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ECONOMIC CRISIS LEADS TO AUTOMOBILE CRISIS IN PAKISTAN



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Abstract

From the previous two years Pakistan facing a crisis related to economic and political that will affect the overall business and individuals. Mainly due to political instability leads Pakistan to economic crisis that will badly impact our economy and business community. Pakistan major economic crisis are including current account deficit which means that our imports are much higher than exports, that will cause of dollar shortage. Decrease in foreign exchange reserves, currency devalue, inflation, low purchasing power, unemployment, all those things create an impact full damage on individual as well as business. This crisis very badly impacts the automobile industry of Pakistan. Due to the unfavorable government policies regarding automobile industry and economic conditions were cause a decline in share profit. To find out which automotive company better perform in uncertain conditions we take three big automotive companies that hold the Pakistani market, which is Toyota Indus Motor, Pak Suzuki Motor & Honda Atlas Motors and conduct a SWOT analysis of these companies. Further we conduct ratio analysis and the last identify which company is performing well and why.

As per the SWOT & Ratio analysis Toyota Indus Motor performs better than Suzuki and Honda Motors in uncertain conditions. Toyota gross profit decline by 2.6% from the previous year 2021 but its better/higher than other. We analyzed that Toyota has strong customer satisfaction, brand reputation, diverse portfolio, durability & reliability, and supply chain management make Toyota best automobile company. Finally, we discuss who government policies & regulations impact the automotive sectors. And what should do other automotive companies to get profitable in the uncertainty and economic crisis.

1. Brief Overview of the Economic Crisis in Pakistan

Pakistan has been grappling with an ongoing economic crisis characterized by a range of issues and imbalances. These include fiscal challenges, with the government spending more than it earns, resulting in a mounting public debt burden and increased dependence on borrowing. Additionally, Pakistan is burdened by a substantial current account deficit, meaning that its imports surpass its exports. This has strained foreign exchange reserves and contributed to a growing trade deficit.

Inflation rates in Pakistan have remained persistently high, diminishing the purchasing power of the general population. Increasing food and energy prices, along with depreciation of the exchange rate, have contributed to inflationary pressures. Moreover, Pakistan has been plagued by a chronic energy crisis, leading to power outages, and impacting industrial production. Insufficient energy infrastructure, including limited generation capacity and transmission inefficiencies, has impeded economic growth and investment.

High levels of unemployment, particularly among the youth, have posed significant challenges for Pakistan. Limited job opportunities, inadequate skills matching, and sluggish economic growth have all contributed to the unemployment crisis. Additionally, poverty levels in the country remain high, with a substantial portion of the population living below the poverty line.

The Pakistani rupee has experienced notable depreciation against major currencies, resulting in increased costs for imports and debt servicing. Exchange rate volatility has also negatively affected investor confidence and foreign direct investment. Pakistan has encountered difficulties in implementing structural reforms and enhancing governance. Issues such as corruption, inefficiency, and a lack of transparency have hindered economic development and foreign investment.

2. Economic Crisis and its Impact on the Automobile Sector

The automobile industry can be greatly affected by an economic crisis. Here are several ways in which such a crisis can impact the sector:

2.1. Decline in Purchasing Power and Consumer

Spending: Economic crises often result in reduced purchasing power for individuals and households due to factors like job losses, salary cuts, or limited access to credit. Consequently, consumer spending on high-value items such as automobiles tends to decrease, leading to a lower demand for vehicles.

2.2. Increased Inflation and Production Costs

Economic crises are frequently accompanied by high inflation rates, which drive up the costs of raw materials, components, and other inputs necessary for automobile manufacturing. This can strain the profitability of automobile manufacturers and potentially result in higher prices for consumers. As per World Bank data in YE 2022 Pakistan has 19.9% inflation rate.

2.3. Currency Devaluation and Import Challenges

Economic crises can trigger currency devaluation, making imported automobile components or fully assembled vehicles more expensive. This affects the production costs for domestic automobile manufacturers relying on imported parts and can also restrict consumer access to imported vehicles.

2.4. Unemployment and Reduced Automobile Demand

Economic crises often lead to job losses and higher unemployment rates. When individuals face financial uncertainty or lack steady employment, they are less inclined to make significant purchases like automobiles. Decreased consumer demand further compounds the challenges faced by the automobile sector. As per World Data in 2022 Pakistan has 6.4 % unemployment rate.

2.5. Financial Struggles for Manufacturers and Suppliers

Economic crises can create financial difficulties for automobile manufacturers and suppliers. Reduced sales and profitability can result in cash flow problems, making it difficult for

companies to meet their financial obligations, invest in research and development, or upgrade manufacturing facilities.

2.6. Decreased Investment and Innovation

During economic crises, investors tend to exercise caution and become hesitant to invest in the automobile industry. This can hinder innovation, research, and development efforts, leading to a slowdown in technological advancements and a loss of competitive edge for the sector.

3. Consequences of the Automobile Crisis in Pakistan

Some of the consequences of the crisis in the automobile industry in Pakistan are explained below.

3.1. Decline in Automobile Sales and Production

The automobile crisis would lead to a significant decrease in automobile sales and production. This can be attributed to factors such as economic instability, diminished consumer purchasing power, and a decline in overall vehicle demand. Consequently, automobile manufacturers would witness a decline in their sales figures and would need to adjust their production accordingly.

3.2. Financial Distress for Automobile Manufacturers and Suppliers

Automobile manufacturers and their suppliers would experience financial difficulties because of the decline in sales and production. Reduced revenue streams would result in lower profits or even losses, impacting their financial stability. This situation would pose challenges for manufacturers and suppliers to cover operational costs, invest in research and development, and meet financial obligations.

3.3. Job Losses and Layoffs in the Automobile Industry

The automobile industry would face job losses and layoffs because of the decrease in sales and production. To adapt to the situation, automobile manufacturers may be compelled to downsize

their workforce, affecting employees engaged in production, assembly, maintenance, and related areas. This would not only impact individuals directly but also have wider socioeconomic implications, leading to higher unemployment rates, reduced consumer spending power, and further economic slowdown.

3.4. Reduced Investment and Innovation in the Sector

The sector would experience a decline in investment and innovation due to the automobile crisis. Manufacturers, facing financial distress, would have limited resources for research and development. Consequently, the introduction of new technologies, design improvements, and the development of environmentally friendly vehicles could be hindered. This lack of investment and innovation may impede the sector's ability to compete in international markets and keep up with evolving consumer demands.

4. The Big 3 Automobile Manufacturers of Pakistan

Some of the prominent automobile manufacturers operating in Pakistan are.

I. Pak Suzuki Motor Company

Pak Suzuki is a well-known automobile manufacturer in Pakistan and functions as a subsidiary of Suzuki Motor Corporation, based in Japan. They have a wide range of vehicle offerings, encompassing cars, motorcycles, and commercial vehicles.

II. Honda Atlas Cars (Pakistan) Limited

Honda Atlas is a joint venture between the Honda Motor Company of Japan and the Atlas Group of Pakistan. Renowned for their production of Honda-branded cars, they specialize in manufacturing sedans, hatchbacks, and SUVs.

III. Toyota Indus Motor Company

Toyota Indus Motor Company is a collaborative effort involving Toyota Motor Corporation of Japan, the House of Habib, and Toyota Tsusho Corporation of Japan. They hold the responsibility for manufacturing Toyota vehicles within Pakistan, including popular models such as Corolla, Camry, Fortuner, and Hilux.

5. SWOT Analysis of Big 3 Automotive Manufacturers of Pakistan

5.1. SWOT Analysis of Pak Suzuki Motos

Strengths

- **Strong Market Presence:** Pak Suzuki Motors commands a formidable market position in Pakistan and stands as one of the foremost automobile manufacturers in the country. Their extensive distribution network and well-established brand reputation contribute to this strength.
- **Diverse Product Portfolio:** Pak Suzuki Motors boasts a varied array of vehicles, encompassing cars, motorcycles, and commercial vehicles, catering to the diverse preferences and requirements of different customer segments.
- **Established Partnership:** Being a subsidiary of Suzuki Motor Corporation, Pak Suzuki Motors enjoys the advantages of a longstanding collaboration with a globally renowned automobile manufacturer. This partnership provides access to cutting-edge technology, valuable expertise, and global best practices.

Weaknesses

- **Dependency on Imported Parts:** Pak Suzuki Motors heavily relies on imported components for their vehicle manufacturing processes, which can give rise to heightened production costs and expose the company to potential vulnerabilities in the supply chain.
- **Limited Model Variants:** In comparison to certain competitors, the model lineup of Pak Suzuki Motors may be somewhat limited. This limitation could curtail the company's ability to fully cater to a wide range of customer preferences.

Opportunities

- **Growing Demand for Electric Vehicles:** The escalating global demand for electric vehicles presents an auspicious opportunity for Pak Suzuki Motors to invest in and introduce electric vehicles within the Pakistani market. Such a move would align with the global trend towards sustainable and eco-friendly transportation solutions.

- **Expansion into Emerging Markets:** Pak Suzuki Motors can explore avenues to expand its market presence beyond Pakistan into emerging markets. This expansion can leverage the company's expertise, brand recognition, and the robust partnership with Suzuki Motor Corporation.

Threats

- **Intense Competition:** The automobile market in Pakistan is characterized by intense competition, with numerous local and international players vying for market share. Pak Suzuki Motors faces the risk of competitors introducing innovative products, employing aggressive marketing strategies, and engaging in pricing competition.
- **Changing Government Policies:** Government policies and regulations pertaining to the automobile industry can significantly impact the operations and profitability of Pak Suzuki Motors. Alterations in taxes, import duties, or emission standards can pose considerable challenges to the company's financial performance.

5.2. SWOT Analysis of Honda Atlas Cars (Pakistan) Limited

Strengths

- **Strong Brand Reputation:** Honda Atlas Cars (Pakistan) Limited derives its strength from the strong brand image associated with the globally recognized Honda Motor Company. This contributes to the company's reputation and fosters trust among customers in Pakistan.
- **Diverse Range of Products:** The company offers a wide array of vehicles, including sedans, hatchbacks, and SUVs, catering to diverse customer segments and preferences. This enables Honda Atlas to target a broad spectrum of consumers in the Pakistani market.
- **Technological Advancement:** As a subsidiary of Honda Motor Company, Honda Atlas has access to advanced technology and engineering expertise. This enables the company to manufacture high-quality vehicles with innovative features.

Weaknesses

- **Dependency on Imported Components:** Honda Atlas Cars (Pakistan) Limited heavily relies on imported components for its vehicle manufacturing. This reliance on imports can lead to higher production costs and vulnerabilities in the supply chain, particularly considering the fluctuating exchange rates and potential disruptions in the global supply chain.
- **Limited Localization:** The level of localization, or domestic production of parts and components, by the company may be relatively low. This can have an impact on the cost competitiveness of Honda Atlas vehicles and make them susceptible to changes in import policies or tariffs.

Opportunities

- **Increasing Demand for Electric Vehicles:** The global surge in demand for electric vehicles presents an opportunity for Honda Atlas to invest in and introduce electric vehicles in the Pakistani market. By capitalizing on this trend, the company can align with sustainability goals and cater to environmentally conscious customers.
- **Expansion into New Segments:** Honda Atlas can explore new vehicle segments or introduce new models that cater to specific market niches. This strategy can help the company capture a larger market share and meet the diverse preferences of customers.

Threats

- **Intense Market Competition:** The automobile market in Pakistan is characterized by intense competition, with both local and international manufacturers striving for market dominance. Honda Atlas faces the threat of competitors introducing new models, implementing aggressive marketing strategies, and engaging in price-based competition.
- **Economic Factors:** Economic instability, inflation, and fluctuations in exchange rates can have an impact on consumer purchasing power and influence the demand for vehicles. These economic factors can also affect the production costs and availability of raw materials, potentially impacting the profitability of Honda Atlas.

5.3. SWOT Analysis of Toyota Indus Motor Company

Strengths

- **Strong Market Presence:** Indus Motor Company has established a robust market presence in Pakistan, positioning itself as one of the leading automobile manufacturers in the country. The company benefits from a wide distribution network and a well-regarded brand reputation.
- **Strategic Partnership with Toyota:** Indus Motor Company is a joint venture between Toyota Motor Corporation of Japan, the House of Habib, and Toyota Tsusho Corporation of Japan. This collaboration grants the company access to advanced technology, expertise, and global best practices through its association with a renowned global automobile manufacturer.
- **Diverse Product Portfolio:** Indus Motor Company boasts a diverse range of Toyota vehicles in Pakistan, including popular models such as Corolla, Camry, Fortuner, and Hilux. This extensive product portfolio enables the company to cater to different customer segments and preferences, enhancing its competitive advantage.
- **Strategic alliance with government,** Toyota has very strong alliance with government and armed forces. Mostly they use Toyota vehicles which is the strongest point.
- **In FY 2022 Toyota 1300-1600 CC vehicle production units 55,383 and their selling units 56,528. While Honda has production of 35,079 units and sale of 35,197 units. And Suzuki produce**

Weaknesses

- **Reliance on Imported Components:** Indus Motor Company heavily relies on imported components for its vehicle manufacturing. This dependency exposes the company to potential challenges such as higher production costs and supply chain vulnerabilities, influenced by fluctuating exchange rates and potential disruptions in the global supply chain.
- **Limited Localization:** The level of localization, or domestic production of parts and components, within Indus Motor Company's operations may be relatively low. This

limitation can impact the cost competitiveness of their vehicles and render them susceptible to changes in import policies or tariffs.

Opportunities

- **Growing Demand for Electric Vehicles:** The increasing global demand for electric vehicles presents an opportunity for Indus Motor Company to invest in and introduce electric vehicles in the Pakistani market. Embracing this trend allows the company to align with sustainability goals and address the evolving preferences of environmentally conscious customers.
- **Expansion into Emerging Markets:** Indus Motor Company can explore avenues to expand its market presence beyond Pakistan into emerging markets. By leveraging its partnership with Toyota and its expertise in manufacturing and distribution, the company can venture into new territories, diversify its customer base, and tap into new growth opportunities.
- **Open gates to the global supply chain;** Toyota Indus working with Egypt manufactures and they export to Egypt. This partnership with Toyota Egypt is a great global validation to IMC's unwavering dedication towards innovation and customer satisfaction, which has made it a reliable and trusted brand in the South Asian region.

Threats

- **Intense Competition:** The automobile market in Pakistan is characterized by fierce competition, with various local and international players vying for market share. Indus Motor Company faces the threat of competitors introducing innovative products, implementing aggressive marketing strategies, and engaging in pricing competition, which can pose challenges to its market position.
- **Economic Factors:** Economic instability, inflation, and fluctuations in exchange rates have the potential to impact consumer purchasing power and subsequently influence the demand for vehicles. These economic factors can also exert pressure on the cost of production and raw materials, potentially affecting the profitability of Indus Motor Company.

6. Pakistan Automotive Industry & Ratio Analysis

The Pakistan automobile industry is quite proportionate with the global GDP contribution, with about 3 percent of the total GDP. Moreover, it's creating millions of well-paying employments, more than 3.5 million individuals are employed in the automotive sector. A few years back, the telecom and cigarette were the top tax-paying sectors but now auto industry was the highest tax-paying industry. The automobile industry in Pakistan includes companies involved in the production/assembling of passenger cars, light commercial vehicles, trucks, buses, tractors, and motorcycles. The industry's existing market structure is extremely centralized. Toyota, Suzuki, and Honda are three big companies that dominate the market, also they well-establishes in Pakistan..The State Bank of Pakistan reports that during July to October 2021, the trade deficit will increase by 106% to \$7.6 billion. The Trade Development Authority of Pakistan reported a 579 percent increase, between July and October 2021, imports of the transport sector rose by 140% to \$1.5 billion. Due to the influx of previously reserved vehicles, the availability of ships and the volume of shipments have significantly increased the import of cars, increasing by 579 percent. Pakistan's rising imports have put enormous pressure on the rupee, which cause to devalue our currency. The critical phase for the auto and part sector started in July 2022 when the Government restricted the import of CKDs and parts abruptly under the looming shadows of default. The administration neglected to involve stakeholders, placing this sector in a precarious position. Following that, the government implemented an import quota system based on 50% import performance, which fulfilled the industry's requirements. In its second action, the State Bank of Pakistan (SBP) strung commercial banks up by the neck to suspend the whole financial sector of the economy. The main industries affected by this ongoing crisis include tractors, automobiles, and Chinese motorbike manufacturers.

| | Toyota Indus Motors | | Pak Suzuki Motor Company | | Honda Atlas Pakistan | |
|--|------------------------|--------|-----------------------------|--------|-------------------------|--------|
| | 2022 | 2021 | 2022 | 2021 | 2022 | 2021 |
| PROFITABILITY RATIOS (%) | | | | | | |
| Gross Profit Margin | 6.62% | 9.23% | 5.80% | 5.10% | 5.20% | 5.60% |
| Net Profit Margin | 5.74% | 7.16% | -3.10% | 1.70% | 2.32% | 2.66% |
| Return on Assets | 4.54% | 7.44% | 3.32% | 1.89% | 3.32% | 3.21% |
| Return on Equity | 29.26% | 26.61% | -27.20% | 10.48% | 13.20% | 10.30% |
| Earnings Per Share RS 000 | 201.04 | 163.21 | -77.00 | 32.56 | 17.60 | 12.60 |
| LIQUIDATY & LEVERAGE RATIOS | | | | | | |
| Current Ratio | 1.19 | 1.35 | 0.99 | 1.08 | 1.29 | 1.55 |

| | | | | | | |
|--------------------------------------|--------|--------|--------|--------|--------|--------|
| Quick Ratio | 0.95 | 1.00 | 0.61 | 0.66 | 0.66 | 0.96 |
| Total Debt/Equity (%) | 1.11% | 2.00% | 67.48% | 6.96% | 14.65% | 12.65% |
| Total Debt / Total Capital (%) | 1.10% | 1.96% | 40.29% | 6.50% | 12.77% | 11.23% |
| Total Liabilities / Total Assets (%) | 74.76% | 64.00% | 82.04% | 70.84% | 71.59% | 59.70% |
| EFFICIENCY RATIOS | | | | | | |
| Inventory Turnover | 10.36 | 8.31 | 5.80 | 5.80 | 5.86 | 5.47 |
| Total Asset Turnover | 1.58 | 1.67 | 1.80 | 1.70 | 1.87 | 1.75 |
| Avg. Days Sales Out. | 2.40 | 1.70 | 4.70 | 4.60 | 3.30 | 5.40 |
| Accounts Receivable Turnover | 152.73 | 216.01 | 77.04 | 79.77 | 109.29 | 68.16 |
| Average Cash Conversion Cycle | 28.00 | 37.40 | 12.00 | 42.80 | 59.10 | 65.60 |

6.1. Profitability Ratio

Profitability ratios are financial metrics that measure a company's ability to generate profits relative to its sales, assets, or equity. These ratios are used to assess a company's overall financial performance and profitability.

▪ Gross Profit Margin

When we analyze the GPM of top 3 automobile companies, we see that Toyota Indus Motors performs well in FY 2021 & 2022 as compared to other two companies. We can see a decreasing trend of 2.61% in FY 2022 but it's comparatively higher than the market. However, this shows that Toyota efficiently & effectively manage their production cost.

▪ Net Profit Margin

Toyota Indus Motors has higher NPM 5.74% and 7.16% in FY 2022 & 2021 respectively as compared to other companies. We can see that Toyota Indus Motors are generating higher profit than others under difficult economic condition of the country where government blocked their LC's and many automobiles companies' shutdown their production.

▪ Return on Asset

Toyota Indus Motors has an ROA of 4.54%, indicating that for every 1 unit of assets it has, they generate a profit of 4.54. This suggests that Toyota is relatively efficient in utilizing its assets to generate earnings. A higher ROA reflects better asset management and profitability.

- **Return on Equity**

Toyota Indus Motors has an ROE of 29.26%, indicating that the company generates a return of 29.26 rupee for every one rupee of shareholders' equity. A higher ROE indicates Toyota is more efficient in generating profits from the money invested by its shareholders.

6.2. Liquidity & Leverage Ratio

- **Current Ratio**

It measures the firm's ability to cover their short-term obligations with their short-term assets. When we analyze the above the automobile companies Honda Atlas has 1.29 current ratio which relatively low from last year but higher than Toyota & Suzuki. It shows that Honda has a strong liquidity position & they have enough resources to meet their short-term obligations.

- **Quick Ratio**

While analyzing the quick ratio Toyota has highest number which is 0.95 & 1.0 in FY 2022 & 2021 respectively. Toyota is in better condition to cover their immediate liabilities with liquid assets as compared to Honda & Suzuki.

- **Debt to Equity Ratio**

It measures the proportion of total debt to shareholder equity. A lower ratio means a lower debt and a firm has a stronger financial position. Analyzing this ration in the three big automobile companies Toyota has a relatively lower ratio 1.11 as compared to others. It shows that Toyota has less relayed on borrowing while Suzuki has higher ratio that shows they have higher debt that will weaker their financial position.

6.3. Efficiency Ratio

- **Inventory Turnover**

This shows how efficiently firms manage and sell their inventory or how quickly they convert inventory to cash. A higher ratio shows that the firm has efficient inventory management and faster inventory turnover that will be beneficial in terms of cash.

Toyota has the highest inventory turnover which is 10.36 in FY 2022 and 8.31 in FY 2021. This shows they have an efficient inventory management system & they quickly converted into cash.

- **Total Asset Turnover**

This ratio shows that how quickly a firm convert their assets into cash, higher the ratio a higher revenue generated. Hondo motors has higher TAT 1.87 in FY 2022. It shows that on single unit of assets they generate 1.87 units of income, this refers that Honda efficiently utilizes their assets to generate revenue.

- **Account Receivable Turnover**

This ratio shows how efficiently firms collect their accounts receivable or how quickly convert receivables into cash. Toyota has the highest account receivable turnover 152.73 & 216.01 in FY 2022 & 2021 respectively.

- **Average Cash Conversion Cycle**

This will help us to analyze how efficiently firms manage their working capital. Based on two-year data Toyota has an average cash conversion cycle of 28.0 days & 37.40 in FY 2022 and 2021 respectively, which are quite good as compared to others. Within 28 days Toyota recovered their investment into cash from sales. A lower cash conversion cycle refers to efficient working capital and has a shorter cash cycle, which helps in terms of liquidity and cash flow generation.

Based on the overall analysis of ratios it appears that Toyota has performed better than Suzuki & Honda in the uncertain conditions, specifically in FY 2022 & 2021. Here are some key points in the support of Toyota Motors. Toyota is more profitable than others also their earnings per share are much higher than others, that is a positive indicator of profitability & can be attractive to investors. When it comes to liquidity, they have a strong liquidity position, which shows that they have sufficient liquid assets to cover their short-term obligations, they must survive this distress condition of the country. Also, they have low debt borrow which means that Toyota have strong liquidity position. Move to the efficiency side of Toyota they have highest number of inventory turnover days & account receivable turnover which clearly shows that Toyota

efficiently manage its inventory & quickly convert their product into sales and quickly convert account receivable to cash flows.

7. Findings & Discussion

Toyota enjoys a significant popularity and preference over Suzuki and Honda for several reasons. Here are some factors that contribute to this preference:

- 1) **Durability and Reliability:** Toyota vehicles are known for their durability and reliability. They have a reputation for being able to withstand harsh road conditions and require less frequent repairs compared to some Suzuki and Honda models.
 - 2) **Resale Value:** Toyota cars generally have higher resale value compared to Suzuki and Honda. This is mainly due to their reputation for reliability, which makes them desirable in the used car market. Many people in Pakistan consider resale value an important factor when purchasing a car.
 - 3) **Wide Range of Models:** Toyota offers a diverse range of vehicles to cater to various preferences and requirements. From compact hatchbacks like the Toyota Corolla to SUVs like the Toyota Fortuner, there are options available for different budgets and needs.
 - 4) **After-Sales Service and Spare Parts Availability:** Toyota has a well-established network of authorized service centres and dealerships across Pakistan. This ensures that customers can easily access maintenance and repair services. Additionally, spare parts for Toyota vehicles are widely available, making it easier and more convenient to maintain and repair them.
 - 5) **Perception of Quality:** Toyota has built a reputation for producing high-quality vehicles globally. This perception of quality has influenced consumer preferences, as people in Pakistan often associate Toyota with superior craftsmanship and build quality.
- *Quality Person Award* Mr. Bilal Siddiqui, a valued member of IMC's Engine shop team, has been presented with the prestigious Quality Person Award for the year 2022 by Toyota Daihatsu Engineering & Manufacturing (TDEM). This esteemed award is based on the Customer First and Quality First mindset. Mr. Bilal Siddiqui's exceptional observation skills, which went beyond his job scope, played a crucial role in identifying

and preventing a critical defect from progressing further. His commitment to ensuring superior quality standards aligns with TDEM's global criteria, making him the deserving recipient of this recognition. These commendations highlight Toyota Pakistan's unwavering dedication to delivering exceptional quality and customer satisfaction. By consistently striving for excellence, Toyota Pakistan continues to raise the bar in the automotive industry and reinforce its commitment to producing vehicles of the highest standards.

- 6) **Brand Reputation:** Toyota is a globally recognized brand known for its reliability and quality. If Toyota Pakistan has established a strong reputation for its vehicles, it may have a competitive edge over Honda and Suzuki.
 - 7) **Marketing and Promotion:** Effective marketing and promotion campaigns can significantly impact a company's performance. If Toyota Pakistan executed successful marketing strategies, highlighting their vehicles' strengths, and targeting the right audience, it could lead to increased sales and market share.
 - 8) **Customer Service and After-Sales Support:** Providing exceptional customer service and after-sales support can enhance customer satisfaction and loyalty. If Toyota Pakistan has a strong focus on customer care and support, it could contribute to their success in the market.
- *Warranty Reduction Award* IMC has been honoured with the esteemed Warranty Reduction Award for the year 2021. This award is presented to affiliates that demonstrate exceptional results in maintaining high-quality standards in local vehicle manufacturing. The evaluation criteria for this award include prompt resolution of market complaints, minimizing market defect outflow, and reducing customer inconvenience. The recognition highlights IMC's dedication to continuously improving manufacturing quality by effectively addressing issues related to Shipping Quality Audit defects and Pre-Delivery Service.
- 9) **Technological Advancements:** Incorporating innovative features and technologies into their vehicles can give a company an advantage. If Toyota Pakistan introduced new and advanced features in their cars, it could attract customers who value technological advancements.

➤ *Toyota Pakistan's Ambitious Hybrid Vehicle Project:* Toyota Pakistan, a subsidiary of Indus Motor Company (IMC), is embarking on a significant expansion project to introduce Hybrid Completely Knocked Down (CKD) models in the Pakistani market. With a landmark investment of USD 100 million, Toyota Pakistan is set to enhance its manufacturing facilities and introduce locally assembled hybrid vehicles for the first time in Pakistan. Scheduled for completion in the fiscal year 2023-24, this groundbreaking project represents Toyota Pakistan's commitment to promoting environmentally friendly transportation options and catering to the evolving needs of Pakistani consumers.

10) **Pricing and Value:** Toyota Pakistan's pricing strategy might have been more competitive, offering good value for money compared to its rivals. If customers perceive Toyota vehicles as being reasonably priced for the features and quality they provide, it could lead to higher sales.

7.1. Localization and Supplier Development for Meeting Increased Demand

Toyota Pakistan, the nation's most beloved automobile brand, remains committed to fulfilling the dreams of its customers by providing them with their desired vehicles. Since its establishment in 1993, Toyota Pakistan has sold over 1 million vehicles, reflecting the trust and support of its valued customers. As the demand for our vehicles continues to grow, we are determined to enhance our manufacturing capacity to meet the rising expectations. To achieve this goal, it is essential for all our suppliers, both local and foreign, to gear up and align with our increased requirements. We acknowledge the vital role played by our 54 tier-1 local suppliers in enhancing their own capacity to match our production demands. This, in turn, prompts their tier-2 and tier-3 suppliers to also enhance their capabilities and ensure a seamless supply chain. However, we are aware of the challenges faced by supply chains globally, including shipment delays and global container shortages. These issues can disrupt or disturb supply chains depending on the region and severity of the challenges faced. Understanding the potential risks, Toyota Pakistan has taken proactive measures to enhance supplier inventory management. This enables us to mitigate supply risks, even at the tier-2 level, to the best of our abilities.

By strengthening our localization efforts and supplier development programs, we aim to build a robust supply chain that can effectively cater to the increased demand while ensuring minimal

disruptions. We value our partnerships with suppliers and remain dedicated to working collaboratively to overcome any challenges that arise.

Through these strategic initiatives, Toyota Pakistan strives to maintain a reliable and efficient supply chain, which plays a critical role in delivering high-quality vehicles to our esteemed customers. As we continue to grow and evolve, we are committed to fostering strong relationships with our suppliers and upholding our reputation for excellence in the Pakistani automotive industry.

Toyota is popular in Pakistan, Suzuki and Honda also have their own customer bases and loyal followings. Factors such as affordability, fuel efficiency, and brand loyalty may influence some individuals to prefer Suzuki or Honda over Toyota. Ultimately, the preference for a particular brand can vary depending on individual preferences, budget, and specific requirements.

7.2. After the COVID-19 Pandemic

Toyota Pakistan, like other automotive companies, faced several challenges. Some of the factors and issues they encountered include:

- **Disrupted Supply Chain:** The pandemic led to disruptions in the global supply chain, including the availability of components and parts required for vehicle manufacturing. This resulted in production delays and challenges in meeting customer demands.
- **Decreased Demand:** The overall economic slowdown and financial uncertainties caused a decline in consumer purchasing power. This led to a decrease in demand for automobiles, including Toyota vehicles, as people prioritized essential expenses.
- **Production and Sales Constraints:** Due to lockdown measures and restrictions on operations, Toyota Pakistan experienced limitations in production capacity and faced challenges in maintaining normal sales activities. Showroom closures, limited customer visits, and reduced test drives affected their sales performance.
- **Financial Impact:** The economic fallout from the pandemic affected the financial health of many businesses, including Toyota Pakistan. Reduced sales and disruptions in operations put pressure on the company's financial performance.

7.3. Why Toyota Performance Better than Other?

Despite these challenges, Toyota managed to perform relatively better than Suzuki and Honda in Pakistan. Here are some reasons for their comparatively stronger performance:

- **Strong Brand Reputation:** Toyota has built a strong brand reputation in Pakistan over the years, known for reliability, durability, and resale value. This brand equity helped maintain customer loyalty and demand for Toyota vehicles, even during challenging times.
- **Diverse Product Portfolio:** Toyota offers a diverse range of vehicles in Pakistan, including sedans, hatchbacks, SUVs, and commercial vehicles. This extensive product line-up allowed them to cater to different market segments and customer preferences, ensuring a broader customer base and potential sales opportunities.
- **Focus on Customer Satisfaction:** Toyota has a reputation for providing excellent customer service and after-sales support. By focusing on maintaining high customer satisfaction levels, they were able to retain existing customers and attract new ones.
- **Robust Supply Chain Management:** Toyota has a well-established supply chain management system, which helped them navigate the disruptions caused by the pandemic more efficiently. This allowed them to resume production and meet customer demands relatively quickly compared to some competitors.
- **Resilient Business Strategies:** Toyota Pakistan implemented agile business strategies to adapt to the changing market conditions during the pandemic. This included adjusting production volumes, optimizing inventory management, and implementing cost-saving measures to navigate the challenging business environment.

The performance of each company can vary based on various factors and market conditions. Toyota performed relatively better in the context of the challenges posed by the pandemic, the overall market dynamics, customer preferences, and specific business strategies also played a significant role in their performance compared to Suzuki and Honda in Pakistan.

7.4. Which things Toyota competitors would have to do to improve in Pakistan?

To improve their position in the Pakistani market and compete with Toyota, Suzuki and Honda, the following are some steps that their competitors could consider:

- **Enhance Vehicle Durability and Reliability:** Improving the durability and reliability of their vehicles is crucial. Conducting rigorous testing, quality control measures, and using high-quality materials can help build trust among consumers and enhance the perception of reliability.
- **Focus on After-Sales Service:** Offering excellent after-sales service is essential to retain customers and build brand loyalty. Expanding service centres, ensuring well-trained technicians, and providing efficient and prompt customer support can enhance the overall ownership experience.
- **Improve Spare Parts Availability:** Availability of spare parts is a crucial aspect for car owners, as it affects maintenance and repair costs. Ensuring a wide distribution network for genuine spare parts and addressing any existing issues related to availability and pricing can help build customer confidence.
- **Offer Competitive Pricing:** Pricing plays a significant role in purchasing decisions. Suzuki and Honda can evaluate their pricing strategies and consider offering competitive prices without compromising on quality. Conducting market research to understand the price sensitivity of customers and adjusting pricing accordingly can help attract more buyers.
- **Expand Vehicle Line-up:** Increasing the range of vehicle models available in Pakistan can help cater to diverse customer preferences and needs. This could include introducing new models or variants that offer better features, technology, and fuel efficiency to compete with Toyota's offerings.
- **Emphasize Fuel Efficiency:** Fuel efficiency is a crucial factor for many car buyers in Pakistan due to rising fuel prices. Suzuki and Honda can focus on developing and promoting more fuel-efficient vehicles to capture this market segment.
- **Enhance Marketing and Branding Efforts:** Improving marketing strategies and branding initiatives can help create a strong brand identity and increase brand awareness. Effective advertising campaigns, highlighting unique features and advantages of their vehicles, can attract more customers.
- **Build Strategic Partnerships:** Collaborating with local companies or suppliers can help reduce production costs, enhance supply chain efficiency, and improve overall competitiveness.

- **Invest in Research and Development:** Continuous investment in research and development can lead to innovation in design, technology, and sustainability. Developing vehicles with advanced features, safety technologies, and environmentally friendly options can give competitors an edge in the market.
- **Suspension and Smooth Feel:** They must work on the suspension work as the suspension of Honda and Suzuki vehicles are kind of hard as compared to Toyota. As Pakistan is underdeveloped country so the infrastructure of roads is not up to the mark so mostly all the customers need durable product having smooth suspension and has less maintenance cost, also gives QDR (Quality, Durability, Reliability).

7.5. Government regulations and policies

The government policies significantly impact the operations and performance of automotive companies like Toyota Pakistan. Some of the challenges faced by Toyota Pakistan due to government regulations and policies include.

- **Import and Customs Duties:** The government imposes high import and customs duties on the import of fully assembled vehicles and vehicle parts. This can increase the cost of production and make vehicles more expensive for consumers. Toyota Pakistan, like other automakers, must navigate these duties and manage their pricing and profitability accordingly.
- **Taxation Policies:** Taxation policies, such as sales tax, excise duties, and income tax, can impact the affordability of vehicles and the overall demand in the market. Changes in tax rates and policies can directly affect the pricing and profitability of Toyota vehicles.
- **Trade and Tariff Policies:** Trade and tariff policies, including free trade agreements or tariffs imposed on imported vehicles, can impact the competitiveness of Toyota Pakistan. These policies can affect the availability and pricing of vehicles, as well as the domestic market's ability to compete with imported vehicles.
- **Localization and Localization Policies:** The government may incentivize or require automakers to localize their production and increase the use of locally sourced components. While localization can boost the domestic industry and create employment

opportunities, it can also present challenges in terms of quality control, supply chain management, and meeting production targets.

- **Regulatory Compliance:** Government regulations related to safety standards, emissions, and environmental regulations can impact vehicle design, manufacturing processes, and costs. Complying with these regulations requires continuous investment in research and development and adjustments to production processes.
- **Infrastructure and Energy Policies:** The availability and quality of infrastructure, such as road networks and fuelling stations, can impact the market for automobiles. Government policies related to energy sources and alternative fuels can also influence the adoption and demand for specific vehicle types, such as hybrid or electric vehicles.
- **Policy Stability and Consistency:** Consistency and stability in government policies are crucial for long-term planning and investments by Toyota Pakistan. Frequent policy changes or uncertainties can create challenges in business planning and decision-making.

Toyota Pakistan engages in continuous dialogue with government authorities, industry associations, and stakeholders to advocate for favourable policies, address concerns, and provide input on regulations that impact the automotive sector. They also invest in local manufacturing capabilities, technology development, and workforce training to align with government policies and meet regulatory requirements.

Toyota, Suzuki, and Honda all operate within the same regulatory framework in Pakistan, Toyota's ability to manage government policies effectively can be attributed to several factors:

- **Experience and Expertise:** Toyota has been operating in Pakistan for a longer period compared to Suzuki and Honda. With their long-standing presence, Toyota has gained valuable experience and developed expertise in navigating government policies and regulations. This experience allows them to adapt to changes and anticipate potential challenges more effectively.
- **Strong Government Relations:** Toyota has established strong relationships and effective communication channels with government authorities and regulatory bodies. These relationships can provide Toyota with better access to information, opportunities to influence policies, and an understanding of the government's objectives and priorities.

- **Proactive Engagement:** Toyota Pakistan proactively engages with government entities and industry associations to provide input and feedback on policies that impact the automotive sector. This proactive approach allows them to voice their concerns, offer suggestions, and advocate for policies that support the growth and development of the industry.
- **Robust Localization Efforts:** Toyota has invested significantly in localizing its production in Pakistan. This includes increasing the use of locally sourced components and manufacturing capabilities. By aligning with the government's emphasis on localization, Toyota has been able to demonstrate its commitment to supporting the local economy and meeting regulatory requirements.
- **Continuous Innovation and Technology Development:** Toyota is known for its commitment to innovation and technological advancements in the automotive industry. By focusing on developing vehicles that meet or exceed safety and environmental regulations, Toyota can position itself favourably within the government's policy framework.
- **Strong Brand Reputation:** Toyota has a strong brand reputation globally and in Pakistan. This reputation is built on factors such as quality, reliability, and customer satisfaction. A strong brand presence can positively influence the perception of the company among government officials and regulators, potentially leading to more favourable treatment or consideration.
- **Effective Risk Management:** Toyota's robust risk management practices enable them to anticipate and mitigate potential challenges arising from government policies. They closely monitor policy developments, assess the impact on their operations, and devise strategies to address and comply with the requirements effectively.

Toyota may have certain advantages in managing government policies, both Suzuki and Honda also actively engage with the government and work towards compliance with regulations. The ability to navigate government policies can vary based on multiple factors, including individual company strategies, relationships, and specific market conditions.

7.6. How to Improve Performance

To improve their performance as per government regulations and policies in Pakistan, Suzuki and Honda can consider the following procedures:

- **Government Engagement:** Establishing strong relationships with government authorities and regulatory bodies is crucial. Suzuki and Honda should actively engage in dialogue and collaborate with relevant government entities to understand their objectives, provide input, and address concerns related to policies impacting the automotive sector.
- **Compliance and Regulatory Awareness:** Stay updated on regulatory developments and changes in government policies. This involves closely monitoring policy updates, participating in industry associations, and proactively seeking information about upcoming regulations. Compliance with safety standards, emissions requirements, and other regulatory obligations is essential to avoid penalties and maintain a favourable reputation.
- **Localization Efforts:** Focus on localization initiatives to align with the government's emphasis on domestic production. Increasing the use of locally sourced components and expanding manufacturing capabilities can help Suzuki and Honda demonstrate their commitment to supporting the local economy, creating employment opportunities, and complying with localization policies.
- **Technology Adoption:** Embrace technological advancements that align with government policies, such as fuel-efficient and environmentally friendly technologies. Investing in research and development to develop hybrid or electric vehicles can position Suzuki and Honda favourably within the government's vision for a sustainable automotive industry.
- **Advocacy and Collaboration:** Collaborate with industry associations, trade bodies, and other stakeholders to collectively advocate for policies that support the growth and development of the automotive sector. By actively participating in discussions and providing insights and recommendations, Suzuki and Honda can contribute to shaping policies that are favourable to their operations and the industry.
- **Supplier Development and Collaboration:** Collaborate with local suppliers and invest in their development. Developing a robust local supplier network can not only support localization efforts but also create a more resilient supply chain. Collaborative

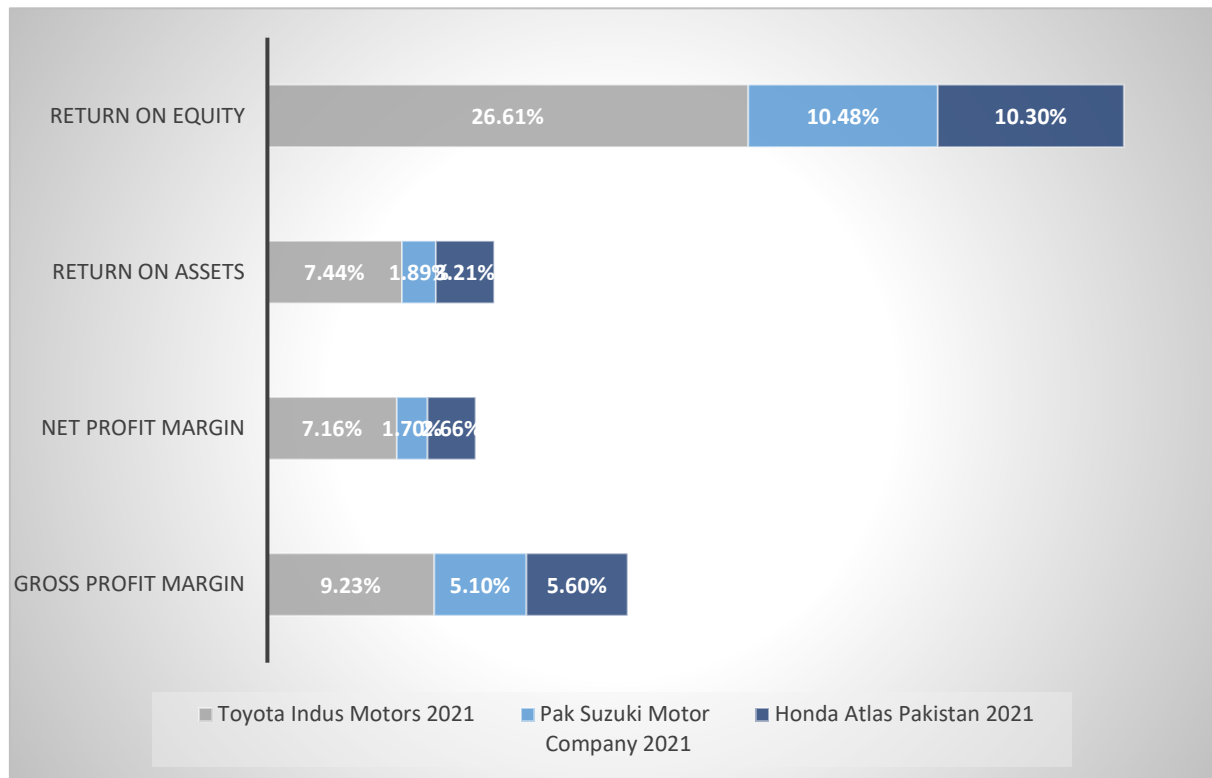
efforts with suppliers can help meet quality standards, cost targets, and delivery requirements, strengthening the overall competitiveness.

- **Government Incentives and Subsidies:** Explore and take advantage of government incentives and subsidies available to the automotive industry. This could include incentives for research and development, investments in clean technologies, or tax breaks. Actively seeking out and leveraging these incentives can provide a competitive advantage and support compliance with government policies.

Conclusion

As per our analysis we find that Toyota Indus Motors performance during FY 2021 & 2022 was better than Suzuki and Honda Motor. During the uncertain economic and political condition gross profit of Toyota decreased by 2.61% in FY2022 but its less decreased by other companies. Due to government regulations like high taxes on automobile industry and high import duty also closure of Letter of Credits (LC's) automobile companies are not able to import vehicles and their parts. High inflation and cost of goods/ inventories cause power shortages cause the shutdown of production plants of many automobile companies. Toyota has some strong areas, that's why their performance is better than other automotive players. Like they have strong brand recognition, customer loyalty, their diverse product portfolio, their prices and the last their business strategies, these things all make them a customer first option and get the biggest chunk of the market.

Appendix



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