

## CONSUMER DURABLES

07 March 2025

### Factors in place for robust volume in RACs this summer

- India Meteorological Department's outlook for March to May suggests above-normal maximum temperatures across most parts of the country
- Despite YoY price hikes, demand should stay intact, driven by necessity and direct tax cuts
- Early inventory build-up signals better preparedness amid rising non-tariff barriers, above-normal temperatures, and heatwave occurrences

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### Early onset of summer signals another strong season with strong volume

**traction ahead:** India Meteorological Department's (IMD) forecasts of above-normal temperatures (Figures 1 and 2) and higher heatwave frequency (Figures 3 and 4) raise the likelihood of another year of strong room air conditioner (RAC) demand. Our channel checks indicate that dealers have started stocking inventory, driven by expectations of a hotter summer and talks of supply shortages during the peak season as witnessed during the summer in 2024. The demand momentum is already visible, with Southern India markets like Karnataka and Tamil Nadu witnessing strong volume growth, setting a positive tone for the upcoming season.

### Price hikes unlikely to derail demand; government tax cuts may aid

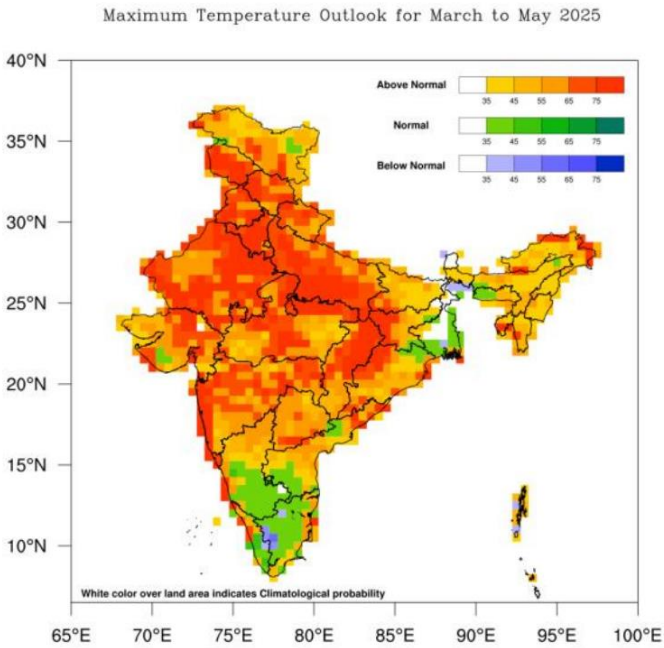
**affordability:** Last year's sudden rise in temperatures caught the industry off guard, leading to supply shortages and multiple price hikes (7-8% YoY) as brands passed on the impact of higher commodity costs. While prices are likely to move up again this year, we believe it will not hurt demand meaningfully as ACs are now more of a necessity than a luxury in urban and some semi-urban markets. Moreover, income tax cuts announced by the government could cushion the impact for price-sensitive buyers, supporting overall volumes.

### Non-tariff barriers pose a challenge, but early stocking may ease supply

**concerns:** Non-tariff barriers on component imports (Bureau of Indian Standards [BIS] refused to recertify 50 Chinese component manufactures) could pose supply-side challenges for the industry. However, our checks suggest that manufacturers have already begun building inventories as part of their routine stocking cycle – typically starting in Nov-Dec, peaking in Mar-Apr, and tapering off by Jul-Aug. Import data indicates that, compared to last year, the industry has stocked up well in advance, likely as a precaution to mitigate potential supply shortages arising from non-tariff barriers. This also reflects the industry's anticipation of another strong summer season, driven by above-normal temperature forecasts and higher heatwave occurrences. Hence, we believe the supply chain disruption may not dent volume but may weigh on profitability.

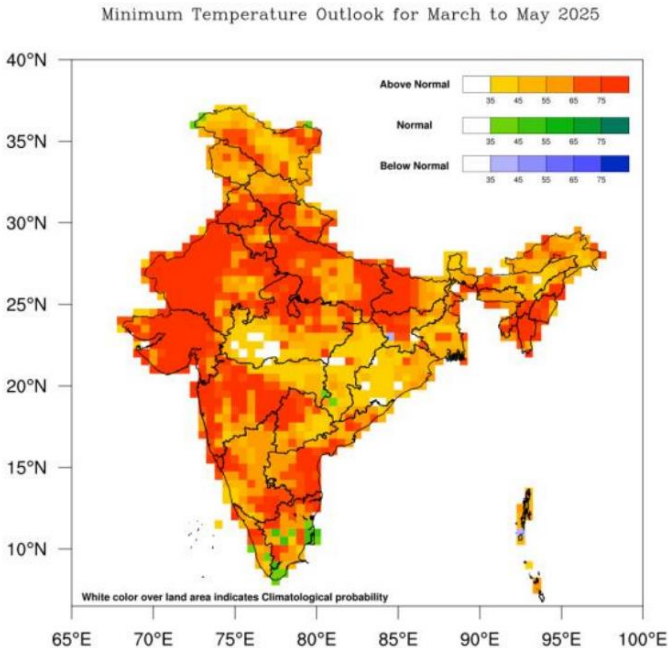


**Fig 1 – Probability forecast of maximum temperature to be above normal for March to May (MAM)**



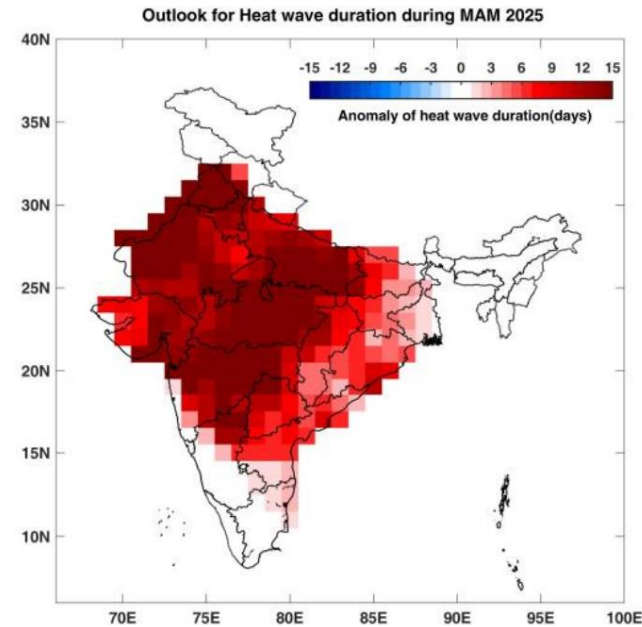
Source: IMD

**Fig 2 – Probability forecast of minimum temperature to be above normal for March to May (MAM)**



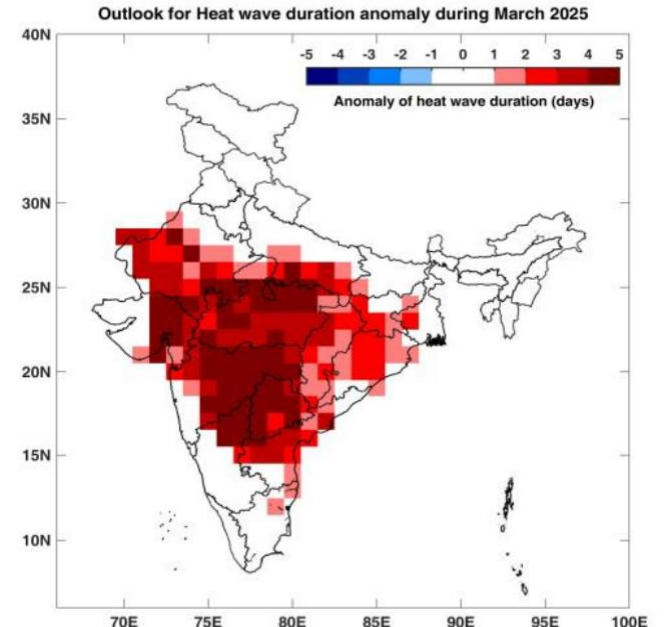
Source: IMD

**Fig 3 – Heatwave duration of 9-15 days in MAM'25**



Source: IMD

**Fig 4 – Heatwave duration of 2-5 days in March'25**



Source: IMD

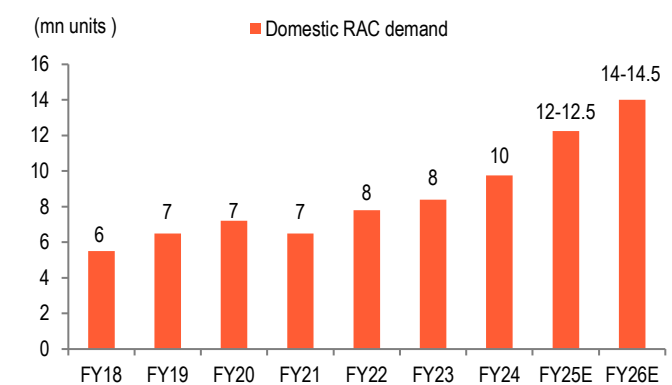
### Channel stocking momentum hints at optimism

With IMD forecasting above-normal maximum temperatures across most parts of the country, the likelihood of strong RAC volume growth appears high. Last summer the industry witnessed robust demand – VOLT reported 40% YoY growth in Q4FY24 and 51% YoY growth in Q1FY25 in unitary cooling products on a favourable base. This year, our interactions with dealers reveal that industry estimates are pegged at 20-25% YoY volume growth, potentially pushing total AC volumes to 14mn-14.5mn units – marking another year of seasonal-led demand upcycle.

Early signs of strong secondary sales volumes emerged in South India (Karnataka, Tamil Nadu) towards the end of February, driven by the early onset of summer. Primary sales are witnessing healthy traction in North India, as dealers have started stocking up inventory in anticipation of rising demand. The regional stocking patterns indicate channel preparedness and positive sentiments ahead of the summer season.

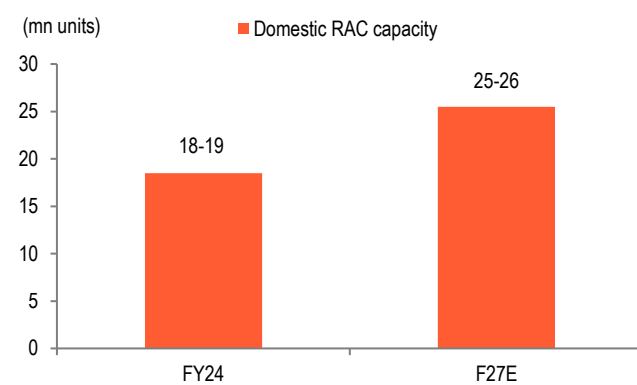
However, RAC demand also remains closely linked to new housing and commercial real estate activity, which could face pressure from tightening liquidity conditions. Any slowdown in the real estate market could act as a dampener and cap the positive impact from a hot summer.

**Fig 5 – RAC demand to grow at 20-25% in FY26E**



Source: ICRA, Industry estimates, BOBCAPS Research

**Fig 6 – Domestic RAC manufacturing capacity to reach 25mn-26mn units by FY27E**



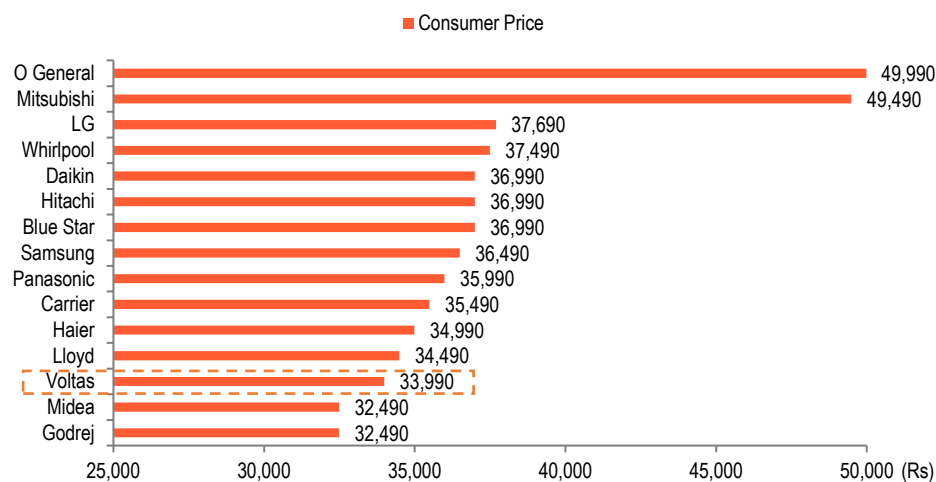
Source: ICRA, BOBCAPS Research

### Price hikes unlikely to dent demand amid tax cuts and shifting consumer trends

Strong demand, commodity inflation and supply-side challenges led to multiple price hikes in RACs over the last year resulting in YoY price increase of 8-9%. Also, if the supply-side challenges persist due to non-tariff barriers, we could see further price increases in the coming year. However, we believe these price increases are unlikely to materially impact demand this year, especially in the mass and mid-premium categories. The recent tax cuts announced in the FY26 Budget are expected to offset the incremental price increase for price-sensitive customers.

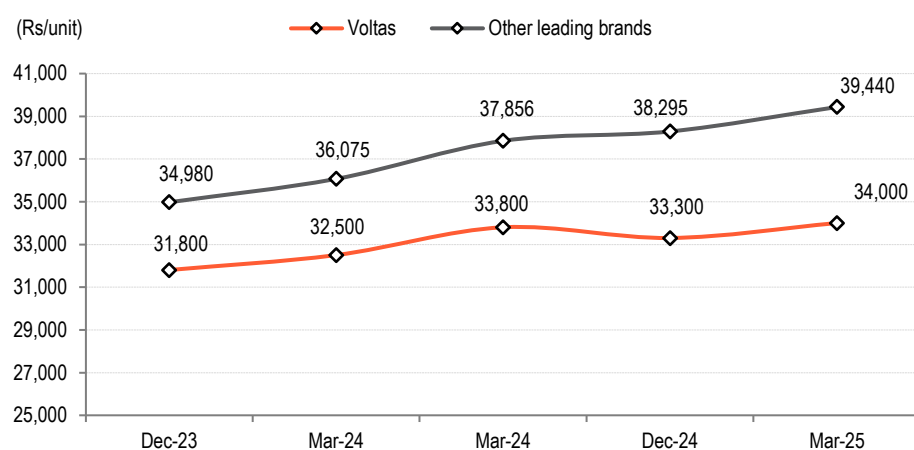
Moreover, ACs are increasingly becoming a necessity product rather than a discretionary purchase driven by (a) rising temperatures and (b) improving urban infrastructure (shopping malls, metro stations, AC local trains) making consumers more acclimated to air-conditioned environments.

**Fig 7 – VOLT/BLSTR maintain their price positioning (prices for 3-star 1.5tonne split RAC)**



Source: e-commerce websites, BOBCAPS Research

**Fig 8 – Price increases in 3-star 1.5-tonne RACs**



Source: Ministry of Commerce trade statistics, BOBCAPS Research

### Import data suggests industry well placed to face challenges arising from non-tariff barriers

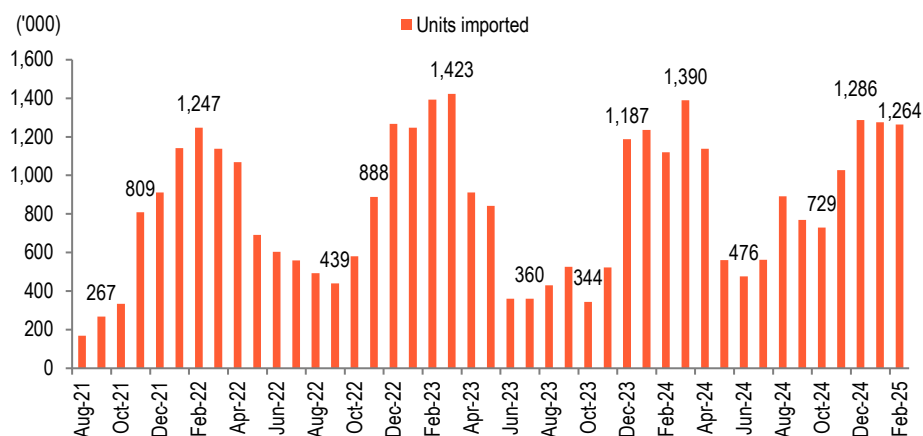
Import data indicates that AC manufacturers have proactively stocked up components well in advance – not only to cater to the anticipated rise in demand but also to navigate potential supply disruptions arising from non-tariff barriers. Typically, stocking for components begins 45-60 days prior to the delivery of the final product. Given that dealer stocking commences by February-end to early March to meet summer demand, manufacturers are expected to stock up critical components by December.

A closer look at monthly compressor imports data highlights this stocking trend — imports usually start rising from September to fulfil non-seasonal demand and peak in March ahead of the summer season (April-May). For the current season, compressor imports have remained strong (+48% YoY during Q3FY24 and +8% YoY during Dec-Jan-Feb'25) despite the market chatter around supply shortages linked to the government's decision to not recertify BIS certification for 50 Chinese exporters.

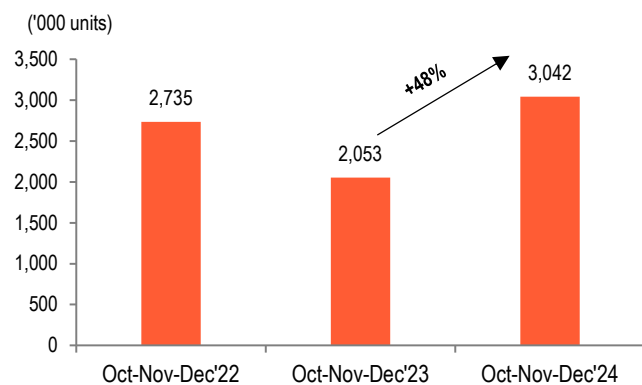
**Fig 9 – RAC production cycle – procurement, manufacturing and testing of 50-60 days**

Stage	Time duration (Turnaround time)	Comments
Component import & stocking	20-30 days	Import of compressors take the longest time in the supply chain
Assembly & manufacturing	15-20 days	Depends on the manufacturing capabilities of each players
Final testing (Quality testing and despatch)	5-10 days	Brands usually maintain buffer inventory to meet immediate demand

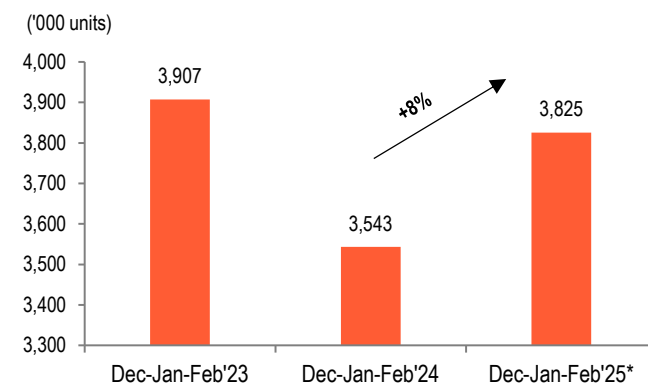
Source: Company, BOBCAPS Research

**Fig 10 – Imports of compressor for use in air conditioners suggest no challenges in procuring despite non-tariff barriers**

Source: Ministry of Commerce trade statistics, Dec-Jan-Feb'25 estimates, BOBCAPS Research

**Fig 11 – Imports of compressors have risen sharply (+48% YoY) ahead of summer'25**

Source: Ministry of Commerce trade statistics, December data is industry estimates, BOBCAPS Research

**Fig 12 – Imports continued in Jan-Feb'25, but the pace slowed down due to non-tariff barriers**

Source: Ministry of Commerce trade statistics, \*Dec-Jan-Feb'25 are channel check estimates, BOBCAPS Research

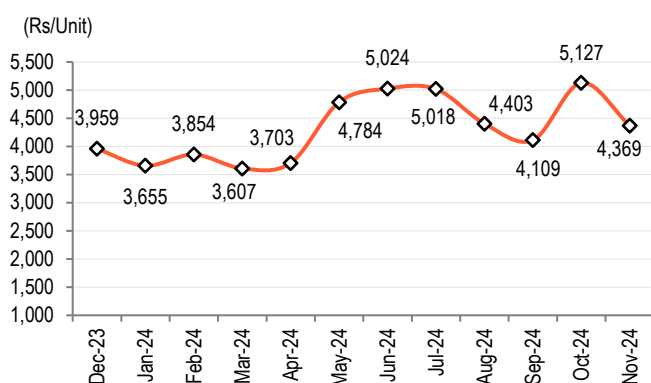
**Fig 13 – Key management commentaries on inventory levels**

Companies	Q3FY25 – earnings call commentaries on inventories
<b>Air Conditioners</b>	
Amber	Inventory levels remain stable, with brands restocking since December; secondary sales from February will be crucial in determining summer demand momentum.
Blue Star	Management highlighted that it is proactively addressing supply chain challenges arising from non-tariff barriers and is confident that its planned investment in strategic inventory will enable flawless servicing of demand that the forthcoming season will provide.
PG Electroplast (Not Rated)	Elevated inventory levels built to mitigate compressor shortages and ensure smooth supply through the peak season.
Epac Durables (Not Rated)	Strong demand continues, supported by a healthy order book and a favourable demand environment amid rising temperatures.
Havells	Channel sentiment is optimistic, with early restocking trends, but actual demand will depend on summer weather patterns.
<b>Fans</b>	
Orient Electric	The company anticipates strong Q4 growth with early summer onset in North and East India, focusing on inventory management, new products, and demand prep.
Havells	Havells sees a more optimistic start to summer this year compared to weak sentiment last year.
Bajaj Electricals	The company stays cautiously optimistic about the fan segment, with demand trends under close watch in Q4FY25.
V-Guard	Management is optimistic about strong summer demand, driven by successful fan launches, supply expansion from its Rs 1bn Hyderabad plant, and a focus on premiumisation.
<b>Refrigerators</b>	
Havells	Announced a Rs 4.8bn capex investment for a new refrigerator plant in Ghiloth, Rajasthan, positioning Lloyd as a full-stack consumer durables brand.
Whirlpool	Expects strong summer demand for refrigerators by driving market share growth through retail execution, new launches, pricing, and premiumisation.

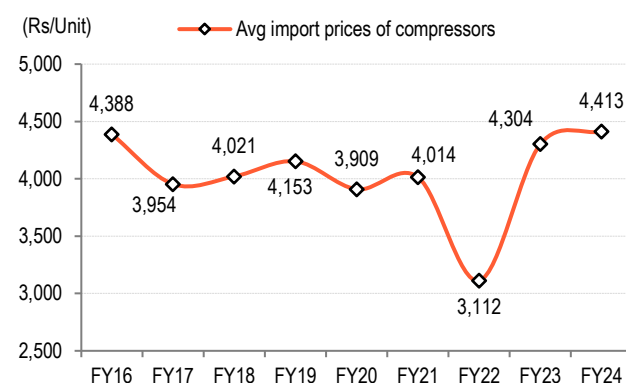
Source: Company, BOBCAPS Research

### Non-tariff barriers to weigh on profitability

Compressor import data suggests that average compressor prices tend to rise during peak seasons and periods of supply uncertainty. While we believe that supply shortages are unlikely given China's ample production capacity (capable of catering to global demand), the reduction of 50-odd Chinese exporters due to BIS non-certification could tighten competition. This, coupled with rising demand, could prompt Chinese manufacturers to leverage pricing power, potentially impacting profitability for Indian AC players

**Fig 14 – Imported compressor prices are up 10% since Dec'23**

Source: Company, BOBCAPS Research

**Fig 15 – Imported compressor prices rose significantly in strong demand years (FY23-FY24 vs. FY19-FY22)**

Source: Company, BOBCAPS Research

### **AC players are now resilient to supply shocks**

Supply chain disruptions, this time non-tariff barriers, have become a recurring challenge for AC players. The industry has been facing these disruptions over the last few years due to heavy reliance on Chinese manufacturers for key components. However, despite these challenges, manufacturers have consistently managed to secure imports of critical components – mitigating any significant supply-side impact.

Interestingly, dealer feedback suggests that such disruptions could be part of a tactical play by brands. These supply narratives create panic, help justify price hikes, and accelerate dealer stocking – ultimately aiding in front-loading channel inventories ahead of the peak season.

### **Key takeaways from dealer checks**

- Retail consumers primarily prefer Voltas, Haier, and Daikin. Lloyd has also gained traction in urban markets in the premium segment. In contrast, builders in the real estate segment favor Hitachi and Midea for their projects.
- Consumers have recently begun to favour 5-star inverter ACs for energy savings, while higher incomes and financing options are driving premium brand growth in urban markets.
- During the peak season when there is high demand, retailers do not stick to any one brand for long. They focus on selling ACs quickly rather than waiting to restock a particular brand. This shows that customers care more about price and availability than the brand name.
- 1.5-tonne, 3-star models continues to be the most selling SKU. While the 1-tonne category dominates in the large real estate projects, where bulk purchasing is the key driver.
- Builders actively negotiate longer warranties due to delayed installation timelines, highlighting a key pain point for brands catering to the real estate sector.



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