

News monitored for: JM Financial

Ahead of polls, slash in fuel prices likely

NEW DELHI,

Following the recent cut in domestic LPG prices, the Central government may cut petrol, and diesel prices by Rs 3-5 a litre around Diwali given that key state elections start from November-December, JM Financial Institutional Securities said in a report.

Last week, the government cut the price of the domestic 14.2kg LPG cylinder by Rs 200/LPG cylinder for all 330 million consumers w.e.f. August 30. This was to give relief to the common man from the recent surge in inflation. OMCs marketing segment earnings could come under risk if: a) Brent crude price sustains above \$85/bbl; and/or b) OMCs are forced to cut petrol/diesel prices in the next few months.

The burden of this LPG price cut will be borne by the government; however, this may increase OMC's working capital given the usual lag in government compensation. Further, there is a high expectation that the government may also cut petrol/diesel prices by Rs 3-5/litre around Di-

wali given key state elections start in November-December. This cut should mostly happen via a reduction in excise duty and/or VAT given OMCs are losing on the auto-fuel marketing business at the current high crude price, the report said. However, we cannot rule out a scenario whereby the government may nudge OMCs to cut petrol/diesel prices as their balance sheets have largely been repaired due to likely strong profits in 1HFY24.

A sharp rise in Brent price to \$90/bbl, driven by OPEC supply cuts, and a surge in diesel cracks has led to OMCs blended spot auto-fuel gross marketing margin (GMM) declining to negative Rs 0.1/ltr vs. INR 8.8/ltr in 1QFY24 and vs. historical GMM of INR 3.5/ltr. Our calculation suggests OMC's break-even Brent price is significantly lower at -\$80/bbl. Weak marketing margin is being partly offset by a jump in GRM aided by strong diesel cracks; however, a rise in the Chinese oil product export quota and a narrowing of Russian crude discount is likely to cap GRMs. IANS