

FIRST LIGHT 10 March 2025

RESEARCH

CONSUMER DURABLES

Factors in place for robust volume in RACs this summer

SUMMARY

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- 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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07 March 2025

Factors in place for robust volume in RACs this summer

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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.





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