

Prices stay decontrolled, says IndianOil chairman

SHINE JACOB

New Delhi, 7 October

Oil-marketing companies — Indian Oil Corporation (IOC), Hindustan Petroleum Corporation (HPCL) and Bharat Petroleum Corporation (BPCL) — have pricing freedom and fuel pricing in India stays decontrolled despite a ₹1 cut in the prices of petrol and diesel last week, IndianOil Chairman Sanjiv Singh has said.

Singh's company may lose around ₹23 billion in revenue in the financial year owing to the price cut. However, he expressed the hope that the rupee would stabilise in the near future while indicating that crude oil prices might continue to go up.

Even after the Central government opted for an ₹1.5 cut in the excise duty on petrol and diesel, followed by the cuts of the OMCs and value-added tax reductions by various state governments, fuel prices continued to rise on Saturday and Sunday. On Sunday, the price of petrol was seen up 14 paise to ₹81.82 a litre and that of diesel up 29 paise to ₹73.53.

On Saturday, a day after the government announced the cut, the prices of petrol and diesel had gone up slightly by a few paise owing to increase in the global benchmark.

"The three major stakeholders — the Central government, state governments and OMCs — are contributing to the softening of the burden of retail prices. The product prices continue to go up in the international market and this will affect domestic prices," Singh told Business Standard.



"THE PRICE OF CRUDE OIL AND THE VALUE OF THE RUPEE ARE DIFFICULT TO PREDICT. WE BELIEVE THE CURRENCY WILL STABILISE"

SANJIV SINGH, IndianOil chairman

SLIPPERY PATH

- One-rupee depreciation against the dollar requires a 50 paise increase in the prices of both diesel and petrol
- After rupee breached 73, the Reserve Bank of India allowed OMCs to raise dollars directly from overseas markets for working capital requirements
- The overall cap under the scheme would be \$10 billion, half of which may come from IndianOil

The cut in the retail price marketing margin may reduce the annual profits of IOC, HPCL and BPCL by around ₹45 billion.

On Saturday, HPCL too had termed the absorption a short-term action taken by the government.

Speaking on the rupee's weakness and surging crude prices, Singh said, "The price of crude oil and the value of the rupee are difficult to predict. We believe the currency will stabilise. We are seeing the crude oil price going up, and they are not supported by fundamentals. Different agencies are saying that it may stay in the mid-eighties range." The price of Brent crude was seen at \$84.16 a barrel at one point on Sunday.

Singh added when prices went up, the company's working capital requirements also went up, and thus this would have no impact on IOC's investment plans. The compa-

ny also expects its marketing margin to remain positive.

After the rupee breached the 73 mark, the Reserve Bank of India (RBI) had allowed OMCs to raise dollars directly from overseas markets without the need for hedging for working capital requirements. The apex bank has given the minimum maturities of borrowing as three years and five years, while the overall cap under the scheme is kept at \$10 billion. Though OMCs are not expected to immediately use this route, based on the current working capital requirements about half of \$10 billion may be coming from IOC.

An HPCL official said in a conference call: "OMCs will try to take other measures (like logistics cost, operating expenses, inventory gain) to mitigate this loss. The management is confident in the long run, when crude oil will be stable, this decision will be revoked."