

Crude awakening for oil & gas sector

Geopolitics-driven crude rally redraws the earnings outlook across the energy value chain.

by Sameer Bhardwaj

The global oil market narrative has changed dramatically since the start of 2026. In January, the dominant concern was a potential supply glut. Global inventories looked comfortable, and Brent crude prices were expected to stay subdued for much of the year.

Against this backdrop, the investment case—especially in India—was clearly skewed in favour of downstream companies such as oil marketing companies (OMCs) and refiners. Lower crude prices generally ease pressure on fuel marketing margins, while upstream producers were bracing for weaker realisations and earnings pressure.

That view changed decisively from March. A sharp escalation in geopolitical tensions—triggered by the United States and Israel's intensifying conflict against Iran—upended expectations of stable supplies and exposed vulnerabilities in global oil logistics. Markets quickly shifted from surplus anxiety to supply fear.

Brent, trading around \$80 per barrel in January, surged sharply through March and April. Prices briefly touched \$126.4 a barrel in April-end—the highest level in nearly four years. Although a temporary ceasefire pushed prices back below \$100 a barrel for parts of April, the absence of meaningful progress towards a durable resolution has triggered another upswing in prices.

The speed of this reversal is striking. During the first two months of this year, i.e. before the conflict escalated, Brent averaged just \$67 per barrel. The surge that followed underscores how quickly oil markets can swing when geopolitical risks override traditional supply-demand fundamentals. As of the first week of May, prices continue to remain volatile.

OMCs feel the heat

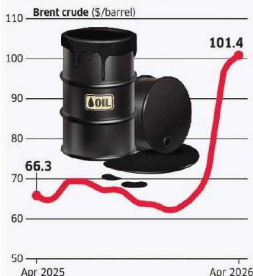
Higher crude prices and unchanged retail fuel prices are weighing on OMCs' marketing margins.



Source: Prabhudas Lilladher report

Brent breaks out

The escalation of the US-Iran conflict triggered a sharp spike in oil prices.



Source: investing.com. Prices are monthly averages

Outlook: Tight supply, soft demand

The main reason oil prices have been elevated is the deterioration in global supply conditions. Attacks on energy infrastructure, coupled with continued restrictions and risks to tanker movements through the strategically critical Strait of Hormuz, have disrupted the smooth flow of oil to international markets.

The International Energy Agency (IEA), in the April 2026 edition of its Oil Market Report, acknowledged the severity of the disruption. For 2026, it expects global oil supply to decline by about 1.5 million barrels per day (bpd) on-year. This represents a meaningful shift from earlier expectations of ample supply and underscores the scale of the geopolitical shock. At the same time, high oil prices are beginning to weigh on demand. According to the IEA, global oil demand is projected to fall by around 80,000 bpd in 2026. If this forecast holds, it will mark the first on-year contraction in oil demand since 2020.

Market participants broadly agree that prices would ease if the Strait of Hormuz were fully reopened and geopolitical tensions reduced meaningfully. However, few expect a return to pre-conflict price levels.

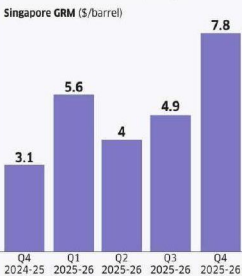
Swarandudh Bhusan, Research Analyst at PwC Capital, expects prices to correct sharply if tensions ease, driven by weaker demand and inventory build-up in West Asia. In such a scenario, he sees Brent trading in the \$70-80 per barrel range in the near term.

Others are slightly more cautious. Hitesh Jain, Lead Analyst at YES Securities, believes that even in the event of conflict resolution, prices will continue to carry a material risk premium of \$10-15 per barrel. He expects oil to average around \$85 per barrel over 2026, with the risk of prices spiking closer to \$95 if tensions worsen.

A report by Equirus reinforces this view. The market is grappling not with a tempo-

Refiners ride the spike

Supply disruptions led to a sharp rise in product cracks and refining margins.



Source: Prabhudas Lilladher report

rary supply shock, but a deep inventory deficit. As a result, stock rebuilding, higher logistics costs, and repair expenses for damaged infrastructure are likely to keep oil prices structurally supported. As per the report, the near-term equilibrium price for Brent is likely to remain above \$80 a barrel.

Gas markets: Slow normalcy

Unlike crude, which could normalise relatively quickly if geopolitical risks ease, the recovery in natural gas supply is expected to be slower. The delay is largely due to the technical complexity involved in restarting and stabilising large gas-processing facilities, especially in Qatar, a key exporter of liquefied natural gas (LNG). As a result, gas prices are expected to remain elevated for longer even if oil prices retreat from current highs.

Sectoral impact

High oil prices don't affect all segments of the oil and gas industry equally. The impact varies sharply across upstream, downstream, and city-gas distribution (CGD) companies.

• Upstream: Clear beneficiaries

Upstream oil and gas companies, engaged in the exploration and production of crude oil and natural gas, benefit directly from higher oil prices. Rising prices improve realisations, boosting revenues and profits.

According to Bhusan, every \$5 per barrel rise in oil prices can lift the earnings per share of upstream companies by 8-10%. This leverage is already reflecting in stock prices. ONGC and Oil India have gained 20.8% and 12.2%, respectively, on a year-to-date basis, significantly outpacing the Nifty 50, which has fallen around 8% over the same period. Analysts expect upstream companies to report strong results for the March 2026 quarter, supported by higher realisations. However, after the sharp rally, any meaning-

ful de-escalation in West Asian tensions could pose near-term downside risks if oil prices cool.

• Downstream: Marketing pain

For downstream OMCs, the picture is more mixed. The immediate challenge is the widening disconnect between crude and retail fuel. Despite global crude prices rising sharply, petrol and diesel prices in India have been stagnant, squeezing marketing margins.

Marketing margin (i.e. difference between procurement cost and the price at which fuel is sold to dealers) moves by about ₹ 0.5-0.55 per litre for every \$1 change in crude prices, notes Bhusan. At current levels, OMCs are estimated to be losing around ₹ 12 per litre on diesel and ₹ 10 per litre on petrol, a drag on profitability if sustained.

Refining, however, offers partial relief. Product cracks—the price spread between refined products such as petrol or diesel and crude—rose sharply on a sequential basis in the March 2026 quarter amid supply disruptions. Reflecting this, Singapore benchmark gross refining margins improved to \$7.8 per barrel from \$4.9 per barrel in the December 2025 quarter.

While stronger refining margins can cushion weak marketing profitability, LPG under-recoveries remain a concern. Analysts expect operating and net profits of OMCs to decline on a quarter-on-quarter basis in the March 2026 quarter. Also, earnings are likely to remain volatile in the June 2026 quarter, with subsequent performance dependent on crude prices and geopolitical developments.

• CGD: Cost pressures persist

CGD companies are also facing margin pressures, especially those reliant on imported LNG. They source gas through a mix of domestic supplies—priced under the government-administered pricing mechanism (APM)—and international LNG.

While APM gas prices are regulated and relatively stable, spot LNG prices are volatile and much more expensive. Disruptions linked to the Strait of Hormuz have tightened LNG availability, pushing spot LNG prices up by 21.3% quarter-on-quarter in the March 2026 quarter. Looking ahead, rating agency ICR A expects margins in the domestic piped natural gas segment to remain stable, aided by preferential allocation of APM gas. However, margins in the CNG segment are likely to face headwinds. Higher gas costs and rupee depreciation may not be fully passed on to consumers, putting profitability under pressure.

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