



# INDIA – OIL & GAS

THE HIKE IMPACT

## background

- In a major move The Cabinet Committee on Political Affairs (CCPA) decided to increase diesel prices by Rs. 5/Ltr excluding VAT effective from midnight of 13th/14th September 2012. Along with diesel, the committee also decided to put a cap on number of subsidised cooking gas cylinder for domestic use.
- Domestic LPG users will now get a maximum 6 cylinders (14.2kg/cylinder) per year at subsidised rate. For using more than 6 cylinders, users have to pay at market driven prices.
- After this hike, the effective retail price of diesel in Delhi will increase to ~Rs. 47.06/Ltr from Rs. 41.32/Ltr.
- As per our estimation, total under recoveries on sale of diesel would be reduced by Rs. 16734 Crore from Rs. 131155 Crore to Rs. 114421 Crore in FY 2013. Likewise under recoveries on LPG would be reduced by Rs. 6700 Crore to Rs. 27827 Crore in FY 2013.
- Under recoveries on sale of diesel and LPG in FY 2012 was Rs. 111189 Crore. So post hike also, under recovery would be Rs. 33000 Crore higher in FY 2013 compared to FY 2012. So overall effect on fiscal deficit is not very significant.
- The government is facing stiff protest over this move. Along with opponent, Congress's allies are also against this decision.
- We won't be surprised if the government takes partial rollback decision on diesel and LPG.

## Under recoveries - diesel

FY 12 Diesel Consumption (MT)	64.74	Avg. Monthly Consumption (MT)	6.03
FY 12 Under Recoveries on Selling Diesel (Rs Cr)	81192	Period Left in FY 13 (Months)	6.65
Apr-Jul FY 13 Diesel Consumption MT	24.12	Exp Consumption in rest of FY 13 (MT)	40.09
FY 13 Diesel Consumption (MT) - Expectation	72.35	Exp Consumption in rest of FY 13 (Mn Ltr)	47811
Apr-Jun FY 13 Under Recoveries on Selling Diesel (Rs Cr)	29042	Exp Under recoveries without hike (Rs Cr)	81552
Expected Under Recoveries Till Sep 13, FY 13	22750	Exp Under recoveries after hike (Rs Cr)	64818
Expected Under Recoveries from Sep 14 to Mar 31, FY 13	64818		
Total Under Recoveries - on sale of Diesel (Rs Cr)	116610		
Total Under Recoveries - on sale of Diesel - without hike (Rs Cr)	133343		
Savings (Rs Cr)	16734		

**Assumption/Consideration:** INR/USD – 55.52 for rest of the period. Arab Gulf of Gasoline prices - \$134.84/bbl for rest of the year. Any change will have impact on under recoveries. Conversion factor: 1 ton of Diesel = 7.5 barrels, 1 barrels = 159 liters.  
Diesel consumption for rest of the year in FY 13 – based on historical trend. Source: PPAC/SFSL Research

## Price build up - diesel

		Unit	Before Hike	After Hike
1	FOB Prices at Arab Gulf of Gasoli (Diesel) - BS III equivalent	\$/bbl	134.84	134.84
2	Add: Ocean Freight from AG to Indian Ports	\$/bbl	1.65	1.65
3	C&F (Cost & Freight) Prices	\$/bbl	136.49	136.49
	Currency	INR/USD	55.52	55.52
	C&F (Cost & Freight) Prices	Rs/Ltr	47.66	47.66
4	Import Charges (Insurance/Ocean Loss/LC Charge/Port Dues)	Rs/Ltr	0.44	0.44
5	Custom Duties (2.5%+3% Education Cess)	Rs/Ltr	1.23	1.23
6	Import Parity Prices - IPP	Rs/Ltr	49.33	49.33
7	Export Parity Price (Here FOB of Diesel - Srl 1) - EPP	Rs/Ltr	47.08	47.08
8	Trade parity Price (80% IPP+20% EPP)	Rs/Ltr	48.88	48.88
9	Refinery Transfer Price (RTP) - For BS III (Prices paid by OMC to refineries)	Rs/Ltr	48.88	48.88 0.00
10	Premium Recover for BS IV over BS III	Rs/Ltr	0.04	0.04
11	Inland Freight & Delivery Charge	Rs/Ltr	0.77	0.77
12	Marketing Cost to OMC	Rs/Ltr	0.67	0.67
13	Marketing Margin to OMC	Rs/Ltr	0.730	0.73
14	Total Desired Price	Rs/Ltr	51.09	51.09
	Before Excise duty, VAT and Dealer Commission			
15	Under-recovery to Oil Marketing Companies	Rs/Ltr	17.06	13.56
16	Price Charged to Dealers (Depot Price)		34.03	37.53
	Excluding Excise Duty & VAT			
17	Add: Specific Excise Duty @ Rs. 2.06/L (Rs 2.00/L+3% Education Cess)	Rs/Ltr	2.06	3.56*
18	Add: Dealers Commission	Rs/Ltr	0.91	0.91
19	Add: VAT including VAT on Dealers Commission) applicable for Delhi @ 12.5% and Air Ambiance Charges @250/KL	Rs/Ltr	4.62	5.06
20	Retail Selling Prices at Delhi	Rs/Ltr	41.32	47.06

\*As per the new duty structure, out of Rs. 5/Ltr increase, Rs. 1.5/Ltr is for excise duty.

Source: PPAC/SFSL Research

## Under recoveries - LPG

Country's LPG connection (Lakh)	1371
LPG consumption in FY 12 (MT)	15.39
LPG consumption in Apr-Jul FY 13 (MT)	5.16
Expected consumption in FY 13 (MT)	15.48
Connections where usage is more than 6 cylinder/yr (Lakh)	768
Average usage/yr - who use more than 6 cylinder/yr (Kg)	152
Average usage/yr - who use more than 6 cylinder/yr (no. of cylinder)	11
Under recoveries per cylinder (Rs)	347
Total savings/yr on implementation (Rs Cr)	12468
Expected savings in the remaining part of FY 13 (Rs Cr)	6753
Under recoveries in FY 12 (Rs Cr)	29997
Apr-Jun FY 13 under recoveries (Rs Cr)	11495
Expected under recoveries in FY 13 (Rs Cr)	27827

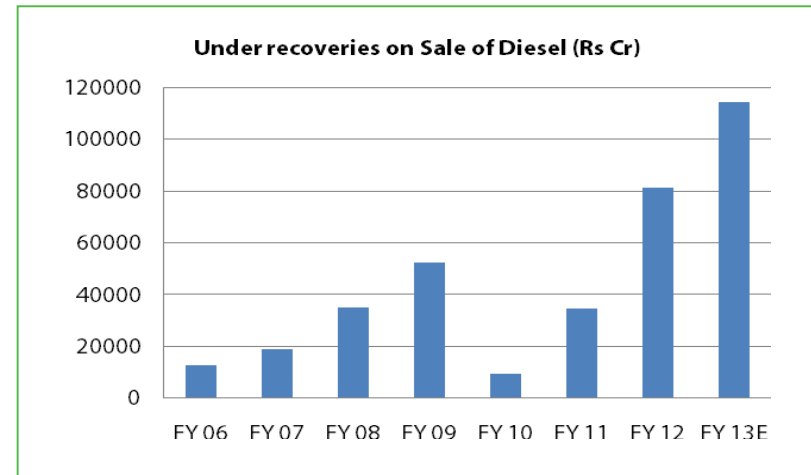
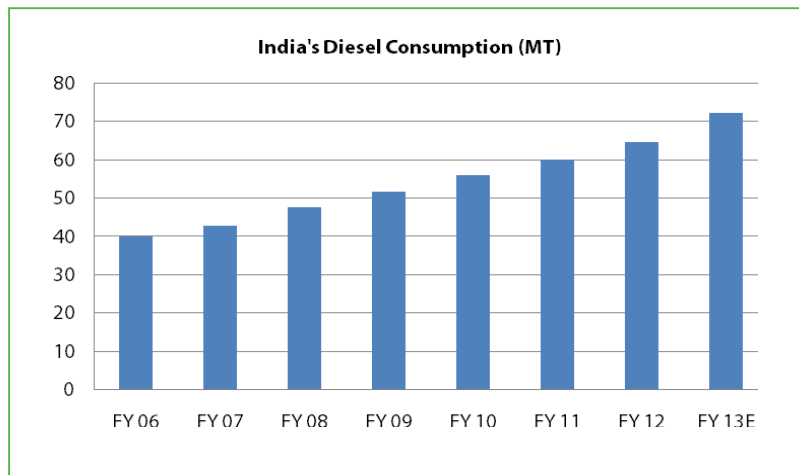
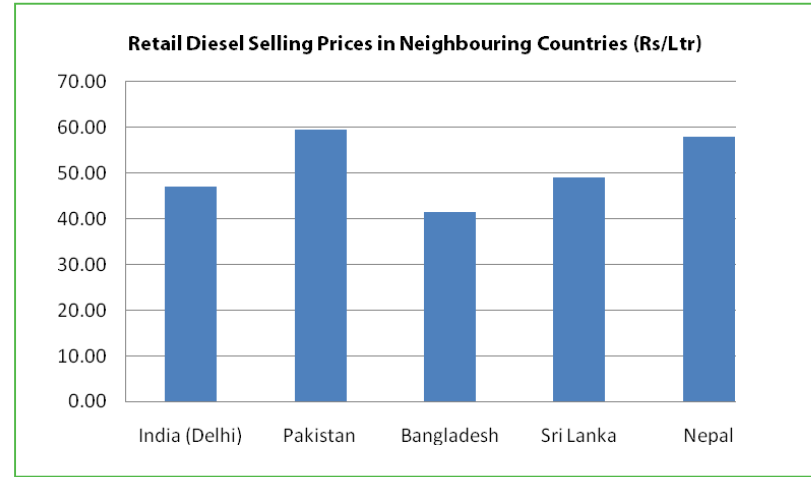
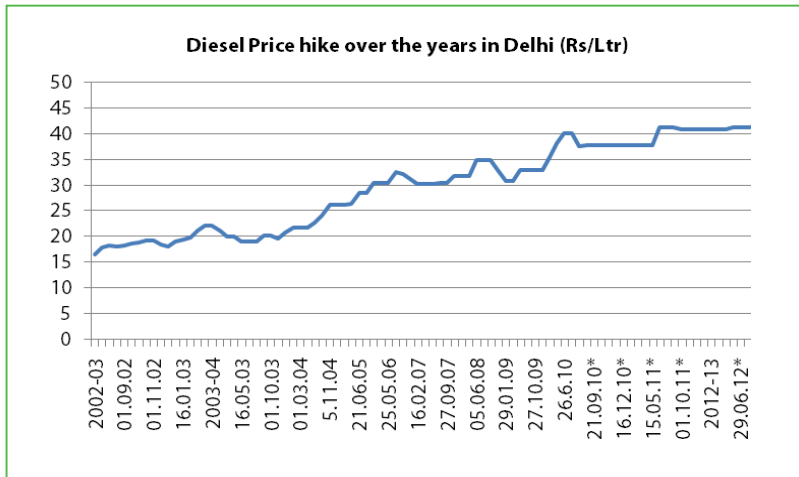
**Usage pattern**

Percent user	No. of cylinder	No. in Lakh	Total usage (MT)
29%	4 or less	398	2.26
38% (Cumulative)	5 or less	123	0.88
44% (Cumulative)	6 or less	82	0.70
56%	More than 6	768	11.64

*LPG consumption for rest of the year in FY 13 – based on historical trend*

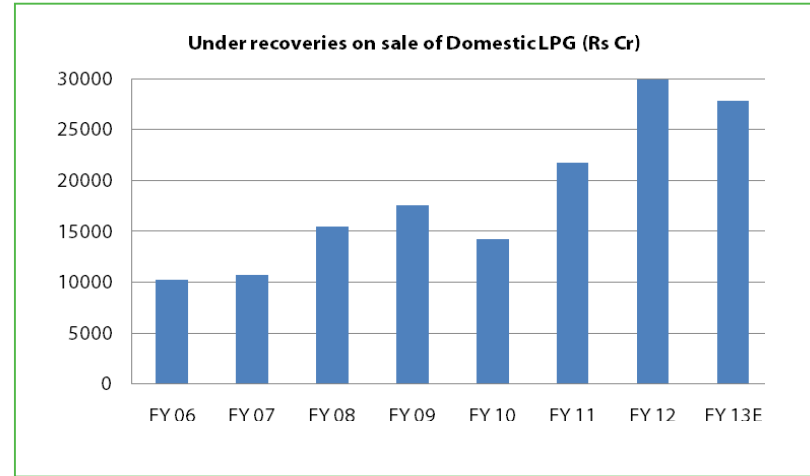
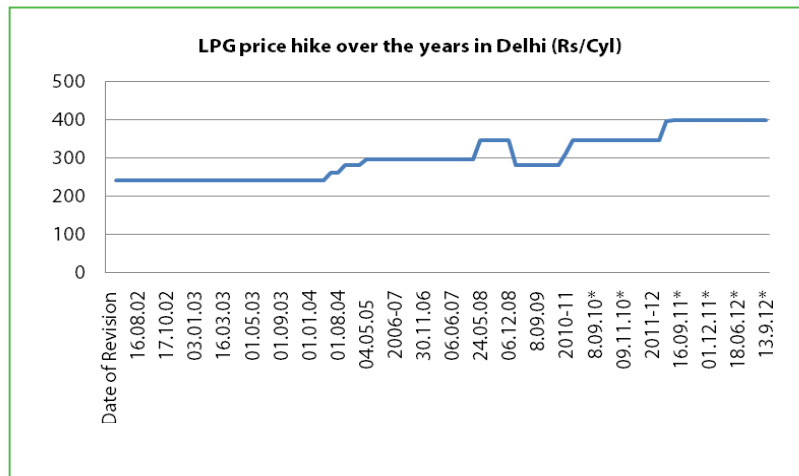
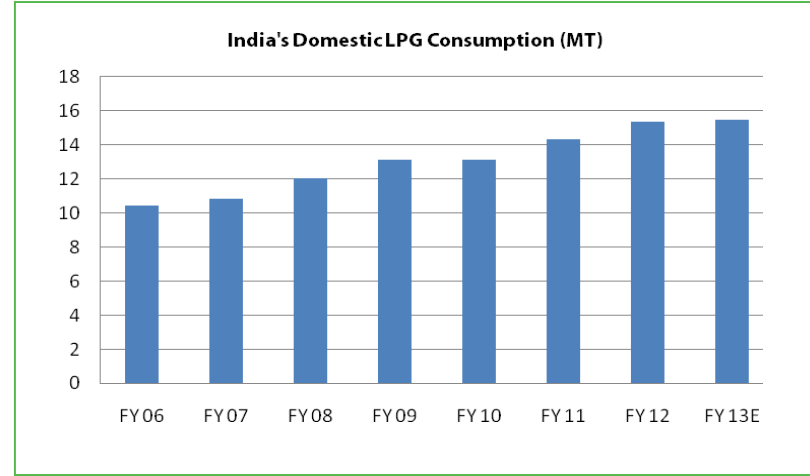
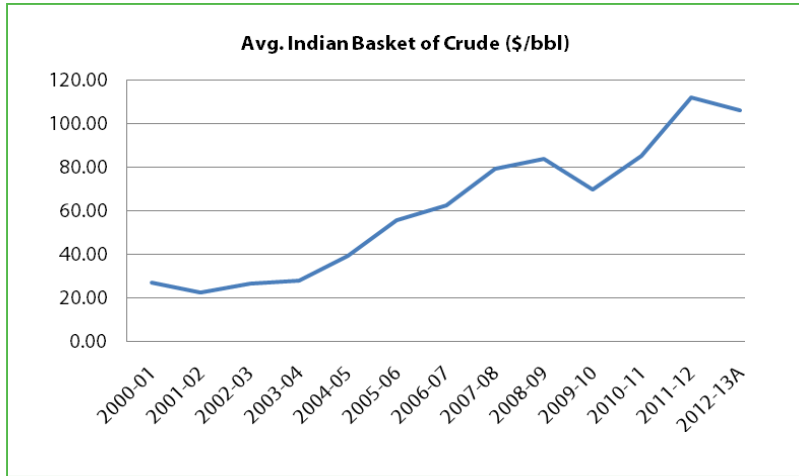
*Source: PPAC/SFSL Research*

Sector performance



Source: PPAC/SFSL Research

Sector performance



Source: PPAC/SFSL Research



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