

INDIAN CONSTRUCTION INDUSTRY

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

SEPTEMBER 2024



Highlights

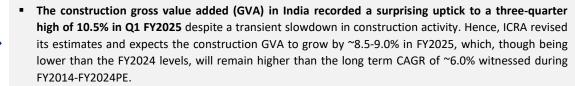




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ICRA expects the working capital intensity to elongate with the expiry of Atmanirbhar Bharat scheme-related relaxations in March 2024. The leverage is expected to remain stable at around 1.20-1.25 times with higher working capital requirements likely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







■ 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% ± 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.

Agenda















Agenda













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