



Household Appliances

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Household Appliances

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Household Appliances

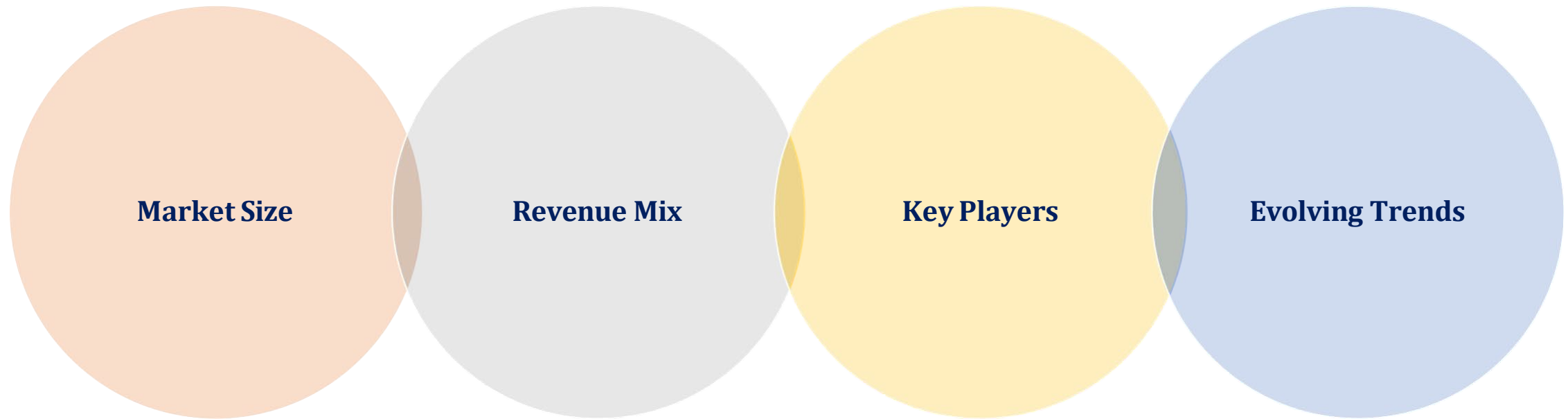
Introduction

- 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 Segment” includes high value electrical equipment such as Refrigerators, Freezers, Air Conditioners, Washing Machines, Microwave Ovens (commonly known as white goods/appliances), etc. Meanwhile, “Small Appliances Segment” includes products like Coffee/Tea Makers, Food Processors, Grills & Toasters, Vacuum Cleaners, Water Dispensers etc.



Household Appliances

Global | Overview



- In CY23, the global Household Appliances Sector was valued at USD~596bln (CY22: USD~551bln). The sector is expected to grow to USD~644bln in CY24 at a CAGR of ~8.1%.

Major Appliances Segment accounts for over ~64.0% of the Sector's total revenue. Small Appliances Segment, on the other hand, accounts for a smaller portion in the total revenue mix at ~36.0%.

- Samsung Electronics Co. Ltd.
- Haier Smart Co. Ltd.
- LG Electronics
- Qingdao Haier Co. Ltd.
- Daikin Industries.

- Rapid innovation in technology and evolving lifestyles are expected to catalyze the demand in the Household Appliances Sector.
- Rising disposable incomes and the increasing use of e-commerce is expected to further boost the growth in demand of the Household Appliances Sector.

Household Appliances

Global | Supply & Demand

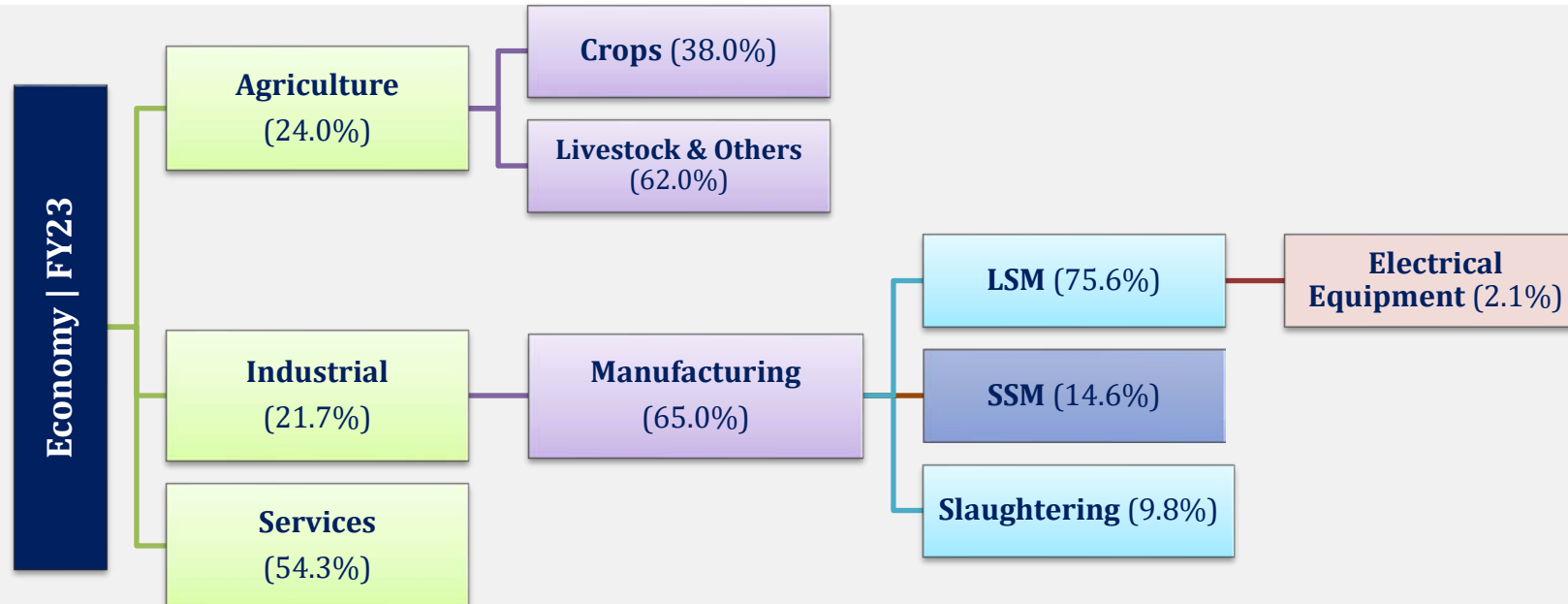
- **Structure:** The global Household Appliances Sector is competitive with a large number of big players contributing a fair share to the global revenue. Some of the major global companies include Haier, Whirlpool Corporation, Samsung Electronics, LG Electronics, Bosch, Sony, Philips and Panasonic Corporation.
- **Demand Centers:** In terms of geographical segments, Asia-Pacific holds the highest share (~40.0%) of the global revenue of the Household Appliances Sector. China, Japan, Malaysia and India are expected to contribute to the majority of the revenue share in the Asia-Pacific market.
- **Production Centers:** Among the top producers, China, Japan, South Korea and Germany are the leading manufacturers of a variety of products in the Household Appliances Sector. China also leads as the largest consumer market, due to its large population, high capacity usage and a growing desire for a comfortable lifestyle.



Household Appliances

Local | Introduction

- In FY23, Pakistan's GDP (nominal) stood at PKR~79.7tln (FY22: PKR~63.3tln), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). Industrial activities in FY23 held ~21.7% share in the GDP while the manufacturing activities made up ~65.0% of the value addition. In 1QFY24, Pakistan's GDP (nominal) stood at PKR~22.6tln (1QFY23: PKR~18.4tln), rising in real terms by ~2.13% (1QFY23: ~0.96%).
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~75.0% value of all manufacturing activities in FY23. The LSM fell by ~10.3% in FY23 (FY22: ~11.7%) and further declined by ~0.4% YoY in 1HFY24 period.
- The Household Appliances Sector is classified as "Electrical Equipment" under Large Scale Manufacturing (LSM) sub-segment of the economy. In FY23, the sector's weight in the QIM was recorded at ~2.1%.



Household Appliances

Local | Overview

- The sector’s estimated size was recorded at PKR~327bln in CY23, a YoY decrease of ~22.1%. The negative growth was led by a reduced production that declined by ~23.2% YoY, along with slowdown in demand (covered later).
- With historic high inflation levels (CY22: ~19.7%; CY23: ~30.9%) and economic disruptions, as evidenced by ~0.17% real GDP contraction in FY23, growth prospects of the sector vis-à-vis dampened demand are expected to remain subdued in the short-term.
- The sectors’ market structure can be termed competitive with a number of big players contributing a fair share to the total revenue.
- Moreover, since the products are generally differentiated based on their brands and specifications, price elasticity and competition also remains a norm of the sector. Some of the major local companies include Haier, Orient, Waves Singer Limited and Pakistan Elektron Limited.

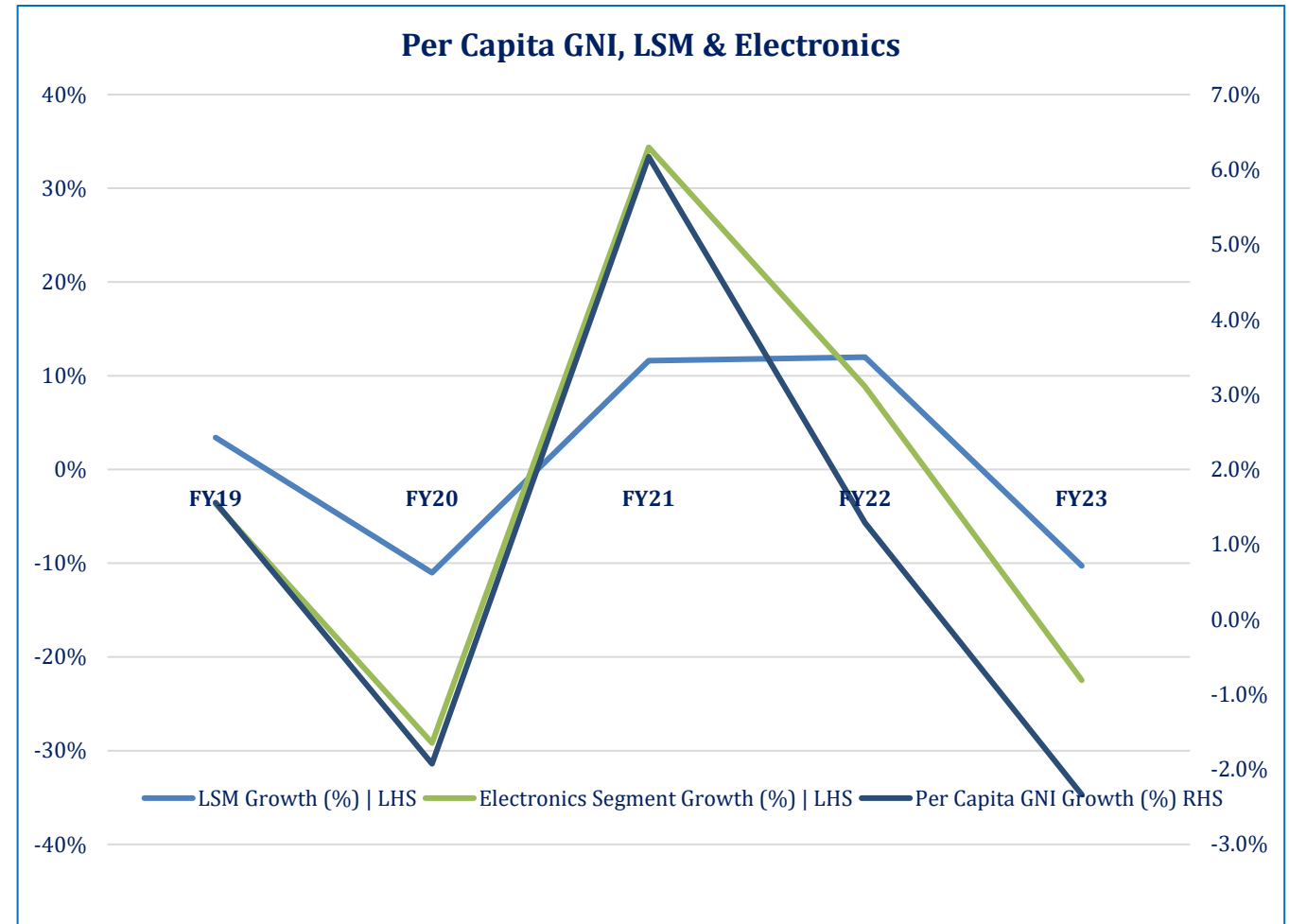
Sector Snapshot	CY21	CY22	CY23
Revenue (PKR bln) Appliances*	354	420	327
YoY Growth	89.3%	18.6%	-22.1%
Production ('000' units) Household Appliances	4,714	4,994	3,834
No. of Sector Players	53		
Structure	Competitive		
Association	Pakistan Electronics Manufacturing Association (PEMA)		

Note: *CY23 revenue is prorated on 9M data. For Production, FY=CY assumed.
Revenue is reflective of PACRA-rated player with ~22.0% market share, including Major House Appliances.

Household Appliances

Local | Demand Dynamics

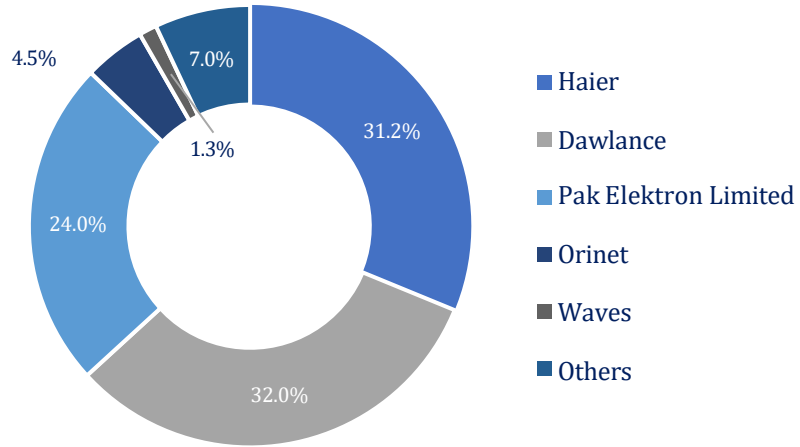
- The demand for Household Appliances Sector is largely driven by factors such as household disposable incomes, preference for better lifestyles and the need for gaining ease in day-to-day chores.
- In FY23 the Electrical Equipment Segment (as reported in the LSM) recorded a ~22.5% YoY decline (FY22: ~8.8%). This was accompanied by ~2.3% YoY decline (FY22: ~1.3% YoY increase) in per capita Gross National Income (GNI) from PKR~192mln to PKR~188mln.
- Moreover, the production of Electrical Equipment Segment was down by ~23.2% YoY in FY23 (SPLY: ~5.9% YoY increase), highlighting overall demand contraction observed during the year.
- The demand for Household Appliances Sector 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, hold a larger market in the replacement/second-hand segment.



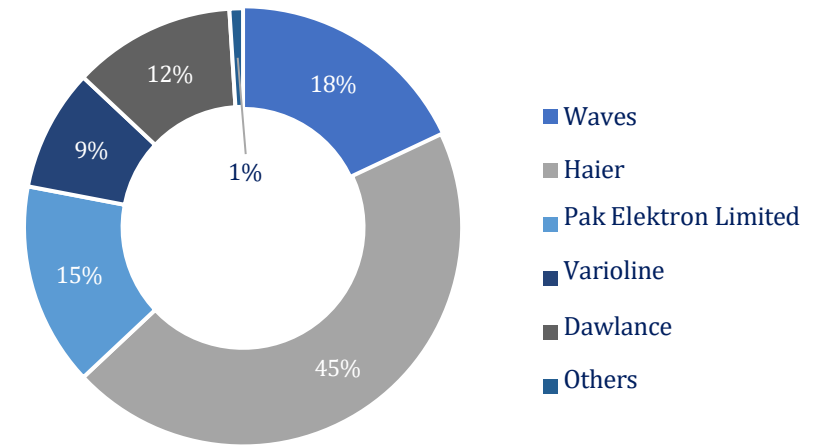
Household Appliances

Market Shares | Household Appliances

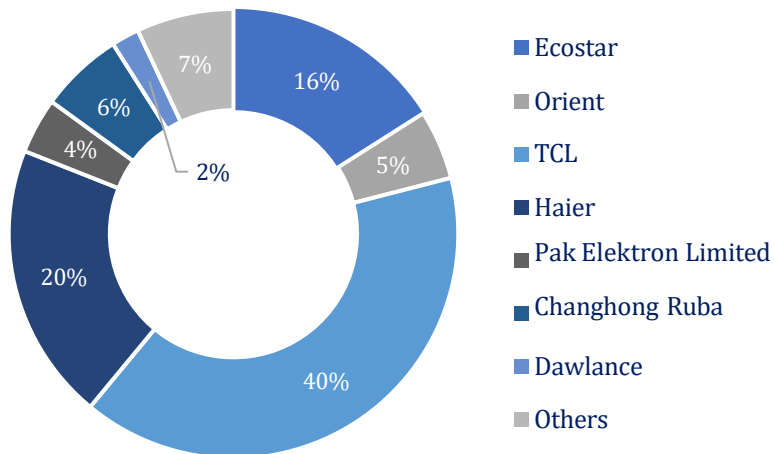
Market Shares | Refrigerators



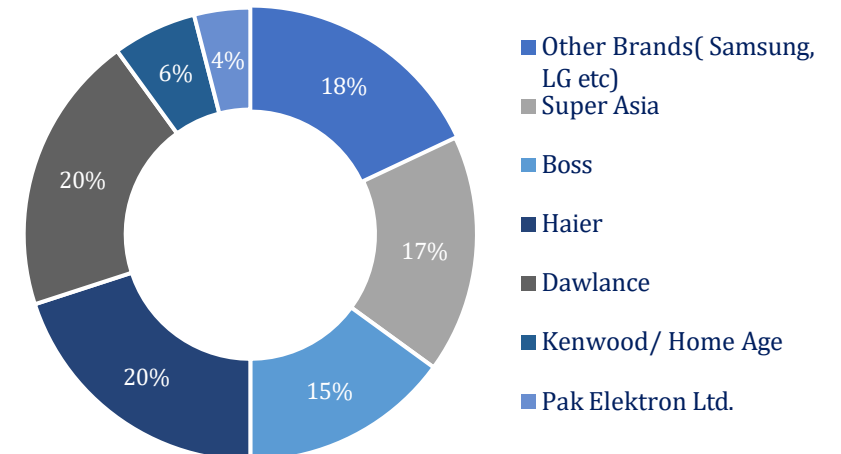
Market Shares | Deep Freezers



Market Shares | LED TV

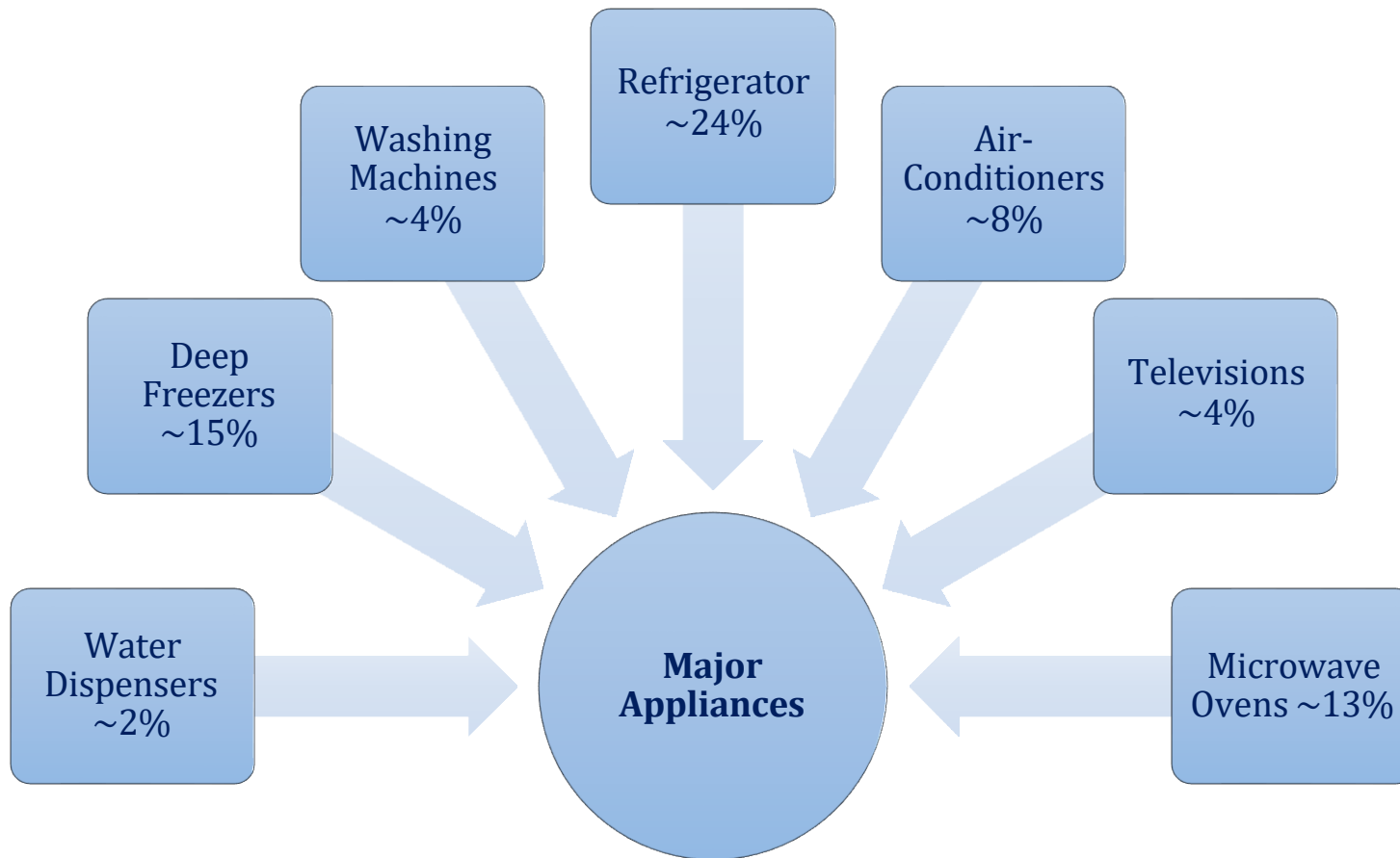


Market Shares | Washing Machines



Household Appliances

Appliance Wise Market Shares | Major Appliances

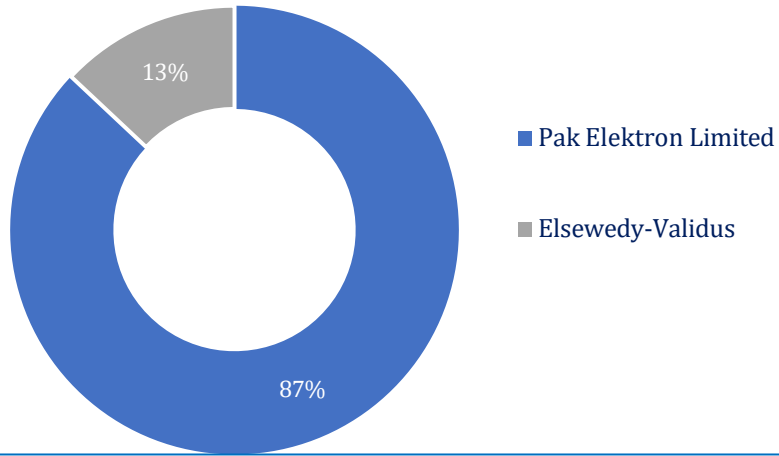


- Major Appliances Segment accounts for over ~70.0% of the Household Appliances Sector revenue.
- Refrigerators are the highest contributing item in terms of the revenue for the Major Appliances Segment.
- In Small Appliances Segment, Kitchen Appliances make up most of the market share. These include food processors, espresso machines, multi-cookers, blenders, toaster oven, etc.

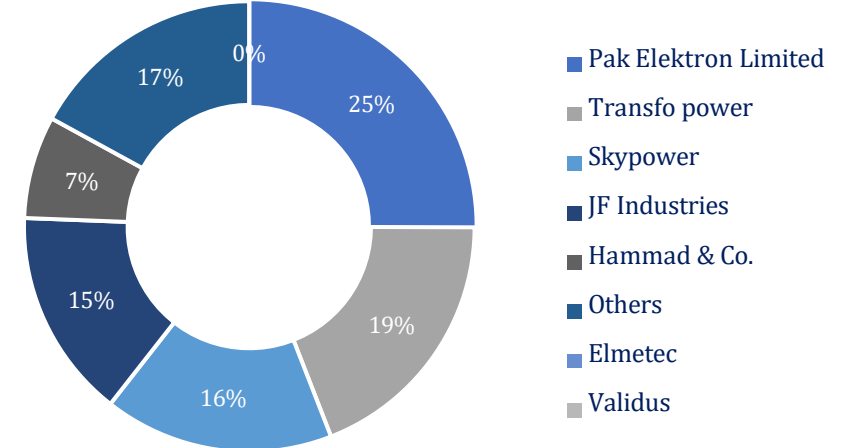
Household Appliances

Market Shares | Power Appliances

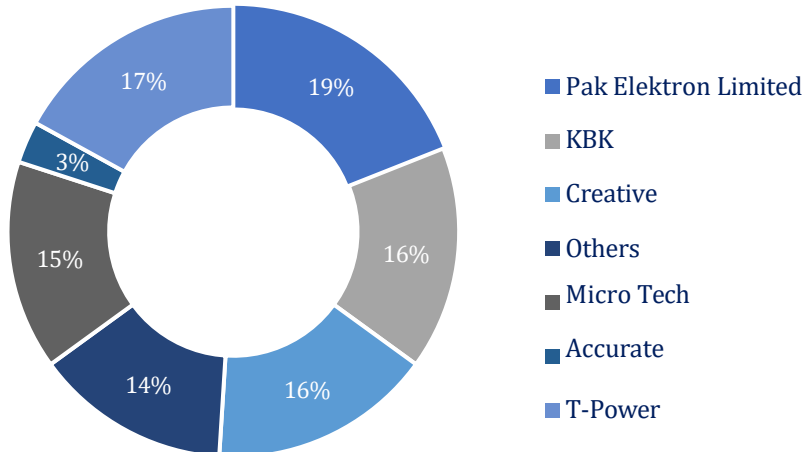
Market Shares | Power Transformers



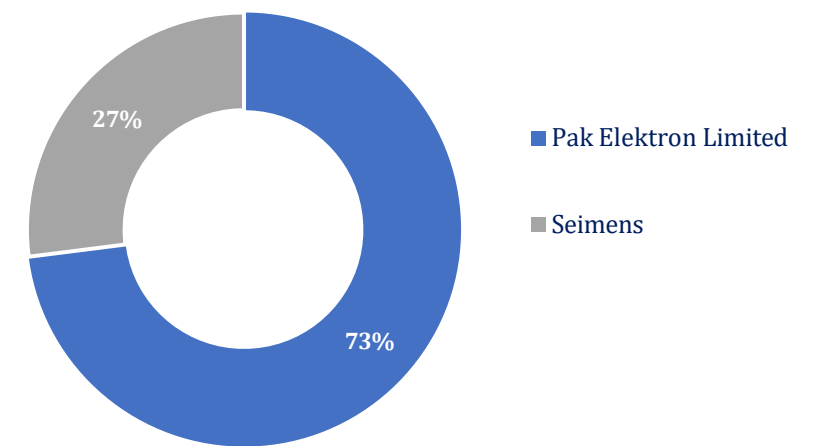
Market Shares | Distribution Transformers



Market Shares | Energy Meters



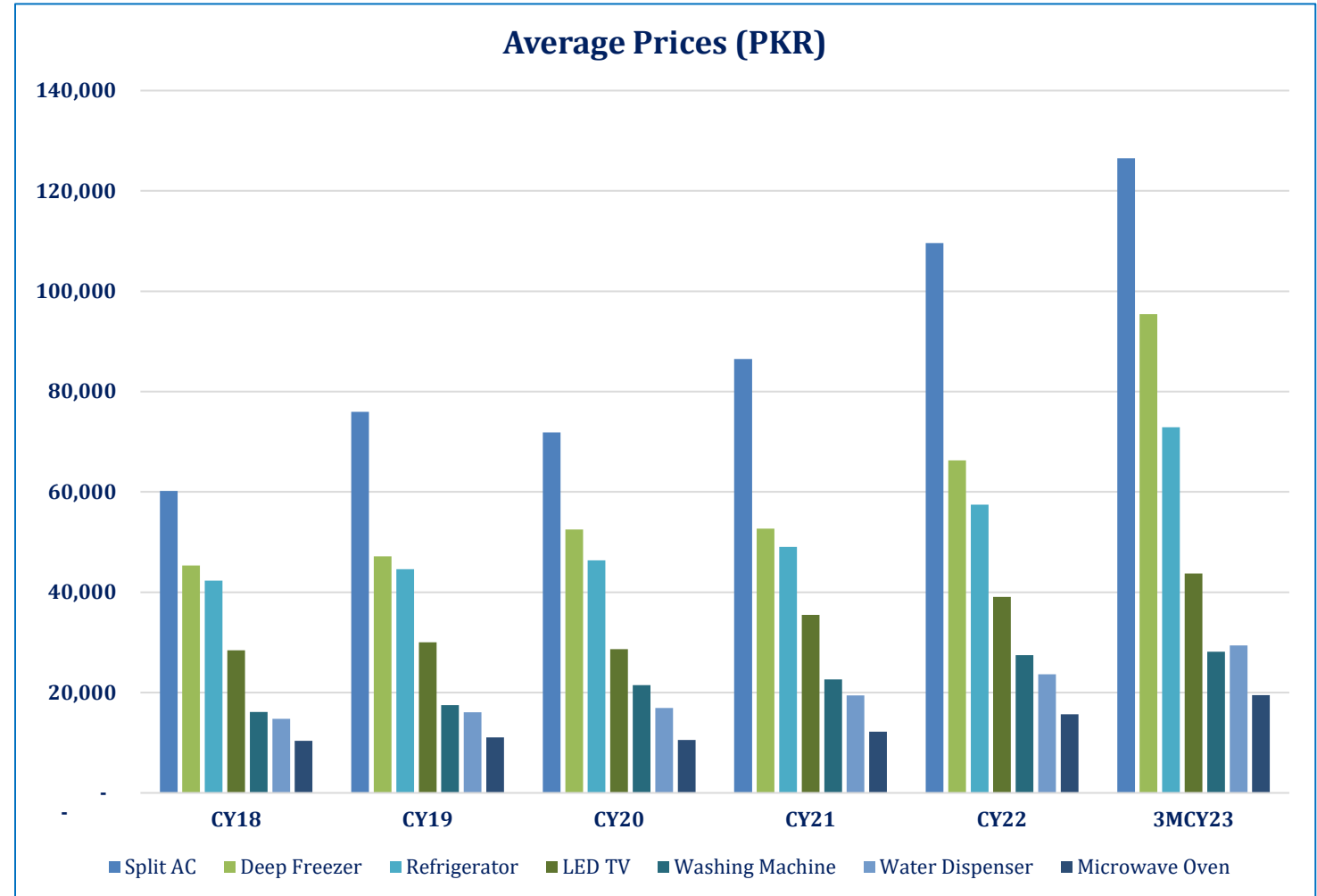
Market Shares | Switchgears



Household Appliances

Local | Prices

- Over the years, average prices of Major Appliances Segment have gradually increased in line with an increase in raw material costs and overall high inflation levels in the country.
- Refrigerators, ACs and Deep Freezers are among the highest valued products in the range of Major Appliances Segment.
- Individually, average price of split A.C. increased by ~26.8% YoY, Deep Freezers increased by ~25.8%, Microwave Ovens by ~28.3%, Washing Machines by ~21.5% and Water Dispensers by ~21.5% YoY.
- In 3MCY23, prices soared further, with the starkest increase observed in the price of Deep Freezers which, compared with CY22, rose by ~44.0% YoY. Other appliances registering increases were Refrigerators (~26.8%), water dispensers (~24.5%) and Microwave Ovens (~24.2%).



Household Appliances

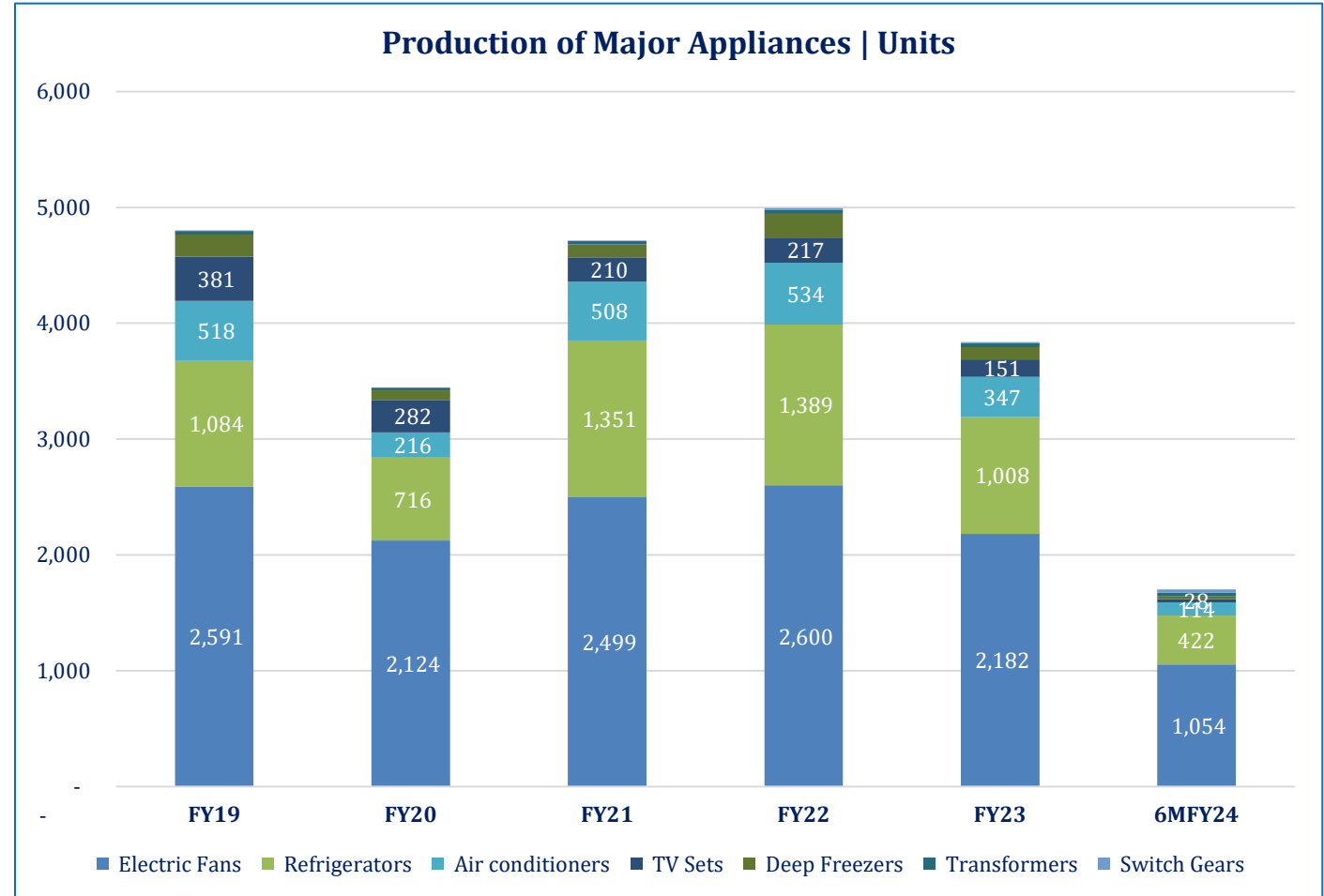
Local | Supply

- Pakistan's Household Appliances Sector is dominated by local and international players including PEL, Arcelik (Dawlance), Orient, Haier, Waves Singer, etc. These players have a significant share in the Major Appliances Segment, while in Small Appliances Segment, other Chinese & local brands also contribute a fair share (Geepas etc.). Certain players that were focused on just one or two products are also looking to expand their product slates.
- The Household Appliances Sector can be termed as organized yet competitive. Some big players such as Dawlance, Haier, Samsung have international associations/shareholding, which strengthens their presence in the local market 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 sector is brand-driven in nature. 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 Sector.
- Since the sector 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 the growth in this sector.
- The Household Appliances Sector is dominated by well-recognized brands and requires extensive capital investment, therefore, the barriers to entry in the sector are high.

Household Appliances

Local | Production

- During FY23, the overall production of Major Appliances Segment stood at ~3.8mln units, down by ~23.3% YoY (SPLY:~5.9% YoY growth).
- The more pronounced production decline was recorded for Deep Freezers (~48.0%), followed by Air Conditioners (~34.9%), TV Sets (~30.3%) and Refrigerators (~27.4%).
- In 6MFY24, the total production of Major Appliances Segment was recorded at ~1.7mln units, with the highest production levels recorded for Electric Fans at ~1.1mln units, followed by Refrigerators (~0.4mln units) and Air Conditioners (~0.1mln units).



Household Appliances

Local | Business Risk

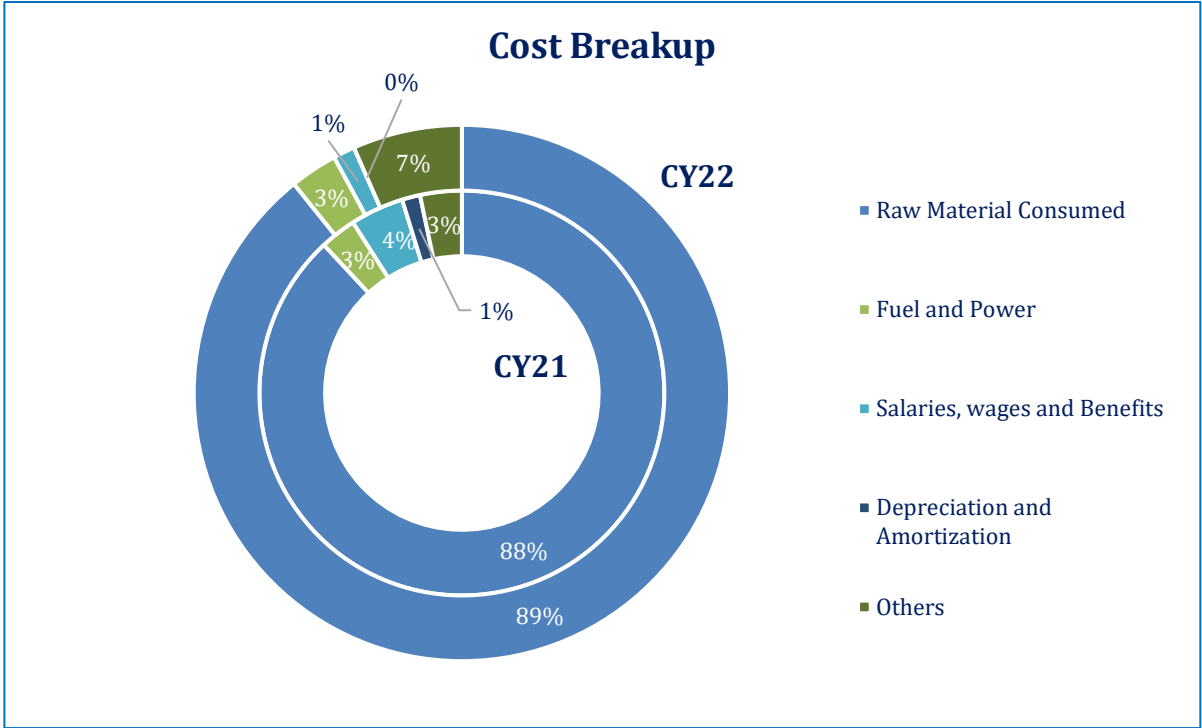
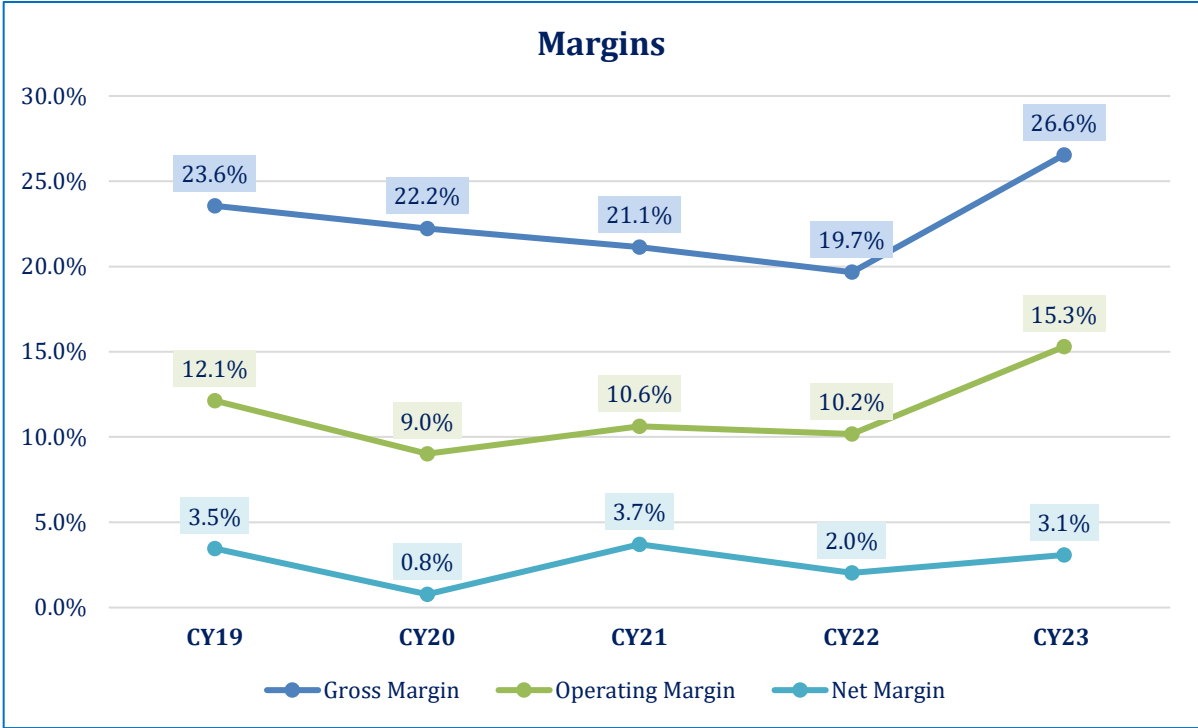
- **Economic Fluctuation:** Demand in the Household Appliances sector is largely derived by the purchasing power of consumers. Any fluctuation in per capita incomes or an increase in the inflation level impacts the sector players' volumetric sales and eventually their performance.
- **Raw Material:** The sector is largely involved in assembling of imported parts. Significant currency depreciation in recent years has resulted in an increased cost of importing appliance components and parts. This, in turn, has increased the cost of production for the sector players.
- **Competition:** There is a high level of competition in the sector due to 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, partially to keep the demand afloat.



Household Appliances

Business Risk | Margins and Cost Breakdown

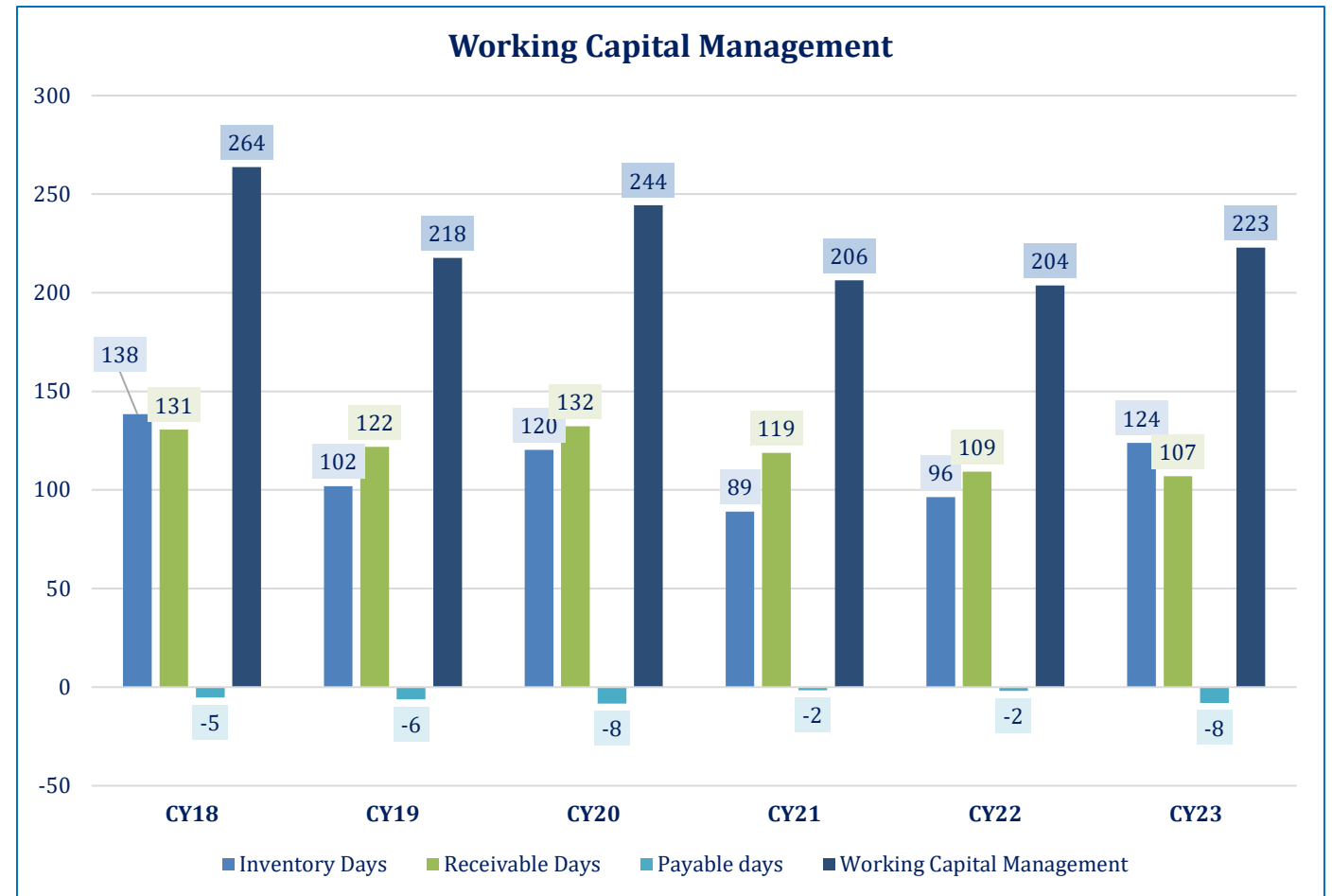
- Average gross profit (GP) margins of the sector during the CY19-22 period stood at ~22.0% and increased to ~26.6% in CY23, on the back of higher prices. The prices were majorly increased by the sector to pass on the impact of rising raw material costs to the end-consumers.
- In line with the GP margins, average operating profit (OP) margins also rose to ~15.3% in CY23 (SPLY: ~10.2%), owed to the trickle down impact of a substantial increase in the revenue. However, due to the high finance costs (~17.3% YoY increase), the growth in OP margins was partially translated into the growth in average net profit (NP) margins which slightly rose to ~3.1% in CY23 (SPLY: ~2.0%).



Household Appliances

Financial Risk | Working Capital Management

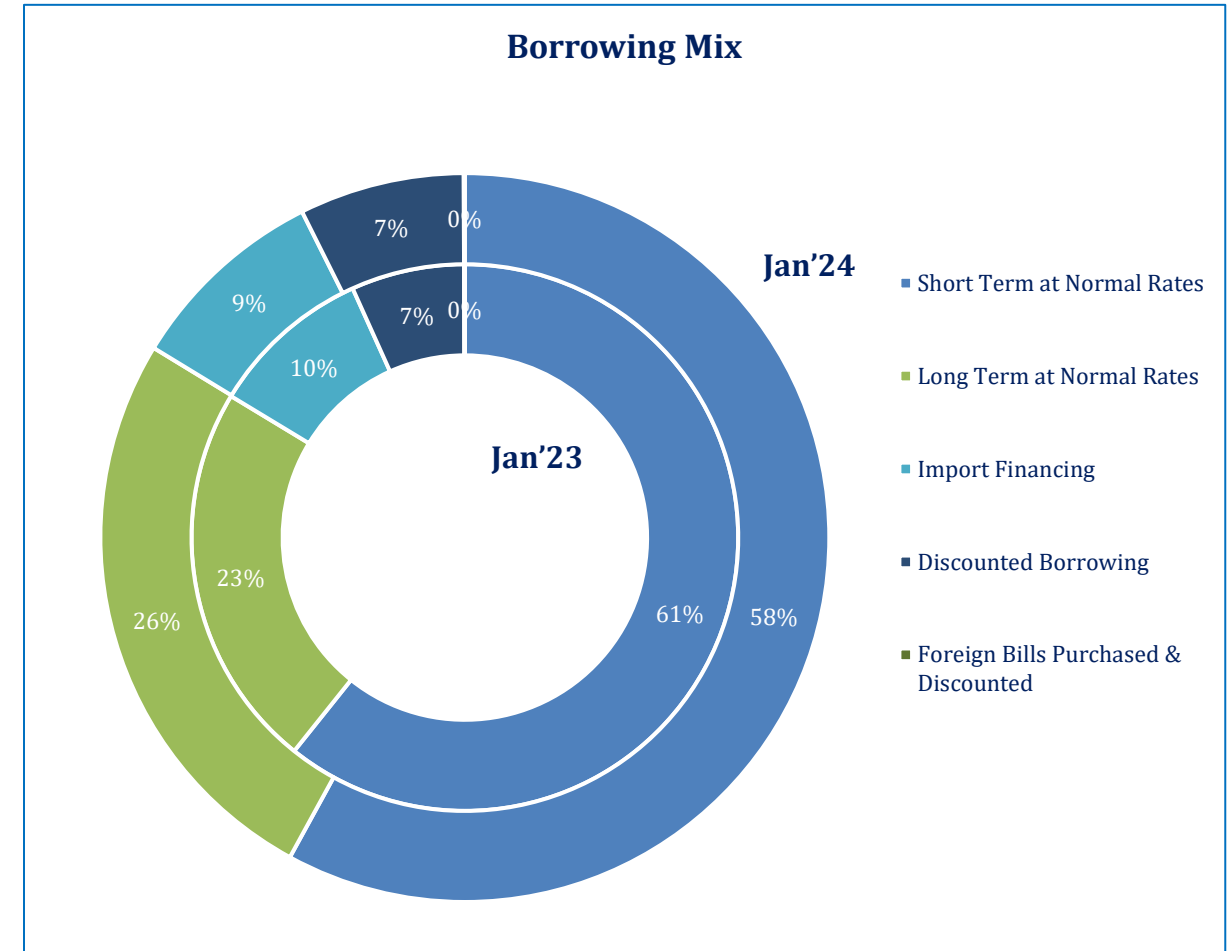
- The sector's working capital cycle is largely a function of its inventory and trade receivables. Due to seasonality in demand, the sector builds up its stock levels prior to the peak season, i.e. the summer months. In addition, there is a large proportion of credit sales, as part of the credit terms of the sector, due to which receivable days remain high.
- During CY23, the sector's average working capital cycle was recorded at ~223 days (SPLY: ~204 days). Average inventory days recorded a YoY increase of ~28 days while the receivable days decreased by ~2 days.



Household Appliances

Financial Risk | Borrowing

- The Household Appliances Sector recorded a total borrowing of PKR~52.1bln as at End-Jan'24, marking a YoY decrease of ~20.2%.
- The largest component in the sector's borrowings are short-term borrowings (STBs), which constituted ~58.0% of the total borrowing as of End-Jan'24. The STBs stood at PKR~33.1bln as at End- Jan'24, marking a ~25.4% YoY decrease.
- Meanwhile, long-term borrowings (LTBs) constituted ~25.7% and were recorded at PKR~14.7bln as at End-Jan'24, while import financing constituted ~8.9%, recording at PKR~5.1bln.
- The segment has a strong capital structure with a low to moderate debt leverage of ~26%. The sector's interest cover was recorded at ~1.64x in CY23 (CY22: ~1.72x).



Household Appliances

Duty Structure

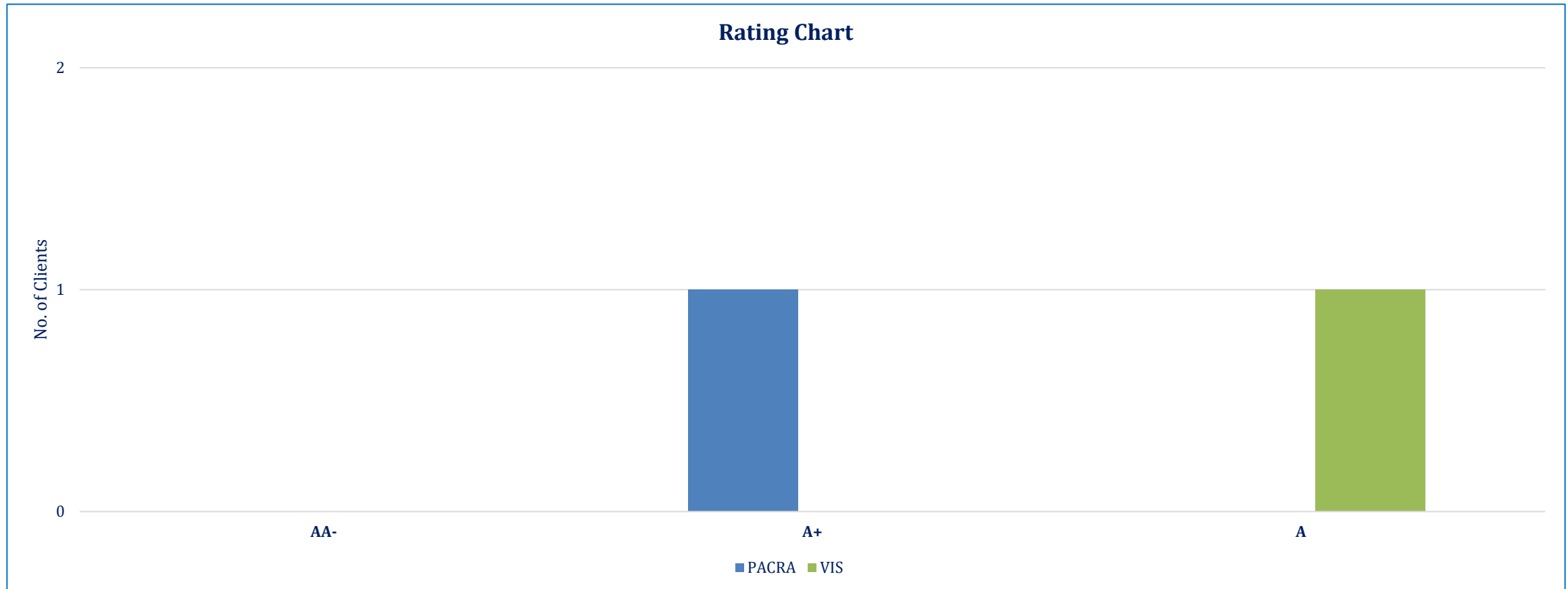
- With respect to Income Tax, the Household Appliances sector is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.5% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future 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 18-25% is also applicable on the industry.
- The sector 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	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
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)	6%	6%	20%	20%	10-15%	10-15%	0-20%	6-35%
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)	6%	6%	20%	20%	5-49%	5%	0-49%	31%
84.18	Refrigerators, freezers and other refrigerating or freezing equipment, electric or other; (Includes CKD/SKD units)	2-6%	6%	0-20%	20%	5-49%	20%	0-49%	46%

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 sector 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 economy posted a real GDP contraction of ~0.17% in FY23 (FY22: ~6.1%), while the LSM declined by ~10.3% (FY22: ~11.8%). The dip was majorly attributed to supply-chain disruptions resulting from SBP-imposed import restrictions, the carry-forward impact of the flash floods of Aug'22, and the sluggish demand across major sectors of the country. The household appliances sector is categorized under the economy's large-scale manufacturing (LSM) sub-segment as "Electrical equipment." The sector's weight in the QIM was reported to be ~2.1% in FY23.
- The sector is dominated by local and international players including PEL, Dawlance, Orient, Haier, Waves Singer, among others. These players have a significant share in the Major Appliances Segment. In FY23, the Electrical Equipment segment in the LSM recorded a ~22.5% YoY decline (FY22: ~8.8%). During FY23, Major Appliances Segment output was down by ~23.3% YoY (SPLY: ~5.9% YoY growth), recording at ~3.8mln units. Deep Freezers exhibited the most marked fall in manufacturing (~48.0% YoY), followed by air conditioners (~34.9%), TV sets (~30.3%), and Refrigerators (~27.4%).
- The sector's production declined by ~23.2% YoY in CY23, due to a slowdown in the demand in line with the higher prices. Average prices in the Major Appliances Segment have risen over time, due to a push-up impact of the rising raw material costs and the overall rising inflation. The average price of split A.C. increased by ~26.8% YoY, Deep Freezers increased by ~25.8%, microwave ovens by ~28.3%, Washing Machines by ~21.5%, and Water Dispensers by ~21.5% YoY.
- Average gross profit (GP) margins of the sector during the CY19-22 period stood at ~22.0% and increased to ~26.6% in CY23, on the back of higher prices. The sector majorly increased the prices to pass on the impact of rising raw material costs to the end-consumers. In line with the GP margins, average operating profit (OP) margins also rose to ~15.3% in CY23 (SPLY: ~10.2%), owing to the trickle-down impact of a substantial increase in revenue. However, due to the high finance costs (~17.3% YoY increase), the growth in OP margins was partially translated into the growth in average net profit (NP) margins which slightly rose to ~3.1% in CY23 (SPLY: ~2.0%).
- Despite the sector players recording stable margins in CY23 amid macroeconomic volatility in 1HCY23, demand prospects for the Household Appliances Sector are expected to remain muted in the short-term, owed to persistent inflationary pressures, diluted disposable incomes (GNI per capita in FY23 was down ~2.3% YoY) and a rise in the prices due to the pass-through impact of raw material costs.

Household Appliances

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