

# INDIAN CONSTRUCTION INDUSTRY

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**Expiry of Atmanirbhar Bharat  
scheme-related benefits likely to  
elongate cash conversion cycle**

**SEPTEMBER 2024**





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*ICRA expects the working capital intensity to elongate with the expiry of Atmanirbhar Bharat scheme-related relaxations in March 2024. The leverage is expected to remain stable at around 1.20-1.25 times with higher working capital requirements likely to offset by healthy accretion to net worth.*



- **The construction gross value added (GVA) in India recorded a surprising uptick to a three-quarter high of 10.5% in Q1 FY2025** despite a transient slowdown in construction activity. Hence, ICRA revised its estimates and expects the construction GVA to grow by ~8.5-9.0% in FY2025, which, though being lower than the FY2024 levels, will remain higher than the long term CAGR of ~6.0% witnessed during FY2014-FY2024PE.



- **Despite the modest order inflow during Q1 FY2025 for most industry participants, the order book-to-billing ratio of ~3.4 times (as on June 30, 2024) remained adequate**, indicating healthy revenue growth prospects over the medium term. ICRA expects 12-15% revenue growth for construction sector participants in FY2025e. The transportation segment continues to have the largest share of order book for most industry participants, with strong order inflow from roads, railways and urban transport.



- **While the competitive intensity in the road sector continues to remain high**, it has increased in the metro and water supply & sanitation (WSS) sectors in 5M FY2025 compared to FY2024. The intense competition, among other factors, may largely be attributed to entities' endeavour to diversify their order books. Notwithstanding the heightened competition, the operating margins, supported by operating leverage benefits, are expected to largely remain stable at around 11%  $\pm$  25bps in FY2025e.



- **ICRA expects the cash conversion cycle to elongate with no further extensions in Atmanirbhar Bharat scheme-related relaxations**, including higher retention money and milestone-based billing (against monthly billing) beyond March 2024. Although debt levels are expected to increase to support the enhanced working capital requirements, the corresponding operational leverage benefits are expected to keep the interest cover at ~3.6-3.9 times in FY2025e.

## 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



## 7 Sector Outlook



## 8 Peer Comparison





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# Analytical Contact Details

Name	Designation	Email	Contact Number
Rajeshwar Burla	Group Head	<a href="mailto:rajeshwar.burla@icraindia.com">rajeshwar.burla@icraindia.com</a>	040 6939 6443
Ashish Modani	Co-Group Head	<a href="mailto:ashish.modani@icraindia.com">ashish.modani@icraindia.com</a>	020 6606 9912
Chintan Lakhani	Sector Head	<a href="mailto:chintan.lakhani@icraindia.com">chintan.lakhani@icraindia.com</a>	022 6169 3345
Mrinal Jain	Senior Analyst	<a href="mailto:mrinal.j@icraindia.com">mrinal.j@icraindia.com</a>	0124 4545 863







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## Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	<a href="mailto:shivakumar@icraindia.com">shivakumar@icraindia.com</a>	022-61693304
Neha Agarwal	Head – Research Sales	<a href="mailto:neha.agarwal@icraindia.com">neha.agarwal@icraindia.com</a>	022-61693338
Rohit Gupta	Head Business Development – Infrastructure Sector	<a href="mailto:rohitg@icraindia.com">rohitg@icraindia.com</a>	0124-4545340
Vivek Bhalla	Head Business Development – Financial Sector	<a href="mailto:vivek.bhalla@icraindia.com">vivek.bhalla@icraindia.com</a>	022-61693372
Vinita Baid	Head Business Development – Corporate Sector - West & East	<a href="mailto:vinita.baid@icraindia.com">vinita.baid@icraindia.com</a>	033-71501131
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	<a href="mailto:shivam.bhatia@icraindia.com">shivam.bhatia@icraindia.com</a>	0124-4545803
Naznin Prodhani	Head – Group Corporate Communications & Media Relations	<a href="mailto:communications@icraindia.com">communications@icraindia.com</a>	0124-4545860





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