Hospitality Sector Primed for 7-8% RevPAR Growth in FY26

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Synopsis

- The Indian hospitality sector is experiencing strong growth, fuelled by a rise in domestic travel, a rebound in foreign tourist arrivals (FTAs), and growing demand from Meetings, Incentives, Conferences, and Exhibitions (MICE) tourism. Revenue per Available Room (RevPAR) growth hit 14% in FY24, surpassing pre-pandemic levels. For FY25, the average RevPAR for the branded hotel inventory is expected to grow by 8-10% in the range of Rs 5,300-5,400 supported by an Average Room Rate (ARR) of Rs 8,000-8,200 and an occupancy of 67-68%. A further 7-8% growth is projected for FY26, in the range of Rs 5,600-5,700, with ARR climbing to Rs 8,400 – 8,600 driven by sustained demand outpacing new supply.
- As of March 2024, India had approximately 1,80,000 branded hotel rooms, with an estimated more than 80,000 keys in the pipeline over the next five years. Notably, more than 50% of this upcoming supply is currently under development, reflecting strong investor confidence and a positive market outlook.
- The segment mix is evolving, with more than 50% of new supply concentrated in the Upper Midscale and Midscale Economy categories. This shift reflects the growing demand for affordable yet high-quality accommodations, particularly in Tier 2 and Tier 3 cities, where infrastructure improvements are driving business and leisure travel.
- India's position as a premier MICE destination is on the rise, with outstanding venues such as Jio World Convention Centre (Mumbai), Yahombhoomi (Dwarka), and Pragati Maidan (Delhi) emerging as vital centers for corporate events, exhibitions, and large gatherings and conferences.
- Strategic government initiatives, such as the 'Swadesh Darshan' scheme, enhanced regional connectivity through the UDAN scheme, and the granting of infrastructure status to hotels, are expected to drive sector growth. These initiatives will encourage greater investments, provide better financing options, and improve tourism infrastructure. With favourable demographics, increasing disposable incomes, and expanding connectivity, the Indian hospitality sector is well-positioned for sustained growth.

Sustained growth in RevPAR amidst an expanding demand landscape

The Indian hospitality sector is experiencing an upward cycle, driven by favourable demographics, strong domestic demand surpassing supply growth, rising investments, policy support and continuous improvements in infrastructure and connectivity. Remarkably, the medium-term demand outlook for the Indian hospitality industry remains positive, as the underlying drivers are projected to remain healthy.

International tourism experienced a remarkable recovery in 2024, reaching 99% of its 2019 levels —a significant milestone four years after the onset of the COVID-19 pandemic. The domestic tourism industry mirrored this trend, as evidenced by surging domestic air passenger traffic, which increased from 167 million in FY22 to 270 million in FY23 (62% growth) and further to 307 million in FY24 (13% growth), surpassing pre-COVID benchmarks. In 9MFY25, domestic air traffic expanded by over 8% Y-o-Y, reaching 247 million passengers, up from 228 million in the same period last year.

Foreign tourist arrivals (FTAs), a key demand driver for India's premium hotel segment, also saw a strong rebound, reaching 7.9 million in FY24 — 90% of pre-pandemic levels — marking a 17% Y-o-Y increase. Growth continued in H1 FY25, with FTAs rising by 4% Y-o-Y.

This upward trend drove and propelled hospitality performance metrics, with RevPAR exceeding pre-pandemic levels by 9% in FY23 and increasing by an additional 14% Y-o-Y in FY24. Looking ahead, RevPAR is projected to grow by 8-10% in FY25, with a positive outlook of 7-8% for FY26, underscoring the sector's sustained recovery and resilience.

Catalysts of Growth: Policy Support and Infrastructural Development

The Union Budget 2025-26 introduced several initiatives aimed at strengthening the hospitality and tourism sectors. The Ministry of Tourism's allocation increased to Rs 2,541.06 crore, marking a 4% rise from the previous year. Notably, Rs 1,900 crore has been designated for the 'Swadesh Darshan' scheme, signalling a renewed focus on enhancing domestic tourism infrastructure. Furthermore, the government's decision to grant infrastructure status to hotels is expected to unlock better financing opportunities for greenfield developments. This move is anticipated to facilitate longer-tenure loans at favourable rates, further supporting sector expansion.

The development of the top 50 tourism destinations as part of the government's strategic roadmap is poised to boost regional travel and create tailored tourism experiences. Additionally, greater emphasis on spiritual and medical tourism is expected to increase hotel occupancy and attract diverse tourist segments. Connectivity initiatives under the UDAN scheme are enhancing regional access, particularly to Tier 2 and Tier 3 cities. This improvement in connectivity is expected to accelerate demand for accommodations across emerging tourist hotspots.

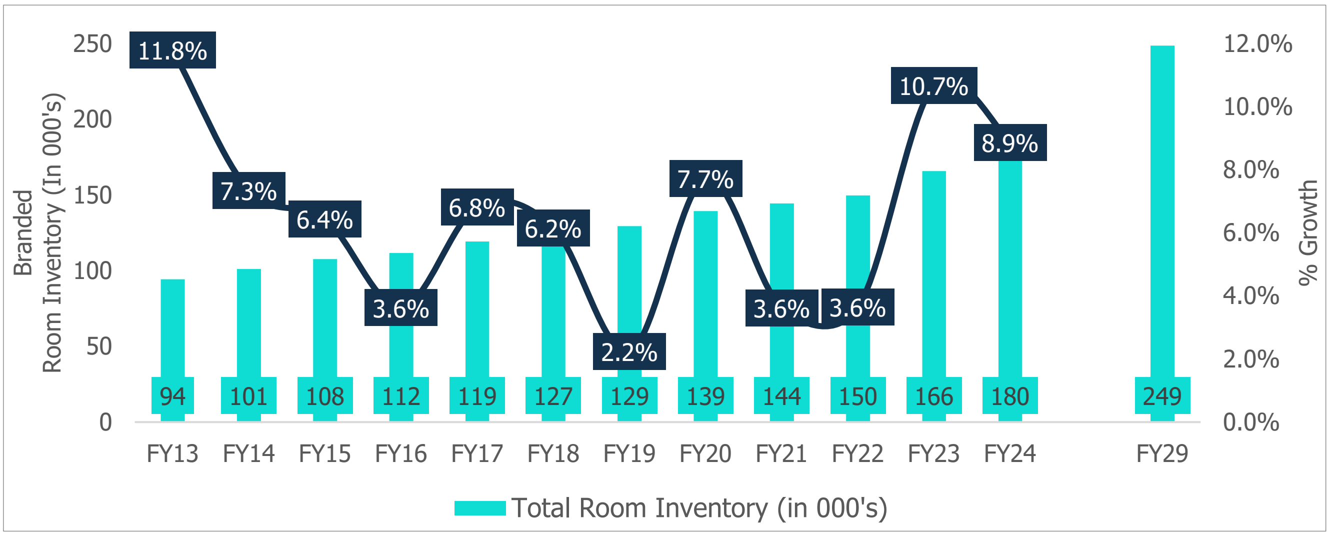
The growing popularity of Meetings, Incentives, Conferences, and Exhibitions (MICE) tourism has played a crucial role in driving the growth of the hospitality sector. Prestigious venues like the Jio World Convention Centre (Mumbai), Yahombhoomi (Dwarka), the Bangalore International Exhibition Centre (BIEC, Bengaluru), and Pragati Maidan (Delhi) have become key locations for major events. High-profile gatherings, such as the G20 summit and ICC tournaments, have significantly enhanced India's global visibility. Additionally, India's upcoming bids for iconic events, including the 2029 World Athletics Championships and the 2036 Olympics, are expected to fuel long-term growth further.

Shifting Market Dynamics: Segment Diversification and Growth Hotspots

The Indian hospitality landscape is witnessing a significant shift in supply patterns. Historically dominated by luxury and upper-upscale properties, the industry is now upcoming supply. This shift reflects changing consumer preferences, where travellers increasingly prioritise affordability and value.

By March 2024, India's branded hotel room inventory was estimated to be approximately 180,000 keys, with an additional 80,000 keys expected over the next five years. Notably, 15-20% of this pipeline is concentrated in key leisure destinations, aligning with the rising demand for tourism and infrastructure expansion.

Chart 1: Room Inventory



Source: Hotelivate, CareEdge Ratings

The industry's shift towards asset-light models is gaining momentum. By utilising management contracts, franchise models, and strategic partnerships, hoteliers are expanding their reach while minimising capital investments. This approach is boosting margins and enhancing operational efficiency. Additionally, the trend of hotel conversions is on the rise, with many properties reopening under new brand affiliations or repositioning strategies. This reflects the evolving market dynamics as operators adapt to changing traveller preferences and work to improve asset performance.

Going forward, the occupancy levels are projected to stabilise between 66-68% from FY25 to FY27, while ARRs are expected to hover above Rs 8,000. With demand growth continuing to outpace supply, RevPAR is expected to rise by 8-10% Y-o-Y in FY25 and 7-8% in FY26, building on the high base of FY25 and ensuring consistent revenue growth.

CareEdge Ratings View

The demand recovery has lifted industry sentiments, but cost factors still pose challenges for new investments. High land prices, sharp increases in construction costs, lengthy development timelines, and sector cyclicality are prompting a more cautious approach to new capex. Consequently, brands are likely to focus on expanding their room inventories through management contracts, helping to minimise upfront capital outlay.

'India's hospitality sector is adopting a measured approach to expansion, with greenfield capex growth expected to stay at 4-5% CAGR over the next few years and lower than demand, which is expected to grow in high single digits. The segment mix is evolving, with more than 50% of new supply concentrated in the Upper Midscale and Midscale Economy categories. This shift reflects the growing demand for affordable yet high-quality accommodations, particularly in Tier 2 and Tier 3 cities, where infrastructure improvements are driving business and leisure travel. Despite significant room additions, the industry's occupancy levels are projected to hold steady at 66-68% in the next fiscal year, ensuring continued operating leverage. For FY25, RevPAR for branded hotel inventory on an average is expected to grow by 8-10% in the range of Rs 5,300-5400 with a further 7-8% growth projected for FY26 in the range of Rs 5,600-5,700, driven by sustained demand outpacing new supply," said Ravleen Sethi, Director CareEdge Ratings

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