

PRESS RELEASE

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Cost and availability pressures rise for Indian downstream sectors amid West Asia conflict: ICRA

- Marketing margins on petrol and diesel estimated at negative Rs. 14/litre and Rs. 18/litre for petrol and diesel considering crude price of \$120-125/barrel and long term average cracks spreads
- Domestic LPG under recoveries estimated at Rs 80,000 crore for FY2027 if current under recoveries continue for the year
- Fertiliser subsidy projected to rise to Rs. 2.05 to 2.25 trillion for FY2027 with an upward basis

Rating agency ICRA, expects the raw material cost pressures as well as supply constraints to impact the profitability of key downstream sectors i.e. oil marketing segment, fertiliser, chemical and City Gas Distribution (CGD) sector in FY2027, amidst the ongoing West Asia conflict. With the disruption in the Strait of Hormuz (SoH), 20% of global oil and LNG trade and sizeable share of supplies of various fertilisers and chemicals has been impacted constraining the availability of these products. This has raised prices across commodities i.e. crude oil, natural gas, chemicals, fertiliser, exerting cost pressures in downstream industries. ICRA anticipates the increase in chemical prices to be passed on to end users to an extent, and demand to witness a correction once the initial stockpiling phases out.

Prashant Vasisht, Senior Vice President & Co-Group Head, ICRA said: *“The stable pump prices for auto fuels amid elevated crude oil prices is impacting the profitability of the Oil Marketing Companies (OMCs) despite the recent reduction in excise duty. At crude prices of \$120-125/barrel and long-term averages of crack spreads, the marketing margins on petrol and diesel are estimated to be negative Rs. 14/liter and Rs. 18/liter respectively. With supplies of LPG blocked from West Asia, international LPG prices have surged. While LPG production has been increased by the refining companies and cargoes procured from the US, Australia etc., addressing the supply side issues to an extent, under recoveries on sale of domestic LPG remain high for the OMCs. ICRA estimates LPG under recoveries at Rs. 80,000 crore for the full year FY2027 if the current under recoveries continue for the full year.”*

The fertiliser sector faces significant cost pressures driven by rise in the sulphur and ammonia prices, which in turn feed into other raw material and finished products. For the urea segment, the pool price has risen to ~\$19/mmbtu in April 2026 from \$13/mmbtu prior to the West Asia crisis. While a major share of the natural gas requirement is currently being met through imports of spot LNG cargoes, the availability of adequate natural gas on an ongoing basis is critical amid global LNG supply disruption. The profitability of Phosphatic & Potassic (P&K) fertiliser manufacturers and traders is expected to moderate as the recent revision in the Nutrient Based Subsidy (NBS) rates was not reflective of the cost pressures faced by the industry and part of the cost inflation has been passed on through retail price hikes across P&K fertiliser product categories barring Di-Ammonium Phosphate (DAP).

Vasisht added, *“Significant raw material price inflation coupled with inadequate subsidy revision, is set to moderate the profitability of the P&K fertiliser players vis-à-vis FY2026 levels. The expected impact of El-Nino on the monsoon in the upcoming Kharif season, may also affect the ability of farmers to absorb price increases. With the sharp raw material price inflation for both the urea and non-urea fertiliser segment, ICRA estimates the subsidy requirement for FY2027 at Rs. 2.05 trillion to 2.25 trillion, with an upward bias. We expect the Government of India (GoI) to enhance the allocation towards fertiliser subsidy during FY2027, from the budgeted Rs. 1.71 trillion, to maintain a stable credit profile for this sector.”*

Akin to fertilisers, global chemical and polymer prices have witnessed a spike in prices owing to disruption in trade flows and rising fuel costs. While the current uncertainty has led to panic buying and stockpiling among chemical manufacturers and end-users, demand is unlikely to sustain at current levels in a prolonged environment of elevated prices. However, the impact will not be uniform, especially in the specialty chemicals sectors where players with limited exposure to Middle East, both in terms of raw material procurement and exports are less likely to experience any major swings in business activity.

The City Gas Distribution (CGD) sector, although protected to some extent owing to preferable natural gas allocation, continues to face rising cost pressures amid currency depreciation and rising gas prices. For the CGD entities, ICRA expects the profitability on PNG-Domestic (PNG-D) to remain stable as the demand is being met through preferential allocation of the Administered Price Mechanism (APM) gas. However, for the CNG segment, the margins are expected to face headwinds on account of the increased gas costs as well as currency depreciation which may not get passed on fully to the consumers.

ICRA expects the elevated energy and key input prices to weigh on the profitability of several key downstream sectors in FY2027. The moderation in the profitability is expected to result in the moderation in the credit profile for few of the sectors. *“Overall, ICRA’s outlook on the crude oil refining segment remains stable supported by adequate refining margins owing to healthy product cracks while the outlook on the fuel retailing segment remains Negative driven by the steeply negative marketing margins on the sale of auto fuels. Additionally, ICRA’s outlook on the fertiliser, basic chemicals and petrochemical sector also remains Negative driven largely by expectation of moderation in the profitability driven by a mix of reason i.e. inadequate subsidy for the fertiliser sector, elevated raw material prices for petrochemical sector and global oversupply for the basic chemicals sector.” added Vasisht.*

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