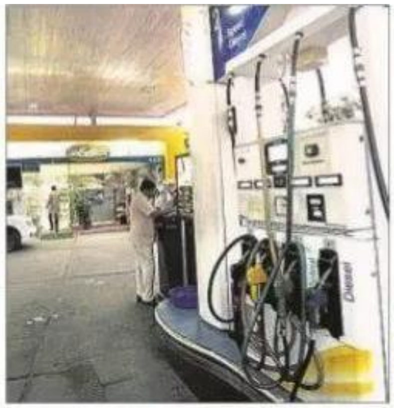
Crude at $55/barrel to add 34 bps to headline inflation: Barclays

FE BUREAU
New Delhi, December 13

RISING GLOBAL CRUDE oil price is seen to increase the already elevated inflation levels in the country, according to Barclays. "We estimate that a $10/barrel increase in the price of crude oil, to $55/barrel from $45/bbl, which implies a ₹5.8/litre increase at the pump, would add about 34 basis points to headline inflation over three to six months, assuming no change to petroleum taxes," analysts at Barclays said.

In the face of unprecedented tax revenue deficits this year, the Central government had hiked excise by ₹10 per litre on petrol and ₹13 per litre on diesel on May 5 (after raising taxes by ₹3 per litre for both petrol and diesel on March 14). This did not allow consumers to gain from lower global oil prices of $20-30/barrel in the March-May period, and helped the government's excise duty income to rise 41% annually to ₹1.6 lakh crore in the April-October period. However, crude oil price have clawed back to the current rate of $50/barrel on the back of Opec production cuts and anticipation of the Covid-19 vaccine.

"So while oil's rebound is unlikely to destabilise India's external balances, the government is faced with a new domestic trade-off between fiscal stability and sticky inflation," Rahul Bajoria, chief India economist at Barclays said. If the government chooses to cut petrol and diesel taxes by ₹5.8/litre to offset rising crude oil prices, it would result in a loss of revenue of ₹87,200 crore.



Petrol, diesel prices at a two-year high after successive hikes

PETROL AND DIESEL prices rose for the sixth day in a row last Monday, with petrol price going up by 30 paise per litre and diesel, by 26 paise. The rates for petrol in Delhi rose to ₹83.71 per litre from ₹83.41, while diesel price went up from ₹73.61 to ₹73.87 per litre, according to notifications from the Indian Oil Corporation. This was the 15th increase in rates since November 20. The prices are now at the highest level since September 2018. In 18 days, the petrol price went up by ₹2.65 per litre and the diesel rate by ₹3.41. The rate increase follows international oil prices rising by a third from lows in October-end. Brent crude oil is nearing the $50-per-barrel mark on hopes that COVID vaccines would lead to a demand recovery.

The PSU conundrum

Demanding higher payouts will affect growth prospects

Along with higher dividend payment, public sector undertakings (PSUs) will now be mandatorily required to outline a plan for non-core asset monetisation. On the face of it, this might sound a reasonable ask as selling non-core assets would help generate cash, which can be shared with the government. And, dividend income is a significant component of non-tax revenue for the central government and, unlike tax revenue, it doesn't need to share it with states. Higher dividends from PSUs can be useful, particularly in a year like this, when the overall revenues are likely to fall short by a significant margin.

The problem, however, is that the government has been squeezing PSUs for many years and they may not be in a position to increase dividend payments this year. Over the past five years, a sample of 55 listed PSUs in aggregate paid over 70 per cent of their profits as dividend. The pay-out ratio for PSUs was more than twice that of Nifty50 firms. Interestingly, besides dividend payment, listed PSUs are also expected to outline what they are doing to increase market capitalisation. A higher market capitalisation would naturally result in better realisation for the government at the time of disinvestment. However, all this shows a fundamental disconnect in the way the government treats PSUs and what it expects from them. To be fair, the problem is not recent. The government often treats PSUs, including state-owned banks, as its extension to fulfil budgetary needs — both in terms of revenue and expenditure. It not only expects PSUs to pay more dividends but also do the heavy lifting in terms of pushing capital expenditure. Additionally, it now expects PSUs to increase market capitalisation.

Predictably, all these objectives cannot be attained simultaneously. If PSUs regularly pay higher dividends, they would have so much less to invest, which will affect growth over time. Subpar revenue and profit growth would affect the ability of government-owned firms to pay dividends. Slower growth and a weaker balance sheet will directly affect valuations and market capitalisation. Furthermore, one of the biggest reasons for low valuation of PSUs in the stock market is the fear of constant government interference. The interests of minority shareholders are not always aligned with the government of the day. Government intervention and general rules of operations may not always allow PSUs to effectively compete with the private sector. Thus, PSUs generally tend to struggle when exposed to competition. About 70 per cent of profits among PSUs come from sectors, such as petroleum and coal, where private sector presence is negligible.

On the whole, though the circumstances in the current year are truly extraordinary and the government would want to raise as much resources as possible to meet its budgetary obligations, it would do well to review policies regarding PSUs with longer-term objectives in mind. The government should give PSUs and their boards the required autonomy to function, and allow them to compete and create value. The best way to increase market value on a sustainable basis is to increase profitability and earnings visibility. Forcing PSUs to sell assets to bridge the government's revenue shortfall and demanding higher dividends would affect their growth potential. This could actually end up destroying value with longer-term budgetary consequences.

Oil companies halt auto fuel price rise as crude firm but static

New Delhi: Petrol prices march towards all time high levels has been temporarily halted by the oil marketing companies (OMCs) as they chose to keep the retail rates of petrol and diesel static for sixth consecutive day even though global oil prices remained firm with crude close to $50 a barrel.

Accordingly, there was no change in retail price of auto fuels on Sunday with price of petrol remaining at Rs 83.71 a litre and diesel Rs 73.87 a litre in Delhi. Across the country as well the price of the two petroleum products remained unchanged.

OMCs have gone on a pause mode at a time when news of successful coronavirus and expectations of big pick up in demand had kept crude on the boil with prices breaching $50 a barrel mark. Crude, however, has remained static for late few days reducing any pressure on upward revision in fuel prices.

Petrol prices was very close to breaching the all time high level of Rs 84 a litre (reached on October 4, 2018) when it touched Rs 83.71 a litre on Monday. But the March has been halted ever since then with no price revision by the OMCs.

Global crude prices have risen almost $10 a barrel in last one month to reaching over $50 a barrel now. But even at this level, it is far less than than average crude price of $80.08 a barrel in October 2018 when petrol prices reached highs of Rs 84 a litre in the Capital.

With Sunday's pause, fuel prices have now increased on 15 of the past 24 days with petrol prices rising by Rs 2.65 per litre and diesel by 3.41 a litre.

Petrol prices had been static since September 22, and diesel rates hadn't changed since October 2. Though retail pricing of petrol and diesel has been deregulated and oil marketing companies were following a daily price revision formula, the same was suspend ended for almost two months to prevent volatility in international oil markets from impacting fuel prices regularly during the pandemic. *IANS*

Diesel sales decline 7% in Nov, petrol sales up 5%

PRESS TRUST OF INDIA
NEW DELHI, 13 DECEMBER

India's diesel sales fell 7 per cent year-on-year in November after rising for the first time in eight months in October, industry data showed.

Sale of diesel, the most used fuel in the country, was, however, 8 per cent higher month-on-month.

Diesel consumption in November was 6.23 million tons, down from 6.7 million tons in the same period a year ago. It was, however, higher than 5.7 million tons demand during October.

The fall in consumption in November, after diesel sales had reached pre-Covid levels in September, shows the recovery is fragile, an industry official said.

Petrol sales rose to 2.4 million tons from 2.28 million tons, while cooking gas (LPG) sales were up 4.5 per cent to 2.36 million tons.

Aviation turbine fuel (ATF) sales fell 48 per cent year-on-year to 3,46,000 tons, but were 6.3 per cent higher month-on-month.

The total demand for petroleum products rose 2.5 per cent in October to reach 17.77 million tons. While petrol had reached pre-Covid levels in September itself, diesel consumption had returned to normal in October.

Diesel demand had spurted 7.4 per cent year-on-year in October, while petrol sales were up 4.5 per cent at 2.54 million tons.

The growth in diesel consumption was the highest in a year.

Industry sources said month-on-month diesel sales have risen in November, which is a good sign.

Fuel demand had slumped by 49 per cent in April after a nationwide lockdown, imposed to curb the spread of coronavirus, shut industries and took most vehicles off-road.

The 69-day nationwide lockdown was followed by local and state-level restrictions. Restrictions have eased only slowly and in phases, and localised restrictions in containment zones remain.

The onset of the festive season has fuelled a rise in consumption, but public transport is not back to normal levels yet as schools and educational institutions continue to remain shut in most parts of the country.

IOC refinery: Indian Oil Corporation Ltd (IOC), the nation's biggest oil firm, has boosted refinery run to 100 per cent of the capacity as reopening of the economy spurred demand for fuel, a company statement said. All the refineries of IOC operated at 100 per cent of the capacity in November, up from 88.1 per cent in the previous October month and 98.6 per cent in the same period last year. This festival season boosted demand for consumer goods, leading to more diesel-run trucks hitting the road to deliver everything ~ from clothes to air conditioners. PTI

इंडियन ऑयल में उत्पादन प्रवाह 100 फीसदी

नई दिल्ली। इंडियन ऑयल रिफाइनरीज में कच्चे तेल का उत्पादन प्रवाह नवंबर 2020 में 100 फीसदी हो गया। तेल उत्पादों की मांग भी कोविड काल से पहले वाले स्तर पर पहुंच गई है। अक्तूबर 2020 में यह आंकड़ा 88 फीसदी तथा गत वर्ष इस अवधि में 99 फीसदी था। अर्थव्यवस्था तेजी से पटरी पर लौट रही है। इसलिए इंडियन ऑयल ने भी मई की शुरुआत में 55 फीसदी रहे उत्पादन प्रवाह को धीरे धीरे बढ़ाया है। इंडियन ऑयल के चेयरमैन एसएम वैद्य ने कहा कि भारतीय अर्थव्यवस्था में लगातार सकारात्मक बदलाव हो रहे हैं। कोरोना का टीका भी आने वाला है और अर्थव्यवस्था के सभी मूल आधार मजबूत हैं। पेट्रोलियम उत्पादों की खपत में काफी वृद्धि होगी। इसके लिए हम तैयार हैं।

पैट्रोल व डीजल के दाम छठे दिन स्थिर

नई दिल्ली, 13 दिसंबर (एजैंसी) : देश में पैट्रोल और डीजल के दाम रविवार को लगातार छठे दिन स्थिर रहे। इंडियन ऑयल कॉर्पोरेशन के अनुसार, राष्ट्रीय राजधानी दिल्ली में पैट्रोल 83.71 रुपए प्रति लीटर पर स्थिर रहा जो 4 अक्तूबर 2018 के बाद का उच्चतम स्तर है। मुंबई में इसकी कीमत 90.34 रुपए, चेन्नई में 86.51 रुपए और कोलकाता में 85.19 रुपए प्रति लीटर रही। इसी प्रकार डीजल की कीमत भी दिल्ली में 73.87 रुपए, मुंबई में 80.51 रुपए, चेन्नई में 79.21 रुपए और कोलकाता में 77.44 रुपए प्रति लीटर पर टिकी रही।