



# Household Appliances

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# Household Appliances

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# Household Appliances

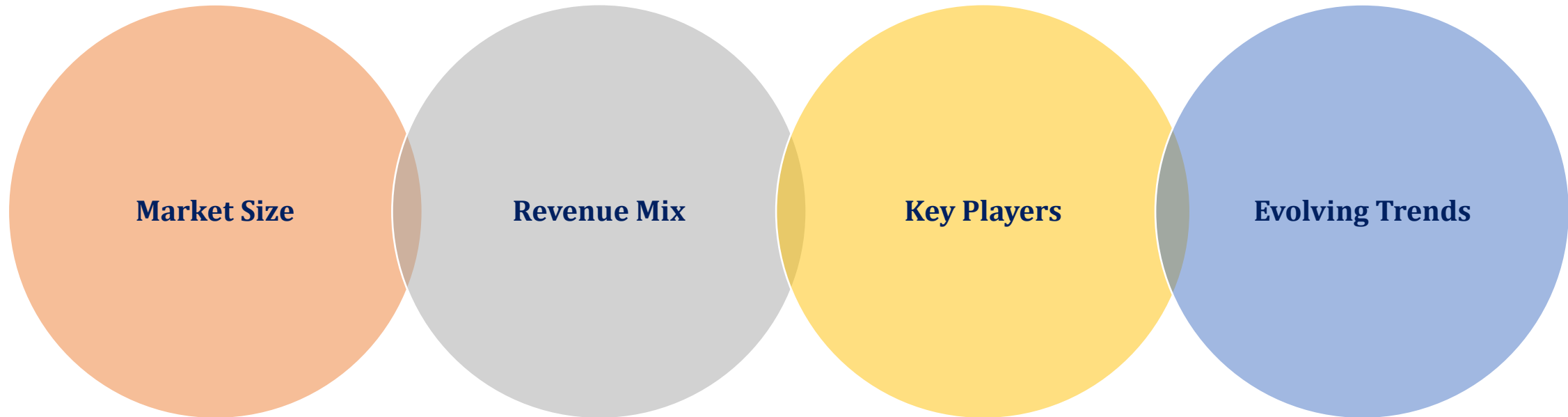
## Introduction

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



# Household Appliances

## Global | Overview



### Market Size

- In CY23, the global Household Appliance market was valued at USD~596bln (CY22: USD~551bln) and is expected to grow to USD~644bln in CY24 at CAGR of ~8.1%.

### Revenue Mix

- Major Appliances segment accounts for over ~64% of the market's total revenue.
- Small Appliances, on the other hand, accounts for a smaller portion in the total revenue mix at ~24%.

### Key Players

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

### Evolving Trends

- Rapidly evolving lifestyles has increased outdoor recreational activities such as camping is increasing the demand for household appliances.
- Rising disposable income and use of e-commerce is expected to further boost the growth in demand of household appliances.

# Household Appliances

## Global | Supply & Demand

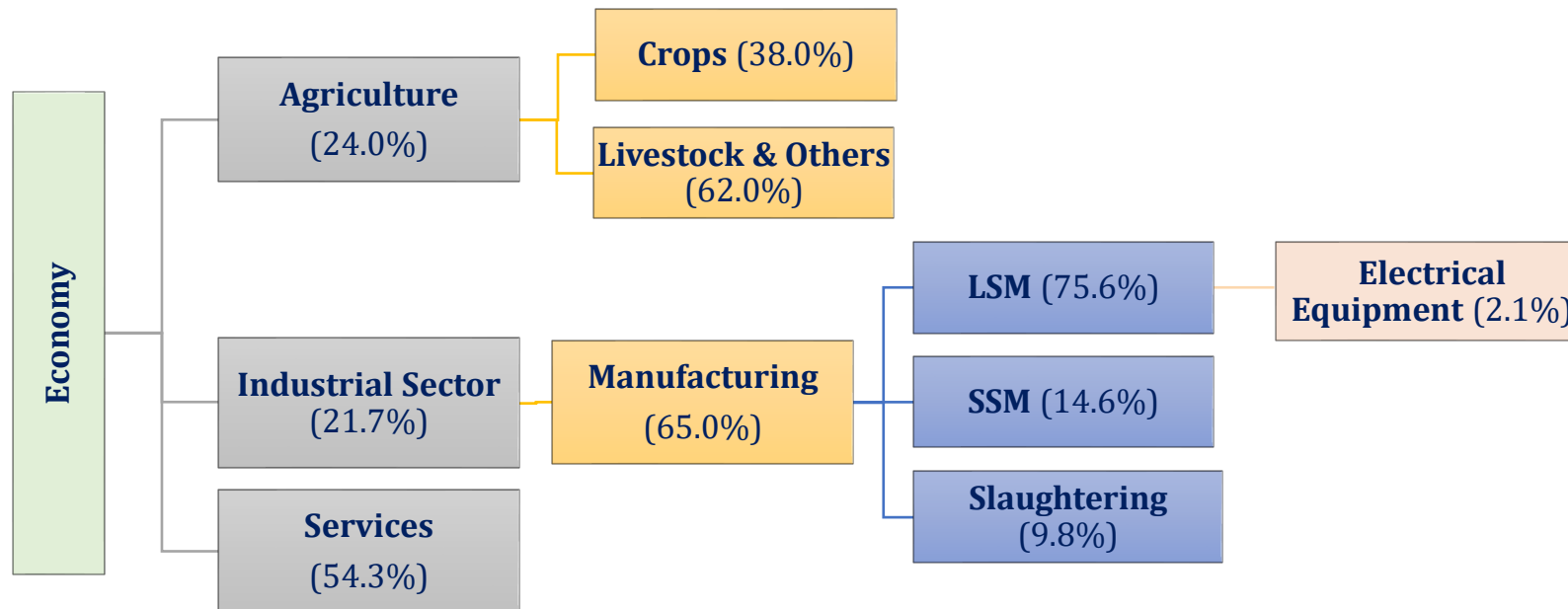
- **Structure:** The Global Household Appliance Market is competitive with a large number of big players contributing a fair share to the global revenue. Some of the major global companies include Haier, Whirlpool Corporation, Samsung Electronics, LG Electronics, Bosch, Sony, Philips and Panasonic Corporation.
- **Demand Centers:** In terms of geographical segments, Asia-Pacific holds the highest share (~40.0%) 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, Japan, South Korea and Germany 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.



# 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 ~22% share in the GDP while the manufacturing activities made up ~65% 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% 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

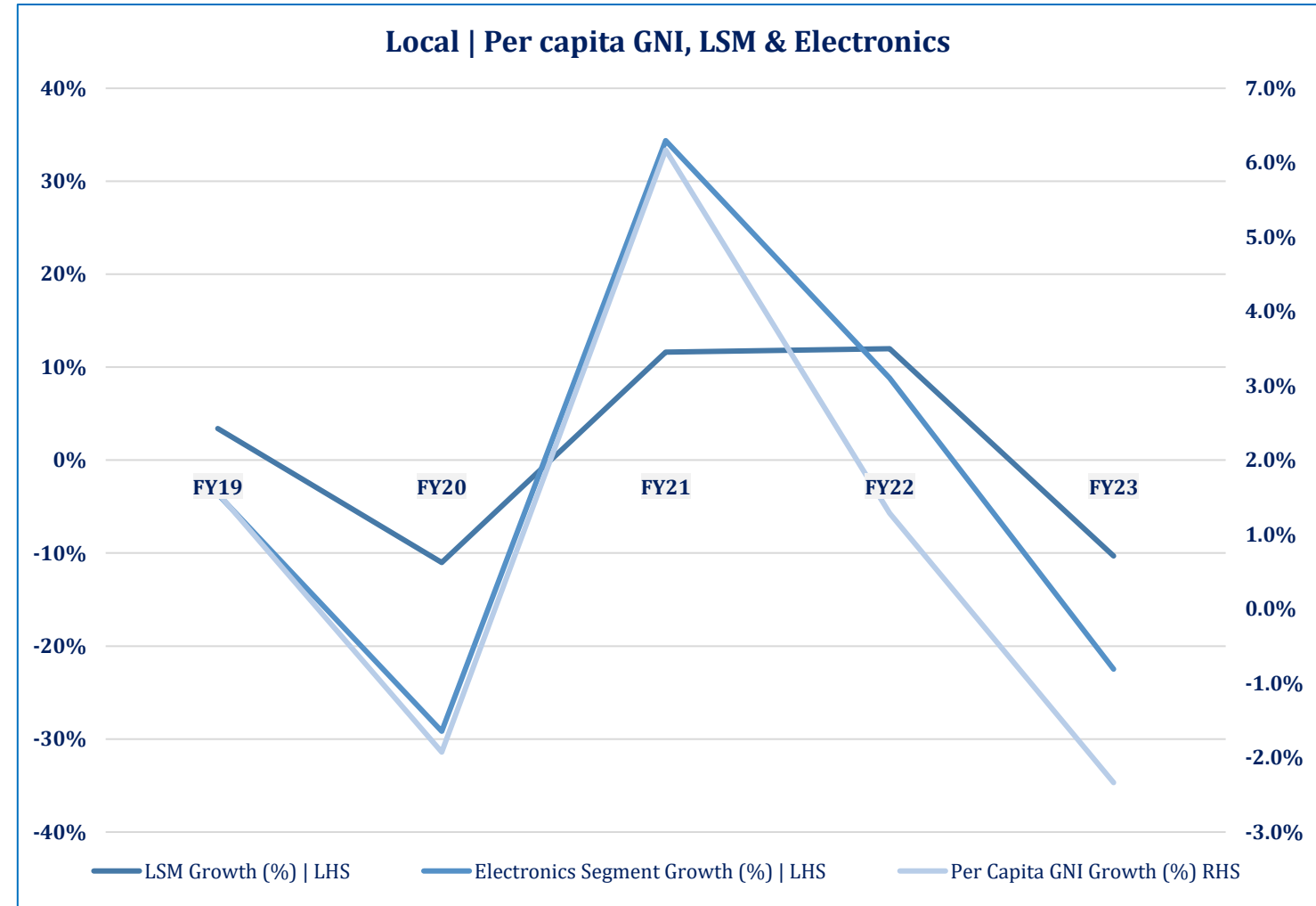
- The sector's estimated size was recorded at PKR~327bln in CY23, a YoY decrease of ~22.1%. The negative growth likely resulted due to production declining ~23.2% YoY, along with slowdown in demand in line with higher prices (covered later).
- With historic high inflation levels (CY22: ~19.7%; CY23: ~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.
- Sectors' 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.

Sector Snapshot	CY21	CY22	CY23
Revenue (PKR bln)   Appliances*	354	420	327
YoY Growth (Appliances)	89.3%	18.6%	-22.1%
Production (000 units)   Appliances	4,714	4,994	3,834
Players	53		
Structure	Competitive		
Association	Pakistan Electronics Manufacturing Association		

# Household Appliances

## Local | Demand Dynamics

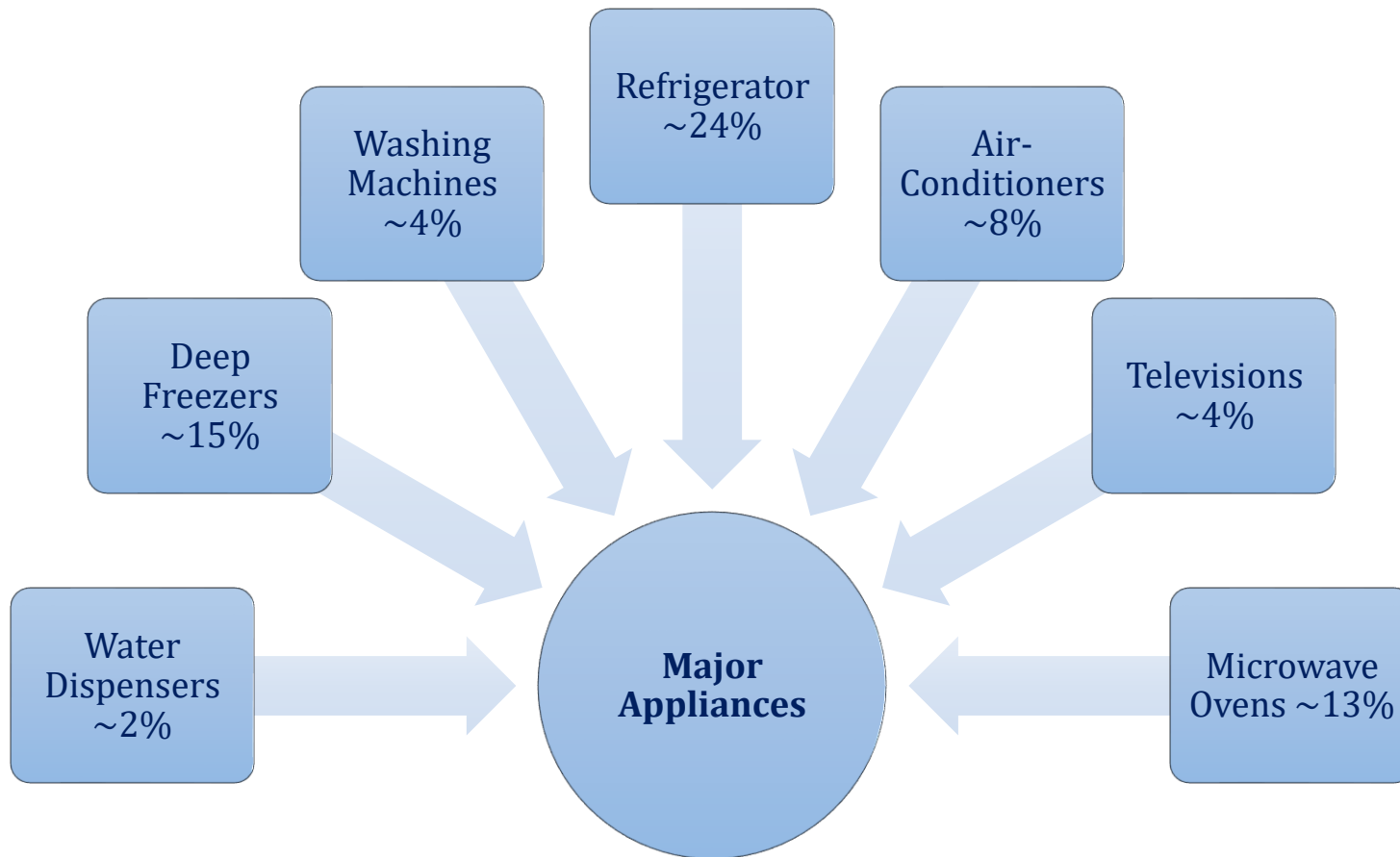
- The demand for Household Appliance is a function of household disposable incomes, preference for better lifestyles and the need for gaining ease in day-to-day chores.
- In FY23 the electrical equipment sector in the LSM recorded ~22.5% YoY decline (FY22: ~8.8%). This was accompanied by ~2.3% YoY decline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





# Household Appliances

## Market Share | Major Appliances (CY22)

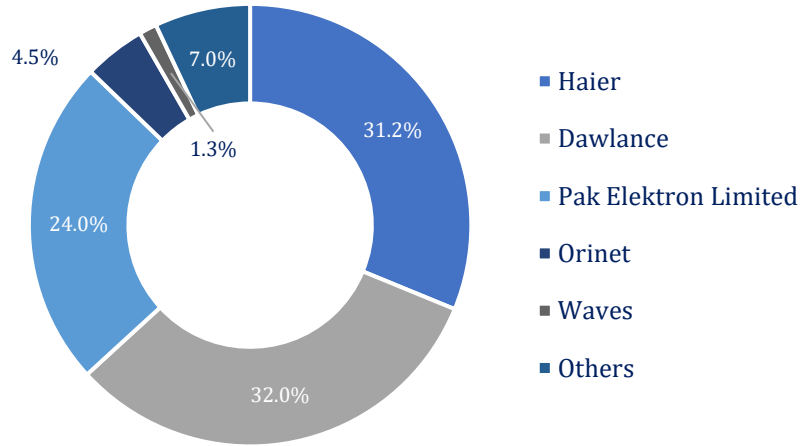


- Major Appliances account for over ~70% of the Household Appliance sector's revenue.
- Refrigerators are the highest contributing item in terms of Revenue for the Major Appliance Market.
- In Small Appliance Market, Kitchen Appliances make up most of the market share. These include food processors, espresso machines, multi-cookers, blenders, toaster oven, etc.

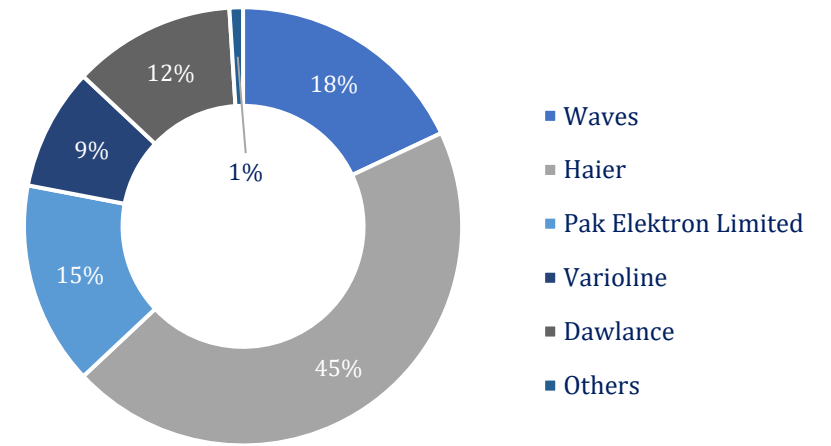
# Household Appliances

## Local | Market Shares | Household Appliances (CY22)

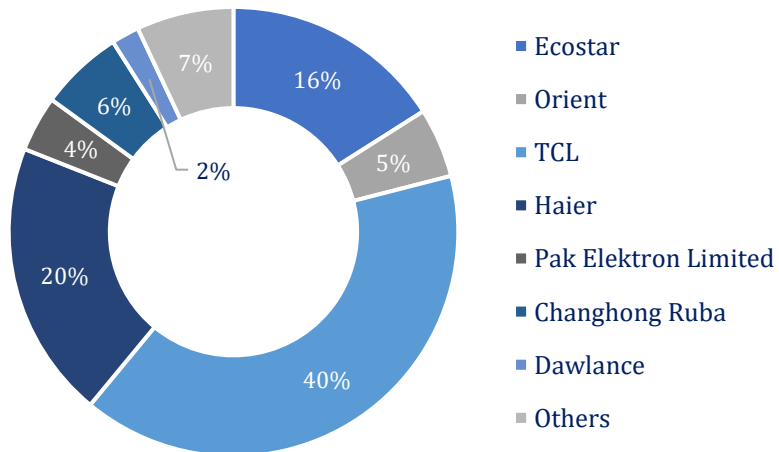
### Market Shares | Refrigerators



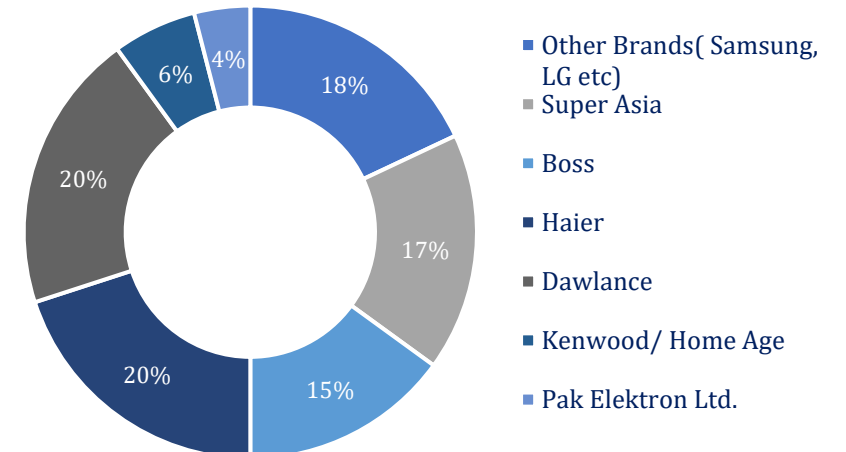
### Market Shares | Deep Freezers



### Market Shares | LED TV



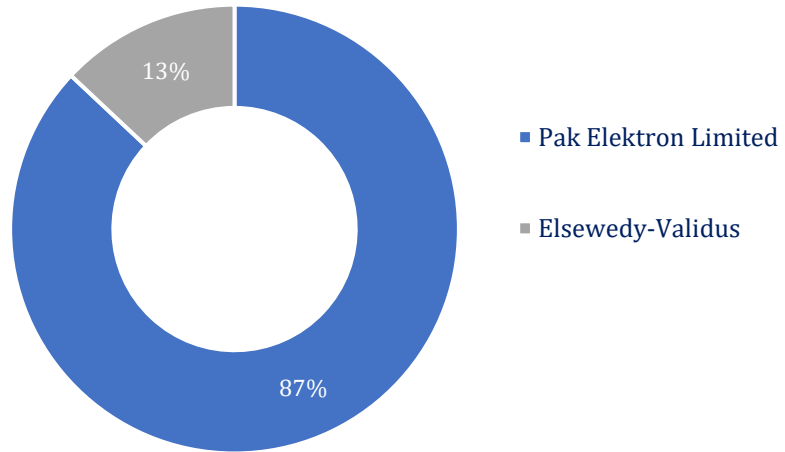
### Market Shares | Washing Machines



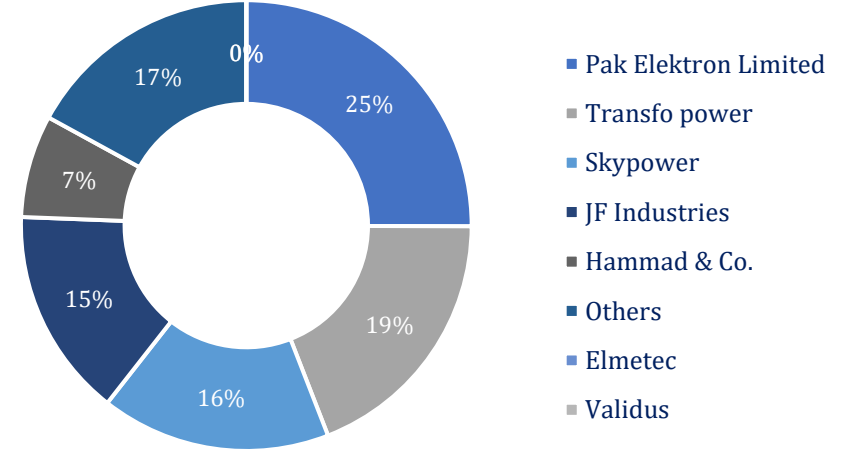
# Household Appliances

## Local | Market Shares | Power Appliances (3QCY23)

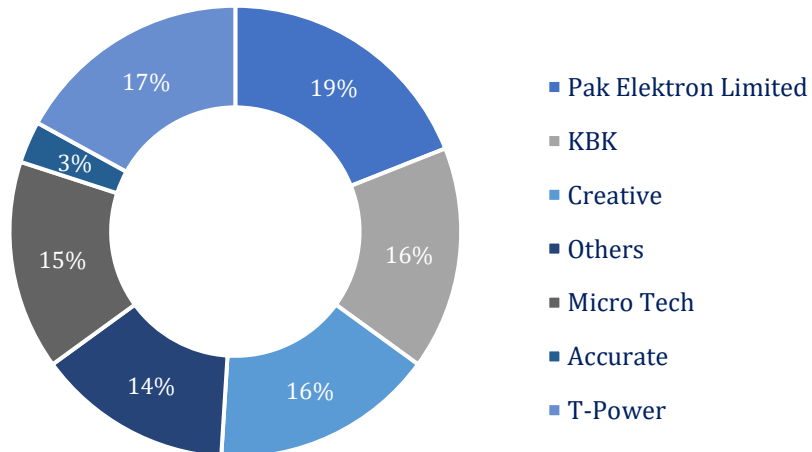
Market Shares | Power Transformers



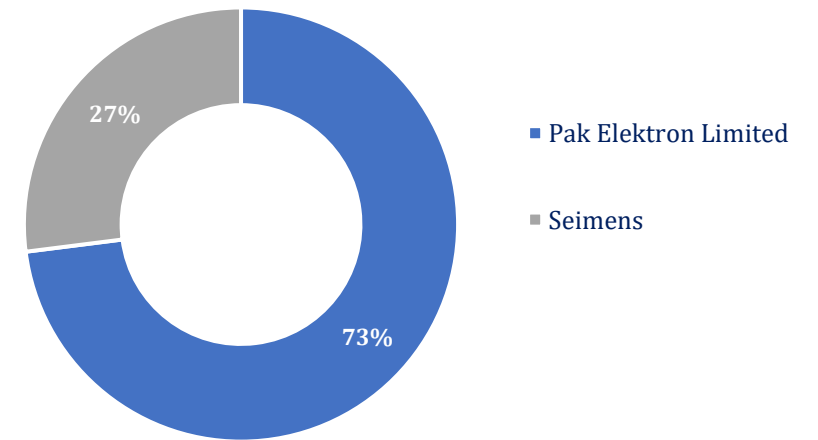
Market Shares | Distribution Transformers



Market Shares | Energy Meters



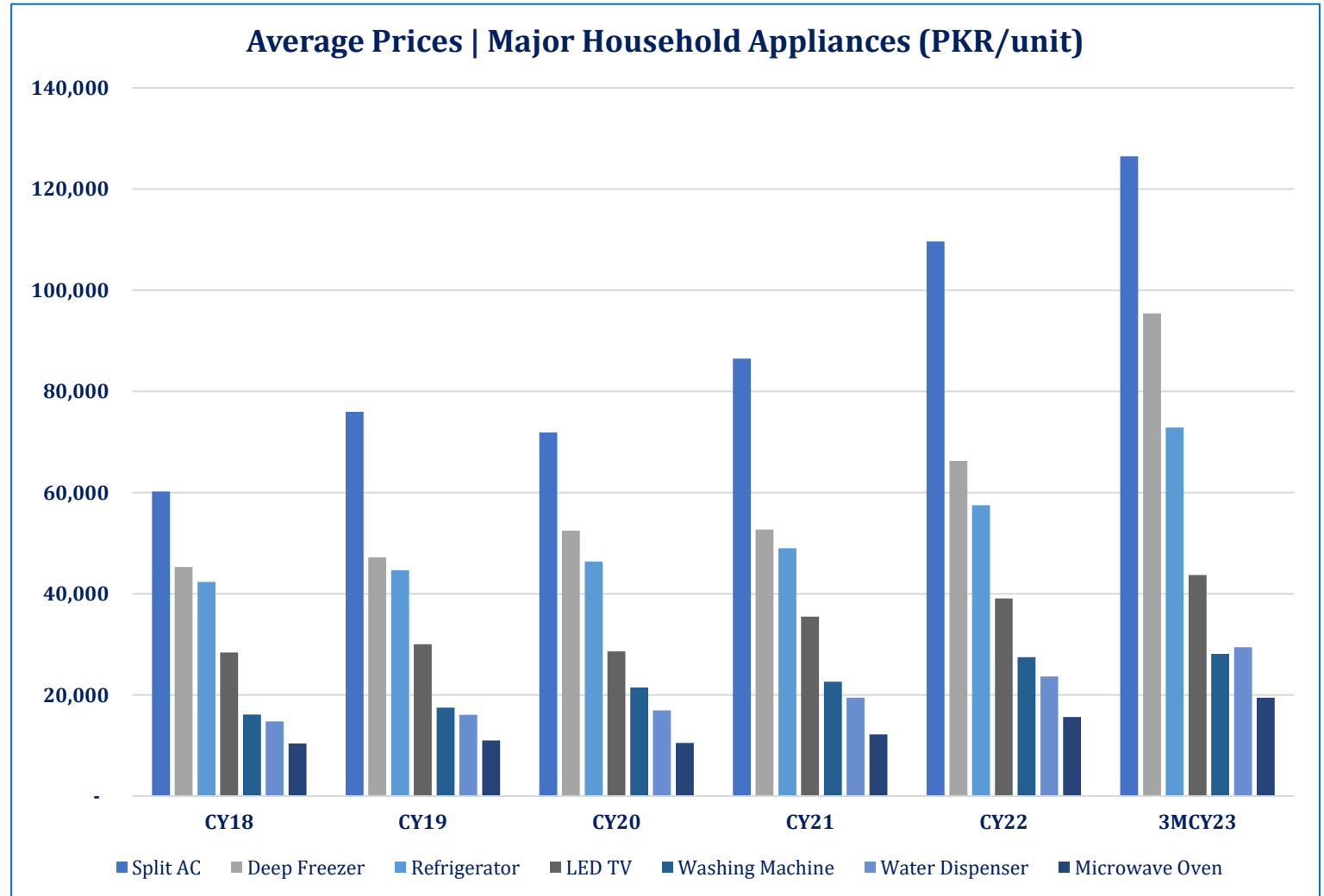
Market Shares | Switchgears



# Household Appliances

## Local | Prices

- Average prices of Major household appliances have gradually increased over the years, in line with increasing 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.
- Individually, average price of split A.C. increased ~26.8% YoY, deep freezers increased by ~25.8%, microwave ovens ~28.3%, washing machines ~21.5% and water dispensers ~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

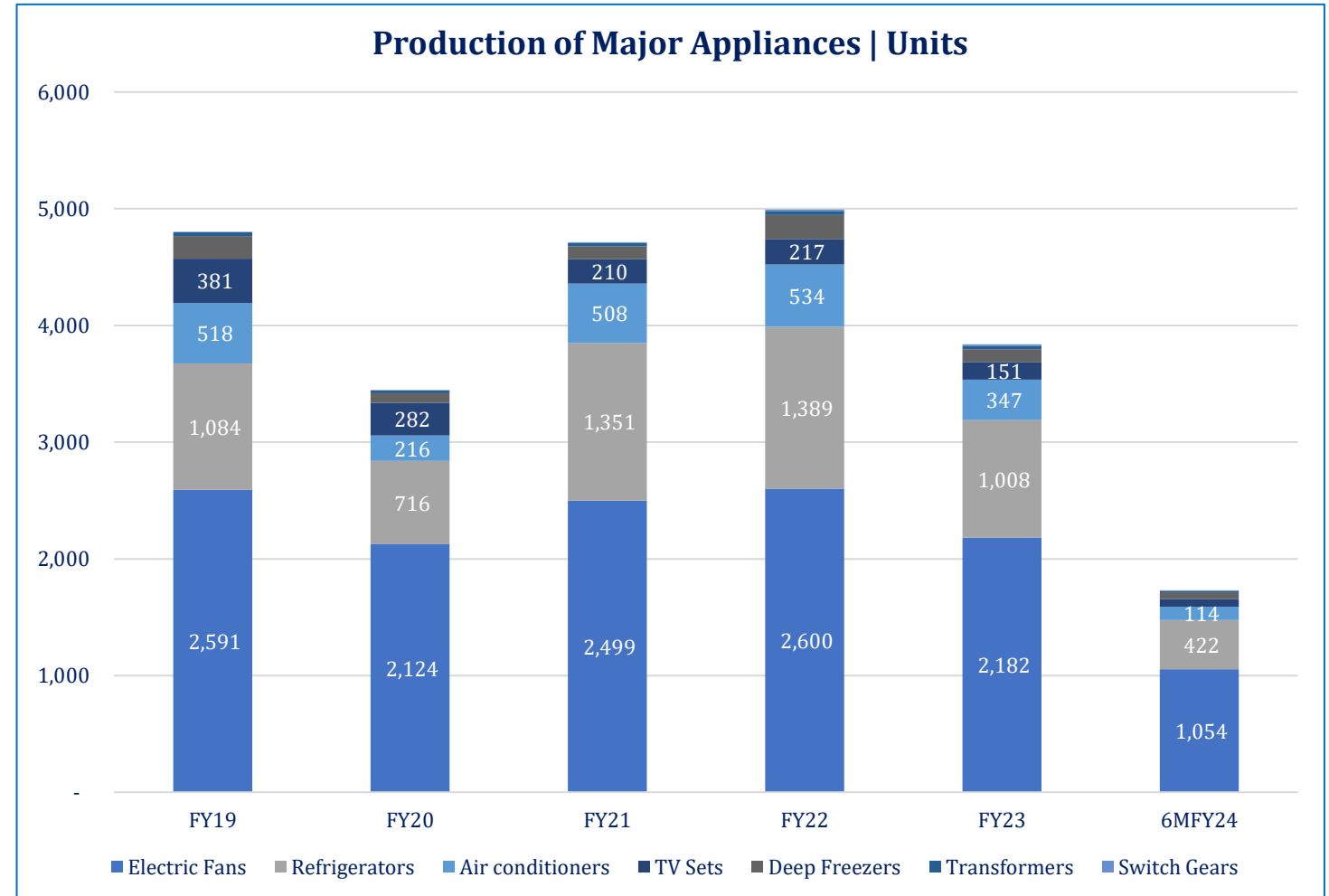
## Local | Supply

- 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 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 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
- Even though the sector 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 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 growth in this market.
- The Household Appliance sector is dominated by well-recognized brands and requires extensive capital investment, therefore, the barriers to entry in the market are high.

# Household Appliances

## Local | Production

- Overall production levels of major household appliances were down ~23.3% YoY FY23 (SPLY: ~5.9% YoY growth), amounting to ~3.8mln units in FY23.
- The more pronounced production decline was recorded for deep freezers (~48.0%), followed by air conditioners (~34.9%), T.V. sets (~30.3%) and refrigerators (~27.4%).
- In 6MFY24 period, total production amounted to ~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

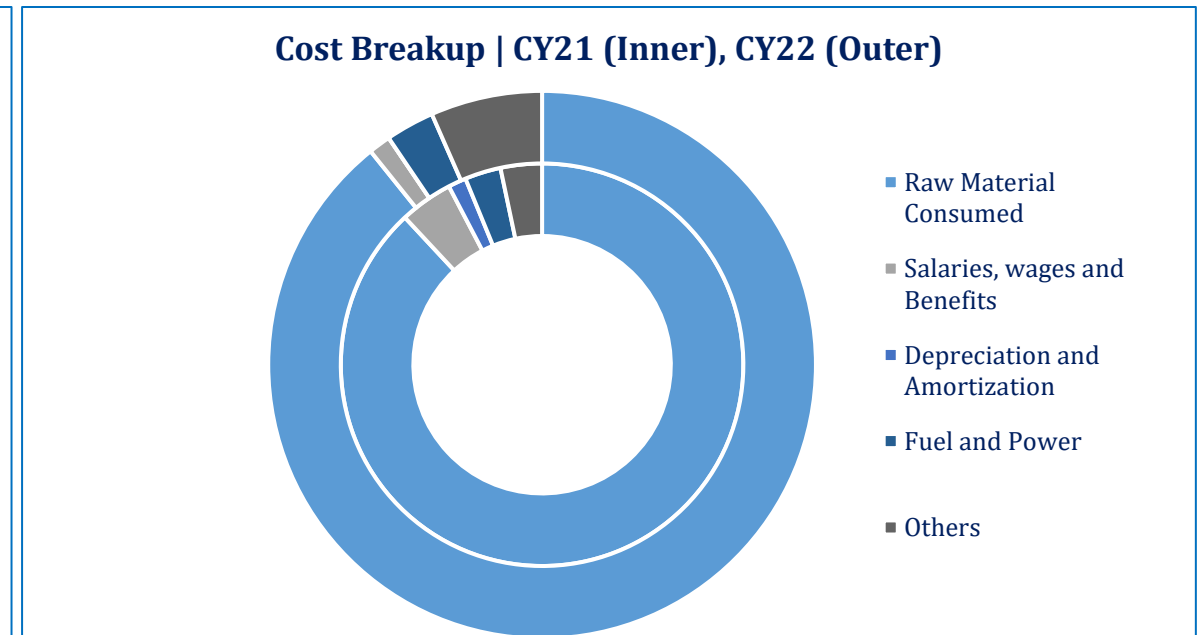
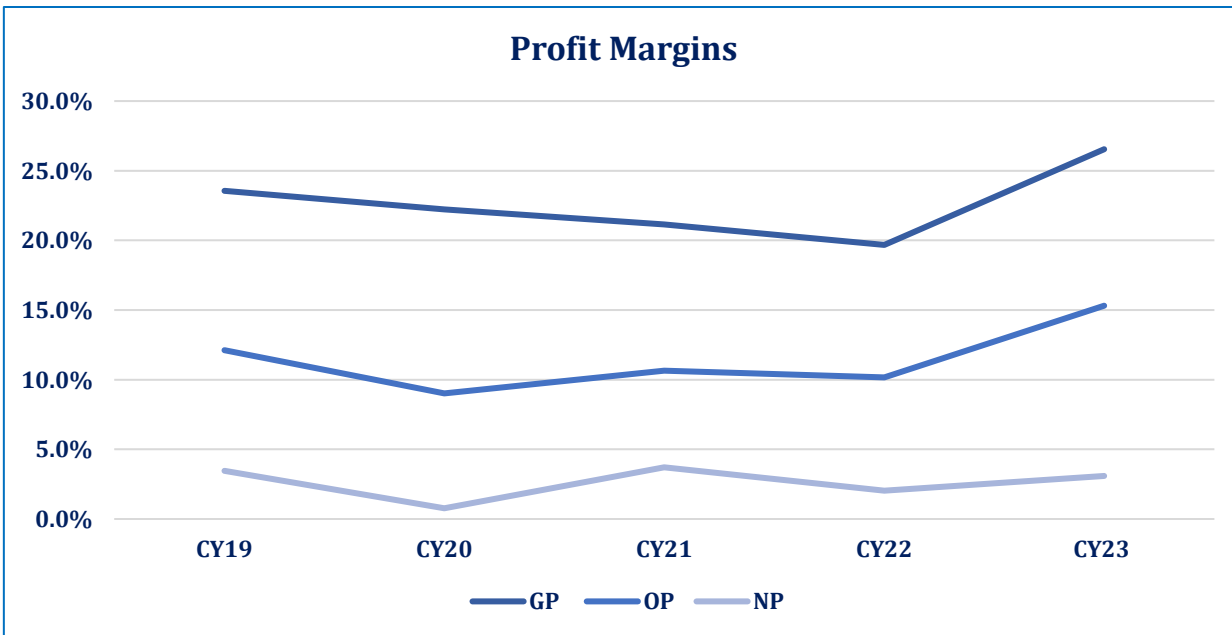
- **Economic Fluctuation:** Demand in the Household Appliances sector is a function of disposable income of consumers. Thus, any fluctuation in per capita incomes vis-à-vis inflation impacts the sector players' performance.
- **Raw Material:** The sector is largely involved in assembling of imported parts. Significant currency depreciation in recent years has, therefore, resulted in increased cost of imported appliance components and parts. This, in turn, has increased the cost of production for 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, not to full extent.



# Household Appliances

## Business Risk | Margins and Cost Breakdown

- Average gross margins of the sector in the CY19-22 period stood at ~22.0% and increased to ~26.6% in CY23, on the back of higher prices and increased raw material costs being passed on to end-consumers.
- Similarly, average operating margins also rose to ~15.3% in CY23 (SPLY: ~10.2%), reflecting better expense management and the substantial increase in revenue being enough to absorb the increase in operating and non-operating costs. However, average net margins only slightly rose to ~3.1% in CY23 (SPLY: ~2.0%) despite ~17.3% YoY increase in finance costs.
- The largest component of the sector’s direct costs is raw material which constituted ~89% of direct costs in CY22. Thus, any fluctuation in the price and availability of raw material can have a significant impact upon the sector players’ performance.



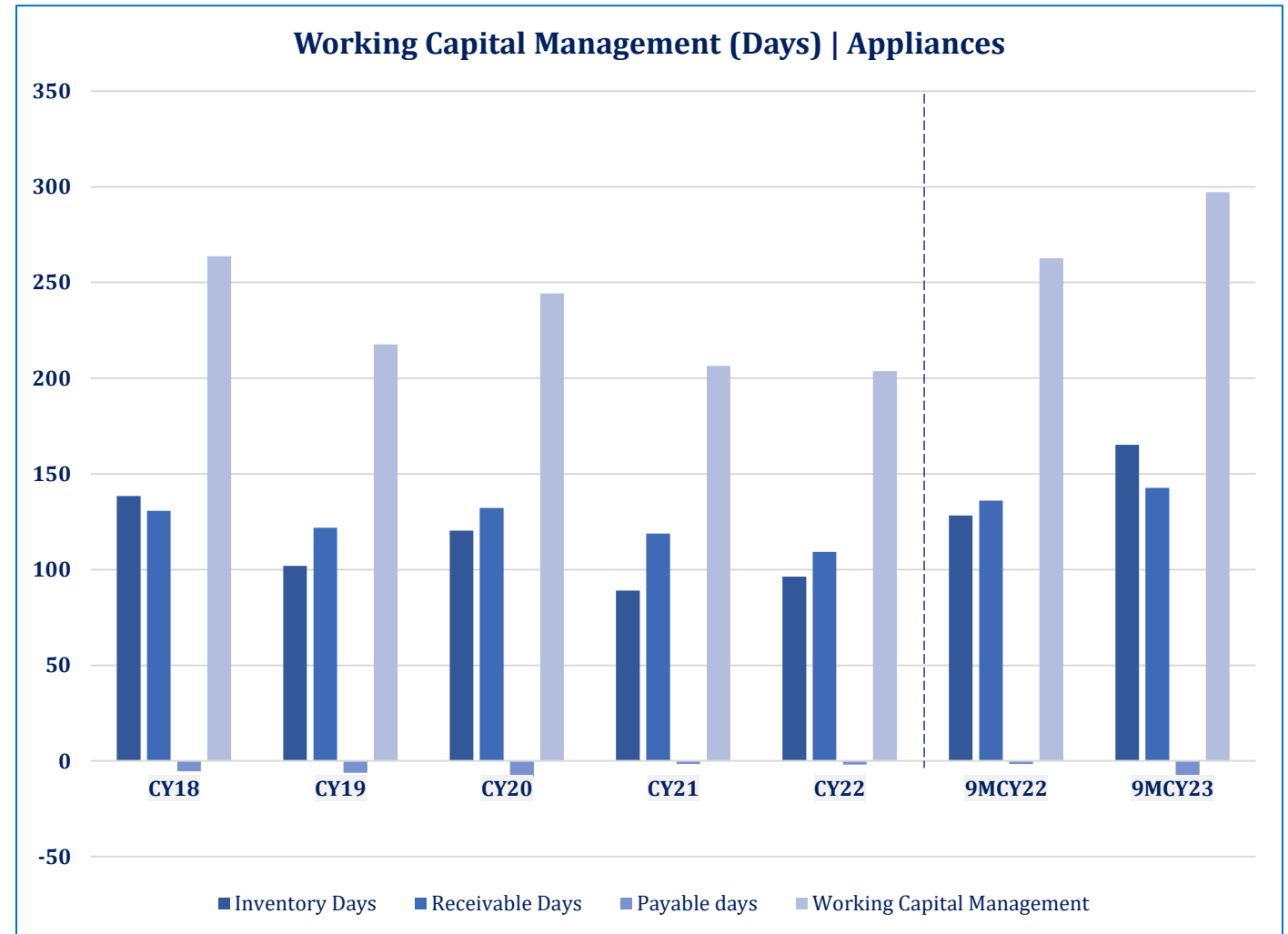
*Note: Data is reflective of listed/ PACRA-rated sector players. CY23 data is pro rated of 9month data*



# Household Appliances

## Financial Risk | Working Capital Management

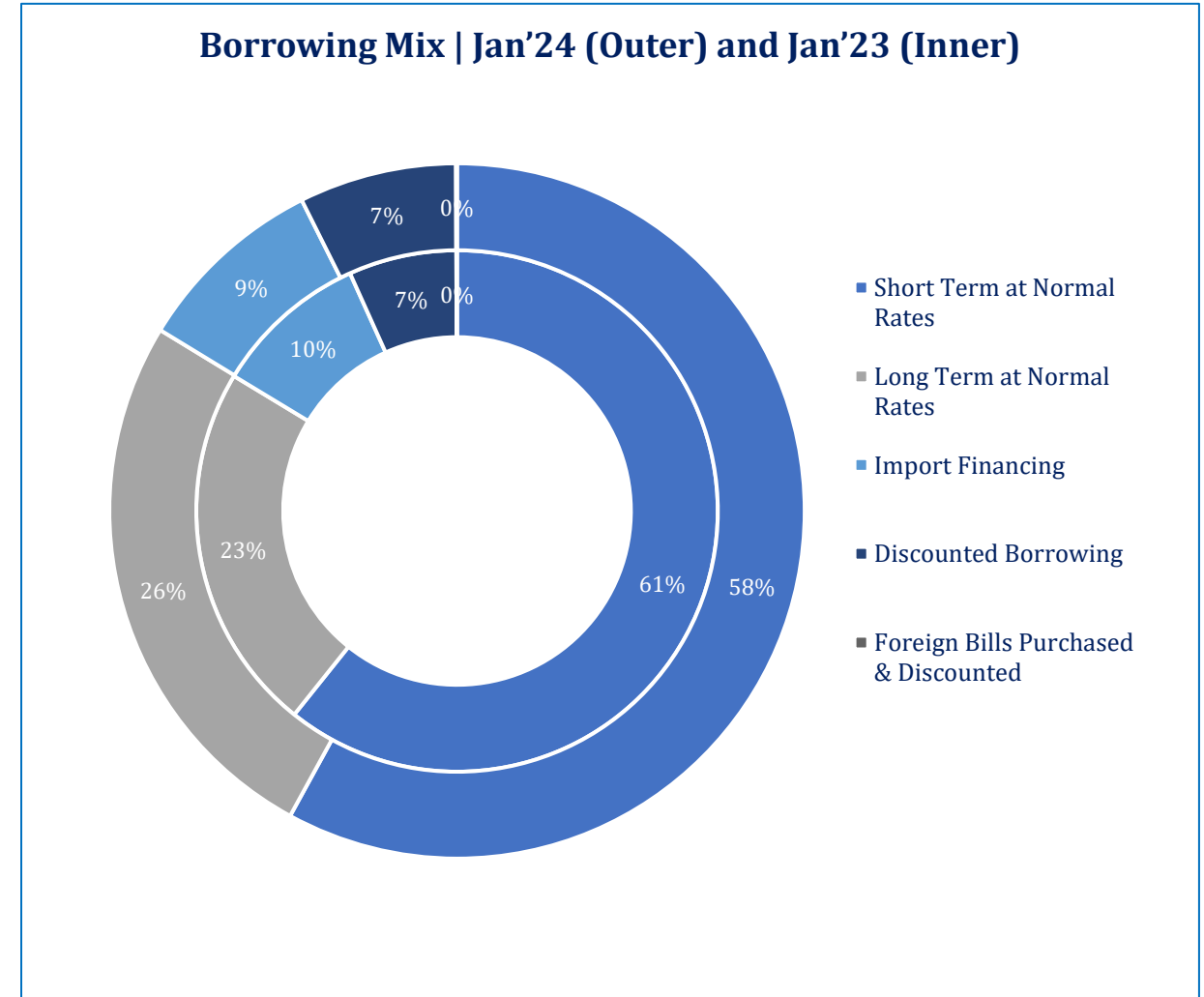
- The sector’s working capital management is largely a function of its inventory and trade receivables. Due to seasonality in demand, the industry builds up its stock levels prior to the peak season, i.e. the summer months. In addition, there is a large proportional of credit sales due to which trade receivables remain high.
- Sector’s average working capital cycle recorded at ~233 days during CY18-21, staying relatively stable in CY22 at ~206 days (SPLY: ~204 days).
- However, average working capital days rose to ~297 days in 9MCY23 period, with average inventory and receivable days recording YoY increase of ~37 days and ~7 days, respectively, reflecting overall lower sales.
- Lower sales, in turn, reflect lower purchasing power of consumers on the back of ~76.4% YoY increase in average national CPI, which recorded at ~ 31.4% during 9MCY23.



# 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% of the total borrowing as of End-Jan'24 and stood at PKR~33.1bln as at End-Jan'24, marking ~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 is moderately leveraged with an average leveraging ratio of ~26% and recorded interest coverage of ~1.64x in CY23 (SPLY: ~1.72x).



# Household Appliances

## Duty Structure

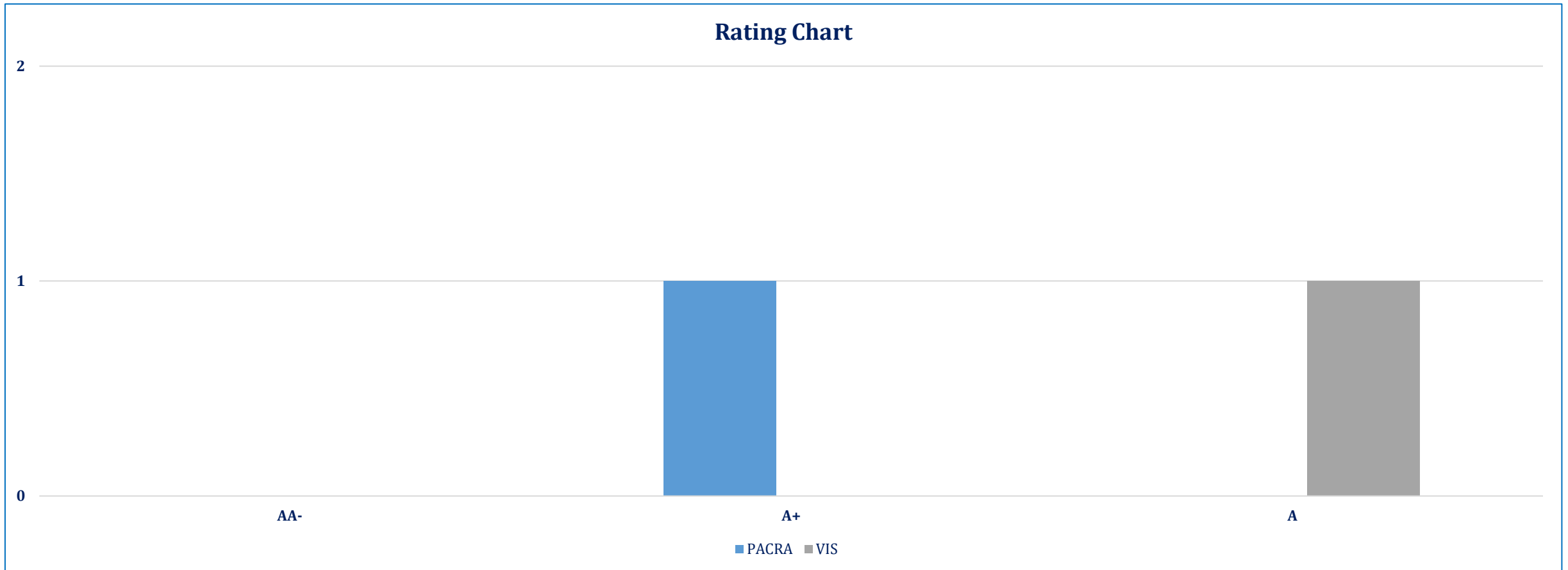
- With respect to Income Tax, the Household Appliances industry is under the Normal Tax Regime (NTR). Further, the sector is also subject to Minimum Tax @ 1.5% of turnover, if tax liability under NTR is lower than minimum tax. However, the additional tax paid under minimum tax is adjustable against future 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 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 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 economy posted a real GDP contraction of ~0.2% in FY23 (FY22: ~6.1%), while the LSM declined by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22, and consequent sluggish demand across major industrial sectors of the country. The Household Appliances sector is categorized under the Large Scale Manufacturing (LSM) sub-segment of the economy 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 Appliance Market. In FY23 the electrical equipment sector in the LSM recorded ~22.5% YoY decline (FY22: ~8.8%).
- During FY23, Major household appliance output was down ~23.3% YoY (SPLY: ~5.9% YoY growth), amounting to ~3.8mln units. Deep freezers exhibited the most marked fall in manufacturing (~48.0% YoY), followed by air conditioners (~34.9%), television sets (~30.3%), and refrigerators (~27.4%).
- The sector's estimated size was recorded at PKR~327bln in CY23, a YoY decrease of ~22.1%. The negative growth likely resulted dur to production declining ~23.2% YoY, along with slowdown in demand in line with higher prices. Major household appliances average prices have risen over time, along with rising raw material costs and the overall high rates of inflation. Average price of split A.C. increased ~26.8% YoY, deep freezers increased by ~25.8%, microwave ovens ~28.3%, washing machines ~21.5% and water dispensers ~21.5% YoY.
- Average gross margins of the sector during CY19-22 period stood at ~22.0% and increased to ~26.6% in CY23, on the back of higher prices and increased raw material costs being passed on to end-consumers. Average net margins only slightly rose to ~3.1% in CY23. Sector's average working capital cycle recorded at ~233 days during CY18-21, staying relatively stable in CY22 at ~206 days (SPLY: ~204 days). The household appliances sector recorded a total borrowing of PKR~52.1bln as at End-Jan'24, marking a YoY decrease of ~20.2%.
- Despite the sector players recording stable margins in CY23 amid macroeconomic volatility in 1HCY23, demand prospects for household appliances are expected to remain muted in the short-medium term, owing to persistent inflationary pressures, diluted disposable incomes (GNI per capita in FY23 was down ~2.3% YoY) and THE pass-through impact of raw material costs.

# Household Appliances

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- PACRA Database
- Pakistan Electronics Manufacturers' Association (PEMA)
- Pakistan Economic Survey (PES)

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