

Petrol, Diesel Prices Raised by ₹3/Litre

Pump rates hiked after four years;
OMCs say move will partly offset
retail losses; freight costs set to rise

Our Bureau

New Delhi | Mumbai: State-run oil companies raised petrol and diesel prices by ₹3 per litre, two-and-a-half months after the Iran war sent crude prices soaring. The increase will partly offset mounting losses at fuel retailers but is also expected to push up freight costs and add to broader inflationary pressures across the economy.

Although firms had demanded a hike of more than ₹10 per litre, the government cleared a more modest hike — the first hike in pump prices in four years — due to concerns over inflation and a potential political backlash, industry executives said. Officials opted for a calibrated increase to assess how higher fuel costs are transmitted through the supply chain, particularly after wholesale inflation surged to a 42-month high of 8.3% in April, they added.

Oil company executives, however, expect further hikes, saying the revision is insufficient to bridge the wide gap between higher input costs and retail prices.

Procurement Costs

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The under-recovery, or the gap between international fuel prices and domestic pump rates, stood at ₹14 per litre for petrol, ₹42 for diesel and ₹674 per cylinder for LPG on Monday, according to a petroleum ministry official. These figures change daily and do not reflect actual cash losses for refiners. They have also become less meaningful over the past four years as retail prices remained frozen. When global fuel prices declined in recent years, domestic pump prices did not fall correspondingly, resulting in over-recoveries and a profit boost for oil companies.

What matters more for oil companies now is the sharp rise in crude procurement costs. The benchmark Indian crude basket has averaged \$106.2 per barrel in May, up from \$69 in February. Alongside higher crude prices, rupee depreciation has also added to the pressure. The Indian currency has weakened by ₹5 against the dollar since the start of the war and by ₹10 over the past year, breaching the 96-per-dollar mark on Friday.

As consumers absorb Friday's increase, industry executives expect additional incremental hikes over the coming days and weeks. The last significant revision in fuel prices came in 2022, when companies raised rates in small daily increments between March 21 and April 6, increasing petrol and diesel prices by ₹10 per litre within just 16 days.

The oil ministry has said oil marketing

companies (OMC) — Indian Oil Corp, Hindustan Petroleum Corp and Bharat Petroleum Corp — are incurring a combined loss of ₹30,000 crore a month. To be sure, OMCs have shown resilience in absorbing losses arising from the Iran war-triggered turmoil in oil markets. HPCL reported a 46% rise in profit to ₹4,902 crore in the March quarter, largely supported by strong earnings in January and February. The stocks of all three companies fell on the BSE despite

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the price increase, reflecting the under-recovery gap. Indian Oil fell 4.06%, HPCL was down 2.89% and BPCL dropped 3.63% at the close on Friday.

CNG PRICES

CNG prices in Delhi and Mumbai have also risen by around ₹2 per kg to partly offset higher natural gas procurement costs for city gas distributors. Prices of piped natural gas supplied to households have not been increased. In several other cities, distributors had already raised CNG prices by ₹2.25 per kg last month. Senior industry executives said nearly five to six more price hikes of a similar magnitude may be needed to fully cover current under-recoveries.

"This fuel price hike was unavoidable for oil companies. However, it is still not enough to cover the losses we are making on per litre of fuel sales," said a se-

nior oil marketing company official on condition of anonymity, adding that the price hike may only cut the ₹1,000 crore per day losses by half.

On Tuesday, Union petroleum and natural gas minister Hardeep Singh Puri said that the OMCs are collectively losing around ₹1,000 crore every day as they continue to sell petrol, diesel and LPG below cost. He added that cumulative under-recoveries have risen to nearly ₹1.98 lakh crore.

Since the Iran war began on February 28, global energy supplies have tightened and crude oil prices have surged. OMCs have been trying to absorb the impact of rising crude prices while keeping retail fuel prices under control. India's crude oil basket bill surged to an average of \$114.48 per barrel in April.

GLOBAL TREND

Analysts said that if domestic fuel prices were to follow the global price trend, petrol would cost ₹113 per litre and diesel ₹123 per litre.

According to Emkay Research, OMCs are incurring under-recoveries at ₹17-18 per litre at current crude levels, even after the excise cuts of ₹10 per litre effected on March 27, leading to quarterly OMC losses of ₹57,000 crore.

"We expect hikes of ₹10 per litre to cover 50% of under-recoveries, either in one shot or via creeping hikes over 2-3 weeks," Emkay Research said.

At crude prices of \$105-110 per barrel, OMCs continue to lose around ₹500 crore daily on sales of petrol, diesel and domestic LPG, even after the latest fuel price increase, said Prashant Vasishth, senior vice president and co-group head, corporate ratings, ICRA.