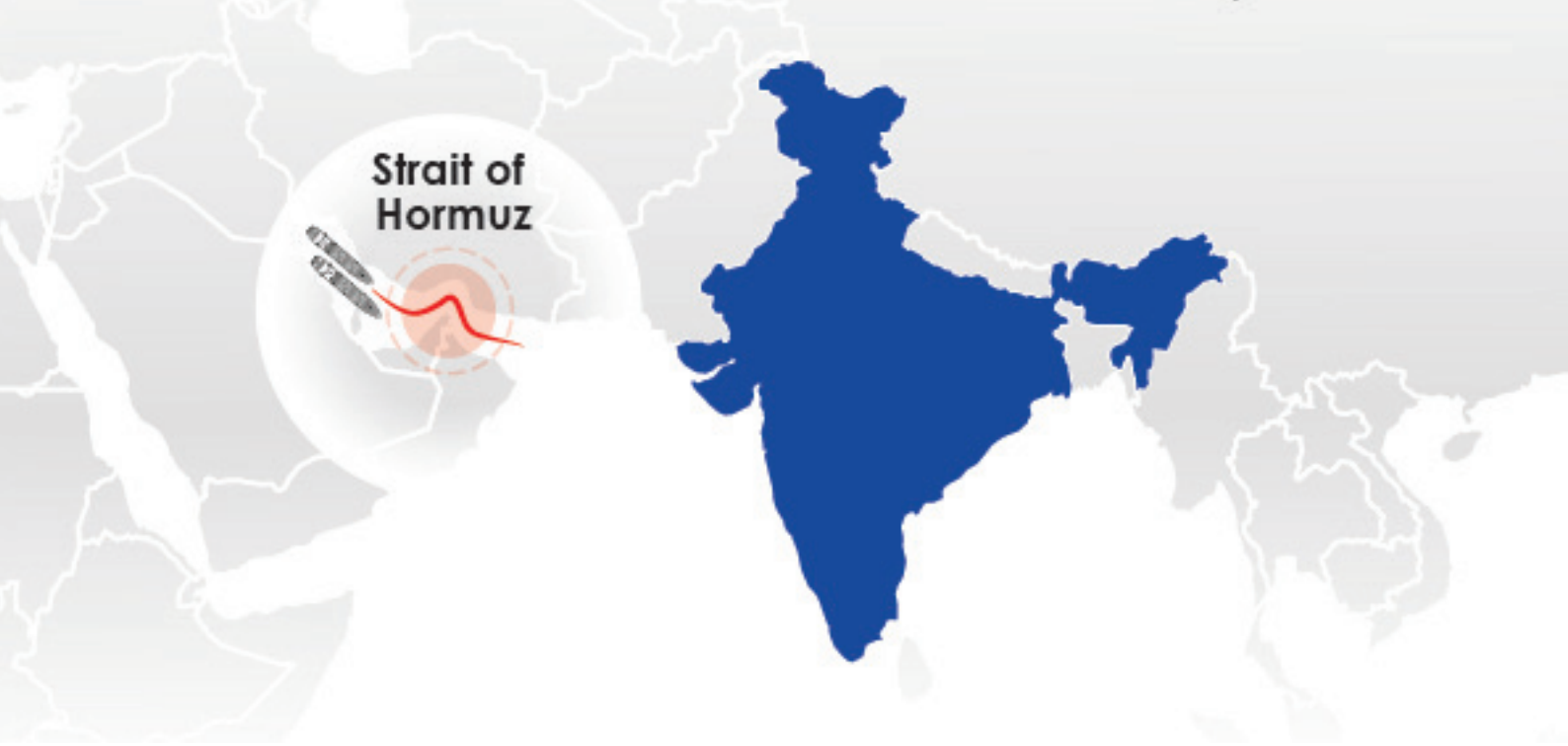


The War in West Asia

The Global Situation and the Risk to India's Economy



Details as on March 31, 2026

The War in West Asia: The Global Situation and the Risk to India's Economy

The global oil and natural gas market is experiencing unprecedented stress due to severe disruptions in the Strait of Hormuz, through which approximately 20% of global oil supply and significant LNG volumes transit. Since India has ~88% import dependence for crude oil, ~50% import dependence for natural gas and over 60% for LPG, it faces material supply risks. However, diversification of sourcing (LNG already from non-Hormuz regions & surge in crude oil imports from Russia), carefully designed emergency rationing, and prioritization of critical uses (household cooking, transport, fertilizers) have created important buffers.

The Strait of Hormuz (SoH) Crisis

In retaliation to US' attack on Iran, Iran blocked the SoH in March 2026, resulting in a collapse in vessel traffic through SoH. Vessel traffic decreased to 1-2 oil and gas ships per day versus approximately 50 ships daily in February. The impact of this on the broader oil supply is material. Prior to the war, ~20 million barrels per day (mb/d) of crude, condensate and refined products transit through the Strait of Hormuz (SoH) which is approximately 20% of global oil supply, with roughly 80% of these flows destined for Asia.

Alternatives to bypass the Strait are:

- Saudi East-West pipeline has a capacity of 7 mb/d however, has spare capacity of ~5 mb/d.
- UAE Habshan-Fujairah pipeline (Abu Dhabi Crude Oil Pipeline) has a capacity of 1.5 mb/d capacity with only ~0.5 mb/d spare capacity.
- Iran Goreh-Jask pipeline: Close to 1 mb/d capacity but minimal current utilization.

Thus, out of the total ~20 mb/d transiting via the Strait, only about 5.5 mb/d could realistically be redirected through alternative routes. Even after accounting for the announced emergency stock releases by International Energy Agency (IEA) members, a **potential ~9 mb/d shortfall would remain. This quantum of disruption far exceeds supply shock scenarios witnessed in the past.**

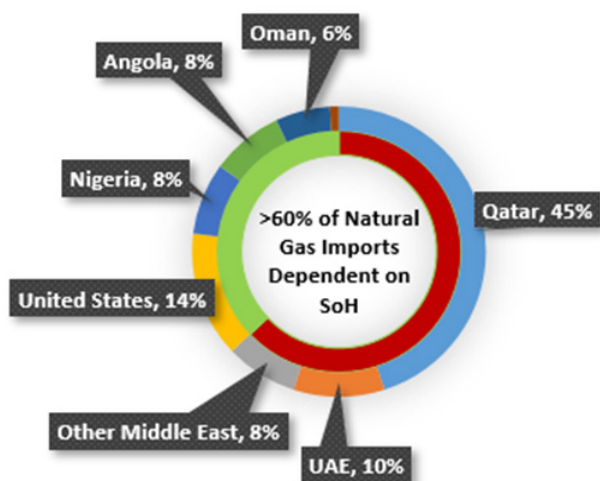
India's Natural Gas Dependence and Supply Structure

India's total gas consumption ranges ~160-200 mmscmd (million standard cubic meters per day) considering the average consumption during FY'21-FY'25. Out of this, ~50% of total gas demand is imported.

- Domestic production is relatively stable at 100-110 mmscmd.
- LNG imports have been gradually increasing with import volume in the range of 80-95 mmscmd.

Geographic Sources of LNG Imports

India's LNG geographical import profile for 9MFY26 is given in the chart below:



Source: World Integrate Trade Solutions, JMF MF Internal Research | As per latest available data.

Crucially, Qatar and the UAE together account for approximately 55% of India's LNG imports, and these flows transit via the SoH. However, there exists some diversification with a portion of imports that do not pass through the SoH.

Sectoral Gas Demand and LNG Intensity

India's natural gas consumption for 9MFY'26 averaged as per the table below:

Sector	Demand (mmscmd)	% LNG Dependency
Fertilizer	45	35%
City Gas Distribution	37	50%
Power	34	85%
Refinery	23	40%
Petrochemicals	15	75%
Others	41	30%
Total	~195	~50%

Source: Petroleum Planning and Analysis Cell, JMF MF Internal Research | As per latest available data.

Power generation and petrochemicals exhibit the highest LNG dependency, making them most vulnerable to import disruptions and global price volatility.

LPG: India consumes ~31 mmt (million metric tonne) of LPG annually, with import dependence of ~64% out of which ~90% is routed through SoH. The remaining ~10% arrives mainly from the US with ~45-days shipping lag. India currently holds only ~15 days of LPG inventories, making this a weak link in the energy chain. Commercial LPG is already rationed, with restaurants, hotels and industrial users facing severe curtailment. The government has increased the minimum refill gap from 21 to 25 days and boosted domestic production by ~28%. However, the ~58% of total consumption reliant on Hormuz cannot be quickly substituted.

India's Emergency Gas Rationing Framework

With Hormuz flows severely disrupted and Middle East LNG exports curtailed, India has implemented a **centralized, priority-based gas allocation regime**.

Priority	Sector/Use	% Allocation
Priority 1	Domestic PNG (cooking), CNG (transport), LPG production, Pipeline compressor fuel	100%
Priority 2	Fertilizer plants	70%
Priority 3	Tea industry, manufacturing, other industrial consumers	80%
Priority 4	Industrial & commercial customers of CGDs	80%
Priority 5	Oil refineries	65%
Priority 6	Petrochemicals	30%
Priority 7	Gas-based power plants	20%

Source: Ministry of Petroleum and Natural Gas (MoPNG) | As per latest available data

Post the rationing, with even 30-35% of the usual LNG import volume, the consumption as per the aforementioned allocations can be met.

India's Vulnerability Across Hydrocarbon Fuels

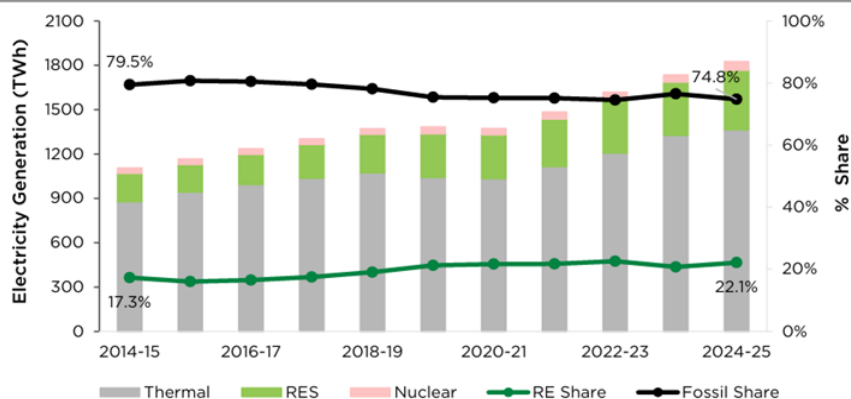
- **No strategic LNG reserves:** India maintains **Strategic Petroleum Reserve** for crude oil which provides inventory cover for a several days, however, it has no such dedicated strategic gas storage.
- Power and petrochemicals are highly dependent on LNG. However, these sectors face major gas curtailments.
- **Price risk:** Elevated global prices and longer voyage distances from alternative sources materially raise fuel costs.

Role of Renewable Power in addressing these shortages

Renewable energy is likely to remain the backbone of India's future electricity system and to ensure energy security. It will be supported by large-scale deployment of energy storage, strengthened transmission networks, and modernised grid operations.

To meet increased power demand, India's power systems are already under transition and shifting towards renewable energy (RE). The cost of clean energy technologies continues to decline. Government is promoting adoption of solar-based electricity generation for household rooftop Photo Voltaic systems and also agricultural feeders. The government has also provided a major thrust to nuclear power by amending the legislative framework to permit private sector participation. Government implemented the SHANTI Act to enable rapid scale-up of nuclear capacity, targeting 100 GW (Gigawatt) by 2047.

In FY25, 87% of India's new capacity additions came from renewable sources, reflecting a strong shift towards clean energy. India had already achieved 50% non-fossil fuel-based installed power capacity. However, despite this impressive growth on the capacity side, the contribution of RE to actual electricity generation has remained modest, with the share increasing from 19.6% in 2013-14 to 22% in 2024-25.



Source: Niti Aayog | RES-Renewable Energy Source, As per latest available data

Year-wise Source-wise projected Installed Capacity requirement (GW)

(All figures are in GW)

Year	Coal (including Lignite)	Gas	Nuclear	Large Hydro	PV	Wind	Other RE	Total	BESS	PSP
2026-27	237	20	10	48	176	63	17	571	6	5
2027-28	239	20	12	54	214	73	17	629	12	7
2028-29	245	20	12	55	254	83	18	687	17	13
2029-30	260	20	13	58	285	93	18	747	24	23
2030-31	276	20	14	59	320	103	19	811	28	32
2031-32	291	20	16	61	356	113	20	877	37	44
2032-33	299	20	19	64	395	123	20	940	46	54
2033-34	303	20	22	66	434	133	21	999	57	64
2034-35	307	20	22	75	474	144	21	1063	68	79
2035-36	315	20	22	78	509	155	22	1121	80	94

Source: Central Electricity Authority | BESS-Battery Energy Storage System, PSP-Pumped Storage Projects, As per latest available data

As per Niti Aayog report, electricity's share in final energy is projected to increase from ~21% in 2025 to 60% in the Net Zero Scenario (NZS) by 2070, driven by high EV penetration, greater use of electric industrial heat (heat pumps/electric boilers), and a shift toward electric cooking.

Government Initiatives to promote RE:

Solarisation of agriculture pumps: For clean energy adoption in the agriculture sector, government launched Pradhan Mantri Kisan Urja Suraksha Evam Utthaan Mahabhiyan (PM KUSUM) Scheme in 2019. The scheme aims to de-dieselise the farming operations, expand RE deployment, and enhance farmers' incomes.

Component A		Component B		Component C			
Solar capacity (MW)		Standalone Pumps (Nos.)		Individual Pump Solar-IPS (Nos)		Feeder Level Solar - FLS (Nos.)	
Sanctioned	Installed	Sanctioned	Installed	Sanctioned	Solarised	Sanctioned	Solarised
10,000	720.91	13,15,190	9,75,277	55,392	11,781	35,27,492	11,89,787

Source: Niti Aayog, PM KUSUM achievements. As per latest available data.

PM Surya Ghar: Muft Bijli Yojana (2024) was launched to accelerate residential rooftop solar adoption (MNRE). The scheme aims to provide subsidy support to empower one crore households by March 2027. It seeks to make RE more affordable and accessible through the addition of 30 GW of rooftop solar capacity in the residential sector.

The National Wind-Solar Hybrid Policy (2018) aims to promote large-scale hybrid renewable energy projects by combining wind and solar technologies at a single site.

National Programme on Advanced Chemistry Cell (ACC) Battery Storage (2021) was launched to support domestic manufacturing and reduce reliance on imports. The objective is to encourage private sector investment in large-scale battery manufacturing for electric vehicles, grid storage, and consumer electronics. The scheme mandates a minimum 60% domestic value addition within five years and requires firms to set up an integrated facility, from cell to pack (Ministry of Heavy Industries).

Scheme for setting up Solar Parks and Ultra Mega Solar Power Projects (2023) is being implemented to provide land and transmission infrastructure to RE developers for the installation of RE projects at a large scale.

National Framework for promoting & developing Energy Storage Systems (ESS) (2023) will encourage and create an ecosystem for development of Energy Storage based on requirements and financial feasibility.

Impact on the Indian Economy:

The war in West Asia has caused a spike in crude oil prices which can affect India's macro fundamentals negatively. Since 80% of India's crude oil demand is met by imports, the resulting supply disruption can widen the country's Current Account Deficit (CAD), posing downside risks to Gross Domestic Product (GDP) growth.

According to studies by the Reserve Bank of India (RBI), a **USD 10/bbl hike in crude oil prices could widen the CAD by ~0.4%** For 9MFY'26, CAD deficit stands at ~1.0%. Tabulated below is a scenario analysis considering various crude prices and the impact thereof, on the CAD.

	Current 9MFY'26	Scenario Analysis					
Average Crude Price	65.9	75	85	95	105	115	125
CAD (%)	1.0	1.4	1.8	2.2	2.6	3.0	3.4

The impact of the increase in import bill due to higher crude prices on the economy depends on who bears the final burden of the higher prices.

Option 1: Assuming the higher prices are absorbed by Oil Marketing Companies (OMC) – Since the Russia-Ukraine war, Indian petrol pump prices have not changed much despite the fluctuation in crude prices. OMCs can withstand temporary fluctuations in crude oil prices, however, their margins are directly impacted. A second order impact of compressed margins is reduced corporate tax and hence, can result in an increase in fiscal deficit to a limited extent.

Option 2: Assuming the higher prices are entirely borne by the government – This will cause an almost equivalent impact on the fiscal deficit. As per the study by RBI, assuming there is no change in savings and investment, the impact of a USD 10/bbl crude oil spike will result in an increase in Fiscal Deficit by the same proportion as CAD i.e. ~0.4%.

Option 3: Assuming the higher prices are fully passed through to the final consumer (i.e. petrol pump prices rise in tandem with increase in crude oil) – As per the study by RBI, the impact of crude oil price spike by USD 10/bbl will have a direct impact of 67bps and an indirect impact of 39bps on Consumer Price Index (CPI) inflation. Thus, the overall impact of a crude oil price rise of USD 10/ barrel may push up CPI inflation by a total of 106bps.

None of the aforementioned scenarios seem plausible in isolation since the burden of crude oil spikes is likely to be shared. In case the burden is shared equally, and assuming crude averages at USD 85/bbl (~USD 20/bbl higher than the average price of crude in 9MFY'26), CAD may average at 1.8% which can cause CPI to increase by ~70bps and fiscal to increase by ~33bps*. Markets are expecting an impact of a 50bps-60bps on GDP with FY 27 ranging from 6.4%-7.2% (assuming crude to be in the range of USD 85/bbl – USD 90/bbl).

*5bps higher than the impact on CAD has been assumed since the reduction in OMC margins will have an impact on fiscal through reduced tax collections.

The situation so far: Brent crude oil is broadly in the range of USD 100/bbl – USD 110/bbl with high daily volatility depending on the status of the ongoing conflict. The average price for FY27 will depend on the duration of the war and the intensity of the impact on daily crude prices. This burden of spike in crude oil prices has been initially borne by OMCs through compression of margins, as the prices of retail petrol and diesel have not been increased by most OMCs. Further, the government has announced an excise duty cut of Rs. 10/litre, which is a significant portion of its excise duty earnings. This massive cut is likely to increase the fiscal deficit. Finally, OMCs have hiked their industrial (bulk) diesel price by Rs. 22/Litre which is a direct pass through of surging global crude oil prices. This has a direct impact on WPI (Wholesale Price Index) and if sustained, may have a moderate yet delayed impact on CPI inflation.

Conclusion:

The blocking of the Strait of Hormuz has severely disrupted the supply of crude oil and natural gas to energy-dependent nations like India. These disruptions could result in increased prices of fuels like petrol, diesel and LPG which could result in increased costs for Indian consumers. While the present scenario poses inflationary risks, the government has taken measures in ensuring that the impact of the crude price hikes is not passed on to the consumer. However, it comes at a cost to OMCs who are likely to witness compression in their margins. It is pertinent to note that the government is taking proactive steps to ensure critical requirements such as household needs are met with an aim to ensure the least disruption possible. Given that India has a significant renewable power generation capacity, any efforts to shift consumers from fossil fuels to renewable sources will be crucial to ensure India's energy security and mitigate its vulnerability to external shocks.

Source: World Integrate Trade Solutions, Petroleum Planning and Analysis Cell, Ministry of Petroleum and Natural Gas (MoPNG), Niti Aayog, RES-Renewable Energy Source, Central Electricity Authority, BESS-Battery Energy Storage System, PSP-Pumped Storage Projects, JMF MF Internal Research

Mutual Fund investments are subject to market risks, read all scheme related documents carefully.