

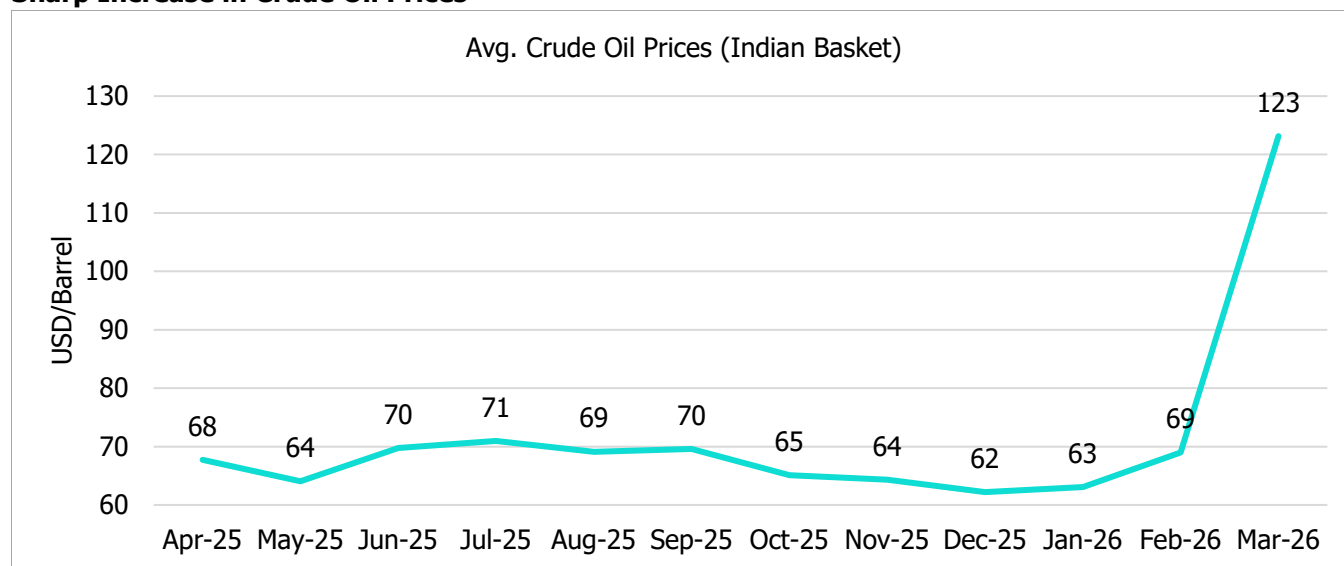
Excise Duty Cut: Break-even for OMCs Shifts to ~\$ 106/bbl Crude

March 27, 2026 | Ratings

Synopsis

- On March 27, 2026, the Government of India announced a reduction in special excise duty on petrol and diesel by Rs 10/litre by lowering duty on petrol from Rs 13 to Rs 3 per litre and lowering duty on diesel from Rs 10 to zero per litre. This reduction in excise duty by Rs 10/litre has come on the back of a sharp increase in crude oil prices to above \$100/bbl, driven by the ongoing conflict in West Asia between the US & Israel and Iran.
- Alongside the above reduction in excise duty, the government has also imposed a Cess on the export of diesel at Rs 21.5 per litre and Aviation Turbine Fuel (ATF) at Rs 29.5 per litre to ensure adequate domestic availability.
- However, with the above-said reduction in excise duty on petrol and diesel, retail prices of petrol and diesel are unlikely to be reduced. Upon a sharp increase in Brent crude oil price above \$100/bbl, Oil Marketing Companies (OMCs) started incurring heavy losses. With the recent reduction in excise duty and no change in the retail prices of petrol & diesel, OMCs are expected to break even at a crude oil price of ~\$106/bbl for their refining and retailing operations, vis-à-vis ~\$90/bbl before this excise duty cut.

Sharp Increase in Crude Oil Prices



Source: PPAC

After hovering in a comfortable range of \$60-\$70/bbl for a reasonably long period of time, crude oil prices have sharply gone up in March 2026 on the back of US & Israel's war with Iran resulting in blocking of the Strait of Hormuz, which is an extremely critical sea route for India's overall crude oil imports from West Asia.

Profitability of OMCs Under Pressure

Indian OMCs, which are majorly focused on meeting India's domestic demand for petrol, diesel and ATF, are feeling the heat of the sharp increase in crude oil prices. To combat the profitability concerns, earlier this month, OMCs had increased wholesale (bulk) diesel prices by Rs 22 per litre and premium petrol prices by Rs 2-Rs 2.35 per litre.

However, bulk diesel and premium petrol sales constitute a very minor portion of OMCs' total sales. Accordingly, before the latest reduction in excise duty, Indian OMCs had a break-even point for their refinery and retail operations at a crude oil price of ~\$90/bbl, resulting in a loss of more than ~\$10/bbl. But now, with this reduction in excise duty by Rs 10/litre, if retail prices remain unchanged, OMCs are expected to have break-even in their refinery and retail operations at a crude oil price of ~\$106/bbl. It allows OMCs to hold back on any immediate increase in petrol and diesel prices for retail consumers.

CareEdge Ratings' View

"Before the recent surge in crude oil prices in March 2026 due to geopolitical tension in West Asia, Indian OMCs were earning healthy Gross Refining Margins (GRMs) as well as marketing margins till February 2026, as retail fuel prices were kept constant despite crude oil prices hovering in the range of \$60-\$70/bbl for a long period. However, with the latest sharp rise in crude oil prices, while their GRMs have gone up due to higher fuel cracks, but as the OMCs are majorly domestic focused, their losses from retail operations have started to widen which even exceeded their GRMs from refining operations. Indian OMCs had a break-even on their refining and retailing operations at a crude oil price of ~\$90/bbl, based on prevailing retail prices; with the latest cut in excise duty, the break-even is expected to shift to ~\$106/bbl if retail prices remain constant. Further, simultaneous imposition of a Cess on the export of diesel and ATF is expected to ensure adequate domestic availability. Accordingly, these steps are expected to ensure adequate availability of fuel in the retail market at prevailing prices with the Government of India absorbing the excise duty cut," said Hardik Shah, Director, CareEdge Ratings.

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