Logistics

Government in a spot as fuel prices deliver a 'crude' blow

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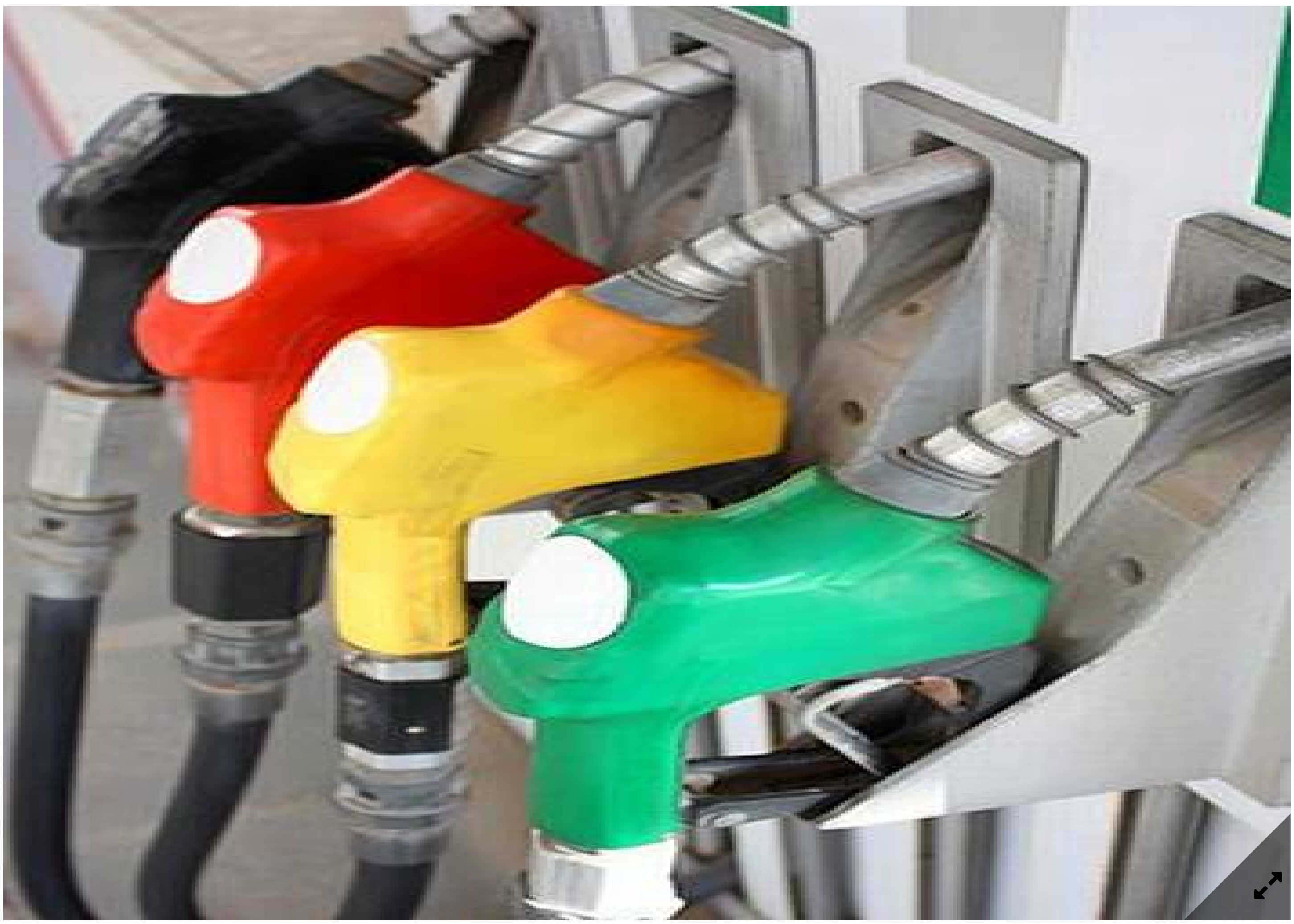

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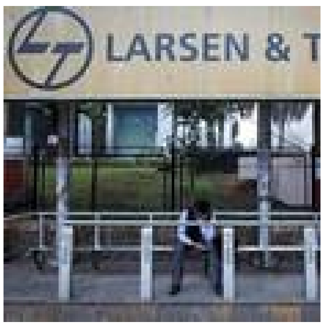
Record-high petrol and diesel prices have caught the government in a bind. On a steady climb since October last year, prices of both the fuels have broken all previous records in the past few days. In at least one city, the price of petrol briefly breached the eye-popping ₹100-per-litre mark.

"Crude prices are still in the $55-60 range per barrel, which does not justify such a high retail price for Indians," said Urvisha Jagasheth, Research Analyst at CARE Ratings.



Hiking excise duty

In the first half of 2020, when crude prices slumped as economies across the world shut down to contain coronavirus, the union government had followed its long-standing strategy of hiking the excise duty instead of passing the benefit of lower crude prices onto the end consumers.

In two hikes in March and May of last year, the government raised excise duty on petrol by a total of ₹13 per litre and on diesel by ₹16 per litre. Since it assumed office in 2014, Prime Minister Narendra Modi's government has raised the excise duty on petrol and diesel by nearly 350 per cent and 894 per cent, respectively.

"The government is allowing OMCs to keep some sort of buffer to withstand the shock of Covid themselves," said Prashant Vasisht, Vice-President and Co-Head, Corporate Ratings, ICRA. "OMCs' gross refining margins are still weak, and are likely to remain subdued in the near future,” he said. “Aviation turbine fuel is still not getting absorbed, and the high-speed diesel market is oversupplied. Motor spirit crack spreads are not doing great either.”

Gross refining margins are the margins between production cost and retail transfer price, at which refineries transfer their products to their firms’ marketing divisions. Marketing margins are the margins OMCs make on sale of the products minus the retail transfer price.

“Higher marketing margins make up for extremely weak GRMs, or OMCs won’t be able to survive,” Vasisht said.

But the buffer granted on their marketing margins could be seen at play in the glowing September quarter results of the OMCs as consumer demand picked up. Profits in the December quarter are expected to be even higher.

Meanwhile, gross under-recoveries of OMCs are likely to have improved in the ongoing financial year, during which ICRA estimates them to be ₹1,100 crore, as compared to ₹24,500 crore in the previous financial year. In the financial year 2022, the ratings agency again expects the gross under-recoveries to be moderate at ₹1,500 crore (at average Indian crude basket price of $60/bbl and exchange rate of ₹/$ of 76).

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