ICRA

THE INDIAN HOSPITALITY INDUSTRY

Industry revenue growth expected to plateau; outlook revised to Stable from Positive

MAY 2025

Agenda

1 Demand Dynamics

2 Trend in Key Operating Metrics

3 Inventory Addition in the Last Few Months

4 Credit Rating Movements

5 ICRA's Ratings in the Hospitality Sector

Highlights

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ICRA has revised the industry's outlook to Stable from Positive, considering expectations of normalised revenue growth of 6-8% in FY2026 on the high base posted after three years of double-digit revenue growth in the industry.

While the terror attacks in April and consequent heightened turmoil in North and West India in May 2025 had led to a surge in cancellation of travel/MICE, the impact has been largely temporary and localised.

- **ICRA estimates pan-India premium hotel occupancy to hold at 72-74% in FY2026**, similar to 70-72% in FY2024 and FY2025. The average room rates (ARRs) for premium hotels are estimated to rise to Rs. 8,200-8,500 in FY2026, after a healthy Rs. 8,000-8,200 in FY2025. Although the terror attacks and geopolitical developments in April and May 2025 impacted travel sentiments and customer confidence, resulting in heightened cancellations of travel/MICE, the impact was largely temporary and localised. Moreover, there has been visible recovery in sentiment following the abatement of the conflict. Overall, ICRA estimates occupancy and ARR of 62-64% and Rs. 7,500-7,700, respectively, in 2M FY2026, over 64-66% and Rs. 7,300-7,500, respectively, in 2M FY2025.

- **ICRA expects the Indian hospitality industry to grow by 11-13% 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 have driven demand in FY2025; although growth is expected to plateau over the near term. With the stabilisation in growth and earnings, ICRA has revised the outlook on the sector to Stable, from the earlier Positive. Cost rationalisation measures undertaken during the last few years and operating leverage benefits have 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 34-36% for FY2025 and FY2026, against 20-22% during the pre-Covid period.

- **Higher business accruals have strengthened the industry's capital structure and debt metrics.** The debt coverage metrics are likely to stabilize. The credit ratio, defined as the ratio of rating upgrades to downgrades, has been improving since H2 FY2022, with more upgrades than downgrades.

- **The demand uptick led to an increase in supply announcements and resumption of deferred projects in the past 24-30 months.** However, supply growth is expected to lag demand in the next 12-18 months. ICRA's premium room inventory database (12 key cities) across the country indicates a CAGR of ~4.5-5.0% during FY2023-FY2026.

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Thank You!