

# THE SCANNER

## Sector by sector, mapping the West-Asia crisis for India

The escalating conflict in West Asia since early 2026 has triggered far-reaching global consequences, primarily through disruptions to critical trade routes and energy supply chains. More importantly, given the region's centrality to global oil & gas and industrial inputs, significant concerns have arisen around energy security, inflation, and supply continuity. As tensions persist, second-order effects are emerging in the form of elevated commodity prices, food security concerns, and further volatility in global financial markets. For India, the implications are both immediate and structural, given its deep dependence on the region for energy imports, trade flows, and remittances.

### High Impact Sectors

#### Energy, Industrials, Logistics, and Consumer Discretionary

Inevitably, sectors that have direct exposure to energy prices and global supply chain disruptions are likely to feel a direct impact of the ongoing crisis. Energy and energy-linked industries such as paints, tiles & sanitaryware, auto ancillaries and components, and cement face immediate margin pressures due to rising crude and LNG prices. Importantly, many of these sectors are affected not just by first-order cost increases but also by second-order effects like weakening consumption and delayed investment cycles. Further, transportation and logistics sectors, particularly airlines and freight operators, experience a dual shock from elevated fuel costs and demand volatility driven by reduced travel and trade flows.

As a result, earnings visibility remains low and volatility high, making these sectors particularly sensitive in the near term. Compounding this predicament is the strong regulatory oversight that exerts constraints on price pass-through.

### Medium Impact Sectors

#### FMCG, Financials, select Manufacturing and Digital Platforms

Medium impact sectors experience more indirect and distributed effects, with pressures emerging through input costs, inflation, and demand moderation rather than immediate disruption. FMCG, while relatively resilient in demand, faces margin pressures from higher packaging, transportation, and raw material costs. However, strong brands and pricing power may allow partial cost pass-through over time, cushioning the overall impact.

Financials, particularly banks and NBFCs, are on the edge as they are likely to get affected through macroeconomic transmission channels. Select manufacturing segments such as specialty chemicals and agricultural inputs face input cost volatility linked to energy and gas prices, though demand remains relatively stable, particularly in agriculture-linked areas. Digital platforms, including food delivery and travel aggregators, can potentially be impacted as discretionary spending weakens. Overall, these sectors are not immune but exhibit a more balanced risk profile, with manageable near-term pressures and the ability to stabilise as conditions normalise.

## Relatively Low Impact / Resilient Sectors

### Pharmaceuticals and Healthcare

Relatively low impact sectors are characterised by stable demand profiles and limited direct exposure to energy price volatility or global trade disruptions. Pharmaceuticals and healthcare stand out as key defensives in this environment. While healthcare providers, such as hospitals, may see marginal impact from reduced medical tourism from the Middle East, domestic demand is likely to provide a strong cushion. Importantly, these sectors tend to exhibit relative earnings stability and stronger visibility during periods of macroeconomic and geopolitical uncertainty. As a result, they serve as effective portfolio stabilisers, offering defensive positioning and relative outperformance when more cyclical sectors face stress.

Overall, low-sensitivity industries offer defensive stability, with lower drawdowns and relative insulation from conflict-driven shocks. In contrast, high-sensitivity sectors, while currently more impacted, present potential rebound opportunities if the conflict eases/resolves. However, a continuation in disruption or its prolonged impact, especially with supply shortages or infrastructure damage, could delay recovery, extending margin pressures and earnings stress due to persistent inflation and cost escalation.

### Sectoral Impact – in summary

NO	SECTOR	SUB-SECTOR	IMPACTS				
			Sensitivity	1st order effects	Comments	2nd order effects	Comments
1	Consumer Discretionary	Home Improvement - Paints	High	Yes	Margin pressure - higher crude oil linked derivatives & higher logistics costs	Yes	Inflationary pressures curtailing consumer discretionary spends
2	Consumer Discretionary	Home Improvement - Tiles & Sanitaryware	High	Yes	Revenue/Margin pressure - limited NatGas supply for production process & higher logistics costs	Yes	Inflationary pressures curtailing consumer discretionary spends
3	Consumer Discretionary	Alcoholic Beverages	Medium	Yes	Revenue/Margin pressure - limited NatGas supply for production process (Glass bottles), higher packaging & logistics costs	Yes	Inflationary pressures curtailing consumer discretionary spends
4	Consumer Discretionary	Hospitality/ Restaurants	High	Yes	Revenue/Margin pressure - lower inbound travel and hotel/restaurant kitchens impacted by LPG shortages/price increases.	Yes	Inflationary pressures curtailing consumer discretionary spends
5	Consumer Non-discretionary	FMCG - Food, Non alcoholic Bev, Cleaning & others	Medium	Yes	Margin pressure - higher packaging costs (crude/aluminium linked), raw material costs (palm oil & others) & logistics costs	Yes	Higher transport/fertilizer costs - Impacting processed food prices & weak demand
6	Pharmaceuticals	Pharma Suppliers - API, CDMO, CRO etc.	Low	Yes	Unaffected Demand but input (petrochemical derivatives) & logistics pressure	No	NA
7	Pharmaceuticals	Pharma Drugmakers	Low	Yes	Unaffected Demand but input (O&G derivative-chemical pharma) & logistics pressure	No	NA
8	Pharmaceuticals	Healthcare Services - Hospitals	Low	Yes	Revenue pressure: Certain cases reliant on Medical Tourism From Middle East	No	NA

NO	SECTOR	SUB-SECTOR	IMPACTS				
			Sensitivity	1st order effects	Comments	2nd order effects	Comments
9	Financials	Banks & NBFCs	Medium to High	Yes	Impacts from disrupted remittances, slower credit growth, inflationary effects on rates etc	Yes	Asset Quality Pressures (Higher NPA's) - impacted industries
10	Technology	Digital Platforms : Food & Travel Aggregators / Food Delivery	Medium to High	Yes	Revenue/Margin pressure - lower travel (outbound/inbound) and hotel/restaurant kitchens impacted by LPG shortages/price increases.	Yes	Inflationary pressures curtailing consumer discretionary spends on outside eating/travel
11	Manufacturing / Industrial etc.	Auto Ancillaries & components - Tyres	High	Yes	Margin pressure - higher crude oil linked derivatives & higher logistics costs	Yes	Inflationary pressures impact Original Equipment (OE) demand
12	Manufacturing / Industrial etc.	Auto Ancillaries & components - Others	Medium	Yes	Revenue/Margin pressure - limited NatGas supply for certain production process	Yes	Inflationary pressures impact Original Equipment (OE) demand
13	Manufacturing / Industrial etc.	Electrical Equipment - Building Solutions	High	Yes	Revenue/Margin pressure - limited NatGas supply for certain production process, higher input (steel, polystyrene etc) and logistics costs	NA	NA
14	Manufacturing / Industrial etc.	Industrial Consumables - Gases, Pumps etc.	Low to Medium	Yes	Impacts from energy intensive production of Industrial Gas.	NA	NA
15	Manufacturing / Industrial etc.	Construction Material - Cement, Pipes etc.	Medium	Yes	Margin pressure (Cement) - higher input (pet coke & polypropylene) & packaging costs	NA	NA
16	Manufacturing / Industrial etc.	Basic Utilities - City Gas Distributors	High	Yes	Revenue/Margin pressure - Supply pressures from LNG shortage/higher prices, Rationalizing	NA	NA

NO	SECTOR	SUB-SECTOR	IMPACTS				
			Sensitivity	1st order effects	Comments	2nd order effects	Comments
17	Manufacturing / Industrial etc.	Basic Utilities - NatGas Transmission & Dist.	High	Yes	Revenue/Margin pressure - Supply pressures from LNG shortage/higher prices, Rationalising	NA	NA
18	Manufacturing / Industrial etc.	Passenger Transport - Airlines	High	Yes	Revenue/Margin pressure - Demand pressures (cancellations/lower bookings) & higher fuel/Aviation Turbine Fuel (ATF) prices	NA	NA
19	Manufacturing / Industrial etc.	Goods Transport & Logistics - Courier/Air Freight	High	Yes	Revenue/Margin pressure - Higher input costs (ATF/diesel) and Demand volatility	Yes	Inflationary pressures curbing ecommerce & other spends
20	Manufacturing / Industrial etc.	Energy - Oil & Gas - Refining & Marketing/Oil Marketing Companies	High	Yes	Margin pressure - Higher crude oil input costs, Retail prices under Govt. control	NA	NA
21	Manufacturing / Industrial etc.	Diversified Chemicals - Petrochem, Olechem, Dyes etc.	High	Yes	Revenue/Margin pressure - Gas supply curtailment/energy intensive process and Higher input/petrochem costs (sulphur - for dyes)	NA	NA
22	Manufacturing / Industrial etc.	Speciality chemicals - Lubricants, Adhesives, Sealants, Enzymes, F&F	Medium	Yes	Revenue/Margin pressure - Gas supply curtailment/energy intensive process and Higher input/petrochem costs	NA	NA
23	Manufacturing / Industrial etc.	Agricultural Inputs - Fertilizers, Pesticides & Insecticides	Medium	Yes	Impacts from energy intensive production of Industrial Gas.	NA	NA



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### ? Is there any risk to inflation in India?

India's inflation outlook over the near to medium term is shaped by two critical variables.

- The West Asia conflict, which influences crude oil prices and supply chain aspects
- The potential onset of El Niño, which can disrupt monsoons.

El Niño typically leads to higher temperatures and lower rainfall, adversely affecting agricultural output and increasing food inflation through lower yields and higher import dependence. The combined impact of elevated energy prices and a weak monsoon could significantly raise inflation. Under moderate conditions, crude at USD 80 and a normal monsoon, inflation may remain around 4.7%. However, in a worst-case scenario with crude at USD 150 and a severe El Niño, inflation could rise sharply to nearly 9.8%<sup>1</sup>, straining broader economic stability.

### ? Given the tenuous geo-political environment and the consequent volatility in markets, is it a good time to increase exposure to gold and other precious metals?

While Gold remains a permanent fixture in our client advisory, from an all-seasons portfolio perspective (as a hedge against the unknowns), we have been taking a rather cautious stance on adding Gold exposure during the recent sharp spikes to USD 5000 +/-oz levels. We held the view that the recent hyperbole rally in gold and other precious metals was fuelled partly by speculative elements and thus, tactically it would make sense to wait for the rally to fizzle out and re-enter at slightly lower levels (USD 3500-4000/oz).

Other precious metals like silver were dotted by extreme speculation which disregarded the demand-supply-price dynamics associated with a metal like silver.

Accordingly, a more nuanced approach is warranted in the case of silver and other precious metals (rather than chasing the momentum or following the herd).

### ? Apart from precious metals, in the current backdrop of West Asia Conflict, how should investors position/tweak their portfolios, if required?

Long-term portfolios should always prioritise resilience and selectivity so that they are well-prepared to respond to environments like the current one. A few things that can facilitate the same include:

- Global diversification, especially towards economies less dependent on oil and away from overheated equity markets.
- Focus on quality. Currently, in India, select high-quality businesses are now entering attractive valuation territory, making selective stock picking an important medium- to long-term core strategy.
- Tactical exposure to sectors such as defence could continue to benefit from rising geopolitical tensions and increased government spending.
- Maintaining a measured cash allocation is prudent. Periods of heightened volatility often create opportunities to deploy capital into quality assets at more favourable valuations and strengthen long-term portfolio outcomes.

<sup>1</sup> HSBC Global Investment Research Note.

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