

Quote by Ramakrishnan M, Managing Director, Primus Partners

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West Asia war: India's \$334-billion F&B industry simmers on a low flame



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Synopsis

The West Asia conflict is posing significant challenges for India's F&B industry, with LPG shortages and supply disruptions pushing many small eateries on the brink of huge losses. In response, they are making menu adjustments, reducing operating hours, and in some cases, shutting down altogether.

The war in West Asia has disrupted India's food and beverage (F&B) industry, mainly due to its impact on energy supplies. With India relying heavily on imports (more than 60%) for its LPG requirements, the impact on the industry has been significant. From menu rationalisations to limited operating hours, the F&B sector has been in a conservation mode since the war started.

From a business perspective, standalone outlets are seeing a 15-25% drop in revenue, largely due to reduced operating hours and menu adjustments, says Ramakrishnan M., Managing Director, Primus Partners. "Nearly 20 to 30% of establishments are currently operating below full capacity. Supply issues in LPG have caused sharp price increases and availability problems. As a result, energy costs for restaurants have risen by 30 to 80% in many cases, especially for those using spot or informal markets," he says.

This has compounded challenges, especially for small eateries and dhabas that are now operating in a restricted mode, he says. "The pressure is most visible among businesses that rely entirely on LPG. A large number of small vendors and dhabas have had to buy LPG at much higher prices in informal markets, often paying 1.5-2 times higher prices than the usual cost."

While others are turning to alternatives like coal, firewood, or induction cooking, he says, "These come with their own costs and challenges."

"The main issue is that nearly 80% of India's food service places rely on LPG, while access to piped natural gas is still low," he contends.

India's food and beverage (F&B) market, valued at \$334 billion in 2023, is expected to reach nearly

\$691.47 billion by 2030, as per market reports.

India's beer industry, valued at over Rs 4.7 lakh crore currently, is also feeling the heat of war in West Asia. Prem Dewan, CMD of Devans Modern Breweries, says today the industry is navigating a paradox of strong demand but unprecedented cost pressures.

"With packaging alone accounting for 40-45% of production costs, sharp increases in glass bottle prices (up by 17-18%) and the unprecedented increase in the US dollar rates and commodity prices resulting in an over 15% increase in the cost of aluminium cans, which are already suffering from an annual shortage of 120-130 million pieces impacting nearly 20% of sales, are significant supply chain disruptions. Unless there is a pragmatic alignment on pricing, the industry risks supply disruptions at a time when consumption peaks are around the corner," Dewan says.

An internal survey done by the industry body, National Restaurant Association of India (NRAI), anticipates overwhelming industry-level financial losses due to the war. It estimates that the industry size in 2026 would be Rs 6.46 lakh crore, with a daily turnover of Rs 17,700 crore per day. "A 15% slowdown impact would amount to a loss of Rs 2,650 crore per day and monthly losses of Rs 79,000 crore," it states. The survey used the NRAI 2024 baseline of Rs 5.69 lakh crore for the industry size and CAGR of 8.1%

In fact, on March 10, NRAI, in an advisory to its members, issued guidelines on how to save LPG, including suspending or reducing items that require long simmering, deep frying, slow cooking, or multiple burners as well as reducing gas usage during non-peak hours by consolidating prep and cooking schedules, among other sets of suggestions.

Affirming these findings, Sagar Daryani, Founder and CEO of Wow! Momo, and President of NRAI, says that the NRAI survey of its members revealed that 10-15% of the restaurants are now completely shut. "The rest are operating, but either they have a limited menu or they are open for limited hours. Some are doing only lunch and dinner. Some only offer evening snacks and dinner, which means they are only operating in peak hours, not for all hours. So obviously, business is not as brisk as it is for the sector," he says.

While Wow! Momo, as a brand, has seen zero impact, as these stores are built on electricity, they have seen an impact on their 230 restaurants of Wow! China, which works entirely on LPG, says Daryani. "We have moved to electricity here, which has come at an unplanned capex of almost Rs 60-70 lakh. We have also reduced our menu significantly at Wow! China; just about 80% of the menu has been retained. So, it has been more of menu rationalisation and, in some cases, also timing. For us, late night was big business, but now not all stores are open late night," he adds.

Experts say that the way forward for the sector right now involves leveraging own strengths. "There are lots of ideas within itself. Cutting down complexities in the menu and bringing in seasonal specialities wherever required to compensate for some of those variety losses are aspects that can be seen. So, there is a lot to experiment with within what we do itself," says Anand Ramanathan, Partner, Consumer Industry Leader, Deloitte South Asia.

Daryani says it will take some time before things truly stabilise. "Even after the war ends, it will take at least four to six weeks to get some improvement in allocation, maybe almost half a year for it to become normal like before. So, it's a long haul. I think people have to use that time to get the shift done to electricity, because otherwise it's not going to be easy. One has to look at the alternative methods of cooking and keep the show on," he adds.

In the meantime, US President Donald Trump agreed to a two-week ceasefire with Iran just hours before a strike deadline linked to reopening the Strait of Hormuz. The two sides have agreed to a temporary pause in fighting, with the ceasefire allowing movement through the strait, a route that carries about one-fifth of the world's oil supply.