



Household Appliances

An Overview

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- 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

Overview

- **Size:** The global Household Appliance market was valued at USD~442bln in CY20 (USD~524bln in CY19), a contraction of ~16% during the period owing to the Covid-19 pandemic.
- **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 restraint 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

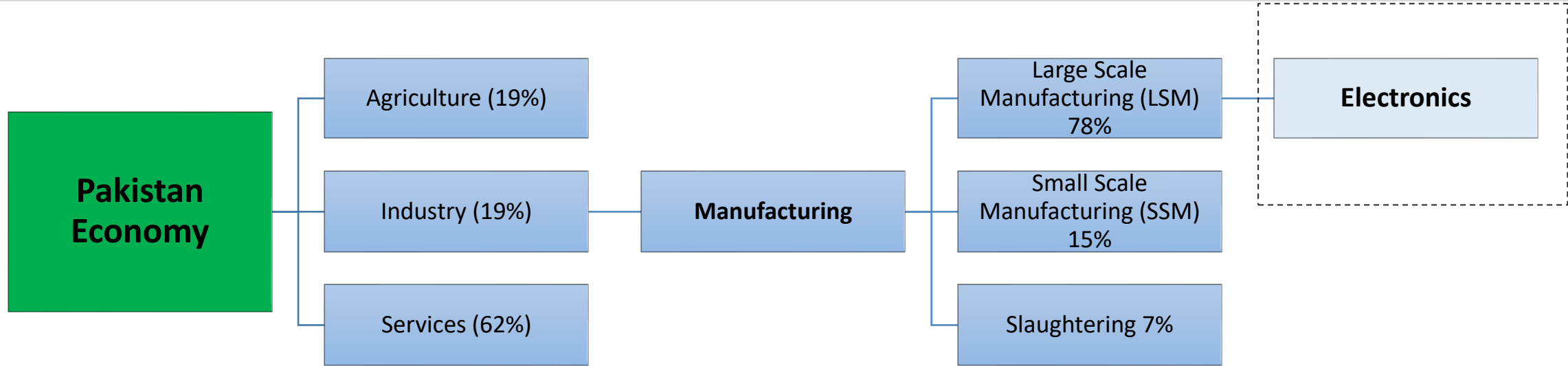
- **Structure:** The Global Household Appliance Market is fragmented with a large number of big players contributing a fair share to the global revenue. Some of the major global companies include Haier, Whirlpool Corporation, Samsung Electronics, LG Electronics, Bosch, Sony, Philips and Panasonic Corporation.
- **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 shares 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





Overview

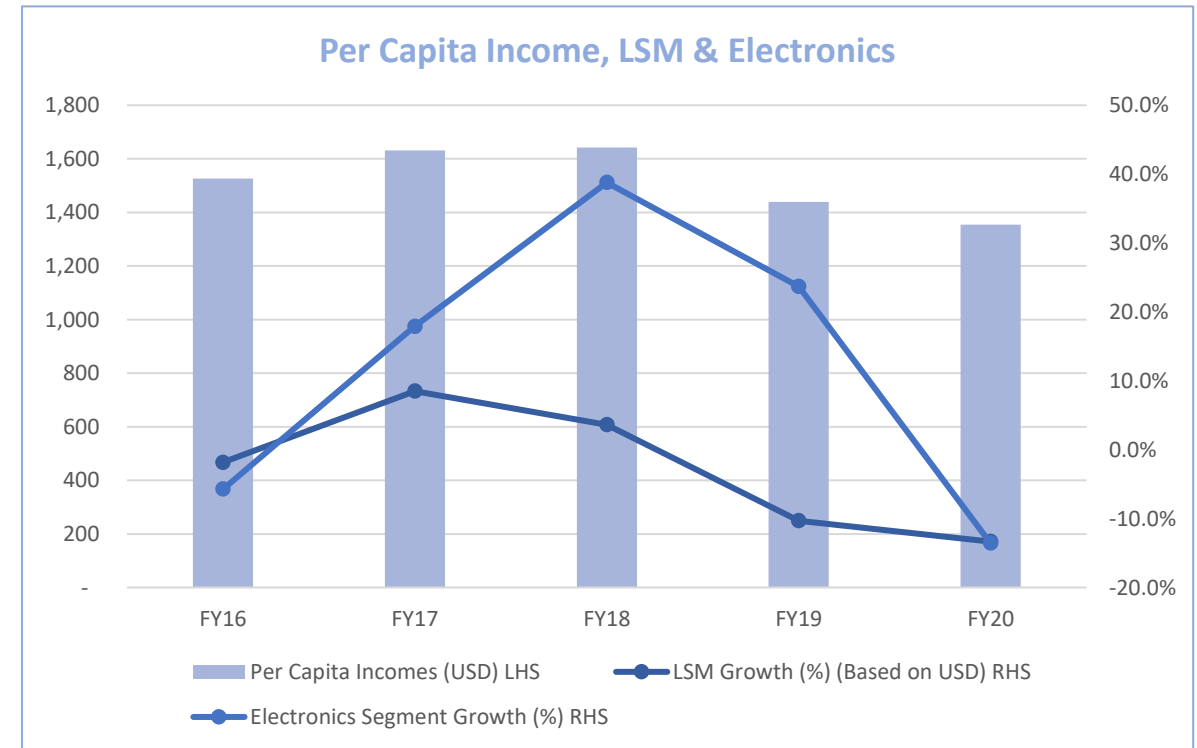


- Household Appliance market is a sub-segment of the “Electronics” Group of the Large-Scale Manufacturing Sector. It holds a weightage of 1.963 in the LSM Index.
- The estimated size of the Household Appliance Market was recorded at PKR~152bIn in CY19 (USD~1.1bIn). Due to the outbreak of Covid-19 pandemic and its rippling impact on various sectors of the Economy, the market has contracted by ~14% in CY20 clocking in at PKR~130bIn (USD~0.9bIn).
- 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

Demand

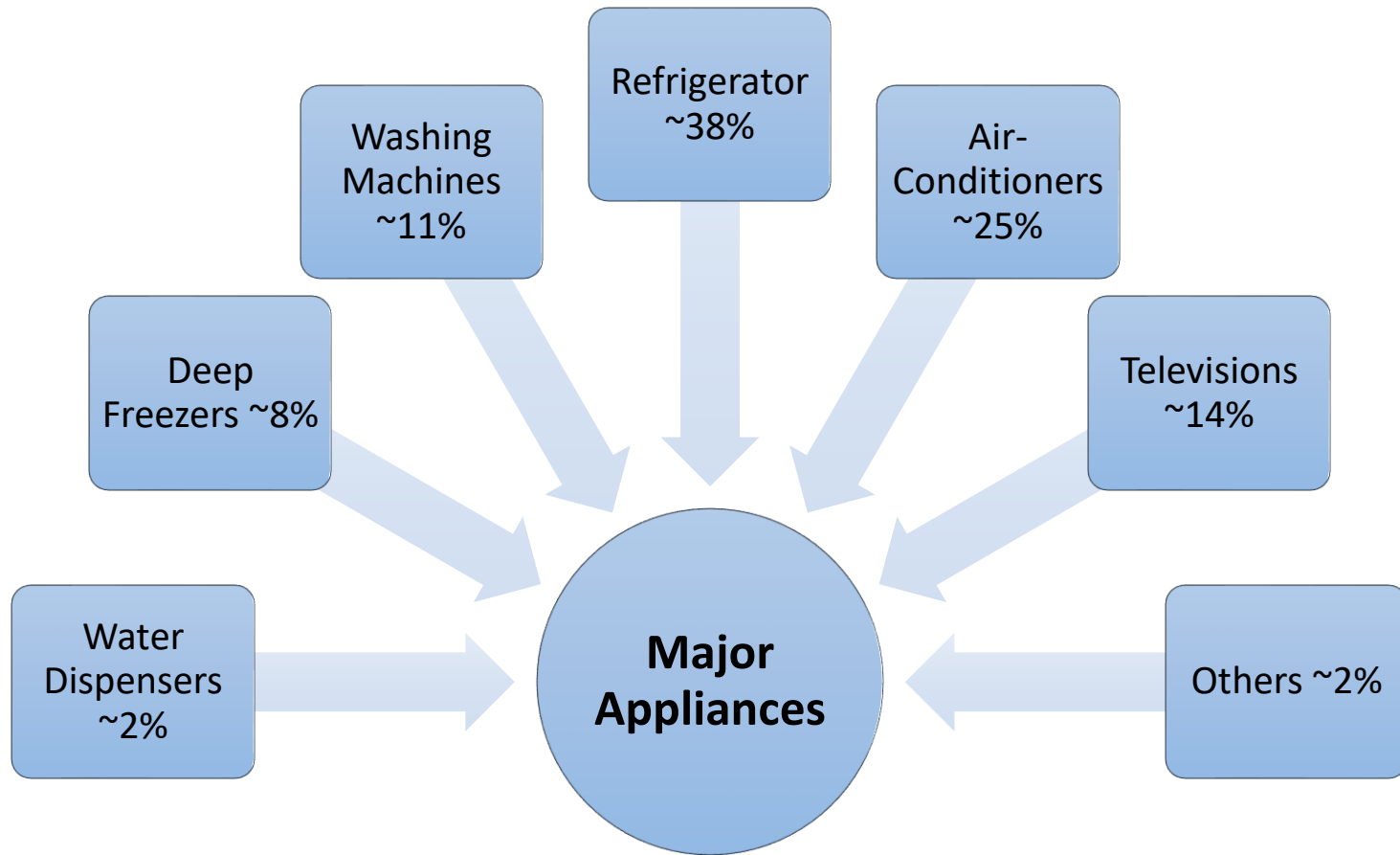
- The demand for Household Appliance market is directly correlated to the household disposable income, improving lifestyles and gaining ease in day-to-day chores.
- As witnessed from the adjacent chart, Pakistan’s per capita income came down from USD~1,643 in FY18 to USD~1,439 in FY19 due to unfavorable macro-economic conditions and depreciation of local currency against USD. The situation further amplified upon the emergence of unprecedented pandemic and per-capita incomes slid down to USD~1,355 in FY20. In line with the overall situation, the LSM Sector contracted by ~10% in FY19 and further by ~13% in FY20.
- Electronics segment, which has historically outperformed the overall LSM segment, also contracted by ~14% in FY20. Demand constraints led by Covid-19 pandemic were short-lived though and demand recovered in 1HFY21. Other major factors causing slowdown in demand include rising product prices, mainly due to PKR devaluation, resulting in increased import cost for manufacturers. This is gradually passed on to end consumers.
- The demand for Household Appliances is generated from both Original Market 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 | LOCAL INDUSTRY

Product Wise Demand



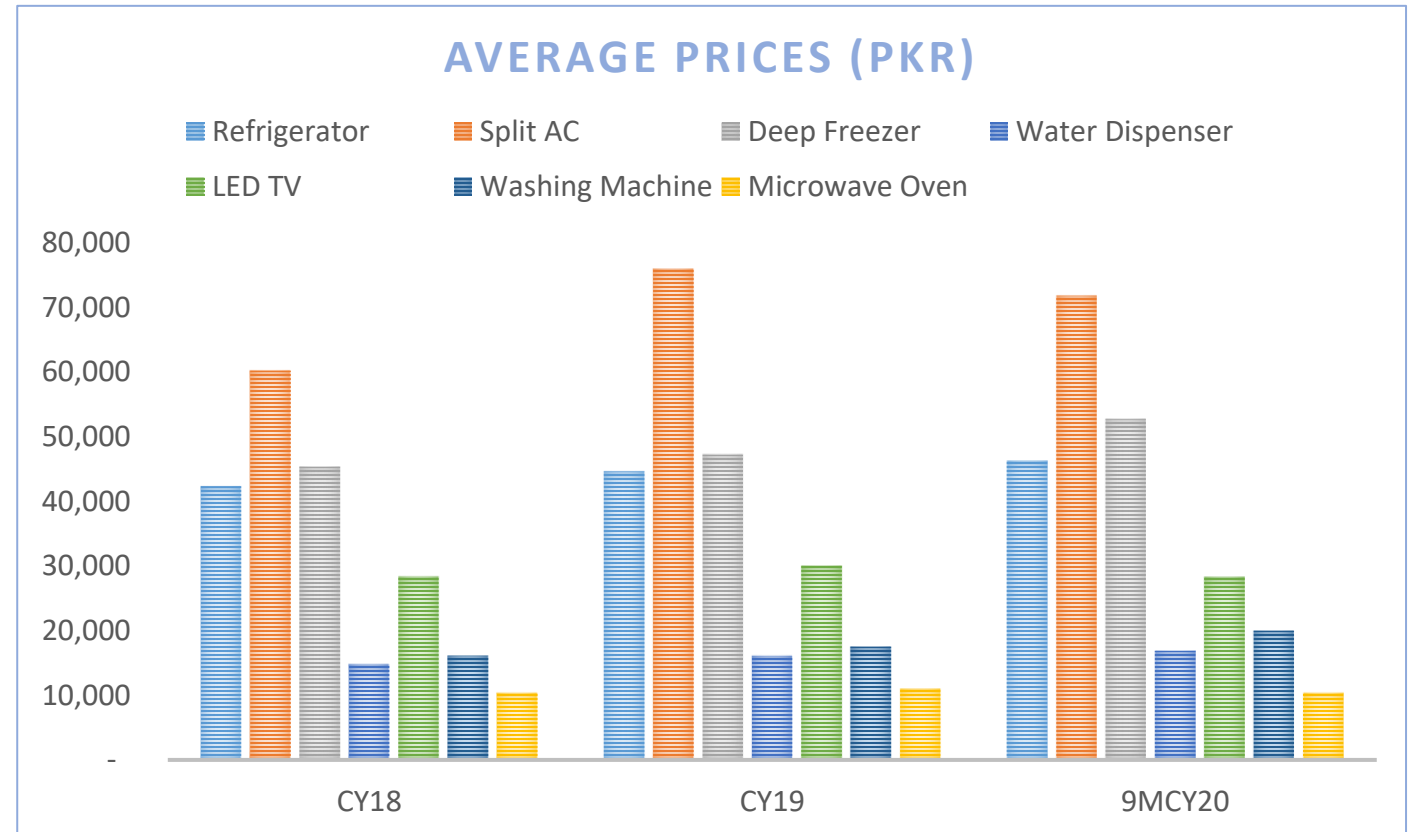
- Major Appliances account for over ~60% of the Household Appliance Market Revenue.
- Refrigerators are the highest contributing item in terms of Revenue for the Major Appliance Market.
- In Small Appliance Market, Kitchen Appliances make up most of the market share. These include food processors, espresso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



HOUSEHOLD APPLIANCES | LOCAL INDUSTRY

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.
- The pace of increase in prices slowed down in CY20, due to reduced demand amid Covid-19 pandemic as manufacturers looked to dilute inventories while keeping prices stable. Lower inflation and exchange rate volatility in 1HFY21 kept the prices stable.



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 looking to expand their product slate.
- The Market can be comfortably termed as Organized. Some big players such as Dawlance, Haier, Samsung (for LEDs) have International association/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 and enter into joint ventures with 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 differ entirely across the 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 Electrical 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.



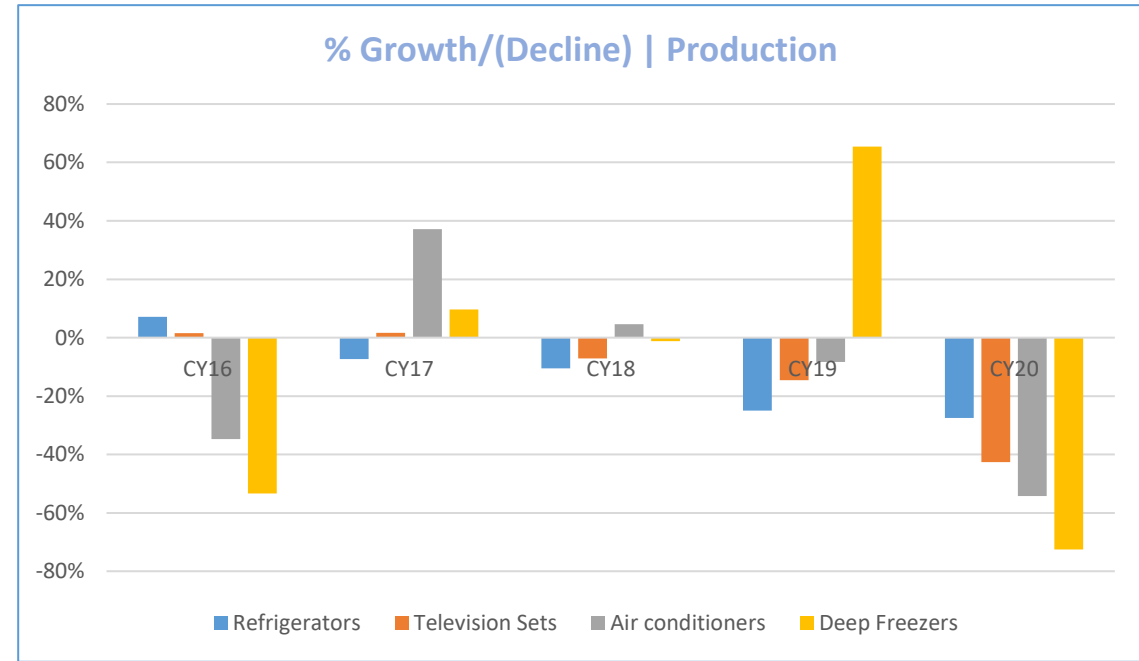
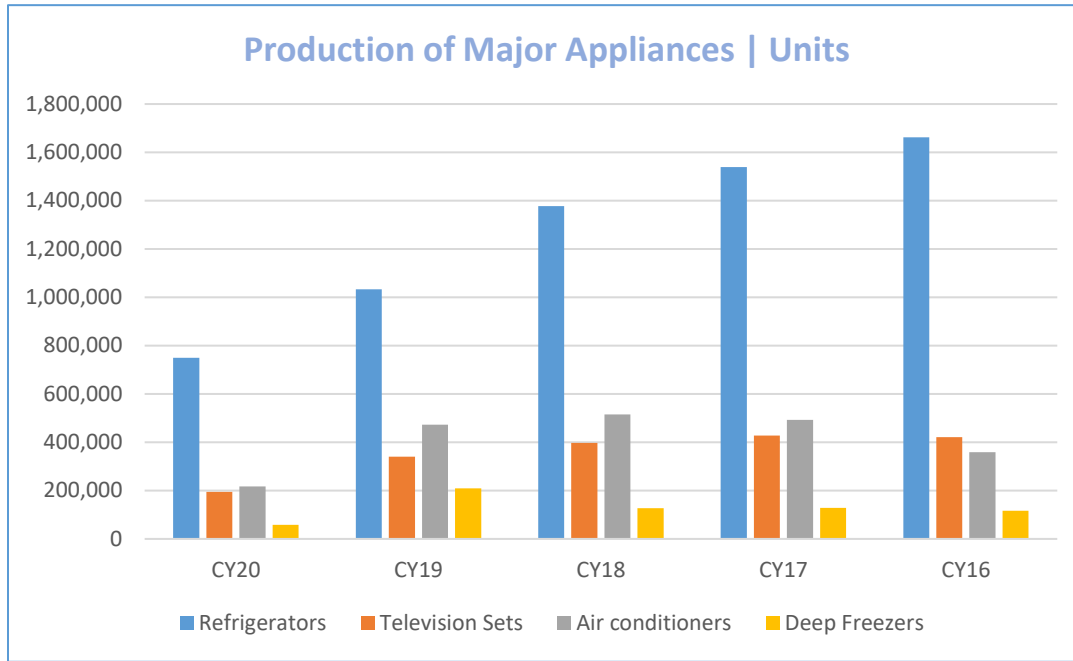
Supply | Localization Levels

- 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	%
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 took a steep dip in CY20, particularly during the peak demand season when nationwide lockdown slowed down the overall economic activity and uncertainty relating to employment and monthly disposable incomes prevailed.
- Production of Deep Freezers and Air Conditioners witnessed the worst hit and fell by ~73% and ~54% respectively in CY20 from the same period last year, meanwhile Television Sets and Refrigerators declined by ~43% and ~27% respectively.



HOUSEHOLD APPLIANCES | LOCAL MARKET

Business Risk

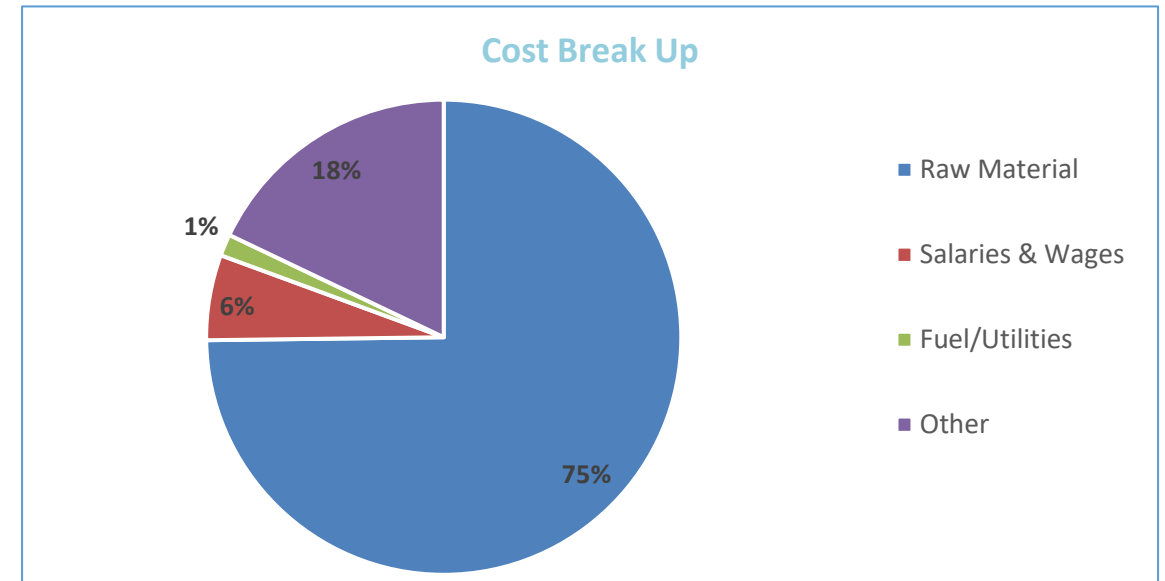
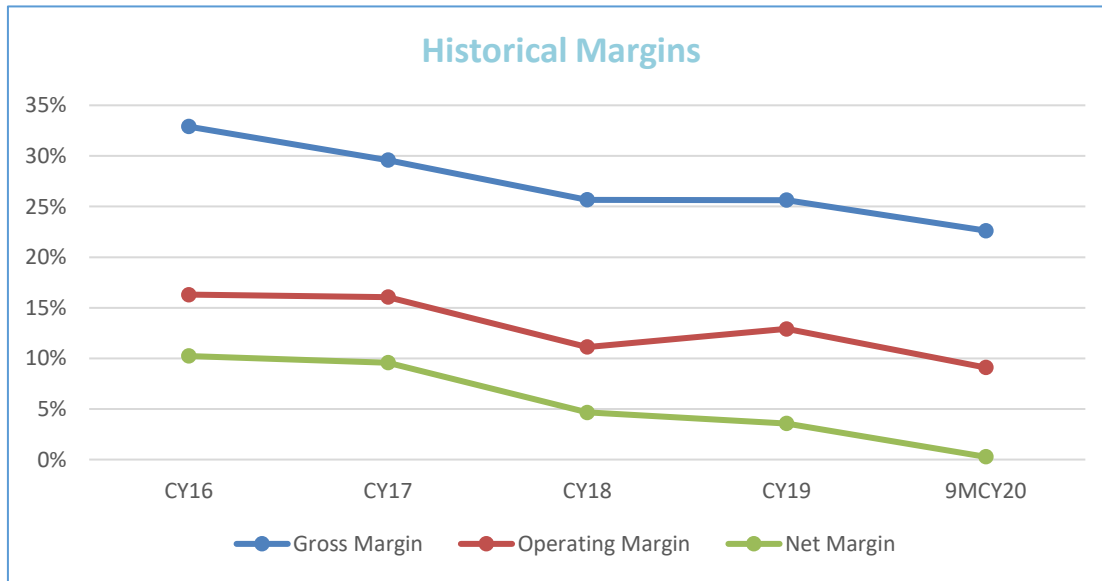
- **Economic Contraction:** Demand in the household appliances industry is impacted by the disposable income of consumers. Due to COVID-19 and resulting economic slowdown, the disposable incomes declined. Therefore, demand for appliances also took a hit.
- **Raw Material:** The significant currency depreciation in recent years has increased the cost of imported appliance components and parts. This, in turn, has increased the cost of production and put downward pressure on margins for the industry.
- **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 | LOCAL MARKET

Margins & Cost Structure

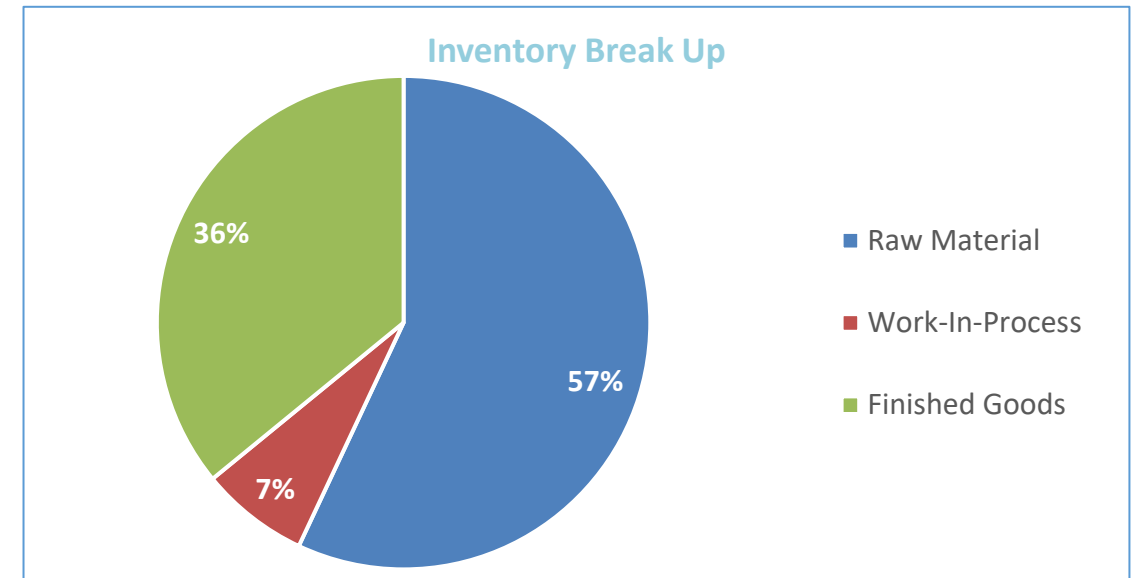
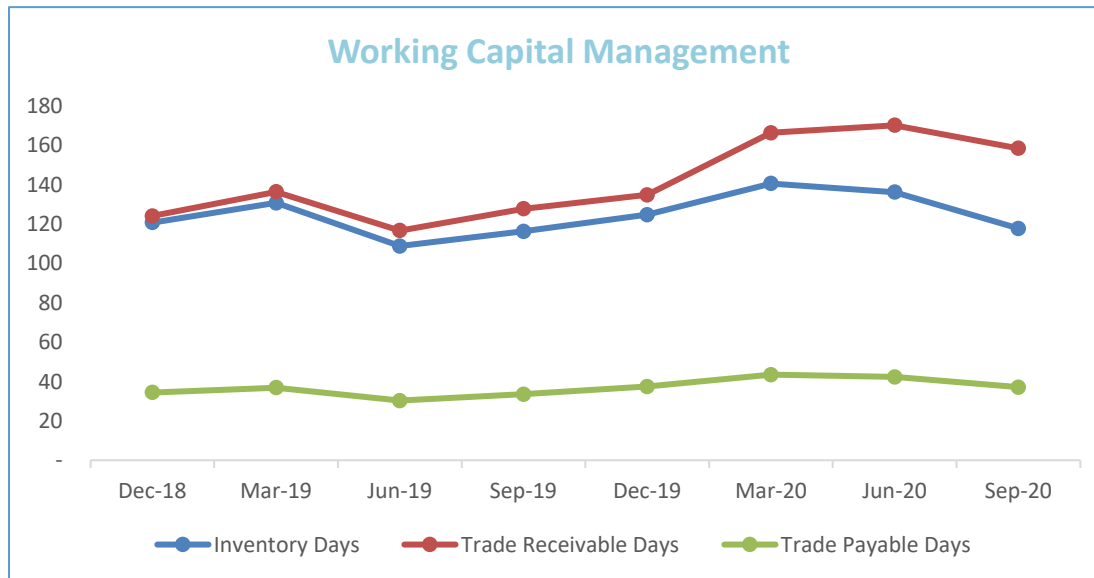
- Over the past five years, the industry has witnessed a declining trend in its margins, largely due to rising raw material prices driven by currency depreciation. During 9MCY20, the industry faced challenges due to COVID-19 pandemic, which resulted in lockdowns during peak sales season.
- As a result, gross margins during 9MCY20 declined to ~23% from ~26% in CY19. Similarly, operating margin fell to ~9% (CY19: ~13%) while net margin contracted to ~0.3% (CY19: ~4%).
- The largest component of the industry's direct costs is raw material which constitutes ~75% of direct costs.



HOUSEHOLD APPLIANCES | LOCAL MARKET

Working Capital Management

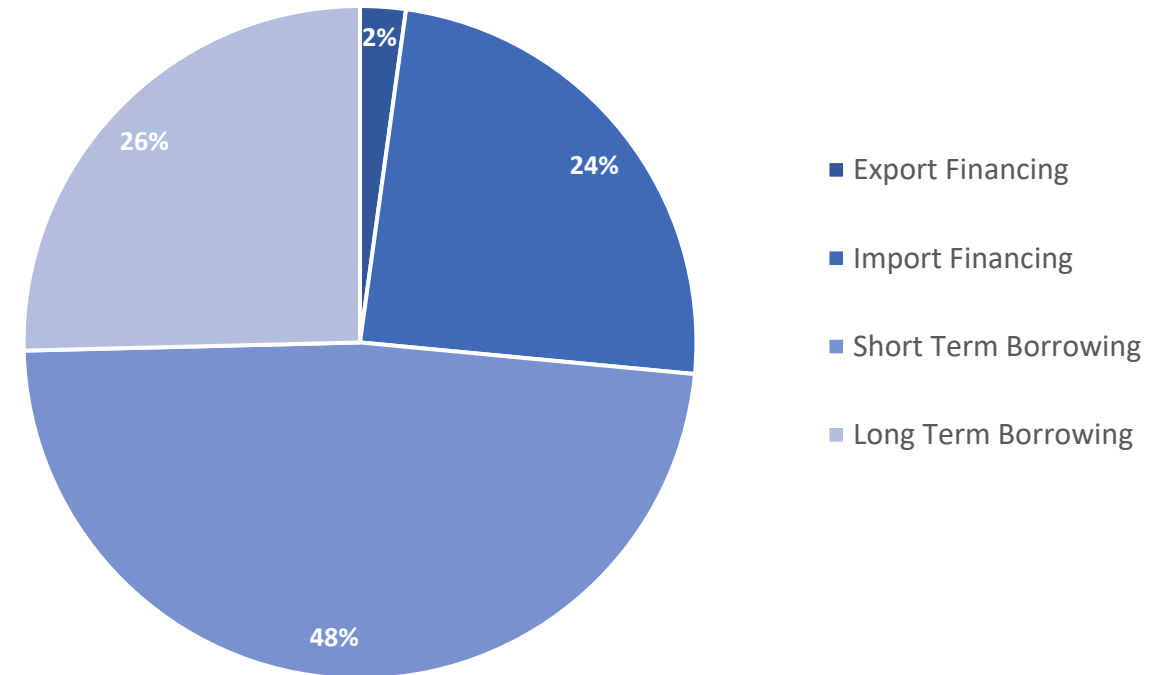
- The industry’s working capital management is largely a function of its inventory and trade receivables. Due to seasonality in demand, the industry builds up its stock level prior to the peak season, i.e. the summer months. In addition, there is a large proportional of credit sales due to which trade receivables remain high.
- The average net working capital cycle of the industry has stood at 229 days in the last 2 years. Net working capital days in September 2020 stood at 239 days as compared to 264 days in June 2020. The working capital cycle appears to be recovering to average levels after rising significantly during 1HCY20.
- The largest component of inventory is raw material, which occupies ~57% of total inventory. Meanwhile, finished goods constitute ~36% of inventory.



Financial Risk

- The household appliance industry had a total borrowing of PKR~45,383mln as at End-Jan'21. This is a ~33% increase from borrowing level of PKR~34,176mln at the End-Jan'20.
- The largest component is short-term borrowing, which constitutes ~48% of total borrowing and stood at PKR~21,802mln (Jan-20: PKR~16,000mln).
- In addition, long term borrowing constitutes ~26% and were recorded at PKR~11,504mln (Jan-20: PKR~8,681mln) while import financing constitutes ~24% and stands at PKR~11,016mln (Jan-20: PKR~8,174mln).
- The industry is moderately leveraged with an average leveraging ratio of ~39%.

Borrowing Mix (Jan 2021)



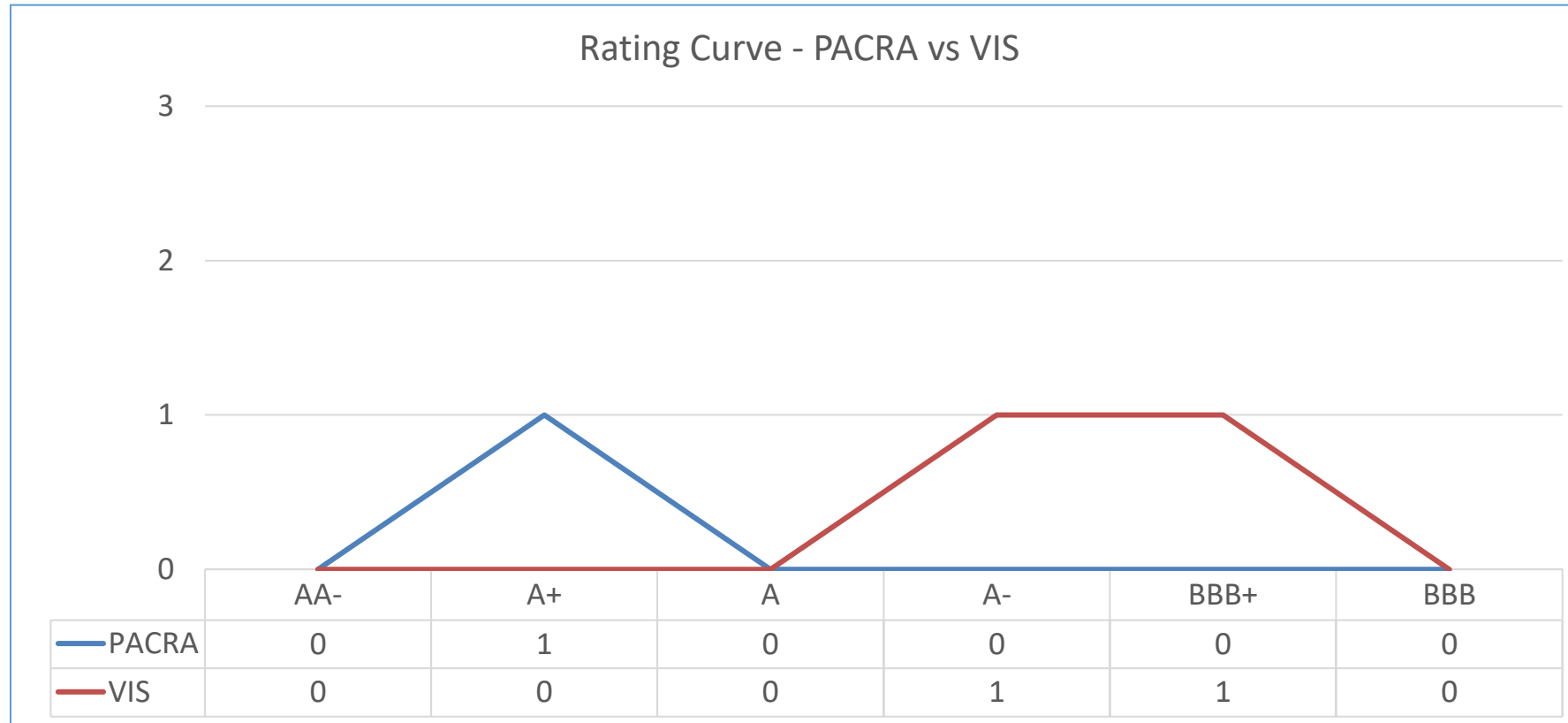
HOUSEHOLD APPLIANCES | LOCAL MARKET

Regulatory Framework

- 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	FY20	FY21	FY20	FY21	FY20	FY21	FY20
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%

Rating Curve



HOUSEHOLD APPLIANCES | LOCAL INDUSTRY

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.

Outlook: Stable

- The challenges faced by Covid-19, though drastic, have proven to be short lived for the industry. The period from July-Dec'20 has shown signs of recovery, especially for the LSM Sector, whose Index grew by ~8.16% in 1HFY21 from the same period last year. Dec'20 alone reflected a growth of ~11% from SPLY and ~14% growth on MoM basis. However, the true shape of the recovery and sustenance of demand will further solidify in the days to come.
- The Electronic Segment has, however, picked up a gradual pace of recovery to pre-pandemic levels and recorded a cumulative decline of just ~0.8% during 1HFY21 from SPLY.
- The recovery of Electronics Segment is correlated to a wide number of factors. The suppressed demand of the peak season (Mar-June) resurfaced once lockdown eased in 1QFY21. The prices remained relatively stable as industry players focused on diluting inventories. With the peak season coming up, sales are expected to remain strong and recover to pre-COVID levels.
- The government has introduced incentives for the construction industry to boost activity. These incentives included reduced sales tax, waiving of the withholding tax as well as an amnesty for declaring source of income for a limited time period. Since the household appliance industry is related to the construction sector, the rise in construction projects should also lead to a positive impact on demand for household appliances. Cement production during 1HFY21 increased by ~21% from SPLY.
- The reduction in benchmark rate by 625bps is expected to reduce the finance cost of the Sector by PKR~2.8bln. Meanwhile, exchange rate is also expected to remain stable in the short horizon which is expected to keep the margins stable.
- The inflation level in the country has also declined. The average inflation rate during the 1HFY21 stood at ~8.74% as compared to an average inflation rate of ~10.7% during FY20.

- Pakistan Bureau of Statistics (PBS)
- Pakistan Stock Exchange (PSX)
- State Bank of Pakistan (SBP)
- Federal Board of Revenue (FBR)
- PACRA Database
- Pakistan Electronics Manufacturers' Association
- Morder Intelligence
- Pakistan Economic Survey

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