



# Furniture & Fixtures

## An Overview

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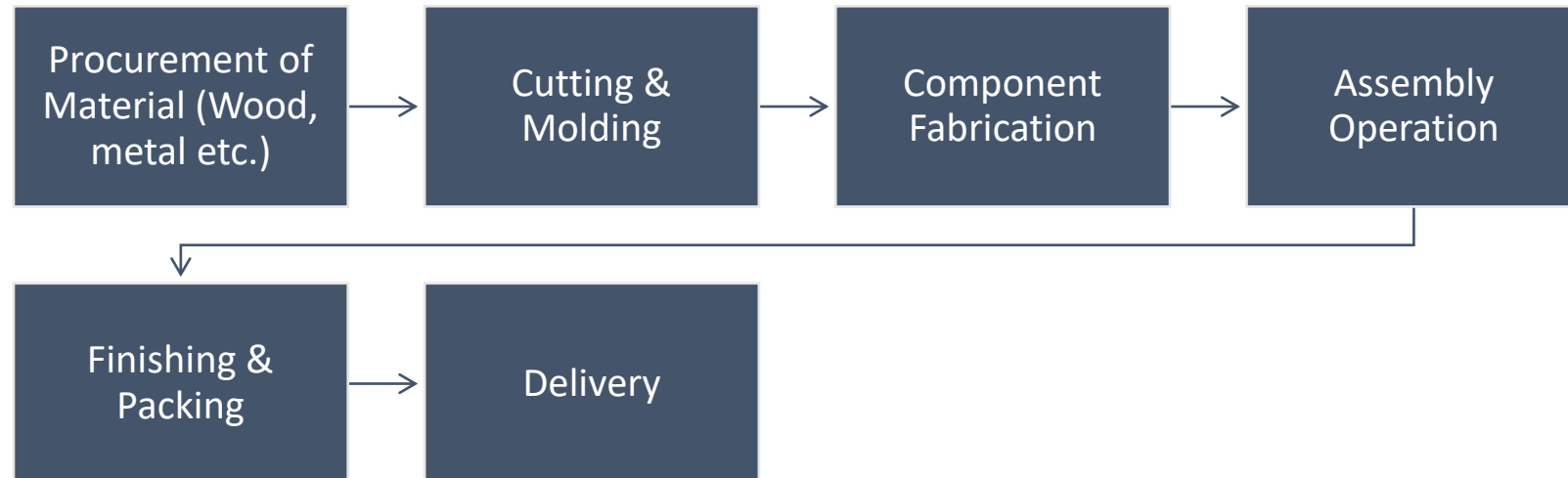
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# FURNITURE & FIXTURES | INTRODUCTION

- Furniture & Fixtures are objects used to make a room suitable for living or working. These include tables, chairs, beds, sofas and a variety of other items.
- Furniture & Fixtures can be segmented according to their uses:
  - **Home:** It is greatly influenced by changes in fashion and latest trends. It can be further categorized according to rooms such as bedroom, living room, kitchen etc.
  - **Office:** Organizations such as offices, schools, hospitals, hotels and restaurants require a bulk quantity of furniture with mostly homogenous designs. It includes items such as desks, chairs, cabinets etc.
- Furniture can be made from a number of materials, although the most common are wood, board, metal and plastic. Wood furniture is the most widely used with many varieties such as rosewood, oak and teak that each offer different properties.

- The furniture production process is as follows:





## Overview

- **Size:** The global furniture industry had a market size of USD~610bln in CY19, a growth of ~7% from a market size of USD~572bln in CY18. The growth in the market is generally spurred by construction sector alongside growing disposable incomes across the globe. The outbreak of the COVID-19 pandemic hampered the global furniture market due to supply chain disruptions and decline in consumption resulting from lockdowns globally. As a result, there was a contraction of ~7% and the estimated market size during CY20 stood at USD~564bln.
- **Types (Material):** The largest segment in terms of material used is of wood furniture, which has a market share of ~60% in CY19. Meanwhile, metal furniture has a share of ~12%. The remaining ~28% of the market consists of other materials such as plastic, glass and bamboo.
- **Types (Usage):** In terms of use, the home furniture segment occupies ~60% of the total market while the remaining ~40% comprises office furniture.
- **Production:** Almost 20% of total furniture production in the world is provided by approximately 200 major furniture manufacturing companies, out of which, 14 hold a significant share. These major players have a worldwide presence, an indication of the globalization of the industry.
- **Consumption:** The largest regional market is the Asia and Pacific region, which accounts for ~48% of global furniture revenue. The rapid pace of urbanization and growing consumer incomes along with greater awareness of lifestyle trends and fashion has contributed to the large share of demand in this region.
- **Developments:** In recent years, there has been a growing trend of ready-to-assemble furniture as it provides customers with modern designs at a more affordable price. The trend was largely popularized by the Swedish firm IKEA, which is among the largest furniture retailers in the world.
- In addition to IKEA, some of the largest players in the global furniture market are Home Depot, Heritage Home, Global Furniture Group and Herman Miller.



## Overview

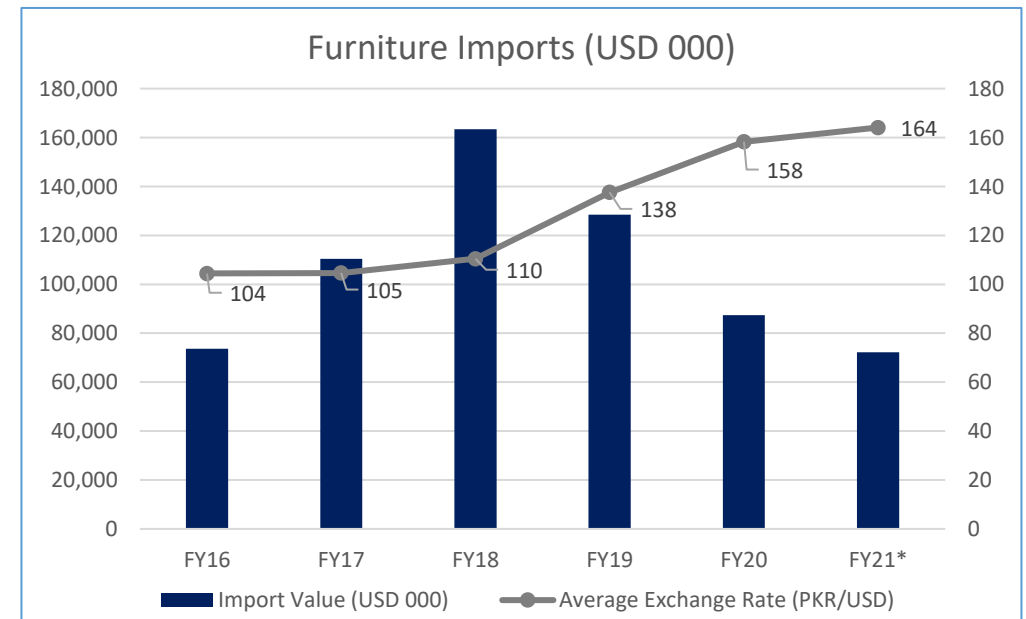
- Pakistan's furniture industry is largely unstructured and consists of many small and medium sized players (SMEs and Cottage Industry). As a result, there is a high level of competition in the market. The furniture industry's size is estimated to be PKR~475bln (USD~3bln) during FY20.
- The industry largely caters to the local market with only a small proportion of export sales. During FY20, exports stood at PKR~556mln (USD~3.53mln) as compared to exports of PKR~503mln (USD~3.71mln) in FY19 with the PKR increase largely attributable to the currency depreciation in the period, as exports in dollar terms declined by ~5%.
- The local demand is met through local supply as well as imports. During FY20, imports stood at PKR~13,834mln (USD~87mln) declining from PKR~17,687mln (USD~129mln) in FY19 due to the disruptions & slowdown caused by COVID-19.
- The organized segment of the industry consists mostly of players targeting high-end customers. They have strong brand identities and operate with large retail outlet chains. Some prominent players include Interwood Mobel, Habitt Furniture, National Furniture and ChenOne. In addition, there is a greater online presence of many small players that aim to take advantage of the growing trend of online shopping and e-commerce in the country. The larger players are also establishing robust online presence.
- While some of the larger players use imported wood of various types for manufacturing of furniture, the overall market uses local wood. The most common type is Sheesham (Rosewood).
- The industry is largely labor intensive with only a few large players shifting towards automation. This is because of high capex required for automation, large variety in designs, and reliance on traditional method of making customized hand carved furniture.

# FURNITURE & FIXTURES | LOCAL MARKET

## Imports & Exports

- Pakistan’s exports of furniture has witnessed a declining trend in dollar terms in past few year, falling from USD~5.46mln in FY16 to USD~3.53mln in FY20. Exports occupy a relatively small share of the total local furniture manufacturing.
- During 7MFY21, the exports stood at USD~1.81mln (PKR~295mln) and witnessed a decline of ~14% from 7MFY20 when exports were USD~2.10mln (PKR~327mln).
- In contrast, the import of furniture is significantly higher than exports. During FY20, imports stood at USD~87mln (PKR~13,834mln) declining from USD~129mln (PKR~17,687mln) in FY19. This was due to the decline in demand and disruption of supply chains in 2HFY20 due to the COVID-19 pandemic. In 6MFY21, the imports have recovered and stood at USD~36mln.

Furniture Exports						
	Quantity		Value			
	Th. Nos	% Growth	PKR mln	% Growth	USD mln	% Growth
FY16	372		570		5.47	
FY17	229	-38%	471	-17%	4.50	-18%
FY18	184	-20%	423	-10%	3.86	-14%
FY19	235	28%	503	19%	3.71	-4%
FY20	151	-36%	556	11%	3.53	-5%
FY21*	135	-10%	506	-9%	3.11	-12%



Note: FY21 figures are prorated based on 6MFY21/7MFY21 data

## Export Destinations

- Pakistan's exports of furniture is largely concentrated towards the United States, which contributed ~39% of total exports during FY20 (FY19: ~35%). Over the years, the share of exports to USA have increased.
- Export destinations also include Middle Eastern countries such as Qatar and UAE that contributed ~12% and ~10%, respectively, in FY20.
- Meanwhile, exports to United Kingdom and Canada constituted ~10% and ~4%, respectively, of the total exports during FY20.

Export Destinations	FY18		FY19		FY20	
	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%
USA	1,030	27%	1,284	35%	1,384	39%
Qatar	26	1%	35	1%	419	12%
UAE	300	8%	326	9%	346	10%
UK	468	12%	502	14%	345	10%
Canada	332	9%	198	5%	124	4%
Other	1,706	44%	1,369	37%	906	26%
<b>Total</b>	<b>3,862</b>	<b>100%</b>	<b>3,714</b>	<b>100%</b>	<b>3,524</b>	<b>100%</b>

# FURNITURE & FIXTURES | LOCAL MARKET

## Business Risk

- Competition:** There is a high level of competition in the industry due to the presence of a large number of small and medium sized furniture players who operate workshops that can provide furniture items customized to each consumers needs. These players target middle and upper middle customer market. They are not in direct competition with few large players who have strong brands and retail outlets and target high end and office furniture segment. On the other hand, there is significant competition of imported furniture in the high end segment as many consumers have preference for international brands that provide high quality items according to the latest trends and modern designs.
- Economic Contraction:** Demand in the home furniture segment is impacted by the disposable income of consumers. Due to COVID-19 and resulting economic slowdown, the disposable incomes declined. There has been a similar negative impact on demand from the office segment as spending on refurbishments, expansions or new projects remained low. The government is focusing on construction sector, which is expected to increase demand for furniture & fixtures down the road. A significant portion of the office segment consists of government orders, which is impacted by annual budgets.
- Raw Material:** Pakistan’s forest cover currently stands at only ~5% and local raw material has been depleted in recent years due to illegal deforestation. Lately, reliance on alternative materials (chip boards, plastic and metal) have been increasing

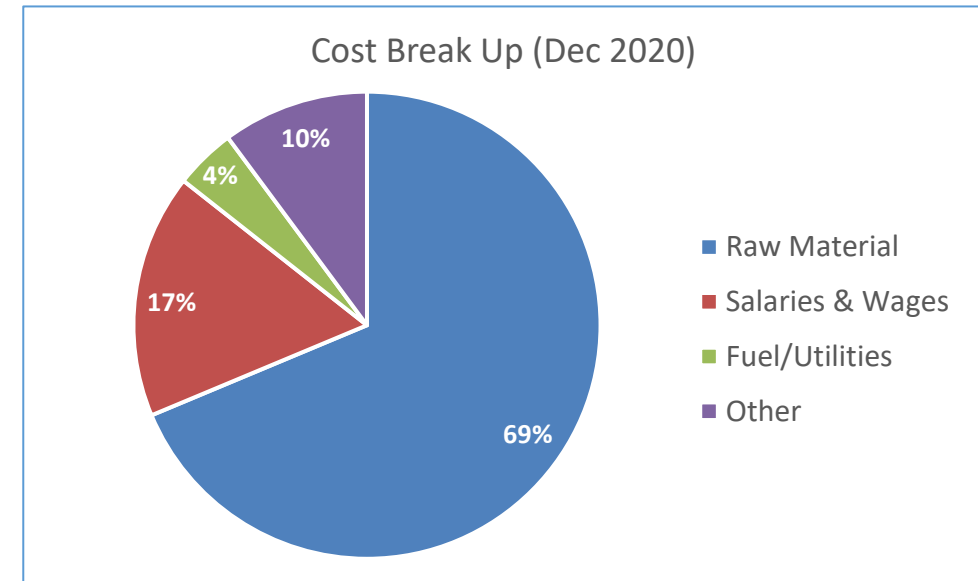
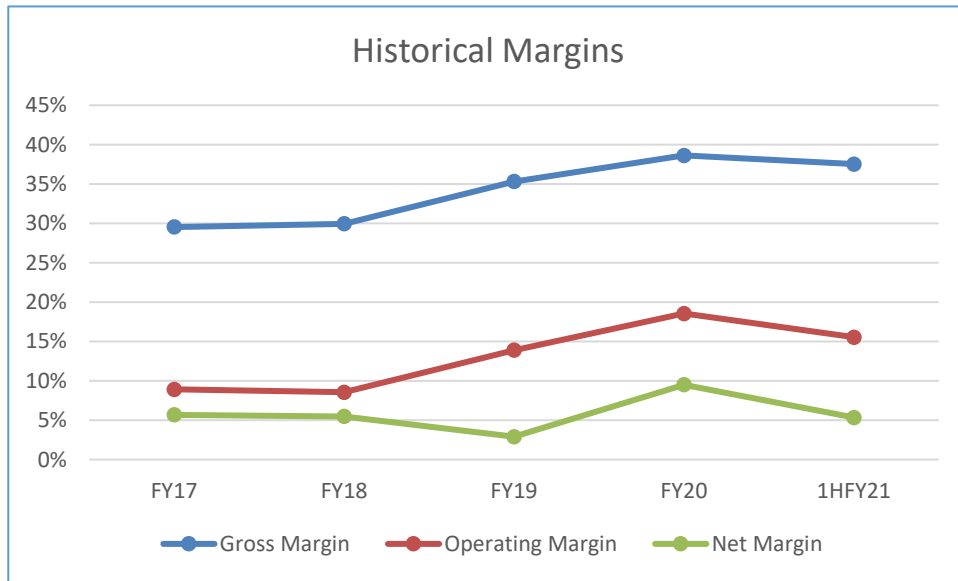




# FURNITURE & FIXTURES | LOCAL MARKET

## Margins & Cost Structure

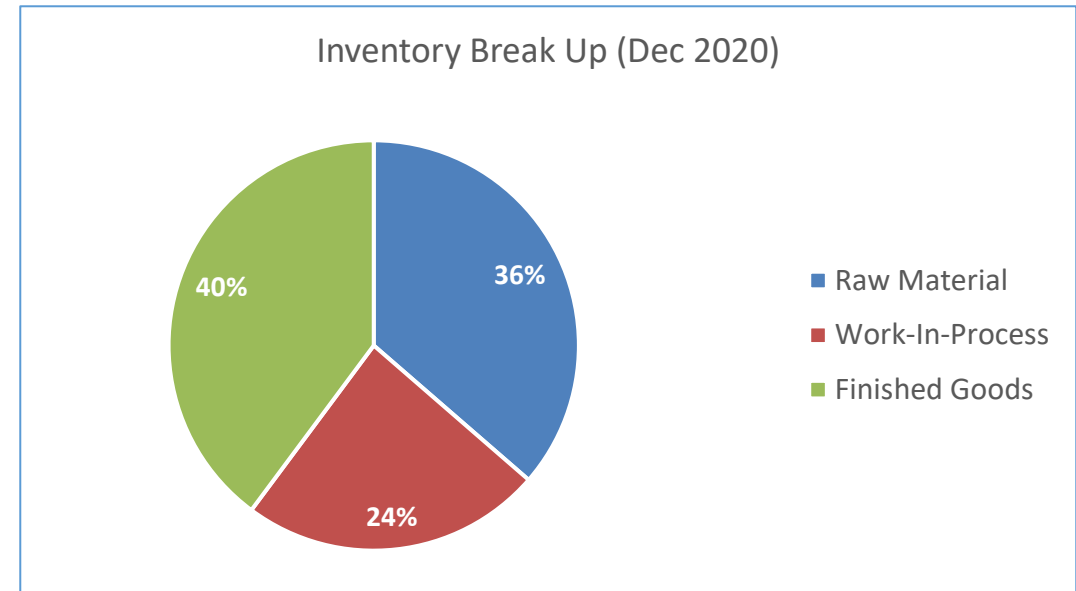
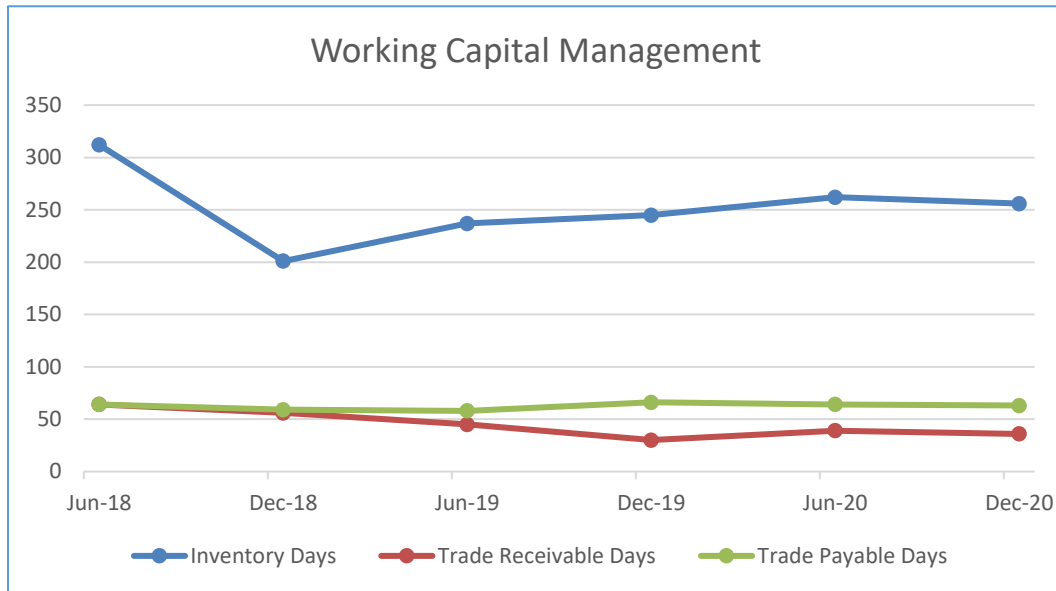
- Over the years, the industry has maintained its gross margin at a high level (~30-35%) since it is able to charge a significant premium for high quality products due to the presence of few competitors in the high end segment. During FY20, the gross margin stood at ~39% (FY19: ~35%).
- The increase in gross margins had a trickle down effect and operating margins stood at ~19% during FY20 as compared to ~14% during FY19. In addition, net margin improved to ~10% in FY20 from ~3% in FY19.
- Raw material is the most significant component of the industry’s direct costs and constitutes approximately ~69% of the total costs.



# FURNITURE & FIXTURES | LOCAL MARKET

## Working Capital Management

- The industry’s working capital management is predominantly a function of its inventories as there is a need to maintain high stock levels to meet customer orders in a timely manner. In addition, procurement time for imported raw material is up to 45 days and for local raw material, it is 2-3 weeks.
- The working capital cycle has remained stable in recent periods with average net working capital days of 235 in last 2.5 years. Net working capital days in December 2020 stood at 229 days as compared to 237 days in June 2020.
- The largest component of inventory is finished goods at ~40% due to variety of items and high stock level at showrooms are maintained. In addition, raw materials comprise ~36% of total inventory. However, keeping finished goods inventory in storage for long time exposes items to wear and tear such as scratches and discoloration and risk of getting out dated.

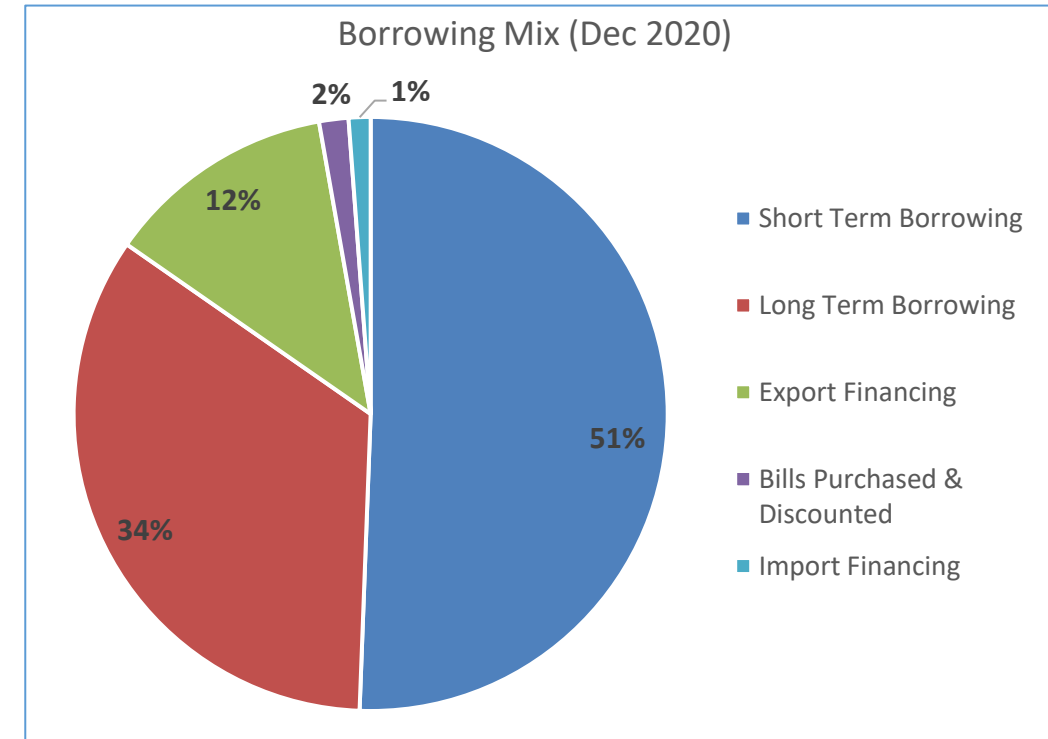




# FURNITURE & FIXTURES | LOCAL MARKET

## Financial Risk

- The furniture manufacturing industry had total borrowing of PKR~3,948mIn as at End-Dec'20. This is an increase of ~14% from borrowing level of PKR~3,456mIn at the End-Dec'19.
- The largest component is short-term borrowing, which constitutes ~51% of total borrowing and stood at PKR~1,997mIn (Dec-19: PKR~1,529mIn).
- Long term borrowing constitutes ~34% and were recorded at PKR~1,345mIn (Dec-19: PKR~1,465mIn) while export financing constitutes ~12% and stands at PKR~495mIn (Dec-19: PKR~425mIn)
- The industry's discounted financing stands at ~14% of the total borrowing of which PKR~495mIn is Export Finance Scheme and PKR~62mIn is LTFF/TERF.
- The industry is moderately leveraged with an average leveraging ratio of ~40%.





## Regulatory Framework

- With respect to Income Tax, the furniture manufacturing industry is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.5% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future tax liabilities for the next 5 years.
- The duty structure implemented by the government provides protection to local towel manufacturers. In addition, sales tax of 17% is also applicable on the industry.
- The industry receives subsidized financing from SBP under the Long Term Financing Facility (LTFF) and Export Finance Scheme (EFS) at rates of 3-4%.
- The industry is represented by the All Pakistan Furniture Makers Association (APFMA), which is registered with the Securities and Exchange Commission of Pakistan and is a member of the Federation of Pakistan Chamber of Commerce and Industry. Another organization, the All Pakistan Furniture Exporters Association (APFEA) works to promote the industry's products in the international market.

# FURNITURE & FIXTURES | LOCAL MARKET

## Duty Structure

PCT Code	Description	Additional Custom Duty		Custom Duty		Regulatory Duty		Total	
		FY21	FY20	FY21	FY20	FY21	FY20	FY21	FY20
44.07	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planned, sanded or end- jointed, of a thickness exceeding 6 mm.	2%	2%	0%	0%	0%	0%	2%	2%
44.08	Sheets for veneering (including those obtained by slicing laminated wood), for plywood or for similar laminated wood and other wood, sawn lengthwise, sliced or peeled, whether or not planed, sanded, spliced or end- jointed, of a thickness not exceeding 6 mm.	2%	2%	3%	3%	0%	0%	5%	5%
44.10	Particle board, oriented strand board (OSB) and similar board (for example, waferboard) of wood or other ligneous materials, whether or not agglomerated with resins or other organic binding substances.	4%	4%	16%	16%	0%	0%	20%	20%
44.11	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances	2-4%	2-4%	11-16%	11-16%	0%	0%	13-20%	13-20%
44.12	Plywood, veneered panels and similar laminated wood.	7%	7%	20%	20%	0%	0%	27%	27%
32.08	Paints and varnishes (including enamels and lacquers)	2-7%	2-7%	11-20%	11-20%	5-10%	5-10%	13-27%	13-27%
94.03	Other furniture and parts thereof	7%	7%	20%	20%	45%	45%	72%	72%



# FURNITURE & FIXTURES | LOCAL INDUSTRY

## SWOT Analysis

- Growing urbanization and middle class to create demand in the long term.
- Regulatory structure supports local manufacturers.
- Large outlets and brands maintain strong reputations for providing high quality products.

Strengths

Weaknesses

- Lack of local raw material due to depleted forest cover.
- Significant competition from unregulated players.
- Low automation and reliance on traditional method of furniture making, leading to inefficiencies.

- Uncertainty due to second wave of COVID-19 and delay in availability of vaccination could hamper economic recovery.
- The difficult economic situation has reduced purchasing power of consumers.
- Increased influx of imported furniture with certain large international players eyeing Pakistan market.

Threats

Opportunities

- Growing trend of online shopping creates opportunities for online stores.
- Opportunity to increase efficiency and economies of scale through automation.
- Frequent changes in fashion and trends.

## Outlook: Stable

- Pakistan's economy is on the path of recovery after the decline witnessed due to the COVID-19 pandemic which caused various industries to suspend operations and resulted in decline in demand.
- The improved economic environment, demonstrated by growth in Large Scale Manufacturing Industries output by ~8.16% YoY during the first half of FY21, will help improve consumer disposable incomes and in turn cause increase in demand for the furniture industry.
- In addition, the government has introduced incentives for the construction industry to boost activity. These incentives included reduced sales tax, waiving of the withholding tax as well as an amnesty for declaring source of income for a limited time period. Since the furniture industry is related to the construction sector, the rise in construction projects should also lead to a positive impact on demand for furniture.
- The inflation level in the country has also declined. The average inflation rate during the 1HFY21 stood at ~8.74% as compared to an average inflation rate of ~10.7% during FY20. Moreover, the exchange rate is also expected to remain stable in the near future.
- The decision taken by the State Bank of Pakistan (SBP) to lower the policy rate by 625bps to 7% in the last quarter of FY20 has lowered the finance costs. The furniture industry's finance costs are expected to reduce by PKR~247mIn which should improve net margins.
- The tree planting initiative adopted recently by the government will be beneficial in the long term as it will counter the problem of depletion of local raw material due to illegal deforestation of trees.

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