



# Household Appliances

## Sector Study

# TABLE OF CONTENTS



Contents	Page No.
Global Industry   Overview	1
Local Industry   Overview	4
Demand	6
Supply	9
Production of Major Appliances	11
Business Risk	12
Financial Risk	14

Contents	Page No.
Regulatory Environment	16
Rating Curve	17
SWOT Analysis	18
Outlook	19
Bibliography	20

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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

# Household Appliances

## Global Industry | Overview

- **Size:** The global Household Appliance market is valued at USD~332bln in CY21 (USD~308bln in CY20), at a compound annual growth rate (CAGR) of 7.6%. The growth is mainly due to the companies rearranging their operations and recovering from the COVID-19 impact, which had earlier led to restrictive containment measures involving social distancing, remote working, and the closure of commercial activities that resulted in operational challenges.
- **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 volume 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.

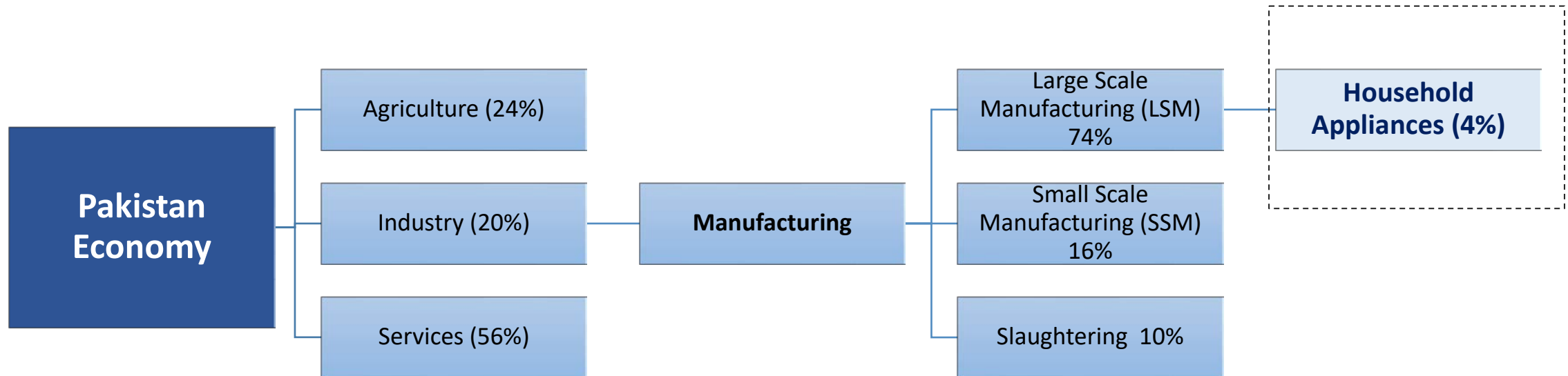
Company	Origin
Samsung Electronics	South Korea
Whirlpool Corporation	USA
Haier	China
LG Electronics	South Korea
Bosch	Germany
Sony	Japan
Philips	Netherlands
Panasonic	Japan



# Household Appliances

## Local Industry | Overview

- Household Appliance market is a sub-segment of the “Electronics” Group of the Large-Scale Manufacturing Sector. Household Appliance contributes 4% to the LSM.
- In terms of value, major products of the Household Appliance Market are Refrigerators, Deep Freezers and Air-Conditioners, whose demand is extended in the summer seasons. These occupy more than ~50% of the total market revenue.



# Household Appliances

## Local Industry | Overview

- Market size:** The household appliance sector’s estimated market is of PKR~215bln in CY21 (CY20: PKR~150bln), with a YoY increase of 43%. The growth is associated with overall performance of electronics segment. Previously, the sector fell by 1% due to stringent lockdown restrictions in the country.
- FY21’s growth** is mainly driven by companies rearranging their operations and recovering from the COVID-19 impact, which had earlier led to restrictive containment measures involving social distancing, remote working, and the closure of commercial activities that resulted in operational challenges.
- 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.

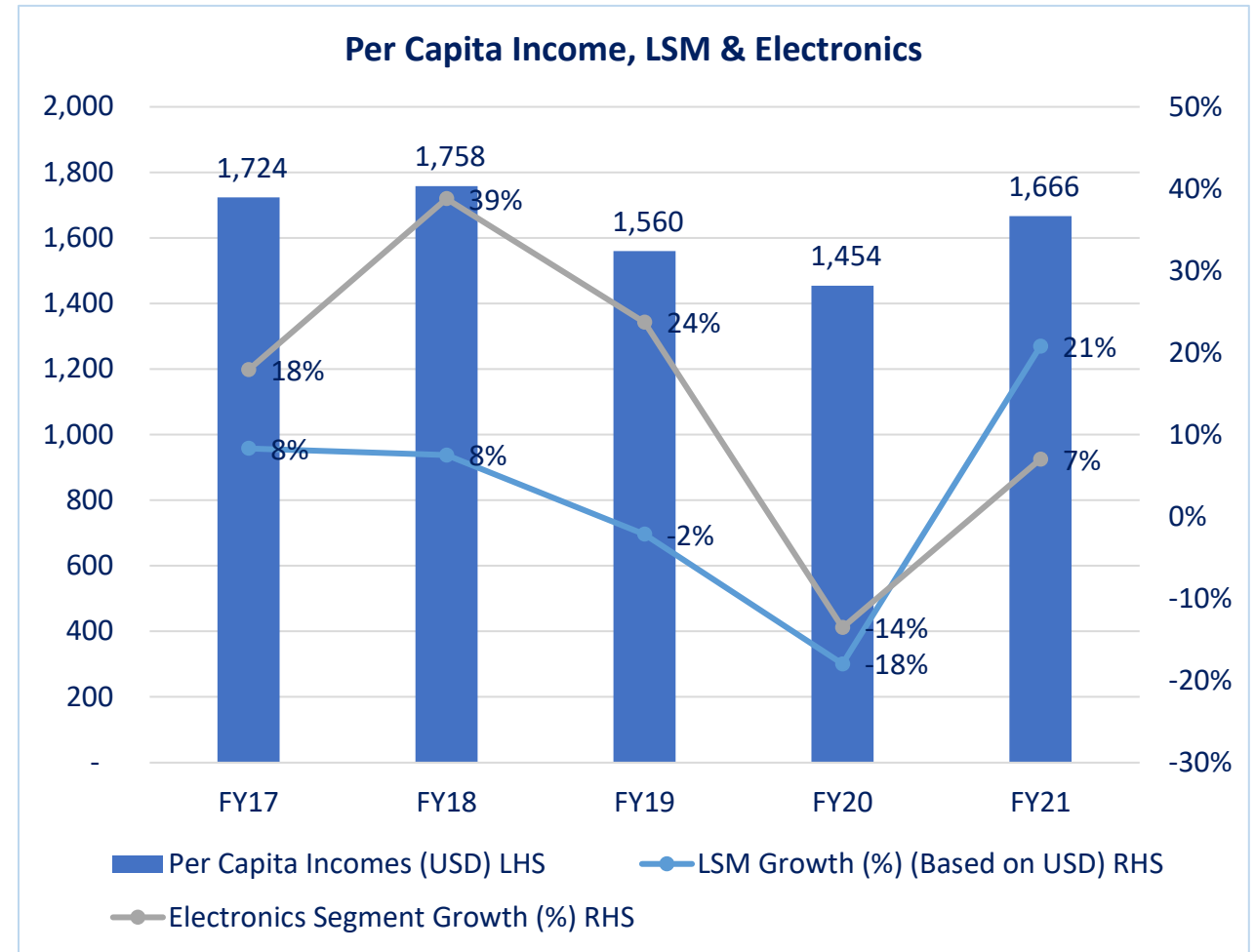
Industry Snapshot	CY19	CY20	CY21
Revenue (in PKR bln)	152	150	215
Growth*	2%	-1%	43%
Production (in 000 units)	5,038	3,177	5,293
Players	53		
Structure	Competitive		
Association	Pakistan Electronics Manufacturing Association		

\*Growth rate is based upon PACRA rated clients

# Household Appliances

## Demand

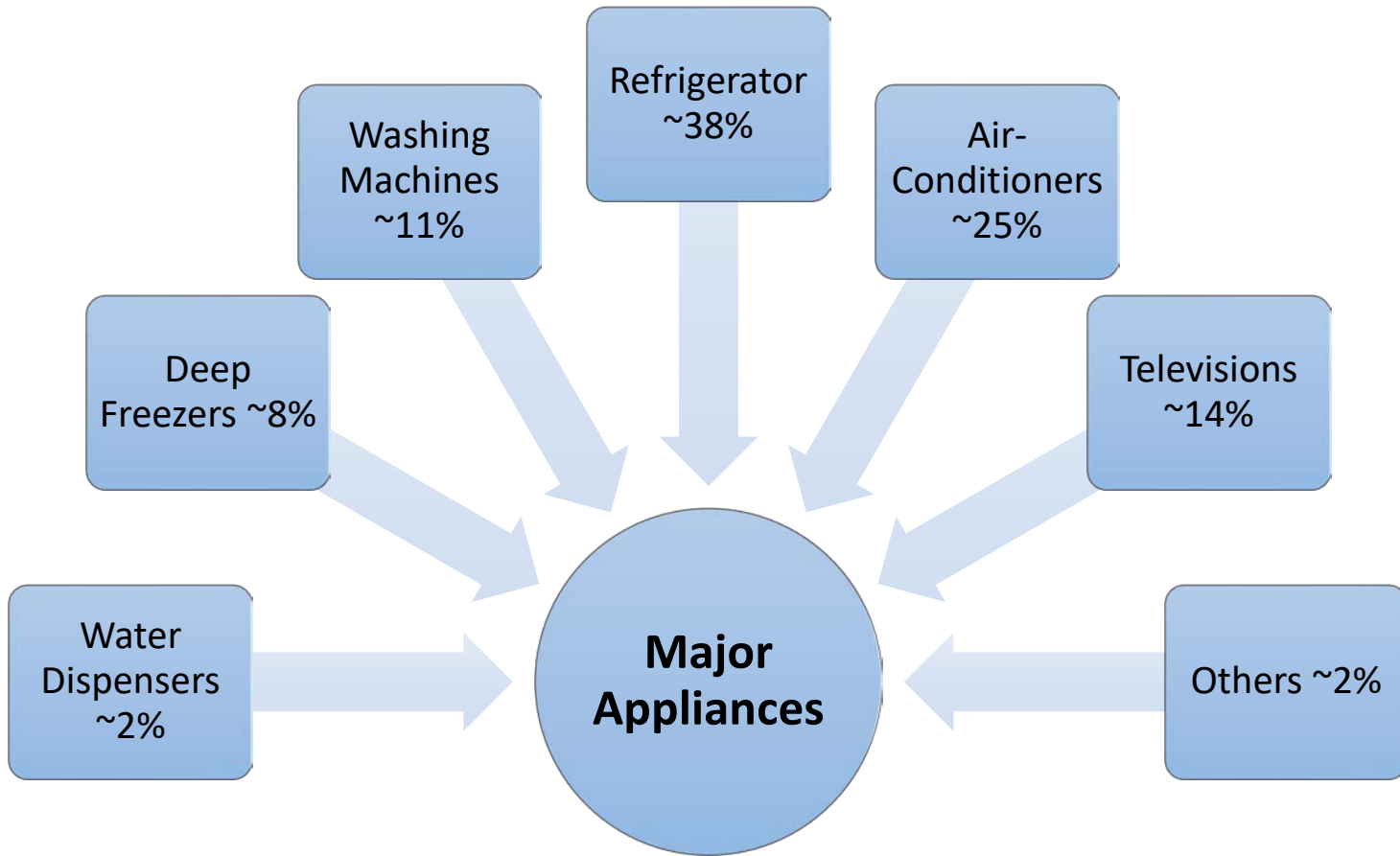
- The demand for Household Appliance market is accelerated by improved household disposable incomes, better lifestyles and the need for gaining ease in day-to-day chores.
- As witnessed from the adjacent chart, in FY21 the Electronics segment grew by ~7% following a contraction of ~14% in FY20. This is accompanied by a ~15% increase in per capita Income from USD~1,454 in FY20 to USD~1,666 in FY21.
- 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

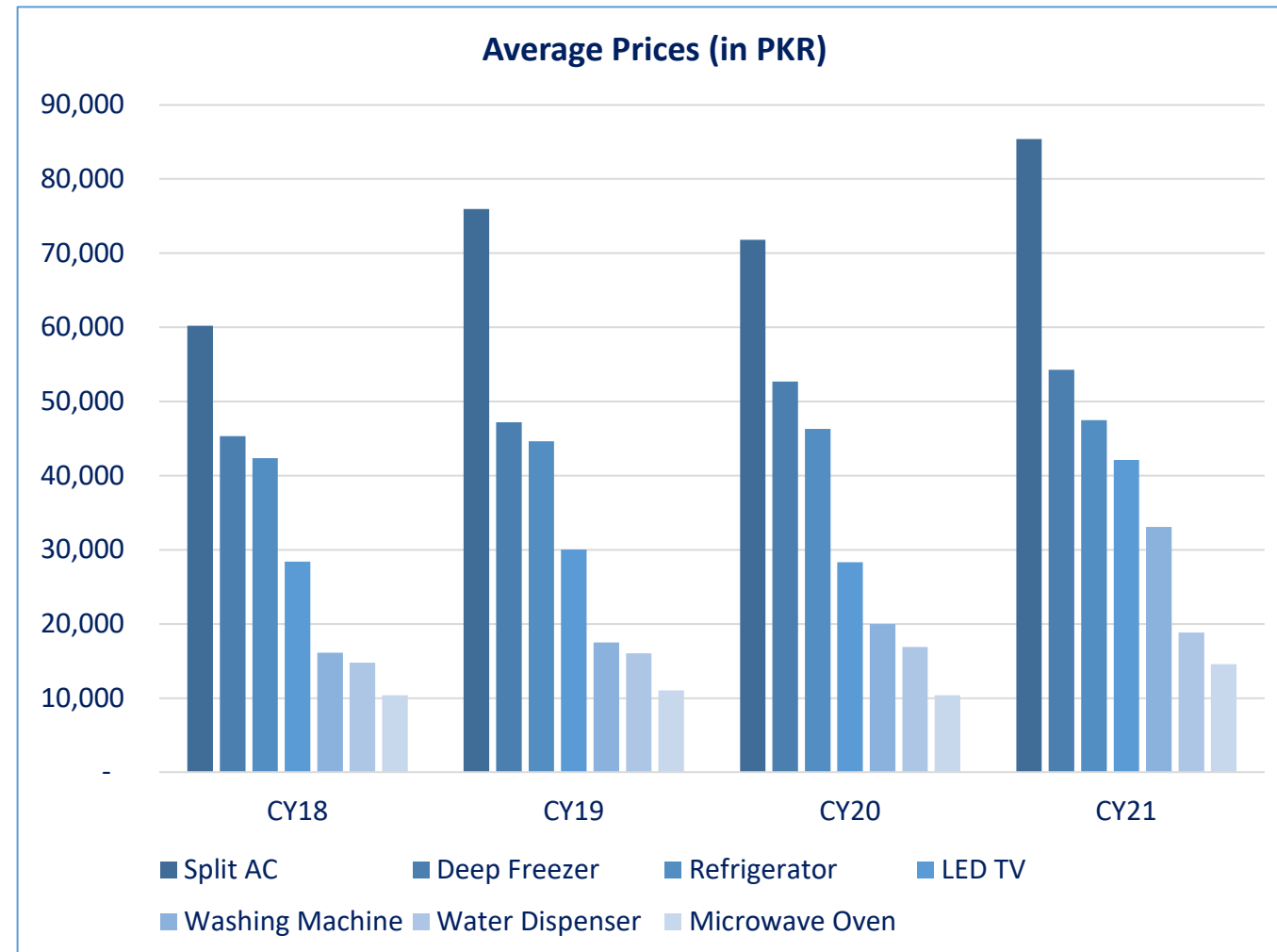


- Major Appliances account for over ~60% of the Household Appliance Market Revenue.
- Refrigerators are the highest contributing item in terms of Revenue for the Major Appliance Market.
- In Small Appliance Market, Kitchen Appliances make up most of the market share. These include food processors, espresso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

# Household Appliances

## 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 CY21, the averages prices of household appliances has increased, owing to the growing demand of various products. Individually, Spit AC's average price increased to ~19%, following it is Deep Freezers, Refrigerator, LED TV, Washing Machine, Water Dispenser and Microwave Oven with an average price growth rate of ~3%, ~3%, ~49%, ~66%, ~12% and ~40% respectively.



# Household Appliances

## 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

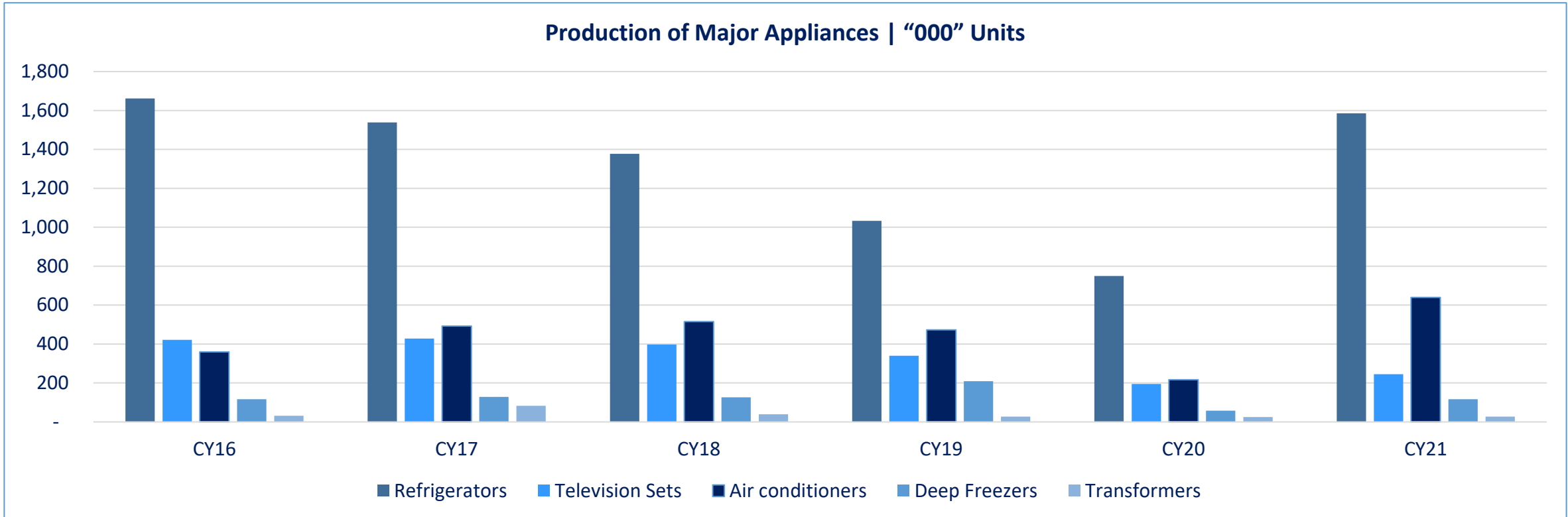
- As depicted in the adjacent table, localization levels in most of the Major Household Appliance Market is very low.
- Major component parts such as Evaporator and Condenser in Refrigerators & freezers and fan blades in Split Air Conditioners are imported into the country and assembled locally.
- Similarly, 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 grew in CY21 as compared to CY20, particularly after eased lockdown restrictions. Previously, in CY20, the market saw a dip during the peak demand season when nationwide lockdown slowed down the overall economic activity.
- During CY21, production of Air Conditioners witnessed the highest growth of ~195% (CY20: ~(54%)), while refrigerators, deep freezers, televisions and transformer grew by ~112% (CY20: ~(27%) ), ~102% (CY20: ~(73%)), ~26% (CY20: ~(43%)) and ~11% (CY20: ~(9%)) respectively.



# Household Appliances

## Business Risk

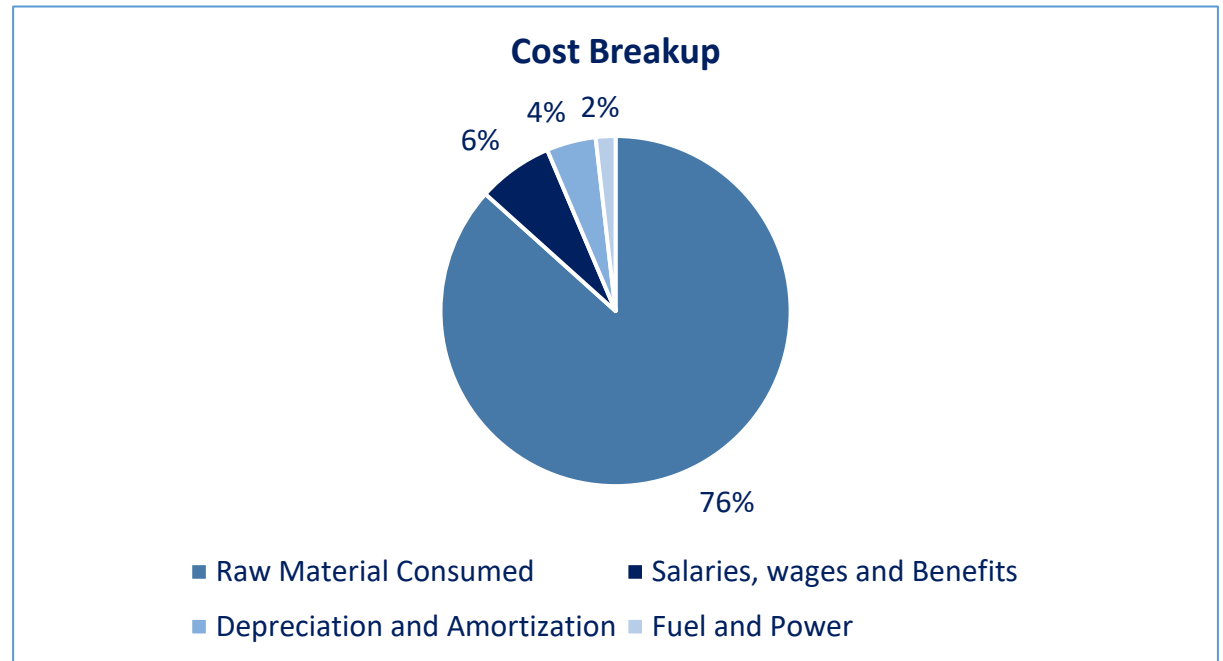
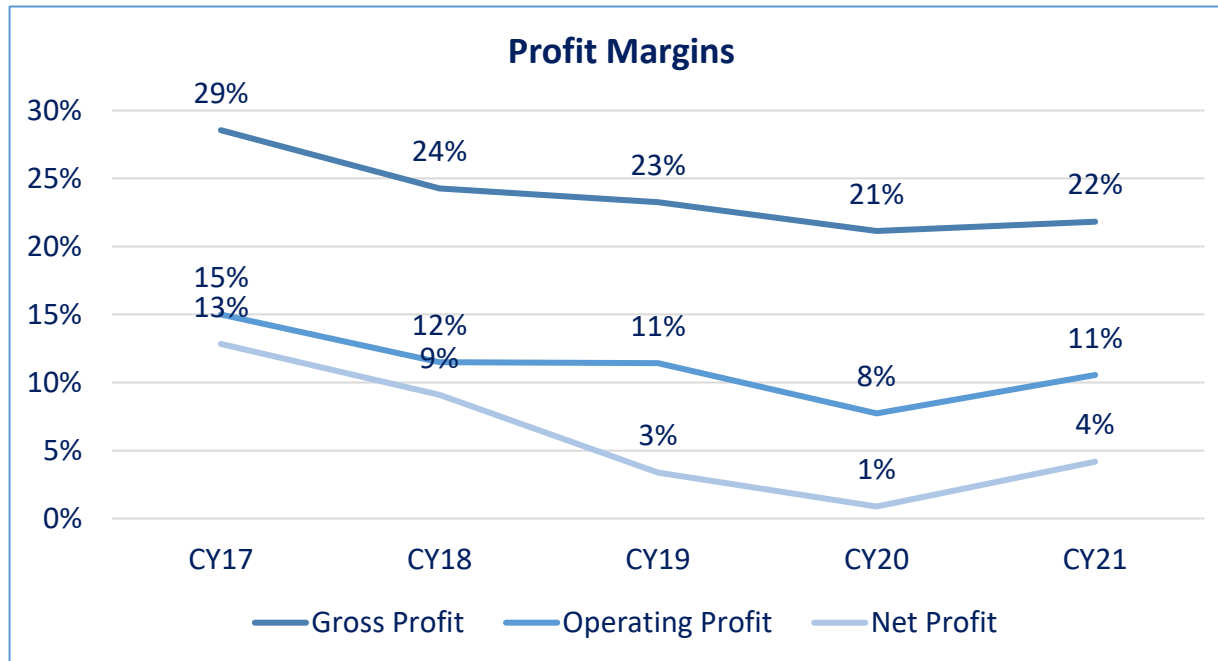
- **Economic Fluctuation:** Demand in the household appliances industry is impacted by the disposable income of consumers. Thus, any fluctuation in the per capita incomes impacts the business of the sector.
- **Raw Material:** The sector is largely involved in assembling of imported parts. Significant 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

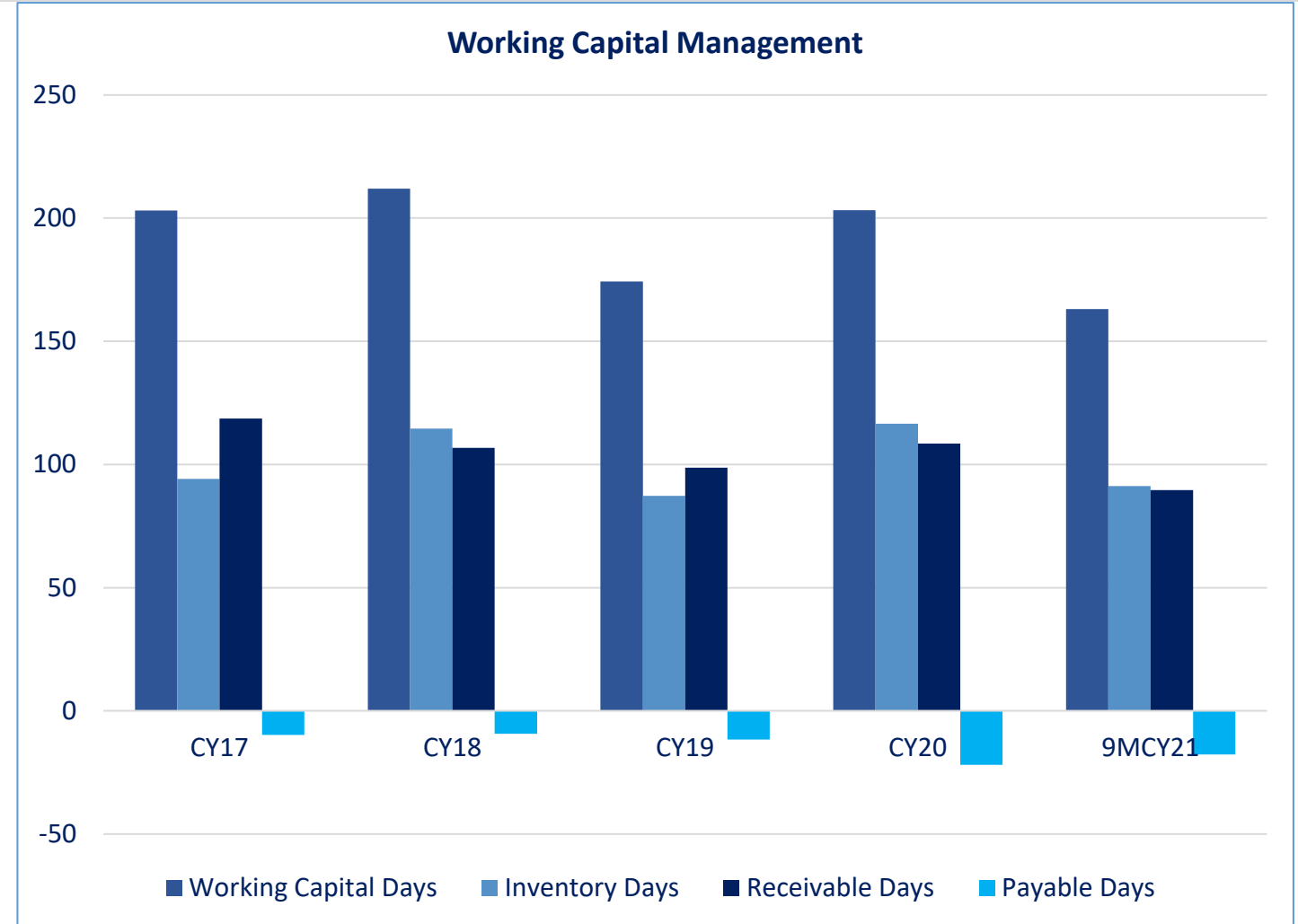
- The average gross margins of the sector hover in the range of 20% - 25%. Based on actual 9MCY21 data, the sector's gross margins are expected to clock in at ~22% in CY21 (CY20: ~21%), a YoY increase of ~3%. The average operating margins of the sector fluctuate in the range of 10% - 15%. In CY21, the operating margins are expected to settle at ~11% (CY20: ~8%), a YoY increase of ~36%. The average net margins of the sector hover around ~6%. In CY21, the net margins are estimated to register at ~4% (CY20: ~1%), a YoY rise of ~3%.
- From CY17 to CY20, the industry has witnessed a declining trend in its margins, largely due to rising raw material prices driven by currency depreciation.
- The largest component of the industry's direct costs is raw material which constitutes over ~70% 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 ~191 days (over 6 months) – based on last 5 years (CY17-CY21). Some improvement was witnessed in CY21 owed to revived offtakes and lower inventory levels. The net working capital days stood at 163 days in CY21 as compared to 203 days in CY20.

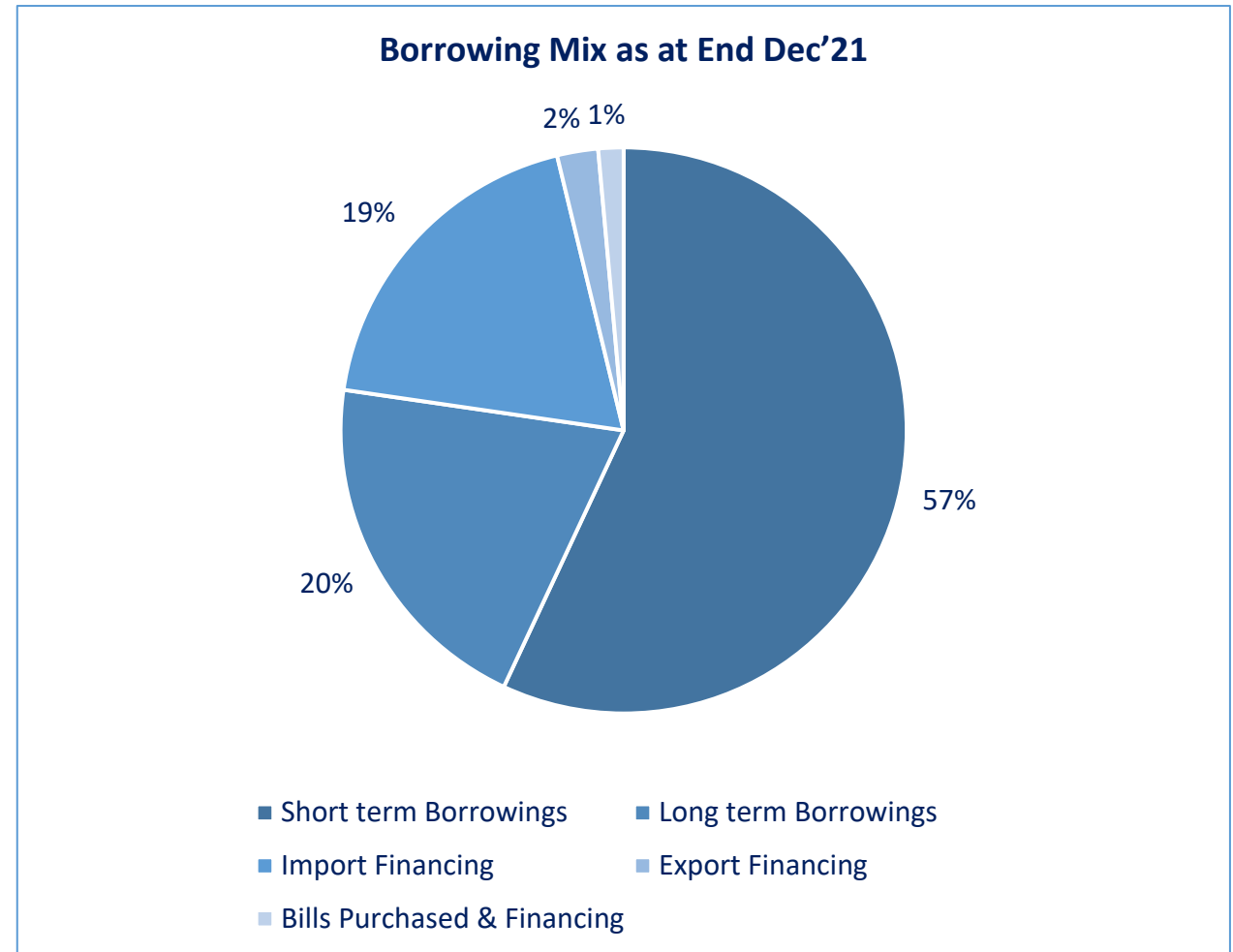




# Household Appliances

## Financial Risk | Borrowings

- The Household Appliances Industry had a total borrowing of (PKR~57,577mln as at End-Dec'21 (PKR~45,383mln as at End-Dec'20), a YoY increase of ~27%.
- The largest component in the sector's borrowings is Short-term Borrowings (STBs), which constitute ~57% of the total borrowing and stood at PKR~32,721mln as at End-Dec'21 (PKR~21,802mln as at End-Dec'20).
- Meanwhile, Long-term Borrowings (LTBs) constitute ~20% and were recorded at PKR~11,684mln as at End-Dec'21 (PKR~11,504mln as at End-Dec'20) while import financing constitutes ~19%
- The industry is moderately leveraged with an average leveraging ratio of ~39%.



\*The leverage is based upon the PACRA Rated Clients

# Household Appliances

## Duties & Taxes

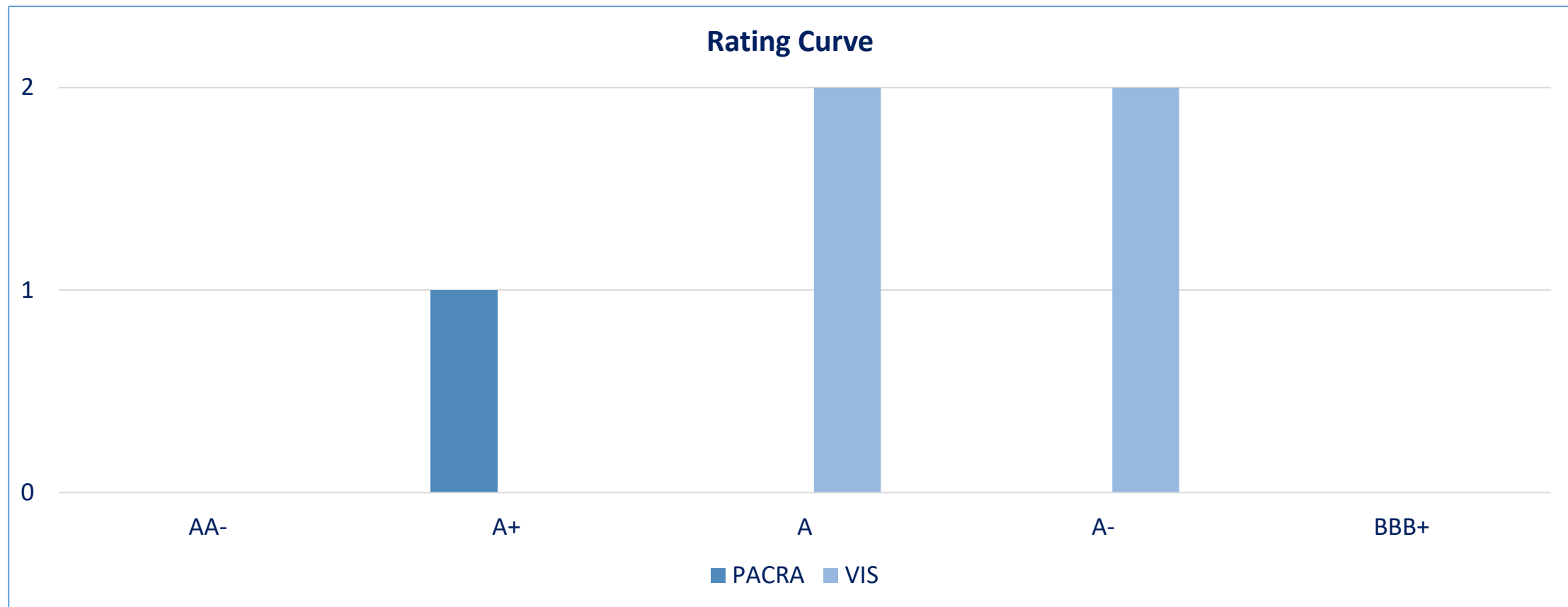
- With respect to Income Tax, the household appliances industry is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.5% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future 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 17% 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		Custom Duty		Regulatory Duty		Total	
		FY21	FY22	FY21	FY21	FY21	FY22	FY21	FY22
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%	7%	20%	20%	0-15%	0-15%	27-42%	27-42%
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%	4-7%	16-35%	16-35%	0-20%	0-20%	20-62%	20-62%
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; (Includes CKD/SKD units)	2-7%	2-7%	11-20%	11-20%	0-25%	0-25%	13-52%	13-52%
85.09	Electro- mechanical domestic appliances, with self-contained electric motor	7%	7%	20%	20%	10-20%	10-20%	37-47%	37-47%

# Household Appliances

## Rating Curve

- 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.

# Household Appliances

## Outlook: Stable

- Pakistan's post pandemic economic recovery is exhibited by the GDP growth of ~5.6% during FY21 (based on revised figures). Among the contributors of GDP growth is industrial activity which has picked up in various sectors with the Large Scale Manufacturing Industries output increasing ~11% YoY during FY21.
- However, during 7MFY22 various economic indicators exhibited a negative trend. The current account deficit for the period crossed USD~9bln as the trade deficit increased largely due to rising international commodity prices. The inflation levels continue to be on a rising trend with CPI inflation clocking in at a significantly higher ~13.0% during Jan-22 as compared to 12.3% during Dec-21. In addition, the exchange rate has also depreciated ~12% since the start of current fiscal year. All these factors combined can impact adversely on the demand of the sector.
- The demand of household appliances is directly linked with per capita incomes which grew by ~17% in FY21 (FY20: 7%). However, the recent fiscal slippages and rising geopolitical tensions due to Russia-Ukraine dispute are expected to take a toll on the demand growth of the sector since its products are of differentiated nature and are highly dependent on imported parts.
- The sector is characterized with low to medium financial risk. Most of the players in Major Appliances segment have strong financial muscle or International association, which implies that the top niche players have the financial capacity to absorb consequences of pressured business conditions. Average debt to equity ratio of the sector is around ~39%, which reflects sound capital position.

# Household Appliances

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<b>Research Team</b>	<b>Saniya Tauseef</b> <i>Asst. Manager</i> <a href="mailto:saniya.tauseef@pacra.com">saniya.tauseef@pacra.com</a>	<b>Fatima Mahmood</b> <i>Associate Research Analyst</i> <a href="mailto:fatima.rmahmood@pacra.com">fatima.rmahmood@pacra.com</a>
<b>Contact Number: +92 42 35869504</b>		

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