



REFINING AND MARKETING INDUSTRY

**Export duties revised in line with
movement in crack spreads**

August 2022



Highlights



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There was an upward revision in SAED from August 19, 2022 on exports of HSD to Rs.7/litre (by Rs 2/litre from Rs 5/litre). Further, SAED was also imposed on ATF at Rs. 2/litre which was removed earlier on August 02, 2022.

The impact on the overall GRMs of exporters is expected to be up to \$1.5/barrel, depending on their proportion of exports. The benchmark Singapore GRMs declined in July and August 2022 owing to the decline in crack spreads.



From August 19, 2022, there was an upward revision in SAED on exports of HSD to Rs.7/litre by Rs 2/litre from Rs 5/litre). Further, SAED was also imposed on ATF at Rs. 2/litre which was removed earlier on August 02, 2022. The impact on the overall GRMs of exporters is expected to be up to \$1.5/barrel depending on their proportion of exports.



The Government has imposed the SAED from July 01, 2022 on export of petroleum products (MS, HSD and ATF) and the same was revised thrice in the last two months. The GoI is expected to gain ~Rs.160 billion for FY2023 imposed on export of MS, HSD and ATF, which is expected to reduce the loss of revenue, to an extent due to the excise duty cut in May 2022.



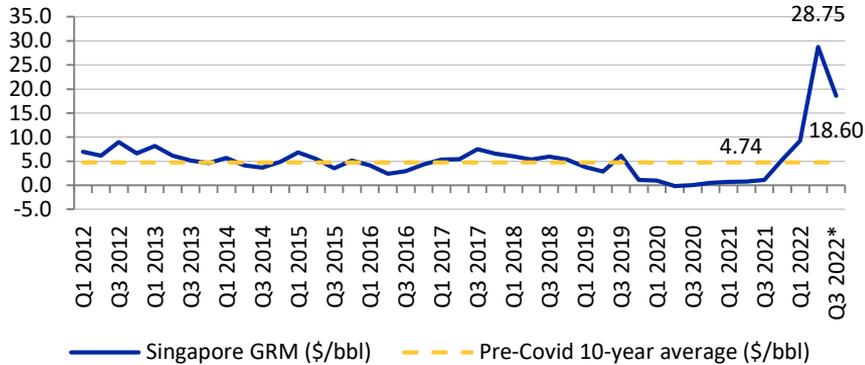
The benchmark Singapore GRMs declined in July and August 2022 owing to a decline in crack spreads, primarily gasoline. The prices have been sliding owing to recession fears. The product cracks witnessed a decline across the barrel except for naphtha. Further, there has been improved product availability in the region owing to strong refinery run rates mostly in India and China. The crack spreads for HSD and ATF witnessed marginal improvement in August 2022 compared to July 2022. The average Singapore GRMs are estimated to be in the range of \$8-10/bbl for FY2023.



Lower gasoline cracks led to recovery in marketing margins for Indian OMCs on MS. However, OMCs continue to lose revenues on diesel sales compared to international prices. The OMCs are realising Rs.6/litre higher for petrol and Rs.8/litre lower for diesel vis-à-vis international prices. The higher the marketing to refinery cover more the dependency on bought out/traded products. The marketing losses would be higher for the OMCs with higher marketing-to-refining ratio.

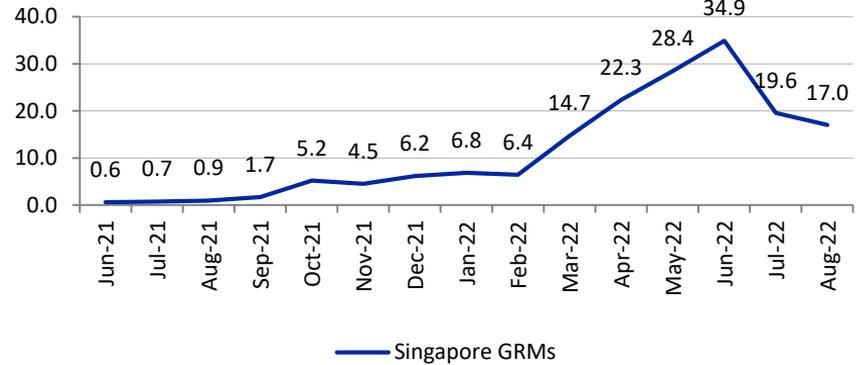
GRMs further decline in August 2022

Exhibit: Quarterly Singapore GRM Trends



Source: Bloomberg, ICRA Research; * Average till August 17, 2022

Exhibit: Monthly Singapore GRM Trends



Source: Bloomberg, ICRA Research; * Average till August 17, 2022

- 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. The strong product demand in the region, backed by a 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 and further in August 2022 owing to drop in prices impacting the cracks. The prices have been sliding owing to recession fears. The product cracks witnessed decline across the barrel except for naphtha. Further, there has been improved product availability in the region owing to strong refinery run rates mostly in India and China. The average Singapore GRMs are estimated to be in the range of \$8-10/bbl for FY2023.

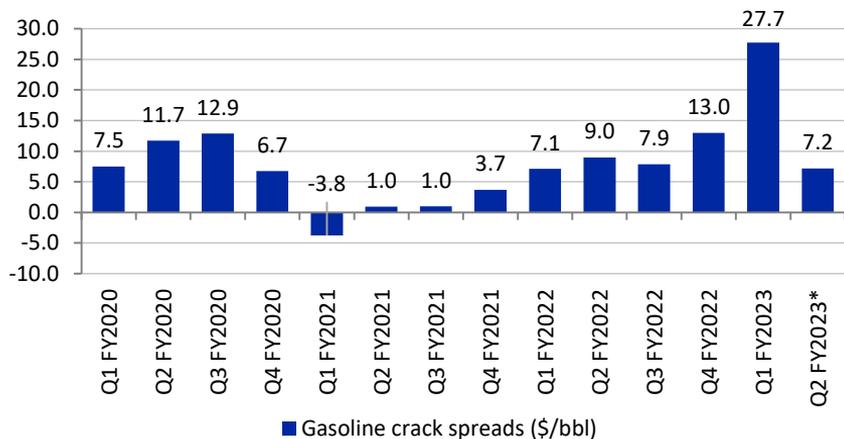


Product-wise Crack Spreads

Product cracks witnessed decline across the barrel, except for naphtha in the last two months

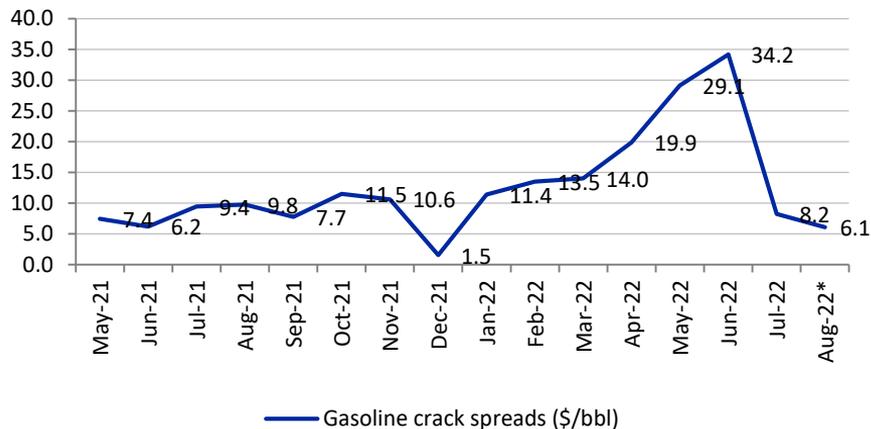
Gasoline – Crack spreads witnessed sharp decline in July and August 2022

Exhibit: Quarterly crack spread trend for gasoline



Source: Bloomberg, ICRA Research; * Average till August 19, 2022

Exhibit: Monthly crack spread trend for gasoline

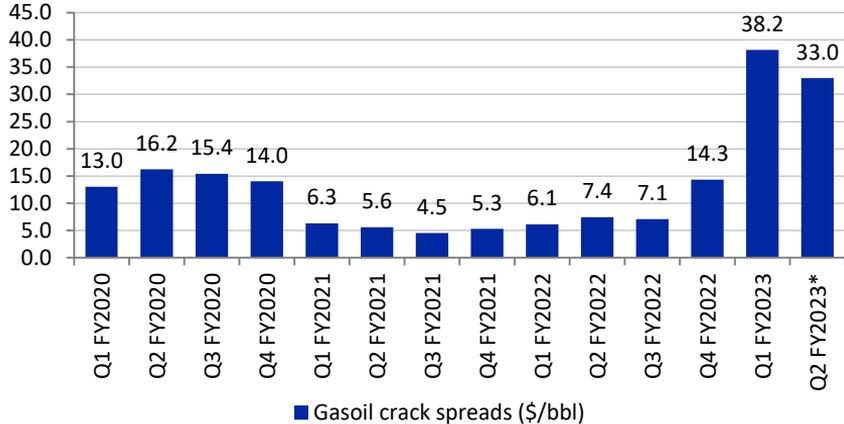


Source: Bloomberg, ICRA Research; * Average till August 19, 2022

- 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 the pick-up in demand and in turn the prices and crack spreads of gasoline. Gasoline prices averaged ~ \$136/bbl in Q1 FY2023, higher by 25% QoQ and 85% YoY.
- The gasoline cracks declined to \$8/bbl in July 2022 and further to \$6/bbl in August 2022 from \$27.7/bbl in Q1 FY2023 owing to recession fears, lackluster US demand owing to high prices and high inventories. Further, the mobility has also impacted China due to extended lockdowns and the monsoon-impacted consumption in Indian markets. The average gasoline prices dipped to \$115/bbl in July 2022 and \$104/bbl in August 2022 down from \$150/bbl in June 2022.

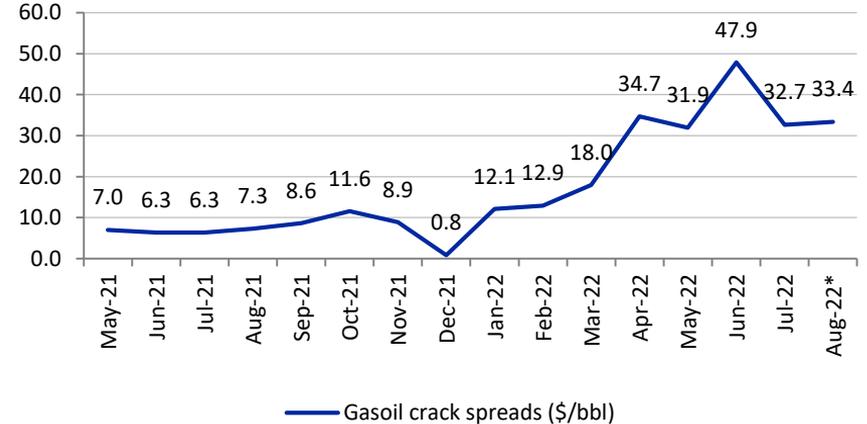
Gasoil – Crack spreads healthy despite moderation in prices in last two months

Exhibit: Quarterly crack spread trend for Gasoil



Source: Bloomberg, ICRA Research; * Average till August 19,2022

Exhibit: Monthly crack spread trend for Gasoil

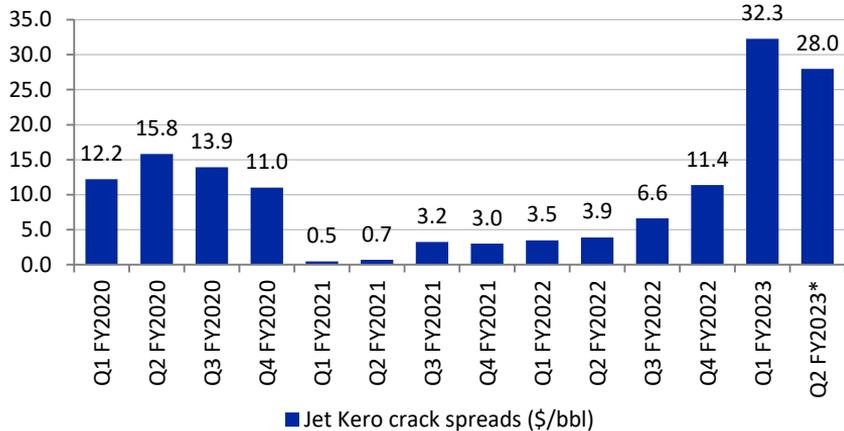


Source: Bloomberg, ICRA Research; * Average till August 19,2022

- 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 in Q1 FY2023.
- The gasoil prices averaged ~ \$147/bbl in Q1 FY2023 higher 32% QoQ and 101% YoY. The gasoil prices slightly moderated to \$139/bbl in July 2022 and further to \$130/bbl in August 2022 reducing from \$164/bbl in June 2022 owing to stronger regional supplies. The cracks spreads witnessed marginal improvement in August 2022 compared to July 2022.
- Globally, goods are transported mostly in diesel vehicles and increase in diesel prices impacts inflation.

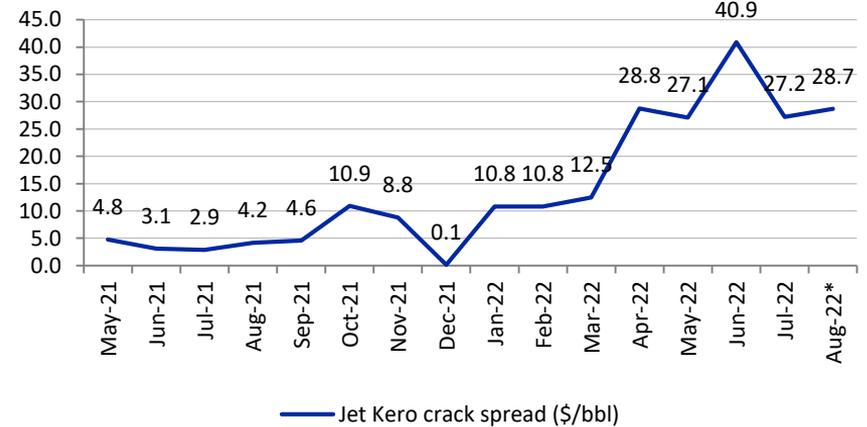
Jet/kero – Prices moderated in July and August 2022

Exhibit: Quarterly crack spread trend for Jet/Kero



Source: Bloomberg, ICRA Research; * Average till August 19, 2022

Exhibit: Monthly crack spread trend for Jet/Kero



Source: Bloomberg, ICRA Research; * Average till August 19, 2022

- The Jet/kero crack spreads witnessed an 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 till Q1 FY2023. However, the cracks witnessed moderation in the last two months similar to other products owing to rise in refinery output level amid strong runs, particularly in India and in China.
- Jet/kero prices averaged ~ \$141/bbl in Q1 FY2023 higher by 31% QoQ and 101% YoY. The jet/kero prices slightly moderated to \$134/bbl in July 2022 and further to \$126/bbl in August 2022, reducing from \$157/bbl in June 2022. The cracks spreads witnessed marginal improvement in August 2022 compared to July 2022.

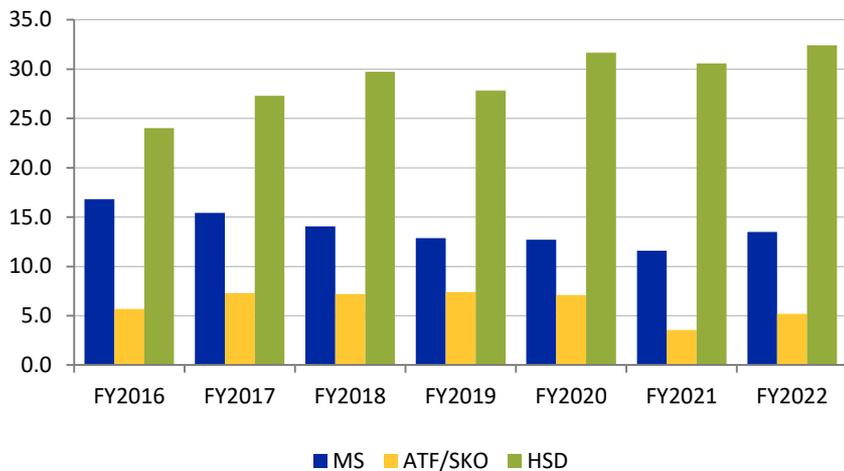


Export of Petroleum Products

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

India is a net exporter of major petroleum products like 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	Q1 FY2022	Q1 FY2023	Q-o-Q Growth
LPG	-16.1	-16.6	-3.2%	-4.0	-4.1	-3%
Naphtha	5.1	5.6	10.1%	1.5	1.6	9%
MS	10.3	12.8	24.3%	3.0	3.6	19%
ATF/Kero	3.5	5.2	48.2%	1.0	1.4	39%
HSD	29.9	32.3	8.1%	8.1	8.1	-1%
Fuel Oil	-6.8	-7.3	-6.9%	-0.8	-1.8	-116%
LOBS/Lube Oil	-2.1	-3.1	-46.0%	-0.4	-0.8	-122%

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.

Recent upward revision in export duties to have marginal impact on refiners

Exhibit: Export duty imposition/revision at various dates

Effective date of imposition/revision	July 1,2022	July 20,2022	Aug 03,2022	Aug 19,2022
HSD (Rs/litre)	13	11	5	7
ATF (Rs/litre)	6	4	0	2
MS (Rs/litre)	6	0	0	0

Source: Ministry of Finance

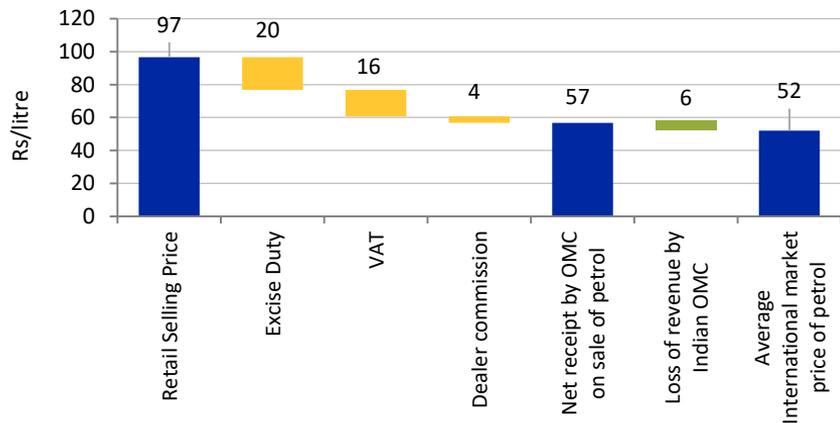
- On July 1, 2022, besides the cess on crude, the GoI also imposed cesses on exports of HSD (of Rs 13/litre), MS (of Rs 6/litre) and ATF (of Rs 6/litre) by way of SAED. With effect from July 20, 2022, the GoI reduced the cesses imposed on July 1, 2022, on exports of HSD (by Rs 2/litre to Rs 11/litre), and ATF (by Rs 2/litre to Rs 4/litre) 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 (SAED). Further, the SAED was removed on exports of ATF and reduced on exports of HSD (by Rs 6/litre to Rs 5/litre with effect from August 03, 2022).
- From August 19, 2022, there was an upward revision in SAED on exports of HSD and ATF to Rs.7/litre and Rs. 2/litre respectively. The recent upward revision in export duties would have a marginal impact on refiners. The impact on the overall GRMs of exporters is expected to be up to \$1.5/barrel depending on their proportion of exports.



Under-Recovery: Trends and Outlook

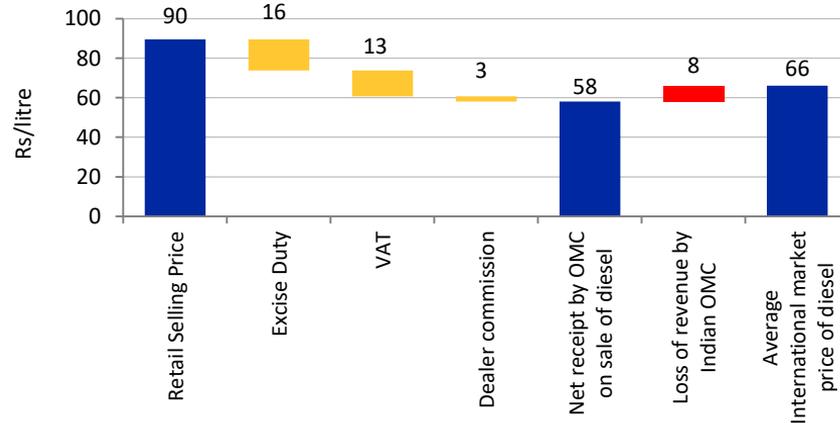
Recovery in marketing margin for petrol for OMCs; under-recoveries continue for diesel

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



Source: Bloomberg , PPAC , Retail selling price as on August 19, 2022, International prices based on Singapore 92 RON Spot Index. and average for August 2022 till 19th

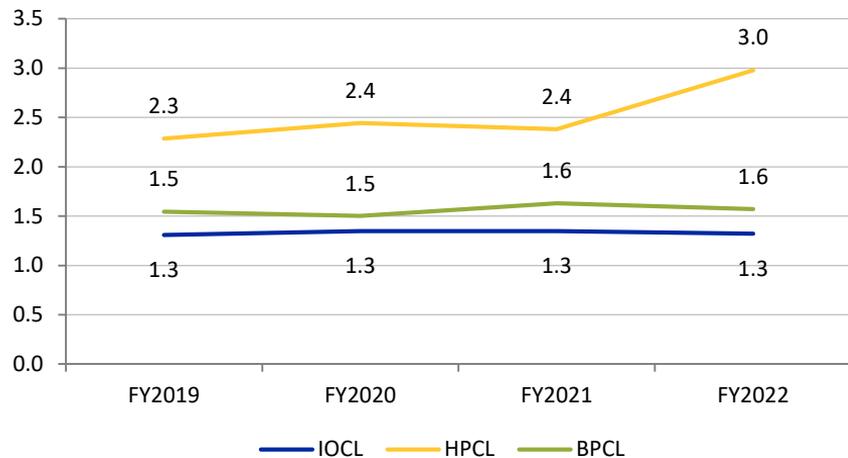
Exhibit: Retail Selling Price of diesel in India Vs Average international prices



Source: Bloomberg , PPAC , Retail selling price as on August 19, 2022, International prices based on Singapore Gasoil 10ppm Spot and average for August 2022 till 19th

- Lower gasoline cracks led to recovery in marketing margins for Indian OMCs on petrol to Rs 6/ltr. However, the OMCs continue to lose revenues on diesel sales compared to international prices. The OMCs are realising Rs.6/litre higher for petrol and Rs.8/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 were reduced in May 2022 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 retail prices are on a freeze since May 2022.

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

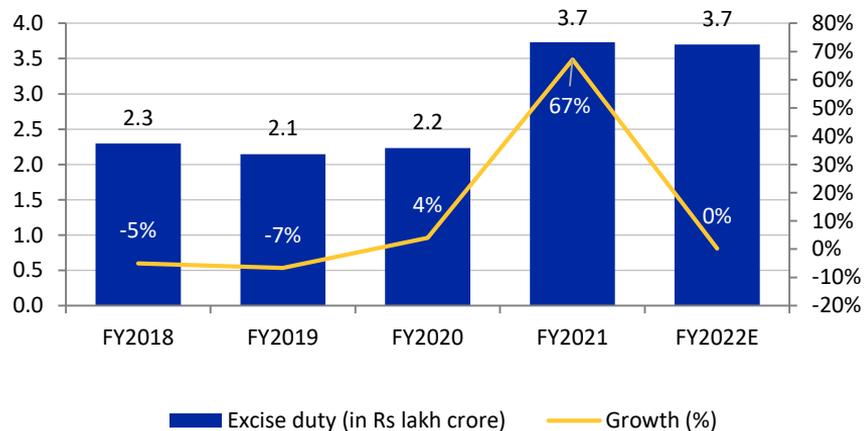
Exhibit: OMC sales in the last few years

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.

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
Total excise duty	27.9	19.9	21.8	15.8

Source: PPAC, ICRA Research

- The GoI is expected to gain ~Rs.160 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 GoI 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, a few states reduced VAT on petrol and diesel and consequently, the prices have reduced further in some states.



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Analytical Contact Details



Sabyasachi Majumdar

*Senior Vice President &
Group Head*

Prashant Vasisht

*Vice President &
Co-group Head*

Kushal Kumar B

*Asst. Vice President &
Sector Head*



sabyasachi@icraindia.com

prashant.vasisht@icraindia.com

Kushal.kumar@icraindia.com



0124 4545 304

0124 4545 322

040 4067 6521





ICRA

Business Development/Media Contact Details



L. Shivakumar

Executive Vice-President

Jayanta Chatterjee

Executive Vice-President

Naznin Prodhani

Head Media & Communications



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022- 6114 3406

080- 4332 6401

0124- 4545 860





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