ICRA

Indian Oil and Gas Industry

West Asian region turmoil keeps oil and gas markets on edge

JUNE 2025

Highlights

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The Strait of Hormuz (SoH) is a key energy choke point through which almost 20% of global oil and LNG is traded. Any escalation in the conflict in the area could significantly impact global supplies and prices.

Increase in crude oil and gas prices will be positive for the profitability of upstream companies even as marketing margins of downstream players are adversely impacted.

- On June 13, 2025, a conflict started between Israel and Iran, following which crude prices surged to ~$74-75/bbl from ~$64-65/bbl. Iran straddles the (Strait of Hormuz), which remains one of the key energy choke points, through which almost 20% of global liquids and liquified natural gas (LNG) is traded. Any escalation in the geopolitical situation could significantly impact global energy supplies and prices.

- Iran's crude oil production is around 3.3 mbd, of which it exports 1.8-2.0 mbd. While Iranian oil and gas facilities have reportedly been attacked, the extent of damage is not clear. However, any disruption of Iranian production and supplies or a wider regional conflict impacting other large producers in the region could push energy prices higher.

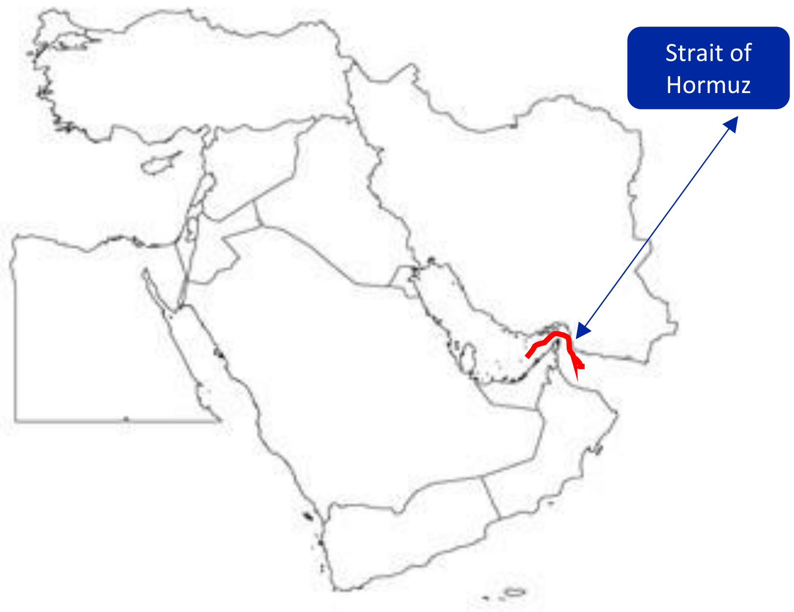
- Crude oil imports from Iraq, Saudi Arabia, Kuwait and the UAE that pass through SoH account for ~45-50% of total crude imports by India. About 60% of the natural gas imports by India pass through SoH. At these elevated crude oil prices, while the profitability of upstream players will remain healthy and their capex plans will remain intact, the marketing margins of downstream players will be impacted along with the expansion of LPG under-recoveries.

- ICRA expects crude prices to average between $70-80/bbl for FY2026. A sustained flare-up in the conflict poses upside risks for our estimates of crude oil prices, and consequently of net oil imports and the current account deficit (CAD). A $10/bbl increase in the average price of crude oil for the fiscal will typically push up net oil imports by ~$13-14 billion during the year, enlarging the CAD by 0.3% of GDP.

- If the price persists at the current levels, it may not lead to a material revision in our GDP growth forecast, which is currently pegged at 6.2% for the fiscal. However, a sustained rise from the current levels would weigh on India Inc.'s profitability and the extended uncertainty may further delay private capex, which could result in a downward revision in our GDP growth projections for the H2 FY2026.

Impact on Crude Oil

Potential supply disruptions owing to escalating situation in West Asia



On June 13, a conflict started between Israel and Iran, following which crude prices surged to ~$74-75/bbl from ~$64-65/bbl. The worsening geopolitical situation in West Asia can potentially disrupt oil and gas trade flows.

Iran's vital oil and gas assets were reportedly attacked, resulting in halting of production, along with attacks on fuel storage and distribution hubs, and probably a big oil refinery. Iran's production is around 3.3 mbd, of which it exports 1.8-2.0 mbd.

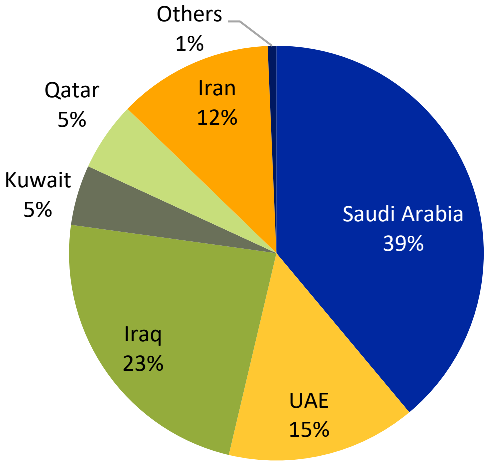
This can also result in potential closure of the SoH, which is a major trade route from West Asia to the rest of Asia. It supports movement of around 20% of the world's oil consumption, largely emanating from Saudi, UAE and Qatar.

Of the around 20 mbd of oil supplied through the SoH, more than 80% is consumed in Asia, of which China, India, Japan and South Korea together account for around 65%.

There are limited alternative options for the evacuation of crude from West Asia. Saudi Arabia and the UAE have pipelines in place with a surplus capacity of around 2.5-3.0 mbd, leaving a significant supply at risk, in case the conflict heightens.

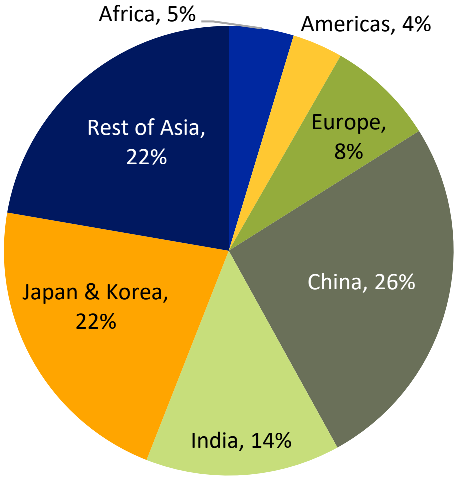
Significant share of global oil trade transits through SoH

Exhibit: Crude exports through SoH in 2024



Source: ICRA research, drewry.com

Exhibit: Destination-wise crude imports from SoH in 2024

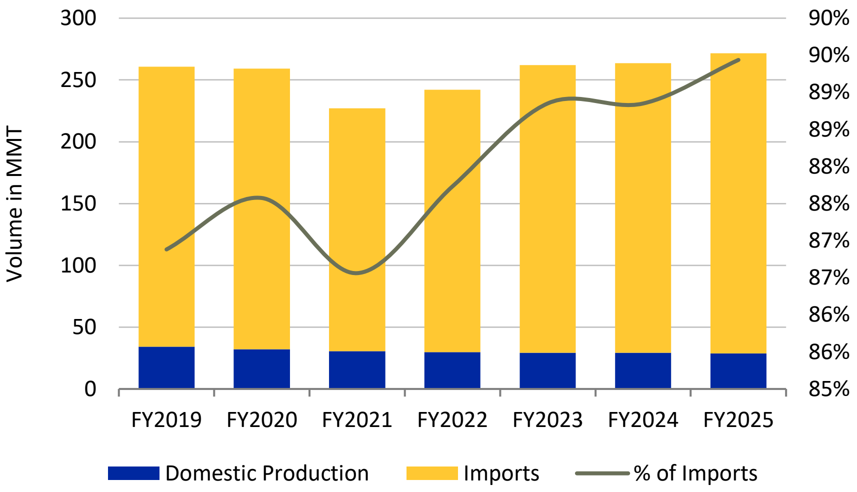


Source: ICRA research, IEA

- About 20 mbd of oil is traded through the SoH, which constitutes approximately 20% of the global liquid fuel consumption.
- More than 80% of the oil traded through the SoH is destined for Asia, including India and China, due to which these nations are especially vulnerable to any disruptions.

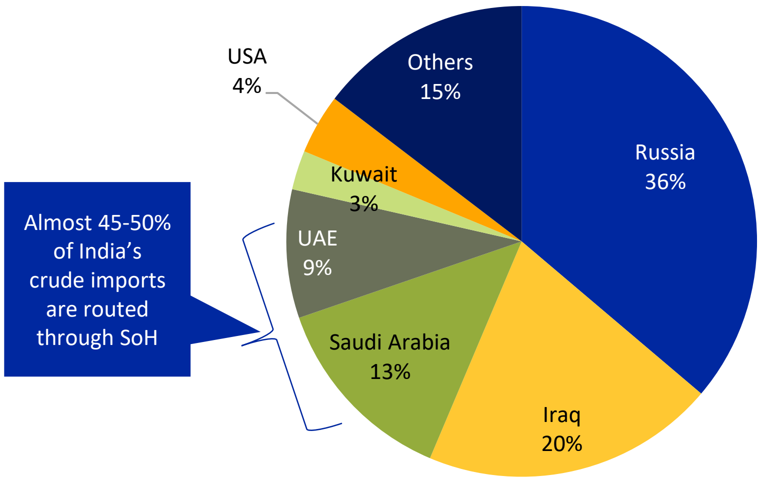
India is significantly dependent on crude imports through SoH

Exhibit: Import and domestic production of crude oil



Source: PPAC, ICRA research

Exhibit: Country-wise share in import of crude oil into India 2024



Source: CMIE, ICRA research

- Imports from Iraq, Saudi Arabia, Kuwait and the UAE that are routed through the SoH account for ~45-50% of the total crude oil imports to India.
- Notably, Russia accounted for ~36% of the total crude oil imported into India in FY2025.

Brent crude prices shot up sharply after brief stabilisation

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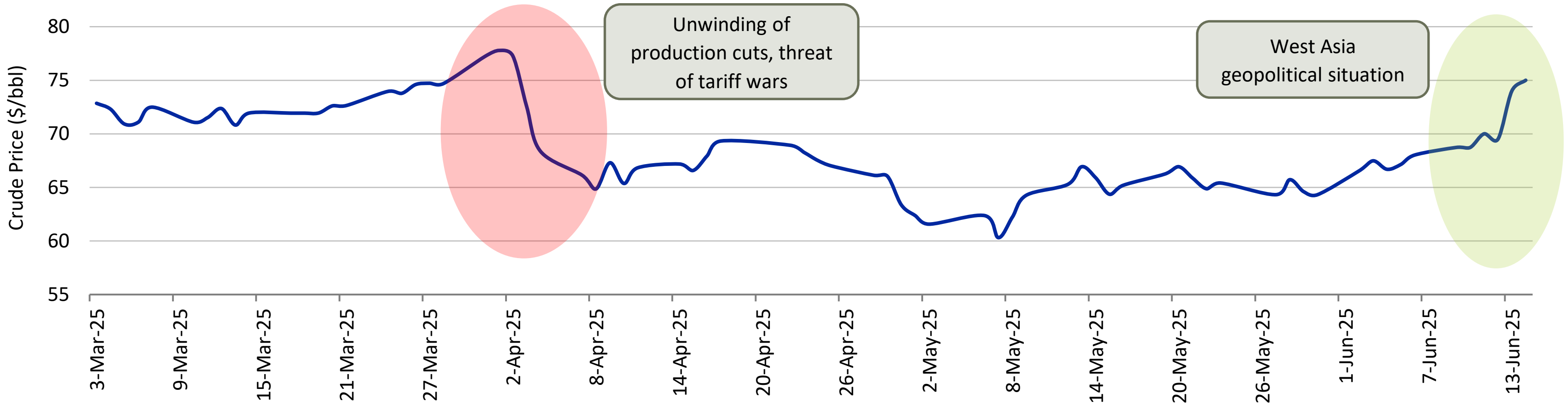
Exhibit: Brent crude price trend ($/bbl)



Source: Refinitiv, ICRA research

- Brent crude oil prices experienced a notable downward trend in April 2025 and remained low in May 2025 driven by concerns over rising inventories and weaker-than-expected demand, amid unwinding of production cuts from OPEC+ and threats of tariff wars.
- Subsequently, the latest geopolitical issues in West Asia resulted in sharp increase in crude prices to around $74-75/bbl in mid-June 2025.
- Any sustained disruption in supplies from Iran, and/or spread of the conflict to other large producers in this area and/or any disturbance in the trade route through SoH could drive energy prices higher.

Elevated crude prices to assist profitability of Indian upstream players; but marketing margins of downstream companies to be impacted

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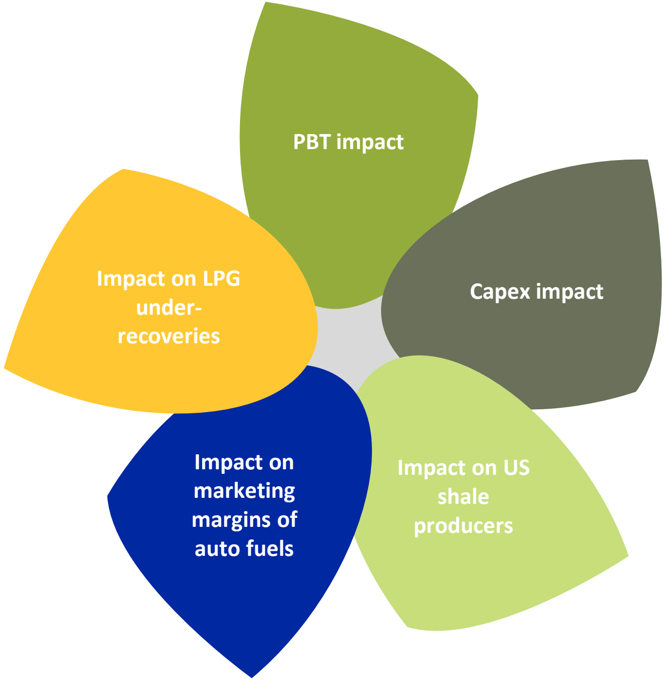
DOWNSTREAM

LPG under-recoveries

LPG under-recoveries for Indian downstream players to expand by Rs. 160 billion from FY2025 levels.

Marketing margins impact

Marketing margins for Indian downstream companies to moderate to Rs. 6-8/litre for diesel and petrol.



UPSTREAM

PBT impact

PBT of Indian upstream players to moderate by Rs. 68 billion from that in FY2025.

Capex impact

At these crude prices, capex levels of Indian upstream companies to remain intact.

Impact on US shale

These crude prices remain profitable for US shale producers, and their output is likely to remain elevated.

Note: Impact assessment of median value of the crude range for $70-80/bbl from that in FY2025*

Impact on Natural Gas Prices

20% of LNG trade volumes may come under risk if tensions escalate

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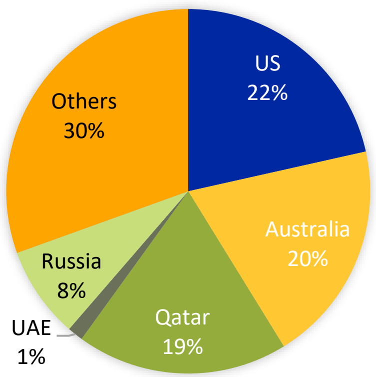
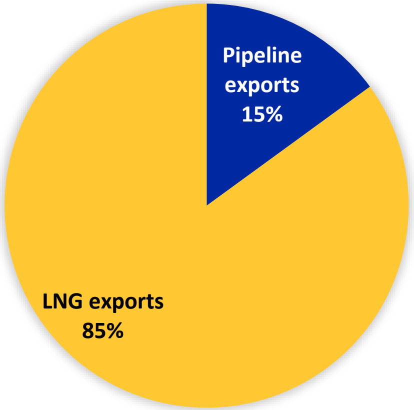
Exhibit: Qatar and UAE contribute 20% of LNG exports



Source: International Gas Union, ICRA research

Exhibit: With minor pipeline exports, dependence on SoH significant for Qatar

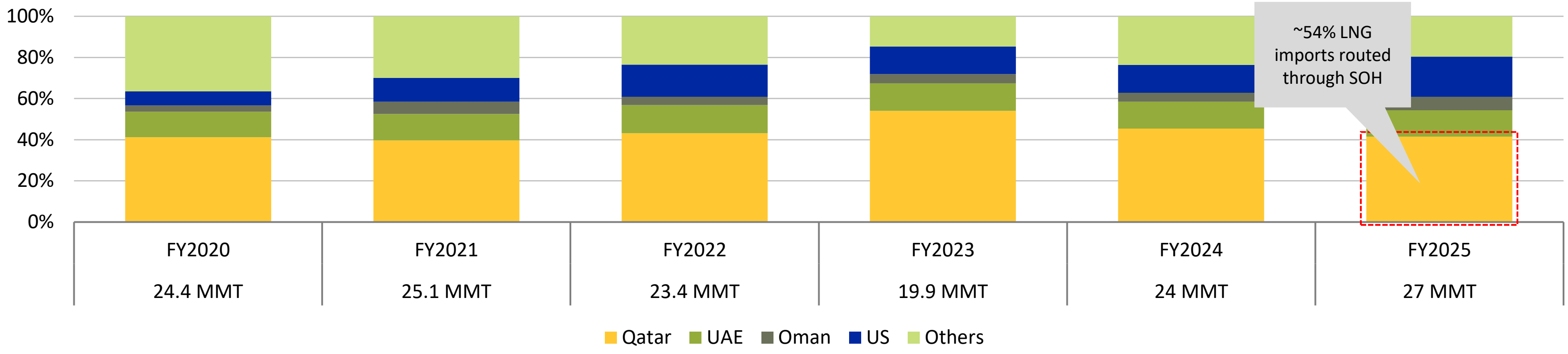


Source: Statista, ICRA research

- Total LNG traded rose to 411 MMT in CY2024 from 404 MMT in CY2023 supported by rangebound prices as Asian LNG imports offset the decline in LNG imports by the EU.
- West Asia remains a major exporter of LNG, making up ~94.3 MMT of LNG exports in CY2024 with a major share held by Qatar (77.2 MMT) and a modest supply share by Oman (11.3 MMT) and the UAE (5.7 MMT).
- LNG exports from Qatar and the UAE remain more exposed to rising tensions in the region as nearly 85% of Qatar's LNG exports and the UAE's entire LNG exports transit through the SoH.

India’s LNG imports may face risk if situation worsens around SoH

Exhibit: Nearly half of India’s LNG imports routed through SoH may face risk

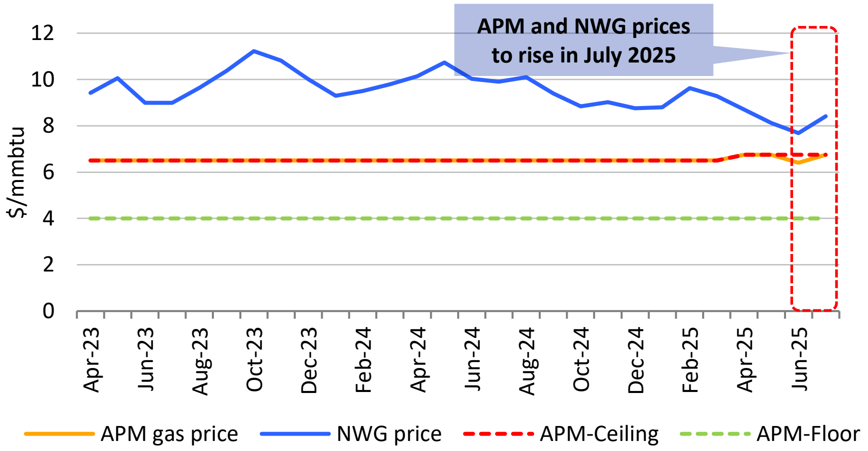


Source: CMIE, ICRA research

- Nearly 54% of natural gas imports for India pass through SoH as a major share of term LNG originates from Qatar (under the RasGas contract) and the UAE.
- Disruption in the SoH may result in supply uncertainties from Qatar and the UAE, which may result in higher dependence on the spot LNG market.
- Any such disruptions are also expected to result in higher spot LNG prices as well as higher LNG tanker rates, impacting end-user industries.
- Additionally, domestic gas prices and LNG contracts with crude oil linked ricing will witness an uptick as crude oil prices firm up.

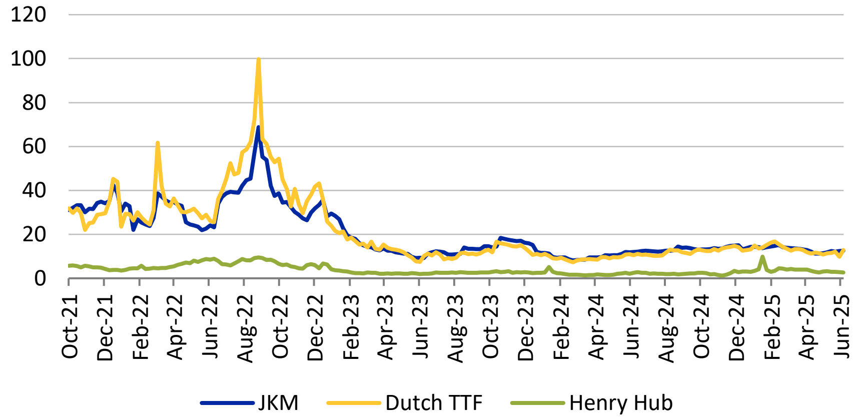
Natural gas prices to rise if tensions mount

Exhibit: APM gas and NWG prices to rise as crude oil prices rise



Source: PPAC, ICRA research; APM: Administered price Mechanism, NWG: New Well Gas

Exhibit: Trend in key LNG prices ($/mmbtu)



Source: Refinitiv, ICRA research

- In India, APM gas prices had fallen below the ceiling price in June 2025 for the first time since April 2023, when the Kirit Parikh Committee's recommendation were implemented as crude oil prices had softened amid tariff tensions and increase in output announced by the OPEC+ nations.
- Given the sharp rise in crude oil prices, the APM gas price is likely to revert to $6.75/mmbtu while the NWG price is expected to rise by ~10% in July 2025, if the crude oil prices sustain at current levels.
- With mounting tensions resulting in disruption in LNG transit from Qatar, spot LNG prices would rise sharply.

Impact on key sectors if LNG prices climb up

Fertilisers

- Increase in subsidy requirements for urea manufacturers as gas costs remain a pass through
- Ammonia prices may rise as gas remains key input and impacts profitability of Phosphatic & Potassic (P&K) fertiliser players unless subsidy corrections are made in such a scenario

Power

- Shortfall in domestic gas supplies and reluctance of discoms to purchase high-cost power produced from LNG have kept the PLF subdued (<20%) for gas-based plants
- Increase in LNG prices will further impact the cost competitiveness of gas-based power generation against other sources of generation

City Gas Distribution

- Increase in term and spot LNG prices will hurt competitiveness of PNG (industrial)
- Increase in APM and NWG prices to unwind the benefits of moderation in prices in June 2025

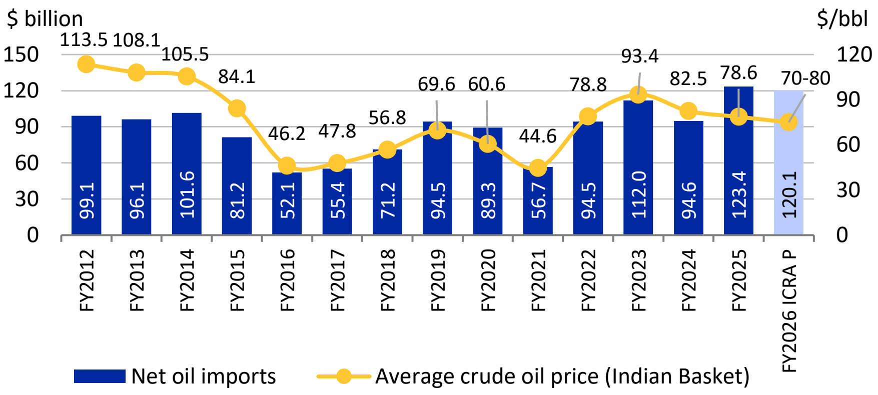
Industrial

- Refineries may shift to using liquid fuels as was the case after the Russia-Ukraine crisis
- Petrochemical players using Natural Gas Liquids (NGLs) as feedstock to face significant headwinds amid already weak polymer margins

Impact on Macro-economic Indicators

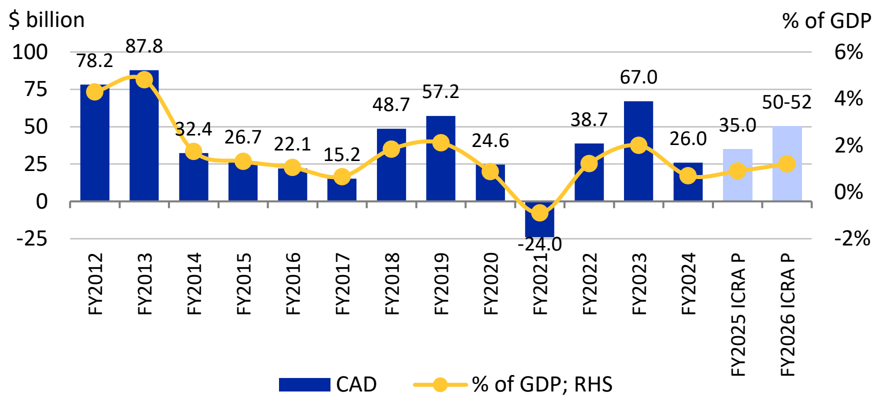
Sustained uptick in crude oil prices will push up India's CAD

Exhibit: Trends in India's annual net oil imports ($ billion) and average crude oil price (Indian Basket, $/bbl)



Source: Ministry of Commerce and Industry; CEIC; ICRA research

EXHIBIT: Trends in current account deficit ($ billion and % of GDP)

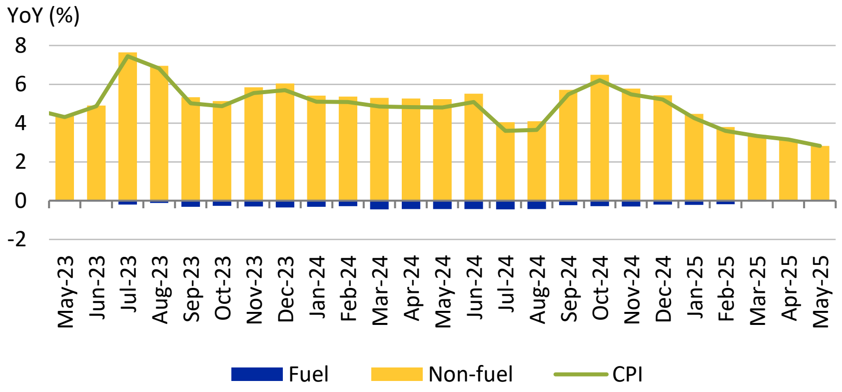


**P: Projected; ICRA's nominal GDP Proj. has been used for FY2026; Source: RBI; CEIC; ICRA research*

- Following the recent surge in crude oil prices after the heightened tensions between Israel and Iran, ICRA expects the crude oil price (Indian Basket) to average at ~$70-80/bbl in FY2026, as against ~$79/bbl seen in FY2025. We expect the net oil imports to ease marginally to ~$120 billion in the ongoing fiscal from $123.4 billion in FY2025. However, we expect the CAD to widen to $50-52 billion in FY2026 (1.2-1.3% of GDP) from ~$35 billion expected in FY2025 (0.9% of GDP), while remaining at comfortable levels.
- A sustained flare-up in the conflict poses upside risks to our projections for crude oil prices, and consequently for the net oil imports and the CAD. A $10/bbl increase in the average price of crude oil for the fiscal will typically push up net oil imports by ~$13-14 billion during the year, enlarging the CAD by 0.3% of GDP. **Accordingly, if the average crude oil price rises to $80-90/bbl in FY2026, then the CAD is likely to widen to 1.5-1.6% of GDP from our current estimate of 1.2-1.3% of GDP. This would also exert pressure on the USD/INR pair during the fiscal.**

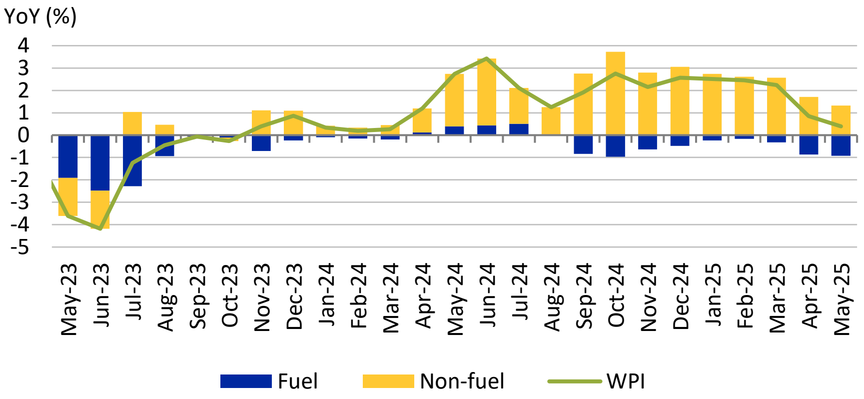
Rise in crude oil prices poses larger upside risks to WPI inflation than CPI inflation

Exhibit: Contribution of fuel and non-fuel inflation to the headline CPI



**Since the detailed data for March-May 2020 is not available, we have not calculated the shares of fuel and non-fuel to headline CPI inflation for March-May 2021; Source: NSO; CEIC; ICRA research*

Exhibit: Contribution of fuel and non-fuel inflation to the headline WPI

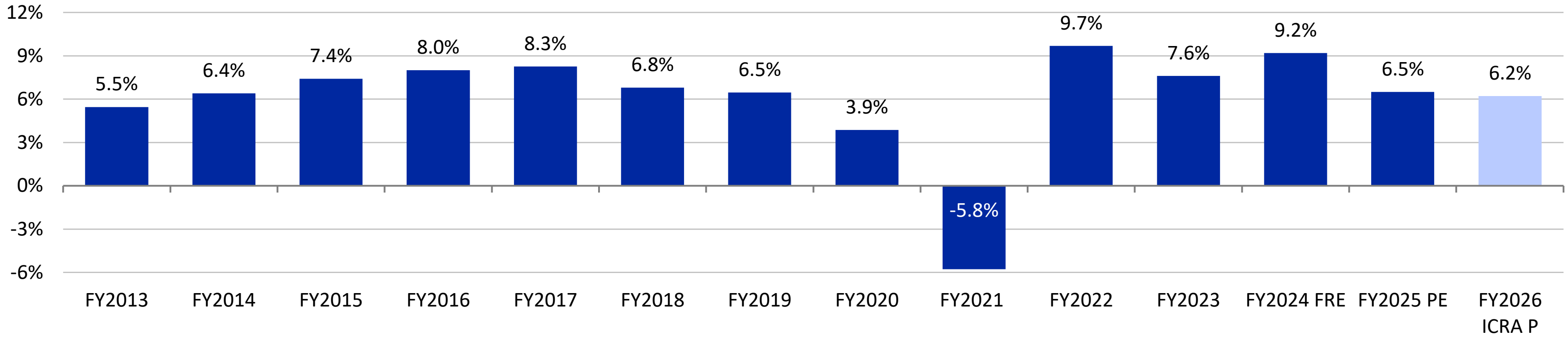


Source: Office of the Economic Advisor, Ministry of Commerce and Industry, GoI; CEIC; ICRA research

- Fuel items have a significantly lower weight in the CPI (4.2%; including petrol, diesel, LPG and kerosene) vis-à-vis the WPI (10.4%; including crude oil, natural gas, and crude derivatives). Consequently, **a change in crude oil prices is likely to transmit faster into the WPI compared to the CPI**.
- We estimate that for every 10% increase in crude oil prices, the WPI inflation will rise by ~80-100 bps, against the ~20-30 bps uptick in the CPI inflation, assuming transmission into Retail Selling Prices (RSPs) of fuels. The quantum of the impact on the CPI inflation trajectory will particularly depend on the extent of the change in RSPs of petrol, diesel and LPG undertaken by the oil marketing companies (OMCs).
- **Overall, a sharp increase in crude oil prices could pose significant upside risks to ICRA's modest FY2026 WPI inflation forecast of 1.8%, and to a lesser extent on the CPI inflation projection of 3.5%, depending on the extent of pass-through to the RSPs. Even if this risk manifests, the expected sharp dip in food inflation at the wholesale and retail levels amid a favourable monsoon forecast would aid in keeping the CPI and WPI prints at fairly benign levels.**

Sustained increase in crude oil prices could pose a downside risk to ICRA's GDP growth forecast of 6.2% for FY2026

Exhibit: GDP growth (at constant 2011-12 prices)



FRE: First Revised Estimates; PE: Provisional Estimates; P: Projected; Source: NSO; CEIC; ICRA research

- ICRA expects India's GDP growth to ease to 6.2% in FY2026 from 6.5% in FY2025. While FY2026 has begun with heightened uncertainty around global trade policies, the outlook for domestic drivers of growth, particularly private consumption and Government investment appears relatively sanguine. However, that for merchandise and IT exports, and private capital expenditure (capex), especially in export-oriented sectors, appears muted; although the relative tariff scenario will evolve as the year progresses.
- While crude oil prices have risen quite sharply over the last few days, they remain lower than the $78.6 per barrel seen in FY2025. **If the price persists at the current levels, it may not lead to a material revision in our GDP growth forecast, which is currently pegged at 6.2% for the fiscal, lower than the Monetary Policy Committee's projection of 6.5%. However, a sustained increase from the current levels would weigh on India Inc.'s profitability and portend a downward revision in our GDP growth projections for the fiscal. As per the Monetary Policy Report published in April 2025, the drag on India's GDP growth is estimated at 15 bps, if crude oil prices rise 10% above the RBI's baseline forecast ($70/bbl for FY2026).**

Summary: Impact of rising crude oil prices on Indian macros

For every $10/bbl increase in the average crude oil price in a fiscal, net oil imports will rise by $13-14 billion in that year, pushing up the CAD by 0.3% of the GDP. At present, ICRA expects the CAD to print at a manageable 1.2-1.3% of GDP in FY2026.

Change in crude oil prices is likely to translate faster into the WPI than the CPI amid different weightage mix in both these indices; for every 10% increase in crude oil prices, the WPI inflation will rise by 80-100 bps, compared to 20-30 bps in CPI inflation, provided the transmission into RSPs of petrol and diesel takes place.

Higher crude oil prices are somewhat negative for the fiscal deficit, given the higher subsidy burden for the GoI for items like kerosene and LPG. This would also negate the room for additional excise duty hikes on fuels to shore up revenues, and may dampen dividends from the oil PSUs, thereby reducing the fiscal buffers to some extent.

If crude oil prices persist at the current levels, it may not lead to a material revision in our GDP growth forecast, which is currently pegged at 6.2% for FY2026. However, a sustained increase from the current levels would weigh on India Inc.'s profitability and portend a downward revision in our GDP growth forecast for the fiscal.

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Thank You!