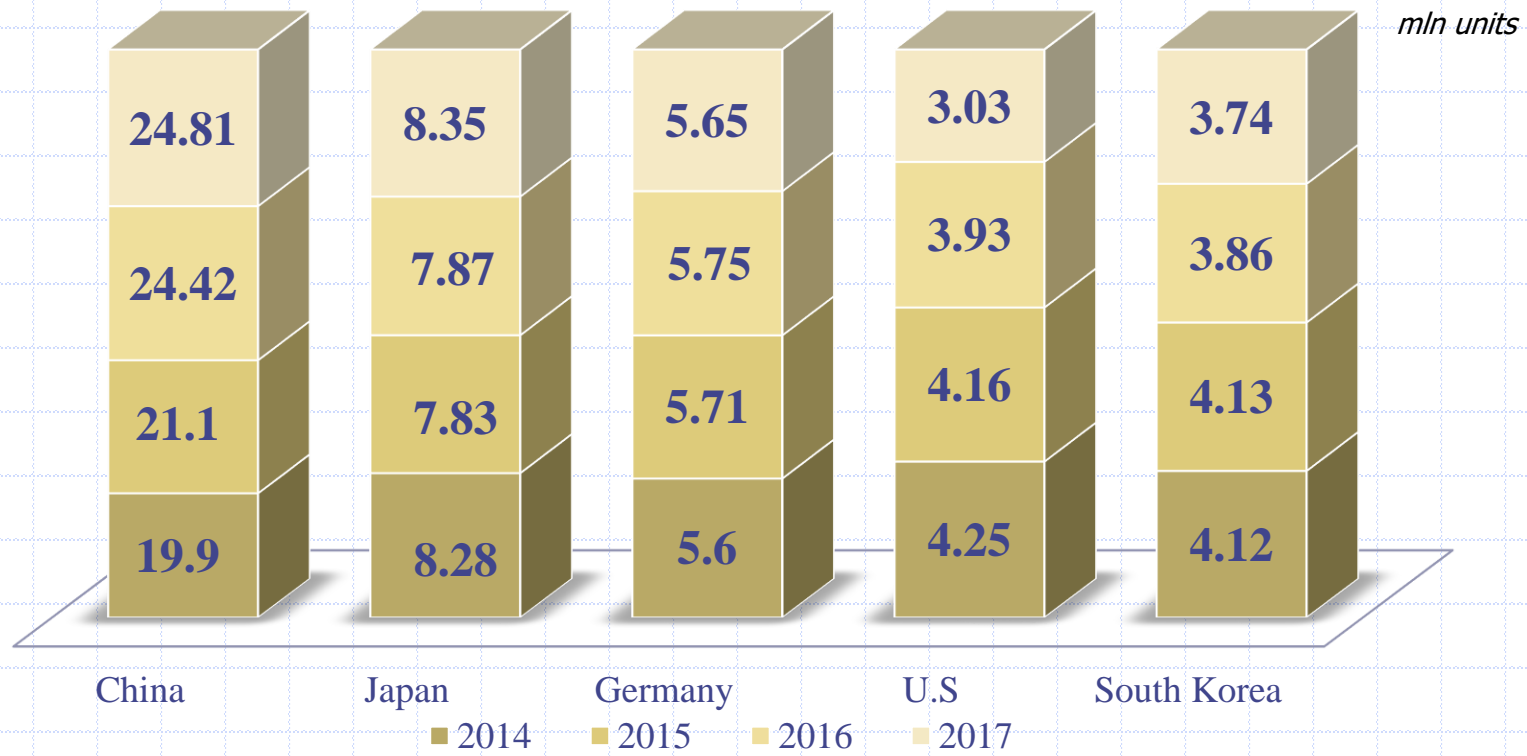


PASSENGER CAR SECTOR OVERVIEW

February 2019

Passenger Cars | Production

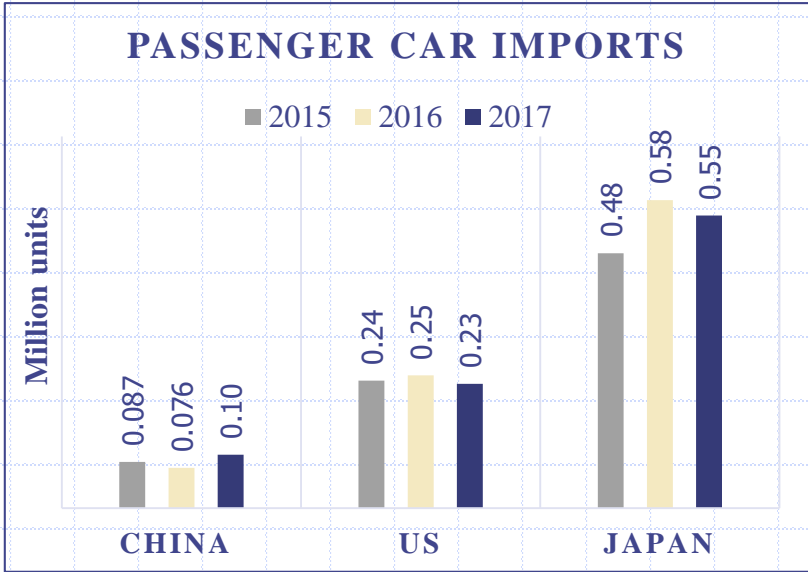
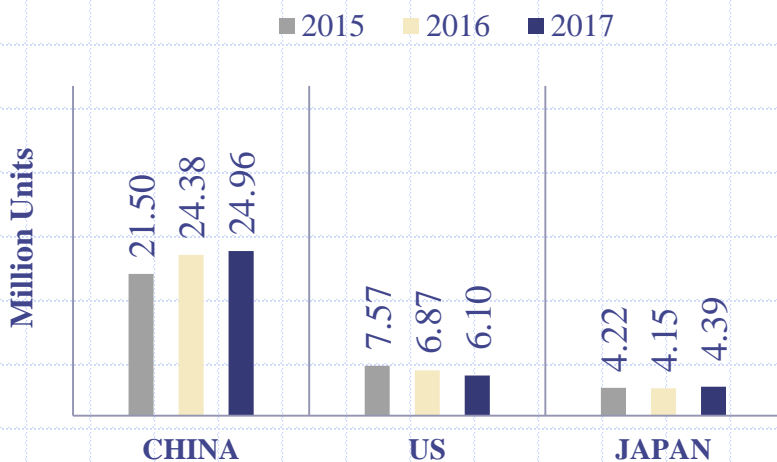


- ❖ China, Japan, Germany, US and South Korea are the five largest car producers.
- ❖ During past year, global passenger car production demonstrated slowing growth amidst increasing interest rate environment and slowing world economies. In 2017, growth clocked-in at 2.4% (2016: 5.1%).
- ❖ Japan's surge in production is primarily due to the increasing demand for mini and fuel efficient electric vehicles.
- ❖ Stagnant sales in the region pushed US automakers to cut production. The company's inventory levels rose ~35 percent altogether to create a 9 year inventory high.

Passengers Demand | Trend

Total number of cars sold in CY17 were 73.46mln (CY16 72.39mln)

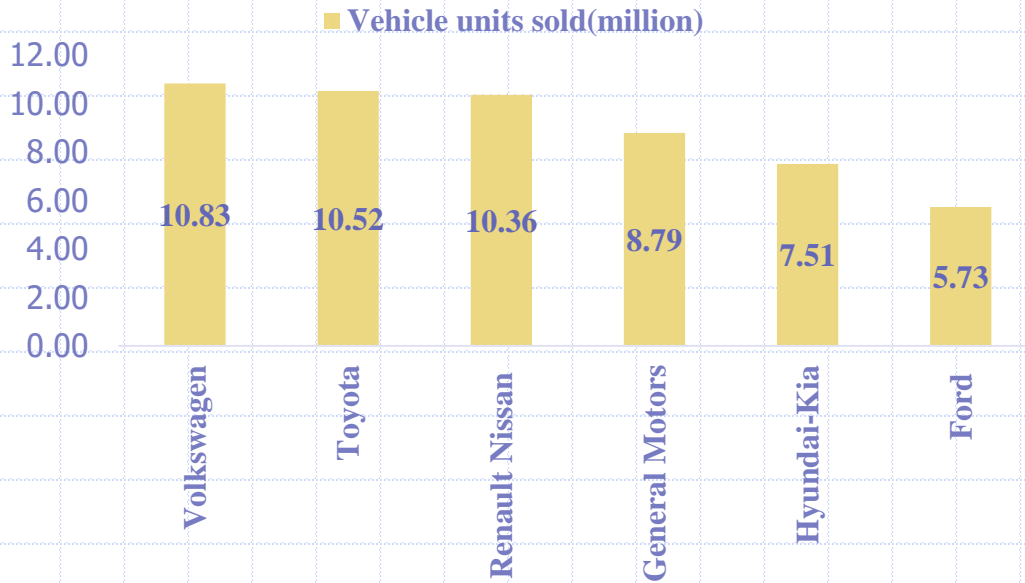
TOP PASSENGER CAR SALES



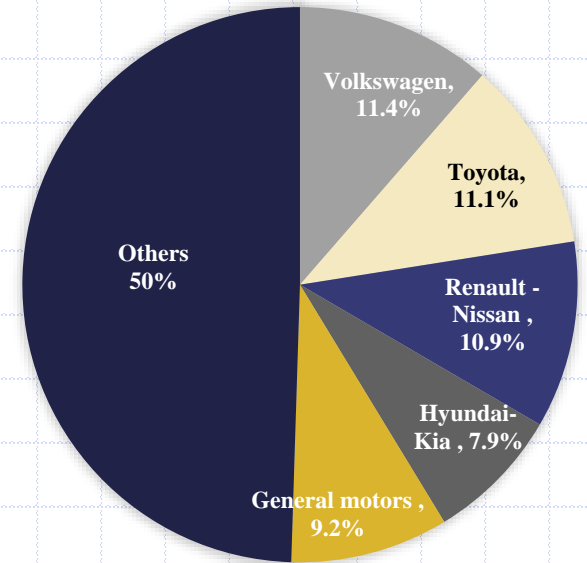
- ❖ In China, sales growth is only now showing signs of slowing after decades of expansion. Chinese Auto Manufacturer Association has cited sluggish economy, deleveraging and a tough pollution crackdown as reasons for the fall.
- ❖ Growth in US market remained muted as auto loan defaults have risen; denting credit lending. Besides, the booming used car market is putting downward pressure on pricing and declining consumer demand for new cars.

Automobile Leaders | Analysis

WORLD CAR BRANDS RANKING 2018

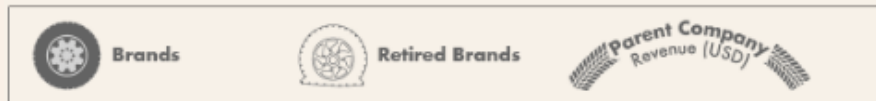
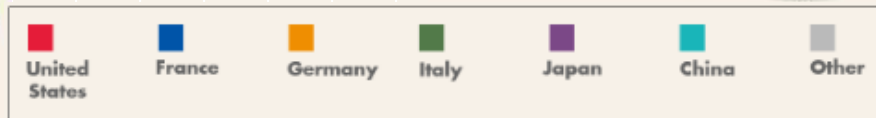
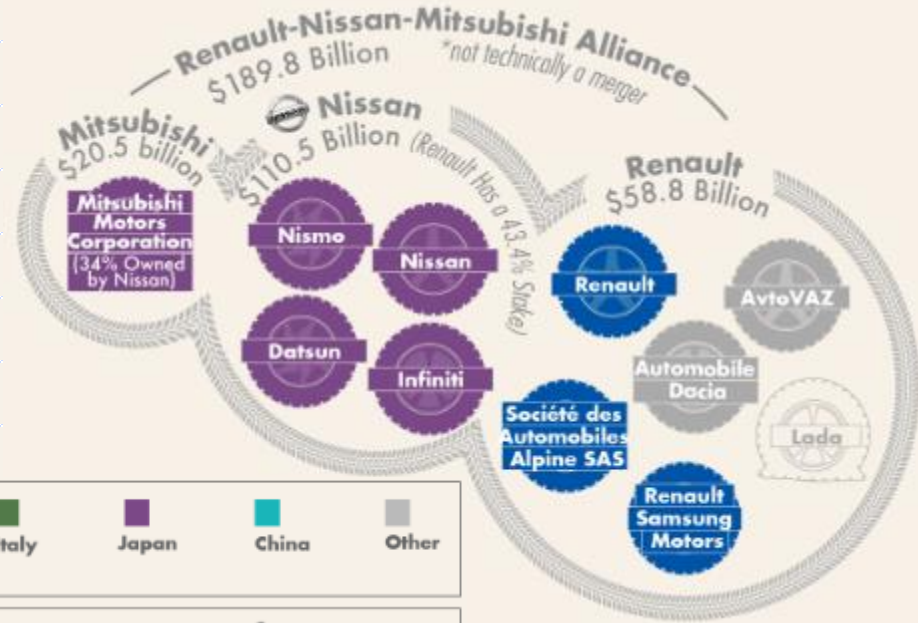
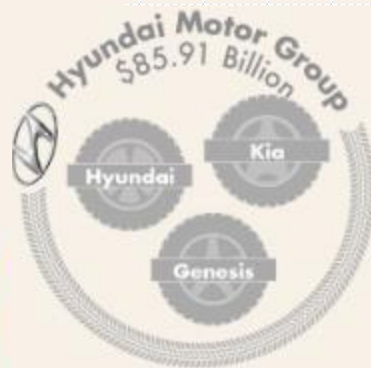
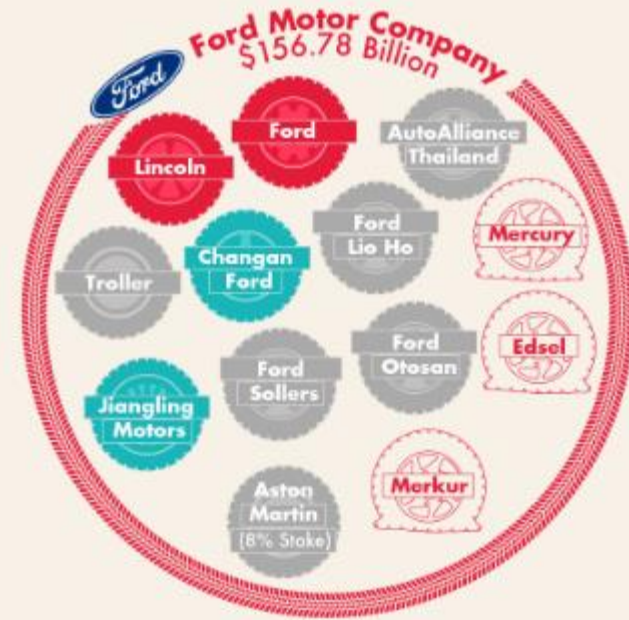


MARKET SHARE FOR 2018



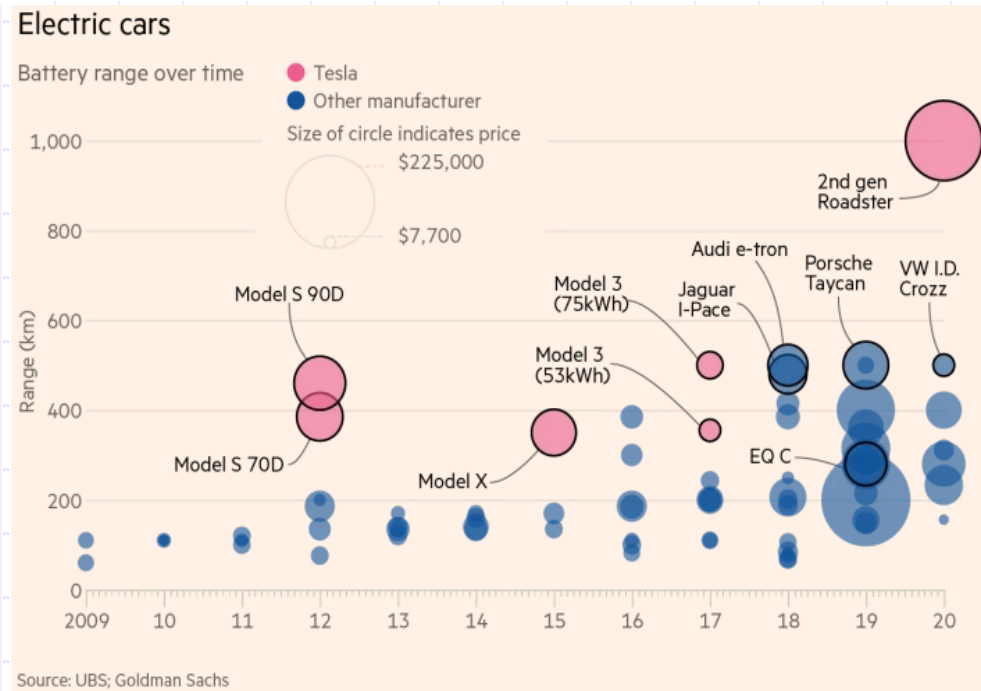
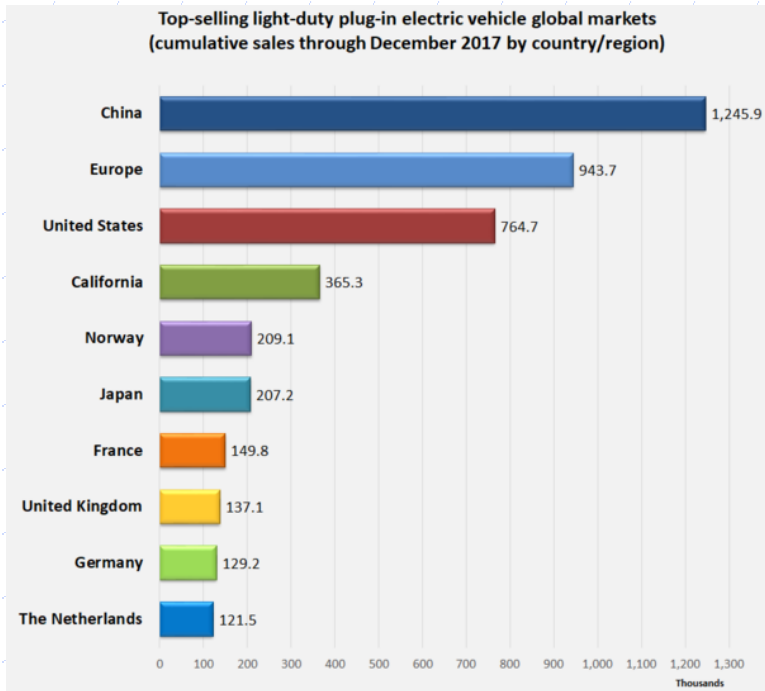
- ❑ Volkswagen owning the top known brands, took the leadership from Toyota in 2016.
- ❑ Honda outperformed in the European market and moved up to 7th rank (2015: 8th), Suzuki ranked 10th by overtaking Mercedes Benz in the World ranking 2016 with 3.2mln vehicle sales.

A FAMILY TREE OF AUTOMOTIVE MAKERS



Automotive | Trend Forward | Electric Cars

- ❖ Cumulative global sales of plug-in electric passenger cars achieved the 1mln unit milestone in Sep 2015, 2mln in Dec 2016, 3mln in Nov 2017, and 5mln in Dec 2018.
- ❖ Plug-in electric car segment represented about 1 out of every 250 vehicles on the world's roads by Dec 2018.
- ❖ Globally, 95% of electric cars are sold in only 10 countries: China, the U.S., Japan, Canada, Norway, the U.K., France, Germany, the Netherlands and Sweden.
- ❖ **Volkswagen** has strengthened their new stand for e-mobility when they announced the end of all combustion engines for the carmaker. No matter if petrol or diesel, combustion engine will not be developed any longer after 2026.

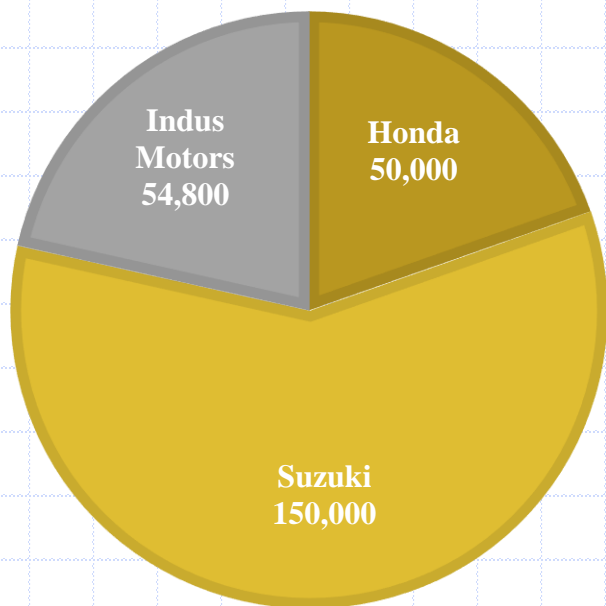


AUTO SECTOR | INTRODUCTION

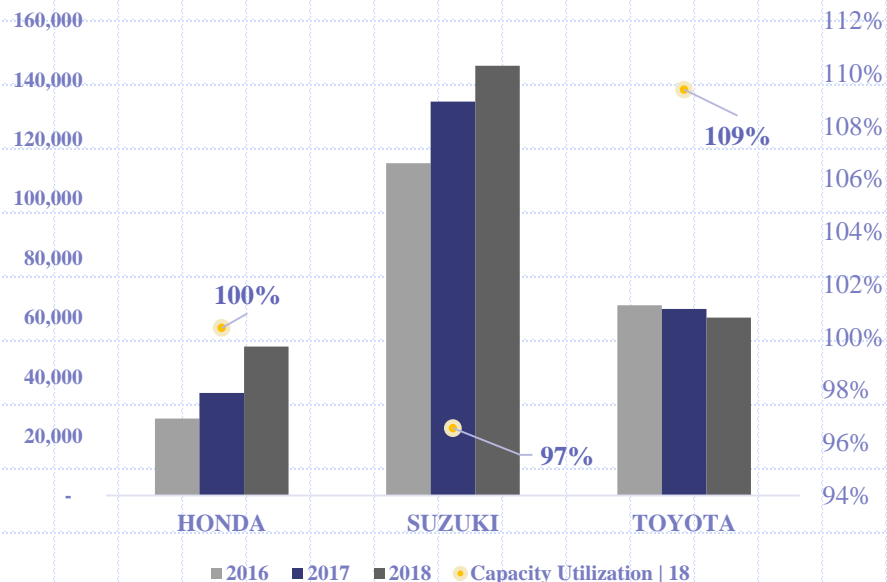
- ❑ The automobile industry in Pakistan includes companies involved in the production/assembly of passenger cars, light commercial vehicles, trucks, buses, tractors and motorcycles.
- ❑ The auto & allied industry forms a major sector in Pakistan. The industry is in growth phase as all major players are catering to rising demand resulting in long delivery periods. The existing players are in expansion phase as well with new cars being launched.
- ❑ The sector is geared for further growth with entry of new players under the automotive development policy – this bodes well for the entire sector.
- ❑ The current market structure of the industry is concentrated. It is largely dominated by Japanese players: Toyota, Suzuki and Honda. The three players have deep rooted presence in Pakistan. FAW is a new addition to the sector.
- ❑ The 13 automobile assemblers listed on PSX are Pak Suzuki, Honda Atlas Cars, Dewan Motors, Ghani Automobile, Indus Motor Co, Atlas Honda Ltd, Sazgar Eng, Hinopak Motor, Ghandhara Ind, Ghandara Nissan, Ghandhara Diesel, AL-Ghazi Tractors, Millat Tractors,

Automotive | Major Players | Production

PRODUCTION CAPACITY 2018



PRODUCTION FOR 2016-2018



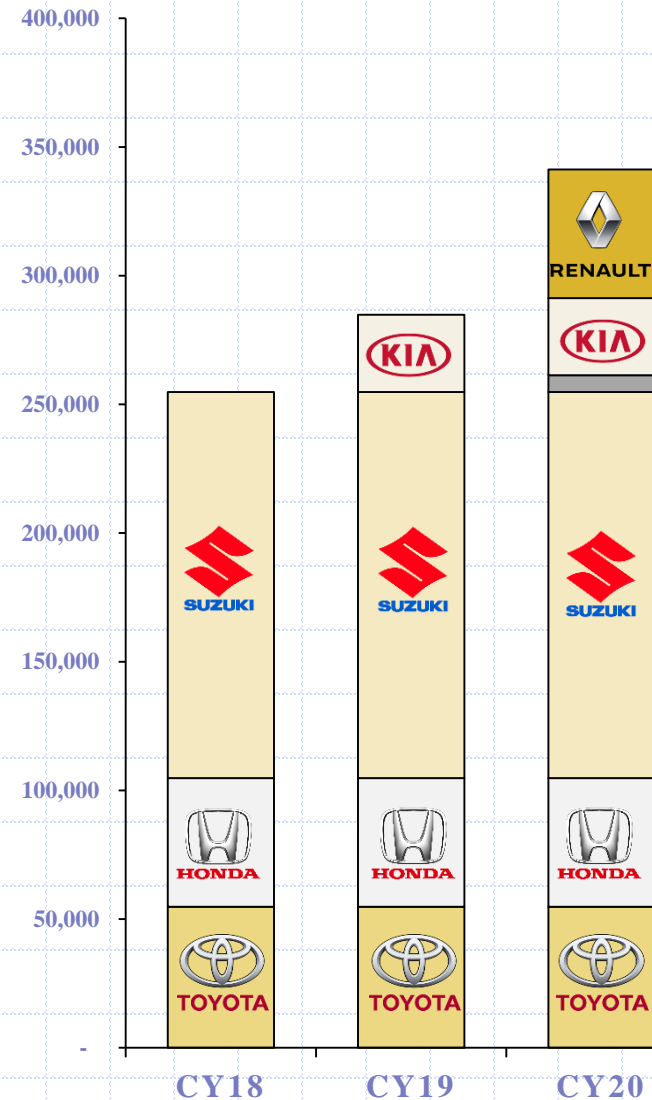
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Capacity of the 3 Players remained unchanged for the past 3 years. For capacity utilization all three players are working on double shifts.

- Honda and Suzuki are gradually moving towards 100% utilization
- Indus Motors production of units are more than its capacity as the plant has been used for more than the normal working hours.

Automotive | New Players | Capacity

- ❖ **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%).
- ❖ **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%).
- ❖ **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.
- ❖ **Renault** and **Al-Futtaim** have signed definitive agreements to assemble vehicles in a new plant in Karachi. Car sales will begin in second half of CY20.



Automotive Industry | New Developments | Product Line-up

PAKISTAN



HYUNDAI – NISHAT MOTORS

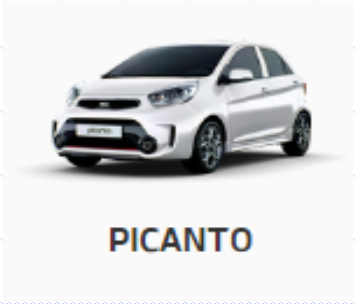


2019 Elantra

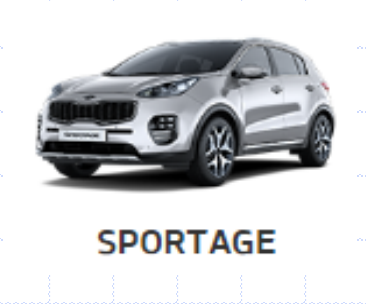


2019 Tucson

RENAULT – AL FUTTAHIM AUTOMOTIVE



PICANTO



SPORTAGE

KIA – LUCKY MOTORS



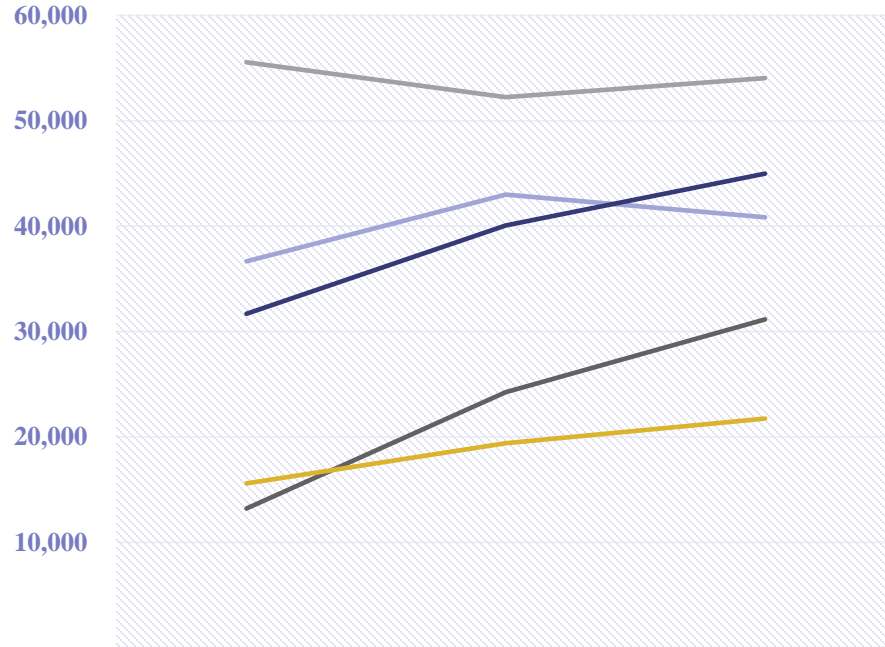
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GRAND CARNIVAL

Automotive | Top selling cars

Top 5 Car Sales | Trend

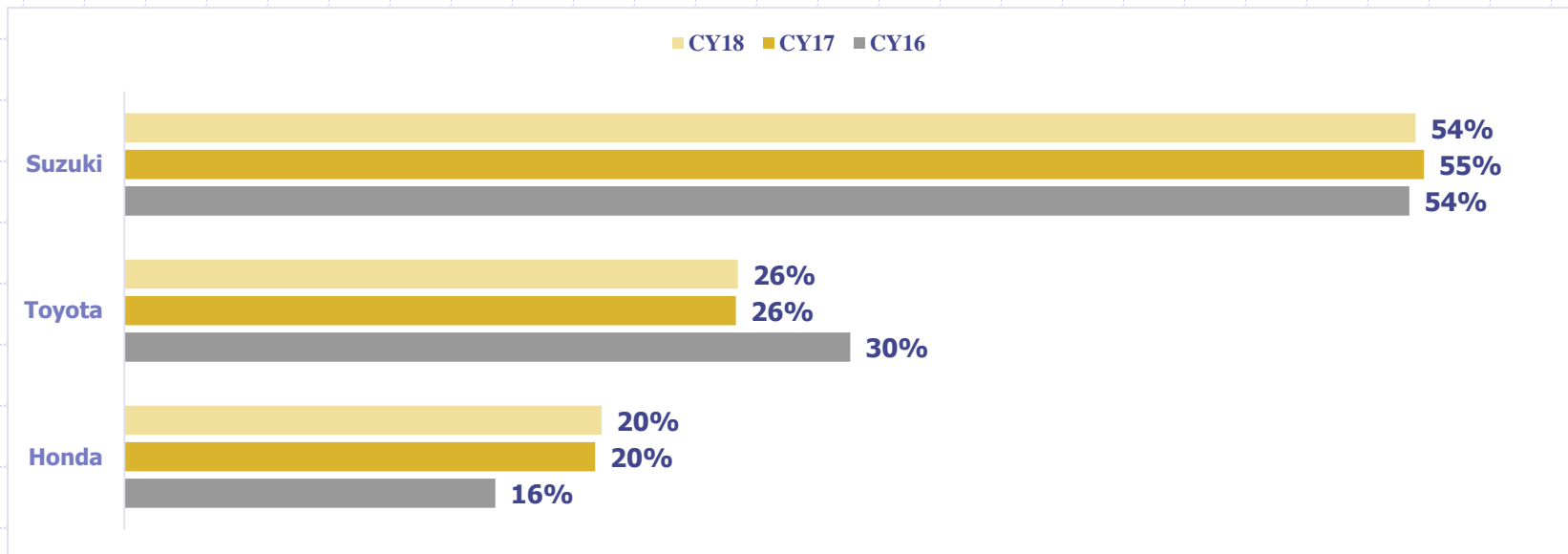


	CY16	CY17	CY18
Toyota Corolla	55,539	52,233	54,037
Suzuki Mehran	36,654	42,985	40,828
Honda City & Civic	31,687	40,054	44,973
Suzuki Wagon R	13,209	24,247	31,146
Suzuki Cultus	15,595	19,404	21,739

Source: Pakistan Automotive Manufacturers Association

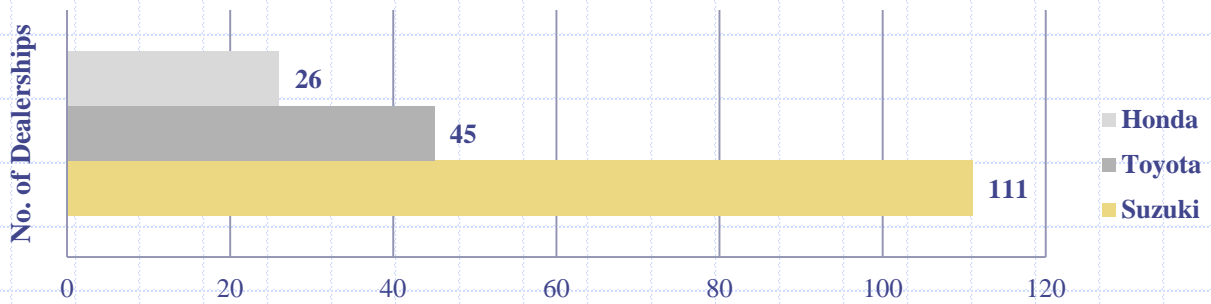
- ❖ Upgraded models, extended warranty and strong demand for Toyota corolla makes it the best selling car in recent years.
- ❖ Suzuki maintains its position through market penetration and diversity of models .
- ❖ Honda is set to loose momentum as sales of newly introduced BRV, after witnessing an initial surge, have dropped drastically.

Automotive| Market Share-Leading Players

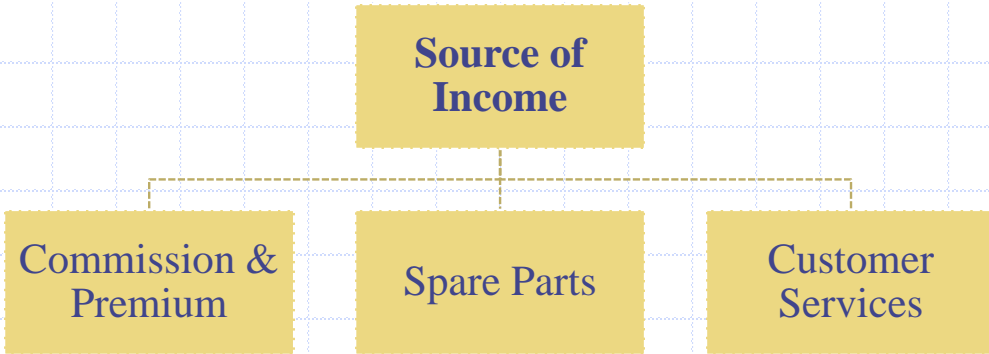


- ❖ Suzuki holds the maximum market share from 2016 till date due to affordability and diversity of models being offered by the brand as compared to Toyota and Honda.
- ❖ The slight dip in Suzuki's market share in CY18 is due to lower production of Suzuki Mehran on its discontinuation w.e.f. September 2018.
- ❖ Toyota lost its market share to Honda on Honda's introduction of new variant i.e. BRV which seems to have lost its steam in recent months. Further, unlike Toyota, Honda was able to increased its capacity.

Automotive | Dealers Network



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



Automotive | Import of Vehicles

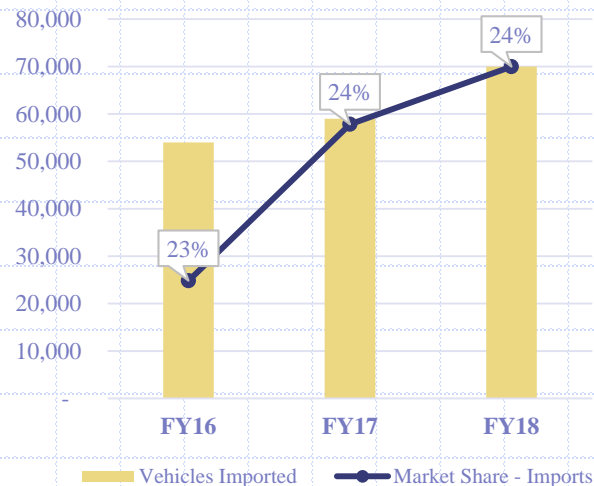
Second Supplementary Bill 2019 – Proposed Amendment

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.

Import of Vehicles



Car imports in the country have picked up pace over the last three financial years and have a market share of 24% in FY18.

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.

Auto Sector | Opportunities & Risks

Opportunities

- Increasing buying capacity, rapid urbanization and a growing population offer an enormous opportunity to carmakers.
- Car penetration as low as 13 vehicles per 1,000 persons, offers a huge potential for growth to global carmakers.
- The emergence of cab service such as Uber, Careem or Daewoo has led to higher car off-take in Pakistan.
- Automobile policy (2016-21) offers tax relief to new automakers in order to assist them in establishing manufacturing centers in the country and effectively engage and compete with existing manufacturers.
- New car brands have expressed their intention of setting up assembly plants in the country in order to reap the benefits of a growing demand. Kia and Hyundai have already entered in the emerging market in Pakistan along with Renault, which is expected to enter in the 1200cc and above segment.
- Government discourages the unnecessary imports of used cars to curtail the growing trade deficit by imposing new import policy SRO rules.

Risks

- Instability in macroeconomic factors & geo-political conditions.
- Recent high interest rates may put the auto loans under pressure.
- Depreciation of rupee and increasing oil prices may yield further inflation in the near future.
- Secondary Supplementary Bill 2019 seeks to enhance the income tax / FED rates on purchase / registration of vehicles for Non-filers.
- Lack of technical adaptability in overall automobile sector of the country and increasing demand for electric vehicles (EV) will be challenging for the auto players of the market, specifically when various countries including India have unveiled their EV's plan.
- Increased competition due to entry of new international players.

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