PRESS RELEASE
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Operating leverage benefits to offset heightened competitive pressure among construction players; margins to remain stable in FY2025e: ICRA

- ***Government's continued infrastructure push and adequate order book position will result in double-digit revenue growth (12-15%) for Indian construction sector in FY2025e***
- ***The cash conversion cycle is estimated to elongate with expiry of relaxations under Atmanirbhar Bharat scheme in March 2024***

ICRA expects the Indian construction entities to maintain healthy revenue growth in FY2025e with a projected YoY growth of 12-15% in this fiscal, aided by an adequate order book position and the Government's thrust on infrastructure activity. This is reflected in the increase in the Government of India's (GoI's) total capital expenditure to Rs 11.1 trillion in the FY2025 revised budget estimates (RBE), which augurs well. ICRA maintains a Stable outlook for the sector with steady growth in operating income, moderate leverage, and comfortable coverage metrics.

Giving more insights on this, **Chintan Lakhani, Vice President and Sector Head - Corporate Ratings, ICRA,** said: *"The aggregate order book-to-sales ratio of ICRA's sample set of companies remained stable at 3.3x as of March 2024 (3.4 times during March-2023), thereby indicating healthy revenue growth prospects over the medium term. Certain construction entities have witnessed pressure on road sector related order inflows in FY2024, in the backdrop of muted order awarding from the Ministry of Road Transport and Highways. However, diversification into other segments like drinking water, metro segment, or railway station development has helped them sustain their order book. ICRA expects the revenue growth to remain healthy at 12-15% in FY2025".*

Over the past five years ending March 2024, the order book of ICRA's sample construction companies has remained between 3.3x – 4.0x of operating income, supported by the Government's increased capital outlay towards the infrastructure sector. Transportation (roads, metro, airport, bridges, flyovers) and building (residential, commercial, mixed use, industrial) segments continue to dominate the order book; however, their combined share has declined to 62% in FY2024 from 77% in FY2020. The proportion of orders in mining, water, and energy has increased over the same period.

The moderation in prices of some of the key commodities such as steel, supported the earnings profile of entities in the construction sector during FY2024; however, steel prices have started inching upwards and could be a spoilsport in the current fiscal. The intense competition in engineering, procurement & construction, and hybrid annuity model projects awarded by the NHAI / the Ministry of Road Transport and Railways continues to remain high; however, it is relatively moderate in segments like sewage and drinking water. Notwithstanding the heightened competition, the operating margins, supported by operating leverage benefits, are expected to largely remain stable at around 11% ± 25bps in FY2025e.

"*ICRA expects the cash conversion cycle to elongate, with no further extensions in Atmanirbhar Bharat scheme-related relaxations beyond Mar-2024. Consequently, the debt levels are expected to increase to support the enhanced working capital requirements. However, the corresponding operational leverage benefits are anticipated to keep the interest cover at ~4.0 times in FY2025e,"* **Lakhani** added**.**

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