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# THE INDIAN HOSPITALITY INDUSTRY

## Overall occupancies remained firm, despite localised disruptions from monsoon

SEPTEMBER 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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*Sustained demand coupled with enhanced pricing to support revenue growth for premium hotel segment in H2 FY2025. Business travel, however, may see some circumspection in the months especially in sectors vulnerable to the higher US tariffs.*

*GST reduction from 12% with input tax credit (ITC) to 5% without ITC for hotels with rooms rates less than Rs. 7,500 is expected to boost occupancy for budget hotels. However, the inability to claim ITC is not expected to have a margin impact, given benefits of lower GST on input materials and services.*

- **ICRA estimates room occupancy and average room rates (ARRs) of 65-67% and Rs. 7,800-7,900, respectively, in H1 FY2026, over 67-69% and Rs. 7,600-7,700, respectively, in H1 FY2025.** Room occupancies were firm in Q2 FY2026, driven by business travel, meetings, incentives, conferences and exhibitions (MICE) activity, and leisure travel supported by some long weekends. While heavy rains in certain parts of India impacted travel temporarily, the impact was localised and occupancy recovered quickly. Sentiments have recovered from the temporary travel disruptions due to the terror attacks and geopolitical developments in the last quarter.
- **ICRA expects the Indian hospitality industry's revenues to grow by 6-8% YoY in FY2026, over the high base of FY2025**. The growth is likely to be driven by domestic leisure travel, demand from MICE, including weddings, and business travel. ICRA expects pan-India premium hotel occupancy to hold at 72-74% in FY2026, largely similar to 70-72% in FY2024 and FY2025. The ARRs for premium hotels are projected to rise to Rs. 8,200-8,500 in FY2026, after a healthy Rs. 8,000-8,200 in FY2025.
- **Higher business accruals have strengthened the industry's capital structure and debt metrics.** The debt coverage metrics are likely to stabilise. Cost-rationalisation measures, undertaken during the last few years, 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 34-36% for FY2026, similar to 35.8% in FY2025, against 20-22% during the pre-Covid period.
- **The demand uptick has led to a rise in supply announcements and resumption of deferred projects over 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 reflects a CAGR of 5-6% in supplies during FY2025-FY2028 but is likely to grow at a higher rate, going forward, as execution of these projects gathers pace.

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# Thank You!