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REFINING AND MARKETING INDUSTRY

Rising crude oil and LNG prices to adversely impact profitability of midstream and downstream industry

March 2026

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Highlights

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The Strait of Hormuz (SoH) remains one of the key routes for exporting crude oil, accounting for almost 20% of the global petroleum liquid consumption and 20% of worldwide LNG trade. The prolonged closure of this route and disruption in the operations of crude and LNG producers could significantly increase energy prices across the world.

- On February 28, 2026, conflict erupted in West Asia, rapidly spreading to multiple GCC* countries. As a result, almost entire sea freight navigating through the SoH, which plays a crucial global role in Oil & Gas transportation, was halted unilaterally by Iran. Furthermore, numerous oil and gas installations belonging to various producers in the GCC regions have suffered damaged.

- The SoH remains one of the key routes for exporting crude oil and natural gas liquids, accounting for almost 20% of the global petroleum liquid consumption. Further, nearly 20% of the global liquefied natural gas (LNG) exports originate from Qatar and the United Arab Emirates (UAE) with the SoH being the sole evacuation channel. Prolonged armed conflict in this region is likely to create supply shortages and push up global energy prices further.

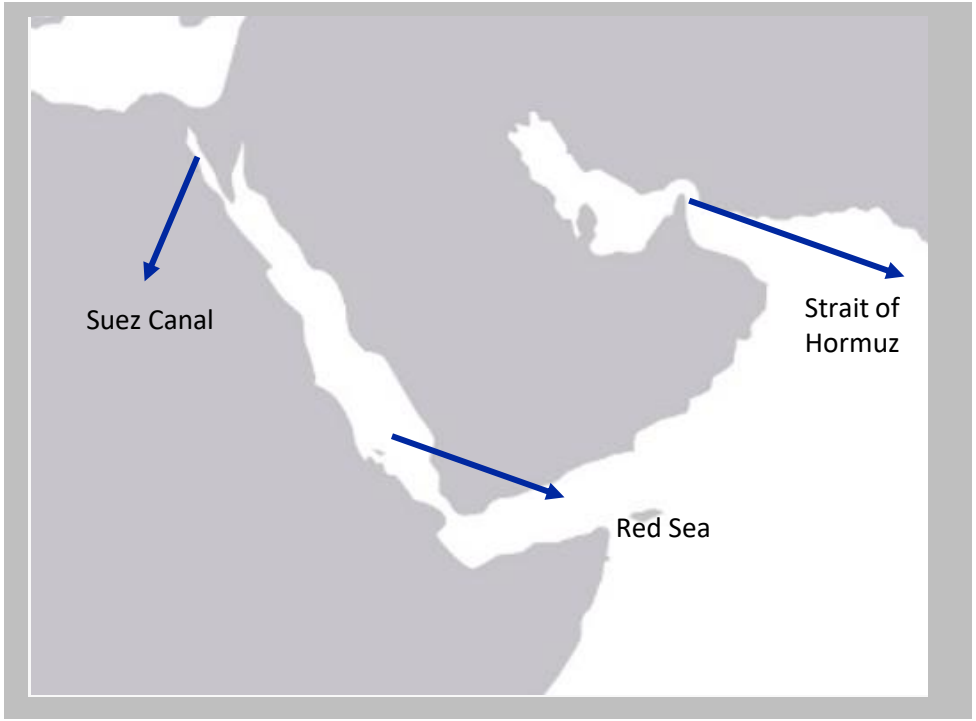
- Crude oil imports from Iraq, Saudi Arabia and the UAE, routed through the SoH, contribute 45-50% to India's total crude imports. Furthermore, nearly 55% of India's natural gas imports pass through the SoH as a major share of LNG originates from Qatar under the RasGas contract and from the UAE.

- Suspension of LNG supplies from March 2, 2026, by Qatar has led to a jump in LNG prices and would impact the availability of gas in India as ~50% of the imported LNG is sourced from Qatar. Elevated LNG prices are expected to result in margin pressures for city gas distribution (CGD) entities in the compressed natural gas (CNG) segment and higher subsidy requirement for urea players (fertiliser sector).

- As a result of the escalating conflict, crude oil prices (Brent) have already risen to $84/barrel (bbl) from $65/bbl a few days back. If prices go above $85/bbl, ICRA estimates that oil marketing companies (OMCs) would start incurring losses at current diesel prices, which accounts for ~50% of the total petroleum, oil, and lubricant (POL) products sold in the country. For petrol, the OMCs will break even at the said level of crude oil prices.

**GCC-Gulf Cooperation Council*

War breaks out in the West Asia



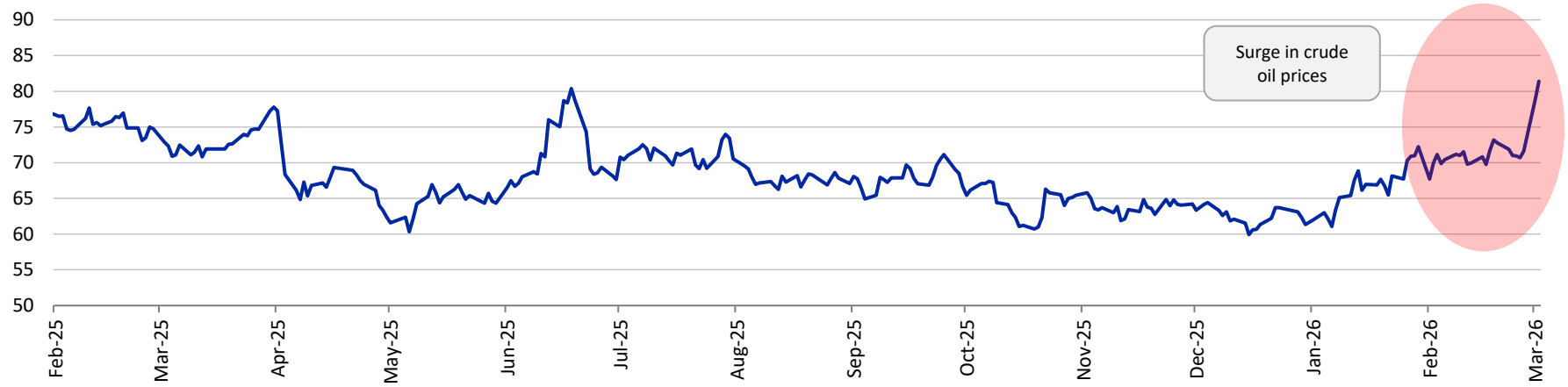
On February 28, 2026, the joint US-Israel strikes and Iran's subsequent retaliation begun, which rapidly spread to multiple countries in the Gulf region.

In view of the hostilities, all maritime traffic through the Red Sea and the Strait of Hormuz was halted unilaterally by Iran. Leading international shipping companies have suspended their passage through these critical waterways.

Furthermore, the oil and gas facilities in several West Asian nations have been targeted and sustained significant damage.

Crude oil prices have surged over the past few days

Exhibit: Brent crude price trend ($/bbl)

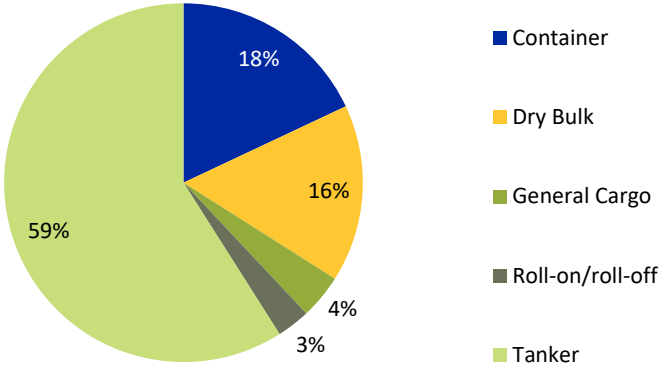


Source: EIA, ICRA Research

- Over the past few days, Brent crude oil prices rose to $81/barrel from ~$65/barrel owing to the buildup of geopolitical tensions in the region.
- Prolonged and widening conflict, involving several oil and gas producers and the SoH, could adversely impact global crude oil and LNG supplies and lead to a further increase in energy prices.

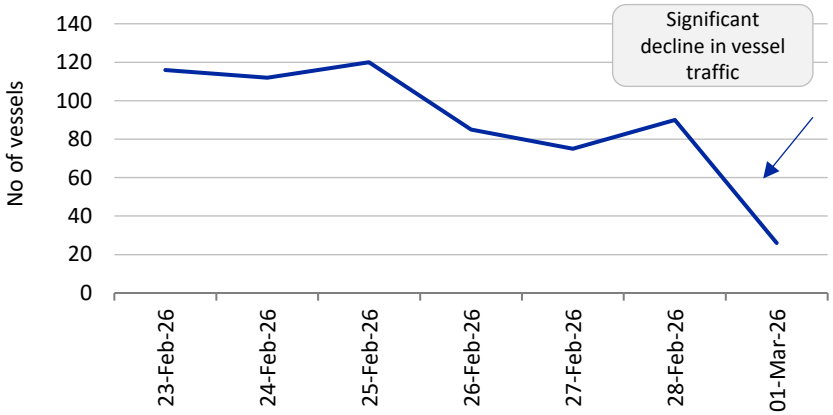
Crude Oil and LNG tankers remain the major segment transiting through SoH

Exhibit: Vessel composition through SoH in FY2025



Source: IMF Portwatch, ICRA Research

Exhibit: Daily vessel traffic through SoH



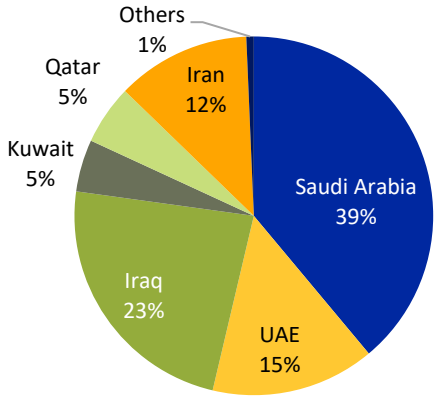
Source: IMF Portwatch, ICRA Research

- Crude and LNG tankers account for 59% of the total transit volumes through the SoH, making them the largest vessel segment.
- Daily vessel traffic through the SoH declined sharply on March 1, 2026, following the outbreak of the conflict, after which the SoH was subsequently closed. Further, VLCC* tanker freight rates have climbed sharply amid the ongoing turmoil, as heightened geopolitical risk continues to elevate premiums across the tanker market.

**Very large crude carrier*

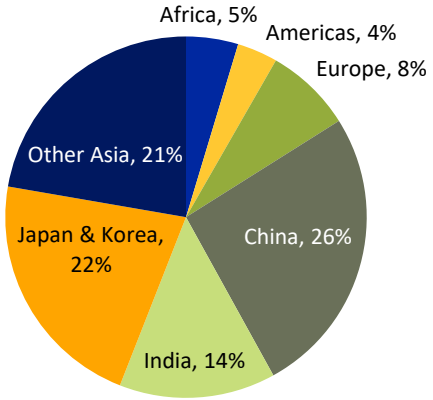
Nearly 20% of global oil trade moves through SoH

Exhibit: Crude exports through SoH in 2025



Source: ICRA Research, drewry.com

Exhibit: Destination-wise crude imports from SoH in 2025

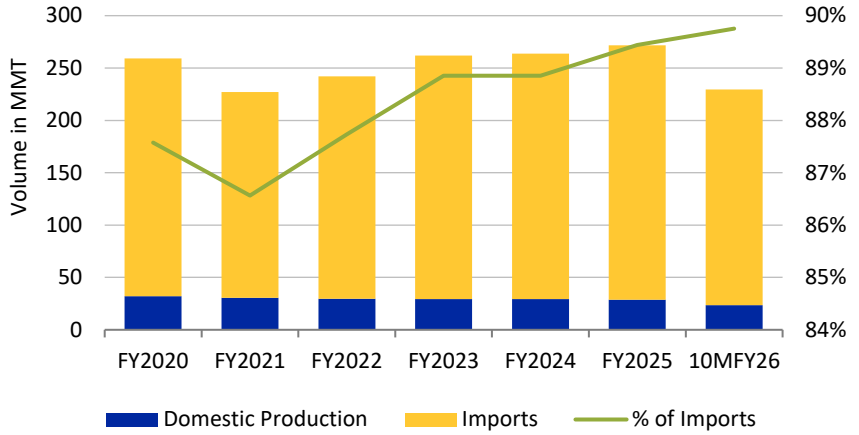


Source: ICRA Research, IEA

- About 20 million barrels per day (mbd) of crude oil and natural gas fluids flow through the SoH, accounting for ~20% of global petroleum liquid consumption.
- The route handles ~80% of Gulf oil exports, largely destined for Asia. Of the destination countries, the biggest share goes to China, followed by Japan and South Korea. India accounts for ~14% of the total oil exports routed through SoH.

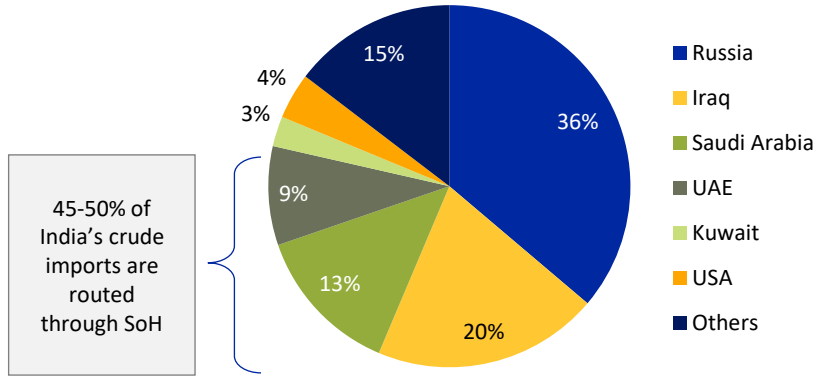
India relies on imports for almost 90% of its crude oil consumption

Exhibit: Domestic production vs imports



Source: PPAC, ICRA Research; MMT – Million metric tonnes

Exhibit: Major exporters to India in FY2025

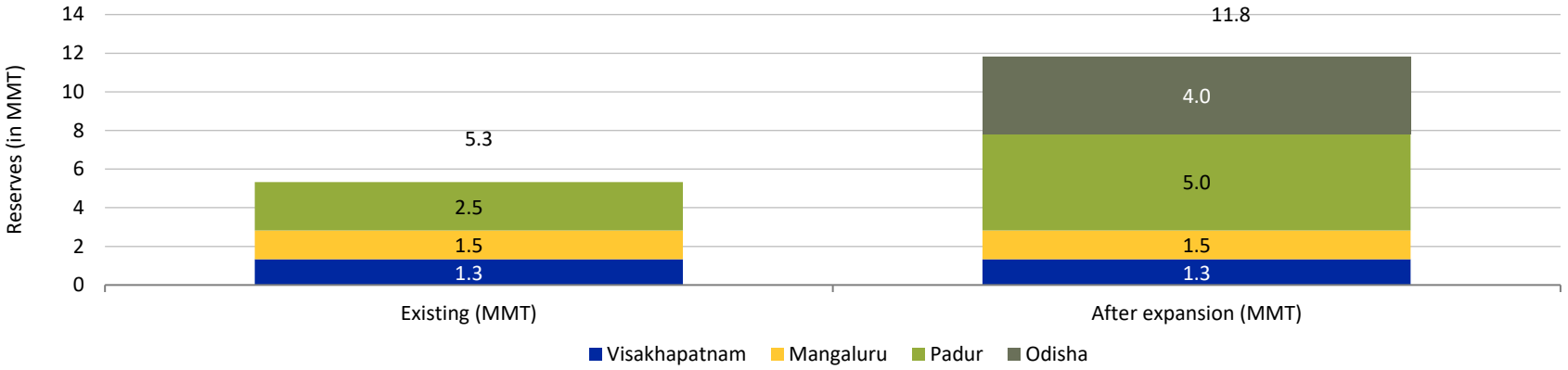


Source: Refinitiv, PPAC, ICRA Research; SoH – Strait of Hormuz

- India relies heavily on crude oil imports to meet its domestic consumption. The percentage of crude oil imports stood at 89% in FY2025 and 90% in 10M FY2026.
- Nearly 45-50% of India's crude imports are routed through the SoH, underscoring the strategic importance of this maritime passage for the country's energy security.

India’s crude reserves are relatively low with strategic reserves estimated at 5.3 MMT

Exhibit: India’s strategic petroleum reserves

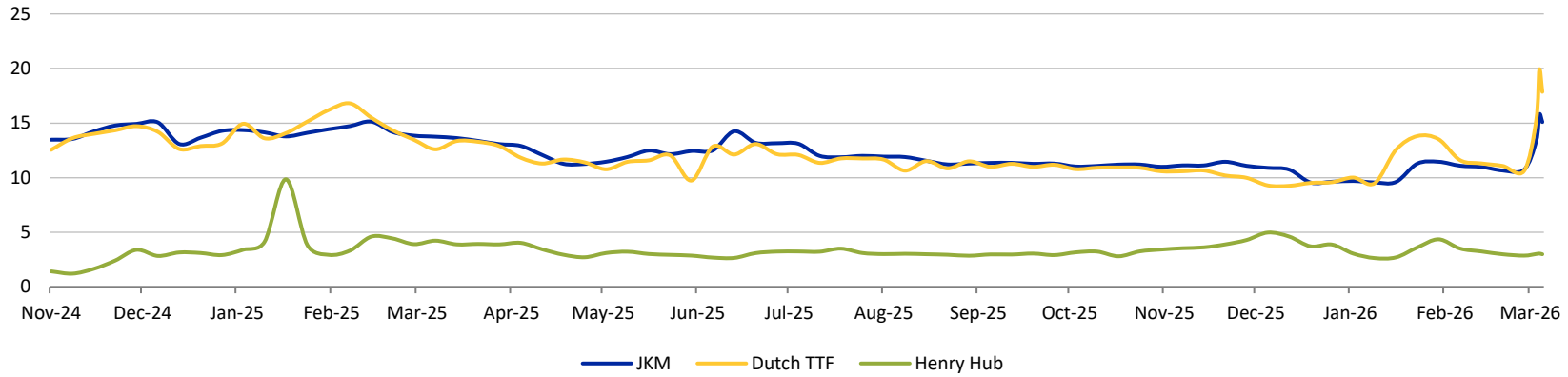


Source: MoPNG

- India’s strategic petroleum reserve stands at 5.3 million metric tonnes (MMT), which is equivalent to around seven days of its total crude oil consumption (as of FY2025). Based on the approved capacity expansion of 6.5 MMT, the same will increase by 122% to 11.83 MMT in the medium term, i.e. ~16 days of India’s total crude oil consumption. The reserves are maintained by the Government through a special purpose vehicle (SPV) – Indian Strategic Petroleum Reserve Limited (IRSPL).
- Combining the strategic reserves with operational reserves at refineries and floating storage at ports, the total storage provides for ~74 days of the total domestic crude oil consumption. This is below the 90 days of reserve stipulated by the International Energy Agency.

LNG prices spike, with further rise expected unless tensions ease

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

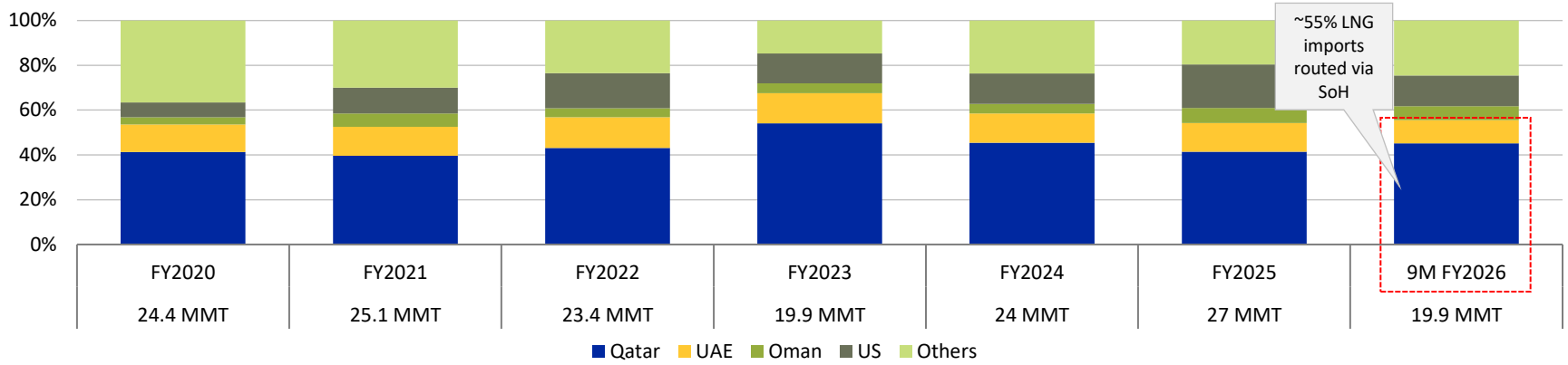


Source: Refinitiv, ICRA Research

- On March 2, 2026, Qatar announced that it has halted LNG production following the attack on the facility, which is the largest LNG facility in the world. As a result, almost 20% of the world's LNG supply has been shut down.
- LNG prices have spiked, following the suspension of supply, throwing LNG markets into turmoil.
- Japan Korea Marker (JKM) or the Asian LNG price rose by ~30% since the start of the Iran-US conflict while European gas prices (Dutch TTF) rose by ~44%.
- LNG prices may witness a further uptick if the supply disruption does not ease quickly.

West Asia remains central to India's gas economy with Qatar serving as key player

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

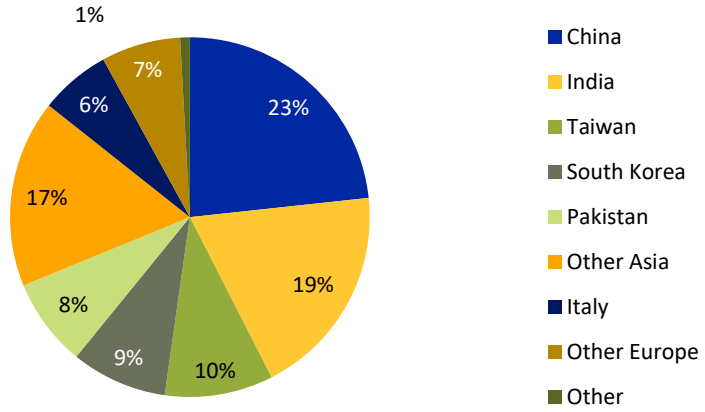


Source: CMIE, ICRA Research

- Nearly 55% of India's natural gas imports pass through the SoH as a major share of term LNG originates from Qatar and the UAE.
- The share of US in India's LNG supplies doubled to ~14% in 9M FY2026 from ~7% in FY2020; the ramp-up of LNG imports from the US and other suppliers will take time.
- With Qatar suspending production from the Ras Laffan field, 50% of India's LNG imports now face uncertainty over supplies.

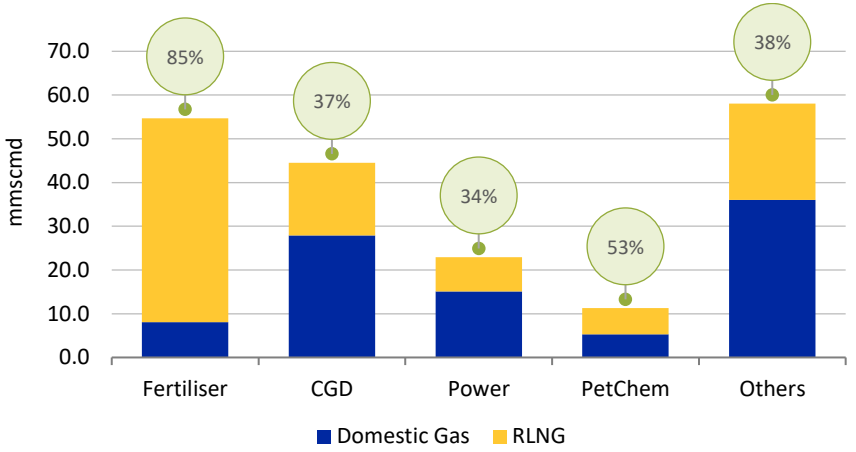
Qatar is major LNG supplier; India's fertiliser and CGD sectors most vulnerable

Exhibit: Qatar is major LNG supplier to Asia



Source: IEA, ICRA Research

Exhibit: India's sector-wise gas consumption and share of LNG



Source: PPAC, ICRA Research; mmscmd – Million metric standard cubic meters per day

- Qatar is the major LNG supplier to Asia and has been ramping up supplies to the European Union (EU) as the EU aims to replace Russian natural gas.
- Given the significant supply disruption, the industry will face difficulties in meeting the gap in supplies through the spot LNG market as spare supplies may be limited.

Lack of reserves amplifies volatility risks for India's gas sector

Lack of natural gas reserves: Gas importers like the EU and Japan have large gas storage facilities for 55 days and 36 days of consumption, respectively. Natural gas in Europe is stored in depleted gas fields, salt caverns and aquifers. However, India does not have such geological features.

Lack of strategic reserves: India lacks strategic natural gas storage facilities. While LNG terminals have storage facilities, these are operational in nature and provide minimal buffer. Although the Petroleum and Natural Gas Regulatory Board (PNGRB) has floated a proposal, mandating all LNG terminals to have 10% excess storage capacity that will act as a buffer in stress scenarios, the same remains in the draft stage.

Mostly inflexible demand: A major share of sectors consuming natural gas in the country, like fertilisers and CGD, cannot shift to alternate fuels. Some consumers in the industrial sector have the option to shift to alternate energy sources like coal, fuel oil, etc.

Impact assessment – Upstream, downstream, gas utilities and shipping

Upstream – Surge in crude prices boosts profitability

	Increase in PBT of Indian upstream companies	Increase in Indian import bill	Impact on capex of Indian upstream companies	Reaction of global producers
Crude at $60-70/bbl	**Rs. 250 billion**	Rs. 0.2 trillion	Capex plans are likely to remain intact	Profitability of US shale producers will remain low and may thus impact output
Crude at $70-80/bbl	Rs. 68 billion	Rs. 0.3 trillion	Capex plans are likely to remain intact	Profitable scenario for all producers, which would lead to elevated production
Crude at $80-90/bbl	Rs. 68 billion	Rs. 0.5 trillion	Capex levels will remain intact	Profitable scenario for all producers, which would lead to increase in production

From FY2026* levels

** Impact assessment on median value of the crude range; Basis YTD FY2026 levels on an annualised basis ; PBT – Profit before tax; Capex – Capital expenditure*

Downstream – Increase in crude prices to reduce marketing margins and increase LPG under-recoveries

	Marketing margins on auto fuels	Inventory loss/gain	LPG under-recoveries
Crude at $60-70/bbl	Petrol: Rs. 11/litre Diesel: Rs.7/litre	Loss of Rs. 66 billion	Rs. 80 billion
Crude at $70-80/bbl	Petrol: Rs. 6/litre Diesel: Rs. 2/litre	Gain of Rs. 66 billion	Rs. 290 billion
Crude at $80-90/bbl	Petrol: Rs. 0/litre Diesel: -Rs. 4/litre	Gain of Rs. 200 billion	Rs. 500 billion

** Impact assessment on median value of the crude range; International prices of auto fuels estimated based on last 10 years' average crack spread*

Gas utilities – Gas supplies under threat while prices rise

	Impact on APM gas prices	Impact on term LNG price under RasGas contract	Increased costs for LNG imports under RasGas contract*
Crude at $60-70/bbl	APM gas: $6.5/mmbtu NWG gas: $7.8/mmbtu	RasGas term LNG: $9.04/mmbtu	Savings of $91 million
Crude at $70-80/bbl	APM gas: $7.00/mmbtu NWG gas: $9/mmbtu	RasGas term LNG: $10.30/mmbtu	Increased outgo of $468 million
Crude at $80-90/bbl	APM gas: $7.00/mmbtu NWG gas: $10.2/mmbtu	RasGas term LNG: $11.6/mmbtu	Increased outgo of $1,026 million

** Impact assessment considers comparison of pricing of RasGas contracts basis Brent crude price average of Dec-25, Jan-26 and Feb-26 ($66.6/bbl) with the median price for the price range of Brent crude oil price and the pricing change on annual contracted volumes; Administered price mechanism (APM) price= 10% of the monthly average of Indian crude oil basket with ceiling price set to rise to $7/mmbtu from April 2026; New well gas (NWG) price:12% of the monthly average of Indian crude oil basket; RasGas term LNG = Slope* 3-month average of Brent crude + Constant*

Impact on key sectors if LNG prices rise

Fertilisers

- Subsidy requirements of urea manufacturers are expected to increase as gas costs remain pass-through costs. Significant dependence on imported LNG makes urea players vulnerable to gas availability.
- The rise in ammonia as well as LNG prices may impact the profitability of phosphorus & potassium (P&K) fertiliser players unless subsidy corrections are made in the upcoming Nutrient-Based Subsidy (NBS) rate revision.

City Gas Distribution

- Increase in term and spot LNG prices will hurt the competitiveness of piped natural gas (PNG-Industrial).
- The expected increase in APM and NWG prices will put further pressure on CGD entities in the CNG segment. The increasing blend of LNG in the CNG segment will put pressure on margins if prices remain high.

Power

- The shortfall in domestic gas supplies and reluctance of distribution companies (discoms) to purchase high-cost power produced using LNG have kept the plant load factor (PLF) subdued (<20%) for gas-based plants.
- Increase in LNG prices will further impact the cost competitiveness of gas-based power generation in relation to other sources of generation.

Industrial

- LNG uptake by refineries is expected to face headwinds as alternate fuels may be more economical to use.
- Petrochemical players using natural gas liquids (NGLs) as feedstock will face significant headwinds amid already weak polymer margins.

Shipping – Tanker shipping rates surge

Shipping Costs

Tanker rates have increased as heightened geopolitical risk continues to elevate premiums across the tanker market.

Increased Distance

A trip between Europe and India through the Cape of Good Hope would take 10-15 days longer as compared to the Suez Canal – Red Sea route.

Vessel Speed and Carbon Emissions

The industry had adopted reduced sailing speeds to cut fuel costs and emissions. Recent disruptions in the Red Sea and SoH have led to rerouting through longer routes, necessitating an increase in speed. This has led to higher fuel consumption and emissions due to the combined effects of increased sailing speeds and longer distances.

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Insurance Premiums

War risk premiums have increased for vessels passing through the Red Sea. War risk premiums are now in the range of 0.75-1.0% of the insured value of the vessel, up from 0.5% before the crisis.

Inflationary Pressure

Continued crisis risks pose threats to global supply chains, leading to increased freight costs, delivery times, and inflation. The rise in freight rates is likely to eventually affect imported goods prices with a lag.

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