



# Household Appliances

## Sector Study

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# Household Appliances

## Global Industry | Overview

- Household Appliances, also referred to as home/domestic appliances, include machines and electrical equipment\* that are used in assisting various household functions such as cooking, cleaning, food preservation, etc.
- Based on their type, Household Appliances can be broadly classified into two categories; Major Appliances & Small Appliances. Major Appliances include high valued electrical equipment such as Refrigerators, Freezers, Air-Conditioners, Washing Machines, Microwave Ovens (commonly known as white goods/appliances) etc. Small Appliances include products like Coffee/Tea Makers, Food Processors, Grills & Toasters, Vacuum Cleaners, water dispensers etc.



\*Plastics and wooden material are not included

## Global Industry | Overview

- **Size:** The Global Household Appliance market was valued at USD~551bln in CY22 and is expected to grow at a compound annual growth rate (CAGR) of ~10% in CY23. The growth that was mainly driven by economies recovering from the COVID-19 impact was again disrupted due to the on-going Russia-Ukraine conflict and is expected to keep the growth in check for the short-term.
- **Revenue Mix:** The Major Appliances segment (white goods) is the largest segment by revenue in the Household Appliance market. It accounts for over ~60% of the market's total revenue but less than ~20% of the volume sales. On the other hand, Small Appliances is the largest segment in terms of volumetric sales, but accounts for a smaller portion in the total revenue. Small Appliance Market is further sub-segmented into Small Kitchen Appliance segment, which accounts for ~49% of the Small Appliance revenue.
- **Key Market Drivers:** The key factors driving the Global Household Appliance market are increase in technological advancement, rapid urbanization, growth in the housing sector, improved living standards, and surge in the need for comfort in household chores. Recent major trend of smart homes, coupled with the increasing focus of major companies to develop and launch smart and connected home appliances, is expected to further fuel the growth of the market.
- **Market Restraints:** The key restraints to the growth of the market include high cost of appliances, leading to lower affordability, and ever evolving technology (including lower operating costs for these appliances) leading to changing customer preferences. To keep up with the innovation and modern technology, continuous capex is required by the manufactures.

# Household Appliances

## Global Industry | Overview

- **Structure:** The Global Household Appliance Market is competitive with a large number of big players contributing a fair share to the global revenue. Some of the major global companies include Haier, Whirlpool Corporation, Samsung Electronics, LG Electronics, Bosch, Sony, Philips and Panasonic Corporation.
- **Demand Centers:** In terms of geographical segments, Asia-Pacific holds the highest share (two fifth) of the Global Revenue of the Household Appliance Market. China, Japan, Malaysia and India are expected to contribute majority of the revenue share in the Asia-Pacific market.
- **Production Centers:** Among producing countries, China and Japan are the leading manufacturers of a variety of household appliances. China is also the leading consumer market, due to high capacity usage and desire for comfortable lifestyle.

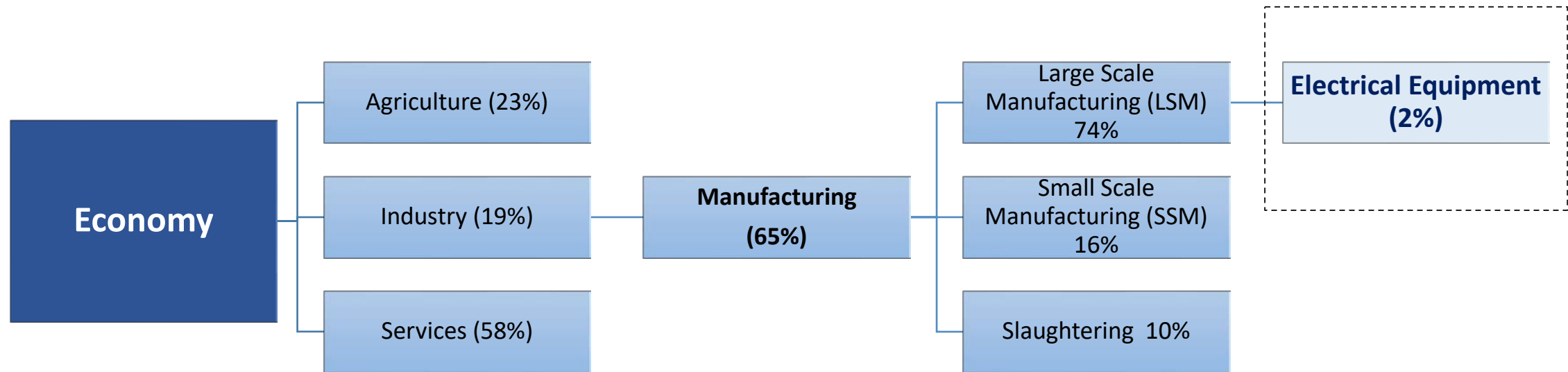
Company	Origin
Samsung Electronics	South Korea
Whirlpool Corporation	USA
Haier	China
LG Electronics	South Korea
Bosch	Germany
Sony	Japan
Philips	Netherlands
Panasonic	Japan



# Household Appliances

## Local Industry | Overview

- Pakistan’s economy is divided into three segments: Agriculture, Manufacturing/Industry and Services. The overall GDP (real) of the country recorded a growth of ~6.0% in FY22 (~5.7% in FY21). However in FY23, GDP growth is expected to slump below ~2%, owing to acute economic challenges.
- Household Appliance market can be classified as a sub-segment of the “Electrical Equipment” Group of the Large-Scale Manufacturing Sector. Electrical Equipment sector has a weightage of ~2% in the LSM.
- During 9MFY22, Electrical Equipment sector posted a decline of ~1.1% YoY basis as against a sharp shrink of ~17.1% in the same period last year. However, the contraction has only intensified in the 4QFY22 and FY23 so far, under the tough economic and business operating environment.



# Household Appliances

## Local Industry | Overview

- Market size:** The Household Appliance sector’s estimated size was recorded at PKR~688bln in CY22 (CY21: PKR~511bln), with a YoY increase of ~35%. The growth was solely due to price increases as there was an evident decline in production of ~16% indicating a decline in sales volume. The industry snapshot is associated with the overall performance of electrical equipment segment.
- CY21’s growth was mainly driven by companies rearranging their operations and recovering from the COVID-19 impact. CY22, however, proved to be a tale of two halves. The Industry entered into the year with strong growth dynamics. The growth, however, began slowing down from 2QCY22 onwards due to political upheaval, natural calamities and acute economic challenges denting the purchasing power of consumers and consequently muting demand prospects.
- With historic high inflation levels and economic disruptions, the growth prospects of the sector are expected to remain subdued in the short-term.
- Structure:** The Household Appliance Market structure can be termed competitive with a number of big players contributing a fair share to the local revenue. Moreover, since the products are generally differentiated based on their brands and specifications, price elasticity and competition also remains a norm of the market. Some of the major local companies include Haier, Orient, Waves Singer Limited and Pakistan Elektron Limited.

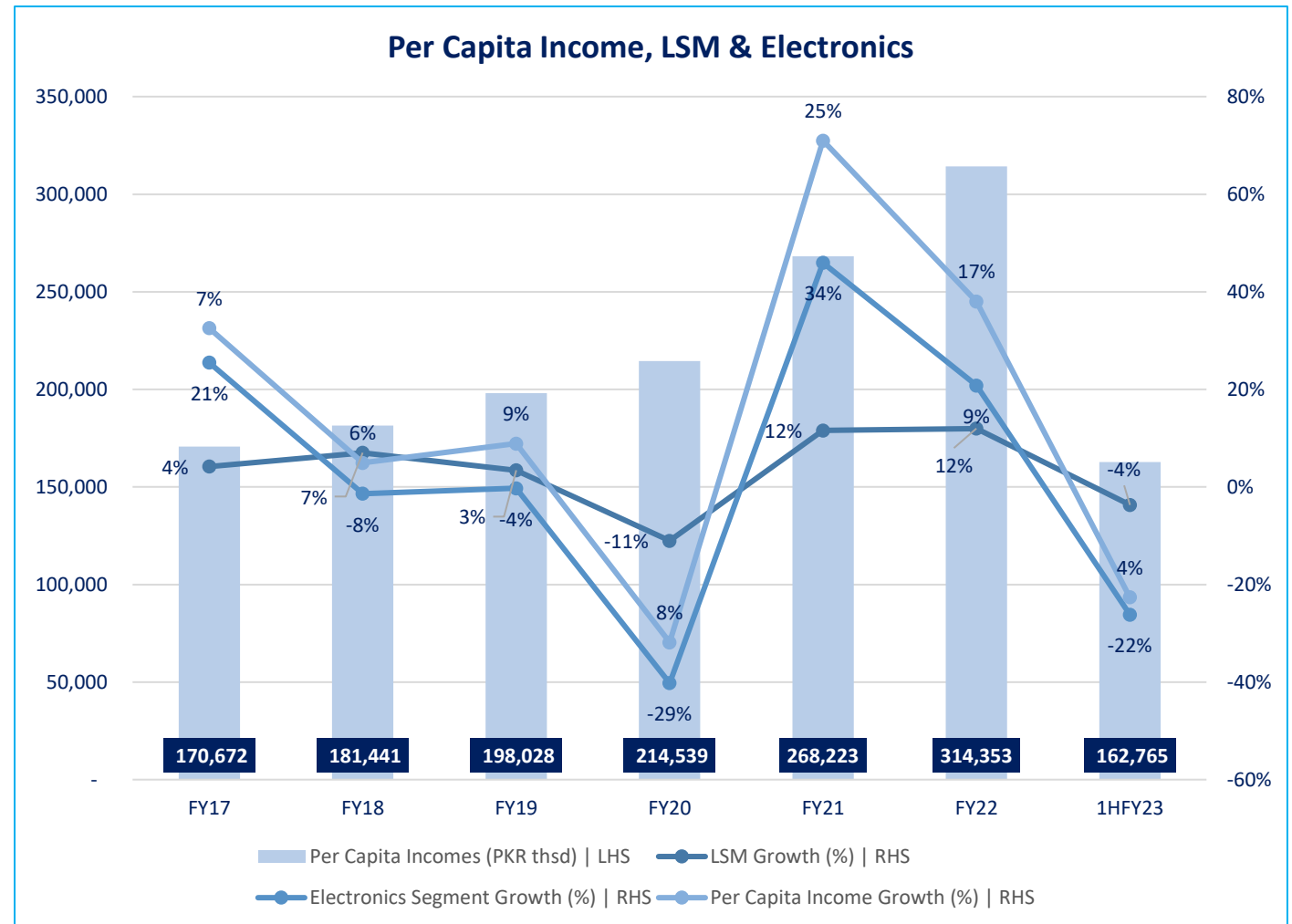
Industry Snapshot	CY20	CY21	CY22
Revenue (in PKR bln)*	209	511	688
Growth**	3%	145%	35%
Production (in 000 units)	3,177	5,293	4,423
Players	53		
Structure	Competitive		
Association	Pakistan Electronics Manufacturing Association		

\*CY22 revenue represents a prorated figure  
 \*\*Growth rate is based upon PACRA rated clients

# Household Appliances

## Demand

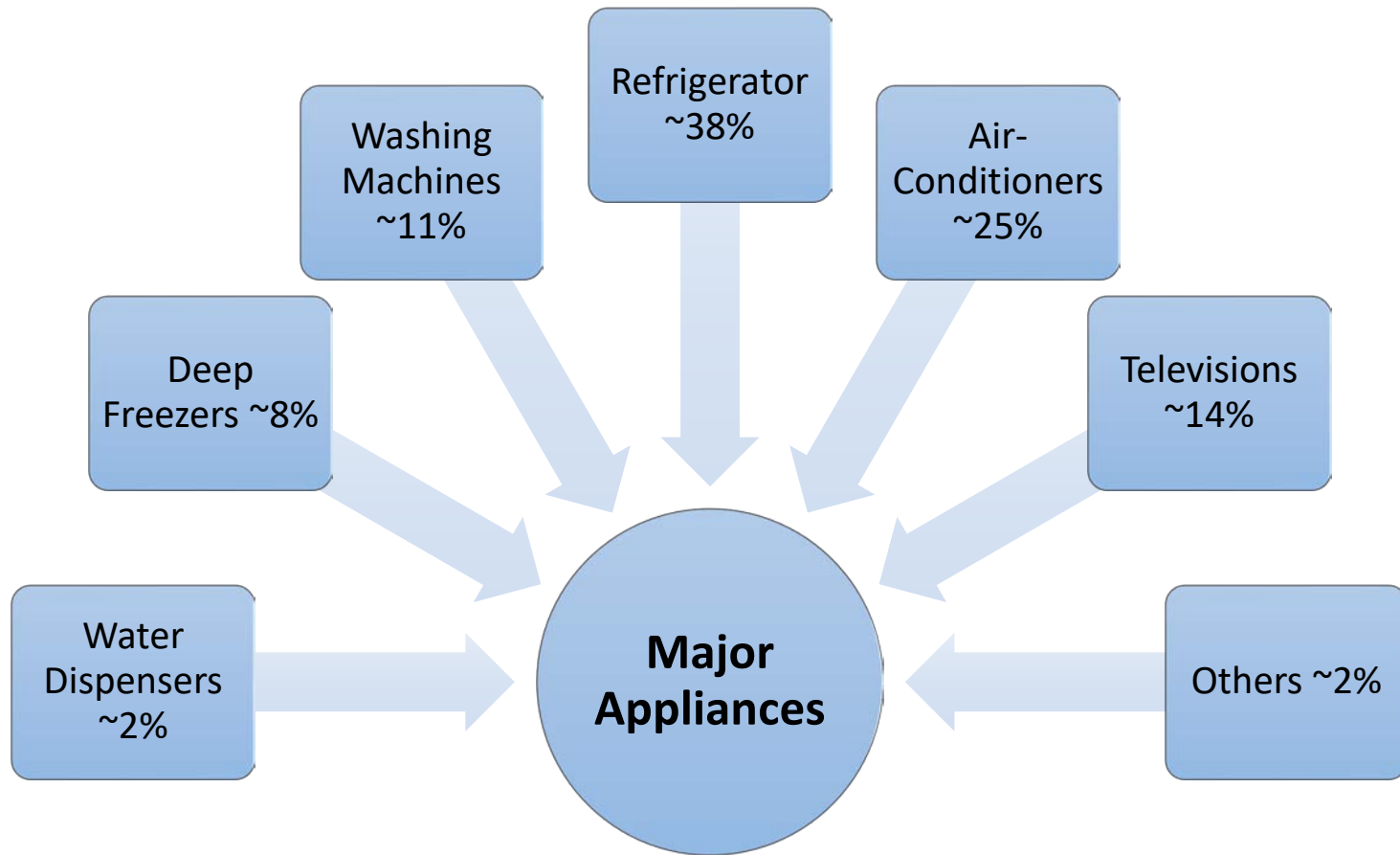
- The demand for Household Appliance market is accelerated by improved household disposable incomes, better lifestyles and the need for gaining ease in day-to-day chores.
- As witnessed from the adjacent chart, in FY22 the electrical equipment sector grew by ~9% (FY21: ~34%). This is accompanied by a ~17% (FY21: ~25%) increase in per capita income from PKR~268mIn to PKR~314mIn.
- However in the 1HFY23, mounting inflationary pressures started to weigh in on economic productivity and growth as was reflected in a negative LSM growth of ~4% during the period. The state of the economy and slower GDP growth was reflected in per capita income which grew by a mere ~4% in the 1HFY23 period.
- This slowdown in economic growth led to a steep decline in the production of electrical equipment by ~22% compared to the SPLY highlighting a retraction of demand pressures observed in FY21 and FY22.
- The demand for Household Appliances is generated from both Original Market (first-hand) and Replacement Market. Generally, high-priced appliances, such as Refrigerators and Air-Conditioners, which have gradually become essential household items, have a larger market in the replacement/second-hand segment.





# Household Appliances

## Product Wise Demand | Major Appliances

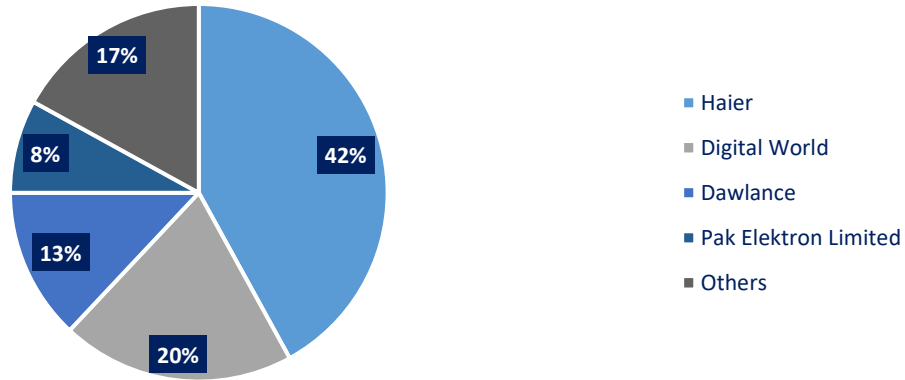


- Major Appliances account for over ~60% of the Household Appliance Market Revenue.
- Refrigerators are the highest contributing item in terms of Revenue for the Major Appliance Market.
- In Small Appliance Market, Kitchen Appliances make up most of the market share. These include food processors, espresso machines, multi-cookers, blenders, toaster oven, etc.

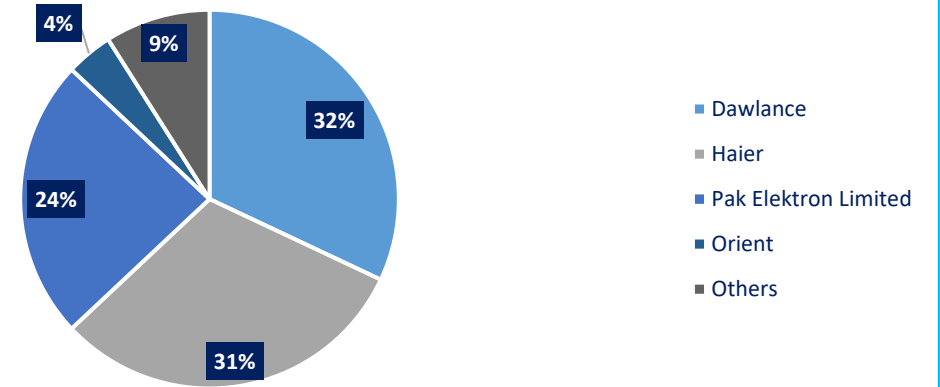
# Household Appliances

## Market Share of Product Categories | Manufacturer Wise

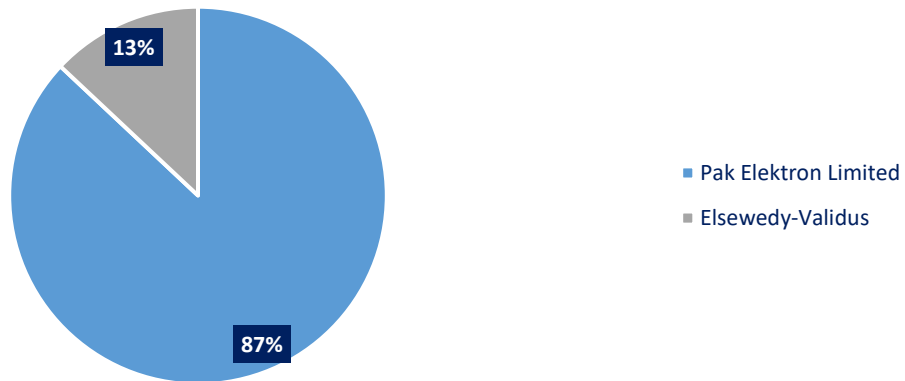
### Market Share of AC Manufacturers



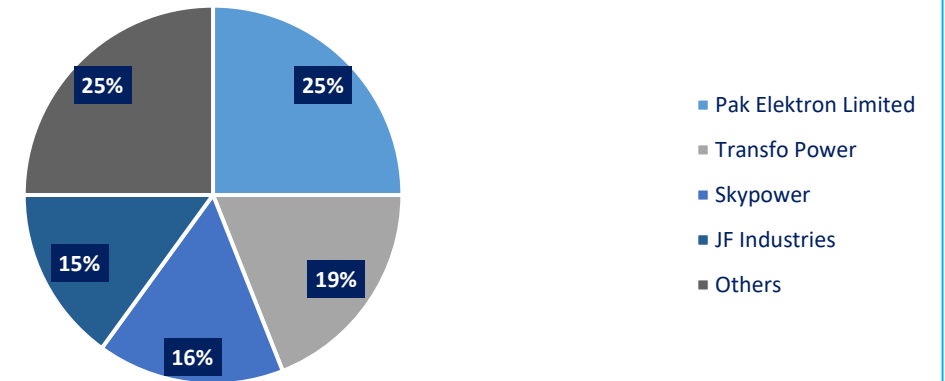
### Market Share of Refrigerators Manufacturers



### Market Share of Power Transformers Manufacturers



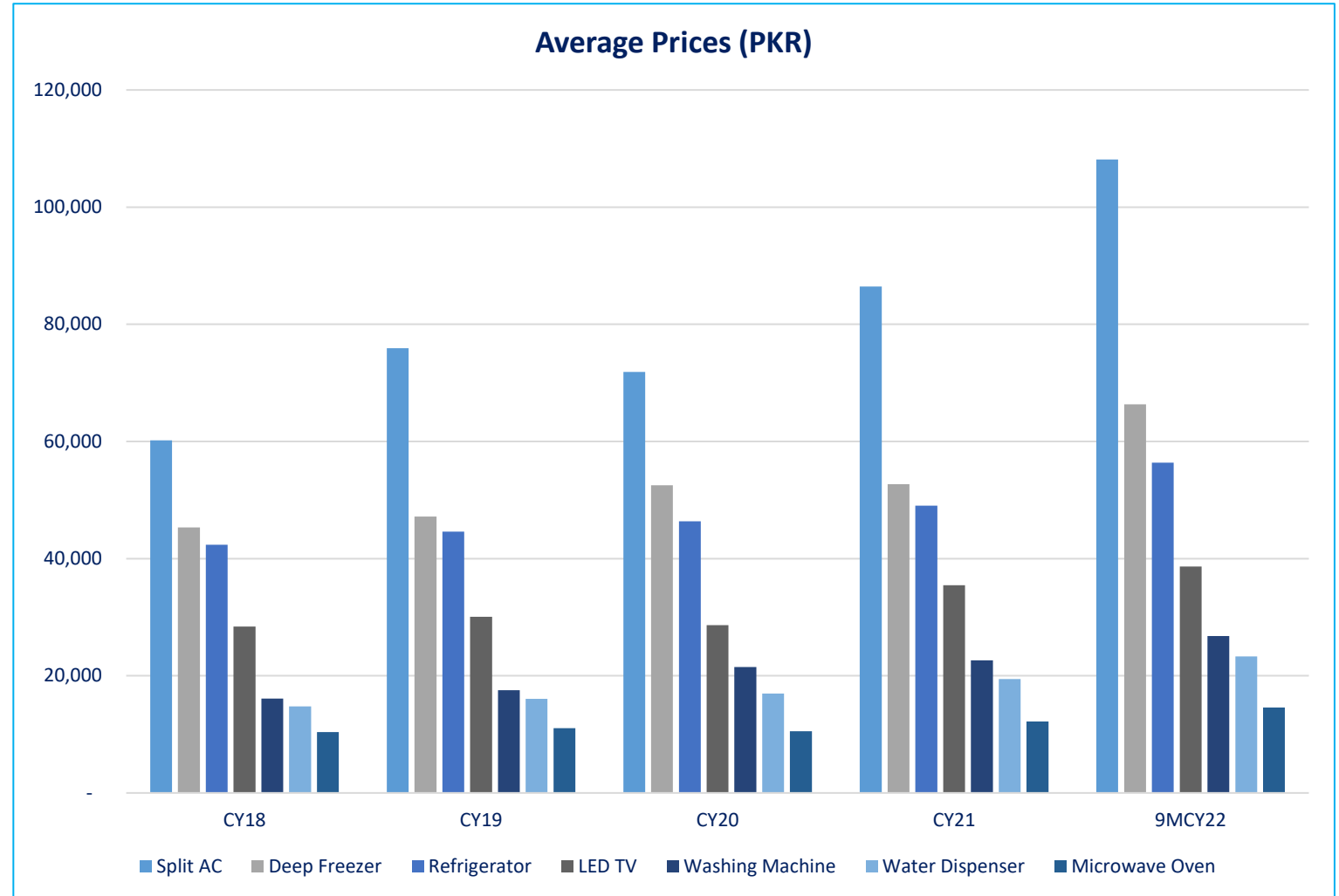
### Market Share of Distribution Transformers Manufacturers



# Household Appliances

## Demand

- Average Prices of Major Household Appliances have gradually increased over the years.
- Refrigerators, ACs and Deep Freezers are among the highest valued products in the range of Major Appliances.
- In CY22, the averages prices of household appliances has increased, owing to the increasing cost of raw material. Individually, the average price of Deep Freezers increased by ~26%, followed by Split AC, Water Dispenser, Microwave Oven, Washing Machine, Refrigerator, and LED TV with a YoY growth rate of ~25%, ~20%, ~19%, ~18%, ~15% and ~9% respectively.



## Supply

- Pakistan's Household Appliance Market is dominated by a handful of local and International players including PEL, Arcelik (Dawlance), Orient, Haier, Waves Singer, etc. These players have a significant share in the Major Appliance Market, while in Small Appliance Market, other Chinese & local brands also contribute a fair share (Geepas etc.). Certain players (Gree) that were focusing on just one or two products are also looking to expand their product slates.
- The Market can be comfortably termed as organized yet competitive. Some big players such as Dawlance, Haier, Samsung have International associations/shareholding, which strengthens their presence in the local Industry as well. Local players like PEL and Waves Singer are also listed on the PSX, reflecting on the organized structure of the market players. These companies have also ventured with some renowned international players in certain product categories.
- The Household Appliance Market is a 'brand' driven market. Each product in the Major Appliances segment has its unique functionality which drives the need towards brand consciousness. Market shares of different players can vary entirely across different products of the Market.
- Even though the Market is dominated by Organized Segment and has an immense potential to grow, the local industry has still not developed to the level to manufacture complete units locally. Many major components of the Electronic Appliances are imported into the country and assembled by the players domestically.
- Since the market is brand competitive, the pricing and marketing strategies play a key role in attracting market shares among different product segments. Also, innovation and technological advancements are of key significance for growth in this market.
- The Household Appliance Market is dominated by well-recognized brands and requires extensive capital investment, therefore, the barriers to entry in the market are high.

# Household Appliances

## Supply | Localization Levels

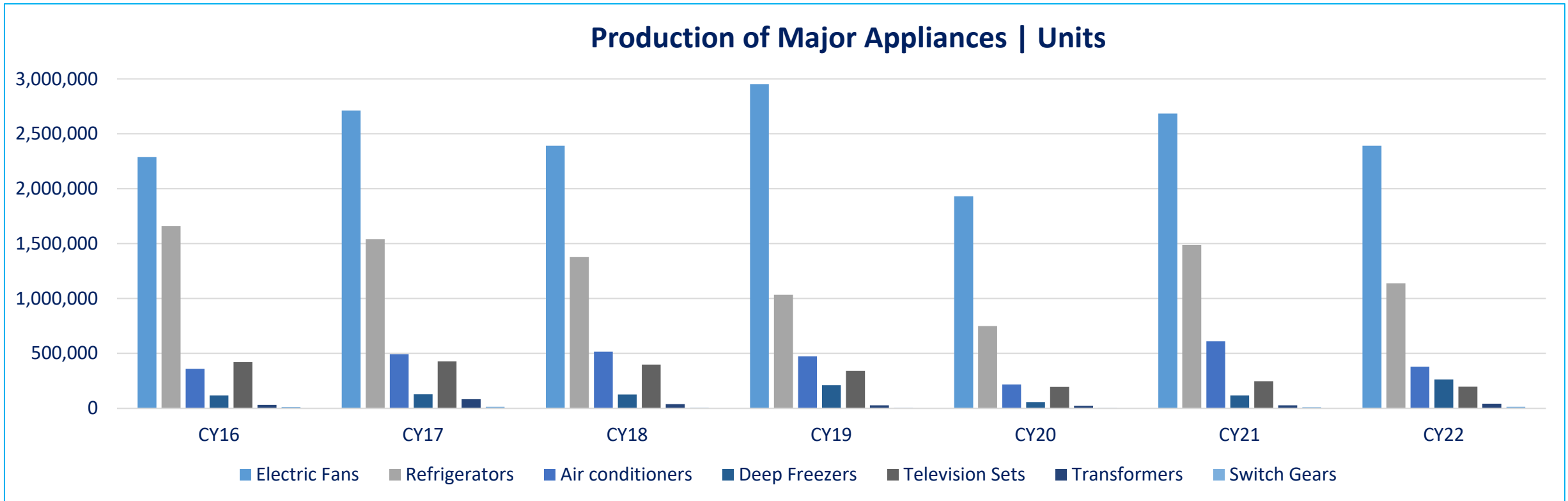
- As depicted in the adjacent table, localization level in most of the Major Household Appliance Market is very low.
- Major component parts such as Evaporator and Condenser in Refrigerators & freezers and fan blades in Split Air Conditioners are imported into the country and assembled locally.
- Similarly, localization levels are low in Small Appliances Market too. Competition in Small Appliances Market, particularly in Kitchen Appliances, is relatively higher as compared to the Major Appliances Market due to presence of a larger number of players in this segment such as Geepas, Kenwood, Super Asia, Homage, etc.

Localization Levels in Production	In Percentage
Refrigerator	20%-25%
Split AC	20%-25%
Deep Freezer	5%-10%
Water Dispenser	20%-25%
LED TV	2%-5%
Washing Machine	20%-25%



# Household Appliances

## Local Industry | Production of Major Appliances



- Overall production levels of the Major Appliances Market fell in CY22 as compared to CY21 and this decline was ~14.7% (SPLY: ~63.0%).
- During CY22, production of deep freezers witnessed the highest growth of ~125% (CY21: ~(103%)), while transformers, switch gears, electrical fans, television sets, refrigerators, and air conditioners production level change was recorded at ~56% (CY21: ~(12%)), ~32% (CY21: ~(177%)), ~-11% (CY21: ~(39%)), ~-20% (CY21: ~(26%)), ~-24% (CY21: ~(98%)), and ~-38% (CY21: ~(182%)) respectively.

# Household Appliances

## Business Risk

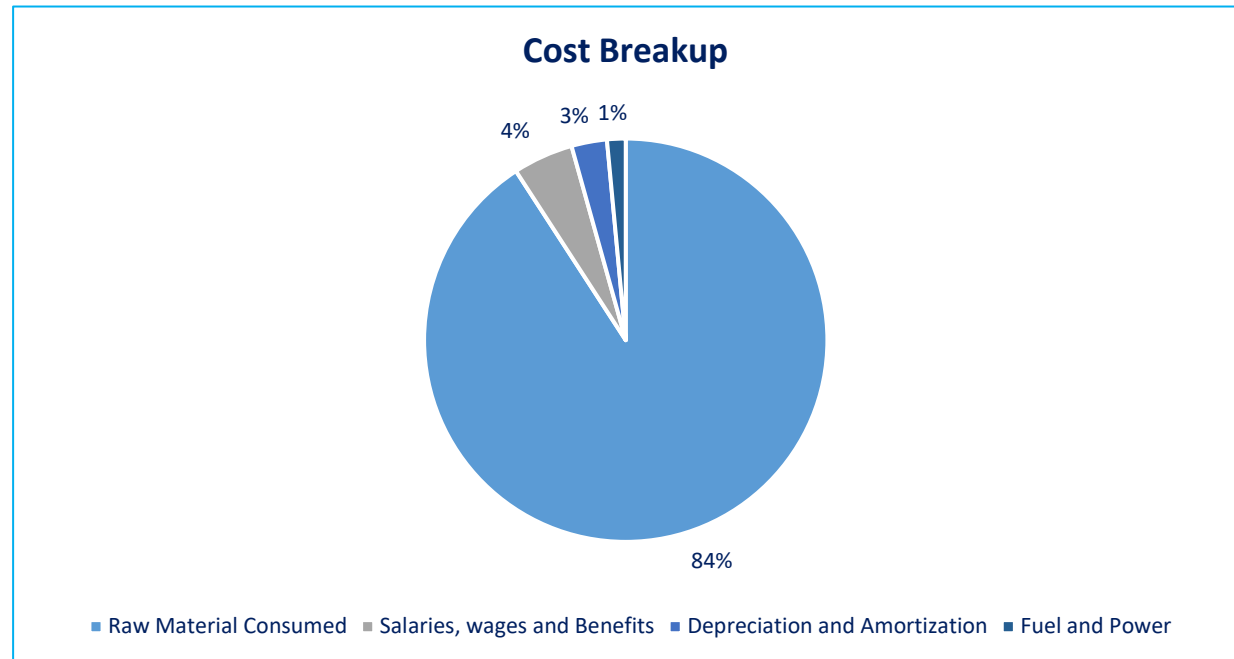
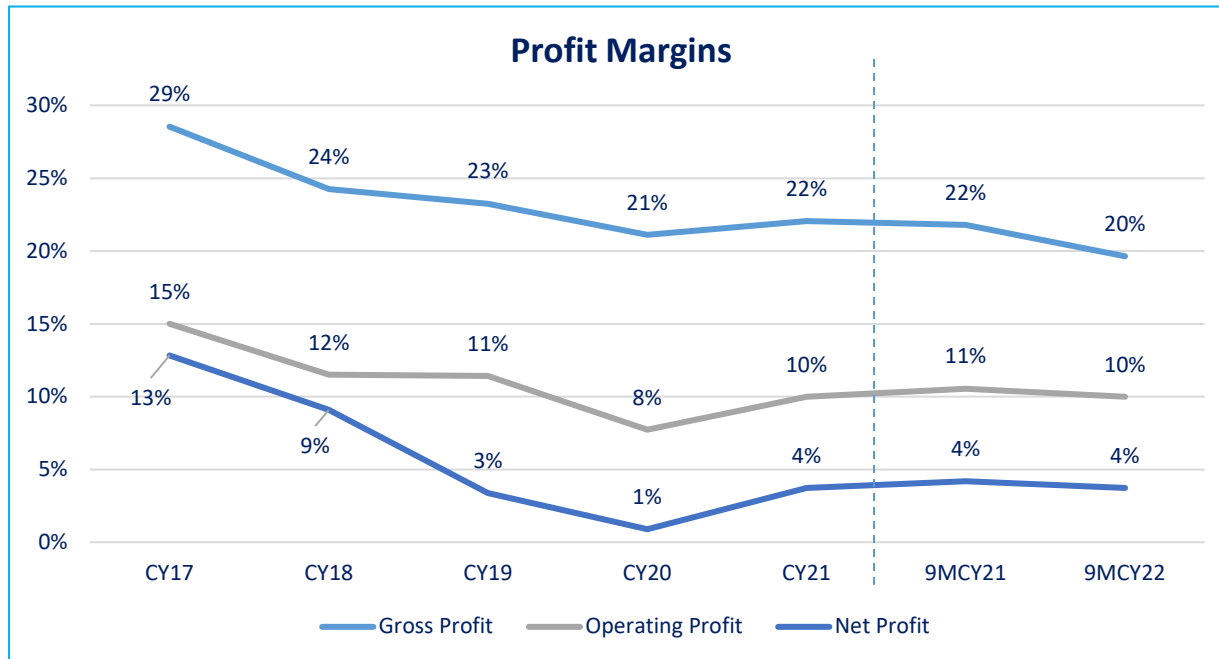
- **Economic Fluctuation:** Demand in the Household Appliances industry is impacted by the disposable income of consumers. Thus, any fluctuation in the per capita incomes impacts the business of the sector.
- **Raw Material:** The sector is largely involved in assembling of imported parts. Significant currency depreciation in recent years has, therefore, increased the cost of imported appliance components and parts. This, in turn, has increased the cost of production for sector players and impacted the margins.
- **Competition:** There is a high level of competition in the market due to the presence of both international players, such as Samsung, LG and Mitsubishi, as well as well reputed local brands such as PEL and Wave Singer. Thus, the increase in prices is passed on gradually and, in certain cases, not to full extent.



# Household Appliances

## Margins & Cost Structure

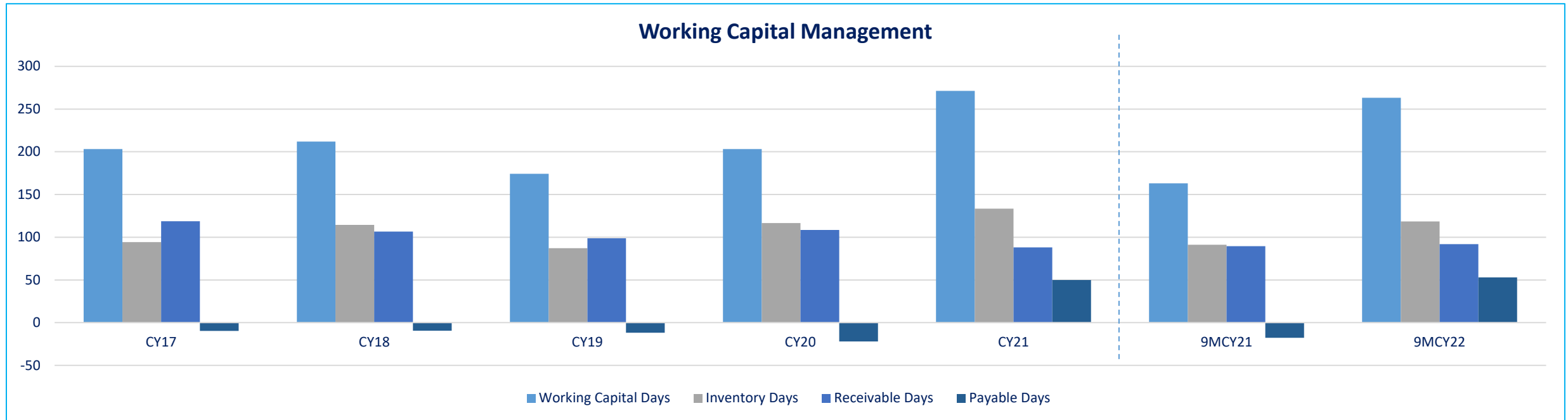
- The average gross margins of the sector in the CY17-CY21 period stood at ~24%. Based on 9MCY22 data, the sector's gross margins fell by 2% to ~20% from a level of ~22% in the 9MCY21 period. The drop in margins was attributable to rising raw material costs which in turn was driven by a global commodity super cycle. In addition, the devaluation of the PKR relative to the USD over the 9MCY22 period further increased the cost of raw material.
- On the other hand, operating and net profit margins remained more or less stable despite an increase in expenditure highlighting the fact that the revenue growth of ~54% was substantial enough to absorb the increase in operating and non-operating costs and prevent a loss from being reported.
- The largest component of the industry's direct costs is raw material which constitutes ~84% of direct costs. Thus, any fluctuation in the price and availability of raw material can have a significant impact upon the sector's performance.





# Household Appliances

## Working Capital Management

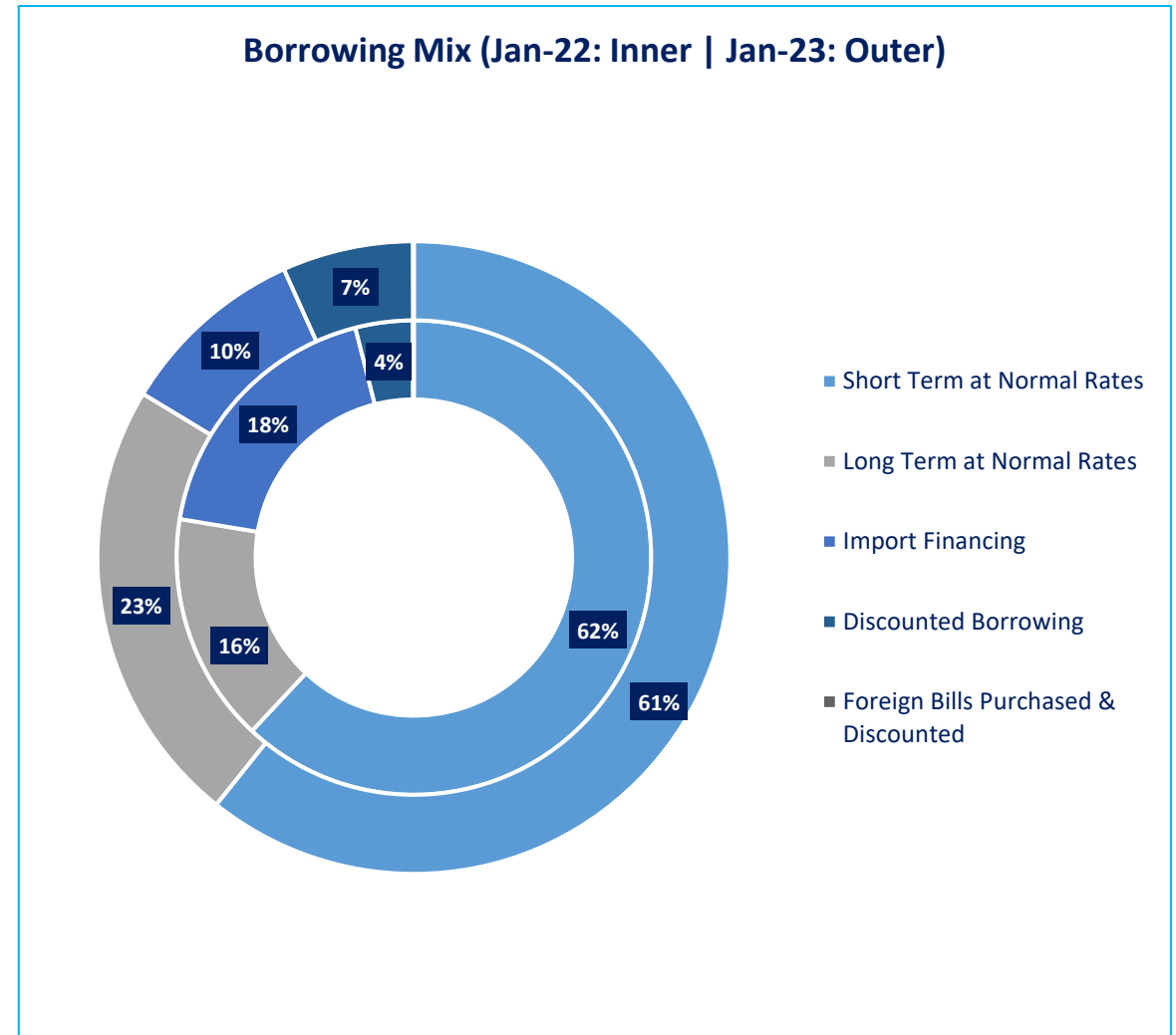


- The industry’s working capital management is largely a function of its inventory and trade receivables. Due to seasonality in demand, the industry builds up its stock levels prior to the peak season, i.e. the summer months. In addition, there is a large proportional of credit sales due to which trade receivables remain high.
- Resultantly, the cash conversion cycle of the sector is extended to an average of ~212 days (over 6 months) – based on last 5 years (CY17-CY21). An extension of working capital cycle of ~100 days was observed in the 9MCY22 period compared to the SPLY (CY21 YoY change: ~68 days). This increase was mainly due to an increase in inventory days by ~27 days and increase in payables days by ~71 days. Due to a demand slowdown, the sector has extended its financing terms from creditors to accommodate for this reduction in liquidity from inventory sales.
- As discussed previously, there has been a marked slowdown in demand for electrical equipment owing to inflationary pressures and rising interest rates increasing the cost of financing purchases of appliances on installment basis. This has led to a buildup in inventory levels in the 9MCY22 period and is reflected in in the inventory days for the 9MCY22 period being higher than the 9MCY21 period by ~27 days.

# Household Appliances

## Financial Risk | Borrowings

- The Household Appliances Industry had a total borrowing of PKR~72bln as at End-Jan'23 (PKR~61bln as at End-Jan'22), a YoY increase of ~18%.
- The largest component in the sector's borrowings is Short-Term Borrowings (STBs), which constitute ~61% of the total borrowing and stood at PKR~44bln as at End-Jan'23 (PKR~38bln as at End-Jan'22).
- Meanwhile, Long-term Borrowings (LTBs) constitute ~23% and were recorded at PKR~17bln as at End-Jan'23 (PKR~10bln as at End-Jan'22) while import financing constitutes ~10%
- It is pertinent to note that after Sep'21, the SBP made a series of policy rate revisions to the then policy rate of 7.25%. The policy rate stands at ~17% as of End-Feb'23 with a further rate revision expected in the coming days.
- Furthermore, in July-22 the SBP announced that any subsequent revisions in the LTFF and EFR rates will be linked to policy rate revisions such that the difference between the former two rates and the latter is maintained at 5%; this difference was reduced to 3% in Dec'22.
- The LTFF and EFS rates were revised to 10% in Jul'22; 11% in Nov'22; 13% in Dec'22; and 14% in Jan'23. This rate is expected to be revised upwards with policy rate revision.
- The industry is moderately leveraged with an average leveraging ratio of ~48%.



\*The leverage is based upon the PACRA Rated Clients

# Household Appliances

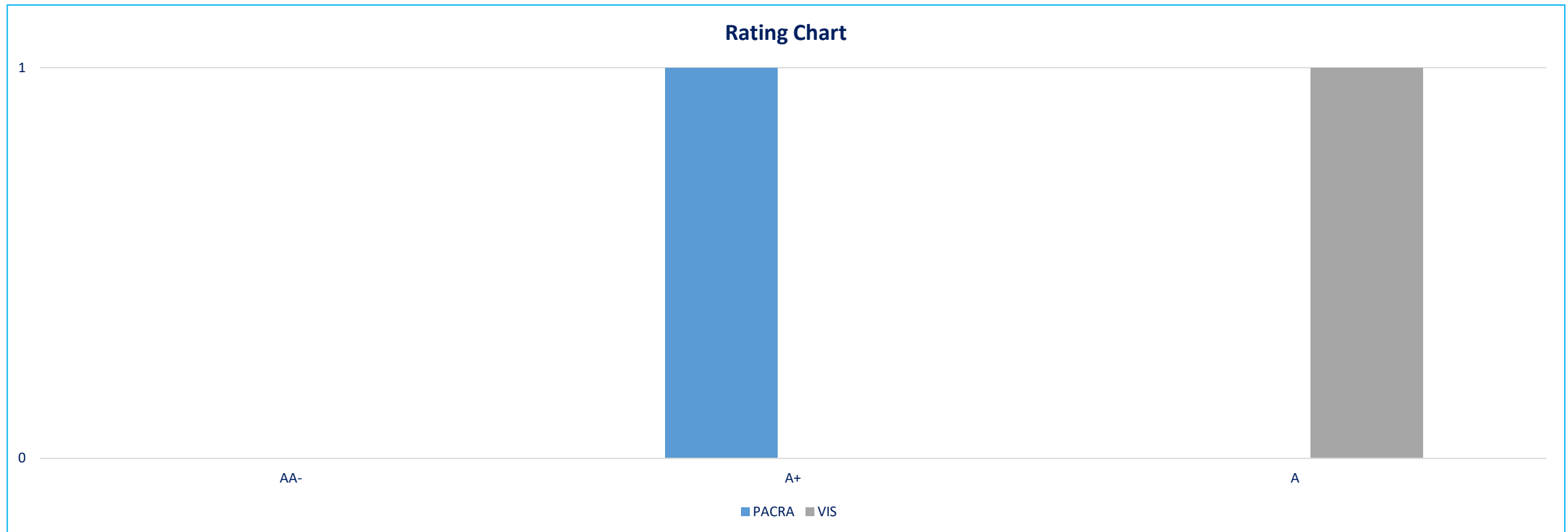
## Duties & Taxes

- With respect to Income Tax, the Household Appliances 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 appliance manufacturers. In addition, sales tax of 18% is also applicable on the industry.
- The industry is represented by the Pakistan Electronics Manufacturers Association (PEMA) which is licensed by the Ministry of Commerce under the Trade Organizations Ordinance 2007.

PCT Code	Description	Additional Custom Duty		Customs Duty		Regulatory Duty		Total	
		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
73.21	Stoves, ranges, grates, cookers (including those with subsidiary boilers for central heating), barbecues, braziers, gas- rings, plate warmers and similar non- electric domestic appliances, and parts thereof, of iron or steel. (includes CKD/SKD units)	7%	6%	20%	20%	0-15%	10-15%	0-20%	0-20%
84.15	Air conditioning machines, comprising a motor- driven fan and elements for changing the temperature and humidity, including those machines in which the humidity cannot be separately regulated. (Includes CKD/SKD units)	4-7%	6%	16-35%	20%	0-20%	5-49%	0-35%	0-49%
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; (Includes CKD/SKD units)	2-7%	2-6%	11-20%	0-20%	0-25%	5-49%	0-25%	0-49%
85.09	Electro- mechanical domestic appliances, with self- contained electric motor	7%	6%	20%	20%	10-20%	10-49%	7-20%	6-49%

## Rating Chart

- PACRA rates 1 client in the Household Appliances sector
- Rating Bandwidth of the sector ranges from A+ to A.



# Household Appliances

## SWOT Analysis

- Organized Sector with listed players.
- Presence of International brands brings quality and latest developments to the market.
- Diversified Product portfolio
- With growing awareness, most of the products are seen as necessity than luxury.
- Brand driven consumer preferences.



- Low Localization levels.
- Components pricing subject to exchange rate & International price volatility.
- Custom Duties on imported components increases cost of doing business and pressures the margins.
- High competition among industry players.
- Long cash cycle

- Increase in duties & taxes on Imports of Component parts.
- Exchange rate volatility
- Fluctuations in International component prices.
- Unregistered imports/grey channel.

- Rise in per capita incomes.
- Technological innovations opening avenues for smart products (smart TVs and devices).
- Development on the e-commerce front facilitating easy sale & purchases through B2C networks (daraz.pk , etc).
- Increase in demand for low electricity consuming products.

## Outlook: Negative

- In FY22 Pakistan's GDP witnessed a real growth of ~6.0% (FY21: ~5.7%) while the LSM index grew by ~12% (FY21: ~12).
- However, from Sep-21 inflationary pressures started to build up as global supply chain pressures surfaced along with acceleration in local demand. This was later followed by political upheaval and flashfloods disaster, which pushed economic growth to a halt. The SBP responded to heightened inflationary pressure by raising the policy rate by 25 basis points to 7.25%. This rate hike was followed by a series of rate hikes throughout the remaining three quarters FY22 and well into the first eight months of FY23. The policy rate stood at 17.00% as at January-23 and this rate has been hiked by ~300 basis points to 20.00% in March-23.
- As mentioned in the report, this hike in policy rate has led to an increase in EFS and LTFF rates; this, in turn has increased both subsidized and non-subsidized financing rates and will continue to increase sector borrowing costs as long as a restrictive monetary stance is in place. The sector can expect future profitability to be significantly affected by high borrowing costs.
- Against this backdrop of fragile economic circumstances are issues which will only serve to hamper the sector's profitability by further reducing demand for household appliance. These measure include a recent increase in the sales tax rate from 17% to 18% and a possibility that the sales tax for household appliances, labelled as a luxury item by the FBR, will likely be imposed a sales tax rate of 25%.
- In addition, LC restrictions by the banking sector has significantly affected the industry as essential components used in manufacturing are no longer readily available. This will mean that, going forward, production will be severely affected which will reduce the availability of household appliances for consumers. In CY22, it has been observed that production volumes fell by ~14.9% while the electronics segment growth in the 1HFY23 shrunk by ~22%. This decline in productivity is indicative of the production problems faced by the industry.
- A decline in sales volume will result in liquidity problems for the industry which already has witnessed an increase in working capital days of ~100 due to a build of inventory levels and stretching payables as it deals with liquidity squeezes.
- Moving forward, the outlook for the household appliances industry appears to be far from optimistic at least in the short-term and until the macroeconomic conditions do not improve. With LC restrictions remaining in place and demand prospects remaining subdued, the operational and financial challenges faced by the sector will only mount.

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- Pakistan Electronics Manufacturers' Association
- Pakistan Economic Survey

<b>Research Team</b>	<b>Saniya Tauseef</b> <i>Manager Research</i> <a href="mailto:saniya.tauseef@pacra.com">saniya.tauseef@pacra.com</a>	<b>Nida Naguib</b> <i>Senior Research Analyst</i> <a href="mailto:nida.naguib@pacra.com">nida.naguib@pacra.com</a>
<b>Contact Number: +92 42 35869504</b>		

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