



INDIAN HOTEL INDUSTRY

Premium hotel inventory addition is expected to lag demand, grow at a CAGR of 4.5-5.0% over FY2024 to FY2026

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Industry sustains strong performance over the last several months. Revenues are expected to witness double-digit growth in FY2024, while margins are likely to be significantly higher than pre-Covid levels.

Premium hotel inventory addition expected at a 3-year CAGR of 4.5-5%; would lag demand growth, thus keeping ARR at elevated levels.

Increase in per room construction cost by 20-25% compared to pre-Covid levels, with cost inflation.



- ICRA estimates pan-India premium hotel occupancy to rise further to ~70-72% in FY2024, after recovering to 68-70% in FY2023. Pan-India premium hotel average room rate (ARR) is expected at ~Rs. 6,300-6,400 in FY2024. While the occupancy is projected at decadal highs, the RevPAR is likely to remain at a 15-20% discount to the FY2008 peak. Sustenance of demand from domestic leisure travel, MICE and business travel, along with rise in FTAs has supported operating metrics in YTD FY2024. The industry has also benefitted from the G20 summit and ICC Men's World Cup 2023.



- The healthy demand has resulted in a pick-up in supply announcements over the last 15-18 months. In ICRA's estimate, the incremental premium supply is concentrated in select markets with NCR and Mumbai accounting for a bulk of the inventory. The premium supply pipeline for FY2024-FY2026 has increased by 25-30% compared to that anticipated for the same period a year ago, because of fresh signings and announcements.



- However, the hotel supply pipeline is expected to grow at a 3-year CAGR of only 4.5-5%, adding approximately 13,500 rooms to the pan-India premium inventory of ~1 lakh rooms, across 12 key cities. This will facilitate an upcycle, as demand improves over the medium term while supply will lag demand with a cautious expansion approach by hoteliers and absence of any major announcements during the Covid period. The current inventory growth is significantly lower than the rise witnessed during FY2009-2013, after the global financial crisis. A major part of the recent inventory is coming through management contracts. The supply addition in the mid-scale segment is broadly expected to be similar to that in the premium segment.



- The upcoming premium inventory includes several airport hotels. Also, not many hotels are being constructed in premium micro-markets in metros and larger cities, due to land availability issues. Greenfield projects are largely in suburbs. ICRA also understands that there are sizeable supply announcements in tier-II leisure, business, religious destinations, stemming from demand and market penetration potential. The supply in Tier-II cities is largely in the midscale segment.



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Analytical Contact Details

Name	Designation	Email	Contact Number
Shamsher Dewan	Senior Vice-President and Group Head	shamsherd@icraindia.com	0124 – 4545 328
Srikumar K	Vice-President and Co-Group Head	ksrikumar@icraindia.com	044 – 4596 4318
Vinutaa S	Vice-President and Sector Head	vinutaa.s@icraindia.com	044 – 4596 4305
Sriraman Mohan	Senior Analyst	sriraman.mohan@icraindia.com	044 – 4596 4311





ICRA

Business Development/Media Contact Details

Name	Designation	Email	Contact Number
L Shivakumar	Chief Business Officer	shivakumar@icraindia.com	022-61693304
Neha Agarwal	Head – Research Sales	neha.agarwal@icraindia.com	022-61693338
Rohit Gupta	Head Business Development - Infrastructure Sector	rohitg@icraindia.com	0124-4545340
Vivek Bhalla	Head Business Development - Financial Sector	vivek.bhalla@icraindia.com	022-61693372
Vipin Saboo	Head Business Development – Corporate Sector - West & East	vipin.saboo@icraindia.com	022-61693348
Shivam Bhatia	Head Business Development – Corporate Sector - North & South	shivam.bhatia@icraindia.com	0124-4545803
Naznin Prodhani	Head – Media & Communications	communications@icraindia.com	0124-4545860





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