From Hormuz to Red Sea: Assessing the Next Wave of Credit Risk

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Synopsis

In this report, CareEdge Ratings assesses the compounding macroeconomic and sectoral impacts on the Indian economy arising from the simultaneous threat to two of the world's most critical maritime chokepoints: the Strait of Hormuz (Hormuz) and the Bab-el-Mandeb Strait (Bab). Amid escalating tensions in West Asia, the Houthi movement in Yemen has threatened to disrupt maritime traffic in the Red Sea and has reportedly carried out attacks on Saudi oil vessels. Additionally, Iran has instructed the Houthis to prepare for the closure of the Bab in the event of United States military strikes on critical Iranian infrastructure. Combined with heightened risks of the Hormuz closing and potential disruptions in Bab, this dual-threat scenario poses a severe risk to global logistics, energy supply chains, and India's macroeconomic stability. Against this backdrop, CareEdge Ratings analyses the likely implications of Hormuz and Bab closure for India.

- This opinion piece supplements CareEdge's March 04, 2026, report titled "Strait of Hormuz: The Rising Risk for India Inc".
- The West Asia conflict has triggered an unprecedented energy shock for India since March 2026. While diversified sourcing, particularly of Russian crude, has helped secure oil supplies, the economic fallout is mounting. Brent crude has touched USD 100/bbl, and war-risk insurance premiums have surged by up to 1,000%, following the closure of Hormuz and disruptions in Bab. These disruptions are driving inflation, straining foreign exchange reserves, and affecting crude oil, petroleum products, LPG, fertilisers, aviation, basmati rice, and packaging based on plastic polymers, among others.
- India's energy security remains highly vulnerable to disruptions in the Strait of Hormuz and the Red Sea. Around 40% of India's crude imports and a significant share of LNG and LPG supplies pass through Hormuz. Brent crude oil peaked at ~USD 115 per barrel in May 2026 following disruptions in the Hormuz, while simultaneous disruptions in both chokepoints could push prices to USD 130–135 per barrel, fuelling inflation and disrupting energy supplies.
- Red Sea disruptions reroute ships around the Cape of Good Hope, adding 4,000–6,000 nautical miles and up to 20 days to voyages. The 2024 crisis cut Suez traffic by nearly half and sharply increased freight costs, demonstrating that trade continues, but at a much higher economic cost.
- A sustained rise in crude prices would widen India's current account deficit, put upward pressure on inflation, increase depreciation pressures on the rupee, and elevate hedging and input costs for import-dependent sectors. Vulnerabilities are particularly high for LPG and LNG supplies, given India's significant reliance on the Strait of Hormuz for these imports. Indian companies operating in affected sectors would likely face pressure on profit margins due to higher raw material costs, elevated logistics and insurance costs, as well as higher working capital requirements.

The **Strait of Hormuz** is a vital maritime narrow corridor connecting the Persian Gulf to the Gulf of Oman and the Arabian Sea. It is the main shipping route for energy exports from major producers such as Saudi Arabia, Iraq, Iran, Kuwait, Qatar, and the UAE. About 20% of the global oil consumption and one-third of the world's liquefied natural gas (LNG) pass through Hormuz.

The **Bab-el-Mandeb Strait** is the sole entry point to the Red Sea from the Indian Ocean and connects to the Suez Canal, forming a vital trade route between Asia and Europe. It is a key chokepoint for the movement of crude oil, petroleum products, agricultural goods, textiles, automobiles, electronics, etc. India is heavily reliant on the Red Sea as roughly 50% of its total exports and 30% of its imports pass through this region.

Amid the ongoing US-Iran conflict, Russia has emerged as India's key crude oil supplier, helping to cushion supply risks. While Middle Eastern producers such as the UAE and Saudi Arabia have demonstrated supply resilience through alternative routes, Kpler data shows that India's Russian crude imports averaged around 2.45 million barrels per day in July 2026 so far, near record levels. The UAE and Saudi Arabia remained the second and third largest suppliers, with average supplies of 0.62 million bpd and 0.59 million bpd, respectively. Russia continues to supply substantial volumes of crude oil to India notwithstanding ongoing Ukrainian attacks on its refining infrastructure; a further escalation targeting critical energy and export assets could undermine export reliability, disrupt logistics networks, and amplify volatility in the global oil market.

Most of India's merchandise trade with Europe passes through the Red Sea, and substantial trade with the US does too. Any further escalation in the US-Iran conflict could potentially prompt shipping companies to bypass the Red Sea and the Persian Gulf, opting for the longer route via the Cape of Good Hope instead. Cape diversions during the Red Sea crisis caused 2-3 weeks' delays for shipping to Europe. Similar dynamics may recur if vessels avoid both these critical sea routes, leading to increased transit times and shipping costs. The biggest challenge would be transporting oil and natural gas from ports on the Persian Gulf. Exhibit 1 below illustrates the various routes opted by shipping companies for exports and imports to West Asia, the US and Europe.

Exhibit 1: Major maritime trade routes for India

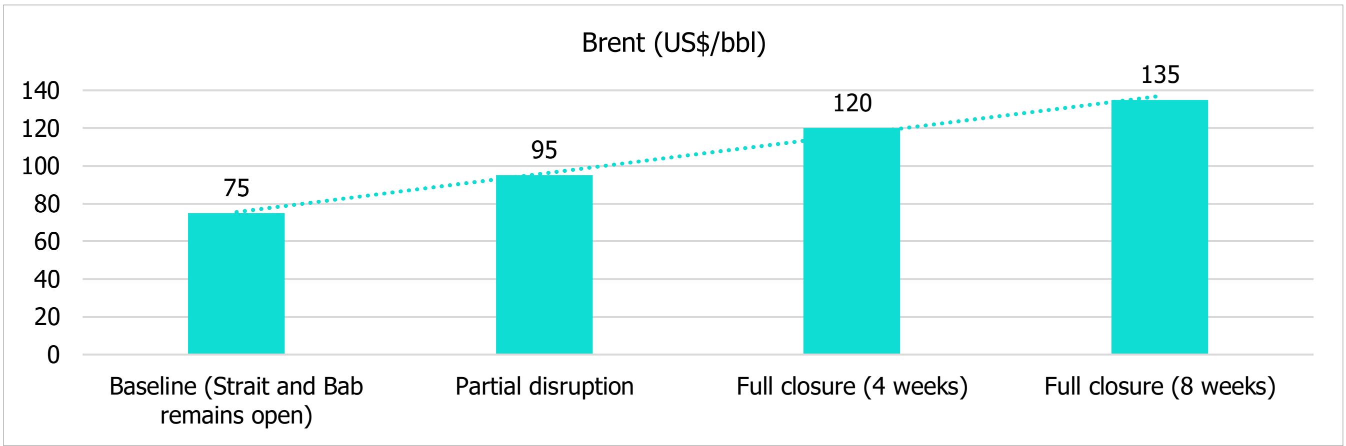
Source: Google

Exhibit 2: Impact on Major Sectors

Impact	Closure of Strait of Hormuz	Closure of Bab-el-Mandeb	Combined Effect with closure of both
Oil prices	Very High	Moderate	Very High
LNG supply vulnerability	Very High	Low	Very High
Freight cost	High	High	Very High
Insurance premium	High	High	Very High
Delivery time	High	Very High	Very High
Corporate working capital requirement	Moderate	High	Very High

Source: CareEdge opinion

Exhibit 3: Likely Impact of Closure of both Hormuz and Bab on Crude Brent Prices



Source: CareEdge estimates

Brent crude prices surged from around USD 70/bbl to a peak of USD ~115/bbl during the crisis, eased back towards USD 70/bbl as fears subsided, but have since touched again to ~ USD 100/bbl amid renewed West Asia tensions, including disruptions in Bab.

Likely Impact of Dual Chokepoint Disruptions on Indian Companies

- Prolonged instability in West Asia, together with dual chokepoint disruptions at the Strait of Hormuz and the Red Sea, could raise marine insurance premiums, freight costs, and transit times, impacting the profitability of Indian exporters and importers, particularly small and mid-sized firms with limited pricing power. Disruptions to crude oil, petroleum products, and LNG supplies could increase input costs for energy-intensive industries, while rerouting of container traffic via the Cape of Good Hope could extend delivery timelines by 2–3 weeks and raise logistics costs. Perishable goods, food grains, and low-margin cargo segments would face greater pressure due to limited ability to absorb higher transport costs, affecting margins and working capital cycles.
- A sharp rebound in crude prices amid prolonged disruptions in West Asia would strain India's external sector by widening the import bill, pressuring the balance of payments, and increasing depreciation risks for the rupee.

CareEdge Ratings' View

"The ongoing West Asian conflict and emerging dual chokepoint risks at the Strait of Hormuz and the Red Sea may create renewed credit pressure for Indian corporates by elevating input costs, disrupting supply chains, and weakening operating cash flows. While larger companies with pricing power and diversified sourcing may absorb the shock, smaller and mid-sized enterprises with limited ability to pass on costs could face margin compression, higher working capital requirements, and liquidity stress," said Puneet Kansal, Director, CareEdge Ratings.

Priti Agarwal, Senior Director, CareEdge Ratings, said, "A simultaneous closure of the Strait of Hormuz and the Red Sea, even for a few weeks, could trigger a sharp surge in global energy prices, with Brent crude potentially rising to $130–135 per barrel and LNG supplies across Asia and Europe coming under significant strain. Beyond the energy sector, such disruptions could further elevate marine insurance premiums, exacerbate port congestion, extend shipping routes and transit times, and increase freight costs across global supply chains."

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