The Pakistan Credit Rating Agency Limited

AUTOMOBILE | PASSENGER CARS
SECTOR OVER VIEW
MAY 2020

GLOBAL MARKET | CAR SALES REGION WISE

Region	2019	2018	2017	2016	2015
Europe (EU+EFTA)	15,805,800	15,624,500	15,631,700	15,131,700	14,201,900
Russia*	1,759,500	1,800,600	1,595,700	1,425,800	1,601,200
USA*	16,965,200	17,215,200	17,134,700	17,465,000	17,386,300
Japan	4,301,100	4,391,200	4,386,400	4,146,500	4,215,900
Brazil*	2,665,600	2,475,400	2,176,000	1,988,600	2,480,500
India	2,962,100	3,394,700	3,229,100	2,966,600	2,772,700
China	21,045,000	23,256,300	24,171,400	23,693,400	20,047,200
*Light vehicles	–	–	–	–	–
Combined:	65,504,300	68,157,900	68,325,000	66,817,600	62,705,700
Source: VDA					

Global car industry is in deep water since 2017.

- Passenger car sales in the largest car markets of the world contracted around 4% in 2019
- China's new car market contracted by nearly a tenth in 2019. This was the second consecutive year of weaker car sales in China but also only the second year in a decade that car sales were weaker. The Chinese new car market in 2019 was at its lowest volumes since 2015.
- In 2019, new car sales in India were down 12.7% – the weakest performance of all the major car markets in the world. Not much different from the other countries India's auto industry is facing a sluggish demand and economic slowdown.

GLOBAL MARKET | LARGEST CAR MANUFACTURING GROUPS

Toyota Group

Japan based with an annual revenue of $272 bln

BRANDS
Hino
Daihatsu
Toyota
Lexus

VW Group

Germany Based Annual revenue $ 279bln

BRANDS
Audi
Porsche
Bugatti
Bentley

Renault Nissan Alliance

French-Japanese strategic partnership - 1999 Annual Revenue (est) $240bln

BRANDS
-Infiniti
Datsun
Nissan
Mitsubishi

Ford Motor Company

-America Based Annual Revenue $156bln

BRANDS
Mustang
-Lincoln

General Motors

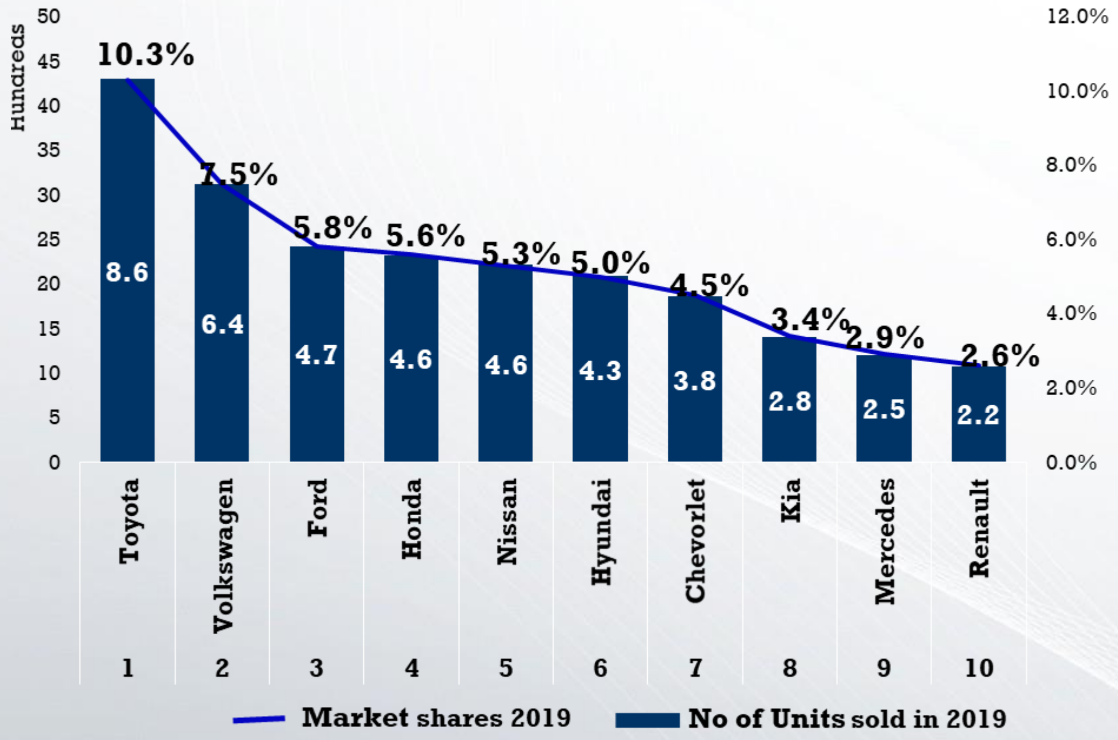
American Based Annual Revenue of $137bln*

BRANDS
-Chevrolet
-Cadillac
-GMC

Flash Note : The top five largest auto manufacturing groups of the world has been dominating the auto market for years.
After the global crisis in 2008, a strong competition exist between GM and Ford as both are nearly the same except for their brand strategy.
In view of the growing competition in the global auto market Nissan Renault & Mitsubishi partnered together in 1999, having multiple brands under the alliance.
The current pandemic scenario has changed the entire dynamics of the global auto industry. In a bid to fight against coronavirus largest manufacturers have stepped forward to curb the COVID-19 pandemic. Ford is aiming to make respirators and masks. American auto manufacturers General Motors and Ford, French car companies PSA and Renault, Germany's Volkswagen group and Formula 1 engineers have joined the ranks in response to a massive global shortage of ventilators, a vital piece of medical equipment.

Source: Focus2move.com

GLOBAL MARKET | LEADING BRANDS & CAR RANKINGS



- Among the top 10 rankings of the world, Two brands continue to stand out, Toyota ranks the 1st followed by Volkswagen during 2019.
- World ranking is based on the number of cars sold in the year while car sales of specific brand depends on the quality and the affordability.
- Toyota Corolla brand has been the most popular selling car in the world in 2019
- Volkswagen bounced back after diesel scandal and is placed well in the market.

Source: Focus2move.com

GLOBAL MARKET | OTHER CHALLENGES & COVID 19 OUTBREAK

US CHINA TRADE

Global Auto industry caught under the heat of US China trade sentiments - which took a toll in mid-2018 between the two major economies

According to Forbes, Auto sales are coming under huge pressure from the tariff policies between China and the U.S. and the global industry will lose sales over the next 5 years worth nearly $770bln because of this

This is damaging the Chinese auto industry, and as the market is China's key market for the German auto industry, the German car industry will be seriously damaged by U.S. tariff policy

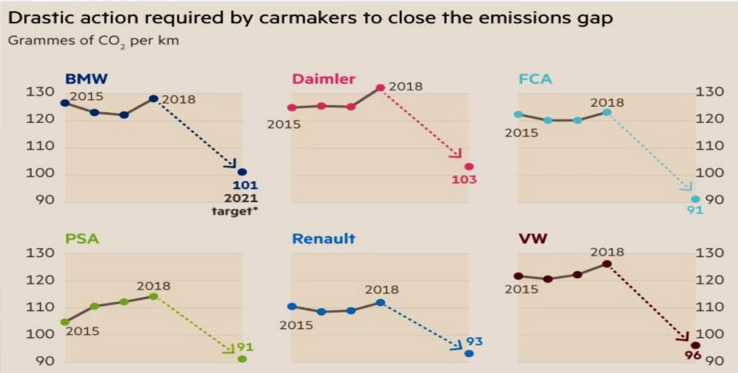
CARBON EMISSION STANDARDS

The world is going more eco-friendly since the climate change has become a serious concern across the globe,

EU introduced CO2 emission performance standards for new passenger cars. EU's target for 2020/21 is 95 g/km, from 120g CO2/km

EU agreement to cut emissions from cars by over a third by 2030 has faced a lot of backlash from the industry players

Idea of electric cars originated in the wake of the same. This will eventually shrink the profits, fines accumulate, and accelerated cost of compliance, making it difficult for the automakers



COVID-19 Pandemic

COVID-19 outbreak is causing widespread concern and economic hardship for consumers, businesses and communities across the globe. The impact on the automotive sector may take longer than expected to heal

China, from where it began, holds 80% of the world's auto supply chain

In Jan'20 China's car sales plunged by 18% due to COVID-19

Production/supply chain disruptions in China will impact global automakers. China is now recovering but fear of a second wave hovers, the spread has shifted to Europe and the USA as well.

Hubei - a major hub of automobile production in China, where plants remained closed until March 11 and have now slowly started reopening.

Countries heavily impacted by the outbreak, in particular are, China, Japan and South Korea, who account for a significant share of global auto manufacturing

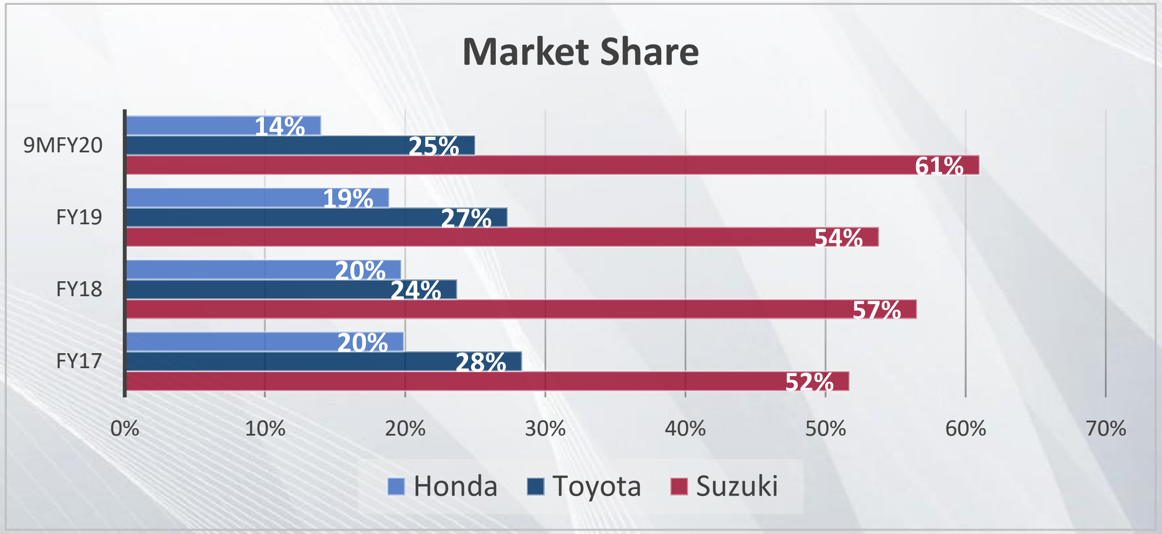
Moody's - Global automakers' sales forecast slashed by negative 2.5 % as coronavirus impact deepens
Sales will rebound only modestly in 2021, with growth of 1.5%

https://www.forbes.com/sites/neilwinton/2020/03/05/eu-10-year-co2-demands-pose-existential-threat-to-europes-auto-industry/#23929f3259dd

- Automobile Industry of Pakistan has witnessed booms & busts in past years. The performance of Automobile sector having a weight of 4.6(2019) in Quantum Index Manufacturing (QIM) remained subdued on account of lacklustre performance of other sectors falling under LSM.
- Passenger car is a subsector of automobile sector of Pakistan. Car sales dropped by a negative 4% during FY’19.
- There are a Total of eight players (Japanese: 3; Korean: 2; Chinese: 3), of which Three major OEM (original equipment manufacturers) players are operating in Pakistan; Indus Motors, Honda Atlas & Pak Suzuki
- Four players are registered at Pakistan Automotive Manufacturers Association (PAMA) out of which three auto players are dominating the Pakistan automobile sector: Pak Suzuki, Toyota & Honda,

Off take in Units

	9MFY20	9MFY19	YoY
Suzuki	52,350	85,161	-61%
Toyota	20,091	42,989	-47%
Honda	11,989	32,209	-37%
Total	84,430	160,359	-53%

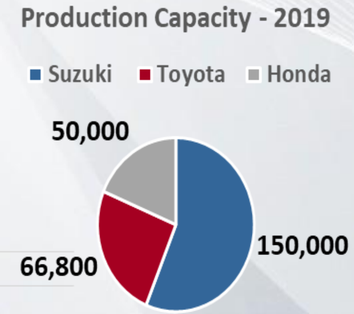


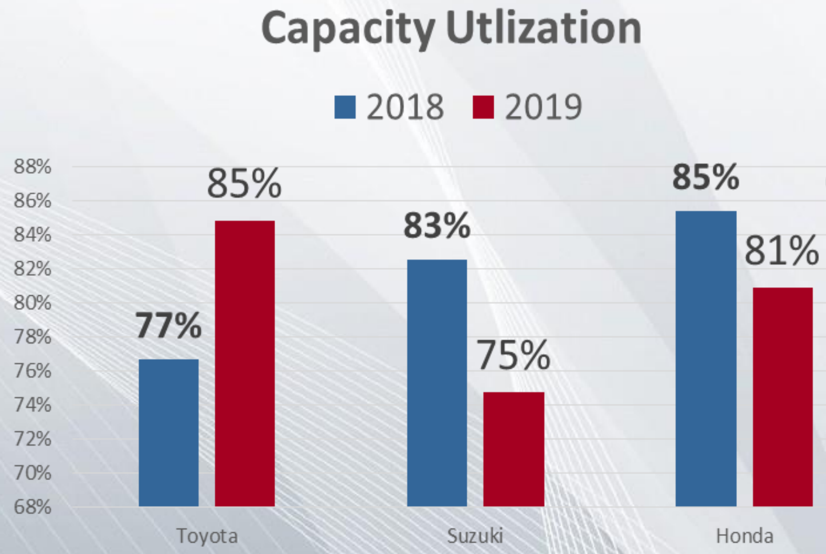
SUPPLY

Pak Suzuki being the market leader, in terms of sales volumes, has the most brands under its umbrella as compared to Toyota and Honda. Though, It got a major hit in 2019 when its most popular brand Suzuki Mehran was discontinued and replaced by 'Alto', which too gained much needed popularity.

All the major auto manufacturers halted their production lines by calling it Non production days for multiple times throughout during the year 2019, on account of inventory pile ups and slower demand. Unaware of the coming crisis-'COVID-19'!

Production (units)	2017	2018	2019	2020*
Suzuki	97,531	122,444	112,119	56,200
Toyota	52,874	51,218	56,684	21,240
Honda	36,531	42,710	40,452	11,188





COVID-19 IMPACT

Year 2020 ought to enter as a bad omen for the already struggling auto sector due to COVID-19 pandemic. From March'20 The production is completely halted, also illustrated figuratively.

The outbreak, started with China, was initially perceived as a supply shock now turned into a contra for auto cars demand. This will add further pressure to existing challenges. Weakening of demand drivers is expected to put additional pressure on auto sales in upcoming months

The accommodative monetary policy amid COVID-19 outbreak will provide some respite to the sector

DEMAND DRIVERS

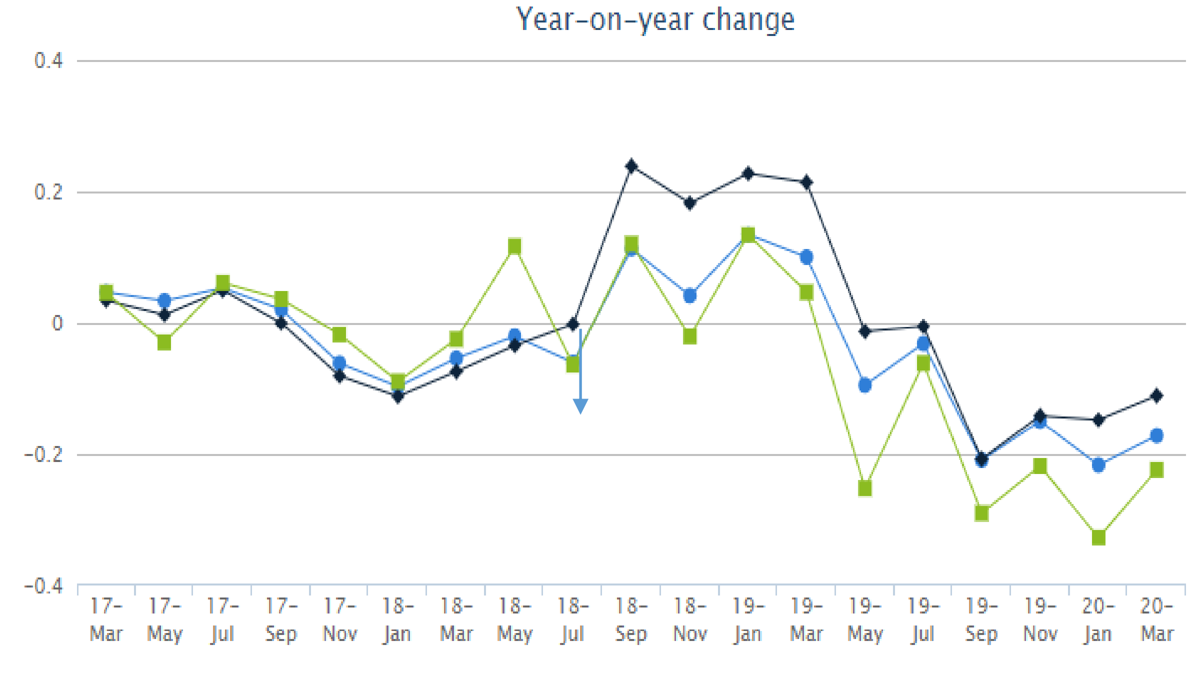
•The industry's pronounced cyclicality reflects volatile revenue, earnings and cash flows in-turn high operational risk. Demand drivers of industry are highly correlated with macro-economic indicator such as GDP growth, employment, disposable income, consumer confidence and accommodative monetary policy. Fuel prices also compliments demand of auto cars.

•The below mentioned indicators are interlinked. Any change in these factors affects the car purchasing cycle

•**Expected Economic Condition (EEC) -** These are the macro economic factors affecting the industry. Such as, expectations regarding inflation, interest rate and employment etc.

•**Consumer Confidence (CCI) -** Consumer confidence and expectations is one of the leading indicators of economic activity having significant impact on business and economic conditions on an economy. These expectations are based on consumers' perceptions about the current economic conditions..

•**Car/M. Cycles Purchase Expectation (a16) -** it reflects expected pattern of car/M. cycles purchases.

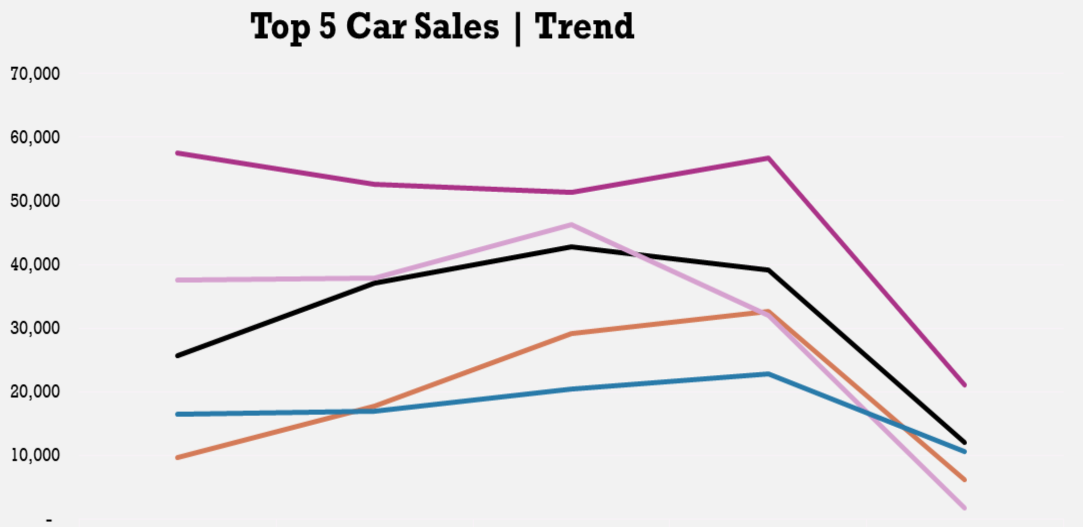


EEC	Expected Economic Conditions Index
CCI	Consumer Confidence Index
a16	Car/M. Cycle Purchase Expectations

From March'18 till March'19, high level of volatility in the index a16 is visible and thereafter plummeted in May'19 reflecting rupee devaluation, induced price increases by the car manufacturer and wavering consumer confidence. The relation of car prices to car purchases is directly proportionate. Which is too linked to the consumers affordability to buy a new car.

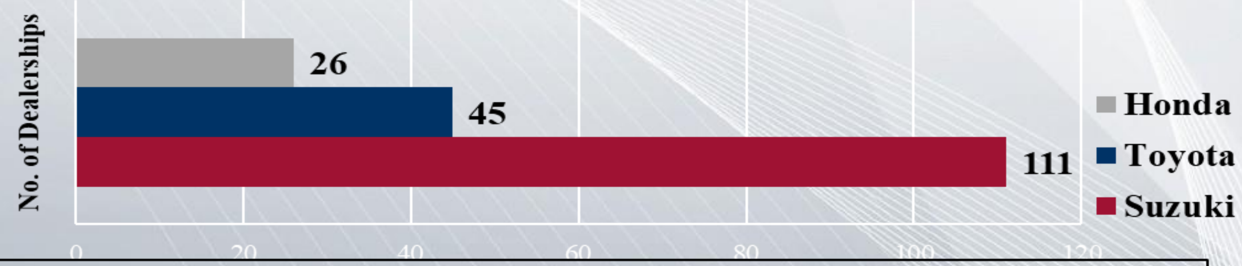
Source: sbp.org.pk

PAKISTAN | AUTOMOBILE | PASSENGER CARS | SALES TREND - BRAND WISE



	FY16	FY17	FY18	FY19	9MFY20
Toyota Corolla	57,452	52,676	51,412	56,720	20,991
Honda City & Civic	25,726	37,004	42,810	39,189	11,989
Suzuki Wagon R	9,709	17,671	29,206	32,614	6,122
Suzuki Mehran**	37,504	37,933	46,221	31,981	1,702
Suzuki Cultus	16,450	17,006	20,483	22,763	10,555

- Upgraded models, extended warranty and strong demand for Toyota corolla makes it the best selling car in recent years.
- The multi-fold increase in the prices of different variants by major auto players has caused most of the damage.
- The most fall was seen in Toyota Corolla (-51%), Honda (-62%) and highest of all in Suzuki Wagon R (-75%) during 9MFY20 as compared to the SPLY.
- Suzuki maintains its position through market penetration and diversity of models, despite the discontinuation of Suzuki Mehran.
- Honda produces the least models as compared to the other two, hence, has a lower market share.



Suzuki has the most number of car dealers spread across the country while Toyota comes second with the number of dealers in its network

Source: PAMA & Company's websites

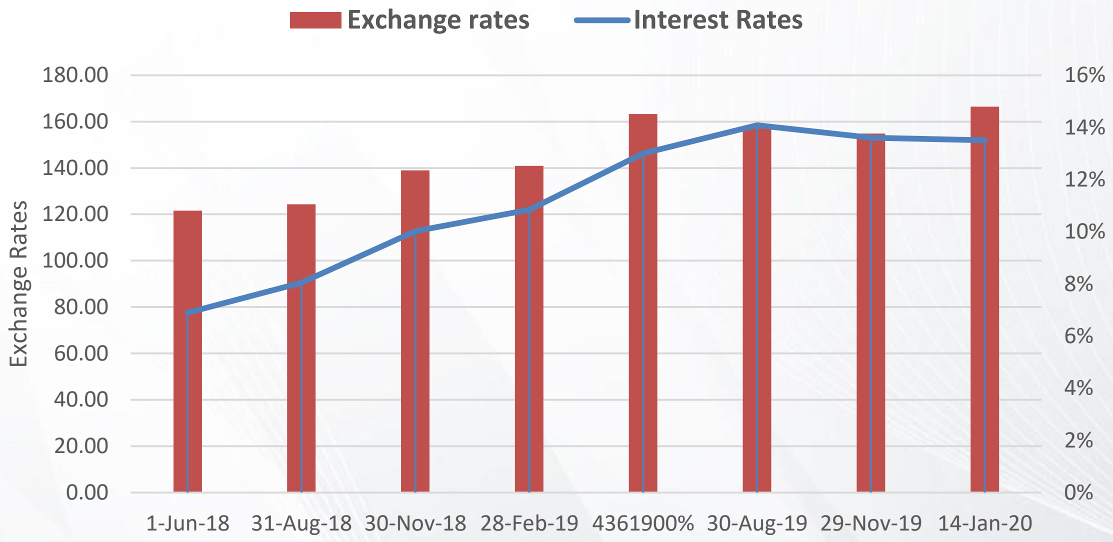
-Year 2019 has not been a good year for the local auto industry as it received multiple shocks one after the other.

-In the wake of rising PKR devaluation automobile prices, 2018 & onward, witnessed multiple upward revisions which refrained the potential buyers.

-Car prices are rising and there seem no turning back. During FY19 Toyota increased the prices in the range of PKR 75000 to 175000. Honda increased with whopping amounts ranging up to PKR 790,0000. Pak Suzuki hiked the prices by a staggering 1.5mln in 2019.

In the budget 2019-20, the Govt. imposed certain restrictions on non-filers with respect to purchase of cars, which further dampened the automobile demand. However, later on government relaxed some restrictions on non-filer and also government's commitment to implement the vehicle import policy in letter and spirit will spur the growth.

-Rupee devaluation along with higher financing costs, inflation coupled with high interest rates and the FED imposed by the new government has curtailed the demand



Second Supplementary Bill 2019 – Proposed Amendment

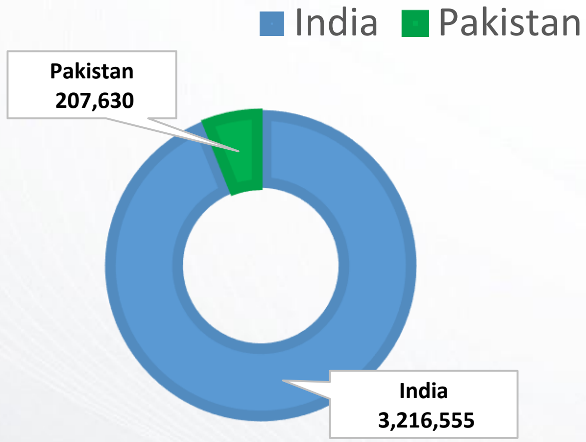
Section #	Description	Existing Rates	Proposed Rates
55.	Imported motor cars, SUVs and other motor vehicles of cylinder capacity of 1800cc or above but not exceeding 3000cc	20%	25%
55A.	Imported motor cars, SUVs and other motor vehicles of cylinder capacity of 3000cc or above	-	30%
55B.	Locally manufactured or assembled motor cars, SUVs and other motor vehicles of cylinder capacity of 1800cc or above	-	10%

- Previously, imported vehicles exceeding 1800cc were liable to 20% FED and no FED was applicable on locally manufactured vehicles.
- Now, imported vehicles of 1800cc to 3000cc will be liable to 25% FED and imported vehicles exceeding 3000cc will be liable to 30%. Whereas, locally manufactured vehicles will be liable to 10% FED.

Source: https://customnews.pk/2019/06/11/fed-in-range-of-2-5-to-7-5-imposed-on-locally-assembled-cars/

REGIONAL COMPARISON

PASSENGER CAR SALES VOLUME COMPARISON

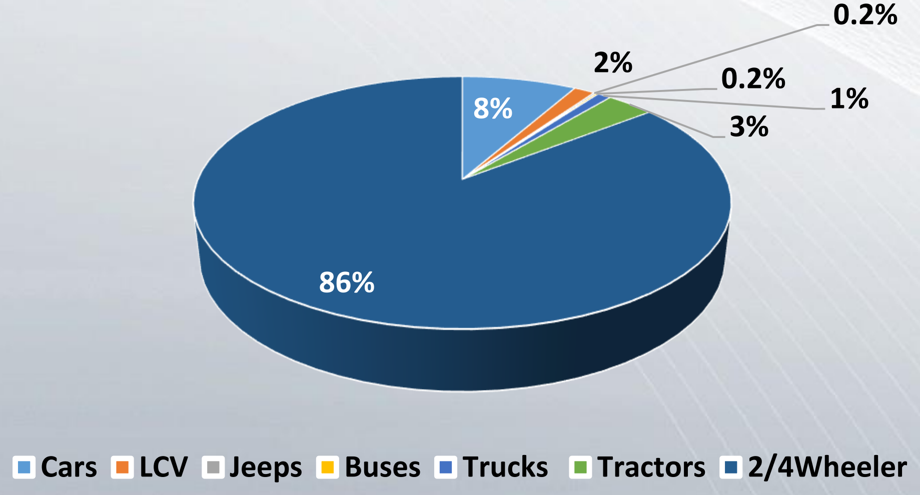


India is the 4th largest automobile market in the world in terms of sales, according to the global data available.

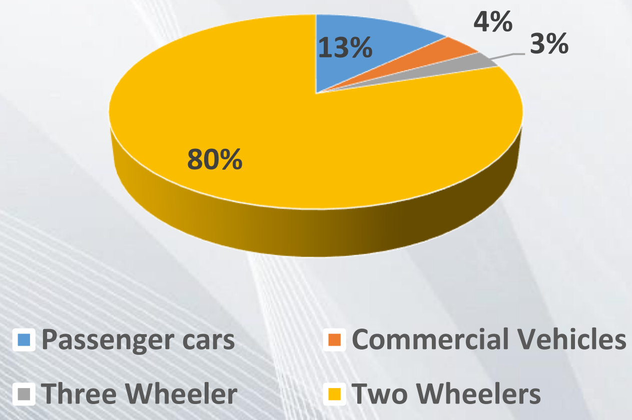
The leading auto manufacturing groups in India are, Tata Motors, Mahindra & Mahindra, Maruti Suzuki & Hyundai Motor.

The industry composition of both the regions are largely the same. India's passenger car market is huge as against Pakistan as it benefits from Indian Government continual support and initiatives.

Pakistan - Industry Composition



India – Industry Composition



Source; https://www.ibef.org/industry/india-automobiles.aspx

AUTOMOTIVE DEVELOPMENT POLICY (ADP) 2016-21

The Government of Pakistan has announced Automotive Development Policy (ADP) 2016-21 in March 2016.

Highlighting the main features:

- **From the financial year 2017-18, duties on locally finished vehicles would be reduced by 10%**

- **Duties for imported parts, not made in Pakistan reduced from 32.5% to 30% and made in Pakistan cut from 50% to 45% from next financial year (July 1, 2016).**

- **Tax incentive for new investments in Pakistan defined under two categories :**

Category A - Greenfield Investment-(i) One-off duty-free import of plant and machinery for setting up an assembly and manufacturing facility has been allowed. (ii) The government has allowed the import of 100 vehicles of the same variants in the form of completely built units (CBUs) at 50% of the prevailing duty for test marketing after the groundbreaking of the project.
(iii). Concessional rate of custom duty @ 10 % on non- localized parts and @ 25% on localized parts for a period of five years for the manufacturing of Cars and LCVs For existing players, the duty on import of localized parts has been reduced to 45% from the current fiscal year.
Category B - Brownfield Investment-(i) Imports of non-localized parts at 10 % rate of customs duty and localized parts at 25% duty for a period of three years for the manufacturing of Cars

- **In the current policy, the existing three car makers will not be entitled to the benefits that are being offered to the new investors provided the policy was aimed at enhancing consumer welfare and boosting competition in the country besides attracting new automotive players.**

- **The greater localization of the auto parts had been ensured in the new policy and if the new entrants fail to do achieving targets, they would be penalized.**

HYUNDAI

KIA

SAZGAR ENGINEERING WORKS LIMITED

UNITED

- **Hyundai Nishat Motor Ltd** signed an investment agreement with the Ministry of Industries and Production under the Automotive Development Policy 2016-21 to set up a Greenfield project to undertake assembly and sale of passenger and one-tone commercial vehicles. The local production of vehicles expected to begin within two years. The plant will initially produce 7000 vehicles in 2020 and is expected to reach up to production of 30,000 vehicles by 2030. Ownership consists of Sojitz Corporation (40%), Millat Tractors (18%), Nishat Mills (12%), Adamjee Insurance (10%), Security General Insurance (10%) and D.G. Khan Cement (10%).

- **KIA Motor Co**, South Korean carmaker, will start assembling cars in a joint venture with Lucky Cement. The plant is expected to begin production in end CY19 with capacity of 25,000-30,000 units. Ownership consist of Kia Motors (30%) and Lucky Cement (70%).

- **Sazgar Engineering Works Limited** Beijing Automotive Industry Holding Co., Ltd the 3rd largest automotive group in China, with 2.4 million sold units in 2018 has entered into local assembly of vehicles and is introducing following three BIAC vehicles in the country.
  - i. BAIC BJ40 Plus (off-road vehicle)
  - ii. BAIC Senova X25 (compact crossover)
  - iii. BAIC Senova D20 (5-door hatchback)

- **United Motors (Pvt.) Ltd**., number one bike assembler of Chinese bikes, has entered into local assembly of vehicles that are look-alike of Suzuki Mehran and Ravi but with minor design variations. The company has sought application for dealership network.

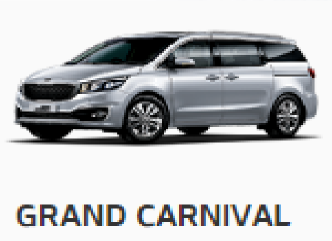
**The order of the company names mentioned above are ordered alphabetically and not considered to be ranking*

PAKISTAN | AUTOMOBILE | PASSENGER CARS | PRODUCT LINE-UP

HYUNDAI – NISHAT MOTORS

KIA – LUCKY MOTORS

RIO



Sazgar BAIC

Senova D20

Senova X25

Regal Automobiles

PAKISTAN | AUTOMOBILE | PASSENGER CARS | OUTLOOK

- Auto Sector has been facing challenges arising from three different dimensions:

1) Previously, interest rates were very high, hence limiting car financing
2) Rapid & significant successive rupee devaluation leading to price escalation of automobiles.
3) Overall slowdown in economic activities.

- Off-take volumes portray declining trajectory until Dec'19.
- Lately an anticipated revival was getting visible but due to the outbreak of COVID-19 the horizon is again misty.
- In this context there is reduction of 425bps in the interest rates. This can lend some support especially on the car financing front.
- Production facilities are mostly non functional, this will reduce supply side and the gap between supply & demand may narrow down.
- Ultimate revival is anticipated once the economy is out of the clutches of COVID-19.

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