Crude Oil - The big oil question is back to haunt Indian economy and markets

What is the outlook for crude oil and is it going to impact India? The big query is back, with crude oil rallying to $73/bbl in the light of the ongoing war between Israel and Iran. But, first the facts.

Trigger for an oil price spike

While Israel officially launched attacks on Iranian nuclear facilities and its key scientists on Friday 13-June, the talk of a full-fledged attack has been doing the rounds for over a month. From 02-May to 13-Jun; the price of Brent crude rose 28.2% from $57.12/bbl to $73.25/bbl. It is not just about Iran being a major oil exporter, but also about its very critical location near the Strait of Hormuz, that is the heart of oil trade in Asia. That is the real trigger for the oil price spike.

Shorter the war, better for India

The key determinant of oil price varies between demand and supply. In times of geopolitical strife; supply drives the oil price; while in normal times, demand drives oil prices. India may not depend heavily on Iran for its oil supplies; as the bulk of Middle East oil to India comes from UAE, Iraq, and Saudi Arabia. The largest supplier of crude to India, today, is Russia. However, even in the case of Russian oil, the erstwhile discounts are not available any longer. The fear is, if Iran blocks the Strait of Hormuz, then the Russian oil that takes the Eastern route, could command a premium. In any case, oil bill would be much higher.

Some real macro numbers

To understand the impact of crude oil spike, some macro numbers would be of help. It is estimated that a $10/bbl rise in the price of crude oil, adds around 35 bps to the consumer inflation. In the last 40 days, the oil price is up $15, so that is around 50-55 bps of impact on inflation. With inflation at 2.82% in May 2025, that kind of a spike should be perfectly manageable. Concerns could arise only if Brent Crude crosses $85-90 per bbl. The bigger concern would be the impact of oil on the current account deficit (CAD). A $10 rise in crude oil has an impact of around 45-50 bps on the CAD. That is slightly more worrisome, due to the impact it has on rupee value; as also on the sovereign rating of India.

How does the road ahead look?

For India, the concern would be if it is a prolonged war in the Middle East and in West Asia. Israel may have achieved its short-term objective and may not want to pursue the war beyond a point. Even Iran may restrict itself to some targeted drone attacks and not go much beyond that. Iran is aware that the US is on the side of Israel and Russia may be too preoccupied in Ukraine. Iran also cannot expect any support from the Middle East nations, who are keen to focus on their economies. The good news is that the war may fizzle out and oil will be back to its demand play. However, it is time, India has a Plan-B as a back-up!

Reliance Industries - Data is the new oil, and Big Data is the new focus for Reliance

Few years back, Mr. Mukesh Ambani had boldly stated at the AGM that digital and retail would drive the future of RIL. At that time, it was seen more a vision statement. It is turning out to be true!

Underplaying traditional oil

In a sense, Reliance was ahead of the pack to see the end of traditional oil happening much faster. As the world is turning away from fossil fuels, Reliance is perfectly aware that oil refining can no longer be the core focus. That is why Reliance started leveraging the massive cash flows generated by oil refining to grow its retail and digital business. In the years to come, oil would still be of relevance; but the focus would be on downstream chemicals and new energy; including batteries and green hydrogen.

Telecom is in a sweet spot

Telecom and digital are in a sweet spot for Reliance Industries. Bulk of capex in telecom is done and dusted. Hence, any increase in ARPUs from these levels, is a direct reflection on the bottom line and also on the valuations of the telecom & digital vertical. Jio Telecom is getting very close to 500 million users and total market revenue share of over 50%. This is likely to get a further boost from the rapid rollout of Jio AirFiber. With ARPUs well below that of Bharti Airtel, there is room for tariff hikes. Telecom EBITDA is all set to grow at a CAGR of 23% in the next couple of years; a truly bright spot.

Retail clean-up should help

In the previous fiscal FY25 alone, the Reliance Retail franchise closed nearly 2,100 underperforming stores. That is likely to be value accretive to growth in the coming years. It would now be able to focus on qualitative growth and also on ensuring that same store sales are optimized. Brokerages like Bernstein expect Reliance Retail to grow EBITDA at over 20%, which should be able to sustain growth and valuations in the coming years. Among the big plans in the next two years are a massive and focused expansion of floor space, as well as a big boost to quick commerce. These will surely boost SOTP valuations.

Future of RIL is about big data

While oil refining will still be a cash cow and green energy will be futuristic in nature; the real thrust will be leveraging big data. It already is sitting on a gold mine of data in its retail and its telecom businesses. The company successfully has managed to cross fertilize the data of both these businesses for growth. The next big challenge would now be to use the big data and leverage it for the financial services JV with Blackrock. That is an area where retail penetration is still quite low and RIL is sitting on a massive India-representative database. As Mukesh Ambani said, “Data is the new oil;” and nobody is leveraging data better than Reliance Industries. Time for more exciting things to come in!

Vodafone Idea - Nobody seems to have an idea how to save the business model

Vodafone and Idea merged as a hedge against the entry of Reliance Jio in 2016. Instead, it ended up being a sad story of lost opportunities and mounting debt. Where does the business go from here?

Almost a government company

With the latest conversion of its AGR dues into equity, Indian government is a 49% shareholder in Vodafone Idea. The first tranche of 33% stake came in 2023 and with Vodafone still unable to pay the AGR dues to the government, the stake of the Indian government has gone up to 49%. This is in lieu of AGR dues of about ₹40,000 crore. That is the amount of debt that has reduced from the books of Vodafone India and has also reduced the interest burden of the company. But, is the company really better off today? It has been a long tale of debt and losses.

Some relief, but not much!

With the government stepping in to convert AGR dues into equity, VI has got some breathing room. However, scratch the surface, and the problems are still huge. Its debt is down from ₹2.20 trillion to ₹1.80 trillion and the annual interest cost is down from ₹40,000 crore to a more subdued ₹23,000 crore. The big problem is that promoters and the other investors have infused ₹20,000 crore into Vodafone Idea. With a high default risk debt rating, raising debt funds is almost next to impossible. Why is the centre still persisting with saving Vodafone Idea.

Government keen to save VI

The big question is; why is the centre so hell bent on saving Vodafone Idea. The answer is partially business and some amount of commercial logic too. Clearly, the government always wanted to avoid a duopoly in a critical sector like telecom. Today, BSNL is too small a player to make any meaningful difference to the telecom sector. Vodafone Idea is the best bet to avoid a duopoly, since that has much bigger pricing implications too. But, the more commercial logic is that the government just cannot afford to let VI go under. It not only loses out on the AGR dues, but also loses any value it can derive from its 49% equity stake in the company. Saving Vodafone Idea is the best bet for the government of India.

Economics of Vodafone Idea

The big question is whether it is really possibly to work out a rescue act and make the company profitable. Some of the numbers are quite intimidating. VI lost over 17 lakh subscribers in 2024 and its debt/EBITDA ratio stands at 14.8X. Its competitors have debt/EBITDA of less than 2.5X. Vodafone Idea needs capex of ₹55,000 crore in the next 3 years and it needs ARPU to double from the current level of ₹175 to over ₹360 to be able to make profits. That is the big question; as getting such sharply higher ARPU and arranging funds for capex is going to be a really tall ask. At some point, centre will have to take a decisive call on VI!