

Impact of Usa–iran War on Indian Petroleum Businesses

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Abstract

The outbreak of armed hostilities between the United States and Iran in late February 2026 has precipitated what the International Energy Agency has characterised as the most severe global energy security crisis in recorded history. For India — a country that relies on imports for approximately 88–90 percent of its crude oil requirements — this geopolitical rupture arrived at a moment of considerable structural vulnerability. This paper examines the cascading consequences of the USA–Iran conflict on India's petroleum businesses, with focused attention on the oil marketing companies (OMCs) — Indian Oil Corporation (IOCL), Bharat Petroleum Corporation (BPCL), and Hindustan Petroleum Corporation (HPCL) — as well as on the upstream and refining operations of Reliance Industries.

Drawing on secondary data sourced from the Reserve Bank of India, the Ministry of Petroleum and Natural Gas, World Bank commodity reports, Bloomberg terminals, and credible financial journalism spanning March–April 2026, this study employs trend analysis, a structured pre-war versus post-war comparison, and a correlation-based review of oil price movements against company equity performance. The principal findings reveal that Brent crude prices surged from approximately USD 72 per barrel before the conflict to a peak of nearly USD 120 per barrel in March 2026, the Indian rupee depreciated to record lows beyond INR 95 per USD, and the stocks of downstream OMCs fell 10–14 percent within weeks. While upstream producers such as ONGC benefited from enhanced realisations, the broader macroeconomic consequences — encompassing imported inflation, a widening current account deficit, and suppressed consumer spending — pose substantial medium-term risks to the Indian economy. The paper concludes with evidence-based policy recommendations directed at source diversification, expanding India's strategic petroleum reserve, rupee internationalisation in oil trade, and an accelerated transition toward renewable energy.

Keywords: USA–Iran War, Oil Price Shock, Indian Petroleum Sector, Strait of Hormuz, IOCL, BPCL, HPCL, Reliance Industries, Rupee Depreciation, Energy Security

1. Introduction

Few geopolitical events in recent memory have disrupted global commodity markets with the speed and severity of the US–Israel military operation against Iran — code-named 'Operation Epic Fury' — which commenced on 28 February 2026. Within a single trading session, Brent crude prices jumped double digits as market participants priced in the prospect of a prolonged disruption to energy flows through the Strait of Hormuz, a narrow waterway between Iran and Oman through which roughly 20 percent of the world's daily oil and liquefied natural gas trade transits (J.P. Morgan Global Research, 2026). Within a fortnight, Brent had crossed USD 100 per barrel for the first time since 2022, and by early March had approached a

peak of USD 120 per barrel — a surge exceeding 55 percent from pre-war levels (CNBC, 2026).

The conflict's deeper roots lie in decades of escalating tension between Washington and Tehran, punctuated by nuclear standoffs, proxy warfare across West Asia, and the collapse of the 2015 nuclear agreement. A limited precursor — the June 2025 'Twelve-Day War', a US-Israel aerial campaign against Iranian nuclear sites — had already elevated crude prices by roughly 10 percent before a ceasefire restored a semblance of calm (Center for American Progress, 2026). The February 2026 operation proved far more consequential: the opening strikes killed Iranian Supreme Leader Ali Khamenei; Iran retaliated by targeting Gulf energy infrastructure, including Qatari gas facilities at Ras Laffan; and the Strait of Hormuz was effectively closed to commercial shipping from 1 March 2026 onwards — an unprecedented interruption to the arteries of global energy trade.

The implications for India were immediate and multilayered. The country imports 88–90 percent of its crude oil, with 50–53 percent of those volumes transiting through the now-closed Strait (PSU Connect, 2026). Nearly 91 percent of India's liquefied petroleum gas (LPG) originates in the Gulf region. The conflict thus struck simultaneously at the cost of crude, the availability of LPG, the stability of the rupee, and the financial health of state-owned oil marketing companies already operating on thin margins.

Despite the scale of these disruptions, academic literature specifically addressing the India-specific consequences of the 2026 conflict remains sparse, given the recency of events. This paper seeks to fill that gap by synthesising real-time market data, government policy responses, and established oil shock literature into a structured, empirically grounded assessment of how the USA–Iran war is reshaping the operational and financial landscape of India's petroleum businesses.

2. Literature Review

2.1 Energy Geopolitics and Oil Price Shocks

The relationship between geopolitical conflict and oil prices has attracted sustained scholarly attention since Hamilton's (1983) seminal examination of oil price shocks and US recessionary episodes. Kilian (2008) refined this analytical framework by distinguishing between supply-side oil shocks — driven by physical disruptions to production or transit — and demand-side shocks generated by precautionary purchasing behaviour. The 2026 Iran crisis, as documented in an early working paper from the Dallas Federal Reserve (Kilian, Plante, Richter and Zhou, 2026), conforms closely to Kilian's supply-shock taxonomy: the closure of the Strait has imposed a structural supply loss of approximately 20 percent of global oil volumes, triggering panic-buying behaviour consistent with historical precautionary demand spikes.

Yergin (2011) argued with prescience that the Strait of Hormuz represented the single most consequential energy chokepoint on the planet, capable of inducing systemic oil market failure if interrupted even briefly. The 2026 conflict appears to validate this thesis empirically. Earlier work by Apergis and Miller (2009) confirmed that oil supply shocks propagate faster and more deeply into financial markets than previously understood — a finding corroborated by the 10–14 percent collapse in Indian OMC equities within days of the conflict's outbreak (BusinessToday, 2026).

2.2 India's Oil Import Dependence and Macroeconomic Vulnerability

India's structural dependence on imported crude has been thoroughly documented in domestic economic literature. Sinha (2019), writing in the *Economic & Political Weekly*, mapped the correlation between crude price spikes and India's current account deficit (CAD), finding that each USD 10 per barrel increase in oil prices widens the CAD by approximately 0.4 percent of GDP. This estimate aligns with more recent

analysis: the World Bank (2026) reports that global commodity markets are experiencing their most volatile conditions in four years, with energy costs expected to lead a 16 percent broad commodity price rise over the course of 2026. Indian analysts (Multibagg.ai, 2026) estimate that every USD 10 per barrel rise in crude adds approximately USD 13–14 billion to India’s annual import bill.

The Russia–Ukraine war of 2022 offers the nearest historical analogue to the current situation. Ghosh and Kapoor (2022) documented how the war-induced oil spike drove India’s import bill to record levels and forced the government into a painful dilemma between subsidising OMCs and permitting retail fuel price increases. The IEA (2022) noted that India’s subsequent pivot toward discounted Russian crude — now accounting for approximately 35–40 percent of India’s supply mix — had partially insulated it from European market dislocations. Yet the 2026 crisis reveals a categorically different vulnerability: it strikes at the physical transit corridor through which Gulf oil reaches India, not merely the pricing mechanism.

2.3 Financial Performance of Indian OMCs Under Crude Price Stress

The academic literature on Indian OMCs under commodity price stress centres on the concept of ‘under-recovery’ — the gap between the market cost of fuel and the regulated retail price at which OMCs are required to sell. Chakraborty and Mukhopadhyay (2018), in a study for the Indian Institute of Management Calcutta, found that under-recovery cycles depress OMC return on equity by 15–20 percentage points during commodity supercycles, while simultaneously forcing compensatory government transfers that crowd out productive fiscal expenditure. Datta (2020) extended this framework to show that OMC equity valuations are highly sensitive to international crude benchmarks, with HPCL exhibiting a near-unity beta to Brent prices and IOCL a somewhat lower beta given its more diversified refining portfolio.

More recent analysis by the Ministry of Petroleum and Natural Gas (2025) acknowledged that while India’s diversification toward Russian crude has reduced average procurement costs, it has simultaneously elevated geopolitical counterparty risk and deepened dependence on non-Hormuz routing options — pathways that remain commercially sub-optimal. This trade-off became acutely visible during the 2026 crisis, when a temporary US Treasury waiver permitting India to purchase stranded Russian oil at sea offered only partial relief (Anand Rathi PMS, 2026).

3. Research Objectives

This study is guided by four primary research objectives:

1. To analyse the impact of the USA–Iran conflict on the operational and financial performance of major Indian petroleum companies — specifically IOCL, BPCL, HPCL, and Reliance Industries.
2. To examine crude oil price volatility and supply-chain disruption risks arising from the Strait of Hormuz closure, and their differential effects on upstream versus downstream petroleum businesses in India.
3. To assess the broader macroeconomic consequences of the oil shock for the Indian economy, including inflationary pressure, rupee depreciation, current account deterioration, and central bank policy constraints.
4. To offer evidence-based policy recommendations for strengthening India’s energy security architecture against future geopolitical supply disruptions.

4. Methodology

This study adopts a secondary data analysis approach, drawing on publicly available quantitative and qualitative information from credible institutional and journalistic sources. The analytical timeframe spans 2023 to 2026, enabling a pre-conflict baseline (2023–2024), a transitional phase (2025), and a conflict-

period examination (March–April 2026). Three complementary analytical techniques underpin the research design.

4.1 Trend Analysis

Monthly Brent crude price data sourced from the World Bank Commodity Price Dashboard and Bloomberg terminals is used to trace the trajectory of oil prices across the study period. This approach allows identification of discrete inflection points — including the June 2025 Twelve-Day War spike and the February–March 2026 superspike — alongside their duration profiles.

4.2 Correlation Analysis

The study examines the correlation between monthly Brent crude price movements and the stock price performance of IOCL, BPCL, HPCL, and Reliance Industries, using NSE daily closing price data. The expected inverse relationship for downstream OMCs (higher crude input costs compress margins and depress valuations) contrasts with the expected positive relationship for upstream producers, thereby illustrating the asymmetric nature of geopolitical oil shocks across the petroleum value chain.

4.3 Comparative Pre-War vs. Post-War Analysis

A structured comparison is conducted across four financial and economic indicators — crude import bill, refining margins, OMC marketing losses, and the USD/INR exchange rate — between two discrete periods: October 2025–January 2026 (pre-war baseline) and March–April 2026 (conflict period). This comparative framework isolates the war’s marginal contribution to macroeconomic deterioration.

Primary data sources include: Reserve Bank of India Monetary Policy Reports and Annual Reports (2024–2026); Ministry of Petroleum and Natural Gas Monthly Reports; World Bank Commodity Markets Outlook (April 2026); IEA Oil Market Report (March 2026); Bloomberg and Reuters commodity and equity price feeds; and reports from PSU Connect, Anand Rathi PMS, Vision IAS, and leading Indian financial publications including the Economic Times and Business Today.

5. Data Analysis

5.1 Oil Price Trajectory: From Stability to Superspike

The oil price story of the 2023–2026 period unfolds in three analytically distinct phases. Throughout 2023 and much of 2024, Brent crude traded in a relatively stable band of USD 75–85 per barrel, supported by OPEC+ production discipline while constrained by sluggish global demand and China’s uneven post-COVID economic recovery. By 2025, a softening had become apparent — the annual average Brent price fell to approximately USD 69 per barrel, driven by non-OPEC supply growth and a demand outlook subdued by US tariff policy uncertainties. This benign commodity environment afforded India a period of relative macroeconomic relief, enabling the RBI to cut the repo rate by a cumulative 125 basis points to support domestic growth.

The February–March 2026 conflict shattered this equilibrium with extraordinary abruptness. Brent surged from USD 72 per barrel on 27 February 2026 to nearly USD 120 per barrel within ten days — a 66 percent price jump in less than a fortnight, representing one of the largest monthly oil price increases on record (CNBC, 2026). The World Bank (April 2026) now projects Brent to average USD 86 per barrel across full-year 2026, conditional on disruptions easing by May. However, with WTI trading above USD 102 and Brent above USD 110 at the time of writing, the assumptions embedded in even this updated forecast already appear optimistic (Euronews, 2026).

Table 1: Brent Crude Oil Price Trend, 2023–2026 (USD/barrel)

Period	Avg. Brent (USD/bbl)	Key Driver	India Impact
2023 (Full Year)	82.49	OPEC+ cuts; moderate demand	Import bill ~USD 157 billion
2024 (Full Year)	79.88	Non-OPEC supply rise	Comfortable forex; INR ~84/USD
2025 (Full Year)	69.20	Soft demand; tariff uncertainty	RBI rate cuts; CPI eased
Jan–Feb 2026 (Pre-war)	~72.00	OPEC stability; risk-off sentiment	CAD at 1.2% of GDP
March 2026 (War erupts)	~109 avg; peak ~120	Strait of Hormuz closure	OMC stocks -10 to -14%; INR >95
April 2026 (Partial ceasefire)	~102–110	Partial Strait reopening	Elevated inflation; RBI on hold

Sources: World Bank Commodity Markets Outlook (April 2026); CNBC Oil Price Timeline (April 2026); Reuters; Euronews (2026).

5.2 Impact on Indian Oil Marketing Companies (OMCs)

The crisis has exposed a structural fault line at the core of India’s downstream petroleum sector: oil marketing companies operate under a regulated retail pricing regime that prevents immediate cost pass-through to consumers, while their input costs are determined by a thoroughly liberalised global market. When Brent surpasses USD 100, this asymmetry becomes financially debilitating.

Within the first trading session following the war’s outbreak, BPCL shares fell 6 percent, HPCL lost 5.3 percent, and IOC stock declined 5 percent (BusinessToday, 2026). Kotak Securities vice president Sumit Pokharna observed that sustained high crude prices would compress refining margins, increase working capital requirements, raise borrowing costs, and ultimately weigh on OMC debt levels. Over the subsequent three weeks, IOCL, BPCL, and HPCL equities collectively declined between 10 and 14 percent, prompting downgrades from HSBC and UBS citing ‘massive marketing losses’ (PSU Connect, 2026). The government’s response — invoking the Essential Commodities Act, directing refineries to maximise LPG output, and establishing a four-tier gas priority system — provided operational relief but did not address the companies’ financial losses.

The contrast with upstream producers is instructive. ONGC and Oil India Limited, whose revenues are tied to crude realisation prices, saw their share prices hold steady or appreciate modestly during the crisis period. This upstream–downstream divergence is a recurring feature of oil price supercycles in India, and it underscores the urgent need for structural reform of the OMC pricing framework.

Table 2: Impact on Indian Petroleum Companies — March 2026 Crisis Period

Company	Type	Stock Change (Feb–Mar 2026)	Primary Impact	Brokerage View
IOCL	Downstream OMC	-10% to -12%	Input cost surge; refining margin compression; under-recovery risk	Downgraded – HSBC
BPCL	Downstream OMC	-12% to -14%	LPG shortage; marketing losses; capex deferral risk	Downgraded – UBS
HPCL	Downstream OMC	-10% to -13%	Highest Hormuz exposure; refineries near capacity ceiling	Downgraded – HSBC
Reliance Ind.	Integrated (DS + Exports)	-3% to -5%	Refining margin pressure offset by export pricing advantage	Neutral – Morgan Stanley
ONGC / Oil India	Upstream	+2% to +5%	Higher crude realisation boosts revenue; production unaffected	Upgraded – Kotak

Sources: BusinessToday (March 2026); PSU Connect (March 2026); Kotak Securities Research Note (2026).

5.3 India's Crude Import Bill and the Rupee: A Double Shock

India's oil vulnerability is compounded by currency dynamics. Because crude oil is priced and settled in US dollars, any depreciation of the Indian rupee simultaneously inflates the domestic cost of each barrel even absent a change in international prices. The March 2026 crisis delivered both shocks in tandem — Brent surged toward USD 120 while the rupee weakened to record lows, breaching INR 92 per USD in March 2026 and touching INR 95 per USD by early April (Anand Rathi PMS, 2026; Multibagg, 2026). The RBI's own research estimates that a 10 percent rupee depreciation translates into approximately 50 basis points of additional consumer price inflation. The rupee depreciated by around 9 percent in FY 2025–26 (to 24 March 2026), closing at INR 93.88 per USD according to data presented to Parliament (TaxGuru, 2026). Foreign exchange reserves remained substantial at USD 709.8 billion as of mid-March 2026 — providing over 11 months of import cover — yet the RBI had already conducted net forex sales of USD 50.8 billion between April 2025 and January 2026 in defence of the currency (Indian Government, Parliamentary Response, 2026).

For the petroleum sector specifically, analysts note that every USD 10 increase in crude prices inflates India's annual import bill by approximately USD 13–14 billion. At conflict-period prices of around USD 110 per barrel — USD 41 above the 2025 average — the incremental annual cost to India's import bill could theoretically exceed USD 55–57 billion if prices remain elevated for a full year (Multibagg, 2026; ORF, 2026).

Table 3: India's Crude Import Bill — Pre-War vs. Conflict Period Comparison

Indicator	Pre-War Baseline (Oct 2025–Jan 2026)	Conflict Period (Mar–Apr 2026)	Change
Brent Crude (Avg, USD/bbl)	~72	~109 avg; ~120 peak	+52% to +67%
USD/INR Exchange Rate	~84–86	~92–95	-9% to -11% (INR depreciation)
India Annualised Import Bill (est.)	~USD 150 billion	~USD 210–220 billion (est.)	+USD 60–70 billion
LPG Domestic Price Hike	Stable	+Rs. 60/cylinder (Mar 2026)	Inflationary
Trade Deficit (Apr–Feb FY26)	USD 91 billion (FY25)	USD 109 billion (FY26)	+USD 18 billion YoY

Sources: ORF (2026); TaxGuru/Parliamentary Response (2026); Vision IAS (2026); RBI Data (2026).

Estimates based on annualised conflict-period prices.

5.4 Refining Margins and Supply Chain Disruptions

India's refining sector — with a total installed capacity of approximately 256.8 million tonnes per annum (MTPA) across 23 refineries — has historically operated at or above capacity utilisation (India Macro Indicators, 2025). The 2026 crisis has disrupted refinery throughput through two mutually reinforcing channels: the higher cost of crude feedstock compresses gross refining margins (GRMs) from the input side, while the Strait's closure and the rerouting of shipping add 12–18 days of additional transit time for Gulf crudes, creating scheduling gaps and working capital stress.

The Ministry of Petroleum and Natural Gas responded by directing refineries to maximise LPG recovery and channelling all output to the three OMCs. This administrative reallocation achieved a 10 percent increase in domestic LPG production within the first week (Vision IAS, 2026) — a noteworthy demonstration of supply-side institutional responsiveness — but at the cost of downstream petrochemical feedstock availability. Carbon black and synthetic rubber prices spiked approximately 20 percent in March 2026, rippling cost increases through industries including paints, packaging, and automotive components (Anand Rathi PMS, 2026).

Reliance Industries, with its Jamnagar complex functioning as Asia's largest private refinery, occupies a structurally differentiated position. Reliance's export-oriented refining model enables it to capture higher margins when international product prices are elevated, partly offsetting the crude cost increase. Its stocks still declined 3–5 percent during the crisis, reflecting market-wide risk aversion and shipping logistics uncertainty rather than fundamental margin deterioration.

5.5 Macroeconomic Spillovers: Inflation, CAD, and Monetary Policy

The macroeconomic consequences of the oil shock extend well beyond the petroleum sector. India's consumer price inflation, which had eased comfortably within the RBI's 2–6 percent target band through

most of 2025, faces renewed upward pressure from energy costs. Layered on top of the direct fuel price hike — LPG cylinders were raised by Rs. 60 in March 2026 — the inflationary impulse through food, transport, and industrial inputs is substantial.

The RBI's Monetary Policy Committee, which had been on an easing trajectory throughout 2025, is now expected to hold the repo rate at 5.25 percent at its April 2026 meeting, marking a decisive shift toward macroeconomic stabilisation (Multibagg, 2026). Foreign portfolio investors sold over Rs. 1.2 lakh crore in Indian equities during March 2026, and the 10-year government bond yield rose to a two-year high of approximately 7.14 percent, reflecting both inflation risk and safe-haven capital flight.

The current account deficit widened from USD 91 billion in April–February FY2024–25 to USD 109 billion over the same period in FY2025–26, with the merchandise trade deficit reaching a record USD 310 billion over April–February (ORF, 2026). While services surpluses and Gulf diaspora remittances have historically provided a partial structural offset, the scale of the import cost shock threatens to overwhelm these compensating flows — particularly if Gulf economic activity itself contracts due to the conflict.

6. Key Findings

The empirical analysis yields the following principal findings:

1. **Oil Price Superspikes:** Brent crude surged 55–67 percent from pre-war levels (approximately USD 72 per barrel) to a peak of nearly USD 120 per barrel in early March 2026, driven by the Strait of Hormuz closure and cascading Gulf energy infrastructure attacks. This represents one of the largest single-month oil price increases on record.
2. **OMC Financial Stress:** Downstream oil marketing companies — IOCL, BPCL, and HPCL — experienced stock price declines of 10–14 percent and face the prospect of substantial marketing losses unless retail fuel prices are revised upward. The regulated pricing framework prevents automatic cost pass-through, creating fiscal stress for both the companies and the government.
3. **Upstream Beneficiaries:** ONGC and Oil India, as upstream producers, benefit from higher crude realisation prices and saw their stock prices appreciate 2–5 percent during the same period, illustrating the value-chain asymmetry of oil price shocks in India's petroleum sector.
4. **Currency Double-Shock:** The Indian rupee depreciated approximately 9–11 percent in FY2025–26, touching record lows beyond INR 95 per USD in April 2026. This currency weakness amplifies the import cost of dollar-priced crude, creating a compounding inflationary dynamic distinct from the raw commodity price increase.
5. **Annual Import Bill Surge:** Estimated annual crude import costs could escalate by USD 55–70 billion relative to the 2025 baseline if conflict-period prices persist, placing severe pressure on India's current account and external balances.
6. **LPG and Energy Supply Disruption:** With 91 percent of LPG imports sourced from the Gulf and the Strait effectively closed, India faced acute LPG shortages in March 2026. The government's invocation of the Essential Commodities Act and four-tier gas priority allocation provided partial relief, demonstrating both institutional resilience and the limits of administrative responses to physical supply disruptions.
7. **Monetary Policy Constrained:** The RBI has been compelled to abandon its easing cycle and hold the repo rate at 5.25 percent, with inflationary overshoot threatening to push headline CPI above the upper bound of its target range. This monetary constraint suppresses domestic economic growth precisely when external conditions are most adverse.

8. **Sector Spillovers:** The oil shock propagates through the broader economy, raising costs across paints, synthetic rubber, fertilisers, food packaging, and logistics, amplifying the consumer price impact and compressing corporate margins across a wide spectrum of industries.

7. Discussion

7.1 Historical Parallels: 1973, 2008, and the Russia–Ukraine Comparison

Situating the 2026 oil shock within a longer historical arc is analytically instructive. The 1973 Arab Oil Embargo — conventionally regarded as the archetype of geopolitical energy disruption — removed approximately 9 percent of global oil supply and triggered recessions across much of the industrialised world. The Strait of Hormuz closure of 2026 has effectively removed upward of 20 percent of global oil and LNG trade — a disruption nearly double the 1973 event in flow terms (Kilian et al., 2026). Crucially, however, today's oil markets operate with considerably greater complexity: financial derivatives, coordinated strategic petroleum reserve mechanisms, and alternative supply corridors — including US LNG, West African crude, and Russian Arctic routes — have partially absorbed the shock, preventing an even more severe price spike.

The Russia–Ukraine analogy of 2022 is particularly germane for India. During that crisis, India adeptly pivoted toward deeply discounted Russian crude, reducing its average procurement cost by USD 10–15 per barrel relative to the prevailing market price and substantially insulating OMC margins. The 2026 crisis is structurally distinct: the disruption is to a physical transit corridor rather than to a single supplier. India cannot efficiently reroute Middle Eastern crude around the Strait — alternative passages through the Red Sea (itself disrupted by Houthi activity in 2024) or via the Cape of Good Hope add weeks of transit time and substantial logistics costs. The US Treasury's 30-day waiver permitting India to purchase stranded Russian oil at sea provided tactical relief but cannot substitute for systematic route diversification.

7.2 The Role of India's Strategic Petroleum Reserve

India maintains strategic petroleum reserves equivalent to approximately 74 days of consumption, stored in underground caverns at Visakhapatnam, Mangaluru, and Padur. These facilities provide a meaningful buffer against short-duration supply disruptions, but they are not designed for a sustained conflict scenario. Japan, by contrast, released 80 million barrels from its strategic reserve — equivalent to 15 days of domestic demand — within weeks of the crisis (2026 Iran War Fuel Crisis, Wikipedia, 2026). The IEA coordinated a collective reserve release among member countries, though India — not an IEA member — participated through bilateral diplomatic coordination.

The current crisis has sharpened the policy debate around expanding India's SPR capacity. The Ministry of Petroleum had previously proposed additional underground storage at Rajkot and Chandikhol, which would collectively add approximately 6.5 million tonnes of capacity. The fiscal and strategic case for this investment has been dramatically strengthened by the 2026 experience, even as the estimated capital cost of Rs. 15,000–18,000 crore poses a constraint in a tightening fiscal environment.

7.3 India's Supply Diversification Response

India's response to the crisis has involved a rapid acceleration of crude source diversification. Procurement from the United States, West Africa (Nigeria, Angola), and Central Asia has been stepped up, while the government has explored reactivating rupee-ruble trade settlement arrangements for additional Russian crude purchases. The ORF (2026) notes that India is progressively increasing imports from the US, UAE, and West African producers while reducing Hormuz-dependent Middle Eastern volumes — a reorientation

that will take several months to fully materialise in supply terms but signals a structural rethinking of India's energy import geography.

Reliance Industries has demonstrated the most agile response, leveraging the Jamnagar complex's advanced crude-processing capabilities to absorb non-standard feedstocks from alternative origins. The integrated refining-to-petrochemicals model allows Reliance to partially offset GRM compression on the crude side by capturing higher product margins in the export market — a competitive advantage that pure-play OMCs cannot replicate.

8. Conclusion

The USA–Iran war of 2026 has confronted India's petroleum sector with its most severe geopolitical stress test since the 1973 oil embargo. The evidence assembled in this study tells a coherent and sobering story: a 55–67 percent oil price spike, a 9–11 percent currency depreciation, a potential USD 55–70 billion blow to India's annual import bill, and a structural compression of profitability for the downstream OMCs that supply fuel to over a billion people — even as the same price surge simultaneously benefits upstream producers operating on the opposite side of the value chain.

The crisis also illuminates the contours of India's energy security architecture and where it remains structurally inadequate. The country's import dependence — at 88–90 percent of crude requirements — has not meaningfully declined despite decades of policy attention. Strategic reserves, while providing a short-duration buffer, are insufficient for a prolonged conflict. The regulated retail pricing framework creates a recurring tension between social stability objectives and commercial sustainability. And the rupee's sensitivity to dollar-priced commodity shocks amplifies the domestic cost of every international price movement in ways that compound inflationary pressures.

At the same time, the crisis has demonstrated India's capacity for adaptive response: invoking emergency regulations, redirecting refinery output, activating diplomatic channels to secure shipping waivers, and initiating the process of crude source diversification. These institutional reflexes are valuable, but they are fundamentally reactive rather than preventive. The longer-term imperative — reducing the oil intensity of India's economic growth through renewable energy deployment, energy efficiency investment, and structural reform of the petroleum pricing framework — remains the central challenge for Indian energy policymakers in the decade ahead.

9. Policy Recommendations

9.1 Accelerate Import Source Diversification

India should negotiate long-term supply agreements with non-Hormuz producers — including the United States, Canada, Brazil, and West African suppliers — targeting a reduction of Hormuz-transiting crude to below 30 percent of total imports within five years. The Ministry of Petroleum should develop a formal 'Geopolitical Diversification Scorecard' to monitor progress against this target on an annual basis.

9.2 Expand the Strategic Petroleum Reserve

India's SPR capacity of 74 days should be expanded to at least 90 days through the Rajkot and Chandikhol projects, with consideration of floating storage options that can be rapidly deployed in crisis scenarios. The government should explore co-financing arrangements with oil-importing allies — Japan and South Korea in particular — through bilateral energy security frameworks.

9.3 Reform OMC Pricing to Incorporate a Volatility Buffer

The current regulated pricing structure for OMCs is a source of systemic financial fragility during commo-

dity supercycles. A dynamic pricing formula incorporating a volatility buffer — under which retail prices adjust automatically within a permitted band when crude prices exceed pre-defined threshold levels — would reduce the government's fiscal exposure and strengthen OMC balance sheets without requiring the politically costly one-off revisions that have historically characterised India's fuel pricing policy.

9.4 Institutionalise Rupee-Denominated Oil Trade

The RBI's initiative to expand rupee settlement with Gulf producers should be pursued as a structural policy priority. Pricing a larger share of India's oil imports in rupees — building on the template established through the India–UAE CEPA and the rupee-rouble arrangement with Russia — would reduce India's dollar demand during crises and partially insulate the currency from oil price-exchange rate feedback loops.

9.5 Develop Comprehensive Hedging Frameworks for OMCs

IOCL, BPCL, and HPCL should be mandated to maintain dynamic crude hedging programmes covering 20–30 percent of procurement volumes on rolling three-month horizons. SEBI and the Ministry of Finance should provide the necessary regulatory clarity to enable OMC hedging operations on recognised exchanges.

9.6 Accelerate the Renewable Energy Transition

Every 10 percent reduction in the oil intensity of India's GDP reduces its vulnerability to precisely the kind of shock experienced in 2026. The National Solar Mission, Green Hydrogen Mission, and the electric vehicle manufacturing PLI scheme should be reframed as energy security investments — not merely climate policies — and funded accordingly. The 2026 crisis provides the strongest possible argument for accelerating these programmes.

9.7 Strengthen LPG Supply Chain Resilience

Given that 91 percent of India's LPG originates in the Gulf, the government should develop emergency import protocols from non-Gulf sources (the US, Australia, Trinidad and Tobago), invest in expanding domestic LPG production capacity at refineries, and enhance propane-butane separation capabilities as a systematic buffer against future Hormuz disruptions.

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