PRESS RELEASE

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Driven by the government's sustained budgetary outlay for railways, ICRA assigns a stable outlook for the sector

- *Entities catering to Indian railway sector will benefit from robust order-book; operating margins to remain stable despite intensifying competitive intensity*
- *Wagon players will continue to witness strong ramp-up in revenue in FY2026e*

According to ICRA's analysis, revenues of the entities operating in the Indian railway sector are expected to expand at a moderate rate of 5% in FY2026, primarily driven by robust growth expectations from Wagon manufacturers, though construction entities catering to Railway sector will witness relatively modest growth. The weighted average margins are expected to continue to remain healthy at around 12% for FY2026, supported by operating leverage benefits and expectations of stable input prices.

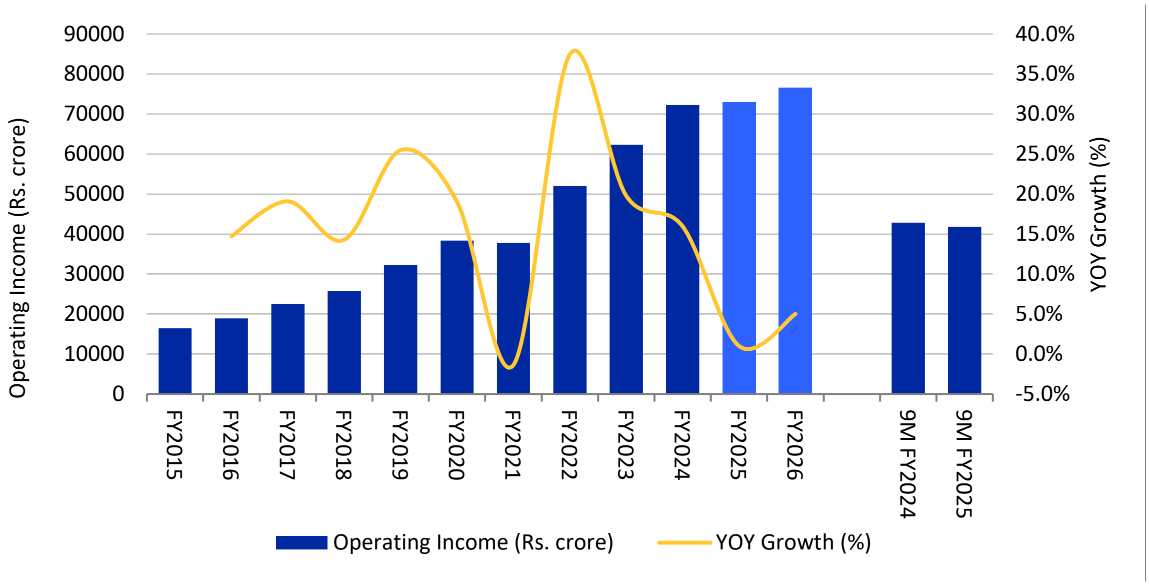
Over the years, the Government of India has implemented several measures and made sizeable investments in transportation infrastructure to improve logistics cost, reduce transit time, and improve connectivity. There has been a sustained focus on improving railway infrastructure (track infrastructure and safety standard) and passenger experience (station amenities and rolling stock), as evident from the continued healthy allocation in the budgetary outlay. Overall, the capital outlay for the Indian Railways has increased by 130% over the previous five years to Rs. 2.52 lakh crore in FY2026 BE. However, the budgetary support has grown by modest 2% during FY2024 – FY2026BE period.

Suprio Banerjee, Vice President and Co-Group Head, Corporate Ratings, ICRA Ltd., said**:** "*In recent years, the entities catering to Railway sector are amongst the key beneficiaries of Government of India's strong impetus on improving connectivity and reduce logistics cost. As per ICRA's analysis, the entities catering to the requirement of rolling stock/wagons, track infrastructure, electrification and safety components have witnessed a healthy compounded annual growth rate (CAGR) of 24% over the three years ending in FY2024. However, the revenue growth of ICRA's sample entities catering to Railway sector is likely to witness relatively flattish growth in FY2025e and FY2026e. In the near to medium term, the growth momentum is likely to taper down in line with relatively broader trend in budgetary outlay towards Railway Sector*."

Supported by the healthy budgetary allocation towards rolling stock and track infrastructure over the last five years, the order book for entities involved in the Engineering, Procurement and Construction (EPC) and wagon manufacturing segments has witnessed a strong growth. The order book-to- income ratio rose to 2.77 times in FY2024 from 1.33 times in FY2015, providing healthy medium-term revenue visibility.

"*The revenue profile for the sector is likely to be driven by EPC and wagon manufacturing entities, given the bulky nature of the projects they undertake, though the margin profile for the sector will be mainly supported by service-oriented entities related to ticketing and logistics. While competition in the railway segment has increased substantially in recent years, especially in the EPC segment, the credit profiles of entities catering to the Indian railway sector will continue to benefit from the operating leverage and the comfortable receivable cycle*." **Banerjee** added.

Exhibit 1: Trend in Operating Income



Source: ICRA Research

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Media Contacts:	
Naznin Prodhani Head Media & Communications ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Ashwani Singh** Deputy Manager - Media & Communications ICRA Ltd Tel: +91- 9560842447 Email: ashwani.singh@icraindia.com

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