OMCs' Gross Refining Margins to Moderate Following a $7–9/bbl Recovery in 9MFY26

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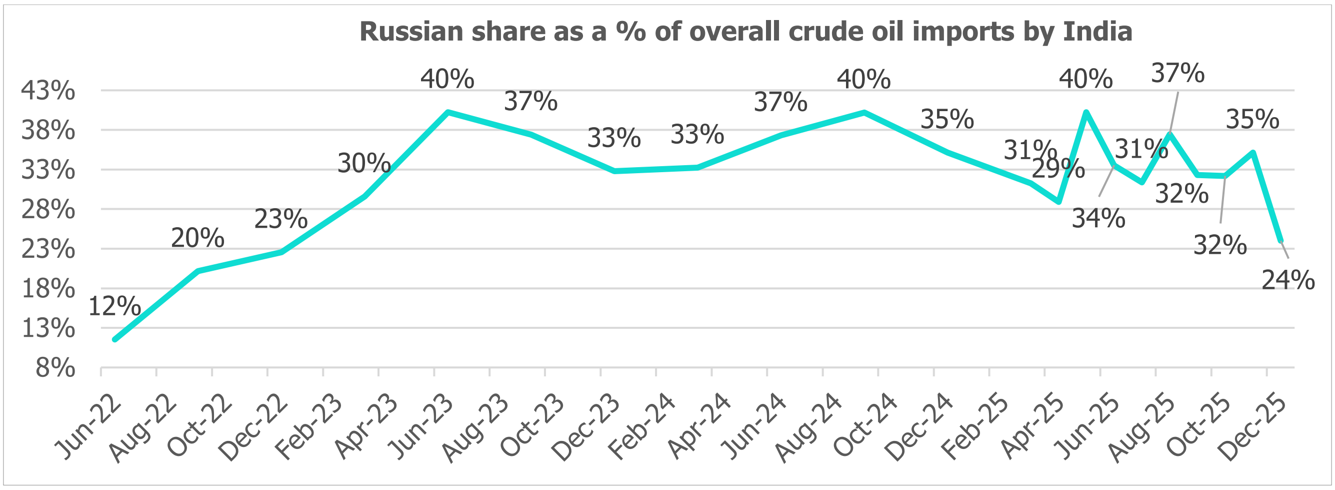
Synopsis

- Indian Oil Marketing Companies (OMCs) have navigated a highly volatile margin environment over the past three fiscal years, marked by sharp fluctuations in Gross Refining Margins (GRMs) amid rapidly evolving global market dynamics. GRMs declined from a high of USD 10–12 per barrel in FY24 to USD 4–6 per barrel in FY25 and further bottomed out to USD 2–4 per barrel in Q1FY26. This downturn was driven by narrowing discounts on Russian crude oil, weaker product cracks, and heightened geopolitical uncertainties.
- Thereafter, GRMs rebounded significantly to USD 8–10 per barrel in Q2FY26 and further to USD 9-13 per barrel in Q3FY26, thereby outperforming the Singapore benchmark. This improvement was supported by agile inventory management, a decline in crude oil prices, healthy product cracks, and wider discounts on Russian crude due to US restrictions on Russian crude oil trade.
- Marketing Margin (MM) of OMCs, though moderated through 9MFY26, due to higher refinery transfer pricing arising from high GRMs amid stagnant retail prices, albeit it continued to remain healthy when compared to historical averages.
- The strategic advantage derived from procuring discounted Russian crude—at one point accounting for nearly 35-40% of India's crude oil import portfolio—is now expected to moderate significantly going forward. This will be an outcome of shifting geopolitical developments triggered by the US imposition of stringent sanctions on major Russian crude oil entities, including Rosneft and Lukoil, in November 2025, as well as the European Union's ban on products refined from Russian crude oil, which came into effect in January 2026.
- These developments are expected to compel Indian refiners to rapidly reconfigure their crude oil sourcing basket. A defining medium-term development emerged in February 2026: in exchange for a reduction in U.S. tariffs on imports of Indian goods from an effective 50% (including penalties) to 18%, India is likely to reduce purchases of discounted Russian crude oil.
- Against this backdrop, CareEdge Ratings expects GRMs of OMCs to moderate going forward, with a reduction in the share of Russian crude oil in their overall sourcing mix. In contrast, simultaneously, their marketing margins are expected to improve in the near term, assuming no change in retail fuel prices.

The Great Russian Pivot Unwinds: Indian Refiners To Redraw Sourcing Plans



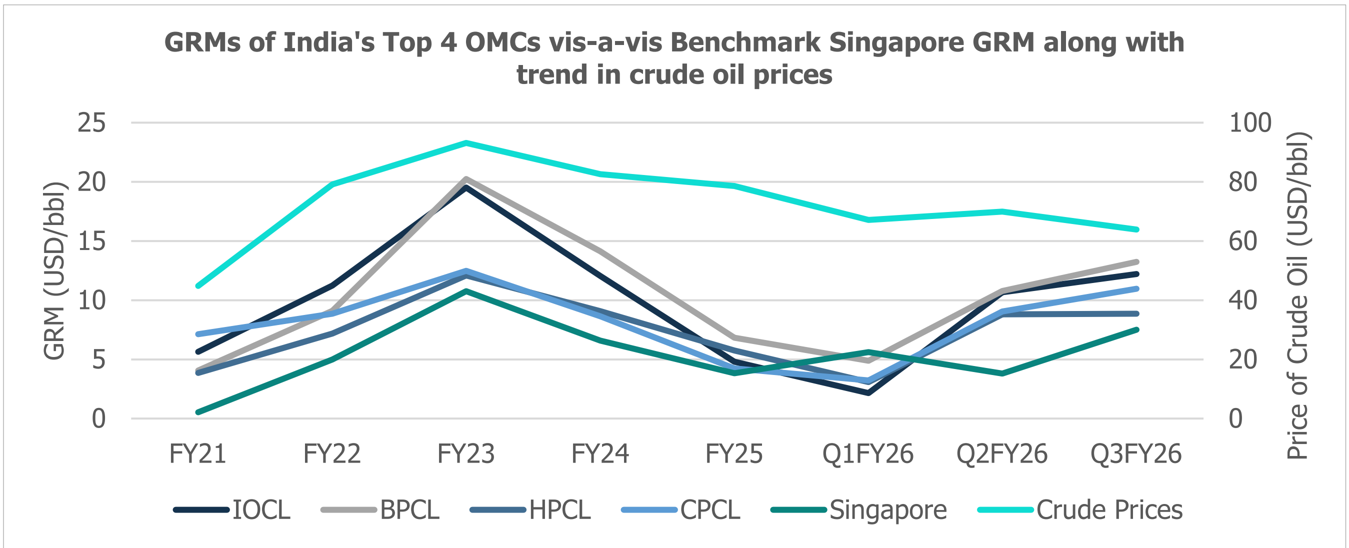
Source: CMIE, CareEdge Ratings

A defining theme in the latter half of FY26 is the gradual unwinding of the "Russian pivot," which significantly supported India's refining margins in FY23 and FY24. India's crude oil procurement profile has shifted markedly—from a period of elevated dependence in FY24 (~36%) to a pronounced tapering in Q3FY26 (~30%), and the same is expected to fall further in Q4FY26.

In FY24, Russian crude accounted for nearly 36% of India's total crude oil imports, driven primarily by discounts of USD 8–10 per barrel. Although Russian crude oil import volumes remained steady at a similar limit through FY25, the economic attractiveness of Russian crude had diminished during the year as discounts narrowed to USD 3–4 per barrel due to the gradual stabilisation of the global crude oil supply chain.

With discounts on Russian crude oil remaining narrow for much of H1FY26, India diversified its crude oil imports slightly toward countries in the Middle East, particularly Saudi Arabia, Iraq, and the UAE. This shift is likely to accelerate further and become more pronounced following the finalisation of the interim India–US trade agreement in February 2026. Under the agreement, the United States reduced tariffs on imports of Indian goods from an effective 50% (including penalties) to 18%, in return for India's commitment to reduce imports of Russian crude oil. This geopolitical development carries significant strategic implications for Indian refiners. However, prevailing benign crude oil prices are expected to help Indian refiners navigate this shift easily, assuming there is no major disruption in global crude oil supplies.

GRMs of India's OMCs Improved Through 9MFY26; Now Expected to Moderate



Source: PPAC, Company Data, CareEdge Ratings

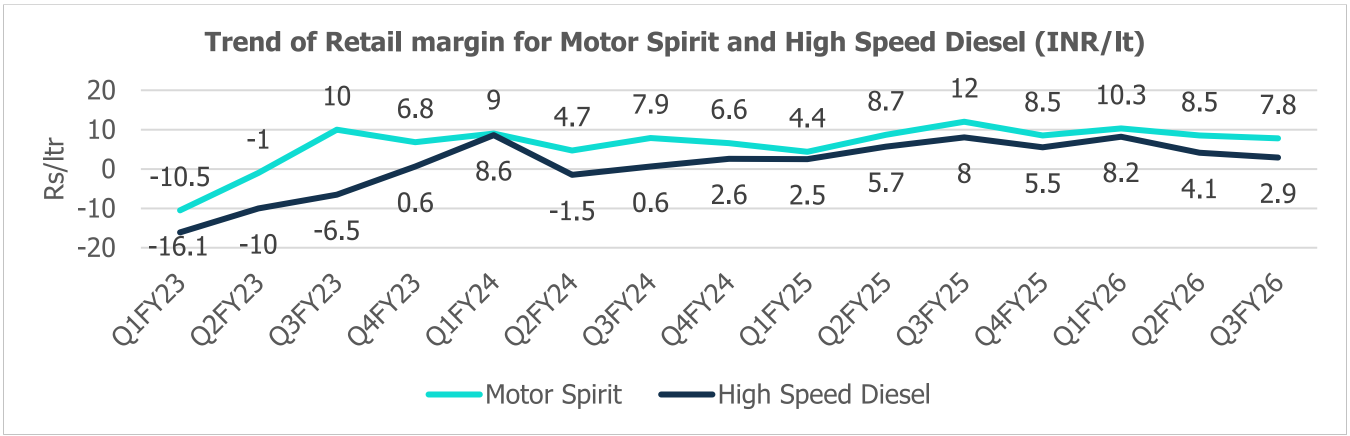
GRMs of Indian OMCs declined in FY25 to about USD 4-6 per barrel from USD 10-12 per barrel in FY24, primarily due to cycle normalisation driven by weaker middle–distillate cracks, and a reduction in crude oil discount advantage for India.

In FY26, GRMs remained subdued in the first quarter (April–June 2025), as strong operational performance was offset by accounting volatility arising from inventory losses, and the second quarter (July–September 2025) reflected a pronounced recovery, with margins expanding significantly as inventory losses were reversed and product cracks improved. The third quarter (October–December 2025) marked the peak performance of FY26 so far, supported by higher discounts on Russian crude oil and optimal refinery utilisation.

Indian GRMs continued to benefit from discounted Russian Urals crude—priced USD 3–6 per barrel below Brent on a delivered basis—which constituted ~33% of India's crude import basket during 9MFY26. This sustained cost advantage contributed to the decoupling of Indian GRMs (USD 7–13 per barrel) from Singapore benchmarks (USD 4–5 per barrel). Additionally, the high yield of middle distillates, such as diesel and jet fuel, whose cracks remained elevated due to global supply tightness, further supported margin expansion. Declining crude oil prices also bolstered the profitability of OMCs.

Going forward, a compelled shift away from Russian crude toward a blend of Venezuelan, U.S., and Middle Eastern grades is likely to increase the weighted average cost of India's crude oil sourcing by USD 1.5–2.0 per barrel, directly compressing the GRM premium that Indian refiners have enjoyed in recent years.

Marketing Margins Moderated; Albeit Remained Healthy

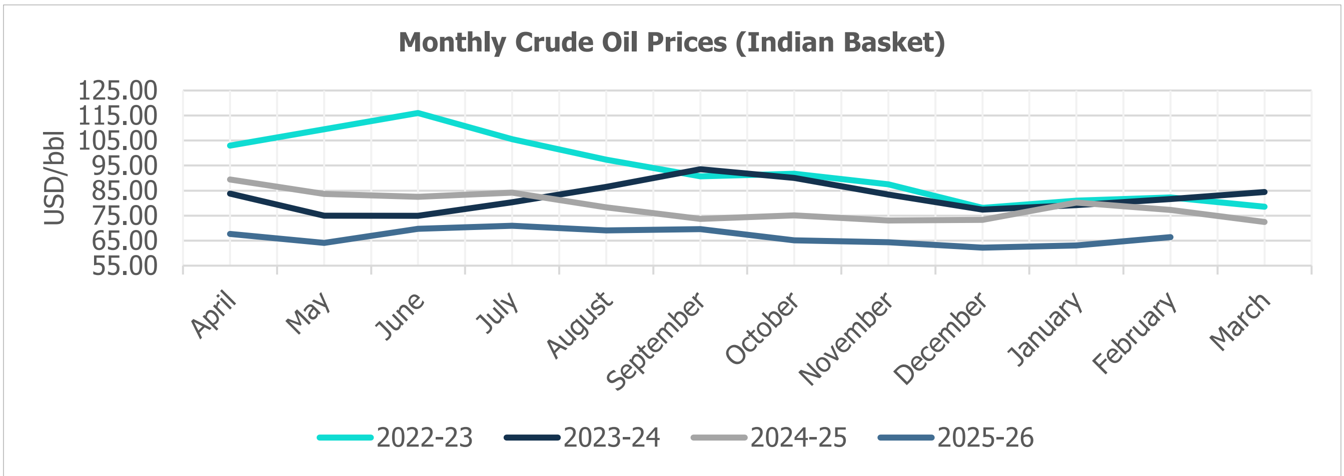


Source: CMIE and CareEdge Ratings

While refining industry flourished, the marketing segment faced some headwinds. Marketing Margin (MM)—the markup earned on selling fuel at retail stations—remained slightly under pressure over the last two quarters due to stagnant pump prices, despite a sequential rise in international product prices, which led to a higher refinery-gate transfer price. This compression highlights the vulnerability of the marketing segment to rising product cracks when retail prices are frozen. Despite moderation, MM remained healthy compared with its historical average over the past few years. Also, OMCs were shielded from the full impact of this compression by the government's timely release of the LPG subsidy from November 2025 onwards.

CareEdge Ratings anticipates that, as GRMs are expected to moderate, OMCs' marketing margins will likely improve in the near term, supported by unchanged fuel retail prices and benign crude oil prices.

Crude Oil Prices Expected To Remain Benign



Source: PPAC and CareEdge Ratings

Brent crude, the global benchmark that plays a major role in defining GRMs and MM, has traded significantly below its FY23–FY24 peaks, averaging ~$62/bbl in December 2025, a 15% year-on-year decline. Prices eased from the elevated levels witnessed in early 2025, stabilising at around $63–64/bbl during Q3FY26—an advantageous range for Indian OMCs, as it supports refining margin expansion without necessitating politically sensitive retail price adjustments. Brent continued its downward trajectory through CY25, averaging ~$71/bbl in July and around ~$69/bbl in August–September, driven by weak Chinese demand, higher U.S. output, and reduced geopolitical risk premiums. By December 2025, trade-war-related demand uncertainty further pressured prices to $62.20/bbl, before a modest recovery to $66.45/bbl in February 2026 amid renewed U.S.–Iran tensions.

Going forward, crude oil prices are expected to hover in a range-bound manner below $70/bbl, which augurs well for Indian OMCs.

CareEdge Ratings' View

"The performance of the Indian downstream oil sector is currently driven by the dual engines of high GRMs and healthy Marketing Margins. As we transition into FY27, the narrative is likely to shift from high GRMs to moderate but sustainable GRMs. While GRMs are expected to moderate from their recent peak levels due to global supply pressures and realignments in crude oil sourcing, they are likely to settle at $6–$8/bbl, which is accretive to the historical average. However, the durability of this trend will depend on global crude prices remaining benign, though they can be susceptible to sudden geopolitical trade dynamics. With an expected moderation in GRMs and steady fuel retail prices, Marketing Margin is expected to improve going forward in the medium-term," said Hardik Shah, Director at CareEdge Ratings.

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