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Hospitality firms see little room for growth in FY26

Revenue growth may be 6-8% after 3 years of double-digit rise

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Growth in the Indian hospitality sector is expected to normalise in this financial year FY26 as revenue growth for listed companies is set to settle between 6 per cent and 8 per cent, largely due to the base effect following three years of continuous double-digit revenue expansion seen by the industry from 2022-23 to 2024-25 (FY25).

"We estimate pan-Indian premium hotel occupancy to hold at 72–74 per cent in FY26, slightly higher than the 70–72 per cent levels witnessed in 2023-24 and FY25. The average room rates (ARRs) for premium hotels are projected to rise to ₹8,200–8,500 in FY26, after ₹8,000–8,200 in FY25," credit rating agency Icra said in a new note on Monday, while revising the sector outlook to 'stable' from 'positive'. Supply growth is expected to lag demand over the next 12–18 months.

Several hotels are undertaking renovations, refurbishment, and upgrades. While the near term may see muted foreign tourist arrivals in the aftermath of the terror attacks, the sector is expected to witness gradual recovery thereafter, along with demand driven by domestic tourism and improvements in infrastructure and air connectivity.

Favourable demographics and anticipated growth in large-scale meetings, incentives, conferences, and exhibitions (MICE) events, with the opening of multiple new convention centres in the past few years, among other factors, will support growth over the medium term.

Listed hospitality companies, like Taj parent Indian Hotels Company (IHCL) and the mid-scale chain Lemon Tree Hotels, continue to expect double-digit growth in FY26 while undertaking renovation activities across some of their properties.

"We expect to deliver strong growth with sustained margins and continued portfolio expansion, with a target of opening 30-plus hotels in FY26, three of which will be on our balance sheet. We are well on track to achieve our committed guidance of double-digit growth," Puneet Chhatwal, managing director (MD) and chief executive officer of IHCL, told investors in a post-earnings call after announcing the company's January–March quarter (Q4) results last month.

Companies are likely to report range-bound operating margins of 34–36 per cent for FY26, despite lower revenue growth.

The margins will remain supported by factors like cost-rationalisation measures and asset-light expansions in recent periods.

"However, within the sample, it is likely to be a mixed bag, depending on renovations and increases in employee expenses amidst growing demand," the note added.

In FY25, IHCL spent over ₹1,000 crore towards capital expenditure (capex), of which half was used for renovations, routine maintenance, and digital initiatives. For FY26, the company has earmarked over ₹1,200 crore.

"There's also large renovations planned in some of our assets, including Taj Palace in Delhi, Fort Aguada in Goa, St James' Court in the UK, and Taj Bengal, Kolkata. So essentially, if you put it all together, 60–65 per cent of the capex would get spent on renovations and digital investments," Chhatwal added during the analyst call.

At Lemon Tree Hotels, meanwhile, renovation costs are expected to impact gross ARR and occupancy in the coming year.

Checking in the new normal

- ARRs at premium hotels to rise to ₹8,200-8,500 from ₹8,000-8,200 in FY25
- Occupancies to hold at 72-74%, slightly higher from 70-72% in FY25
- Revenues, margins to be impacted by renovations
- IHCL to spend around ₹600 cr on renovations at Taj Palace, Delhi; Fort Aguada in Goa, among others
- Lemon Tree hotels to see margins impacted by renovations going into FY26 and FY27

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