

Shelter from Spike'n'Supply Storm



Ramnath Krishnan

The war in West Asia is a reminder that for a heavily energy-importing economy like India, developments underway in that region can quickly translate into macro variables. Even if energy supplies continue to flow, longer shipping routes, higher insurance premiums and logistical bottlenecks can raise landed costs. Economic transmission doesn't require a complete halt in crude supply. Friction alone can alter cost structures.

Oil prices have already shown considerable volatility, crude dropping below \$100 a barrel on Tuesday after traders weighed in on the US blockade of Iranian shipping, and Iran and the US reportedly returning to negotiations soon. Markets are still reassessing the duration of supply disruptions. But the larger shift is structural. Trade corridors and commodity flows are increasingly exposed, and stability can no longer be assumed as the base case.

India enters this phase from a position of relative strength. Corporate revenues are projected to grow 8-10% y-o-y in the March quarter of FY26, supported by resilient rural demand and early signs of recovery in urban consumption. Operating margins are expected to improve modestly, and

interest coverage ratios remain comfortable in the 5.3-5.5x range.

Corporate deleveraging over the years has strengthened balance sheets across sectors. That buffer matters. It gives companies room to absorb moderate volatility. But resilience is not the same as insulation.

► **Energy & freight** Higher crude and LNG prices transmit into aviation, petrochemicals, fertilisers, paints, logistics and manufacturing segments, including MSMEs. If shipping routes are extended, or freight costs rise, working capital cycles lengthen and input costs increase even without a dramatic spike in benchmark crude. Availability also matters. Tighter supplies of any cog in the supply chain can cause disruptions.

Some sectors can pass through costs with a lag. Others operate in competitive markets where pricing flexibility is limited. Sustained cost pressures compress margins and widen sectoral divergences. Energy-intensive industries could see earnings volatility rise.

Oil marketing companies will experience marketing losses if pass-through remains uneven. Private capex — gradually broadening beyond policy-supported segments like electronics, defence manufacturing and renewables — could turn selective again if uncertainty persists.

► **Current a/c** India's current account deficit widened to \$13.2 bn in the December quarter, though it remained below earlier expectations.

For FY26, deficit is estimated at around 1% of GDP, with a drift toward 1.5% possible next year if crude oil prices average \$85 a barrel.

Oil remains the swing factor. A sustained rise in crude prices increases the import bill mechanically. Add higher freight costs and currency volatility, and the external balance can shift more quickly than anticipated. While India's forex reserves and macro framework are stronger than in earlier cycles, financial markets respond at the margin. Even a moderate widening in current account can influence currency expectations and funding conditions.

For corporates with foreign currency exposure or high import intensity, that translates into greater earnings variability. In a more fragmented global environment, cost of capital will increasingly reflect global risk perception alongside domestic fundamentals.

► **Remittances** A substantial share of India's inward remittance flows originates in the Gulf region. These support household consumption, housing demand and small enterprise activity in specific states. If economic conditions in the region weaken meaningfully, remittance growth could moderate. National impact may be contained. But localised credit stress in remittance-dependent pockets can't be dismissed.

Against these risks, domestic demand remains India's strongest counterweight. Rural consumption has

shown resilience, while urban demand is gradually reviving, aided by easing inflation and earlier rate reductions. GST rate cuts and festive demand supported consumption momentum in the December quarter. But if higher fuel prices linked to West Asian tensions persist, discretionary consumption could face some moderation.

This shift toward domestically anchored growth is India's core advantage. That diversification reduces vulnerability, though it doesn't eliminate exposure to energy and logistics shocks.

From a credit standpoint, can corporate cash flows absorb sustained volatility without a broad deterioration in leverage and coverage metrics? For now, yes. Healthier balance sheets and moderate external deficits provide a cushion. But that assessment is sensitive to duration. Temporary disruptions can be managed. Prolonged uncertainty is more testing.

Energy security and diversification must, therefore, accelerate. Expanding renewable capacity not relevant to oil and gas but to coal, broadening sourcing options, and maintaining strategic reserves are tools of macro stability.

Geopolitics has moved to the centre of economic analysis. Credit cycles, in the coming decade, will be shaped as much by disruptions to trade and energy flows as by traditional business drivers. India begins this phase with stronger balance sheets and a more disciplined macro framework than before. Preserving that strength in a less stable environment will define durability of its corporate credit cycle.



Take a detour