The Pakistan Credit Rating Agency Limited

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PACRA SECTORWATCH | CORONAVIRUS | TRUCKS & BUSES

Since the start of 2020, the novel coronavirus (COVID-19) outbreak has quickly spread across the world and caused disruptions in economies worldwide. Starting in China – itself a global manufacturing hub – and moving to more than 200 countries and territories, virtually all major economies and markets have been adversely impacted. The full impact of such an outbreak on Pakistan's economy is difficult to ascertain at present and will depend on the severity and duration of the outbreak as well as Government's response. However, it is clear that credit conditions are under stress and this will impact credit quality of many entities and sectors. In this context, PACRA aims to provide analysis on how the ongoing outbreak of COVID-19 may impact various sectors in Pakistan.

SECTOR	**SUB-SECTOR**
AUTOMOBILE	**TRUCKS & BUSES**
SIZE	- Vehicles on Road: Trucks ~291,000, Buses ~167,000 *(Source: Ministry of Finance)* - Annual Production: ○ Trucks ~ 6,000 units (FY19), 9,187 units (FY18) ○ Buses ~ 700 units (FY19), 784 units (FY18)
NUMBER OF PLAYERS	- Seven major players - Four major players are part of Pakistan Automotive Manufacturers Association (PAMA)
PACRA PENETRATION	- PACRA rates 2 companies from the sector - PACRA rated companies hold ~45% market share in total domestic bus & truck production
IMPACT	- Before the outbreak of COVID-19, the domestic sector was already seeing subdued demand, higher prices, low margins and weak coverages. The outbreak will add further pressure to existing challenges. Prolonged disruption in trade, social distancing, lockdown and resultant economic slowdown will narrow down the room for demand drivers (economic output, oil consumption, consumer discretionary income) - Our local industry is not endemic and relies mostly on China, Japan and Western Europe. Local players are highly exposed towards supply chain risks. In China, the automobile sector is largely clustered in Wuhan province – first epicenter of COVID-19. Here, activities have witnessed a significant dip and may continue in upcoming months. Any disruption in trade and unknown time to normalcy would keep industry volumes at bay for a while - During the year, the sector's topline was diluted while cost of production surged due to devaluation of PKR. Resultantly, working capital lines remained stretched and diluted the financial strength of the industry - The accommodative monetary policy (SBP rate cut of 225 bps) amid COVID-19 outbreak will provide some respite to the sector - The regulator's decision for Banks and DFIs to defer the payment of principal on loans and advances by one year will also ease the pressure on liquidity and working capital. Furthermore, regulator has relaxed the regulatory criteria for restructuring/rescheduling of loans. This too will cool off the financial risk of the sector

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