FORTUNA PR

Business Standard

CIRRUS

Mon, 22 Apr-24; Business Standard - Mumbai; Size : 461 sq.cm.; Circulation:14800; Page : 4

Refiners may need a rethink amid shrinking Russian crude discounts

Even after reduction, discounts on Russian crude oil may be contributing $1.5 to $2.5 a barrel to refiners' gross refining margins

S DINAKAR
New Delhi, 21 April

India's appetite may be waning for crude oil from Russia, the country's biggest source, with discounts shrinking by 77 per cent from a record high in early 2023, and by 61 per cent from the months after the invasion of Ukraine in February, suggests exclusive data accessed by *Business Standard*. But even record-low discounts at present are offering value to India's state-run refiners, which are grappling with the inability to adjust pump prices for nearly two years. They lowered petrol and diesel rates by ₹2 per litre last month, despite rising crude oil prices.

Discounts on Russian crude oil could currently be contributing $1.5 to $2.5 per barrel to gross refining margins (GRMs) of state oil refiners, but there are no official numbers available, said Swarnendu Bhushan, co-head of research at Mumbai-based brokerage Prabhudas Lilladher. The refiners are securing 20-30 per cent of their crude oil imports from Russia, he added. The contribution accounted for around 15 per cent of the average GRMs posted in the nine months to December 2023.

"The increase in GRMs in recent quarters (compared to the 2021-22 level) can mainly be attributed to lower cost of crude oil procurement from Russia," said Sehul Bhatt, director, research, CRISIL Market Intelligence and Analytics. "Based on data available for 2022-23 and 2023-24 (April-January), the average realisation on Russian crude stood at 14 per cent, against average Indian import realisations (excluding Russia) of 11 per cent. It reduced India's crude import realisations by more than $2/bbl in the past two years."

Gross margin realisations of $2/bbl are not small by any measure for refiners. "While the margins and discounts would have come down from a high of 2022-23, they still continue to provide significant value to refiners' GRMs, said R Ramachandran, an oil industry consultant and former director of refineries, BPCL. He explained that Indian refiners had learnt to process Urals profitably with yields comparable to Arab Mix and Iraqi Basrah oil — coupled with discounts, Russian crude offers good value.

The contribution of Russian discounts to refining margins were higher in the past, Bhushan said. In the past six months, the discount on Russian oil, led by benchmark Urals, to the price of European benchmark, has averaged $3.5/bbl. Dated Brent on a delivered basis was oscillating between $2.5/bbl and $4/bbl, said a Mumbai-based refiner. But the discounts were several folds higher between April 2022 and June 2023, peaking in the January-March quarter of 2023, *Business Standard* has learnt.

Beginning at an average $9/bbl in the April-June quarter of 2022, discounts on Russian oil expanded to peak at around $15/bbl in the January-March 2023 quarter, before shrinking to $5/bbl in the July-September 2023 period following production cuts by Saudi Arabia and Russia reducing supplies of heavier crude grades, thereby increasing demand, said an industry official. (See table)

Russian purchases are reflected in bulging GRMs of state refiners, which have been much healthier in the past few years. The average GRM of Indian oil-marketing companies stood at $10.2/bbl in 2021-22, increasing to a record $19/bbl in 2022-23 and $13/bbl in the April-December period of 2023-24, CRISIL data shows.

Over the years, Indian state refiners have upgraded their refineries, converting fuel oil into value-added products, while discounts on Russian oil helped with record distillate cracks in 2022-23, said Prashant Vasisht, senior vice-president and co-group head, corporate ratings, at Mumbai-based ratings agency ICRA. GRMs have declined this year amid lower product cracks, and shrinking discounts, which averaged around $6 a barrel in 2023-24, compared with $10.5 a barrel in 2022-23, data from industry sources showed.

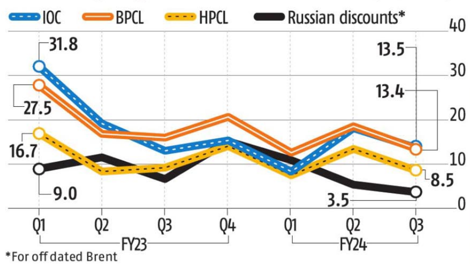
"GRMs depend on multiple factors – the price of crude oil and the technology – but discounted Russian oil can ensure better margins," said Narendra Taneja, a Delhi-based energy expert. "Indian refiners would continue to buy Russian oil as long as the discount offered is attractive."

Discounts played a key role in Russia's share of the Indian crude import market growing to over 35 per cent from less than 2 per cent in 2021--the crude is not viable without discounts because of logistical constraints.

"With Russia's export options limited, I expect crude oil to remain discounted, irrespective of a price cap," said Vandana Hari, a Singapore-based energy expert and founder of Vanda Insights. But over the medium term, the Russian crude oil discount will become a relatively small factor in India's refining margins.

MARGIN PRESSURE

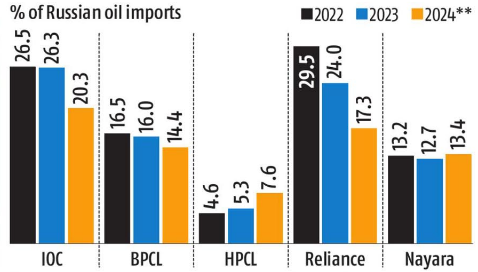
Gross refining margins and Russian discounts (in $/barrel)



*For off dated Brent

LEANING EAST

% of Russian oil imports



**As on April 17

Sources: Kpler, industry officials