Together. Creating Value.

Furniture & Fixtures

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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. The most common are wood, board, metal and plastic. Wood furniture is most widely used with many varieties such as rosewood, oak and teak that each offer different properties. However, with focus on sustainability and environment, other materials are also gaining more share.

- The Furniture & Fixture production process is as follows:

| Procurement of Material (Wood, metal etc.) | Cutting & Molding | Component Fabrication | Assembly Operation | Finishing & Packing | Delivery |
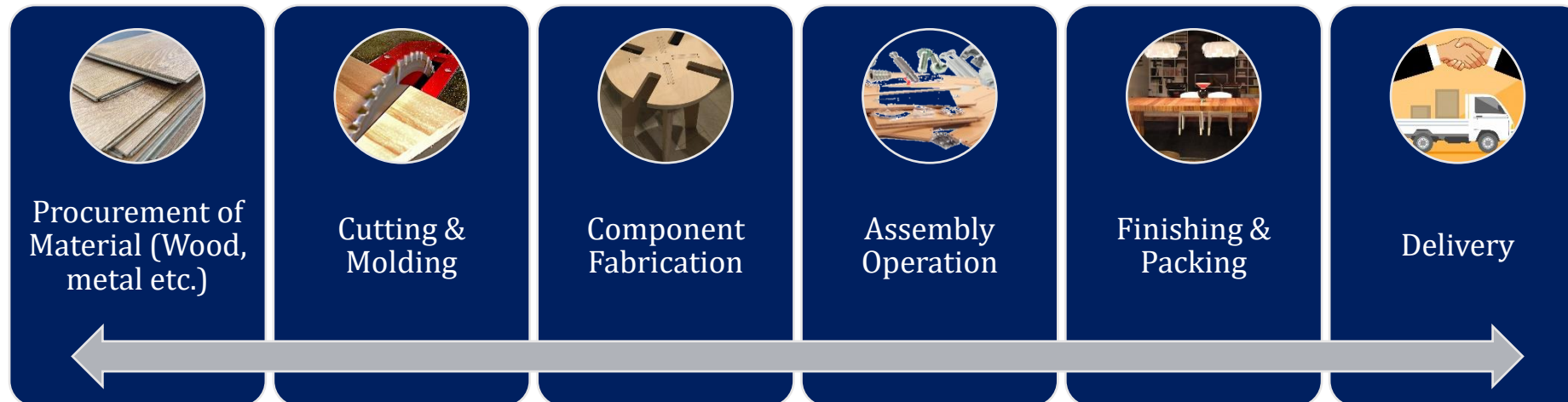
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Global | Overview

- **Size:** The global furniture market grew from USD~691.0bln in CY22 to USD~739.0bln in CY23 at a compound annual growth rate (CAGR) of ~7.0%. The furniture market is expected to grow to USD~805.5bln in CY24 and USD~936.0bln in CY27 at a CAGR of ~6.1%.

- **Region-wise:** Asia-Pacific was the largest region in the furniture market in CY23, valued at USD~237.0bln with a share of ~32.1%. The regional market is expected to reach USD~368.0bln by CY32. Europe was the second-largest region with a share of ~28.0%, followed by North America (~25.0%), Latin America (~7.0%), and Middle East and Africa (~8.0%).

- **Types (Material):** Wood material for furniture covers the largest share in the furniture market with ~41.0% share. The properties of wood are one of the top factors that results in its worldwide acceptance in the furniture market. Some types of wood materials used in the manufacturing of furniture include wooden panels, plywood, and particleboard.

- **Types (Usage):** In terms of usage, the home furniture segment formed ~61.0% of the total furniture market wile the remaining (~39.0%) comprised office furniture in CY23.

- **Developments:** In recent years, ready-to-assemble furniture has surged in popularity, led by IKEA, known for its modern designs and accessibility.

- Furniture manufacturers are embracing augmented reality (AR) technologies to enhance sales presentations and customer decision-making. AR mobile apps enable customers to virtually place 3D furniture models in their real rooms, allowing for a comprehensive view from various angles. For example, IKEA's AR app (Place), offers previews of ~2,000 furniture pieces in customers' homes before purchase.

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Local | Introduction

- In FY24, Pakistan's GDP (nominal) stood at PKR~105.6trn, increasing, in real terms, by ~2.5% YoY (FY23: ~0.2% YoY decline). Industrial activities in FY24 held ~21.3% share in the GDP while the manufacturing activities made up ~13.9% of the value addition. In 1QFY25, Pakistan's GDP (nominal) stood at PKR~26.3trn, rising in real terms by ~0.9% YoY (SPLY: ~2.3% YoY). Real GDP growth rate for 1QFY25 signals a tepid improvement in economic activity as compared to SPLY.
- The Furniture sector is classified as a LSM industrial component. In FY24, the Furniture contribution to of Gross Value Added (GVA) stood at ~0.7%. Production in 1HFY25 declined by ~61.1% YoY to ~0.5mln units (SPLY: ~1.2mln units), reversing the previous growth trend from FY24, when production had increased by ~14.9% YoY to ~1.9mln units (SPLY: ~1.6mln units).

Note: Sectoral shares are based on GVA.

Source: PBS, SBP   3
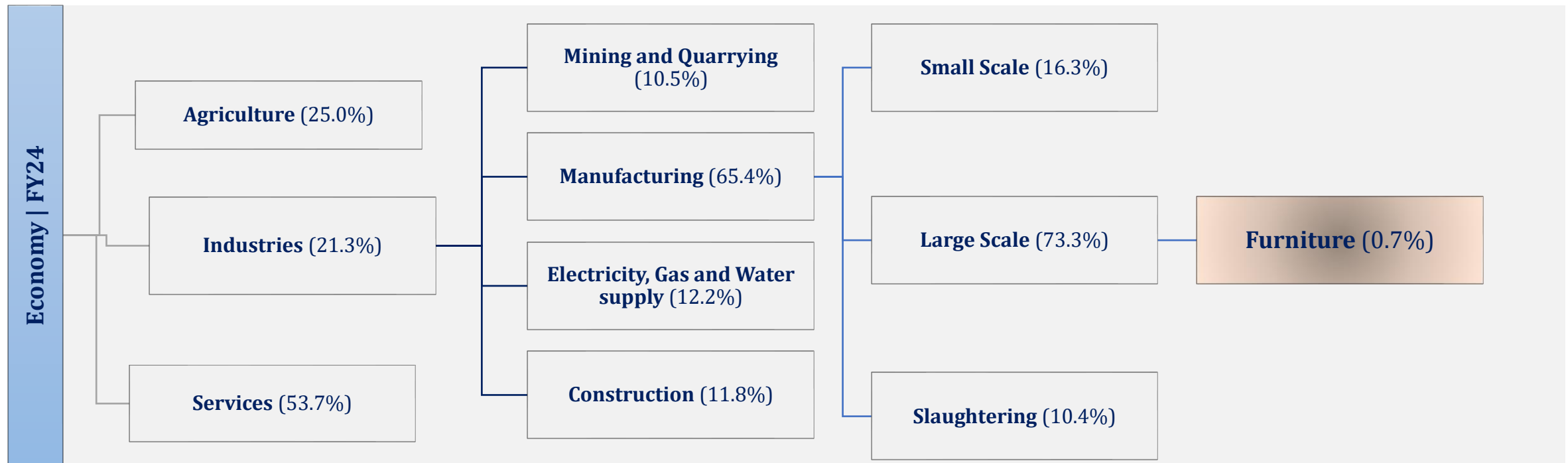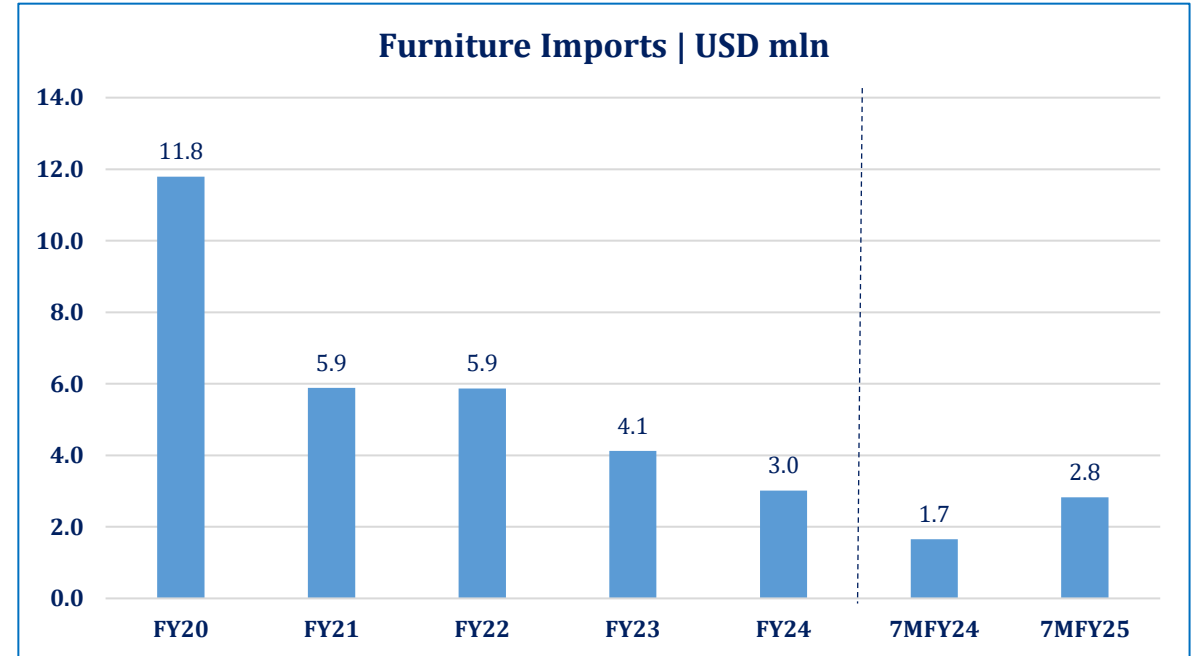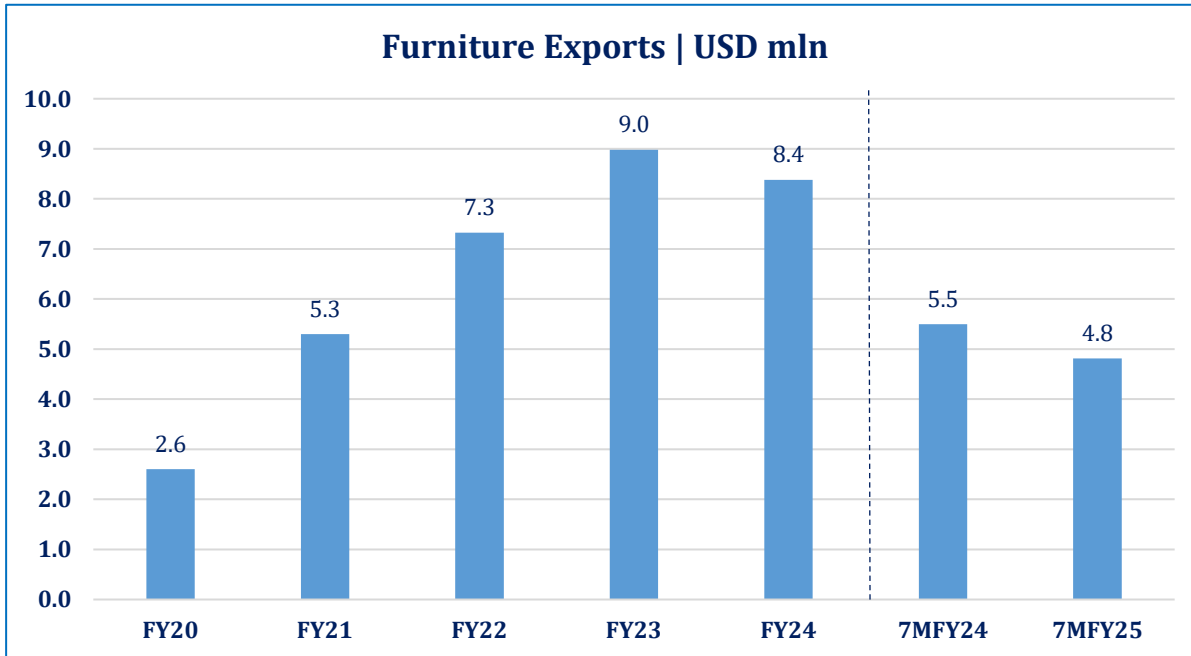
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Local | Overview

- The sector is fragmented and comprises numerous small and medium-sized players in Pakistan. As a result, there is high level of competition among sector players.

- The Sector primarily serves the domestic market, with only a small quantities dedicated to exports. However, recent data shows that exports fell by ~6.7% YoY in FY24 and the trend continued in 7MFY25 with ~12.4% YoY lower exports.

- Local demand is mainly met through local production and some imports. Depreciation of PKR against USD in recent years has meant that imported furniture is more expensive. Imports have continued to decline since FY20, as depicted subsequently.

- The organized segment of the sector consists mainly 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.

Sector Overview	Unit	FY23	FY24	7MFY24	7MFY25
Players	No.	~5-6 Large Players			
Furniture Imports	USD mln	4.1	3.0	1.7	2.8
Furniture Exports	USD mln	9.0	8.4	5.5	4.8
Association	All Pakistan Furniture Makers Association (APFMA) All Pakistan Furniture Exporters Association (APFEA)				

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Local | Exports & Imports

- In FY24, Pakistan's overall furniture exports recorded a decline of ~6.7% YoY in USD terms. During FY20-24, the sector's average exports had stood at USD~6.5mln.

- Similarly, overall furniture imports were down ~26.9% YoY in FY24. During FY20-24, the sector's average imports had stood at USD~6.1mln. Both exports and imports were below their 5-year (FY20-24) averages of USD~6.5mln and USD~6.1mln, respectively.

- In 7MFY25, the furniture exports value declined by ~12.4% YoY to USD~4.8mln (SPLY: USD~5.5mln). During the same period, the imports value rose by ~70.4% YoY to USD~2.8mln (SPLY: USD~1.7mln).

Furniture Exports | USD mln

FY20	FY21	FY22	FY23	FY24	7MFY24	7MFY25
2.6	5.3	7.3	9.0	8.4	5.5	4.8

Furniture Imports | USD mln

FY20	FY21	FY22	FY23	FY24	7MFY24	7MFY25
11.8	5.9	5.9	4.1	3.0	1.7	2.8

Note: Data is based on HS code: 9403.

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Local | Export Destinations

- Pakistan's furniture exports are primarily focused on Germany and the USA, which cumulatively accounted for ~50.0% of Pakistan's total furniture exports in FY24. In 7MFY25, the rankings are reversed, as Germany overtook USA to become Pakistan's leading furniture's export destination, as depicted below.

- Meanwhile, exports to the UK, Canada, and UAE constituted ~12.0%, ~4.0%, and ~4.0% shares, respectively, of the total furniture exports in FY24.

Export Destinations	FY20	FY21	FY22	FY23	FY24	7MFY25	7MFY24
U.S.A.	36%	39%	26%	16%	30%	24%	28%
Germany	4%	16%	43%	41%	20%	26%	21%
U.K.	10%	9%	8%	7%	12%	7%	10%
UAE	10%	4%	3%	1%	4%	9%	2%
Canada	2%	3%	1%	3%	4%	6%	5%
ROW	37%	29%	19%	32%	30%	29%	34%
Total	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**

Note: Data is based on HS code: 9403.
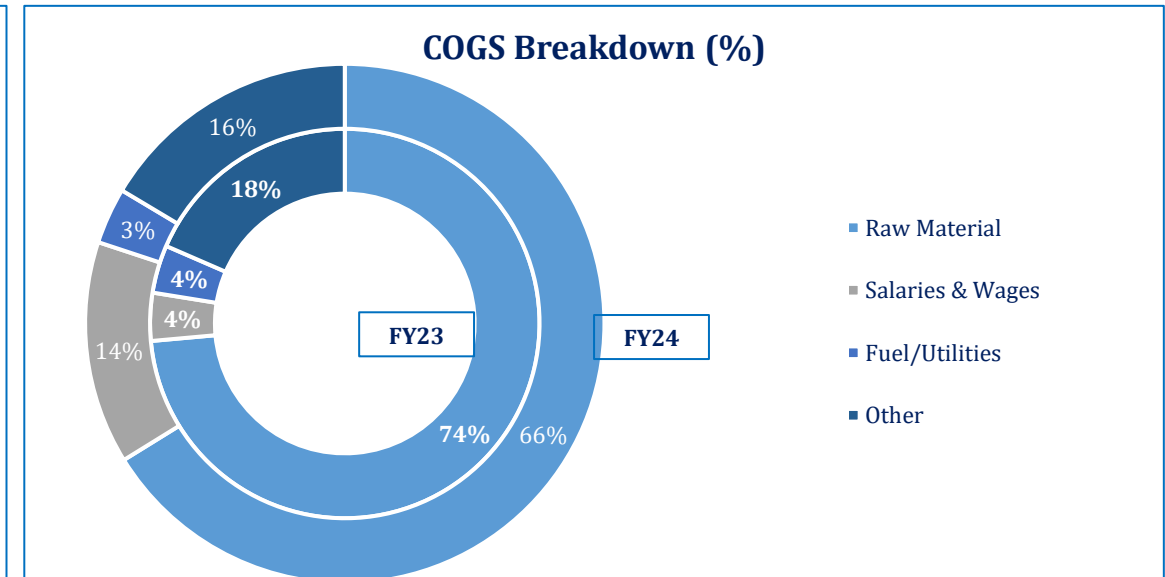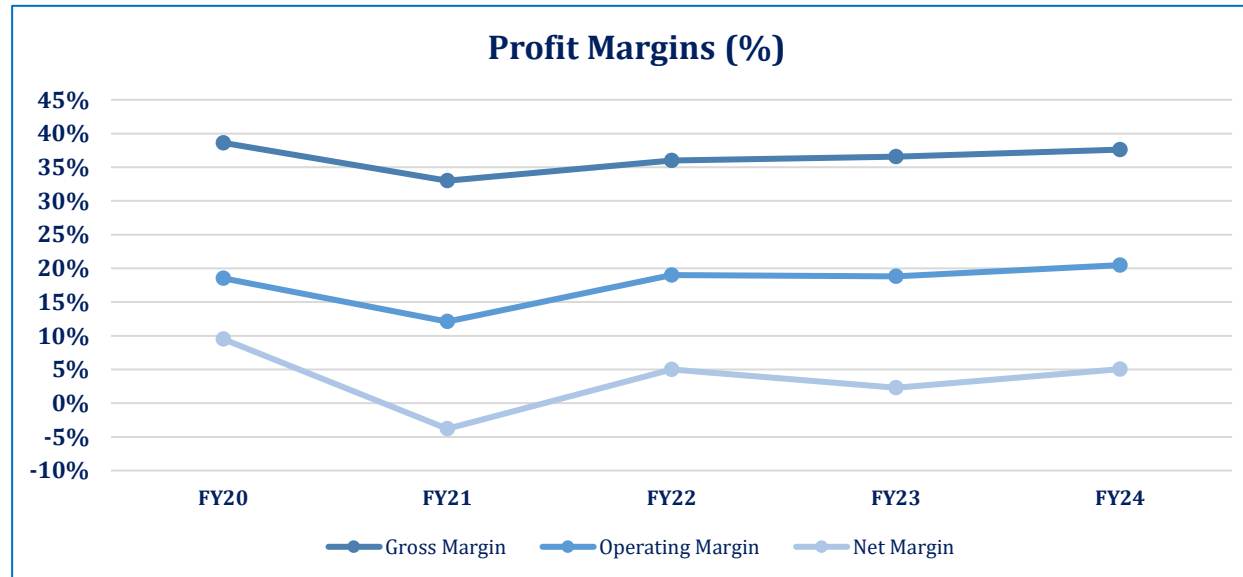
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Local | Business Risk

- **Competition:** There is high level of competition in the sector due to the presence of large number of small and medium-sized furniture players who operate workshops that can provide furniture items customized to each consumer's needs. These players target the middle and upper-middle customer market. They are not in direct competition with the few large players who have strong brands and retail outlets and target high-end and office furniture segments. On the other hand, there is significant competition for imported furniture in the high-end segment as many consumers have a preference for international brands that provide high-quality items according to the latest trends and modern designs.

- **Economic Contraction:** Demand for the local sector is linked with consumers' disposable income and replacement/new orders from businesses for office furniture. During FY24, average inflation stood at ~23.9% (SPLY: ~29.4%), while in 8MFY25 this was recorded at ~6.0% (SPLY: ~28.0%). Due to easing inflation levels, relatively better business sentiment and decline in the policy rate to ~12.0% in Jan'25, sector's overall revenue is expected to improve while lower finance cost and stable currency could lead to higher margins as well.

- **Raw Material:** Pakistan's forest coverage currently stands at only ~4.9% and local raw material (mainly wood and derived products) has been depleted in recent years due to illegal deforestation. Moreover, reliance on alternative materials such chip boards, plastic and metal has also been increasing.

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Local | Business Risk

- Sector's average gross margin recorded at ~36.3% during FY20-24. The high gross margin level is due to players being able to charge a significant premium for high-quality products due to the presence of few competitors in the high-end segment. In FY24, gross margins improved to ~37.6% (SPLY: 36.6%), driven by a ~15.0% YoY increase in net sales and a ~13.8% YoY reduction in COGS.
- Meanwhile, net profit also recorded an increase of ~154.0% YoY. Thus, the net margin improved to ~5.0% in FY24 (FY23: ~2.3%). The sector earns its revenues from two main segments; i) office furniture, and ii) home furniture*. Although overall finance cost increased by ~17.1% YoY in FY24, this was offset by higher sales during the same period. The raw material is the most significant component of the Sector's direct costs and constituted ~66.0% of the total costs in FY24.
- Going forward, as inflation levels ease and policy rates are further lowered (MPR as of Jun'24 recorded at ~22.0%; End-Jan'25: ~12.0%), profits margins are likely to remain stable or improve.

Profit Margins (%)

Legend: Gross Margin, Operating Margin, Net Margin

COGS Breakdown (%)

FY23 / FY24

Raw Material, Salaries & Wages, Fuel/Utilities, Other

FY23 inner ring: 74%, 14%, 4%, 4%, 3% ... FY24 outer ring: 66%, 18%, 16%

*Note: Margins and Cost Breakdown are based on PACRA-rated player. *representative of rated player.*

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Local | Financial Risk

- The sector's working capital is predominantly a function of inventories days as sufficient stock levels of various products must be maintained to cater to customer demand.

- Average inventory days of the sector stood at ~277 days during FY20-24 and recorded at ~280 days in FY24 (SPLY: ~304 days).

- Meanwhile, average payable days improved slightly to ~52 days in FY24 (FY23: ~58 days), reflecting better repayment capacity of sector players.

- Resultantly, average net working capital days improved to ~276 days in FY24 (FY23: ~297 days), due to a slight improvement in economic activity and spending. However, working capital management has remained an insoluble problem for the sector, primarily driven by high inventory days.
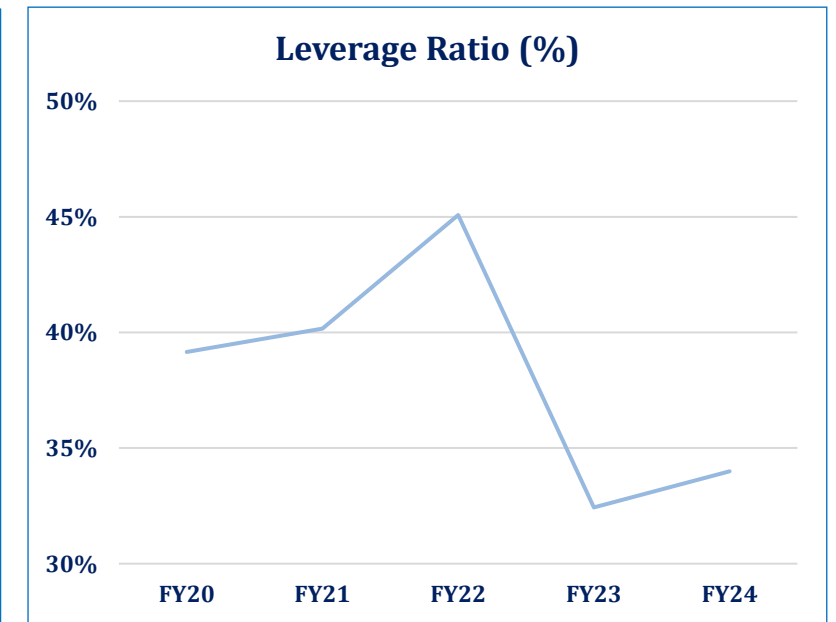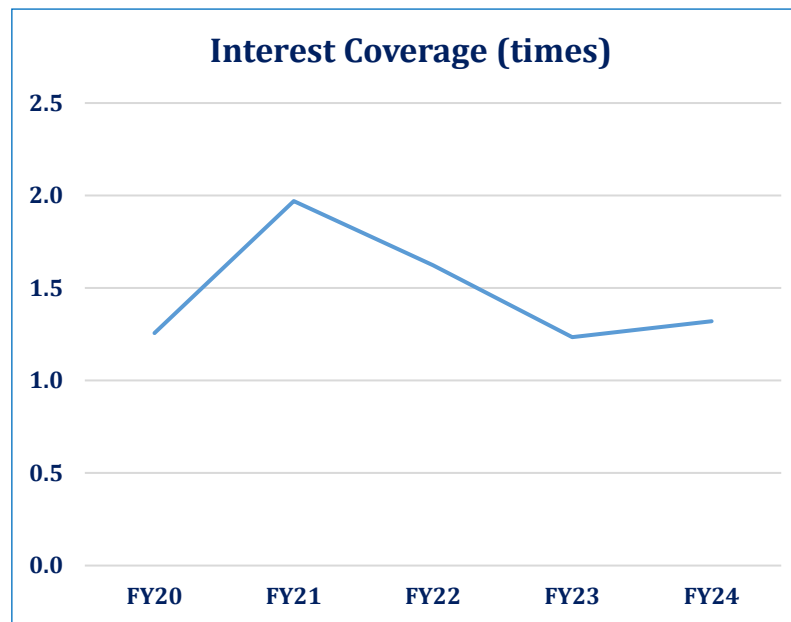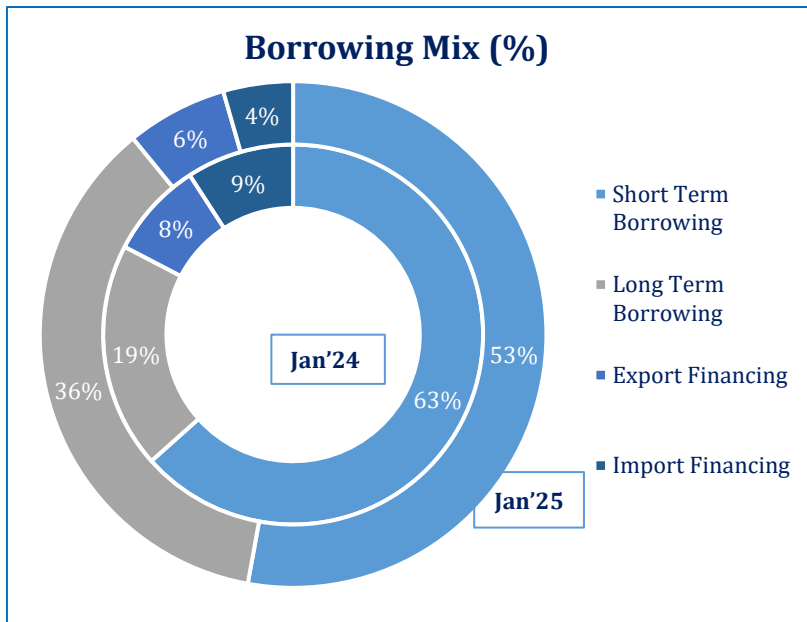
Working Capital Management (Days)

Legend: Inventory Days, Trade Receivable Days, Trade Payable Days, Net WC Days
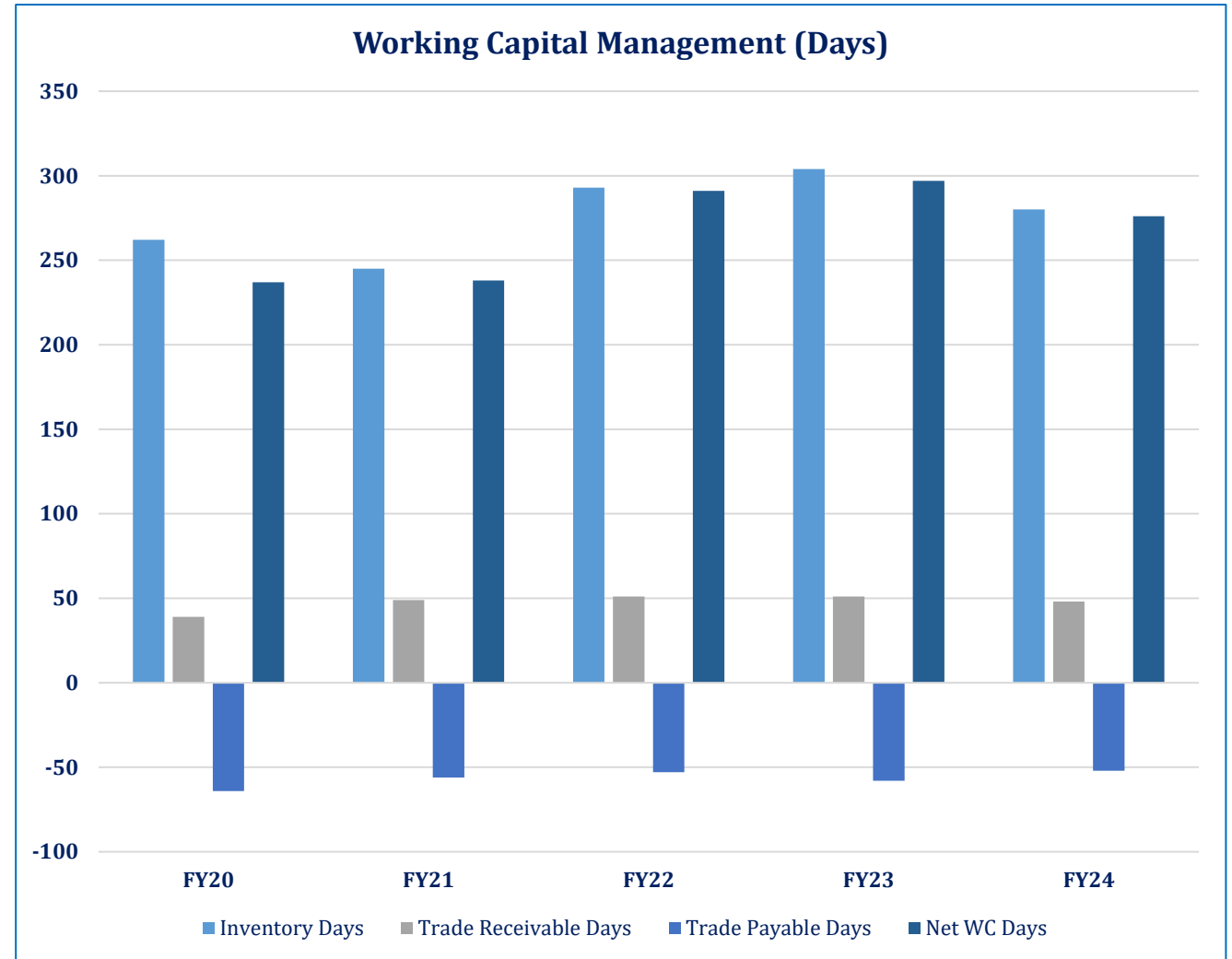
Note: Data is based on PACRA rated player.

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Local | Financial Risk

- The sector's total borrowings were recorded at PKR~7,031mln as of End-Jan'25, an increase of ~27.2% YoY. There was a slight increase in short-term borrowings of ~6.1% YoY, during the same period, with these making up ~52.9% of the sector's total borrowing (SPLY: STBs formed ~63.4% of the total borrowing).
- Long-term borrowing increased massively by ~139.7% , since Jan'24, whereas import financing was down ~38.1% during the same period. Export Financing remained the same, while its sharing in total borrowing fell to ~6.4% (SPLY: ~8.2%).
- With MPR lowered to ~12.0% as of End-Jan'25, the sector's average finance cost borne is projected to decline, keeping in view higher level of overall borrowings.
- The sector's average interest coverage improved slightly to ~1.3x in FY24 (FY23: ~1.2x), while average leverage stood at ~34.0% (FY23: ~32.4%).

Borrowing Mix (%)

Jan'24 · Jan'25

- Short Term Borrowing
- Long Term Borrowing
- Export Financing
- Import Financing

Jan'24: 53%, 19%, 8%, 6%
Jan'25: 63%, 36%, 9%, 4%

Interest Coverage (times)

FY20, FY21, FY22, FY23, FY24

Leverage Ratio (%)

FY20, FY21, FY22, FY23, FY24

Note: Borrowing-Mix is based on SBP classification "Manufacture of Furniture". Coverage Ratio is based on PACRA rated player.

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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 protects local manufacturers. In addition, sales tax of ~18% is also applicable on the Sector.

- In Jul'22, the SBP linked the policy rate to the Export Finance Scheme (EFS) and Long-Term Financing Facility (LTFF) rates by fixing the gap between the former and latter two rates at 500 basis points. At this time, the policy rate stood at 22.0% and LTFF and EFS rates were 17.0% each accordingly. In Jan'23, the SBP announced that the gap between the concessional borrowing rates and policy rate to be reduced to 300 basis points. Currently, SBP has reduced the policy rate to 12.0%, resulting in LTFF and EFS rates to record at 9.0% as of End-Jan'25.

- The Sector 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 sector's products in the international market.

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Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
44.07	Wood sawn or chipped lengthwise, sliced or peeled, whether or not planned, sanded or end- jointed, of a thickness exceeding 6 mm.	0%	0%	2%	2%	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.	0%	0%	2%	2%	0%	0%	**2%**	**2%**
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.	16%	16%	4%	4%	0%	0%	**20%**	**20%**
44.11	Fibreboard of wood or other ligneous materials, whether or not bonded with resins or other organic substances	11%	11%	2%	2%	5%	5%	**16%**	**16%**
44.12	Plywood, veneered panels and similar laminated wood.	16%	16%	4%	4%	0%	0%	**20%**	**20%**
32.08	Paints and varnishes (including enamels and lacquers)	11-20%	11-20%	2-6%	2-6%	5-10%	5-10%	**18-36%**	**18-36%**
94.02	Medical, surgical, dental or veterinary furniture	3-20%	3-20%	2-6%	2-6%	0%	0%	**5%-20%**	**5%-20%**
94.03	Other furniture and parts thereof	20%	20%	6%	6%	45%	45%	**71%**	**71%**

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SWOT Analysis

Strengths
- 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.

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.

Threats
- Change in customer preferences could reduce demand for traditional furniture items.
- Increased influx of imported furniture with certain large international players eyeing Pakistan market.

Opportunities
- Growing trend of online shopping creates opportunities for online stores.
- Opportunity to increase efficiency and economies of scale through automation.
- New products produced through sustainable methods for local and export markets.

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Outlook: Stable

- Pakistan's economy posted a real GDP growth of ~2.5%YoY in FY24 (FY23: ~-0.2% YoY) and a growth of ~0.9% YoY in 1QFY25 (1QFY24: ~2.3% YoY). Large-scale manufacturing (LSM) recorded a sluggish growth of ~0.9% YoY during FY24, and further contracted by ~1.9% YoY in 1HFY25. The economic slowdown is likely due to the formal industrial sector reeling from the higher interest rates of the two previous years. The MPR for most part of FY24 stood at ~22.0% before easing in consecutive rounds to ~12.0% as at End-Jan'25.

- For the remainder of FY25, with relatively low interest rates and better economic outlook, industrial activity is expected to revive gradually. The furniture sector is classified as a Large-scale manufacturing (LSM) industrial component within the industrial sector. In FY24, the Furniture sector's contribution to the GVA was recorded at ~0.7%. The Furniture sector in LSM experienced a negative growth of ~2.3% YoY in 1HFY25.

- The sector primarily serves the domestic market, with only a small portion dedicated to exports. The exports have continued to decline post FY20, while this trend has persisted in 7MFY25. In FY24, exports in value terms fell by ~6.7% YoY. In 7MFY25, these fell by ~12.4% YoY.

- Local demand is met through local production and some imports. Average imports stood at USD~6.1mln in the last five fiscal years. In 7MFY25, the reliance on import has increased, as these rose by ~70.4%YoY. However, sector players are able to easily pass on exchange rate fluctuations to end-consumers (in 7MFY25, average USD/PKR parity was down ~2.8% YoY).

- Sector's average gross margin recorded at ~36.3% during FY20-24 while average net margin stood at ~3.6%. The high gross margin level is due to players being able to charge a significant premium for high-quality products due to the presence of few competitors in the high-end segment. In FY24, the gross margins increased YoY due to an increase in net sales of ~15.0% YoY, and a decrease in total COGS of ~13.8% YoY.

- Overall, the sector is expected to exhibit rangebound growth in FY25. Declining exports, increasing imports, and reduced domestic production in 7MFY25 highlight ongoing challenges, further compounded by limited wood supply amid stricter environmental regulations that are likely to become stringent as Pakistan grapples diminished forest cover. However, lower inflation levels and easing interest rates are expected to keep financial performance of the sector players in check.

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