

# Demand woes may pull hotel occupancies down

Analysts expect room rates to improve in the upcoming quarters as the impact of the West Asia crisis may normalise

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The ongoing conflict in West Asia dented the performance of the top listed hotel chains in the March quarter of 2025-26 (Q4FY26) and this impact is likely to stay during the current quarter as well.

While room rates saw a modest increase during the quarter, the Q4 show was dented by weakness in occupancy levels. Despite the pressure on operating metrics, most brokerages believe that barring an extended impact due to geopolitical events, the sector remains well placed to tap into gradual demand recovery given healthy balance sheets and new room additions.

The returns performance of the major hotel players has been muted with most players underperforming the benchmarks over the past month.

The Q4FY26 results, occupancy trajectory (in Q1FY27) and demand recovery are the key triggers for the sector in the near term. The sector, according to Kotak Institutional Equities (KIE), reported a modest performance in Q4FY26, with revenue per available room (RevPAR) witnessing 5.3 per cent year-on-year (Y-o-Y) growth to ₹6,868 per day. Lower foreign travel on account of ongoing geopolitical tensions



in West Asia impacted demand.

RevPAR growth was supported by 6.3 per cent Y-o-Y growth to ₹10,100 room rate per day and partially offset by a 67 basis points (bps) Y-o-Y decline in occupancy to 68 per cent in Q4FY26.

Despite geopolitical headwinds in March that caused cancellations of meetings, incentives, conferences, and exhibitions (MICE) events, weak occupancies in some international hotels, and weak international arrivals in India, market leader Indian Hotels delivered a strong performance.

Growth in standalone business at 13 per cent was aided by an increase in room

rates at 9 per cent while occupancy ratio was up 200 bps to 82 per cent.

Revenue growth was also boosted by food and beverages (up 6 per cent) and management fees (up 30 per cent due to new signings). For the second largest listed player by market capitalisation (mcap) — ITC Hotels — the room rate growth of 5 per cent Y-o-Y missed brokerage estimates and came in lower than peers which delivered a growth of 6-15 per cent on this metric.

Though there has been a slowdown due to the ongoing conflict, hotel chains continue to invest for a demand uptick reflected by the signings of 14,000

rooms in Q4FY26.

Analysts led by Murtuza Arsiwalla of KIE expect improvement in occupancy and room rates in the upcoming quarters as the impact of the West Asia crisis normalises and demand from foreign travel returns to pre-war levels.

While valuations have come off in the past quarter, stock performance will be contingent on resolution of the current crisis and better-than-expected room rate growth. Occupancy for April, 2026, according to HVS Anarock's latest report, was flat Y-o-Y while average room rates were up 5-7 per cent.

## Weak trends

| Q4FY26 scoreboard      | Occupancy (%) | Y-o-Y chg in basis points |
|------------------------|---------------|---------------------------|
| Indian Hotels          | 82.0          | 190                       |
| Lemon Tree Hotels      | 78.5          | 78                        |
| Samhi Hotels           | 75.0          | 39                        |
| ITC Hotels             | 75.0          | -352                      |
| Leela Hotels & Resorts | 72.0          | -580                      |
| Ventive Hospitality    | 70.0          | -140                      |
| Chalet Hotels          | 68.0          | -780                      |

Source: Kotak Institutional Equities

Adhived Chattopadhyay and Shaishwar Ravekar of ICICI Securities say that this was in line with their expectation, as geopolitical tensions since March till date led to a temporary disruption with foreign inbound travel being impacted in the near term.

The brokerage, however, maintains a high-single-digit annual room rate growth of 6-8 per cent across hotels over FY26-28, barring any extended geopolitical impact on demand.

It expects the sector to demonstrate resilience. Its top picks in the listed space are Indian Hotels, ITC Hotels, Leela Palaces, Chalet Hotels, Lemon Tree Hotels and Brigade Hotels.

The pressure in April has also continued in May which is considered a weak period. Archana Gude and Parth Mandavganie of IDBI Capital highlight that May witnessed muted demand amid global chaos. This came in a seasonally-weak period for hospitality due to extreme heatwaves in the country.

Increasing airfares are keeping occupancy under pressure, leading to a correction in room rates in key markets, they added.

The brokerage expects consolidation in the sector which will lead to higher room rates, going ahead.