PRESS RELEASE

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Room air-conditioner industry faces the heat with unseasonal rains set to dampen volumes by 10-15% in FY2026: ICRA

- Cut in GST to more than offset price rise related to new Star label to be implemented in Jan 2026

Rating agency ICRA forecasts a 10–15% YoY decline in the Indian room air-conditioner (RAC) industry volumes to 11.0–11.5 million units in FY2026, from a record 12.5–13.0 million units in FY2025 following the demand constraint caused by the extended period of unseasonal rains seen during the peak demand season of April-July in North and Central India. However, a partial recovery is expected in H2 FY2026, especially from southern and western regions, driven by forecasts of a warmer summer in 2026. Moreover, ICRA projects the reduction in the goods & services tax (GST) rate to more than offset the price rise related to the implementation of the new Star label guidelines in January 2026, boosting pre-buying in the next quarter.

The industry's long-term resilience remains underpinned by strong growth drivers—rising temperatures, low household penetration, urbanisation, and growing replacement demand from the steady shift towards energy-efficient models. As a result, capacity is expected to increase by over 40-50% in the next two years from 24-26 million units at present, with capital expenditure of Rs. 4,500-5,000 crore planned in the next two-three years. The Government of India's (GoI's) production-linked incentive (PLI) scheme for components manufacturing for the consumer durable industry is set to boost indigensiation in the Indian RAC industry to 70-75% by FY2028 from the current 50-60%.

Commenting on the performance in the current fiscal, **Kinjal Shah, Senior Vice President and Co-Group Head, ICRA**, said: "*ICRA projects volume sales to decline to 11.0–11.5 million units in FY2026 from a record 12.5–13.0 million units in FY2025, reflecting the subdued demand during the peak summer season (April–July). Unseasonal and above-average rainfall reduced the number of heatwave days, resulting in a 15–20% drop in sales volume in April-July 2025—particularly in North and Central India, compared to a robust 40–50% growth in the same period of the previous year. The inherent vulnerability to climate change and unpredictable weather patterns that the industry faces, will thus play out this year.*"

"The industry is now grappling with a significant build-up in channel inventory, which has doubled to around 2.5 million units as of July 2025, compared to the previous peak season. A partial recovery is expected in H2 FY2026, especially from southern and western regions, driven by forecasts of a hotter summer in 2026. Further, the reduction in the GST rate on RACs (under 2 tonne) to 18% with effect from September 22, 2025, against 28% earlier, is likely to reduce the prices of RACs by around 6-8%, or around Rs. 2000-3000 per unit, thus boosting demand."

The RAC original equipment manufacturers (OEMs) are preparing for significant regulatory changes set to take effect in CY2026. The introduction of the new Star label, combined with the gradual implementation of the Quality Control Order (QCO), will likely reshape the market landscape, pricing dynamics, and manufacturing strategies for RACs in India. The QCO, which will increase the indigenisation of the manufacturing process, will be implemented in phases over 12 months for various product categories, including RACs, mandates compliance with Indian Standards and requires products to bear the Bureau of Indian Standards (BIS) quality mark. "*Effective from January*

2026, the new Star label change aimed at enhancing efficiency standards and is expected to raise RAC prices by Rs. 500–2,500 per unit, which would partly offset the benefit arising from reduction in GST rates. However, it may lead to pre-buying in Q3 FY2026 and help the OEMs partly recover the sales lost during the 2025 summer," added **Shah**.

The domestic RAC manufacturing capacity is poised for significant growth, with capacity expected to increase by over 40-50% in the next two years from the current level of 24-26 million units at present. This expansion is being driven by leading OEMs and contract manufacturers, who are rapidly adding capabilities to meet the growing demand in the domestic market. They have announced a capital expenditure (capex) of Rs. 4,500-5,000 crore in the next two-three years to drive this increase.

"Around 65–70% of India's RAC manufacturing capacity is held by the OEMs, while the remaining 30–35% is concentrated among the contract manufacturers. Nearly 80% of the capacity is concentrated in the top seven OEMs, while contract manufacturing capacity is primarily limited to three to four companies. The GoI's PLI scheme for components manufacturing for the consumer durable industry has played a crucial role in increasing the localisation of components in the Indian RAC industry. As a result of these incentives and the ongoing backward integration efforts by various companies, the Indian RAC industry is expected to achieve substantial indigenisation, reaching 70-75% by FY2028 from the current 50-60%," **Shah** added.

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