

# The Exponential rise of Petrol and Diesel

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## Overview

Since the start of CY21, prices of petrol and diesel have been volatile. After rising for 12 consecutive days in February to their record highs, the prices of petrol and diesel have remained steady for a second day in a row on, February 22, 2021. Petrol price is now retailing at Rs 90.58/litre while diesel is selling at Rs 80.96/litre in Delhi.

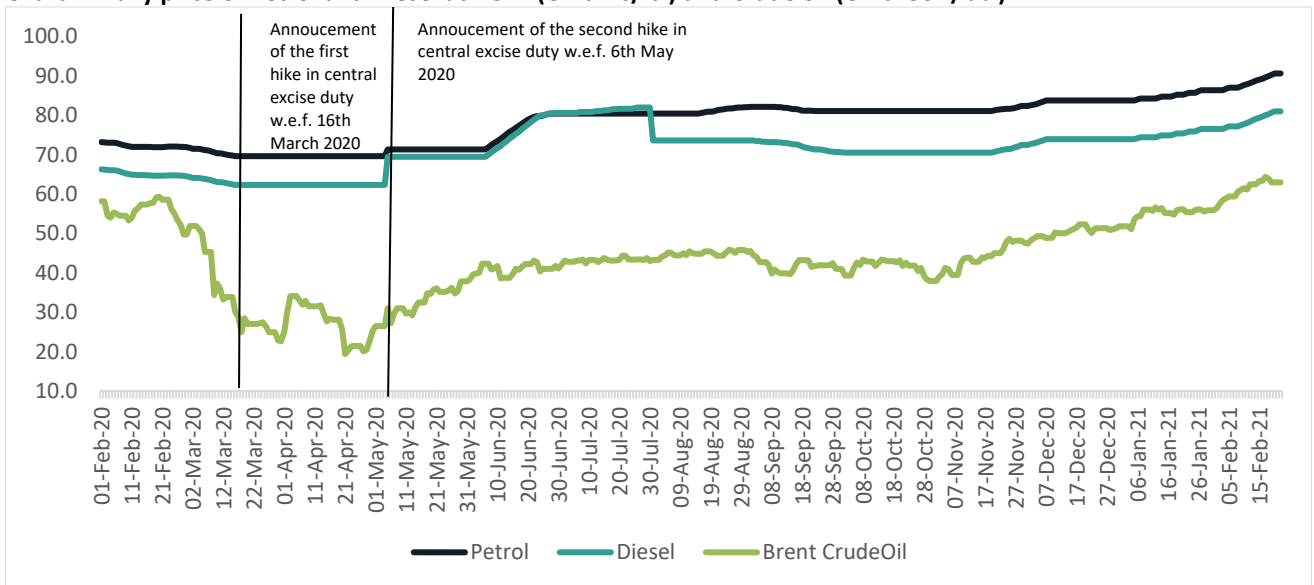
The price of crude oil too has been recovering since November 2020 ever since there have been successful vaccination trials followed by the start of the inoculation drive undertaken by economies globally indicating oil price-recovery backed by the hopes of normalcy returning. The increase in crude oil price can also be ascribed to the voluntary production cuts undertaken by OPEC and its allies and the fall in US oil production.

OMCs take appropriate decision on pricing of petrol and diesel in line with their international product prices, exchange rate, tax structure, inland freight and other cost elements. Oil firms consider the trade parity pricing which is based on the prevailing prices in the international markets. Retail prices of petrol and diesel in India are linked to their prices in the global markets. Prices of petrol and diesel in India are worked out based on the average of the trailing 15 days of benchmarked Arab-Gulf fuel prices, which move in tandem with global crude oil prices. The pricing formula involves 80% of import price and 20% export price of the fuel. Which means indirectly prices of petrol and diesel are correlated to that of crude oil. So one can say that the increase in crude oil price is leading to an increase in the price of petrol and diesel.

However, crude oil has breached the USD 60/bbl mark only on 8 February 2021. The last time crude oil was ranging around USD 60-65/bbl was 13 months ago during 20<sup>th</sup> -24<sup>th</sup> January 2020 and at the same time price of petrol in Delhi was ranging around Rs. 73-74/litre whilst that of diesel was around Rs. 67-68/litre.

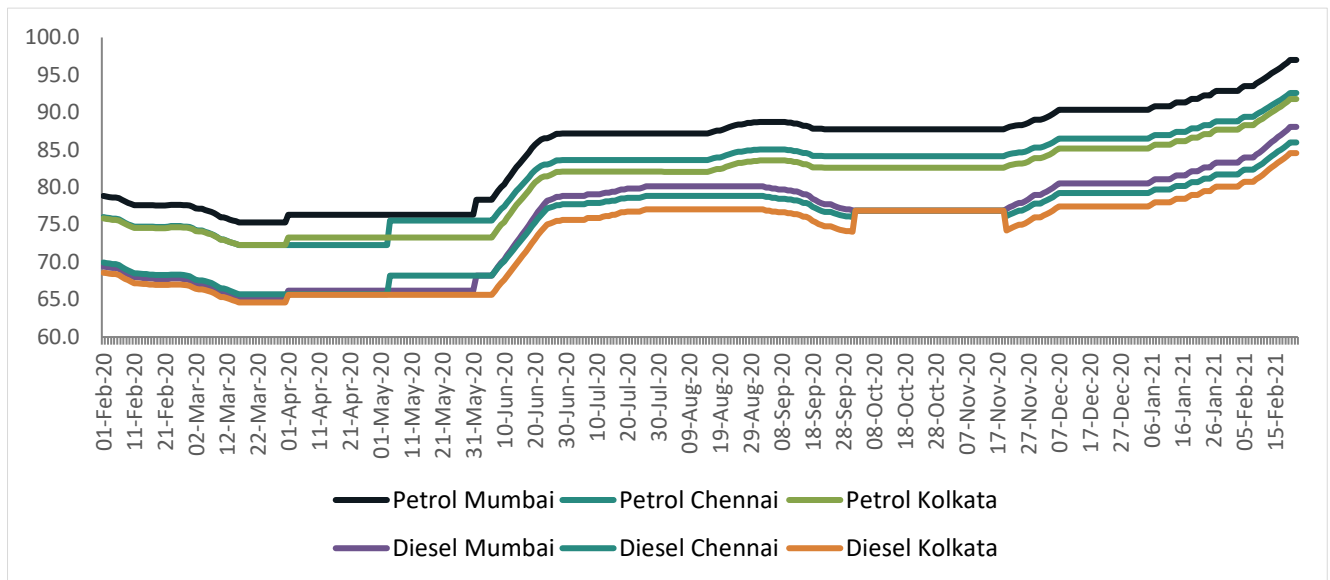
The current high price of petrol and diesel can be ascribed to the high taxes levied by the government coupled with an increase in crude oil price.

**Chart 1: Daily price of Petrol and Diesel at Delhi (Unit: Rs/ltr) and Crude oil (Unit: USD/bbl)**



Source: IOC, PPAC, Bloomberg, CARE Ratings

**Chart 2: Price of Petrol and Diesel in other metros (Unit: Rs/ltr)**



Source: PPAC, CARE Ratings

The central excise duty levied is fixed in nature but VAT, which is levied by the respective state governments, is ad-valorem in nature. The price of petrol is almost nearing the Rs. 100/litre mark in Mumbai (currently it is Rs. 97/litre) and has already surpassed it in Sri Ganganagar (Rajasthan) and Anuppur (Madhya Pradesh). Rajasthan levies the highest value-added tax (VAT) on petrol in the country, followed by Madhya Pradesh.

**So how much tax are we paying per litre?**

**Table 1: Central Excise Tariff Table**

	Basic Excise Duty	Special Additional Excise Duty	Additional Excise Duty (Road and infrastructure Cess)	Total
<b>Petrol</b>	Rs.2.98/ltr	Rs.8.00/ltr	Rs.9.00/ltr.	Rs.19.98/ltr.
<b>Diesel</b>	Rs.4.83/ltr	Rs.2.00/ltr	Rs.9.00/ltr.	Rs.15.98/ltr.
<b>Applicable 16<sup>th</sup> March 2020 onwards</b>				
<b>Petrol</b>	Rs.2.98/ltr	Rs.10.00/ltr	Rs.10.00/ltr.	Rs.22.83/ltr.
<b>Diesel</b>	Rs.4.83/ltr	Rs.4.00/ltr	Rs.10.00/ltr.	Rs.18.83/ltr.
<b>Applicable 6<sup>th</sup> May 2020 onwards</b>				
<b>Petrol</b>	Rs.2.98/ltr	Rs.12.00/ltr	Rs.18.00/ltr.	Rs.32.98/ltr.
<b>Diesel</b>	Rs.4.83/ltr	Rs.9.00/ltr	Rs.18.00/ltr.	Rs.31.83/ltr.

Source: CBIC, PPAC, CARE Ratings

During Budget 2021-22 the FM introduced the incidence of an Agriculture Infrastructure & Development Cess on a range of items, including petrol and diesel in order to provide a further boost for the development of farm infrastructure. Consequent to imposition of AIDC on petrol and diesel, the basic Excise duty and Special Additional Excise Duty rates have been reduced so that the overall introduction of the Agri-cess does not change the overall central excise duty levied.

**Table 2: Central Excise Tariff Table post the incidence of AIDC**

	Basic Excise Duty	Special Additional Excise Duty	Agriculture Infrastructure & Development Cess (AIDC)	Additional Excise Duty (Road and infrastructure Cess)	Total
<b>Petrol</b>	Rs.1.40/ltr	Rs.11.00/ltr	Rs.2.50/ltr	Rs.18.00/ltr.	Rs.32.90/ltr.
<b>Diesel</b>	Rs.1.80/ltr	Rs.8.00/ltr	Rs.4.00/ltr	Rs.18.00/ltr.	Rs.31.80/ltr.

Source: CBIC, PPAC, CARE Ratings

**Table 3: Price build-up of Petrol and Diesel at Delhi (Unit: Rs/ltr)**

	As on 16.02.2020		As on 16.03.2020		As on 6.05.2020		As on 16.02.2021	
	Petrol	Diesel	Petrol	Diesel	Petrol	Diesel	Petrol	Diesel
Price Charged to Dealers (excluding Excise Duty and VAT)	33.1	36.8	28.3	31.8	19	18.8	32.1	33.7
Excise Duty	20	15.8	23	18.8	32.9	31.8	32.9	31.8
Dealer Commission	3.6	2.5	3.5	2.5	3.6	2.5	3.7	2.5
VAT (includes VAT on dealer commission)	15.3	9.5	14.8	9.2	16.4	16.3	20.6	11.7
Retail Selling Price	71.9	64.7	69.6	62.3	71.3	69.4	89.3	79.7

Source: PPAC, CARE Ratings

Prior to the first increase in excise duty, as of 16<sup>th</sup> February 2020, the government, centre plus states was collecting around 107% taxes, (Excise Duty and VAT) on the base price of petrol and 69% in the case of diesel.

Post the first revision the government was able to collect around 134% taxes, (Excise Duty and VAT) on the base price of petrol and 88% in the case of diesel (as on 16<sup>th</sup> March 2020).

With the second revision in excise duty the government was able to collect around 260% taxes, (Excise Duty and VAT) on the base price of petrol and 256% in the case of diesel (as on 6<sup>th</sup> May 2020).

Presently the government is able to collect around 167% taxes, (Excise Duty and VAT) on the base price of petrol and 129% in the case of diesel (as on 16<sup>th</sup> February 2021). Taxes now make up around 60% of the retail price of petrol 55% of the retail price of diesel (as on 16<sup>th</sup> February 2021).

### Inflation Index

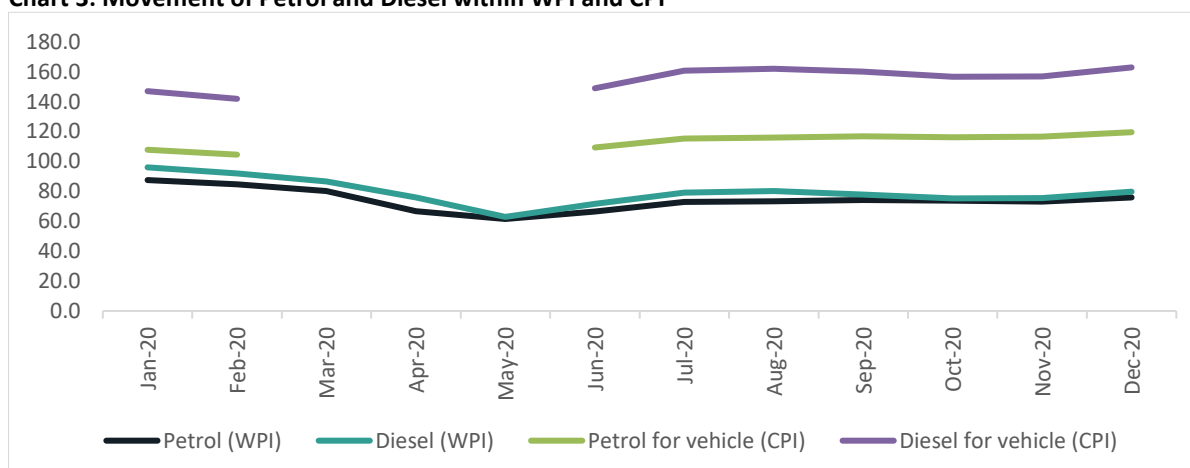
**Table 4: Weight of Petrol and Diesel in the Inflation indices**

	WPI	CPI
Petrol	1.60	2.19
Diesel	3.09	0.15

Source: Office of the Economic Officer, MOSPI

Petrol and Diesel have a combined weight of 4.69% in the WPI index and 2.34% in the CPI index. Any increase in the prices of the auto fuels will affect the WPI more than the CPI but what is more worrisome is the pass through effect the increase in fuel prices can cause.

Record high prices for diesel means that the cost of transporting goods goes up across the country which in turn could result in increasing the prices of essential commodities like fruit and vegetables as well. Increase in the CPI is often factored by the RBI during the MPC meetings.

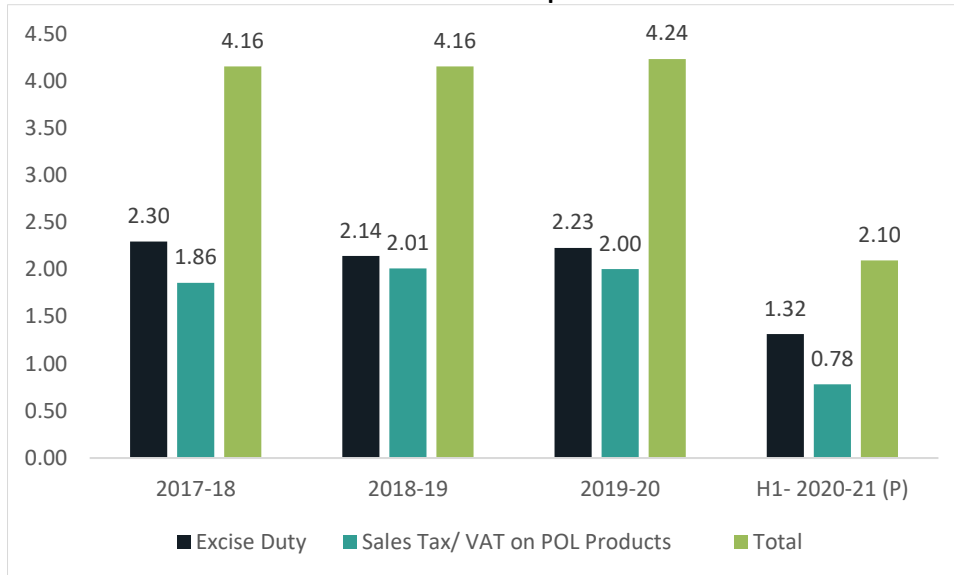
**Chart 3: Movement of Petrol and Diesel within WPI and CPI**

Source: Office of the Economic Adviser, MOSPI, CMIE

Note: Information of sub-groups within the CPI was not available during March 2020 – May 2020

## So how important is the collection of taxes on petro-products

**Chart 4: Contribution to Central and State Exchequer**



Source: PPAC

As can be seen, Rs 2.10 lakh crore has been generated by the government through excise duty and VAT collection on petro-products during H1-FY21.

For the centre, during FY20, 78% of the total came from excise duties and the balance from crude oil cess and customs, royalties and CGST. Union excise collections on oil products were Rs 2.23 lakh crore out of the total of Rs 3.34 lakh crore collections under this heading of the central government. During H1-FY21, 90% of the total came from excise duties and the balance from crude oil cess and customs, royalties and CGST. Union excise collections on oil products were Rs 1.32 lakh crore out of the total of Rs 1.53 lakh crore collections under this heading of the central government.

For the state during FY20, 91% of the total came from state VAT levied on POL products and the balance from royalties, crude oil cess, SGST/UTGST, octroi and duties. VAT collections on oil products were Rs 2.00 lakh crore out of the total of Rs 2.2 lakh crore collections under this heading of the state government. During FY20, 93% of the total came from state VAT levied on POL products and the balance from royalties, crude oil cess, SGST/UTGST, octroi and duties. VAT collections on oil products were Rs 0.78 lakh crore out of the total of Rs 0.84 lakh crore collections under this heading of the state government.

Quite clearly this group of products is very important for the government for raising revenue. Presently it appears that the government would rather not lower the tax rates as it would impact revenue collections.

### Contact:

**Madan Sabnavis**  
**Urvisha H Jagasheth**  
**Mradul Mishra**

Chief Economist  
Research Analyst  
(Media Contact)

madan.sabnavis@careratings.com  
urvisha.jagasheth@careratings.com  
mradul.mishra@careratings.com

+91-22-6837 4433  
+91-22-6837 4410  
+91-22-6754 3573

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### CARE Ratings Limited

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel.: +91-22-6754 3456 | CIN: L67190MH1993PLC071691

Connect:

