

Business Case: National Automotive (Pvt) Ltd

1. About the Enterprise

National Automotive (Pvt) Ltd, a Lahore-based leading auto parts manufacturer, was originally established in 1993 and formally registered as a private limited company in 1998 with SECP, FBR, Social Security, EPA, and EOBI. The enterprise has grown into a highly capable and committed manufacturer of diversified, high-standard auto components for Pakistan's automotive industry. With in-house research and development (R&D) supervised by experienced engineers, the company not only improves its technical expertise but also contributes to the broader advancement of the engineering industry in Pakistan.

The company is ISO 9001:2015 certified, which strengthens the confidence of customers and vendors in its products and processes. National Automotive is a registered vendor for all major OEMs in Pakistan, including Honda, Toyota, FAW, and Suzuki. The enterprise employs 200 people, of which 50 are registered with tax authorities, and all employees are registered with Social Security and EOBI. Furthermore, the company has developed and implemented its ERP system to ensure compliance with internal and external business requirements.

2. Pre Formalization Status

Before its formal registration in 1998, National Automotive (Pvt) Ltd functioned as a small-scale, family-run workshop established in 1993, operating largely in the informal sector. The enterprise employed around 40–50 workers without social security or pension coverage, relied on manual production methods with limited quality controls, and maintained cash-based financial practices without structured accounting systems. Its market access was restricted to local traders and small workshops, with no linkages to Original Equipment Manufacturers (OEMs). The absence of regulatory compliance, certifications, and formal documentation constrained its credibility, access to finance, and potential for growth, reflecting the typical pre-formalization challenges faced by many small and medium auto parts enterprises in Pakistan.

3. Why They Decided to Formalize

During discussions, the owner shared that the company willingly pursued formalization and found it a relatively smooth process. Formalization unlocked significant opportunities, particularly in becoming a trusted vendor for OEMs, which would not have been possible otherwise. It also enhanced business credibility, legal protection, and compliance with industry standards. However, despite the benefits, the company faces immense competition from informal sector players, who undercut prices by avoiding compliance costs. Currently, about 70% of National Automotive's supply chain consists of formal, registered companies. Nonetheless, the lack of formal raw material suppliers compels the enterprise to rely partly on the informal sector, creating hurdles in record-keeping and supply chain traceability.

4. Benefits of Formalization – National Automotive (Pvt) Ltd

Aspect	Before Formalization (Informal Practices)	After Formalization (Compliant & Certified)
Market Access	Limited to small/local buyers, no OEM access	Recognized vendor for Honda, Toyota, Suzuki & FAW
Customer Trust	Low credibility, vulnerable to disputes	ISO 9001:2015 certification, legal protection, global confidence
Supply Chain	Heavy reliance on unregistered suppliers	70% supply chain formalized, better traceability
Finance & Investment	Restricted access to bank loans	Improved credibility with banks, easier financing opportunities
R&D & Technology	Limited innovation capacity	Formal R&D under engineers, tech transfer opportunities
Employee Benefits	Informal employment, no structured welfare	100% employees registered with Social Security & EOBI
Exports & Growth	No export potential, confined to domestic	Due to ED tech and robotics, 30% sales increased



5. Challenges Faced By The Enterprise

The enterprise highlighted several challenges in sustaining growth and competitiveness:

- Intense competition from the informal sector undermines the benefits of compliance.
- Limited availability of registered suppliers for raw materials and components.
- Lack of government support in export facilitation, testing, and standardization labs.
- Bureaucratic inefficiencies and corruption within ESSI and EOBI, discouraging employees from engaging with these institutions.
- Financial constraints and high-interest rates limiting access to affordable credit for SMEs.
- Limited awareness of tax schemes and slow digitalization of FBR processes.

6. Strategies to overcome these challenges

To address these challenges, National Automotive (Pvt) Ltd emphasized the need for stronger government facilitation and sector-specific reforms. They proposed measures such as stricter enforcement against the informal sector to ensure fair competition, along with incentivizing and expanding the pool of registered suppliers to strengthen formal supply chains. Establishing testing and standardization laboratories within Pakistan, coupled with export facilitation programs, would enhance competitiveness in international markets. Streamlining ESSI and EOBI through transparency, digitalization, and improved employee benefits would restore trust and encourage participation. Moreover, easier access to finance through lower interest rates, SME-friendly credit schemes, and matching grant programs for certification and technology adoption would help reduce financial constraints. Finally, accelerating the digitalization of FBR processes and conducting awareness campaigns on tax schemes would simplify compliance and motivate other enterprises to transition towards formalization.

7. Outcomes of the Formalization

The formalization of National Automotive (Pvt) Ltd enabled the enterprise to transition from a small informal workshop into a recognized and trusted manufacturer within Pakistan's automotive industry. By registering with SECP, FBR, ESSI, EOBI, and EPA, the company gained credibility with regulators, financial institutions, and major OEMs such as Honda, Toyota, Suzuki, and FAW. Compliance with labor and social protection laws enhanced employee welfare and retention, while ISO 9001:2015 certification and the adoption of ERP systems improved operational efficiency, quality assurance, and transparency. Formalization also opened access to structured finance, long-term partnerships, and broader markets, positioning the company as a competitive player in both domestic and export-oriented value chains. These outcomes not only strengthened the company's growth trajectory but also contributed to building industry-wide confidence in the benefits of formalization.

8. Recommendations and Incentives

To overcome these challenges, the company stressed the need for government incentives, including:

- Relaxation of advance taxation, easier loan processing, and lower SME interest rates.
- Certification programs through matching grants and technology transfer initiatives.
- Greater awareness campaigns on tax compliance and schemes.
- Independent third-party audit systems to ensure transparency.
- Establishment of testing and standardization labs in Pakistan to support quality compliance.
- Joint ventures with regional vendor industries to boost exports of locally manufactured auto parts.



9. Lessons Learned

1. **Compliance Builds Credibility:** Formal registration and adherence to regulatory requirements enhanced the company's reputation, making it a trusted partner for major OEMs and financial institutions.
2. **Employee Welfare Strengthens Workforce:** Registering employees with ESSI and EOBI improved retention and productivity, proving that investing in worker welfare pays off in the long run.
3. **Technology Adoption Drives Efficiency:** Implementing ERP systems and achieving ISO certification streamlined operations, improved quality, and enabled transparency in business processes.
4. **Formalization Unlocks Growth Opportunities:** Transitioning from informality to compliance opened access to structured finance, long-term contracts, and entry into competitive markets, ensuring sustainable growth.

10. Conclusion

The case of National Automotive (Pvt) Ltd demonstrates that formalization provides clear benefits; access to OEM supply chains, enhanced credibility, and improved compliance. However, sustaining competitiveness requires a supportive business ecosystem. With targeted policy reforms, R&D investments, workforce training, and the establishment of quality infrastructure, Pakistan's auto parts industry can not only reduce its reliance on informal practices but also emerge as an exporter in global markets. Institutions like ILO and associations such as PAPPAM can play a critical role in addressing governance gaps, ensuring employee welfare, and advancing sector-wide reforms to foster sustainable growth.