

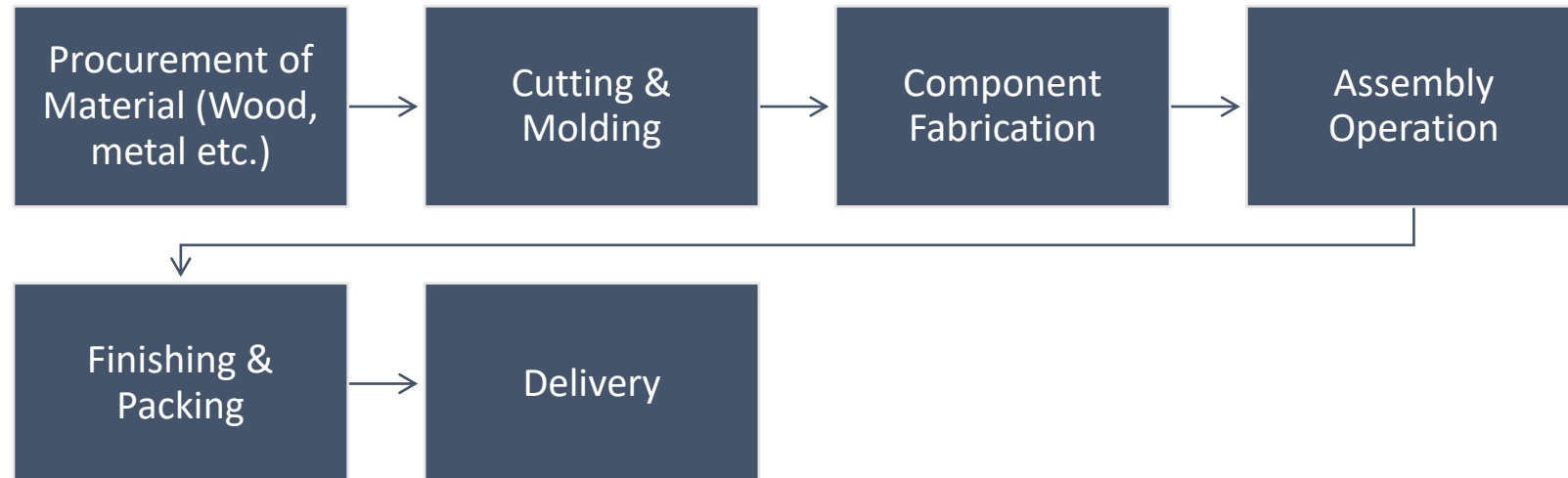


Furniture & Fixtures

Sector Study

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- 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:



Global Overview

- **Size:** The global furniture industry is expected to reach an estimated market size of USD~595bln in CY21 and is likely to grow at a CAGR of ~5.6% by the end of 2027. The growth in the market is generally spurred by construction sector alongside growing disposable incomes across the globe. The recovery from the COVID-19 pandemic has also played a role in the growth with opening up of commercial activities and offices as restrictions have eased. In addition, increasing residential spaces have had a positive impact on the demand for furniture between CY20 to CY21.
- **Types (Material):** The largest segment in terms of material used is of wood furniture, which has a market share of ~60% in CY21. 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.



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Local Overview

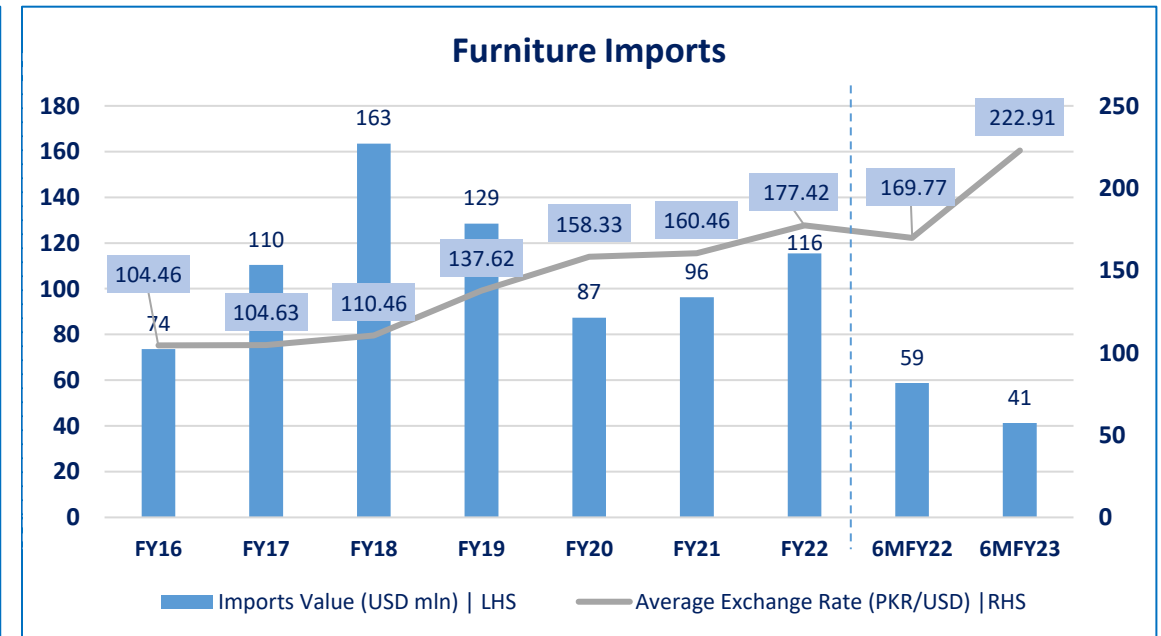
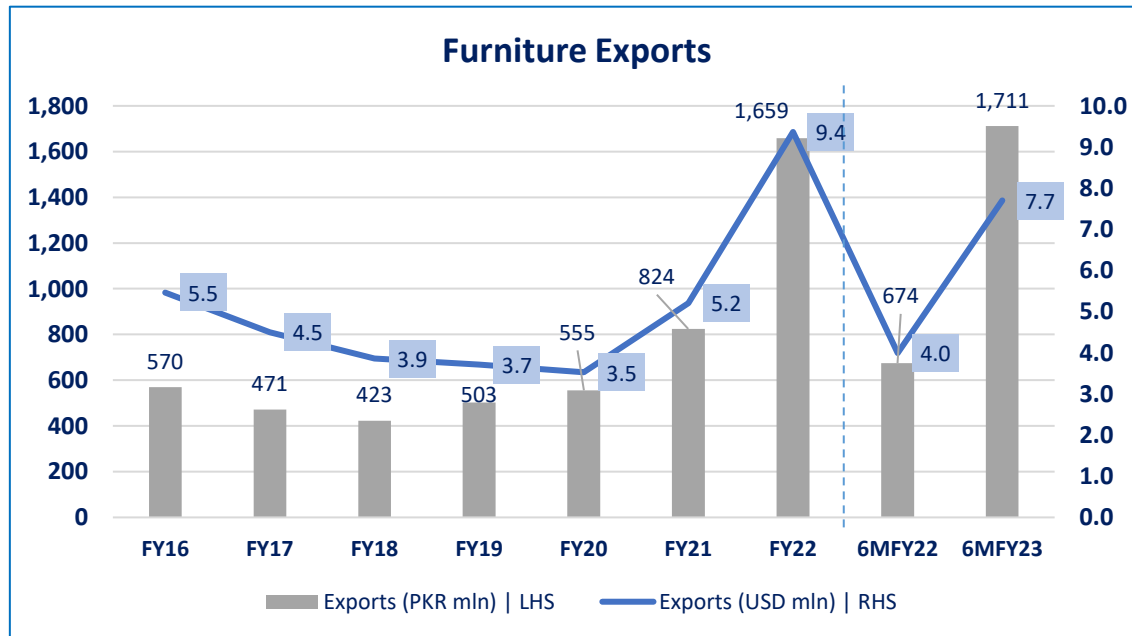
- Pakistan’s furniture industry is largely unstructured and consists of numerous small and medium sized players (SMEs and Cottage Industry). As a result, there is a high level of competition in the market.
- The industry largely caters to the local market with only a small proportion of export sales. During FY22, exports stood at PKR~1,659mIn (USD~9.4mIn) as compared to exports of PKR~824mIn (USD~5.2mIn) in FY21.
- In the 6MFY23 period, exports stood at PKR~1,711mIn (USD~7.7mIn) as compared to exports of PKR~674mIn (USD~4.0mIn) in the 6MFY22 period.
- The local demand is met through local supply as well as imports. During FY22, imports stood at PKR~20,447mIn (USD~116mIn) increasing from PKR~ 15,447mIn (USD~96mIn) in FY21 as the economy opened up following the pandemic year and consumer buying significantly increased. However, in the 6MFY23 period, imports fell to USD~41mIn from USD~59mIn in the SPLY.
- 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 methods of making customized hand carved furniture.

Sector Snapshot	FY21	FY22	6MFY23
No. of Players	~5-6 Large Players		
Furniture Imports (PKR mIn)	15,477	20,495	9,215
Furniture Exports (PKR mIn)	824	1,659	1,711
Industry Association	All Pakistan Furniture Makers Association (APFMA), All Pakistan Furniture Exporters Association (APFEA)		

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Imports & Exports

- Pakistan’s exports of furniture experienced significant growth of ~80% during FY22 and stood at USD~9.4m as compared to USD~5.2m during FY21. The growth trend continued into the current fiscal year, with exports increasing by ~92% between the 6MFY22 and 6MFY23 period; during the 6MFY23 period, exports generated USD ~7.7m in revenues (SPLY: USD~4.0m). Despite this growth, exports occupy a relatively small share of the total local furniture manufacturing.
- In FY22, furniture imports stood at USD~116m (PKR~20,495m), increasing from USD~96m (PKR~15,477m) in FY21. The revival in economic activity after the Covid-19 year increased demand for furniture products. In the 6MFY23 period, imports declined by ~30% to USD~41m from the SPLY and this was mainly due to slowdown in economic activity reducing buyer purchasing power and demand.



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Export Destinations

- Pakistan’s exports of furniture is largely concentrated towards Germany and USA, which contributed ~43% of and ~26% of total exports during FY22, respectively, (FY21: ~16% and ~39%, respectively).
- Export destinations also include Middle Eastern countries such as Qatar and UAE that contributed ~1% and ~3%, respectively, in FY22.
- Meanwhile, exports to United Kingdom and Canada constituted ~9% and ~3%, respectively, of the total exports during FY20.

Export Destinations	FY20		FY21		FY22		6MFY22		6MFY23	
	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%
Germany	111	4	842	16	3,114	43	1,504	39	1,767	38
Romania	5	0	0	0	0	0	0	0	1,445	31
USA	941	36	2,049	39	1,915	26	1,076	28	387	8
UK	266	10	498	9	595	8	315	8	351	8
Poland	0	0	0	0	0	0	0	0	143	0
UAE	272	10	224	4	234	3	184	5	50	1
Qatar	12	0	451	9	109	1	85	2	5	0
Others	996	38	1,239	23	1,359	19	703	18	501	11
Total	2,603	100	5,303	100	7,326	100	3,867	100	4,649	100

Business Risk

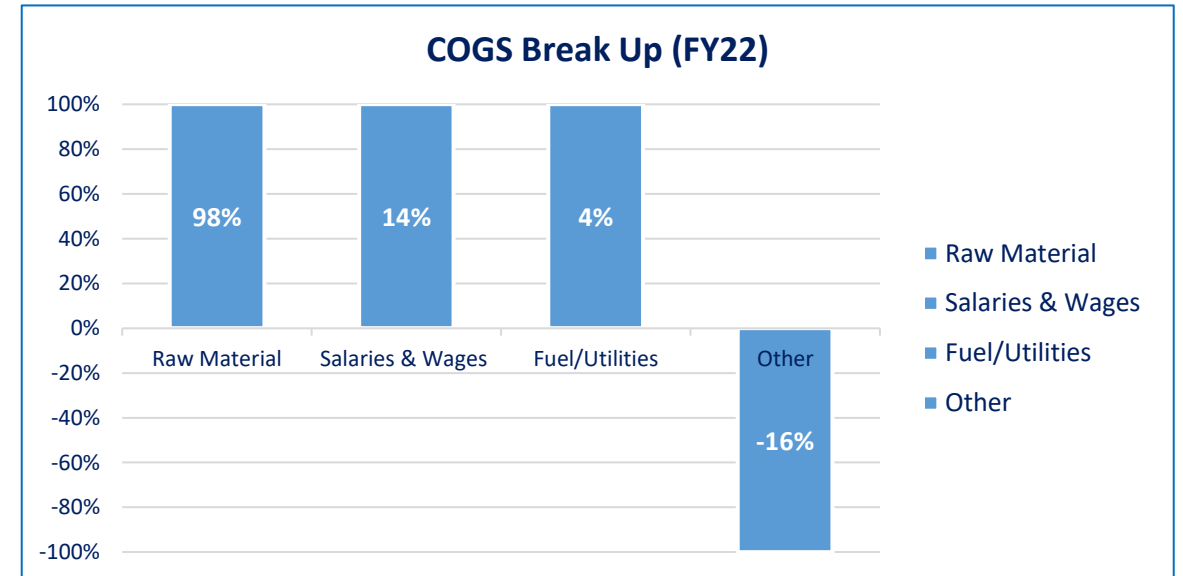
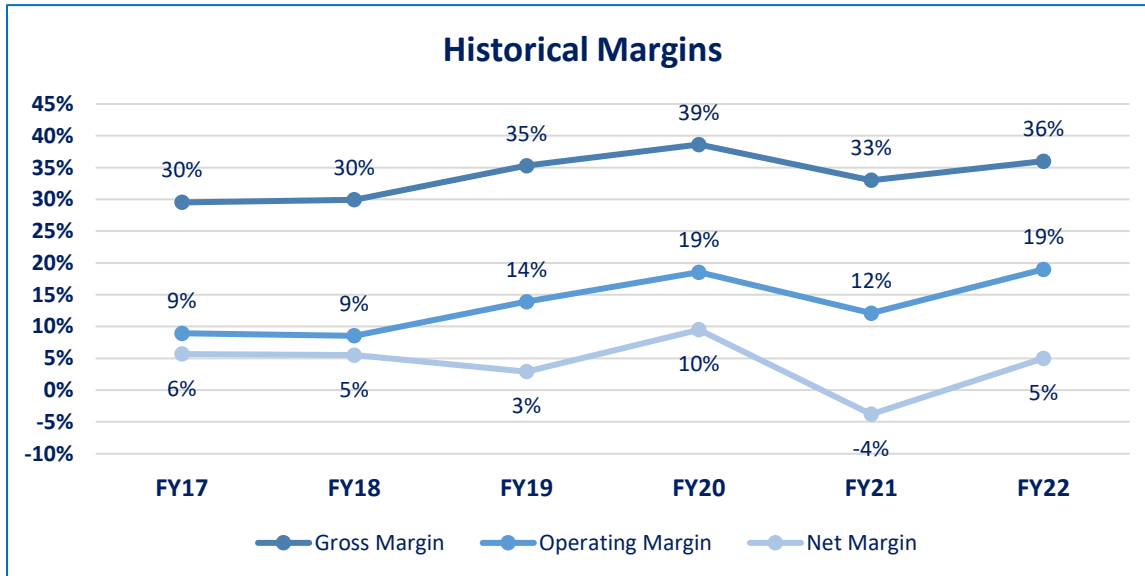
- **Competition:** There is a high level of competition in the industry due to the presence of a large number of small and medium sized furniture players who operate workshops that can provide furniture items customized to each consumers needs. These players target middle and upper middle customer market. 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. In FY22, inflation stood at ~12.1% (SPLY: ~8.9%), increasing to ~24.9% in the 7MFY23 period (SPLY: ~10.3%). Due to high inflation levels in FY22 and the 7MFY23 period, increase in policy rate to a record of 17% in Jan'23, and resulting economic slowdown, disposable incomes declined. Most of the orders in FY22 were from provincial educational institutes.
- **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) has been increasing.



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Margins & Cost Structure

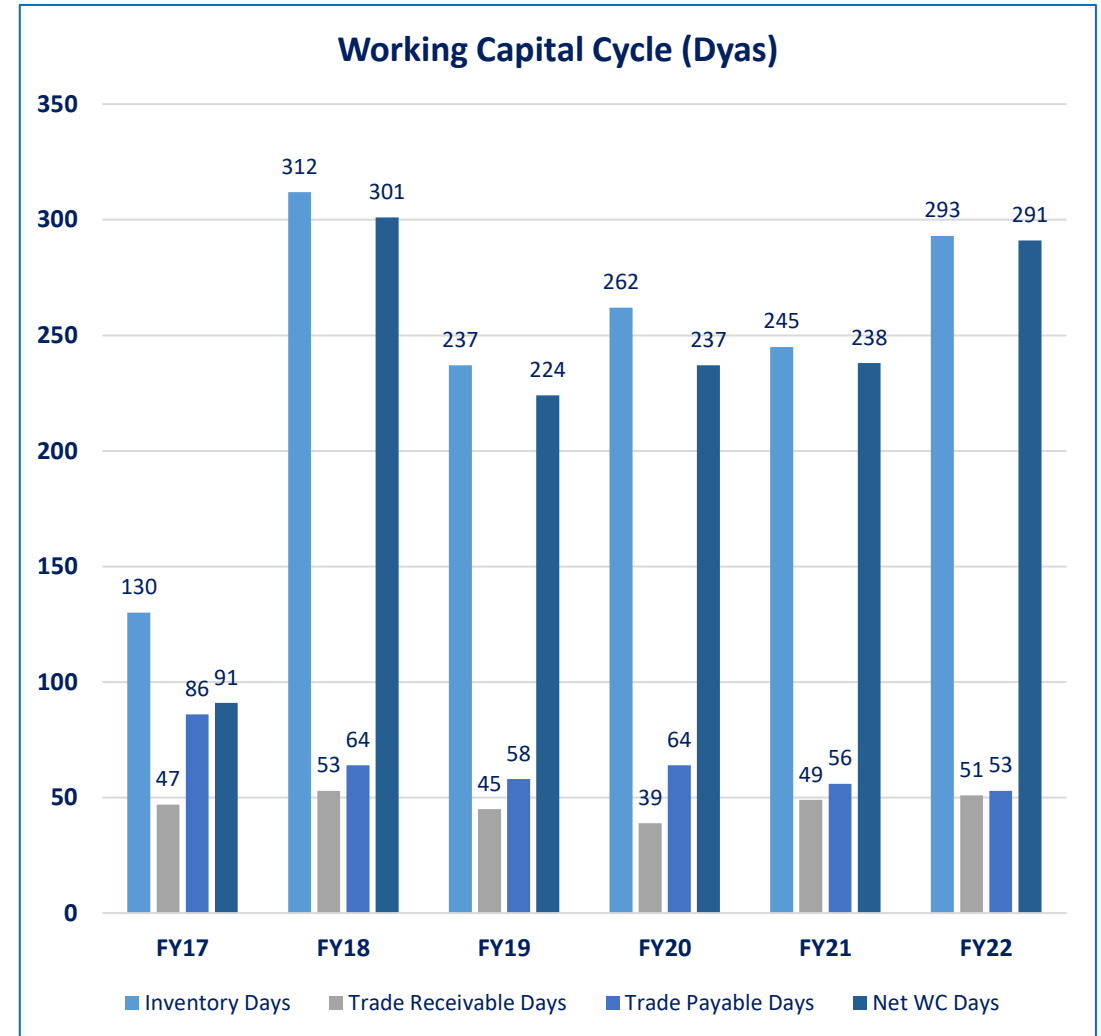
- Over the years, the industry has maintained its average gross margins at a high level, with the five-year (FY17-FY21) average standing at ~33%. Meanwhile, net margin has averaged ~4% over the same period. The high gross margin level is due to players being able to charge a significant premium for high quality products due to the presence of few competitors in the high end segment.
- During FY22, all three margins exhibited growth with gross margin standing at ~36% (FY21: ~33%), operating margin standing at ~19% (FY21: ~12%) and net margin standing at ~5% (FY21: -4%). The bulk of the sales were generated locally and majorly comprised of contractual orders with domestic educational institutes. Over the years, the sales generated from kitchen and wardrobes has declined. In addition, the bulk of the sales are domestic while export orders are on a contractual basis.
- Raw material is the most significant component of industry's direct costs and constitutes approximately ~98% of total costs.



Note: Margins and Cost Break Up are reflective of the high end segment

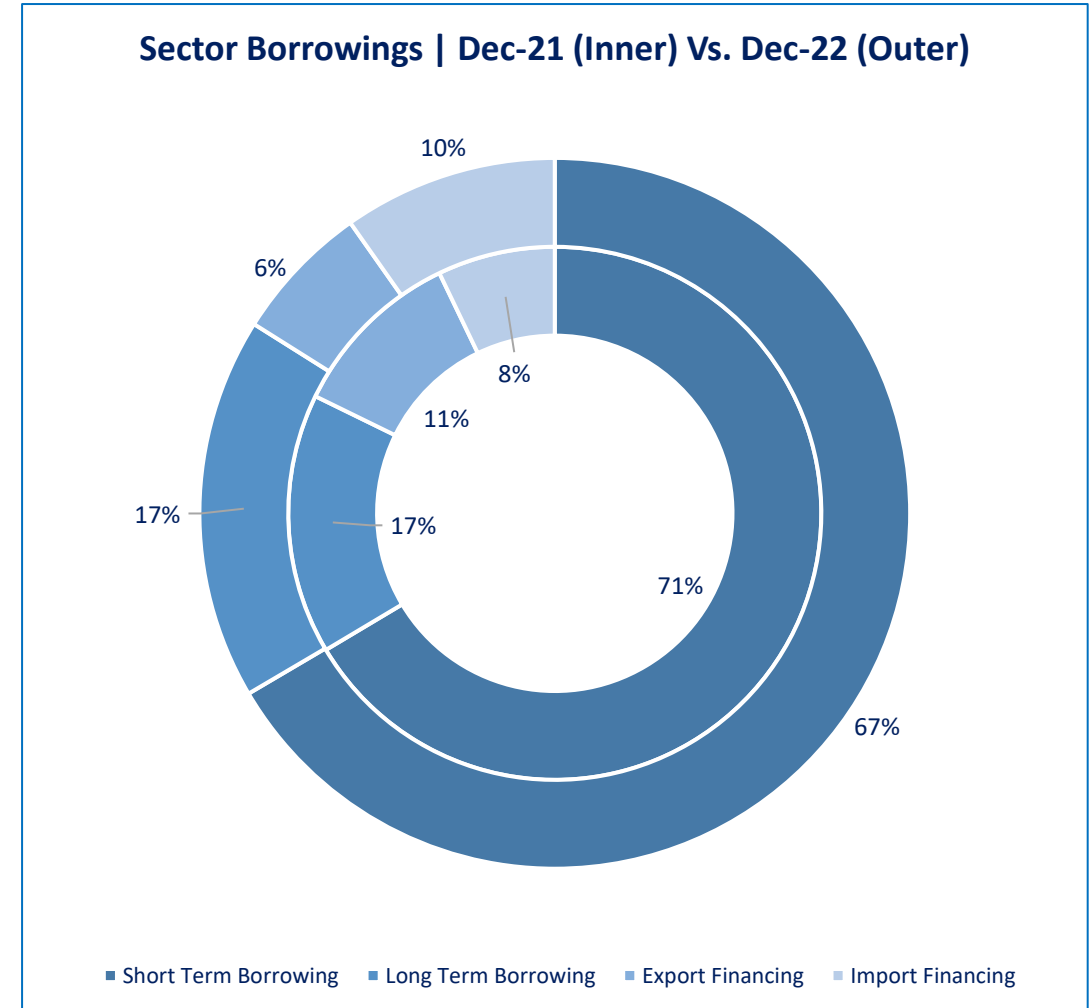
Working Capital Management

- 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 over the past five years (FY17-FY21) with average net working capital days of ~218 days. During FY22, the net working capital cycle stood at ~291 days as compared to ~238 days in FY21.
- ~91% of the increase in working capital days was due to an increase in inventory days, which increased by ~48 days from FY21 to FY22, while ~4% of the increase was due to an increase in receivables days which increased by ~2 days. It is important to note that the company benefits from advance payments from customers for all its orders.
- The payable days were lower in FY22 at ~53 days relative to the historical average level of ~65 days (FY17-FY21) which indicates efficient management of outstanding payables.
- The largest component of inventory is finished goods, which occupied ~59% of total inventory in FY22, due to variety of items and high stock level at showrooms are maintained. In addition, raw materials comprised ~20% of total inventory in FY22. 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 outdated.



Financial Risk

- The furniture manufacturing industry had total borrowing of PKR~7,186mln as at End-Dec'21. This is an increase of ~65% from borrowing level of PKR~4,358mln at the End-Dec'21.
- The largest component is short-term borrowing at normal rates, which constitutes ~71% of total borrowing and stood at PKR~4,781mln as at Dec'22 (Dec'21: PKR~3,094mln).
- Long-term borrowing at normal rates constitutes ~16% and was recorded at PKR~1,146mln (Dec'21: PKR~622mln), while discounted borrowing also contributes ~8% to total borrowing (Dec'22: PKR~558mln, Dec'21: PKR~609mln).
- Discounted borrowing consists of Export Finance Schemes which stood at PKR~453mln and Long-Term Financing Facility (LTFF)/ Temporary Economic Refinance Facility (TERF) which stood at PKR~105mln as at Dec'22.
- The industry is moderately leveraged with an average leveraging ratio of ~45%.



Regulatory Framework

- With respect to Income Tax, the furniture manufacturing industry falls 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 manufacturers. In addition, sales tax of 17% is also applicable on the industry.
- On July 7, CY22, 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 was 15% and LTFF and EFS rates were 10% each. Subsequently, in the month of November, CY22 SBP raised the policy rate to 16% which increased the LTFF and EFS rates to 11%. In December CY22, SBP announced that the gap between the concessional borrowing rates and policy rate will be reduced to 300 basis points thereby increasing the LTFF and EFS rates to 13%. In January, CY23, SBP once again hiked the policy rate upwards which now stands at a level of 17%. Accordingly, concessional borrowing rates now stand at 15%.
- 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.

Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22
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%	0%	0%	0%	2%	0%
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%	0%	0%	0%	2%	0%
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%	11-16%	2%	2-4%	2%	0%	13%	13-20%
44.12	Plywood, veneered panels and similar laminated wood.	16%	20%	4%	6%	0%	0%	20%	26%
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%	20%	2-6%	6%	0%	0%	5%-20%	26%
94.03	Other furniture and parts thereof	20%	20%	6%	6%	49%	45%	75%	72%

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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.

- 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.



- Increasing inflation may reduce the purchasing power of consumers.
- Increased influx of imported furniture with certain large international players eyeing Pakistan market.

- 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

- In FY22, Pakistan's real GDP grew by ~6.2% (FY21: ~6.5%) while the LSM posted a growth of ~11.7 (CY21: ~11.2%). During this time, monetary policy rate was the growth in industrial activity was ~9.67% (FY21: ~7.00%) while average inflation stood at ~12.10% (FY21: ~8.90%). The economic environment was conducive to industrial productivity and economic growth.
- However, the FY22 performance was only short-lived as global supply chain issues and accelerating demand pressures in a post-pandemic economic environment meant that central banks around the world, including Pakistan, had to take necessary and urgent action to curb resulting mounting inflationary pressures. In April'22, the SBP hiked the policy rate by 250 basis points to 12.25%. This hike in policy rate continued throughout the 1HFY23 and the policy rate currently stands at 17%, while the average policy rate for the 7MFY23 period is ~7.36% higher than the rate for the 7MFY22 period and stands at ~15.28%.
- Apart from mounting supply chain issues and accelerating demand pressures, FY23 commenced with catastrophic flashfloods in Aug'22 which wiped out or significantly damaged standing Kharif crops and caused a loss of over USD~30bln (based on World Bank estimates). In addition, the GDP growth forecast has shrunk from a projected ~5.0% at the start of the FY23 to a present ~2%.
- The success of the furniture sector largely depends on available disposable incomes, which have declined in the present economic conditions and this will remain a challenge throughout the current fiscal year (FY23).
- However, despite the global recessionary economic conditions, the industry has exhibited solid performance in the 6MFY23 period during which exports increased by ~48% in volumetric terms and ~93% in USD terms compared to the SPLY. On the local front, the industry displayed positive margin growth and efficient working capital management in FY22.
- The furniture business is a high margin business and players selling premium furniture face low competitive risk. This coupled with efficient trade payables shows that the sector has sufficient room to borrow to fund working capital needs. We believe these factors make the sector resilient enough to ride out any economic uncertainties and resulting downtrend in demand.

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- Trade Development Authority of Pakistan (TDAP)
- All Pakistan Furniture Exporters Association (APFEA)
- PACRA Database
- Global Market Insights

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