INDIAN CONSTRUCTION INDUSTRY

Credit profile of construction entities likely to remain resilient to input cost and competitive pressure

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Highlights

Despite 100-200 bps contraction in operating profitability for construction entities due to input cost pressure, the credit profile of most industry participants to remain stable

- The construction industry is expected to witness healthy revenue growth in the medium term. Construction GVA in India is expected to grow at 12-14% in FY2023, in the backdrop of the Government's thrust on infrastructure activity, strong order book and low base effect
- Aggregate order book to sales of ICRA's sample of 12 entities stands at around 3.2 times, highlighting strong revenue growth prospects over medium term. Segments like metro/urban infrastructure, water & sanitation has witnessed handsome growth in order book in recent times.
- India currently has operational metro network of 746.3 km in 15 cities, which is expected to increase to 1,900-2,000 km in the next five years. Currently, metro rail projects of about 1,400 km worth Rs. 2,00,000 crore are under approval/proposal stage. Based on the projects currently under approval/proposal stage, it will translate into ~Rs. 80,000-crore business opportunity for the civil construction industry.
- Sharp increase in key commodity prices, especially steel, bitumen and cement along with heightened competition will have a bearing on industry profitability, with most participants likely to witness 100-200 bps contraction in operating profitability.
- Working capital cycle of most industry participants has remained stable, with receivable cycle below 90 days. Funds mobilization through customer advances has limited overall dependence on working capital borrowings from banking system. The interest coverage indicators of most industry participants has remained at comfortable level (~3-4 times).
- Despite cost pressure, ICRA Research expects industry participants to remain resilient in the backdrop of stable working capital cycle, limited capex requirement, healthy accruals and moderate leverage.

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Thank You!