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35 Years of Unwavering Credibility

THE INDIAN HOSPITALITY INDUSTRY

Domestic demand anchors industry amid global volatility

JUNE 2026

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Agenda

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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The impact of the ongoing conflict in West Asia has been moderate so far, as industry demand is largely driven by domestic travellers. Given that Q1 is generally a lean period for the industry and that the previous fiscal witnessed moderation owing to cross-border escalations during the same period, the YoY impact has remained limited thus far.

The advisory from the Government of India (GOI) to curb discretionary travel for conserving fuel consumption, along with inflationary concerns, could dampen demand to some extent. However, a potential shift away from international travel could spur spending on domestic travel in the near term.

- **ICRA estimates industry occupancy and average room rates (ARR) at 66-68% and Rs. 7,800-8,000, respectively, in Q1 FY2027, against 62-64% and Rs. 7,500-7,700, respectively, in Q1 FY2026, with the YoY growth supported by the low base of the previous year (on account of the Pahalgam attack).** While corporate travel and MICE activity witnessed some softness in Q1 FY2027 due to the inflationary environment and geopolitical uncertainties, the YoY impact was cushioned by the low base and the seasonal weakness of the quarter.

- **ICRA expects the Indian hospitality industry's revenues to grow by 7-9% YoY in FY2027 following growth of 11% in FY2026,** supported by domestic leisure travel, demand from meetings, incentives, conferences and exhibitions (MICE), weddings and business travel. ICRA anticipates the pan-India premium hotel occupancy rate to remain at 72-74% in FY2027, largely similar to FY2026 levels, while ARRs for premium hotels are projected to rise to Rs. 8,600-8,800 in FY2027 from Rs. 8,200-8,500 in FY2026.

- **Cost rationalisation measures undertaken over the last few years and operating leverage benefits have led to a significant and sustained expansion in margins compared with pre-Covid levels**. ICRA's sample set of 18 large hotel entities is likely to report operating margins of 34-36% in FY2027, broadly similar to the 37% reported in FY2026, as against 20-22% recorded prior to the pandemic. Higher cash accruals have strengthened the industry's capital structure and debt metrics in recent years, and ICRA expects debt coverage indicators to remain comfortable in the near term. Any inflationary or operational impact arising from the West Asia conflict, or a deterioration in travel sentiment if the conflict persists, remains a key risk. Although peace-talk signals offered brief comfort, renewed hostilities have resurfaced geopolitical uncertainty.

- **The Indian hospitality industry continues its steady run amid persistent demand-supply imbalances.** The premium room inventory (covering 12 key cities in the country) is projected to increase at a CAGR of 5-6% during FY2025-FY2028, based on ongoing projects and announced additions by hoteliers. The pace of supply growth continues to lag demand expansion of 8-9%, which is supported by favourable sentiment across segments. This imbalance is likely to persist over the next 2-3 years based on the current pipeline.

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Thank You!