

## Credit Alert

# US–Israel–Iran conflict: Macroeconomic and sectoral implications for India

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The recent escalation, including direct strikes and attacks on ships, raises the risk of longer-lasting disruption in the Strait of Hormuz, which handles a large share of global oil and gas trade. This has already pushed up crude prices, hit global equities, strengthened safe-haven assets like gold and US Treasuries, and weakened emerging-market currencies, including the rupee. Shipping and insurance costs have jumped as vessels avoid high-risk routes, lengthening transit times and lifting freight rates. For India, these shocks mainly transmit through a higher oil import bill, increased consumer prices, and tighter external funding conditions.

## Macroeconomic implications for India

**Inflation and monetary policy:** Higher crude and logistics costs feed into CPI through fuel, transport and food. A move in Brent from around USD 80 toward USD 95–120 could add noticeable pressure to headline inflation and limit the RBI's scope to cut rates.

**External balances and the rupee:** About 88% of India's crude oil requirements is met through imports and a significant share transit via Hormuz. Under a severe shock, the CAD could rise from around 1.3% of GDP to above 3%, straining external buffers and hurting sentiment. A weaker rupee would further raise the local-currency cost of imports.

**Growth and fiscal pressures.** Higher energy costs act as a drag on real GDP by raising input costs across manufacturing and services. Our baseline stress estimates show real GDP growth moderating from a 7.0% baseline toward the low-6% range under severe scenarios. Fiscal pressures arise from higher subsidy needs (fertilizer, fuel, LPG) and potential revenue volatility if the government cuts indirect taxes to shield consumers—both of which could compress fiscal space and raise sovereign credit sensitivity.

## Sectoral impact and credit implications

A prolonged oil shock and supply-chain disruption would affect credit through weaker fiscal metrics, a wider CAD and pressure on reserves, higher inflation and interest costs, and sector-level stress that can raise defaults and NPAs. India's current reserves and moderate CAD offer a buffer, but a protracted shock could prompt rating agencies to reassess outlooks for vulnerable sectors and, in extreme scenarios, for the sovereign.

**Energy and petrochemicals:** The impact is uneven across the energy value chain. Upstream firms benefit from higher prices and stronger cash flows. In contrast, refiners and petrochemical players face margin pressure, especially where end-prices are regulated, leading to working-capital strain and weaker short-term profitability.

**Aviation and logistics:** Airlines face a double hit from higher jet fuel prices and airspace closures that force longer routings. Shipping and logistics firms face higher freight and insurance charges, squeezing margins and lifting refinancing risk for highly leveraged players.

**Chemicals, fertilizers and energy-intensive manufacturing:** Higher gas and naphtha prices raise costs for fertilizers, chemicals, paints, tyres and ceramics. Fertilizer producers face higher feedstock costs, which can add to food inflation and government subsidy burdens. Chemical companies may see margin compression and tighter liquidity.

**Food and agriculture.** Higher fertilizer and transport costs feed into agricultural input and distribution costs, raising the risk of food inflation. Exporters of perishables, such as basmati rice and tea, face higher freight and possible payment delays in some Middle East markets, hurting earnings and cash flows.

**Manufacturing, capital goods and exports.** Supply-chain disruptions and higher logistics costs reduce competitiveness for export-oriented manufacturers. Semiconductor and electronics firms face risks from shortages of critical inputs (for example, helium and other specialty gases), while capital-goods producers may see delayed orders as global uncertainty prompts capex postponements.

**Defense and aerospace.** Rising geopolitical risk typically boost defense spending and order flows for domestic defense manufacturers, improving revenue visibility and credit metrics for firms with strong order books and government contracts.

**Financial sector.** Banks and NBFCs are exposed to rising stress in energy-intensive sectors and to any deterioration in sovereign metrics that raises borrowing costs. Asset-quality risks may rise among aviation, logistics, chemicals and SME borrowers.

**Brickwork Ratings continues to monitor events and will assess their impact on credit profile of the companies on a case-by-case basis.**

*Editorial note:* This analysis draws on market data and sectoral assessments compiled through mid-March 2026 and incorporates scenario estimates for inflation, GDP and current-account impacts under varying oil-price paths. The situation remains fluid and we will continue to monitor developments and update our assessments as new information becomes available.