

PRESS RELEASE  
April 29, 2024

## Construction sector entities' revenues to grow by 12-15% in FY2025; margins to expand by 25-50 bps: ICRA

- *Government's infrastructure push will result in double-digit revenue growth for construction industry in FY2025*
- *Sector margins to improve by 25-50 bps in FY2025e, in the backdrop of operating leverage benefits along with relatively stable commodity price.*
- *Expiry of Atmanirbhar scheme will result in incremental funding requirement for construction entities*

ICRA expects the construction industry in India to maintain a healthy revenue growth momentum in FY2025 with a projected YoY growth of 12-15% in FY2025 after witnessing a stellar 18-20% revenue growth in FY2024e. The Government's thrust on infrastructure is reflected in its increase in capex allocations to Rs 11.1 trillion (+16.9% YoY) in FY2025 budget estimates (BE), which augurs well for the sector. ICRA maintains a Stable outlook on the sector with steady growth in operating income, moderate leverage, and healthy coverage metrics.

Giving more insights on this, **Mr. Ashish Modani, Vice President and Co-Group Head - Corporate Ratings, ICRA**, said: *"The aggregate order book-to-sales ratio of ICRA's sample set of companies stood at around 3.9x as of December 2023 (compared to 3.4 times during March-2023), thereby indicating a healthy revenue growth prospect over the medium term. ICRA expects the revenue growth in FY2025 to remain healthy at 12-15% on a YoY basis, albeit slightly lower than the 18-20% revenue expansion assessed for FY2024e, owing to the high base and some tapering in execution momentum in Q1 FY2025 amid the Parliamentary Elections"*.

Over the past five years ending March 2023, the order book of ICRA's sample construction companies has increased at a CAGR of ~27%, remaining between 3.3x and 4x of billing, supported by increased capital outlay towards the infrastructure sector by the Central Government. The transportation (roads, metro, airport, bridges, flyovers) and building (residential, commercial, mixed use, industrial) segments continue to account for over 55% of the order book. However, the share of projects in mining, water and energy/power has also witnessed healthy growth in the recent years.

The moderation in prices of some of the key commodities during FY2024, such as steel, provides some respite to industry participants and augurs well for the construction sector. The competitive intensity in engineering, procurement, and construction projects awarded by the NHAI / the Ministry of Road Transport, railways, and metro segments continues to remain high; however, it is relatively moderate in segments like sewage and drinking water. Despite the high overall competitive intensity, ICRA anticipates relatively stable commodity prices along with operating leverage benefits to support the overall profitability of the construction sector entities in FY2025.

*"Industry participants are likely to witness 25-50 bps expansion in operating margins in FY2025 to 11.5%-12.0%, in the backdrop of operating leverage benefits and expectations of relatively stable commodity prices. However, intense competition in some of the construction sector segments remains a challenge. The overall profitability, therefore, will continue to remain below pre-Covid levels (14%+) in the medium term.*

*"The Atmanirbhar Bharat scheme, introduced by MoRTH in June 2020, provided relief to contractors during the Covid-19 pandemic (in the form of monthly billing frequency, lower bank guarantee requirements, etc.). It was last extended till March 2024. With the expiry of this scheme, the working capital requirement is expected to increase in FY2025. Nonetheless, the coverage metrics is expected to remain comfortable with interest cover likely to remain above four times," Mr. Modani added.*

Click [here](#) to access our previous press releases on the sector.

For further information, please contact:

#### Media Contacts:

##### **Naznin Prodhani**

Head – Group Corporate Communications & Media Relations  
ICRA Ltd  
Tel: + (91 124) 4545300,  
Dir - 4545860  
Email:  
[naznin.prodhani@icraindia.com](mailto:naznin.prodhani@icraindia.com)

##### **Shreya Bothra**

Manager - Corporate Communications & Media Relations  
ICRA Ltd  
Tel: + (91 022) 61693300,  
Dir - 61693367  
Email:  
[shreya.bothra@icraindia.com](mailto:shreya.bothra@icraindia.com)

© Copyright, 2024 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.

#### **Disclaimer:**

This Press Release is being transmitted to you for the sole purpose of dissemination through your newspaper / magazine / agency. The Press Release may be used by you in full or in part without changing the meaning or context thereof, but with due credit to ICRA Limited. However, ICRA Limited alone has the sole right of distribution of its Press Releases for consideration or otherwise through any media including, but not limited to, websites and portals.

#### **About ICRA Limited:**

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

Click on the icon to visit our social media profiles.

