Achintya Securities Limited

Crude Oil Returns Above $100

India Faces a Large Import Bill, Inflation Risk & Pressure on Corporate Earnings

September 12, 2026

Introduction

Crude oil has once again become one of the biggest risks facing the Indian economy. Brent crude crossed $100 per barrel on September 9, 2026, as renewed hostilities in West Asia raised concerns about further disruption to oil supplies and shipping routes. India's crude basket climbed even higher to approximately $108.91 per barrel.

For India, this is not simply a movement in an international commodity. The country imports almost 89% of its crude-oil requirement, which means higher oil prices quickly affect the import bill, rupee, inflation, government finances and corporate profitability. A weaker rupee makes the problem worse because crude oil is purchased in dollars, creating a double impact from higher prices and an unfavourable exchange rate.

The latest increase has already affected financial markets. On September 9, the Sensex fell 813 points, the Nifty declined 204 points and the rupee closed at ₹95.10 against the US dollar. Meanwhile, government-owned fuel retailers are estimated to be losing approximately ₹5 per litre on petrol and ₹23 per litre on diesel because domestic pump prices have not risen in line with international costs.

What's Happening?

Brent crude moved above $100 per barrel for the first time since July after a fresh escalation in the conflict involving the United States and Iran. Attacks on tankers, energy infrastructure and military assets have reduced expectations of a durable ceasefire and again increased the risk premium attached to oil moving through West Asia.

The Indian crude basket reached approximately $108.91 per barrel, substantially above the $82.04 average recorded in July. This represents an increase of nearly 33% in little more than a month. The Indian basket can differ from Brent because it reflects the combination of crude grades actually imported by Indian refiners, including both sour and sweet crude, along with freight and market-specific pricing conditions.

The financial-market response was immediate. The rupee weakened by 27 paise on September 9 and by approximately 0.65% over two trading sessions. The Sensex and Nifty declined by 2.29% and 1.95%, respectively, over three sessions, while foreign portfolio investors sold close to $750 million of Indian equities during September's opening days. Approximately ₹8.62 lakh crore of market capitalisation was erased over eight trading sessions.

Why the Strait of Hormuz Remains Critical

The Strait of Hormuz is a narrow shipping passage connecting the Persian Gulf with the Arabian Sea. Before the current conflict, approximately 20 million barrels per day of crude oil and petroleum products moved through it, making it one of the most important energy routes in the world.

After hostilities began on February 28, flows through the Strait averaged only around 2.7 million barrels per day during March, April and May. Cumulative supply losses from Middle Eastern producers exceeded 1.3 billion barrels, while the international North Sea crude benchmark briefly reached $144 per barrel in early April.

Several temporary buffers prevented an even larger energy crisis. Global oil inventories stood at approximately 8.2 billion barrels before the conflict, and the International Energy Agency coordinated a record release of 400 million barrels from emergency reserves. Saudi Arabia increased exports through its East-West pipeline and Red Sea terminals, while the UAE used its Habshan–Fujairah pipeline to bypass the Strait. Exports from the United States, Brazil, Kazakhstan and Venezuela also increased.

However, these measures cannot permanently replace normal Gulf supplies. Global inventories have been declining by an average of around 3.8 million barrels per day since the conflict began. Emergency reserves can provide temporary liquidity to the market, but they are not a sustainable source of production.

Why India Is Particularly Vulnerable

India’s crude-oil import dependency increased from 77.6% in FY2013-14 to around 88.7% in FY2025-26. Domestic crude production has not kept pace with rising demand, partly because several producing fields are mature and output from new discoveries has been insufficient.

India’s oil demand is also expected to continue growing. The International Energy Agency estimates that Indian consumption could increase by approximately 1.2 million barrels per day between 2023 and 2030, accounting for more than one-third of the projected increase in global oil demand during this period. Manufacturing, commercial transport, aviation, private vehicle ownership, agriculture and petrochemical demand will remain major drivers.

The country has built a large refining industry with annual capacity of approximately 258.1 million tonnes, allowing it to export diesel, petrol, aviation fuel and other petroleum products. However, refining capacity does not eliminate crude dependence. Refineries still require imported feedstock to operate.

A March 2026 parliamentary response confirmed that India’s import dependency had reached 88.6% during the first ten months of FY2025-26, while refining capacity had increased by less than 10 million tonnes over five years.

The Import-Bill Shock Has Already Arrived

India's crude-oil import bill reached $63.4 billion during April–July 2026, compared with $40.5 billion in the same period of the previous year an increase of 56.5%. This rise did not result from India importing significantly more oil. Import volumes increased by only 0.5%, from 81.5 million tonnes to 81.9 million tonnes. Therefore, almost the entire increase came from higher crude prices, the weaker rupee, freight expenses and insurance costs.

In rupee terms, the April–July crude bill reached approximately ₹5.94 lakh crore. Petroleum imports represented 23.6% of India's gross merchandise imports, compared with 19.7% a year earlier. Net oil and gas imports increased by $17.5 billion and accounted for nearly 80% of the widening in India's merchandise trade deficit during the period.

The underlying sensitivity is substantial. India currently imports close to five million barrels of crude per day. At this volume, every sustained $10-per-barrel increase would mathematically add approximately $18 billion to the annual gross import cost, before adjusting for discounts, changes in demand and earnings from petroleum-product exports.

This does not mean that the current-account deficit will automatically worsen by the full amount. Higher prices can reduce demand; Indian refiners can earn more from product exports and companies may obtain discounted crude. Nevertheless, the calculation illustrates why a move from $80 to more than $100 per barrel cannot be treated as a marginal change.

The Rupee Creates a Double Burden

Crude oil is purchased in dollars. Therefore, India’s actual cost depends on both the international oil price and the rupee-dollar exchange rate.

When oil rises, Indian refiners require more dollars to finance their imports. This additional demand for foreign currency can weaken the rupee. A weaker rupee then increases the domestic cost of every imported barrel, creating a feedback loop between oil prices and the exchange rate.

At an exchange rate of ₹95.10, the current Indian-basket price of $108.91 translates into a cost of approximately ₹10,356 per barrel before adding freight, insurance, refining and distribution expenses. By comparison, July’s average basket price of $82.04 was equivalent to approximately ₹7,860 per barrel at the average exchange rate prevailing during that month. The underlying crude cost has therefore increased by roughly ₹2,500 per barrel.

The RBI has reportedly intervened through dollar sales to limit disorderly currency movements. However, repeated intervention also uses foreign-exchange reserves and cannot permanently offset a large deterioration in India’s demand for dollars.

A weaker rupee additionally raises the cost of imported electronics, machinery, chemicals, fertilisers and other commodities. The effect of the oil shock can consequently spread beyond energy-related goods.

Inflation and the RBI’s Interest-Rate Dilemma

Higher crude prices affect inflation through direct and indirect channels. The direct impact comes through petrol, diesel, LPG, kerosene and aviation fuel. The indirect impact arises because almost every physical product must be transported, while sectors such as chemicals, plastics, paints, packaging and agriculture use petroleum-linked inputs.

An RBI study estimates that a 10% increase in international crude prices can raise India’s headline inflation by approximately 20 basis points contemporaneously. The peak impact can reach about 30 basis points once second-round effects and currency depreciation are included.

The Indian crude basket has risen by roughly one-third from July’s average. A simple application of the RBI’s historical sensitivity would indicate a material inflationary effect if the increase persists and is passed through fully. However, the actual outcome may be smaller initially because petrol and diesel prices are currently being held below international-equivalent levels. This protection merely shifts the cost. If pump prices do not rise, oil-marketing companies absorb losses. If prices are increased, consumers and businesses face higher inflation. If the government cuts taxes or compensates fuel retailers, the burden shifts to the fiscal deficit.

The timing is particularly difficult. July retail inflation had already reached 4.45%, and a poll of economists expects August inflation to rise to approximately 4.8%. The RBI kept the repo rate unchanged at 5.25% in August, but sustained oil prices above $100 could delay monetary easing or even revive expectations of a rate increase if inflation becomes broad-based.

What Does This Mean for Investors?

The most important variable is not whether Brent briefly trades above $100, but how long the Indian crude basket remains elevated. A short-lived geopolitical spike may reverse without substantially affecting annual earnings or inflation. A three-to-six-month period above $100 would have much larger consequences.

Investors should separate the market into four groups:

- Upstream producers could benefit from higher realisations, provided government intervention does not absorb the gains.
- Oil-marketing companies face negative marketing margins but may receive partial support from strong refining margins or policy relief.
- Airlines, paints, tyres, chemicals, logistics and consumer businesses face higher costs and pressure on margins.
- Renewable-energy, electric-vehicle and energy-efficiency companies may gain a stronger long-term policy narrative, although near-term earnings will depend on their individual execution and valuations.

Company-level pricing power will be crucial. Businesses capable of raising prices without losing customers will handle the shock better than companies operating in highly competitive markets with thin margins.Investors should also study currency exposure. A company may hedge crude prices but remain exposed to the dollar. Similarly, an exporter benefiting from a weaker rupee may still suffer if freight and petroleum-based input costs rise faster than export revenue.

This is not a situation in which every energy stock becomes attractive or every consumer stock becomes unattractive. Balance-sheet strength, inventory position, hedging policy, government regulation and the ability to pass through costs will determine the actual effect.

What’s Next?

The next direction of oil and Indian financial markets will depend on several indicators. The most important is the volume of normal tanker traffic through the Strait of Hormuz. A credible ceasefire and recovery in shipping could quickly remove part of the geopolitical premium. Further attacks on tankers, ports or pipelines could push prices materially higher.

Investors should monitor the average Indian crude-basket price rather than reacting only to daily Brent movements. OMC marketing margins, diesel and petrol price revisions, export levies, the rupee-dollar rate and any release from strategic reserves will reveal how the government is distributing the cost of the shock.

India’s August inflation data, scheduled for release on September 14, will also be important. A higher-than-expected reading combined with crude above $100 could materially alter expectations for the RBI’s next policy decisions.

India has sufficient refining capacity, diversified suppliers and commercial inventories to manage a short disruption. Its vulnerability lies in the cost of that supply. With almost nine out of every ten barrels imported, India can change where it purchases crude, but it cannot escape the global price. The central question is therefore not whether oil is available. It is whether India can continue purchasing it at more than $100 per barrel without transferring an unsustainable burden to consumers, oil companies, the government or the wider economy.

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