FORTUNA PR Business Line

Sat, 11 May-24; Business Line - Chennai; Size : 303 sq.cm.;
Circulation:7000; Page : 3

Russian oil discounts have halved to $3-6/barrel from $8-10 in FY24

CHALLENGES AHEAD. Softening discount threatens to inflate India's oil import bill in FY25

Rishi Ranjan Kala
New Delhi

Russian crude oil discounts have almost halved to $3-6 per barrel at present, from an average $8-10 during April 2023-March 2024, a development which threatens India's savings from discounted crude in its import bill during FY25.

For comparison, the world's third largest crude oil importer saved more than ₹1-lakh crore during FY23 and FY24 on its oil import bill due to Russian discounts.

"Discounts depend on consignment to consignment. Generally, we procure on spot basis, two months in advance. Last year, we used to get around $8-10 per barrel. Maybe now it will be around $3-4 or $3-6 per barrel range," Bharat Petroleum Corporation's (BPCL) senior management said in an investor call on Friday. Russia now accounts for more than one-third of India's total imports.

HIGHER IMPORT BILL

According to ICRA, India saved around $5.1 billion in FY23 and $7.9 billion in 11 months of FY24 on its oil import bill due to discounts on Russian cargoes. The total comes to $13 billion, or more than ₹1-lakh crore based on the exchange rate on Friday.

However, it also estimates that the extent of monthly discounts relative to price narrowed sharply over the fiscal, to around 8 per cent on an average in September-February FY24 from around 23 per cent in April-August FY24. Consequently, savings related to purchase of Russian crude are likely to have dipped to $2 billion in September-February FY24 from $5.8 billion in April-August FY24.

"With India's oil import dependency expected to remain high, if the discounts on purchases of Russian crude persist at the prevailing low levels, ICRA expects India's net oil import bill to widen to $101-104 billion in FY25 from $96.1 billion in FY24, assuming an average crude oil price of $85 per barrel in the fiscal. Additionally, any escalation in the Iran–Israel conflict and an associated rise in crude oil prices could impart an upward pressure on the value of net oil imports in the current fiscal year," it added.

SUPPLIES MODERATE

BPCL management said that Russian supplies have moderated, compared to FY24. The oil marketing company (OMC) imported around 36 million tonnes (mt) of crude oil in FY24, of which Russian cargoes accounted for 13 mt, which is the highest among the PSU OMCs. In FY25, the company expects Russian oil processing to be in the range of "at least" 25 per cent.

"In FY24, BPCL imported around 39 per cent of its total crude oil requirement from Russia. As of date, we foresee getting Russian supplies. But the only thing is that most Russian supplies are on spot basis and not term basis. If there are no new geopolitical tensions, no new issues, we are estimating supplies to continue at similar levels," the management said.

Going ahead, the Maharatna company remains "cautiously optimistic" and expects crude oil prices to remain in the range of $83-87 per barrel in the near future with geopolitical tensions and supply chain disruptions being potential hurdles.

On higher prices and margin impact, BPCL said, "Earlier also we said that as long as crude oil prices are hovering at $80-85 per barrel, we are comfortable even at these prices. The margins may squeeze for a short period of time, but as long as crude is at $80-85 we can reasonably generate marketing money."

MODERATING TREND

- Russian crude oil discounts have been moderating since last year
- For Indian refiners, the discount translates to a lower value due to higher freight costs, insurance and expenses related to third-party traders
- It costs around $7 per barrel to transport crude oil from Black sea ports to West India and $10 from Baltic sea ports
- India saved more than ₹1-lakh crore in FY23 and FY24 due to discounts by Russia