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Govt. to introduce import compression measures

Potential implications for Auto sector

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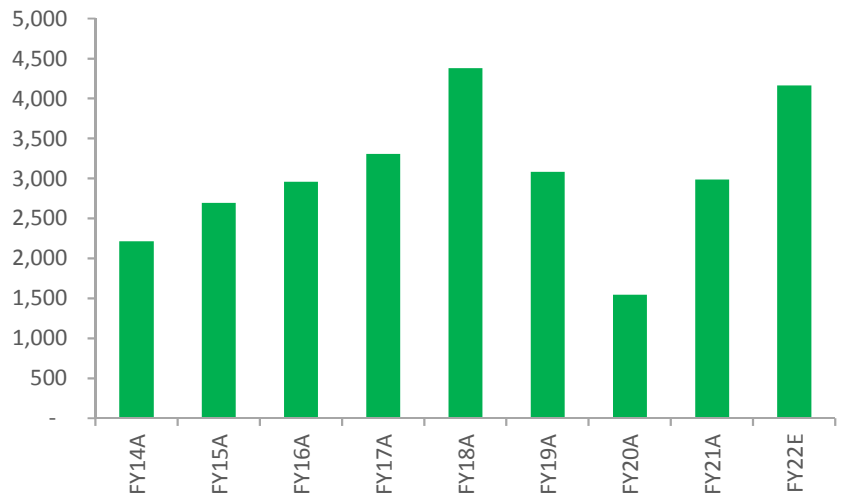
Regulatory duties may be increased to 50% on CBU imports

Pakistan transport group imports (US$mn)



Source: PBS, Topline Research

Category wise CBU imported in Pakistan

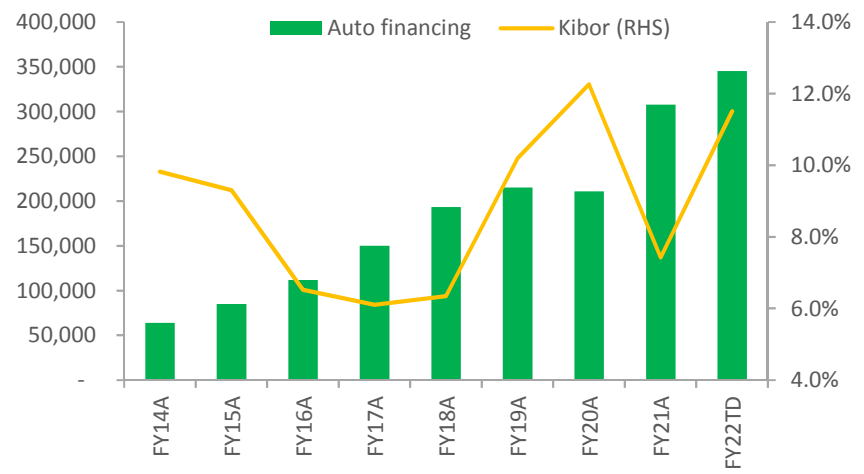
Electric Vehicles	Hybrid Vehicles
MG ZS EV	Honda Vezel
Audi E-Tron	Toyota Aqua
Porche Taycan	Toyota Prius
	Honda Fit
	Toyota Cross
	Toyota CHR

Source: Pakwheels, Topline Research

- Govt. is planning to introduce measures to control rising import bill of the country by imposition of increased duties on luxury items including cars. The proposals according to news reports include increased duties on import of Completely Built Unit (CBUs) and higher Federal Excise Duty (FED) on locally manufactured vehicles.
- The proposed measures under consideration include 1) increase in regulatory duty (RD) on electric vehicles with 50 KWH battery pack from 10% to 50%, 2) increase in custom duty to 50% from 15% on Hybrid Vehicles on 1501-1800cc cars, 3) increase in FED from 5% to 10% on locally manufactured cars with engine capacity of 1500cc+.
- Government has shelved the plan to impose ban on import of CBU and is likely to increase duties and taxes only to curtail rising import bill.
- To recall, Pakistan total imports surged by 65% to US$25bn in 4MFY22 which led to a current account deficit of US$5.1bn versus surplus of US$1.3bn in 4MFY21. Pakistan total transport group imports surged by 140% to US$1.5bn in 4MFY22 exerting pressure on total import bill of the country.
- It is pertinent to note that as per the Auto Policy of 2016-21, auto manufacturers were allowed to import 100 units of CBU for test marketing before they can start production of cars locally. This led to sharp rise in CBU imports and there are news reports of potential misuse of the policy as few new entrants have imported more than 100 units.
- As per said news reports, around 7000 units MG HS by MG Motors have been delivered to the buyers since Nov 2020 till date whereas it local production of cars just started recently in May 2021. Similarly, import of other CBUs which includes Toyota Cross, Land Cruiser, Honda Accord etc have also led to higher import bill.
- It will be interesting to see how the concerned authorities address the issue as the old auto policy expired in June 2021 and we still await for the new policy.

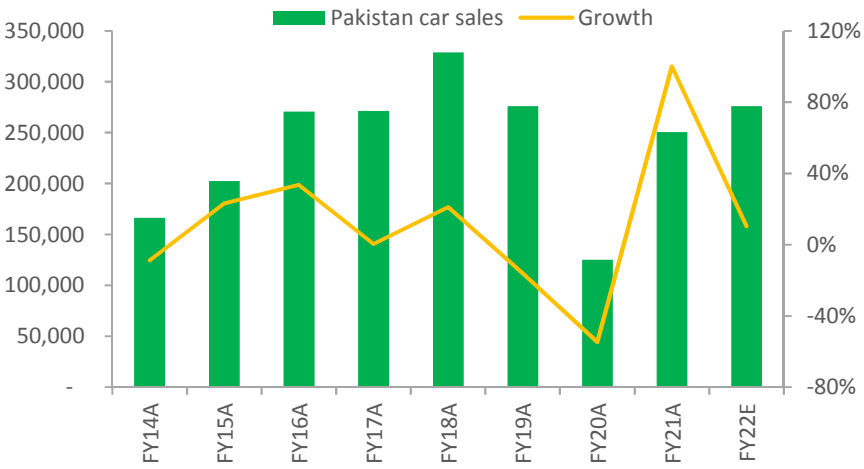
Car sales growth to slowdown

Pakistan auto financing vs. 6-M Avg. Kibor



Source: SBP, Topline Research

Pakistan Car sales & growth trend



Source: PAMA, News reports, Topline Research

- In FY21, used CBU imports clocked in at 21,247units whereas new CBU imports touched 6,394 units. The combined (old + new CBUs) contributed around 11% of Pakistan car sales in FY21. Latest numbers for the same are not available but looking at increased interest of new cars specially in the SUV segment we expect this number to be much higher in FY22.
- We believe the decision to increase RD on CBUs will result in high car prices and may result in reduced demand for imported CBUs by new entrants. It may also force the new entrants to start manufacturing vehicles locally. However, since the proposal to ban import completely is highly unlikely, the above stated measures are not likely be materially positive for local listed assemblers.
- Additionally, expected increase in FED to 10% from 5% on 1500+cc locally assembled cars and rising kibor is likely to impact car demand going ahead.
- Stringent regulatory measures by SBP on auto financing and rising kibor is likely to impact car sales going ahead. It is important to note that, auto-financing on average contribute around 30-40% of the total car sales of the industry. In Nov-2021, Pakistan car sales are anticipated to drop by 10% MoM owing to the above stated measures. In FY22, we expect Pakistan car sales to grow by 10% after a strong sales recovery in FY21.
- We have an 'Underweight' stance on Pakistan Auto Sector based on the premise of 1) rising kibor, 2) stringent auto-financing policies, 3) increasing cost pressures, 4) likely increase in FED, and 5) expected macroeconomic slowdown. We maintain 'Buy' rating on Indus Motors (INDU) and a 'Sell' call on Honda Atlas Car (HCAR). On Pak Suzuki Motors (PSMC) we have a 'Hold' call.

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