Fresh blow for a market with 80% stocks in bear grip: War threatens India Inc's earnings comeback

Story by Akash Podishetti • 1d • 5 min read   Summarize

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India Inc entered the final quarter of the fiscal year with momentum on its side. In the recent third quarter, corporate earnings had just completed one of their strongest stretches in recent years, supported by policy stimulus, improving demand and easing cost pressures. But a sudden spike in crude oil prices triggered by escalating tensions in the Middle East has complicated that recovery narrative.

The conflict involving Iran has pushed oil markets into volatility and introduced a new layer of uncertainty for corporate earnings, particularly for sectors heavily dependent on crude-linked inputs. Analysts say the earnings rebound that investors expected in the second half of the fiscal year may now face near-term pressure if energy prices remain elevated.

This will come as a big blow for a market that is current hoarding 80% of stocks, which are firmly in bear grip. Among all listed companies with a market cap above Rs 1,000 crore, more than 64% have fallen 30% or more from their all-time highs. Nearly 78% have fallen 20% or more.

Niraj Rathi, senior director for ratings at Brickwork Ratings, said the aviation sector is facing a "triple threat" from higher fuel costs, longer routes and weaker load factors. "A 25% fuel spike could slash margins by 400-500 basis points even if airlines pass on half the cost increase to customers," Rathi said.

The ripple effects extend beyond aviation. For industries such as paints, crude-linked inputs account for more than half of total costs. Rathi said a similar oil spike could reduce margins in the sector by as much as 800 basis points, depending on how quickly companies are able to raise prices.

Manufacturing industries that depend on petrochemical feedstocks may also face pressure. Chemicals, tyres and cement producers rely on crude derivatives such as naphtha, benzene and synthetic rubber, which become more expensive as oil prices rise.

Higher shipping costs and supply disruptions could further increase working capital requirements for exporters and industrial companies.

Beyond corporate margins, the oil shock carries broader macroeconomic implications.

A sustained increase in crude prices raises India's import bill and puts pressure on the rupee. Currency weakness, in turn, increases the cost of imported raw materials for companies across sectors. Sourav Choudhary, managing director at Raghunath Capital, said rising oil prices could delay the earnings recovery that markets were anticipating.

"India Inc's earnings recovery after the third quarter could face a near-term headwind if the Iran conflict keeps crude oil elevated. India imports over 80% of its crude requirements, so any sustained spike in Brent tends to push up inflation, weaken the rupee and increase input costs for sectors such as aviation, chemicals, paints and logistics," he said.

Global strategists estimate that a 20% increase in oil prices could reduce regional corporate earnings by around 2%, Choudhary added. Still, not all sectors will be affected equally.

Energy producers and refiners could benefit from higher crude prices, while defense companies may see stronger demand as geopolitical tensions rise.For now, the earnings outlook hinges on the duration of the geopolitical crisis.

If oil prices remain elevated for a prolonged period, companies may be forced to shift from expanding margins to defending them. But if the conflict stabilizes and energy prices retreat, the recovery narrative that began in the third quarter could resume.

The next few months will determine whether India Inc's earnings cycle continues its upward trajectory or enters another phase of uncertainty driven by global shocks.

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