PRESS RELEASE

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Revenues of Indian hospitality industry to expand by 7-9% in 2026-27 amid limited near-term impact from the West Asia conflict: ICRA

Rating agency ICRA projects revenues of the Indian hospitality industry to grow by 7-9% YoY in 2026-27, following an estimated 11% expansion in 2025-26 (based on 15 large premium hotel companies, which account for majority of the sector's revenues). ICRA anticipates pan-India premium hotel occupancy to remain at 72-74% in 2026-27, similar to 2025-26 levels, while average room rates (ARRs) for premium hotels are projected to increase to Rs. 8,600-8,800 in 2026-27 from Rs. 8,200-8,500 in 2025-26. ICRA's sample set is likely to report operating margins of 34-36% in 2026-27, broadly similar to the 37% reported in 2025-26. However, inflationary or operational pressure arising from the West Asia conflict, along with a potential weakening in travel sentiment if the situation persists, remain key downside risks.

Foreign tourist arrivals (FTAs), comprising foreign nationals visiting India and excluding non-resident Indians (NRIs), have historically supported travel demand for the Indian hospitality industry. In CY2025, FTAs declined by 7.9%, impacted by multiple headwinds, including terror attacks and the consequent retaliation, as well as broader geopolitical uncertainties. The West Asia conflict further weighed on inbound travel from March 2026, with FTAs contracting by 5% and 14% YoY in March 2026 and April 2026, respectively. Although travellers from West Asia accounted for only around 3% of India's total FTAs, the broader disruption due to flight operations and connecting flights, along with higher airfares and postponement of discretionary travel, resulted in an overall reduction in travel during this period. With airline operations gradually normalising and travellers adjusting to the new operating environment, a recovery was visible during May-June 2026. However, overall FTAs in H1 CY2026 remained 1% lower than H1 CY2025, on an already contracted base.

Srikumar Krishnamurthy, Senior Vice President and Co-Group Head – Corporate Ratings, ICRA Limited, said: *"The West Asia conflict resulted in airspace closures and some moderation in discretionary travel, weighing on FTAs to India. FTAs contracted by 9.1% YoY during March-April 2026 and by 2.4% YoY in 4M CY2026. However, the impact on the Indian hospitality industry remained contained as demand is largely driven by domestic travellers. Further, Q1 is generally a lean season for the sector, which limited the effect of decline in FTAs despite some cancellations and deferrals in meetings, incentives, conferences and exhibitions (MICE) activities. In addition, while the conflict caused a shortage of liquified petroleum gas (LPG), affecting food and beverage revenues for hoteliers, availability of piped gas infrastructure and adoption of alternative cooking solutions, including electric and induction ovens, helped mitigate the impact."*

Outbound travel from India increased significantly to 32.9 million in CY2025 from 26.9 million in CY2019, supported by rising travel demand, higher disposable income and attractive visa-on-arrival policies in select countries. However, travel was affected from March 2026 owing to the West Asia conflict, with a YoY decline of 29% and 22% in March 2026 and April 2026, respectively. West Asia accounts for nearly half of India's outbound travel, with a significant share linked to the Indian diaspora in the region. Outbound travel trends remained subdued in May and June 2026 as well, contracting by 11% and 3%, respectively, on a YoY basis. The Government of India's advisory to curb discretionary foreign travel and limit foreign exchange outflows, along with higher airfares, a depreciating rupee and ongoing geopolitical tensions, could encourage travellers to shift from overseas trips to domestic destinations, thereby supporting domestic demand in the near term.

Despite temporary moderation in FTAs to India amid geopolitical uncertainties, inbound tourism remains an important growth driver for the Indian hospitality market. India is increasingly emerging as an attractive destination for business, sporting and government events, which are expected to support inbound tourist arrivals. Government-led measures to ease travel, continued infrastructure upgrades, expanding airport connectivity and India's growing appeal as an investment destination are likely to underpin FTA growth over the medium term. The entry of several global hotel brands into India should further support FTA inflows by improving international brand recall. In addition, these brands are likely to help hoteliers command premium ARRs in the upscale and luxury segments, which are generally preferred by international travellers, thus supporting earnings growth.

"The Indian hospitality sector is unlikely to witness a prolonged adverse impact from the West Asia conflict, given its strong reliance on resilient domestic travel demand. Over the past decade, domestic travel has emerged as the key growth driver for the industry, reducing its dependence on FTAs. Over the medium term, FTA growth is expected to be supported by easing travel processes, improving infrastructure, expanding airport connectivity, India's growing appeal as an events and investment destination, and enhanced cost competitiveness owing to a weaker rupee. While geopolitical disruptions may weigh on near-term sentiments, structural drivers are likely to support a gradual recovery in inbound tourism. Overall, ICRA anticipates pan-India premium hotel occupancy to remain at 72-74% in 2026-27, similar to 2025-26 levels, while ARRs for premium hotels are projected to increase to Rs. 8,600-8,800 in 2026-27 from Rs. 8,200-8,500 in 2025-26. A prolonged delay in resolution of the West Asia conflict, however, would exert pressure on these estimates." **Krishnamurthy** reiterated**.**

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