

# Refining and marketing IMPACT ANALYSIS

## Hike in auto and cooking fuel prices to offer relief to OMCs

### Summary

Simultaneous hike in auto and cooking fuel prices

- Petrol prices deregulated
- SKO prices increased after a gap of 8 years

Estimated under-recovery on auto fuels for 2010-11 to reduce from Rs 3.8 per litre (before revision of retail price) to Rs 1.9 per litre (after revision of retail price)

These measures to benefit OMCs to the tune of Rs 236 billion in 2010-11

Freight rates could go up by around 3-4 per cent following the hike in diesel prices

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## Markets to determine retail petrol prices; hike in diesel, cooking fuel prices

### Synopsis

The Empowered Group of Ministers (EGoM) has decided to permit Oil Marketing Companies (OMCs) to raise the retail-selling price of petrol by Rs 3.7 per litre, diesel by Rs 2 per litre, LPG by Rs 35 per cylinder and kerosene by Rs 3 per litre. Prices of petrol have been deregulated and shall henceforth, be determined by the market. Prices of petrol and diesel were last increased in February 2010, while prices of LPG and SKO were previously revised in January 2009 and April 2002, respectively.

Post the prices hikes, the retail selling prices of petrol and diesel in Mumbai will increase to Rs 55.4 per litre and Rs 41.6 per litre, respectively. Prices of LPG will increase to Rs 347 per cylinder while SKO will be available to retailers at Rs 12 per litre.

The price hike is expected to result in a significant reduction in under recoveries of OMCs, by Rs 236 billion, to about Rs 565 billion in 2010-11.

### Estimated under-recoveries on retail fuels to fall by Rs 236 billion

Total estimated under-recovery on cooking and auto fuels estimated at Rs 801 billion pre-price revision is expected to decline to Rs 565 billion now. Under-recovery in auto fuels is expected to reduce from Rs 3.8 per litre (before price revision) to Rs 1.9 per litre (after price revision) in 2010-11. Similarly, the estimated under-recovery on cooking fuels is likely to fall from Rs 465 billion to Rs 398 billion in 2010-11.

### Industry profitability outlook: 2010-11E

		Incorporating price revision		Before price revision	
		2010-11E		2010-11E	
		per unit	total	per unit	total
<b>Crude oil price (Indian basket)</b>	(\$/bbl)	80.0		80.0	
<b>Refining profits</b>	(Rs billion)		<b>339.1</b>		<b>339.1</b>
GRM	(\$/bbl)	6.5		6.5	
<b>Marketing profits/losses</b>	(Rs billion)		<b>-565.4</b>		<b>-801.1</b>
<b><u>Auto fuels</u></b>	<b>(Rs billion)</b>		<b>-167.2</b>		<b>-336.1</b>
MS	(Rs billion)		16.8		-39.2
Marketing under-recovery	(Rs/litre)	0.9		-2.1	
HSD	(Rs billion)		-184.1		-296.9
Marketing under-recovery	(Rs/litre)	-2.6		-4.2	
Auto fuels under-recovery	(Rs/litre)	-1.9		-3.8	
<b><u>Cooking fuels</u></b>	<b>(Rs billion)</b>		<b>-398.2</b>		<b>-465.0</b>
LPG	(Rs billion)		-235.4		-269.3
Subsidy under-recovery	(Rs/cylinder)	-242.6		-277.5	
SKO	(Rs billion)		-162.8		-195.7
Subsidy under-recovery	(Rs/litre)	-14.1		-16.9	
<b>Total</b>	<b>(Rs billion)</b>		<b>-226.3</b>		<b>-462.1</b>

**E: Estimated**

**Note:**

- 1) Crude price assumed at current levels of \$80/bbl and exchange rate at \$45
- 2) Excludes profits earned from transfer of bulk products

**Source: CRISIL Research, Bloomberg**

### ***Domestic petrol price to align itself to international prices***

The administered price mechanism (APM) governing prices of auto fuels was completely dismantled in April 2002. However, given the sharp increase in crude oil and petroleum product prices over the past 5-6 years, the government continued to play a significant role in the determination of auto fuel prices. In this context, the move to deregulate petrol prices and allowing it to be determined by the market is significant.

In the past few years, OMCs have suffered huge under-recoveries as domestic retail prices of auto and cooking fuels have not moved in line with international prices. Deregulation of petrol prices and the price hike in other retail fuels will offer relief to OMCs through a fall in under-recoveries for 2010-11.

### ***Transporters to hike freight rates***

CRISIL Research estimates freight rates to go up by around 3-4 per cent following the Rs 2 per litre (5 per cent) hike in diesel prices. This hike is expected to translate into an immediate increase in freight rates as diesel prices account for almost 55-60 per cent of the total costs for a transporter and healthy freight availability.

### ***Rise in fuel prices to impact automobile usage***

The Rs 3.7 per litre hike in petrol prices is expected to have an adverse impact on the usage of automobiles. 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 increase in petrol prices is likely to impact consumer sentiment and reinforce concerns regarding monthly transport expenses, resulting in a marginal reduction in usage.

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