



Passenger Cars Sector Study

TABLE OF CONTENTS



Contents	Page No.	Contents	Page No.
Global Overview A Dip in the Largest Markets	1	Local Industry Demand	9
Global Industry Market Shares	2	Business Risk	13
Local Industry Overview	3	Financial Risk	15
Local Industry Top Selling Cars	5	Auto Policy	16
Local Industry Trends	7	Regulatory Framework	17
	8	SWOT Analysis	19
		Outlook	20

Passenger Cars

Global Overview | A Dip in the Largest Markets

The Global Car Sales were recorded at ~78mln units in CY20, an average contraction of ~15% YoY owing to the outbreak of COVID-19 pandemic. Combined worldwide car sales in the largest markets were ~56mln units, the lowest number in years.

China

- The Chinese Car Market, which is considered to be the largest in the world, contracted by 6.1% in CY20 clocking in at ~20mln units, the lowest since CY14. This was the third consecutive year of weaker car sales in China but the Chinese new car market was still by far the best-performing large market in the world since China recovered from the COVID-19 much faster than other peers.

USA

- Car Sales in USA fell by 15% YoY in CY20 clocking in at ~14mln units. This is the first time since CY12 that the USA sales remained below 15mln vehicles. Although several brands reported strong sales during the final months of the year, the total market remained well below previous levels.

Global Sales (Units in 000)	CY16	CY17	CY18	CY19	CY20	YoY Change
China	23,693	24,171	23,256	21,045	19,790	-6%
USA	17,465	17,135	17,215	16,965	14,451	-15%
Europe	15,132	15,632	15,625	15,806	11,961	-24%
Japan	4,147	4,386	4,391	4,301	3,810	-11%
India	2,967	3,229	3,395	2,962	2,435	-18%
Brazil	1,989	2,176	2,475	2,666	1,955	-27%
Russia	1,426	1,596	1,801	1,760	1,599	-9%
Top Markets Combined	66,818	68,325	68,158	65,504	56,001	-15%
Others	28,182	28,675	28,842	26,496	21,999	-17%
Global Total	95,000	97,000	97,000	92,000	78,000	-16%



Global Overview

Europe

- Car Sales in Europe nosedived by ~24% in CY20 YoY (from ~16mln units in CY19 to ~12mln units in CY20) — the worst performance by far of the three large global car markets. Germany remained the largest car market in Europe and outperformed other countries with sales down by less than a fifth. Car sales in France were higher than in the UK despite a 25.5% contraction, as British sales were even weaker and 29.4% lower than in CY19.

Japan

- New Cars registrations in Japan in CY20 contracted by 11% to 3.8 million cars — the lowest level since 2011 when Japan was hit by the tsunami.

India, Brazil & Russia

- In CY20, Car Sales in India were down 18% YoY to ~2mln units (~3mln units in CY19). The Brazilian new light vehicle market, which expanded for three years up to CY19, was the weakest major car market in 2020 with sales down by 27% to less than two million vehicles. Light vehicle sales in Russia were 9.1% weaker in 2020 at 1.6 million vehicles.

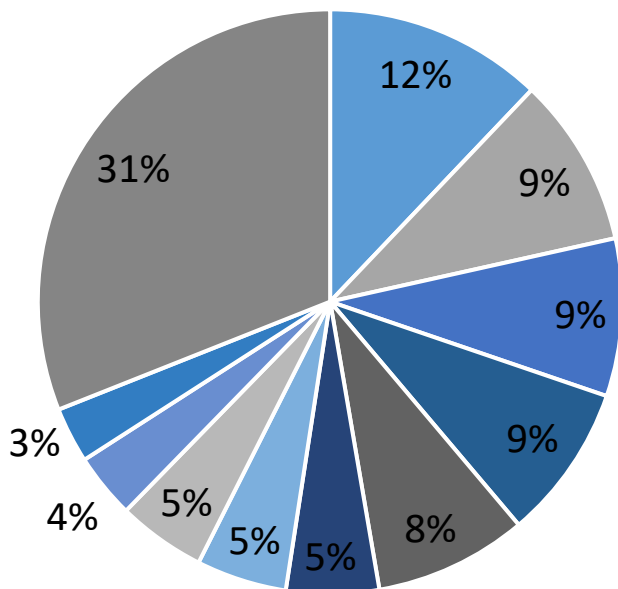
Brazil and Russia were the markets most effected and shrunk more than 20%.



Passenger Cars

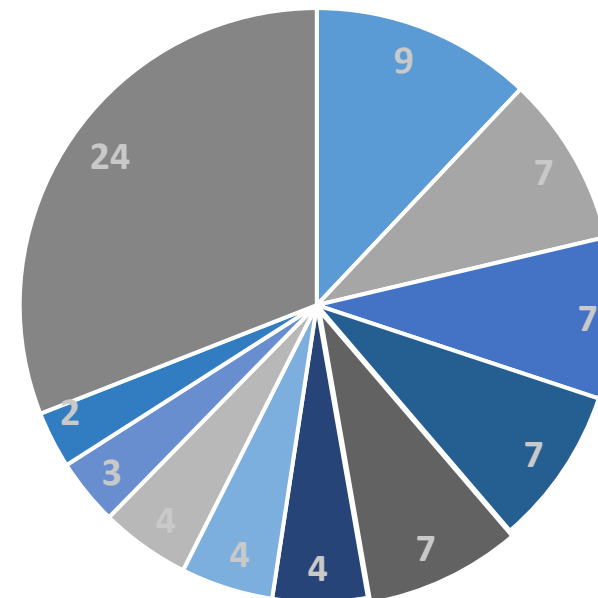
Global Overview | Brand Market Shares

Market Share CY20



- 1 Volkswagen Group
- 2 Toyota Group
- 3 Renault Nissan Alliance
- 4 General Motors
- 5 Hyundai-Kia
- 6 F.C.A Group
- 7 Ford Group
- 8 Honda Motor
- 9 P.S.A
- 10 Mercedes Daimler
- 11 Others

Unit Sales CY20 (in Mln)



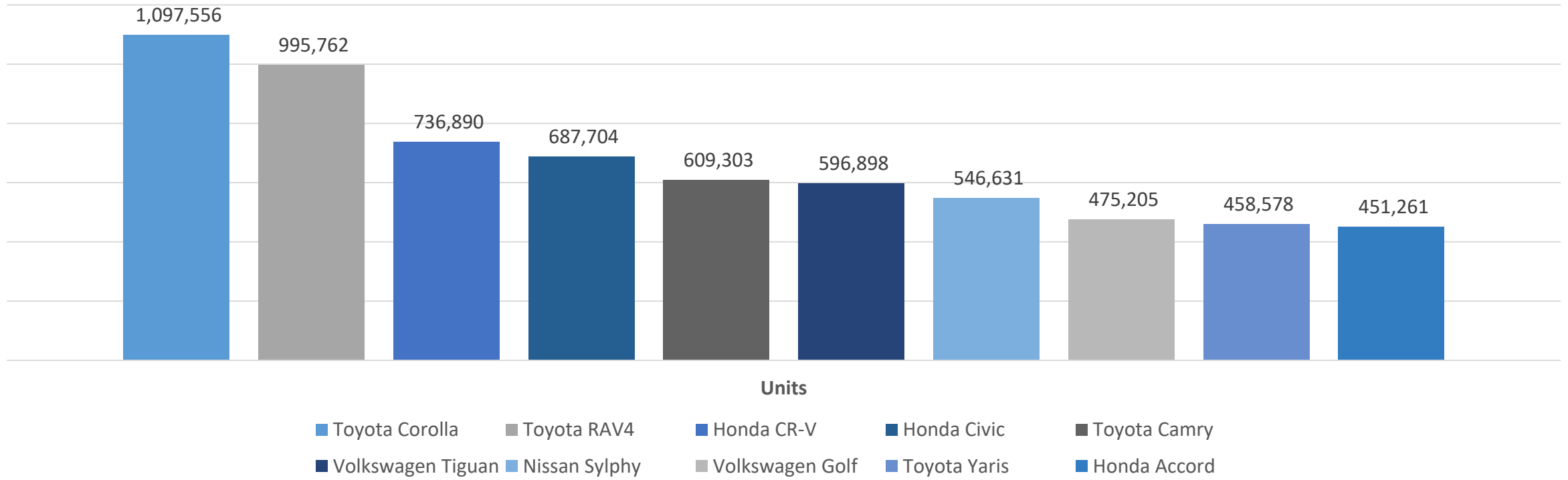
Volkswagen



FCA group and PSA group merged together in January 2021

shutterstock.com - 1283897827

Top Selling Brands | Car Sales Units | CY20

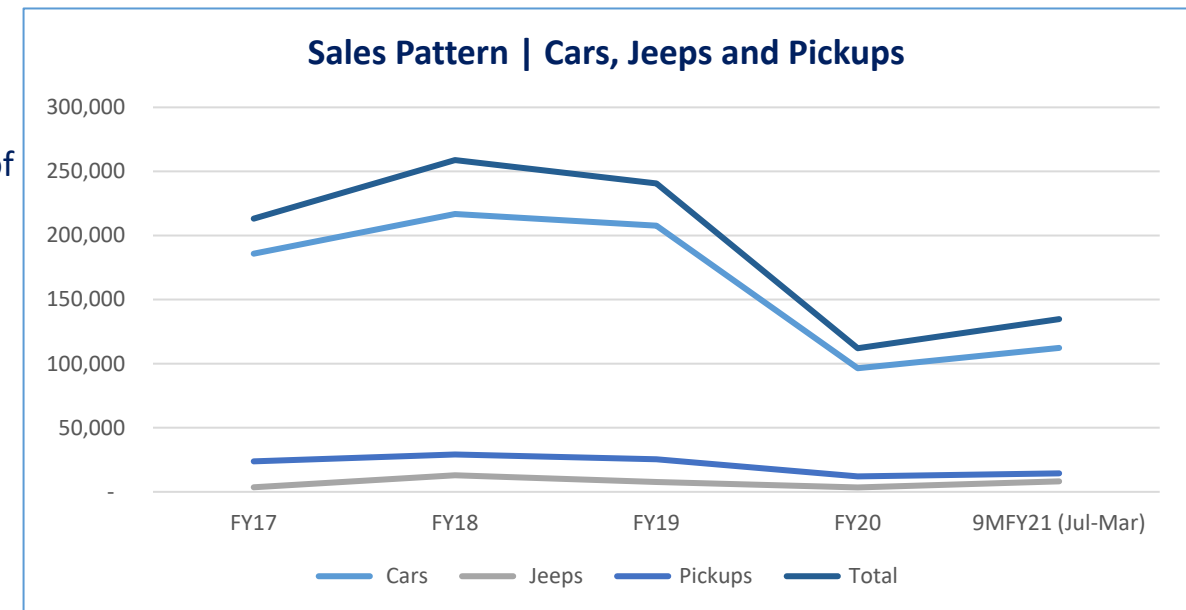


Passenger Cars

Local Industry | Overview

- Domestic Motor Vehicle industry (excluding commercial vehicles) has been on a roller coaster ride during the last five years. The consumer segment is dominated by Cars followed by Pickups and Jeeps whose collective sales were recorded at ~135k units in 9MFY21, a massive YoY growth of ~60%, majorly owing to the low base effect of FY20 in which collective sales of cars, jeeps and pickups fell drastically by ~53% YoY.
- Passenger Cars Market is largely structured with three major players i.e. Pak Suzuki, Honda and Toyota Indus - the OEMs, controlling the market historically. These OEMs sell their cars through their authorized local dealership network across the country. However, times are changing now. The Auto Policy 2016 -2021 has paved way for new entrants which have been showing their charm since the last two years. For instance, Kia Lucky Motors, a subsidiary of Lucky Cement has an installed capacity of 50,000 cars per annum and is capturing the market space rapidly through launch of different variants in the cars and SUV segments.
- There are now a total of 12 local car assembling/importing brands which can be classified into three categories: (i) Large Scale OEMs (4), (ii) Hybrid Model approach i.e. light manufacturing as well as import of CBUs (5) and (iii) Importers of CBU (completely built unit) (3).
- In the Jeeps & Pickups segments, the market is dominated by Toyota along with Ghandhara (iSUZU and JAC), Hyundai, Suzuki Ravi and Sigma(CBU).

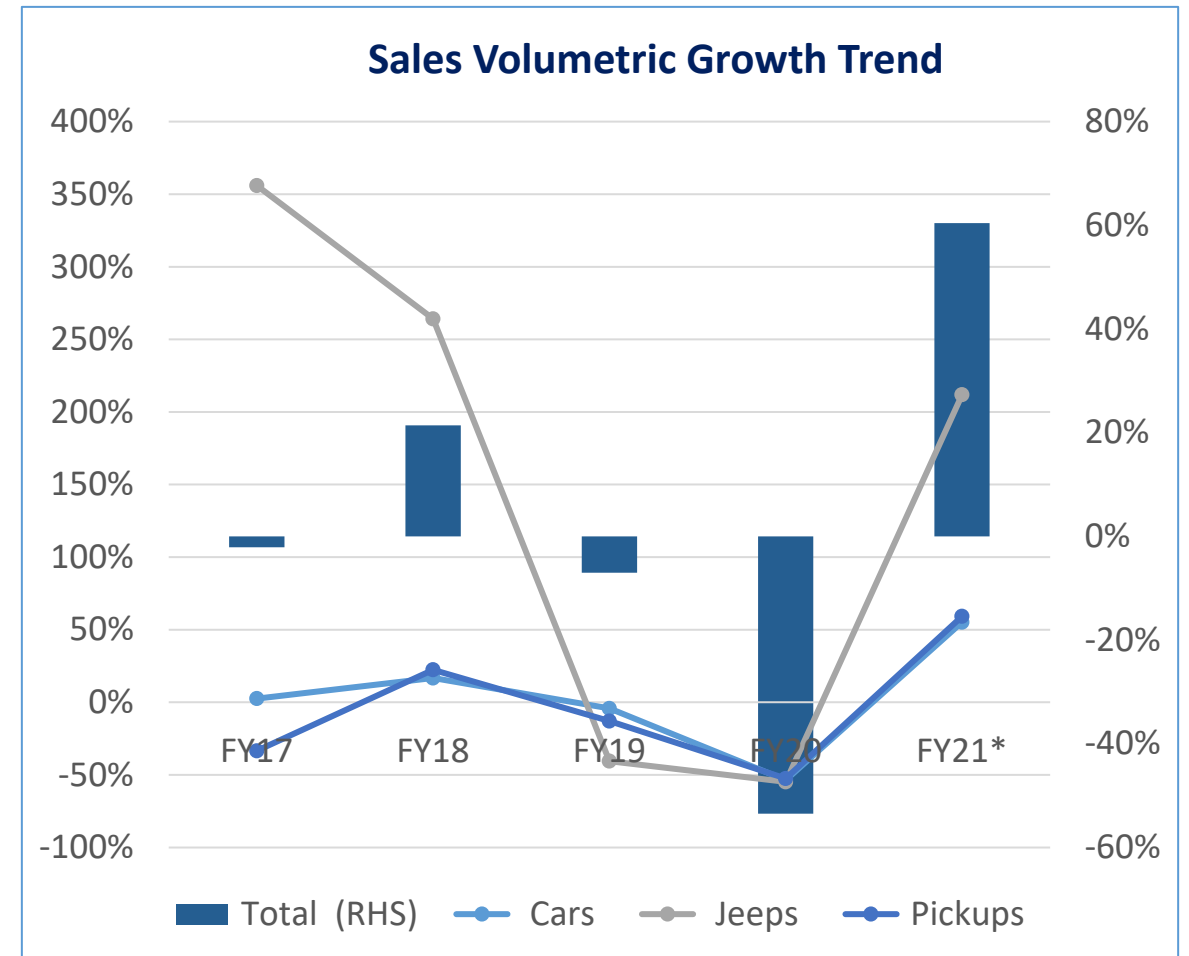
Sales Units	FY17	FY18	FY19	FY20	9MFY21
Cars	185,781	216,786	207,630	96,455	112,244
Jeeps	3,534	12,870	7,654	3,459	8,090
Pickups	23,804	29,136	25,362	12,048	14,384
Total	213,119	258,792	240,646	111,962	134,718



Passenger Cars

Local Industry | Demand Pattern

- Prior to FY20, average CAGR of Cars, Jeeps and Pickups segment from FY17-FY19 was recorded around ~5%, 193% and ~-8% respectively. Combined CAGR of the three segments from FY17-FY19 was recorded around ~4%.
- In FY20, the overall market volumes had a drastic freefall of ~54% owing to COVID-19 pandemic, worsening economic conditions and anticipation of new models arriving. It is pertinent to note that although jeeps segment tends to display a high volatility with growth rates recording around ~356% in FY17 and ~212% in FY21 estimates, the segment has a very small volumetric share in the total sales of the Industry (around ~6% only).
- Car segment, which contributes the highest share based on volumes as well as value, witnessed a volumetric decline of ~4% in FY19. This depicted that the market was already under distress prior to COVID-19 pandemic. This was majorly attributed to the higher prices of new cars, due to rising import prices and high interest rate environment.
- Based on proration of 9MFY21 results, cars segment is expected to revive to pre-pandemic levels in FY21, while the overall market is also expected to recover significantly, considering lesser uncertainty and low interest rates.

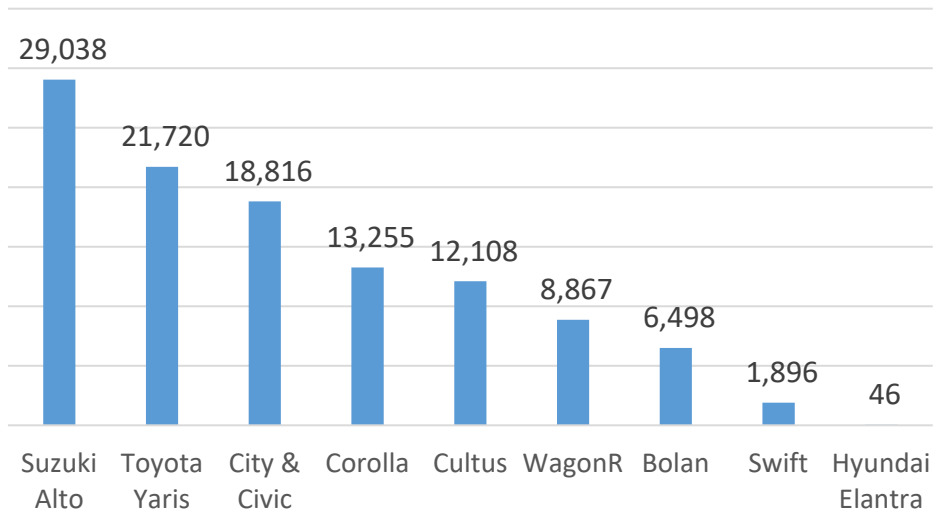


Passenger Cars

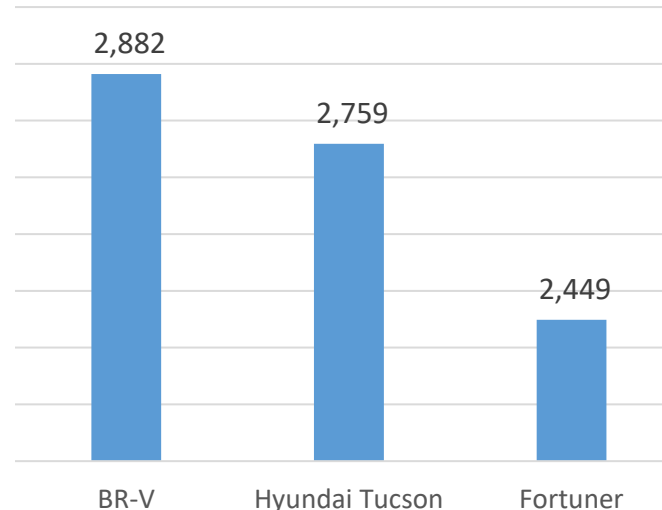
Demand | Top Brands

- **Cars:** During 9MFY21, replacement of the popular Mehran by Alto remained the best seller, followed by the new Toyota Yaris, Honda City & Civic and old Toyota Corolla. The top rankings are still dominated by these OEMs models. Overall car sales managed to grow by ~32% from SPLY.
- **Jeeps** market witnessed the highest increase in sales in 9MFY21 by ~158% from SPLY. Honda BR-V took the lead with 2,882 units sold during 9MFY21 registering a ~40% growth from SPLY. The all new Hyundai Tucson has quickly reached the podium with 2,759 units sold in 9MFY21, replacing Toyota Fortuner at 2nd rank. Introduction of new variants by various companies has propelled the growth in jeep sector.
- **Pickup** sales grew by ~41% during 9MFY21 from SPLY with Suzuki Ravi leading the chart followed by the Toyota Hilux and Hyundai Porter making its place on the 3rd rank.

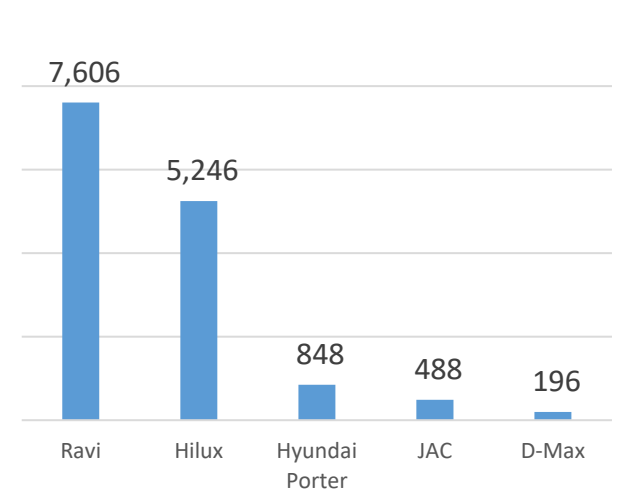
Car Sales 9MFY21



Jeep Sales 9MFY21



Pickup Sales 9MFY21



Passenger Cars

Demand | Top Brands | Trend

Car Major Brands Sales Units	FY16	FY17	FY18	FY19	FY20	9MFY21	FY21*	CAGR FY16-FY20	CAGR FY16-FY19	Estimated Growth FY21
Toyota Corolla	57,452	52,676	51,412	56,720	22,140	13,255	17,673	-17%	0%	-20%
Honda City & Civic	25,726	37,004	42,810	39,189	14,091	18,816	25,088	-11%	11%	78%
Suzuki Wagon R	9,709	17,671	29,206	32,614	6,984	8,867	11,823	-6%	35%	69%
Suzuki Mehran	37,504	37,933	46,221	31,981	1,703	-	-	-46%	-4%	0%
Suzuki Cultus	16,450	17,006	20,483	22,763	12,307	12,108	16,144	-6%	8%	31%

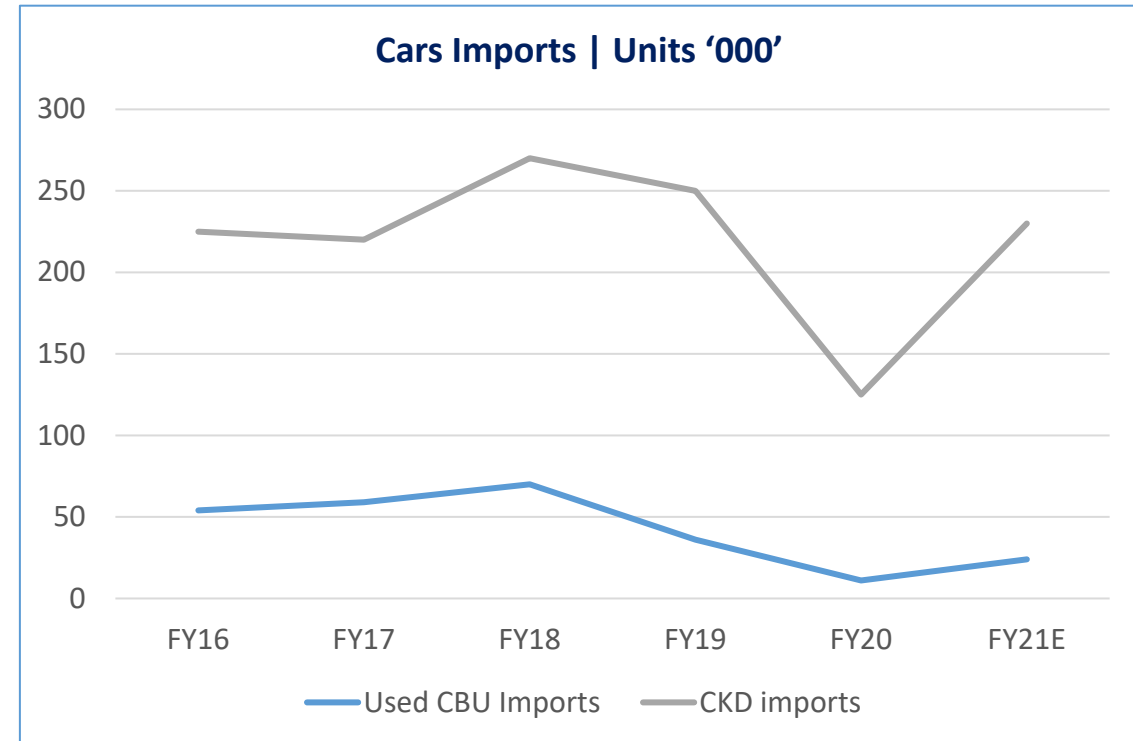
- FY20 has been one of the worst performing years for the Auto Industry as the COVID-19 pandemic and economic challenges took a toll across the entire sector. The Industry is still recovering from the aftermaths of the crisis with growth prospects depending on sustainable demand generation and policy measures. Barring Toyota Corolla, healthy estimated growth rates for FY21 are a result of low base effect of FY20 and do not reflect growth in real terms.
- Excluding FY20, among the top selling car brands, the Suzuki Wagon R has performed the best from FY16-FY19 with a CAGR of ~35%, followed by Honda City & Civic at ~11% while Toyota Corolla remained unchanged. Suzuki discontinued production of Mehran in CY19 and replaced it with the new 660cc Alto.
- The production of Toyota Corolla Xli & Gli (1.3 variants) will be discontinued, going forward, as is reflected in the decline in sales of the model in 9MFY21. However the 1.6 Altis & Grande will still exist, while Toyota Yaris (launched in May 2020) is set to become the leader in economy Sedans.

Passenger Cars

Demand | Imports

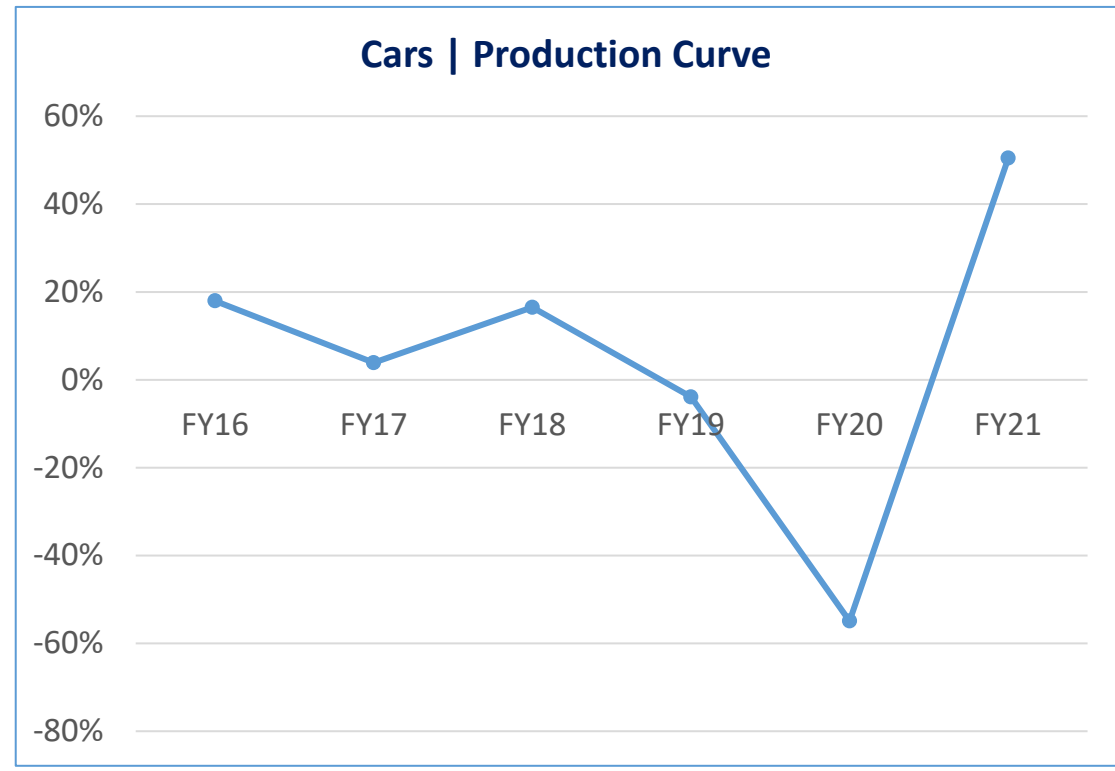
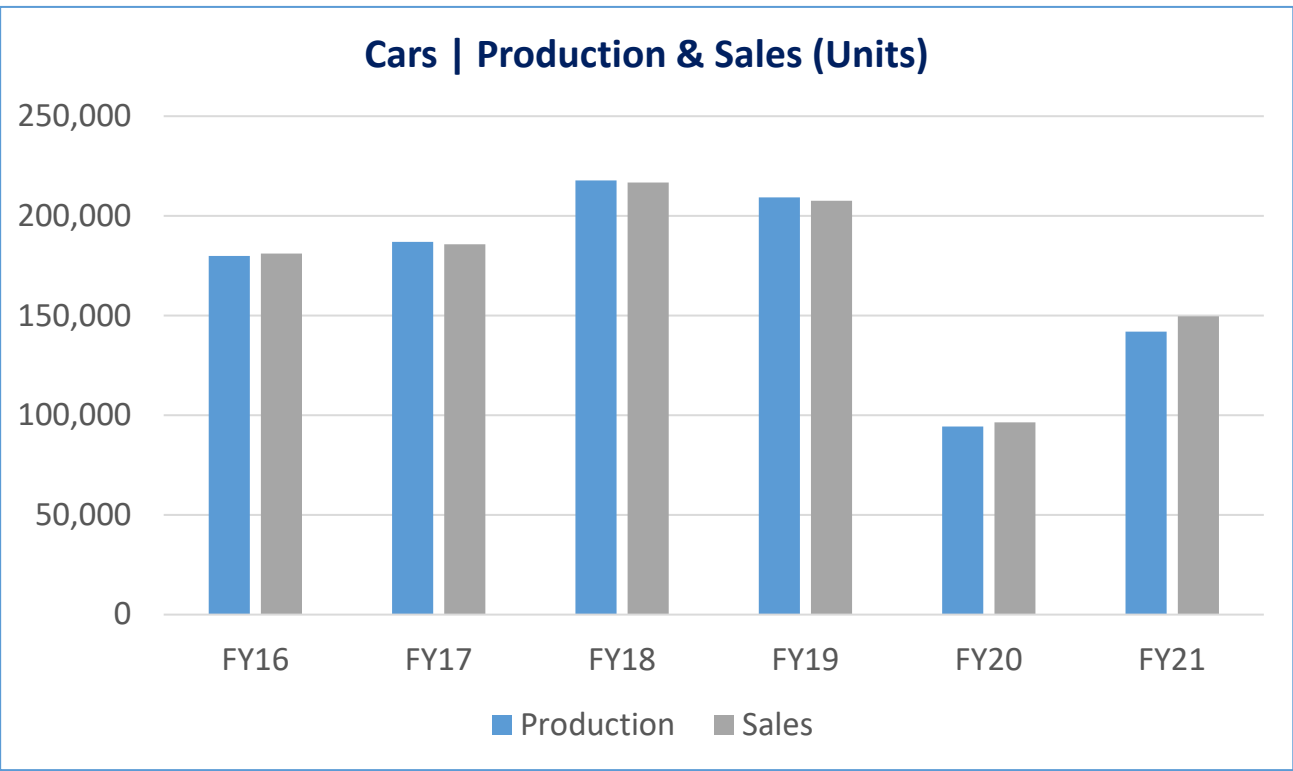
- CBU is a completely assembled vehicle which is ready to be used. It does not need any kind of addition to its components to perform its working and has already been tested before making its way out of the factory. Since taxation system in Pakistan works according to the engine size of a vehicle, so companies import the cars with smaller engines to reduce the overall price of the car. Audi, Porsche and MG Pakistan are the prime examples here. The Honda CR-V is also a CBU.
- A knocked down unit or CKD is the one which has been locally assembled in the country. However, the parts, engine, electronics and other major components are imported from the origin country. This means the company has to put the parts together first and then sell it to the end consumer. The benefit of doing this is low taxes on the cars. This way foreign manufacturers are encouraged to build plants and produce the cars locally. Most of the newer entrants in the cars segment are CKD/SKD based.
- Since CY16, JDM or imported Japanese cars started arriving in Pakistan and re-created the concept of desired features in a car. They were cheap and had more to offer in the lower price as compared with hefty OEMs. Very soon, imported vehicles became part of the market and the government had to increase duties and taxes on imported vehicles to discourage them as they had began denting the CA.

Units in 000	FY16	FY17	FY18	FY19	FY20	FY21E
CBU Imports	54	59	70	36	11	24
CKD imports	225	220	270	250	125	230



Passenger Cars

Supply

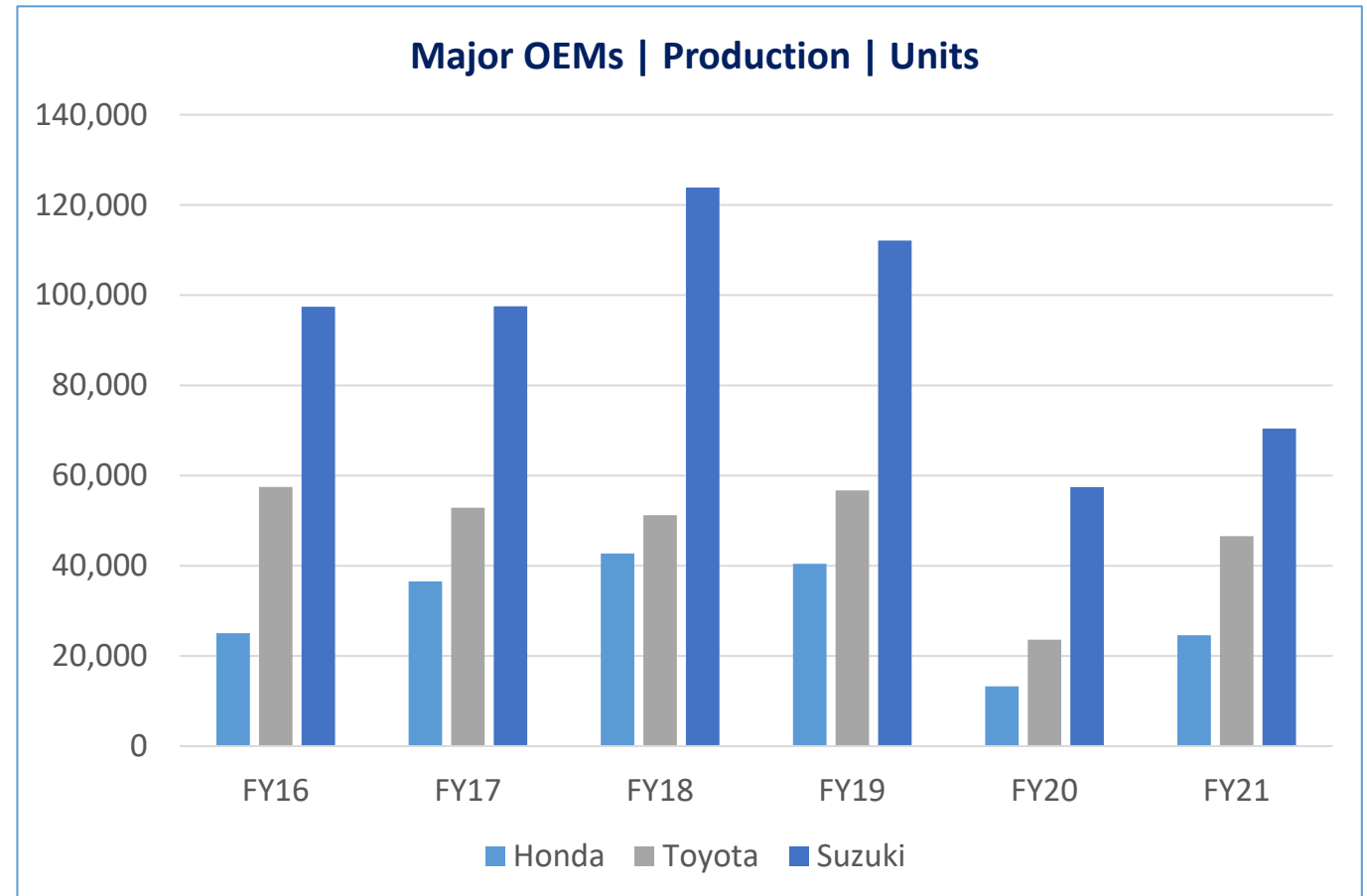


- As witnessed, cars production and sales took a likewise dip of ~55% and ~54% in FY20 YoY. The production and sales volumes are expected to recover in FY21 in almost the same pattern.
- Based on the 9MFY21 published results on PAMA, the total cars production is expected to reach to ~142k units in FY21 still lower than average production of 198k units between FY16-FY19.

Passenger Cars

Supply | OEMs | Market Shares

- Honda Atlas Cars and Toyota Indus Motors are involved in the production of high niche car models (above 1300cc engines) such as Honda City, Honda Civic, Toyota Corolla and now Toyota Yaris as well.
- On the other hand, Pak Suzuki Motors is involved in the production of high end as well as low niche models below 1000cc engines. Owing to the diversity of models produced by Pak Suzuki Motors, from Suzuki Swift (above 1000cc), Cultus, and Wagon-R, Bolan and Alto, Pak Suzuki Motors holds the highest share of production among the largest three OEMs in the market.
- In addition to cars, Toyota Indus Motors is also involved in the assembly of SUVs – Toyota Fortuner whose production was recorded around ~2,400 units in 9MFY21.



KIA MOTORS

- Kia is a well-reputed South Korean automotive brand. It is closely related to Hyundai Motors as it owns ~34% of Kia Motors.
- Kia Motors and Pakistan have an unsteady history. The company first debuted in Pakistani market during the mid 1990s and launched the Kia Pride hatchback and 1-ton pickup Kia Ceres. The automaking company had an unpleasant experience because of its local partner at the time, Naya Daur Motors. Later, In December 1998, Dewan Farooque Motor Company Limited (DFML) partnered with Kia and Hyundai to assemble and sell their vehicles in Pakistan. In 2008, Dewan Motors went into problems and both Kia and Hyundai left Pakistani auto industry.
- Kia Motors made a comeback in Pakistan in 2017 with the help of Lucky Cement of the Yunus Brothers Group (YBG). Kia Lucky Motors has since been doing a phenomenal job at bringing the top international cars of Kia in the Pakistani market. Biggest hits of Kia Lucky Motors since its relaunch in Pakistan include Kia Sportage (FY19), Kia Picanto (FY20), Kia Carnival (FY21) and Kia Sorento (FY21). Kia Pakistan is filling the gaps in the Pakistani auto market in every segment. From SUVs to city cars, Kia vehicles are available for sale at their local dealerships.

Hyundai Motor Company:

- Hyundai Motor Company is the world's third biggest vehicle manufacturer, based in Seoul, South Korea.
- Hyundai Motors has been going back and forth in the Pakistani auto market since the 1990s. Their first debut in Pakistan was in 1998 with a local partnership with Dewan Farooque Motor Company Limited (DFML). The company set up their first automobile manufacturing plant in the country with the capacity to make 10,000 vehicles a year. Hyundai Pakistan was making its place in the local auto market with Hyundai Santro and Hyundai Shehzore with Shehzore a major hit in light commercial vehicle category. In 2008, Dewan Motors went into problems and Hyundai said goodbye to Pakistani auto industry.
- Hyundai came back to Pakistan in 2017 by affiliating with Nishat Group. Hyundai Nishat then set up the vehicle assembly plant in Pakistan and launched their first product, a compact SUV, the Tucson, in 2020. In addition, Hyundai Elantra was also launched in Mar'21 with a production of 248 units in the month.

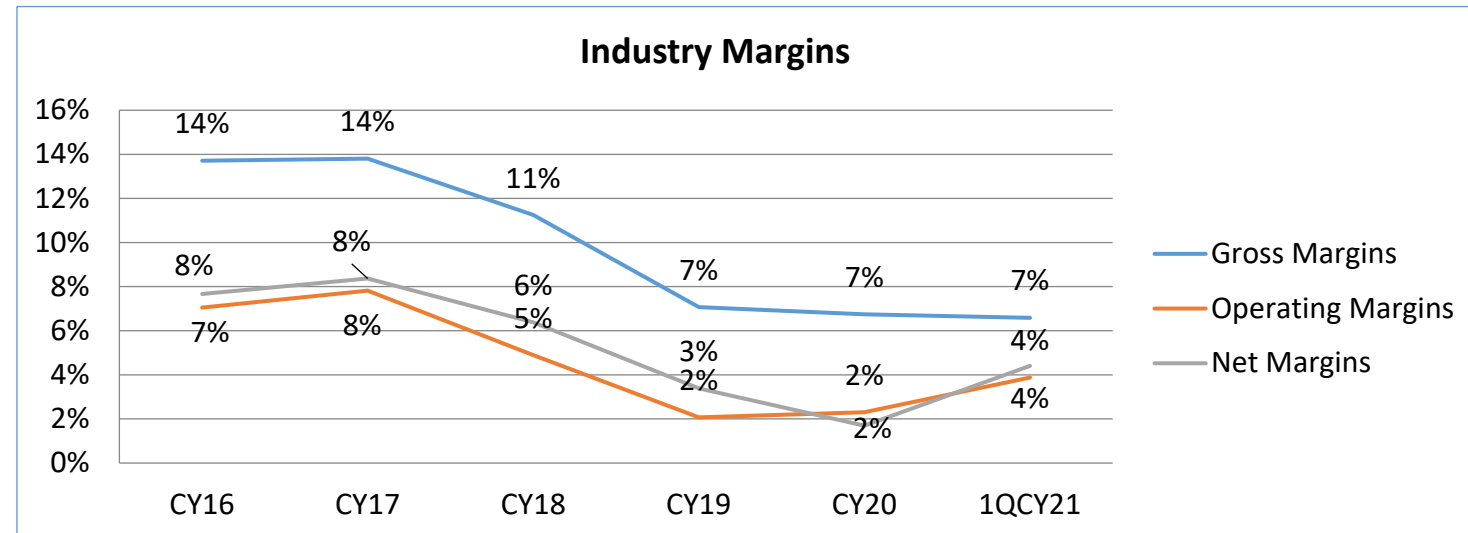
Passenger Cars

Business Risk | OEMs

- Key business risks to the OEM Industry during the past 5 years have exchange rate fluctuations, change in interest rates and Import Duties. These risks will continue to be relevant even in the future and now the risk of competition is also on the table.
- Hike in Interest Rate heavily impacted Profits and Volumes as consumer car financing plummeted during CY19 and CY20. Finance cost increase exponentially but due to a reduction in the prime interest rate, the industry has took a breather in 1QCY21.
- Exchange Rates, Import duties and Interest Rates combined effected margins significantly in CY19 and 1HCY20 and were the lowest in the past 5 years.
- KIA-Lucky and Hyundai-Nishat made an impressive debut in CY20 along with other entrants following which is a sign of a prospective market but this creates an unprecedented risk for the old players.

Cars Division – Period End December	CY16	CY17	CY18	CY19	CY20	1QCY21
Total Revenue (PKR in bln)	226	276	352	370	218	185
Finance Cost (PKR in mln)	180	160	457	2,163	3,470	112
Gross Profit (PKR in bln)	31	38	41	28	14	14
Profit/Loss after Tax (PKR bln)	18	23	24	15	4	10

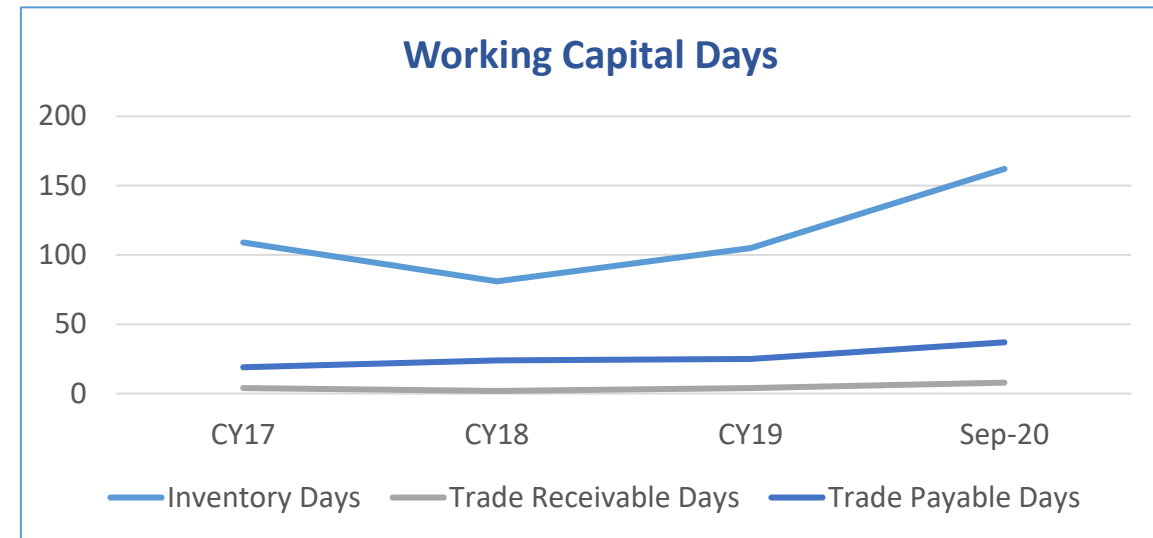
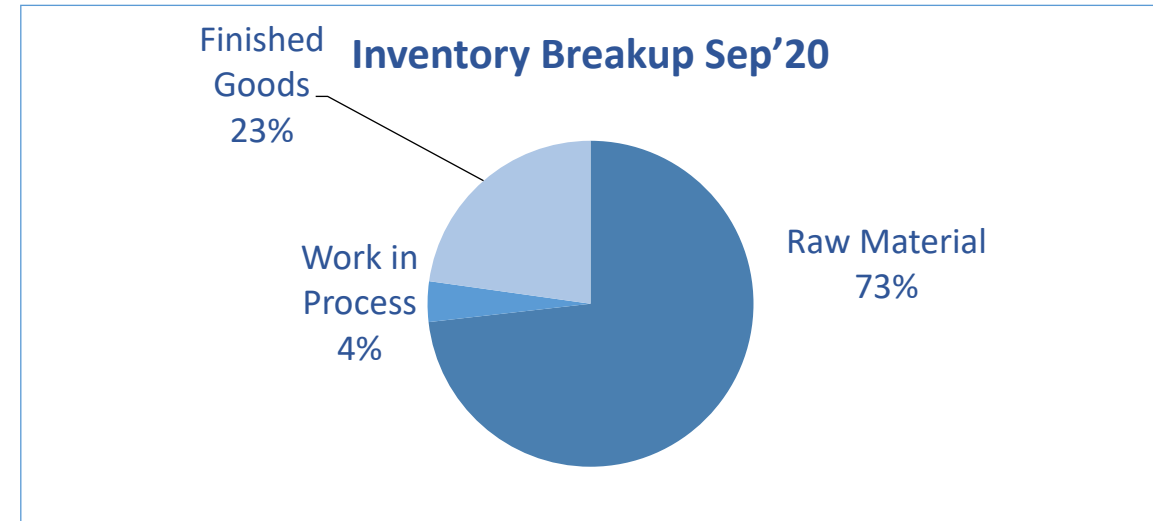
Inclusive of Suzuki, Indus and Honda combined which are representative of the domestic industry. KIA Lucky motors joined in CY20 and made revenue of PKR~21bln and had Gross and Operating Margins of ~8% and ~2% respectively.



Passenger Cars

Working Capital Management

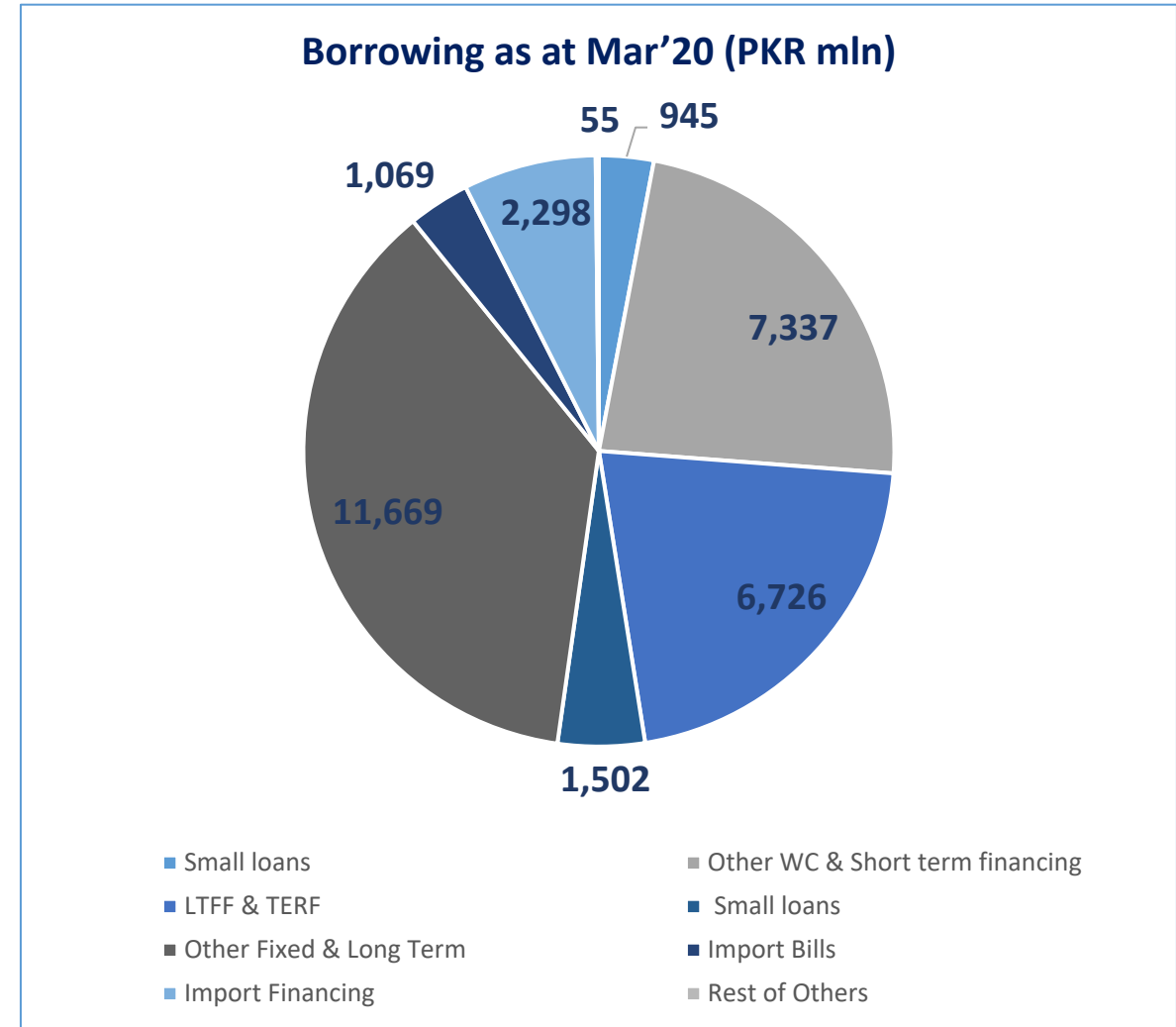
- Working capital days of the sector are largely a function of inventory and trade receivables.
- The average net working capital cycle of the sector were recorded around 79 – 80 days. However, in 9MCY20, net working capital days increased sharply to 132 days, owing to rising inventory on account of low demand.
- The largest component of inventory is raw material, which constitutes ~73% of total inventory. Meanwhile, finished goods constitute ~23% of inventory.



*Industry representative of 1 player rated by PACRA.

Financial Risk

- Outstanding borrowing of the sector as at End-Mar'20 was recorded at PKR~32bln as compared to PKR~56bln (a decline of ~43%) in same period last year. Main constituents to the total borrowings are fixed Investments and Long term financing amounting to PKR~20bln (~62% of total financing) and Working Capital/ Short term financing of PKR~8bln (~25% of total financing).
- The Industry has suffered since CY18 on the back of higher finance costs and lower volumes, which has impacted its performance across the board.
- The capital structure of the Industry is moderately leveraged. Meanwhile, lower interest rates are expected to reduce the pressure of finance cost of the Sector.



The Government of Pakistan announced the Automotive Development Policy (ADP) 2016-21 in March 2016. Main Features of this policy were:

- From FY18, duties on locally finished vehicles would be reduced by 10%.
- Duties for imported parts, not made in Pakistan was 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 was allowed. (ii) The Government 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 was reduced to 45% from FY16. **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.
- According to the policy, the existing three car makers (Honda, Toyota and Suzuki) were not entitled to the benefits that were 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.
- Greater localization of Auto parts was ensured in the policy and if the new entrants were to be penalized if failed to achieve the desired targets.
- This policy is set to expire on **30th June 2021**, with the next policy expected before this expiry.

Regulatory Framework

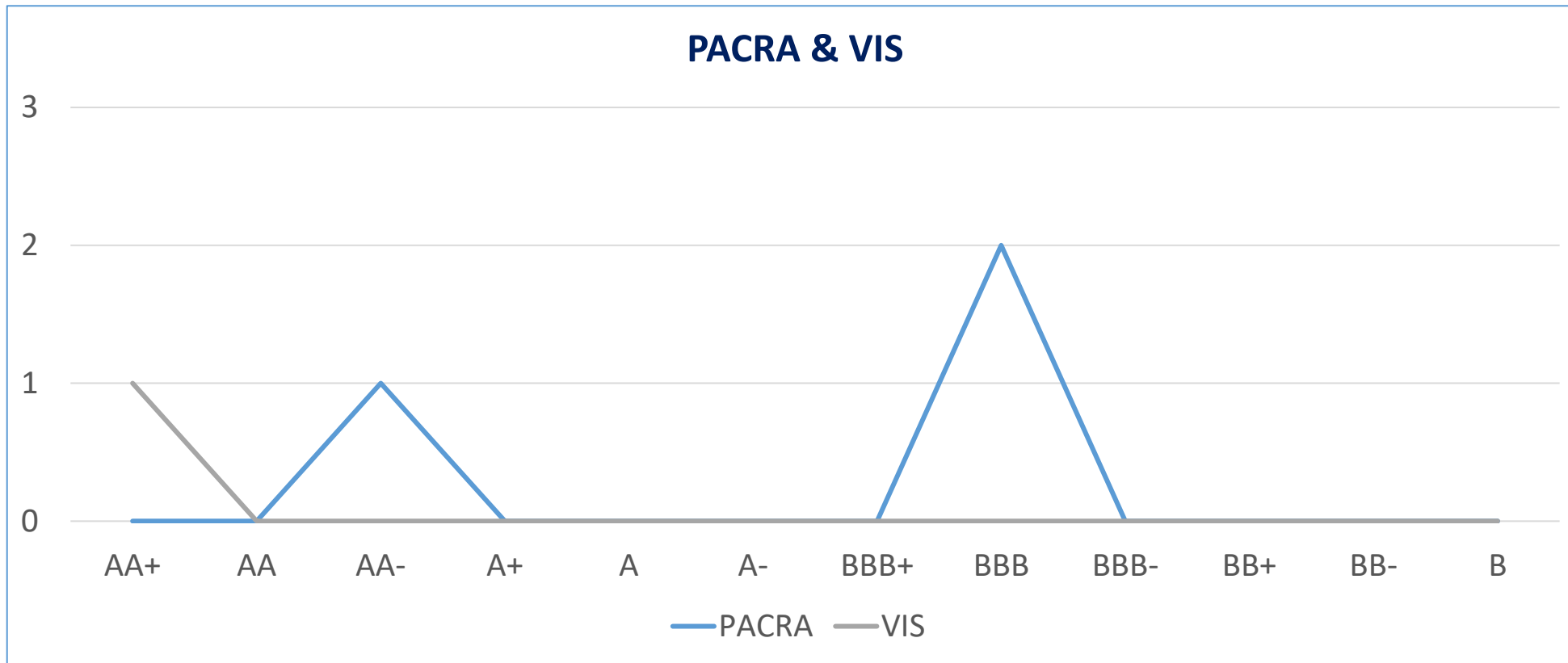
- In December CY20, the ECC approved the imposition of Rs50,000 to Rs200,000 additional withholding tax on new cars at the time of their first registration in the name of second buyer. It approved the levy of Rs50,000 tax on 1,000cc cars, Rs100,000 tax on 1,000cc to 2,000cc cars and Rs200,000 tax on vehicles of more than 2,000cc within three months of purchase aimed at discouraging unchecked premium being paid to get timely delivery (own).
- Currently the Customs duty on import of localised parts is 45%. The duty on non-localised parts is 30%. There is an additional 7% duty on the import of parts. The Federal Excise Duty is 2.5% for cars up to 1000cc, 5% for cars between 1000cc and 2000cc, and 7.5% above 2000cc. Then, there is a 17% sales tax.
 - The new entrants such as Hyundai, Kia, Changan, United Motors have received Greenfield status, which lets them pay lower duties on import of CKDs. Duty on localised parts is 25%, and 10% on non-localised parts for new companies with Greenfield status.

National Electric Vehicles Policy: In 2HCY20, Pakistan approved its National Electric Vehicles (EV) Policy with the aim to ensure that 30 per cent of vehicles on its street will be electric ones by 2030. The government announced incentives to motorists to switch to EVs such as additional customs duty, as well as Additional Sales Tax (AST) on the import of EV cars will now be removed. Only 1% tax will be levied on the import of EV parts for manufacturers and there will be only 1% sales tax for locally made EVs up to 50KWh and light commercial vehicles up to 150 KWh. The duty on import of charging equipment has now been capped at 1%, while the Federal Excise Duty (FED) already does not apply to EVs.

- In January CY21, Sapphire Group and China's BYD Auto, the world's largest electric vehicles manufacturer have announced plans to manufacture Electric Vehicles in Pakistan.

Rating Curve

- PACRA rates 1 OEM, Pak Suzuki Motor Co. Ltd and 2 dealership Companies, i.e., Honda Centre (Pvt.) Ltd and Toyota Jinnah Motors (Pvt.) Ltd.



Passenger Cars

SWOT Analysis

- Organized Sector with listed players.
- Strong brand value and integration
- Government's historical support.
- Increasing diversity in newer cars.



- Highly cyclical, performance very much depends on overall economy
- Higher operating costs
- Low localization levels
- Exchange Rate fluctuations

- Decline in purchase power of consumers
- Exchange rate & Interest rate fluctuations can increase the price of vehicles impacting demand
- Better and cheaper imported vehicles available

- Large population is a natural demand driver
- New Auto Policy 2021 can present opportunities
- Low Interest Rates are expected to attract more auto financing
- Emergence of new entrants is receiving overwhelming response and increasing market competitiveness

Outlook: Stable

- Local OEMs are gradually recovering but the road may be rocky. Since competition is now growing than ever, especially with a variety of new sedans and SUVs in the market, this can impact costs and margins of the OEMs. The demand slump caused in FY20 has been significant i.e. ~54% drop in total car sales as compared with FY19 and ~64% decrease in Net Profits of all OEMs as compared with FY19. However, 9MFY21 Car Sales have already shown a sign of recovery as ~32% sales have increased as compared with 9MFY19. All await the expected new Auto Policy as the previous one is set to expire in June FY21.
- **New Auto Policy:** It can only be speculated as to what can be included in the new policy but somethings are expected such as enhanced minimum safety features. EVs are no doubt the future but charging stations require infrastructure development as well as skills enhancement for O&M of these vehicles.
- Exchange Rates and Interest Rates will have a huge role to play in the near future as USD/PKR is still very elevated which significantly effects OEMs as parts are imported, also the prime interest rate is favourable for the time but will eventually rise again putting a pressure on consumer financing as well as finance costs for the manufacturers. Other than FY20 car sales fell for the first time in five years during FY19 (~4%) due to a high interest rate environment. This shows the sensitivity in demand attached with financing. The rise of the consumer economy and huge population will remain a driver for the demand of Passenger Cars.
- Commodities, raw materials and freight prices are expected to reverse in the short term as they had temporarily swelled after global economic recovery. But the future will ultimately depend on better policies favoured towards the consumers as the growing population will continue being an attraction for more and more suppliers of vehicles.

Bibliography

- German Association of the Automotive Industry – VDA
- Focus2move.com
- PAMA
- Pakwheel.com
- PBS
- International Council on Clean Transportation
- Forbes
- Mckinsey
- Business Recorder
- SBP
- PSX

Research Team	Saniya Tauseef <i>Asst. Manager</i> saniya.tauseef@pacra.com	Asad Ahmed <i>Associate Analyst</i> asad.ahmed@pacra.com
Contact Number: +92 42 35869504		

DISCLAIMER

PACRA has used due care in preparation of this document. Our information has been obtained from sources we consider to be reliable but its accuracy or completeness is not guaranteed. The information in this document may be copied or otherwise reproduced, in whole or in part, provided the source is duly acknowledged. The presentation should not be relied upon as professional advice.