PRESS RELEASE
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Revenue growth estimate for construction players reduced to 8-10% for FY2025 from 12-15%: ICRA

- ***Growth momentum of construction companies to hit three-year lows in FY2025, as construction activity slows down***
- ***Road-focussed construction players will witness pressure on revenue in coming quarters***

The Model Code of Conduct in Q1 FY2025 and an elongated monsoon period, along with milestone-based billing (against monthly billing till March 2024) in Q2 FY2025 impacted construction activity (primarily for road players). This is reflected in the modest revenue growth of ~1.5% in year-on-year (YoY) terms in H1 FY2025 for ICRA's sample set of 19 companies (with combined turnover of Rs 1.28 trillion in FY2024). ICRA expects the execution pace of Indian Construction entities to pick up in H2 FY2025 and operating income (OI) to grow on a YoY basis by 8-10% in FY2025e and 10-12% in FY2026e, though easing from the long-term CAGR of ~15% for the FY2018-FY2024 period. Previously, in FY2023 and FY2024, the construction entities had witnessed stellar YoY growth of 22% and 19%, respectively.

Giving more insights on this, **Suprio Banerjee, Vice President and Co-Group Head - Corporate Ratings, ICRA,** said: *"The fresh order inflows were modest in H1 FY2025, mainly due to the impact of the General Elections and the monsoons. Though the order-awarding activity has picked up from Q2 FY2025 onwards, the order inflows in FY2025e are likely to trail those seen in FY2024. Order inflows in the road segment have remained muted during the last four quarters; however, in other segments like urban transportation (including metro), drinking water and sewage treatment projects, the inflows remain healthy. Within the various sub-segments, because of a relatively moderate order book, the entities focused on Central Government road projects are expected to witness pressure on revenue in FY2025, thereby dragging the overall growth rate."*

The competition has remained high across sub-segments like railways, road as well as urban infrastructure in recent years. Particularly, road projects awarded by the MoRTH/NHAI have witnessed greater competitive pressure, which is also reflected in the majority of the bids awarded at a sizeable discount compared to the authority's base price. The competition for other sectors (Metro, Railways, and Water Supply & Sanitation) has also increased, with new entrants trying to diversify their order book. Owing to the heightened competition, the operating margins of the industry moderated from ~12% during FY2022 to 11.1% in FY2024, and ICRA projects them to remain range-bound around 10.5% - 11.0% in FY2025e and FY2026e.

"*The cash conversion cycle is expected to sustain at the current levels, given that the expiry of the Atmanirbhar Bharat relief measures have already elongated the working capital cycle for the players in FY2025. While debt levels are expected to increase to support the higher working capital requirements, the corresponding operational leverage benefits are anticipated to keep the interest cover adequate at around 3.6-3.9 times in FY2026e. Given the moderate leverage and satisfactory debt coverage metrics, ICRA maintains a Stable outlook on the construction sector,"* **Banerjee** reiterated**.**

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For further information, please contact:

Media Contacts:			
Naznin Prodhani Head Media & Communications ICRA Ltd Tel: + (91 124) 4545300, Dir - 4545860 Email: naznin.prodhani@icraindia.com	**Shreya Bothra** Senior Manager - Media & Communications ICRA Ltd Mob: +91- 9810934940 Email: shreya.bothra@icraindia.com	**Sandeep Kumar** Manager - Media & Communications ICRA Ltd Mob: +91- 8200535285 Email: sandeep.kumar@icraindia.com	**Ashwani Singh** Deputy Manager - Media & Communications ICRA Ltd Tel: +91- 9560842447 Email: ashwani.singh@icraindia.com

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