



Furniture & Fixtures



Research Team

Saniya Tauseef | Senior Manager Research
Ayesha Wajih | Supervising Senior Research
Saba Farooq | Research Analyst



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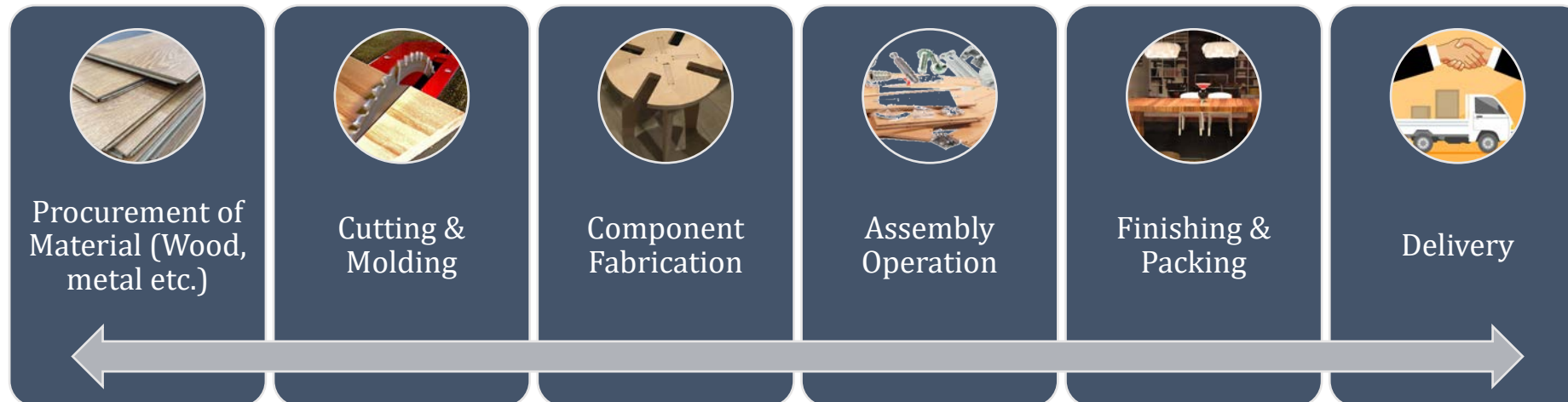
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Introduction

- Furniture & Fixtures are objects used to make a room 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 & Fixture production process is as follows:



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Global | Overview

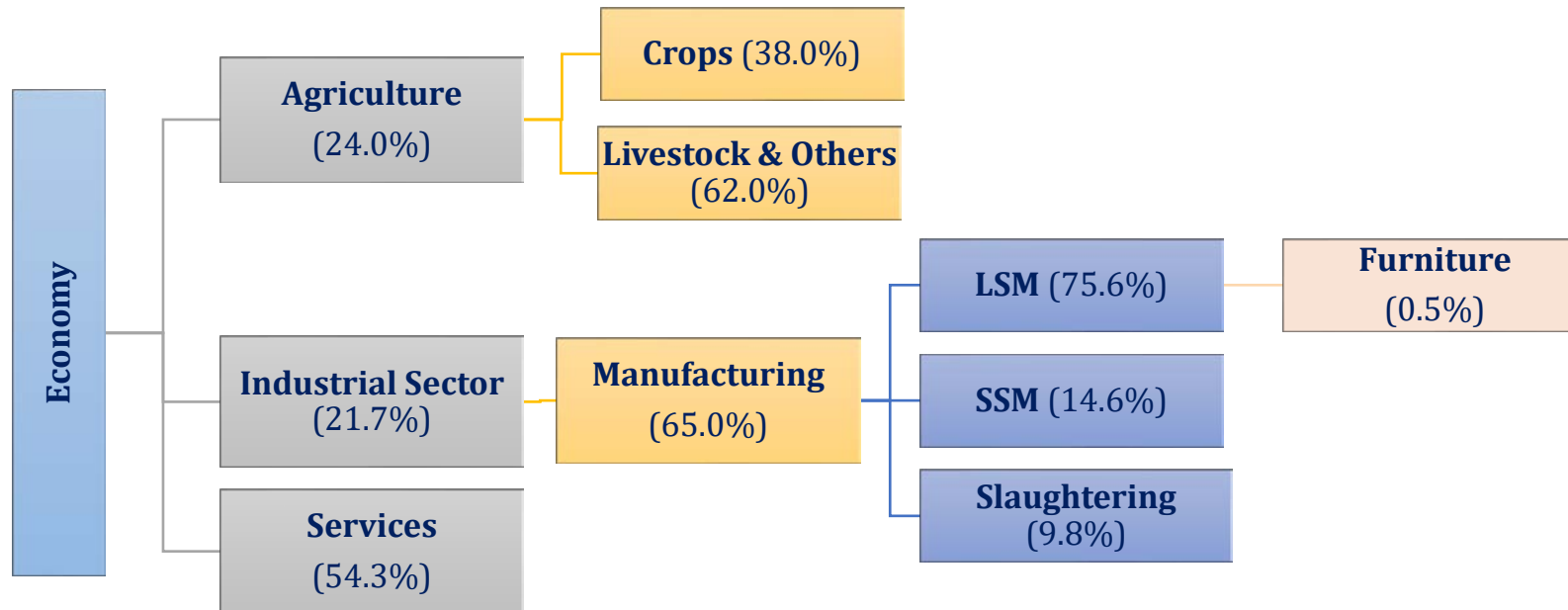
- **Size:** The global furniture market grew from USD~691bln in CY22 to USD~739bln in CY23 at a compound annual growth rate (CAGR) of ~7.0%. The furniture market is expected to grow to USD~936bln in CY27 at a CAGR of ~6.1%.
- **Region-wise:** Asia-Pacific was the largest region in the furniture market in CY23, valued at USD~237bln in CY23 with a share of ~32.1%. The regional market is expected to reach USD~368bln by CY32. Europe was the second-largest region with a share of ~28.0%, followed by North America (~25.0%), Latin America (~7.0%), and Middle East and Africa (~8.0%).
- **Types (Material):** Wood material for furniture covers the largest share in the furniture market with ~41.0% share. The properties of wood are one of the top factors that increase the demand for the material in the furniture market. Some types of wood materials would be used in the manufacturing of furniture including wooden panels, plywood, and particleboard.
- **Types (Usage):** In terms of use, the home furniture segment occupied ~61% of the total market while the remaining ~39% comprised office furniture in CY23.
- **Developments:** In recent years, ready-to-assemble furniture has surged in popularity, led by IKEA, known for its modern designs.
- Furniture manufacturers are embracing augmented reality (AR) technologies to enhance sales presentations and customer decision-making. AR mobile apps enable customers to virtually place 3D furniture models in their real rooms, allowing for a comprehensive view from various angles. For example, IKEA's AR app, Place, offers previews of ~2,000 furniture pieces in customers' homes before purchase.



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Local | Introduction

- In FY23, Pakistan’s GDP (nominal) stood at PKR~79.7trn (FY22: PKR~63.3trn), 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% of the value addition. In 1QFY24, Pakistan’s GDP (nominal) stood at PKR~22.6trn (1QFY23: PKR~18.4trn), 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 ~75.6% value of all manufacturing activities in FY23. The LSM fell by ~10.3% in FY23 (FY22: ~11.7%) and further declined by ~0.39% YoY in 6MFY24 period.
- The Furniture sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY23, the Furniture sector’s weight in the QIM was recorded at ~0.51%. The Furniture sector in LSM experienced significant decline of ~37.3% YoY in 6MFY24.



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Local | Overview

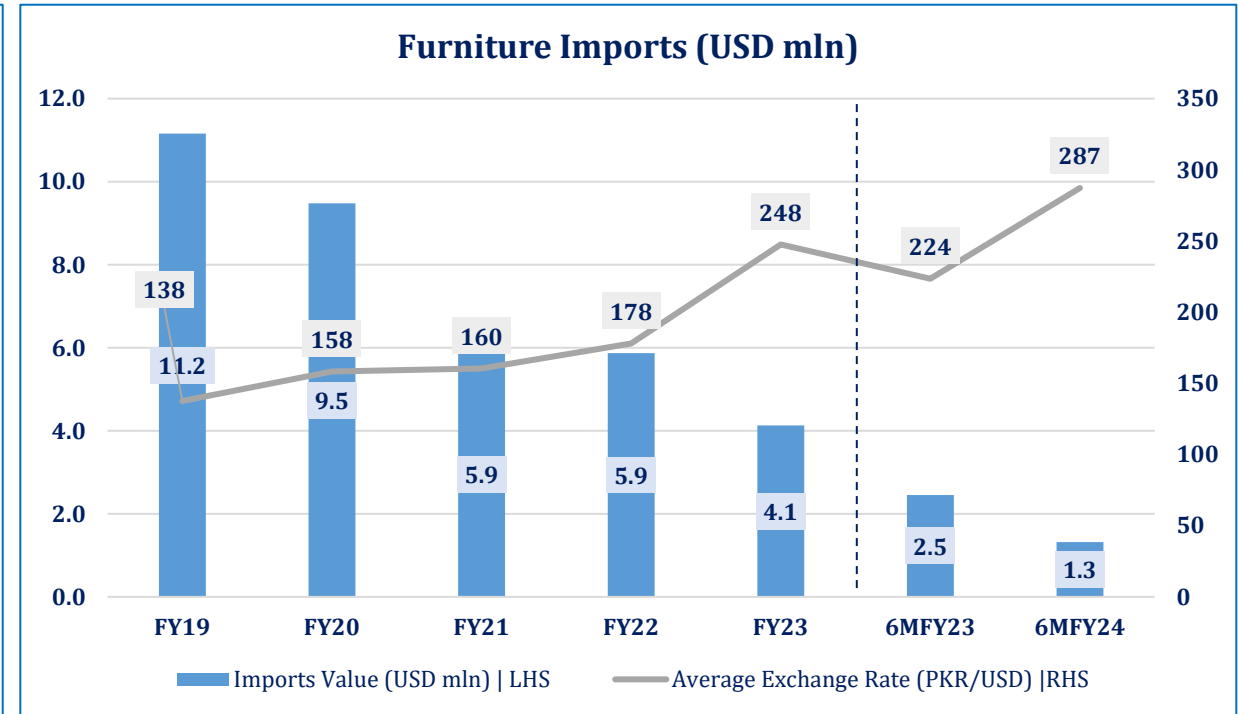
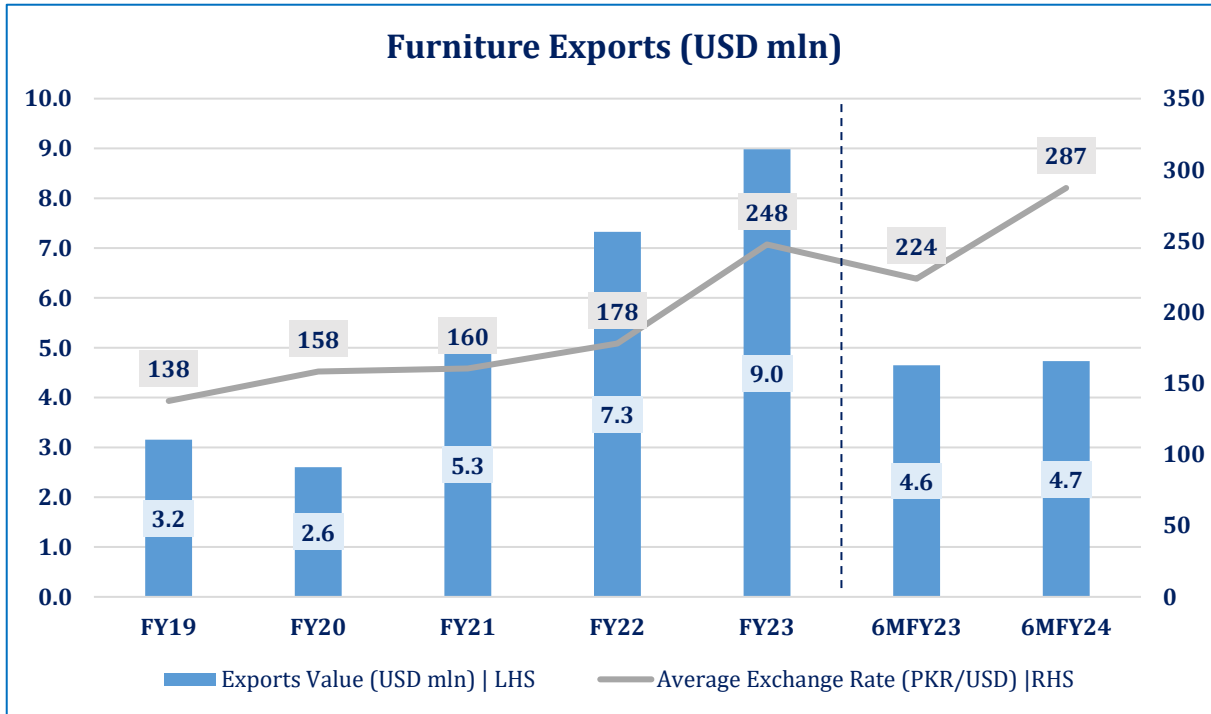
- The sector comprises numerous small and medium-sized players. As a result, there is a high level of competition among sector players. The performance of the furniture in LSM improved by ~46.5% YoY in FY23, while in 6MFY24, the sector’s LSM growth was down ~37.6% YoY.
- The Sector primarily serves the domestic market, with only a small portion dedicated to exports. During FY19-23, average exports amounted to USD~5.5mln. In FY23, there was a notable increase in exports, with a rise of ~70.6% in PKR value terms (reflecting ~39.0% currency depreciation against the USD), while in USD terms, these were up ~22.6% YoY.
- Local demand is met through local production as well as imports. Average imports stood at USD~7.3mln during FY19-23 and declined in FY23 by ~29.7% YoY likely due to government austerity measures aimed at reducing the fiscal deficit, including bans on purchasing office furniture, machinery, and other equipment.
- The organized segment of the sector consists mainly of players targeting high-end customers. They have strong brand identities and operate with large retail outlet chains. Some prominent players include Interwood Mobil, Habitt Furniture, National Furniture, and ChenOne.

Sector Overview	FY22	FY23	6MFY23	6MFY24
No. of Players	~5-6 Large Players			
Furniture Imports (USD mln)	5.5	4.1	2.5	1.3
Furniture Exports (USD mln)	7.3	9.0	4.6	4.7
Industry Association	All Pakistan Furniture Makers Association (APFMA), All Pakistan Furniture Exporters Association (APFEA)			

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Local | Exports & Imports

- In FY23, Pakistan’s exports of furniture experienced a growth of ~22.6% YoY in USD terms. During FY19-23, the sector's average exports stood at USD~5.5mln.
- In contrast, Pakistan’s imports of furniture experienced a significant decline of ~29.7% YoY in FY23. During FY19-23, the sector's average imports stood at USD~7.3mln. In 6MFY24 period, these declined by ~46.2% YoY in value terms.



Note: Data is based on HS code: 9403.

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Local | Export Destinations

- Pakistan's furniture exports are primarily focused on Germany and the USA, which accounted for ~41.0% and ~16.0% of total exports, respectively, in FY23. Romania emerged as another significant export destination in FY23, contributing ~16.0% to the total export share.
- Meanwhile, exports to the United Kingdom and Poland constituted ~7.0% and ~2.0%, respectively, of the total exports in FY23.

Export Destinations	FY19		FY20		FY21		FY22		FY23		6MFY23		6MFY24	
	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%	Amount (USD 000)	%
Germany	68	2%	111	4%	842	16%	3,114	43%	3,716	41%	1,767	38%	811	17%
Romania	0	0%	5	0%	0	0%	0	0%	1,445	16%	1,445	31%	0	0%
USA	1,227	39%	941	36%	2,049	39%	1,915	26%	1,420	16%	387	8%	1,449	31%
UK	231	7%	266	10%	498	9%	595	8%	629	7%	351	8%	347	7%
Poland	0	0%	0	0%	0	0%	0	0%	143	2%	143	3%	0	0%
Qatar	19	1%	12	0%	451	9%	109	1%	32	0%	50	1%	9	0%
UAE	291	9%	272	10%	224	4%	234	3%	0	0%	5	0%	85	2%
ROW	1,319	42%	996	38%	1,239	23%	1,359	19%	1,598	18%	501	11%	2,029	43%
Total	3,155	100%	2,603	100%	5,303	100%	7,326	100%	8,983	100%	4,649	100%	4,730	100%

Note: Exports data is based on HS Code: 9403.

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Local | Business Risk

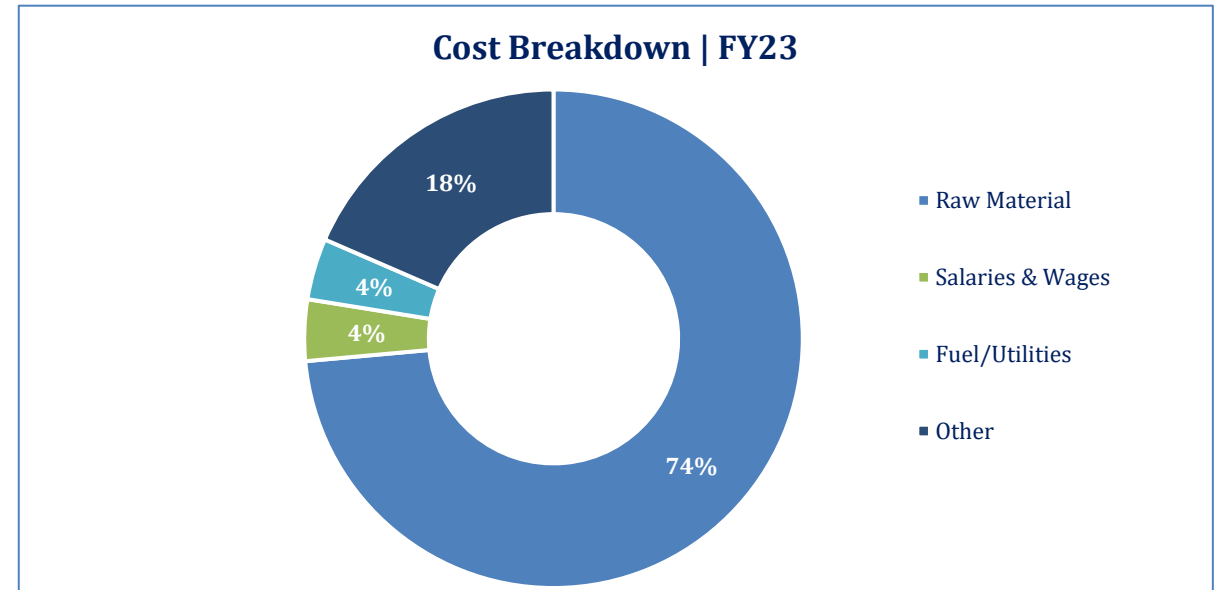
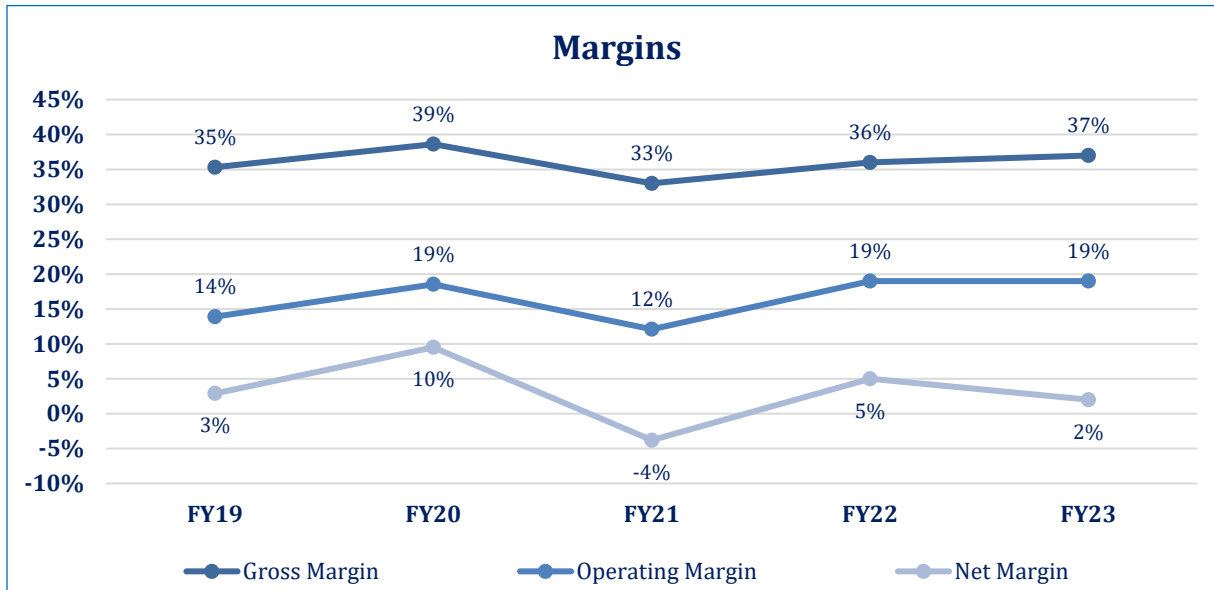
- Competition:** There is a high level of competition in the Sector due to the presence of a large number of small and medium-sized furniture players who operate workshops that can provide furniture items customized to each consumer's needs. These players target the middle and upper-middle customer market. They are not in direct competition with a few large players who have strong brands and retail outlets and target high-end and office furniture segments. On the other hand, there is significant competition for imported furniture in the high-end segment as many consumers have a preference for international brands that provide high-quality items according to the latest trends and modern designs.
- Economic Contraction:** Demand for the local sector is linked with consumers' disposable incomes.. As of End-Jun'23, average inflation stood at ~29.4% (SPLY: ~21.3%), while in 7MFY24 this recorded at ~28.3% (SPLY: ~27.6%). Due to high inflation levels and increase in the policy rate to ~22% in Jun'23 (SPLY: ~13.8%), disposable incomes declined and borrowing costs increased.
- Raw Material:** Pakistan's forest coverage currently stands at only ~4.8% and local raw material has been depleted in recent years due to illegal deforestation. Lately, reliance on alternative materials (chip boards, plastic and metal) has been increasing.



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Local | Business Risk

- Sector’s average gross margin recorded at ~36.0% during FY19-23. Meanwhile, the average net margin averaged ~3.1% 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. In FY23, the gross margin largely remains stable due to ~15.7% YoY increase in net sales, which was enough to offset ~15.1% YoY increase in COGS.
- Average net margins, however, declined to ~2.0% in FY23 due to ~53.9% YoY increase in average finance cost. The sector earns its revenues from six main product categories, which include, office furniture, home furniture, kitchens, wardrobes, doors, and others, with concentration in office and home furniture segments.
- Raw material is the most significant component of the Sector’s direct costs and constitutes approximately ~74% of the total costs.

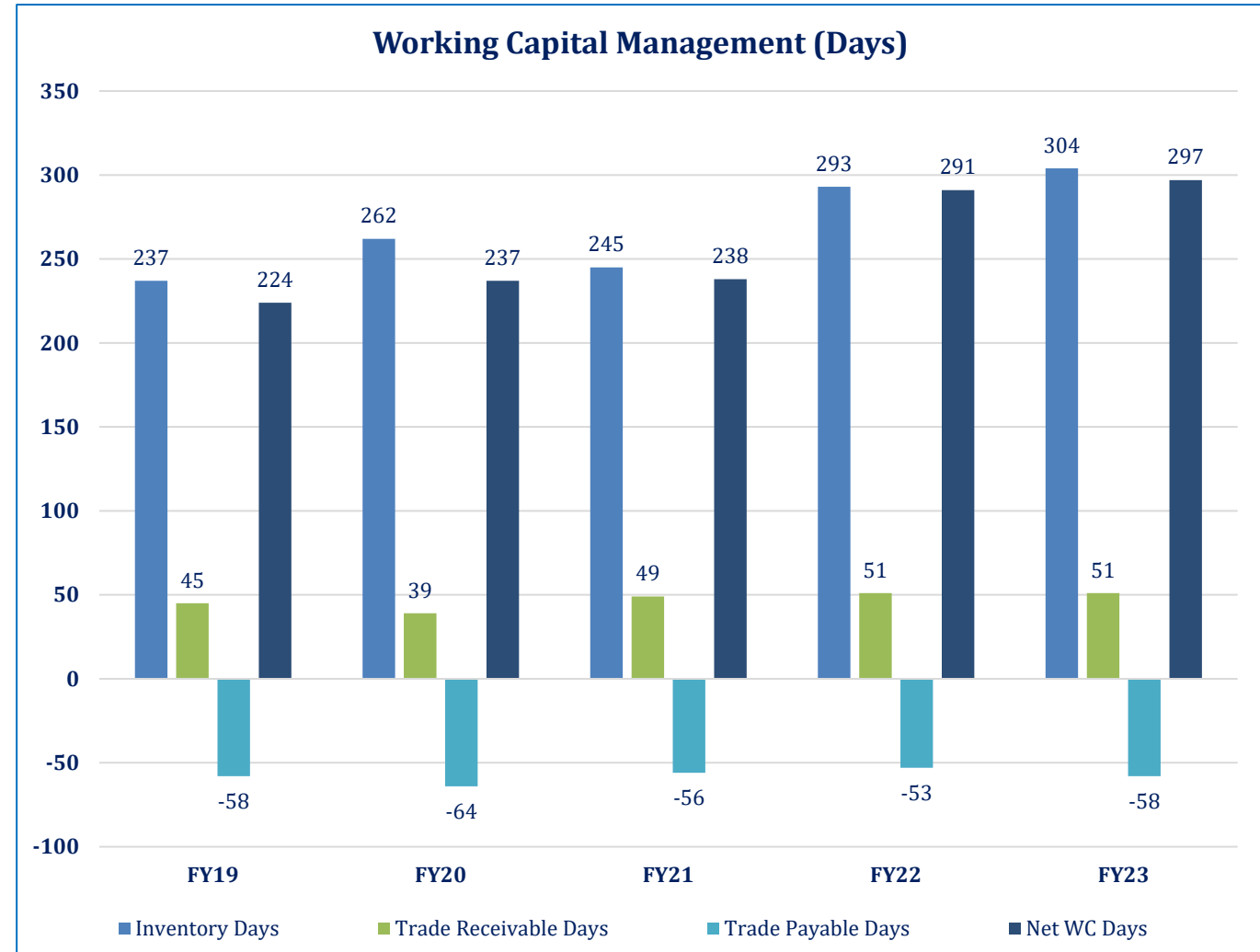


Note: Margins and Cost Breakdown are based on 1 PACRA rated player.

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Local | Financial Risk

- The Sector’s working capital is predominantly a function of its inventories as sufficient stock levels of various products must be maintained to cater to customer demand.
- Average inventory days of the sector stood at ~268 days during FY19-23 and recorded at ~304 days in FY23. This came despite improved sales volume increasing by ~15.7% during FY23 and likely reflects piled-up raw material inventories due to persistent inflationary pressures and a slowdown in economic activity reducing buyer purchasing power and demand.
- Meanwhile average payable days increased to ~58 days in FY23, due to an increase in finance cost by ~55.9%.
- The sector is moderately leveraged, with leverage ratio decreased to ~31.6% in FY23, compared with ~45.1% in FY22

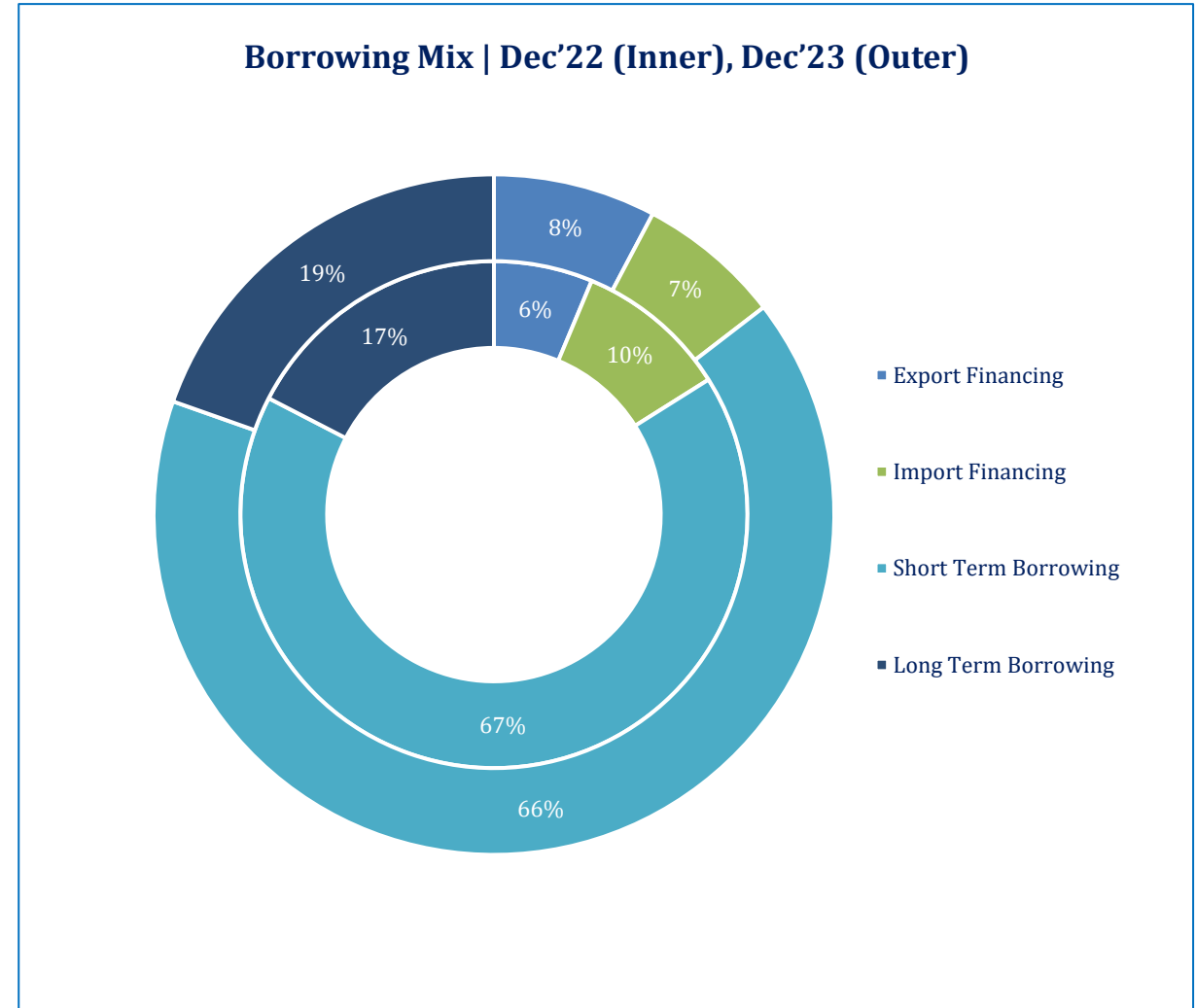


Note: Data is based on 1 PACRA rated player.

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Local | Financial Risk

- The sector’s total borrowings were recorded at PKR~5,857mln as of End-Dec’23, a YoY decrease of ~18.5%. There was a significant decline in short-term borrowings of ~19.3% YoY, with these making up ~66% of the sector’s total borrowing (SPLY: STBs formed ~67% of the total borrowing).
- Long-term borrowing also decreased by ~8.2% YoY whereas import financing was down ~42.9% YoY during the same period.
- With MPR increasing to ~22% in End-Jun’23 (SPLY: ~13.8%), sector’s average finance cost also rose by ~55.8% YoY. Moreover, the sector’s average interest coverage dipped to ~1.2x in FY23 (FY22: ~1.6x), despite STBs declining ~19.3% YoY.



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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 protects local manufacturers. In addition, sales tax of ~18% is also applicable on the Sector.
- In Jul'22, the SBP linked the policy rate to the Export Finance Scheme (EFS) and Long Term Financing Facility (LTFF) rates by fixing the gap between the former and latter two rates at 500 basis points. At this time, the policy rate was 22% and LTFF and EFS rates were 17% each. Subsequently, in Nov'22, SBP raised the policy rate to 16% which increased the LTFF and EFS rates to 11%. In Dec'22, SBP announced that the gap between the concessional borrowing rates and policy rate will be reduced to 300 basis points thereby increasing the LTFF and EFS rates to 13%. In Jun'23, SBP once again hiked the policy rate upwards which now stands at a level of ~22%. Accordingly, concessional borrowing rates now stand at ~19%.
- The Sector 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 sector's products in the international market.

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Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
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%	2%	2%	0%	0%	2%	2%
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%	0%	2%	2%	0%	0%	2%	2%
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%	11%	2%	2%	2%	5%	13%	16%
44.12	Plywood, veneered panels and similar laminated wood.	16%	16%	4%	4%	0%	0%	20%	20%
32.08	Paints and varnishes (including enamels and lacquers)	11-20%	11-20%	2-6%	2-6%	5-10%	5-10%	18-36%	18-36%
94.02	Medical, surgical, dental or veterinary furniture	3-20%	3-20%	2-6%	2-6%	0%	0%	5%-20%	5%-20%
94.03	Other furniture and parts thereof	20%	20%	6%	6%	49%	45%	75%	71%

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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.
- Changes in fashion and trends.

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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. In FY23, the Furniture sector's weight in the QIM was recorded at ~0.51%, while its performance improved by 46.5% YoY.
- The LSM activity has slowed down by ~0.39% YoY in 6MFY24 period, meanwhile the Furniture sector in the LSM experienced a decline of ~37.4% during the same period due to a slowdown in economic activity reducing buyer purchasing power and demand.
- Exports of the sector increased by ~22.6% in USD terms and ~70.6% in PKR terms (reflecting currency devaluation by ~39.0% YoY in FY23). On the other hand, imports were down ~29.7% YoY in USD terms and ~2.2% YoY in PKR terms likely due to government austerity measures aimed at reducing the fiscal deficit, including bans on purchasing office furniture, machinery, and other equipment.
- The demand of the furniture sector largely is a function of disposable incomes, which have declined due to high inflation. As of End-Jun'23, average inflation was ~29.4% (SPLY: ~21.3%), and in 7MFY24, it recorded at ~28.3% (SPLY: ~27.6%). The policy rate also increased to ~22% in Jun'23 (SPLY: ~13.8%), further impacting disposable incomes and raising borrowing costs. However, with inflation expectations likely to be anchored in the medium term, along with stable interest rates, demand for the sector is likely to pick up pace.
- The sector maintained a strong gross margin of ~36.0% during FY19-23. In FY23, stable gross margins were sustained despite rising costs by ~15.1%, as higher net sales by ~15.7% offset higher COGS. However, average net margins dropped to ~2.0% in FY23 due to a substantial YoY increase in finance costs by ~53.9%, reflecting a challenge in managing operational expenses effectively.
- Overall, the sector's performance is likely to remain rangebound, with mild economic recovery in sight, including factors like a stable currency, lower inflation levels and stable interest rates, along with sluggish LSM performance in 6MFY24 period.

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Research Team	Saniya Tauseef Sr. Manager Research saniya.tauseef@pacra.com	Ayesha Wajih Supervising Senior Research ayesha.wajih@pacra.com	Saba Farooq Research Analyst saba.farooq@pacra.com
Contact Number: +92 42 35869504			

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