

# REFINING AND MARKETING INDUSTRY

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**Cut in export duties provide some  
relief to refiners**

**JULY 2022**



# Highlights



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*The GRMs declined in July 2022 owing to the decline in crack spreads primarily. The cut in special additional export duty (SAED) imposed earlier on MS, HSD and ATF from July 20, 2022, would benefit the refiners. The GoI has further exempted exports from SEZ units from the levy of the SAED, the impact of which on overall GRMs of exporters would be in the range of \$1/barrel to \$3/barrel, depending on their proportion of exports.*



The benchmark Singapore GRMs have been on an increasing trend since December 2021 and witnessed a sharp increase in Q2 CY2022 and were the highest in the last decade. However, the GRMs declined in July 2022 owing to a decline in cracks spreads, primarily gasoline. The prices have been sliding owing to recession fears. Further, extension of lockdown in China due to higher Covid-19 cases also impacted the demand. Additionally, the consumption in India has also declined in July 2022 due to the monsoon. The average Singapore GRMs are estimated to be in the range of \$8-10/bbl for FY2023.



On July 20, 2022, the GoI has also reduced the cesses imposed on July 1, 2022, on exports of HSD (by Rs 3/litre to Rs 10/litre now), and ATF (by Rs 2/litre to Rs 4/litre now) and removed the cess on exports of MS (of Rs 6/litre). The GoI has further exempted exports from SEZ units from the levy of the Special Additional Excise Duty (SAED).



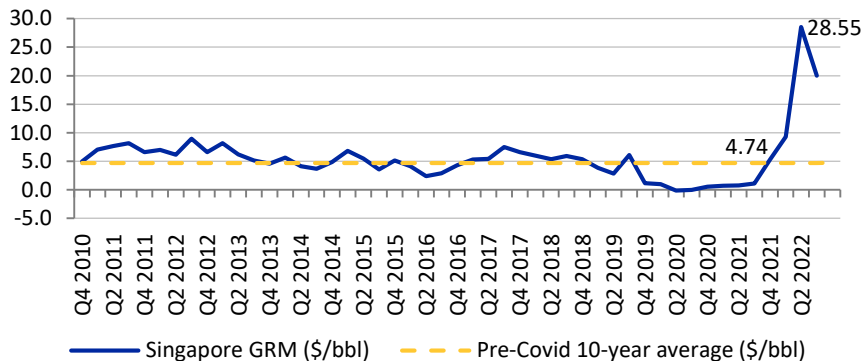
The SAED on export of HSD and ATF, though reduced, remains negative for the non-SEZ situated exporters of these products and would adversely impact the realisations on export sales. The impact on the overall GRMs of exporters is expected to be in the range of \$1/barrel to \$3/barrel, depending on their proportion of exports.



The GoI is expected to gain ~Rs.220 billion reduced from earlier expected gain of ~450 billion for FY2023 with SAED imposed on export of MS, HSD and ATF, which is expected to reduce the loss of revenue due to the excise duty cut in May 2022 to an extent. Reduction in excise duty was expected to result in a loss of revenue to the tune of Rs. 860 bn for FY2023 to the Government. The retail selling prices were cut on both petrol and diesel recently on May 2022 with a cut in excise duty by the GoI on MS and HSD.

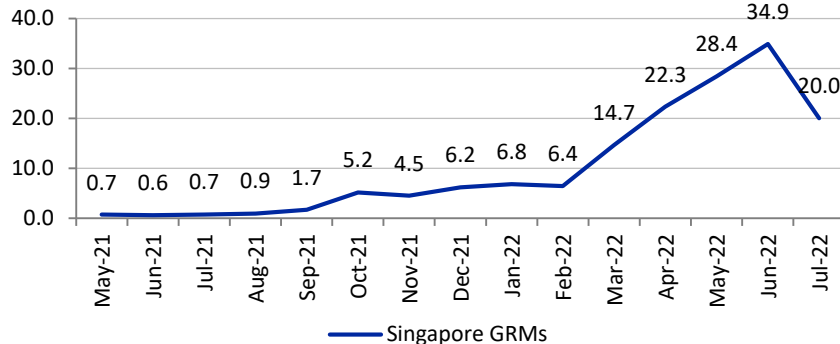
# GRMs decline in July 2022

Exhibit: Quarterly Singapore GRM Trends



Source: Bloomberg, ICRA Research; \* Average till July 14, 2022

Exhibit: Monthly Singapore GRM Trends



Source: Bloomberg, ICRA Research; \* Average till July 14, 2022

- The benchmark Singapore GRMs have been on an increasing trend since December 2021 and witnessed sharp increase in Q2 CY2022 and was the highest in the last decade. The strong product demand in the region, backed by pick-up in the manufacturing, industrial and other allied sectors, improved crack spreads. Further, the overall improvement in mobility along with pick-up in air travel has further supported the demand strengthening the crack spreads. Also, heavy maintenance activity in the region resulted in a significant decline in product availability within the region affecting the prices.
- However, the GRMs declined in July 2022 owing to decline in prices impacting the cracks. The prices have been sliding owing to recession fears. Further, extension of lockdown in China due to higher Covid-19 cases also impacted the demand. Additionally, the consumption in India has also declined in July 2022 due to monsoon. The average Singapore GRMs are estimated to be in the range of \$8-10/bbl for FY2023.



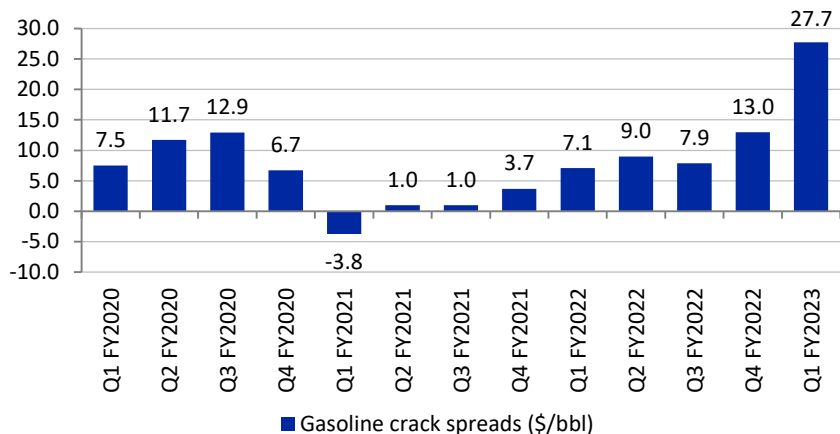


## Product-wise Crack Spreads

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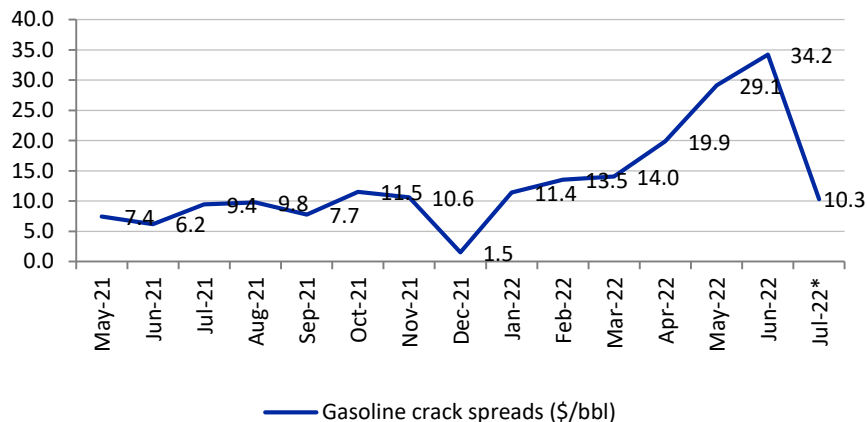
# Gasoline – Crack spreads witnessed sharp decline in July 2022

Exhibit: Quarterly crack spread trend for Gasoline



Source: Bloomberg, ICRA Research

Exhibit: Monthly crack spread trend for Gasoline

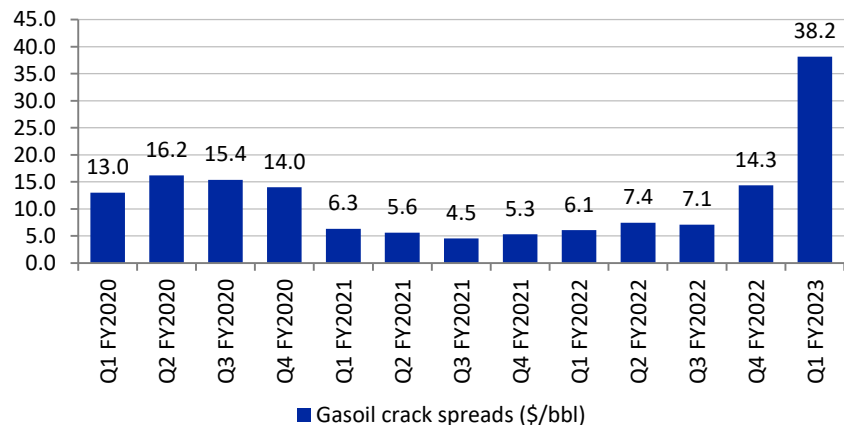


Source: Bloomberg, ICRA Research; \* Average till July 18, 2022

- The Asian gasoline crack spreads gained momentum from Q4 FY2022 and the trend continued in Q1 FY2023. Stronger mobility with easing of Covid-19 restrictions in many countries helped in pick-up in demand and in turn the prices and crack spreads of gasoline. Gasoline prices averaged ~ \$151/bbl in June 2022, higher by 9% MoM and 96% YoY.
- The gasoline cracks declined in July 2022 to \$10/bbl from \$27.7/bbl owing to recession fears, lackluster US demand owing to high prices and high inventories. Further, the mobility has also impacted in China due to extended lockdowns and the monsoon impacted consumption in Indian markets. The average gasoline prices declined to \$118/bbl in July 2022, lower by 22% MoM.

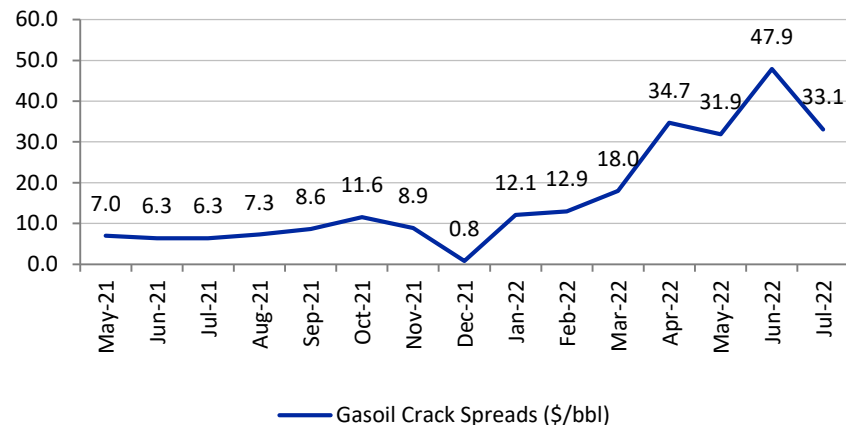
# Gasoil – Crack spread remained healthy despite moderation in prices in July 2022

Exhibit: Quarterly crack spread trend for Gasoil



Source: Bloomberg, ICRA Research; \* Average till June 14, 2022

Exhibit: Monthly crack spread trend for Gasoil

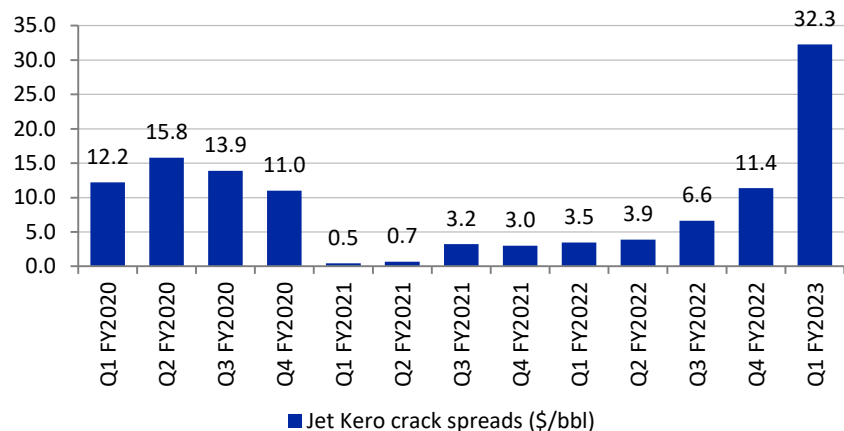


Source: Bloomberg, ICRA Research; \* Average till July 18, 2022

- Strong industrial and manufacturing activities amid a rebound in transportation following the relaxation of pandemic-related restrictions in some nations provided support. Further, the heavy refinery maintenance, as well as unplanned outages in China, all led to a deeper contraction in gasoil availability in the region.
- The gasoil prices averaged ~ \$148/bbl in Q1 FY2023 higher 30% QoQ and 98% YoY. The gasoil prices slightly moderate to \$141/bbl in July 2022, lower by 14% MoM.
- Globally, goods are transported mostly in diesel vehicles and increase in diesel prices impacts inflation.

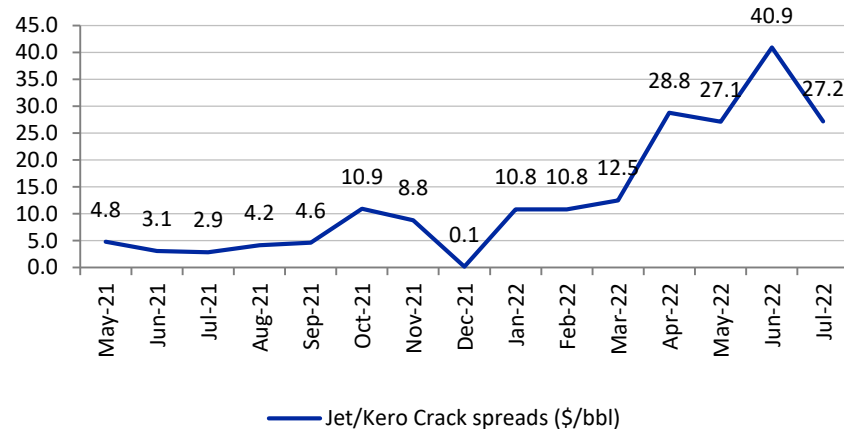
# Jet/kero – Prices moderated in July 2022

Exhibit: Quarterly crack spread trend for Jet/Kero



Source: Bloomberg, ICRA Research

Exhibit: Monthly crack spread trend for Jet/Kero



Source: Bloomberg, ICRA Research; \* Average till July 18, 2022

- The Jet/kero crack spreads witnessed uptick from Q3 FY2022 with improved demand owing to increase in overall air travel activity. The increase in aviation fuel requirements supported jet fuel markets, even as refinery output declined.
- Jet/kero prices averaged ~ \$142/bbl in Q1 FY2023 higher by 25% QoQ and 105% YoY. However, cracks decline in July 2022 triggered by fears of recession and reduced air travel





## Export of Petroleum Products

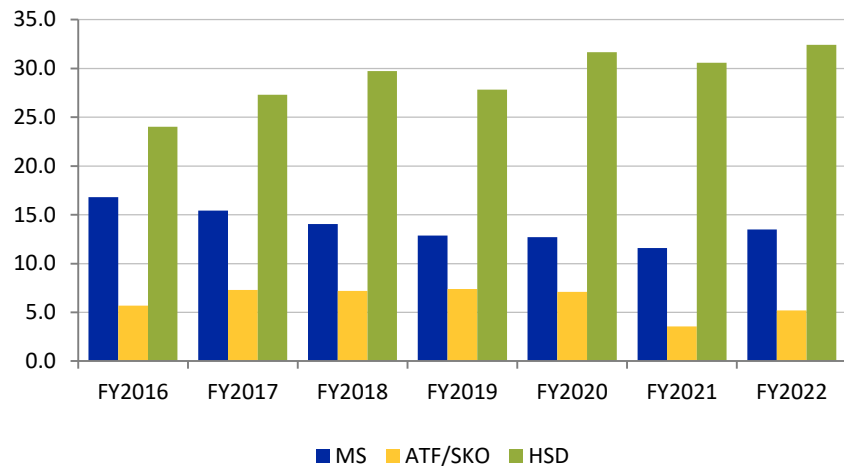
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*India is net exporter of major petroleum products – MS, HSD and ATF*



# India is net exporter of major petroleum products – MS, HSD and ATF

**Exhibit: Trend in Exports of key Petroleum Products in MMTPA**



Source: PPAC and ICRA Research

**Exhibit: Net Export of Petroleum Products**

Net Exports in MMT	FY2021	FY2022	Y-o-Y Growth	2M FY2022	2M FY2023	2M-o-2M Growth
LPG	-16.1	-16.6	3.2%	-2.0	-2.8	41.0%
Naphtha	5.1	5.6	10.1%	0.7	0.9	28.9%
MS	10.3	12.8	24.3%	2.2	2.5	15.3%
ATF/Kero	3.5	5.2	48.2%	0.7	0.8	15.8%
HSD	29.9	32.3	8.1%	4.8	5.7	19.1%
Fuel Oil	-6.8	-7.3	6.9%	-1.1	-1.4	28.4%
LOBS/Lube Oil	-2.1	-3.1	46.0%	-0.5	-0.5	-3.6%

Source: PPAC and ICRA Research

- Owing to the domestic surplus of petroleum products, the country exports naphtha, ATF, MS and HSD. It is, however, a net importer of LPG, lube oil and fuel oil. The exports witnessed increasing YoY basis trend in the last few years.
- The growth in exports during the last few quarters can be attributed to high demand of MS, HSD and ATF in global markets.

# Cut in export duties to provide relief to refiners

Exhibit: Earlier Structure imposed on July 1, 2022

MS	ATF	Diesel
Rs 6/Litre	Rs 6/Litre	Rs 13/Litre

Source: Ministry of Finance

Exhibit: Current Structure wef from July 20, 2022

MS	ATF	Diesel
Nil	Rs 4/Litre	Rs 10/Litre

Source: Ministry of Finance

- On July 1, 2022, besides the cess on crude, the GoI also imposed cesses on exports of HSD (of Rs 13/litre), MS (of Rs 6/litre) and ATF (of Rs 6/litre) by way of SAED.
- With effect from July 20, 2022, the GoI has reduced the cesses imposed on July 1, 2022, on exports of HSD (by Rs 3/litre to Rs 10/litre now), and ATF (by Rs 2/litre to Rs 4/litre now) and removed the cess on exports of MS (of Rs 6/litre). The GoI has further exempted exports from SEZ units from the levy of the aforementioned special additional excise duty
- The Special additional excise duty imposed on export of HSD and ATF, though reduced, remains negative for the non-SEZ situated exporters of these products and would adversely impact the realisations on export sales. The impact on the overall GRMs of exporters is expected to be in the range of \$1/barrel to \$3/barrel depending on their proportion of exports.

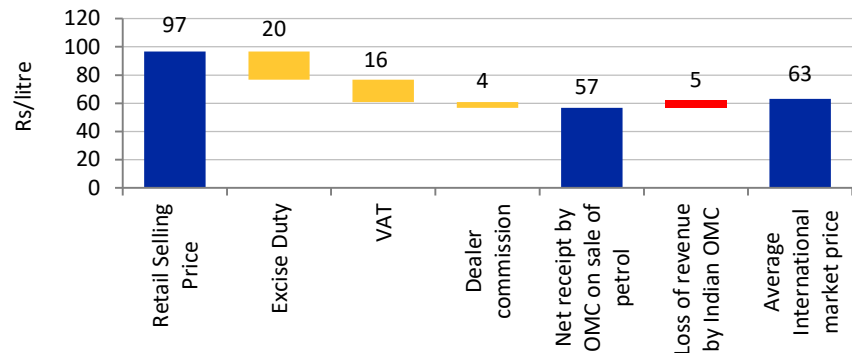


## Under-Recovery: Trends and Outlook

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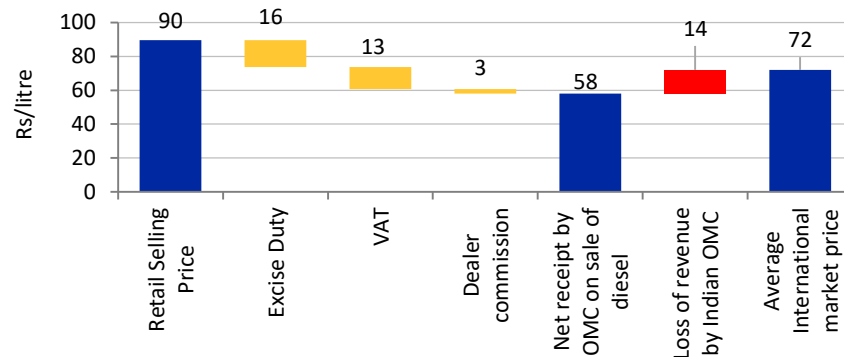
# Under-recoveries continue for Indian OMCs

Exhibit: Retail Selling Price of petrol in India Vs Average international prices



Source: Bloomberg ,PPAC , Retail selling price as on July 20, 2022, International prices based on Singapore 92 RON Spot Index. and average for July 2022 till 11th

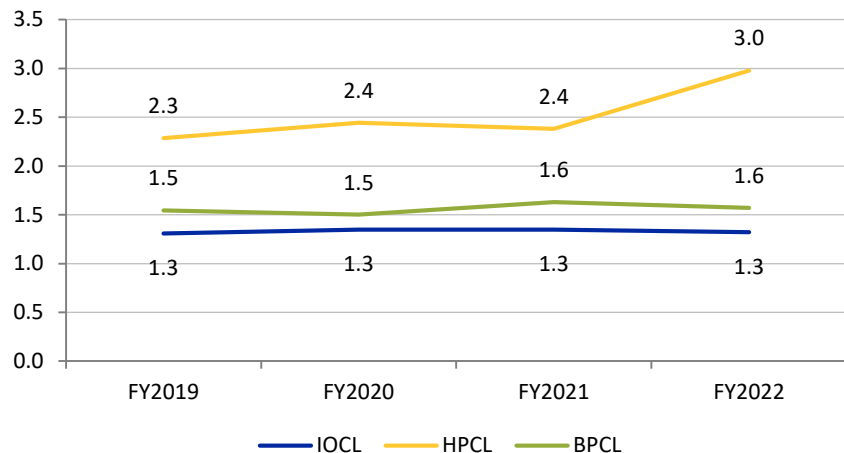
Exhibit: Retail Selling Price of diesel in India Vs Average international prices



Source: Bloomberg ,PPAC , Retail selling price as on July 20,2022, International prices based on Singapore Gasoil 10ppm Spot and average for July 2022 till 11th

- The Indian OMCs continue to lose revenues on MS and HSD sales compared to international prices. The OMCs are realising Rs.5/litre lower for petrol and Rs.14/litre lower for diesel vis-à-vis international prices. The increase in GRMs would compensate the losses due to under-recoveries for the OMCs to an extent. For every \$1 decline in crack spread, the under-recovery is expected to reduce by ~Rs. 0.50-0.60/litre.
- The retail selling prices for petrol and diesel were maintained at the same level between early November 2021 and March 21, 2022, despite soaring prices. With effect from March 22, 2022, the retail selling prices were revised on 14 occasions, leading to an overall increase of ₹10 per litre on both petrol and diesel. From, April 06, 2022, the retail prices are on freeze despite under-recoveries being very high. Bought out products and manufactured products.
- The retail selling prices were reduced recently with cut in excise duty by the Government of India on both petrol and diesel bringing the prices at par with pre-pandemic levels. The revenue losses for OMCs compared to international prices remain unchanged with cut in excise duty as the net receipt remains same.

**Exhibit: Trend in Marketing to Refinery Cover**



Source: PPAC, Annual Reports and ICRA Research; IOCL – Indian Oil Corporation Limited, HPCL – Hindustan Petroleum Corporation Limited, BPCL – Bharat Petroleum Corporation Limited

**Exhibit: OMC sales in the last few years**

Domestic Sales (in MMTPA)	FY2019	FY2020	FY2021	FY2022
IOCL	84.7	84.3	75.6	80.5
% growth		0%	-10%	6%
HPCL	37.9	37.8	35.2	37.5
% growth		0%	-7%	7%
BPCL	43.1	43.1	38.7	42.5
% growth		0%	-10%	10%

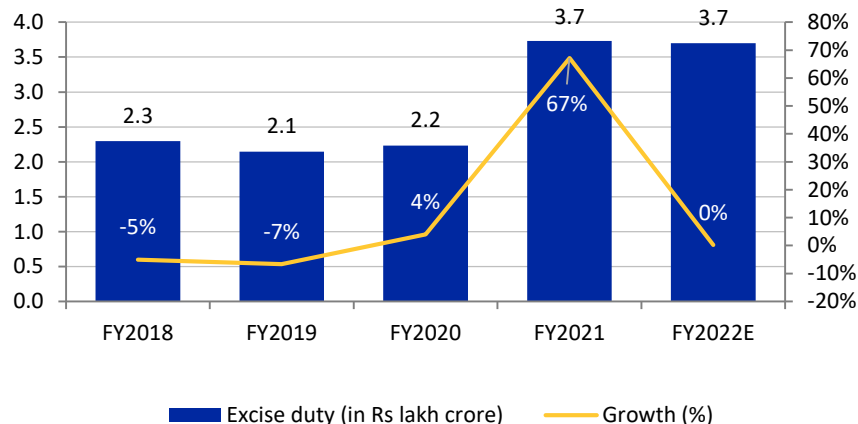
Source: Annual Reports and ICRA Research; IOCL – Indian Oil Corporation Limited, HPCL – Hindustan Petroleum Corporation Limited, BPCL – Bharat Petroleum Corporation Limited

- The higher the marketing to refinery cover more is the dependency on bought out/traded products. The marketing losses would be higher for the OMCs with higher marketing to refining ratio. The improved GRMs in refining segment would compensate the marketing losses to an extent.
- The product sales volumes declined in FY2021 for all the OMCs owing to the pandemic, however, the same witnessed improvement in FY2022 and is expected to grow in FY2023.



# SAED cut to reduce the Gol gain; however, to compensate for cut in excise duty

Exhibit : GOIs Excise collections on petroleum products



Source: PPAC, CGA, ICRA Research, E-Estimated

Exhibit : Break up of excise duty on petrol & diesel

Particulars	Petrol (Rs./liter)		Diesel (Rs./liter)	
	Earlier Structure	W.e.f May 22, 2022	Earlier Structure	W.e.f May 22, 2022
Basic duty	1.4	1.4	1.8	1.8
Additional excise duty (Road & Infrastructure Cess)	13	5	8	2
Special additional excise duty	11	11	8	8
Agriculture Infrastructure and Development Cess	2.5	2.5	4	4
<b>Total excise duty</b>	<b>27.9</b>	<b>19.9</b>	<b>21.8</b>	<b>15.8</b>

Source: PPAC, ICRA Research

- The Gol is expected to gain ~Rs.220 billion reduced from earlier expected gains of ~450 billion for FY2023 imposed on export of MS, HSD and ATF which is expected to reduce the loss of revenue due to excise duty cut in May 2022. Reduction in excise duty was expected to result in a loss of revenue to the tune of Rs. 860 bn for FY2023 to the Government.
- On May 21, 2022, the Gol cut the Central Excise Duty by Rs. 8/litre on petrol and Rs. 6/litre on diesel. This has reduced total cesses levied on petrol and diesel to Rs. 19.9/litre and Rs. 15.8/litre respectively. Following this, few states reduced VAT on petrol and diesel and consequently, the prices have reduced further in some states.



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