are passed on with a lag which increased in Oct/Nov. The reason for increase in price was because of cost pressure from the (1) adverse exchange rate movement, (2) increasing commodity prices, and (3) higher freight charges.
- The increase in sales from replacement segment was accredited to Gov't intervention to counteract smuggling as prices for Import trade price (ITP) are revised.
- The company further plans to expand into PCR, OTR and LTR. Furthermore, tyres for SUV/crossover are at advanced stages of development.
- Currently the company is operating 85% utilization, with plant operating 7 days a week.
- Gross margins clocked in at 13% for 1QFY21, ↓190bps YoY. In light of increasing cost and prices, management expects gross margins to remain range bound.
- Management disclosed its plans for continuation of further capital expenditure for modernization, energy efficiency and redesigned machineries to optimize cost. Currently the plant is operating on LPG where fluctuation in gas supply continues.
- Distribution cost is expected to remain on higher side as marketing expense to account for rebranding.
- Management also shared SRB has instructed company to account for 100% of sindh infrastructure cess, which was previously 50% covered by bank guarantee. This has led to book Rs250mn of provisioning, as the company has taken stay.
- Management believes the increasing demand for automobiles, as high production to push sales, and efforts to dissipate smuggling would keep volumetric sales upbeat. Furthermore as the inflated freight charges and commodities cycle phases out the margins would escalate.

Outlook

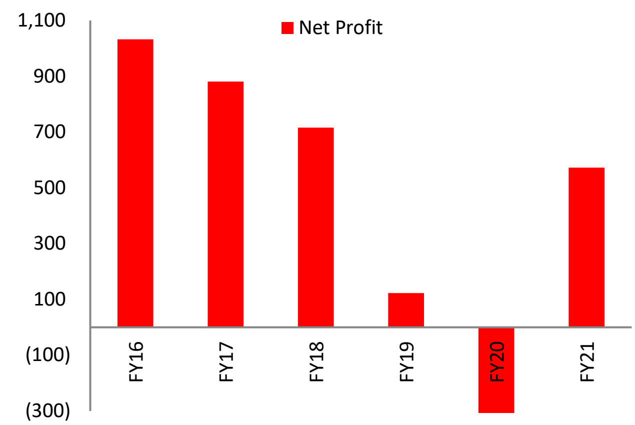
- The company is not under formal coverage.

Fig 1: Sales on upward trend…



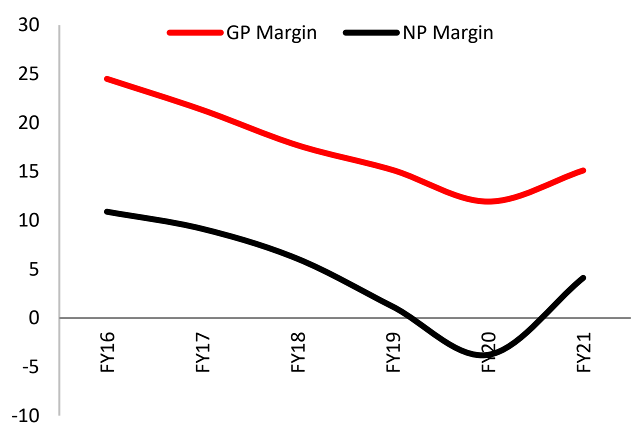
Source: Company accounts, Foundation Research, Nov 2021

Fig 2: FY21 NP higher given higher other income



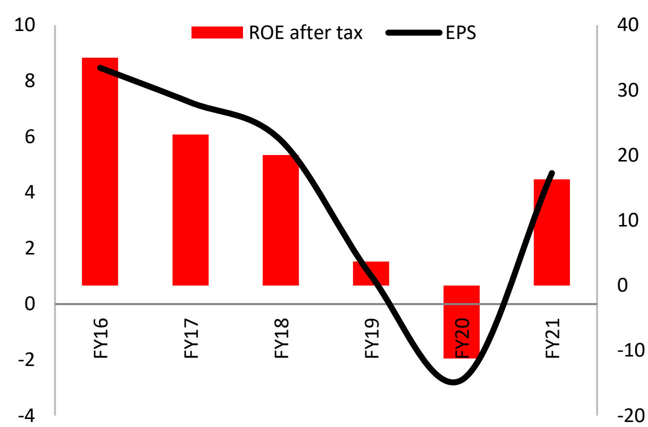
Source: Company accounts, Foundation Research, Nov 2021

Fig 3: Recovery in margins due to high sales



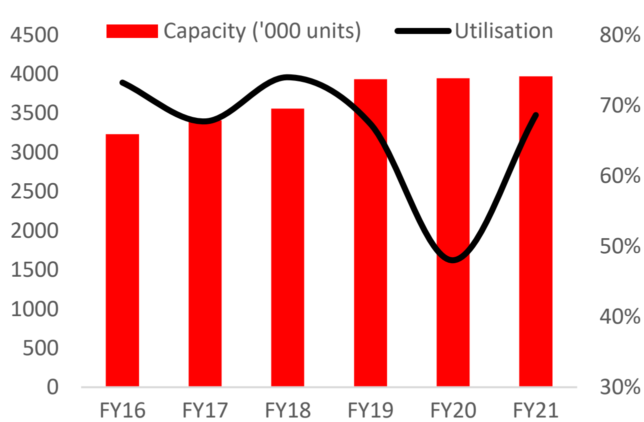
Source: Company accounts, Foundation Research, Nov 2021

Fig 4: recovering return on equity



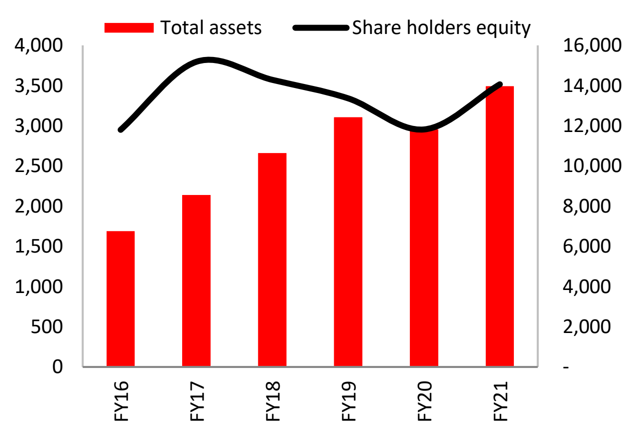
Source: Company accounts, Foundation Research, Nov 2021

Fig 5: Capacity utilization on higher side



Source: Company accounts, Foundation Research, Nov 2021

Fig 6: GTYR maintains low leverage



Source: Company accounts, Foundation Research, Nov 2021

Table 1: Financial highlights of 1QFY22

	1QFY22	1QFY21	YOY
Sales - net	4,233	3,188	33%
Cost of sales	(3,684)	(2,713)	36%
Gross profit	**550**	**474**	**16%**
Administrative expenses	(72)	(65)	11%
Distribution cost	(142)	(114)	24%
other income	20	14	45%
Other expenses	(12)	(12)	1%
Profit from operations	**344**	**297**	**16%**
Finance cost	(145)	(122)	18%
Share of profit of an associated company	1	4	-79%
Profit before taxation	**200**	**179**	**12%**
Taxation	(69)	(53)	31%
Profit for the period	**131**	**126**	**4%**
EPS	1.07	1.03	

Source: Company accounts, Foundation Research, November 2021

Table 2: GTYR Key financial and operational ratios (Rs mn)

Rs mn		**FY16**	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**
Sales		9,479	9,645	11,785	10,486	8,793	13,924
GP		2,322	2,056	2,086	1,589	1,049	2,104
PBT		1,495	1,184	940	254	(447)	797
Net Profit		1,032	881	716	123	(332)	573
Share capital		598	598	1,016	1,016	1,219	1,219
Shareholders’ equity		2,950	3,796	3,571	3,341	2,954	3,516
Fixed assets - net		3,254	3,778	4,336	5,197	5,125	5,255
Total assets		6,813	8,603	10,686	12,475	11,871	14,023
Dividend	%	0	150	60	0	5	0
Bonus	%	0	0	70	20	0	0
RATIOS:							
PROFITABILITY							
GP Margin	%	24.5	21.3	17.7	15.2	11.9	15.1
PBT Margin	%	15.8	12.3	8.0	2.4	-5.1	5.7
NP Margin	%	10.9	9.1	6.1	1.2	-3.8	4.1
RETURN TO SHAREHOLDERS							
ROE before tax	%	50.7	31.2	26.3	7.6	-15.1	22.7
ROE after tax	%	35.0	23.2	20.0	3.7	-11.2	16.3
EPS	Rs	8.5	7.2	5.9	1.0	-2.7	4.7
Sales to fixed assets	x	2.9	2.6	2.7	2.0	1.7	2.6
Sales to total assets	x	1.4	1.1	1.1	0.8	0.7	1.0
LIQUIDITY/LEVERAGE							
Current ratio	x	1.5	1.5	1.2	1.0	0.9	1.0
Debt-to-Equity ratio	x	1.31	1.3	2.0	2.7	3.0	3.0
Breakup value per share	x	24.2	31.1	29.3	27.4	24.2	28.8

Source: Company accounts, Foundation Research, November 2021

About the company

The General Tyre and Rubber Company of Pakistan Limited came into existence in 1963, at Landhi Karachi and commenced its production in July 1964. The Company was then established by General Tire International Corporation (GTIC) of USA, with a total capacity of only 120,000 tyres per annum. In 1977, GTIC sold 90% of their shares to the present owner M/s Bibojee Services Ltd. and retained 10% of the ownership. In 1985, the Company completed a major expansion, which took the capacity to 600,000 tyres annually.

The current capacity of the Company stands at 2.4 million for automotive tyres per annum. While the motorcycle plant capacity is 1.6 million tyres per annum. The company produces tyre sizes and patterns that cover almost 75% of the sizes in demand in Pakistan. It is the first & largest automotive tyre manufacturer in the country producing steel belted tubeless radial tyres for cars and light commercial vehicles. While bias or cross ply tyres for some light trucks, trucks/buses, tractors, rickshaw and motorcycle. The production of some OTR tyres are also about to be begun.

Auditors: A.F.Ferguson & Co. Chartered Accountants

Key Personnel		
Board of Directors	Lt. Gen. (Retd.) Ali Kuli Khan Khattak	Chairman
	Hussain Kuli Khan	Chief Executive Officer
	Ahmad Ali Kuli Khan Khattak	Director
	Adnan Ahmed	Director
	Manzoor Ahmed	Director
	Shahnaz Sajjad Ahmed	Director
	Syed Ahmed Iqbal Ashraf	Director
	Umair Aijaz	Director
Management	Hussain Kuli Khan	Chief Executive Officer
	Siraj A Lawai	Chief Financial Officer
	Yasir Ali Quraishi	Company Secretary

Source: Company Report, Foundation Research, November 2021

Pattern of Shareholders	**Holding**	**Shares**
Bibojee Services	27.8%	33.9
Pakistan Kuwait Investment Company	30.0%	36.6
Others	42.2%	51.4
Free Float	35%	42.7

Source: Company Report, Foundation Research, November 2021

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Important disclosures:

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.