

Indian Consumer Durables Industry – Room Air-Conditioners

**Healthy demand to result in volume
growth of 8-10% in FY2025**

MARCH 2024





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ICRA expects Indian RAC industry volumes to reach ~9.6-9.8 million in FY2025, implying a YoY growth of ~8-10%, post a moderate YoY rise of 4-6% in FY2024 to ~8.8-9.0 million. Summer of CY2024 to be crucial for growth revival.

ICRA expects the industry to witness healthy indigenisation through the ongoing backward integration by most industry players, propelled by the Govt's PLI scheme.



ICRA projects the Indian room air-conditioner (RAC) industry volumes to grow at ~8-10% YoY to reach 9.6-9.8 million in FY2025 led by expectation of healthy demand in CY2024, unlike the previous year, where there was an impact of unseasonal rains during the summer season. In addition, some of the structural growth drivers such as relatively low penetration (i.e. 7-9% in urban Indian household's penetration compared to more than 90% in developed countries such as the US), changing energy efficiency norms and features (supporting replacement demand) will remain favourable.



FY2024 is expected to end with a moderate volume growth of ~4-5% YoY, ending the fiscal with a sales of ~8.8-9.0 million units. The RAC original equipment manufacturers (OEMs) grappled with high than usual inventory levels in FY2024 and remained focused on liquidation during the year after weak sales in the summer of CY2023. The sales in northern part of India were most impacted in this period.



Structural drivers such as rising temperature levels, growing need for number of ACs per household, increasing urbanisation and disposable incomes and easier consumer financing options would drive long-term industry growth. This apart, replacement demand with rising preference for energy-efficient models, given the increasing usage and energy costs, will also be a crucial factor. Moreover, the RACs with inverter technology will continue to gain market share over traditional RACs due to better energy efficiency and reducing price differential.



Currently, RAC manufacturers in India have only 30-40% localisation levels as key components like compressors, controllers, motors, fans, heat exchanger coils and printed circuit boards (PCBs) are imported from China, Malaysia, Thailand and the US. ICRA expects the industry to witness gradual indigenisation to ~50-75% over the medium term through ongoing backward integration, propelled by the production-linked incentive (PLI) scheme announced by the Government of India (Govt).



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Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Group Head	shamsherd@icraindia.com	0124 – 4545 328
Kinjal Shah	Co-Group Head	kinjal.shah@icraindia.com	022 – 6114 3442
Sheetal Sharad	Sector Head	sheetal.sharad@icraindia.com	0124 – 4545 374
Uday Kumar	Assistant Vice President	uday.kumar@icraindia.com	0124 – 4545 867





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Business Development and Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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