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THE INDIAN HOSPITALITY INDUSTRY

Mahakumbh and Coldplay concerts add to January cheer; Q4 FY2025 to witness healthy demand

JANUARY 2025

Agenda

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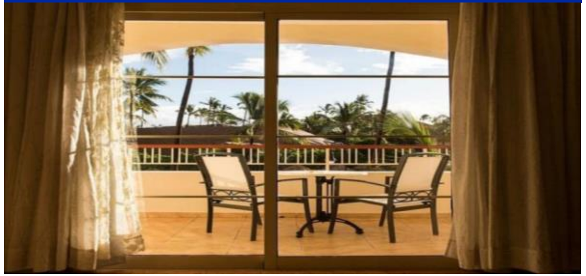
1 Trend in Key Operating Metrics

2 Demand Dynamics



3 Supply Trends

4 Financial Forecasts

5 Credit Rating Movements

6 Peer Comparison & Annexures

Highlights

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ICRA expects the industry revenues and earnings to remain strong in FY2025 and FY2026, supported by favourable demand-supply dynamics. ICRA has a Positive outlook on the Indian hospitality industry.

Compared to the previous downcycle in FY2009, which saw untimely supply increases of over 15% of the inventory during the bottom of the cycle (FY2009-FY2013), the current inventory growth is 4.5-5% for FY2023-FY2026. This measured growth is expected to facilitate an upcycle, as demand outweighs supply.

- **ICRA estimates pan-India premium hotel occupancy at ~70-72% in FY2025**, following a similar range in FY2024. The average room rates (ARRs) for premium hotels are expected to rise to Rs. 7,800-8,000 for full-year FY2025 (up 8% YoY). The spike in ARRs in some hotels and specific pockets has been higher than the average. The RevPAR has inched towards the FY2008 peak levels in FY2025 and is anticipated to increase further to Rs. 5,800-6,200 in FY2026. The industry is expected to maintain its strong footing in FY2026, aided by favourable demand-supply dynamics.

- **ICRA expects the Indian hospitality industry to grow by 7-9% YoY in FY2025 and 6-8% YoY in FY2026, over the high base of FY2024**. Sustained domestic leisure travel, demand from meetings, incentives, conferences and exhibitions (MICE), including weddings, and business travel (despite a temporary lull during the General Elections) have driven demand in YTD FY2025. This trend is likely to continue over the next 9-12 months. Spiritual tourism and tier-II cities are expected to contribute meaningfully in FY2026 as well. Cost rationalisation measures undertaken during the Covid-19 pandemic and operating leverage benefits led to a sharp expansion in margins over pre-Covid levels. ICRA's sample set of 13 large hotel entities is likely to report operating margins of 31-33% for FY2025 and FY2026, against 20-22% during the pre-Covid period.

- **Higher business accruals have strengthened the capital structure and debt metrics of the industry.** Debt coverage metrics are likely to improve further going forward. The credit ratio has been improving since H2 FY2022, with significantly more upgrades than downgrades during FY2023–YTD FY2025.

- **The demand uptick led to an increase in supply announcements and resumption of deferred projects in the past 24-30 months.** However, supply growth, expected to increase at a CAGR of 4.5-5% over the medium term (13,500 incremental premium rooms across 12 key markets), is likely to lag behind demand. The cost per premium category room (ex-land) is estimated at Rs. 1.5-2.0 crore.

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Thank You!