

Indian Upstream Oil and Gas Industry

Special additional excise duty expected to increase in the next revision owing to increase in crude oil prices

APRIL 2023



ICRA expects the SAED on crude production to increase in the next revision resulting in Government collections of around Rs. 15,000 crore from the upstream companies in FY2024.

On export of petroleum products, ICRA estimates SAED collections at ~Rs. 1,600 crore in FY2024 at current levels of this duty.

ICRA expects the profitability of upstream companies to remain healthy, and their capex plans to remain intact.



- Oil prices fell from the highs of around \$135/bbl in March 2022 to multi-month lows of around \$70/bbl in March 2023, led by weakening global demand prospects, fueled by apprehension of a global banking crisis.



- The crude prices witnessed traction post the OPEC+ announcement of additional production cuts of 1.16 mbd, taking the total production cuts to 3.66 mbd. This resulted in a rally in oil prices to around \$85/bbl as of now and these are likely to remain elevated amid a tight market.



- The sea-borne exports from Russia witnessed a significant decline in the first week of April 2023 to around 2.89 mbd from around 5 mbd at the end of CY2021 indicating the impact of the production cuts by Russia. This is likely to keep the supplies tight in the market.



- With the decline in crude oil prices to around \$70/bbl, the GoI reduced the Special Additional Excise Duty (SAED) (introduced in July 2022) to nil. However, the subsequent increase in crude prices suggests a possibility of this cess being raised during the next revision.



- ICRA estimates that the Government of India collected around Rs. 40,000 crore from the SAED on crude and petroleum products in FY2023. At the current rates, the same is likely to decline significantly in FY2024 to around Rs. 16,600 crore from crude and petroleum products.



- Prices of domestic gas have also been revised downwards in the latest revision. Despite this, the floor price of \$4/mmbtu remains higher than the cost of production from the nomination fields as well as historical prices, thus benefitting upstream players in the longer run.



- In spite of the fluctuations in crude oil prices and downward revision in the domestic gas prices, ICRA expects the profitability of upstream companies to remain healthy, and their capex plans to remain intact in FY2024.



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