SBI RESEARCH

ECOWRAP

RUPEE CANNOT ACT AS A FURTHER SHOCK ABSORBER…FURTHER DEPRECIATION OF RS 2 (ASSUMING FY27 CURRENT AVERAGE AT RS 94 STAYS UNCHANGED) CAN WIPE OUT ALL GAINS FROM RS 3/LITRE HIKE…THERE IS A NEED FOR A COMPREHENSIVE POLICY ON BALANCE OF PAYMENTS

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Retail fuel price has been hiked by Rs 3 per litre in order to reduce the losses incurred by the OMCs owing to unchanged fuel prices amidst rising Brent Crude price. OMC's under recoveries on sales of petrol and diesel are soaring because of unchanged retail prices. As per the Union Minister OMCs are incurring losses to the tune of Rs 1000 crore per day which amounts to around Rs 3.6 lakh crore a year. **The current increase in oil price by Rs 3 is likely to provide relief of Rs 52,700 crore in OMCs under recoveries, which is 15% of the expected total loss of the OMCs in FY27.**

The measure is not likely to have much impact on oil consumption as historical data shows that hike in petrol and diesel price has been followed by decline in consumption immediately after the hike, only to recover thereafter with no decline visible in the annual consumption levels. Further, immediate impact on CPI inflation is likely around 15-20 bps in May-June 2026. So we revise our FY27 forecast to 4.7%. **There is no direct impact of this hike on the fiscal situation.**

Notably, the Government has earlier reduced the excise duty earlier by Rs 10 on diesel and petrol during the year to help the OMCs for which the revenue loss for the Centre is estimated as Rs 1.1 lakh crore. In a similar way if we assume that the excise duty is further rationalized to zero to help OMCs reduce their losses, it would entail a revenue loss of Rs 1.9 lakh crore or 0.5% of the GDP for the Government. The states will also loss Rs 80,000 crore.

However, further rupee depreciation can exhaust all these gains by increasing the $ price of crude import. Our **calculations show that, even an additional depreciation of ₹2 in the rupee (from FY27 current average at Rs 94 stays put) raises the effective crude oil price pushing the landed import cost which fully offsets the gains from the current fuel price hike.** Thus, the rupee has already approached a critical depreciation threshold, beyond which further currency weakness could substantially erode the intended benefits of domestic fuel price revisions.

Meanwhile, as per the latest IEA report crude will continue to remain under pressure owing to the depleting inventories. Assuming flows through the Strait gradually resume from June, IEA projects global oil supply to decline by 3.9 mb/d on average in 2026, to 102.2 mb/d. Meanwhile, world oil demand is forecast to contract by 420 kb/d y-o-y in 2026, to 104 mb/d, 1.3 mb/d less than the pre-war forecast.

RETAIL FUEL PRICE HIKED BY RS 3/LITRE

- Petrol diesel price has been hiked by Rs 3 per litre in order to give relief to the oil marketing companies which were incurring losses owing to higher brent crude price. OMC's under recoveries on sales of petrol and diesel are soaring because of unchanged retail prices. As per the Union Petroleum minister, in the current quarter the under-recoveries are around Rs 1.98 lakh crore. Meanwhile, OMC's are incurring losses to the tune of Rs 1000 crore per day which amounts to around Rs 3.6 lakh crore a year.
- **The current increase in oil price by Rs 3 is likely to provide relief of Rs 52,300 crore in OMCs under recoveries, which is 15% of the expected total loss of the OMCs in FY27.**

Impact of retail price hike on OMC losses	
Diesel consumption (bn litres)	113.4
Petrol Consumption (bn litres)	62.3
Relief to OMCs under recoveries after Rs 3 per litre increase (Rs cr)	52700
Loss of OMC per day (Rs cr)	1000
Total annual losses of OMCs (Rs cr)	360000
% of Loss covered after Rs 3 Hike	15%

IMPACT ON CONSUMPTION & INFLATION

- The historical data shows that hike in petrol and diesel price is followed by decline in consumption immediately after the hike but it recovers thereafter with no decline visible in the annual consumption levels.
- Further, immediate impact on CPI inflation is likely around 15-20 bps in May-June 2026. FY27 inflation forecast is accordingly revised to 4.7%.
- There is no direct impact of this hike on the fiscal situation.

IF OIL EXCISE DUTY IS REDUCED TO ZERO

- If we assume that the Government reduced the excise duty on petrol and diesel to zero from its current level of 11.9% and 7.8% respectively, it will lead to reduction in government revenue/gain of OMCs to the tune of Rs 1.9 lakh crore. This might increase fiscal deficit by 0.5% of GDP, if the government doesn't reduce the expenditure.
- Thus the overall loss of the government from excise duty cut in the current fiscal including the net loss calculated earlier of Rs 10 duty cut in March would amount to Rs 3 lakh crore.
- Meanwhile, 15% of the OMCs loss would be covered by increase in retail price by Rs 3 and 53% with reduction in oil excise duty to nil.
- Furthermore, our estimates suggest that states would lose Rs 0.8 lakh crore if Centre's excise duty is reduced to nil, keeping all else same. However, higher oil prices will benefit states by around Rs 30,000 crore, so the net impact of excise duty cut on states revenue would be Rs 50,000 crore.

BRENT CRUDE AND EXCHAGE RATE VOLATILITY STARTS CONVERGING...

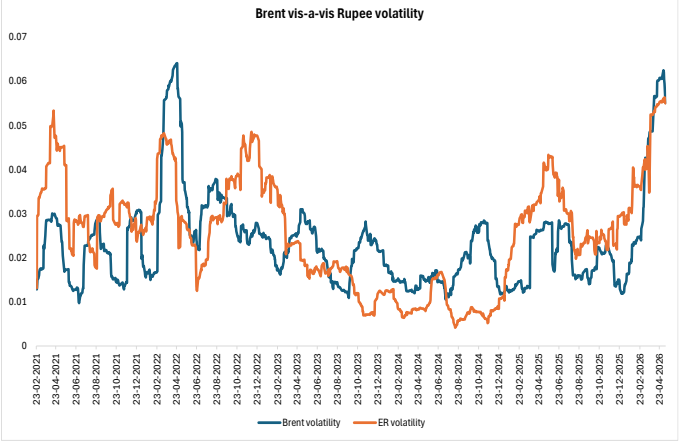
- We computed volatility using rolling standard deviations of monthly percentage changes in the Indian basket crude oil prices and the USD/INR exchange rate. Our results show a high degree of convergence between the two volatility series in recent times especially after the Iran War, with a correlation coefficient of 0.53, indicating a substantial co-movement **between crude oil and exchange rate volatility.**
- **This suggests that fluctuations in global crude oil markets are increasingly being transmitted** into the domestic exchange rate environment.

Estimate for FY27 based on FY26 full year	
Petrol production ('000 MT)	49777
Petrol production (bn litres)	69.09
Diesel production ('000 MT)	120837
Diesel production (bn litres)	142.10
Revenue loss from reduction of petrol excise duty to 0 (Rs CR)	82218
Revenue loss from reduction of diesel excise duty to 0 (Rs cr)	110841
Total reduction in Government Revenue (Rs	193059
Total Gain to OMCs from Rs 3 Increase and 0 Excise duty (Rs cr)	245755
% of Loss covered	68%

Estimate of State's Revenue from VAT on petrol/diesel for FY27 if Centre's excise duty is reduced to nil (Rs lakh crore)	
Revenue of States from VAT on Petrol	1.0
Revenue of States from VAT on diesel	1.5
Total Revenue of States from VAT	2.5
Revenue of States from VAT on POL products in FY26	3.3
Loss of States at unchanged consumption of FY26	-0.8
Source: PPAC, SBI Research, Assumptions: Brent crude $100/bbl average, Exch Rate: INR 93/$ average for FY27	

Petrol and Diesel price hike and Immediate Consumption decline (within 1 Month)

Period	Diesel Price Hike (Rs/litr) /Mumbai	Petrol Price Hike (Rs/litr)/ Mumbai	Diesl Consumption decline in 000 MT	Petrol Consumption decline in 000 MT	Diesel Consumption Decline / 1 Rs hike (000 MT)	Petrol Consumption Decline / 1 Rs hike (000 MT)
22 Mar 22 to 06 Apr 22	10.6	10.5	-505	-111	-48	-11
24 Sep 21 to 02 Nov 21	10.4	8.6	-110	-105	-11	-12
04 May 21 to 14 Jul 21	9.6	11.0	-1143	-395	-119	-36
09 Feb 21 to 19 Feb 21	4.1	3.5	-238	-139	-58	-40
13 Jan 21 to 27 Jan 21	2.2	2.0	-386	-95	-173	-47
Sep-19	2.9	2.8	-280	-203	-96	-72
15 Mar18 to 25 Apr 18	3.4	2.1	-176	-120	-51	-56
12-2017	2.2	1.4	-151	45	-68	33
01-2018	4.9	2.9	-467	-81	-96	-28
01-06-2017	1.2	1.9	-727	-339	-606	-179
Apr-17	1.3	4.8	169	-15	130	-3
02-01-2017	1.2	1.6	-767	-161	-634	-98
17-12-2016	2.2	2.8	-180	-62	-81	-22
01-09-2016	2.8	3.4	-921	-390	-324	-116
Source: PPAC, Indian Oil Corporation Limited, CEIC						



RUPEE HAS EXHAUSTED ITS LIMIT OF BEING A SHOCK ABSORBER…

- We calculate the threshold level of rupee depreciation beyond which the gains accruing to OMCs from the recent ₹3 per litre fuel price increase are effectively neutralized by the rising cost of crude oil imports.
- **Assuming an average FY27 exchange rate of ₹94/USD and an average Indian basket crude oil price of $106 per barrel, the present landed crude cost works out to nearly ₹9,964 per barrel. The ₹3 per litre increase provides an estimated benefit of around ₹477 per barrel to OMCs.**
- However, even an additional depreciation of ₹2 in the rupee raises the effective crude oil price pushing the landed import cost which fully offsets the gains from the fuel price hike.
- Thus, the rupee has already moved beyond a critical depreciation threshold, beyond which further currency weakness could substantially erode the intended benefits of domestic fuel price revisions.

Rupee depreciation and Rs 3/ litre hike gains	
Rupee yearly average estimation for FY27	94
Crude oil Indian basker price yearly average estimation ($/ bbl)	106
Present cost per barrel (Rs)	9964
With Rs 3 per litre hike benefit to OMC (Rs per barrel)	477
Rs 2 depreciation impact on crude oil price	108
New crude oil cost per barrel (Rs) due to Rs 2 depreciation (Rs per bbl)	10372
Difference between present cost and new cost due to Rs 2 depreciation (Rs per bbl)	410

Country wise Currency Movement			
Currencies Vs USD	% change from 02.04.2025 to 27.02.2026	% change from 27.02.2026 till date	Cumulative change(%)
Dollar Index	-6.0	1.6	-4.4
Euro	8.8	-1.4	7.4
Brazilian Real	9.4	2.8	12.2
British pound	3.9	-0.8	3.1
Chinese Yuan	5.6	0.8	6.4
Indonesian Rupiah	-0.4	-4.8	-5.3
Indian Rupee	-6.4	-5.5	-11.9
South African Rand	15.4	-4.3	11.2
Philippine peso	-0.8	-7.0	-7.8
Malaysian Ringgit	12.6	-1.6	11.0
Polish Zloty	6.9	-2.1	4.8
Russian Rouble	8.7	5.1	13.8
Thailand Baht	9.0	-5.2	3.8
South Korean Won	1.5	-4.0	-2.5
Japanese Yen	-3.9	-1.6	-5.5
Source: Bloomberg, SBI Research, (-)Depreciation and(+)Appreciation			

BRENT CRUDE AND IEA PROJECTION

- The Brent Crude has been under pressure hovering around $107/bbl. The closure of Strait of Hormuz amidst the West Asia was has reduced the shipments crossing through the Strait significantly. The shipments through the Strait have declined to 14.6 million barrels per day (mb/d) in Q1 2026 from an average of 20 (mb/d) of crude oil and oil products were shipped in 2025. Meanwhile, LNG supply through Strait of Hormuz which was average of 10.85 billion cubic feet per day in 2025 reduced to 7.3 billion cubic feet per day in Q1 2026.
- As per the latest IEA report crude will continue to remain under pressure owing to the depleting inventories. Global oil supply declined by a further 1.8 mb/d in April to 95.1 mb/d, taking total losses since February to 12.8 mb/d.
- Assuming flows through the Strait gradually resume from June, IEA projects global oil supply to decline by 3.9 mb/d on average in 2026, to 102.2 mb/d. Meanwhile, world oil demand is forecast to contract by 420 kb/d y-o-y in 2026, to 104 mb/d, 1.3 mb/d less than the pre-war forecast.

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