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GRMs of state-run refineries double on higher oil demand

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Increasing demand for petroleum products and cheaper oil imports from Russia helped refineries run by public sector oil marketing companies (OMC) witness a surge in gross refining margins (GRM) during the last financial year.

The average GRM of major state-run OMCs, including Indian Oil Corp. Ltd (IOCL), Hindustan Petroleum Corp. Ltd (HPCL) and Bharat Petroleum Corp Ltd (BPCL) in FY23 rose 68-109% over FY22, reporting an average of $19.52 per barrel, $12.09 and $20.04 a barrel, respectively, In FY22, it was at $11.25, $7.19 and $9.66 per barrel, respectively, according to their financial earnings documents for the last fiscal year.

However, the PSUs said in the regulatory filings: "Suppressed marketing margins of certain petroleum products have offset the benefit of higher GRM".

Retail prices of diesel and petrol have remained flat since November 2022, despite the volatility in the global crude prices.

India managed to partially mitigate the impact of soaring global energy prices by diversifying its sources of crude oil imports, with Russia emerging as a key supplier, offering oil at a discount to market rates. Further, the price cap imposed by G7 countries on Russian oil resulted in lower prices, As a result, Russia surpassed other nations to become India's largest oil supplier in FY23, with imports 50.84 million tonnes of crude.

However, by the value of imports, it stood second at $31.02 billion. Oil import of 50.31 million tonnes from Iraq was valued at $33.37 billion.

Prashant Vashisht, vice-president of Corporate Ratings, ICRA, said growth in GRM has come on the back of strong demand for diesel, petrol and aviation turbine fuel (ATF) last year, more so in the fourth quarter of FY23. In the corresponding quarter of FY22, demand for diesel and ATF was muted, he said.

Demand for diesel was at 85.90 million tonnes, while petrol demand stood at 34.98 million tonnes

"Easing oil prices and stagnant retail fuel prices, has supported refinery margins. Even OPEC's surprise price cut did not lift the prices as anticipated. Further, Indian refineries were among the beneficiaries of discounted oil from Russia, which is likely to have supported the margins."

In FY23, demand for refined petroleum products hit a record high, led by transportation fuel. Data from Petroleum Planning & Analysis Cell (PPAC) showed consumption reached 222.30 million tonnes in FY23, up 10.2% compared to FY22.

In the last financial year, demand for most products breached pre-covid levels with most sectors recovering after the pandemic-led disruptions led to a slowdown in the economy.

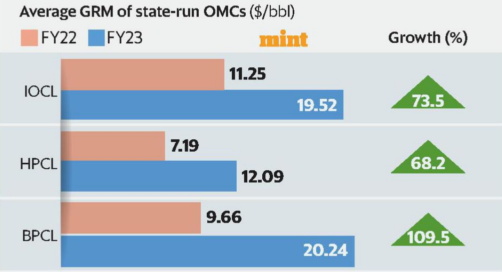
Demand for diesel, which is the most-consumed fuel in India, was at 85.90 million tonnes, while petrol demand stood at 34.98 million tonnes.

Refiners have also witnessed an improvement in crack spreads—the price difference between a barrel of crude oil and the petroleum products refined from it.

A recent ICRA report, however, said that while GRMs have increased over the past several months, they started moderating, even as the cracks for diesel and jet fuel continued to be healthy. Amid elevated refining margins, the Centre had imposed special additional excise duty on certain refinery products effective 1 July 2022, reducing the profitability of refiners to some extent, ICRA said.

Demand windfall

Gross refining margins of public sector oil marketing companies have seen a significant rise in FY23 compared with the previous fiscal on the back of rising demand for petroleum products and cheaper oil imports from Russia.



Source: Company regulatory filings