



# Furniture & Fixtures

## Sector Study



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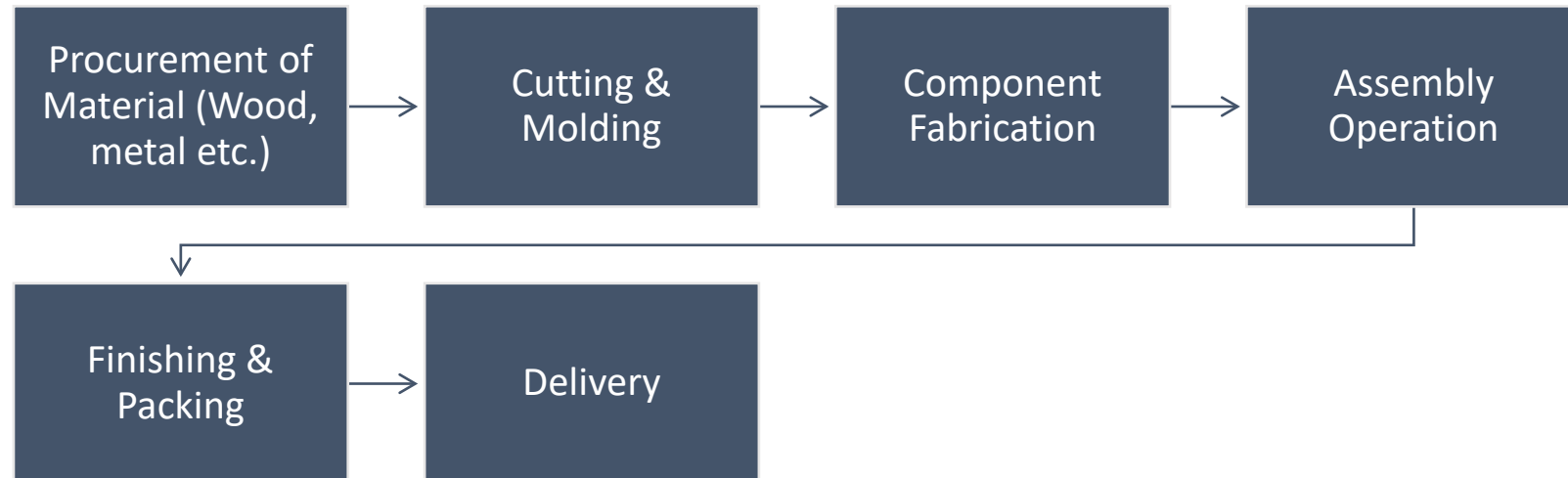
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# FURNITURE & FIXTURES | INTRODUCTION

- Furniture & Fixtures are objects used to make a space 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 is expected to reach an estimated market size of USD~575bln in CY21, a growth of ~5.4% from a market size of USD~546bln in CY20. 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.
- **Types (Material):** The largest segment in terms of material used is of wood furniture, which had a market share of ~60% in CY21. Meanwhile, metal furniture had 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.





# FURNITURE & FIXTURES | LOCAL MARKET

## Overview

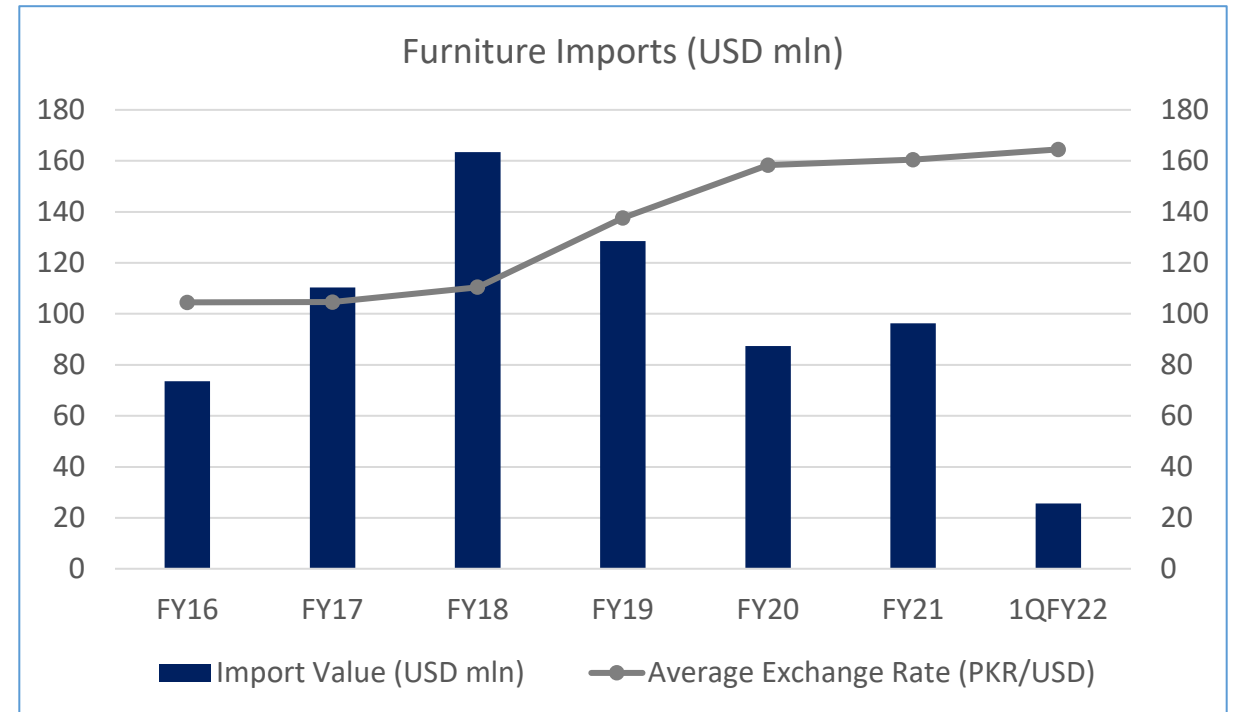
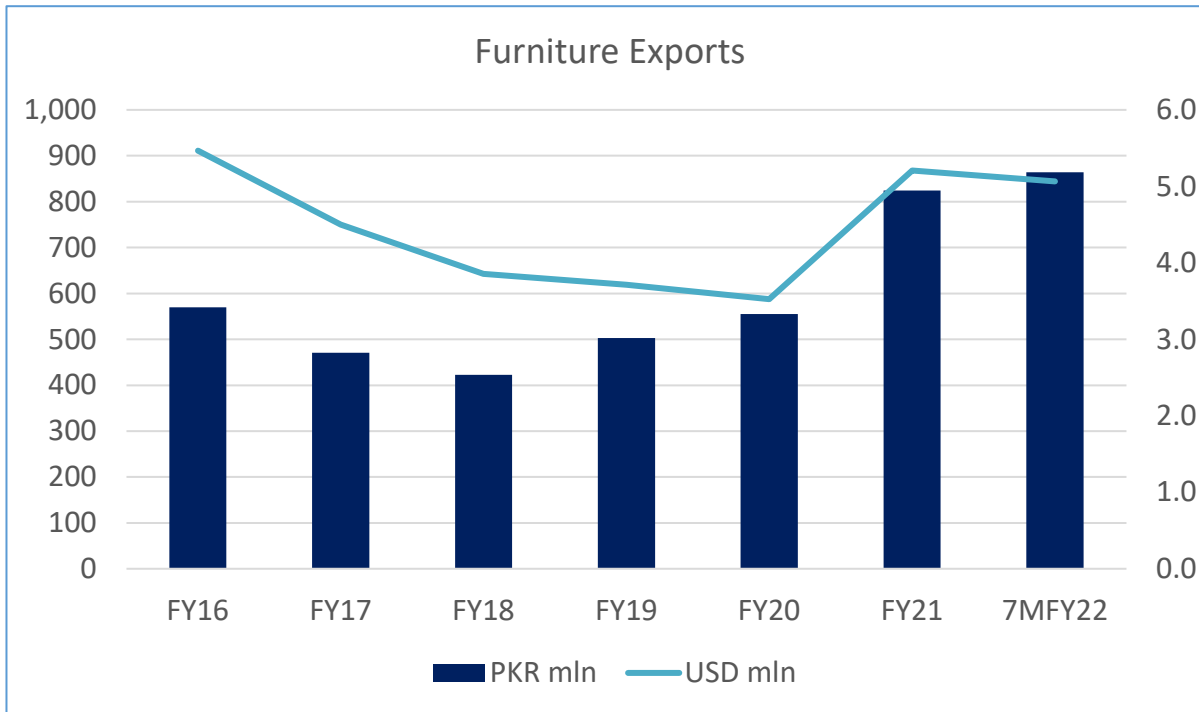
- Pakistan’s furniture industry is largely unstructured and consists of many small and medium sized players (SMEs and Cottage Industry). As a result, there is a high level of competition in the market.
- The industry largely caters to the local market with only a small proportion of export sales. During FY21, exports stood at PKR~824mln (USD~5.2mln) as compared to exports of PKR~555mln (USD~3.5mln) in FY20.
- The local demand is met through local supply as well as imports. During FY21, imports stood at PKR~15,447mln (USD~96mln) increasing from PKR~13,834mln (USD~87mln) in FY20 due to the recovery from the COVID-19 pandemic.
- 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.

Sector Overview	FY19	FY20	FY21
No of Players	~5-6 Large Players		
Furniture Imports (PKR mln)	17,687	13,834	15,447
Furniture Exports (PKR mln)	503	555	824
Industry Association	All Pakistan Furniture Makers Association (APFMA), All Pakistan Furniture Exporters Association (APFEA)		

# FURNITURE & FIXTURES | LOCAL MARKET

## Imports & Exports

- Pakistan’s exports of furniture experienced significant growth of ~48% during FY21 and stood at PKR~824mIn as compared to PKR~555mIn during FY20. The growth trend continued into the current fiscal year, with exports nearly doubling and standing at PKR~864mIn during 7MFY22 as compared to PKR~295mIn during 7MFY21. Despite this growth, exports occupy a relatively small share of the total local furniture manufacturing.
- In contrast, the import of furniture is significantly higher than exports. During FY21, imports stood at USD~96mIn (PKR~15,447mIn) increasing from USD~87mIn (PKR~13,834mIn) in FY20. This was due to the recovery from the COVID-19 pandemic which had hampered demand and supply chains during the previous year. In 1QFY22, the imports have continued to grow and stood at USD~26mIn as compared to USD~14mIn during 1QFY21.



# FURNITURE & FIXTURES | LOCAL MARKET

## Export Destinations

- Pakistan’s exports of furniture is largely concentrated towards the United States, which contributed ~39% of total exports during FY21 (FY20: ~39%). Over the years, the share of exports to USA has increased.
- Export destinations also include Middle Eastern countries such as Qatar and UAE that contributed ~9% and ~4%, respectively, in FY21.
- Meanwhile, exports to United Kingdom and Canada constituted ~9% and ~3%, respectively, of the total exports during FY21.

Export Destinations	FY18		FY19		FY20		FY21	
	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%
USA	1,030	27%	1,284	35%	1,384	39%	2,012	39%
Qatar	26	1%	35	1%	419	12%	443	9%
UK	468	12%	502	14%	345	10%	489	9%
UAE	300	8%	326	9%	346	10%	221	4%
Canada	332	9%	198	5%	124	4%	131	3%
Other	1,706	44%	1,369	37%	906	26%	1,911	37%
<b>Total</b>	<b>3,862</b>	<b>100%</b>	<b>3,714</b>	<b>100%</b>	<b>3,524</b>	<b>100%</b>	<b>5,206</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

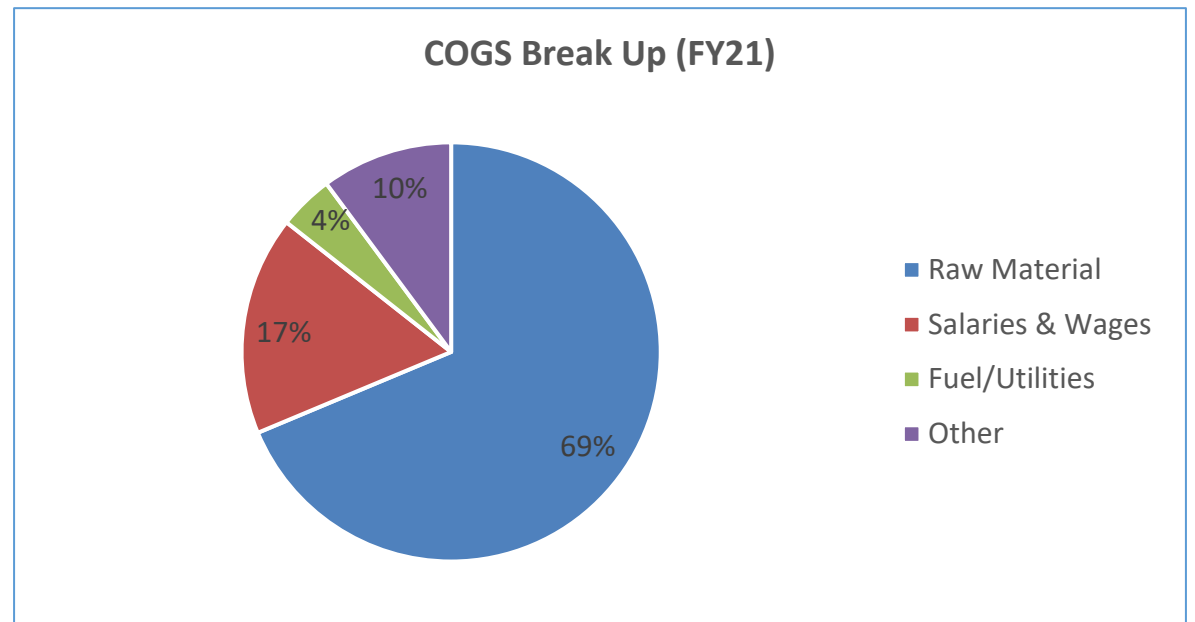
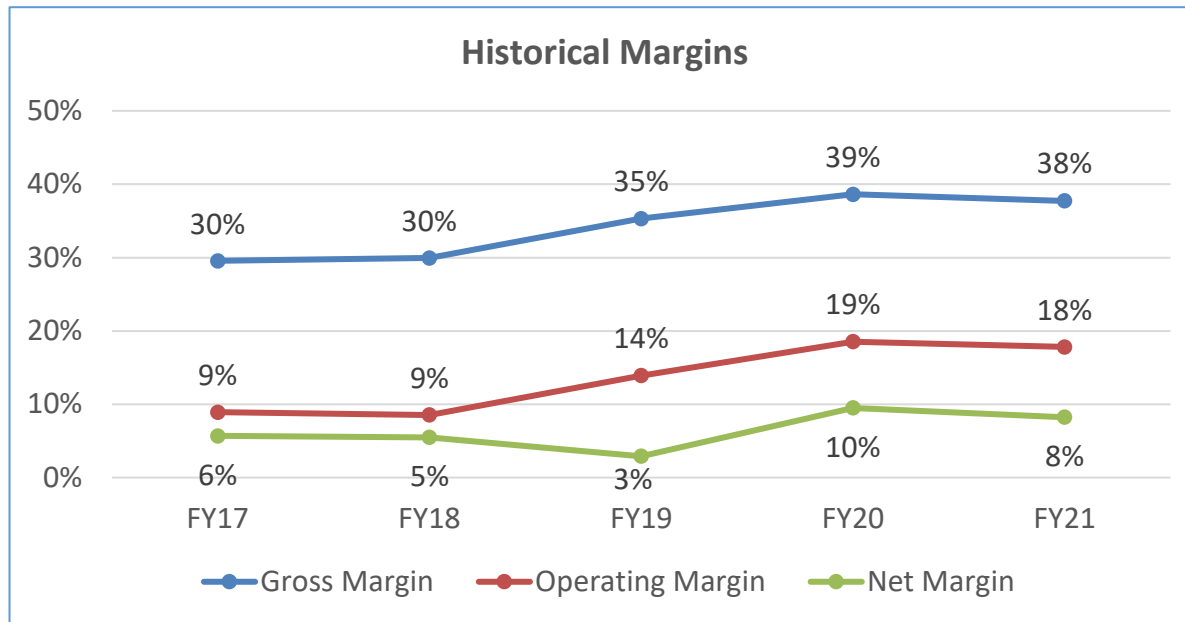




# FURNITURE & FIXTURES | LOCAL MARKET

## Margins & Cost Structure

- Over the years, the industry has maintained its gross margin at a high level, with the five year average standing at ~34%. Meanwhile, net margin has averaged ~6% 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 FY21, the margins remained stable with gross margin standing at ~38% (FY20: ~39%), operating margin standing at ~18% (FY20: ~19%) and net margin standing at ~8% (FY20: 10%).
- Raw material is the most significant component of the industry's direct costs and constitutes approximately ~69% of the total costs.

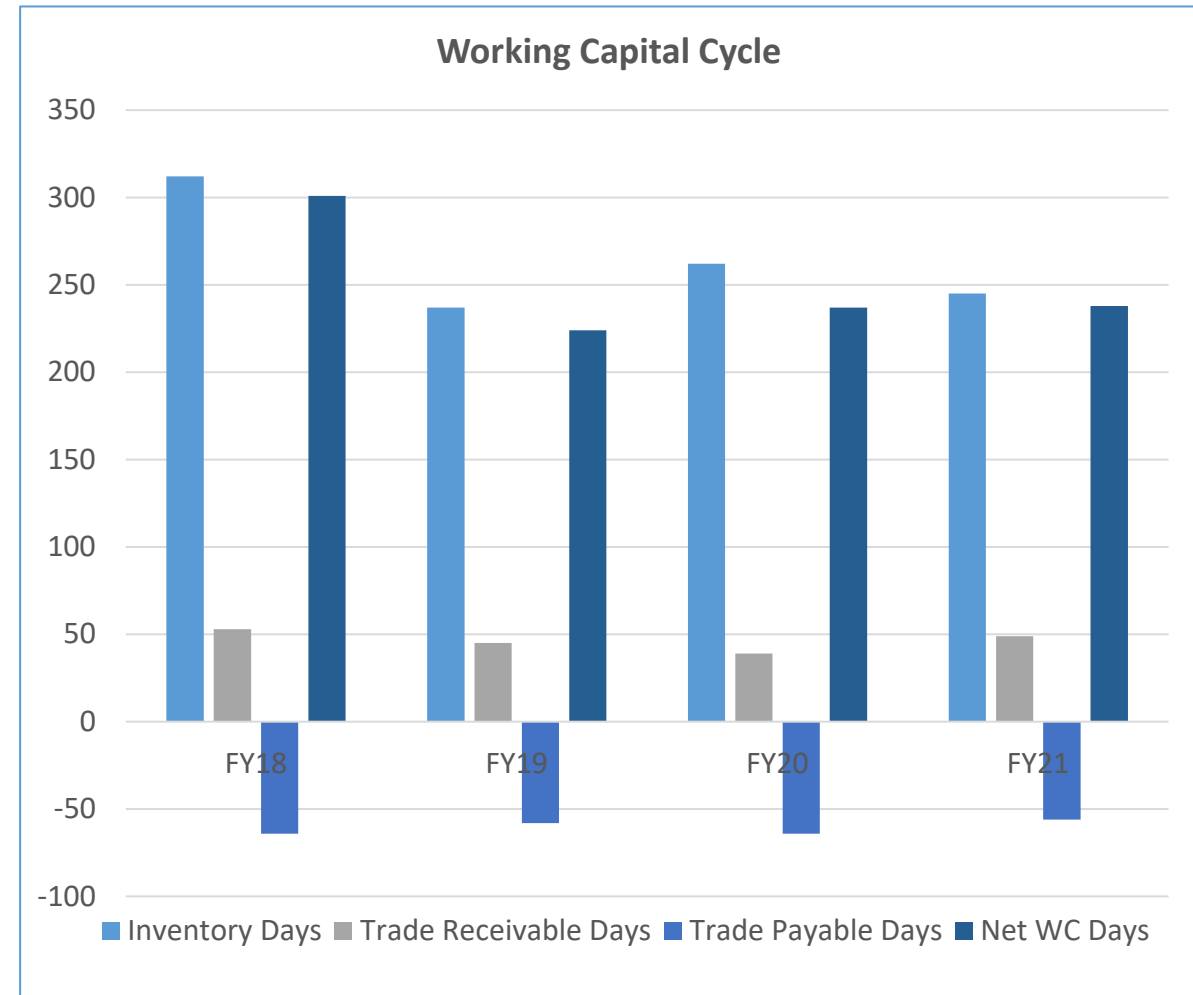




# FURNITURE & FIXTURES | LOCAL MARKET

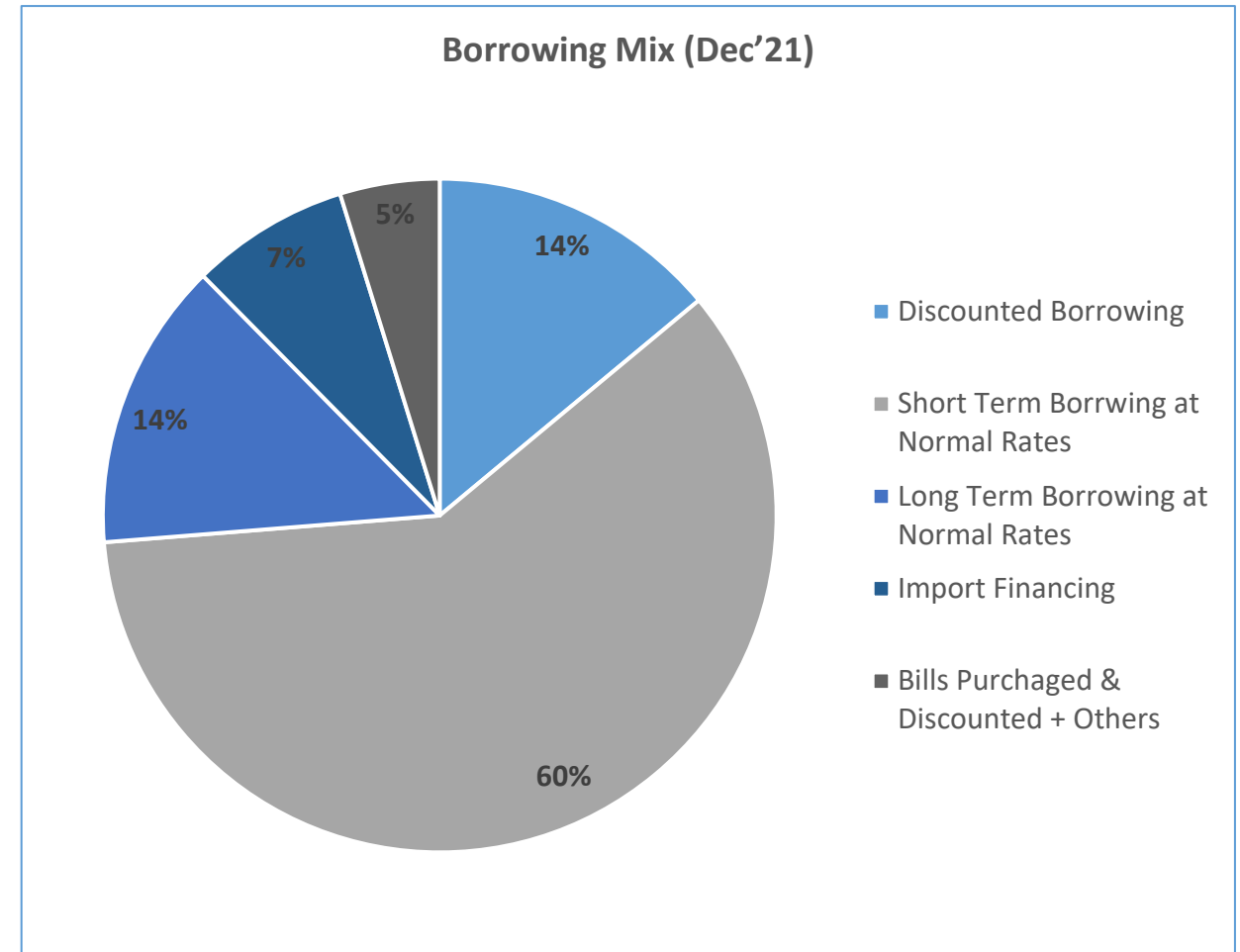
## Working Capital Management

- 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 250 days. During FY21, the net working capital cycle stood at 238 days as compared to 237 days in FY20.
- The largest component of inventory is finished goods which occupies ~40% of total inventory 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.



## Financial Risk

- The furniture manufacturing industry had total borrowing of PKR~4,359mln as at End-Dec'21. This is an increase of ~10% from a borrowing level of PKR~3,948mln as at End-Dec'20.
- The largest component is short-term borrowing at normal rates, which constitutes ~60% of total borrowing and stood at PKR~2,605mln (End-Dec'20: PKR~1,997mln).
- Long term borrowing at normal rates constitutes ~14% and were recorded at PKR~604mln (End-Dec'20: PKR~1,283mln) while discounted borrowing also contributes ~14% to total borrowing (End-Dec'21: PKR~604mln, End-Dec'20: PKR~557mln). Discounted borrowing consists of Export Finance Schemes which stood at PKR~495mln and Long Term Financing Facility (LTFF)/Temporary Economic Refinance Facility (TERF) which stood at PKR~114mln as at Dec-21.
- 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 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) at rates of ~5% 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.



## Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY22	FY21	FY22	FY21	FY22	FY21	FY22	FY21
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%	0%	0%	0%	0%	0%	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%	3%	0%	2%	0%	0%	0%	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.	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	11-16%	11-16%	2-4%	2-4%	0%	0%	13-20%	13-20%
44.12	Plywood, veneered panels and similar laminated wood.	20%	20%	6%	7%	0%	0%	26%	27%
32.08	Paints and varnishes (including enamels and lacquers)	11-20%	11-20%	2-6%	2-7%	5-10%	5-10%	13-26%	13-27%
94.02	Medical, surgical, dental or veterinary furniture	20%	20%	6%	7%	0%	0%	26%	27%
94.03	Other furniture and parts thereof	20%	20%	6%	7%	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.



- 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

- Pakistan's post pandemic economic recovery is exhibited by the GDP growth of ~5.57% 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 ~15% YoY during FY21. The improved economic environment will help improve consumer disposable incomes and in turn cause increase in demand for the furniture & fixtures industry.
- Demand for furniture is also linked to the construction industry which has exhibited significant growth in the recent period on the back of government incentives. As per SBP data, housing and construction finance grew ~85% during CY21 to stand at PKR~355bln. Disbursements for the government's markup subsidy scheme Mera Pakistan Mera Ghar (MPMG) also increased by PKR~38bln during the year. However, rising prices of raw materials such as cement and steel may slow down the construction industry and thus also hamper demand for the furniture & fixtures sector.
- 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 (FY22).
- The decision taken by the State Bank of Pakistan (SBP) to lower the policy rate by 625bps to 7% during the last quarter of FY20 lowered the sector's finance costs. The policy rate has, however, sharply reversed recently in the wake of rising inflation and increased to 9.75%. The resulting increase in finance costs will put pressure on the sector's margins.
- The tree planting initiative adopted 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.

- 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  
(<https://www.gminsights.com/industry-analysis/furniture-market>)
- Mordor Intelligence  
(<https://www.mordorintelligence.com/industry-reports/furniture-market>)

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