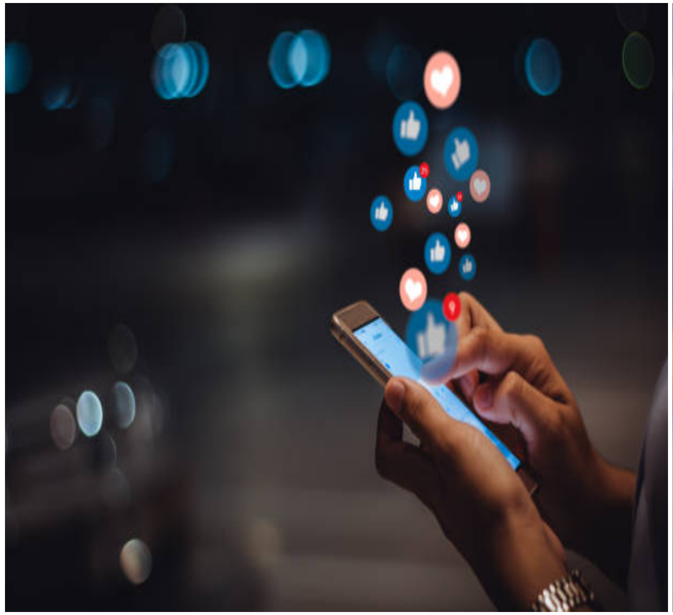
SECTOR STUDY . JANUARY 2025

MOBILE PHONES & ALLIED PRODUCTS



Research Team

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Mobile Phones & Allied Products

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Global | Overview

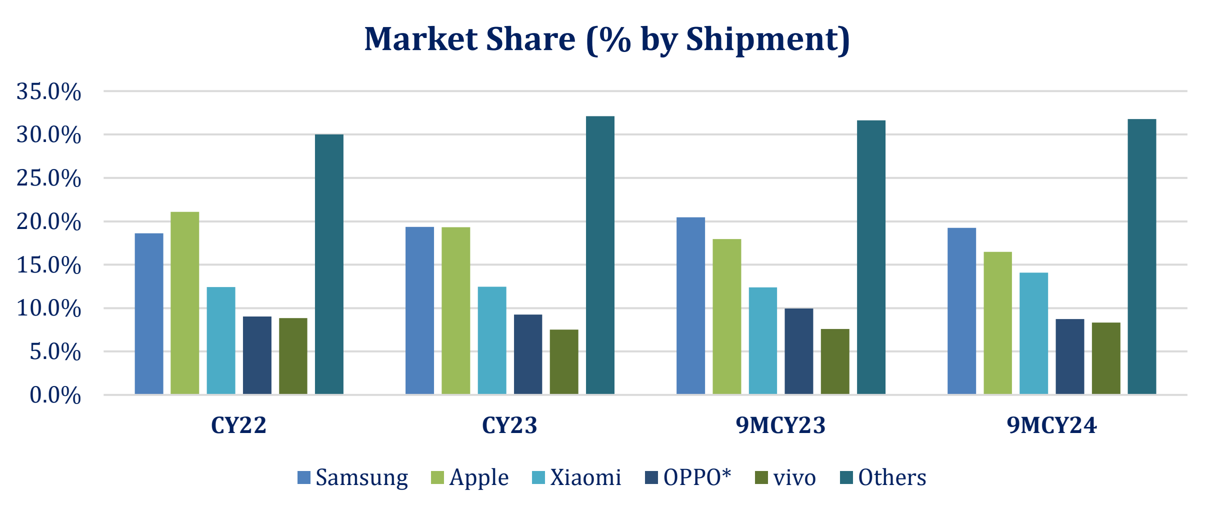
- **Market structure:** The mobile phone manufacturing industry operates with a very large number of global players. The industry can still be classified as an oligopoly, as the top five brands account for ~67.0% of the total market share, measured by shipment volume. In CY24, Gen AI smartphones are projected to capture around ~19.0% of the market, with ~234mln units shipped.

- **Top Players:** During 9MCY24, the leading brands in the market by shipment volume were Samsung, Apple, Xiaomi, OPPO, and VIVO. Shipments during this period grew by ~5.4% compared to the same period last year. Samsung held the largest individual market share at ~19.3%, driven by the successful launch of the Galaxy A series. Apple followed closely with a market share of ~16.5%, while Xiaomi ranked third with a ~14.1% share, bolstered by strong performance in China. OPPO and VIVO accounted for ~8.8% and ~8.3% of the market, respectively.

- **Market size:** Global mobile phone shipments for the 9MCY24 reached ~893.5mln units, marking a ~5.4% increase compared to the same period in CY23. This growth follows a two-year decline, driven primarily by rising demand for device upgrades. However, the growth rate is projected to decelerate in CY25, with a CAGR of ~2.6% expected for CY24-28. Key factors influencing this trend include increasing smartphone penetration, lengthening device refresh cycles, and competition from the rapidly expanding smartphone market.

Global Smartphone Shipments (mln)

Brands	CY22	CY23	9MCY23	9MCY24
Samsung	228.1	226.5	173.5	172
Apple	258.4	226.2	152.2	147.3
Xiaomi	152.2	145.9	105.21	125.9
OPPO*	110.5	108.5	84.49	78.2
VIVO	108.5	88.0	64.32	74.5
Others	367.7	376.1	268.28	284.1
Total	1,225.4	1,171.2	848.0	893.5



*OPPO includes OnePlus.

Source: International Data Corporation

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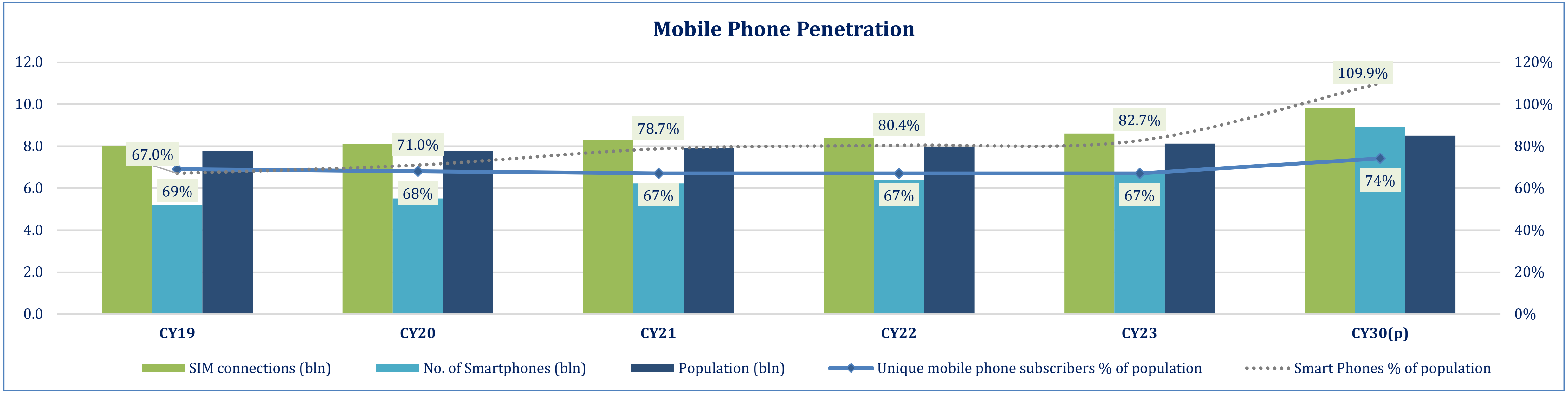
Global | Cellphone Penetration

- By the end of CY23, ~5.6bln people (~69.0% of the global population) subscribed to mobile services, with ~4.7bln (~58.0%) using mobile internet—showing significant growth since CY15.
- In CY23, SIM connections grew by ~2.4% to ~8.6bln, and smartphone usage rose by ~4.7% to ~6.7bln, compared to a global population increase of ~2.5% clocking in at ~8.1bln.
- As of CY23, 4G penetration accounted for ~59.0% of total SIM connections, while 5G penetration stood at ~18.0%, reflecting its early adoption stage.
- North America leads in smartphone adoption with ~86.0%, followed by Europe at ~82.0%, and China at ~84.0%. Excluding China, the rest of Asia shows ~78.0% smartphone adoption.
- Sub-Saharan Africa exhibits significant growth potential, with mobile phone penetration at only ~55.0%.
- In CY23, mobile technologies and services contributed ~5.4% to global GDP, generating an economic value of USD ~5.7tln and supporting ~35mln jobs worldwide.



Note: *projected numbers for CY30*

Source: GSMA

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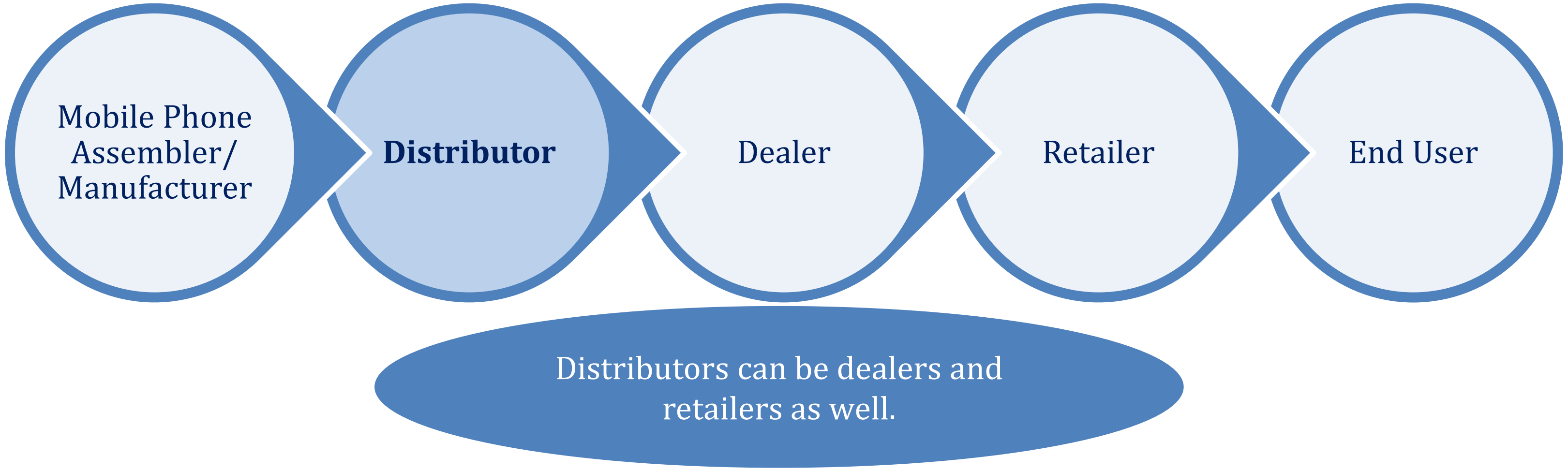
Supply Chain

- A mobile phone assembler is involved in the manufacturing and assembling of mobile phones. In contrast, 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 reach out to markets that they could otherwise not target. Distributors are, therefore, responsible for selling the products and providing 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

- Imports predominantly drive Pakistan's mobile phone market.
- During FY23, mobile phone imports were recorded at USD~570.0mln, a significant drop of ~71.2% YoY, as compared to USD~1,979mln in FY22. This decline was reflected by the stringent import restrictions imposed by the State Bank of Pakistan (SBP) in FY23.
- However, as these restrictions were eased, imports surged by ~233.2%, reaching USD~1,899mln by the end of FY24.
- In contrast, the 5MFY25 saw a ~7.5% decline in mobile phone imports, amounting to USD~570mln (5MFY24: USD~617.0mln).
- The market is supplied by leading global brands, including Apple, Samsung, Oppo, Huawei, Xiaomi, and other Chinese manufacturers, which sell their products through authorized distributors under contractual arrangements.
- The key distributors in Pakistan include Airlink Communication, M&P, Burque Corporations, and Advance Telecom, alongside others managing the distribution of local and Chinese brands.
- To reduce the dependency on imports, the Pakistan Telecommunication Authority (PTA) introduced Mobile Device Manufacturing (MDM) regulations in 2021, fostering the establishment of local manufacturing plants.
- By FY24, the country had ~38 MDM Authorization Holders, with notable entities such as Airlink Communication Ltd., and Tecno Pak Electronic (Pvt.) Ltd., DB Link, United Communication (Pvt.) Ltd. and Inovi Telecom actively contributing to the local manufacturing/assembling.
- While FY24 recorded a decline in mobile phone imports (in terms of units) and an increase in local manufacturing, the import bill showed only a marginal change compared to FY22. This is primarily due to a shift in import patterns, moving from fully assembled mobile phone devices to CKD/SKD (Completely Knocked Down/Semi Knocked Down) components for local assembly.

Industry Snapshot

Particulars	Units	FY22	FY23	FY24	5MFY24	5MFY25
Mobile Imports	USD mln	1,979	570	1,899	617	570
Mobile Imports	YoY % change	-4.2	-71.2%	233.2%	112.2%	-7.5%
Mobile Imports*	mln units	1.5	1.6	1.5	-	-
Mobile Devices Locally Manufactured	mln units	21.9	21.3	28.4	-	-
Market Structure	Oligopoly					
Top Manufacturing Brands	~6					
Top Mobile Phones Distributors	~4					
Regulator	Pakistan Telecommunication Authority (PTA)					

**local and import units of mobile phone data is based on CY and is updated till 11MCY24.*

Source: Ministry of Commerce, PBS, PTA, EDB

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Local | Market Dynamics

- With the growing internet coverage and a diverse population of ~250mln, Pakistan's market shows immense potential for mobile phones growth.
- This potential is evidenced by ~194.6mln cellular subscribers, with mobile phone tele-density reaching at ~79.4%, and ~139.0mln broadband subscribers, as at end-Nov'24.
- Moreover, initiating 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.
- In CY23, the DIRBS system was expanded successfully to AJ&K areas as well.
- As per the PTA Annual Report, legal imports of mobile phones remained low in 9MCY24 down by ~25.0% and recorded at ~1.2mln units compared to ~1.6mln units in CY23.
- The imposition of Mobile Device Manufacturing (MDM) Regulations in CY21 has led to the establishment of 38 local and foreign manufacturing plants. The companies have also secured a 10-year MDM license—standalone and as joint ventures.
- The MDM regulation is aimed to achieve three key targets: Import Substitution, Production and Exports.

Source: PTA

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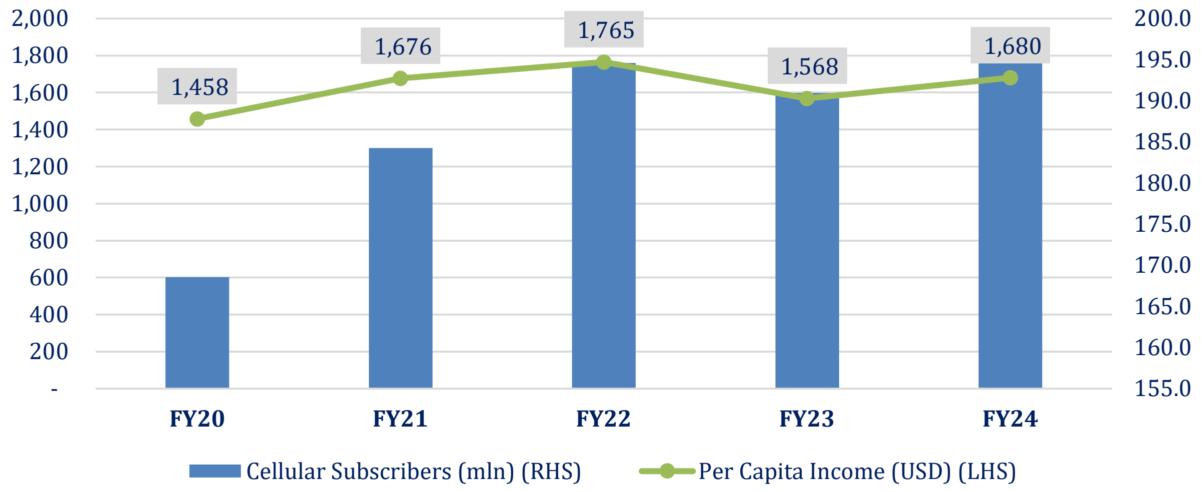
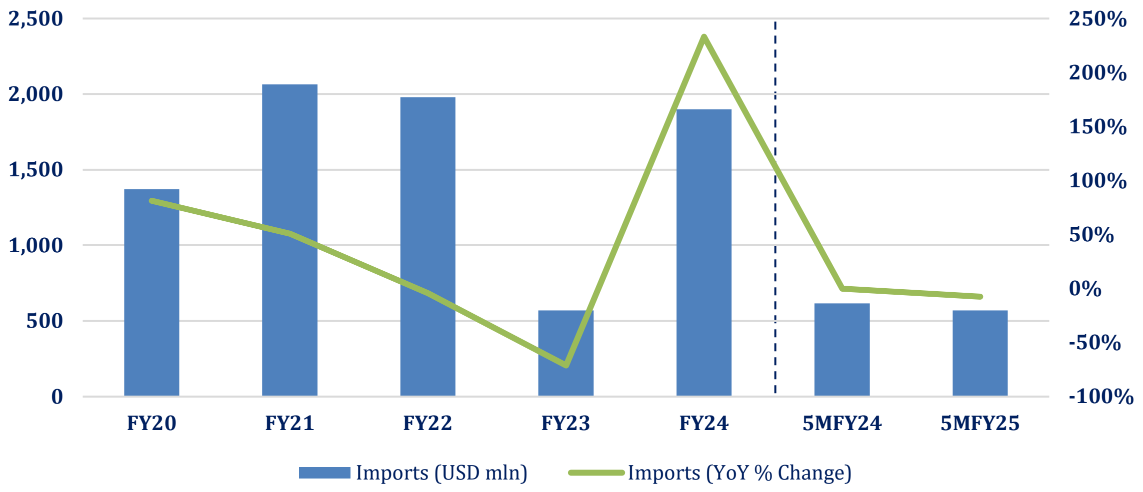
Local | Demand

- The demand for mobile phones is closely linked to the number of cellular subscribers (based on SIMs). According to the PTA, the number of cellular subscribers increased by ~1.9% YoY in FY24, reaching ~194.6mln subscribers.
- This increase is primarily due to the favourable environment for subscribers. The import bans were lifted, and the country saw a massive rise in mobile phone imports, coupled with an increase in per capita income, which was up by ~7.1% to USD~1,680 per capita in FY24 (FY23: USD~1,568 per capita).
- Since mobile phone demand has been heavily import-dependent, the government introduced MDM regulations in CY21 to encourage an import substitution policy. As a result, in FY24 out of ~31.4mln manufactured/imported mobile phones, ~29.6mln (~94.0%) were locally manufactured/assembled and generated ~60,000 jobs.
- While imports also surged by ~233.3% in FY24 following the lifting of the ban on imports by the SBP, the government's efforts to reduce dependency were evident in early FY25. In 5MFY25, mobile phone imports declined by ~8.0% compared to the same period last year.

Per Capita Income Vs Cellular Subscribers



Mobile Phone | Imports (USD mln)



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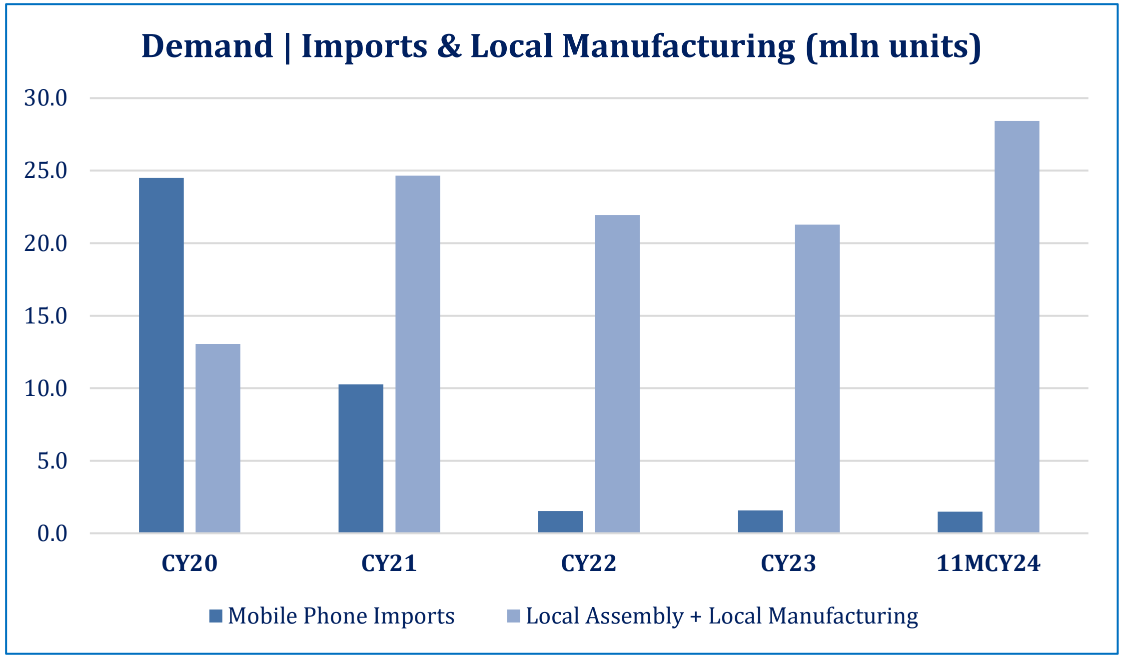
Local | Supply

- During CY23, the imports of mobile phones were marginally up by ~3.3% YoY, while local assembly was down ~3.0% YoY, primarily due to supply chain disruptions caused by SBP's aforementioned policy on imports.
- During 11MCY24, local assembly amounted to ~28.4mln units (SPLY: ~21.3mln units), while imports were recorded at ~1.5mln units.
- Further breakdown of locally assembled devices during 11MCY24 reveals that cumulative production of the top four brands was recorded at ~12.7mln units up by ~81.4% (CY23: ~7.0mln units).



Note: Data is available on CY basis.

Source: PBS, PTA, Ministry of Finance

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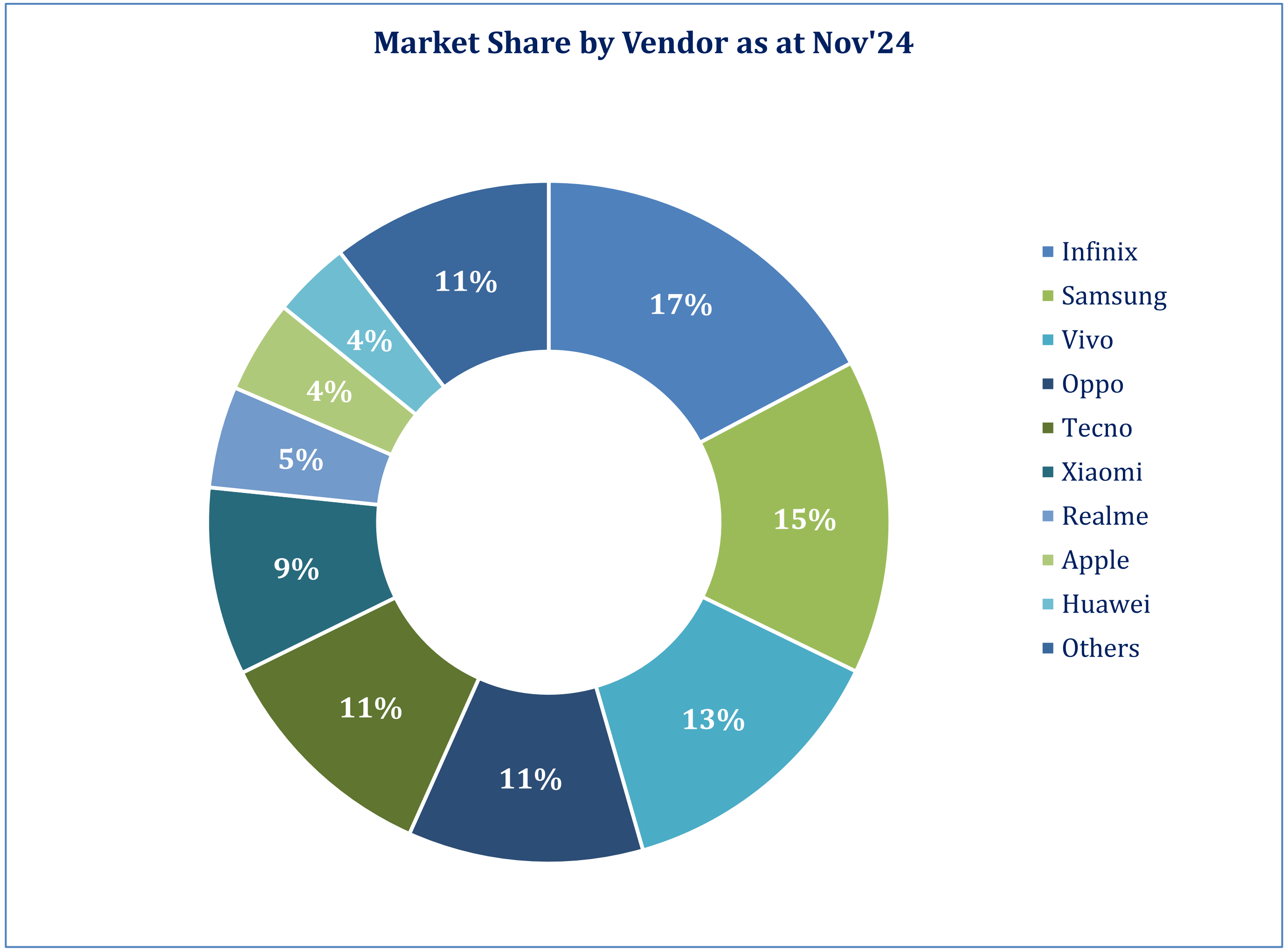
Local | Mobile Vendors

- As of end-Nov’24, Infinix led the mobile phone market in terms of units sold with a share of ~17.0% (Nov’23: ~13.4%).

- It is followed by other brands, including Samsung with ~15.0%, Vivo with ~13.3%, and Oppo and Tecno at ~11.0% each, while the remaining brands collectively contributed ~33.0% of the market share in terms of units sold.

- Brands such as Infinix, Vivo, Itel, Oppo, and Tecno have established mobile assembling units in Pakistan, which has significantly boosted their market shares.

- Samsung has also invested in local mobile assembling plants, playing a vital role in fostering the growth of the domestic mobile phone industry.



Source: statscounter, PACRA Database

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Local | Distributors

- At present, four major mobile distributors handle not only the distribution of international brands but also the assembly and distribution of local phones. Additionally, around seven smaller distribution partners focus on distributing local and Chinese mobile phones.

- Distributors typically maintain contractual relationships with international brands or principals, which define pre-set terms and conditions, including prices, margins, returns, and discounts. As a result, the market remains largely free of price competition and heavily reliant on the long-standing relationships between international brands and dealers.

- In FY24, among the top 4 distributing partners, Airlink had the highest overall market share of ~22.0% in terms of the units sold.

- The company is an authorized distributor of Samsung, Huawei (since CY12 & CY16, respectively), TCL, Tecno, Itel, and Xiaomi and has also entered into an agreement with the Apple Authorized Distributor for Pakistan (i.e. Mercantile Pacific Asia Pte. Ltd.) for the distribution of products procured from MP in Pakistan.

- Few of the mobile manufacturing brands have setup their own distribution channels including Oppo, Vivo and QMobile.

Mobile Phone Distributors	
Distributors	**Associated Brands**
Airlink Communications	Xiaomi, Tecno, Samsung, Realme, Q-Mobile, TCL, Itel, Alcatel, Apple, Huawei
Muller and Phipps M&P	Samsung, Huawei, Realme, Nokia, Tecno
Burque Corporation	Samsung, Tecno
Advance Telecom	Nokia (Phones & Accessories), Itel (Phones& Accessories), Tecno

Source: PACRA Database, Company Websites

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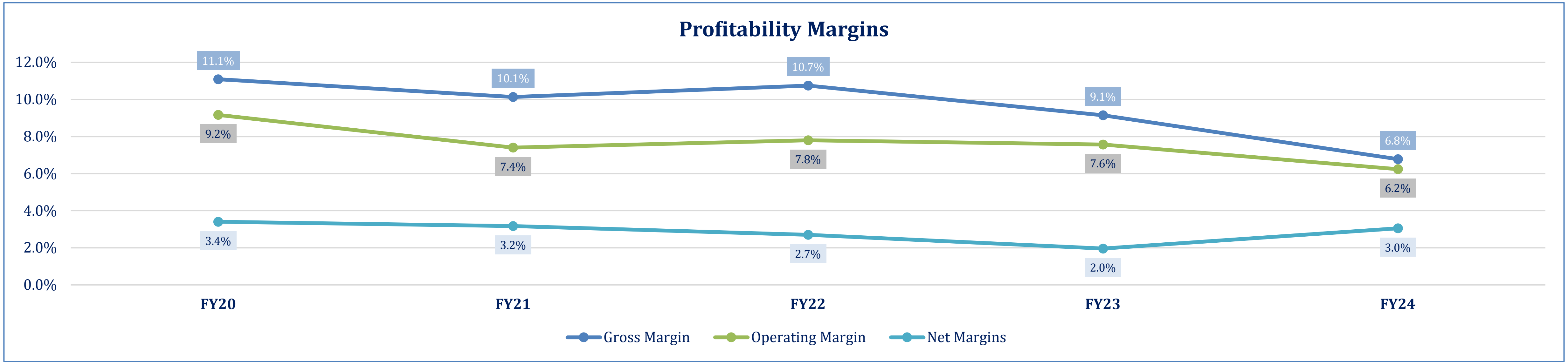
Business Risk | Margins

- In FY24, the sector's topline was recorded at PKR~203,202mln (FY23: PKR~52,363mln), depicting an impressive growth of ~288.0% due to an ease in import restriction on Completely Knocked Down (CKDs) units of mobile phones, which resulted in improved volumes in the mobile phone assembling segment.

- The sector's gross and operating margins declined due to higher pricing of the imported components/parts. In FY24, the gross and operating margins were recorded at ~6.8% and ~6.2%, respectively (FY23: ~9.1% and ~7.6% respectively).

- In contrast, the sector's net margins improved to ~3.0% in FY24, compared to ~2.0% in FY23. This growth was driven primarily by enhanced capacity utilization, increased customer acquisition, and higher product demand, which contributed to top-line expansion and enabled the sector to achieve economies of scale.



***Note**: Calculations are based on 1 sector player, with a market share of ~22% based on the number of units.*

Source: PACRA database

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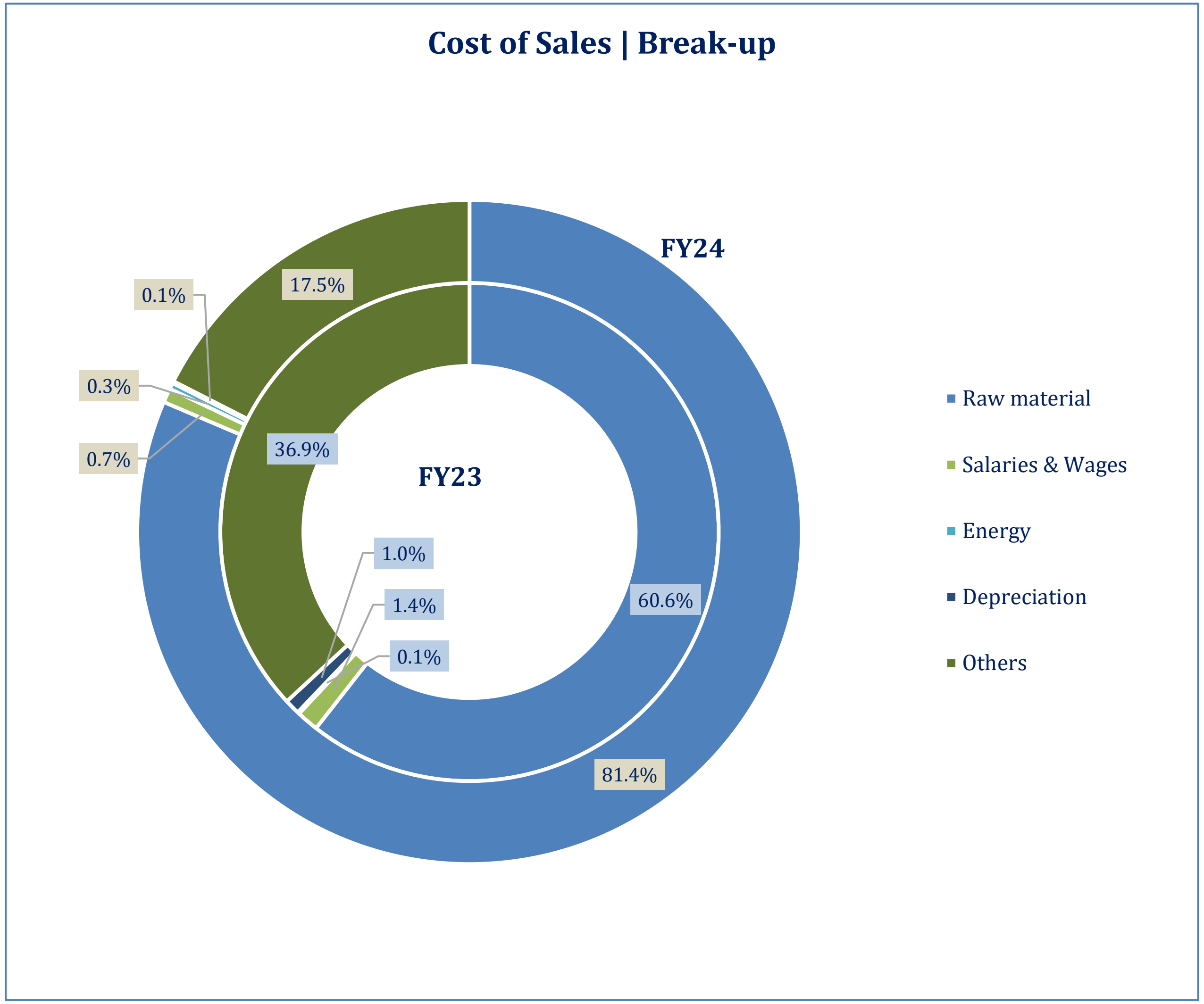
Business Risk | Cost Structure

- The sector's total cost of sales shot up by ~298.0% as the import restrictions eased and sales volume increased coupled with an increase in the cost of imported raw material.
- Raw material comprised ~81.4% of the total cost of goods sold in FY24 as compared to FY23 where it constituted ~60.6% of the total cost of goods sold.
- Other costs constituted the second largest portion of total costs comprising ~17.5% in FY24 (FY23: ~36.9%). These costs mainly include regulatory duties and clearing charges.
- The regulatory duty and clearing charges both rose by ~204.0% in FY24, compared to FY23 as the inventory pile-up was cleared in FY24 due to the imposition of the ban in FY23.



Note: Calculations are based on 1 sector player, with a market share of ~22% based on the number of units.

Source: PACRA database

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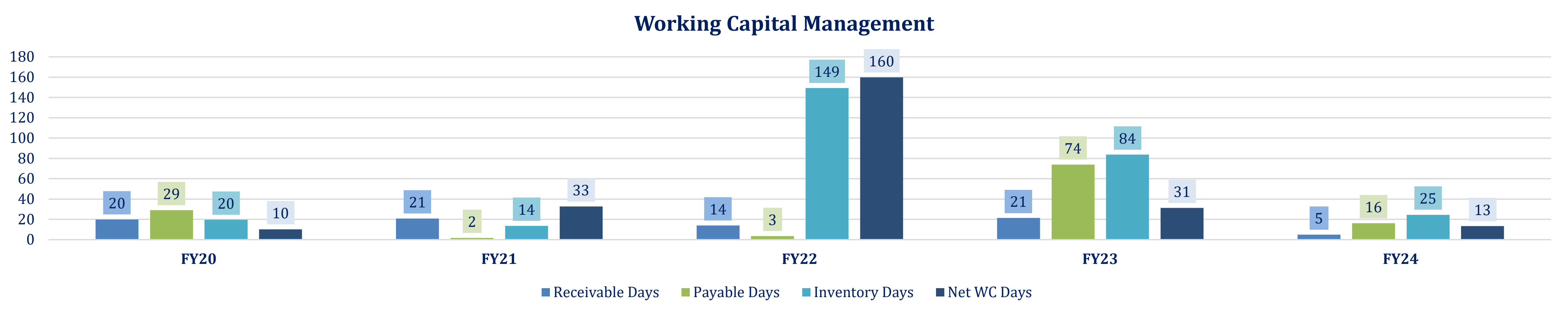
Financial Risk | Working Capital Management

- Between FY20 and FY24, the sector's net working capital cycle averaged ~49 days, driven by a significant increase in net working capital days in FY22. This surge was attributed to the addition of a wholly owned subsidiary by one of the sector's key players.
- The new player was not fully operational in FY22 and hence did not generate significant sales, resulting in higher inventory levels for that particular year.
- Trade debts are generally structured around a standard 30-day payment agreement, as reflected in the industry's payment patterns. To promote early payments, companies often offer incentives such as discounts or vouchers to the retailers.
- As a result, trade receivable days significantly improved in FY24, dropping to ~5 days compared to ~21 days in FY23. Similarly, inventory days saw a notable reduction to ~25 days in FY24, driven by a surge in the sector's sales, compared to ~84 days in FY23.
- Trade payables also declined during FY24 and clocked at ~16 days, a substantial improvement from ~74 days recorded in FY23.



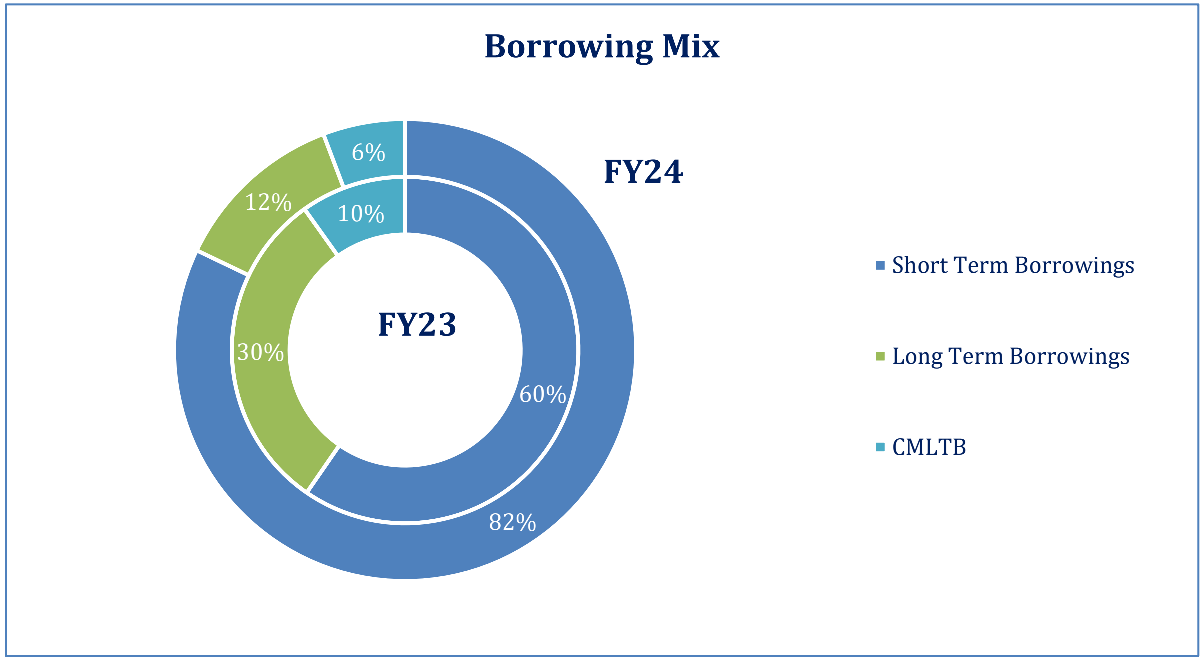
Note: *Calculations are based on 1 sector player, with a market share of ~22% based on the number of units.*

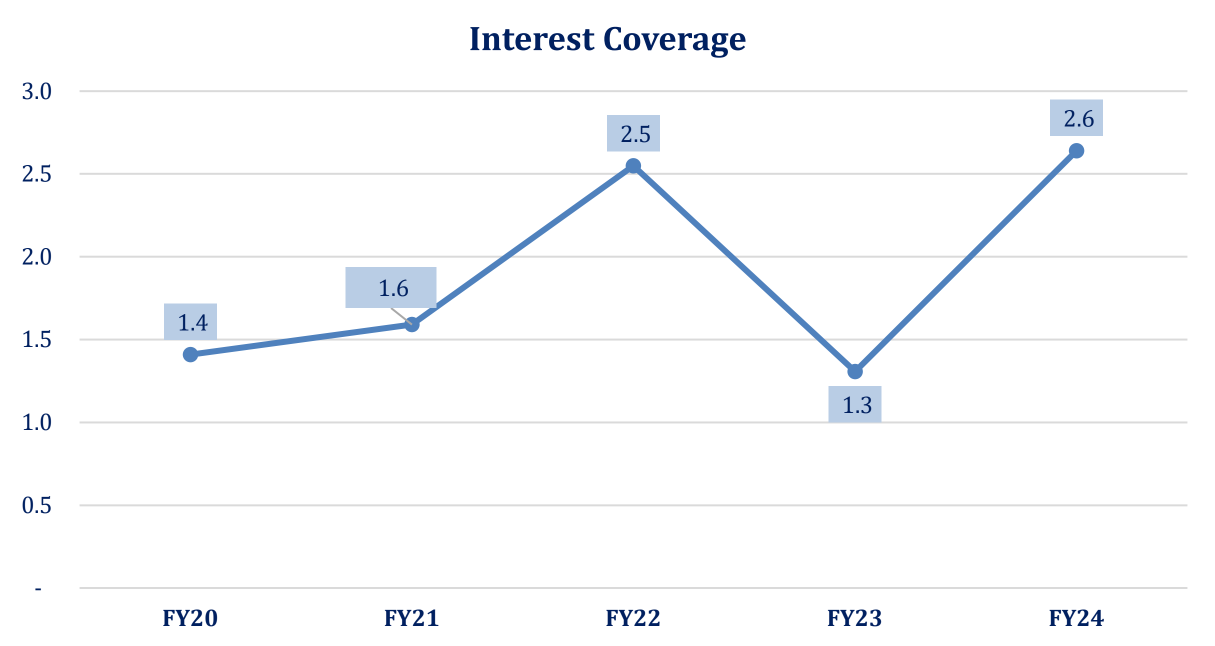
Source: PACRA Database

Mobile Phones & Allied Products

Financial Risk | Borrowing

- The sector's total borrowing, in FY24 stood at PKR~12,885mln, increasing by ~100.0% YoY (FY23: PKR~6,416mln).
- The largest component of the sector's debt mix is the Short-Term Borrowings (STBs), which amounted to ~82.0% of the total borrowing mix during the year (SPLY: ~60.0%), with Long-Term Borrowings (LTBs) comprising ~30.0% in FY24 as compared to ~12.0% in FY23.
- During the year, the short-term and long-term borrowings registered an increase of ~22.0% and ~18.0% each, respectively while the Current Maturity of Long-Term Borrowings (CMLTB) was down by ~4.0% YoY and had a share of ~6.0% in the sector's overall borrowing mix.
- Interest coverage rose to ~2.6x in FY24 (FY23: ~1.3x), as the sector exhibited a better performance compared to the previous 4 years.





***Note**: Calculations based on 1 sector player, with a market share of ~22% based on the number of units.*
CMLTB is short for the current maturity of a long-term loan.

Source: PACRA Database

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Duty Structure

The Finance Act FY24-25 does not have adjustments pertaining to mobile phones and allied products, implying that the duty structure of FY23-24 remains applicable for FY24-25.

Duty & Taxes Summary														Punjab Infrastructure Development CESS	
Sr.	CIF SLABS	Sales Tax (PKR)		Regulatory Duty		Levy		Income Tax		Taxes Total		PRA	
		PKR										*%*	
		FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25	FY24	FY25
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	*18% ad valorem*	*18% ad valorem*	3,240	3,240	1,200	1,200	970	970	7,150	7,150	0.9	0.9
5.	$351 - $500	*18% ad valorem*	*18% ad valorem*	9,450	9,450	2,800	2,800	3,000	3,000	20,650	20,650	0.9	0.9
6.	Above $500	*25% ad valorem*	*25% ad valorem*	16,650	16,650	5,600	5,600	5,200	5,200	36,720	36,720	0.9	0.9

Source: Finance Act 2025

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SWOT

Strengths

- Brand Loyalty
- Increased Cellular subscribers
- Demand Potential
- Strong dealership and distribution network
- The greater demand for smart phones due to increased smartphone penetration.

Weaknesses

- Inventory management issues in case a model loses its market

Threats

- Low barriers to entry
- Preference of different business models by the principles for mobile distribution
- Forward Integration by the principles in the Distribution segment.

Opportunities

- Fast-growing smartphone market
- Supportive Mobile Manufacturing Policy
- Local assembling of handsets
- Reduced Taxes
- Expansion of distribution channel
- Potential 5G market

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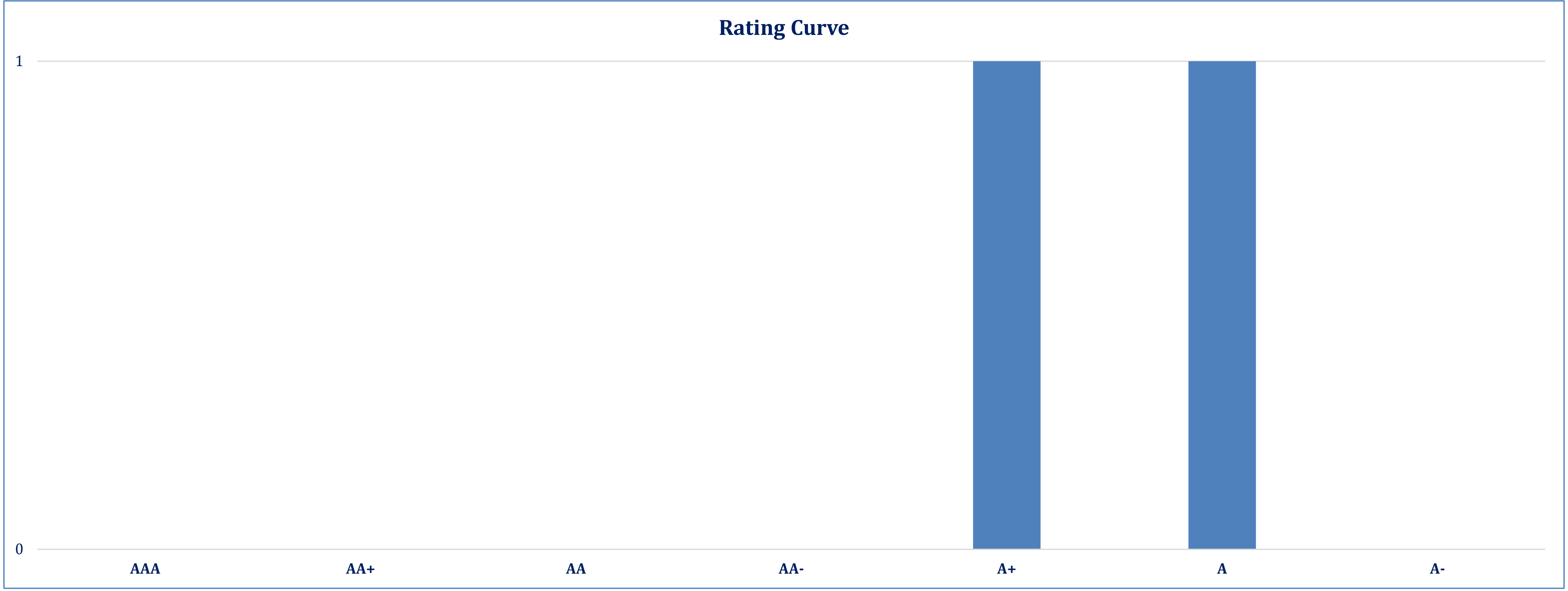
Rating Curve

PACRA rates two players in the Mobile Phones and Allied Products sector, with a long-term rating of A+ and A.



Source: PACRA Database

Mobile Phones & Allied Products

Outlook: Stable

- In FY24, Pakistan's nominal GDP clocked in at PKR ~105.7trn (FY23: PKR~83.9trn), growing by ~2.4% YoY in real terms (FY23: ~-0.22%).
- Industrial activities contributed ~21.9% to the GDP, with manufacturing accounting for ~62.9% of the total value added.
- During FY24, average CPI inflation level dropped to ~9.6% from ~27.4% in FY23. The GDP growth was also recorded at ~2.4%, with SBP lowering the policy rate to ~19.5% at the end of FY24.
- During 1QFY25, the GDP growth was recorded at ~0.92%, while the Large-scale manufacturing contracted by ~0.82% in 1HFY25. By 2QFY25, the policy rate was further reduced to ~13.0% on Dec 16, '24.
- Pakistan remains one of the fastest-growing cellular markets on the globe, with tele density rising from ~6.0% in FY04 to ~80.7% in FY24. Moreover, during FY24, Pakistan's mobile imports were recorded at USD~1.9bln as of FY24 while the local distributors showed a topline growth of PKR~203.2bln up by ~288.0% YoY.
- Due to the high costs of imported components, the sector's gross margins fell to ~6.8% (FY23: ~9.1%) and operating margins to ~6.2% (FY23: ~7.6%) however net margins improved to ~3.0%, up from ~2.0% in FY23.
- Average gross working capital days decreased significantly to ~13 days in FY24 (FY23: ~31 days), attributed to effective credit management practices.
- The changes in the tax structure introduced in FY24 for mobile phones priced above USD~350 per handset are expected to affect the sales volumes in FY25. However, mitigating factors such as a declining Consumer Price Index (CPI), gradual reductions in policy rates, and the launch of new mobile models may help to counterbalance the impact of higher duties.
- The Pakistan telecommunication sector is experiencing significant growth, with ~194.6mln subscribers as of end-Nov'24. The sector showcases strong investment potential, as local investment reached USD~6.3bln, and FDI inflows were recorded at USD~1.4bln as of end-Mar'24.
- The Pakistan Telecommunication Authority (PTA) is actively advancing the "Digital Pakistan Vision" to enhance service quality and provide extensive coverage. Key initiatives include, planned 5G deployment in CY25 and upgrading fiber infrastructure to align with international standards.
- The mobile phone sector is expected to achieve further growth in sales revenue, driven by the expanding local manufacturing and assembly processes. PTA continues to play a pivotal role in fostering innovation, supporting economic growth, and facilitating digital transformation while addressing the challenges and opportunities within the evolving telecommunication sector.
- Localization of mobile manufacturing, however, still seems to have a long way to go. Mobile imports show no significant decline in FY24, and the 38 licensed local manufacturers have yet to make an impact. A notable reduction in the import bill will only follow if we achieve substantial progress in the localization of mobile phone production.

Mobile Phones & Allied Products

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