Strait of Hormuz: The Rising Risk for India Inc.

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Synopsis

In this report, CareEdge Ratings opines on the potential impact on India arising from the escalation of joint US–Israel strikes on Iran since February 28, 2026. Iran's retaliatory attacks on multiple US military bases across several Gulf countries have significantly intensified geopolitical tensions in West Asia. According to recent public statements by the Islamic Revolutionary Guard Corps (IRGC), the Strait of Hormuz (Strait) has been declared closed, with warnings that any vessel attempting to transit this vital global oil shipping corridor may be targeted. Against this backdrop, CareEdge Ratings analyses the likely implications of a Strait closure for India and for its key sectors of the economy.

- This opinion piece supplements CareEdge's June 24, 2025, report titled "Strait of Hormuz: India Navigating the Uncertainty."
- Given that ~40% of India's crude oil imports transit through the Strait of Hormuz, its full closure even for a limited duration of a few weeks could materially disrupt supply and potentially push Brent crude prices into the range of USD 100–110 per barrel. Such a scenario could also lead to shortages in LNG and LPG supplies to India. Brent crude prices have already exhibited upward momentum, touching a new 52-week high on March 03, 2026, and rising above USD 83 per barrel.
- Sustained increase in crude prices would widen India's current account deficit, exert upward pressure on inflation, increase depreciation pressures on the rupee, and elevate hedging and input costs for import-dependent sectors. Vulnerabilities are particularly high in LPG and LNG supplies, given India's significant reliance on the Strait of Hormuz for these imports.
- Key manufacturing sectors that depend on petroleum-based inputs like aviation, chemicals, paints, tyres, logistics, etc., would likely face pressure on profit margins due to a rise in raw material costs, elevated logistics/insurance outgo, and higher working capital requirements.
- A sustained escalation of the West Asia conflict may necessitate an increased reliance on discounted Russian crude imports to safeguard India's energy security. However, such a shift could elevate the risk of renewed U.S. sanctions or other restrictive measures, potentially constraining India's strategic flexibility in crude sourcing amid heightened geopolitical uncertainty.

The Strait of Hormuz

The Strait of Hormuz, extending 90 nautical miles (167 km) between Oman and Iran, is a vital maritime corridor connecting the Persian Gulf with the Gulf of Oman and the Arabian Sea. At its narrowest point, it is only about 21 miles (33 kilometres) wide and 55 miles (88 kilometres) at its widest point. However, the actual navigable channel for ships is just a few kilometres wide in each direction, making it a tightly controlled and high-risk zone. It is the main shipping route for energy exports from major producers like Saudi Arabia, Iraq, Iran, Kuwait, Qatar, and the UAE. About 20% of the global oil consumption and one-third of the world's liquified natural gas (LNG) flows through the Strait of Hormuz.

Oil imports from Russia have declined in early 2026 following the tightening of US sanctions. India imported ~1.16 million barrels per day of Russian oil until last week, compared with an average of 1.71 million barrels per day in

2025, according to energy data provider Kpler. Meanwhile, purchases from Gulf nations, particularly Saudi Arabia and Iraq, have surged in recent months. This shift is precisely why India's reliance on the Strait of Hormuz has been critical in recent months. Although India does not import oil directly from Iran, over 40% of India's crude oil and a significant portion of its liquefied natural gas (LNG) imports from West Asia pass through the Strait of Hormuz. Any prolonged disruption in West Asia could affect supplies from Iraq, Saudi Arabia, and the UAE, key oil exporters to India. This would severely impact India's energy security, drive up oil prices, and trigger inflationary pressures at home. Exhibit 1 below illustrates the volume of crude oil, condensate and petroleum products transported through the Strait of Hormuz compared to global volumes.

Exhibit 1: Volume of crude oil, condensate and petroleum products transported to the World through the Strait of Hormuz

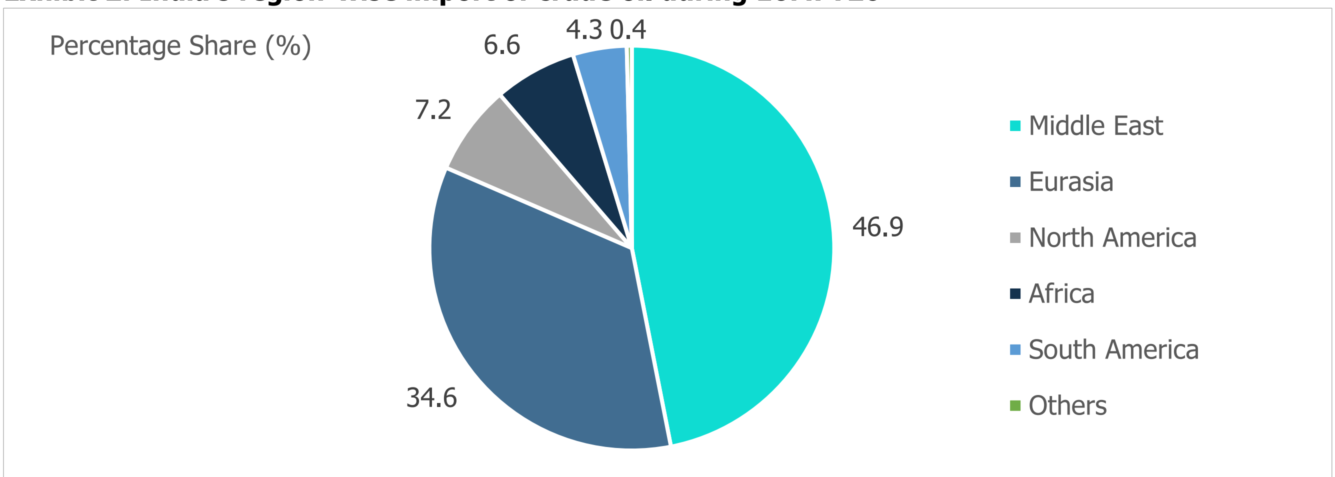
(Million barrels per day)

	CY2020	CY2021	CY2022	CY2023	CY2024	Q1 CY25
Total oil flows through the Strait of Hormuz (A)	19.1	19.4	21.4	21.4	20.3	20.1
World total petroleum and other liquids consumption (B)	91.0	96.6	99.5	101.8	102.7	102.1
% volume traded through Strait of Hormuz (A)/(B)	**21%**	**20%**	**22%**	**21%**	**20%**	**20%**
LNG flows through the Strait of Hormuz (billion cubic feet per day)	10.7	10.7	11.0	10.5	10.3	11.5

Source: U.S. Energy Information Administration (EIA); CY: Calendar Year; As per the latest available data

India's dependency on imported crude oil for its total processing needs is currently ~89%. This high reliance makes India one of the world's top crude oil importers. Exhibit 2 below shows India's region-wise share of imported crude oil, with a high reliance on the Middle East, i.e., 46.9% during 10MFY26 (refers to April 01, 2025, to January 31, 2026). As per the Centre for Monitoring Indian Economy (CMIE), India's overall crude oil imports amount to around 40-45% from the UAE, Saudi Arabia, Kuwait, and Iraq. Rising oil prices and limited crude procurement options will weigh on the balance of payments and could put further pressure on the rupee.

Exhibit 2: India's region-wise import of crude oil during 10MFY26



Source: Petroleum Planning & Analysis Cell

As per recent media news, Iran-backed Houthis in Yemen have warned of renewed Red Sea strikes, which may lead to a blockade of the Red Sea route. Most of India's merchandise trade with Europe passes through the Red

Sea, and substantial trade with the US also does so. Together, the Strait of Hormuz and the Red Sea account for around one-third of the country's total exports. Any further escalation in the Israel-Iran conflict could potentially lead shipping companies to bypass the Red Sea and the Persian Gulf, opting for the longer route via the Cape of Good Hope instead. Cape diversions during the Red Sea crisis resulted in delays of 2-3 weeks for shipping to Europe. Similar dynamics may recur if vessels avoid both of these critical sea routes, leading to increased transit time and shipping costs. The biggest challenge would be getting oil and natural gas from ports on the Persian Gulf. Exhibit 3 below illustrates the various routes opted by shipping companies for exports and imports to West Asia, the US and Europe.

Exhibit 3: Maritime trade routes for India

Source: Google

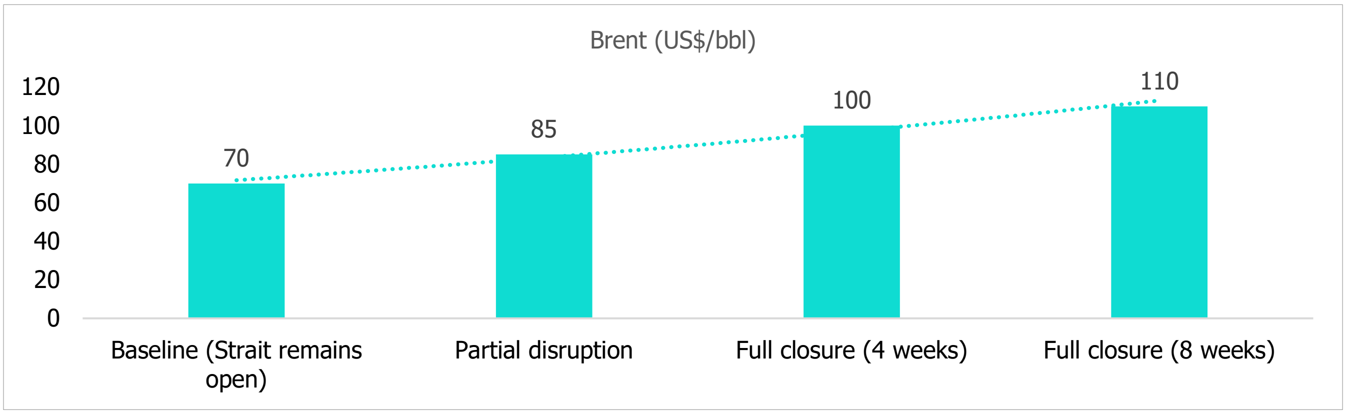
Blockage of the Strait may lead to higher freight rates, as was observed during the Iran–Israel conflict in May 2025, as shown in Exhibit 4 below:

Exhibit 4: Trend of shipping freight rates

Containerised Freight Index in points

Source: Trading Economics

Exhibit 5: Likely impact of the West Asia conflict on crude Brent prices:



Source: CareEdge estimates on crude Brent prices

Likely impact of the West Asia conflict on Indian companies:

- Prolonged instability in the region could disrupt key shipping corridors, push up marine insurance premiums and increase transportation costs. This could adversely affect the profitability of Indian exporters and importers. India Inc may find it difficult to fully pass on the entire increase in freight costs to end users, as observed during the Red Sea crisis, which affected the margins of Indian import-export companies, particularly small and mid-sized ones.
- In effect, closure of the Strait of Hormuz and renewed disruption in the Red Sea route would impact the supply of crude oil, petroleum products and LNG supply from West Asia, which could adversely impact key manufacturing sectors that rely on petroleum-based inputs, as the rise in raw material costs would put pressure on their profit margins. Additionally, container traffic would be forced to reroute around the southern tip of Africa via the Cape of Good Hope, extending lead times by ~2-3 weeks for exports from India to the US and Europe. Consequently, the Indian industry would incur higher logistics costs due to prolonged transit times and higher insurance premiums. Resultantly, profitability and the operating cycle of Indian import-export companies would be impacted. The impact on cargo routes may primarily affect food grains and other perishable items, along with freight-sensitive or low-value cargo, as their perishable nature and/or lean profit margins shall constrain their capacity to absorb increased costs and impact profitability.
- Following an interim trade deal with the US in February 2026, the decision to shift away from discounted Russian oil could prove costly for India, as the ongoing conflict in West Asia has already pushed up global oil prices to ~$83 per barrel as of March 3, 2026. The situation is further complicated by India's increased dependence on Middle East suppliers to replace Russian oil, heightening its supply exposure to disruptions around the Strait of Hormuz. Any attempt to resume Russian oil purchases may directly or indirectly lead to a renewal of punitive tariffs or other adverse measures.
- Higher crude prices will put pressure on India's balance of payments, widen the import bill, and add depreciation risk to the rupee.

CareEdge Ratings' View

Puneet Kansal, Director, CareEdge Ratings, said, "A full closure of the Strait of Hormuz, even for a few weeks, could push Brent crude prices in the range of $100-110/bbl and lead to LNG shortage across Asia and Europe. Such a disruption would also drive up marine insurance premiums, transit times for goods, and transportation costs.

These pressures would impact profitability, working capital cycle and cash flows of sectors such as aviation, paints, tyres, chemicals, and exporters of perishables or low-margin goods."

"A combination of sustained geopolitical tensions in the Middle East, Russia-Ukraine conflict, and US worldwide tariffs is expected to exert pressure on the inflation rate, supply chains and trade flows. Rising crude prices will increase India's current account deficit, weaken the rupee, and raise hedging costs for import-oriented firms. The challenge is more serious for the supply of liquefied petroleum gas (LPG) and liquefied natural gas (LNG), where India's dependence on the Strait of Hormuz is higher. While India may look for increasing supply from alternative crude oil suppliers, including the United States, Venezuela, Russia, Nigeria and Brazil, the current situation remains fluid with events in the Middle East still evolving," concluded Priti Agarwal, Senior Director, CareEdge Ratings.

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