



Munich Personal RePEc Archive

An Overview on Auto Leasing Sector of Pakistan and Its Impact on Automobile Industry

Kausar, Muhammad Naveed

6 July 2006

Online at <https://mpra.ub.uni-muenchen.de/116442/>
MPRA Paper No. 116442, posted 22 Feb 2023 14:34 UTC

Chapter No. 1

Problem and its background

- Introduction
 - Statement of problem of study
 - Significance of study
 - Definitions
-

Introduction:

The topic “An Overview on the Auto Leasing Sector of Pakistan and Its Impact on Auto Industry” is chosen because the auto leasing sector in Pakistan is growing at a rapid pace and also playing a vital role in the development of our economy.

Leasing companies and banks are playing an important role in boosting automobiles demand. About 40 percent of the new car sales are now financed by these entities. Due to reduce interest rates, leasing and financing options are becoming increasingly attractive to buyers and perhaps more importantly to loan-providers.

This research is to study the impact of car leasing business on our socio economic growth and its effect on consumer demand. Lease finance by all means is the most suitable financing arrangement for developing countries and especially Pakistan. Despite the fact that most banks of the country are facing surplus liquidity crises.

Concept of leasing:

Automobile leasing is most popular segment of leasing sector. Concept of lease can be defined as: *“A lease is a type of agreement (between lesser and lessee) that involves serial of fix payments that extend over several periods”*

Lease is a legal agreement between two parties that specifies the terms and conditions for the rental of property. In this, the concept has been explained through sale of a car. The dealer simply acts as an agent for the leasing company and negotiates the terms under which one will rent the car from the leasing company.

Some of the lease terms include: the capitalized cost, the money factor, the residual value etc there is a long list of pros and cons with automotive leasing that should be fully understood and carefully considered. Concept of lease can be defined as

Popularity of Auto Mobile Leasing and Its Reasons:

Leasing has exploded in popularity over the past few years becoming one of the most common financing methods for obtaining a new car. The question, which arises, is what has fueled this surge in leasing? The answer is a combination of two things: the public's never-ending appetite for bigger, cooler, faster, safer cars that they really can't afford and the auto industry's need/desire for continued double-digit growth in profits. Hence the dilemma: how can the cars companies give the public what they want at a price that allows for healthy profits. The reality is that leasing has become an incredibly effective tool for dealers to sell their product at a significantly higher price and profit margin. Hence, automotive leasing is not for everyone. But for those who wish to consider leasing, it is essential that they invest the time educating themselves about the facts and the potential pitfalls.

Due to reduce interest rates, leasing and financing options are becoming increasingly attractive to buyers and perhaps more importantly to loan-providers. Leading car producers in Pakistan are all set to earn good profits in the current year mainly on account of huge growth in car sales after commercial banks, leasing companies and other institutions slashed their leasing rates to as low as 12 percent.

A statistics compiled by the Pakistan Automotive Manufacturers reveals an increase of 23 percent in car sales, 23 percent in motorcycles, 92 percent in trucks, 28 percent in LCVs and bus sales grew by 48 percent.

Another important development in automobile financing are increasing interest-free car financing schemes based on Islamic financing mode of Ijarah or Islamic leasing, which should positively impact demand from interest-averse individuals.

TOP LEASING COMPANIES LISTED IN KSE:

There are 33 leasing companies, 18 modaraba companies and so many banks providing the auto leasing facility. Some are:

- Asian Leasing Corporation Ltd.
 - Askari Leasing Corporation Ltd.
 - Atlas Leasing Ltd.
 - Al-Zamin Leasing Modaraba.
 - Capital Assets Leasing Corporation Ltd.
 - CresLease (Crescent Leasing Corp. Ltd.
 - Dawood Leasing Corporation Ltd.
 - English Leasing Ltd.
 - First Leasing Corporation Ltd.
 - Ghemni Leasing Ltd.
 - Grays Leasing Ltd.
 - Ghandhara Leasing Corporation Ltd.
 - Ibrahim Leasing Ltd.
 - International Multi Leasing Corporation Ltd.
 - Inter Asia Leasing Corporation Ltd.
 - Lease Pak Corporation Ltd.
 - National Development Leasing Corporation Ltd.
 - National Assets Leasing Corporation Ltd.
 - Network Leasing Corporation Ltd.
 - Natover Lease & Refinance Ltd.
 - Orix Leasing Pakistan Ltd.
 - Pak Gulf Leasing Company Ltd.
 - Pacific leasing Company Ltd.
-

- Pakistan Industrial Leasing Corporation Ltd.
- Pak Apex Leasing Corporation Ltd.
- Paramount Leasing Corporation Ltd.
- Pakistan Industrial & Commercial Leasing Ltd.
- Standard Chartered Mercantile Leasing Ltd.
- Security Leasing Corporation Ltd.
- Sigma Leasing Company Ltd.
- Saudi Pak Leasing Ltd.
- Trust Leasing Corporation Ltd.
- Union Leasing Ltd.
- Many other banks

Statement of Problem:

“An Overview on the Auto Leasing Sector of Pakistan and Its Impact on Auto Industry”

The changing demographics of Pakistan like urbanization and increased proportion of population is also contributing towards the increased demand for transport. Our auto sector is not meeting the rising demand of vehicles as abundant credit is available at comparatively lower rates from the financial institutions, leasing does not only facilitate to the individuals but also provide the financial institution that are providing this facility to boost their sales.

Significance of Study:

This research work will provide the information about the how leasing business is effecting to consumer market and automobile manufacturing sector. And how much

the leasing of automobile contributing to the development and growth of automobile industry.

This research will also define how Leasing and financing options are becoming increasingly attractive to buyers and perhaps more importantly to loan-providers. It means that leasing does not only facilitating to the individuals but also provide the financial institution that are providing this facility to boost their sales.

Definition of terms:

Lessee: A person who has bought asset on installments

Lessor: A leasing company financing the purchase of asset

Control price: original quoted price by the manufacturer

Premium: Extra amount charge by dealers for immediate delivery

Chapter No. 2

Research Method And Procedure

- Research Design
 - Research Method
 - Respondent Of Study
 - Research Instrument
 - Treatment Of Data
-

RESEARCH METHOD AND PROCEDURE:

Research Design:

The research is designed with the consideration of the issue under studied. Most effective design is chosen for research work. The research is elaborates as much as possible about the auto leasing business in Pakistan and its impact on automobile industry.

The major target of this research work is to know about of auto leasing business in Pakistan its attractiveness for the people its effect on automobile industry. All the reasons and constrain will be considered in the research design.

Research Method:

This is a casual type of study with an objective to add or contribute to the existing knowledge to the issue. A descriptive and analytical both type of method will considered for study. The purpose to select the method for the study is to come up with an accurate result.

The method use for this study is dependent on both primary and secondary data sources. But I mainly focus on secondary data because it is more reliable, accurate and helpful to analyzing the situation and issue.

Respondent of the Study:

During the research the interview as for my convenience will be conduct from the different financial institution such as leasing companies and commercial banks. Secondary source of data such as internet, business magazines, newspapers, journals, SBP data will also use.

Research Instrument:

During the work, interviews will conduct, secondary sources of data which include internet, websites, business magazines, news papers will used .personal analysis will also done.

PRIMARY SOURCES:

Primary sources include:

- Face to face interviews as for my convenience
- Observation

SECONDARY SOURCES:

Secondary sources include:

- Inter net
 - Web sites
 - Annual reports of leasing companies, SBP and banks
 - Business magazines
 - News papers
-

Treatment of Data:

Simple quantitative analysis will do on the data gathered during the work. The data obtained from secondary sources are scattered and unorganized therefore after obtaining the data I will carefully examined and short out the relevant data to make research relevant and reliable.

Chapter No. 3

Literature Review

- Related literature
- Local literature

RELATED LITERATURE:

LOCAL LITERATURE:

Source: Daily Times

Sunday, November 27, 2005

1. Article By Imran Ayub

Summary:

Up to 50% Cars Being Bought Through Leasing Firms:

Leasing facilities by over two dozen companies have given a real boost to car sales during the last one and a half year as operators say now more than 50 percent vehicles are being sold through leasing finance.

The leasing companies believe the trend is likely to continue in the days to come on the back of increasing demand and rising production coupled with eased car import regime offered by the government. "Safely you can count our (leasing companies) share at more than 50 percent," said Bashir Chaudary, president of the Leasing Association of Pakistan. "Our services are getting popular with each passing day and for car financing people look first towards leasing companies than any other organization."

He said now 33 leasing and 18 modaraba companies were offering leasing facilities across the country, but getting the major share in Karachi, Lahore and Islamabad, depending on the population of the cities.

Production and sales of cars surged by 26 percent and 23 percent, respectively, during the first four months of the current fiscal compared with the same period of 2004-005. The latest figures show the trend, which suggests consumers prefer locally assembled cars despite rising imports of used and new cars since June 2004, when the government liberalised the import regime to some extent.

The financing trend has also benefited the dealers, who say they are now less bothered about the payments as the leasing facility allows payments from the financing institution rather than by buyer themselves.

"Now the situation is that authorized car dealers discourage bookings on cash basis and prefer orders by corporate, multinationals, leasing companies and banks, He said the on one hand it proved beneficial to the dealers but also for the people belonging to middle class, who got an opportunity to enjoy driving experience.

Over two dozens leasing companies, however, face competition from banks which offer financing comparatively on lower margins.

The leasing companies had better recovery rate than banks as the regulations allowed them to repossess cars if customers fail to make timely payments.

Recently, they claim, banks and leasing companies have also joined in this exploitation spree by increasing the interest rate or mark-up on car loans for their existing clients.

Source: Daily Times

Sunday, November 27, 2005

2 .Article By: Farhan Sharif

Automobile Special: Mehran, Cultus and Corolla dominate market:

Suzuki Mehran, Suzuki Alto and Toyota Corolla dominate the local auto market since low fuel consumption and higher resale value remained the major concern of most of the buyers.

“So far the production and sales of locally assembled cars have remained unhurt by the import of cars,” said Faraz Farooq, an analyst at Jahagir Siddiqui Capital Markets Limited. “Suzuki Mehran, Alto and Corolla are the most sought-after vehicles.”

The overall sales of the locally assembled cars kept moving up during the last quarter (July to October) as well. It shows that consumers still prefer locally assembled cars despite rising import of used and new cars after the budget.

Earlier it was assumed that the increase in interest rates would have a negative impact on car demand, but it has yet to cause a stir, market analysts said, adding that huge holding of cash on their books, the rising interest rates scenario was benefiting the car makers by way of higher interest income. Besides, it was also predicted that the arrival of used and new cars would change the market scenario and buyers would go for foreign cars. So far, the budgetary decision of cutting import duties on completely built-up units has yet to pose any serious threat to the local assemblers and many buyers are still reluctant to take the risk of purchasing imported cars.

He said that as duties on cars up to 1,300cc were kept unchanged by the government, there was no major threat to local car makers, because around 85 per cent of the cars sold in the country were below 1,300cc. Increase in depreciation rate to two percent on used cars’ import and allowing import of three-year-old cars under the gift and baggage scheme, the

market share of used cars is likely to increase slightly, but would not dampen the local car sales. Besides, the locally-assembled cars were still cheaper, he added.

He said that brand loyalty, resale value, after sales service and spare parts availability were the major considerations, which made the customers to prefer local cars. Car demand was still very high and there was shortage of 15,000-20,000 units to bridge the gap between supply and demand. According to official data, during the last quarter Toyota Corolla led the market in 1300cc to 1600cc capacity by selling 7,794 units, while Honda City was second with sale of 5,772 units in the local market.

In cars with 1000cc capacity and 800cc capacity Suzuki maintained its domination. In 100cc Suzuki Cultus was the largest selling car with sales of 6,354 units while Suzuki Alto followed closely with total sales of 4,595 units during July to October. Whereas, 2,012 units of Hyundai Santro were sold during the period.

In 800cc cars, the largest selling car was Suzuki Mehran with sale of 11,138 units, while 2,583 units of Daihatsu Cuore were sold.

Analysts said that car sales would continue to show decent growth on the back of positive economic indicators and rising per capita income. Further, financial year 2006 is proving to be a year of turnaround for the local car assemblers when it comes to profitability. While the duty liberalisation on imported cars has not had any major dampening impact on demand for local cars, profitability of the sector is heading towards mass improvement. Declining steel prices, favourable Rupee/Yen parity and rising interest income are identified as the factors behind profitability growth. From July to September 2005, the cumulative profitability of all the four listed car manufactures, Indus Motors, Pak Suzuki, Dewan Motors and Honda Atlas Cars, showed an impressive growth of 53 percent from Rs 862 million to Rs 1,322 million. Combined net sales were recorded at Rs 25.3 billion versus corresponding period sales of Rs 17.9 billion, with an increase of 41 percent. The growth in rupee sales mainly arrived from the dual impact of volumetric increase and increased product prices by the manufacturers.

Other Sources:

www.google.com

www.sbp.org.com

www.jang.com.pk

www.pakistan economist.com

Chapter No. 4

Presentation of Analysis

- Market analysis
 - Growth of auto leasing sector
 - Latest trend in demand of cars in Pakistan
 - Growth of automobile industry
 - Key players in the auto industry
 - Increase in demand of automobile
 - Total production / supply
 - Production and supply
 - Market share of companies
 - Leasing companies and banks contribution in sale
 - Contribution of leasing to automobile sector
-

Market analysis:

GROWTH OF AUTO LEASING SECTOR:

Leasing facilities by over two dozen companies have given a real boost to car sales during the last one and a half year as operators say now more than 60 percent vehicles are being sold through leasing finance. 33 leasing, 18 modaraba companies and many banks are offering leasing facilities across the country, but getting the major share in Karachi, Lahore and Islamabad, depending on the population of the city.

According to the report auto loan have rapidly grown by 318% since 2002. And the last year leasing sector show 100% growth.

According to new annual report of State Bank of Pakistan, the FY-05 was particularly significant as consumer financing increased by around 100 per cent, which was the highest among all sectors.

The personal loans and auto loans accounted for most of the growth in consumer finance with former constituting 45 per cent and the later 32 per cent of the total consumer loans of Rs. 206 billion on June 30, 2005. According to SBP report the auto loans have rapidly grown by 318 per cent since June 2002. The banks have extended a sizable credit of 66 billion rupees just for car-financing since June 2002.

Details gathered by Money Plus showed that on the one hand the banks involvement in car-financing has proved a blessing for all the social segments of the society, while on the other hand it has caused a blow to the business of second hand cars, used spare parts. A few years back, a majority of the car buyers used to buy second hand car having worth 0.1 million to 0.4 million while only rich class used to buy luxury cars like Mercedes, Pajero, Prado Jeep, Land Cruiser and BMW.

LATEST TREND IN DEMAND OF CARS IN PAKISTAN:

Car-financing has opened new vistas of demand of brand new cars and every person, who can afford to pay 6,000 to 15,000 monthly installments is getting new card. This has provided

an opportunity to the common people to obtain new car through leasing, but it has caused a serious blow to the second hand cars business. We people (whose mainstay was the second hand cars business) now keep on waiting for used cars customers for several days and rarely find the buyers. Even the business of used spare parts and workshops has also suffered a serious blow due to the availability of zero-meter cars through banks. The demand of new cars is steadily on the increase and despite increasing capacity the local manufacturers are unable to meet the demand.

Although car financing by the banking sector has given an unprecedented boost to industry and made common man's easy access to their dreamed brand-new four-wheelers in the country, this factor has almost wiped out second hand cars business, eliminated the concept of use of luxury cars by the upper class, created premium culture and given protection to the affluent, nourishing with black-money.

In the last three years, the domestic banks have provided a massive amount of loans for car-financing that has changed the culture, rolled out thousands of new models that are seen on roads.

According to new annual report of State Bank of Pakistan, the FY-05 was particularly significant as consumer financing increased by around 100 per cent, which was the highest among all sectors.

The personal loans and auto loans accounted for most of the growth in consumer finance with former constituting 45 per cent and the later 32 per cent of the total consumer loans of Rs. 206 billion on June 30, 2005. According to SBP report the auto loans have rapidly grown by 318 per cent since June 2002. The banks have extended a sizable credit of 66 billion rupees just for car-financing since June 2002.

Details gathered by MoneyPlus showed that on the one hand the banks involvement in car-financing has proved a blessing for all the social segments of the society, while on the other hand it has caused a blow to the business of second hand cars, used spare parts. A few years back, a majority of the car buyers used to buy second hand car having worth 0.1 million to 0.4 million while only rich class used to buy luxury cars like Mercedes, Pajero, Prado Jeep, Land Cruiser and BMW.

Now the people are getting brand new cars of their choice by paying just their down-payment through banks and showing least interest in purchasing second hand cars. This new trend has forced to several car dealers, whose main business was dependent on

second hand cars, either to wind up their business or divert to car financing.

AUO LEASING GROWTHFACTORS:

What is the latest trend in demand of new and second hand cars in Pakistan?

AS: Car-financing has opened new vistas of demand of brand new cars and every person, who can afford to pay 6,000 to 15,000 monthly installments is getting new card. This has provided an opportunity to the common people to obtain new car through leasing, but it has caused a serious blow to the second hand cars business. We people (whose mainstay was the second hand cars business) now keep on waiting for used cars customers for several days and rarely find the buyers. Even the business of used spare parts and workshops has also suffered a serious blow due to the availability of zero-meter cars through banks. The demand of new cars is steadily on the increase and despite increasing capacity the local manufacturers are unable to meet the demand

.

Although the amount of premium has declined due to rising mark up, still a substantial amount of premium is being charged from the buyers, who don't wait for delivery of four-wheeler for three to four months and obtain from the dealer. The premium on cars is varying from 30,000 rupees to 150,000 rupees these days against last year's premium of 60,000 rupees to 200,000 rupees, depending on the capacity and model of the car.

GROWTH OF AUTOMOBILE INDUSTRY:

Automobile sector is intensely affected by the boost in leasing business in Pakistan. During last three year leasing option became the major source of expansion, growth and stability to the automobile sector. The contribution of automobile leasing to growth of automobile sector is in the range of 40%, 50% and 60% last three years. This shows the success of auto lease sector in Pakistan.

KEY PLAYERS IN THE AUTO INDUSTRY:

As I mainly covering the passenger vehicles and light commercial vehicles, so there are four main players that dominate the market.

1. Indus Motor Company (IMC)
2. Pak Suzuki Motor Company (PSMC)
3. Honda Atlas Car Company
4. Dewan Farooq Motors Limited (DFML)

1. INDUS MOTORS CAR COMPANY

BRANDS

- TOYOTA COROLLA
- TOYOTA HILUX
- DAIHATSU CUORE
- TOYOTA ALTIS (Newly Launched)

2. PAK SUZUKI MOTORS COMPANY

BRANDS

- MEHRAN
- ALTO
- CULTUS
- BALENO
- RAVI
- BOLAN
- VITARA
- LIANA (Newly Launched)
- XL-7 (Newly Launched)

3. HONDA ATLAS CAR COMPANY

BRANDS

- HONDA CIVIC
- HONDA CITY
- HONDA ACCORD

4. DEWAN FAROOQ MOTORS LIMITED

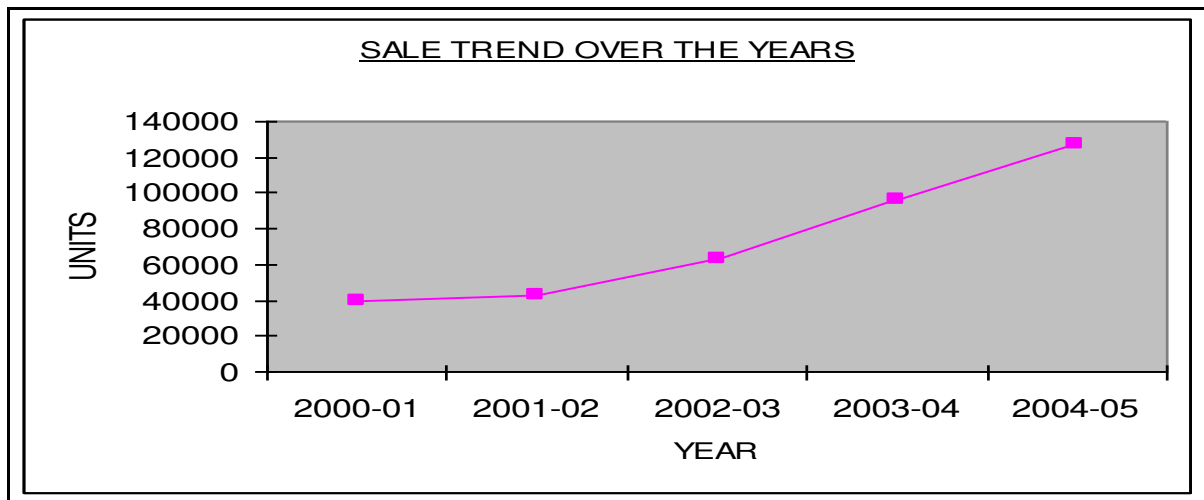
BRANDS

- HYUNDAI SANTRO
 - KIA CLASSIC
 - KIA SPECTRA
 - HYUNDAI SHAZORE (LCV)
 - KIA SPORTAGE (SUV)
-

INCREASE IN DEMAND OF AUTOMOBILE:

TOTAL CARS

	YEAR				
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Production	39,573	40,088	62,073	98,461	126,403



TOTAL PRODUCTION/SUPPLY:

Total production consist of:

1. *Locally Assembled Cars*
2. *Import Cars*

1. Locally Assembled Cars:

Car production by the local auto assemblers and manufacturers increased by 45.3 percent in November this year to 11,661 units compared with 8,023 units in November last year.

The data released by the Pakistan Automotive Manufacturers Association (PAMA) said on Monday the sale of the four- wheelers jumped by 50 percent in November as the companies sold 11,749 units compared with units in November last year.

In first five months (July-November) of the current fiscal year, the production of cars has gone up by 30 percent to 58,832 units compared with 45,344 units in the same period of last year. The companies sold 58,859 units during July-Nov, which is up 27.82 percent compared with last year.

“Car sales have gone up because of the rising demand, an auto sector “Sales in the auto sector will further go up in future.”

The reduction in import duty in fiscal year 2005-06 budget and increase in depreciation rates on used car import had not hampered the local car sales, he added

Only the production and sale of Honda Civic and Suzuki Mehran registered an increased in November this year, whereas the listed companies lost market share of their most of top models.

Among the four leading car assemblers, the production of Honda (Civic) registered the highest growth of 133 percent to 1,821 units in November this year compared with 779 units in October 2005. The sale of this car increased by 153 percent, as the company sold 1,765 units against the sale of 698 units in October 2005. The production and sale of Honda City dropped by 65 percent in November to 424 units from 1,221 units in October.

The production and sale of Suzuki Baleno dropped to 28 percent. The Pak Suzuki Company produced 421 units in November this year, and it sold 395 units, compared with to the production of 587 units and 553 units’sale.

The production of Suzuki Cultus, another car of Pak Suzuki, increased by 9.5 percent in November to 1,347 units compared with 1,230 units in October 2005, but its sale dropped by 19 percent to 1,121 units compared with October this year.

Pak Suzuki sold 2,592 units of Suzuki Mehran in November, up 4.4 percent compared with 2,482 units in October. However, its sale has gone up by 15.5 percent to 2,831 units in November this year.

2. Import Cars:

Car import likely to touch \$1b in current fiscal:

The value of vehicles imported by commercial car dealers and the automobile industry is likely to touch \$1 billion in the current fiscal year, industry sources told Daily Times here on Friday .

Pakistani car manufacturers and assemblers have so far failed to increase their production capacity up to 100 percent in the current fiscal year. During July-April 2004-05, car production surged by 26.6 percent to 99,992 units compared to 78,993 units manufactured in the same period last year.

In the budget 2004-05, the prime minister announced 50 percent duties on the import of new car to bridge the demand and supply gap.

The Central Board of Revenue (CBR), through a notification, reduced the depreciation cost on the import of used cars in July, a step which was rejected by importers. The CBR withdrew its notification in November 2004, allowing the previous depreciation cost on the import of used cars. On below 1300cc cars, customs and other duties are still higher while local cars having the same power engine are cheaper

Private car dealers imported around 6,000-7,000 one-year-old cars from November till now while the automobile industry has brought 11,000 to 12,000 new cars from Korea, Japan, Dubai and other states to meet the demand of local customers. While other vehicles such as trackers and trucks have also been imported during this period.

H.M. Shahzad, chairman of the All Pakistan Motor Dealers Association, said the demand for four-wheelers is increasing rapidly because of the cheap lending from financial institutions and leasing companies, but the production of new cars has been stagnant for the last two years.

Approximately, the total demand for new and used cars will be around 250,000 units in the country, and the production will be around 120,000. "Car assemblers have the confirmed order for 120,000 vehicles with an estimated advance cash payment of Rs 120 billion against these orders.

He said the import of vehicles would increase further as the local assemblers despite all efforts had not been able to meet the domestic demand. He suggested a more liberal import policy regarding the automobile industry to expedite import of vehicles to meet the local demand, and added that duty should be further reduced on the import of automobiles.

He said the government should allow five-year-old vehicles under the gift and personal baggage scheme and commercial import as permitted under the transfer of residence scheme.

The country's automobile industry recently allowed to import CBU from Japan and the European countries to bridge the gap. The assemblers and manufacturers were also allowed import 1350cc cars under the slab of 1300cc.

For such import, the assemblers had submitted a request to the federal government to allow import of complete units as they had totally failed to fulfill the growing demand, an industry source said.

The prime minister also inaugurated a new Revo car about a month back, producers of this car have also started booking.

APP adds: The import of automobiles has surged by 47 percent to \$807.823 million during the last ten months of the current fiscal year ending on June 30, 2005.

According to the compiled data of Federal Bureau of Statistics, Pakistan imported 47,944 vehicles during July-April 2004-2005 compared to 31,609 vehicles worth \$ 549.546 million in the same period last year.

The rise in the import of automobiles has been mainly due to the shortage of locally-assembled vehicles and the rising demand in the country because of car-financing facilities.

Import of used vehicles under three schemes records 369% growth

3,574 used vehicles were imported in July-October against the import of 762 vehicles in the same period of last fiscal year

The import of old and used vehicles under the Gift Scheme, Transfer of Residence Scheme and Personal Baggage Scheme has recorded a 369 % growth in the first four months July-October period of the current fiscal year 2005-06 as compared with the same period of last fiscal year 2004-05, according to official data available with the Daily Times on Thursday.

Overseas Pakistanis imported 3,574 old and used vehicles under the said schemes during July-October period of the current fiscal against the import of 762 vehicles under the said schemes in the same period of last fiscal 2004-05.

The auto industry of the country is of the view that the facilitation measures announced in the budget and trade policy for the current fiscal could be mis-used by motor dealers and if the import of the said vehicles crossed the figure of 15,000 in current fiscal year, then the local industry would be in trouble that is in implementing its expansion plan for increasing production of vehicles.

1,489 old and used vehicles were imported under the Transfer of Residence Scheme during the July-October period of the current fiscal year as compared with 312 vehicles imported during the same period of last fiscal year, showing an increase of 377%. The import of old and used vehicles under the Personal Baggage Scheme stood at 1,040 during the July-October period of the current fiscal year 2005-06 against the import of just 47 vehicles in the same period of last fiscal year 2004-05, indicating an increase of 2112%. According to data, 1,045 old and used vehicles were imported under the Gift Scheme during the July-October period of current fiscal year 2005-06 as compared with the import of 403 old and used vehicles in the same period of last fiscal year 2004-05, showing an increase of 159%.

The massive increase in the import of the old and used vehicles during the current fiscal year was due to the reduction in import duties and consequently reduction in sales tax and withholding tax at the import stage in the federal budget 2005-06.

The budget 2005-06 also announced reduction in customs duty on the import of vehicles in CBU condition in the country. Three duty slabs were introduced, CBU vehicles up to 1500 CC were allowed for import at 50% customs duty, CBU vehicles from 1501 CC to 1800 CC were allowed import duty of 65% and CBU vehicles above 1800 CC are also allowed for import at customs duty of 75%.

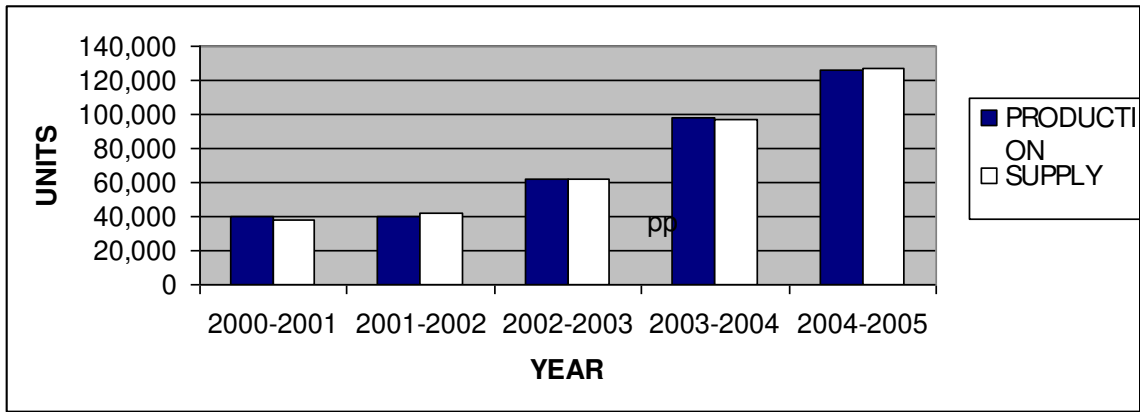
The overseas Pakistanis intending to import old and used vehicles under the said three schemes were given an extra benefit of depreciation of 2% for payment of customs duty per annum resulting in reduction in customs duty of up to 50% more as compared with new vehicles

The other factors that were instrumental in the increase in the import of old and used vehicles during the current fiscal year were the facilitation measures that were announced in the Trade Policy 2005-06

The trade policy measures for facilitation of overseas Pakistanis were allowing import of 3 years old and used vehicles in the country, exempting the condition of one-year prior registration in the name of importer, simplification of documentation for import of old and used vehicles by the overseas Pakistanis.

PRODUCTION AND SUPPLY OF THE INDUSTRY:

	YEAR				
	2000-2001	2001-2002	2002-2003	2003-2004	2004-2005
Production	39,573	40,088	62,073	98,461	126,403
Supply	38,047	41,838	61,955	96,674	127,309



Total car production increased by 28 percent to 126,403 units during the year 2004-05 compared to 98,461 units which were locally manufactured or assembled in 2003-04, according to the data of the Pakistan Automotive Manufacturers Association (PAMA) released here on Tuesday

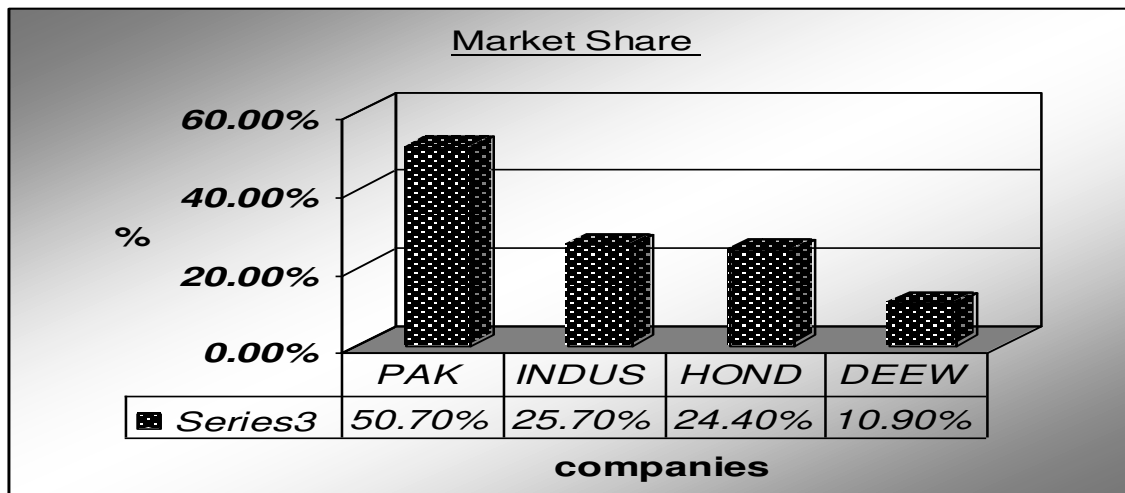
Total car sales during the year 2004-05 stood at 127,309 units, representing a growth of 32 percent over the sales of 96,674 units in 2003-04, the data revealed

“Extensive car financing schemes, significant influx of capital into the country and increase in consumer wealth due to economic turnaround were the propellers of this upsurge in sales magnitude,” said Faraz Farooq, analyst at Jahangir Siddiqui and Co. “With car assemblers enhancing their production capacities, the car sales will touch 150,000, up by 18 percent, in 2005-06,”

On a month on month basis, car sales during June 2005 soared by 6.5 percent to 13,668 units, while car production during the year went up by 7.9 percent to 13,775 units.

Market share of Companies

COMPANIES	FY2004-5
Pak Suzuki Company	50.7%
Indus Motor	25.7%
Honda	12.4%
De wan Farooque	10.9%



COMPETITION AMONG CARS MANUFACTURER:

I ventured into car dealing business in 1980 in Lahore. At that time a very few people were doing this business and there was a great respect for the dealers. In Pakistan, Suzuki was the

first company to start assembling/manufacturing of Suzuki-FX and it marketed its FX in 1983 in Pakistan at only 42,000 rupees.

After Suzuki, Toyota and Honda also introduced their vehicles in Pakistan. These three companies continued to enjoy monopoly for a long time in the country. But now Sunny, Mitsubishi, Chevrolet, Hyundai etc., have also started assembling and marketing their four-wheelers in Pakistan.

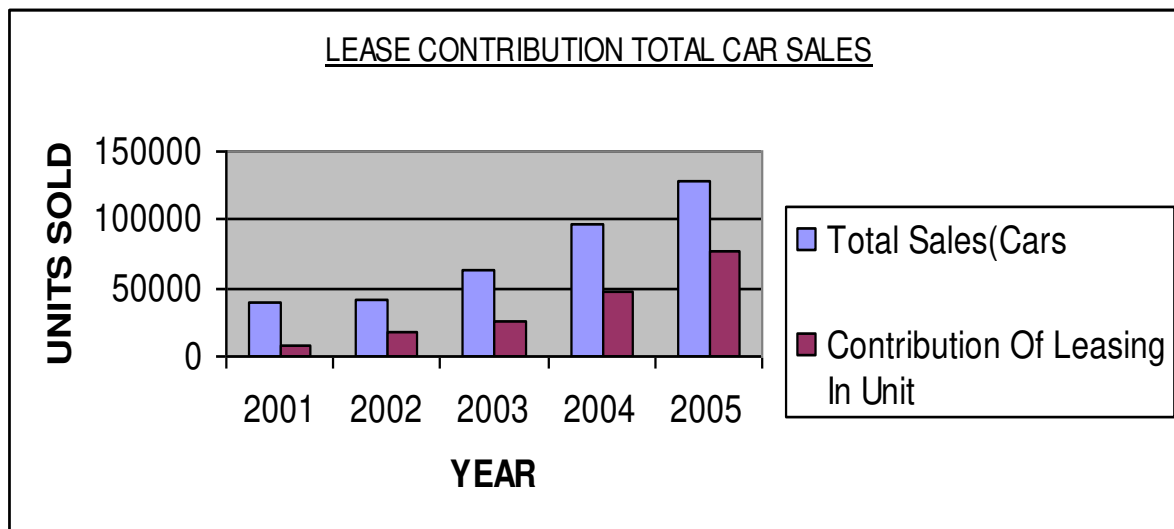
Now some low-priced Chinese four-wheelers are also available in the country and a tough competition is being seen amongst all the companies operating in Pakistan. The economy of the country is maintaining a robust growth for the last three years, leading to increase in the income of the people and this element would continue to give boost to cars' demand in the years to come.

Leasing Companies and Banks Contribution In Sale:

The vital role leasing companies are playing to pump the much needed cash flow in the local car industry is evident from the fact that over 60% of all new cars sale are through leasing. Leading car producer in Pakistan are all set to earn good profit in the current year mainly on account of huge growth in car sales after commercial banks, leasing companies and other institution slashed their leasing rates to as low as 12 percent. The contribution of automobile leasing to growth of automobile sector is in the range of 40%, 50% and 60% last three years. This shows the success of auto lease sector in Pakistan.

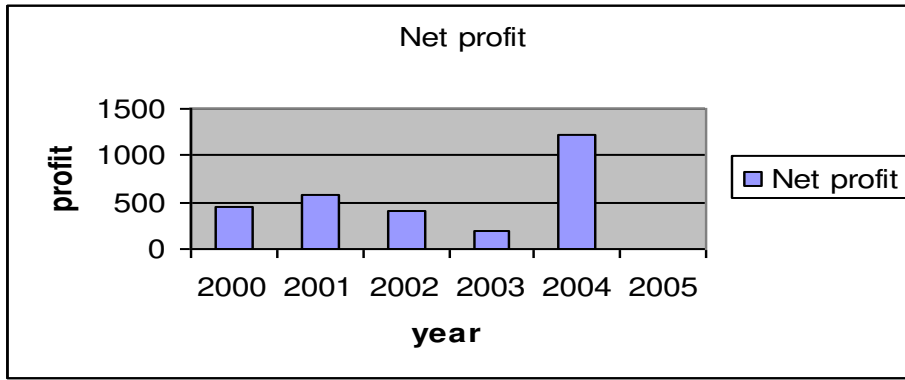
Contribution of Leasing to Automobile Sector:

ITEM	YEAR				
	2000-01	2001-02	2002-03	2003-04	2004-05
Total Sales(Cars)	39573	42341	62769	96674	127309
Contribution Of Leasing In Unit	7915	16936	25107	48337	76385
Contribution Of Leasing In %	20%	20%	40%	50%	60%



PROFIT OF LEASING COMPANIES OVER THE YEARS:

	2000	2001	2002	2003	2004	2005
No. of Companies	32	32	29	30	28	33
Paid up capital	4566	4762	4966	7572	7424	8541
Retained earning	3305	3441	3536	3105	3290	3396
Investment in lease finance	29039	30281	36680	39886	35677	42367
Investments	2664	3162	3646	11143	13041	22584
Borrowings	23765	25740	31472	37109	36285	42658
Revenues	5528	5704	6401	7692	7273	8564
Net profit	451	573	398	192	1211	1717
Financial charges	3634	3709	4228	5113	3906	4265
Cash	371	409	250	231	415	358
Total assets	35579	39147	45222	58831	62637	98249



Auto leasing sector in Pakistan is growing at a rapid pace. The increasing trend of profit is telling the story of success of auto leasing sector. The future outlook of the leasing sector both the leasing companies and banks, seem quite promising as the benefits alluring and the sector is gaining credence as well.

Chapter No. 5

Summary of Findings, Conclusion & Recommendation

5.1 FINDINGS:

- ✚ Leasing has become popular and the number of companies in this business has increased greatly, and within a short time. Now not only the three leasing companies listed with the Karachi Stock Exchange are in these business but also most other financial institutions, including banks. Interest rates for leasing have also come down following the fall in interest rates generally, which has made getting things through leasing more popular. A few years ago the rate of interest was as high as 25 to 30 per cent but now it has come down to 8 to 12 per cent as advertisements for leasing of cars show.
 - ✚ There is heavy competition in leasing and the companies have hired agents to solicit business. All that is making the leaders of leasing companies protest against the jumping in of other financial institutions into the leasing industry.
 - ✚ The State Bank of Pakistan has proposed financing used cars but said "the banks in this regard have to prepare uniform guidelines for determining the value of the used cars.
 - ✚ Leasing has helped push car sales during the last couple of years. It is expected to play a greater role in the near future to contribute even bigger share in car sales, which presently stands at over 60 per cent. Banks sitting on immense equities has found auto market a profitable credit market, so much so that the leasing companies now complain of absence of level playing field, and the mark-up rate on auto financing is expected to slide further to give a great boost to the local auto industry. The interest rates on auto financing have been cut by almost half in last one year alone to give a tremendous boost to the auto industry.
-

✚ So far the main beneficiaries of the car leasing schemes are the employees of the multinationals or big local companies. Those who already own a car are also among the buyers, since they can raise the money for the down payment of a leased new car by selling their old car. Advertisements that encourage people to exchange their old home appliances for new ones appear to be based on the same formula.

5.2 CONCLUSION:

During last couple of years auto leasing has played a vital role to help boost to car sales. As much as over one-third of all new car sales today are financed by all major banks plus over dozen of leasing companies.

The competition for the auto leasing has become very aggressive in last two years and is still going on strong. However, the compound mark -up rates still remain much too high over 40 per cent depending on the payment period and thus uneconomical for all practical purposes. Nevertheless the vital role auto leasing is playing to help give boost to the local car industry can hardly be denied. However, its failure to get mainstream can be blamed on the unaffordable high interest rates thus shying away a large number of potential buyers who otherwise are much interested to buy a car.

Leasing companies will have to maintain a sustainable growth rate for which they will need a perpetual flow of funds. Mobilization of funds is the main issue facing leasing companies.

In the prevailing circumstances, it will be a testing time for the lessors. Innovative thinking is required to come up with new projects for fund raising. Asset scrutinization as a vehicle to induct funds in leasing companies has not traversed beyond the conceptual stage.

5.3 RECOMMENDATION:

- ✚ Being auto leasing good for industries and economic development, it should be supported.
 - ✚ Car lease should be according to income and need of buyer to stop over-expenditure and later default related problems.
 - ✚ Car leasing should be at normal pace, aggressiveness by leasing companies should be de-motivated.
 - ✚ Government can make the business of car financing more sparkling by reducing the taxes, which is included in the price of the automobile those which are not tax exempted, so that eventually the purchaser have to bear the high price consequently Creates barrier for the car leasing and financing business.
 - ✚ Banks provide funds to leasing companies at lower cost so that leasing companies can maintain their spread at the profitable rate.
 - ✚ The banks also have to enter in the Islamic mode of financing so that people who are interest averse or want RIBA free financing can also take advantage of the car financing.
 - ✚ Control over increased incidents of car thefts and snatching, which are also forcing many well-to-do buyers not to buy a new car, particularly in Karachi, the biggest market of automobiles of the country.
 - ✚ Price cuts, enhancing of production capacity and reduction of initial booking payment make a good symbolic gesture. However, the widening gap between
-

supply and demand in a market where car financing has only recently started to trickle to the mainstream require strict regulations that center around protecting the interests of the buyers.

- ✚ The government has to promote low engine capacity fuel-efficient cars to encourage austerity. At present the car ratio per capita in Pakistan is one of the lowest in the world which means the potential for growth is really enormous.
- ✚ The mark-up on the auto financing still remain too high along with the documentation charges which shying away many potential buyers item car financing.
- ✚ There should control over the rising cost' of petrol and high incidence of accidents which causes to destructive roads in all urban centers across the country particularly in Karachi, are also discouraging auto sales.
- ✚ Innovative thinking is required to come up with new projects for fund raising.

The future outlook of the leasing sector both the leasing companies and banks, seem quite promising as the benefits alluring and the sector is gaining credence as well. All they need to use a proper marketing policy.
