

Premium hotel occupancies set to rise to 74% as demand surges: ICRA

India's hospitality industry is set for sustained expansion, with room demand projected to outstrip new supply additions over the next several years. According to rating agency ICRA, premium hotel room supply is expected to grow at a 5–6% CAGR between FY2025 and FY2028, while demand is forecast to expand at a faster 8–10% CAGR during the same period.

Occupancies and Rates to Rise Further

With demand outpacing supply, nationwide premium hotel occupancies are projected to increase by around 200 basis points to 72–74% in FY2026, compared with the 70–72% levels recorded in FY2024 and FY2025. Average Room Rates (ARRs) are also expected to see healthy growth of 3–6%, reaching INR 8,200–8,500 in FY2026.

ICRA noted that premium hotel inventory across India's 12 major cities surpassed 1 lakh keys in FY2023 and is likely to cross 1.2 lakh keys by FY2026.

“Demand growth is expected to continue outpacing supply additions at least over the next three years,” said Srikumar Krishnamurthy, Senior Vice President & Co-Group Head – Corporate Ratings, ICRA. “This mismatch augurs well for the pricing environment and occupancies.”

A More Democratized Expansion Cycle

Unlike earlier cycles dominated by Tier-I markets, the current phase reflects a more balanced expansion, with strong development interest in Tier-II and Tier-III cities. Factors fueling growth in these markets include:

- Rising acceptance among domestic travellers
- Surge in spiritual and regional tourism
- Limited availability and rising cost of land in major metros

This decentralised growth pattern is expected to support a longer, more stable upcycle while reducing the risk of oversupply in large cities.

Strong Momentum in Airport and Spiritual Tourism Markets

Two high-growth segments—airport hotels and spiritual tourism destinations—are attracting significant investor interest. Each category accounts for 10–15% of the premium pipeline, with 2,000–2,500 keys under development.

- Airport hotels are seeing heightened activity, especially around Delhi and Mumbai.
- Spiritual destinations such as Ayodhya, Varanasi, Tirupati, Bodh Gaya, Rishikesh, and Prayagraj continue to draw premium hotel development as organised chains expand aggressively.

Shift Toward Asset-Light Growth

A major share of upcoming supply is being driven by management contracts and operating leases, reflecting operators' emphasis on asset-light expansion amid rising construction costs.

Building expenses have increased 20–25% over the past five years, particularly in metros where land scarcity and high real estate prices add to project costs.

Healthy Financial Metrics and Stable Outlook

ICRA expects hotel companies to maintain robust profitability, with operating margins projected at 34–36% in FY2026, similar to FY2025's 35.8%. The sector continues to benefit from:

- Disciplined cost management
- Balance sheet deleveraging
- Reduced interest costs

Key financial ratios are also set to improve:

- Interest coverage: projected to exceed 5x by FY2026

- Debt/OPBITDA: expected to fall below 2x, a significant improvement from 4–5x in FY2019

ICRA has maintained a Stable outlook on the Indian hospitality sector. After three consecutive years of double-digit revenue growth from FY2023 to FY2025, the industry remains buoyed by strong domestic leisure travel, weddings, business travel, and a revival in MICE demand.

With favourable demand dynamics, disciplined expansion, and broad-based development beyond metro cities, India's hotel sector is well positioned for long-term growth and continued investor confidence.