

Construction Sector

Buoyancy in state capital outlay to drive healthy revenue growth for state-focused EPC players; working capital challenges persist

SEPTEMBER 2023



1 Overview of State Capital Outlay



2 Key Focus Areas For States



3 Trends in Projects Awarded by States



4 Analysis of Construction Entities Focused on State Government Projects



5 Trends in ICRA Credit Ratings in Construction Sector



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Opportunities for construction/EPC players to remain healthy in the medium term, on the back of higher budgetary capital outlay by the state governments.

Construction entities focused on transportation (roads, metro) and water supply are expected to witness healthy traction.



- The aggregate capital outlay of all states witnessed a robust CAGR of ~17% between FY2020 to FY2022. The revised estimates (RE) for FY2023 (YoY increase of ~40%) and the budget estimates (BE) for FY2024 (YoY increase of ~16%) also indicate continued healthy growth trajectory for the capital outlay by key states.



- Transport, irrigation, water supply, and housing & urban development are the infrastructure sectors, which have received higher allocation and accounted for nearly 60% of the aggregate capital outlay in FY2024 BE (based on a sample set of 13 states).



- The competitive intensity across the infra projects awarded by state governments (including state undertakings) remains moderate, and relatively lower than that in the case of the Central Government projects. Tenders floated in the roads, and water supply & sanitation segments have witnessed healthy participation in the past one year.



- The order book position for Engineering Procurement Construction (EPC) players focused on state government projects has improved in the last one year, supported by robust new order inflows in FY2023. A ramp-up in execution will be important to meet the timelines.



- State-focused EPC players have witnessed relatively higher working capital requirement, primarily owing to a longer receivable cycle. Further, with six out of the 13 sample states going to elections in the next 12-18 months, the state-focused players remain exposed to the risk of change in priorities or re-tendering, should there be a change in government.



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