Consumer Durables

GST rate cuts a booster dose

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The GST council's approval for cut in GST rates from 28% to 18% for air-conditioners and televisions, amongst other consumer durables is a welcome reform. These new rates are expected to be effective from 22nd Sep'25. We expect this to result in price cuts of 7-8% across the board, and boost air-conditioner volume growth by 9-10%, assuming the benefit is passed onto the end-customer. However, it is important to note that, in anticipation of lower prices, customers are likely to have deferred purchases through August and most of September. Nonetheless, starting last week of September and through October, we expect (1) festive cheer, (Navratri starting from 22nd Sep) and impact of the second summer; (2) customers who deferred purchases finally buying; and (3) GST cut-led price elasticity to play out. We believe that if this does materialise on expected lines, the industry could be back to normal inventory levels by mid/end-October, which, in turn, should set the ball rolling for brands and manufacturers again.

- **The much awaited GST cut is here; ACs, TVs, dishwashers and LED lights key gainers:** The GST council, in its meeting on 3rd Sep, approved a simplified dual GST slab structure of 5% and 18%, and removed the 12% and 28% slabs. This revised structure is expected to be effective from 22nd Sep'25. On the back of this, within the consumer durables space, air-conditioners, televisions of 32 inches+, and dishwashers are likely to enjoy lower GST rates of 18%, vs. 28% earlier, while LED lights, fixtures, and energy efficient lighting will now fall within the 5% slab vs. 12% earlier.

- **Our take on the impact of GST cuts:** Our calculations suggest (refer Exhibits 5 and 6) that air-conditioners and televisions (>32 inches) can see price cuts to the tune of 7-8% across the board. Further, our discussions with industry participants suggest an average price elasticity of 1.2x for ACs, which indicates that an 8% price cut can translate into additional volume growth of 9-10%, assuming the benefit is passed on to the end customer. Further, we believe that brands are highly likely to pass on the benefit, given fierce competition within the space, and also the government's stance on the same. If this plays out, our calculations suggest an upward revision of 2-5% in FY27/28E EPS estimates for AC brands. The one risk that we see here is these price cuts replacing festive discounts, and restricting the benefit to end-customers.

- **This can aid normalisation of the AC inventory build-up by October:** Given inventory build-up owing to weak summers, we understand that brands and the channel put together held ~4mn units. This included brands and the channel holding ~1mn units of incremental inventory each, over and above normal levels of ~1mn units each (equivalent to ~1.5 months). Generally, the industry records sales of 650-750k units in the off-season. However, August was below average, given pleasant temperatures, and expected GST-cut led purchase deferment. Further, we expect a similar story through most of September as well given the new rates will be applicable w.e.f. 22nd Sep'25. However, in October, we expect (1) festive cheer, and impact of the second summer; (2) customers who deferred purchases finally buying; and (3) GST cut-led price elasticity to play out. Our calculations suggest that if this plays out, industry should be back to normal inventory levels by end-October, which will set the ball rolling for brands and manufacturers again.

Exhibit 1. Valuation matrix – players in the Indian AC ecosystem

Company Name	CMP	EPS CAGR FY26-28E	Average RoE FY25-28E	P/E Ratio FY26E	P/E Ratio FY27E	P/E Ratio FY28E
Voltas	1,430	14.7%	14.5%	52.9	41.3	35.1
Blue Star	1,960	14.7%	19.5%	65.6	53.4	43.5
Havells	1,566	15.3%	20.8%	58.1	46.2	37.9
PG Electroplast	553	37.5%	15.8%	37.8	27.3	20.9
Amber Enterprises	7,642	47.5%	16.7%	71.0	46.7	33.1
EPACK Durable	399	40.8%	9.0%	56.3	34.6	24.9

Source: Company, JM Financial

The big GST rejig

The expected GST rate cuts are likely to benefit air-conditioners (18% vs. 28% earlier), televisions of >32 inches (18% vs. 28% earlier), LED lights and fixtures (12% vs. 5% earlier), and dishwashers (18% vs. 28% earlier).

Exhibit 2. Revised GST rates on various consumer durables

Item	Old Rate	New Rate
Air Conditioners	**28%**	**18%**
Refrigerators (Household and Commercial)	18%	18%
Washing Machines	18%	18%
TVs up to 32 inches	18%	18%
TVs above 32 inches	**28%**	**18%**
Fans	18%	18%
LEDs lights, fixtures, and components for energy efficient lighting	**12%**	**5%**
Non-LED lamps, decorative lighting, chandeliers, and emergency lights.	18%	18%
Dishwashers	**28%**	**18%**
Heaters	18%	18%
Mixer Grinders	18%	18%
Other Electrical Appliances	18%	18%
Cookware	18%	18%

Source: JM Financial

Our analysis of the channel situation now, and the expected impact

- With the early monsoon playing spoilsport for the Indian AC industry, we understand that the industry, both brands and the channel put together, held ~4mn units of total inventory. This included both brands and the channel holding ~1mn units of incremental inventory **each**, over and above normal levels of ~1mn units **each** (which is equivalent to ~1.5 months of normalised inventories). To put this into perspective, we understand that total inventory stood at ~4mn units, including 2-2.1mn units of normal inventory, while the rest is the surplus as a result of the weak summer.
- Generally, the industry sees sales of 650-750k units in off-season months (i.e., months other than March-June). However, sales in August remained below average, given conducive temperatures across August, curtailing the need for ACs, and the Prime Minister's announcement of GST cuts driving potential customers to defer purchases.
- Further, we expect a similar deferment to play out through September as well given the reduced GST rates will be applicable w.e.f. 22nd Sep'25.
- However, October appears to be an interesting month. We expect festive cheer, the expected impact of the second summer, and the ramp-up in demand resulting from the GST cuts to come through. Hence, over and above normal sales of 650-750k units, we expect incremental sales from purchases deferred through August and September. Further, assuming that brands will pass on the benefit of these rate cuts to customers, it is likely that some price elasticity will play out. Our conversations with industry participants indicate that price elasticity hovers around 1.12x, which means that the expected 8% cut in prices can result in an increase in demand of ~9%.

Exhibit 3. Summarising the current channel inventory situation

Units	Brands	Channel	Total	Comments
				Inventory in terms of million units
Normal	1.0	1.1	2.1	Normal levels of 1-1.5 months maintained by brand and channel each. Off-season monthly sales averages 650-750k units
Incremental	1.0	0.9	1.8	Hence, incremental inventory = difference between total and normal level
Total	**2.0**	**1.9**	**3.9**	**We understand that the brand and channel was holding ~2mn units of inventory each**
				Inventory in terms of months
Normal	1.5	1.5	3.0	Normal levels of 1-1.5 months maintained by brand and channel each.
Incremental	1.4	1.2	2.6	Calculated assuming average monthly sales of 650-700k units in off-season
Total	**2.9**	**2.7**	**5.6**	**Hence, total of normal and incremental inventory**

Source: Company, Industry, JM Financial

Exhibit 4. Our take on channel normalisation hereon

Month	Sales (mn units)	Comments
August	0.3	Sales weaker than usual 650-700k in off season owing to conducive temperatures across the country and GST cut anticipation
September	0.3	Given GST cuts to be implemented w.e.f. September 22, expect sales across September to be weak as well
October	1.5	Regular sales of ~0.7mn, incremental sales from purchases deferred in August and September, plus some benefit from GST cuts
Total Sales (Aug-Oct)	**2.1**	**Can see sales of ~2mn over August to October, which should help clearing out the excess inventory of 1.8mn**

Source: Company, Industry, JM Financial

Exhibit 5. Anticipated price cuts in RACs

Brands	Voltas		Blue Star		Lloyds		Panasonic	
GST rate	28%	18%	28%	18%	28%	18%	28%	18%
1 ton 3 star								
Base Price	24,484	24,484	26,340	26,340	24,113	24,113	26,711	26,711
(+) GST	6,856	4,407	7,375	4,741	6,752	4,340	7,479	4,808
Total Price	31,340	28,892	33,715	31,081	30,865	28,454	34,190	31,519
Absolute Change in Price		**2,448**		**2,634**		**2,411**		**2,671**
1 ton 5 star								
Base Price	28,117	28,117	28,938	28,938	26,555	26,555	30,793	30,793
(+) GST	7,873	5,061	8,103	5,209	7,435	4,780	8,622	5,543
Total Price	35,990	33,178	37,040	34,146	33,990	31,335	39,415	36,336
Absolute Change in Price		**2,812**		**2,894**		**2,655**		**3,079**
1.5 ton 3 star								
Base Price	27,453	27,453	29,680	29,680	27,453	27,453	28,566	28,566
(+) GST	7,687	4,942	8,310	5,342	7,687	4,942	7,999	5,142
Total Price	35,140	32,395	37,990	35,022	35,140	32,395	36,565	33,708
Absolute Change in Price		**2,745**		**2,968**		**2,745**		**2,857**
1.5 ton 5 star								
Base Price	32,023	32,023	33,977	33,977	31,906	31,906	34,875	34,875
(+) GST	8,967	5,764	9,513	6,116	8,934	5,743	9,765	6,278
Total Price	40,990	37,788	43,490	40,092	40,840	37,649	44,640	41,153
Absolute Change in Price		**3,202**		**3,398**		**3,191**		**3,488**
2 ton 3 star								
Base Price	36,359	36,359	37,473	37,473	36,711	36,711	40,070	40,070
(+) GST	10,181	6,545	10,492	6,745	10,279	6,608	11,220	7,213
Total Price	46,540	42,904	47,965	44,218	46,990	43,319	51,290	47,283
Absolute Change in Price		**3,636**		**3,747**		**3,671**		**4,007**
2 ton 5 star								
Base Price	42,961	42,961	45,305	45,305	40,617	40,617	48,234	48,234
(+) GST	12,029	7,733	12,685	8,155	11,373	7,311	13,506	8,682
Total Price	54,990	50,694	57,990	53,460	51,990	47,928	61,740	56,917
Absolute Change in Price		**4,296**		**4,530**		**4,062**		**4,823**

Source: Channel checks, JM Financial

Given the GST rate cuts, we expect the prices of ACs to be cut by ~8%. Further, we believe that brands are likely to pass on a major portion of this to customers, given (1) fierce competition amongst all brands, given there are 60+ AC brands (including tail brands) competing in the Indian market, and (2) the risk of coming under the government's scanner if the benefits are not passed onto the end-customer.

We have analysed data from Voltas, Blue Star, Lloyds, and Panasonic across 1 ton 3 and 5 star, 1.5 ton 3 and 5 star, and 2 ton 3 and 5 star.

We see that on an absolute basis, 1 ton 3 star ACs can see a price reduction of INR 2,400-2,650, followed by a reduction of INR 2,650-3,100 for 1.5 ton 3 star ACs.

For 1.5 ton 3 and 5 star ACs, we anticipate a price cut of INR 2,700-3,000 and INR 3,200-3,500 respectively.

Lastly, for 2 ton 3 and 5 star ACs, we anticipate a price cut of INR 3,600-4,000 and INR 4,000-4,800 respectively.

Given the GST rate cuts, we expect the prices of TVs too to be cut by ~8%.

We have analysed data from Samsung, LG, and Sony across TVs of 43 inches, 50 inches, and 65 inches.

We see that on an absolute basis, 43 inch TVs can see a price reduction of INR 2,900-3,000, followed by a reduction of INR 3,350-4,150 for 50 inch TVs. Lastly, for 65 inch TVs, we expect a price cut of INR 7,200-8,300.

Interestingly, 32 inch TVs currently attract 18% GST, which will remain the same. Hence, there will be no price impact on them.

Exhibit 6. Anticipated price cuts in Televisions >32 inches

Brands	Samsung		LG		Sony	
GST rate	28%	18%	28%	18%	28%	18%
43 Inch						
Base Price	24,992	24,992	24,992	24,992	29,680	29,680
(+) GST	6,998	4,499	6,998	4,499	8,310	5,342
Total Price	31,990	29,491	31,990	29,491	37,990	35,022
Absolute Change in Price		2,499		2,499		2,968
50 Inch						
Base Price	33,586	33,586	38,984	38,984	41,398	41,398
(+) GST	9,404	6,045	10,916	7,017	11,592	7,452
Total Price	42,990	39,631	49,900	46,002	52,990	48,850
Absolute Change in Price		3,359		3,898		4,140
65 Inch						
Base Price	72,578	72,578	81,633	81,633	83,117	83,117
(+) GST	20,322	13,064	22,857	14,694	23,273	14,961
Total Price	92,900	85,642	1,04,490	96,327	1,06,390	98,078
Absolute Change in Price		7,258		8,163		8,312

Source: Channel checks, JM Financial

GST council meeting and key highlights

- The 56th GST Council meeting held on 3rd Sep'25 in New Delhi, chaired by the Union finance minister, has reformed the GST regime with the aim of rationalising rates, providing relief to consumers, and facilitating trade.
- The council has endorsed a simplified dual GST slab structure of 5% and 18%, replacing the previous slabs while introducing a high 40% slab on selected luxury and sin goods like pan masala, cigarettes, tobacco, and certain aerated beverages to secure revenue.
- The GST rate changes on goods and services will be implemented primarily from 22nd Sep'25.
- Sector-wise, tax rates on essential and mass consumption items have been drastically reduced, such as rates on staples and processed foods, including dairy items, nuts, baked foods, and certain beverages dropping from 12% to 5%; consumer goods like toothpaste, shampoos, soaps, and cosmetics have also been moved from 18% to 5%.
- Automobiles, including hybrid cars and small two-wheelers have seen the rate being cut from 28% to 18%, while premium cement and construction materials also moved down a slab to 18%, supporting infrastructure growth.
- Electronics like air conditioners, refrigerators, and television sets will be taxed at 18% instead of 28%. In contrast, luxury vehicles, personal aircraft, yachts, and some tobacco products are taxed at 40%. Agriculture, textiles, handicrafts, fertiliser, footwear, and leather sectors have broadly benefitted from rate reductions from 12% to 5%, with specific exemptions and clarifications provided to facilitate trade and ease compliance for MSMEs and exporters. Life and health insurance services, previously taxed at 18%, have been exempted entirely.
- The council also announced process reforms including risk-based provisional refunds from Nov'25, automated pre-filled GST returns, and simplified GST registration schemes for low-risk and small businesses. These reforms aim to reduce compliance burdens and increase ease of doing business. Furthermore, the establishment of the GSTAT is expected to bolster tax certainty by resolving disputes efficiently and ensuring consistent rulings. Revenue loss due to the rate rationalisation is estimated at around INR 480bn annually, necessitating careful monitoring and a proposed compensation mechanism post-compensation cess phase-out in 2026.

GST rate cuts a welcome change amist a weak season

AC sales through summer 2025 were below expectations owing to weaker-than-expected summers and the early onset of the monsoon. Companies entered the summer with strong expectations after a record FY25 summer. Further, driven by the anticipation of a shortage of compressors, the channel was well prepared, to avoid any stock-out situations arising from strong demand. A weak season coupled with a heavy build-up of inventory in the channel, drove weak primary and secondary sales, and further resulted in negative operating leverage for brands and contract manufacturers.

- **Weather-led demand shock:** The single biggest driver of weak sales was an abnormal summer. Temperatures remained cooler across large parts of the country, the onset of summer was delayed, and the season ended early with an extended monsoon. The Voltas management stated that peak AC demand was curtailed due to the late arrival of summer, which was cooler than normal, and paved the way for an early monsoon. The PG Electroplast management also stated that the room AC season ended abruptly, leading to lower-than-forecast sales and order cancellations from large customers.

- **Elevated starting inventory levels led to large closing inventories:** The industry carried surplus inventory into April after a strong FY25, which compounded the impact of weak consumer demand. (1) The EPACK management highlighted surplus finished goods carried over from 4QFY25, noting that channel inventory was at its peak beginning of June. (2) Voltas entered the season with robust channel stocking in anticipation of a continuation of demand trends from the prior year. The management indicated that the channel is currently carrying an inventory of ~2 months, while Voltas itself currently has an inventory of ~3 months. (3) Blue Star indicated ~30 extra days of surplus stock in trade over and above normal levels of ~40 days. (4) The PGEL management indicated that channel inventory stood at ~2mn units, over and above which a similar level of inventory is lying unsold with all brands cumulatively. It also indicated that the industry is holding ~2.5-3 months of incremental inventory over and above the normal inventory of 1-1.5 months.

- **Profitability hit by operating leverage:** The volume shortfall during peak season eroded factory utilisation and profitability across the value chain. Voltas pointed to under-absorption of fixed costs and higher warehousing/holding expenses, while Blue Star highlighted the loss of operating leverage that had boosted margins in 1QFY25. Higher fixed expenses such as A&P spend and in-store demonstrators incurred in anticipation of the strong summer season contributed to the decline in profitability.

- **Shift in focus towards next season:** As inventory correction took priority, companies shifted focus to preparing new product line-ups for the upcoming BEE/energy label revision. EPACK management highlighted that brands were already focusing on creating the line-up for the next season once inventory alignment began. Voltas similarly emphasised preparations for the new star labelling regime. However, for manufacturing activities to pick up again, clearing of the additional channel in the inventory will be key.

Exhibit 7. Commentary by companies on inventory levels and growth outlook

Company	Inventory Levels		Industry growth for FY26	Company growth
	Time	Units		
Voltas	3-4 months at Voltas level; 2 months at trade partners level	NA	Flat but worst case 5-10% degrowth	NA
Blue Star	30 days inventory above regular levels of 35-40 days (Held with Blue Star)	NA	10-15% growth	10-15% growth in the UCP segment for FY26
PG Electroplast	2.5-3 months of incremental inventory (brand + channel) above normal inventory of 1-1.5 months **each** held by brands and channel.	~2-2.5mn units channel inventory and ~2mn units with brands.	Expect to outperform industry growth.	NA
Amber	NA	Channel inventory is 2.5-3mn units which is 2x the normal levels of 1.4-1.5mn	NA	10-12% outperformance vs. the RAC industry
EPACK	Channel inventory alarmingly high in the beginning of June but after June, it has come down within acceptable levels	NA	NA	Outgrow RAC industry

Source: Company, JM Financial

APPENDIX I

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