



ANALYSIS OF THE MOTOR SECTOR IN SRI LANKA



MOTOR SECTOR OVERVIEW

The vehicle population in Sri Lanka has grown rapidly over the years, mainly attributable to the increase in disposable income & changes to the duty structure. In 2016, the country's vehicle population reached 6.79 Mn, recording a growth of 7.8% YoY. The single largest vehicle segment in the country was Motor Cycles, whereas, second and third were Motor Tricycles and Motor Cars respectively.

The new vehicle registrations in 2016 declined by 26.2% to 493,328 on account of the change in vehicle valuation methods used for duty computations and reduction in Loan to Value ratio applicable for vehicle financing. The highest new vehicle registrations in 2016 were recorded by Motor Cycles. The second and third were Motor Tricycle and Motor Cars respectively.

In 2016, a total of 45,172 new Motor Cars were registered, compared to 105,628 new Motor Car registrations in 2015, recording a decline of 57.23% YoY. As a result, the growth in the Motor Car population of the country reduced to 6.7% in 2016 from 18.6% in 2015.

The motor sector poses a significant influence on the economy of the country by affecting the Balance of Payment and the tax revenue. The value of vehicle imports for the first eight months of 2016 was recorded at USD 12,402.9 Mn, with a marginal decline of 1.6%, compared to the corresponding period of the previous year. The vehicle imports in the country accounted to 7.8% of the total import bill for the eight months period from January to August in 2016, while claiming 14% of the total export earnings in the country during the said period.

493,328 New Vehicle Registrations during 2016

45,172 New Motor Car Registrations in 2016

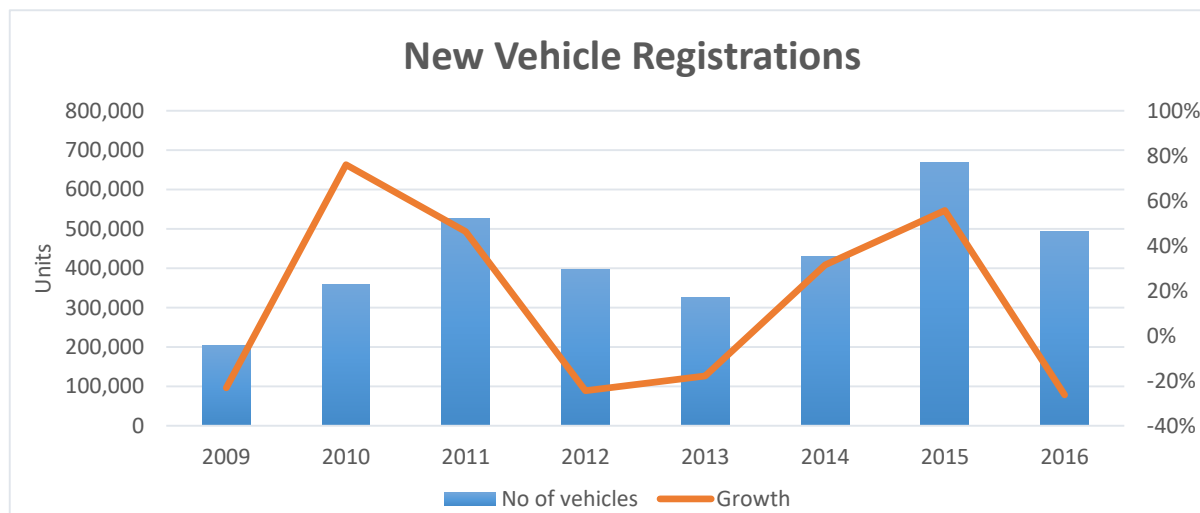
Accounted for 7.8% of the Total Import Bill for the period January – August 2016

Claimed 14% of Total Export Earnings for the period January – August 2016

Country's Total vehicles were 6.79 Million as at end of 2016

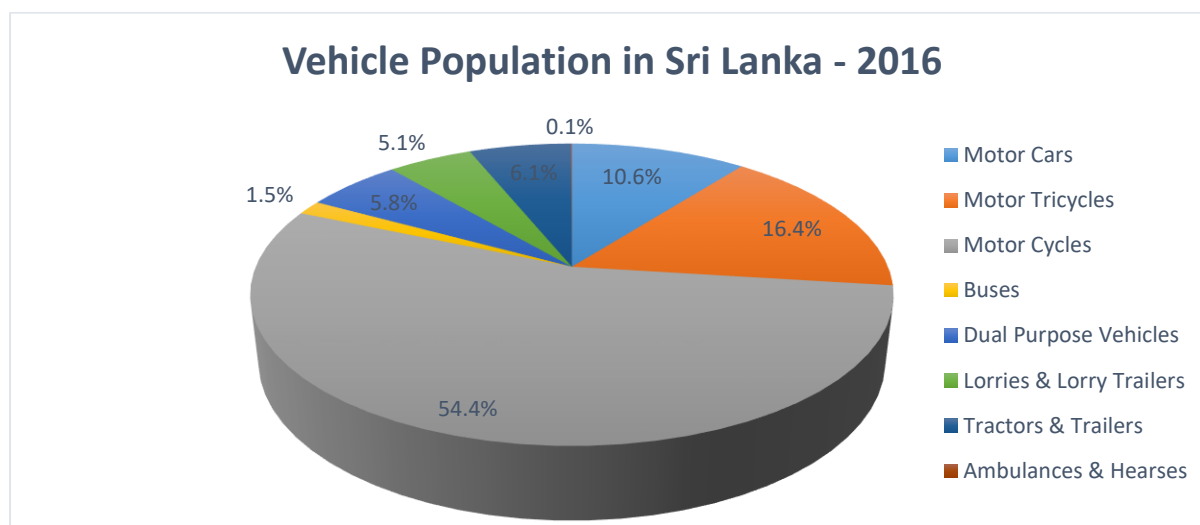
ANALYSIS OF MOTOR SECTOR

Vehicle population in Sri Lanka by the end of the year 2016, reached 6.79 Mn, recording a lower growth rate of 7.8% compared to 11.9% growth in 2015. During the year, 493,328 new vehicles were registered at the Department of Motor Traffic, recording a 26.2% decline compared to 668,907 new vehicle registrations in 2015.



Source: Department of Motor Traffic

The highest growth in the vehicle population, for the year 2016, was recorded from the Motor Tricycles segment (10.1%) followed by the Dual Purpose Vehicles (7.4%) The Motor Cycles, the single largest contributor to the vehicle population in Sri Lanka accounted to more than half (54.4%) of the total. Motor Tricycles and Motor Cars accounted to 16.8% and 10.7% respectively, of the total vehicle population in the country.



Source: Department of Motor Traffic

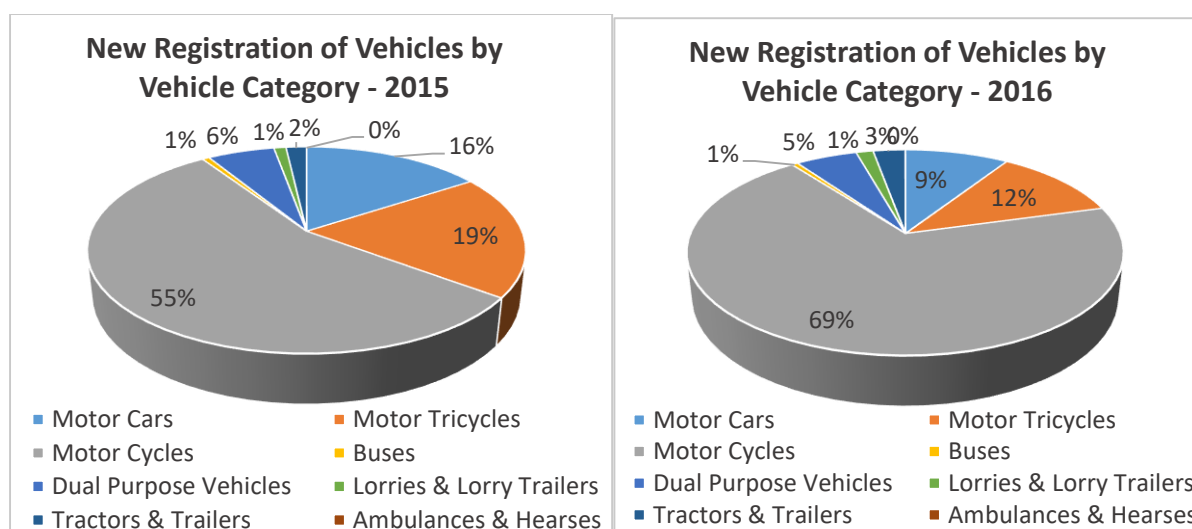
The total vehicle registrations in Sri Lanka dropped in 2013 compared to the previous year, followed by an upward trend during the 2014-2015 period. Flowing down from the benefits of tax reductions and increase in disposable income of government sector employees due to increases in salaries, a boom in vehicle imports was recorded in 2015. However, the new vehicle registrations exhibited a noticeable decline during 2016, mainly attributable to the change in valuation method used for Excise duty calculations related to vehicle imports, and due to the decline in Loan to Value Ratio (LTV) considered for vehicle financing. In 2016, the Motor Car and Motor Tricycle registrations dropped by more than half, recording an overall decline in vehicle registrations by 26%.

Annual New Vehicle Registrations

	2012	2013	2014	2015	2016	Growth 2015-2016
Motor Cars	31,546	28,380	38,780	105,628	45,172	-57%
Motor Tricycles	98,815	83,672	79,038	129,547	56,945	-56%
Motor Cycles	192,284	169,280	272,885	370,889	340,129	-8%
Buses	3,095	1,805	3,851	4,140	2,685	-35%
Dual Purposes	37,397	24,603	20,799	39,456	26,887	-32%
Others	34,158	18,910	14,203	19,247	21,510	11%
Total Registrations	397,295	326,651	429,556	668,907	493,328	-26%

Source: Department of Motor Traffic

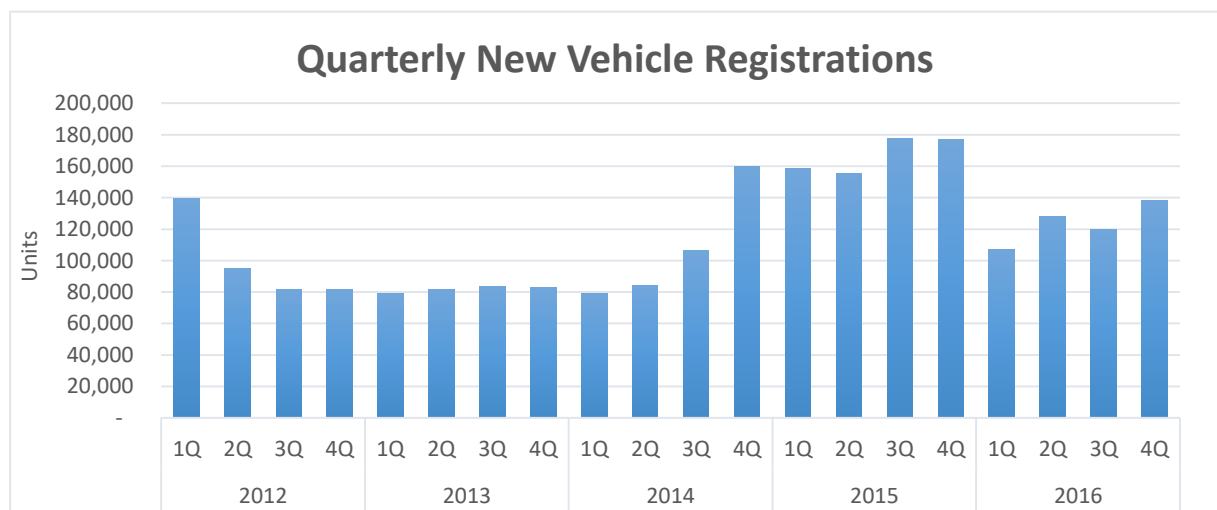
The Motor Cycles accounted to a majority of 68.9% (340,129) of the total new vehicle registrations during the year, securing its position as the largest contributor to the new vehicle registrations. Though, Motor Tricycles accounted to the second largest share of new vehicle registrations, the share has dropped from 19% to 12% in 2016 compared to 2015. The share of new motor car registrations out of the total registrations declined to 9% in 2016 from 16% recorded in the previous year.



Source: Department of Motor Traffic

Despite the lower level of new vehicle registrations in 2012 and 2013, the vehicle registrations from mid-2014 indicated a gradual improvement with the charge of Excise (Special Provision) duty in lieu of VAT, NBT, Cess, Customs duty and PAL on motor vehicle and exemption of certain items from Excise duty.

The downward revision of Excise (Special Provisions) duty on motor vehicles with less than 1,000 cc engine capacity in early 2015 further enhanced the new vehicle registrations during the year. The method of computation of the Customs value of motor vehicles for the purpose of calculation of excise duty payable at the time of importation was revised, negatively influencing the new vehicle registrations in the latter part of the year. The directions issued to maintain a maximum LTV ratio of 70% on loans and advances granted for purchasing motor vehicles, adversely affected the new vehicle registrations in 2016. The imposition of an import license fee of LKR 1.5 Mn per annum on all importers engaged in the business of importing and selling motor vehicles and the introduction of vehicle entitlement levy in early 2016 further influenced the vehicle registrations during the year.



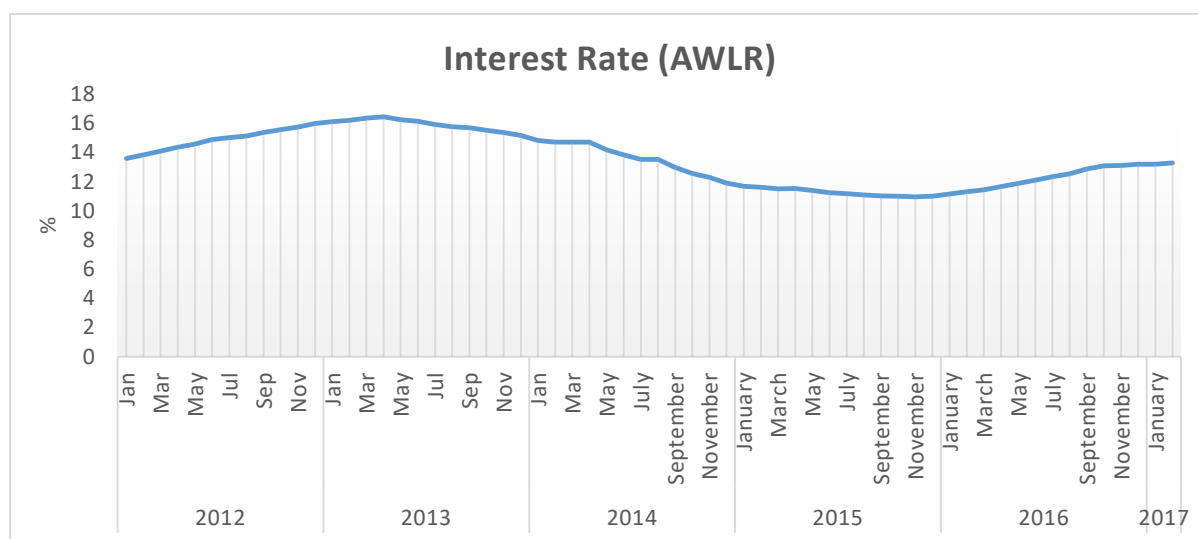
Source: Department of Motor Traffic

Macroeconomic Factors Affecting the Motor Sector

Other than the taxes and charges related to motor vehicle imports, macroeconomic factors pose a significant influence on the performance of the motor sector.

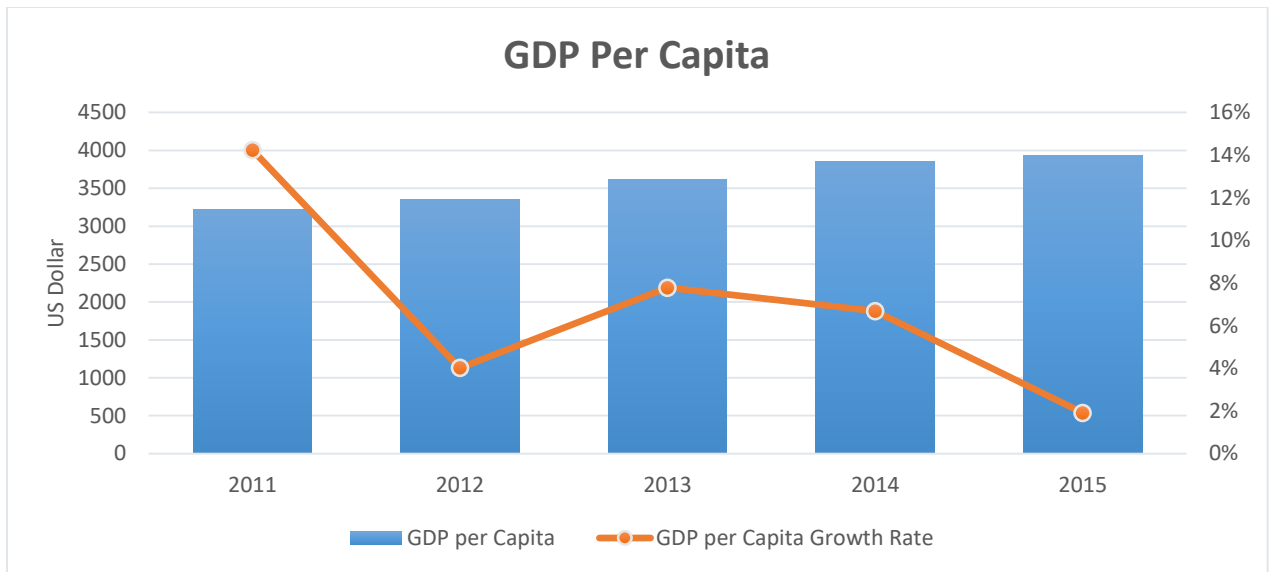
One of the critical factors affecting Sri Lanka's vehicle business is the prevailing interest rates, since the purchase of a vehicle is mostly financed by finance/ lease facilities. The average weighted lending rate (AWLR) of Commercial Banks demonstrated an increasing trend since mid-2013, followed by a declining trend up to 2015. The lowest average weighted lending rate for the period 2012-2016 was recorded during 2015, resulting in a significant boom in vehicle imports for the year. In 2016, the average weighted lending rate followed an increasing trend, adversely affecting the vehicle imports in the country.

The LTV ratio was revised to 25% for Motor Tricycles, 50% for Motor Cars and Vans, and 90% for Commercial Vehicles (Lorries and Heavy Vehicles) as at the end of 2016, affecting the vehicle financing modes.



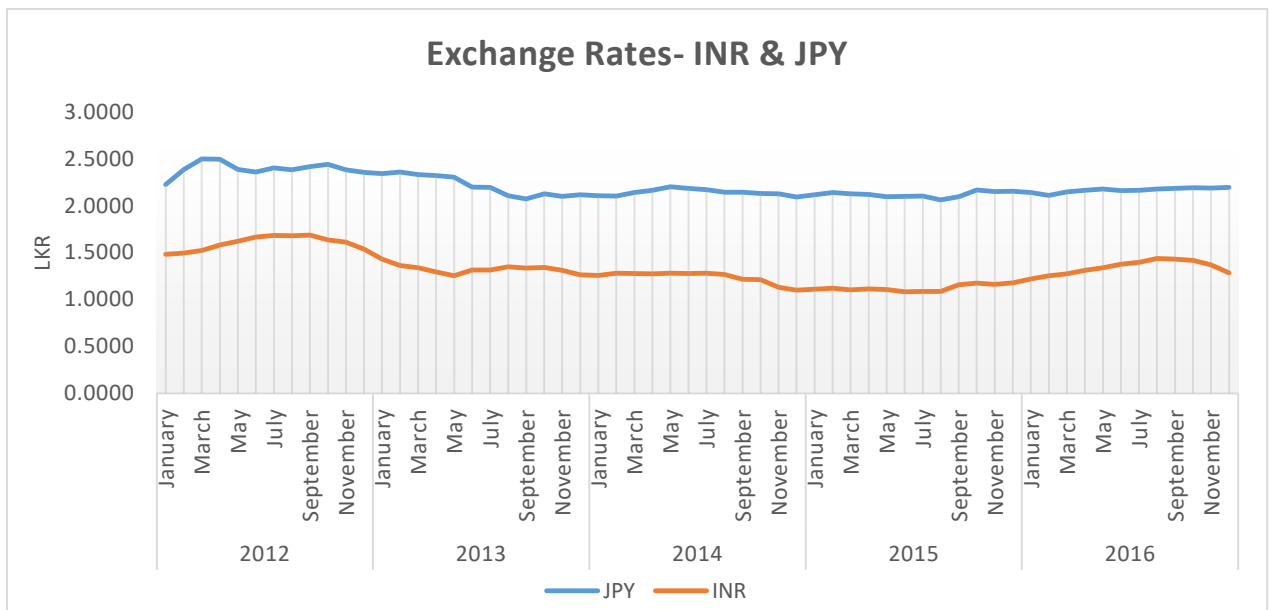
Source: Central Bank of Sri Lanka

The disposable income of the people has a significant influence on the new vehicle registrations in the country. Though the GDP per capita was increasing in nominal terms, the growth rate of per capita income was demonstrating a declining trend since 2011. The decline in per capita income growth was reflected in the decline in the new vehicle registrations over the years.



Source: Central Bank of Sri Lanka

The exchange rate volatility poses a significant threat on the vehicle imports in the country. The depreciation of the Sri Lankan Rupee creates a significant burden on the vehicle importers, as it increases the cost of importing vehicles. Hence, the demand for new vehicles is affected by the exchange rate movements.



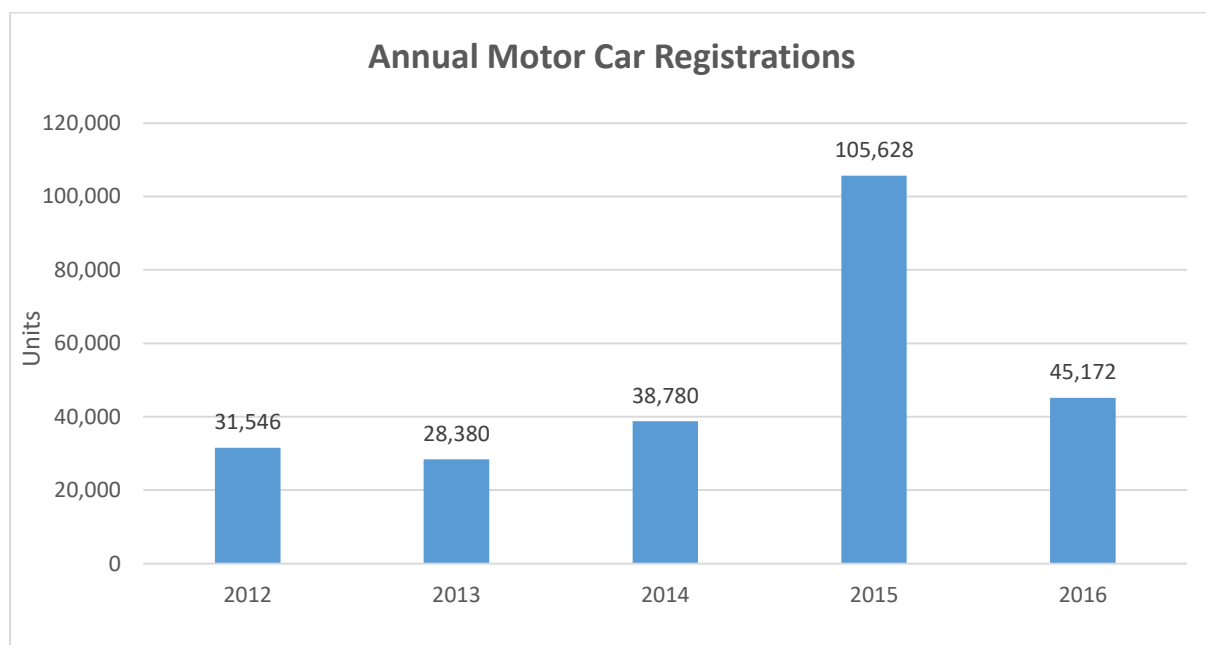
Source: Central Bank of Sri Lanka

Sri Lanka imports vehicles mainly from Japan and India. Therefore, the change in value of Indian Rupee and Japanese Yen against Sri Lankan Rupee has a significant influence on the vehicle imports from these two countries.

ANALYSIS OF MOTOR CAR SEGMENT

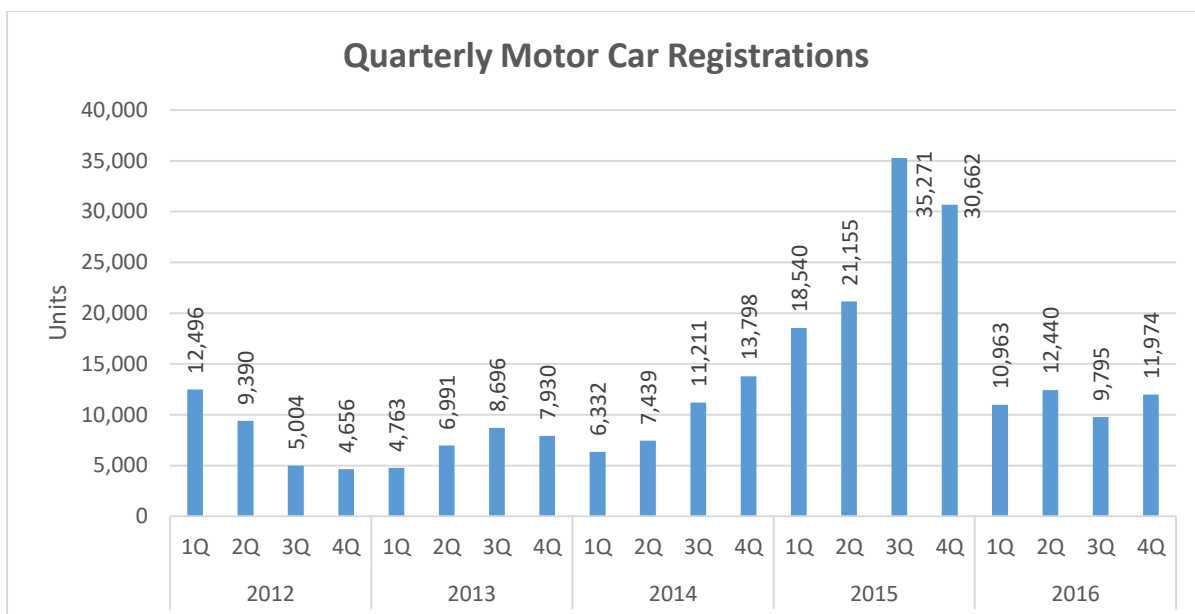
Motor Cars, the third largest vehicle segment registered with the Department of Motor Traffic of Sri Lanka, represents around 11% of the total vehicle population in the country. The Motor car population has shown a gradual growth, during 2011-2016, at a five year CAGR of 7% (adjusted to the extraordinary growth in 2015) and stands at 717,674 vehicles as at the end of 2016.

Proven over the past five years, changes to Government policy on excise duty and LTV ratio could be considered as key drivers of the yearly fluctuations in new Motor Car registrations. Further, changes to maximum age limits for vehicles to be imported and the change in disposable income can also be viewed as supporting factors for such inconsistency.



Source: Department of Motor Traffic

During 2016, a total of 45,172 new Motor Cars were registered, compared to 105,628 recorded in 2015. This decline in motor new car registrations in 2016 was largely attributable to the neutralization of the motor industry business environment. The normalization of the exceptionally low excise duty levels for smaller cars (less than 1,000cc) and the effects of the increased disposable income of government servants, normalized the annual new motor car registrations to match the past five year trend. Annual new motor car registrations as a percentage of annual total vehicle registrations normalized to 9% from the exceptional 16% recorded in year 2015.



Source: Department of Motor Traffic

Key Reasons for Fluctuations in Motor Car Registrations during 2012-2016

2012

31st March

Maximum age limit for motor cars and vehicles for transporting more than 10 persons, reduced to 1 year

Maximum age limit for motor vehicles for transporting goods, reduced to three and a half years

2011 Year-end Excise duty rates on the importation of motor vehicles increased by 100%

2013

9th January

Cylinder capacity limitation (1,600cc) for vehicle imports under special privilege of the Finance Act was removed.

30th August

A minimum cash margin of 100% made required for opening Letter of Credit

21st November

Excise duty on motor car imports revised upwards

22nd November

Customs duty imposed on Diesel hybrid vehicles at the rate of 15%

2014

02nd January

Minimum cash margin of 100% for opening LCs for importing vehicles removed

Appreciation of the rupee against the Japanese Yen

2015	
1 st January	Cost of living allowance of public servants increased by LKR 2200 per month
30 th January	Excise duty on motor vehicles with less than 1,000cc engine capacity revised downwards Excise duty on hybrid vehicles revised upwards
01 st February	Increase of state sector employee salaries by LKR 7,000 per month
	Tax exemption on PAYE tax increased by LKR 150,000 to LKR 750,000
27 th February	Age limit for importing motor cars increased
14 th September	Loan to Value ratio reduced to 70% from 90% from 1 st December
19 th October	The method of valuing vehicles for excise duty computation was changed
30 th October	A minimum cash margin requirement of 100% on Letter of credit imposed until 1 st December 2015
21 st November	Excise duty on motor vehicles revised to a unit rate based on Cubic Centimeters

2016	
26 th May	Excise Duty on vehicle imports increased
10 th November	Excise Duty on vehicle imports increased

Source: Central Bank of Sri Lanka