



## Curtailment of used car imports to benefit local players

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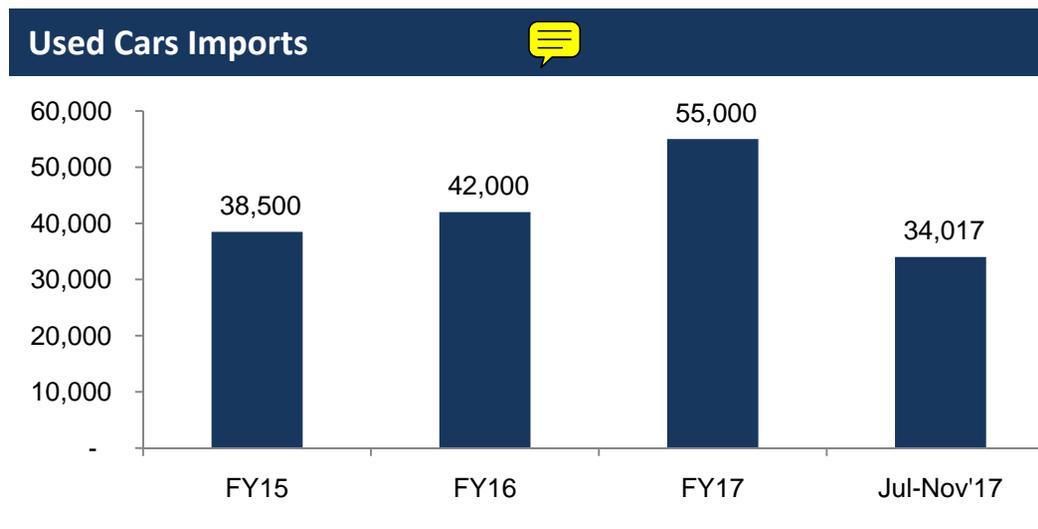


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- As per our channel checks, import of used car jumped considerably in 5MFY18 due to improving macros and better law and order situation. In 5MFY18, the imports of used cars clocked in at 34k units, which were higher than expectation given that an estimated 55k units of used car were imported in entire FY17. The used cars imports gained momentum in 5MFY18 with average monthly imports touching 6,800 units as compared to around 4,600 units on monthly basis in FY17.
- The used car are being imported via three schemes in Pakistan including transfer of residence, gift scheme and personal baggage, which were put in place to facilitate overseas Pakistanis. According to industry sources, most of these car are being brought into Pakistan under transfer of residence scheme and the other two schemes are rarely utilized for this purpose. Value of used car imports in FY17 was estimated to be between US\$500-750mn.



Source: Pakistan Customs, Topline Research

- To control rising import bill, the government notified changes in regulatory duty and import procedures. In a total list of 731 non-essential import items, 330 new items were notified while remaining items were subject to higher regulatory duty in the range of 5%-30%. This also included regulatory duties on automobiles.

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- The government in this regard also made changes in the import procedure of used car and imposed new conditions in October 2017. As per the new conditions, remittance for payment of duties and taxes on car imports should originate from the account of Pakistani national sending the vehicle from abroad under either personal baggage or gift scheme. This remittance should either be received in the account of the Pakistani national sending the car from abroad or in case his account is non-existent/non-operative, in the account of his family member as defined in import policy order.
- The above policy at the time was not extended to transfer of residence scheme in order to facilitate importers to clear backlog of stranded vehicles at ports as large number of orders were already placed by Pakistani auto importers in Japan (it takes around 40 days for used cars to arrive in Pakistan from Japan).
- However, the government subsequently on Dec 4th, 2017 notified changes to import order policy and removed relaxation on imports of used car under transfer of residence scheme and made the above procedure applicable on this as well. According to commerce secretary statement, the government is following policy of discouraging imports of second-hand cars to curtail trade deficit.
- Custom's department via statement issued on Jan 17, 2018 suggested it's board members to temporarily relax the condition of involvement of bank accounts of Pakistani national or his family member as around 6k units are lying at the ports for clearance. They have suggested it's board member to allow the imports of cars standing at port on production of bank encashment certificate only. Once this backlog clear, the custom's department has recommended that stringent condition of involvement of bank accounts to be in effect from now. (for imports, whose bill of lading post Jan 9th, 2018).
- In our Pakistan Market Outlook (dated Dec 20, 2017), we were of the view that recent changes by Govt. in import procedure of used vehicles to control rising import bill will cause disruption in imports of used cars from 1Q2018, which now seems to be the case. We believe Pak Suzuki (PSMC) will be the major beneficiary and have a 'Buy' rating on the stock as ~70% of used car imports fall under lower engine capacity (below 1300cc) segment.

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