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Geopolitical tensions in West Asia

Impact across sectors is uneven, with entities adopting measures to manage and mitigate challenges

MAY 2026

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Overview

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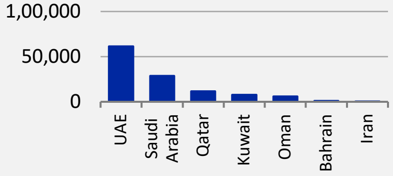
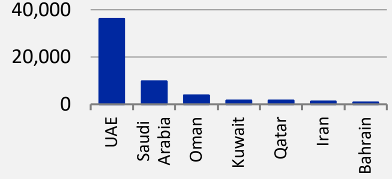
Exhibit: India's imports and exports from/to key West Asian countries in 11M FY2026 ($ million)

Imports



Exports



ICRA's analysis in this report focusses on the macroeconomic and sectoral implications arising from the visible second-order impacts of the US-Israel-Iran conflict. The sectoral impact in India appears uneven so far. Airlines, chemicals, fertilisers, and refining & marketing face the highest pressure from elevated fuel costs and rerouting. Several sectors including auto components, commercial vehicles, textiles (man-made fibre [MMF] and exports), tyres, quick service restaurants (QSR), and retail apparel may see a moderate impact owing to cost pressure and demand sensitivity. In contrast, cotton textiles, hospitality, pharmaceuticals are relatively insulated with limited direct exposure to trade disruptions.

The US-Israel-Iran conflict has disrupted trade flows through the Strait of Hormuz, driving up energy prices and freight costs. These first-order shocks have given way to second-order effects –higher inflation, supply constraints and balance sheet stress – now shaping India's sectoral outlook.

For instance, aviation companies face acute margin pressure from high ATF costs amid weakening demand. Refining & marketing entities are weighed down by high under-recoveries from elevated crude prices. Fertilisers sector face margin compression from surging input costs, while chemicals & petrochemicals contend with raw material availability challenges constraining select players.

Margins of the cement sector companies are likely to compress as input costs rise. Auto OEMs face demand sensitivity and pricing constraints, while commercial vehicles are exposed to fuel inflation-driven slowdown risks. Auto components players may see demand moderation if the conflict prolongs, while tyres entities face export and cost headwinds. City gas distribution companies contend with elevated LNG costs. Ceramic tiles players are navigating fuel supply disruptions, aided by steady domestic demand. Profitability of QSR is under pressure from operational disruptions. Retail apparel companies are exposed to lower discretionary spending, while textiles (MMF spinning) players face crude-linked cost pressure with divergent margin trends across yarn types.

Cotton textiles sector benefits from higher spreads despite volume pressure. Hospitality companies face only transient demand softness. While pharmaceuticals players remain resilient with manageable cost pressure, jewellery retail sector gains from import duty hikes on inventory, and CPD entities benefit from diversified sourcing. Textiles – fabric and apparel players see largely stable domestic demand with some denim and MMF margin pressure. Credit growth is expected to moderate in FY2027, following strong FY2026 expansion, as inflationary pressure weighs on demand and tightens liquidity.

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Thank You!

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