



CONSTRUCTION

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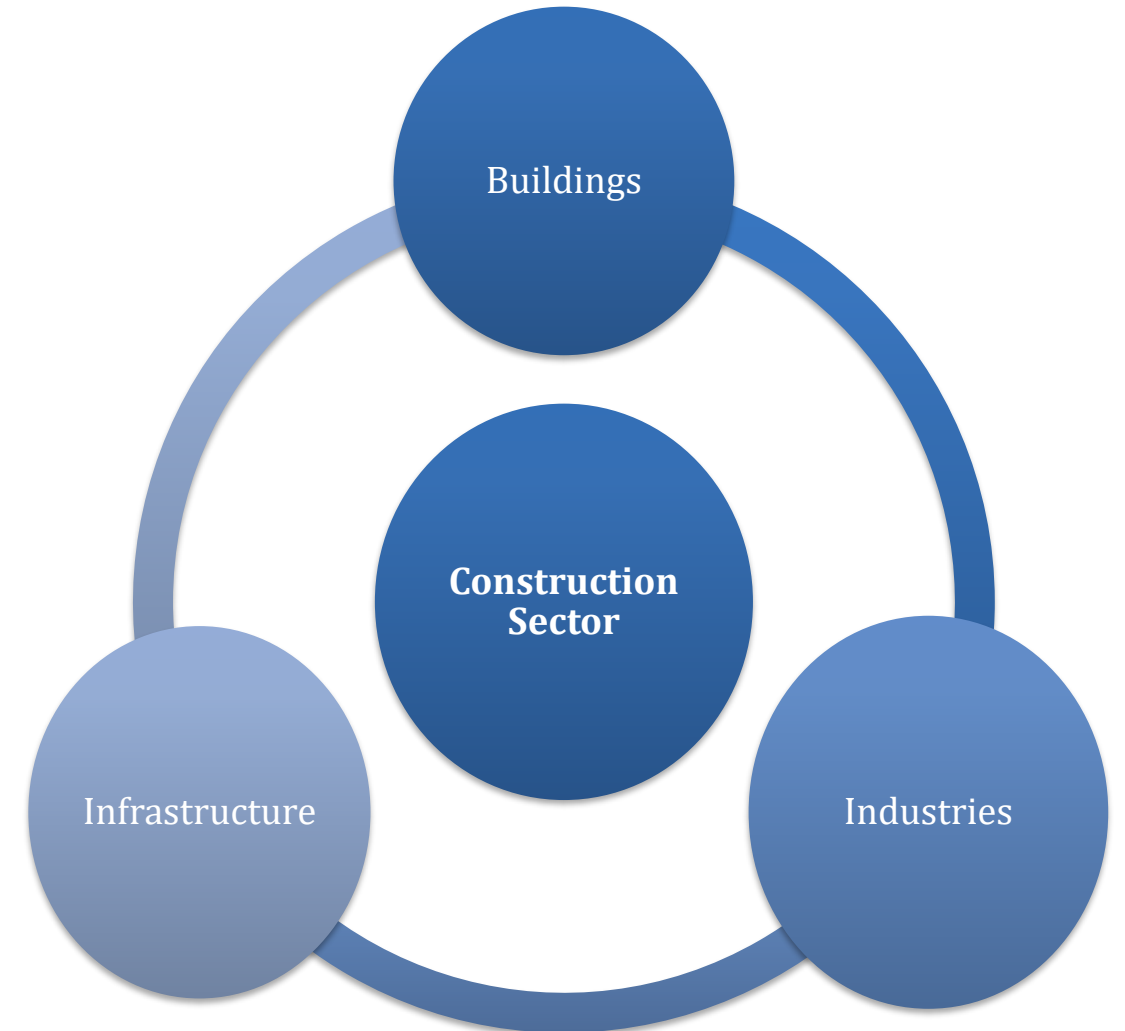


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Construction

Introduction

- **Construction** comprises economic activities directed towards the creation, renovation, repair or extension of fixed assets in the form of buildings, land improvements of an engineering nature, and other engineering constructions such as roads, bridges, dams and so forth.
- The Global Construction Sector is a growing industry where its market value is expected to increase from USD~14.45Tn in CY25 to USD~27.1Tn in CY35, with a compound annual growth rate (CAGR) of ~6.5%, driven by urbanization, population growth, increased infrastructure spending, real estate demand and rising investments in energy transition and smart technologies.
- The Sector can be broadly classified into the following segments -
 - a) Buildings
 - b) Infrastructure
 - c) Industries
- The Global Construction Sector, therefore, is of major economic significance, as it contributed ~12.3%* to the gross output in CY25.



Construction

Global | Overview

- During CY24, the Top 250 global construction contractors reported revenue broadly in line with CY23, totaling USD~2.2Tn. Domestic revenue for these players accounted for ~77.8% (USD~1.7Tn) of the total revenue while international revenue accounted for the rest (USD~0.5Tn).
- The top 10 companies, as depicted, contributed ~50.0% of the total construction revenue in CY24.
- Infrastructure projects, Transportation and Buildings, comprised ~51.4% of the construction revenue, followed by Petroleum (~13.9%) and Power (~10.3%) while revenue by region revealed that Europe (~25.2%) and Asia (~15.9%) collectively accounted for ~41.1% of the global construction revenue CY24.
- The construction industry is experiencing marginal growth amid cost volatility, supply chain disruptions and regional conflicts, which are increasing project complexity and reducing profit margins, pushing firms to focus on core services, collaboration and regional partnerships.

Top 10 Contractors CY24 Revenue (USD Bn)			
Sr.	Firm	Country	Revenue
1	China State Construction Engineering Corp. Ltd	China	269.4
2	China Railway Group Ltd	China	163.0
3	China Railway Construction Corp. Ltd	China	150.6
4	China Communications Construction Group Ltd	China	136.1
5	Vinci	France	78.4
6	Power Construction Corp. of China	China	75.0
7	China Metallurgical Group Corp	China	70.0
8	Shanghai Construction Group Co. LTD.	China	57.0
9	Grupo Acs/Hochtief	Spain	51.0
10	Bouygues	France	50.4
Total			1,100.9

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Global | Outlook

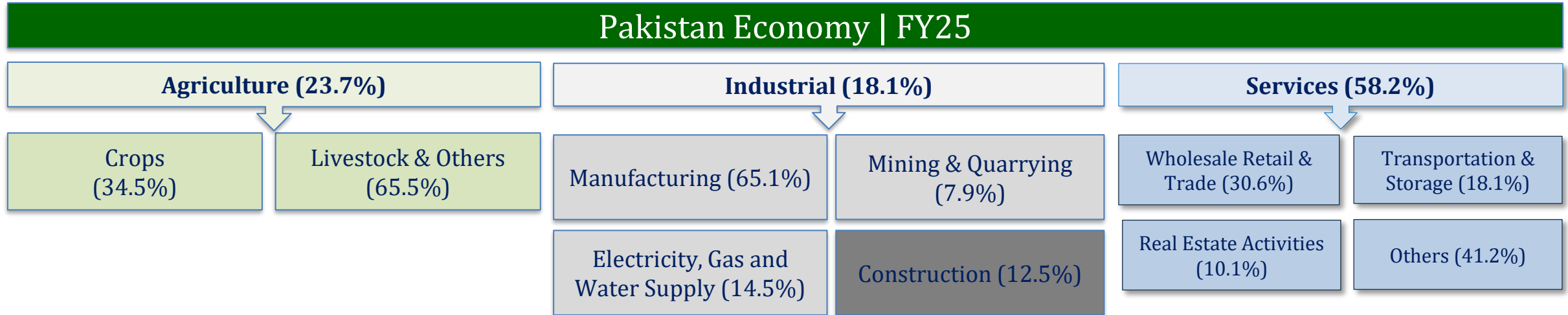
- The global nominal construction spending is estimated to reach USD ~17.2–17.5Tn by end-CY26 (CY25: ~USD 16.4–16.5Tn), reflecting ~5% YoY growth, supported by continued public-sector investment and gradual stabilization in macroeconomic conditions. Infrastructure spending remains the primary growth driver, accounting for the largest share of total construction activity, underpinned by sustained investments in transportation, water systems, and energy transition projects. However, growth remains moderate and uneven, constrained by elevated financing costs, persistent labor shortages, supply chain inefficiencies, and geopolitical uncertainties. The continued dominance of infrastructure-led expansion underscores the central role of government funding, policy support, and strategic national priorities, while also exposing the Sector to fiscal pressures and execution risks in an increasingly volatile operating environment.
- Recent tariffs on key construction inputs, including steel and aluminum (up to 50% in U.S. markets), have increased effective material costs globally, contributing to procurement delays and cost volatility. With margins already under pressure, firms face heightened financial strain and rising project cancellations. Ongoing geopolitical tensions continue to disrupt supply chains, prompting firms to adopt mitigation strategies such as diversified sourcing, material substitution, digital procurement tools, and contract escalation clauses, with smaller contractors remaining particularly vulnerable.
- Construction priorities are shifting globally due to evolving economic, technological, and policy dynamics, reshaping demand and project economics. Focus has moved from renewable energy toward data centers and supporting infrastructure, driven by rapid growth in AI and hyperscale computing. This transition is influencing capital allocation, labor deployment, and resource utilization across the construction sector, adding new pressures to an already capacity-constrained industry.
- Growth is expected to remain moderate and gradual, primarily supported by civil engineering and public-sector-led investments. However, Engineering & Construction revenues may remain constrained by elevated leverage levels and government oversight of capital-intensive projects. The Dodge Momentum Index (DMI) declined ~7.3% MoM to ~250.0 in Feb'26 (Jan'26: ~269.8), though it remains ~29% higher YoY, with data centers continuing to be a key driver despite broader normalization in planning activity.

**The DMI is a monthly measure of the value of nonresidential building projects going into planning, shown to lead construction spending for nonresidential buildings by a full year.*

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Local | Overview

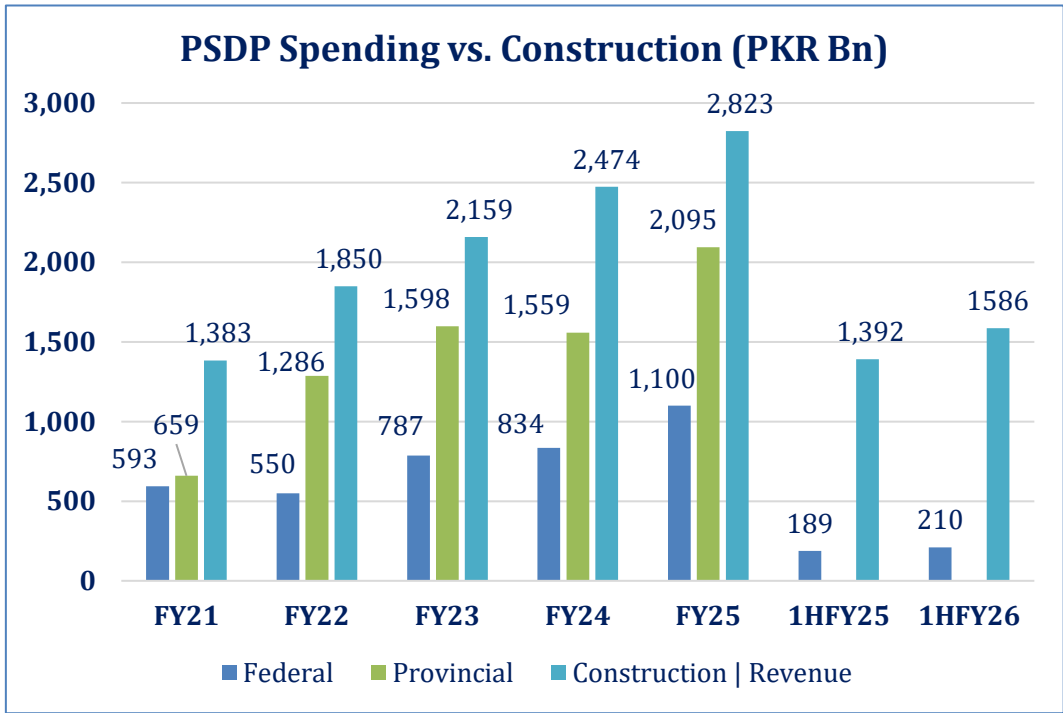
- In FY25, Pakistan’s GDP (nominal) increased to PKR~113.9Tn (FY24: PKR~105.4Tn). The GDP in real terms grew by ~3.1% YoY in (FY24: ~2.6%) and ~3.9% in 2QFY26. The GDP growth target for FY26 is expected at ~3.75-4.75% according to the State Bank of Pakistan and ~4.2% according to the Government of Pakistan. Industrial activities in FY25 contributed ~18.1% share to the GDP, while the manufacturing activities made up ~65.1% of the value addition in the Industrial activities.
- The Construction Sector maintained ~12.5% share in Industrial sub-segment of the economy during FY25, while contribution to GDP stood at ~2.3%, at constant prices (FY24: ~2.2%). During the year, the Sector registered ~6.5% YoY growth, while in 2QFY26, this was recorded at ~10.5% YoY (SPLY: ~3.0% YoY). It is considered an important sector due to its linkages with other sectors and ripple down effect.



Construction

Local | Overview

- A key demand driver in Pakistan’s Construction Sector remains PSDP spending. However, for FY26, the program has shifted from earlier frameworks such as 5Es and 4RF towards a more consolidated approach under the “URAAAN Pakistan” initiative.
- PSDP FY26 is down ~9.1% YoY, recording at PKR~1,000.0Bn (FY24: PKR~1,100.0Bn). The decline in PSDP allocation for FY26 reflects fiscal consolidation efforts under IMF-supported reforms, with the government prioritizing deficit reduction, debt servicing and efficiency in project execution over expansionary development spending.
- Major construction-related projects under PSDP FY26 include large-scale infrastructure schemes such as Diamer-Bhasha Dam (2019), Mohmand Dam (2019), and Balakot Hydropower Project (2022), alongside transport projects like the Hyderabad-Sukkur Motorway planned for initiation in FY26 and the Peshawar–DI Khan Motorway entering execution phase in this period.



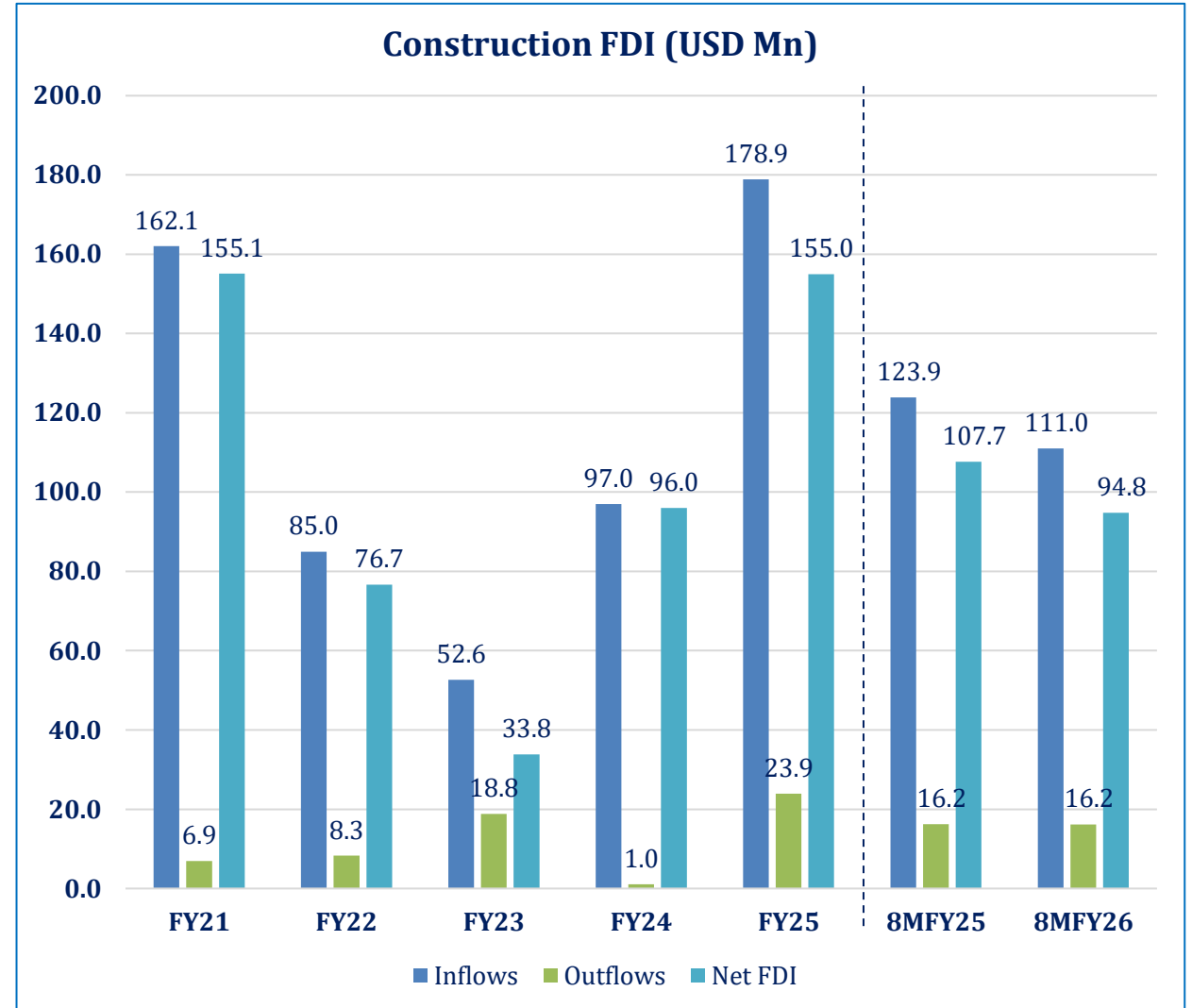
Federal Ministries	FY26		FY25	
	PKR Mn	% Share	PKR Mn	% Share
Provinces & Special Areas	249,198	24.9%	227,316	20.7%
National Highways	223,282	22.3%	161,264	14.7%
Water Resources	128,799	12.9%	184,598	16.8%
Power (NTDC/ PEPCO)	90,756	9.1%	104,590	9.5%
Education	74,290	7.4%	81,866	7.4%
Railways	22,415	2.2%	35,000	3.2%
Information Technology & Telecommunication Division	22,227	2.2%	23,929	2.2%
Planning, Development & Special Initiatives	22,035	2.2%	51,406	4.7%
Housing	16,241	1.6%	24,338	2.2%
National Health Services	14,054	1.4%	24,750	2.3%
Others	136,703	13.7%	180,943	16.4%
Total Federal PSDP	1,000,000	100.0%	1,100,000	100.0%

Note: Education includes HEC as well as Federal Education & Professional Training. NHA is classified under Corporations.

Construction

Local | Foreign Direct Investment

- Net FDI in the construction sector is modest and averaged USD ~103.3Mn during FY21–FY25. This increased to USD ~155.0Mn in FY25 (FY24: USD ~96.0Mn), reflecting a growth of ~61.5% YoY. The uptick is primarily attributable to improved investor confidence amid macroeconomic stabilization, supported by the IMF’s Extended Fund Facility, alongside enhanced investment facilitation under SIFC. Inflows were further driven by a growing pipeline of infrastructure and real estate projects, with significant participation from investors in Saudi Arabia, the UAE, and China.
- In 8MFY26, Sector’s Net FDI registered ~11.9% YoY decline, as inflows fell significantly due to geopolitical situation, uncertainties at the global level and tighter global financial conditions.



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Local | Transport Infrastructure under CPEC

- In addition to the transport infrastructure projects under the CPEC (enlisted below), ~07 projects are in the pipeline, including Dir Expressway and Peshawar-D.I.Khan Motorway, while ~05 are long-term projects, including Karachi Circular Railway and Mirpur-Muzaffarabad-Mansehra Road, to name a few.

Completed Projects	Length (KM)	Location	Approx. Cost (USD Mn, PKR)
KKH Phase II (Havelian-Thakot section)	120	KP	1,315
Peshawar-Karachi Motorway (Multan-Sukkur Section)	392	Punjab, Sindh	2,889
Orange Line Metro Train - Lahore	27	Punjab	1,626
Cross Border Optical Fiber Cable (Khunjrab - Rawalpindi)	820	KP, Punjab	44
Pilot Project of Digital Terrestrial Multimedia Broadcast (DTMB)	-	Punjab	4.0
Hakla - D.I Khan Motorway	297	Punjab	PKR~122,181Mn
Khuzdar-Basima Road (N-30)	106	Baluchistan	PKR~19,190Mn
Under Construction Projects	Length (KM)	Location	Approx. Cost (PKR Mn)
Zhob - Quetta (Kuchlak) (N-50)	305	Baluchistan	66,833
Hoshab - Awaran Road Section (M-8)	146	Baluchistan	26,000
KKH Alternate Route Shandur - Chitral Road	153	KP	16,000
Nokundi-Mashkhel Road	103	Baluchistan	7,000
Awaran - Khuzdar Road Section (M-8)	168	Baluchistan	32,000

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Local | Gwadar Projects under CPEC

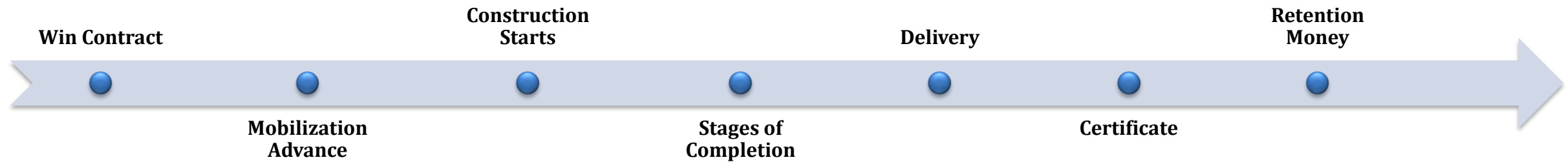
- The total cost for completed projects as of FY26 and depicted, amounted to USD~836.0Mn. Under-construction projects are expected to cost USD~16.0Bn to the national exchequer, while In-Pipeline projects are expected to cost another USD~692.0Mn.
- In addition to enlisted, 2 projects are in the pipeline, including Gwadar Smart Environment Sanitation System and Landfill Project.

Completed Projects	Area (acres)	Approx. Cost (USD Mn)
Development of Port and Free Zone	2,281 acres	300
Gwadar Smart Port City Master Plan	-	04
Pak-China Technical and Vocational Institute at Gwadar	-	10
Gwadar Eastbay Expressway	-	179
Pak-China Friendship Hospital	68 acres	100
1.2 MGD Desalination Plant	-	13
New Gwadar International Airport	-	230
Under Construction Projects	Length (KM)	Approx. Cost (PKR Bn)
Necessary facilities of fresh water treatment, water supply and distribution	-	11
5 MGD Water Desalination Plant Gwadar	-	5
In-Pipeline Projects	Length (KM)	Approx. Cost (USD Mn)
300MW Coal-Fired Power Project at Gwadar	-	542
Construction of Breakwaters	-	123
Dredging of berthing areas & channels	-	27

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Local | Business Cycle

- Following diagram depicts construction project's life cycle:

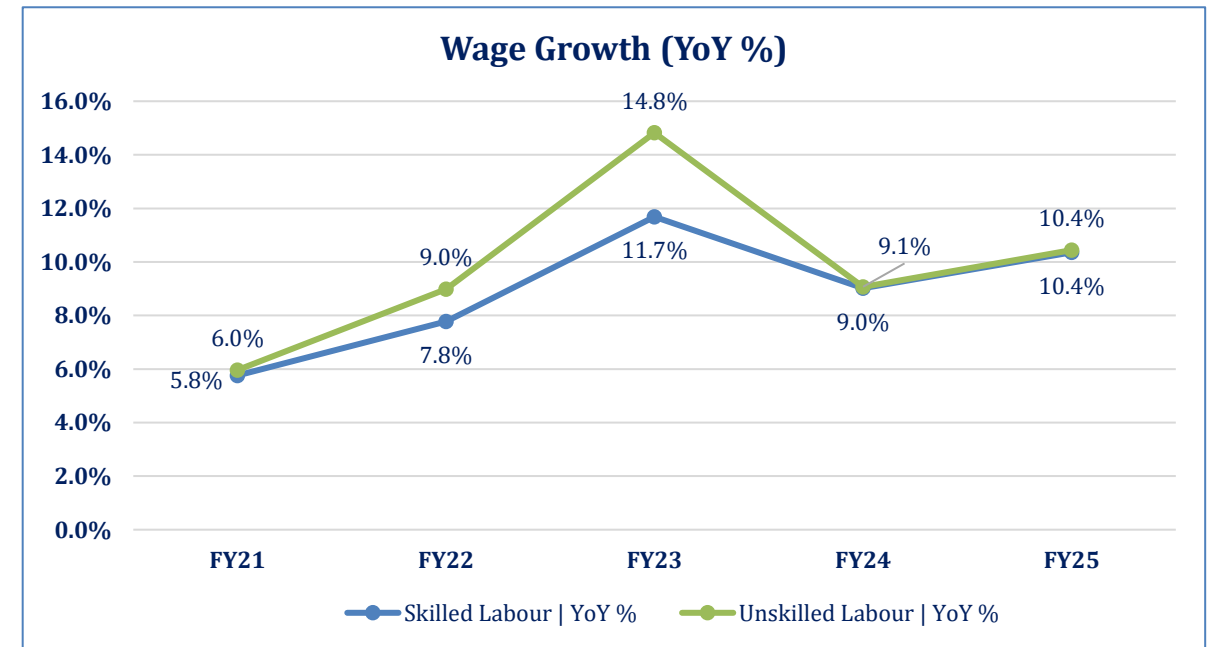
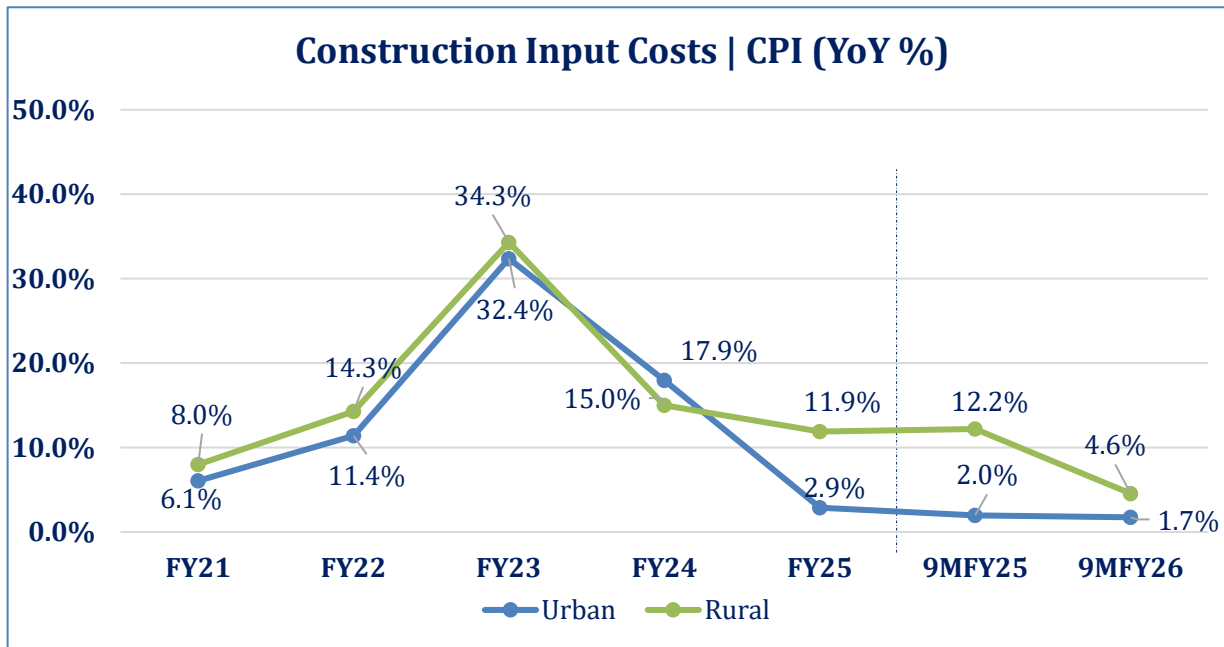


- **Win Contract:** After successful bidding the contract is awarded to the contractor.
- **Mobilization Advance:** Is given to the contractor so that machinery, equipment and labor can be mobilized.
- **Construction Starts:** Within a stipulated time period, as mentioned in the contract.
- **Stages of Completion:** The project is divided into certain number of stages and the contractor is paid after successful completion of each milestone.
- **Delivery:** The project needs to be delivered within an agreed timeframe after which the contractor may accrue damages.
- **Certificate:** When the client is satisfied and there are no pending disputes, a certificate of completion is issued.
- **Retention Money:** Is returned to the contractor after completion of a certain time period after project delivery.

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Local | Supply

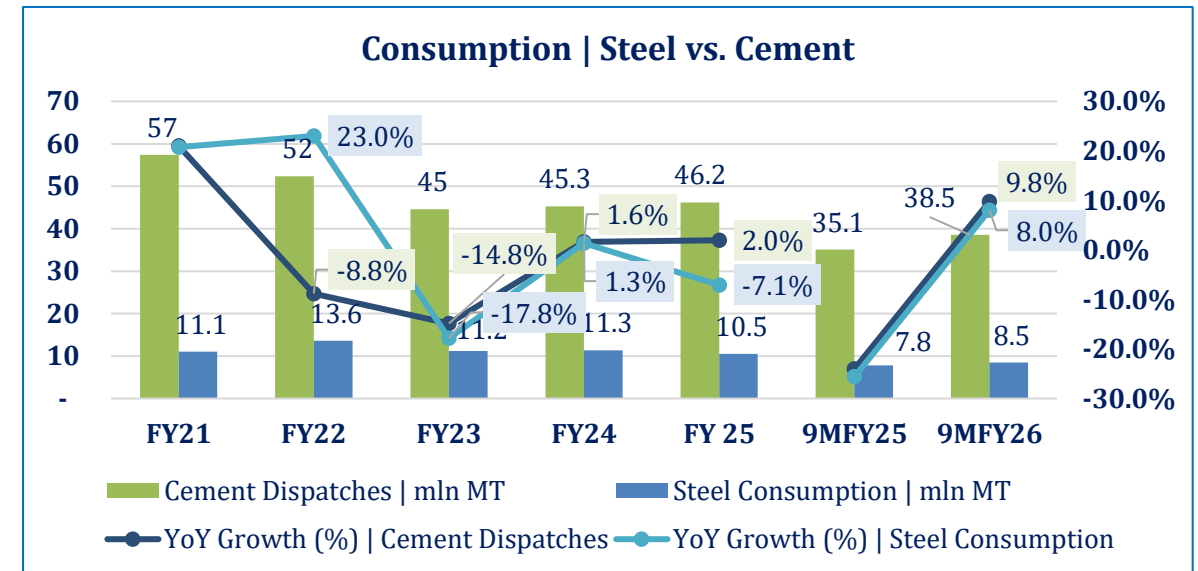
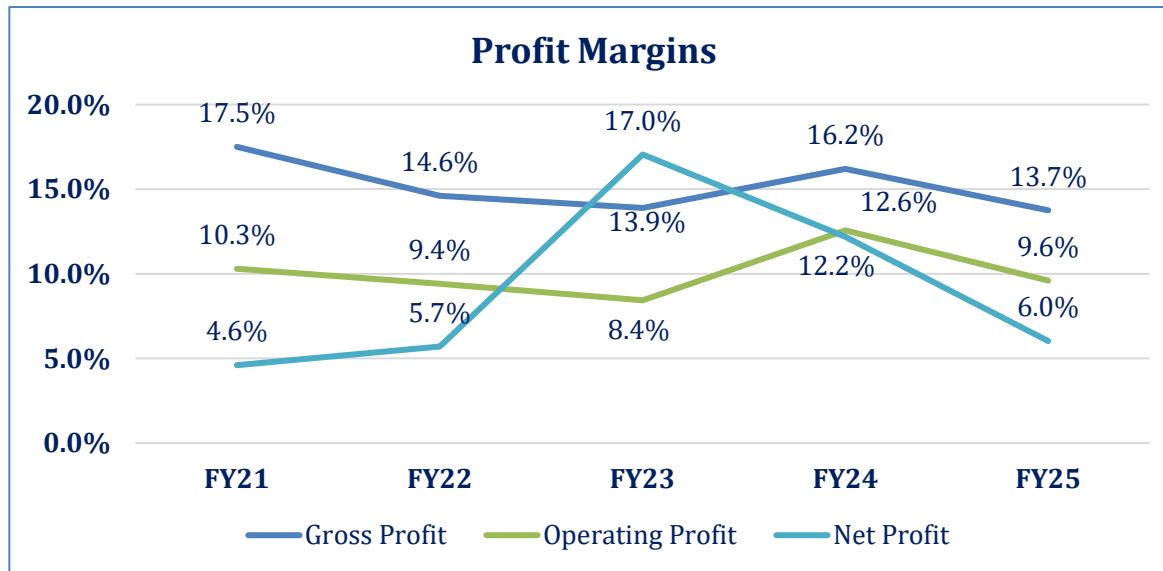
- Material costs form the largest share of Sector’s cost of sales, followed by salaries and wages of technical staff and labor. Key construction inputs such as cement and steel are produced locally, though their raw materials remain import-dependent. While the Sector is capital-intensive, labor remains a critical component of operations. The Sector’s housing and construction segment employs ~7.6% of the employed labor force in the Country.
- CPI for the Sector’s input costs, comprising prices for allied sectors such as cement, steel, glass, among others, averaged at ~11.9% and ~2.9% in FY25 for rural and urban areas, respectively. In 9MFY26, CPI increase slowed down to ~4.6% & ~1.7%, respectively, in line with lower headline inflation (9MFY25: ~12.2% & ~2.0%).
- Between FY24 and FY25, wages increased for both segments: skilled labor increased from ~9.0% to ~10.4%, while unskilled labor rose from ~9.1% to 10.4%, indicating a convergence in wage growth and a slight acceleration across the board. In absolute terms daily wage for skilled labor during FY25 registered at PKR ~2,059/day (FY24: PKR ~1,866/day) whereas for unskilled daily wage increased to PKR ~1,428/day during FY25 from PKR ~1,293 in FY24.



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Local | Business Risk

- The Sector's average gross profit margin during FY25 stood at ~13.7% (FY24:~16.2%). The decline in gross margin is primarily attributable to a mismatch between cost escalation and revenue growth, with COGS increasing by ~37.1% YoY, outpacing the ~33.2% YoY growth in revenue. Operating margin contracted to ~9.6% (SPLY: ~12.6%), driven by persistent cost pressures and limited pricing flexibility in a highly competitive EPC environment. Net margin declined to ~6.0% (SPLY: ~12.2%), as pressures at the gross and operating levels more than offset the benefit of lower finance costs (~12.9% YoY). Consequently, the reduction in finance costs was insufficient to mitigate the overall margin compression.
- Cement and steel, the core inputs of construction activity, showed mixed trends in FY25 and a clear recovery in 9MFY26. In FY25, cement dispatches rose marginally (~2.0%) while steel consumption declined (~7.0%), reflecting subdued construction momentum. However, in 9MFY26, both sectors rebounded, with cement up ~9.8% and steel up ~8.0%, indicating improving demand conditions. Despite higher volumes, prices remained relatively soft/stable due to earlier demand weakness, competitive pressures, and easing input costs.

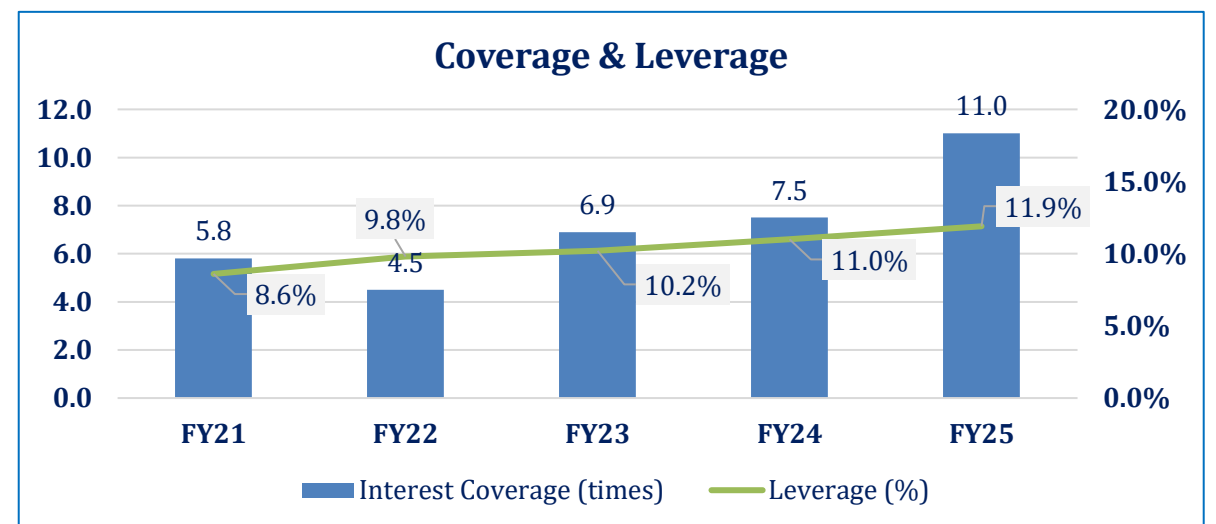
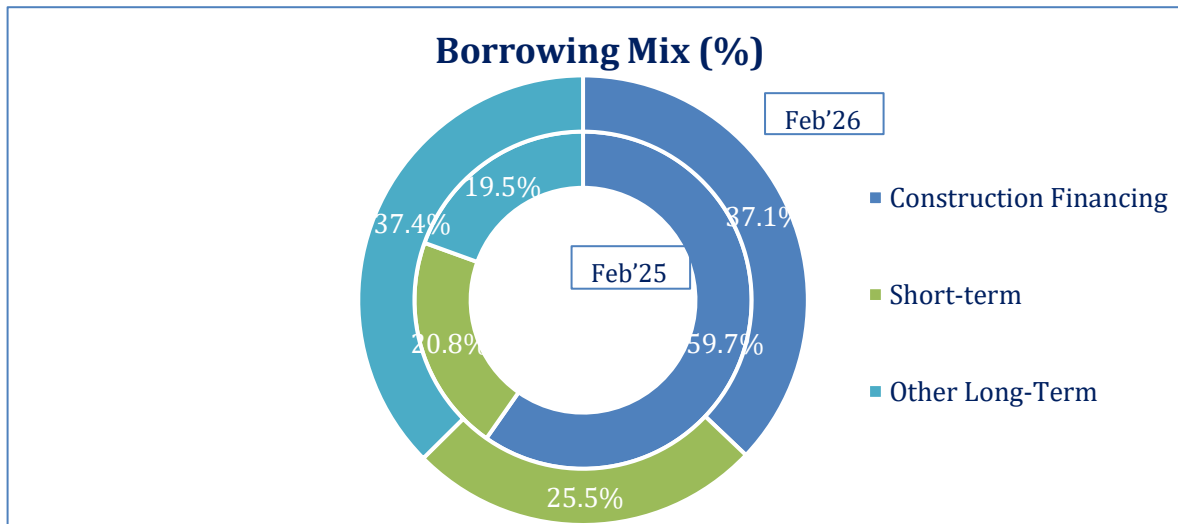


Note: Margins reflective of ~6 PACRA-rated/listed sector players in FY25. A significant asset revaluation by one player drove net margins to exceed gross margins in FY23. Steel Production prorated using 7M data for fair comparison.

Construction

Local | Financial Risk

- As of End-Feb'26, the Sector's total borrowings stood at PKR~213.7Bn, up ~1.5% YoY. Construction financing stood at PKR~79.3Bn, down ~37.3% YoY, making up 37.2% of the total borrowing mix. Other long-term financing, including LTFF, stood at PKR~79.9Bn, up ~95.0% YoY, holding the largest share in the borrowing mix at ~37.4% (SPLY: ~19.5%). Short-Term financing, including export and import financing schemes, rose to PKR~54.5Bn, up ~24.3% YoY. The share of short-term financing in total borrowing stands at ~25.5% (End-Feb'25: ~20.8%).
- In FY25, the Sector's average leverage increased to ~11.9% (SPLY: ~11.0%), alongside improved interest coverage of ~11.0x (SPLY: ~7.5x), supported by declining interest rates that reduced borrowing costs and enhanced debt-servicing capacity despite higher leverage. Looking ahead, however, the sustainability of this improved coverage appears uncertain. With interest rates expected to rise, borrowing costs are likely to increase, particularly as companies continue to take on additional debt. Coupled with lower PSDP spending and ongoing cost pressures, this may strain earnings and lead to a deterioration in interest coverage. As margins remain under pressure, the Sector's ability to comfortably service higher debt levels could weaken going forward.

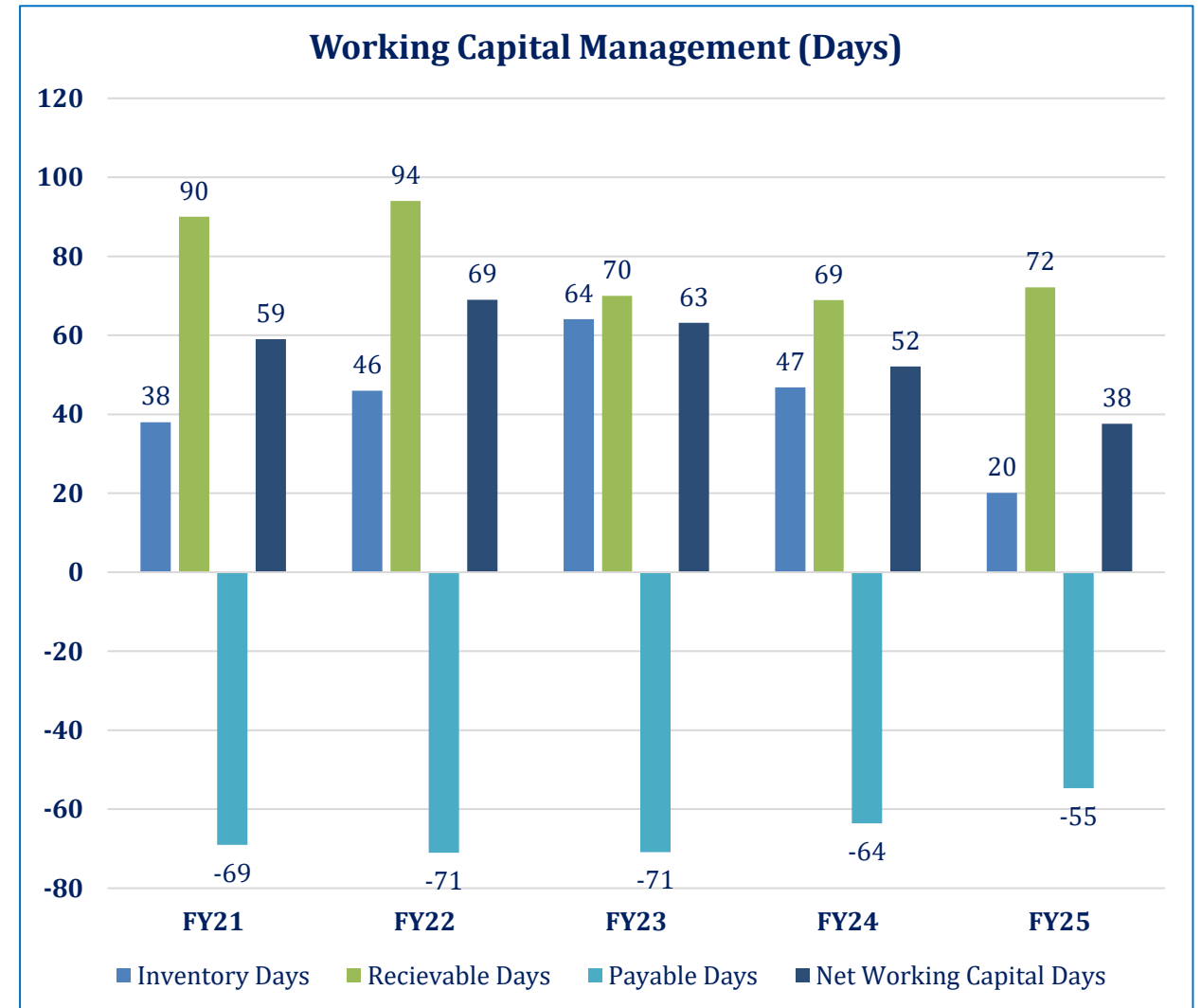


Note: Borrowing Mix pertains to SBP classification "Construction". Interest coverage and leverage data pertains to ~06 PACRA-rated/ listed sector players.

Construction

Local | Financial Risk

- Construction is an inherently capital-intensive sector, requiring sustained financial support from banking institutions. The cyclical and uneven nature of project execution, characterized by delays and extended timelines keeps working capital requirements elevated, driving reliance on short-term borrowings. At the same time, the need to fund capital expenditure, project mobilization, and maintain liquidity buffers contributes to a structurally higher dependence on long-term debt financing.
- In FY25, the Sector's average working capital days improved to ~38 days (FY24: ~52 days), primarily driven by a sharp decline in inventory days to ~20 days (FY24: ~47 days), suggesting faster project execution and better stock management.
- The slight rise in receivable days (~3 days to ~72 days) signals continued collection practices in the industry. Meanwhile, the decline in payable days by ~9 days to ~55 days indicates suppliers are being settled faster.

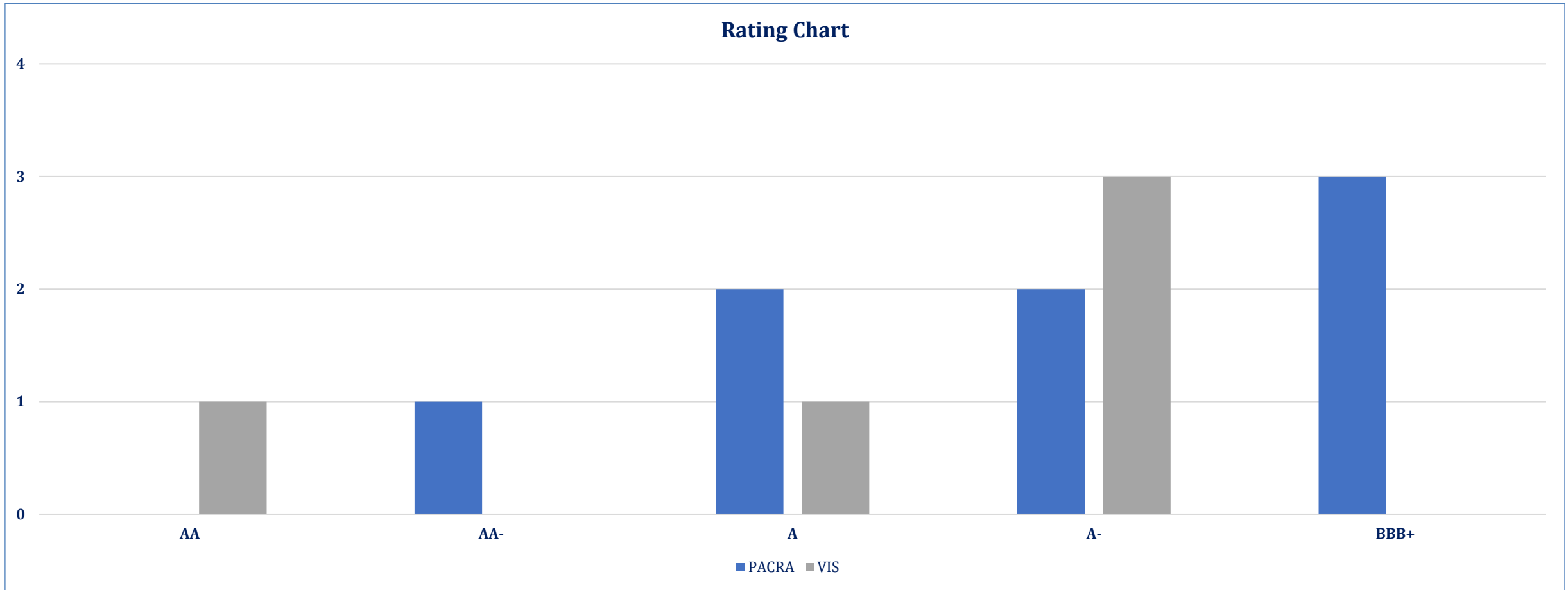


Note: Data is reflective of ~06 PACRA-rated/listed sector players.

Construction

Rating Curve

- PACRA rates 8 players of the construction sector with a long-term rating bandwidth ranging from BBB+ to AA.



Construction

SWOT Analysis

- Availability of labor force
- Large infrastructure development needs
- Readily available raw materials
- Government spending

Strengths

Weaknesses

- Unskilled labor and low efficiency
- Lack of technological innovation
- Highly impacted by allied industries
- Delays and frequent cost overruns
- Quality Issues

- Low barrier to entry
- Exchange rate fluctuation
- High inflation
- Reliance on old techniques and technology.

Threats

Opportunities

- Government initiatives
- Lower Capital Gain Tax
- Advancement in Technology

Construction

Outlook: Stable

- In FY25, Pakistan's GDP (nominal) stood at PKR~113.9Tn (FY24: PKR~105.4Tn), increasing, in real terms, by ~3.1% YoY (FY24: ~2.6% YoY) and is projected to grow by ~3.2% in FY26, according to the IMF. The 2QFY26 data show a ~3.9% YoY real growth rate as compared to ~2.2% YoY in 2QFY25, showing improvement in economic activity as compared to the SPLY.
- Industrial activity rebounded in FY25 following a sustained decline over the preceding two years, supported by consolidation efforts and better demand prospects. Construction sector faced challenges but uptick in activity was witnessed as shown by higher demand for Steel and Cement. Public sector development spending (PSDP), especially at provincial level, provided impetus to construction activity.
- The recovery remained uneven. While public sector-led projects drove momentum, private construction activity continued to lag, constrained by elevated input costs and higher taxes. As a result, overall sector growth was largely government-driven, with limited participation from the private segment.
- In FY25, gross margin declined to ~13.7% (FY24: ~16.2%) as COGS rose ~37.1% YoY, outpacing ~33.2% revenue growth. Operating and net margins also fell to ~9.6% (SPLY: ~12.6%) and ~6.0% (SPLY: ~12.2%), respectively, with cost pressures outweighing the ~12.9% YoY decline in finance costs.
- Going forward, with the policy rate moderating to ~10.5% as of Mar'26, the sector's financial profile is expected to remain broadly stable. While margin pressures may persist due to elevated input costs and relatively lower PSDP allocations, the impact is likely to be partly offset by reduced financing costs and improving demand in allied sectors such as cement and steel. Moreover, continued government-led infrastructure activity and gradual normalization in private sector participation are expected to support earnings, helping sustain interest coverage at comfortable levels despite higher leverage.
- The geopolitical situation is adding uncertainty as the operating environment remains volatile with large projects, both Government and Private sector, are on hold.

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