

# Refining and marketing IMPACT ANALYSIS

## Auto fuel price hike – A partial relief for OMCs

### Highlights

- ✓ Estimated under-recovery on auto fuels for 2009-10 to reduce from Rs 4.6 per litre (pre-revision of retail price) to Rs 3.0 per litre (post-revision of retail price)
- ✓ Move insufficient to reduce the under-recoveries of OMCs completely as margins on retail fuels continue to be negative
- ✓ Marketing losses on retail sales of auto and cooking fuels for 2009-10 estimated to touch Rs 592 billion

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## Retail petrol and diesel to cost more by Rs 4 and Rs 2 per litre, respectively, w.e.f July 02, 2009

The government hiked the retail selling price of petrol and diesel by Rs 4 and Rs 2 per litre, respectively, effective midnight July 01, 2009. Post the price hike, the retail selling prices of petrol and diesel in Mumbai are Rs 48.8 per litre and Rs 36.7 per litre, respectively.

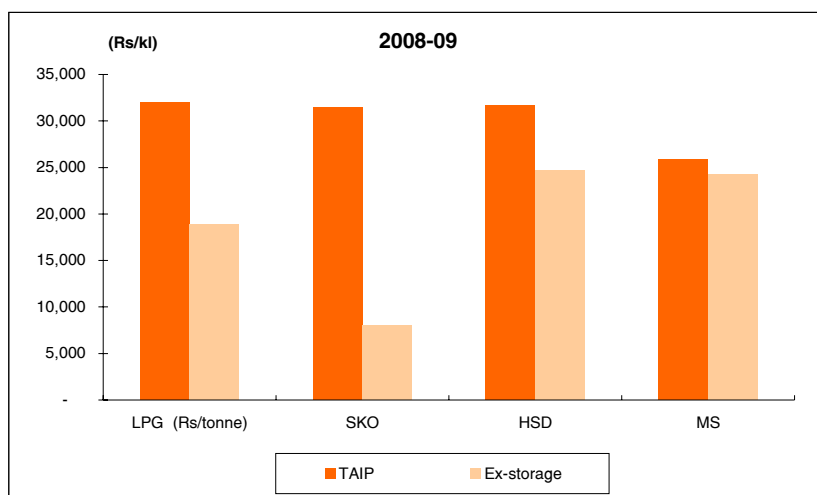
### Key developments

- Price cut to result in Rs 128 billion reduction in under-recoveries, bringing down total under-recoveries to Rs 592 billion for 2009-10
- Under-recovery on auto fuel to decline from Rs 4.6 per litre to Rs 3.0 per litre

### Domestic retail price adjustment still not in line with international product prices

International product prices have been inching upwards since the beginning of 2009-10, trailing the rise in crude prices. Domestic retail prices of auto and cooking fuels have traditionally been out of sync with international prices, leading to under-recoveries for the oil marketing companies (OMC). The current hike in retail auto fuel prices would provide a welcome relief to OMCs in the form of reduced under-recoveries on auto fuels for 2009-10. However, the OMCs are expected to continue incurring losses on auto fuels.

### Comparison of TAIP prices and ex-storage point prices



Note – International prices are considered with a lag of a month

TAIP – Tariff Adjusted Import Parity

Source: Bloomberg, CRISIL Research

### At Rs 592 billion, under-recoveries on retail fuels estimated to decline by Rs 128 billion

Total estimated under-recovery on cooking and auto fuels combined (estimated at Rs 720 billion pre-price revision) is expected to decline to Rs 592 billion. Auto fuels under-recovery is expected to reduce from Rs 4.6 per litre (pre-price revision) to Rs 3.0 per litre (post-price revision) in 2009-10.

### Industry profitability outlook: 2009-10E

		Sensitivity		Incorporating		Without incorporating		Actuals
		Crude at (\$ 60 per bbl)		price revision		price revision		
		2009-10E		2009-10E		2009-10E		
<b>Refining profits</b>	(Rs billion)		<b>305.2</b>		<b>305.5</b>		<b>305.5</b>	<b>260.9</b>
GRM	(\$ / bbl)	5.5		5.5		5.5		5.8
<b>Marketing profits/losses</b>	(Rs billion)		<b>-204.7</b>		<b>-591.9</b>		<b>-720.0</b>	<b>-1,128.0</b>
<b>Auto fuels</b>	<b>(Rs billion)</b>		<b>60.8</b>		<b>-246.9</b>		<b>-375.0</b>	<b>-647.5</b>
MS	(Rs billion)		12.4		-43.2		-83.9	-92.3
Marketing under-recovery	(Rs / litre)	0.8		-2.6		-5.1		-5.9
HSD	(Rs billion)		48.3		-203.8		-291.1	-555.2
Marketing under-recovery	(Rs / litre)	0.7		-3.1		-4.4		-8.9
Auto fuels- Under recovery	(Rs / litre)	0.7		-3.0		-4.6		-8.3
<b>Cooking fuels</b>	<b>(Rs billion)</b>		<b>-265.4</b>		<b>-345.0</b>		<b>-345.0</b>	<b>-405.0</b>
LPG	(Rs billion)		-96.8		-135.2		-135.2	-195.3
Subsidy under-recovery	(Rs / cylinder)	-120.3		-168.1		-168.1		-249.3
SKO	(Rs billion)		-168.6		-209.7		-209.7	-209.7
Subsidy under-recovery	(Rs / litre)	-14.1		-17.5		-17.5		-24.3
<b>Total</b>	(Rs billion)		<b>100.5</b>		<b>-286.4</b>		<b>-414.5</b>	<b>-867.2</b>

E: Estimated

Note:

- 1) Crude price assumed to average at \$70/ bbl (Dated Brent) in 2009-10
- 2) Does not consider export sales
- 3) Excludes profit earned from the transfer of bulk products

Source: CRISIL Research, Bloomberg

We believe the OMCs would make positive margins on auto fuels in the event of crude oil prices (Dated Brent) falling to \$60 per barrel. Therefore the above table also presents a scenario of crude at \$60 per barrel.

### Truck freight rates to go up

Diesel prices, which account for 55-60 per cent of the total cost for a transporter, are a key determinant of road freight rates. CRISIL Research expects truck freight rates to increase by 3-4 per cent in the light of Rs 2 per litre diesel price hike.

### Fuel price hike to impact automobile usage

The petrol price hike of Rs 4 per litre is expected to have an adverse impact on automobile usage. The cost of ownership of a small car and two-wheeler is likely to increase by 3.5 per cent and 3.0 per cent, respectively. Fuel cost constitutes over 40 per cent of the cost of owning (EMI + running cost) a small car and 32 per cent of that of a two-wheeler. Hence, the petrol price increase is likely to impact consumer sentiment and reinforce concerns regarding monthly transport expenses, resulting in a marginal reduction in usage.

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