

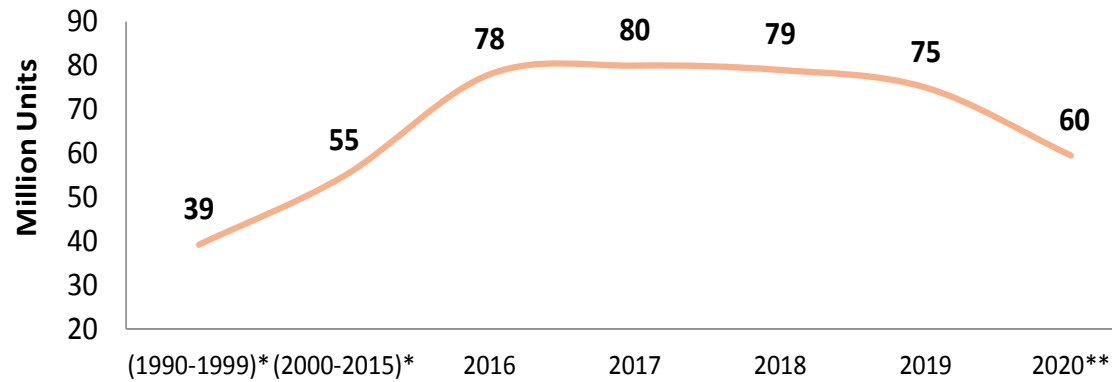
AUTOMOBILE SECTOR

August, 2020



Global Automobile Industry

Global car sales trend



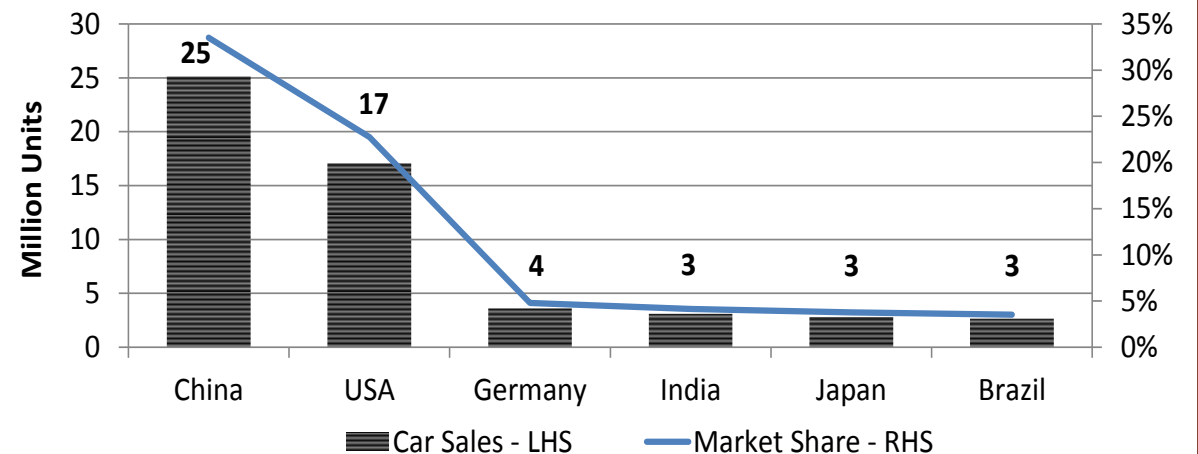
*Annual Averages

**Forecast

- Global auto industry expects ~20% year-on-year (YoY) decline in sales in 2020. Prior to advent of Covid-19 pandemic, car sales were projected to reach 80m which has now been revised downwards to 60m.
- Pandemic and the economic recession that was triggered by lockdowns led to an unprecedented turmoil in 2Q'2020. Going forward, recovery in sales is dependent on duration and breadth of the pandemic.
- Amidst the outbreak, many factories were also temporarily shutdown to curb the spread of virus and contain losses.

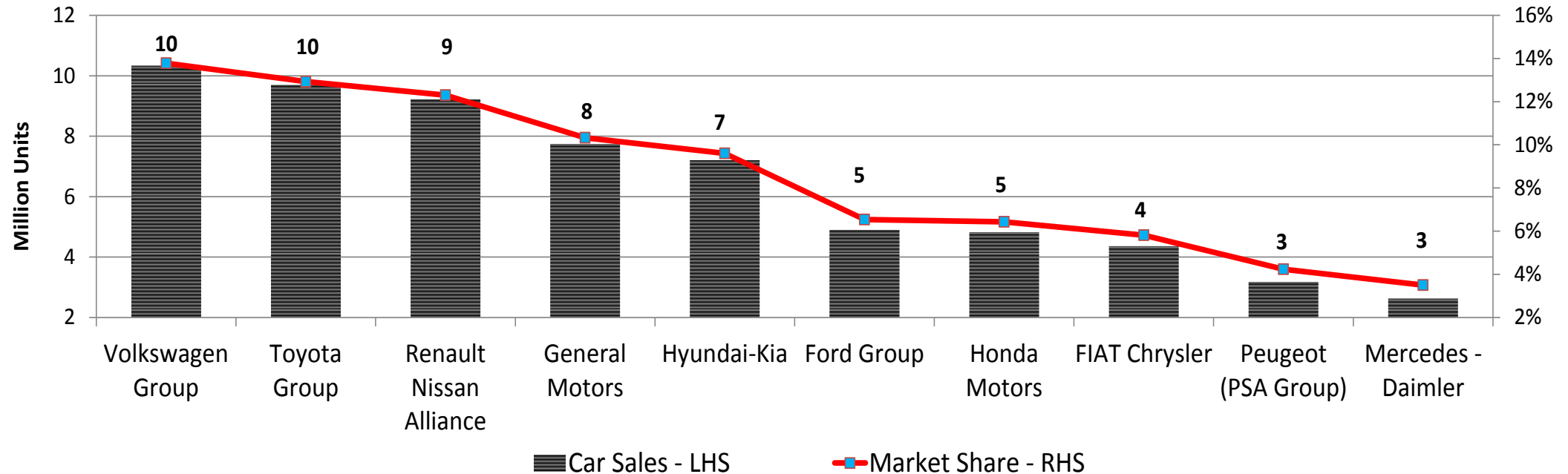
- Governments around the globe have supported their domestic automobile sector by incentivizing car buyers with subsidies and tax breaks to offset decreased auto sales.
- On the flip side, global pandemic has accelerated the development of both electric and autonomous vehicles.
- Given the global initiatives on stricter emission controls, automakers are beginning to expand their business into electric mobility sector. By 2025, every third new car sold is anticipated to be propelled or assisted by an electric battery.

Top six countries - Sales & market share in 2019



Global Automobile Industry

Global light vehicles (Cars + LCVs) sales by top 10 manufacturer groups in 2019



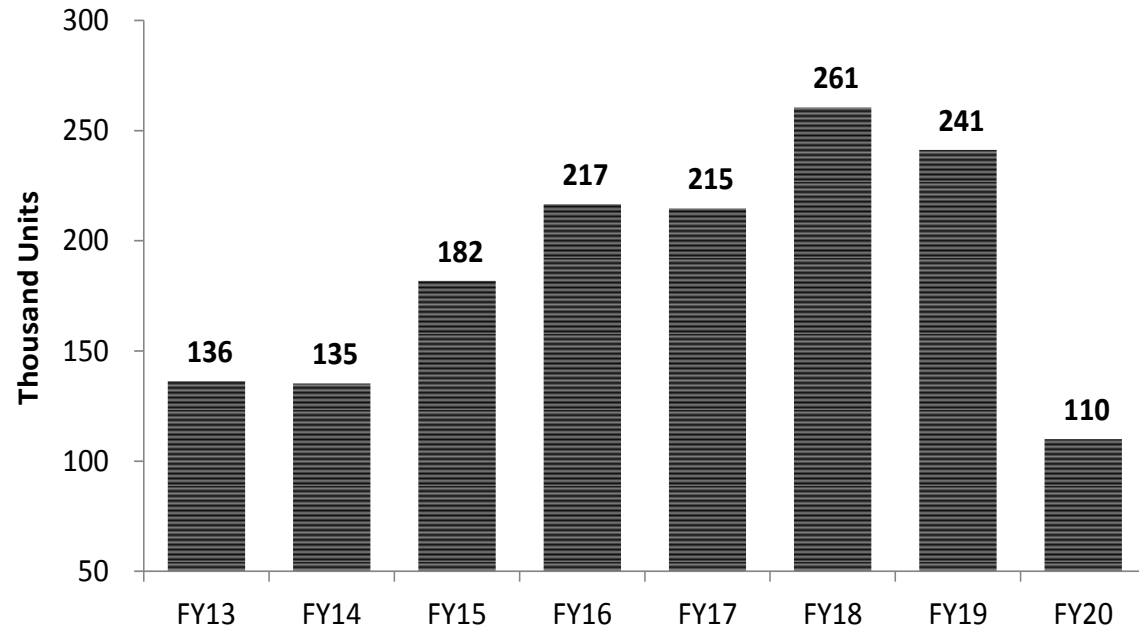
- Global automobile industry is expected to witness consolidation as weaker OEMs will not be able survive on their own in this competitive environment after bearing significant losses.
- Covid-19 crisis has affected the consumers long-term buying habits and the same will impact auto industry.
- Auto manufacturers with large dependence on Chinese market have been affected more in the pandemic.
- Toyota is one of the least damaged top 10 auto brands by Covid-19 crisis.
- Emerging markets buy more cars than established markets.

Pakistan's Automobile Industry

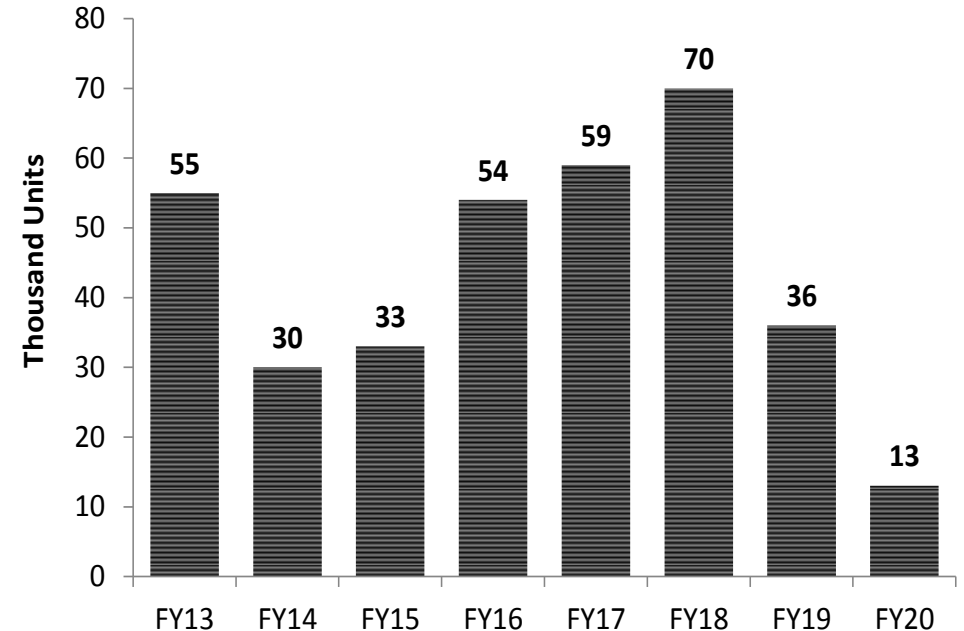
Segments	Passenger Cars	<ul style="list-style-type: none"> • Toyota (Corolla & Yaris) • Suzuki (Alto, Cultus, Wagon R) • Honda (Civic & City) • KIA Picanto (New entrant) 	Leaders
	LCVs & Pickups	<ul style="list-style-type: none"> • Toyota (Hilux & Fortuner) • Suzuki Ravi • Honda BRV • KIA Sportage (New Entrant) 	
	Trucks	<ul style="list-style-type: none"> • Isuzu • Hino Pak • Master • Nissan 	
	Farm Tractors	<ul style="list-style-type: none"> • Millat Tractors • Al Ghazi Tractors • Orient IMT Tractor 	
	Buses	<ul style="list-style-type: none"> • Hino • Master • Isuzu 	
	Motorcycle	<ul style="list-style-type: none"> • Atlas Honda • Suzuki • United Autos • Road 	

Production & Imports Statistics

Domestic car production (Passenger Cars, LCVs, Jeeps & Pickups)



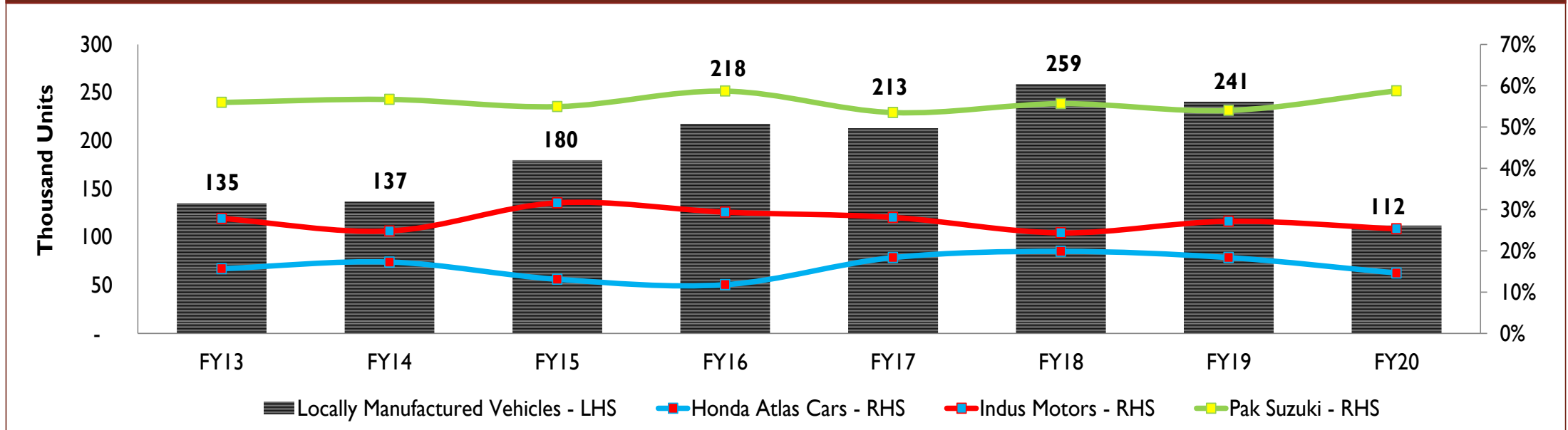
Cars imported (New & Used)



- Domestic car production grew at a CAGR of ~10% over the past six fiscal years (FY13-19) while weak market demand due to challenging macroeconomic environment (further impacted by Covid-19 pandemic and its consequent lockdowns in 4Q'FY20) led to a sharp decline in production in the outgoing year FY20.
- Due to continuous slowdown in demand, all local auto manufacturers observed several non-production days (NPDs) in order to rationalize operational costs and maintain optimum inventory levels.
- Given stringent import compression policies being pursued by the government, car imports have declined considerably over the last two fiscal years while share of imported cars in overall auto industry has also reduced to 12% (FY19: 15%; FY18: 27%) in FY20.

Sales Statistics

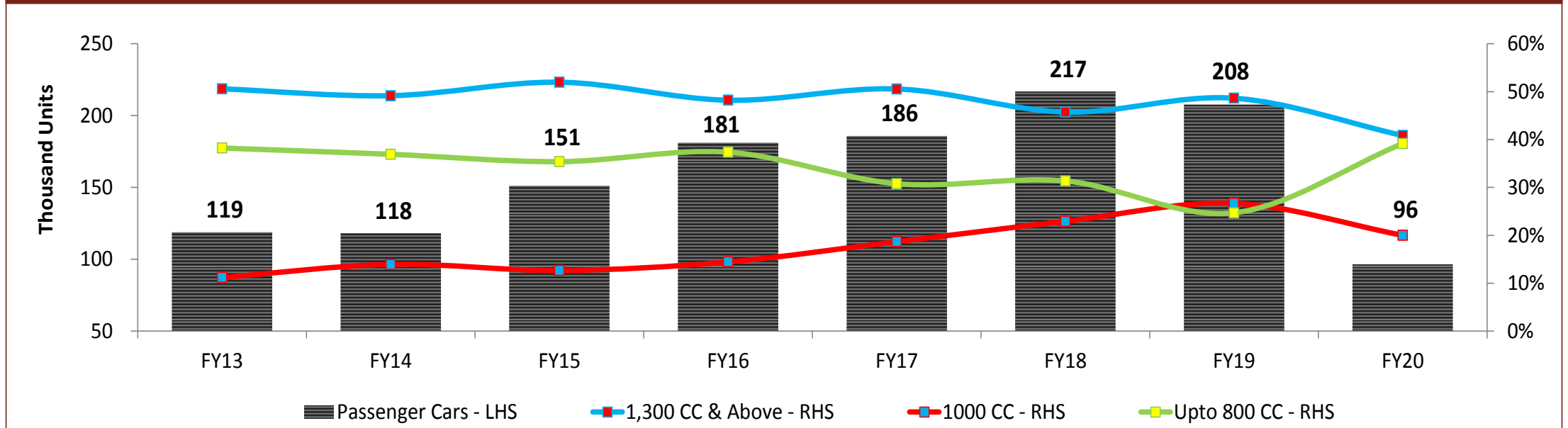
Domestic car sales (Passenger Cars, LCVs, Jeeps & Pickups)



- Passenger car sales have reduced by more than one-half on account of significant price hikes and depressed economic activity due to macro economic adjustments and intermittent lockdowns imposed by the government to curb Covid-19 pandemic post March'20.
- Price increase was a function of currency devaluation and imposition of taxes and duties on import of CKD kits and raw materials.
- Share of financing in auto sales has remained depressed (due to high interest rates) over the last two years. Auto financing had grown at a CAGR of ~31% during (2014-2018) but the same increased by only 4% during 2019 which negatively affected auto sales in both commercial (commercial vehicles) as well as the consumer segments (passenger vehicles).
- Pak Suzuki has maintained the leading position (in terms of volume) in passenger car segment for over last 10 years. This is followed by Indus Motors and Honda Atlas Cars.

Sales Statistics

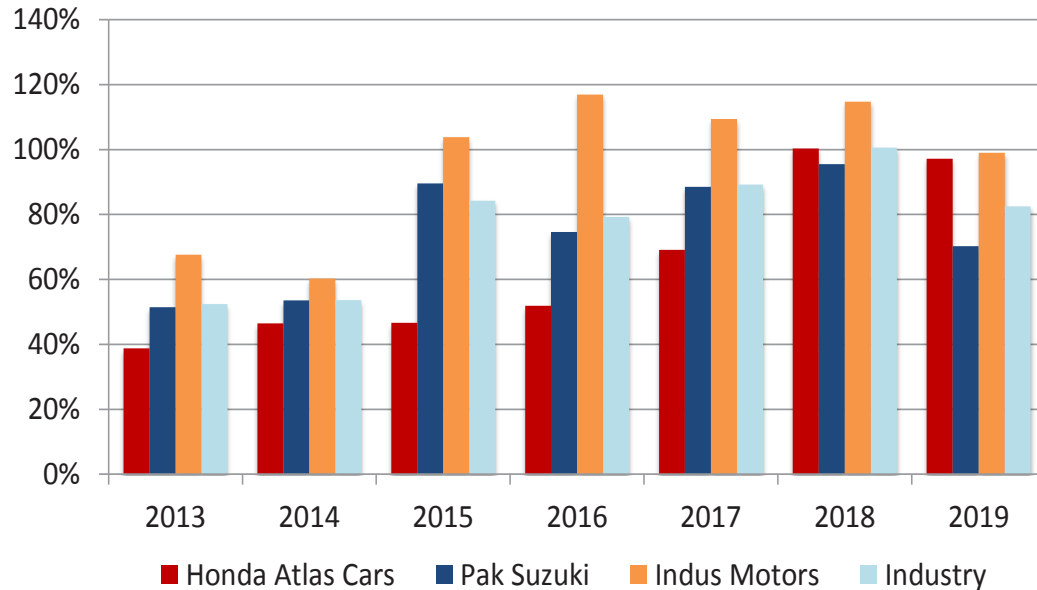
Sales & percentage breakup of local passenger cars



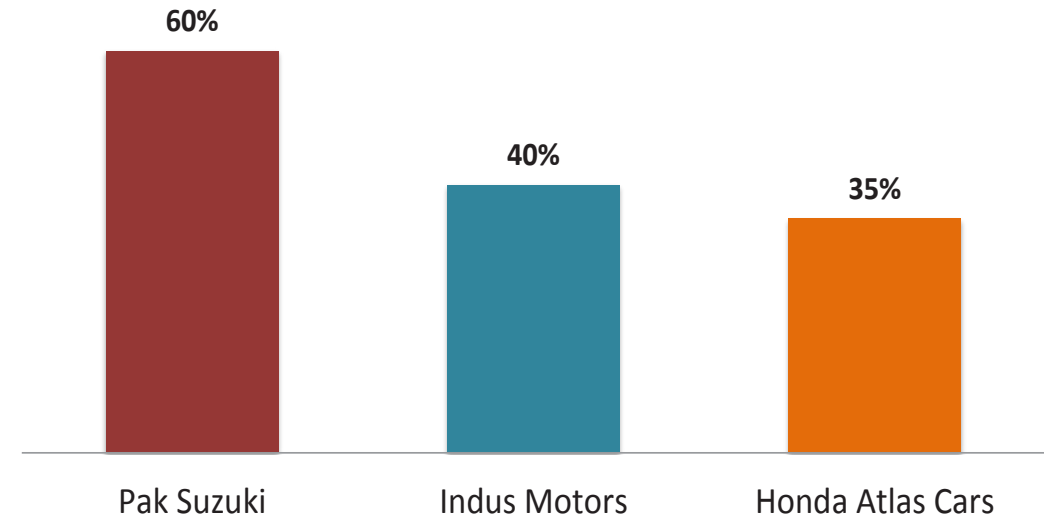
- Despite macro economic challenges, launch of Suzuki Alto along with the consumers' shift towards low priced segment resulted in an increase in share of 'Upto 800cc' passenger cars in FY20.
- Given recent decline in interest rate by around 625bps during a 4-month period (from March to June 2020), auto-financing is expected to pick up pace in the medium-term.
- Going forward, demand for auto sales is expected to rebound in 2021 and the same may emanate from rural economy given the recent announcement of agriculture package along with reduction in GIDC (resulting in lower urea prices), higher sugar cane prices (during MY20 season) and aggressive wheat procurement program (support prices have also increased) will provide support to farmers' liquidity, rural economy and low-income urban segments.

Passenger Cars Segment

Capacity utilization of top 3 industry players



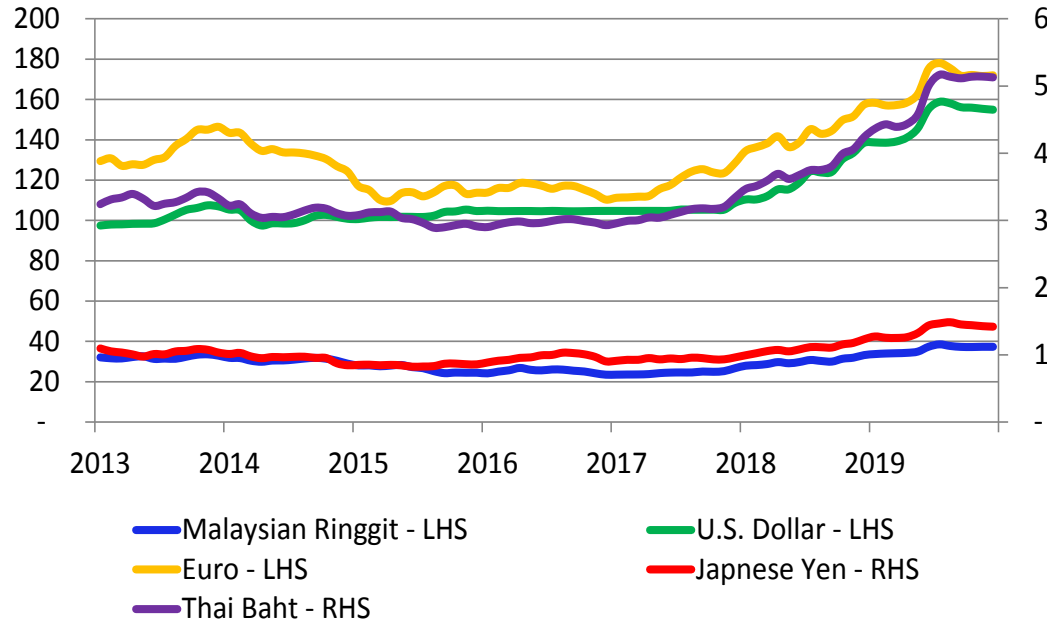
Average localization levels of top 3 auto manufacturers



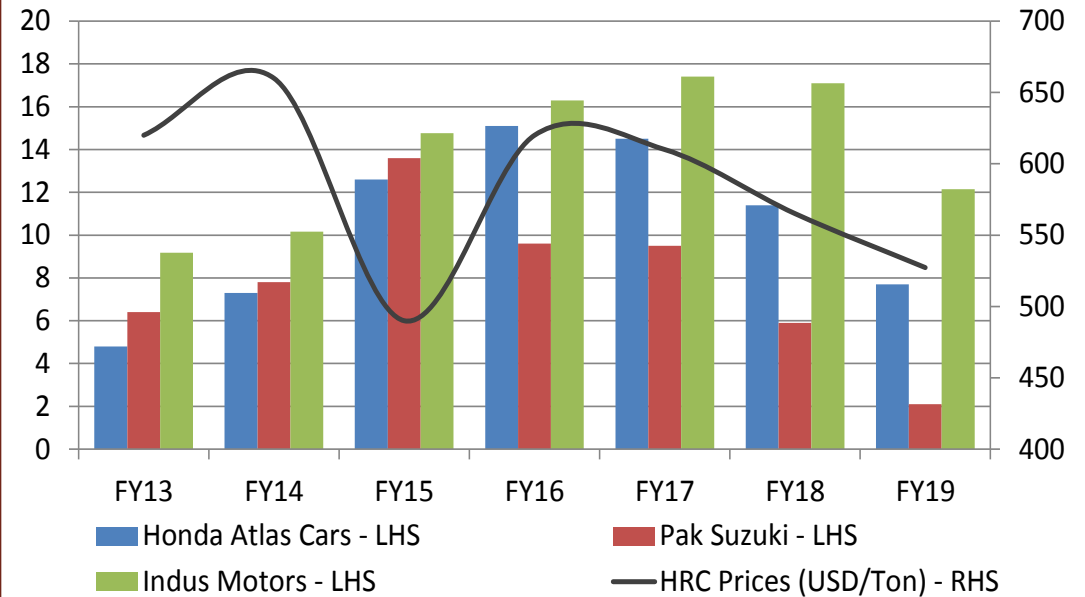
- Owing to debottlenecking undertaken by Indus Motors, overall capacity of top 3 industry players (Honda Atlas Cars, Indus Motors & Pak Suzuki) has increased to 266K per annum. Nevertheless, utilization level has declined in the outgoing fiscal year.
- Indus Motors has maintained an edge over its competitors in terms of capacity utilization whereas Pak Suzuki has the largest capacity in local OEMs segment.
- Competition Commission of Pakistan (CCP) describe Pakistan's automobile industry as uncompetitive; however, with new entrants in race, it is expected that competition will enhance and industry will witness a shift in market structure in the long term.
- Absence of incentives for existing players in AIDP-II will dent long term competitive dynamics in favor of new entrants.

Cost Structure & Key Business Risk Factors

Major dependence on currencies



G.P margins & Steel prices (Hot Rolled Coil)



- Major input costs for automobile manufacturers are:
 - Imported raw material (high foreign exchange risk)
 - Steel prices (Hot rolled coil – base steel product used in car manufacturing)
- Following the US-China trade war, steel prices in the international market have remained depressed which favors the auto industry. However, significant rupee devaluation in the last two years has off-set the impact of weak HRC prices.
- Cyclicality in sales due to slow down in GDP growth and frequent policy changes are key business risk factors.
- Long-term demand outlook for automobile sales is considered favorable given low motorization rate (18 vehicles per 1000 people) and projected rise in per capita income.

Local Industry Dynamics

Top selling locally manufactured passenger cars in Pakistan



Honda Civic



Honda City



Toyota Corolla



Toyota Yaris



Suzuki Wagon R



Suzuki Mehran



Suzuki Swift



Suzuki Cultus



Suzuki Alto

Local Industry Dynamics

Top selling locally manufactured LCVs, Jeeps & Pick-Ups



Toyota Fortuner



Toyota Hilux



Honda BRV



Suzuki Ravi Pickup



JAC Pickup

New Entrants

KIA – Lucky Motors

Project Status: Greenfield

C.O.D: Sept'2019

Capacity: 25,000 – 30,000 units

Product Type: PC, SUV/MPV & CV

Shareholding:

- KIA Motors Corporation (70%)
- Lucky Cement (30%)

- KIA Lucky Motors received an impressive response from the market on Picanto and Sportage.
- As per the data source, KIA is booking 1.5K to 2K cars per months. If this momentum continues, estimated annual sales will be reported at 18K to 24K units.
- The company is planning to launch 2-4 new models before June, 2021 to avail low tax benefits of the automotive policy (2016 – 2021).
- KIA has a tax holiday period of 10 years.

Products launched



Picanto



Sportage



Grand Carnival

New Entrants

Hyundai – Nishat Motors

Project Status: Greenfield

Capacity:

- 6,500 units in 2020
- 30,000 units in 2025

Product Type:

- PC,
- SUV
- CV

Capital Structure:

- Equity (52%)
- Debt (48%)

Shareholding:

- Sojitz Corporation (40%)
- Nishat Mills (11%)
- DG Khan Cement (10%)
- Adamjee Insurance (10%)
- Millat Tractors (18%)
- Others (11%)

Product launched



Tucson

Products planned to be launched



Santa Fe



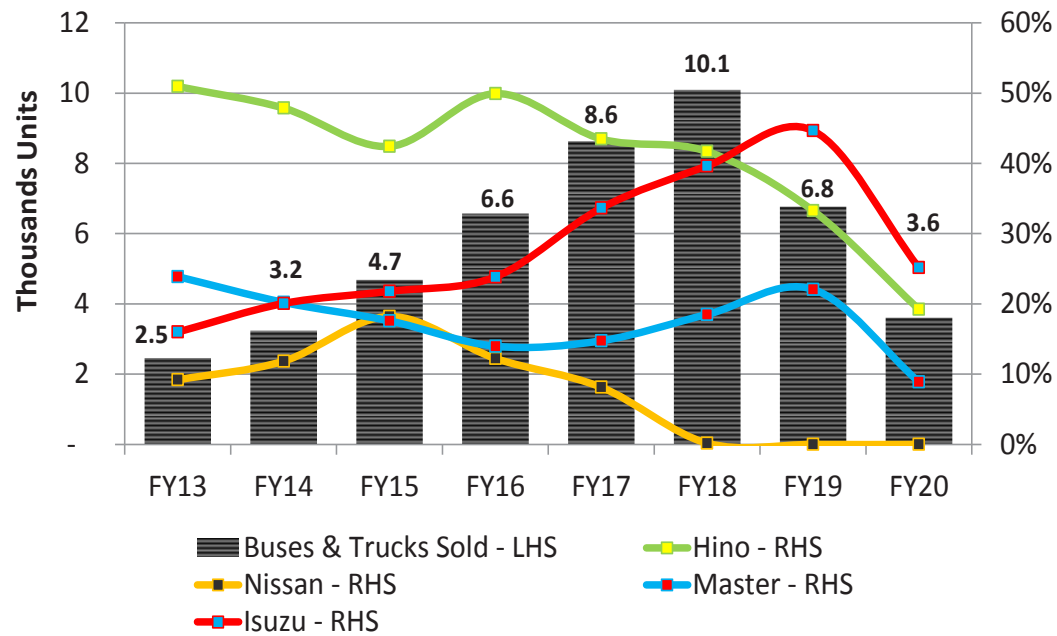
Grand Starex



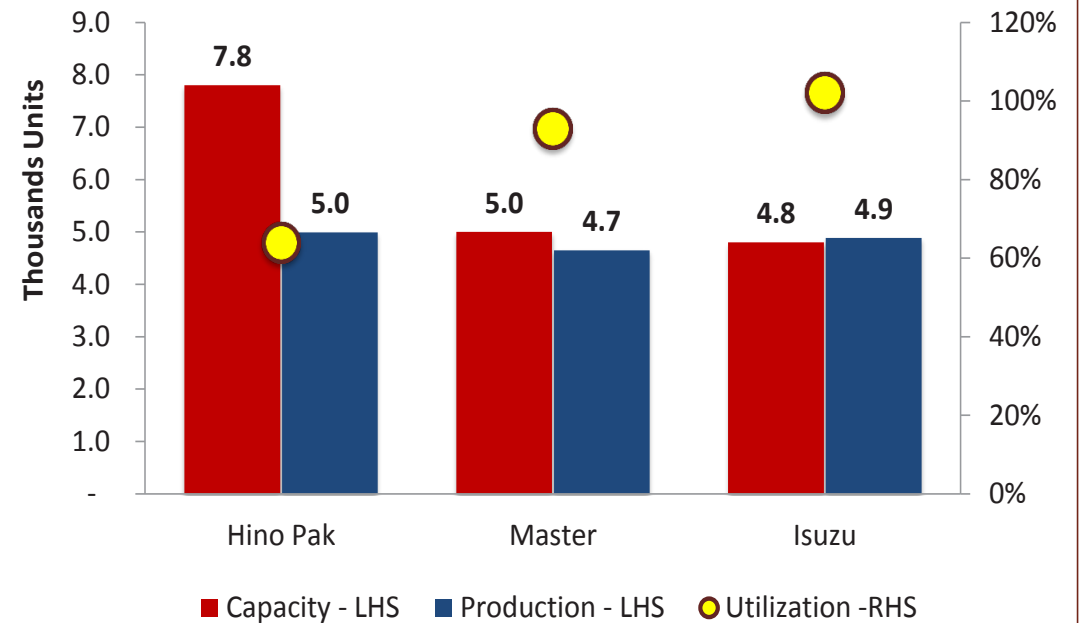
Ioniq

Commercial Vehicle Segment

Commercial vehicles sold (Buses & Trucks)



Production capacity (FY18)



- Domestic commercial vehicle sales also reduced by half in FY20 vis-à-vis previous year in view of slow down in GDP and depressed trading activity due to Covid-19 pandemic.
- Besides shrinking of overall automobile industry pie, share of commercial vehicle segment in overall auto sales has also reduced over the last two years.
- Hino Pak retained its market leadership position (in terms of volume) till FY18 when Isuzu overtook to become the market leader.

Commercial Vehicle Segment

Top selling brands of Trucks & Buses



Isuzu



Master Motors



Hino Pak

Auto Development Policy (2016 – 2021)

Particular	Greenfield Investment	Brownfield Investment
Definition	Installation of new and independent automotive assembly and manufacturing facilities by an investor for the production of vehicles of a make not already being assembled/manufactured in Pakistan	Revival of an existing assembly and/or manufacturing facilities, that is non-operational or closed before July 01, 2013 and the make is not in production in Pakistan since that date. Revival may be undertaken either independently by original owners or new investors or under JV agreement with foreign principal or by foreign principal independently through purchase of plant
Plant	Duty free import of plant & machinery for assembly/manufacturing on a one time basis	-
Test Models	Import of 100 vehicles of the same variant in CBU form at 50% of the prevailing duty for test marketing after groundbreaking of the project	-
Custom Duty	10% on non-localized part (30% for current players) 25% on localized parts (45% for current players)	10% on non localized parts (30% for current players) 25% on localized parts (45% for current players)
Incentive Applicability	5 years for Cars & LCVs	3 years for Cars & LCVs
Truck, Buses & Prime Mover	Import of all parts at prevailing custom duty applicable to non-localized parts for manufacturing of trucks, buses and prime movers for a period of three years	-
Motorcycles	Existing policy for motorcycles as approved by Govt.	-

Financial Profile (Key Figures & Ratios)

(Rs. in millions)	Pak Suzuki				Honda Atlas Cars				Indus Motors			
	Dec-17	Dec-18	Dec-19	Mar-20*	Mar'17	Mar-18	Mar-19	Mar-20	June-17	June-18	June-19	Mar-20*
Net Sales	101,812	119,854	116,548	17,741	62,803	91,523	95,128	55,046	112,272	139,715	157,996	75,830
Gross Profit Margin (%)	9.5%	5.9%	1.7%	3.2%	14.5%	11.4%	7.7%	7.4%	17.7%	17.1%	12.1%	10.3%
Net Profit Margin (%)	3.8%	1.1%	-2.5%	-5.3%	9.8%	7.1%	4.0%	1.2%	11.6%	11.3%	8.7%	6.6%
FFO	1,566	868	(2,119)	911	6,944	5,953	3,997	2,575	11,994	15,719	10,156	5,165
Total Debt	-	11,310	32,527	31,336	-	-	-	2,332	-	-	81	228
FFO/ Total Debt (%)	-	8%	-7%	12%	-	-	-	110.4%	-	-	12609%	3014%
Leverage (x)	0.72	1.10	1.99	2.05	2.94	2.44	0.79	0.92	1.05	1.23	0.62	0.65
Gearing (x)	-	0.39	1.25	1.25	-	-	-	0.14	-	-	0.0	0.01
Total Liabilities	21,361	32,277	51,709	51,146	38,432	41,735	14,010	15,285	32,683	45,181	24,738	27,350
Total Equity	29,550	29,233	25,951	25,002	13,065	17,073	17,627	16,557	31,197	36,744	40,045	41,846
Current Ratio (x)	1.9	1.4	1.1	1.1	1.2	1.3	1.9	1.8	1.8	1.7	2.1	1.9
(Stock in Trade + Trade Debt)/ Borrowings (x)	-	2.6	1.2	1.3	-	-	-	5.2	-	-	-	-

*Ratio Annualized

Sources

- Pakistan Economic Survey 2018-2019
- Index Mundi
- Global Automobile Industry Data – Statista/Focus2move
- PAMA production & sales data
- PSX Notices
- EPA Sindh report
- World Bank data
- IMC Annual Reports

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