INDIAN CONSTRUCTION INDUSTRY

Revenue growth impacted by the early onset of monsoons; recovery expected from Q3 FY2026 onwards

September 2025

Highlights

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ICRA maintains its expectation of 6-8% revenue growth for the construction sector in FY2026 on the back of a healthy order book position, despite the OI remaining flat in Q1 FY2026 vis-à-vis Q1 FY2025.

Credit profile of diversified players is expected to benefit; however, players focussed primarily on road or jal-jeevan mission could face some challenges in near to medium term

- **Construction gross value added (GVA) growth slowed to 7.6% in Q1 FY2026 from 10.8% in the previous quarter, surpassing ICRA's estimate (+6.5% to +7.0%) for the quarter**. This was mirrored by the deceleration in YoY performance of 6 of the 9 construction-related indicators, though, GoI's capex improved YoY by 52% in Q1 FY2026. **Overall, ICRA projects the construction GVA to grow by 6.5-7.5% YoY in FY2026, albeit slower than the 9.4% expansion in FY2025.**
- **The order book-to-billing ratio stood at ~3.5 times as on June 30, 2025 (based on the operating income of FY2025),** which remained at satisfactory levels, indicating healthy revenue growth prospects over the medium term. The OI for the sample entities remained flat in Q1 FY2026 (compared to Q1 FY2025), reflecting subdued construction activity due early monsoons.
- **While the competitive intensity in the road sector continues to remain high,** it has also increased in water supply & sanitation (WSS) sectors in 4M FY2026 compared to FY2025. The competition, among other factors may largely be attributed to the entities' effort to diversify their order book. **Notwithstanding the heightened competition, the operating margins, supported by operating leverage benefits and stable commodity prices, are likely to largely remain stable at around 10.25% - 10.75% in FY2026e, albeit much lower than FY2022 levels (11.9%)**
- **The cash conversion cycle elongated in FY2025, following the expiry of the Atmanirbhar Bharat scheme-related relaxations, and is likely to persist in FY2026P.** Players focused on Jal-Jeevan mission also witnessed built up in receievable in FY2025, though situation has relatively improved in current fiscal. Although debt levels may increase to support the enhanced working capital requirements, the corresponding operational leverage benefits are expected to keep the interest cover at ~3.5-3.8 times in FY2026e.

Agenda

1 Macro Environment

2 Competitive Intensity

3 Order Book Analysis

4 Trend in Prices and Outlook on Key Commodities

5 Financial Performance

6 Trends in Credit Rating

Agenda

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7 **Sector Outlook**

8 **Peer Comparison**

Analytical Contact Details

Name	Designation	Email	Contact Number
Ashish Modani	Senior Vice-President & Group Head	ashish.modani@icraindia.com	022- 6169 3300
Suprio Banerjee	Vice-President & Co – Group Head	supriob@icraindia.com	022- 6114 3443
Rohit Agarwal	Assistant Vice-President & Sector Head	rohit.agarwal@icraindia.com	022- 6169 3329
Anirudh Goel	Analyst	anirudh.goel@icraindia.com	022- 6169 3300

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Sai Krishna	Head - Research Sales and Investor Connect	sai.krishna1@icraindia.com	9840774883
Rohit Gupta	Head Business Development – Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vinita Baid	Head Business Development – East	vinita.baid@icraindia.com	033-65216801
Shivam Bhatia	Head Business Development – Corporate Sector – North & South	shivam.bhatia@icraindia.com	0124-4545803
Sanket Kulkarni	Head Business Development – Corporate Sector – West	sanket.kulkarni@icraindia.com	022-6169 3365
Naznin Prodhani	Head - Group Corporate Communications & Media Relations	communications@icraindia.com	0124-4545860

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Thank You!