

PRESS RELEASE
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Demand growth to outstrip hotel room supply, despite 5-6% growth in key additions planned during FY2025-FY2028: ICRA

- **Premium hotel occupancies to improve by 200 bps to 72-74%, Average Room Rents (ARRs) by 3-6% to Rs. 8,200-8,500 in FY2026**

Rating agency ICRA forecasts a compound annual growth rate (CAGR) of 5-6% in premium hotel room additions between FY2025 and FY2028, based on its proprietary inventory database. In comparison, demand is expected to grow at a faster pace of 8-10%. As a result, occupancies across premium hotels are projected to improve by 200 bps to 72-74%, and average room rents (ARRs) to Rs. 8,200-8,500 in FY2026, 3-6% higher over the previous year. The rating agency added that premium hotel key additions are democratised in this cycle, across Tier-I and Tier-II/III cities, given the increased acceptance of the latter among travellers, and space and land constraints in the former.

With three years of double-digit revenue expansion over FY2023 to FY2025, and the growth momentum continuing in the current fiscal, the Indian Hospitality industry has fared well in recent years. Buoyed by the strong demand sentiments and the improved earnings profile of hospitality players, the sector continues to see investments for supply additions and room upgradations, to encash on the opportunities. The room addition trends reflect both the sector's optimism and its response to evolving travel patterns, regional growth, and investor confidence.

Srikumar Krishnamurthy, Senior Vice President and Co-Group Head – Corporate Ratings, ICRA Limited, said: *"India's annual premium hotel room inventory across 12 major cities crossed the 1 lakh mark in FY2023, and is slated to cross 1.2 lakh keys in the next fiscal. However, demand growth is expected to continue to outpace the supply addition, at least over the next three years. ICRA expects the premium room inventory across these cities to grow at a CAGR of 5-6% over FY2025-FY2028, while demand is expected to augment in the range of 8-10% in this period. The mismatch augurs well for the pricing environment and occupancies, and accordingly, ICRA expects the pan-India premium hotel occupancy to improve to 72-74% in FY2026 from 70-72% in FY2024 and FY2025. Further, ICRA projects the ARR for premium hotels to enhance to Rs. 8,200-8,500 in FY2026, from Rs. 8,000-8,200 in FY2025."*

The premium hotel key addition in the current cycle shows interesting trends, with Tier-II and Tier-III cities commanding equal interest as the major Tier-I cities. The former has been gaining increasing acceptance as travellers venture into less-explored territories for leisure pursuits, and spiritual travel trends gather prominence. Further, supply additions in Tier-I cities are constrained by limited land availability and high land prices, leading to focus on alternative markets, and suburbs of the Tier-I cities. ICRA believes this widespread supply addition trend across markets reduces the risk of concentrated supply addition and surplus supply in select markets. It augurs well for holding up the ongoing upcycle in the sector, as the supply addition in Tier-I cities is unlikely to satiate the increasing demand, while Tier-II and IIIs remain relatively underpenetrated markets for the premium hoteliers even with the proposed supply pipeline.

Certain pockets within the hospitality segment such as airport hotels and spiritual tourism have garnered healthy interest over recent years, with 2,000-2,500 premium keys in the pipeline in each of these segments, which is estimated at around 10-15% of the total premium supply pipeline. While the airport hotels are primarily located in the gateway cities of Delhi and Mumbai, the interest in spiritual tourism is a pan-India phenomenon, with locations like Ayodhya, Varanasi, Tirupati, Bodh Gaya, Rishikesh, Prayagraj etc. attracting traffic from all over the country. Growing disposable incomes and increasing number of travellers seeking premium travel experience has been increasing demand for more organised hotels, restaurants and other infrastructure in these spiritual sites, and accordingly larger hotel chains are adding premium hotel inventory at these places.

"A large part of the new supply is through management contracts and operating leases. This is stemming from large operators focusing on asset-light growth from an investment standpoint and investing only in select locations. Furthermore, the construction costs for hotels have been on an increasing trend, estimated to have increased by 20-25% over the past five years,

which is further exacerbated in major metro cities due to land availability issues. Given the high capital requirement and long lead time of capex to revenue, several top hospitality brand owners are resorting to an asset-light model for expansion,” **Krishnamurthy** reiterated.

ICRA maintains a Stable outlook on the Indian hospitality industry. After three years of strong demand, driven by favourable domestic leisure travel, demand from meetings, incentives, conferences and exhibitions (MICE), including weddings, and business travel, the revenue growth in the sector is continuing in the current fiscal. ICRA forecasts hotel companies to report operating margins of 34-36% for FY2026, similar to 35.8% in FY2025, with focus on costs and asset-light expansions continuing to support the margin profile. De-leveraging of balance sheets has led to lower interest costs and is likely to support net margins, as well as improvement in credit metrics such as interest cover and Debt/OPBITDA, to more than 5x and less than 2x respectively in FY2026, compared to the relatively higher leverage levels of 2x interest cover and 4-5x Debt/OPBITDA in FY2019.

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