

Logistics

Fuel price stability hurts marketing margins

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Despite surge in crude prices, retail prices remain flat ahead of the elections

After having consistently risen throughout January and February, retail prices of diesel and petrol in March are enjoying their longest period of stability this year.

The prices of diesel in New Delhi and Mumbai have stayed at ₹81.47 per litre and ₹88.6 per litre, respectively, for 16 days till Monday. Closer to the ₹100-mark, the price of petrol has remained at ₹91.17 per litre and ₹97.57 per litre in New Delhi and Mumbai, respectively.

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The flat retail prices being maintained by public sector oil marketing companies (OMCs) during a politically sensitive time when four Indian states are going for polls is seen as government artificially controlling the prices. Meanwhile, crude prices have continued climbing upwards as oil producing nations remain firm on supply restrictions.

Experts' take

“The OMCs are absorbing some of the increase in crude prices,” said Prashant Vasisht, Vice-President and Co-Head, Corporate Ratings, ICRA. “Last year, their marketing margins were higher than what they traditionally make, as they were operating on a sub-optimal basis with low gross refining margins. Those marketing margins are getting squeezed now.”

The amount of crude processed by Indian refineries in the financial year ending March 2021 is estimated to be 25.6 million tonnes, a year-on-year drop of 20 per cent, Minister of Petroleum and Natural Gas Dharmendra Pradhan informed Lok Sabha on Monday. “During 2020-21, the capacity utilisation of Indian refineries are lower due to lower demand on account of the Covid-19 pandemic,” Pradhan said.

As the refining margin of Indian refineries was battered due to Covid-19, the government had allowed OMCs a bigger cushion on their marketing margin. Marketing margins are the difference between the retail selling price of petroleum products and the refinery transfer price at which refineries hand over these products to their marketing divisions.

These marketing margins are expected to get increasingly pressured as State elections march on.

Tepid demand

Even as they are stable today, current retail prices remain too high to spur a growth in fuel demand in March, said Urvisha Jagasheth, Research Analyst at CARE Ratings. “Till the current price of crude oil does not fall, the high retail price of petrol and diesel is likely to hold,” Jagasheth added.

The domestic consumption of petrol and diesel declined on a month-on-month basis during both January and February as retail prices rose to a historic high. Diesel consumption, which is yet to recover to pre-Covid levels, was 6,550 million tonnes in February, a year-on-year drop of 8.5 per cent.

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