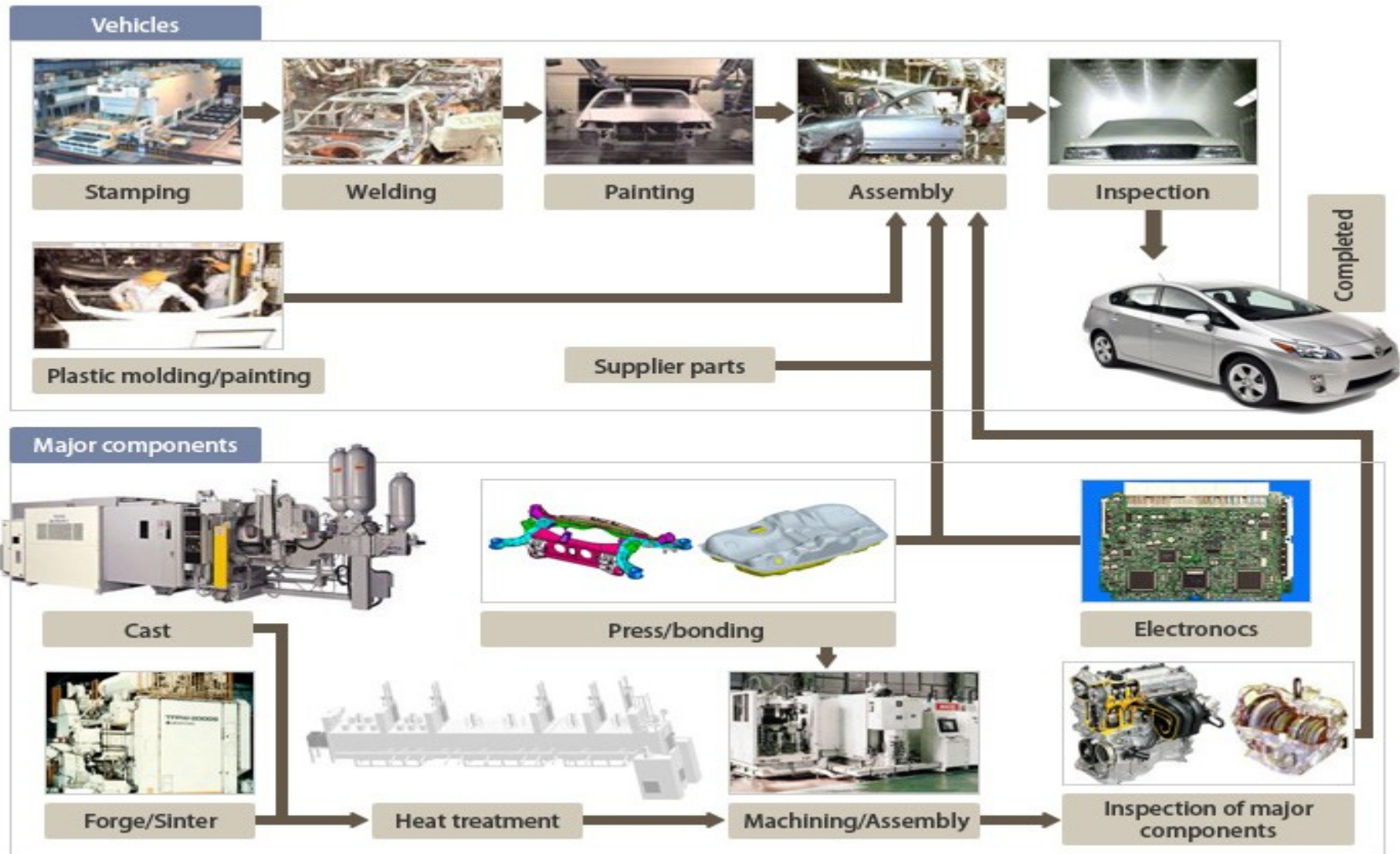


# PASSENGER CAR SECTOR OVERVIEW

February 2018

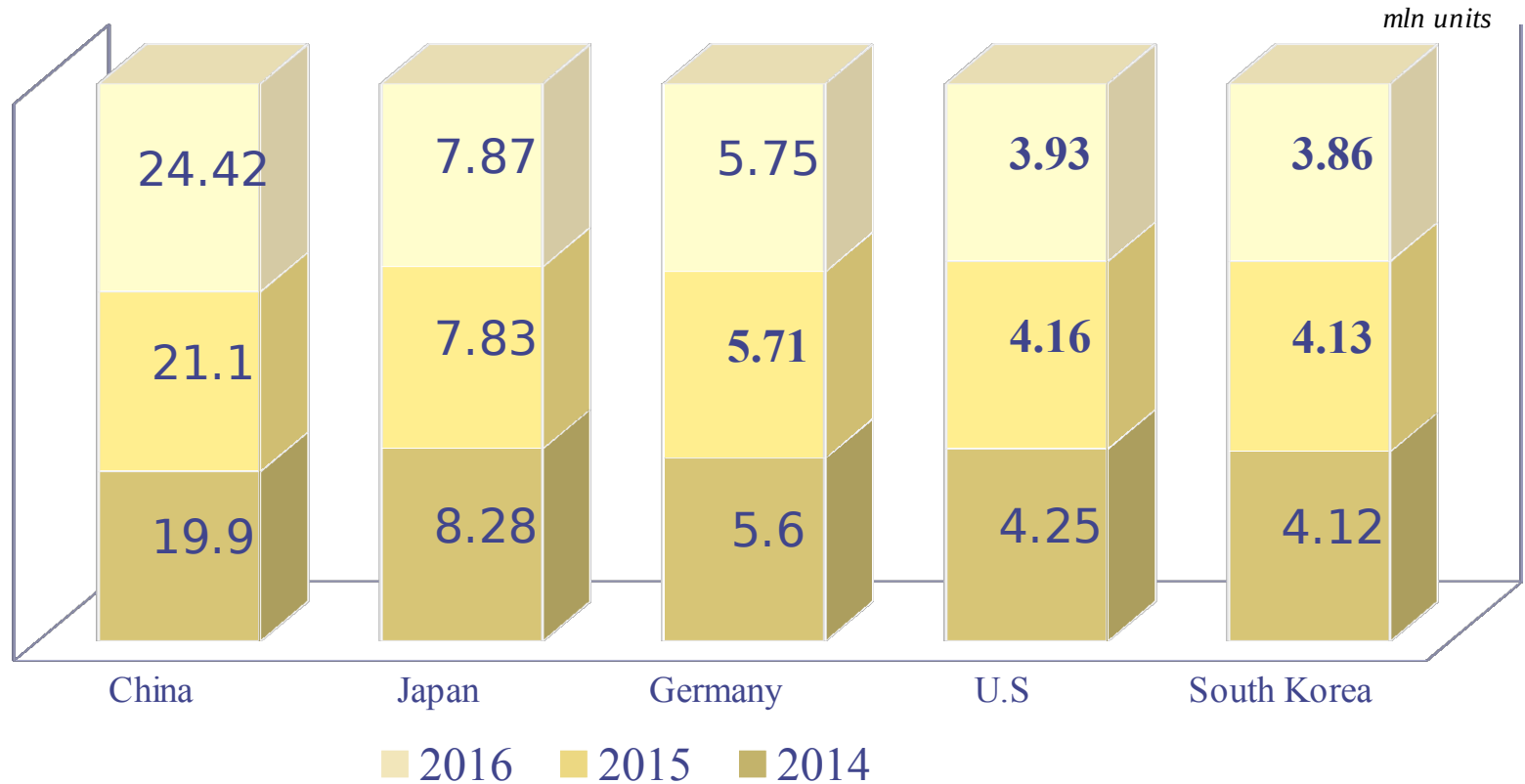
# CAR | ASSEMBLING PROCESS



# AUTO SECTOR



# Passenger Cars | Production

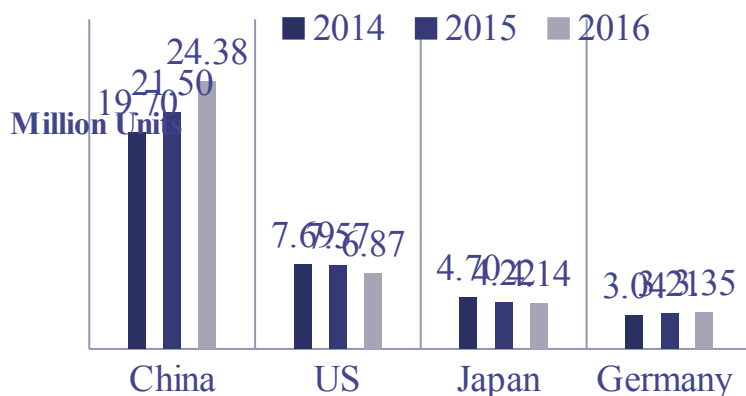


- ❖ China, Japan, Germany, US and South Korea are the largest five car producers
- ❖ During past 3 years, global passenger car production demonstrated strong growth. In CY16, growth clocked-in at 5.1%.
- ❖ Japan's dip in production is due to the slower demand for mini cars and the lingering effect of tax hikes.
- ❖ Stagnant sales in the region pushed US automakers to cut production. Inventories have swelled to their highest level since 2004, new vehicles waited in dealer inventory for an average of 74 days before sale. 22 percent of unsold inventory in the U.S. right now belongs to GM. The company's inventory levels rose 37 percent altogether to create a 9.5-year inventory high
- ❖ US Inventory to sales ratio has been on increasing trend: Jun-14: 2.6x, Jun-15: 2.77x, Jun-16: 2.83x
- ❖ The leading car manufacturers worldwide include US-based General Motors and Ford, Germany's Volkswagen Group, as well as the Japanese automakers Toyota Motor Corporation and Nissan.

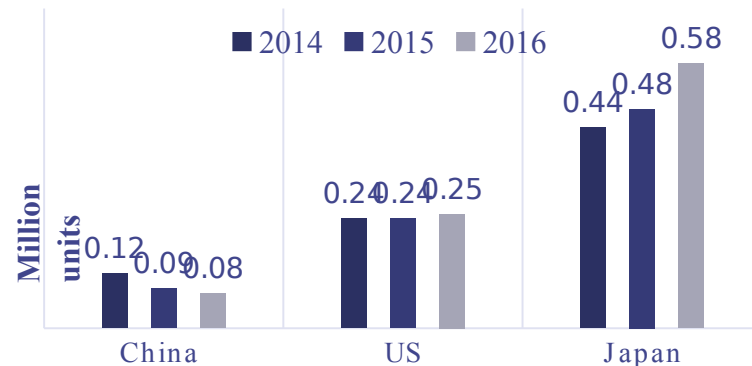
# Passengers Demand | Trend

Total number of cars sold in CY16 were **77.29 million**

## TOP 4 PASSENGER CAR SALES



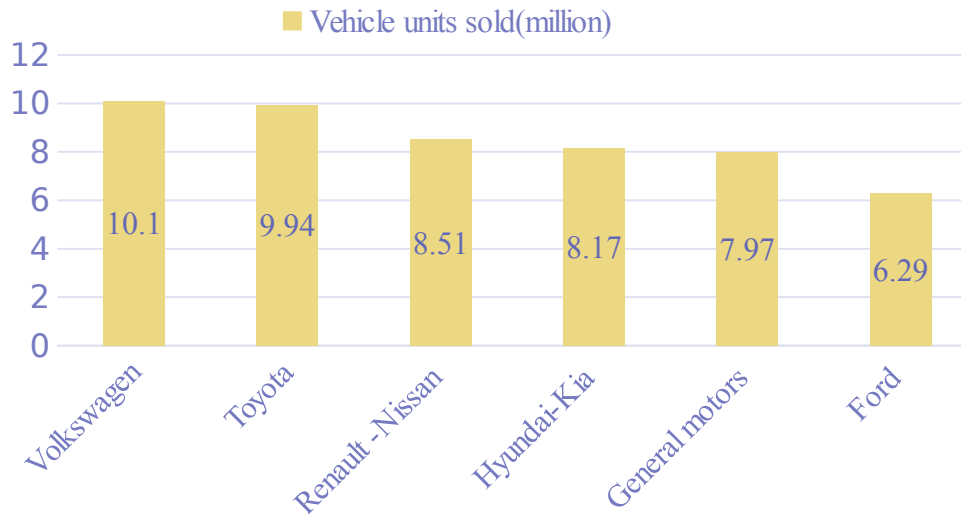
## Passenger car imports



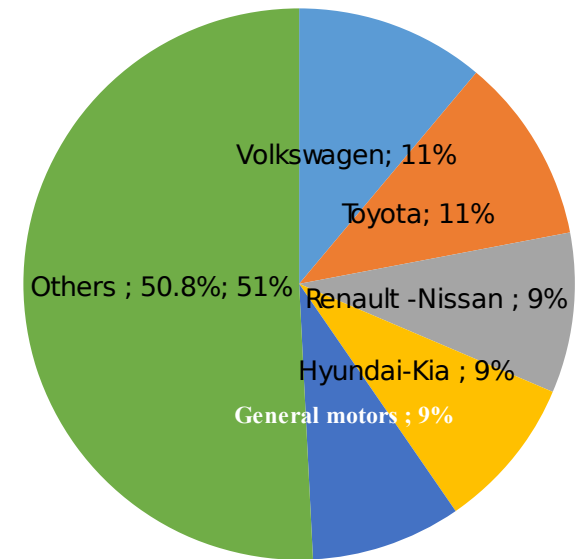
- ❖ China continued to demonstrate strong demand during CY16, registering a growth of 18%. The growth was buoyed by the government's purchase tax waiver for small-engine vehicles.
- ❖ Growth in US market remained muted as auto loan defaults have been surging; denting credit lending. Besides this, booming used car market is putting downward pressure on pricing and declining consumer demand for new cars.
- ❖ US sales level is higher than its supplies which is reflected by the number of cars being imported by the region. Japan shows domestic sale of local and imported cars while production and sale gap is covered by car exports by the country.

# Automobile Leaders | Analysis

## World car Brands Ranking 2016



## Market share for CY16



- ❑ Volkswagen owning the top known brands, took the leadership from Toyota in CY16
- ❑ Honda outperformed in the European market and moved up to 7<sup>th</sup> rank ( 8<sup>th</sup> 2015) Suzuki ranked 10<sup>th</sup> by overtaking Mercedes Benz in the World ranking 2016 with 4.90 million and 2.85 million vehicle sales respectively



# AUTO SECTOR

- ❑ The automobile industry in Pakistan includes companies involved in the production/assembling 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,

## Members of Pakistan Automotive Manufacturers Association (PAMA)

Pak Suzuki Motor Co. Ltd.

Indus Motor Co. Ltd.

Honda Atlas Cars (Pakistan) Ltd.

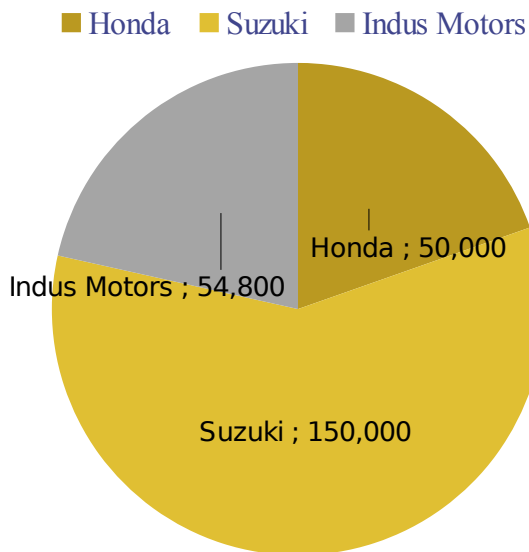
Dewan Farooque Motors Ltd.

Sigma Motors Ltd.



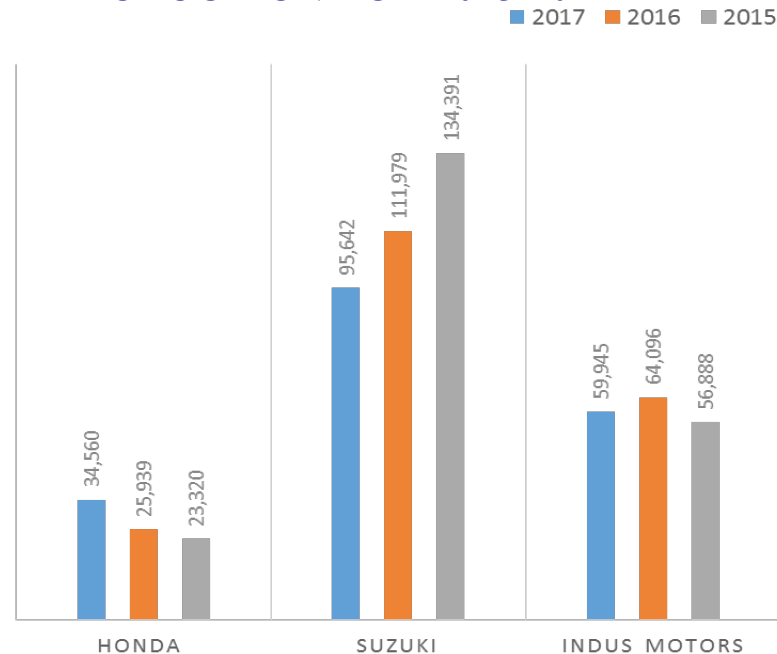
# Automotive | Assemblers/Manufacturers

## Capacity from 2015-2017



Capacity of the 3 Players remained unchanged for the past 3 years. However, Indus Motors plans to expand its capacity by investing \$40 million which will add around 10,000 units to its current production. For capacity utilization-all three players are working on double shifts.

## PRODUCTION FOR 2015-2017



Indus Motor production of units are more than its capacity as the plant has been used for more than the normal working hours.

# Automotive| Top selling cars

## Top 5 Most selling cars - Units Sold

FY16

- Toyota Corolla 57K
- Suzuki Mehran 38K
- Suzuki Bolan 30K
- Honda City & Civic 26K

FY17

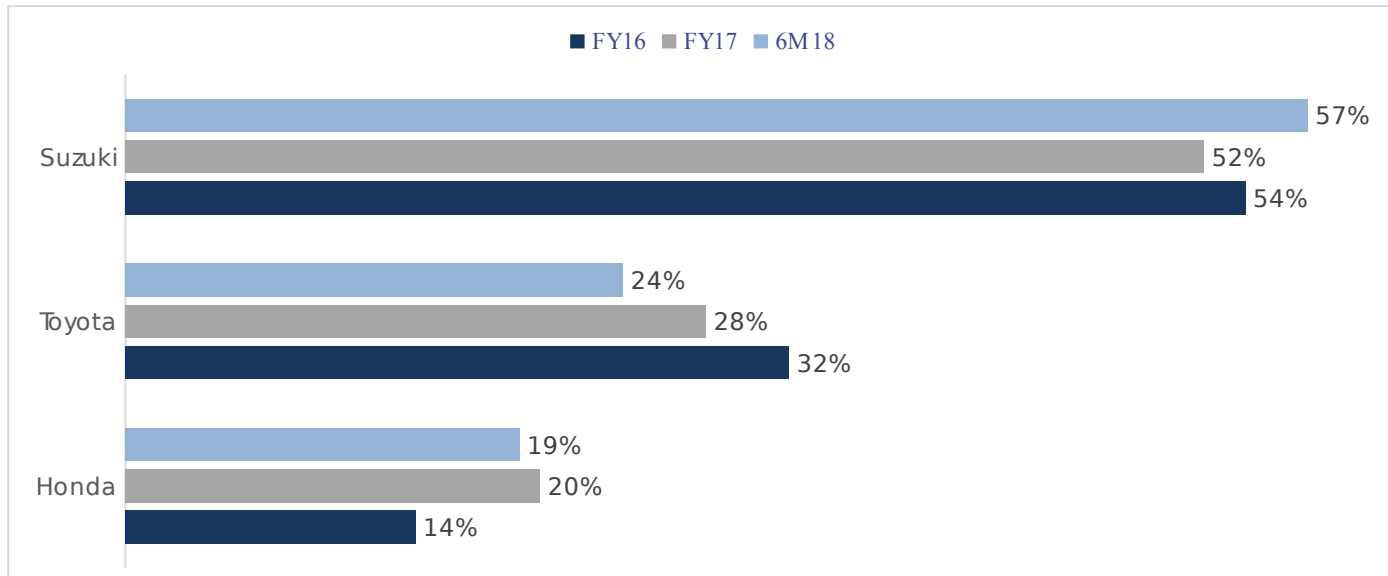
- Toyota corolla 53K
- Suzuki Mehran 38K
- Honda City & Civic 37K
- Suzuki Bolan 19K

6MFY18

- Toyota corolla 25K
- Suzuki Mehran 22K
- Honda City & Civic 20K
- Suzuki Wagon R 14K

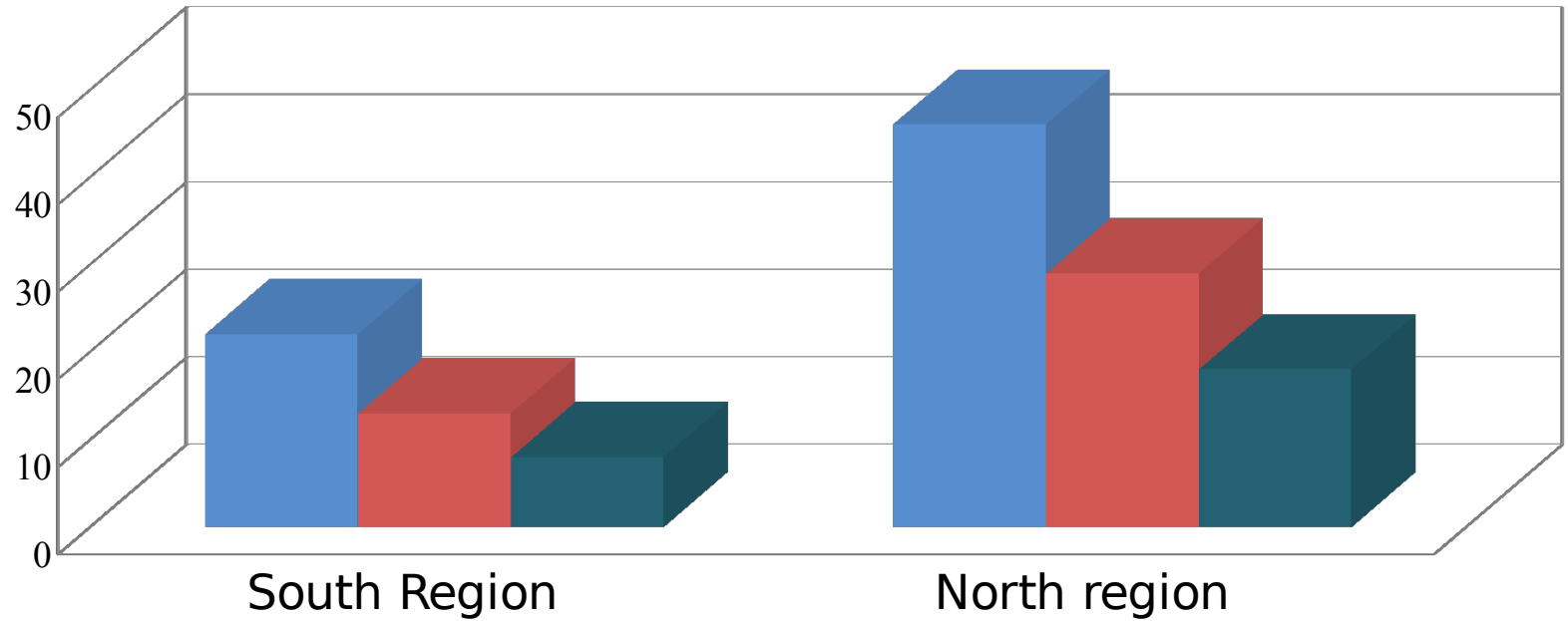
- ❖ Upgraded models, extended warranty and strong demand for Toyota corolla makes it the best selling car in recent years
- ❖ Suzuki maintains its position through market penetration and diversity of models
- ❖ Honda gaining momentum with the launch of new Civic model and introduction of new crossover SUV – BRV – in recent years.

# Automotive| Market Share-Leading Players

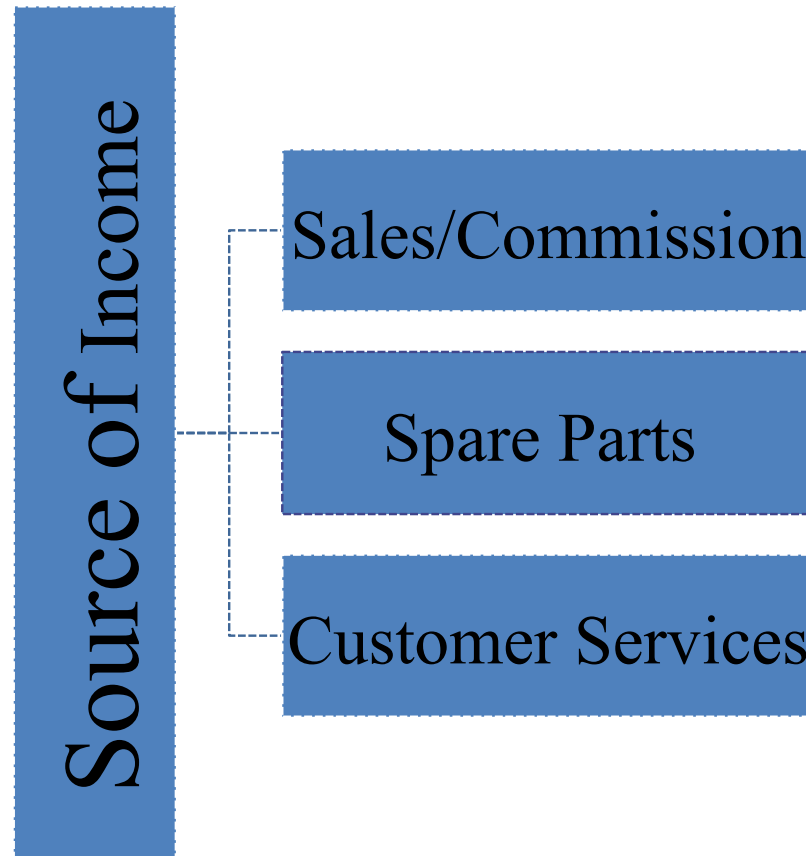


- ❖ Suzuki holds the maximum market share from 2016 till date due to diversity of models being offered by the brand as compared to Toyota and Honda.
- ❖ The slight dip in Suzuki's market share in FY17 is due to decreased production levels caused by lower demand of certain products.
- ❖ Toyota market share dropped as the sales got limited due to production constraints in FY17

# 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



# Domestic

## 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.

- ❑ Greenfield category-major developments
  - ❖ **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 plant of United in Lahore will be ready to produce Mehran and Ravi lookalikes in first half of 2018. The company has sought application for dealership network latest by December 2017.
  - ❖ **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.
  - ❖ **KIA Motor Co**, South Korean carmaker, will start assembling cars in a joint venture with Karachi-listed Lucky Cement, After the groundbreaking ceremony in November-2017 now they are in process of establishing the assembly plant.
  - ❖ **Renault** and **Al-Futtaim** have signed definitive agreements to assemble vehicles in a new plant in Karachi. The plant will be built starting the first quarter of 2018. Car sales will begin in 2019 and be ramped up in 2020.
- ❑ Government discourages the unnecessary imports of used cars to curtail the growing trade deficit by imposing new import policy SRO rules.



# Auto Sector | Opportunities & Risks

## *Opportunities*

- Increasing buying capacity, rapid urbanization and a growing economy offers 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.
- Low interest rate and Bank's car financing has left the automobile industry booming.
- 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 relieve to new automakers in order to assist them establish 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 Car has already entered in the emerging market in Pakistan along with Renault, which is expected to enter in the 1,200cc and above segment.

## *Risks*

- Stability in macroeconomic factors & geo-political conditions
- Depreciation of rupee and increasing oil prices are key factors that will yield inflation in the near future.
- Hike in key interest rate as it moved to 6% (5.75% since march 2016). Higher interest rates will result in reduced auto financing.
- 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 has unveiled their EV's plan.
- Increased competition due to entry of new international players.

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