

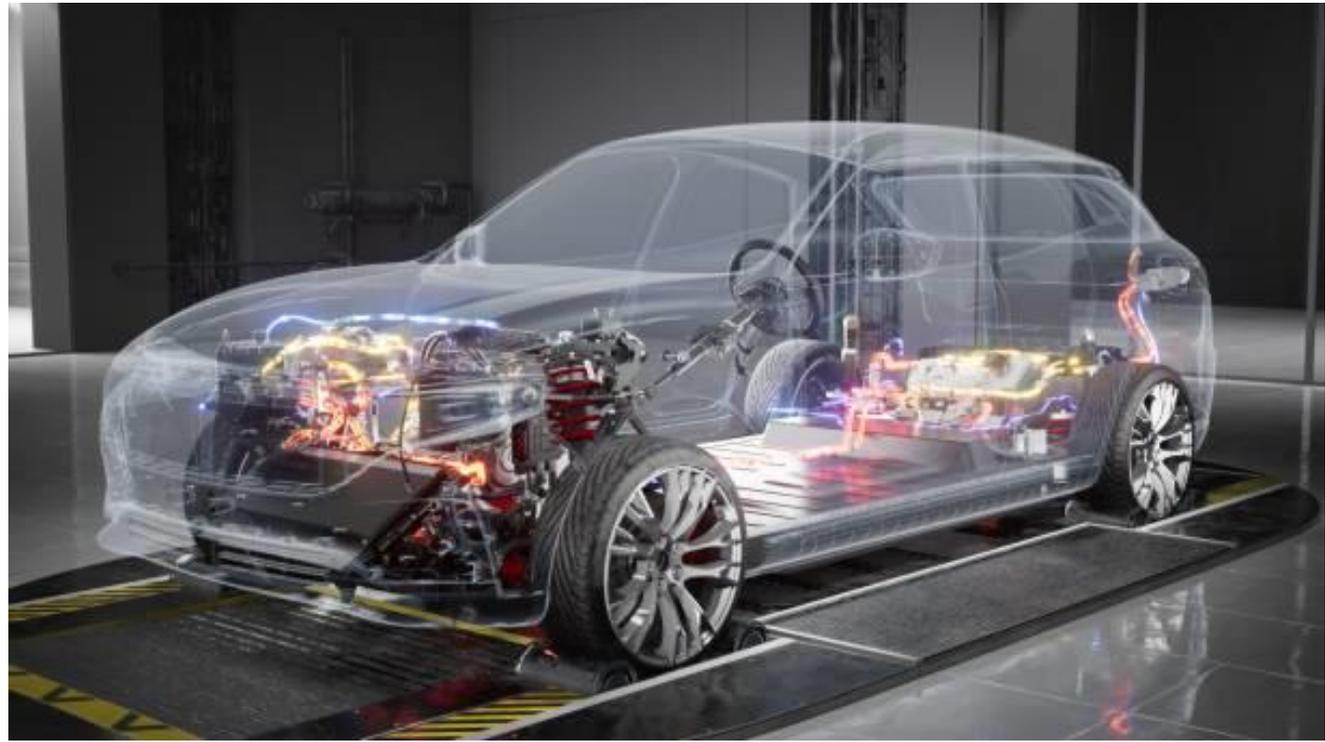


Passenger Cars

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Passenger Cars

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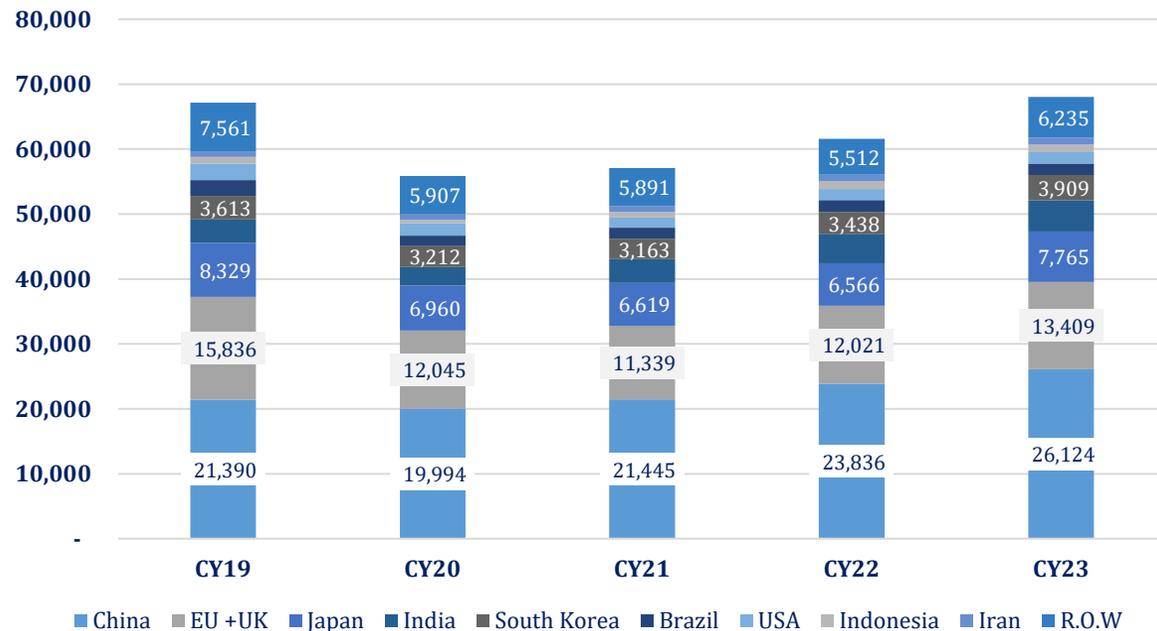
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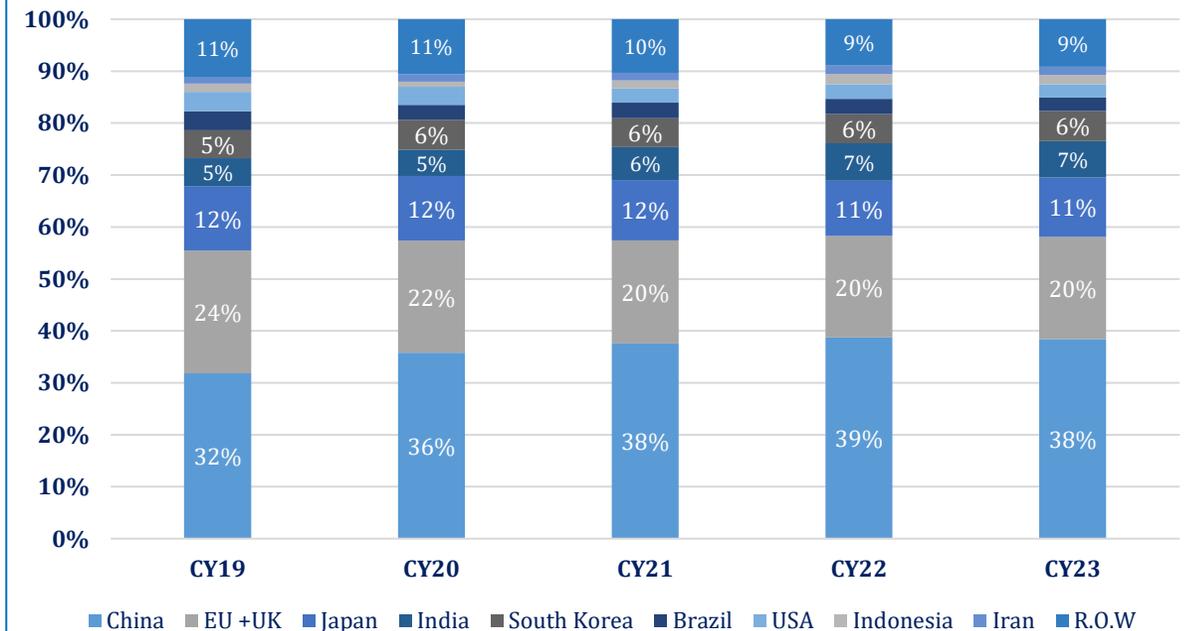
Global | Production

- During CY23, global passenger cars production registered a growth of ~10.5% YoY (CY22: ~7.8%) and stood at ~68.0mln units, as against ~61.6mln units during SPLY. Production activity remained the strongest in China during the year, growing by ~9.7% YoY (CY22: ~11.2%).
- Regionally, China dominates the global passenger cars market globally, in terms of production, (~36.0% average market share during CY19-23), where Chinese market was ~2.0x larger than combined European and UK markets during CY23. Japanese passenger cars market also registered an impressive performance in CY23, growing by ~18.3% YoY, where total cars produced increased to ~7.8mln units (SPLY: ~6.6mln units)

Global Production | Passenger Cars ('000' units)



Passenger Cars | Global Production Concentration

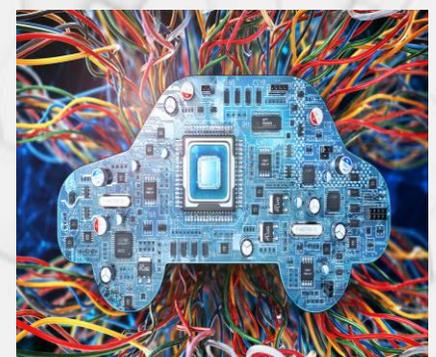
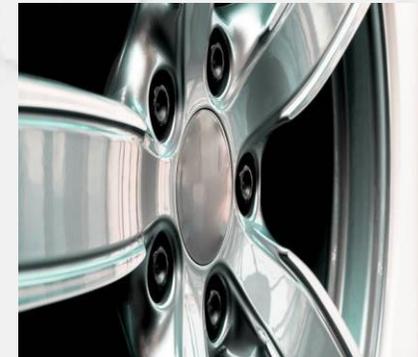


Note: SPLY stands for Same Period Last Year

Passenger Cars

Critical Raw Materials | Cars

Steel	On average, each new car requires ~900Kg of steel for the chassis, body, roof, door panels, and beams between doors.
Plastics	On average, a new car requires ~200Kg of plastics. These include Polypropylene (e.g. interior flooring), Polyvinyl Chloride (e.g. dashboards), Polycarbonate (e.g. car bumpers) and Acrylonitrile Butadiene Styrene (e.g. steering wheel covers).
Aluminum	On average, a new car requires ~205Kg of the metal. It can be utilized to produce engines, transmissions, suspension, wheels, brake components etc.
Rubber	Used for tyres, belts, hoses, and seals for car engines. The auto industry is the largest global consumer for rubber (~75% of the global rubber production is utilized to manufacture tyres).
Silica Sand	Key ingredient in the production of automotive glass, used for making windows and windshields etc. Also used as filler material and reinforcing agent in production of tyres.
Semi-conductor Chips	Every vehicle contains at least ~2-3 dozen chips while luxury use more. Neon gas is an essential raw material for chips. These serve functions including engine temperature and pressure sensor data analysis, among others.

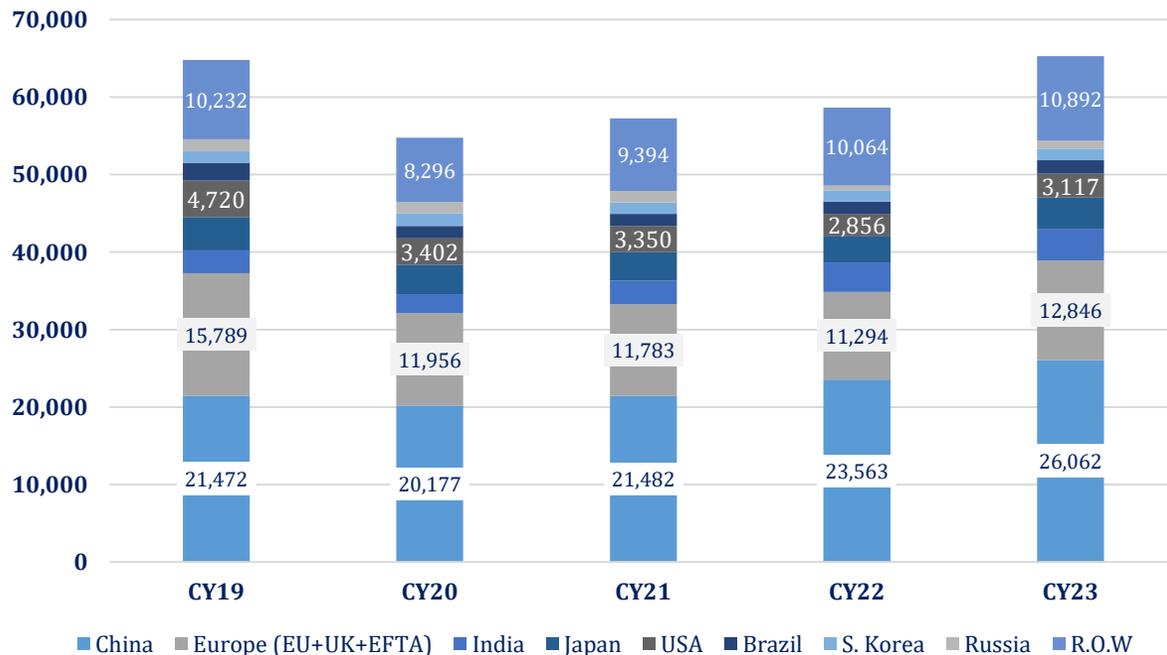


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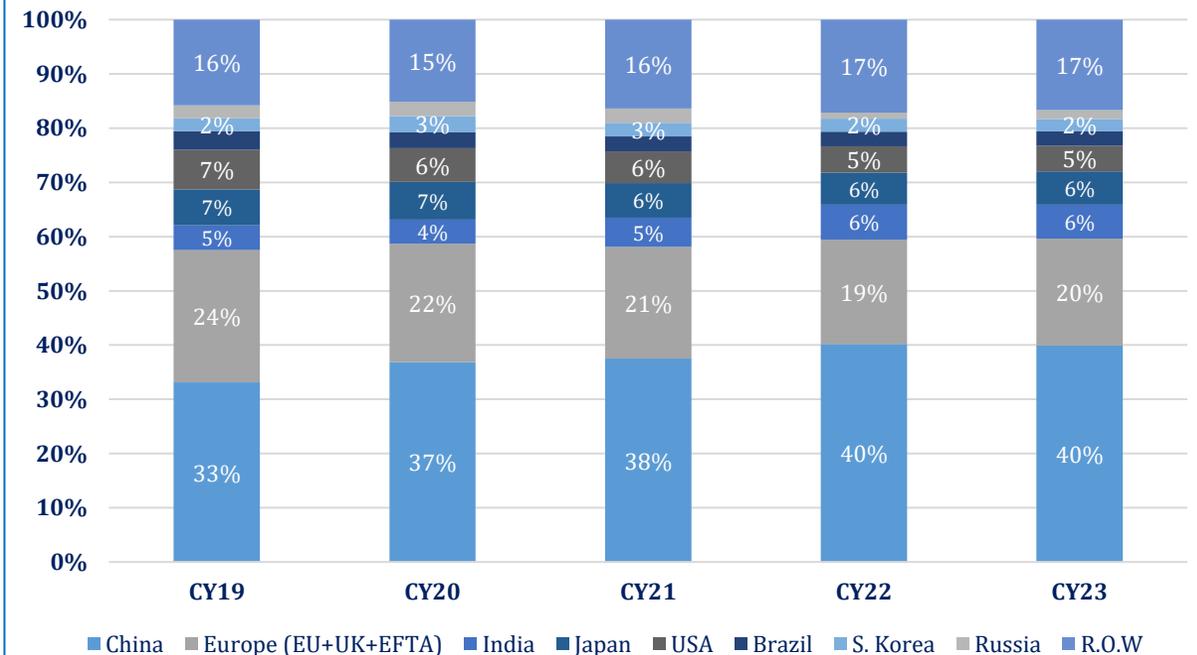
Global | Sales

- Global car sales registered a growth of ~11.3% YoY during CY23 (CY22: ~2.4%) and clocked in at ~65.3mln units, as against ~58.6mln units during SPLY. Sales activity remained the strongest in China in CY23, growing by ~10.6% YoY (CY22: ~9.7%), and registering at ~26.1mln units.
- Regionally, China's passenger cars market, based on volumetric sales, was ~8.4x and ~1.9x larger than the U.S. and European markets, respectively, during CY23. Japanese passenger cars sales also registered ~18.3% YoY growth during the same period. Meanwhile during CY23, Russian passenger cars market also grew by ~66.7% YoY, where total cars sold increased to ~1.1mln (CY22: ~0.6mln).

Global Sales | Passenger Cars ('000' units)



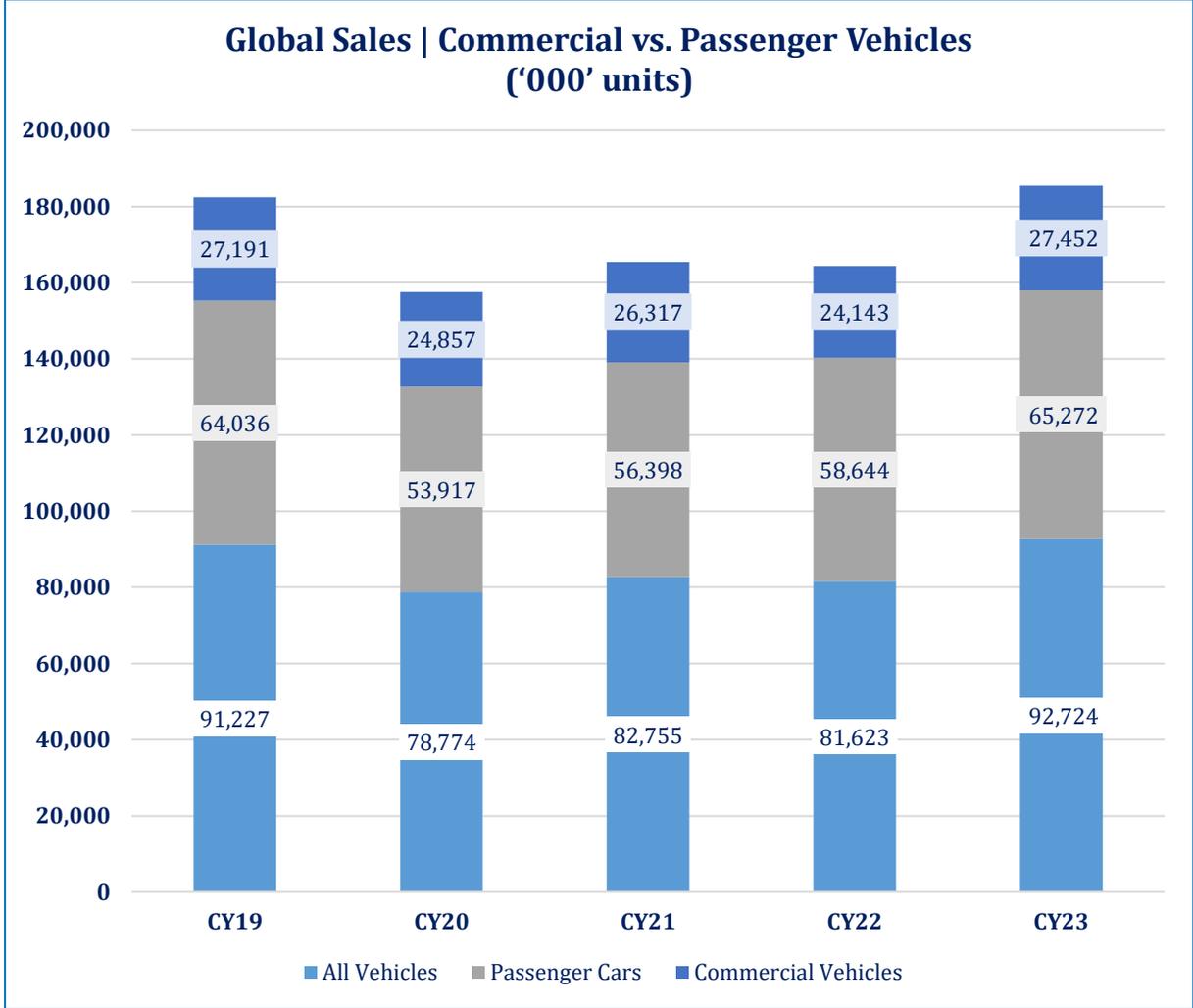
Passenger Cars | Global Sales Concentration



Passenger Cars

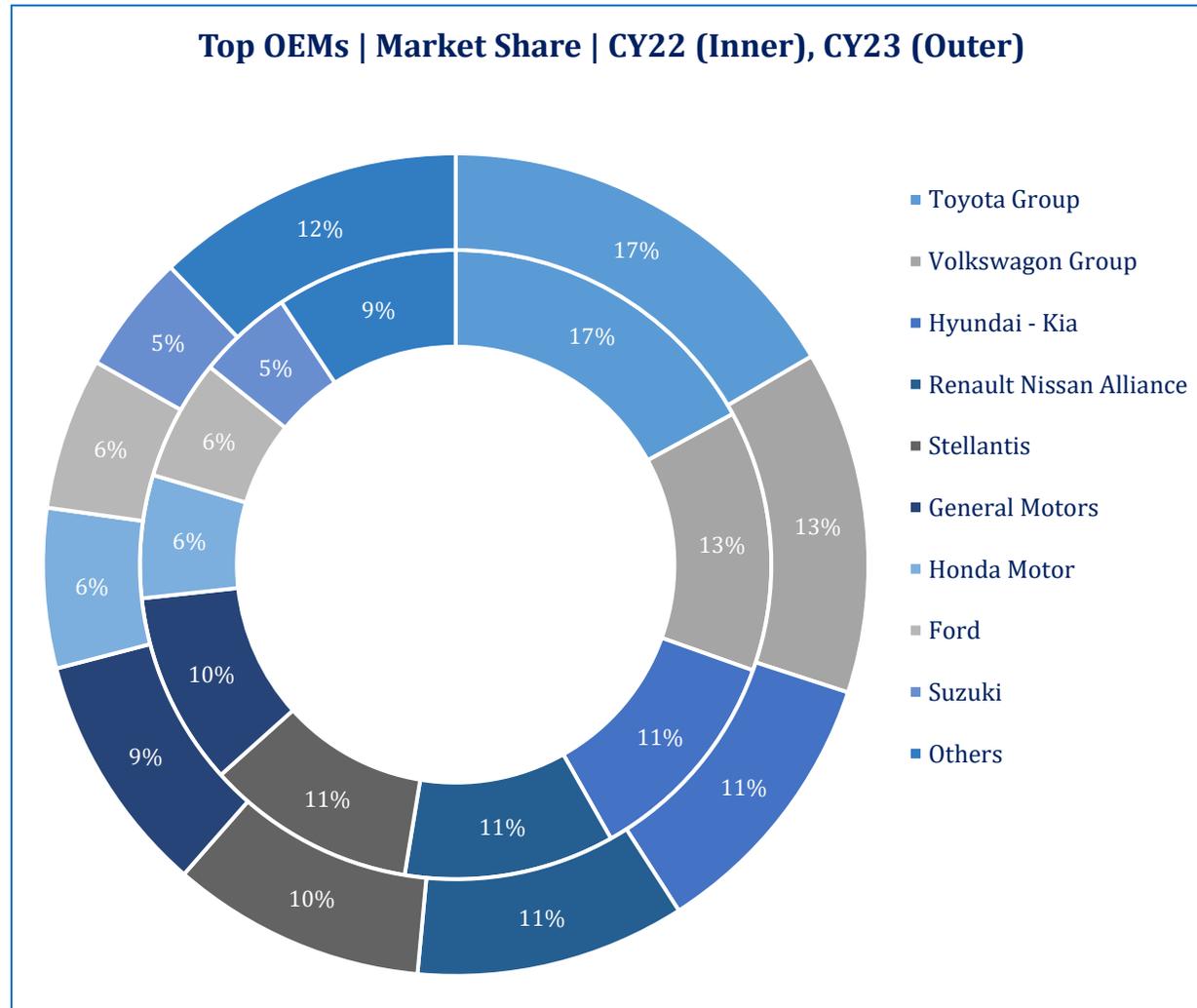
Global | Sales

- Global vehicle sales (including passenger cars and commercial vehicles) increased by ~13.6% YoY in CY23 and stood at ~92.7mln units sold worldwide (CY22: ~81.6mln units).
- The expansion in global vehicle sales was more pronounced in European Union and USA, where these were up ~18.7% and ~12.5% YoY, respectively, despite supply chain disruptions and rising material costs.
- During CY23, passenger car sales globally were ~2.4x those of commercial vehicles' and were recorded at ~65.3mln units (CY22: ~57.5mln units), up ~13.5% YoY. The rise in global passenger cars sales may partly be attributed to the increased demand of EVs.
- Commercial vehicles sales also rose by ~13.7% YoY during CY23 compared to ~24.1mln units sold during SPLY.



Passenger Cars

Global | Top Selling OEMs



- During CY23, Toyota Group maintained its position as the market leader amongst OEMs when compared with CY22 and held the highest market share (~17.0%) in terms of global car sales that stood at ~10.8mln units (CY22: ~10mln units).
- Toyota was followed by Volkswagen Group, Hyundai- Kia and Renault Nissan Alliance which maintained their respective market shares of ~13.0%, ~11.0% and ~11.0% when compared with CY22.
- It is noteworthy to mention here that BYD and Tesla were not amongst the top 10 OEMs during CY22, however, these recorded noticeable improvement during CY23. BYD – a Chinese brand that stood at the 13th rank amongst top OEMs during CY22 moved up three ranks during CY23 with ~2.6mln units sold.
- Meanwhile, Tesla, that ranked 13th amongst top car selling OEMs during CY22 rose to 11th position during CY23 in terms of volumetric car sales.

Passenger Cars

Global | Top Selling Brands

- Tesla Model Y emerged as the new market leader, with ~1.15mln cars sold, marking ~50.8% YoY increase.
- Toyota Corolla with ~1.13mln sales during CY23, experienced a slight decline of ~1.1% YoY and secured the second position hence putting an end to its long-standing winning streak.
- During CY23, Toyota RAV4 achieved notable sales of ~934,910 units, reflecting a growth of ~5.9% YoY.
- Ford F-Series recorded sales of ~901,569 units, depicting ~13.4% YoY increase, followed by Honda CR-V, with sales clocking in at ~718,422 units and ~18.0% YoY growth.
- Notable performances among other models within the Top 50 car brands mostly comprised EVs, such as BYD Dolphin ranking 30th with a remarkable increase of ~54.7% YoY and the BYD Yuan Plus securing the 32nd spot with an impressive growth of ~86.0% YoY.

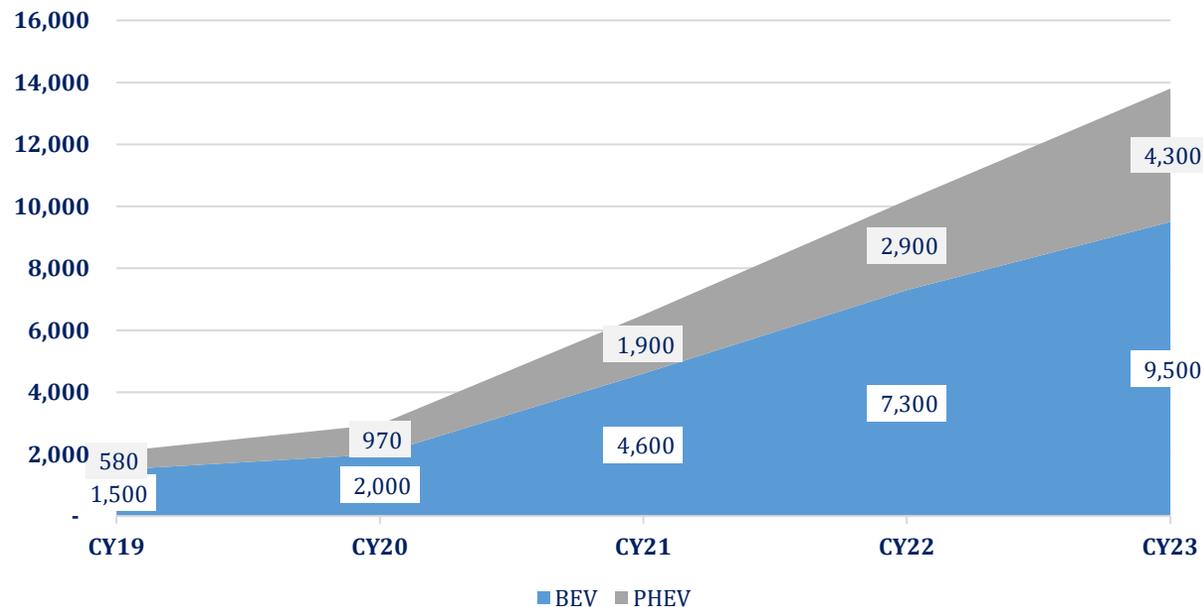


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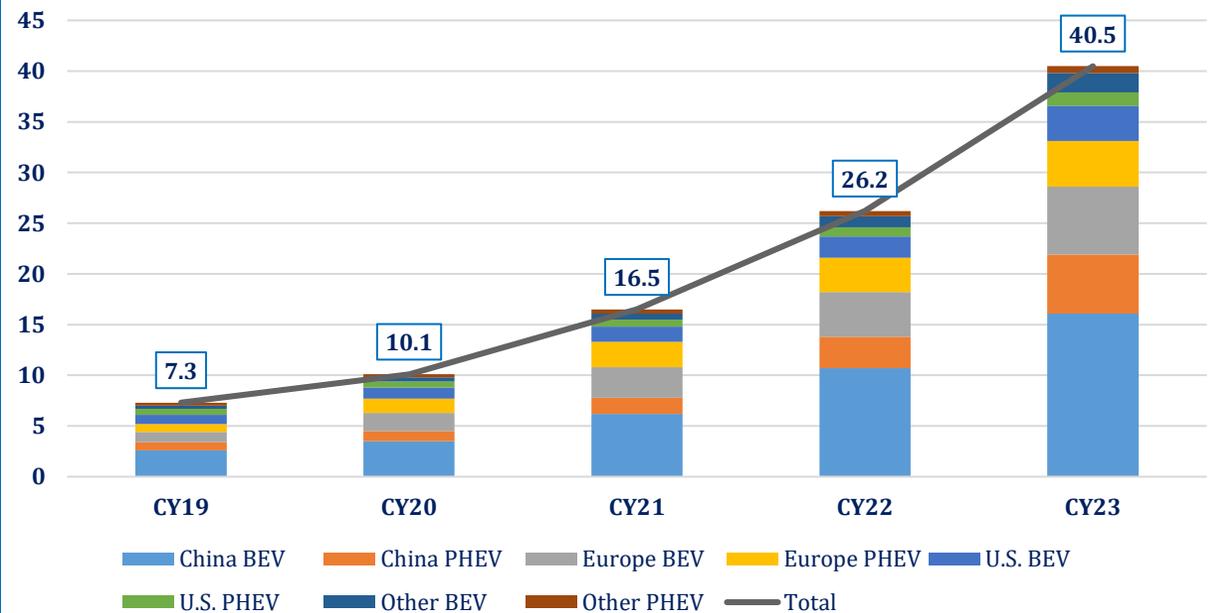
Global | Electric Vehicles

- The global Electric Vehicles (EVs) segment has experienced tremendous growth over the past five years (CY19-23), with a CAGR of ~46.0%. Electric Vehicles accounted for ~14.9% of all vehicles sold globally during CY23, up from ~12.5% in CY22. During CY23, EVs sales were registered at ~13.8mln units, whereas ~86.2% of these were cumulatively accounted for by China, Europe and the USA.
- During CY23, total EVs stock expanded to ~40.5mln cars, registering ~54.6% YoY increase. During CY24, it is expected that one out of every five car sold will be an electric vehicle.

Electric Vehicles | Global Sales ('000' units)



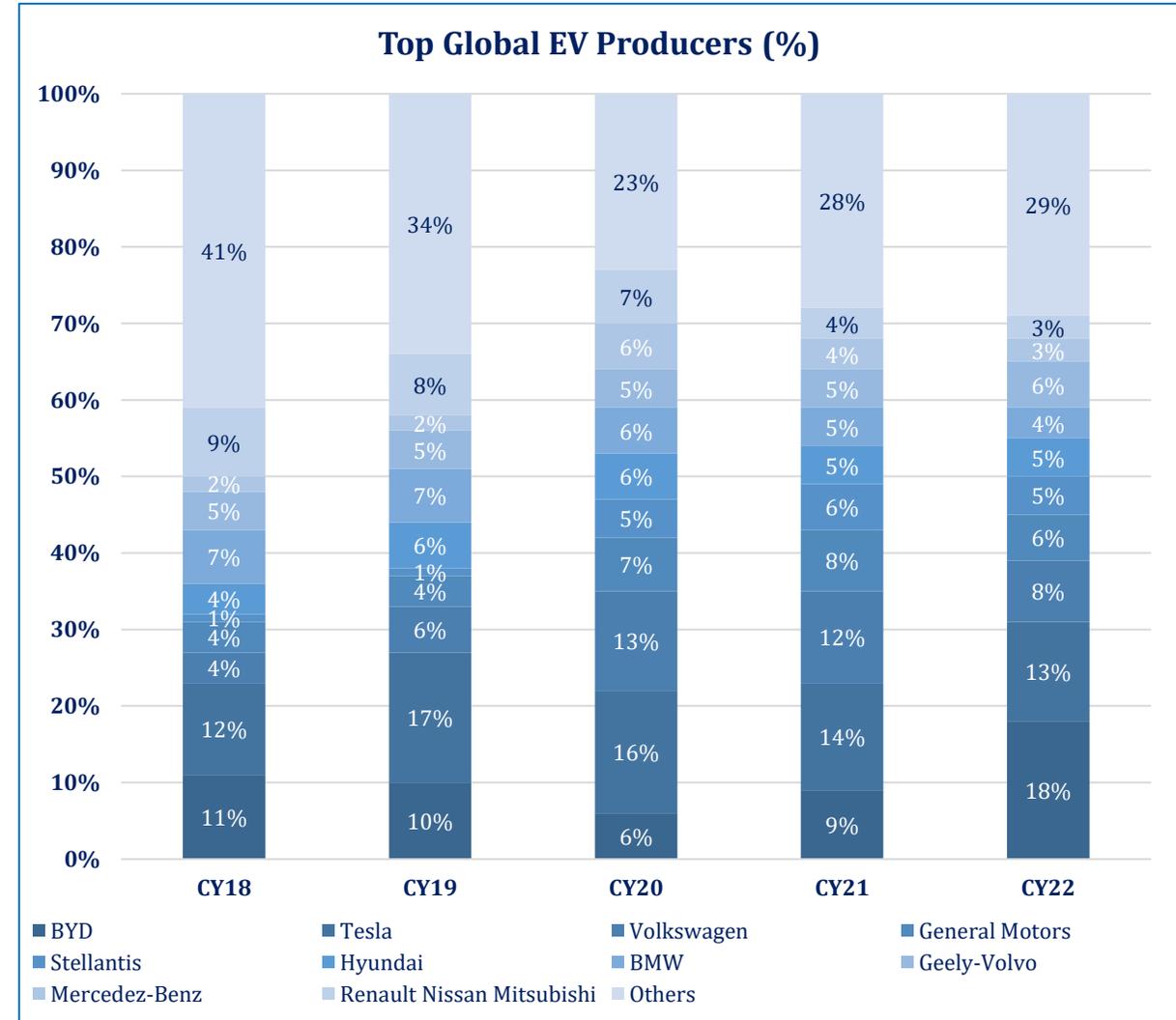
Electric Vehicles | Global Stock (mln units)



Passenger Cars

Global | Electric Vehicles

- During 2HCY23, BYD achieved the status of leading electric car manufacturer globally. Considering both pure electric (BEV) and plug-in hybrid (PHEV) models, BYD commanded a share of ~21.0% in the global EV segment.
- Moreover, BYD emerged as the foremost car manufacturer in China during CY23, with more than ~2.4mln new sales, capturing ~11.0% of the domestic market.
- In the U.S., Tesla accounted for ~45% of all battery EVs ever sold as of CY23. However, Tesla's share in new US electric car sales has shrunk from ~60% in CY20 to ~45% in CY23. Hyundai-Kia overtook GM and Ford in CY23 and accounted for ~8% of U.S. electric car sales.
- In Europe, Volkswagen, Stellantis and BMW cumulatively accounted for ~45% electric car sales in CY23. The share of Stellantis jumped from ~2% in CY15 to ~15% in CY23, while Volkswagen's fell from ~27% to ~20% during the same period.



Note: Major carmakers include BMW, Ford, GM, Honda, Hyundai, Kia, Mercedes-Benz, Nissan, Renault, Stellantis, Toyota, and Volkswagen. Chinese carmakers include 33 companies excluding BYD.

Passenger Cars

Global | Electric Vehicles

- In CY23, electric vehicles (EVs) comprised ~21.1% of total passenger car sales, a notable increase from ~14.0% during SPLY. Moreover, these new EV sales represented ~34.0% of the EV total stock in CY23.
- During CY23, the growth in Chinese EV market outpaced the global EV market, forming ~53.0% of the global EV sales. During the year, EV sales in China made up ~31.1% of new car sales, up from ~29.0% during SPLY.
- Europe was the second largest adopter of EVs in CY23, where the ratio of EV sales to new cars increased to ~21.3% (SPLY: ~18.0%). European EV sales during CY23 made up ~23.2% of the global EV sales, down from ~23.7% during CY22. France, Germany, Italy and the UK together represented ~60.0% of European car sales.
- USA: The proportion of EV sales relative to new car sales in the country stood at ~44.9% in CY23 (CY22: ~8.0%) During 1QCY24, the total number of EVs sold in the USA reached ~350,000 units, ~15% higher than SPLY.

Continent/ Region (CY23)	Approx. EV Sales (mln units)	Approx. % of EV Sales to New Car Sales	Market Share (EV Sales)
China	7.3	31.1%	53.0%
Europe	3.2	21.3%	23.2%
U.S.	1.4	44.9%	10.1%
Rest of the World	1.9	N/A	8.1%
Total	13.8	21.1%	100%

Passenger Cars

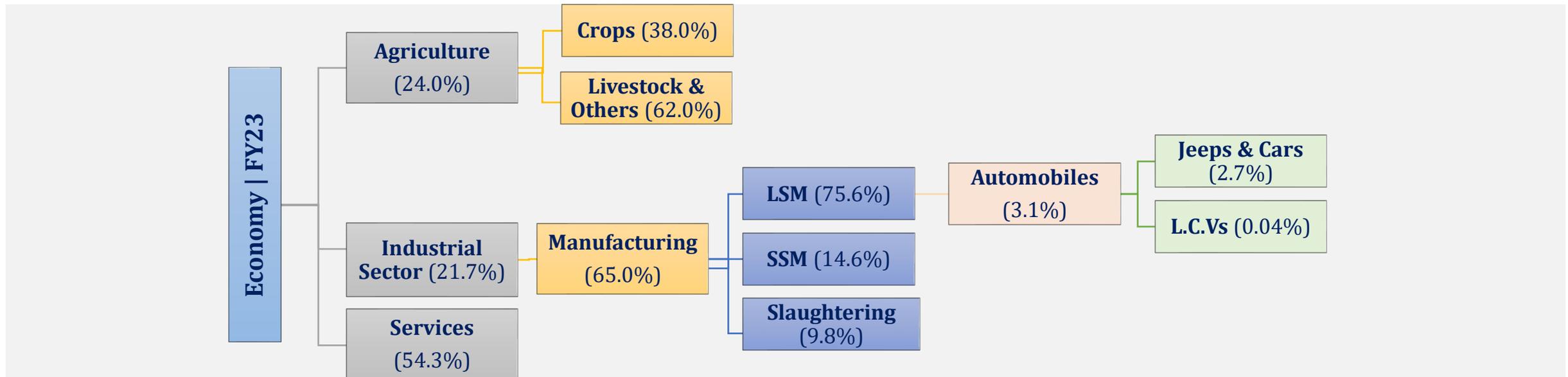
Global | Outlook

- Major factors impacting the automobile industry in CY23 included high prices, new market entrants and technological innovation. However, challenges like geopolitical tensions, high interest costs and supply chain disruptions continued to prove significant headwinds. Global vehicle sales (including passenger cars and commercial vehicles) in CY23 increased by ~13.6% YoY to clock in at ~92.7mln units sold worldwide (CY22: ~81.6mln units). Global passenger car sales registered a growth of ~11.3% YoY during CY23 (CY22: ~2.4%) and clocked in at ~65.3mln units, as against ~58.6mln units during SPLY.
- Globally, CY23 was majorly marked by the transition to greater number of electric vehicles (EVs), which, in turn, was largely driven by consumers' belief that it will substantially decrease the maintenance costs of vehicles compared with cars with fuels. At the same time, CY23 also saw consumers interest in less efficient vehicles which was driven by persistent affordability concerns.
- Governments across the world are offering incentives to boost the production of low-emission vehicles. Incentives within various industrial frameworks, like the US IRA, the EU Net Zero Industry Act, China's 14th Five-Year Plan, and India's PLI scheme, further promote the development of value and job opportunities throughout the EV supply chains within these economies.
- Additionally, at CY24 COP28, renewed pledges were taken to achieve net zero emission targets by CY50. However, even with price reductions from automakers and government incentives aimed at enhancing affordability, several hurdles persist, such as charging duration, and the accessibility of charging infrastructure and hyperinflationary pressures.
- Global EV sales (in units) clocked in at ~13.8mln for the first time in CY23 (CY22: ~10.2mln), proving the market's aim of achieving sustainability by CY50. It is expected that if electric car sales keep rising at this rate, sales could reach ~17.0mln in CY24, accounting for more than one in five cars sold worldwide. However, going forward, factors like supply chain disruptions, and rate hikes by central banks might serve to dent demand through CY24.
- In India, Tata's small Tiago accounted for ~20.0% of total EV sales during CY23, whereas large models and SUVs accounted for ~65.0% of EV sales. Similarly, in Thailand, Indonesia, Malaysia, and Vietnam, SUVs and larger models constituted the predominant portion of EV sales, with ~60.0%, ~55.0% ~85.0% and ~95.0% share in total EV sales.
- By End-CY24, the market share of electric vehicles could potentially climb to ~45.0% in China, ~25.0% in Europe, and ~11.0% in the United States, driven by manufacturer competition, declining battery and vehicle prices, and continuous policy backing. By CY25, it is anticipated that China will secure a ~12.0% share of the European EV market, driven by competitive pricing, advanced battery technology, and the increasing appeal of Chinese electric car brands in the U.K and other European and Asian regions.

Passenger Cars

Local | Overview

- In FY23, Pakistan’s GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). Industrial activities in FY23 held ~21.7% share in the GDP while the manufacturing activities made up ~65% of the value addition. In 1QFY24, Pakistan’s GDP (nominal) stood at PKR~22.6trn (1QFY23: PKR~18.4trn), rising in real terms by ~2.5% (1QFY23: ~0.99%). However, real GDP growth rate (~1.0%) for 2QFY24 signals a deceleration in comparison to SPLY and 1QFY24 (~2.2% and ~2.5%, respectively).
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~75.6% value of manufacturing activities in FY23. The LSM fell by ~10.3% in FY23 (FY22: ~11.7%) However, it increased by ~0.51% YoY in 7MFY24 period.
- The Automobiles sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY23, the sector’s weight in the QIM was recorded at ~2.8%. During 8MFY24, Jeeps, Cars and L.C.Vs performance in LSM was down ~39.9%, 30.1% and ~42.7%, respectively.



Note: Based on production numbers, shares of Jeeps and Cars are ~21.7% and ~78.3%, respectively.

Passenger Cars

Local | Supply

- Currently, prominent 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. These sell their cars through authorized local dealership network across the country.
- During FY23, passenger cars sales volume recorded ~58.7% slump YoY, amid import restrictions by SBP (May'22-Jun'23) and the resultant spike in car prices. Moreover, inflation averaged at ~29.1% during the year, further suppressing demand.
- Despite the aforementioned supply chain disruptions easing out post-FY23, passenger car sales during 9MFY24 period were further down by ~36.9% YoY, in the presence of persistently high inflation levels and pricier cars.

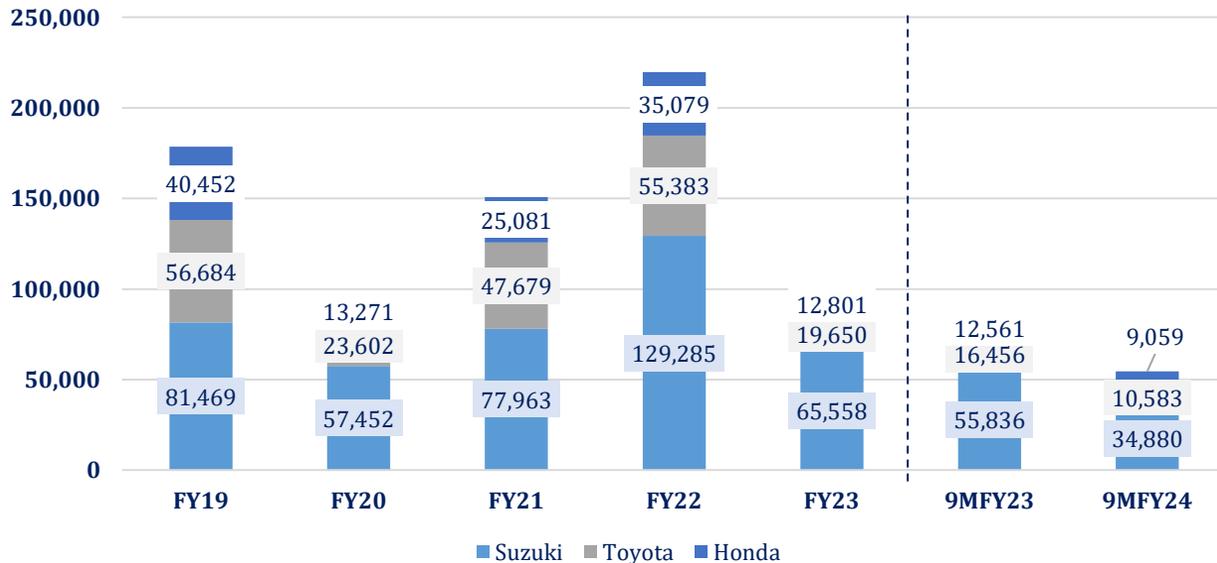
Passenger Vehicles Units Sold							
Type	FY19	FY20	FY21	FY22	FY23	9MFY23	9MFY24
Cars	207,630	96,455	151,182	234,180	96,811	85,776	54,089
Jeeps	7,654	3,459	11,306	27,608	24,190	19,513	9,989
Pickups	25,362	12,048	18,909	17,479	5,877	5,116	5,000
Total	240,646	111,962	181,397	279,267	126,878	110,405	69,078

Passenger Cars

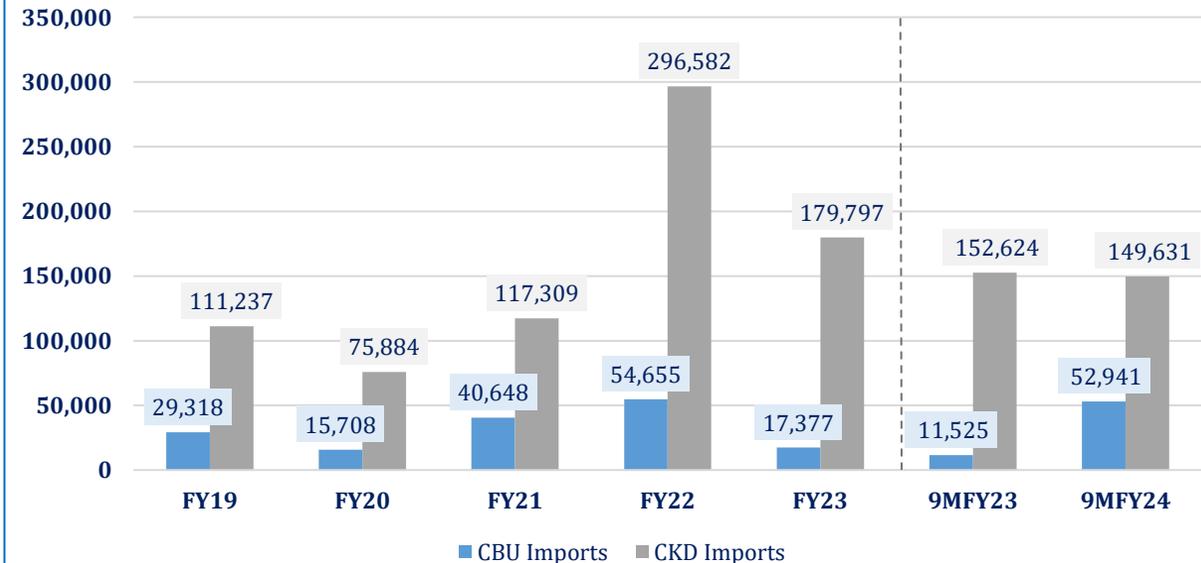
Local | Supply

- 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. During 9MFY24, Pak Suzuki Motors held ~64.0% market share in terms of production among the largest three OEMs (9MFY23: ~65.8%). Other OEMs/ distributors include Hyundai, BAIC and Lucky Motors (KIA, Peugeot).
- During the period, Completely-Built Units (CBUs) imports climbed to PKR~52.9bln, a significant ~359.0% YoY increase, likely due to removal of import restrictions in Jun'23 as well as Regulatory Duty in FY24 budget on used cars up to 1800cc (per S.R.O.157(1)/2022, this was 100%). Completely-Knocked Down (CKD) units imported were recorded at PKR~149.6bln, compared with PKR~152.6bln, down ~2.0% YoY.

Production (units) | Major OEMs



Car Imports | PKR mln

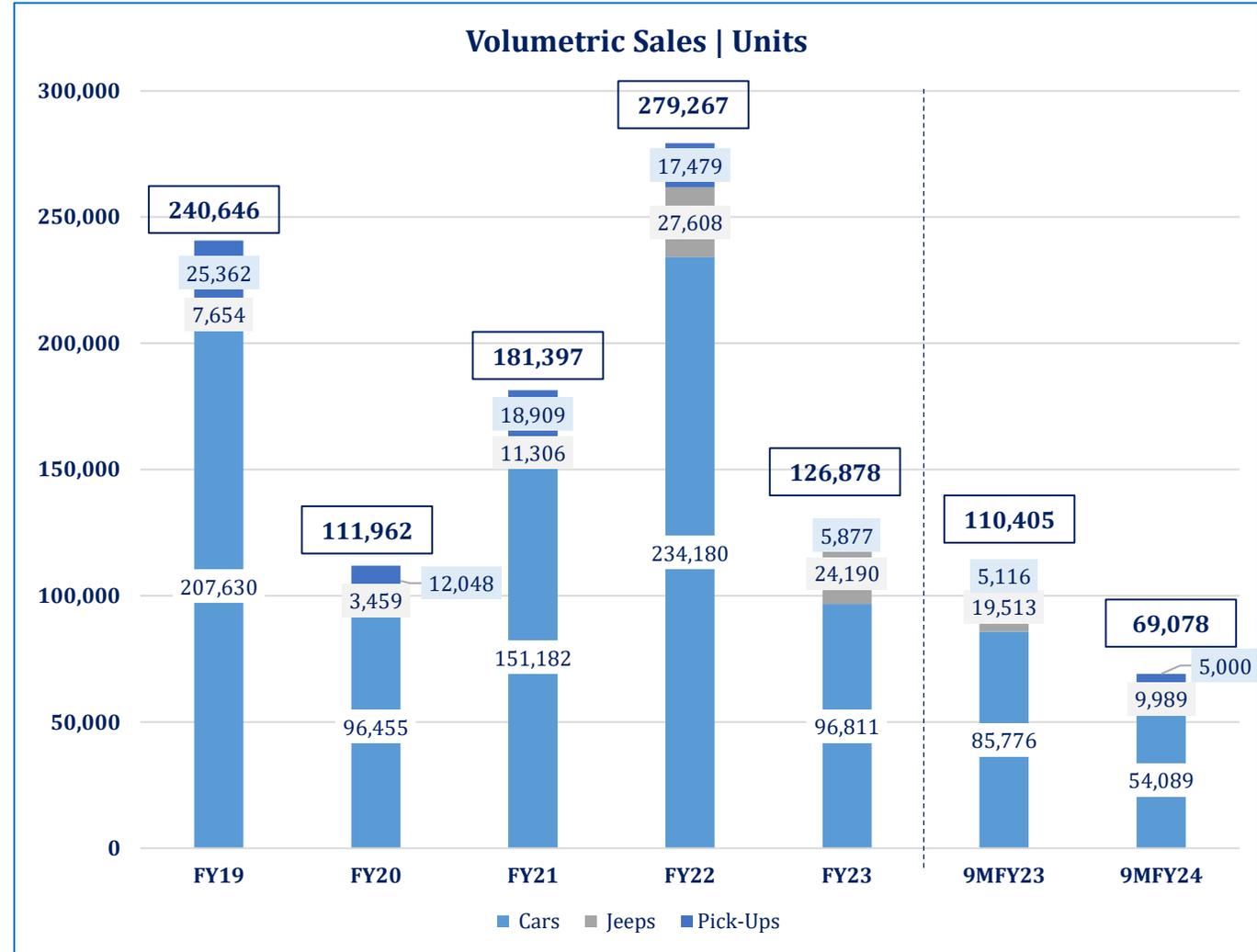


Note: Data in Chart 1 pertains to OEMs comprising ~96% of market share in terms of production in FY23. HS code on which RD was repealed in FY24 budget include 8703.2113

Passenger Cars

Local | Demand

- During FY23, sales for cars, jeeps and pick-ups registered a sharp decline of ~59.0%, ~12.0% and ~66.0%, respectively, compared with a positive growth of ~54.0% and ~144.0% in sales of cars and jeeps and ~8.0% decline in sale of pick-ups during FY22, reflecting a sharp downturn for local sector players.
- During 9MFY24, sales for cars, jeeps and pick-ups registered a decrease of ~37.0% ~50.0% and ~2.0% YoY, respectively.



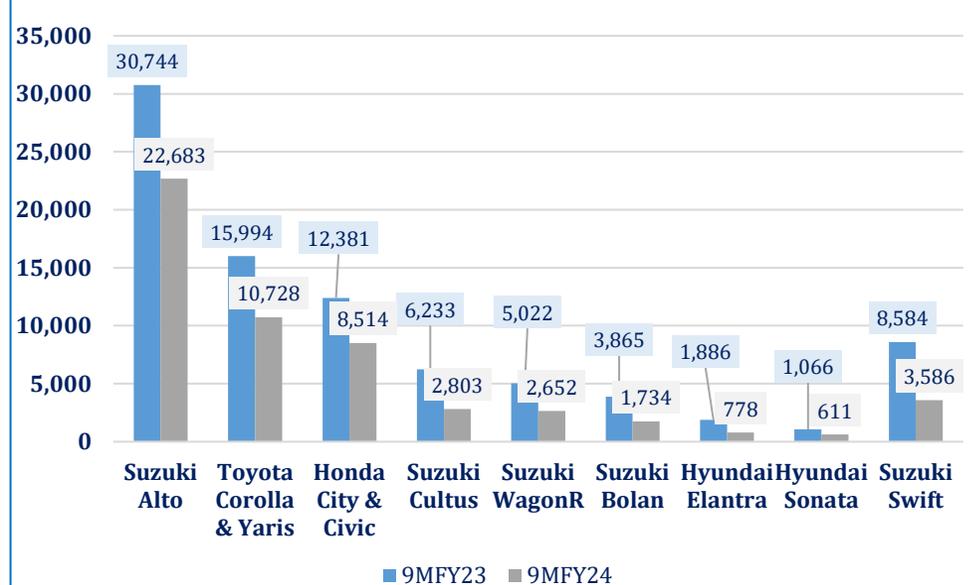
Note: Total Sales levels stated above respective bars.

Passenger Cars

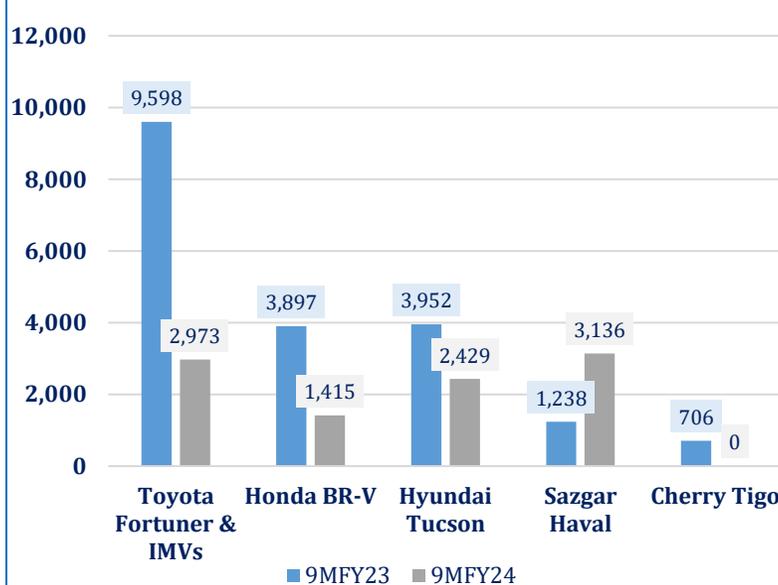
Local | Demand

- The top selling car brand's (Suzuki Alto), sales were down ~26.2% YoY during 9MFY24. Toyota Corolla and Yaris were the second most popular consumer choice, sales for which also declined ~32.9% YoY, whereas Honda City & Civic sales dipped by ~31.2% YoY. This decline in sales may be attributed to escalating car prices, expensive auto financing, and the low purchasing power of consumers. Pak Suzuki's plant was shutdown for a brief period during Oct-Nov'23 and the company has been delisted since April 26, 2024.
- The Jeeps segment was considerably affected negatively during 9MFY24. Toyota Fortuner and Toyota IMVs took the lead in 9MFY24 and exhibited a sharp dip of ~69.0% YoY. Meanwhile, Hyundai Tucson and Honda-BRV sales were down ~63.7% and ~38.5% YoY, respectively. Meanwhile, Pickup sales decreased by ~2.3% YoY during 9MFY24. Among these, Suzuki Ravi experienced ~40.2% YoY dip in sales.

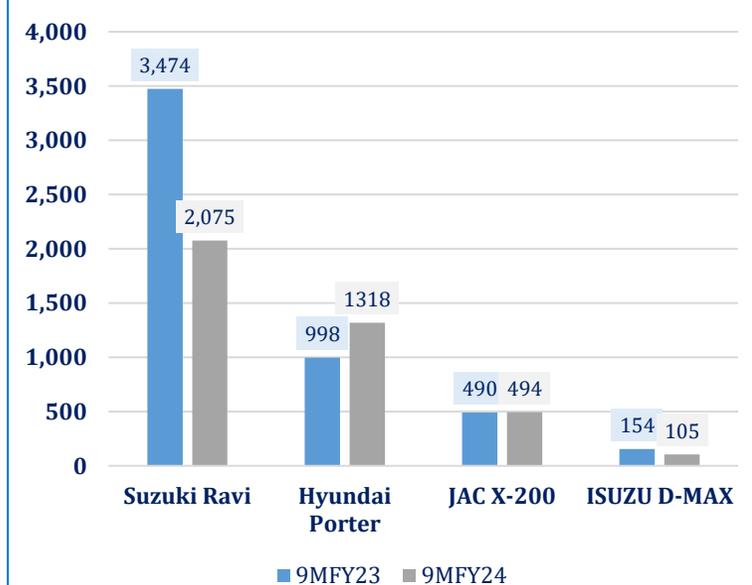
Variant-wise | Car Sales (units)



Variant-wise | Jeep Sales (units)



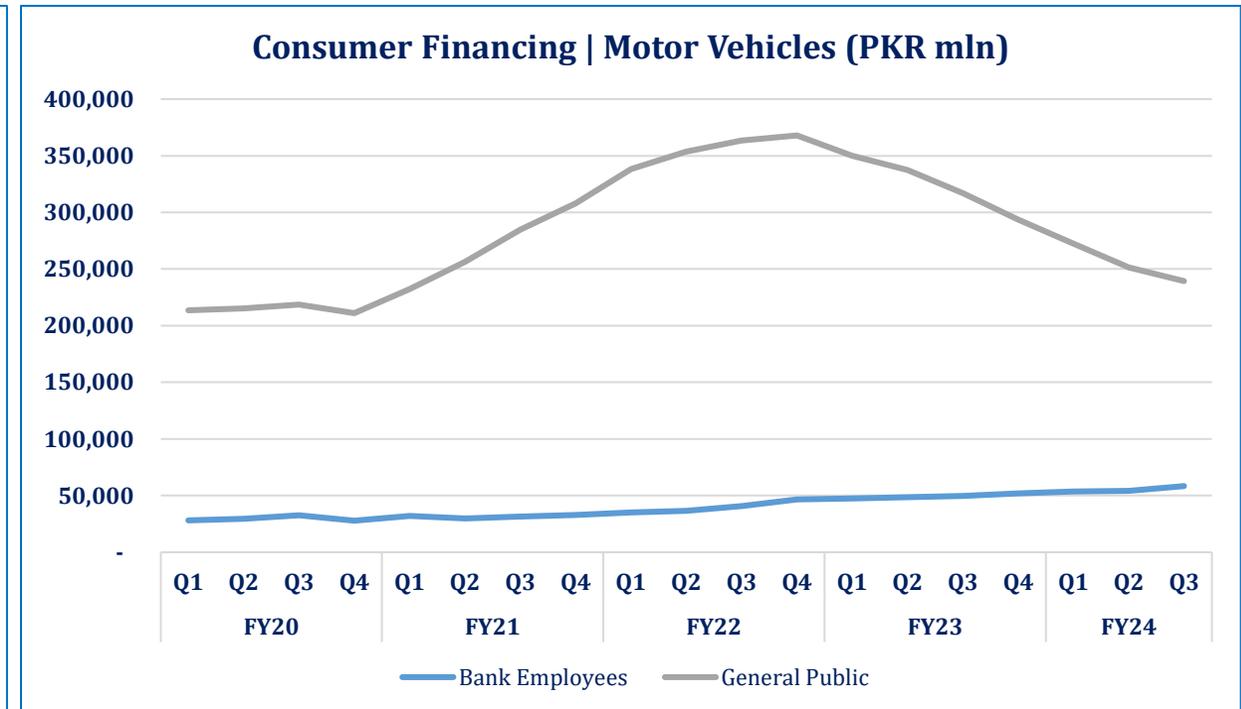
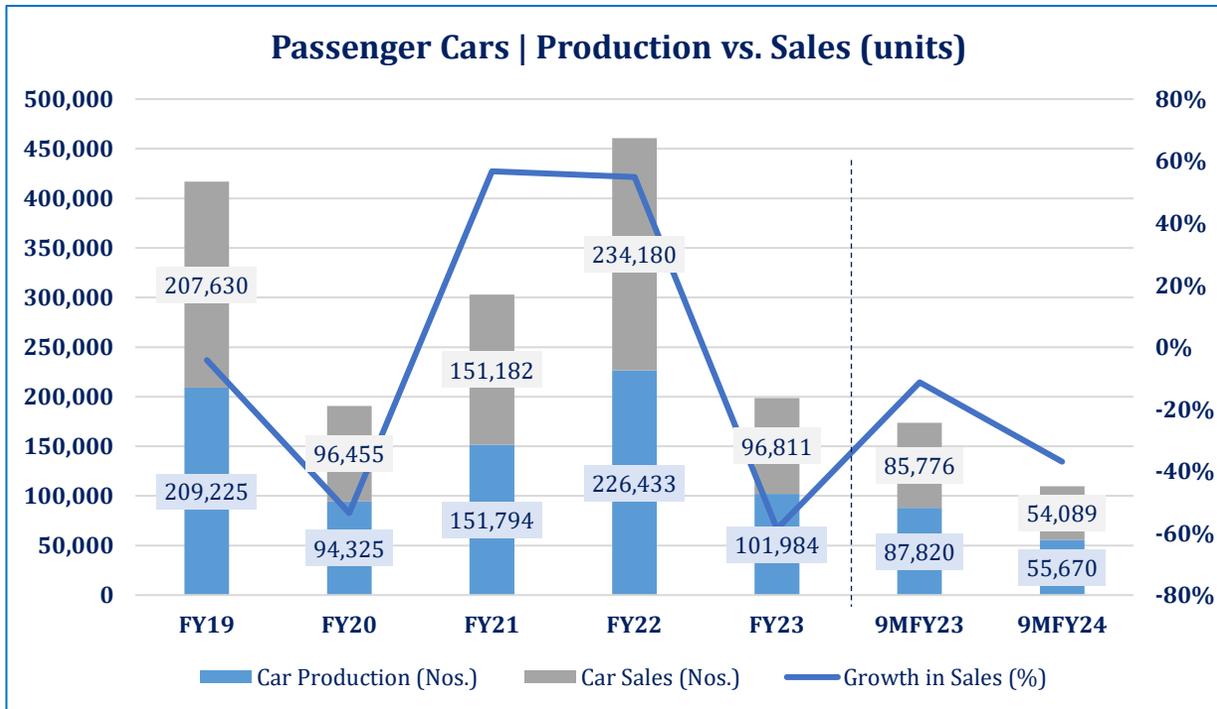
Variant-wise | Pick-Up Sales (units)



Passenger Cars

Local | Supply & Demand

- The 9MFY24 period registered a massive decline in production and sales of cars. While the former decreased by ~36.6%, the latter fell by ~36.9% YoY. During FY23, car production and sales dipped by ~55.0% and ~59.0% YoY, respectively.
- At the same time, high financing costs and inflation suppressed the demand for cars. Average consumer financing for the general public, as depicted in the chart, peaked at PKR~367.8bln during 4QFY22 and dipped ~35.0% to PKR~239.4bln during 3QFY24. This cements the prohibitively high cost of borrowing due to high interest rate that eroded purchasing power of consumers as well as increased prices of the car. During 9MFY24, average inflation recorded at ~26.2% (SPLY: ~28.1%), resulting in continued low disposable income levels.



Passenger Cars

Local | Chinese and Korean Models



- The AIDEP Policy 2021-26 provides tax incentives for investors interested in establishing automobile manufacturing facilities in Pakistan. Its objective is to enhance competition among Original Equipment Manufacturers (OEMs) and various tiers of the supply chain, thereby enhancing product quality, streamlining prices, and delivering superior offerings to customers. The Policy aims to offer tax incentives for local car manufacturers (new and existing).
- Prior to AIDEP Policy 2021-26, the Auto Policy 2016-21 offered tax incentives to investors seeking to set up their automobile manufacturing plants in Pakistan. It had resulted in several new Chinese and Korean investors entering the market such as KIA Motors, DSKF Motor Co Ltd., Hyundai Motors, Changsha Foton Vehicle Technology Co. Ltd, Changan International Corporation Ltd.

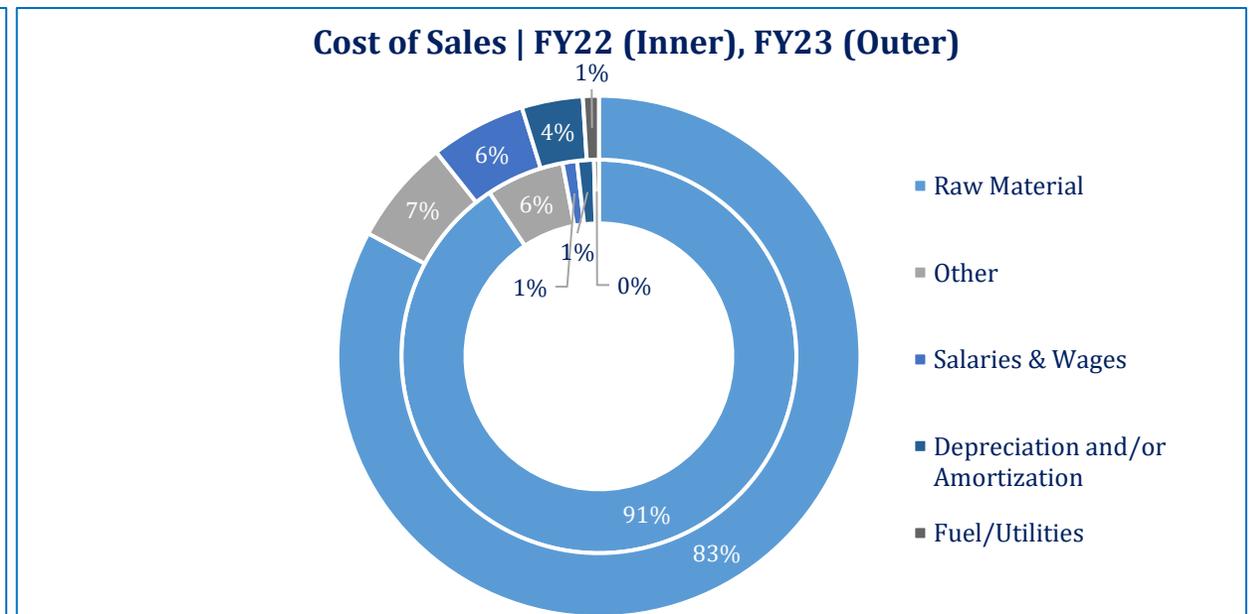
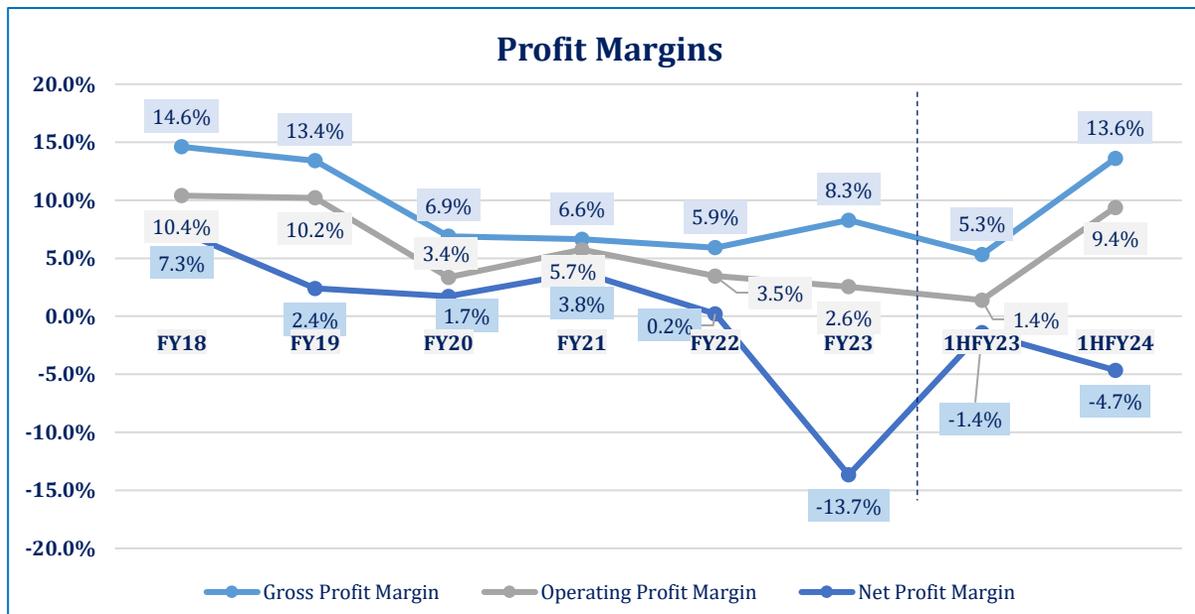


Business & Financial Risk (OEMs)

Passenger Cars

Business Risk | Margins & Cost Breakup

- During FY23, average gross margins stood at ~8.3% (FY22: ~4.8%), owing to better cost of sales management since these were down 39.0% YoY. Average operating margin rose to ~2.6% in FY23, owing to a decline in the administrative and selling & marketing expenses of ~59.0% YoY. However, average net margins declined to ~-13.7% in FY23, reflecting exorbitantly high finance costs of leading sector player (66.0% market share in FY23) where the increase was ~151.7% YoY.
- The sector exhibited signs of improvement during 1HFY24 after import restrictions by SBP were lifted, thereby increasing average gross margins and operating margins to ~13.6% (SPLY: ~5.3%) and ~9.4% (SPLY: ~1.4%), respectively. Nevertheless, during 1HFY24, average net margins remained in the negative zone, recording at ~-4.7% (SPLY: ~-1.4%).
- The cost of goods sold for the sector fell by ~39.0% in FY23 due to low imports amid import restrictions May'22-Jun'23 imposed by SBP. Raw material is the most significant component of the sector's direct costs, making up for ~83.0% during the year (FY22: ~91.0%).



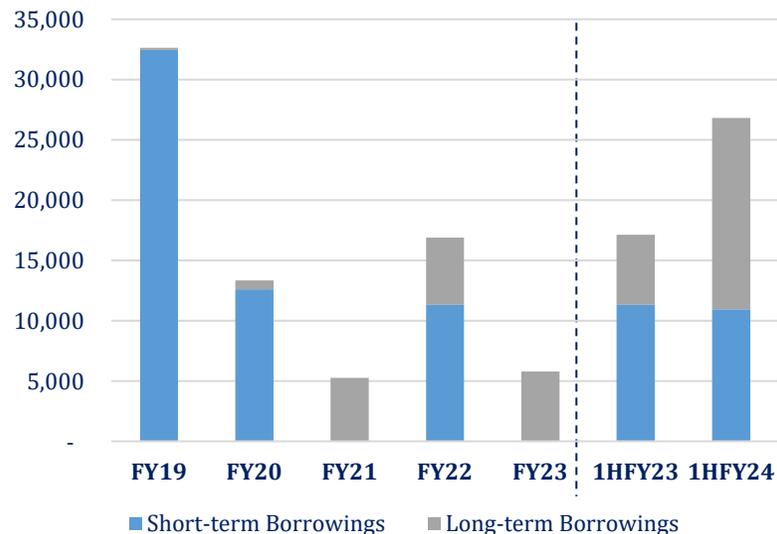
Note: Data is representative of 3 Listed/PACRA-rated players, whereas margins are revenue-weighted.

Passenger Cars

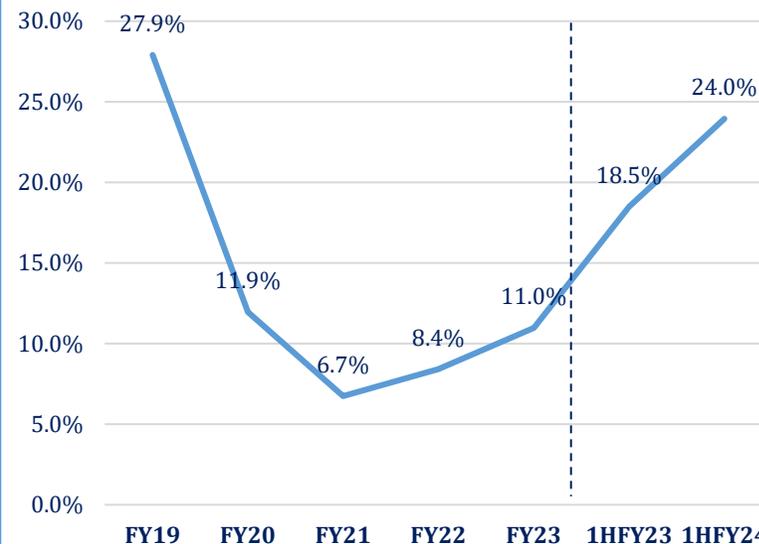
Financial Risk | Borrowings

- During FY23, the sector's average short-term borrowing was down ~100.0% YoY due to import restrictions by SBP (May'22-Jun'23) and slow business activity. Where total borrowings declined by ~66.0% YoY, equity was down ~59.0% YoY resulting in an overall increase in leverage to ~11.0% (FY22: ~8.4%). Although, short-term borrowings during 1HFY24 depicted ~3.3% YoY decline, however, these were up ~100.0% when compared with FY23. FY21 and FY23 show negligible short term borrowings as they were un-availed at the respective year end.
- The policy rate was increased from ~13.8% in Jun'22 to ~22.0% in Jun'23, therefore, despite ~66.0% YoY lower total borrowings, high finance cost of the market leader resulted in overall coverage deteriorating from ~39.4x in FY22 to ~8.9x in FY23. However, this improved to ~3.1x during 1HFY24 (1HFY23: ~-20.4x). The policy rate has been kept steady since Jul'23 at ~22.0%.

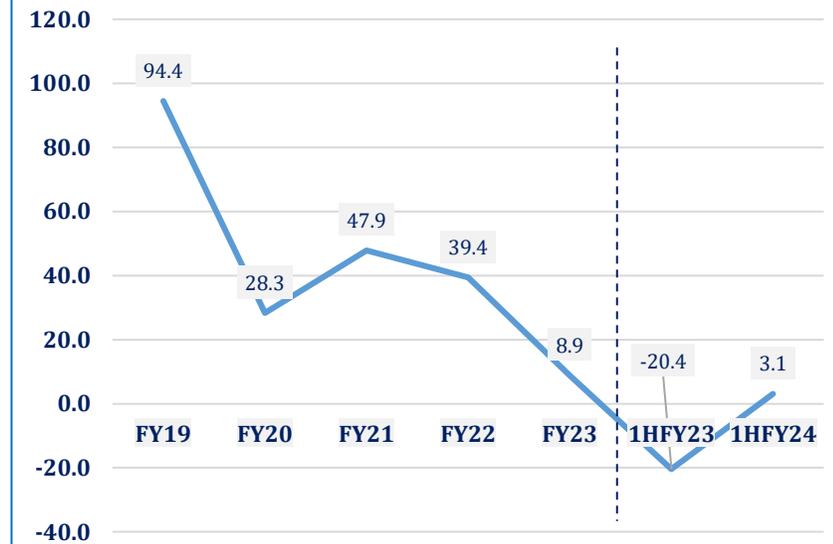
Borrowings Trends



Average Leverage



Interest Coverage (times)

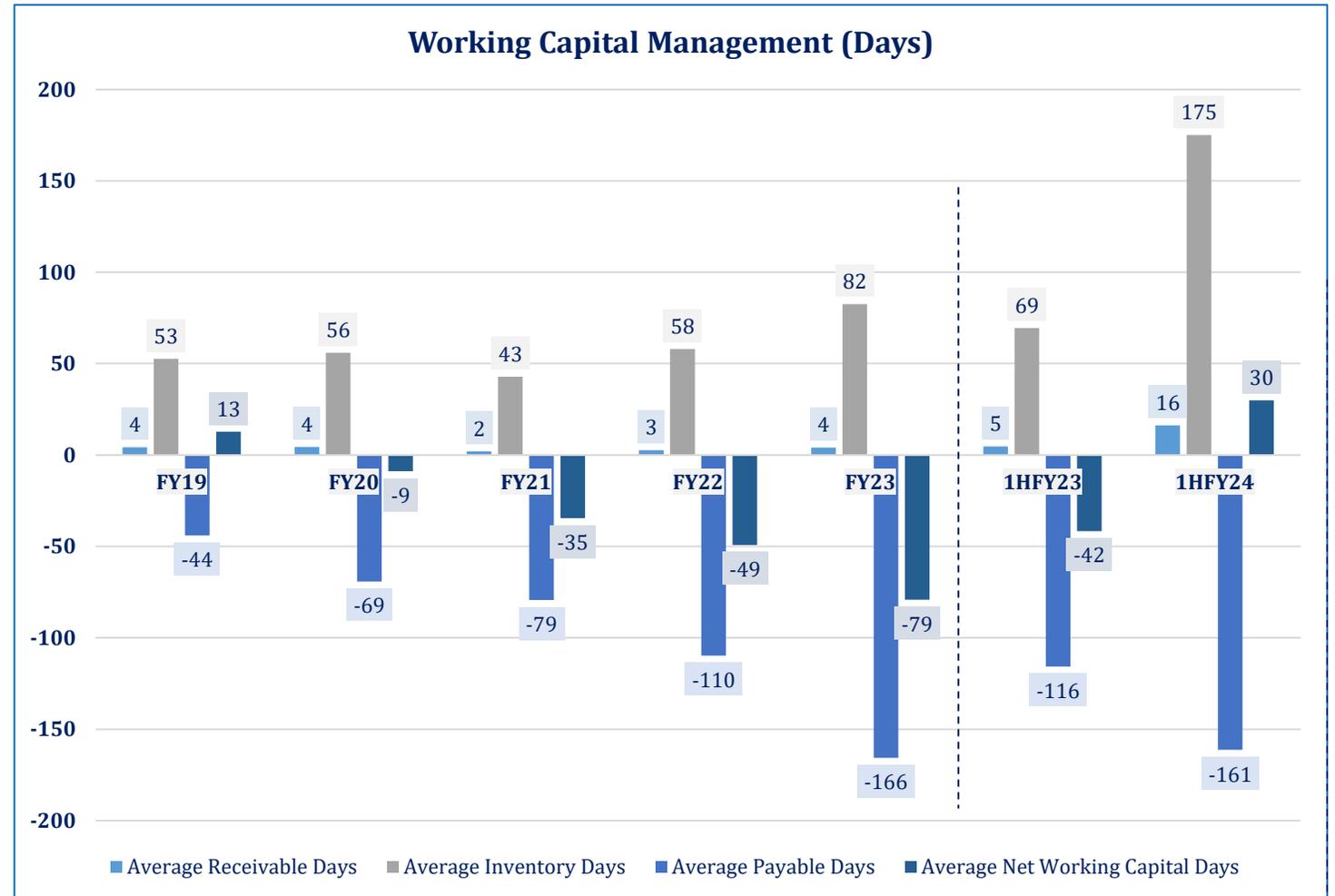


Note: Data is representative of 3 Listed/PACRA-rated players.

Passenger Cars

Financial Risk | Working Capital Management

- The net working capital cycle of the sector is largely a function of inventory days, as well as payable days.
- In FY23, the sector's average working capital management improved as the working capital days were recorded at ~-79 days (FY22: ~-49 days), as payable days increased from ~110 days during FY22 to ~166 days during FY23 while inventory days rose from ~58 days in FY22 to ~82 days in FY23.
- However, during 1HFY24, the sector's average working capital management deteriorated and net working capital days were recorded at ~30 days, this happened due to a considerable increase in inventory days (~106 days). However, the sector's payable days increased by ~45 days to ~161 days during 1HFY24 (1HFY23: ~116 days), thereby making cash cycle management difficult.





Business & Financial Risk (Car Dealers)

Passenger Cars

Rental Segment | Overview

Types of Contracts

Daily (mostly with individuals)

Weekly/ Monthly (mostly with individuals)

Long-term Leases (mostly with Multinationals/ national corporates)

Characteristics

1. Leased vs. Owned vehicles.
2. Provision of maintenance Services, Insurance Cover, Fleet supervisors, Chauffeur-driven vs. self-driven.
3. Highly fragmented/unorganized sector, with no formal representative association.

Key Market Drivers | Supply Side

Urbanization, increase in business travel and tourism, staff and event commute.

Key Restraints

High up-front cost for startup, high operational costs, Stringent regulatory environment.

Opportunities | Supply Side

Rising demand for EVs, Partnerships with ride sharing technologies, Integration of advanced technologies, economies of scale

Challenges

Supply chain disruptions, Fluctuating fuel prices, bargaining power of buyers and suppliers, threats of new entrants

Prices Overview

Economy Car (PKR~3,000-5,000/day)

Midsize Car (PKR~5,000-7,000/day)

SUV (PKR~7,000-10,000/day)

Luxury Car (PKR~15,000-20,000/day)

Few Segment Players

Avis (up to ~25% off over weekends); **Hertz** (~5 stations; 3 ~cities); **Europcar** (~11 stations; 3 rental locations); **Royal Taxi, Optimus, Capital Rent-a-Car** (Fleet: ~300 vehicles), **Zealot Tours**, among others.

Market Size | Global

Revenue (CY22):
USD~115.8bln

Expected to grow to USD~329.8bln at a CAGR of ~11.0% (CY23-32)

Passenger Cars

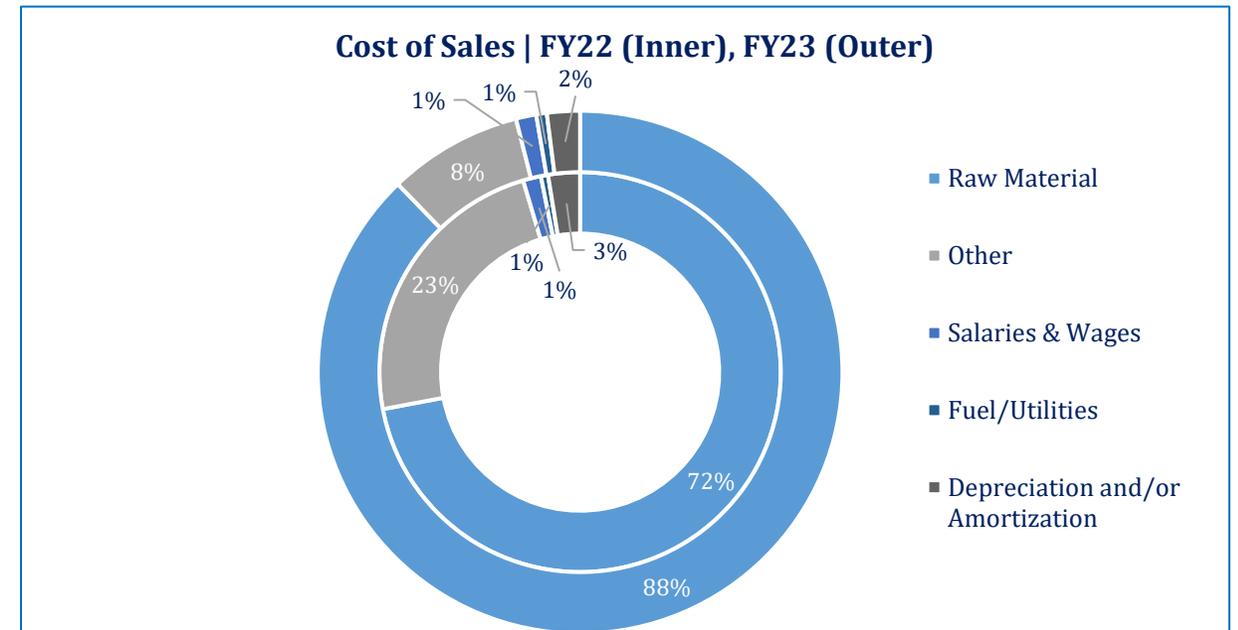
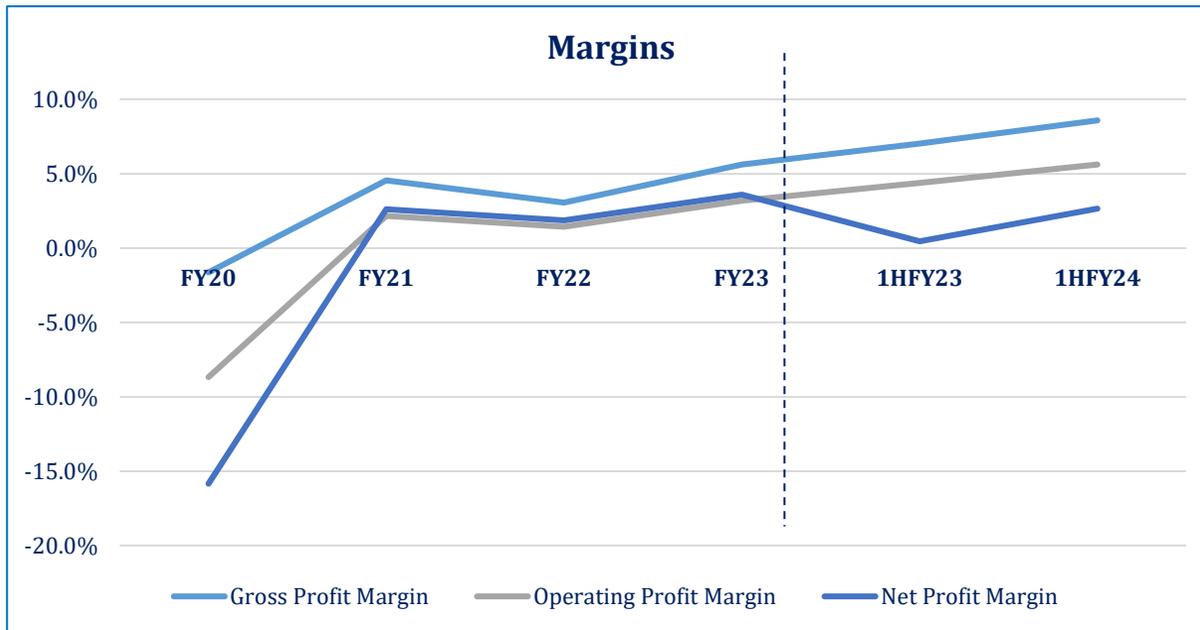
Dealers Segment | Overview

- A car dealership, also known as a car dealer, operates as a business assembling and selling new or old vehicles at the retail level under a dealership contract with an automaker. Vehicles encompass passenger cars, light commercial vehicles, SUVs and 4WD amongst others. Additionally, car dealerships commonly offer spare parts and automotive maintenance services.
- The size of the global car dealership market clocked in at USD~3.33bln in CY22 and is projected to reach USD~6.04bln by CY28, exhibiting a CAGR of ~10.4% from CY22-28.
- Over the past year, the dealer segment of Pakistan has witnessed a significant downturn on the back of dwindling macroeconomic factors including high inflation and extensive PKR depreciation coupled with elevated interest rates have increased the cost of imported raw materials and finance costs and triggered substantial price hikes.
- Furthermore, the supply side was disrupted by shortages of CKD kits, leading to non-production days and frequent plant shutdowns. During FY23, the number of cars sold declined by ~58.7% and stood at ~96,811 units (FY22: ~234,180 units).
- Car dealers' income streams generated from the sale of new vehicles account for ~80-85%, while after-sales services account for ~20-15% to the dealership's profitability. The 'after sale' segment caters profitability by covering operational costs and reporting net profits for the dealers.

Passenger Cars

Car Dealers | Business Risk

- During FY23, average gross margins of the segment recorded at ~5.6% (FY22: ~3.1%), owing to a decrease in sales revenue (~24.0%) being lower than the decline in cost of sales (~28.0%). Increased vehicle prices owing to the impact of PKR depreciation (~39.0%), elevated interest rates (~22.0%) and reduced purchasing power of consumers due to high inflation (~29.1%) were major constraints in sales growth of the segment during FY23. Average operating margins rose from ~1.4% in FY22 to ~3.2% in FY23, owing to a decline in the administrative and selling & marketing expenses.
- However, despite high finance costs, average net margins increased from ~1.9% in FY22 to ~3.6% in FY23, likely on the back of lower short-term borrowing. During 1HFY24, average operating and net margin increased to ~5.6% (1HFY23: ~4.4%) and ~2.7% (1HFY23: ~0.5%), respectively. The rise in average net margins during 1HFY24 was likely the result of lower finance costs due to lower borrowings.

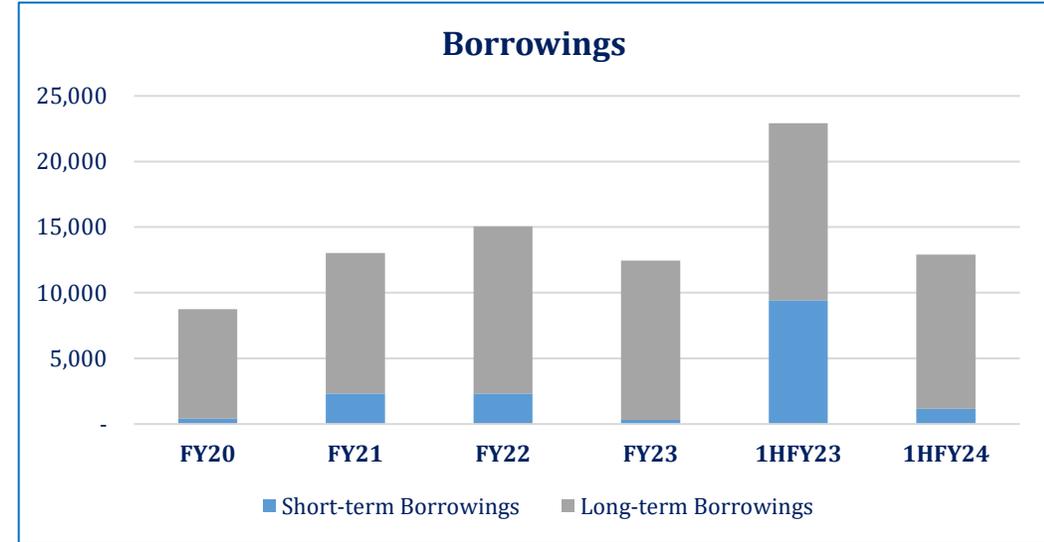
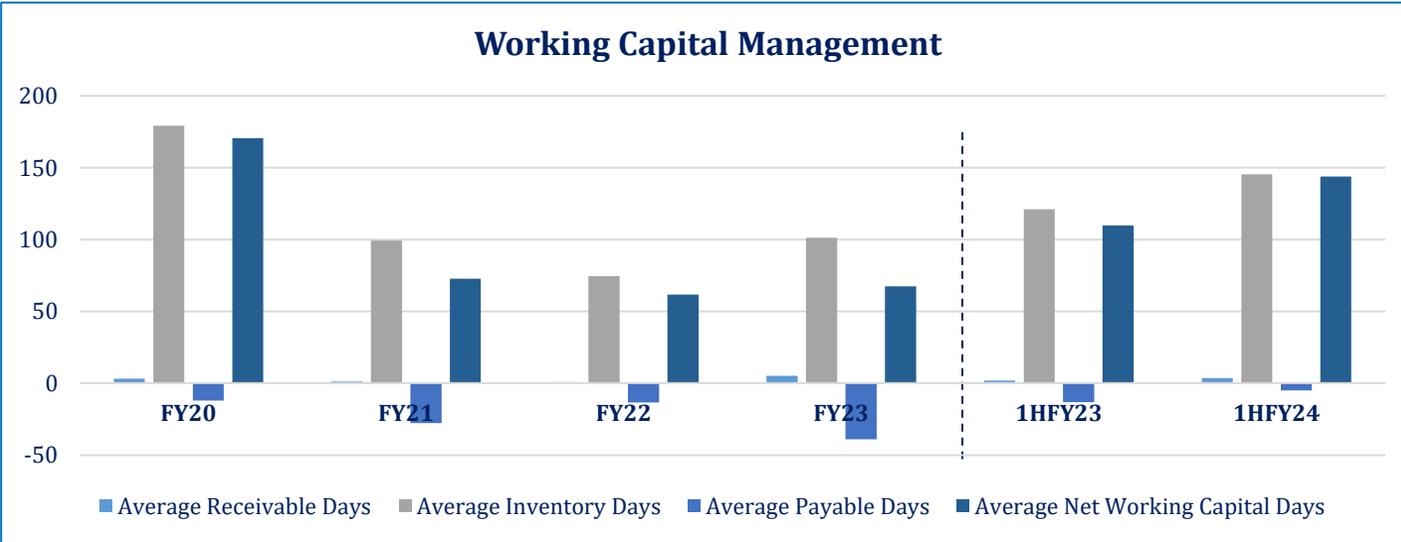
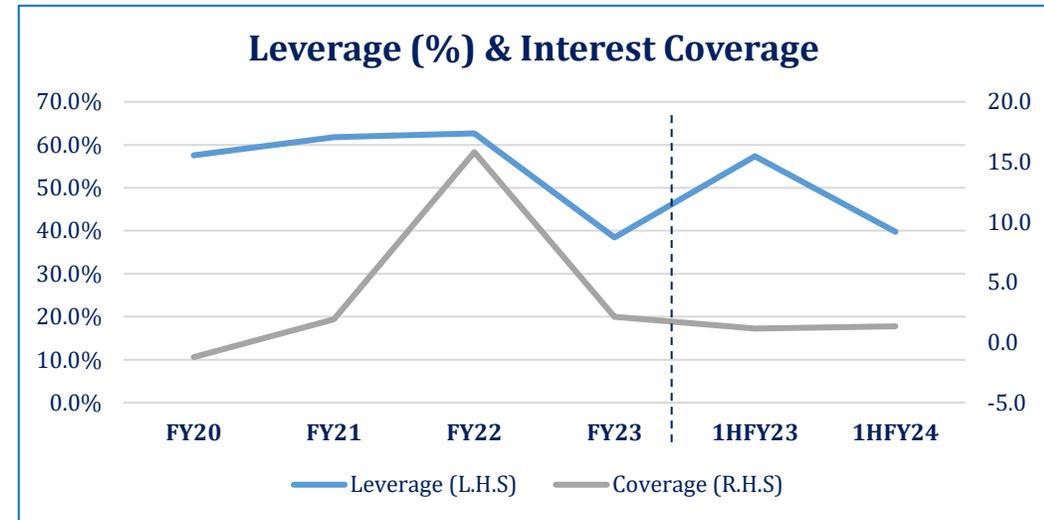


Note: Data is representative of 2 PACRA-rated players.

Passenger Cars

Car Dealers | Financial Risk

- In FY23, segment's average working capital days were recorded at ~67 days (FY22: ~62 days), as inventory days increased to ~101 days (FY22: ~74 days), whereas average payable days rose to ~39 days (FY22: ~13 days).
- Average working capital days were recorded at ~144 days during 1HFY24 (1HFY23: ~110 days) since average receivable days registered an increase of ~24 days YoY and clocked in at ~145 days. Meanwhile, average payable days declined by ~8 days to ~5 days (1HFY23: ~13 days), coinciding with lower borrowings during the year.
- During FY23, segment's total borrowings were down ~17.3% YoY, while equity increased by ~122.0% YoY resulting in ~24.2% YoY decline in leverage. However, average interest coverage deteriorated to ~2.1x (FY22: ~15.8x).

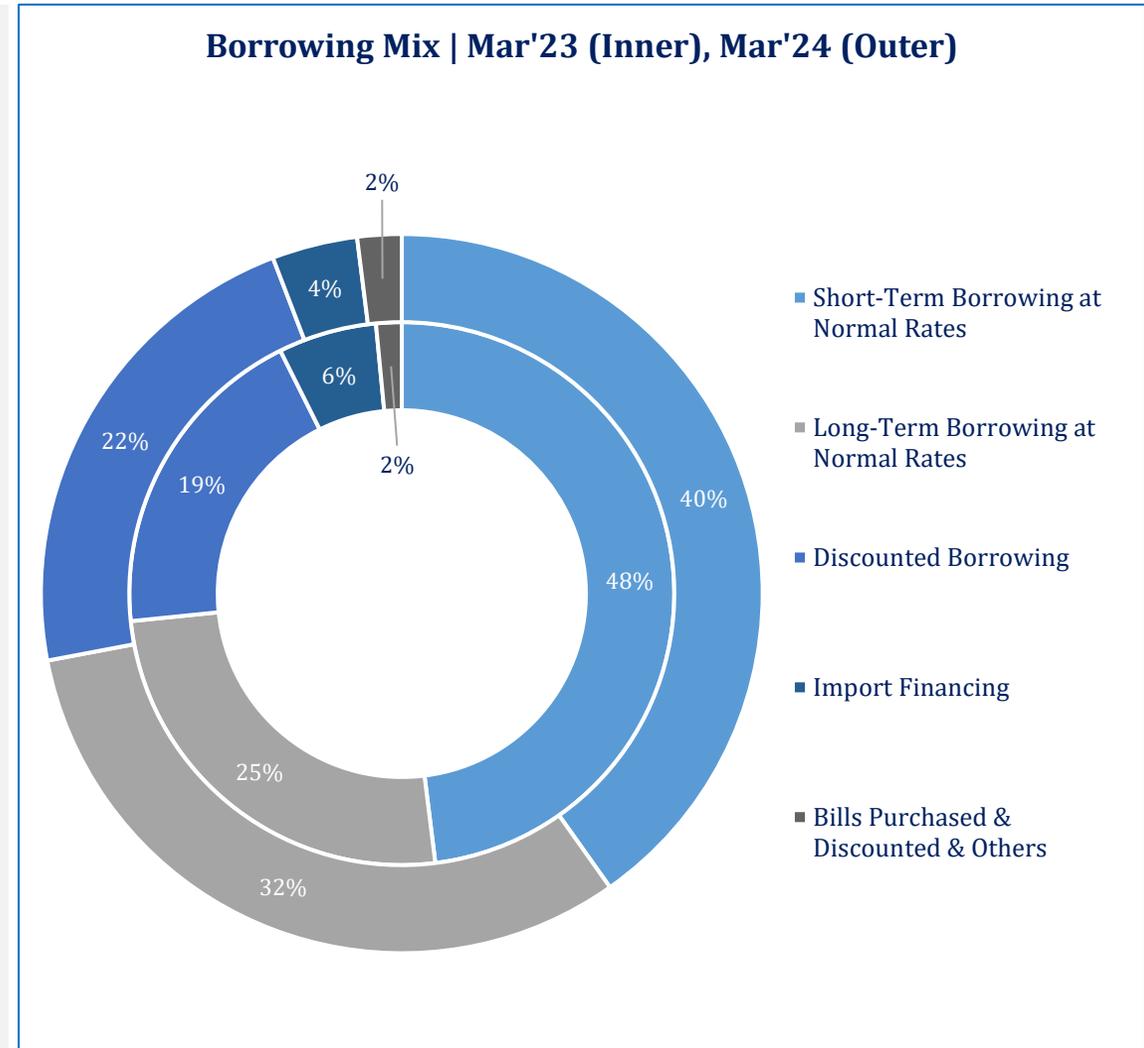


Note: Data is representative of 2 PACRA-rated players.

Passenger Cars

Financial Risk | Sector Borrowings (Overall)

- As of End-Mar'24, the sector's overall borrowings with respect to 'Manufacture of Motor Vehicles' stood at PKR~54.4bln, down ~22.0% YoY (End-Mar'23: PKR~69.9bln), whereas those with respect to 'Sale of Motor Vehicles' stood at PKR~18.3bln, down~18.0% YoY (End-Mar'23: PKR~22.2bln).
- Short-term borrowings (STBs) stood at PKR~29.2bln down ~34.0% YoY and held the largest share in the sector's borrowing mix at ~40.0% (SPLY: ~48.0%). STBs for 'Manufacture of Motor Vehicles' recorded ~40.6% YoY dip, registering at PKR~17.1bln.
- Long-term borrowings (LTBs) stood at PKR~23.1bln, down ~1.0% YoY and held a share of ~32.0% in overall borrowings (End-Mar'23: ~25.0%). LTBs for 'Manufacture of Motor Vehicles' recorded ~0.8% YoY dip, registering at PKR~18.4bln.
- Discounted borrowing as at End-Mar'24 stood at PKR~16.1bln (End-Mar'23: ~17.7bln), down ~9.0% YoY with a share of ~22.0% in the borrowings mix (SPLY: ~19.0%).
- Import financing schemes stood at PKR~2.8bln (SPLY: 5.4bln), held ~4.0% share in the total borrowings mix and registered the largest decline of ~48.0% as at End-Mar'24.



Passenger Cars

Auto Policy 2021-26 | Salient Features

The policy encompasses localization of parts and components, implementation of safety regulations, promotion of new technologies, exports of auto parts & completely built-up units, consumer welfare and promotion of manufacturing of specialized vehicles. AIDEP anticipates fair competition across various vehicle segments. New investors are poised to enhance productivity and expand capacities over this time. Incentives granted to newcomers facilitate local manufacturing, while AIDEP pledges to sustain previous policy incentives for continual growth.

Meri Garri Scheme – Promotion of small cars and L.C.Vs which are fuel efficient (applicable to vehicles up to 1000cc).

- i. Custom Duty (CD) on localized parts will be ~30% and on non-localized parts will be ~15% for three (03) years from date of issuance of manufacturing certificate or June 30, 2026.
- ii. Sales tax reduction to 12.5 % at sales stage.
- iii. Removal of Additional Custom Duty (ACD), Withholding Tax (WHT) & Federal Excise Duty (FED) on locally manufactured vehicles.

Electric Vehicles

- i. For EVs, SUVs, L.C.Vs and Vans, the CKD non-localized will attract ~10% CD and CKD localized will attract ~25 % CD.
- ii. Exemption of sales tax and VAT on imports and ~1% sales tax on sales applicable to small cars/vans/SUVs with ~50KWH battery or below and LCV with ~150 KWH battery pack or below.
- iii. The maximum quantity of EV CBUs permitted per company shall be capped at 100 units, with a maximum of 10 units per variant, as determined by the EDB after verification of the manufacturing facilities by EDB.

Passenger Cars

Auto Policy 2021-26 | Salient Features

Incentives for Electric Vehicles

- i. Additional Custom Duty to be 0% on CKD manufacturing of EVs.
- ii. Duty free import of plant and machinery of EVs, 0% CD, ACD 0%.
- iii. Import of EV chargers to attract 1 % CD, ACD 0%.
- iv. EVs (both imported and locally manufactured) to be exempt from FED.

Charging Infrastructure

To boost the adoption of electric vehicles (EVs), infrastructure development is crucial in major cities, commercial/government buildings, and along motorways/highways. An inter-ministerial committee has outlined recommendations for relevant authorities:

- i. Charging infrastructure will be deployed in selected cities and later expanded to secondary cities. Each selected city will have at least one DC fast charger within every 3x3 km or 4x4 km grid.
- ii. Fast chargers will be placed along major motorways and highways every 15-30 km, starting with highway N5 and rest areas of motorways M1, M2, M3, M4, M5, and M9. Expansion will cover all motorways and highways nationwide.
- iii. Public charging stations may offer standardized swappable battery facilities for specific vehicle categories.
- iv. Electric Distribution Companies (DISCOs) will identify feeders to support fast charging stations. If system constraints arise, DISCOs will resolve supply issues.
- v. Government bodies will encourage existing CNG and fuel stations to participate in establishing charging infrastructure.
- vi. Smart charging methods, including smart metering and time-of-use pricing, may be implemented at charging stations, particularly for Level-2 and above, to alleviate strain on the main grid.

Passenger Cars

Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Sales Tax		Federal Excise Duty	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
8703.2192	Components for the assembly/manufacture of 4X4 vehicles	55%	55%	7%	7%	0%	0%	18%	18%	0%	0%
8703.2193	4X4 vehicles (CBU)	55%	55%	7%	7%	100%	15%	25%	25%	2.5%	2.5%
8703.2119	Cylinder Capacity: up to 1000cc	50%	50%	7%	7%	0%	0%	25%	25%	2.5%	2.5%
8703.2220, 2290,2319	Cylinder Capacity: >1000cc & <3000cc	60-75%	60-75%	7%	7%	15%	15%	25%	25%	10%	10%

Notes

- 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.
- In the Budget 2023-24, custom duty (CD) on the import of Completely-Knocked Down (CKD) kits of HEVs has also been reduced to ~4%, from the previous rate of ~5%. The CD on the import of plugin hybrid electric vehicle (PHEV) CKDs has been reduced to ~3% from the previous rate of ~5%. Hence, the local assemblers of hybrid cars will have to pay less duty on importing the parts and components of hybrid cars.

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.

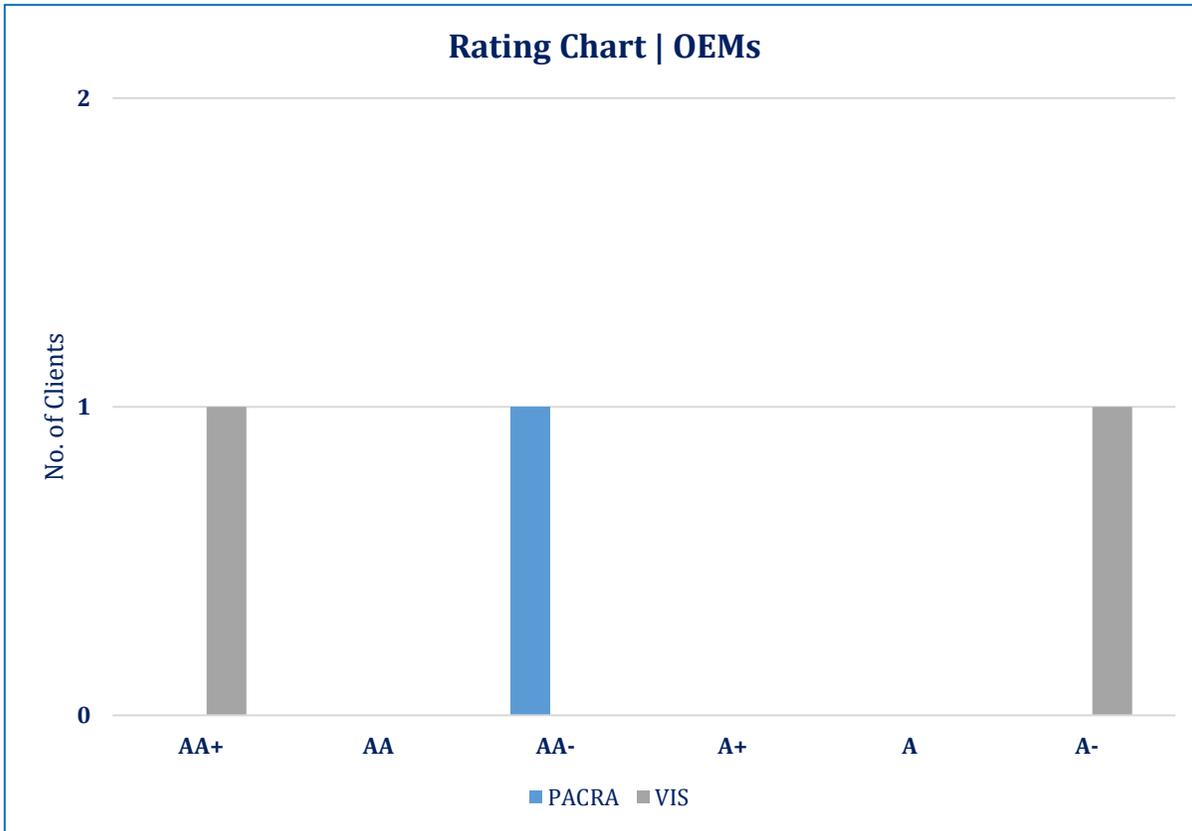
- Large population with younger individuals entering the workforce than ever before is a natural demand driver.
- AIDEP 2021-26 can present opportunities for innovation and localization.
- Adoption of WP-29 regulations will increase global competitiveness of locally manufactured vehicles.

Passenger Cars

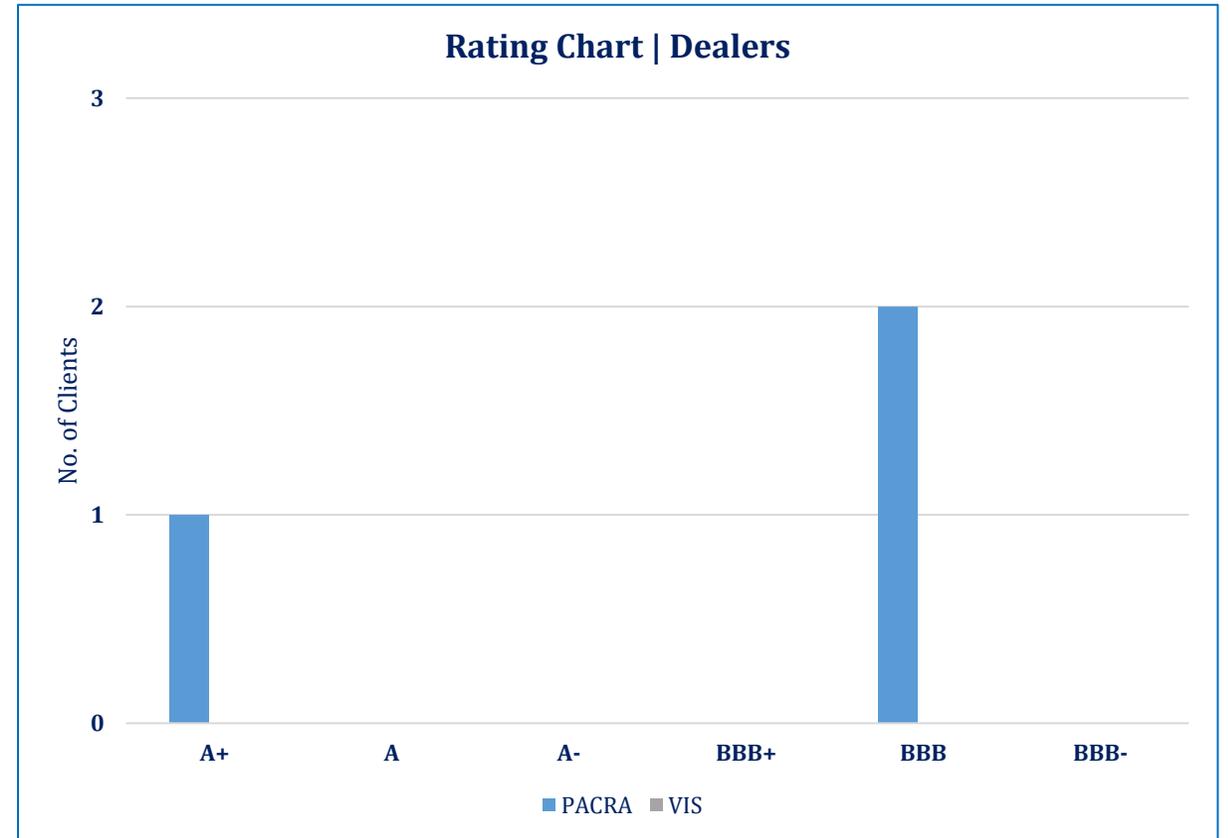
Rating Chart

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

Rating Chart | OEMs



Rating Chart | Dealers



Passenger Cars

Outlook: Negative

- In FY23, Pakistan's economy posted a real GDP contraction of ~0.17% (FY22: ~6.1% growth). Meanwhile, the LSM shrank by ~10.3% (FY22: ~11.8%), owing to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 2QFY24, the real GDP growth stood at ~1.0% (SPLY: ~2.2%), signaling sluggish economic performance.
- However, the SBP estimates the GDP growth at ~2-3% for FY24, while IMF's forecast for the same stands at ~2.0%. FY23 was also marred by significantly high levels of inflation with average national CPI recording at ~29.4% (SPLY: 21.3%). Additionally, the PKR depreciated ~39.0% against the USD during FY23, while the policy rate has stood steady at ~22.0% since Jun'23. Inflation has eased since and recorded at ~17.3% as at Apr'24 (SPLY: ~36.4%). However, LSM activity, was down ~0.5% YoY during 8MFY24 period.
- During FY23, passenger cars sales volume recorded ~58.7% slump YoY, amid aforementioned import restrictions (May'22-Jun'23) and the resultant spike in car prices. Moreover, high inflation levels further suppressed demand. Despite the supply chain disruptions easing out post-FY23, passenger car sales during 9MFY24 period were down ~36.9% YoY, in the presence of persistently high inflation levels and pricier cars.
- Average consumer financing (general public) dipped ~35.0% YoY to PKR~239.4bln during 3QFY24. This cements the prohibitively high cost of borrowing due to high interest rate eroding purchasing power of consumers. Resultantly, few of the major OEMs have had to halt production during FY23 and 9MFY24 (Pak Suzuki's plant were shutdown briefly for a brief period during Oct-Nov'23).
- During FY23, average gross margins stood at ~8.3% (FY22: ~4.8%), owing to better cost of sales management since these were down 39.0% YoY. Average operating margin rose to ~2.6% in FY23, owing to a decline in the administrative and selling & marketing expenses of ~59.0% YoY. However, average net margins declined to ~(13.7)% in FY23, reflecting extremely high finance costs of the player dominating the sector (~66.0% market share) that pushed the volume leader to the negative zone (net profit). The sector exhibited signs of improvement during 1HFY24 after import restrictions by SBP were lifted thereby increasing the gross margin and operating margin to ~13.6% (SPLY: ~5.3%) and ~9.4% (SPLY: ~1.4%), respectively.
- Going forward, 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 and high interest rates. This is also evidenced by the Automobile sector's dismal performance in 8MFY24 LSM index, where Jeeps, Cars and L.C.Vs growth in LSM was down ~39.9%, 30.1% and ~42.7%, respectively.

Passenger Cars

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- Ministry of Industry & Production (MoIP)
- PACRA Database

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