Tellimer

Pakistan Economy

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Regulatory Tightening

SBP revises Prudential Regulations for auto and consumer financing

The State Bank of Pakistan (SBP) has revised Prudential Regulations (PRs) for consumer financing to moderate imports and demand growth. This follows recent measures undertaken to curb import-led demand which include allowing the c.7% CY21td PKR devaluation, a 25bps hike in interest rates in the September Monetary Policy and an increase in cash margins on imports of luxury goods (to 100% of value). These targeted steps will help to moderate demand and consequently reduce the burden on balance-of-payments. We understand that the government may levy further measures to curb imports.

Changes to the Prudential Regulations

Potential impact

Personal loans & credit cards	
Maximum tenure of personal loan has been reduced from five to four years	This will help moderate public spending and reduce risks
Maximum debt-burden ratio, allowed to a borrower, has been decreased from 50% to 40%	associated with personal loans and default risk.
Auto Financing	
Maximum tenure of auto finance has been reduced from seven to five years	This may reduce demand at the margin for financing of
Overall auto financing limits availed by one person will not exceed PKR3mn at any point in time	domestically manufactured/ assembled vehicles of >1000 cc engine capacity.
Minimum down payment for auto financing has been increased from 15% to 30% $$	
Restrictions on loans given for new and used imported vehicles	This may improve sales of locally assembled vehicles.

Source: SBP Circular and IMS Research

We do not anticipate a widespread impact

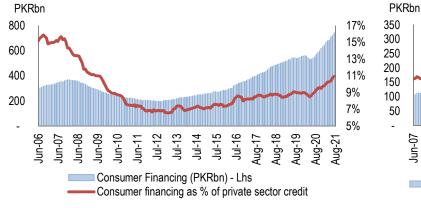
Consumer financing accounts for c.11% of total private sector credit in Pakistan, with Auto financing forming a large portion (over 40%) of all consumer loans. Growth in auto loans has surpassed 40% yoy in the past few months rising to 4.8% of private sector credit vs. 3.5% pre-Covid, while personal loans are also growing sharply, up over 20% yoy. While changes in Prudential Regulations may moderate import-led demand at the margin, a greater push is likely to occur from further monetary tightening, in our view. Moreover, SBP continues to protect the lower to middle income category purchases, as these new regulations are not applicable to locally manufactured or assembled vehicles of up to 1,000cc engine capacity.

Consumer financing as a portion of private sector credit

Growth in Auto financing at historically high levels

un-12

Auto Financing (PKRbn) - Lhs



Source: SBP

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Auto Financing (yoy)

75%

50%

25%

0%

-25%

-50%



PSMC is a key beneficiary

We highlight that despite the greater cost of used imported vehicles amid sharp PKR depreciation, FY22td CBU imports have risen a staggering 2.3x yoy. PSMC stands as the main beneficiary from the revised PRs due to the exclusion of assembled vehicles up to 1,000cc, in our view (PSMC is presently producing cars below 1,000cc following the discontinuation of the Swift model). The restriction on financing of used vehicles (lower share in overall auto finance loans), may potentially result in greater local sales (import substitution). However, the impact is unlikely to be very significant, in our view.

The impact on INDU and HCAR, however, is likely to be negative, in our view, where according to our back-of-the-envelope estimates, financing may be provided for cars up to c.PKR4.2mn (maximum finance allowed to be raised is PKR3.0mn; 70% debt finance). Sales of cars above 1,800cc such as the Fortuner, Revo, Sportage, Tucson and Sorento, among others, are likely to slow down, in our view.

The revised PRs are aimed at reducing auto financing, which is likely to impact HCAR due to the high share of auto financing contribution to overall sales (c.40%), while INDU's auto-finance-led sales are c.30%, due to the greater share of sales in the rural centers. PSMC in this case remains unscathed, in order to protect the interest of the lower to middle income groups.



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Buy	Total return expectation of ≥ 15% or expected to outperform the KSE-100 index
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Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

^{*}Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations

Risks: (i) PKR depreciation against Yen and US\$, (ii) adverse regulatory measures, and (iii) decline in sales due to delta variant.

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