

August 11, 2017

## Daikin Air-conditioning India Private Limited

### Summary of rated instruments

Instrument*	Rated Amount (Rs. crore)	Rating Action
Long-term fund based	100.00	[ICRA]AA+ (Stable); Reaffirmed
Issuer Rating	-	Ir AA+ (Stable); Reaffirmed
<b>Total</b>	<b>100.00</b>	

\*Instrument details are provided in Annexure-1

### Rating action

ICRA has reaffirmed the Issuer Rating of Ir AA+ (pronounced IR double A plus), with a 'Stable' outlook, to Daikin Airconditioning India Private Limited (DAIPL). ICRA has also reaffirmed the long-term rating of [ICRA]AA+ (pronounced ICRA double A plus) to the Rs. 100.00-crore<sup>1</sup> fund-based bank facilities of DAIPL<sup>2</sup>. The outlook on the long-term rating is 'Stable'.

### Rationale

ICRA's ratings continue to factor in DAIPL's strong parentage, and the high level of its operational and financial linkages with its parent, Daikin Industries Limited (DIL)<sup>3</sup> (rated A3 with 'Positive' outlook by Moody's), which ensures access to technology and technical expertise of the parent company, which has a diversified global footprint, with strong position in major markets.

ICRA's ratings also factor 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 cognisance of the company's strong and expanding pan India distribution network, and its ongoing efforts to penetrate new geographies for exports.

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 recent capital expenditure on building a research and development (R&D) centre and plans to spend ~Rs. 600 crore on doubling its manufacturing capacity. As DAIPL plans to utilise the existing free cash balances and internal cash accruals to finance the manufacturing capacity expansion, its capital structure is expected to remain at comfortable levels.

The rating strengths are partially offset by the intense competition 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.

<sup>1</sup> 100 lakh = 1 crore = 10 million

<sup>2</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

<sup>3</sup> Daikin Industries Limited (DIL), a Japanese company and global leader in the air conditioning segment, has an outstanding rating of A3 from Moody's.

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

### Key rating drivers

#### Credit strengths

- **Strong parentage with 99.99% stake of Daikin Industries Limited:** DA IPL has strong relationship with DIL (its parent company), in terms of transfer of technology, knowhow, supply chain linkages as around 35% of material is supplied by DIL or its subsidiaries while the rest of the material is supplied by vendors approved by DIL, which has majority representation in the board of directors of DA IPL. DIL also provides regular training to DA IPL employees.
- **Strong market presence with healthy market share in the room air-conditioning industry in India:** DA IPL has a sizable market share in the Indian room air-conditioning industry in FY2017. The company's topline growth remained robust in the past couple of years. The company is the market leader in the inverter air-conditioning segment in FY2017.
- **Wide spread dealer network throughout India and aggressive marketing efforts supporting the top-line growth:** DA IPL has a sales and distribution network of over 2,500 dealers (outlets of ~5,000) and 29 warehouses (including four mother warehouses). The company has over 325 service partners and 300 Daikin Solution Plazas (exclusive showrooms of Daikin).
- **Favourable financial profile with unlevered capital structure, comfortable liquidity with efficient working capital management:** The company's financial profile remained healthy with unlevered capital structure and comfortable liquidity. The company's healthy cash accruals are expected to keep the liquidity at comfortable in the near-medium term.
- **Future capital expenditure plan on R&D centre and expansion of existing capacity (doubling of capacity) would help in reducing the import dependency to a large extent:** DA IPL has total capex plan of Rs. 600.00 crore over the next three years on R&D centre and expansion of existing manufacturing facility. DA IPL has already spent around Rs. 104 crore on the R&D facility. With the commencement of R&D facility in May'2016, DA IPL has been able to develop local designing capabilities which will help in launching products in a faster manner based on Indian weather conditions and demand.
- **Favorable outlook of AC industry in India given the low penetration:** The increasing urbanisation and rising standard of living is fast making air-conditioners (AC) a requirement across India, the segment is still considered one of the least penetrated consumer durable segments, with about 3.5% penetration of the total market.

#### Credit weaknesses

- **Cyclical demand and dependence on other variables such as urban and rural electrification:** The demand of room air-conditioners is also dependent on the real estate activities, availability of electricity, and up-front cost of acquisition. All these factors could restrict the volumetric growth in the near to medium term
- **Susceptible to weather conditions:** Sales volumes are also susceptible to weather conditions; inherent seasonality in the business due to intensity of summer especially in the Northern India

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below. ICRA has also considered the implicit support of, Daikin Industries Limited (DIL)<sup>4</sup> (rated A3 with 'Positive' outlook by Moody's).

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<sup>4</sup> Daikin Industries Limited (DIL), a Japanese company and global leader in the air conditioning segment, has an outstanding rating of A3 from Moody's.

**Links to applicable criteria:**
[Corporate Credit Rating Methodology](#)
[ICRA's Approach for Financial Ratio Analysis](#)
[Framework for Liquidity Analysis in Corporate Ratings](#)
**About the company:**

Daikin Airconditioning India Private Limited (DAIPL), a wholly-owned subsidiary of Daikin Industries Limited, is involved 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 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, it 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 (outlets ~5,000) and 29 warehouses (including four mother warehouses). In addition, it has over 325 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 FY2018. Furthermore, it is investing significant funds in developing the local R&D centre, which was commissioned in H1 FY2017.

In FY2017, on a provisional basis, the company reported a net profit of Rs. 105.8 crore on an operating income of Rs. 2659.1 crore, as compared to a net profit of Rs. 54.7 crore on an operating income of Rs. 2261.0 crore in the previous year.

**Key financial indicators (Audited)**

	FY2015	FY2016
Operating Income (Rs. crore)	1984.6	2261.0
PAT (Rs. crore)	52.2	54.7
OPBDIT/ OI (%)	4.0%	4.8%
RoCE (%)	6.6%	10.6%
Total Debt/ TNW (times)	Nil	Nil
Total Debt/ OPBDIT (times)	NA	NA
Interest coverage (times)	6.9	4.9
NWC/ OI (%)	16%	11%

*Operating income (OI): Net sales & other operating revenue, PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); Interest Coverage: OPBDIT/Gross finance cost and interest charges; Net Working Capital (NWC) (Current Assets –Cash)–(Current Liabilities –Current Portion of Long-Term Debt –Short-Term Debt –Capital Creditors); NA: Not applicable*

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:**

**Table:**

S. No.	Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2014
				<b>August 2017</b>	<b>August 2016</b>	<b>June 2015</b>	<b>March 2014</b>
1	Fund-based	Long Term	100.00	[ICRA]AA+ (Stable)	[ICRA]AA+ (Stable)	-	-
2	Issuer Rating	Long Term	-	Ir AA+ (Stable)	Ir AA+ (Stable)	-	-

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Instrument Details**

<b>ISIN No</b>	<b>Instrument</b>	<b>Date of Issuance / Sanction</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Amount Rated (Rs. crore)</b>	<b>Current Rating and Outlook</b>
NA	Fund-based	-	-	-	100.00	[ICRA]AA+ (Stable)
NA	Issuer Rating	-	-	-	-	Ir AA+ (Stable)

Source: Daikin Airconditioning India Limited

## Contact Details

### Analyst Contacts

**Sabyasachi Majumdar**

+91 124 4545 304

[sabyasachi@icraindia.com](mailto:sabyasachi@icraindia.com)

**Manish Ballabh**

+91 124 4545 812

[manish.ballabh@icraindia.com](mailto:manish.ballabh@icraindia.com)

**Amit Arora**

+91 124 4545 318

[amita@icraindia.com](mailto:amita@icraindia.com)

**Arun Kumar**

+91 124 4545 873

[arun.kumar@icraindia.com](mailto:arun.kumar@icraindia.com)

### Relationship Contact

**Jayanta Chatterjee**

+91 80 4332 6401

[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

About ICRA Limited:

**ICRA Limited** was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001  
Tel: +91-11-23357940-50, Fax: +91-11-23357014

**Corporate Office****Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: [vivek@icraindia.com](mailto:vivek@icraindia.com)

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002  
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

**Mumbai****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

3rd Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi  
Mumbai—400025,  
Board : +91-22-61796300; Fax: +91-22-24331390

**Kolkata****Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: [jayanta@icraindia.com](mailto:jayanta@icraindia.com)

A-10 & 11, 3rd Floor, FMC Fortuna  
234/3A, A.J.C. Bose Road  
Kolkata—700020  
Tel +91-33-22876617/8839 22800008/22831411,  
Fax +91-33-22870728

**Chennai****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

5th Floor, Karumuttu Centre  
634 Anna Salai, Nandanam  
Chennai—600035  
Tel: +91-44-45964300; Fax: +91-44 24343663

**Bangalore****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

'The Millenia'  
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,  
Murphy Road, Bangalore 560 008  
Tel: +91-80-43326400; Fax: +91-80-43326409

**Ahmedabad****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

907 & 908 Sakar -II, Ellisbridge,  
Ahmedabad- 380006  
Tel: +91-79-26585049, 26585494, 26584924; Fax:  
+91-79-25569231

**Pune****Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range  
Hills Road, Shivajinagar, Pune-411 020  
Tel: + 91-20-25561194-25560196; Fax: +91-20-  
25561231

**Hyderabad****Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj  
Bhavan Road, Hyderabad—500083  
Tel:- +91-40-40676500