ICRA

Indian Consumer Durables Industry – Room Air-Conditioners

Industry grappling with a cold wave of challenges

SEPTEMBER 2025

Highlights

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ICRA projects the sales volume for the Indian RAC industry to contract to approximately 11.0–11.5 million units in FY2026 from 12.5-13.0 million units in FY2025, primarily due to the unseasonal rainfall during the summer, which impacted demand in Q1 FY2026.

The domestic RAC industry is estimated to have experienced a 15-20% YoY decline in volumes during April–July 2025. This led to a significant build-up in channel inventory, which has doubled to around 2.5 million units.

ICRA projects a 10-15% YoY decline in Indian room air-conditioner (RAC) industry volumes in FY2026, following a robust 20–25% growth in FY2025 that had pushed volumes to a record 12.5-13.0 million units. The decline projected for FY2026 is attributed to the unseasonal rainfall this year during the peak season for RAC sales (April–July), which was 17% above normal—significantly higher than the around 1% excess recorded in the same period last year. This compressed RAC volumes in 4M FY2026 by around 15-20% in YoY terms, which will, however, be partly compensated by sales during the rest of the year due to favorable summer expectations in the Western and Sothern regions during H2 FY2026.

Reduction in the goods & services tax (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. ICRA projects the reduction in the GST rate to more than offset the price rise related to the implementation of the new Star label guidelines in January 2026.

The long-term demand outlook for the RAC industry, however, remains healthy with a forecasted compounded annual growth rate (CAGR) of 10–15% in volumes between FY2026 and FY2030, driven by structural factors such as rising temperatures, increasing RACs per household, urbanisation, higher disposable incomes, and easier consumer financing. Additionally, replacement demand—especially for energy-efficient inverter models—continues to be a key growth driver.

India's domestic RAC manufacturing capacity, currently at 24–26 million units annually, is projected to grow to 30–32 million units by CY2027 and 40–42 million units by CY2030, reflecting a 40–50% increase, to meet rising demand. Leading original equipment manufacturers (OEM) and contract manufacturers have announced capital expenditure (capex) plans of Rs. 4,500-5,000 crore between FY2026 and FY2028 to drive this increase in capacity.

Analytical Contact Details

Name	Designation	Email	Contact Number
Jitin Makkar	Senior Vice-President and Group Head	jitinm@icraindia.com	0124 – 4545 368
Kinjal Shah	Senior Vice-President and Co-Group Head	kinjal.shah@icraindia.com	022 – 6114 3442
Deepak Jotwani	Vice President and Sector Head	deepak.jotwani@icraindia.com	0124 – 4545 870
Uday Kumar	Assistant Vice President and Sector Head	uday.kumar@icraindia.com	0124 – 4545 867

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
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
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

Thank You!