



# REFINING AND MARKETING INDUSTRY

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**SAED imposed on export of MS, HSD  
and ATF a credit negative for  
exporters**

**JULY 2022**



# Highlights



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*The Special additional excise duty (SAED) imposed on export of MS, HSD and ATF is negative for the 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 \$2/barrel to \$8/barrel, depending on their proportion of exports. Nevertheless, the refiners are still expected to post robust GRMs in FY2023 as ICRA expects crack spreads on the above products to sustain at elevated levels*



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 special additional excise duty. The exporter is also required to submit a self-declaration confirming that 50% of the quantity mentioned in the shipping bill will be supplied/has been supplied in the domestic market for MS and 30% for HSD. The Government of India (GoI) has further clarified that the newly introduced taxes would be applicable on the SEZ units. The domestic prices of diesel, petrol and ATF would remain unchanged, and these measures are expected to ensure domestic availability of the petroleum products



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ICRA expects crack spreads on the above products to sustain at elevated levels owing to increasing demand, reduced export quotas by China, closure of about 4 million barrels per day (mbd) refining capacity since the beginning of Covid and reduced refining throughput in Russia. As per the IEA, the Russian refining throughput is expected to reduce by about 1.1 mbd due to the EU sanctions.



The GoI is expected to gain ~Rs.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. 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 reduced on both petrol and diesel recently on May 2022 with a cut in excise duty by the GoI on MS and HSD.

## Exhibit : SAED on key petroleum products

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

Source: PIB

- 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 Special Additional Excise Duty (SAED).
- The all-time high GRMs are driving the exports and it was seen that retail pumps ran out of stock in many states in recent months.
- To ensure availability, the GoI also expanded the ambit of the universal service obligation (USO) to include all retail fuel outlets in the country including remote areas. As per the USO, pumps will have to maintain supplies of petrol and diesel throughout the “specified working hours and of specified quality and quantity”
- The domestic prices of diesel, petrol and ATF would remain unchanged, and these measures are expected to ensure domestic availability of these petroleum products.
- The SAED imposed on export of MS, HSD and ATF is negative for the 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 \$2/barrel to \$8/barrel depending on their proportion of exports. Nevertheless, the refiners are still expected to post robust GRMs in FY2023 as ICRA expects crack spreads on the above products to sustain at elevated levels

01

The exporter is required to submit a self-declaration confirming that 50% of the quantity mentioned in the shipping bill will be supplied/has been supplied in the domestic market for MS and 30% for HSD.

02

Export to Bhutan and Nepal is exempted from domestic market supply condition of 50% on MS and 30% on Diesel.

03

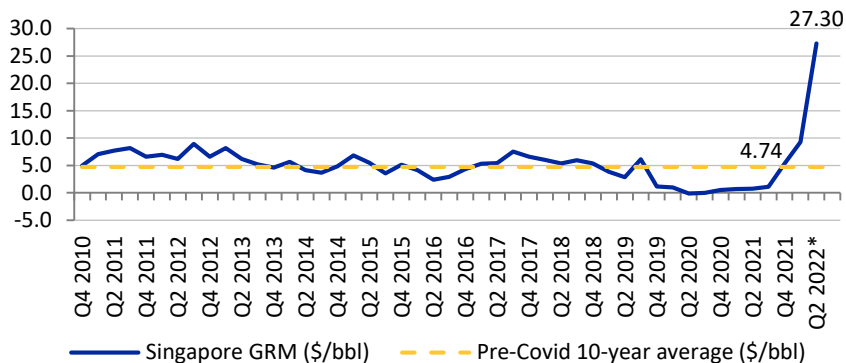
Domestic market supply condition is not applicable to 100% EoUs and units in SEZs. However, the GoI has further clarified that the newly introduced taxes would be applicable on the SEZ units.

04

The exporters are required to file a quarterly return to the Ministry of Petroleum and Natural Gas (MoPNG)

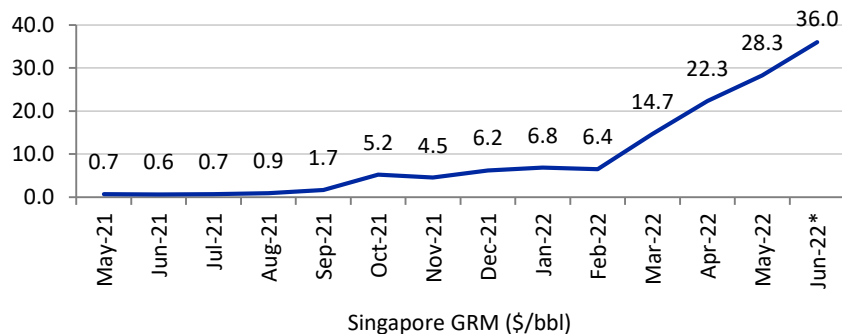
# Singapore GRMs highest in the last decade

Exhibit: Quarterly Singapore GRM Trends



Source: Bloomberg, ICRA Research; \* Average till June 13,2022

Exhibit: Monthly Singapore GRM Trends



Source: Bloomberg, ICRA Research; \* Average till June 13,2022

- The benchmark Singapore GRMs has been on an increasing trend since December 2021 and witnessed sharp increase in Q2 CY2022 and is at lifetime highs. 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. High GRMs benefit oil refineries.
- The average Singapore GRM is estimated to be at \$8-10/bbl for FY2023.
- Going forward, the shift in product trade flows in Eastern Europe, as a result of the geopolitical tensions (Ukraine – Russia war), is projected to further benefit Asian, primarily Indian, refiners to increase the processing rates to supply more products to Europe.

## Reasons for surge in crack spreads

Efforts to cut off Russian oil has been challenging for European refiners with the latter having to import crude from other regions, adding to complexity, delays, and shortages. Additionally, diesel inventories are at multi year low in both EU and the US

Globally refiners have shed capacity of about 4 million barrels a day since the pre-Covid era



The easing of movement restrictions has driven a strong recovery in demand of transportation fuels

In 2021 Russia exported 2.8 mbpd of oil products which included 750,000 bpd of diesel to Europe. Declining European imports will eventually mean reduced purchases of Russian diesel and there is not much Asian demand for diesel. IEA expects EU sanctions to reduce refining throughput in Russia by ~1.1mnbpd.

Fuel export quotas granted to Chinese refineries have fallen since 2021 as the government seeks meet its net-zero ambitions. Lower fuel exports from Chinese refineries since the second half of 2021 leading to a decline in supply

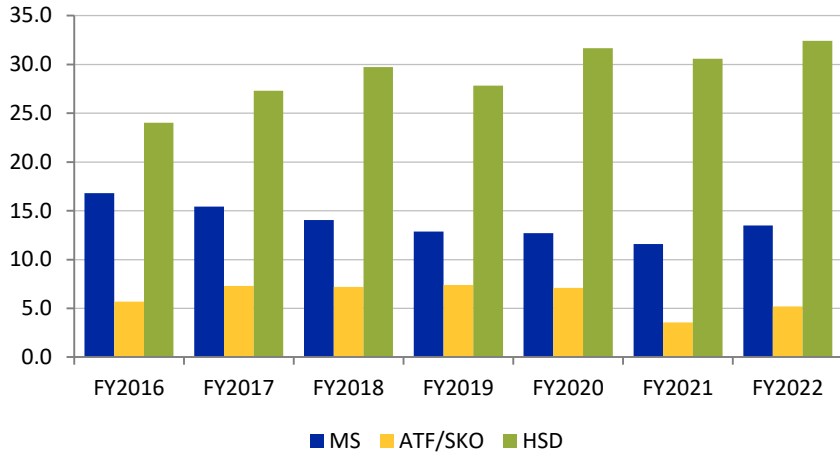


## Export of Petroleum Products

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# 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	2MFY2022	2MFY2023	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 trend YoY basis 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.

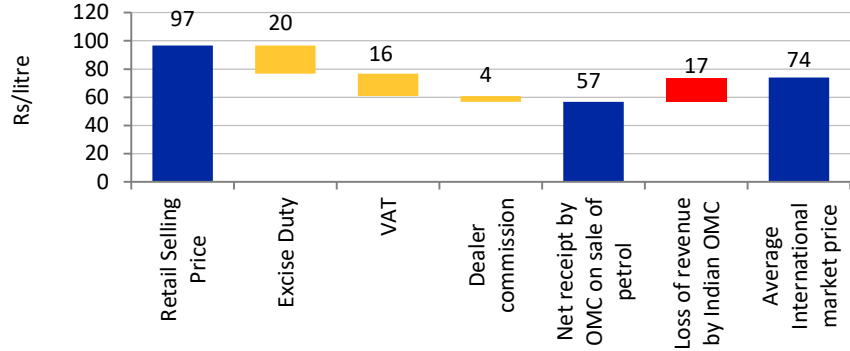


## Under-Recovery: Trends and Outlook

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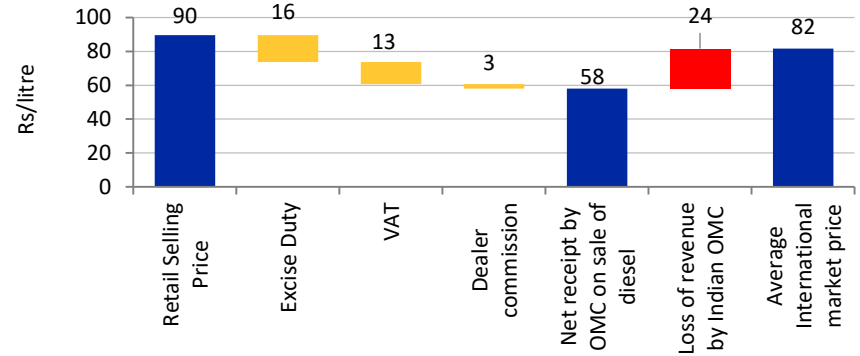
# High under-recoveries for Indian OMCs

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



Source: Bloomberg ,PPAC , Retail selling price as on May 31,2022, International prices based on Singapore 92 RON Spot Index. and average for June 2022 till 21st

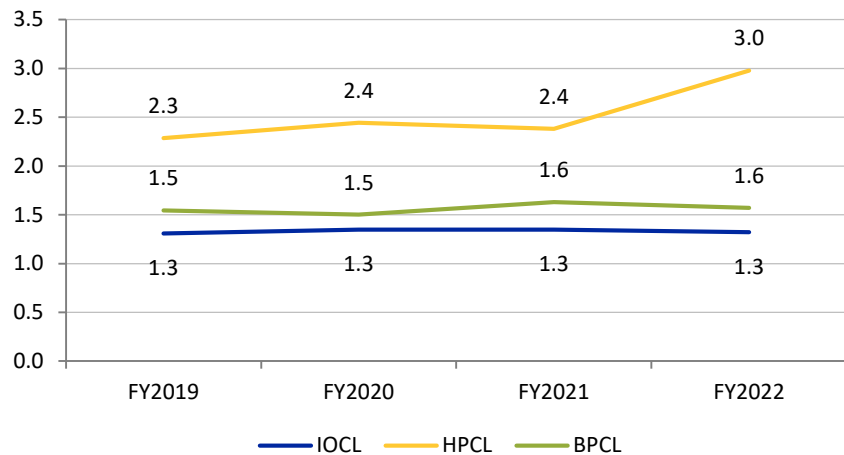
Exhibit: Retail Selling Price of diesel in India Vs Average international prices



Source: Bloomberg ,PPAC , Retail selling price as on May 23,2022, International prices based on Singapore Gasoil 10ppm Spot and average for June 2022 till 21st

- The Indian OMCs continue to lose revenues on MS and HSD sales compared to international prices. The OMCs are realising Rs.17/litre lower for petrol and Rs.24/litre lower for diesel vis-à-vis international prices. The increase in GRMs would compensate the losses due to under-recoveries for OMCs to an extent. For every \$1 improvement in crack spread, the under-recovery is expected to reduce by ~Rs. 0.50 /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.
- The retail selling prices were reduced recently with cut in excise duty by 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

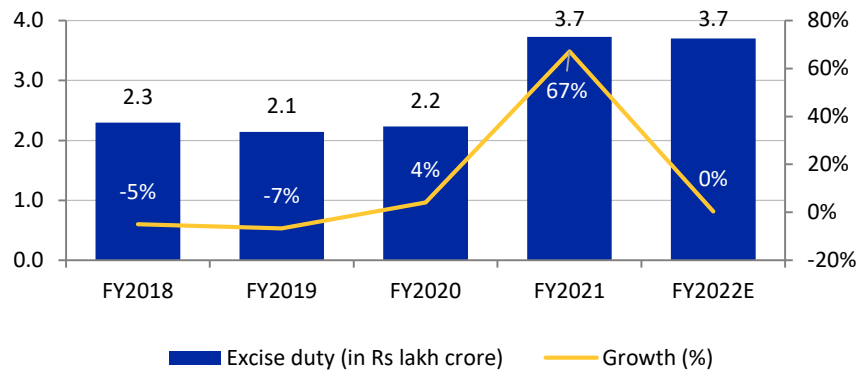
Exhibit: OMC sales in the last few years

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 products. The marketing losses would be higher for 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 pandemic. However, the same witnessed improvement in FY2022 and expected to continue 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
<b>Basic duty</b>	1.4	1.4	1.8	1.8
<b>Additional excise duty (Road &amp; Infrastructure Cess)</b>	13	5	8	2
<b>Special additional excise duty</b>	11	11	8	8
<b>Agriculture Infrastructure and Development Cess</b>	2.5	2.5	4	4
<b>Total excise duty</b>	27.9	19.9	21.8	15.8

Source: PPAC, ICRA Research

- Gol is expected to gain ~Rs.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 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.
- Excise collections by the Gol on petroleum products have been similar to FY2021 in FY2022 despite the excise duty cut on petrol and diesel by Rs. 5/litre and Rs. 10/litre respectively in November 2021.



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