

PRESS RELEASE
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Climate and consumer trends propel room air-conditioners sales volumes to record high levels in FY2025: ICRA

- **Industry volumes to expand by 20-25% YoY in FY2025 and ~10-12% in FY2026**
- **Capacities likely to be enhanced by ~40% amid a substantial indigenisation up to ~75% over the next three-four years**

ICRA estimates the Indian room air-conditioner (RAC) industry sales volumes to grow by 20-25% YoY and reach its record high levels of 12-12.5 million units in FY2025. Factors like rising temperature levels, increasing need for the number of RACs per household, rising urbanisation levels, improved disposable income, and favourable consumer financing options are expected to drive the growth in the next few years. Further, increasing replacement demand with a rising preference for energy-efficient models amidst increasing usage and higher energy costs, auger well for the industry.

Commenting on the same, **Srikumar Krishnamurthy, Senior Vice President and Co-Group Head – Corporate Ratings, ICRA**, said: *“The domestic RAC industry surpassed the pre-Covid peak levels of sales volumes in FY2024, aided by changing climatic conditions and favourable consumer trends. The number of average heat wave days/year over the last three decades has been steadily rising and CY2024 is likely to report the highest ever thus boding well for RAC demand. This was observed in the recently concluded summer season wherein most of the original manufacturers (OEMs) reported robust volume growth of 40-50% YoY during this period. With a conducive climatic environment and favourable structural factors, RAC demand growth is likely to sustain its momentum for the next two years although the pace of growth is likely to moderate to ~10-12% in FY2026; the performance of key markets like North India (which contributes 35-40% to industry sales) is a critical monitorable.*

On the supply side, the domestic household RAC capacity is likely to increase by over 40% in the next three years from the current level. *“The key OEMs and contract manufacturers have been adding RAC capacities rapidly to support the growing demand in the domestic market. Approximately 80% of the OEMs’ capacity is concentrated with the top six OEMs and the capacity for contract manufacturers is restricted to three to four players. The fiscal benefits of the Government of India’s production-linked incentive (PLI) scheme for components manufacturing for the consumer durable industry have been instrumental in the sharp increase in localisation levels in the Indian RAC industry. The industry is likely to achieve substantial indigenisation of ~75% in the next three-four years through the ongoing backward integration by most industry players,”* **Krishnamurthy** added.

ICRA’s sample set of three¹ key listed RAC brands witnessed a YoY increase of ~53% in revenues in Q1 FY2025 on a YoY basis due to strong demand conditions in the just-concluded peak season led by severe heat waves and a long summer. ICRA expects a healthy YoY increase of ~25% in revenues in FY2025 of the same set, supported by strong volume growth, compared to ~17% in FY2024. The industry’s operating profit margin (OPM) is inherently moderate at 6.5-7.5%, led by the volatility of input costs amid intense competition. With the benefits of operating leverage,

¹ Sample includes Blue Star Ltd, Johnson Controls-Hitachi Air Conditioning India Limited, Voltas Limited

the industry is expected to command gradual expansion in operating margins despite the elevated level of competition.

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