Consumer Durables

Ear to ground: AC demand subdued; feedback post GST cuts mixed

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Our channel checks on ACs through several geographies in India suggest: (1) 2QFY26, an inherently lean quarter, was further impacted by pleasant weather, especially in Jul'25 and Aug'25 (North and East saw a temperature increase in Sep'25, while West and South enjoyed pleasant temperatures) and the expectation of a GST rate cut. (2) For the quarter, we note declines of 40%+ YoY in the West and the South. The trends were much better in the North, especially that of 30%+ YoY growth in Sep'25, while Jul'25 and Aug'25 saw declines. (3) Post GST cuts and through the festivities, demand in the West and the South has failed to pick up, despite lower ASPs, due to lower temperatures. In the North, the pickup in demand appears to stem from rising temperatures and humidity, with some push from lower prices.

- **2Q demand trends weak, on expected lines:** From our channel checks, we note that demand trends across 2QFY26 have remained weak. This was owing to (1) 2Q being inherently lean, and palatable weather conditions negating the need for air conditioners in several geographies; (2) announcement of GST cuts on 15th Aug'25 by the Prime Minister, driving some incremental deferment of decisions; and (3) the lack of any pickup post GST cuts in several pockets given other exciting avenues to spend through festivities (mobile phones, large TVs, holidays, etc), and pleasant temperatures. We understand that the channel holds close to 2 months of incremental inventory currently.

- **Feedback on revival post GST cuts mixed across geographies:** Feedback on revival post GST cuts coming into effect from 22nd Sep'25 remains mixed across geographies. While demand in North India appears to have picked up to some extent, trends remain discouraging in West and South India. To put this into perspective, dealers and distributors in the West indicated YoY declines of 40-60% through the quarter, with trends remaining similar post GST cuts and during festivities. On the other hand, our discussions in the North suggest that owing to high temperatures and rising humidity, demand in Sept'25 grew ~30% YoY, while Jul'25 remained flattish, and Aug'25 was weak (~30% YoY decline), indicating a flat quarter.

- **AC demand a factor of rising temperatures than lower prices:** AC demand is a factor of soaring temperatures than lower ASPs, especially when it comes to rising penetration. While some replacement demand was deferred given an expectation of rate cuts, new demand stems predominantly from rising temperatures, clearly visible from weather trends across gregraphies (exhibits 2-5). Temperatures in the West through 2QFY26 remained lower than historical levels. Vis-à-vis 2023/24, temperatures across Aug'25 and Sep'25 hovered ~2 degrees lower. In North India, temperatures across Jul'25 and Aug'25 remained lower, but, starting Sep'25, there was a sharp increase in temperature and humidity levels. Across East India, an increase was seen from the 2nd/3rd week of Sep'25, after sharp dips through Jul'25 and Aug'25. Across South India, Jul'25 temperatures were higher than in 2023 and 2024, with a slight dip in Aug'25 and no major rise in Sep'25.

- **Worst year in decades, but confident of macro:** Several dealers and distributors, especially in the West, alluded to this being the worst year in 20+ years of business, with business trends being worse than during Covid times as well. At the same time, they remain confident of macro penetration and not considering diversifying into other electronic products.

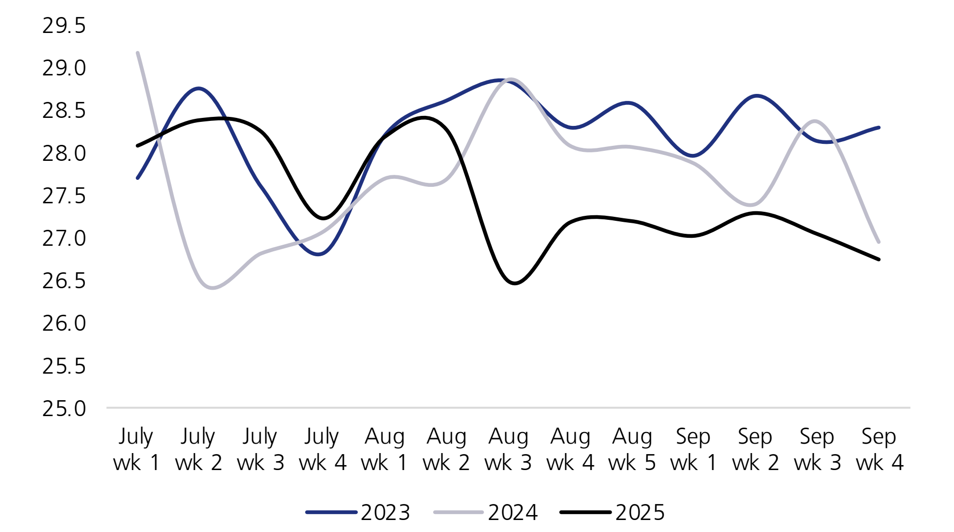
Exhibit 1. India EMS and consumer durables – companies in the AC ecosystem

Company	CMP (INR/sh)	P/E FY26E	P/E FY27E	P/E FY28E	P/B FY26E	P/B FY27E	P/B FY28E	Average RoE FY25-28E
Voltas	1,360	55.9	40.1	33.1	6.3	5.6	4.9	14.1%
Blue Star	1,899	63.1	49.9	40.3	10.8	9.2	7.9	19.9%
Havells	1,488	55.3	43.9	36.1	9.9	8.6	7.5	20.8%
PG Electroplast	514	48.5	30.1	22.3	4.6	4.1	3.5	13.8%
Amber Enterprises	8,214	74.6	47.6	32.3	10.5	8.6	6.8	19.5%
EPACK Durable	357	50.3	31.1	22.2	3.4	3.1	2.7	10.0%

Source: Company, JM Financial

Temperature trends through 2Q across various geographies in India

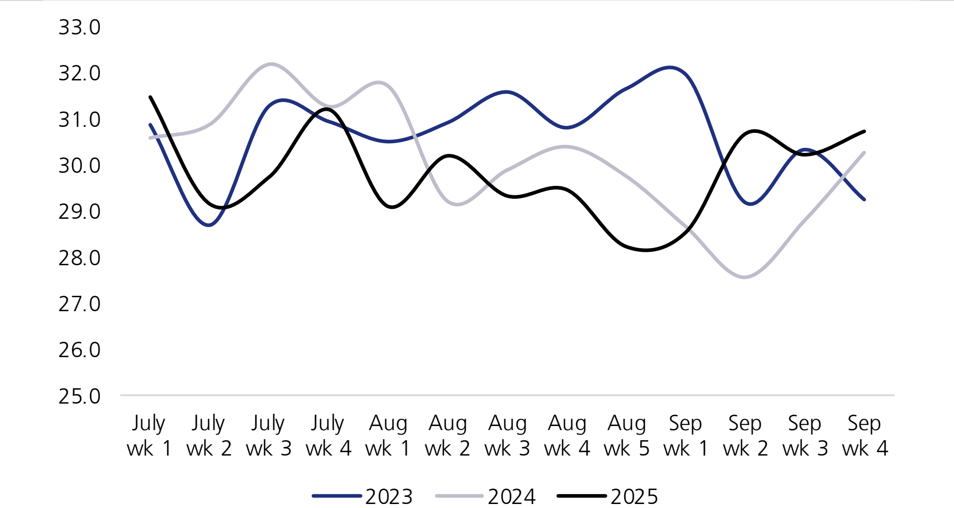
Exhibit 2. Quarterly temperature trend (Mumbai, West India)



Source: Industry, JM Financial

Temperatures in Western India through 2QFY26 have remained lower than historical levels. As compared to 2023 and 2024, temperatures across August and September hovered ~2 degrees lower in 2025.

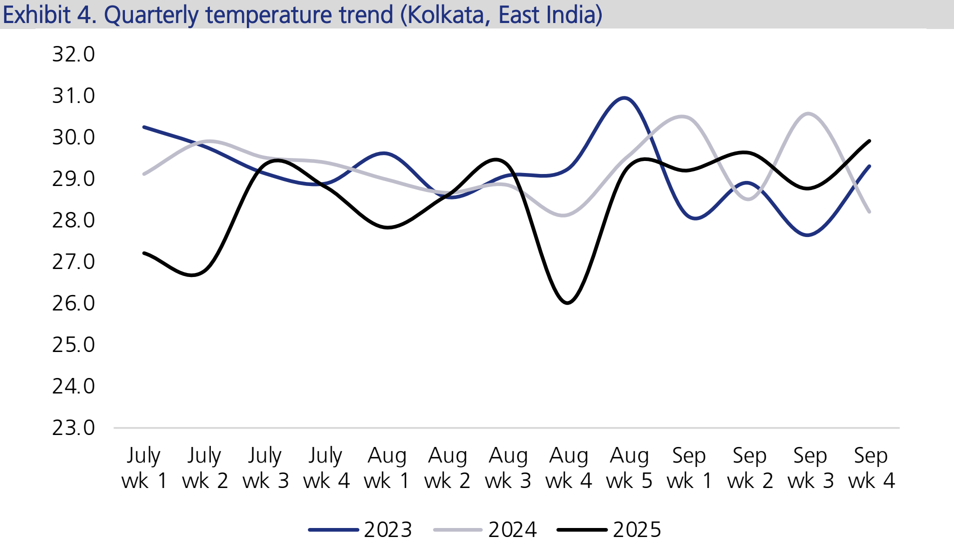
Exhibit 3. Quarterly temperature trend (Delhi, North India)



Source: Industry, JM Financial

In Northern India, while temperatures across July and August 2025 remained lower than what was seen in 2023 and 2024, starting September, there was a sharp increase in the temperatures, and as we understand, humidity levels.

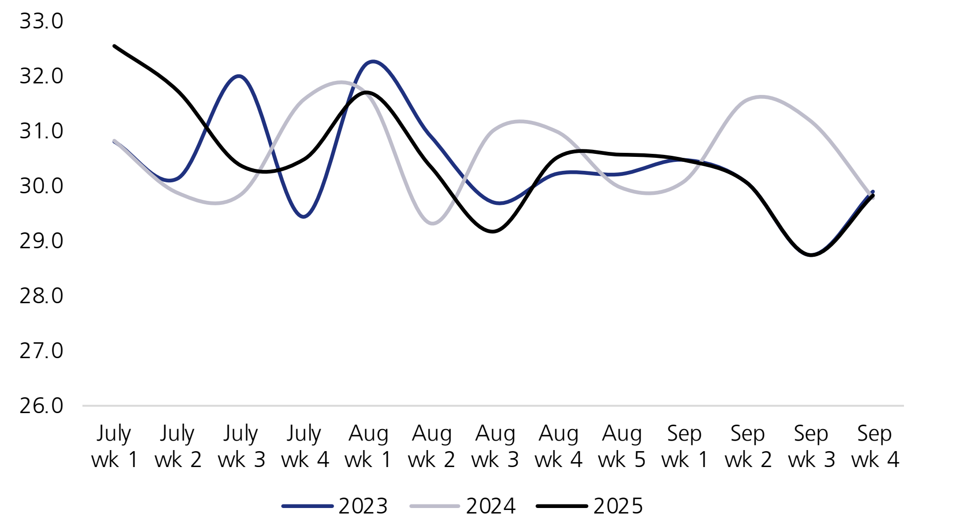
Exhibit 4. Quarterly temperature trend (Kolkata, East India)



Source: Industry, JM Financial

Trends across Eastern India have been fairly close to what was seen in Northern India. However, here, the increase is being seen from the 2nd/3rd week of September. Also, what is noteworthy is that there were several weeks of sharp dips through July and August as well.

Exhibit 5. Quarterly temperature trend (Chennai, South India)



Source: Industry, JM Financial

Across Southern India, July temperatures in 2025 were higher than in 2023 and 2024. However, a sharp dip is being seen starting August, with no rise in September.

Several large retail stores (West India): A couple of days before new GST rates rolled out

- **Discounting and other ancillary offers:** The quantum of upfront discounting has not picked up meaningfully yet, besides standard in-store discounts and card offers. However, certain outlets are offering discounts and attractive terms on extended warranty schemes. For instance, for INR 8,299 (earlier INR 11,999) extended warranties with unlimited service visits, cleaning of outdoor and indoor units, and 2 free of charge gas refills are being offered, and for INR 11,290 (earlier INR ~15k), over what has been stated earlier, brands are offering free replacement of parts for a period of 4 years above the standard 1-year warranty. We note that these offers have been running over the past ~20 days. Interestingly, we also note the absence of a surge in the number of in-store demonstrators from specific brands. While this can be seen as a general trend in the off-season, we expected some aggressiveness with GST rate cuts just around the corner.
- **Some desperation to clear out inventory:** We also note that retailers are very keen on taking pre-bookings at as low as INR 1,000 for 1T and 1.5T ACs and INR 2,000 for 2T ACs, with promises to pass on the benefits of GST rate cuts and any incremental discounts at the time of invoicing, if done post 22nd Sep. However, what was pertinent to note here was their keenness to at least get pre-bookings done. At the same time, we note no major uptick in pre-bookings yet.
- **Premiumisation:** On premiumisation, we note that O General retains the top position in terms of quality, retailers are also aggressively positioning Lloyd's ACs as premium, feature-rich and attractively designed. Across the product range (except for the premium range) Lloyds remains priced at a premium compared to Voltas, but below Blue Star.
- **Faith in service quality:** On service quality we see that no specific concerns were pointed out for any specific brand, but retailers repose higher faith in Indian brands, here, Voltas, Lloyd, and Blue Star, citing relatively easy availability of parts and spontaneous responses.

Large AC distributor (West India): A couple of days post new GST rates

- **Impact of GST announcement:** After the announcement from the Prime Minister on the GST rate cut, there was a massive impact, with demand from the retail side almost coming to a standstill. The only part of the business that saw some traction was the B2B vertical.
- **Discounting from brands:** Did not see any significant discounting from brands even when the channel was filled with inventory. What was seen was some discounting

on installation charges but nothing extraordinary besides that. However, Daikin introduced 5-years PCB warranty for the first time, which was earlier the standard across the industry. We understand that Daikin did not offer this previously.

- **New orders:** Seeing no orders from dealers yet. No significant pickup in demand at least over the initial days of revised GST rates.

Dealer of several large AC brands (West India): A few days post new GST rates

- **Current market situation:** The overall market still witnessing a declining trajectory. Decline in 2Q to the tune of 60-70%. No significant positive movement post the GST cut.

- **GST price cut:** Brands have reduced the prices of ACs charged to the distributors, and these prices have been passed on to the dealers. However, these revised price lists state that the lower prices are valid until 30th Sep. This, we understand, is either (1) a strategy that brands are adopting to incentivise the channel, or (2) brands are seeking to hike prices. The latter, however, seems unlikely given very high competitive intensity. We also learn that these strategies are not incentivising dealers to stock incrementally since working capital is already locked in

- **Negligible impact of GST rate cut:** AC demand remains driven by higher temperatures. GST cuts and the consequent lower prices appear to be no major reason for customers to go out and purchase new ACs. With limited ability to spend, consumers have several other arenas to spend on through the festivities, and with the GST cuts here to stay, purchasing ACs is a decision deferred to periods when temperatures rise.

- **Insights on dealer margins:** Dealers work in the margin range of 3-4% and their prices are similar to large retail chains.

- **Possible reason for no or minimal discounting by brands:** Brands have not resorted to very heavy discounting. We note that the reason brands are not giving high discounts even though inventory is piling up can be one or several of the following: (1) They are already operating on thin margins; (2) Further lowering prices will drive re-pricing of the existing inventory in the channel, burdening those holding stock; and (3) Discounts will not ensure demand as long as the weather necessitates it

Large AC distributor (West India): One week post introduction of new GST rates

- **Demand environment after GST cut:** RAC demand has remained weak through the quarter and even post the introduction of the new GST rates. Believe that the decline in 2Q is in the range of 30-40% YoY, after a 40-50% YoY decline seen in 1Q. While some increase in enquiries has been seen, after the price cuts due to the lower GST, it is not fructifying into sales. However, the silver lining is in commercial ACs, wherein demand has been relatively better as compared to RACs.

- **Impact on pricing and demand stemming from GST cuts:** Current prices, post the GST rate cuts, are quite similar to prices prevalent 3-4 years ago. However, potential buyers understand that the GST rate cut is here to stay, and since the weather does not necessitate it, customers are not too keen on spending money on new ACs. Hence, believe that GST cuts will aid the macro buoyancy around ACs, but tangible benefits will only be seen when the temperatures rise. This can mean some uptick if the post-Dussehra second summer does play out

- **Change in consumer thought process for the festive season:** The consumer no longer considers air conditioner as a very auspicious product, and hence, sales of ACs are not expected to see a significant uptick through festive seasons like Navratri and Diwali. Products important here are home appliances, larger televisions, mobile phones and cars.

- **Inventory position:** Inventory held by the channel currently stands at ~4 months. This 4 months of inventory is almost 2x that of the usual 2 months that the channel carries during the off-season. The hope is that this incremental inventory held by the channel gets cleared out by November-end, aided partially by the second summer.

- **One of the worst years:** The distributor also highlighted that, in a 30 year+ career, this has arguably been one of the worst years for air conditioners. Generally, when summers are bad, the annual demand is compensated by rains ending earlier, or the second summer being harsh. But, this time, none of this has played out.
- **Inventory liquidation because of change in BEE norms:** Brands must liquidate their whole inventory before 31st Dec because of changes in BEE ratings. So, they might ask the distributor to buy more at cheaper rates or will introduce new distributors or create a new shell distributor then sell it to that distributor and route the existing old BEE rating inventory later when demand picks up

Dealer of several large AC brands (North India): A few days post new GST rates

- **Demand picking up in September:** Demand was flat in the month of July, and August was a month of declining sales. However, demand was not as sharp as seen in other parts of the country. But, with temperatures rising in September, demand picked up. For the month of September, registered ~30% YoY growth in sales.
- **Difficult to ascertain the reason for pickup in demand:** Several positive factors played out in the month of September. While temperatures rose, and humidity increased, the lower prices owing to GST rate cuts also came into effect. Additionally, the end of the 'Shraad' period also aided demand.
- **No heavy discounting:** Saw no instances of very high discounting through the quarter.

Large electronics retailer (Central India): A few days post new GST rates

- **Demand environment throughout the quarter:** Overall demand environment was weak; there was some demand in July, but August was a complete washout. In September, while initial signs of an uptick are being seen, no meaningful improvement witnessed.
- **Demand environment and current channel inventory:** Usually, the dealer we spoke to clears out AC inventory as festivities come closer, as they prefer stocking up products like refrigerators, televisions and washing machines, which see relatively higher demand in the festive season. However, with muted demand through 1HFY26, the dealer continues to hold ~2months of inventory
- **Working capital issue:** The current AC inventory levels indicate working capital being blocked, causing stress in stocking festive heavy products Hence, discounts have picked up as an effort to clear out the existing inventory.

APPENDIX I

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SELL	Expected return < -10% over the next twelve months.

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