August 25, 2025

Daikin Airconditioning India Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Unallocated	100.00	100.00	[ICRA]AAA (Stable); reaffirmed
Issuer rating	-	-	[ICRA]AAA (Stable); reaffirmed
Total	**100.00**	**100.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation factors in Daikin Airconditioning India Private Limited's (DAIPL) established position as one of the leading players in the domestic air conditioning industry, supported by strong brand recognition particularly in the room air conditioning (RACs) and variable refrigerant volumes (VRV) segments, a wide distribution network and advanced air conditioning manufacturing technology. Further, the rating continues to derive comfort from DAIPL's strong business and financial linkages with its parent - Daikin Industries Limited (DIL; rated A2 with Stable outlook by Moody's), underscored by proven history of equity infusions and an expectation of continued support going forward, which enables DAIPL to maintain a stable credit profile. Also, India remains one of the fastest growing markets among the geographies in which DIL operates. In addition to growing domestic demand, DAIPL is also expected to cater to various export markets where DIL operates, which augurs well for DAIPL's long-term growth prospects.

In FY2025, the company's operating income (OI) grew YoY by around 27% (around 20% YoY in FY2024) led by strong domestic demand driven by harsh summers and multiple heat waves in Q1 FY2025, along with early summer onset in February and March 2025. In line with the growing scale of operations, backward-integration efforts and input-price tailwinds, the operating margins improved to 10.6% in FY2025 from 9.1% in FY2024. However, revenue growth in FY2026 is expected to remain muted primarily led by subdued demand in Q1 FY2026, impacted by unseasonal rains and early arrival of monsoons across India. While a partial recovery in demand is expected in the latter half of the current fiscal, it is unlikely to fully compensate for the shortfall witnessed in the previous quarters. Consequently, with a moderation in revenue growth, operating margins may also see some softness. Notwithstanding, over the medium term, the demand outlook for the AC industry in India remains favourable with growing number of ACs per household amid weather changes, rising urbanisation and increasing disposable income.

DAIPL profitability remains susceptible to any adverse movement in input costs as the ability to pass on large price increases in a competitive market remains limited. Moreover, changes in regulations, including energy efficiency standards and the implementation QCO[1] by the Ministry of Heavy Industries may have an impact on the company's operational efficiency. The requirement of BIS[2] certification to both domestic and imported components has led to certification approval delays, supply-chain disruptions and higher compliance costs for finished goods manufacturers. While the industry has received QCO exemption until September 2026, ICRA will continue to closely monitor this situation and its implications for the company.

DAIPL continues to incur a sizeable ongoing capex consisting of RAC and compressor capacity addition at Sri City, Andra Pradesh to achieve backward integration. Additionally, in December 2024, the company entered a joint venture with RECHI Investments

[1] Quality Control Order

[2] Bureau of Indian Standard

Co. Ltd.[3] (RECHI) to manufacture compressors domestically. DAIPL's ability to successfully ramp-up production and achieve desired backward integration benefits remains crucial, given its notable import dependence on various components exposing it to forex fluctuations and supply-side disruptions. While the capex is large compared to the current balance sheet size, cash flows from the business and equity infusion from the parent are expected to be sufficient to fund the same.

The Stable outlook on the rating reflects ICRA's expectations that DAIPL's credit profile will remain strong, supported by its market position in India, close integration with its parent and expectation that it will maintain a healthy credit profile, as marked by steady growth in earnings and a comfortable capital structure.

Key rating drivers and their description

Credit strengths

Strong operational and financial linkages with parent DIL – DAIPL enjoys a strong relationship with DIL in terms of transfer of technology, technical know-how, supply of key raw materials, etc. DAIPL also has a representation in DIL's board of directors. DIL is the global leader in the AC business with presence in more than 170 countries. DIL is expected to provide operational, technological and financial support to DAIPL. The Indian arm procures key components from DIL, which include compressors among others. In addition, DIL extends funding support in the form of equity infusion to DAIPL, when necessary. DAIPL has received Rs. 1,400 crore of equity infusion in FY2025 for its ongoing capex requirements.

Strong market presence with healthy market share in India's RAC and VRV segments – DAIPL has a sizeable market share in the Indian AC industry. The company's top-line growth has remained robust led by strong domestic demand with revenue CAGR of 25% over the past five years. It remains the market leader in the VRV segment and maintains a healthy and increasing market share in inverter RACs. Technological support from its parent gives DAIPL an edge over its competitors in new technology innovation and product launches. DAIPL has a sales and distribution network comprising over 14,700 touch points. DAIPL derives majority of its revenue from dealer and distributor channels, followed by regional and national retail chains, Daikin Solutions Plazas, e-commerce platforms, and AC and consumer durable dealers.

Strong financial profile – DAIPL's financial profile remains strong with healthy cash flow generation on the back of healthy volumetric growth. The company continues to have a comfortable capital structure and robust debt protection metrics, partly supported by sizeable equity infusion by the parent. In FY2025, DAIPL received an aggregate equity infusion of Rs. 1,400 crore from DIL. The liquidity position remains strong due to healthy cash and cash equivalents, and substantial unutilised working capital limits. DAIPL's working capital management remains efficient with a modest level of working capital intensity, which is internally funded.

Favourable long-term outlook for India's AC industry, given low penetration levels – Increasing urbanisation and rising standard of living are fast making ACs a requirement across India, reflected in the growing number of RACs per household. However, the segment is still considered one of the least penetrated among the consumer durable segment, with less than 10% penetration of the total market size. Other factors supporting demand include weather changes and easy availability of consumer financing.

Credit challenges

Vulnerability of profitability to input cost fluctuations – DAIPL's profitability is prone to volatility in raw material prices and its ability to pass on large price rises remains limited owing to stiff competition. However, the company has hiked prices across product categories over the last 2-3 years, which mitigated the impact of the rise in input cost to an extent. In addition, the company has started manufacturing critical components in-house, which is likely to ease some pressure on DAIPL's margin profile. Going forward, DAIPL's margins are expected to remain range-bound.

Large capex underway, timely commencement of production crucial – DAIPL incurred an aggregate capex of around Rs. 1,000 crore in FY2025 and is expected to undertake capex of Rs. 1,000-1,200 crore, in FY2026, primarily towards doubling the existing

[3] *wholly owned subsidiary of RECHI Precision Co. Ltd. - one of the top three global compressor manufacturers*

installed RAC capacity and setting up backward integration towards component manufacturing such as compressor (including joint-venture capex), motor, heat exchanger, plastic moulding, etc. Hence, timely commencement of commercial production remains crucial for sustaining a healthy revenue growth. Moreover, backward integration enables DAIPL to reduce import dependency on components leading to margin improvement.

High import dependence – DAIPL imports 30-45% of its raw material requirement, a major part of which is from Group companies. This exposes it to forex movement risk, price volatility and supply-chain disruptions. However, the company hedges 90-95% of its forex exposure. Moreover, the company plans to commence commercial production of additional AC components, which is expected to gradually reduce import dependency.

Exposed to seasonality, changing technologies and intense competition in the AC industry – The Indian RAC industry is seasonal wherein a large part of the revenue is derived between April and June, hence, conducive summer is crucial for the industry. At the same time, frequent changes in energy efficiency norms, refrigerant standards, and smart technologies demand continuous investment in product development and compliance, increasing cost pressures. Additionally, the implementation of regulatory measures like the QCO has added complexity to component sourcing and certification. This apart, the RAC industry is marked by intense competition due to presence of many players.

Liquidity position: Strong

DAIPL's liquidity position is strong, supported by strong operational cash flows, large unutilised working capital limits (around 9% average utilisation over the past 13 months ending April 2025 against Rs. 1,550 crore of working capital facilities) and healthy cash and cash equivalents of Rs. 1,491 crore as of March 2025. The company has planned capex of Rs. 1,000-1,200 crore for FY2025-26, which is expected to be funded by free cash, operating cash flows and equity from the parent.

Rating sensitivities

Positive factors – Not applicable.

Negative factors – Pressure on DAIPL's rating could arise if there is a sharp deterioration in the company's earnings, or if any major debt-funded capex weakens its credit metrics. The rating could also be downgraded if there is a deterioration in the parent company's credit risk profile or weakening of DAIPL's linkages with its parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	ICRA expects DAIPL's parent, DIL, to extend operational and financial support to DAIPL, should there be a need. DAIPL has strong business linkages with DIL and shares a common name with its parent company. Moreover, India is an important market for DIL and, hence, DAIPL is of high strategic importance to its parent.
Consolidation/Standalone	The ratings are based on the consolidated financials of DAIPL and its 100% subsidiary, Citizen Industries Private Limited (CIPL).

About the company

DAIPL, a wholly owned subsidiary of DIL, manufactures and sells RAs, VRVs, Sky Air, Packaged Acs, Commercial Refrigeration, Chillers, Air Side including applied solutions under the Daikin brand. Initially, DAIPL serviced the Indian market through imports from DIL's facilities in Japan, Thailand and Malaysia. In 2009, the company commenced production from its own manufacturing unit in India with the production of chillers. Later, it started manufacturing VRVs, HFC-32 refrigerant, high-wall split ACs, packaged ACs and Sky Air cassettes from the plant.

In April 2025, DAIPL commenced an additional R&D centre at Neemrana and continues to undertake large capex to double its finished goods capacity and undertake backward integration by manufacturing AC components at its plant at Sri City. The investment in component manufacturing has been covered under the Government of India's production linked incentive (PLI) scheme of Rs. 538.7 crore, which will be an additional fiscal benefit. The existing manufacturing unit and R&D centre is at Neemrana, has an installed manufacturing capacity of 1.5 million RACs and substantial capacity for other AC products. The manufacturing plant at Sri City, once fully operational, will have production capacity of 3.0 million RACs (as of now 2.5 million operational) and 2.8 million compressors. Besides, most other components such as heat exchanger, copper tubing, motor, cross flow fan, plastic molding, sheet metal components, printed circuit board, etc., will be available in-house.

Key financial indicators (audited/Provisional)

DAIPL consolidated	FY2024	FY2025*
Operating income	8,190.0	10,361.2
PAT	309.2	520.8
OPBDIT/OI	9.1%	10.6%
PAT/OI	3.8%	5.0%
Total outside liabilities/Tangible net worth (times)	0.9x	0.7x
Total debt/OPBDIT (times)	0.6x	0.1x
Interest coverage (times)	7.6x	7.9x

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes, and amortisation; Amount in Rs. crore, *provisional numbers*
Note: All financial ratios as per ICRA's calculation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current year (FY2026)				Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs Crore)	FY2026		FY2025		FY2024		FY2023	
			Date	Rating	Date	Rating	Date	Rating	Date	Rating
Unallocated	Long Term	100.00	Aug 25, 2025	[ICRA]AAA (Stable)	Jul 26, 2024	[ICRA]AAA (Stable)	Apr 06, 2023	[ICRA]AAA (Stable)	-	-
Issuer Ratings	Long Term	-	Aug 25, 2025	[ICRA]AAA (Stable)	Jul 26, 2024	[ICRA]AAA (Stable)	Apr 06, 2023	[ICRA]AAA (Stable)	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term – Unallocated	Not Applicable
Issuer Ratings	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA’s website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Unallocated**	NA	NA	NA	100.00	[ICRA]AAA (Stable)
NA	**Issuer Ratings**	NA	NA	NA	-	[ICRA]AAA (Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis

Company Name	DAIPL's Ownership	Consolidation Approach
Citizen Industries Private Limited	100%	Full consolidation

Source: Company

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