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Indian Consumer Durables Industry – Room Air Conditioners

RAC sales to heat up in FY2024 supported by favourable demand

MARCH 2023

AGENDA

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Highlights

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Indian RAC industry volumes to reach 8.3-8.5 million in FY2023 and witness 10-15% volume growth in FY2024.

Intense summers, underpenetrated market, increasing urbanisation, growing disposable income, consumer financing availability to drive domestic RAC demand.

ICRA expects the industry to witness healthy indigenisation through ongoing backward integration, propelled by policy support from the Central Government.

ICRA expects the Indian room air conditioner (RAC) industry volumes to grow at a healthy pace of ~26-28% to reach 8.3-8.5 million in FY2023 led by strong demand generated in the intense summers at the start of the fiscal. ICRA expects healthy volume growth of 10-15% in FY2024 supported by expected intense summers, growing number of ACs per household, increasing urbanisation and disposable incomes and easier consumer financing options.

The growth in the RAC segment is also expected to be driven by replacement demand with rising preference for energy efficient models, given the increasing usage and energy costs. Moreover, RACs with inverter technology will gain market share over traditional RACs due to better energy efficiency and reducing price differential. ICRA expects the cumulative share (by volume) of 4-star and 5-star inverter RACs to increase to 30-40% FY2025 from 20-23% in FY2022.

RAC manufacturers have been facing input cost pressures since the beginning of FY2022 given the elevated prices for commodities like copper and aluminum and high import dependence on key components like compressors, controllers. Moreover, adverse forex fluctuations impacted cost structures of players. Consequently, the industry had to pass on the cost increases through multiple price hikes in FY2022. However, in FY2023, with softening of commodity prices, these cost pressures are estimated to have moderated to an extent.

Currently, RAC manufacturers in India have only 30-40% localisation levels. Key components like compressors, controllers, motors, fans, heat exchanger coils and PCBs are imported from China, Thailand and Malaysia. Going forward, ICRA expects the industry to witness healthy indigenisation through ongoing backward integration, propelled by policy support from the Central Government.

Highlights

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Capital commitment of Rs. 4,806 crore under PLI announced to indigenise the AC component ecosystem.

Margins remain exposed to commodity price volatility, forex fluctuations; however, expected to improve supported by backward integration.

The Central Government's Production Linked Incentive (PLI) scheme for AC segment, which offers incentives of Rs. 6,238 crore to manufacturers, is focused on developing capacities for AC components to reduce the import dependence of the domestic manufacturers from 60-70% at present to 20-30% over the medium to long term and provide impetus to AC exports in the long run.

The PLI scheme received a strong response from both the OEMs and contract manufacturers who committed a capital outlay of Rs. 4,806 crore during the implementation period of FY2022-2029. Both global RAC players such as Daikin, LG, Carrier as well as domestic players like Voltas and Bluestar committed capex for high-value AC intermediates, sub-assemblies as well as low-value intermediates under the scheme. The RAC players with backward integration in high value intermediates such as compressors are expected to reach 65-75% of domestic value addition.

ICRA's sample set of four RAC players (with collective market share of 55-58%) are expected to report a healthy revenue growth of 28-33% in FY2023 and 14-16% in FY2024. Notwithstanding the healthy revenue prospects, companies will remain exposed to changes in regulatory norms (including import duties), commodity price volatility, forex fluctuations and competitive intensity.

ICRA expects the OPM for the sample set to improve to 8.0-8.4% in FY2023 and further to 8.8-9.2% in FY2024 supported by moderation in commodity prices and backward integration. The gearing and coverage indicators are expected to remain comfortable owing to limited dependence on debt, primarily due to healthy balance sheets of global parent companies of Indian RAC players.

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Thank You!