PRESS RELEASE
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Intense competition to keep profitability of construction industry range-bound at 10.25-10.75% in FY2026: ICRA

- *Revenue growth forecast for FY2026 lowered to 6-8% from 8-10%, albeit a turnaround from FY2025 levels*

Rating agency ICRA has revised its revenue growth estimate for the construction industry for FY2026 to 6-8%, from the earlier guidance of 8-10%, following continued headwinds in road-awarding activity as well as slowdown in the Jal-Jeevan mission-related project execution. Nevertheless, an expected ramp-up in other segments, especially urban infrastructure and irrigation should result in relatively better performance for the industry in the current fiscal, as compared to flattish growth during FY2025. ICRA estimates the aggregate order book/OI for its sample set of entities[1] at ~3.5 times as on March 31, 2026 (around 3.4 times as on March 31, 2025), providing adequate revenue visibility for the industry participants. Given intense competition, ICRA forecasts their operating margin to remain steady at 10.25-10.75% in FY2026 (10.6% in FY2025), albeit a sharp step down from 13.0-14.0% levels in FY2021.

Giving more insights on this, **Suprio Banerjee, Vice President and Co-Group Head, Corporate Ratings, ICRA,** said: *"The order inflows in FY2025 registered a YoY decline of 19%, primarily impacted by the General Elections during H1 FY2025. The contractors, focussed largely on the road segment, are likely to under-perform, compared to broader trends owing to the slowdown in order-awarding activity from the MoRTH/NHAI. Several mid-sized road construction entities have order book/revenue of less than 2.0 times, indicating imminent stress on their revenue prospects in FY2026, far below the industry average of around 3.5 times. However, players focussed on segments like urban infrastructure or energy sector are expected to sustain double digit revenue growth in the current fiscal."*

Majority of the road projects under the MoRTH/NHAI were awarded at a sizeable discount compared to the authority's base price, indicating accentuated competition. The competition for other sectors (Metro, and Water Supply and Sanitation) has also intensified, with new entrants trying to diversify their order book. ICRA expects the operating margin of the players to remain under check, given the aggressive competition, although stable commodity prices and operating leverage benefits should provide some support to profitability.

"*The cash conversion cycle has elongated in FY2025 with the expiry of the Atmanirbhar Bharat relief measures and elongation in payments under the Jal Jeevan Mission. While debt levels are likely to increase to support the higher working capital requirements, the corresponding operational leverage benefits are projected to keep the interest cover adequate at 3.5-3.8 times in FY2026e. Given the moderate leverage and satisfactory debt coverage metrics, ICRA maintains a Stable outlook on the construction sector,"* **Banerjee** reiterated**.**

Construction activities – particularly road projects – had been notably affected due to lower fresh order inflows following the enforcement of the Model Code of Conduct in Q1 FY2025, coupled with execution related challenges due to an extended monsoon season, and a transition to milestone-based billing.

[1] *ICRA's sample set of 19 companies analysed, with a combined turnover of Rs. 1,286 billion in FY2025 (approx. half of operating income of listed construction entities).*

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