

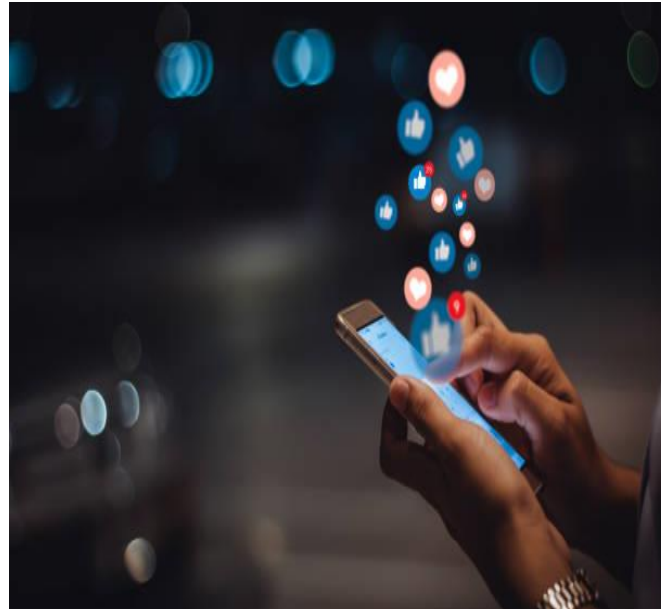


MOBILE PHONE & ALLIED PRODUCTS

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Mobile Phone & Allied Products

Contents	Pg.
Global Overview	1
Global Cellphone Penetration	2
Supply Chain	3
Local Overview	4
Local Market Dynamics	5
Local Demand	6
Local Supply	7
Local Mobile Vendors	8
Local Distributors	9
Business Risk Margins	10
Business Risk Cost Structure	11
Financial Risk Working Capital Management	12

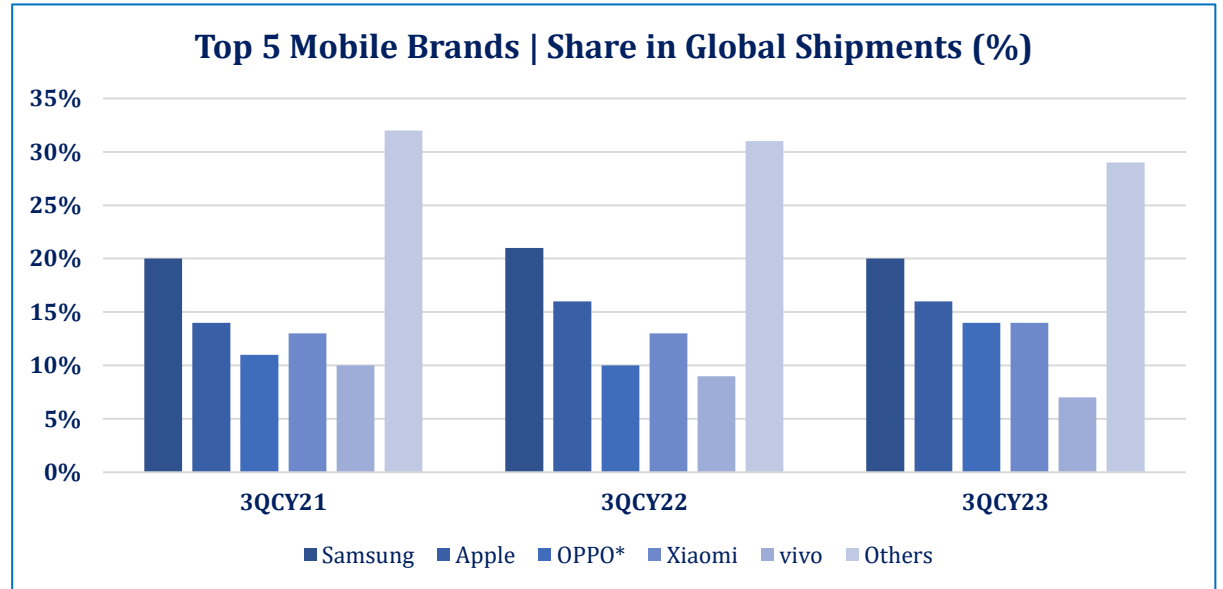
Contents	Pg.
Financial Risk Borrowings	13
Duty Structure	14
SWOT	15
Rating Curve	16
Outlook	17
Bibliography	18

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Global | Overview

- Market structure:** The mobile phone manufacturing industry is fragmented with a large number of global players. However, it can still be termed as an oligopoly, since the top 5-6 brands make up ~70% of the overall market share (in terms of shipments, as depicted below).
- Top Players:** In CY23, the leading brands in the market in terms of shipments included Apple, Samsung, Xiaomi, Vivo and Oppo. In 9MCY23, shipments decreased YoY ~8.1% compared to the same period last year. Across the board, Samsung takes the largest individual share in shipment with ~20% share in 3QCY23, followed by Apple (~16%) and OPPO and Xiaomi, both respectively at ~14%.
- Market size:** Global mobile phone shipments for 9MCY23 clocked in at ~848mln units, a YoY decrease of ~8.1%. The industry has turned from supply-constrained to a demand-stricken one, as roaring inflation and economic uncertainty has dampened consumer spending.

Global Smartphone Shipments (mln units)				
Brand	3QCY22	3QCY23	9MCY22	9MCY23
Samsung	64	59	201	174
Apple	49	49	155	152
OPPO*	30	42	89	99
Xiaomi	41	42	119	105
vivo	26	22	76	64
Others	92	86	283	254
Total	302	300	923	848

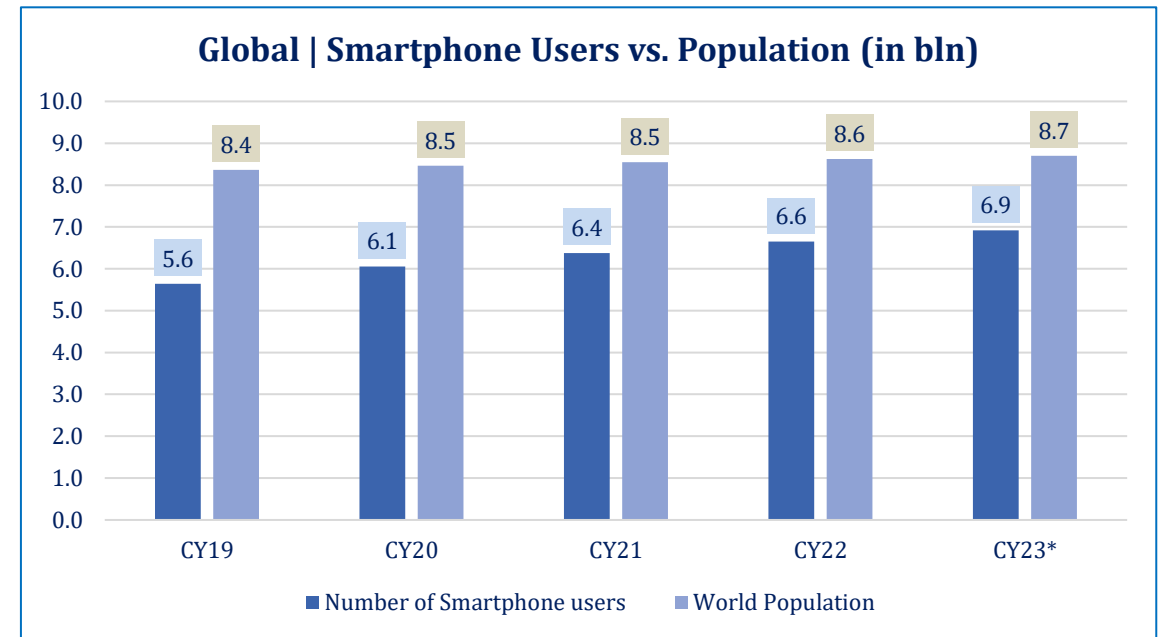
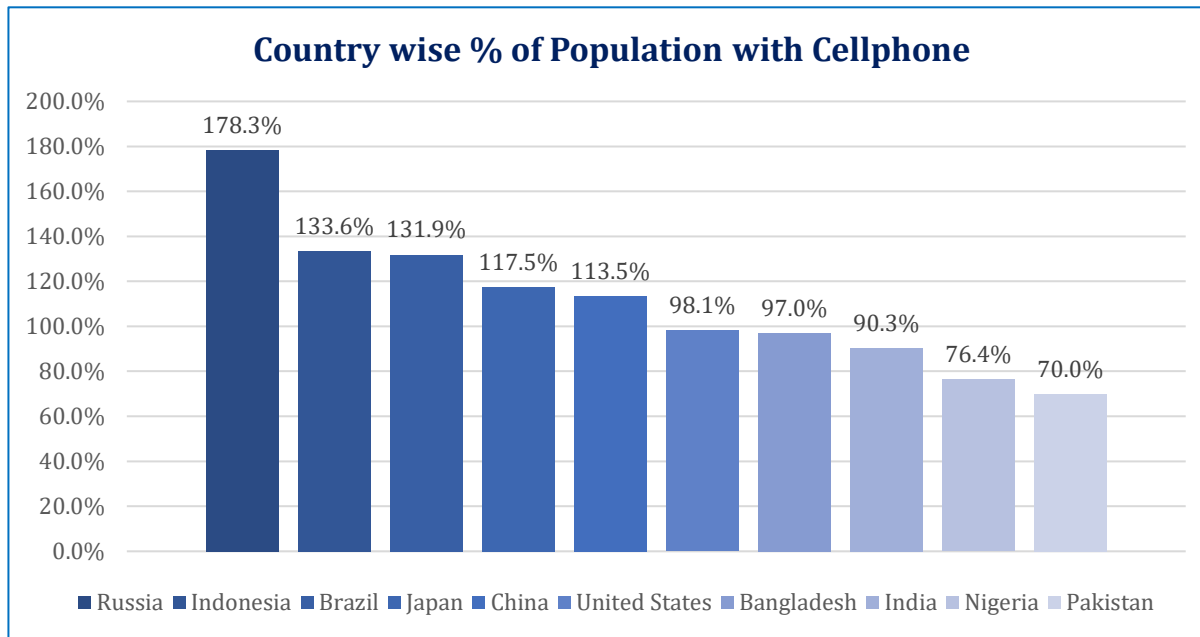


*OPPO includes OnePlus since 3QC21

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Global | Cellphone Penetration

- In CY22, there were more mobile-cellular subscriptions (~8.4bln) than the total global population (~8.1bln). Countries that exhibit high mobile cellular subscriptions per 100 inhabitants include Japan and Iran, followed by Germany, China and the UK. Moreover, smartphones have transformed use of the Internet. As of CY23, ~6.9bln people are users of mobile phones (~85.7% of the world population). Russia had the largest cellphone penetration of ~178.3% of its population owning a cellphone followed by Indonesia and Brazil.
- However, affordability of smartphones varies across regions and goes beyond income levels. High prices are a function of factors such as tax policies, development, production and market competition. For CY23, devices were the least affordable in Africa, accounting for ~62.8% of typical monthly income, ~11.7% in the Americas and ~16.2% in Asia Pacific (excluding India). With India included, the Asia Pacific figure rises to ~87.4%, reflecting the country's status as an outlier with a big population and high prices.



*Estimated World Population

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Supply Chain

- A mobile phone assembler is involved in manufacturing and/or assembling of mobile phones whereas a mobile phone distributor (or “distributor”) is an entity that purchases mobile phones and allied products from the assemblers and sells them to customers either directly or through dealers and retailers.
- Most distributors also provide a range of allied services such as technical support, warranty and after sales services. In the mobile phone supply chain, distributors play an essential role in helping assemblers/principles reach out to markets which they could otherwise not target. Distributors are, therefore, responsible to sell the products and provide after-sales services to clients.
- Assemblers set the prices of their products and all distributors and dealers are obliged to sell the phones at the predetermined prices, therefore competition in terms of price-setting amongst distributors and dealers is quite low.

The focus of this study shall pertain to the assembler and distributor segment of the mobile phone supply chain.



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Local | Overview

- Historically (FY19-21), the market was largely import-driven, growing at a CAGR of ~3%. However, a sudden shift was observed in FY22, when commercial imports of mobile devices declined by a whopping ~58%, while local manufacturing/ assembling during the same period increased ~92.3% YoY. This mainly resulted from supporting government policies such as the Mobile Device Manufacturing Policy of CY20.
- Total mobile phone imports during FY23 were recorded at USD~570mln (SPLY: USD~1,979mln) registering a decline of ~71.2% YoY. The decline, however, is reflective of SBP-imposed import curbs during the year, although during 4MFY24 these recorded at USD~470mln (4MFY23: USD~226mln), up ~107.9% YoY, reflecting shifting market dynamics post-Jun'23, when import curbs were lifted.
- Key suppliers include Apple, Samsung, Oppo, Huawei, Xioami and other Chinese brands. The global assemblers sell their mobile phones in local market through networks of their authorized distributors on contractual basis.
- Major mobile phone distributors in the country include Airlink Communication, M&P, Burque Corporations and Advance Telecom. Other distributors are involved in distribution of some local and Chinese mobile phones.
- As of Apr'23, total MDM Authorization Holders in the country were recorded at ~31, including, but not limited to, Airlink Communication Ltd., Tecno Pak Electronic (Pvt.) Ltd., DB Link, United Communication (Pvt) Ltd., and Inovi Telecom.

Industry Snapshot				
Particulars	FY22	FY23	4MFY23	4MFY24
Mobile Imports (USD mln)	1,979	570	226	470
Mobile Imports (YoY % change)	-4.2	-71.2%	-64.9	108.0%
Mobile Imports (mln units)	10	2	1*	1*
Mobile Devices Locally Manufactured (mln units)	25	22	18*	16*
Market Structure	Oligopoly			
Top Manufacturing Brands	~6			
Top Mobile Phones Distributors	~4			
Regulator	Pakistan Telecommunication Authority (PTA)			

*Latest available figures for 10MCY22 AND 10MCY23., respectively.

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Local | Market Dynamics

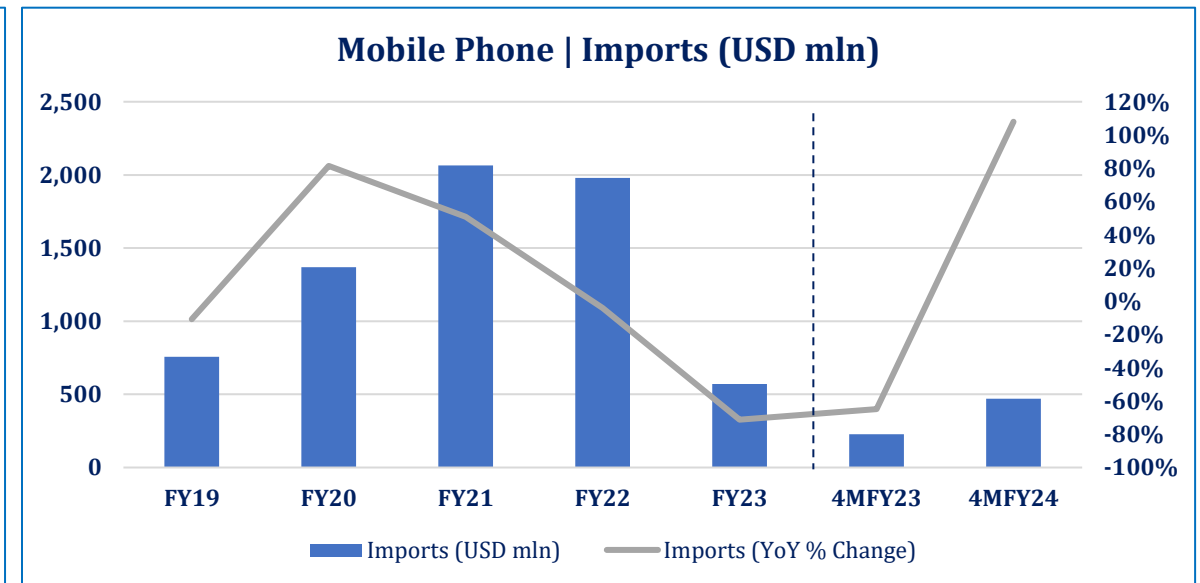
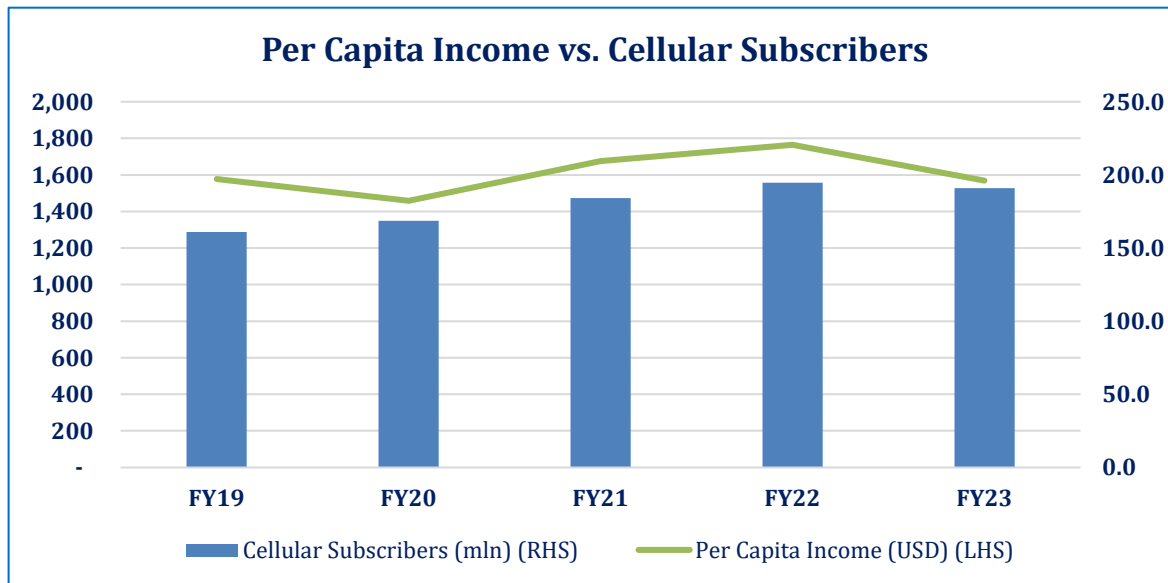
- With expanding Internet coverage, a plethora of mobile device options on the market, ever-increasing, sustainable demand for technology, and the uses of mobile phones among a diverse cross-section of ~240mln people, Pakistan's local market has tremendous potential for mobile phones.
- This potential is evidenced by ~190mln cellular subscribers, with a tele-density of ~80.4%, and ~127mln broadband subscribers, as per Oct'23 figures released by PTA.
- Moreover, initiation of DIRBS (Device Identification, Registration and Blocking System) in CY19 by PTA proved vastly useful in curbing illegal import channels for mobile phone devices in the country. As per PTA Annual Report CY22, legal commercial imports of mobile phones increased by around ~125% in three years (CY18-20), while the revenue collected on these imports crossed the PKR~122bln mark.
- This paved the way for Mobile Device Manufacturing Policy (CY20) which set in place three key targets: Import Substitution, Production and then Exports. It set a ~49% localization target by Jun'23, including 10% localization of parts of the motherboard and 10% localization of batteries. In light of the policy, PTA issued MDM (Mobile Device Manufacturing - 'MDM') Regulations in CY21, authorizing ~30 companies enabling them to manufacture mobile devices in Pakistan.



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Local | Demand

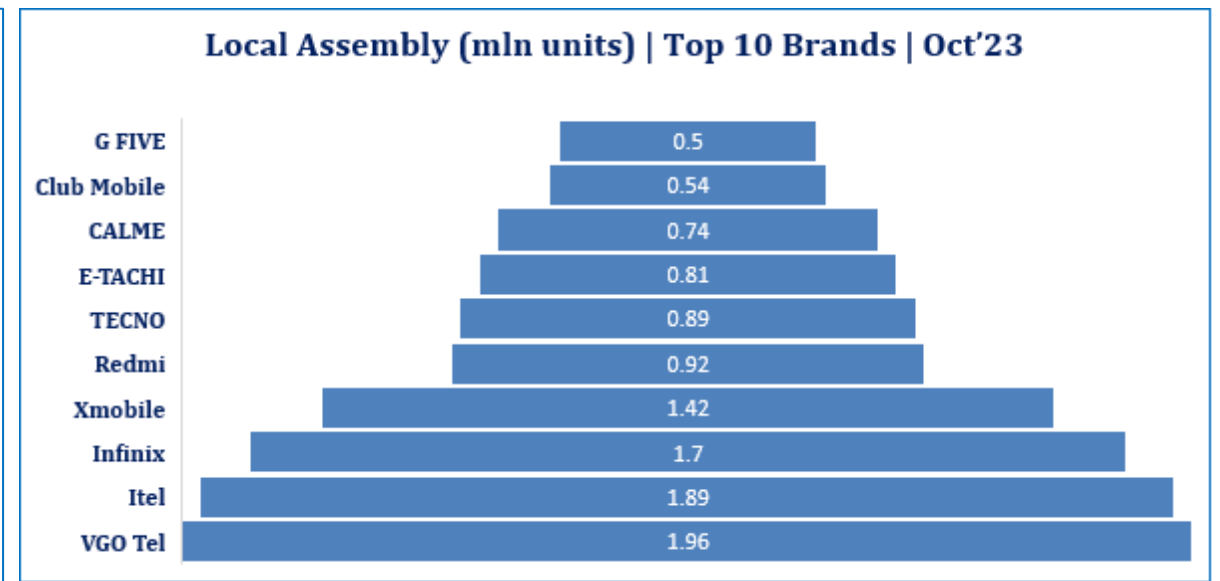
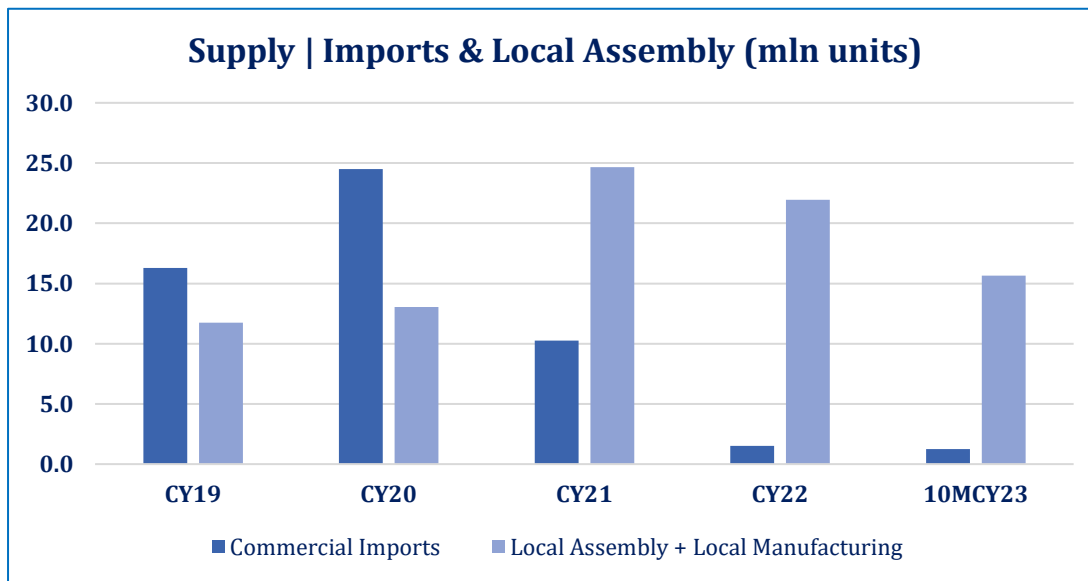
- Estimated demand for mobile phones is a function of cellular subscribers (based on sims) in the country. Based on numbers made official by PTA, a slight downtick was observed in the number of cellular subscribers in the country during FY23, which were down ~1.9%, YoY, recording at ~191mln subscribers. This could be due to the Pakistan Telecommunication Authority (PTA) actively blocking unauthorized sim cards in FY23. Meanwhile, per capita income declined by ~12.6% to USD~1,568 in FY23 (FY22: USD~1,765).
- Pakistan has historically (FY18-20) relied on imports to cater local demand of mobile phones, with the exception of FY19-20 (primarily due to slowdown in economic activity due to outburst of COVID-19). However, during FY20-22, there was a steady decline in mobile phone imports, largely due to the government's efforts and PTA's initiatives to pursue import substitution. In FY23, imports recorded ~71.2% decline in value terms, owing to import restrictions during the year.



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Local | Supply

- During CY22, imports of mobile phones declined ~85.4% YoY, while local assembly was down ~11.3% YoY, possibly due to supply chain disruptions caused by SBP’s aforementioned policy on imports. During 10MCY23, local assembly amounted to ~15.7mln units (SPLY: ~17.9mln units), while imports were recorded at ~1.3mln units. Further breakdown of locally assembled devices during 10MCY23 reveals that cumulative production of top four brands was recorded at ~7.0mln units (CY22: ~8.9mln units), with ITEL’s production declining ~37.6% YoY.
- As per GoP’s initiatives to curb illegal imports and incentivize local manufacturing, DIRBS and Mobile Device Manufacturing Policy were introduced in CY19-20. However, these have not been fully materialized since the former was subject to high taxation on mobile devices while the latter largely included locally assembled phones.
- It is noteworthy here that, i) imports represent the officially reported CKDs which are largely being packaged and distributed in the country, thereby reflecting that a significant grey market exists, especially for high-end mobile phones and ii) ~11.4mln units assembled* during 10MCY23 locally exclude local manufacturing, hence the latter forms a small portion of total cost of manufacturing.

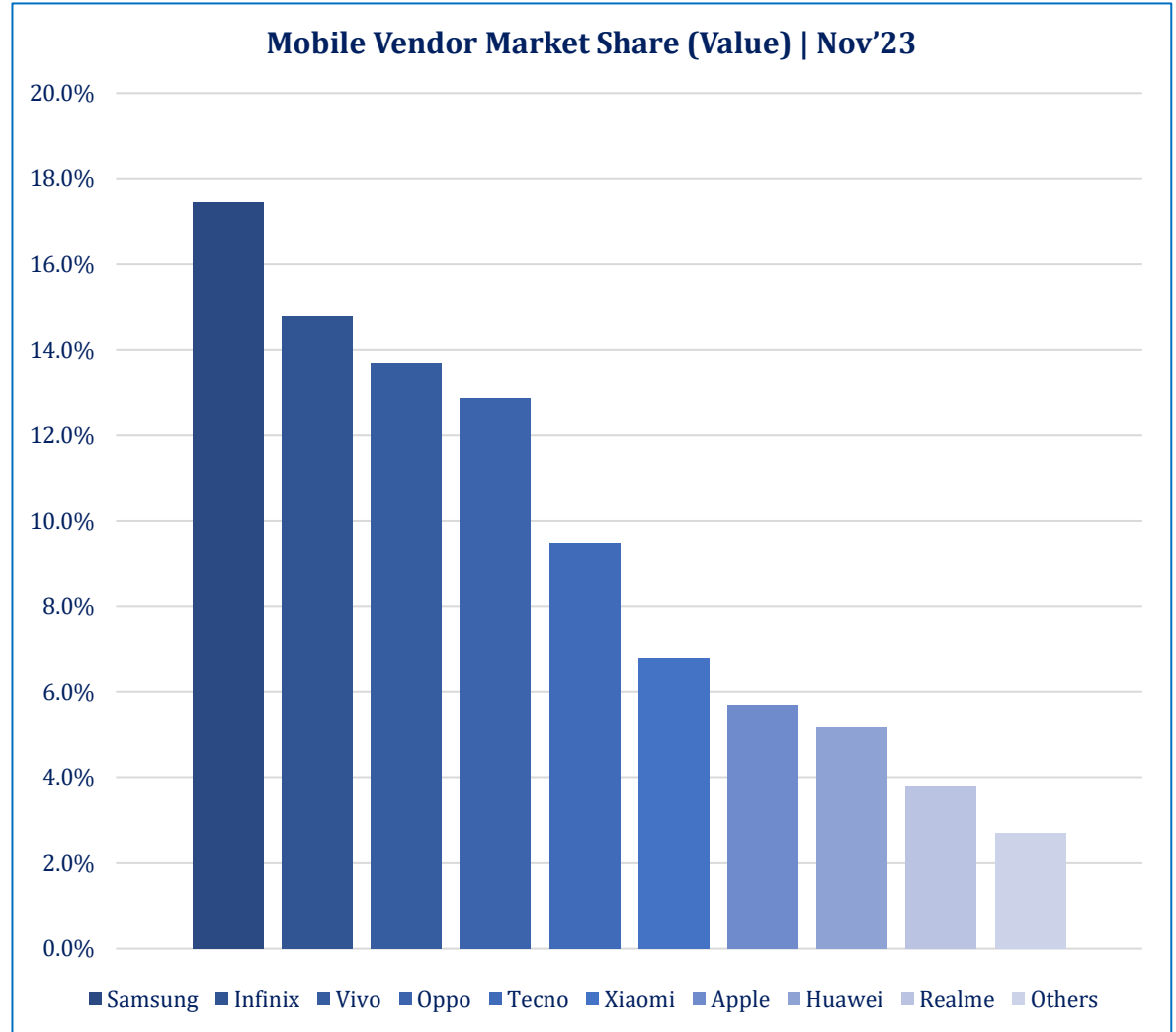


*Excluding Samsung.

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Local | Mobile Vendors

- In terms of value, Samsung is leading the market with a share of ~17.5% as of Nov'23 (SPLY: ~20.4%). Following Samsung are other brands, with market shares as stated respectively - Vivo with ~13.7% (SPLY: ~14.4%), Oppo with ~12.9% (SPLY: ~13.8%), Infinix, Tecno, Huawei, Xiaomi and Apple in that order, with respective market shares of ~14%, ~13%, ~13%, ~8%, ~7%, ~6% and ~5%.
- Of these, Infinix, Vivo, Itel, Oppo and Tecno have initiated their mobile assembling units in Pakistan. Samsung has also invested in local mobile assembling plants, hence fostering the local mobile phone industry.
- In terms of units sold, Itel dominated the market in FY22, with ~40% market share, while Tecno was a close second with ~39% share. Samsung held a share of ~13%, while Xiaomi and Realme registered shares of ~4% and ~2%, respectively.



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Local | Distributors

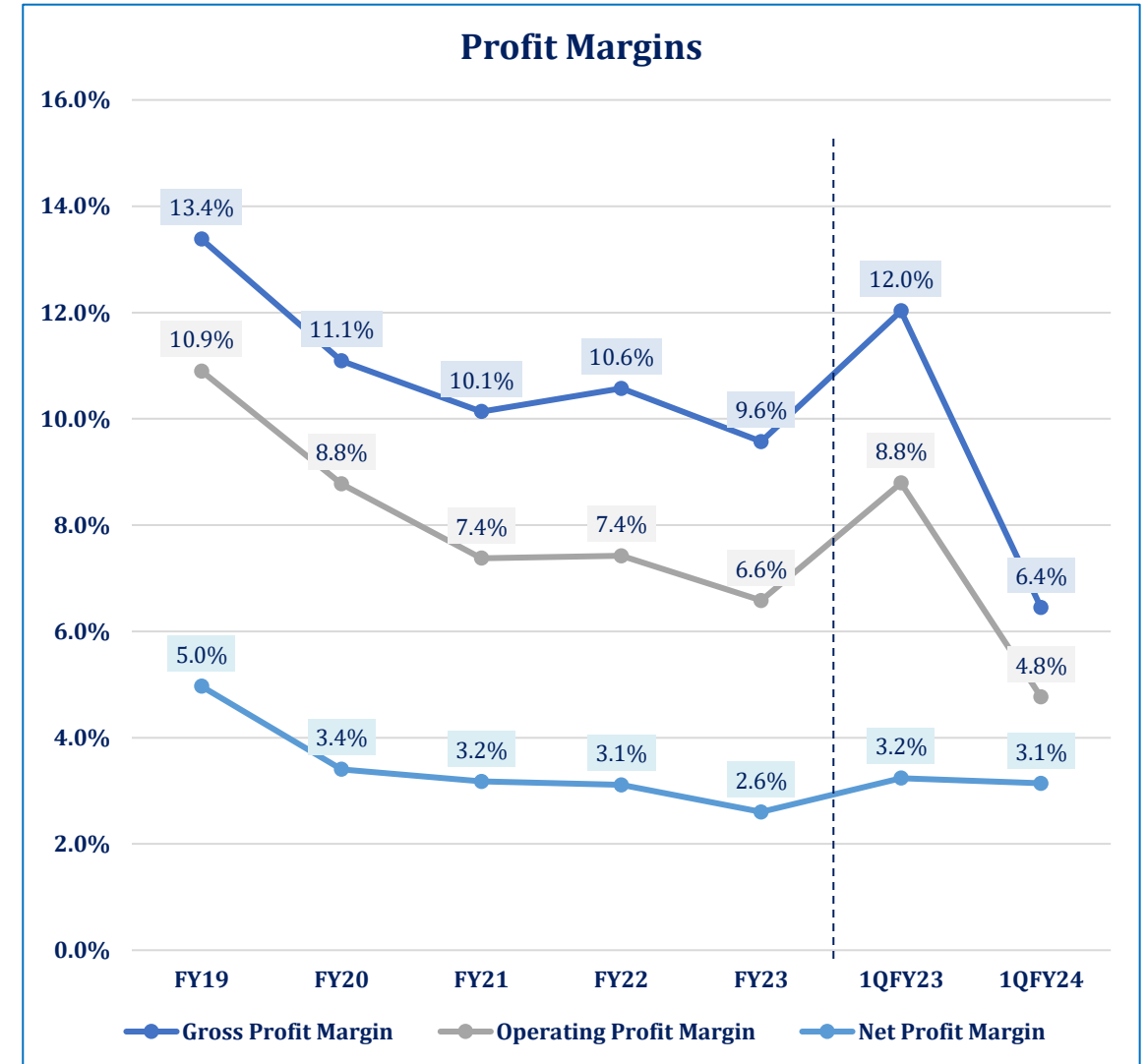
- At present, there are 4 major mobile distributors (depicted in the Table) that are involved not only in distributing international brands but assembling and distributing local phones as well. Meanwhile, ~7 other small distributing partners distribute some local and Chinese mobile phones.
- The distributors generally have contractual relationships with international brands/principals, which pre-set the terms and conditions, such as prices, margins, returns and discounts. The market is, therefore, free of price competition and largely dependent on long-standing relationship of international brands and dealers.
- Among the top 4 distributing partners, Airlink has the highest overall market share of around ~21% (in terms of units). The company is an authorized distributor of Samsung, Huawei, TCL, Tecno, Itel, Xiaomi and has also entered into an agreement with the Apple Authorized Distributor for Pakistan (i.e. Mecantile Pacific Asia Pte. Ltd.) for distribution of products procured from MP in Pakistan. It has been associated with Huawei and Samsung, since 2012 and 2016, respectively.
- Few of the mobile manufacturing brands have their own distributing channels including Oppo, Vivo and QMobile.

Mobile Phone Distributors	
Distributors	Associated Brands
Airlink Communications	Xiaomi (38.1%) Tecno (28.7%) Samsung (28.4%) Realme (3.6%) Q-Mobile (0.5%) Itel (0.4%) Alcatel (0.2%) Apple (0.1%); Huawei (0.01%)
Muller and Phipps M&P	Samsung, Huawei, Realme, Nokia, Tecno
Burque Corporation	Samsung, Tecno
Advance Telecom	Nokia (Phones & Accessories), ITEL (Phones & Accessories), Tecno

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Business Risk | Margins

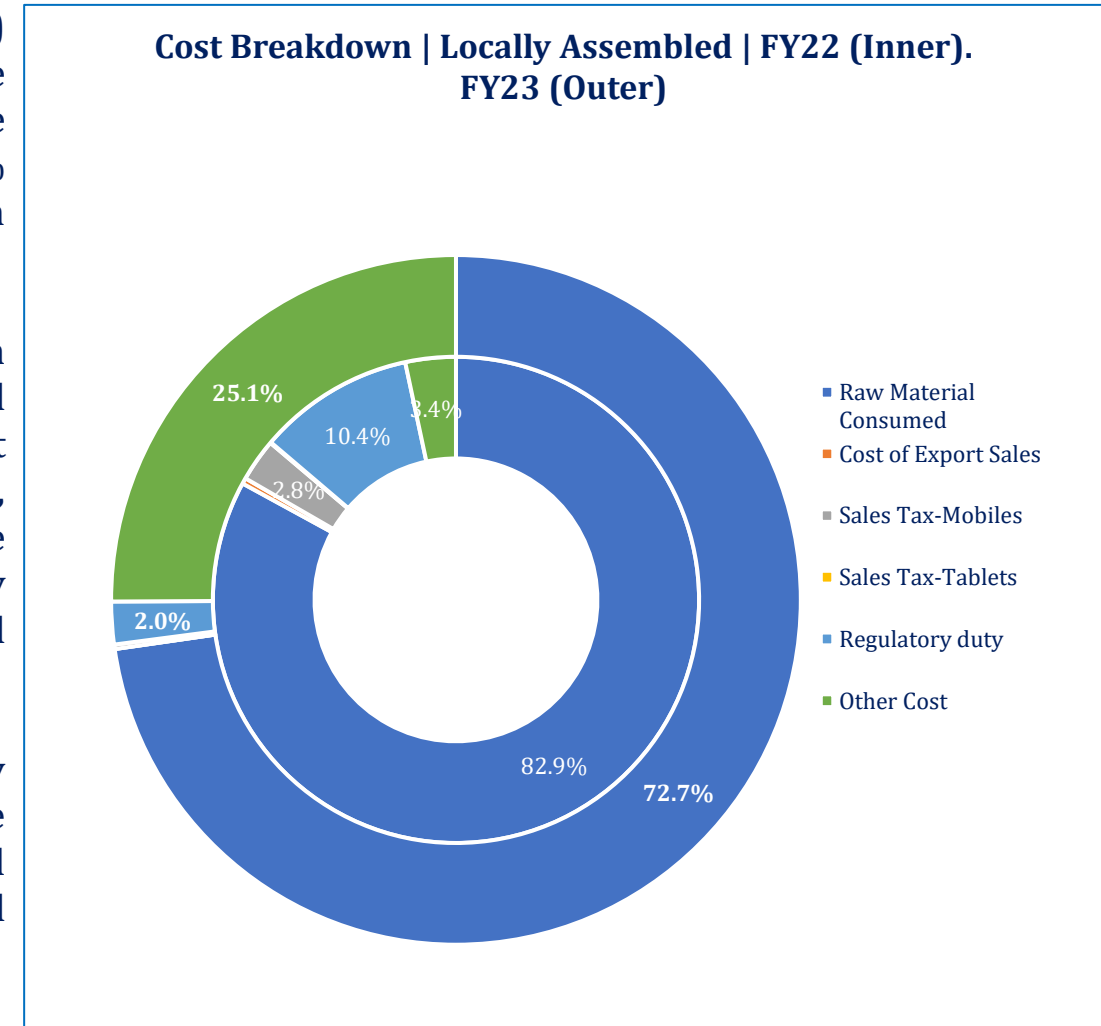
- The Sector’s gross and operating profit margins declined to ~9.6% and ~6.6%, respectively, in FY23 (SPLY: ~10.6% and ~6.6%). The dip in gross margins can be attributed to lower sales, which resulted from high prices and the overall inflationary pressures experienced during the year (Average CPI for FY23 rose by ~140.5% YoY). Further, the ~24.1% YoY decline in cost of goods sold was insufficient to offset the decline in sales revenue.
- Moreover, net profit margin also declined to ~2.6% during the year (SPLY: ~3.1%), likely on the back of higher finance costs, which, in turn, were reflective of SBP’s hawkish monetary stance (the MPR increased by ~500bps during the year).
- The dip in gross and operating profit continued into 1QFY24, as these recorded at ~6.4% and ~4.8%, respectively (SPLY: ~12.0%, ~8.8%, respectively), likely reflecting higher cost of goods sold (increase of ~183.5% YoY, owing to lifting of import curbs) and greater operating expenses (~38.8% increase YoY). Meanwhile, net margins remained rangebound at ~3.1% (SPLY: ~3.2%), with the slight decline likely reflecting ~27.4% higher finance costs, despite interest rates staying stable at 22% since Jun’23. Short-term borrowing during the period rose ~24.4% YoY resulting in an increased finance cost.
- Going forward, margins are likely to exhibit recovery, with SBP’s inflation target set at ~22-24% for FY24 and little expectations of further monetary tightening, although Nov’23 CPI registered at ~29.2%, dimming the chances of interest rates easing.



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Business Risk | Cost Structure

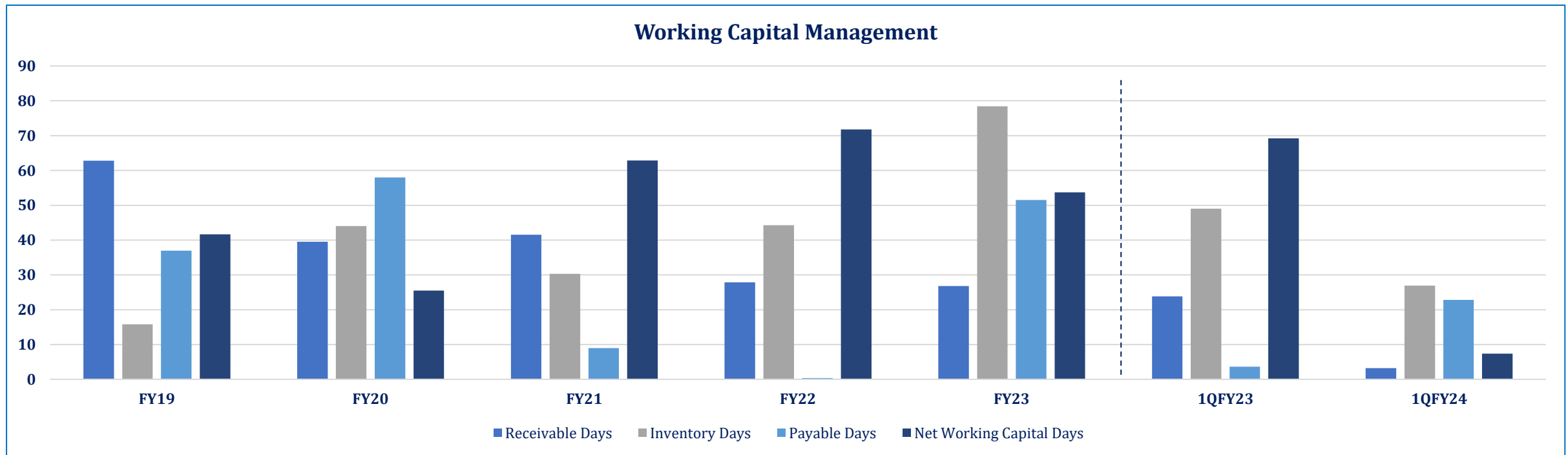
- The Sector's total cost of sales comprise those against, a) own assembled, b) imported for resale and c) purchased locally for resale, with these comprising ~27.6% (SPLY: ~36.2%), ~0.5% (SPLY: ~52.5%) (the decline reflecting import restrictions on CBUs, or Completely-Built Units), ~71.9% (SPLY: ~11.3%), respectively. Overall, the total cost of sales went down significantly ~53.8% YoY.
- A further breakdown of own assembled devices reveals that there has been a significant shift in the cost structure in FY23. Raw material consumed comprised ~82.6% of the total cost mix in FY22. However, in FY23, it declined to ~72.7% of the total cost of manufactured/ assembled goods, reflecting the import curbs during FY23. Moreover, raw material for the Sector comprises majorly the CKDs/ CBUs which are being packaged locally (as aforementioned), reflecting the increased share of locally purchased devices for resale in FY23.
- Another difference of significance has been observed in the Regulatory Duty component, which decreased further in FY23 to ~2.0% from ~10.4% of the total cost of manufactured goods in FY22. The sales tax has also decreased from ~2.8% in FY22 to ~0.2% in FY23. The cost of sales for own assembled devices went down significantly by ~64.5% YoY.



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Financial Risk | Working Capital Management

- The Sector’s working capital requirement is a function of financing its trade receivables and inventory. During FY19-22, working capital averaged ~47 days, however, during FY23, these were recorded at ~54 days, exhibiting a slight decline of ~1 day as compared against corresponding period of last year. During the year, inventory days shot up ~49 days, recording at ~78 days. This, in turn, can be linked to SBP-imposed restrictions on imports during May’22-Jun’23, which resulted in raw material cost dipping by ~31.1% YoY.
- Moreover, payable days recorded at ~52 days, while receivable days recorded at ~27 days, declining marginally by ~1 day YoY.

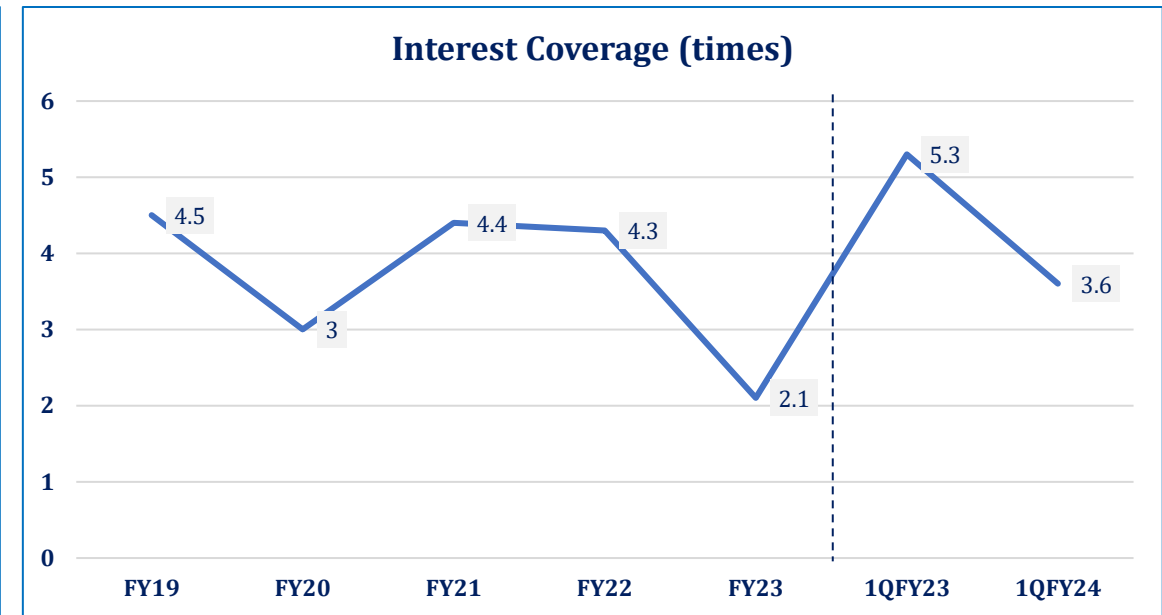
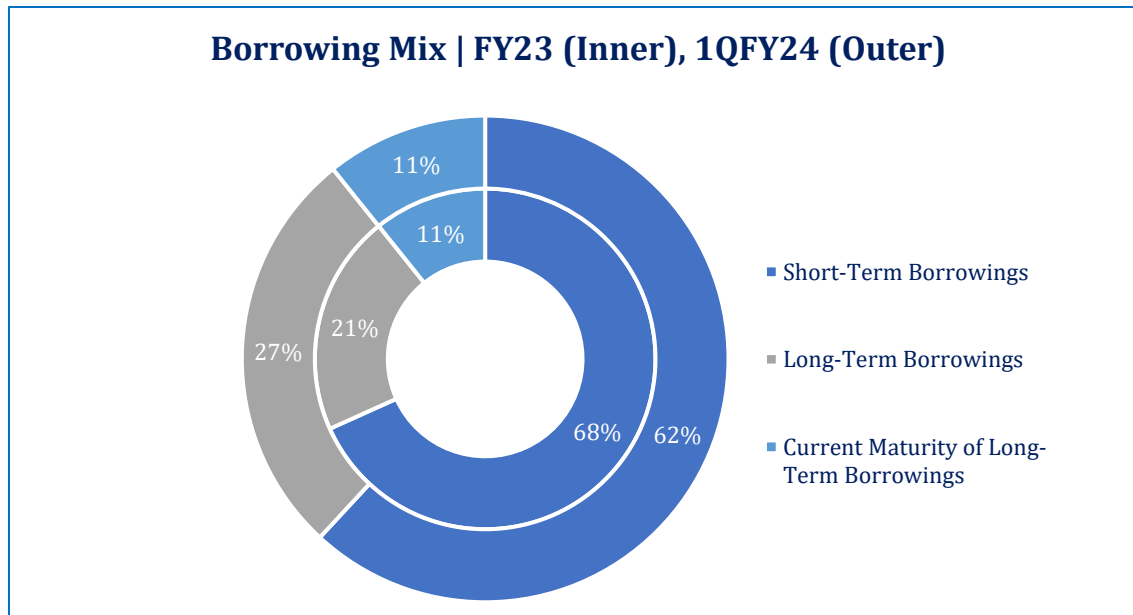


Note: Calculations on the basis of 1 sector player, with a market share of ~21% based on number of units, as claimed by the client. FY23 incorporates data for an additional market player.

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Financial Risk | Borrowing

- The Sector's total borrowing, as of Jun'23, stood at PKR~8,134mln, increasing by ~5.9% YoY. The largest component of this debt mix are the Short-term Borrowings (STBs), which amounted to ~73.3% of the total borrowing mix during the year (SPLY: ~78.7%), with Long-term Borrowings (LTBs) comprising the rest. During the year, short-term and long-term borrowing, respectively, registered a decline of ~1.3% and increase of ~32.9% YoY.
- Interest coverage of the Sector declined to ~2.1x in FY23 (SPLY: ~4.3x), despite the aforementioned decline in STBs. The lower coverage is likely reflective of higher finance costs, coupled with lower sales, depicting thereby Sector's low capacity to meet repayments. Further, in 1QFY24, it was registered at ~3.6x (SPLY: ~5.3x), reflecting slight improvement since Jun'23, however, being lower than SPLY. With respect to funding mix, the Sector is moderately leveraged, with debt-to-equity recording at ~40% in FY23 to (SPLY: ~41%).



Note: Calculations on the basis of 1 sector player, with a market share of ~21% based on number of units, as stated by the client. FY23 incorporates data for an additional market player.

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Duty Structure

The Finance Act 2023 has no adjustments in terms of mobile phones and allied products, implying that the duty structure pertaining to FY23 continues to be applicable for FY24.

Duty & Taxes Summary												Punjab Infrastructure Development CESS	
Sr.	CIF SLABS	Sales Tax		Regulatory Duty		Levy		Income Tax		Taxes Total		PRA	
						PKR						%	
		FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23	FY22	FY23
1.	Up to \$30	130	130	165	165	-	-	70	70	365	365	0.9	0.9
2.	\$31 - \$100	200	200	1,620	1,620	-	-	100	100	1,920	1,920	0.9	0.9
3.	\$101 - \$200	1,680	1,680	2,430	2,430	400	400	930	930	5,440	5,440	0.9	0.9
4.	\$201 - \$350	1,740	1,740	3,240	3,240	1,200	1,200	970	970	7,150	7,150	0.9	0.9
5.	\$351 - \$500	5,400	5,400	9,450	9,450	2,800	2,800	3,000	3,000	20,650	20,650	0.9	0.9
6.	Above \$500	9,270	9,270	16,650	16,650	5,600	5,600	5,200	5,200	36,720	36,720	0.9	0.9

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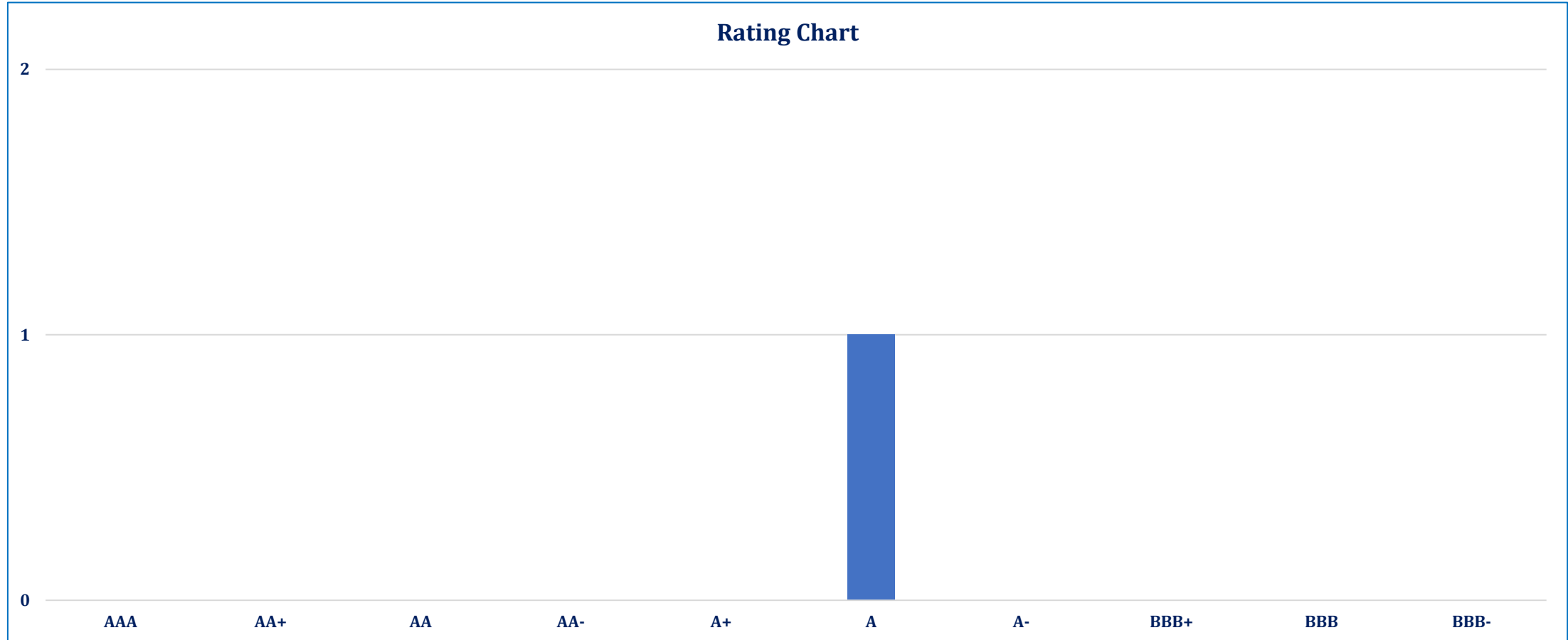
SWOT



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Rating Curve

PACRA rates one player in the Mobile Phones and Allied Products sector, with a long-term rating of A, and a short-term rating of A1.



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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%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions and consequent sluggish demand across major industrial sectors of the country. During FY17-21, the Sector was largely import-driven, however, a shift was observed in FY22, when commercial imports of mobile devices declined by a whopping ~58%, while local manufacturing during the same period increased ~92.3% YoY. This mainly resulted from supportive government policies such as the Mobile Device Manufacturing Policy of CY20.
- Total mobile phone imports during FY23 were recorded at USD~570mln (SPLY: USD~1,979mln) registering a decline of ~71.2% YoY. The decline, however, is reflective of SBP-imposed import curbs during the year, although during 4MFY24 these recorded at USD~470mln (4MFY23: USD~226mln), up ~107.9% YoY, reflecting shifting market dynamics post-Jun'23, when import curbs were lifted.
- The Sector's gross and operating profit margins declined to ~9.6% and ~6.6%, respectively, in FY23 (SPLY: ~10.6% and ~6.6%). The decline in gross margins can be linked to reduced sales as a result of high prices and the year's overall inflationary pressures. Net profit margin also declined to ~2.6% during the year (SPLY: ~3.1%). Higher finance costs were most likely the cause, which in turn reflected the SBP's aggressive monetary policy. The dip in gross and operating profit continued into 1QFY24, as these recorded at ~6.4% and ~4.8%, respectively (SPLY: ~12.0%, ~8.8%, respectively), likely reflecting higher cost of goods sold (increase of ~183.5% YoY, owing to lifting of import curbs) and greater operating expenses (~38.8% increase YoY). Meanwhile, net margins remained rangebound at ~3.1% (SPLY: ~3.2%). Meanwhile, finance costs were up ~18.7% during this time despite interest rates staying stable at 22% since Jun'23 (Short-term borrowing during the period rose ~24.4% YoY).
- The Sector is competitive, dominated by established players such as Samsung, Oppo, Tecno, Apple, and Xiaomi, among others. At present, there are 4 major mobile distributors namely, Airlink, M&P, Burque Corporation and Advance Telecom that are involved not only in distributing international brands but assembling and distributing local phones as well.
- Localization levels remain low seeing as mobile phone imports represent the officially reported CKDs which are largely being packaged and distributed in the country, thereby reflecting that a significant grey market exists, especially for high-end mobile phones and ii) ~11.4mln units assembled during 10MCY23 locally exclude local manufacturing, hence the latter forms a small portion of total cost of manufacturing.
- Going forward, Sector's margins are likely to exhibit recovery, with relaxation on imports, SBP's inflation target set at ~22-24% for FY24 and little expectations of further monetary tightening. However, the GoP initiatives in the form of DIRBS and MDM policies are yet to completely materialize.

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