



# Passenger Cars Sector Study

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# Passenger Cars

## Critical Raw Materials for a Car

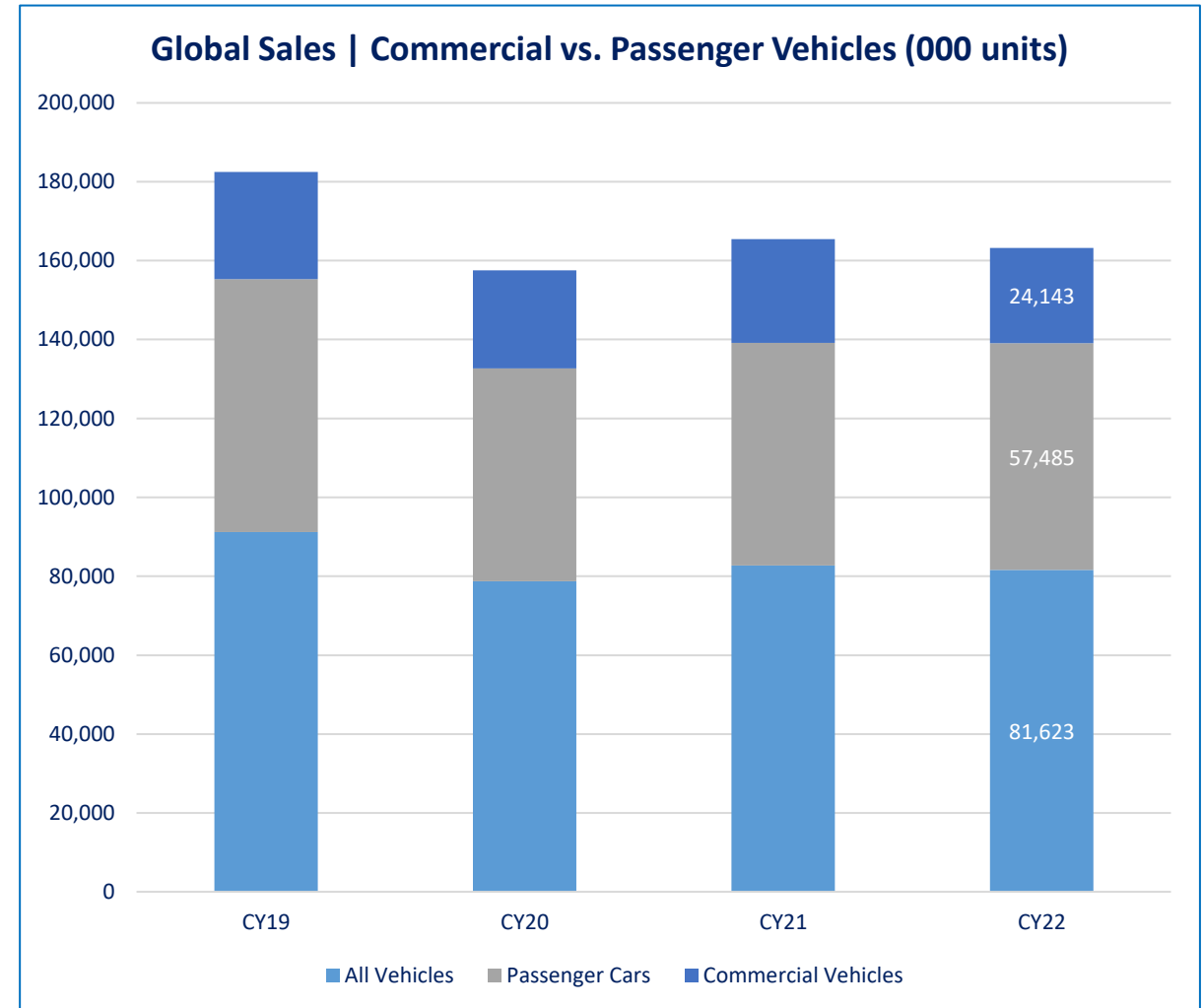
Steel	On average, each new car requires ~900 kg of steel for the chassis, body, roof, door panels, and beams between doors
Plastics	On average, a new car requires ~151 kg of plastics. Petroleum by-products are raw materials for plastics.
Aluminum	On average, a new car requires ~211 kg; this will increase to ~256 kg by 2028 as reliance on steel will be reduced.
Rubber	Used for tires, belts, hoses, and seals for car engines. The auto industry is the largest global consumer for rubber (~65% in 2020).
Sand and Quartz	Used for windows
Semi-conductor chips	Every vehicle contains at least two to three dozen chips while luxury use more. Neon gas is an essential raw material for chips.



# Passenger Cars

## Global Overview | Vehicle Sales

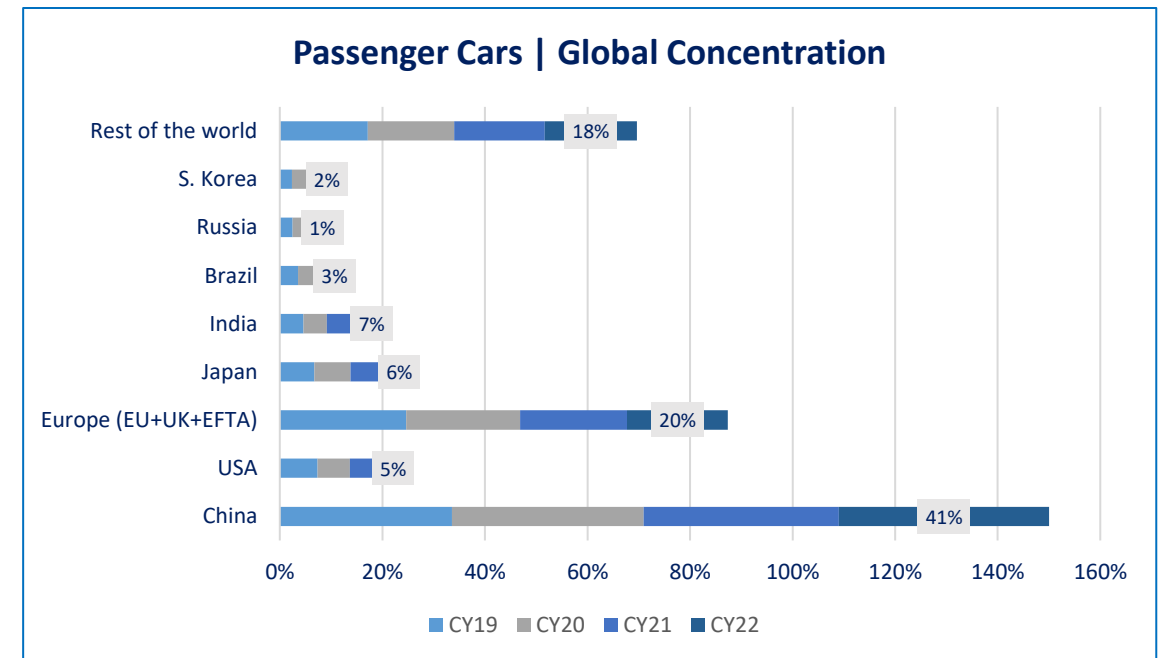
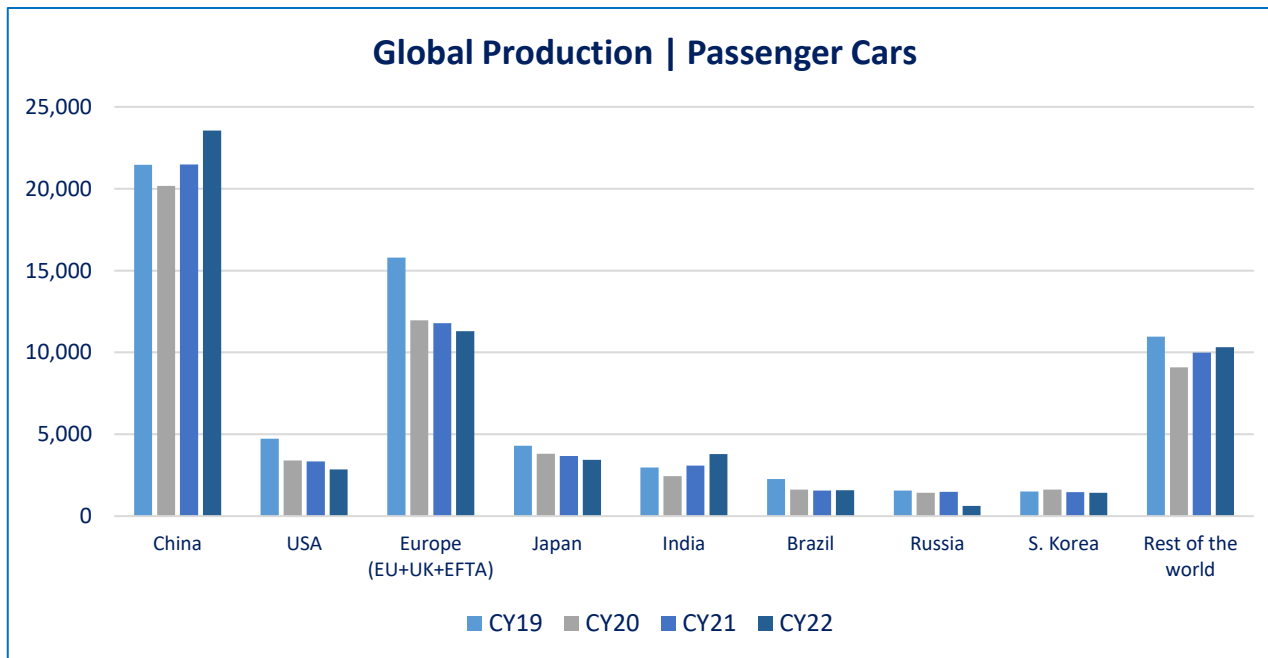
- Global vehicle sales in CY22 fell by ~1.4% YoY to clock in at ~81.6mln units sold worldwide (CY21: ~82.8mln units).
- The contraction in global vehicle sales was more pronounced in the U.S. and European Union, where car markets shrunk by ~8% and ~4%, respectively. This was observed to come partly on the back of higher interest rates, global inflation and component shortages.
- Passenger car sales globally were ~2.4x those of commercial vehicles' and were registered at ~57.5mln units (~56.4mln units in CY21), a YoY increase of ~1.9%. However, commercial vehicles sales dipped by ~8.3% YoY in CY22, as against ~26.3mln units sold the previous year.
- Among passenger cars, global electric SUV sales increased from ~3.1mln units in CY21 to ~5.5mln units in CY22 (~77.4% increase YoY). However, conventional SUV sales exhibited a decline of ~4.3% YoY, clocking in at ~28.9mln units during CY22 (CY21: ~30.2mln units).



# Passenger Cars

## Global Production

- Global car production registered a sluggish growth of ~1.9% in CY22 (CY21: ~4.6%) and clocked in at ~57.5mln units, as against ~56.4mln units the previous years. Production activity remained the strongest in China in CY22, growing by ~9.7% (CY21: ~6.5%).
- Regionally, China dominates the global passenger cars market and is ~8.3x and ~2.1x larger than the U.S. and European markets, based on volumetric production levels. Indian passenger cars market also registered an impressive performance in CY22, growing by ~23.0% YoY, where total cars registered increased to ~3.8mln from ~3.1mln the previous year.

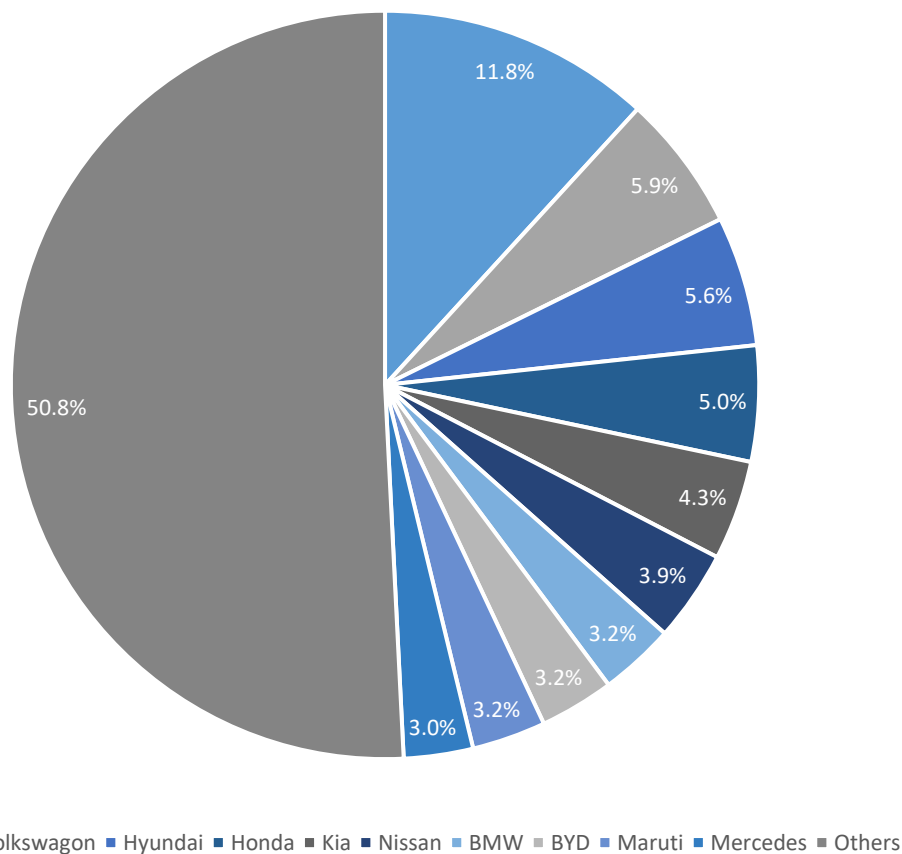




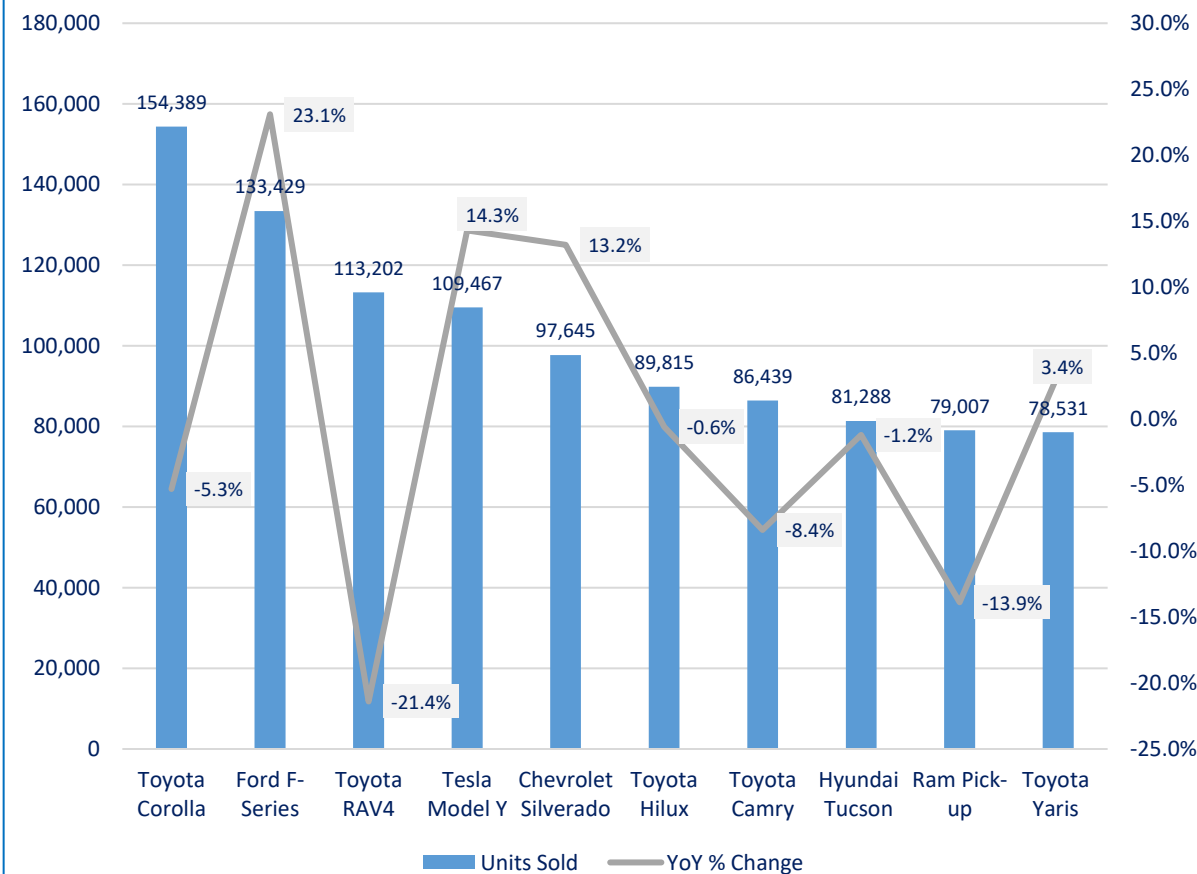
# Passenger Cars

## Global | Top Selling Brands

Top Car Brands | Market Share



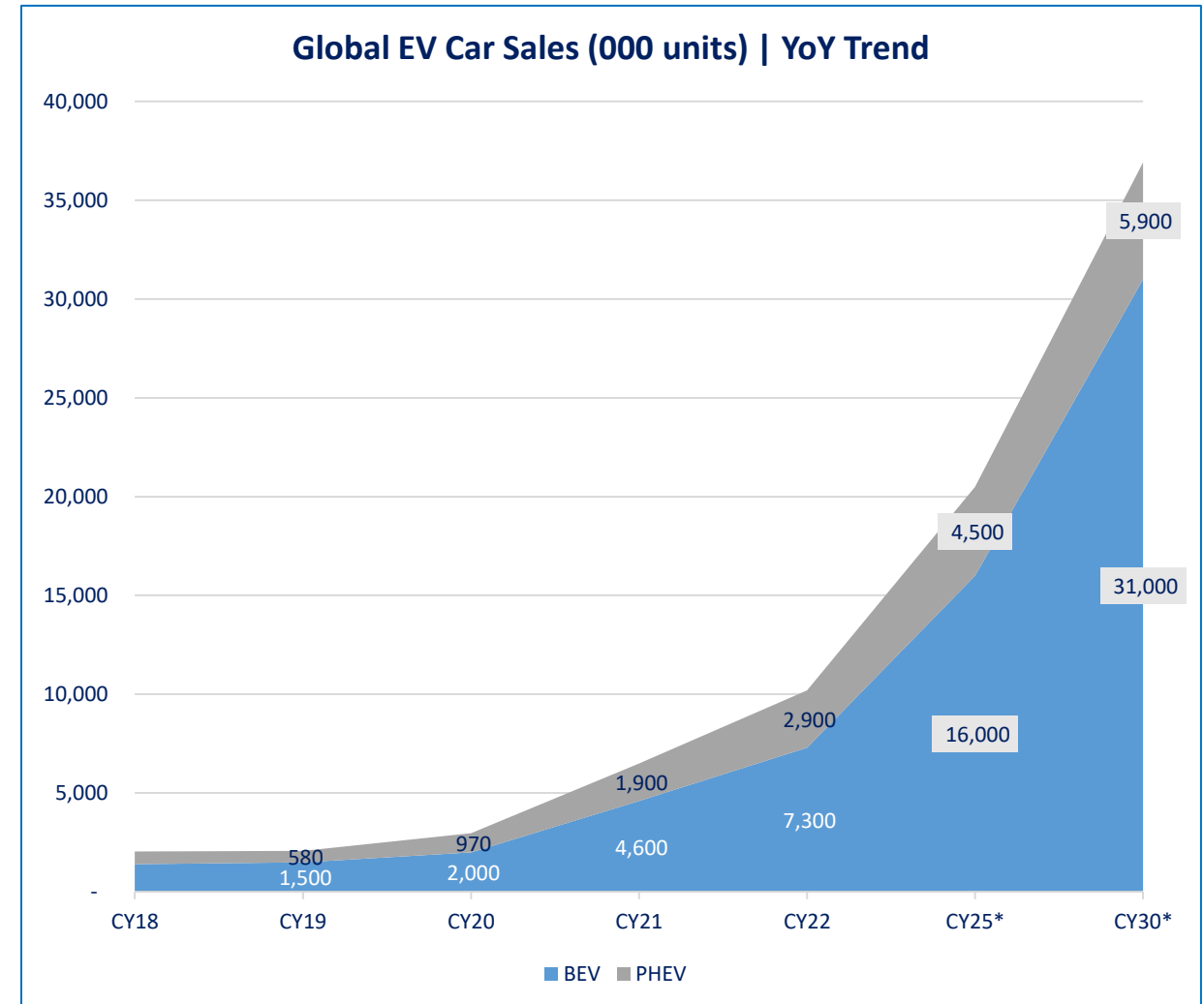
Top Global Car Brands | Feb'23



# Passenger Cars

## Global | Electric Vehicles

- The Electric Vehicles (EV) market has experienced tremendous growth over the past five years (FY18-22), with CAGR of ~39.8%. During CY22, electric car sales registered another boom, with the total electric car stock expanding to ~26.2mln cars (~58.8% YoY increase).
- The increase in stock levels came on the back of electric car sales exceeding the ~10mln units mark. EV car sales' jump from ~1mln in CY17 to ~10mln worldwide in CY22 underscores the exponential nature of EV sales growth.
- As of CY22, the global EV car stock comprises ~71.5% of Battery Electric Vehicles (BEVs), while plug-in hybrid electric vehicles (PHEVs) made up the rest (the shares of BEVs and PHEVs during the preceding year were ~70.8% and ~29.2%, respectively).
- Going forward, the EV market is expected to remain upbeat, with electric car sales forecast to reach ~20.5mln units in CY25 and ~36.9mln units by CY30.

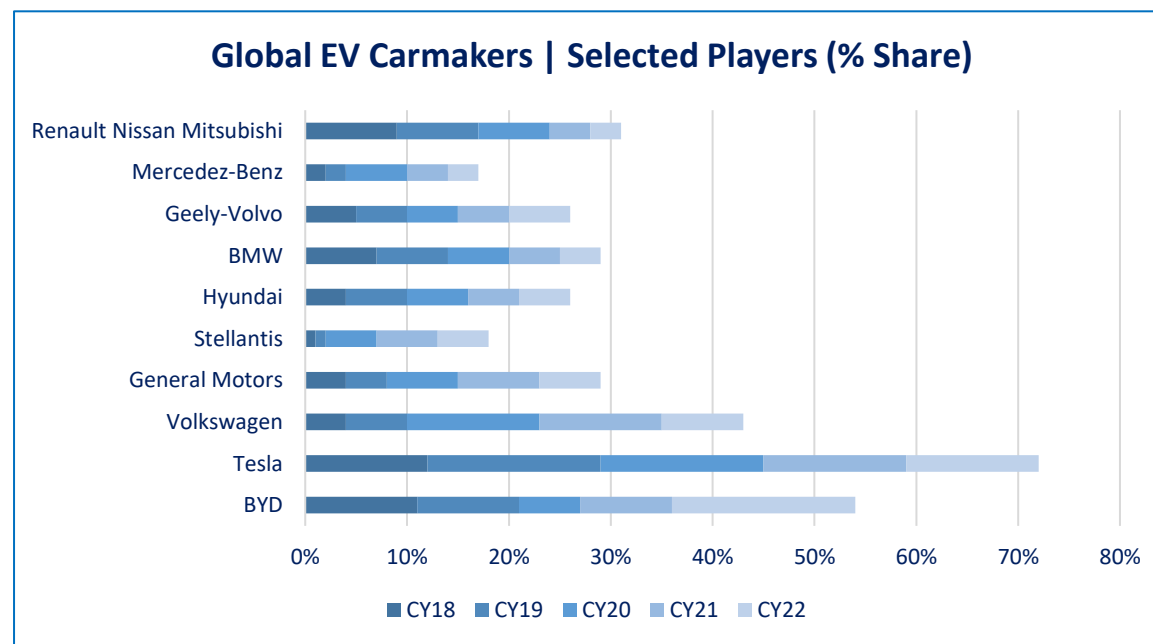
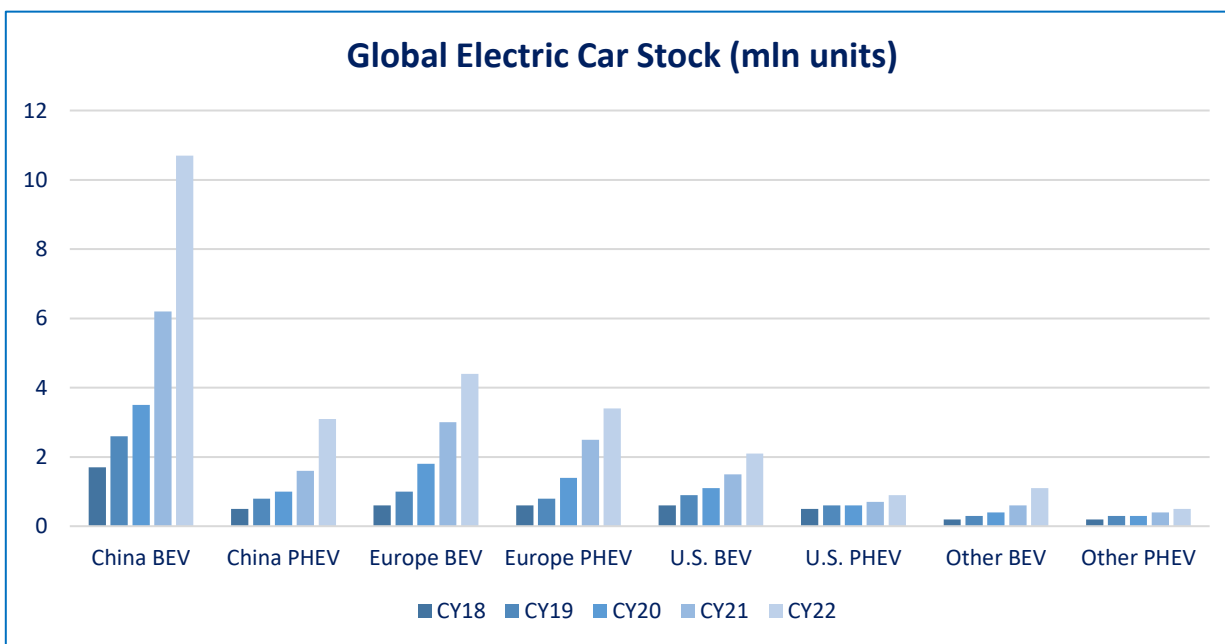


\*Forecast.

# Passenger Cars

## Global | Electric Vehicles

- The increase in electric cars sales varied across regions but remained concentrated in China, with BEV sales clocking in at ~4.5mln units (CY21: ~2.7mln units) and PHEV sales almost tripling to ~1.5mln units (CY21: 0.6mln units). Cumulatively, China's electric car sales made up for ~61.9% of the global electric car sales (~51.5% in CY21). China's huge EV market can be accredited to sustained local policies such as extension of purchase incentives and rapid rollout of charging infrastructure, in addition to stringent policies regarding registration of non-electric cars.
- European electric sales made up for ~27% of global EV sales (~35.3% in CY21). The region's BEV sales grew by ~16.6% YoY in CY22, amounting to ~1.4mln units, while PHEV sales dipped by ~18% YoY (CY22: 0.9mln units). The market remained steady, explained partly by the high fuel prices in CY22 being offset by higher residential electricity tariffs.
- In CY22, BYD's share (Chinese manufacturer) in global EV carmakers jumped to ~18%, as against ~9% the year before. Similarly, Tesla's market share dropped slightly from ~14% in CY21 to ~13% in CY22.





## Global | Electric Vehicles

### Mainland China

Growth in China outpaced global EV market, forming ~61.9% of the global EV sales. The proportion of EV sales to new cars increased to ~29% in CY22, against ~15% during CY21.

### Europe

- Europe was the second largest adopter of EV in CY22, with the ratio of EV sales to new cars decreased slightly to ~18% (CY21: ~19%).
- European EV sales made up ~23.7% of the global EV sales, down from ~35.0% a year ago.
- During the 9MCY22 period, the top 5 passenger car producers in the region were Germany, Spain, Czech Republic, Slovakia and France.

### U.S.

- The proportion of EV sales relative to car sales in the country remained stable at ~8% in CY22, as compared to last year.
- A greater number of electric car models helped close the supply gap, in addition to purchase incentives that are available to consumers (these can be as high as USD~7,500). Moreover, awareness on electrification is increasing in the country, seeing as ~25% Americans expect that their next car will be electric.

Continent/ Region	Approx. EV Sales (mln units)   CY22	Approx. Proportion of EV Sales to New Car Sales	Market Share (EV Sales)
<b>Mainland China</b>	6.0	29%	<i>61.9%</i>
<b>Europe</b>	2.3	18%	<i>23.7%</i>
<b>U.S.</b>	0.8	8%	<i>8.2%</i>
<b>Rest of the World</b>	0.6	N/A	<i>6.2%</i>
<b>Total</b>	<b>9.7</b>	13%	<b>100%</b>

## Global Market | Outlook

- The main factors affecting the automobile industry in CY22 included improved pricing, new market entrants and technological innovation. However, challenges like geopolitical tensions and supply chain disruptions continued to prove significant headwinds. Global vehicle sales in CY22 fell by ~1.4% YoY to clock in at ~81.6mln units sold worldwide (CY21: ~82.8mln units).
- Globally, there is a shift towards Electric Vehicles, as consumers look to maintain their operating costs amid hyperinflationary pressures and higher interest rates. Following the conclusion of COP26 in 2021, renewed pledges were taken to achieve net zero emissions targets by CY50.
- Governments across the world are offering incentives to boost the production of low emission vehicle. Economies like China and the USA offer purchase incentives in order to encourage the shift towards electric cars. In the case of USA, strong policy actions have also been initiated, for instance Inflation Reduction Act (IRA) and Bipartisan Infrastructure Law (BIL), that have together encouraged global investments in the country to expand local manufacturing operations.
- Global EV sales (in units) crossed the ~10mln mark for the first time in CY22, proving the market's resilience to global challenges. However, going forward, supply chain disruptions, in addition to global recessionary fears and rigorous rate hikes by the Fed will all serve to dent demand through CY23.
- In China, due to higher expected demand compared to CY22, increased social mobility and business activity, the local automotive industry is likely to stay on-course. However, EV subsidy schemes in China have stopped by End-CY22. Moreover, the re-emergence of Covid-19 cannot be completely ruled, seeing as the country remains under lockdown for most part of CY22. In the European market, Germany will halt its EV subsidy schemes by CY23 (EV ~26% of the CY22 sales), whereas France has already topped its EV schemes (~18% of total car sales in CY22).
- Compared with CY22, when OEMs reduced fixed costs substantially, CY23 might prove a different tale, owing to the variable cost component exhibiting volatility, especially in the wake of EV product mix, as well as the associated semiconductor requirement and sticky battery pack prices. At present battery safety, affordability and range anxiety remain some of the barriers to EV adoption.

# Passenger Cars

## Local | Overview

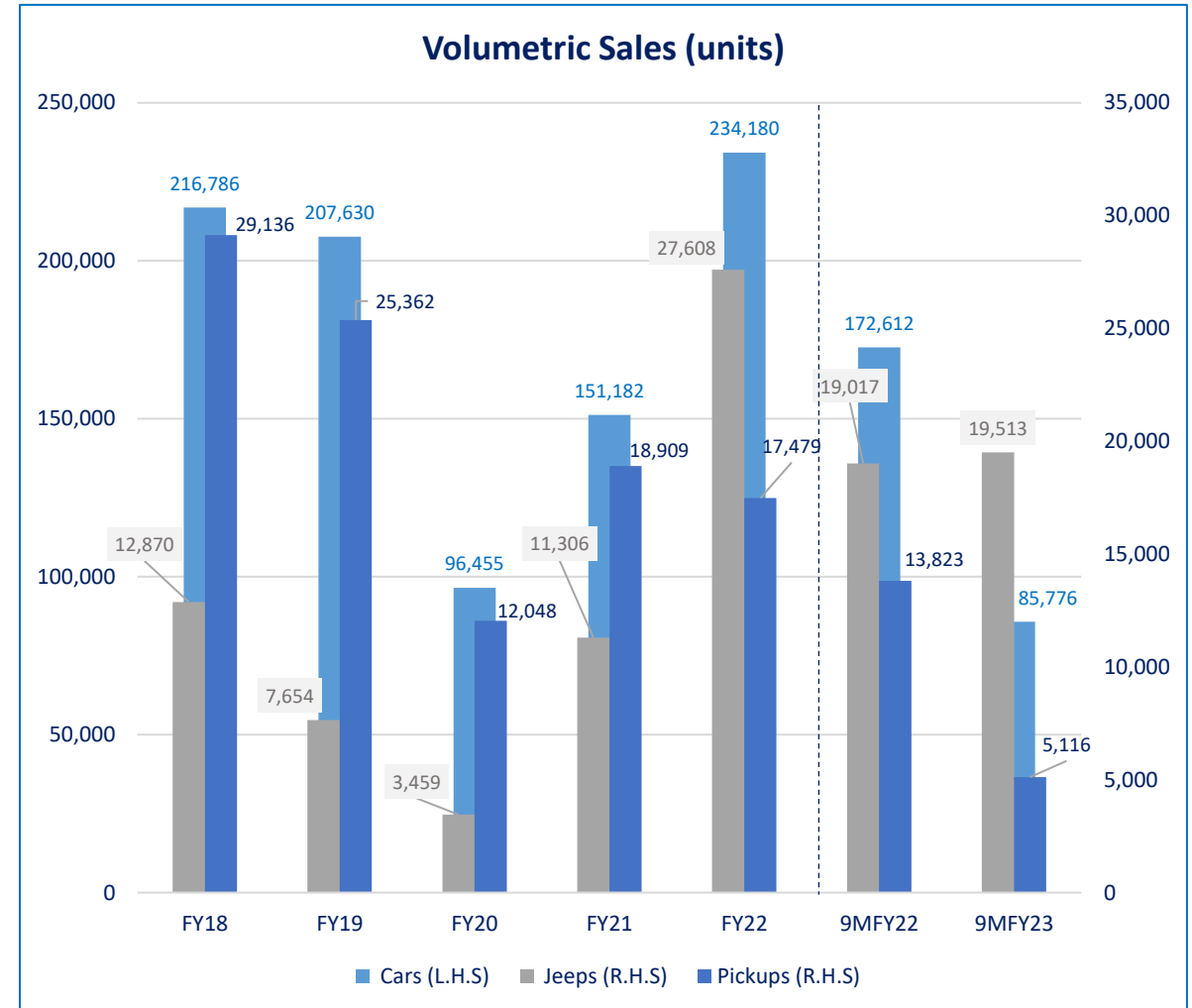
- Currently, the major local car assembling/ importing brands operating in the country include Honda, Suzuki, Toyota Indus, and Hyundai.
- The sector is largely structured by three major Original Equipment Manufacturers (OEMs), i.e., Pak Suzuki, Honda and Toyota Indus. They sell their cars through authorized local dealership network across the country. Popularity for the Hyundai Elantra and Sonata models, rolled out in FY21, increased during FY22.
- During 9MFY23, ~77.7% of passenger vehicles remained dominated by cars (~84.0% in SPLY). Collective passenger vehicle sales posted a YoY decline of ~46.3% during 9MFY23 (SPLY registered a growth of ~53%). Segment-wise, car sales went down by ~50.3% during the same period (these had grown increased by ~54% during SPLY).
- Import restrictions imposed by the SBP due to depleting foreign exchange reserves (the sector is heavily dependent on imported auto parts and raw material) and a rapid depreciation of the PKR have resulted in steep price increases.
- The slowdown in demand can be explained by rising inflation, with National CPI climbing to a staggering ~36.4% mark in Apr'23, against ~13.4% during SPLY, which has dented consumers' disposable incomes.

Passenger Vehicles   Units Sold							
Type	FY18	FY19	FY20	FY21	FY22	9MFY22	9MFY23
Cars	216,786	207,630	96,455	151,182	234,180	172,612	85,776
Jeeps	12,870	7,654	3,459	11,306	27,608	19,017	19,513
Pickups	29,136	25,362	12,048	18,909	17,479	13,823	5,116
<b>Total</b>	<b>258,792</b>	<b>240,646</b>	<b>111,962</b>	<b>181,397</b>	<b>279,267</b>	<b>205,452</b>	<b>110,405</b>

# Passenger Cars

## Local | Demand

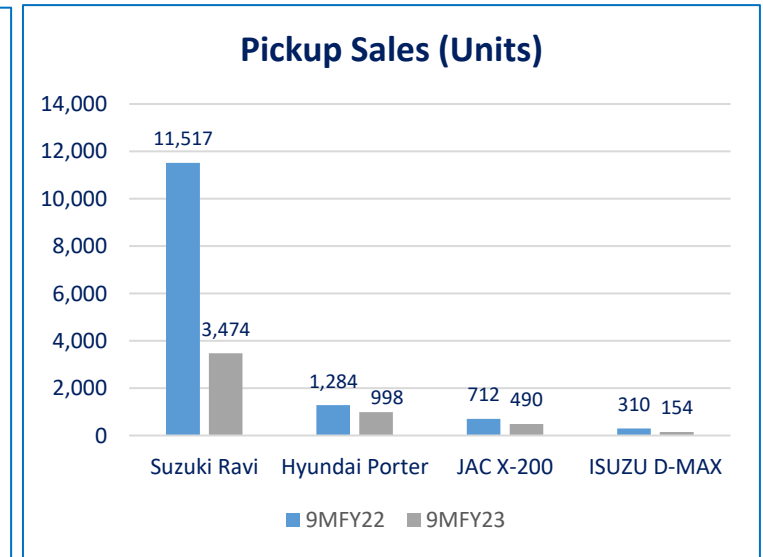
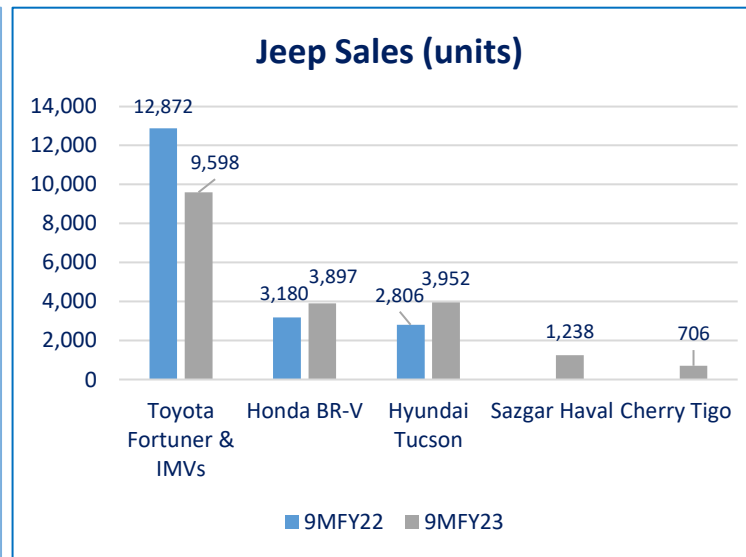
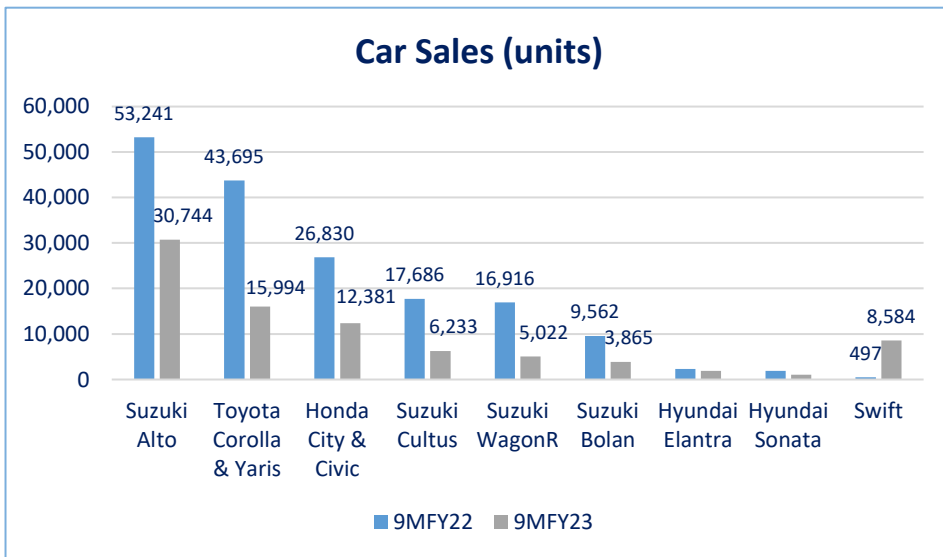
- Over the FY18-22 period, average growth rates in the three segments, i.e., cars, jeeps, and pickups segments were recorded at ~14%, 108% and ~1% respectively. During FY22, sales for cars and jeeps registered an increase of ~55% and ~144%, respectively, while pickup sales decreased by ~8% YoY.
- The jeeps segment tends to display a high volatility in sales volume growth. For the period 9MFY23, the share of jeeps sales in total passenger vehicles sales stood at ~18, as against ~9% during the SPLY. This increase can be explained by the overall decline in passenger vehicles' sales for the period, due partially to the import curbs imposed by the SBP and partially owing to rising inflation.
- For the jeeps segment, sales for both Honda BR-V and Honda Tuscon increased by ~22.5% and ~40.8% period-on-period during 9MFY23.
- Car-buying activity appears to be at a standstill owing to exorbitant prices. The overall sales for passenger vehicles registered a decline of ~46.3% in 9MFY23, while car sales fell by ~50.3% period-on-period.



# Passenger Cars

## Local | Demand

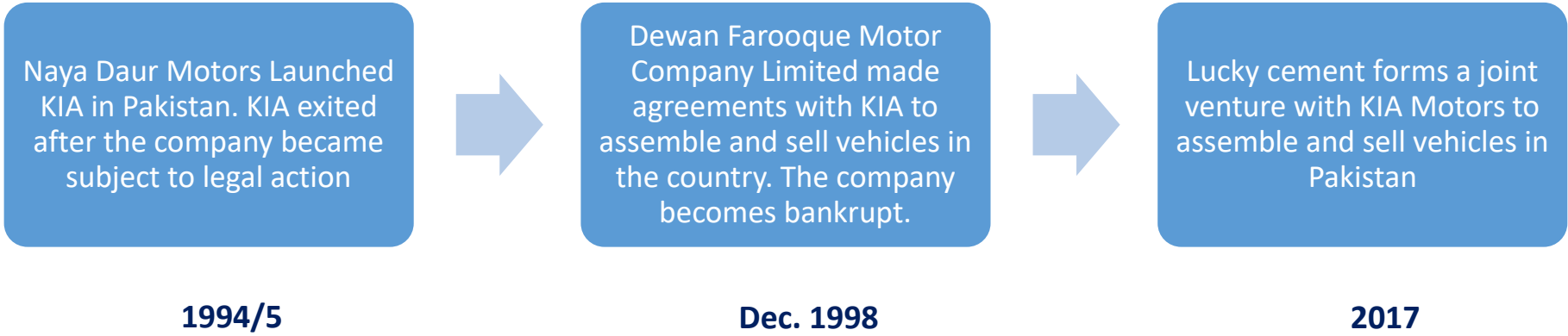
- Cars:** The top selling car brand during 9MFY23 was Suzuki Alto, however sales decreased by ~42.3% period-on-period. Toyota Corolla (discontinued in Jan'22) and Yaris were the second most popular consumer choice, sales for which also declined ~63.4%. Honda City & Civic were the third most popular brand over this period, with sales dipping by ~53.9%. The top rankings are still dominated by historic OEMs models. However, all three registered a period-on-period decline, owing largely to supply chain disruptions caused by import curbs imposed by the SBP.
- Due to raw material shortages and declining sales, the major local OEMs have had to halt production during the ongoing FY23. Pak Suzuki's first plant shutdown was announced in Aug'22. This was extended for the eighth time in Feb'23. Honda's plant remained shut during Mar-Apr'23.
- The **Jeeps** market remained relatively stable. Toyota Fortuner and Toyota IMVs took the lead in 9MFY23, however, these exhibited a dip of ~25% compared to SPLY. Meanwhile, The Hyundai Tucson and Honda-BRV sales grew by ~41% and ~23%, respectively.
- The overall **Pickup** sales decreased by ~63.0% during 9MFY23, compared to SPLY. Among these, Suzuki Ravi experienced the deepest dip in sales, to the tune of ~69.8% during the said period.



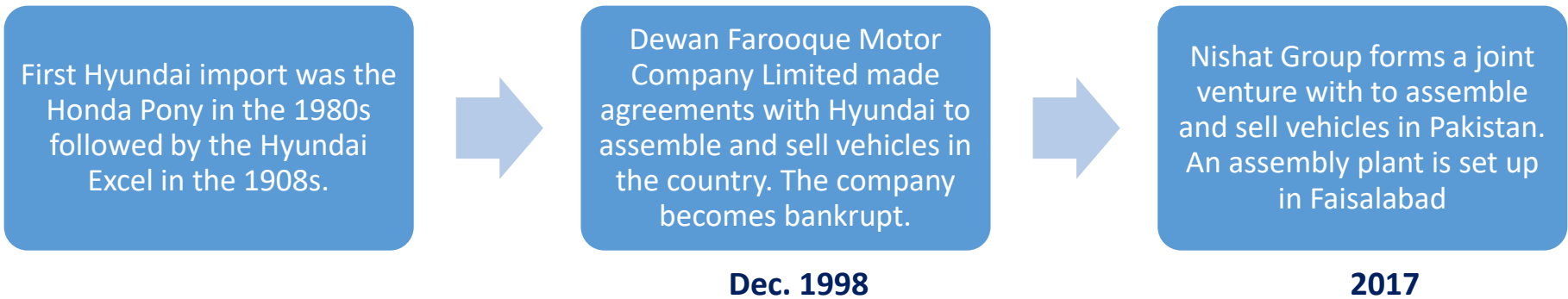
# Passenger Cars

Local | Supply | OEMs

## KIA Lucky Motors Pakistan – A Brief History



## Hyundai Nishat Motor Private Limited – A Brief History

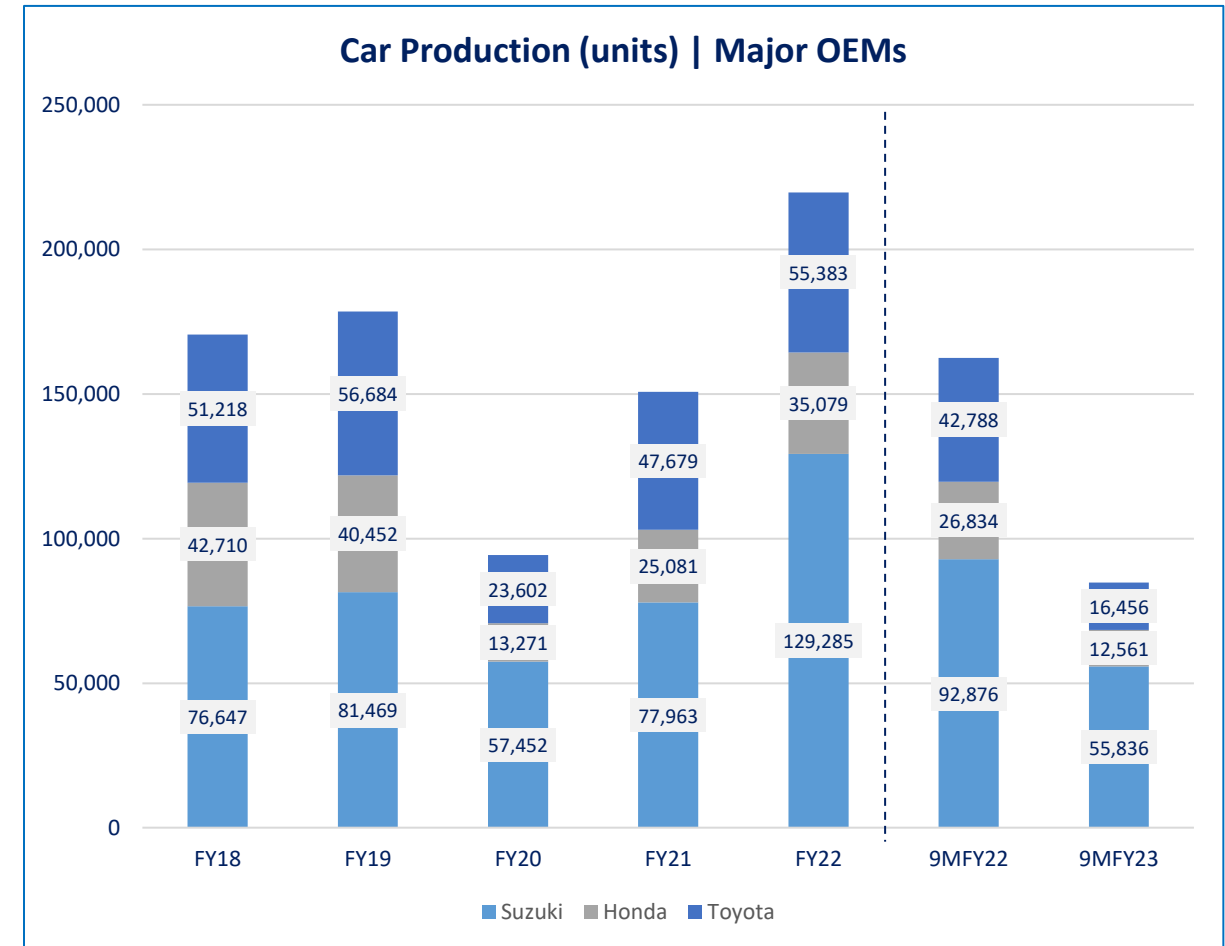




# Passenger Cars

## Local | Supply | OEMs

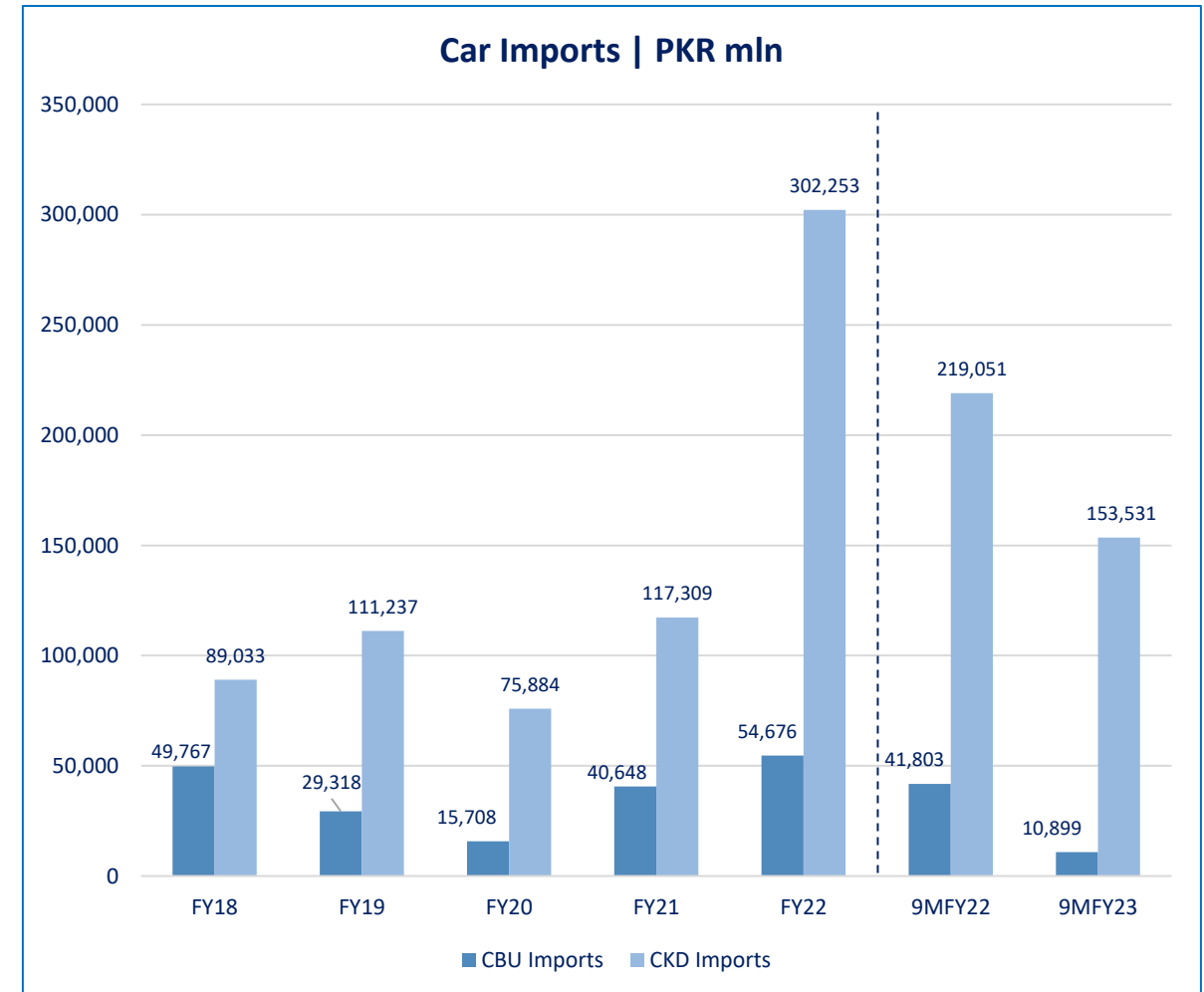
- Honda Atlas Cars and Toyota Indus Motors are involved in the production of high niche car models above 1300cc engines such as Honda City, Honda Civic, Toyota Corolla and now Toyota Yaris as well since July'21.
- On the other hand, Pak Suzuki Motors (PSM) produces a diverse range of models from Suzuki Swift (above 1000cc), Cultus, Wagon-R, Bolan, and Alto. The company holds the highest share of production among the largest three OEMs in the market (9MFY23: ~65.8%; 9MFY22: ~58.8%; FY22: ~58.8%; FY21: ~51.7%).
- In addition to cars, Toyota Indus Motors is also involved in the assembly of SUVs – Toyota Fortuner and IMVs; joint production was recorded at ~10,392 units during 9MFY23 (~12,404 units in 9MFY22), a decline of ~16.2% period-on-period.
- However, in the Jeeps segment, Honda BR-V registered a period-on-period increase of ~37.5% during 9MFY23. Similarly, Honda Tuscon registered a ~26.7% YoY increase during FY22 and ~46.8% increase during 9MFY23.



# Passenger Cars

## Local | Supply

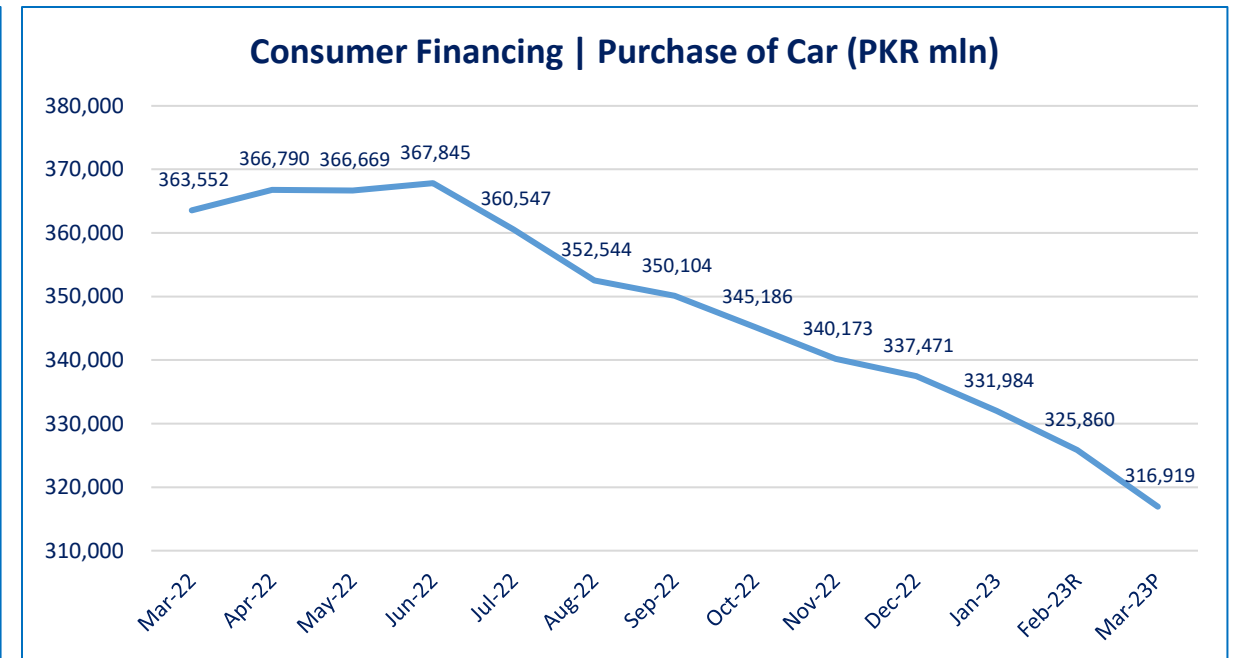
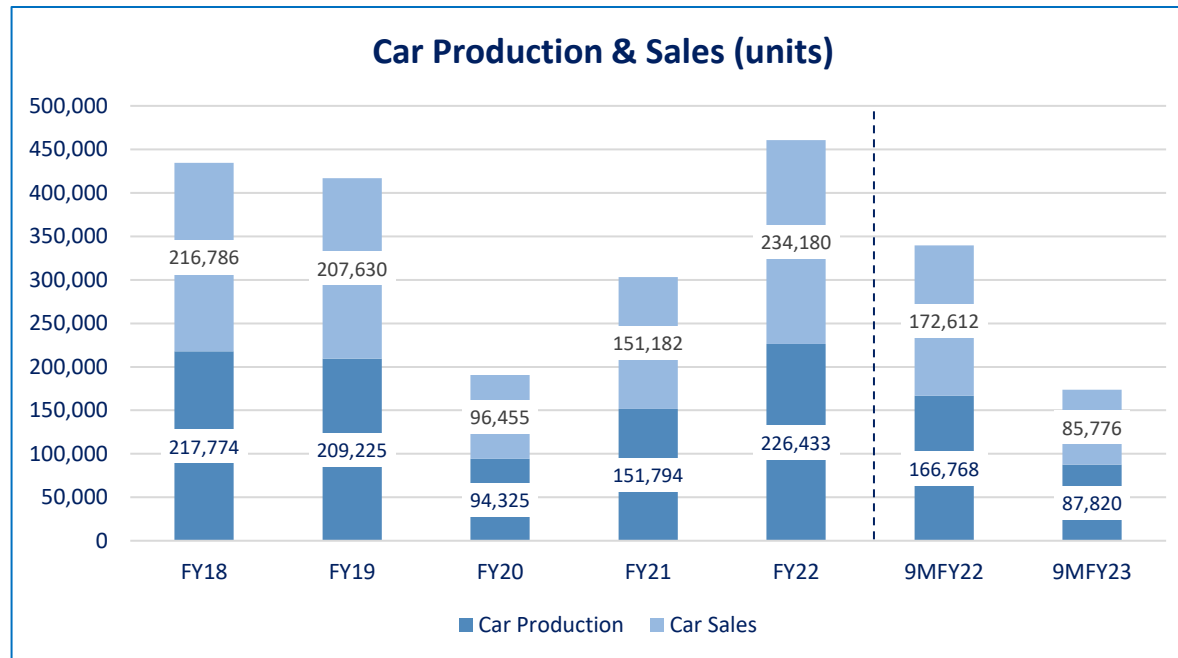
- During CY22, Completely Built Units (CBU) imports climbed to PKR~54.7bln, a ~34.5% YoY increase. Similarly, Completely Knocked Down (CKD) units registered at PKR~302.2bln, compared with PKR~117.3bln, increasing by ~157.7% YoY.
- However, during the 9MFY23 period, CKD imports plummeted by ~29.9% period-on-period largely due to import restrictions imposed by the SBP since May'22. These amounted to PKR~153.5bln, as against PKR~219.1bln during SPLY.
- Similarly, CBU imports during the same period also declined by ~73.9% period-on-period and clocked in at
- Factors other than import restrictions at play were steep rupee depreciation (PKR value dipped by ~27.8% during 9MFY23, with average exchange rate increasing to PKR~281.5/USD during Mar'23, against average rate of PKR~220.1/USD during Jul'22) and aggressive duties levied on imported vehicles.



# Passenger Cars

## Local | Supply & Demand

- The 9MFY23 period registered a massive decline in production and sales of cars. While the former decreased by ~47.3% period-on-period, the latter fell by ~50.3%.
- Curbs on imports have not only translated in higher prices for consumers, but the dip in sales can also be supported by the declining trend of consumer financing for purchase of a car. During Mar'23, consumer financing dipped YoY by ~12.8% to clock in at PKR~316.9bln. This cements the prohibitively high cost of borrowing due to sharp interest rate increases during FY23 (~20% hike during 9MFY23) and eroding purchasing power of consumers.



## Local | Supply | Chinese and Korean Models

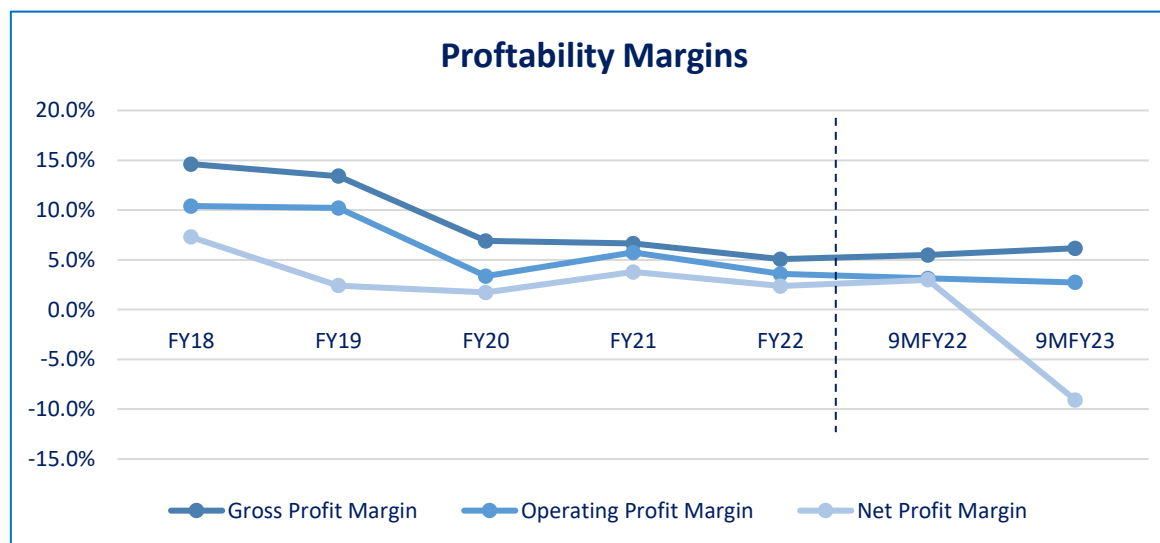
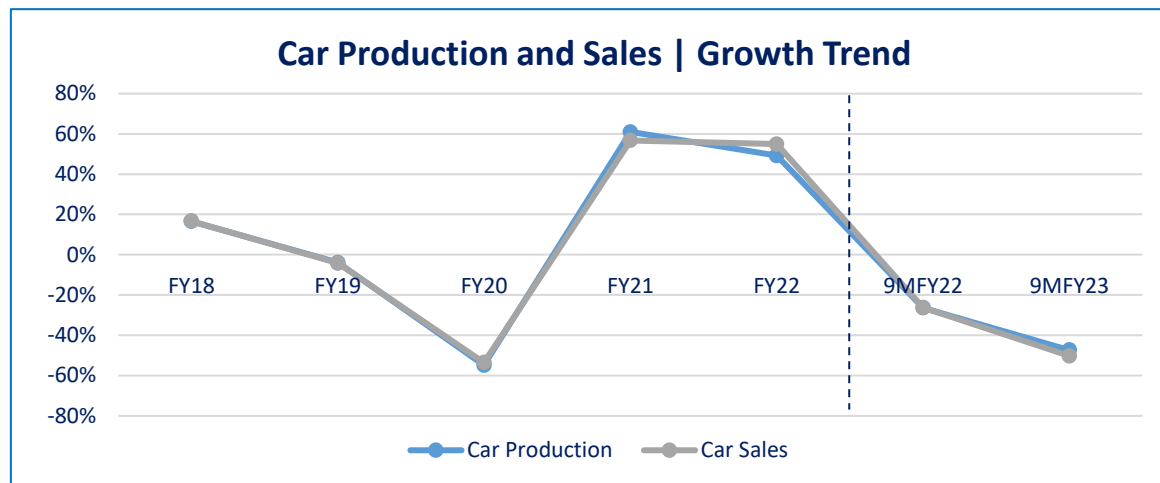


- The Auto Policy 2016-2021 offered tax incentives to investors seeking to set up their automobile manufacturing plants in Pakistan. This resulted in several new Chinese and Korean investors entering into the market (in CY21) such as KIA Motors, DSKF Motor Co Ltd., Hyundai Motors, Changsha Foton Vehicle Technology Co. Ltd, Changan International Corporation Ltd.
- Car models launched in CY21 included Honda City; Changan Alsvin; Proton Saga; X70; Hyundai Elantra and Sonata (FY9M23 sales units: ~1,886 and ~ 1,066, respectively); and KIA Sorenta and Stonic.

# Passenger Cars

## Business Risk | Margins

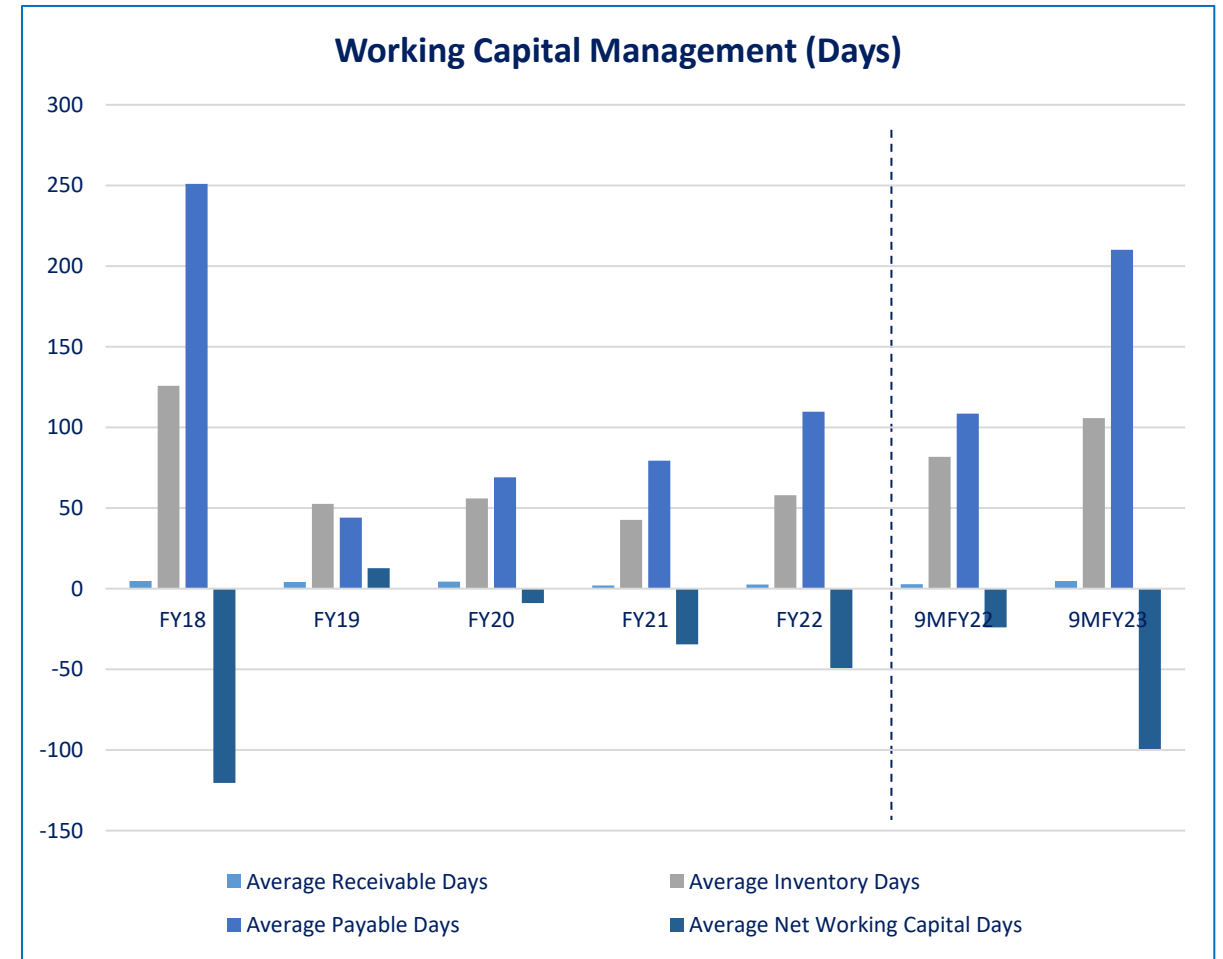
- During FY22, car production and sales went up by ~49.2% and ~54.9% YoY to clock in at ~226,433 and ~234,180 units, respectively. However, the growth rate remained low as compared to FY21, which might explain lower average gross margins. Gross margins for FY22 registered at ~5.5% (FY21: ~6.6%), while the operating and net margins also dipped to ~3.6% and ~2.4%, respectively (FY21: ~5.7% and ~3.8%, respectively).
- The current 9MFY23 period has proved a turbulent period for local car manufacturers/ assemblers. Due to restrictions on imports imposed by the SBP and the ensuing Letters of Credits (LCs) issue, the local OEMs found have found themselves in a bind, resulting in plant shutdowns.
- Where gross margins registered a slight uptick during 9MFY23 (increased to ~6.1% from ~5.5% during SPLY), most likely due to price effect, sector players have exhibited sluggish business activity. Operating margins fell from ~3.1% during 9MFY22 to ~2.7%, reflecting increasing cost of doing business.
- On the other hand, average net margins declined significantly from ~3.0% during 9MFY22 to ~-9.1% during 9MFY23, underscoring the steep interest rate hikes and high finance costs.



# Passenger Cars

## Financial Risk | Working Capital

- The net working capital cycle of the sector is largely a function of inventory days, as well as payable days.
- During FY22, average WC days increased to ~49 days, as against ~35 days the previous year. This signifies the players recovering money at a faster rate than the time required to pay their bills/creditors. The increase came on the back of increased average inventory days, which clocked in at ~58 days (FY21: ~43 days). Similar average payable days also increased to ~100 days as against ~79 days during FY21. This is likely reflective of slower increase in car sales during FY22, as explained previously.
- The 9MFY23 presents a grim picture. Average inventory days shot up to ~106 days (~82 days during SPLY). This likely came on the back of lower sales.
- Similarly, average payable days during 9MFY23 also increased to ~210 days from ~109 days during 9MFY22, reflecting higher finance costs and low business activity owing to restrictions on imports and the manufacturers' difficulty in opening LCs with the banks.

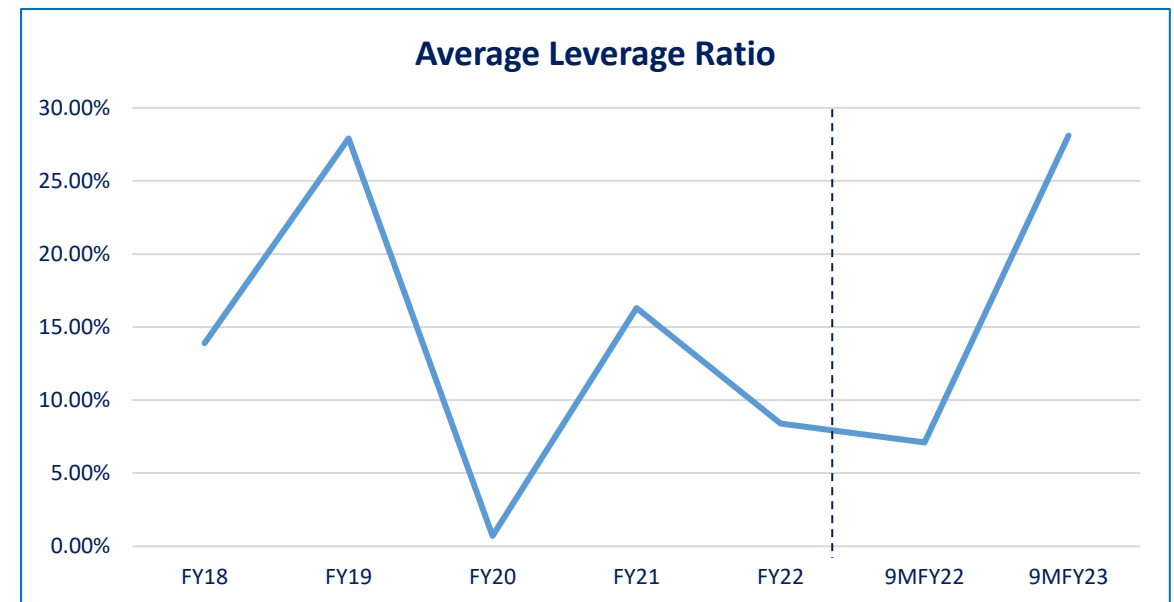
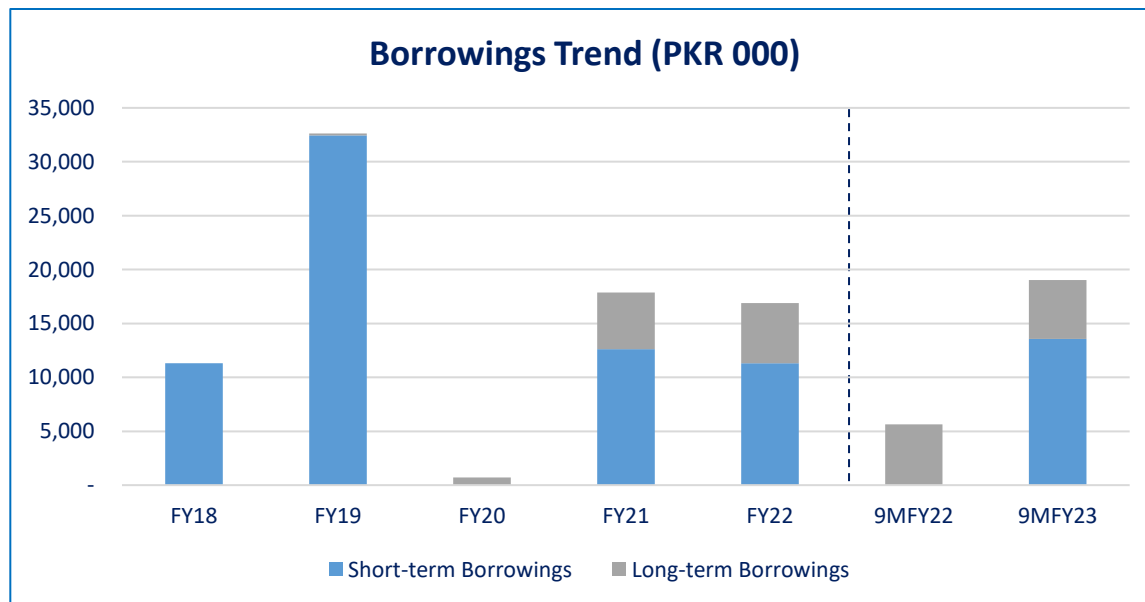




# Passenger Cars

## Financial Risk | Borrowings

- The sector has, on average, exhibited volatility in the leverage trend over the past five years (FY18-22). While the leverage ratio decreased to ~8.4% during FY22 from ~16.3% the previous year, it rose to ~28.1% during 9MFY23 (9MFY22: ~7.1%).
- The sector’s borrowing mix also has not remained consistent over the past five years (FY18-22). During FY22, while the short-term borrowings decreased to PKR~11.3bln (FY21: PKR~12.6bln), long-term borrowings stood at PKR~5.6bln (FY21: PKR~5.3bln).
- During 9MFY23, short-term borrowings rose to PKR~13.5bln (these were nil during SPLY), while long-term borrowings also rose significantly to PKR~5.5bln (FY21: PKR~5.6bln). Total borrowings for 9MFY23 stood at PKR~19.0bln, compared to PKR~5.6bln during the previous year.



## Auto Policy 2016-2021 | Salient Features

- The Government of Pakistan announced the Auto Industry Development and Export Policy (AIDEP) 2021-26 in December 2021 which predominantly includes initiatives to promote the viability and sustainability of the local industry in an effort to reduce the pressure of imports on the current account.
- Key features of the AIDEP include:
  - Promotion of new environmental-friendly and fuel efficient technologies:
    - Incentives and frameworks will be provided for all new to facilitate the manufacturing of EVs and hybrids. Custom duty for importing charging stations for EVs and parts would be 0% until localization starts after which charging stations may be charged.
    - Import of CBUs and local manufacturing of EVs will be promoted and tariff incentives will be offered for CKDs.
    - Custom duty on EV specific parts @ 1% including battery, motor, converter, charger, etc. till the end the of policy period i.e. 30 June, 2026.
  - Incentives provided to new entrants under ADP 2016-21 will continue to be provided for five years from issuance the of manufacturing certificate or till 30 June, 2026 whichever is earlier.
  - Meri Garri Scheme: The objective of this scheme is to graduate buyers from motorcycles to cars by providing reduction of sales tax to 12.5%, and removal of additional custom duty, withholding tax and federal excise Duty FED on locally manufactured vehicles up to 1,000cc.
  - Adoption of shortlisted WP-29 harmonized global vehicle regulations to enhance vehicle safety in a phase-wise manner. Locally manufactured vehicles must achieve compliance by June 30, 2022 with an extension subject to approval by the Engineering Development Board.
  - Promotion of local manufacturing of parts, establishment of car assembly/sub-assembly manufacturing units, and rationalizing imports: To qualify for concession in import duties location value addition should be a minimum of 30%. If this requirement, is not met, no relief will be given.
  - OEMs will be asked to comply with obligatory export of parts or vehicles. Volume of exports is set as a ratio to import volume.

## Electric Vehicle Policy 2022 | Approved Recommendations

### Four-Wheelers

- i. In CKD, EV specific parts to attract 1% CD, ACD 0%, RD 0%, 0% VAT.
- ii. Automotive Development Policy (ADP 2016-21) rates of customs duty in CKD across the board (all players i.e. 10% for non-localized and 25% for localized parts in cars, LCVs, SUVs).
- iii. CBU import may be made at CD 25%, ACD 0%, RD 0%, 0% VAT.
- iv. Other benefits recommended for EV policy (4 wheelers) are:
  - Duty free import of plant and machinery of EVs, 0% CD, ACD 0%, RD 0%.
  - Import of 100 CBUs per company @ 50% of the prevailing custom duties.
  - Import of EV Chargers to attract 1% CD, ACD 0%, RD 0%.
- v. Import of CKD in small cars/ SUVs with 50kwh battery or below and LCVs with 150kw battery or below to attract:
  - Exemption of sales tax and VAT on imports and 1% sales tax on sales,
  - 1% WHT under Section 148 of Income Tax Ordinance.
  - GST and VAT on import stage to be exempted for such LCVs and Cars/SUVs.
- vi. Exemption of EVs (4 wheelers) from FED.
- vii. Provision of special window for car financing at 1+4% (State Bank of Pakistan).

### SBP Prudential Regulations for Consumer Financing

Currently, the applicable policy document is the BPRD Circular Letter No. 19 of May 24, 2022.

- The maximum tenure of auto finance facility is reduced from five (5) years to three (3) years for vehicles above 1,000 cc engine displacement and from seven (7) years to five (5) years for vehicles up to 1,000 cc engine displacement.
- Increase of minimum down payment cap to 30% from 15%.
- Overall auto loans/financing limits availed by one person from all banks/DFIs, in aggregate, shall not exceed Rs3,000,000/-, at any point in time. However, the financing limit of borrowers whose approved limit already exceeds Rs3,000,000/- may be amortized as per existing terms and the same shall not be further increased.
- Reduced debt burden ratio from 50% to 40%

Note: The aforesaid amendments in PRCF will not apply on i) financing for locally assembled/ manufactured vehicles of up-to 1000cc engine capacity ii) Roshan Apni Car product of banks and iii) locally assembled/ manufactured Electric Vehicles.

## Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Sales Tax		Federal Excise Duty	
		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
<b>8703.2192</b>	Components for the assembly/manufacture of 4X4 vehicles	55%	55%	7%	7%	0%	0%	17%	18%	0%	0%
<b>8703.2193</b>	4X4 vehicles (CBU)	55%	55%	7%	7%	15%	15%	17%	25%	2.5%	2.5%
<b>8703.2119</b>	Cylinder Capacity: up to 1000cc	50%	50%	7%	7%	0%	0%	12.5%	25%	2.5%	2.5%
<b>8703.2220, 2290,2319</b>	Cylinder Capacity: >1000cc & <1300cc, <1500cc & <3000cc/ <1500cc & <1800cc, <1800cc & <3000cc	60-75%	60-75%	7%	7%	15%	15%	8.5%-12.75%	25%	10%	10%

**Note:** 50% exemption from duty & taxes is admissible on import of Hybrid Electric Vehicles (HEVs) of engine capacity up to 1800cc and 25% exemption from duty & taxes is admissible on import of HEVs of engine capacity from 1800cc to 2500cc.

# Passenger Cars

## SWOT Analysis

- Organized sector with listed players.
- Strong brand value and integration.
- Government support for an industry which contributes.



- Highly cyclical, performance very much depends on overall economy.
- Rising international commodity prices.
- Several parts are imported.
- Exchange rate fluctuations.
- Global supply chain disruptions.
- Inflation and rising interest rates.

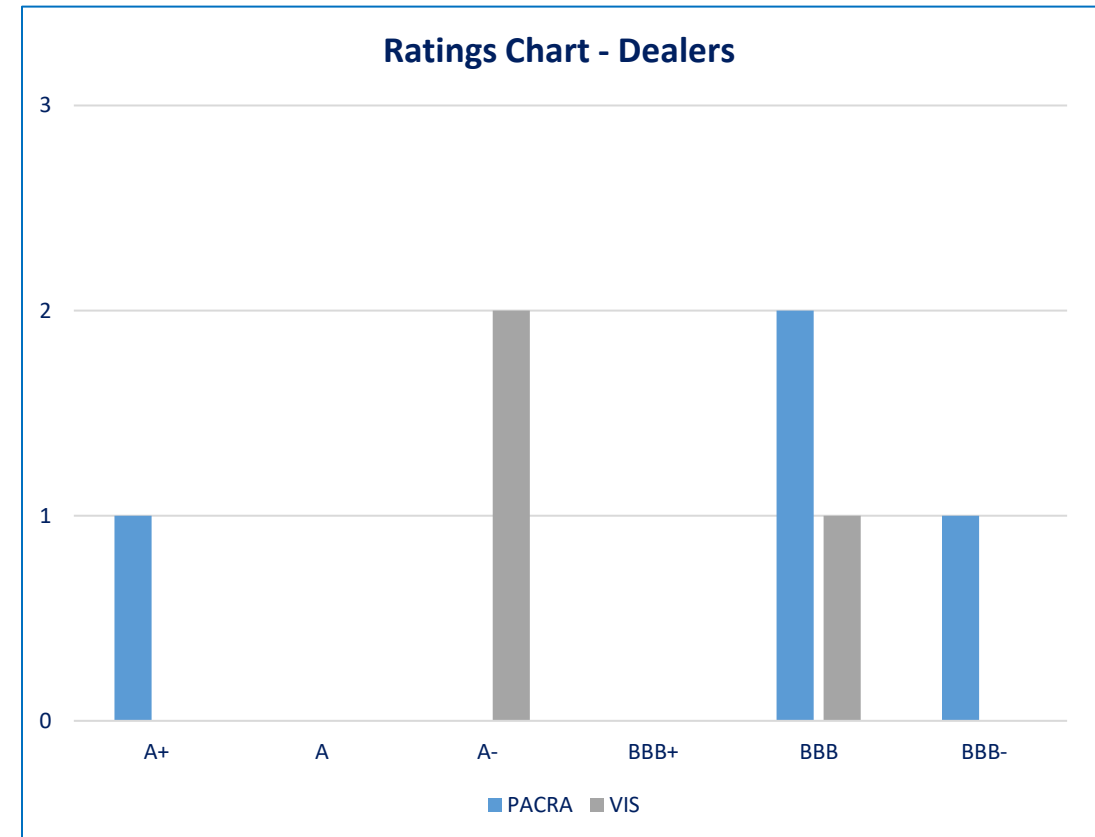
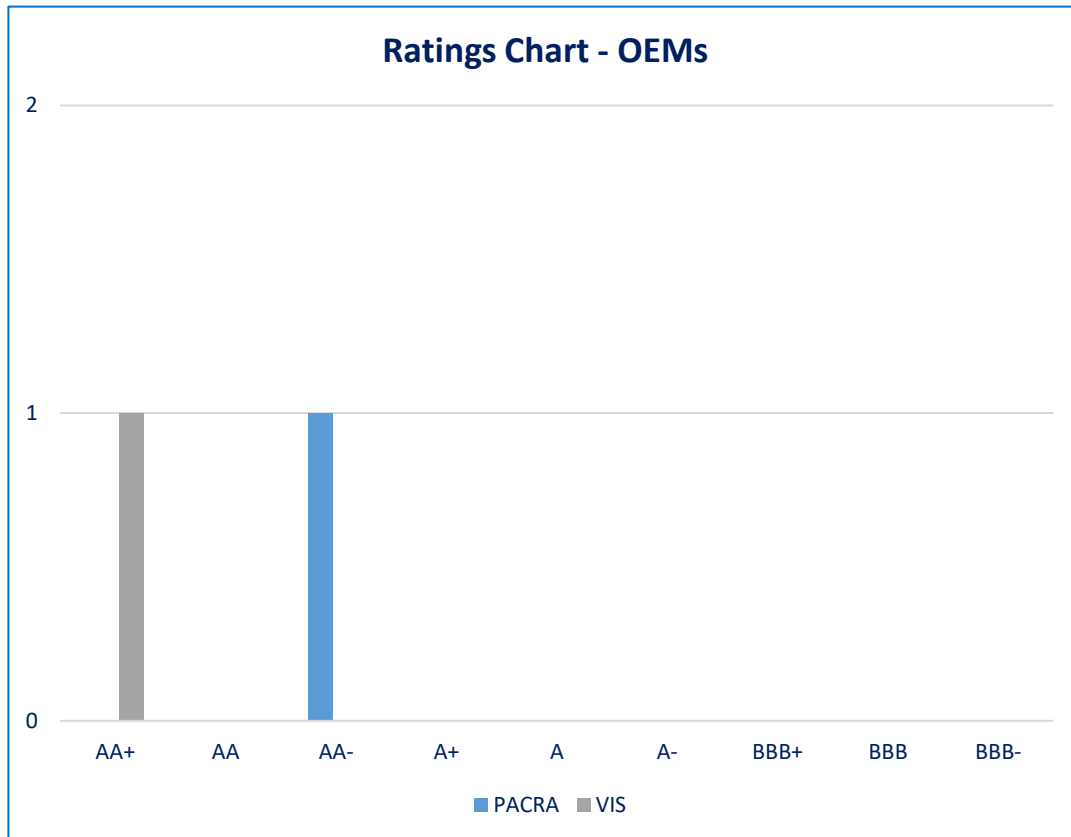
- New entrants and fresh competition.
- Better and cheaper imported vehicles available.
- Adoption of electric vehicles.
- Continued curbs on imports.

- Large population with younger individuals entering the workforce than ever before is a natural demand driver.
- AIDEP 2021-2026 can present opportunities for innovation and localization.
- Adoption of WP-29 regulations will increase global competitiveness of locally manufactured vehicles.



## Ratings Chart

PACRA rates one listed OEM in Pakistan, with a Long-term rating of AA- and a Short-term rating of A1, and four automotive dealers, with long-term ratings falling in the bandwidth of BBB- to A+.



## Outlook: Negative

- FY22 registered a strong rebound in economic activity which transpired into various sectors of the economy. During the year, passenger car sales increased by ~53.9% YoY to clock in at ~279,267 units sold across the country (FY21: ~181,397 units). Among Passenger Cars, the Cars segment made up for ~83.9% of the total sales (FY21: ~83.3% during SPLY), whereas Jeeps and Pickups formed ~9.9% and ~6.3% of the total vehicles sold.
- During 9MFY23, ~77.7% of passenger vehicles remained dominated by cars (~84.0% in SPLY), while the collective passenger vehicle sales posted a YoY decline of ~46.3% during 9MFY23 (SPLY registered a growth of ~53%). The total number of units sold during this period registered at ~110,405 (9MFY22: ~205,452 units). Segment-wise, car sales went down by ~50.3% during the same period (these had grown increased by ~54% during SPLY) and stood at ~85,776 units as against ~176,612 units during SPLY.
- The slowdown in demand can be explained by rising inflation, with National CPI climbing to a staggering ~36.4% mark in Apr'23, against ~13.4% during SPLY. During Mar'23, consumer financing dipped YoY by ~12.8% to clock in at PKR~316.9bln. This cements the prohibitively high cost of borrowing due to sharp interest rate increases during FY23 (~20% hike during 9MFY23) and eroding purchasing power of consumers.
- The sector posted sluggish business activity owing largely to supply chain disruptions caused by the import restrictions imposed by the SBP since May'22 (the sector is heavily dependent on imported auto parts and raw material) and the resulting raw material shortage, in addition to steep devaluation of the PKR (PKR value dipped by ~27.8% during 9MFY23).
- Resultantly, few of the major OEMs have had to halt production during the ongoing FY23. Pak Suzuki's first plant shutdown was announced in Aug'22 and was extended for the eighth time in Feb'23. Honda's plant remained shut during Mar-Apr'23. Increased cost of business has also reflected in exorbitant car prices, which have impacted demand significantly.
- Where gross margins registered a slight uptick during 9MFY23 (increased to ~6.1% from ~5.5% during SPLY), most likely due to price effect, sector players exhibited sluggish business activity. Operating margins fell from ~3.1% during 9MFY22 to ~2.7%, reflecting increasing cost of doing business. On the other hand, average net margins declined significantly from ~3.0% during 9MFY22 to ~-9.1% during 9MFY23, underscoring the steep interest rate hikes and high finance costs. Similarly, average inventory days shot up to ~106 days (~82 days during SPLY, likely due to lower sales, while the average payable days during 9MFY23 also increased to ~210 days from ~109 days during 9MFY22, reflecting higher finance costs and low business activity owing to import curbs and manufacturers' difficulty in opening LCs with the banks.
- Going forward, unless the import restrictions are lifted and supply disruptions not fixed, the Sector is likely to continue facing the doldrums, given especially the present contraction in demand due to pricier cars and sustained high cost of doing business.

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