Logistics

Lower fuel demand during second wave to squeeze OMC margins

Kuwar Singh | New Delhi | Updated on April 23, 2021

The domestic consumption of diesel, petrol fell 12% and 7% respectively on a yoy basis - istock.com/virojt

Refiners have also been diverting a share of the oxygen that they produce to hospitals The demand for diesel, petrol and aviation turbine fuel are all set to fall in April putting pressure on the gross refining margins (GRMs) of oil marketing companies (OMCs).

"Refinery throughputs will be down as a result of the fall in demand. This will drive up the per-barrel processing cost and impact GRMs of the refiners," said Prashant Vasisht, Vice President and Co-Head, Corporate Ratings at ICRA Ltd.

In the October-December quarter of the just-concluded financial year, Indian Oil Corporation Ltd's GRM stood at $2.96 per barrel, up significantly from $0.08 for the financial year 2019-20. However, the January-March quarter put pressure on the margins due to a rise in international crude prices after production cuts by oil producing countries.

'Lenient lockdown'

"Except for personal travel, transportation has not been targeted directly under the new lockdowns. However, there will be a broad tendency of reduced transportation and fuel consumption, which will get exacerbated by May," said Madan Sabnavis, Chief Economist at CARE Ratings. For instance, since the sale of non-essential goods is banned, companies will also scale down production and transport.

The domestic consumption of diesel and petrol fell 12 per cent and 7 per cent, respectively, on a year-on-year basis in the financial year ended March, according to data from the Petroleum Planning and Analysis Cell. Diesel consumption stood at 72.72 million tonnes, while petrol consumption stood at 27.95 million tonnes.

Refiners have also been diverting a share of the oxygen that they produce for their industrial processes to hospitals. Oxygen is used in the industrial production of mono-ethylene glycol at refineries' MEG plants.

Indian Oil's Panipat refinery has scaled up its supply of oxygen to hospitals from an earlier 235 tonnes to 262 tonnes per day. It will also supply 150 tonnes of oxygen to hospitals in Delhi, Haryana and Punjab, the firm has said.

Bharat Petroleum Corporation Ltd has said that it will be supplying 100 tonnes of oxygen to hospitals. Reliance Industries Ltd has also tweaked manufacturing at its Jamnagar oil refineries to produce over 700 tonnes a day of medical-grade oxygen which is being supplied free of cost to States badly affected by Covid-19. The company plans to raise medical-grade oxygen production capacity to 1,000 tonnes.

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