panorama

March 2026

Key Insights:

India's energy supply gets disrupted on account of the conflict in the Middle East

- Closure of the Strait of Hormuz can sustain elevated energy prices for an extended period
- The Middle East accounts for ~50% of India's crude oil imports
- India depends on imports for about 50% of its LNG requirements, of which ~70% comes from the Middle East
- Limited availability of LNG is impacting various industries such as fertilisers, ceramics, and metal processing
- The Middle East accounts for ~90% of India's LPG imports and about 45% of its fertiliser imports
- The Middle East accounts for 17% of India's total exports, with the UAE holding the largest share
- Exports of agri products, petro products, gems and jewellery, and transport equipment are likely to be affected

A sustained conflict could push inflation & rates higher, and worsen the current account

- Every 10% increase in fuel prices (petrol, diesel, and LPG together) adds ~70 bps (direct impact) to CPI inflation
- Pump prices may lag crude hikes as OMCs absorb costs, but ATF and LPG may spike sharply
- Every US$10 increase in crude oil prices could widen the current account deficit by ~0.5% of GDP
- The Middle East accounts for ~40% of inward remittances, which could be affected if the conflict is prolonged
- Markets have started pricing in higher interest rates as conflict is likely to push inflation higher
- Energy shortages and the resulting rise in inflation may derail the recovery in consumption
- Historically, sharp rises in crude oil prices have led to a decline in the gross margins of corporate India
- Overall economic impact should remain contained if the conflict is resolved within a short period

Middle East Conflict Impact

Middle East accounts for a significant share of the global energy supply

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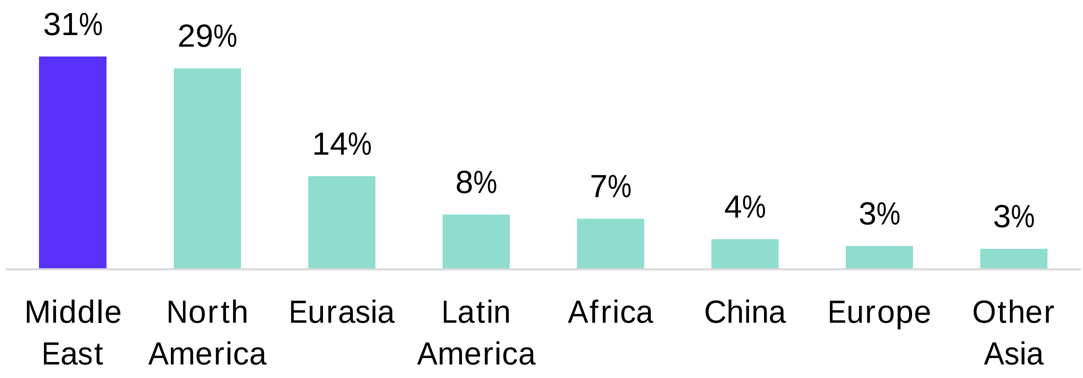
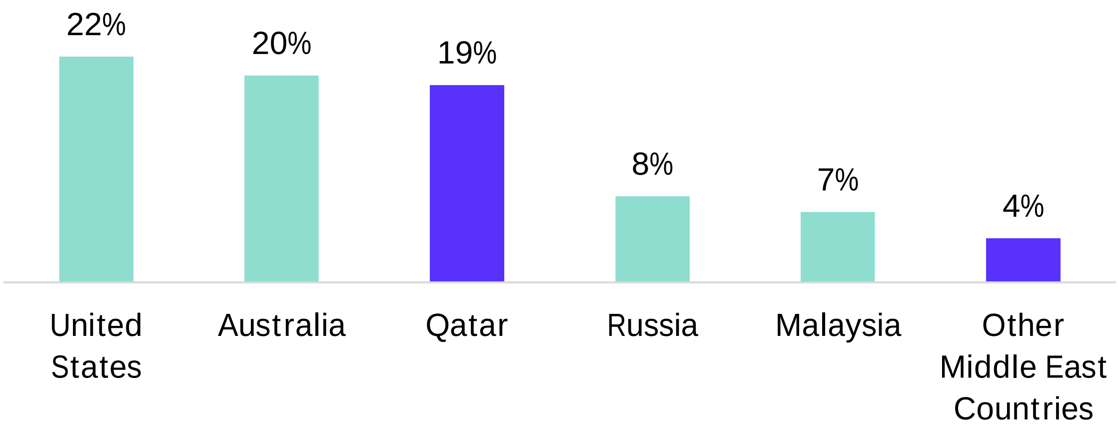
Closure of the Strait of Hormuz, a vital energy chokepoint, can sustain elevated energy prices for an extended period

Share in Global Crude Oil Production



Share in LNG Exports



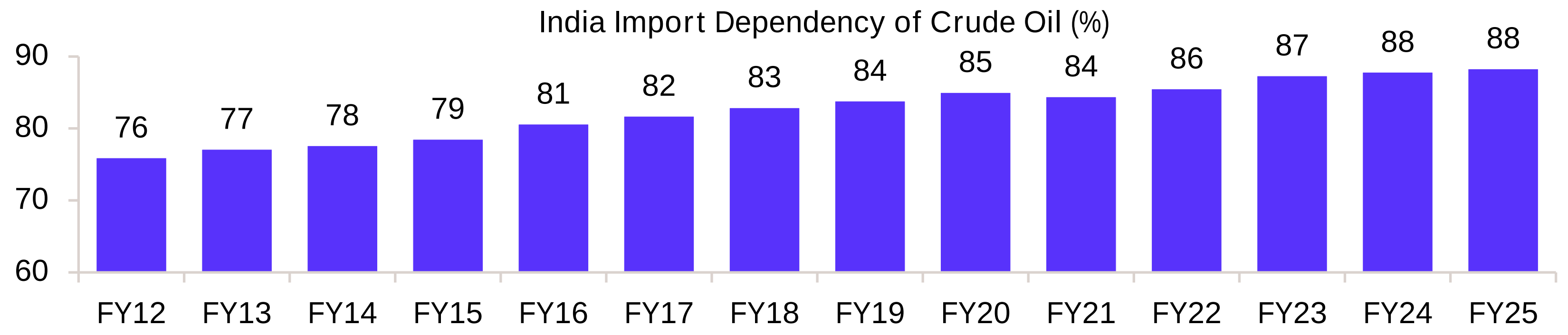
Strait of Hormuz Share of Global Energy Supply

Source: IEA, IGU World LNG report - 2025 Edition, Google Maps, 360 ONE Asset Research

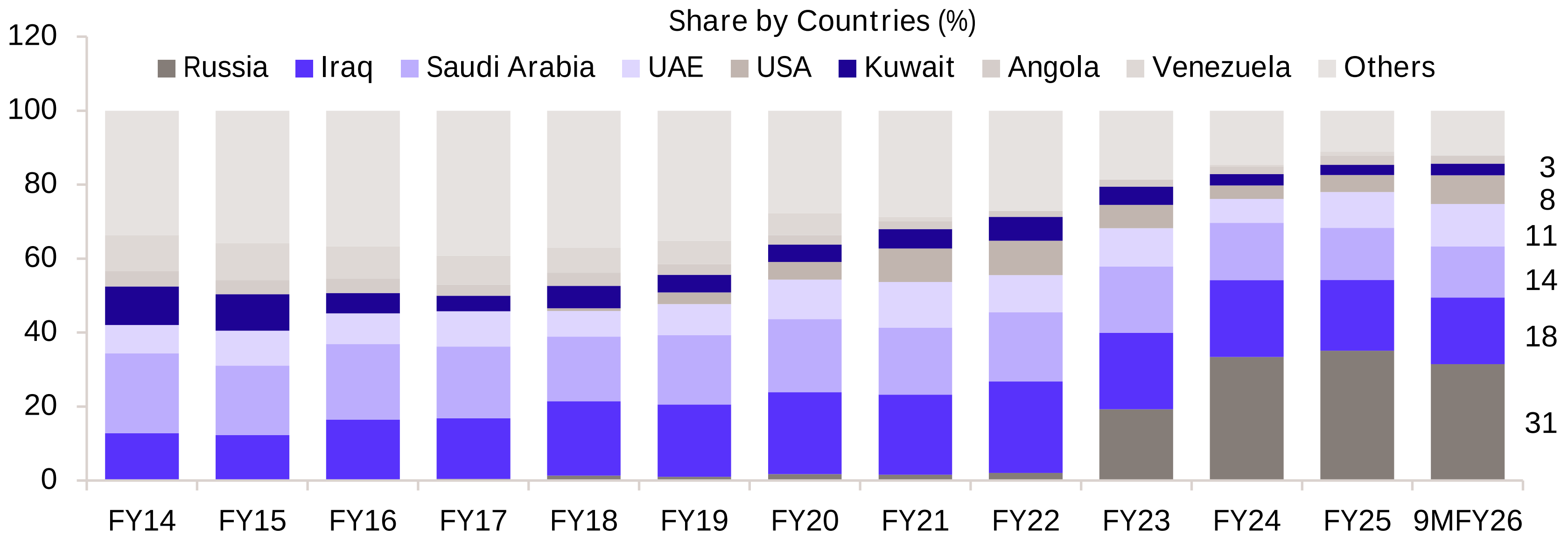
Note: Crude Oil also includes other petroleum liquids; Other Middle East includes Oman and UAE

Middle East accounts for ~50% of India's crude oil imports

India's dependence on crude imports has increased gradually from 76% in FY12 to 88% in FY25



India relies on imports to meet nearly 90% of its crude oil demand, and this reliance has grown as domestic production continues to decline



Russia is the largest supplier of crude oil to India, followed by Iraq, Saudi Arabia, and the UAE

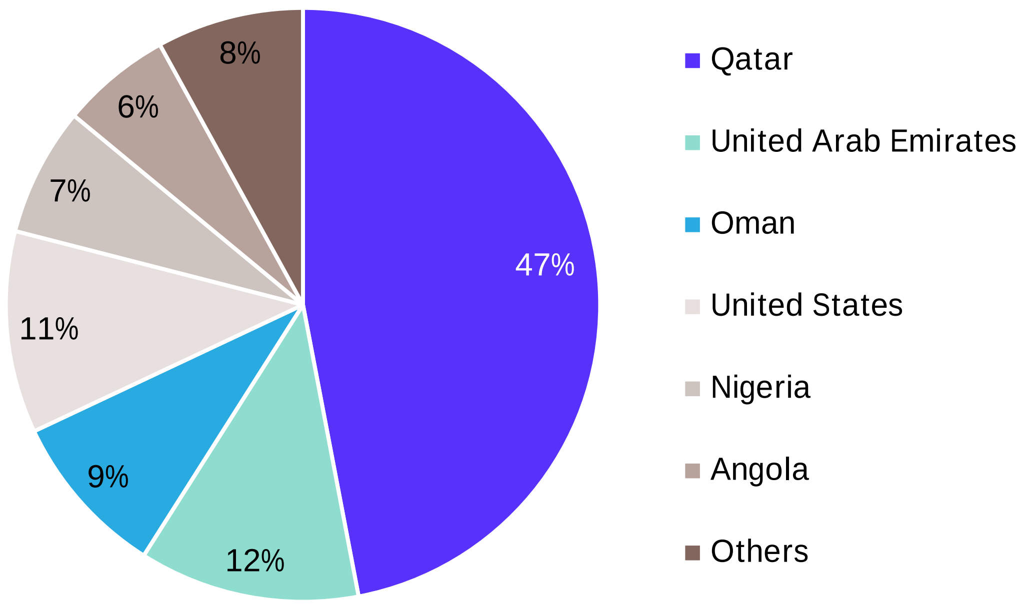
In total, the Middle East accounts for about 50% of India's crude oil imports

Source: CLSA, 360 ONE Asset Research

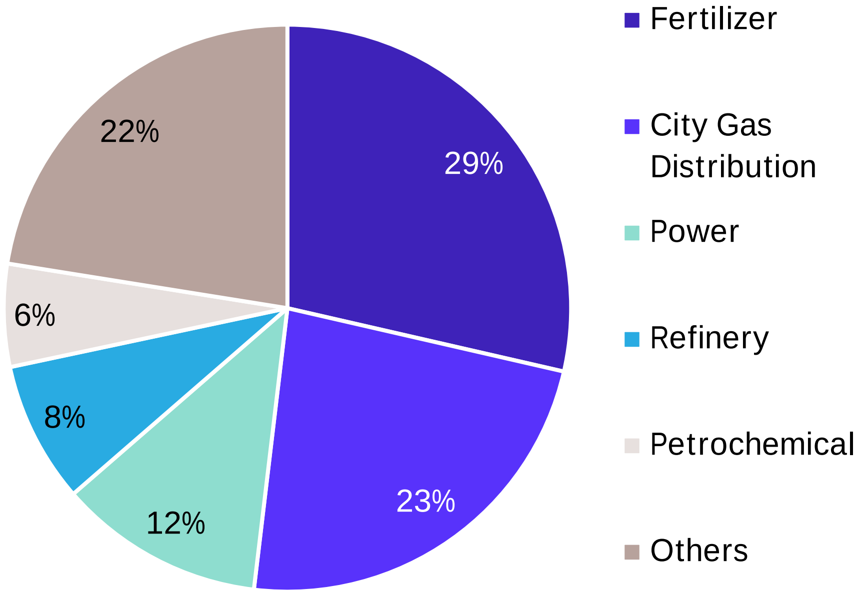
Liquefied Natural Gas (LNG) imports are also significantly impacted

Limited availability of LNG is impacting various industries such as fertilisers, ceramics, and metal processing

India LNG imports by Country
(**50% of India's LNG requirement is imported**)



Share in LNG Consumption (FYTD26)



India depends on imports for about 50% of its LNG requirements, of which roughly 70% comes from the Middle East

Excluding Oman, whose supply does not flow through the Strait of Hormuz, the share of imports potentially impacted would be around 60%

Limited availability of LNG is impacting production across industries

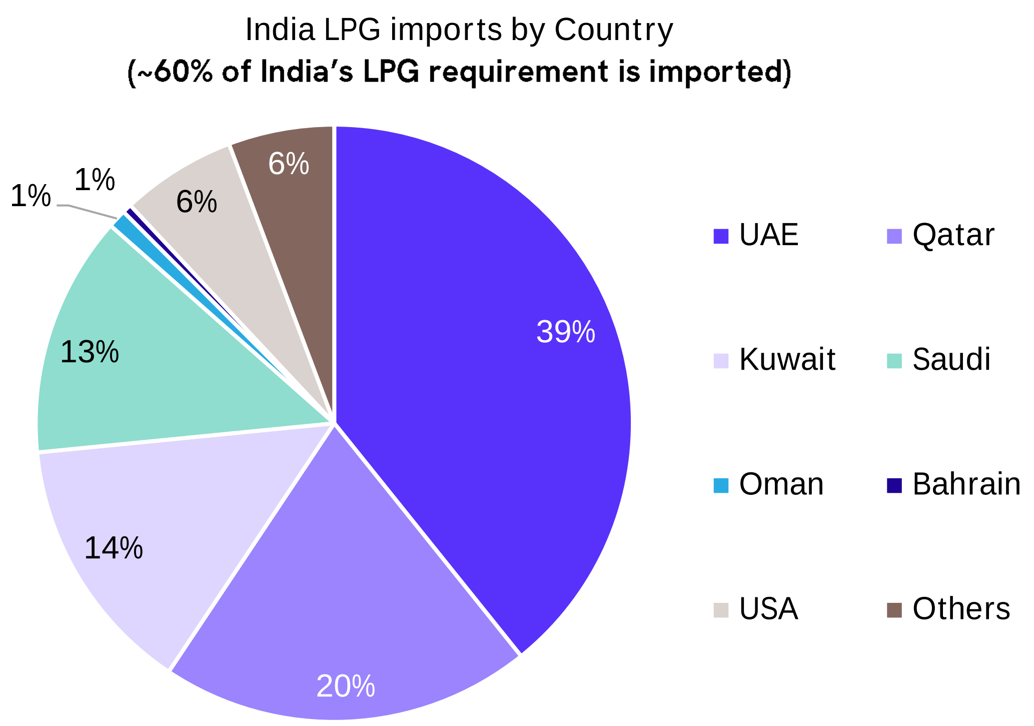
The government has prioritised PNG and CNG supply, with fertiliser plants allocated a minimum 70% of their demand, while other industrial consumers receive 80%

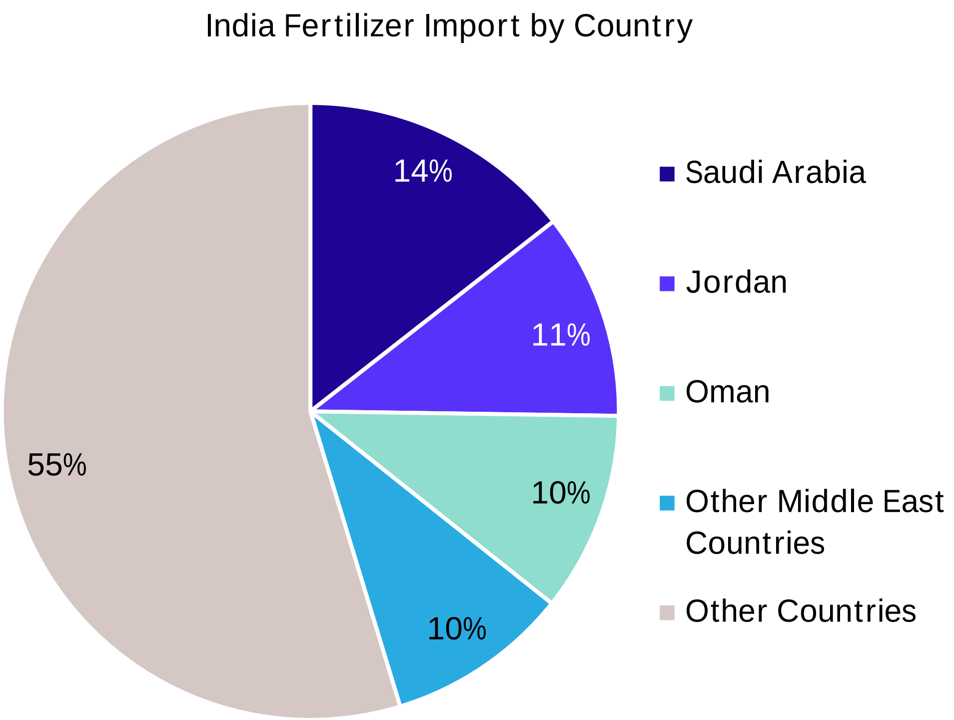
Source: RBI, PPAC, Axis Capital, Ambit Capital, JM Financial, 360 ONE Asset Research

Note: FYTD26 data till January 2026

LPG and Fertilisers are also key dependencies on the Middle East

Middle East accounts for ~90% of India's LPG imports and about 45% of its fertiliser imports





India imports ~ 60% of the Liquefied Petroleum Gas (LPG) consumption

Out of this, ~90% is imported from the Middle East

LPG production is being prioritised for households, hospitals, and educational institutions

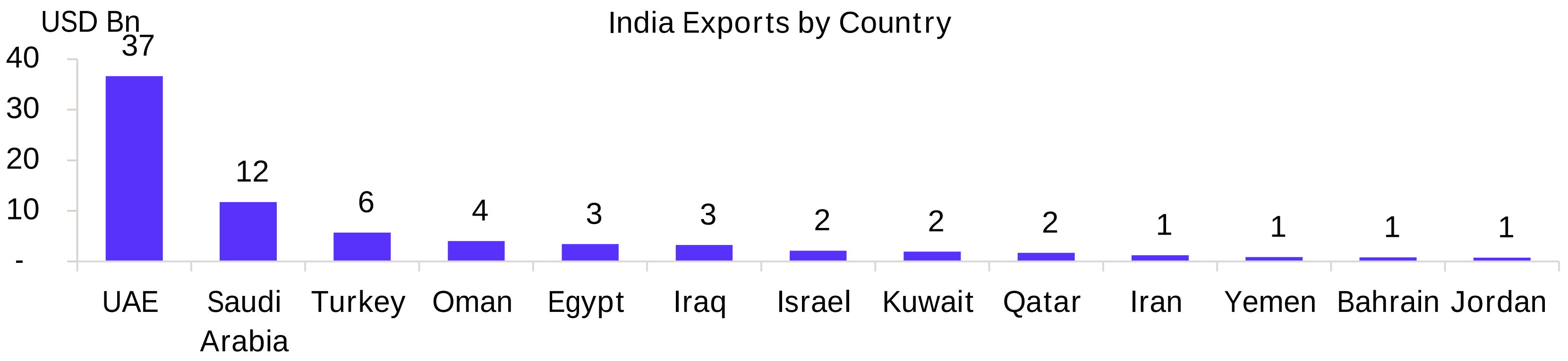
The Middle East accounts for 45% of India's fertiliser imports

Domestic fertiliser production is also affected due to a shortage of natural gas

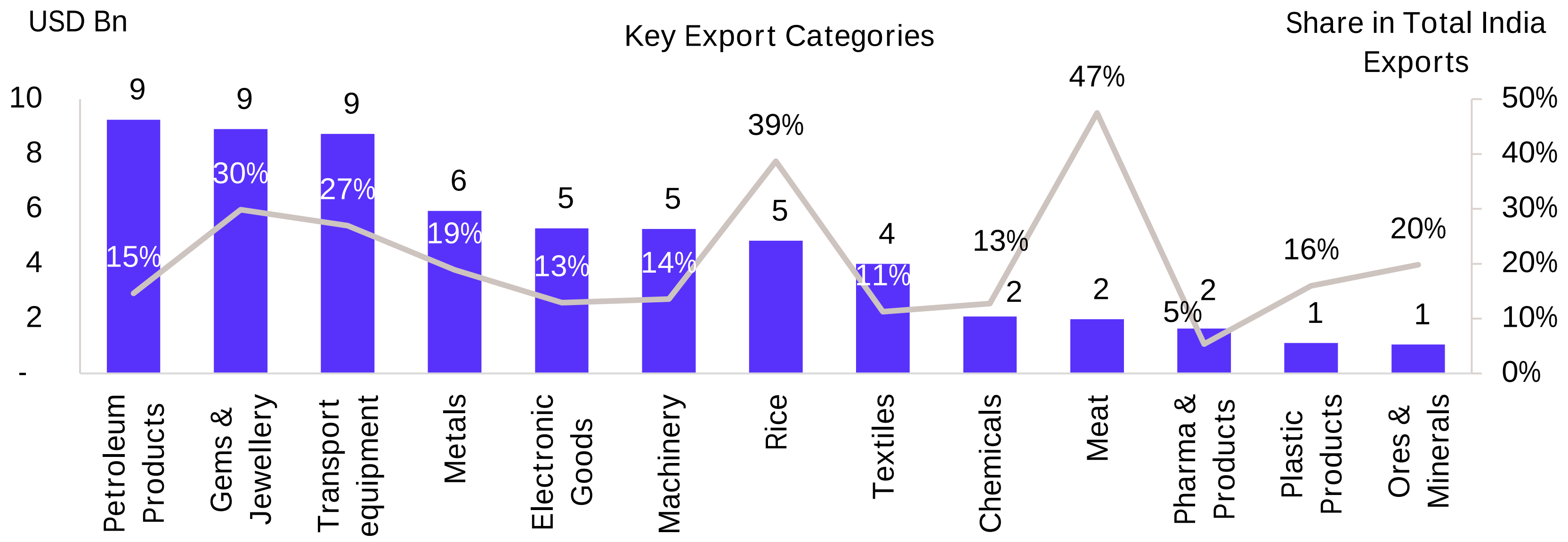
Source: Kotak Institutional Equities, CMIE, 360 ONE Asset Research

Middle East accounts for ~17% of India's total exports

Agricultural products, petro products, gems and jewellery, and transport equipment are likely to be affected



The Middle East accounts for 17% of India's total exports, with the UAE holding the largest share, followed by Saudi Arabia



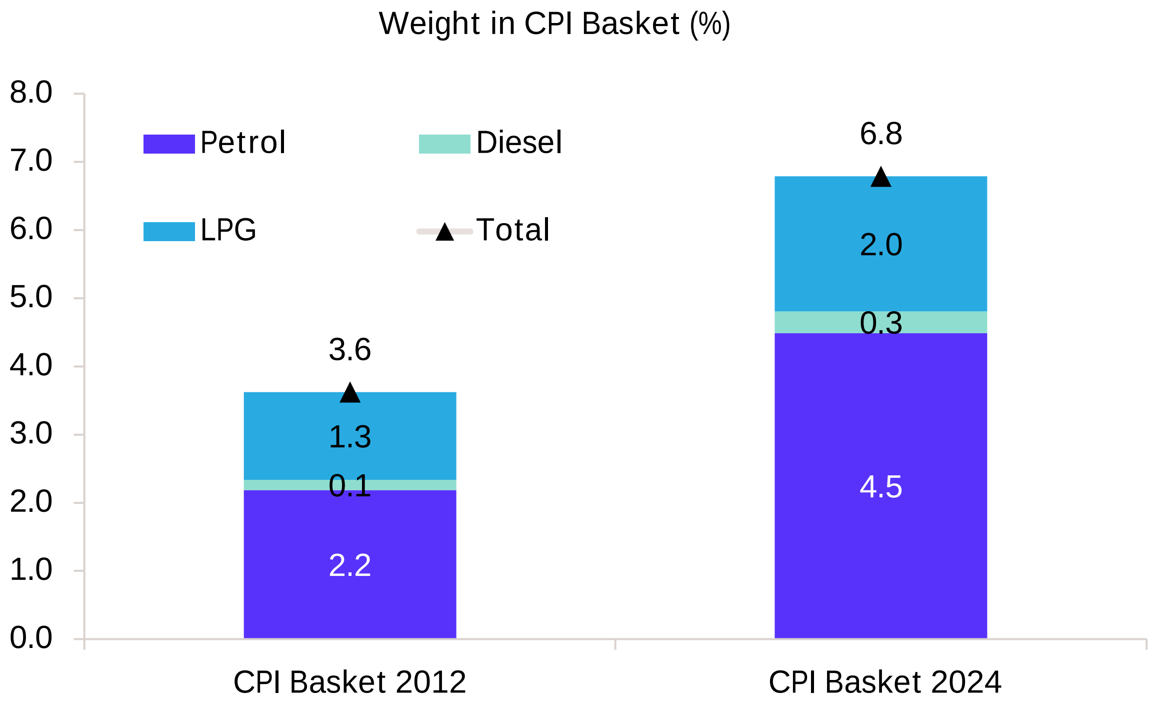
Rice exports could face a significant impact, as 39% of India's total rice exports are destined for the Middle East

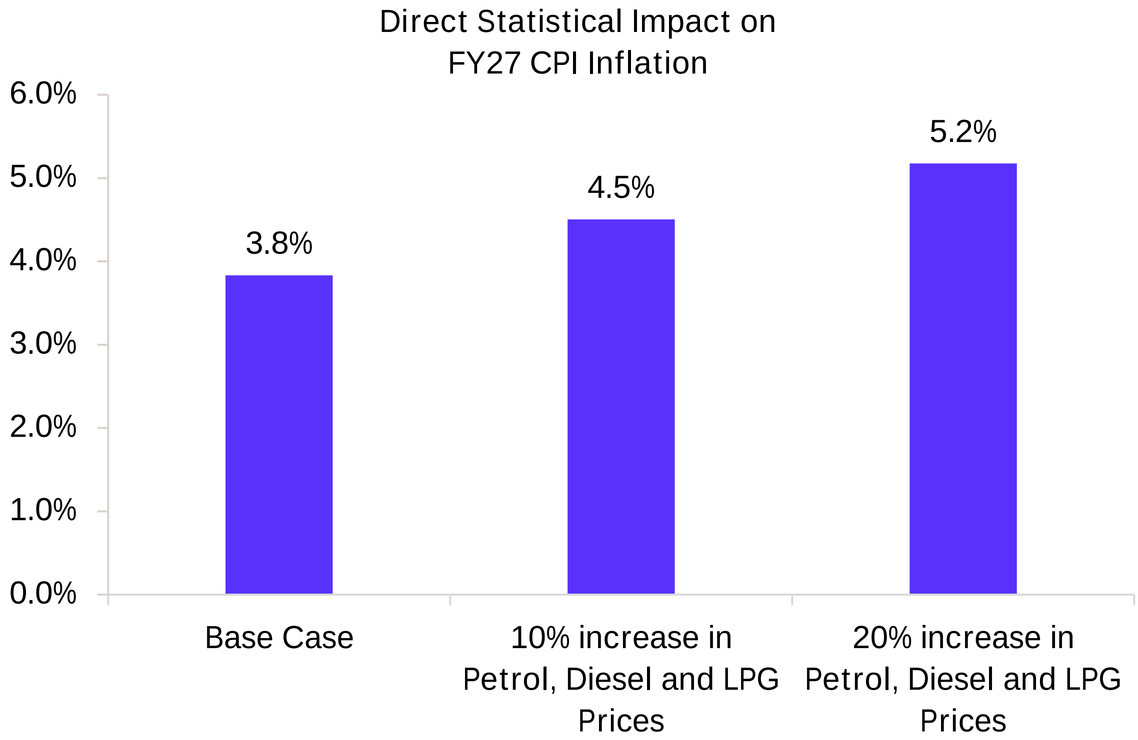
Other sectors likely to be affected include petroleum products, gems and jewellery, and transport equipment (possibly includes trans-shipment)

Source: CMIE, 360 ONE Asset Research

An extended conflict could lead to a sharp spike in inflation

Weight of petrol, diesel, and LPG in the new 2024 CPI basket is approximately twice the weight in the 2012 CPI basket





In the new 2024 CPI basket, the combined weight of petrol, diesel, and LPG has increased to 6.8% from 3.6% in the previous basket

An increase in weight makes headline inflation more sensitive to changes in fuel prices

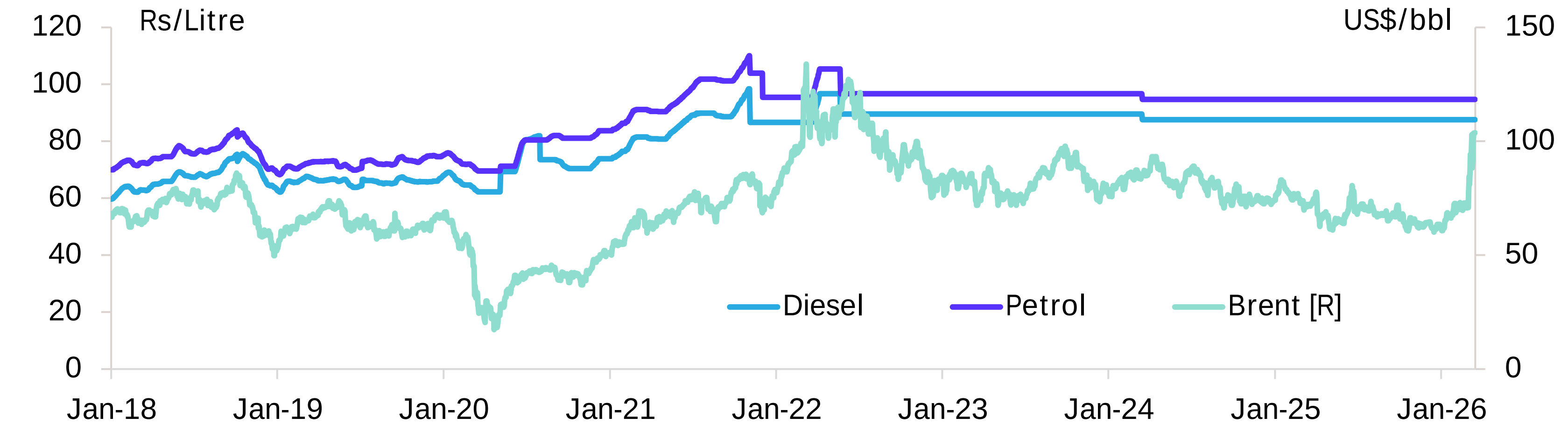
Every 10% increase in fuel prices (petrol, diesel, and LPG together) adds ~70 bps to CPI inflation

Please note that this reflects only the direct statistical impact; as higher fuel prices transmit through other segments of the economy, the actual impact on inflation is likely to be larger

Source: MOSPI, 360 ONE Asset Research

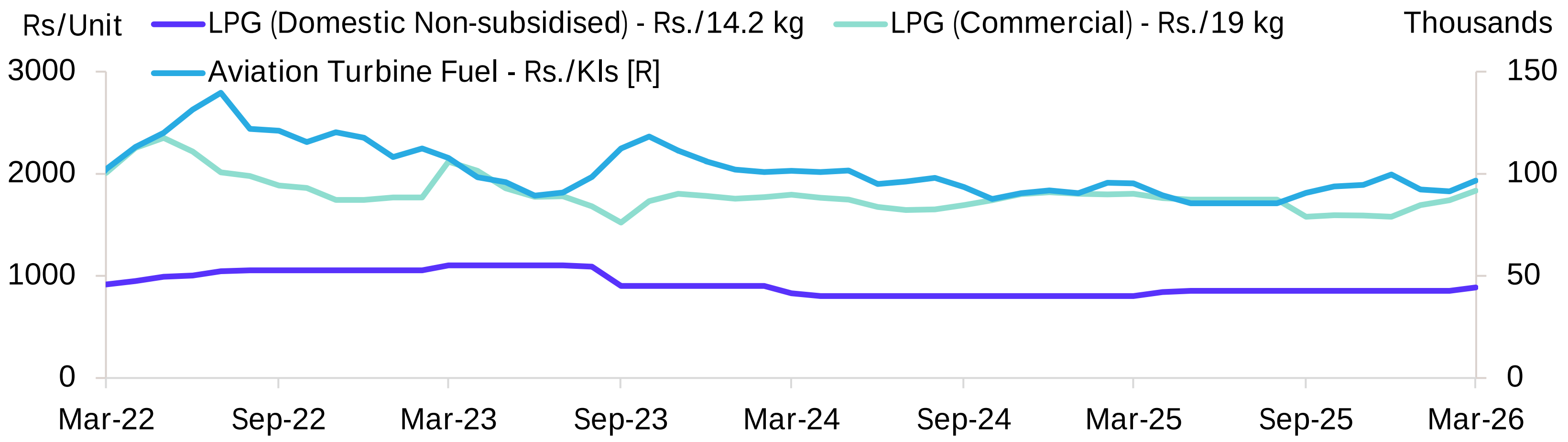
Petrol and diesel pump prices have decoupled from crude prices

However, other fuels, such as ATF and LPG, could witness an immediate increase in prices



Petrol and diesel pump prices may not immediately respond to a rise in crude oil prices, as OMCs may absorb the difference initially

However, a sustained increase in crude prices may eventually have to be passed on to the end consumer



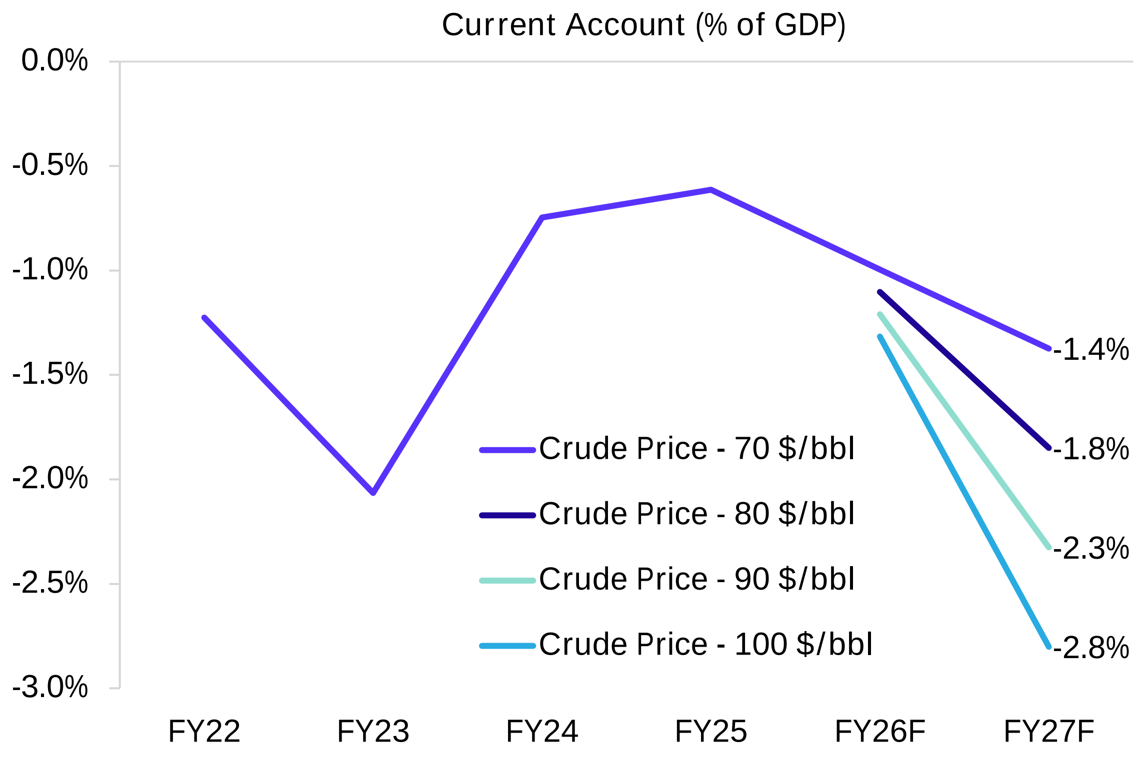
LPG and Aviation Turbine Fuel (ATF) prices have already risen in March 2026

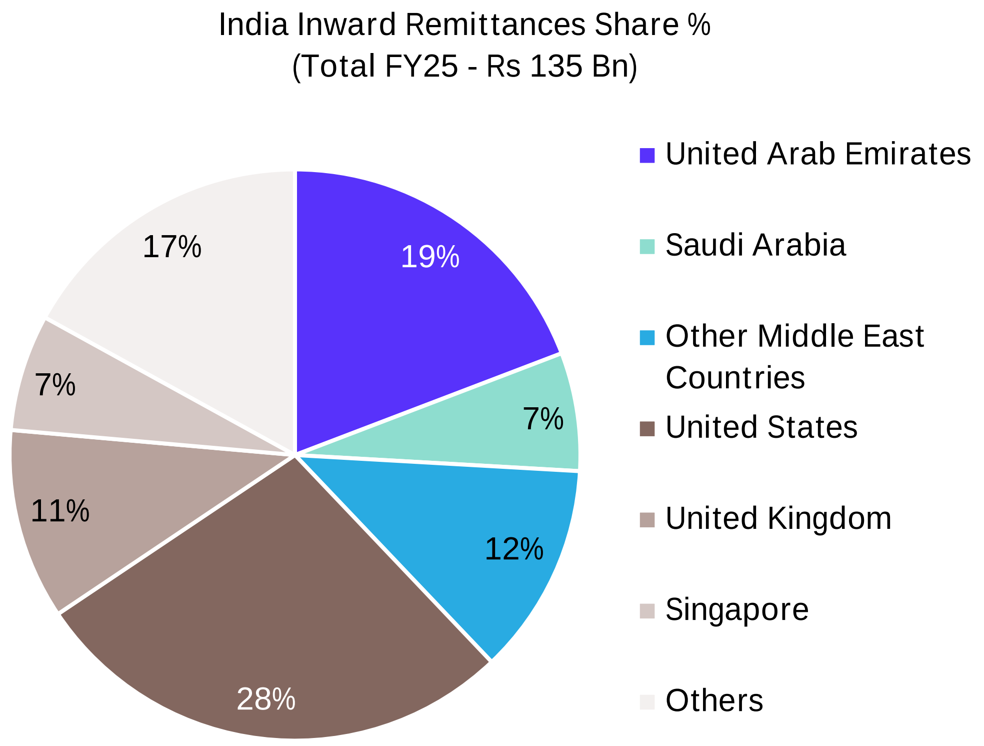
Fuel costs could increase further if energy markets remain disrupted

Source: Kotak Institutional Equities, CMIE, 360 ONE Asset Research

Higher oil prices could strain India's current account

The Middle East accounts for a significant share of inward remittances, which may also be disrupted





Every US$10 per barrel increase in crude oil prices could widen the current account deficit by ~0.5% of GDP

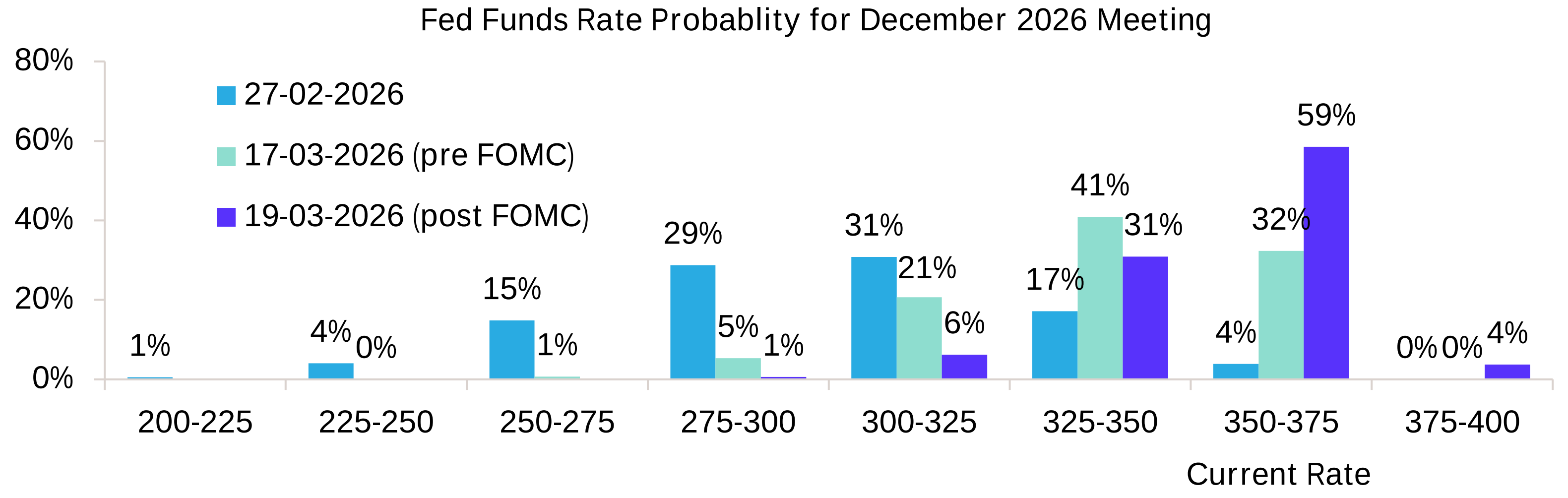
A higher deficit will keep the INR under pressure

The Middle East accounts for ~40% of inward remittances, which could be affected if the conflict is prolonged

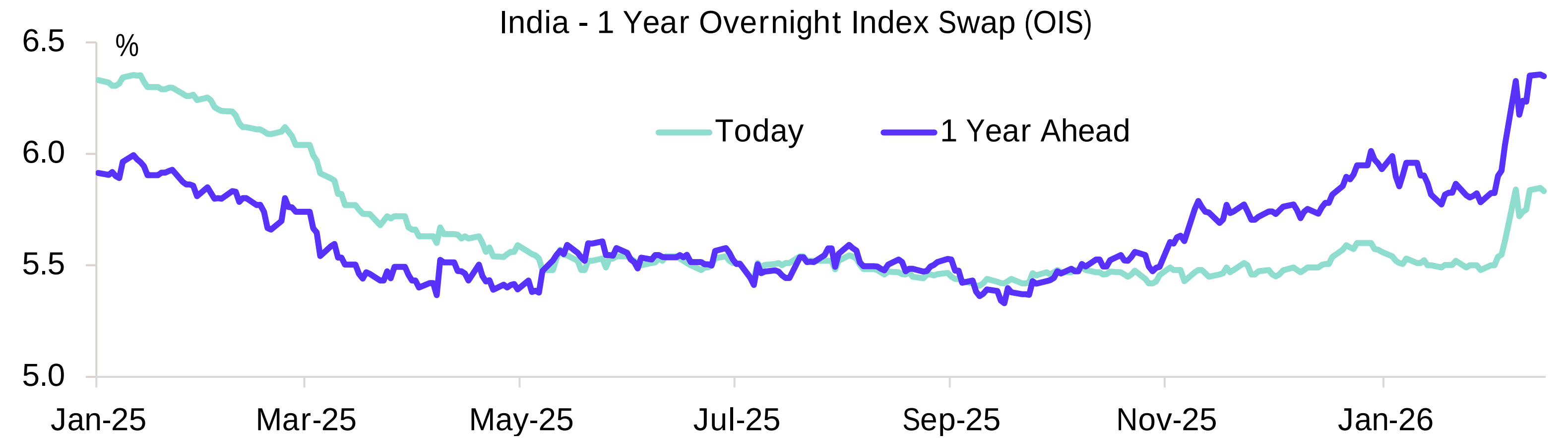
Source: RBI, 360 ONE Asset Research

Markets have started pricing in higher interest rates

Both the Fed and the RBI are expected to hold rates constant in the near term as uncertainty remains elevated



Markets do not expect any further rate cuts in 2026 by the Federal Reserve, as the Middle East conflict is likely to push inflation higher

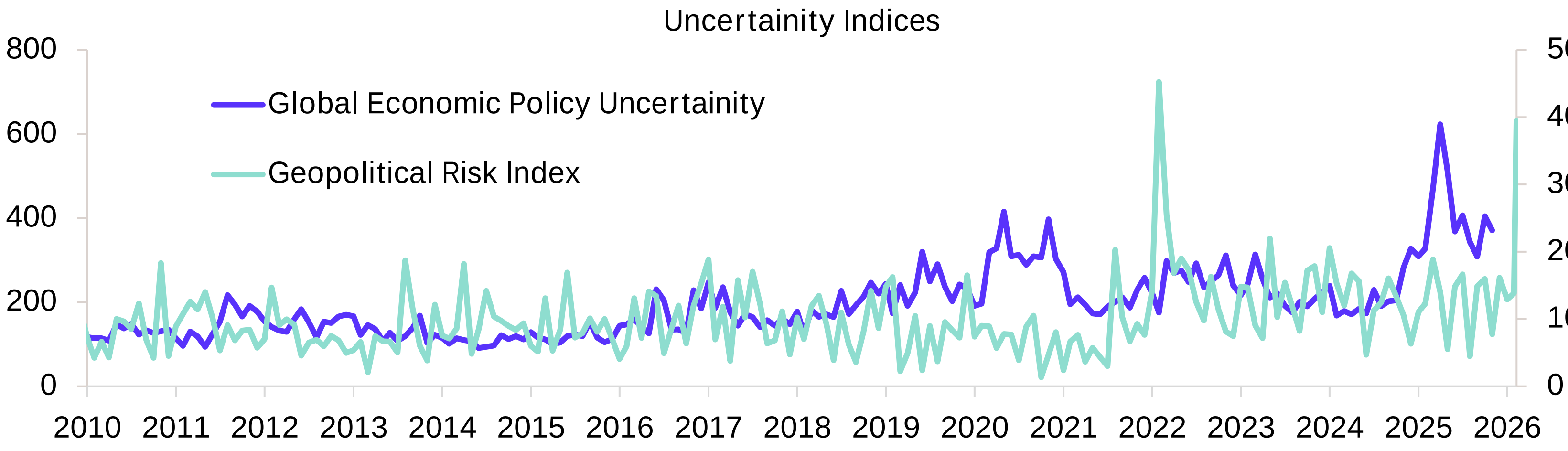


India's OIS rates have also started inching up, reflecting expectations of an interest rate increase within the year

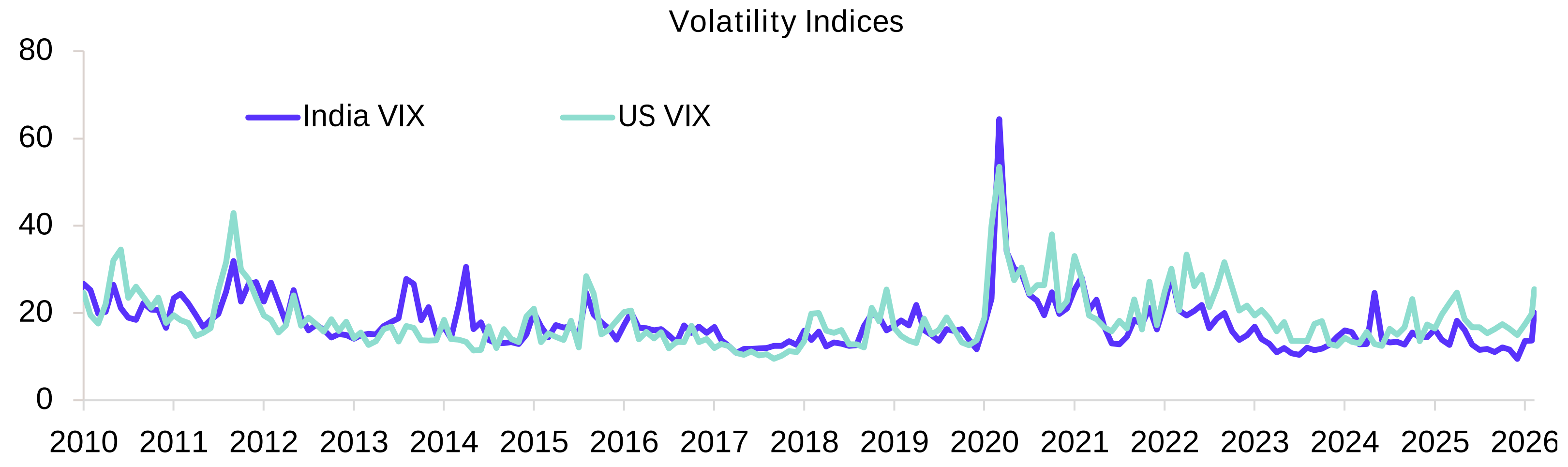
Source: CME FedWatch, Bloomberg, 360 ONE Asset Research

Markets have so far generally discounted heightened uncertainty

However, volatility could rise if the Middle East conflict escalates



Both economic policy uncertainty and geopolitical risk have been higher over the past few years



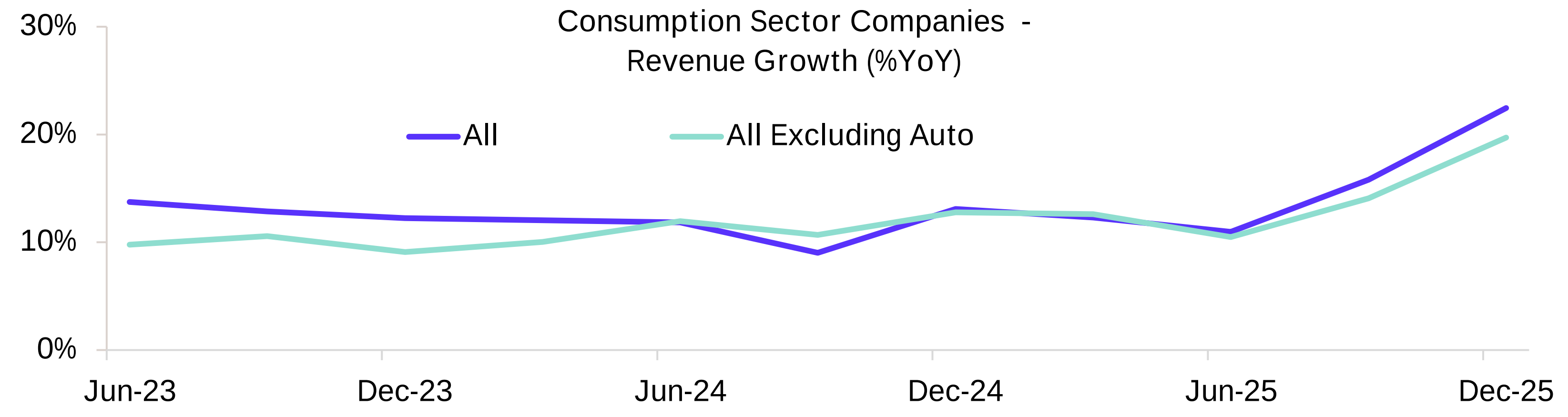
However, the market's measure of volatility (VIX) has broadly trended downwards

The volatility might increase if the Middle East conflict escalates

Source: Bloomberg, 360 ONE Asset Research

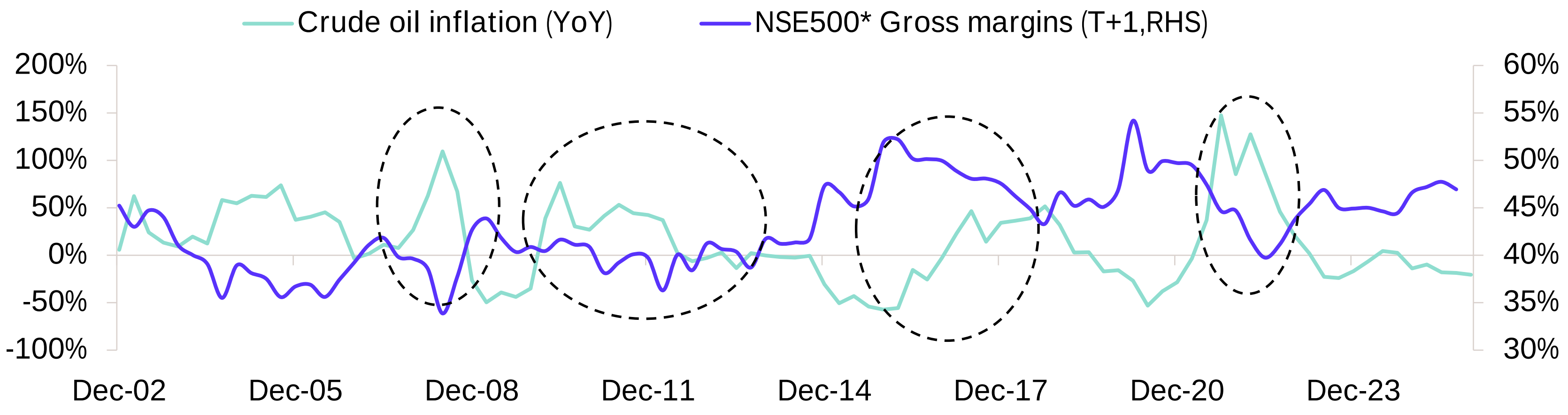
Consumption recovery may falter if energy shortages persist

Increase in crude oil prices, historically, has led to a contraction in gross margins



The consumption sector showed clear signs of recovery in the corporate results for December quarter

However, energy shortages and the resulting rise in inflation may derail this recovery



Historically, sharp rises in crude oil prices have led to a decline in the gross margins of corporate India

Source: Ambit Capital, IIFL Capital, 360 ONE Asset Research

Note: NSE500 excludes BFSI, IT, Real Estate and New age tech

Impact should remain contained if the conflict resolves within 1-2 months

The current strong macro environment can handle crude prices around USD 85/bbl without major strain

Scenario analysis for FY2027, depending on the extent of the Middle East crisis

Macro Variable	Favorable scenario (end-March)	Base scenario (end-April/mid-May)	Adverse scenario (beyond mid-May)
Average Crude Oil Price (US$/bbl)	70	85	100
CAD/GDP (%)	1.2	2.2	2.5
BOP (US$ bn)	-11	-70	-82
Center's Fiscal Deficit (% of GDP)	4.3	4.3	4.5-4.6
CPI Inflation (Average, %)	4.1	4.7	5-5.5
Real GDP Growth (%)	7.0	6.5	6.0
Liquidity	Comfortably in surplus	Likely tightening in 2HFY27	Likely tightening from 2QFY27
Repo Rate	Status quo	Status quo	Early rate hikes (2HFY27)

Source: Kotak Economics Research estimates

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