

PRESS RELEASE
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Expiry of Atmanirbhar Bharat scheme-related benefits to elongate cash conversion cycle for construction players: ICRA

- **Aggressive competition amongst players will constrain margin recovery, despite healthy revenue growth expectations in FY2025e**
- **Interest cover projected at around 3.6-3.9 times in FY2025e**

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. The aggregate order book-to-sales ratio of ICRA's sample set of companies was 3.1x as of June 2024, thereby indicating healthy revenue growth prospects over the medium term.

Giving more insights on this, **Chintan Lakhani, Vice President and Sector Head - Corporate Ratings, ICRA**, said: *"The fresh order inflows remained modest during Q1 FY2025, mainly due to the General Elections, akin to the FY2020 election period. The order-awarding activity has picked up from Q2 FY2025 onwards; nevertheless, the order inflows in FY2025 are likely to slightly trail those seen in FY2024e. Order inflows in the road segment have remained muted during the last three-four quarters; however, in other segments like urban infrastructure, drinking water, and sewage treatment projects, the inflows continue to remain healthy."*

ICRA noted that competition has increased across sub-segments like railways, roads, irrigation as well as urban infrastructure in recent years. However, the road projects awarded by MoRTH/NHAI feel greater competitive pressure, which is also reflected in a majority of the bids awarded at a sizeable discount compared to the authority's base price. Consequently, despite healthy revenue growth expectations and resultant operating leverage benefits, operating margins are expected to remain flattish at around 11% ± 25bps in FY2025e. ICRA maintains a Stable outlook for the sector with steady growth in operating income, moderate leverage, and comfortable coverage metrics.

"The Atmanirbhar Bharat scheme, introduced in June 2020, provided relief to contractors during the Covid-19 pandemic (in the form of monthly billing frequency, and lower bank guarantee requirements amongst others), which eased the funding requirement. ICRA expects the cash conversion cycle to elongate in the current fiscal, post expiry of Atmanirbhar Bharat scheme-related relaxations in March 2024. 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 at around 3.6-3.9 times in FY2025e," **Lakhani** added.

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