

Daikin Airconditioning India Private Limited

Instrument	Amount	Rating	Outlook
Issuer rating	-	IrAA+	Stable
Long-term fund based (proposed bank limit)	Rs. 100.00 crore	[ICRA]AA+	Stable

ICRA has assigned its Issuer rating of Ir AA+ (pronounced I R double A plus) and bank loan rating of [ICRA]AA+ to the bank facilities of Daikin Airconditioning India Private Limited¹ (DAIPL). The outlook on the rating is 'Stable'.

ICRA's rating factors in DAIPL's strong parentage, and the high level of its operational and financial linkages with its parent, Daikin Industries Limited (DIL)² (rated A3 by Moody's), which ensures access to technology and technical know-how of the parent company, which has a diversified global footprint, with strong position in major markets. ICRA's rating also factors in DAIPL's strong market position in the Indian air conditioning market, with a strong brand and its reputation for high-end energy efficient products such as inverters, air conditioners and variable refrigerant volumes (VRVs), supported by its assorted product profile, which comprises Room Air Conditioners (RAs), VRVs, chillers, and sky air (cassette type air-conditioners). ICRA's rating also takes into account the positive demand prospects for the Indian room air conditioning industry, given the limited level of penetration. ICRA has also taken cognizance of the company's strong and expanding pan India distribution network, and its ongoing efforts to penetrate new geographies for exports.

ICRA's rating favourably factors in the improvement in the company's operational performance, subsequent to the commencement of operations of its plant at Neemrana, Rajasthan. ICRA notes that the growth in sales volumes of RAs, along with consistent increase in the localisation and the company's focus on premium positioning, have supported its profitability in the past couple of years. Coupled with an unleveraged capital structure, this has resulted in robust credit metrics. ICRA has also taken note of the company's capital expenditure plans, which include an investment of ~Rs. 600 crore to double its manufacturing capacity, and also significant investments in building a research and development (R&D) centre. As DAIPL plans to utilise the existing free cash balances and internal cash accruals to finance the capital expenditure, its capital structure is expected to remain at comfortable levels.

The rating strengths are partially offset by the high competitive intensity in the Indian air-conditioning market, volatility in volumes due to weather conditions and the vulnerability of the company's profitability to adverse movement in exchange rates. The hedging by DAIPL of about 80-90% of the foreign currency exposure through forward contracts reduces the forex risk to a large extent.

Going forward, in addition to the operating and financial performance of DAIPL, any rating action on the parent's credit rating will also constitute a key rating sensitivity.

Company Profile

DAIPL, a wholly owned subsidiary of Daikin Industries Limited, is engaged in manufacturing and selling room air conditioners, variable refrigerant volumes (VRVs), and chillers under the 'Daikin' brand. DAIPL was incorporated in April 2000 as a joint venture (JV) between DIL and the Usha Shriram Group, with DIL holding an 80% stake in the JV. Later, DIL acquired a 100% stake in the company and DAIPL became a wholly owned subsidiary of DIL. Initially, DAIPL serviced the Indian market through imports from Daikin's facilities in Japan, Thailand and Malaysia. In 2009, the company commenced production at its manufacturing unit at Neemrana, Rajasthan, with the production of chillers. Later, the company also started manufacturing VRVs and HFC-32 refrigerant high wall split air conditioners and packaged air conditioners at its plant. The manufacturing plant is spread across 40 acres and has around 2,000 employees. Currently, the company has a sales and distribution network of over 2,500 dealers and 21 warehouses (including four mother warehouses). The company has over 300 service partners and 300 Daikin Solution Plazas (exclusive showrooms of Daikin). The company plans to double its manufacturing capacity, with the new capacity scheduled to commence operations from the end of

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² Daikin Industries Limited (DIL), a Japanese company and global leader in the air conditioning segment, has an outstanding rating of A3 from Moody's.

FY2018. Furthermore, the company is investing significant funds in developing the local R&D centre, which has been commissioned in H1 FY2016-17.

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