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BPCL privatisation: Open offers for IGL unlikely to be exempted

The Securities and Exchange Board of India (SEBI) is unlikely to give exemption to the company acquiring BPCL from making mandatory open offers for Petronet LNG and Indraprastha Gas — share purchases which will be countered by other promoters of the two firms such as GAIL to save from going private, officials said. Bharat Petroleum Corporation (BPCL) holds 12.5 per cent of the shareholding in India's largest liquefied natural gas importer, Petronet, and a 22.5 per cent stake in city gas retailer, IGL. It is a promoter of both the listed companies and holds board positions. **PTI**

The Hindu Business Line
Cement manufacturers in the South flag spike in costs
Oct 8, 2021 | Delhi | Pg No.: 9 | | Sq Cm:103 | AVE: 191314 | PR Value: 956568

Cement manufacturers in the South flag spike in costs

OUR BUREAU

Chennai, October 7

South Indian Cement Manufacturers' Association (SICMA) has said that the cement makers in the region have been witnessing a huge increase in production cost due to significant increase in raw material costs.

"The last few months have witnessed an unprecedented increase in the cost of imported coal and the substitute, pet coke, is simply not available. Due to shortage of vessels, even high-priced coal/pet coke is not available. Informed sources say that there will be further increase in the cost of coal/pet coke. Under these circumstances, it is likely that cement production itself will be badly hit," according to a statement from the Association.

It is estimated that the resultant increase in production cost can be minimum of ₹60 per bag, claimed the statement.

It is difficult to predict either further increase in the fuel cost or the capacity utilisation that can be achieved by the cement industry in south India in the near future, it added.

A report by Anand Rathi Research said, in Hyderabad and Bengaluru, September prices were at August levels with hikes being rolled back, whereas prices softened in Chennai. With dispatches stopped, a ₹15-20/bag price hike is expected from October 6 in Hyderabad. Price hikes of ₹25/bag in trade, and ₹50 in non-trade in Bengaluru and ₹40 in Chennai have been announced. Whether they will persist will be key to watch, it said.

Mint
Gas price hikes keep margin prospects intact for Gujarat Gas
Oct 8, 2021 | Delhi | Pg No.: 4 | | Sq Cm:259 | AVE: 1036576 | PR Value: 5182880

Gas price hikes keep margin prospects intact for Gujarat Gas

Ujjval Jauhari
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Shares of Gujarat Gas Ltd have rallied roughly 3% in the past week after a steep 20% correction since August. This optimism comes on the back of recent price hikes taken by the company.

The surge in spot gas prices has been weighing on city gas distributors such as Gujarat Gas owing to the impact on profitability. Spot LNG (liquefied natural gas) prices have seen a steep rise fuelled by high demand and shortages in Europe and other regions. Spot LNG prices had even crossed the $30 per mmBtu (metric million British thermal units) mark, a significant rise from $2 per mmBtu in May last year.

Domestic gas prices too have been hiked from $1.79 per mmBtu to $2.6 per mmBtu recently. The company has hiked its prices to offset the impact from higher gas costs.

Analysts point out that prices in PNG-industrial and PNG-commercial segments have been hiked by as much as 25%. What's more, prices of CNG (compressed natural gas) have been hiked by ₹2.5/kg.

Unless LNG prices rise sharply from here on, the management's guidance of ₹4.5-5.5/ standard cubic metre for margins would be well-protected, analysts at Motilal Oswal Financial Services Ltd said in a report.

The sharp 25% price hike taken by Gujarat Gas in the industrial segment is encouraging and appears to cover $22 per mmBtu spot LNG price as long as volumes are at 11 mmscmd (million metric standard cubic metre per day), said analysts at Jefferies India Pvt. Ltd in their note. This gives some comfort on near-term earnings, they added.

> **Spot LNG prices have seen a steep rise fuelled by high demand and shortages in Europe and other regions**

However, price hikes cut both ways: they may support profitability but can also impact volumes in the near term. Analysts believe that the company's sales volume in the industrial cluster of Morbi in Gujarat may have already fallen in September, post the price hikes in August.

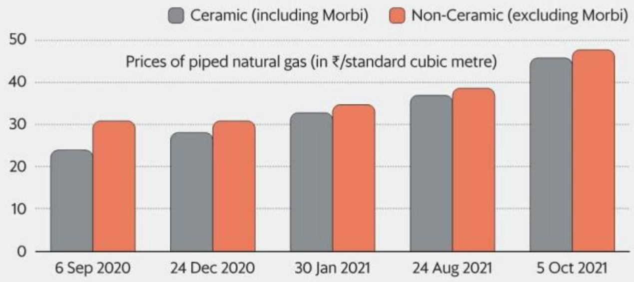
Gujarat Gas has hiked prices by 40% since January as against a 12% hike by manufacturers in the industrial cluster of Morbi. This could potentially lead to some slowdown in volumes from the plants operating at lower margins within the Morbi cluster, said analysts at Jefferies.

The drop in volumes meant that the company had to buy less of high-cost spot LNG, which may help on the margins. The Q2 Ebitda (earnings before interest, taxes, depreciation and amortization) margin could still be robust at ₹5/standard cubic metre or even more due to lower spot exposure, analysts said.

That said, the company's volume growth would be closely watched this year for any long-drawn weakness.

Favourable uptick

Significant price hikes in industrial gas will offset the impact of steep LNG prices and support Gujarat Gas' margins.



Note: Morbi is an industrial cluster in Gujarat

Source: Jefferies India Pvt. Ltd

SATISH KUMAR/MINT

Mint
Petrol, diesel prices soar to new highs
Oct 8, 2021 | Delhi | Pg No.: 11 | | Sq Cm:47 | AVE: 187990 | PR Value: 939949

Petrol, diesel prices soar to new highs

Petrol and diesel prices across the country soared to all-time high levels on Thursday as rates were hiked again in line with the spurt in international oil prices.

Petrol price was increased by 30 paise per litre and diesel by 35 paise a litre, according to a price notification of state-owned fuel retailers.

The price of petrol in Delhi rose to its highest-ever level of ₹103.24 a litre and to ₹109.25 per litre in Mumbai, the notification showed. Diesel rates, too, touched a record high of ₹91.42 in Delhi and inched closer to the ₹100-a-litre mark in Mumbai. It currently costs ₹99.55 a litre in Mumbai. **PTI**

PSU oil companies stare at ₹4,000-cr Ujjwala loss

Recovery from PMUY beneficiaries not expected anytime soon

TWESH MISHRA
New Delhi, 7 October

IndianOil, Hindustan Petroleum Corporation, and Bharat Petroleum Corporation together are yet to recover ₹3,000-4,000 crore from Pradhan Mantri Ujjwala Yojana (PMUY) beneficiaries, according to official estimates.

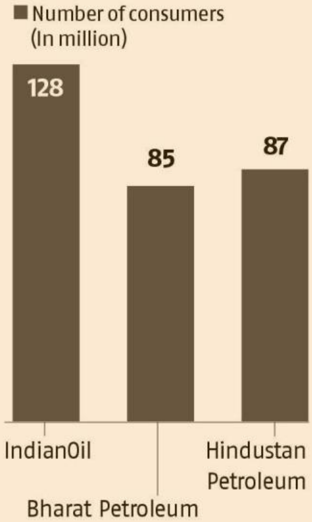
It is expected that these public sector oil-marketing companies (OMCs) will have to adjust this amount as customer acquisition cost, or even a loss, because their recovery is not expected anytime soon.

"The government does not intend to reimburse the oil companies," a senior official told *Business Standard*.

The amount was to be recovered through budgetary subsidies on the refill of cylinders by PMUY beneficiaries.

It was earlier planned that beneficiaries would buy cylinders at the full price as long as the companies did not recover the loaned amount of around ₹1,600 per connection. But PMUY beneficiaries seemed unable to bear the high cost of cylinders and did not go for refills.

INDIA NOW HAS CLOSE TO 300 MILLION LPG CONSUMERS



Source: Annual reports

This prompted the OMCs to forego the recovery of these amounts indefinitely. With no budgetary subsidy on liquefied petroleum gas (LPG), or cooking gas, being borne by the Centre, these amounts are most likely to be written off by OMCs.

Under the first leg of the PMUY, financial support of ₹1,600 for each LPG connection was provided to eligible below poverty line (BPL) households. This was the component covered by a budgetary subsidy. The OMCs were to provide an interest-free loan facility for meeting the cost of the stove (also called hot plate) and the first refill. The OMCs expected this loan would be recovered from the subsidy accrued on refills.

In May 2016, when the scheme was launched, India was home to more than 240 million households, of which about 100 million were deprived of LPG as cooking fuel, according to official estimates. These families had to rely on firewood, coal, and dung cakes, among others, as a primary source of cooking.

The scheme has been a roaring success when it comes to increasing LPG coverage and over 83 million connections have been disbursed in the first leg of PMUY. According to Petroleum Minister Hardeep Puri, the country has over 300 million LPG connections in 2021.

Last-mile connectivity is on the back of the second leg of the PMUY, under which 10 million more connections were to be disbursed. The OMCs are fully bearing the cost of the first refill and stove under PMUY 2.0.

According to officials in the know, more than 10 million valid applications have been received. With this, the target for disbursing new connections in the Budget 2021 has been saturated and the ministry will be seeking post-facto approval for disbursing more.

While connection disbursements have been a success, the price of a domestic (14.2 kg) cooking gas cylinders has been a matter of concern. The price was hiked by ₹15 apiece on Wednesday. After the price revision, a domestic cylinder now costs ₹899.50 in Delhi. A similar price revision was implemented across the country.

Due to global pressure, OMCs are moderating the price of cooking gas to maintain affordability, harking back to the days when they were bearing the subsidies for petroleum products. According to executives, IndianOil, Hindustan Petroleum Corporation, and Bharat Petroleum Corporation are holding back liquefied petroleum gas (LPG) price hikes by around ₹100 for a domestic cylinder.

The price of a commercial (19 kg) LPG cylinder was hiked earlier this month by ₹43, taking its cost to ₹1,736 apiece.

]Prices of LPG, petrol, and diesel have been going up due to global cues such as the sustained tightening of crude oil supplies by the Organization of the Petroleum Exporting Countries (OPEC) and its allies.

Reports of ethanol policy threatening food security are malicious, says Govt

OUR BUREAU
New Delhi, October 7

The Petroleum and Natural Gas Ministry on Thursday called the reports linking the Union Government's ambitious ethanol policy with food security fears in the country as unfounded, malicious and bereft of facts. It said fulfilling energy needs through all means is significant for the fastest growing country like India.

"It is very important to understand that for a young country like India, while meeting food requirements are of paramount importance, fulfilling the energy needs through all means is also significant. Thus, the changed perspective should be "food with fuel" and not "food versus fuel", the Ministry said in a statement.

Tiding over liquidity crisis

"Fuel demand is ever rising in the fastest growing country and ever-increasing dependence on crude oil imports can grossly hamper our future growth potential. Developing in-house fuels like ethanol, biodiesel, compressed biogas (CBG) has the potential to turn around the energy sector. During the last six years, this government has successfully injected ₹35,000 crore into the liquidity-starved sugar industry by allowing conversion of surplus sugar-cane-based raw materials (sugarcane juice, sugar, sugar syrup) for ethanol production," the release added.

The forex impact on blending ethanol in petrol has been over ₹20,000 crore in the last 6 years

This has definitely helped in early settlement of cane farmers' dues, thereby improving their financial position. For the ongoing season, it is expected that more than ₹20,000 crore will be injected through the ethanol blending programme alone, which will fuel growth in the rural economy — the most resilient sector in challenging Covid times, as per the release.

Diverting surplus stocks

The Ministry said the sugar production for ensuing sugar season 2021-22 is projected to be about 340 lakh tonnes (lt), over and above the opening stock of 90 lt which is cumulatively much above the domestic consumption of 260 lt. Out of this, surplus sugar quantity of 35 lt is proposed to be diverted to ethanol.

"Not to forget, these are surplus quantities of sugar to be diverted for ethanol production, else would have to be exported at subsidised rate to other countries or if released in the market would nosedive sugar prices much below the production cost leading to utter chaos. Similarly, the stocks of rice with Food Corporation of India alone (as on October 5, 2021) are 202 lt, much higher than the buffer stock requirement of the country," the release stated.

The foreign exchange impact by blending ethanol in petrol has been to the tune of over ₹20,000 crore during the last six years. For the ongoing year, there will be an additional positive impact of around ₹10,000 crore. This money goes into the pockets of common Indians rather than crude oil purchases.

Taking cue from above and as per global practices, the government has allowed conversion of surplus stocks of rice with FCI for ethanol production. Further, the government has also allowed conversion of coarse grains like maize for ethanol production. In spite of distributing free rice and other grains during Covid-19, FCI still holds huge stocks of rice. Moreover, enhanced quantity of fresh rice stocks will start coming in as the agriculture season has been very good, the Ministry further said.

BPCL Privatisation: SEBI unlikely to exempt open offers for Petronet, IGL

NEW DELHI: India's capital market regulator is unlikely to give exemption to the company acquiring BPCL from making mandatory open offers for Petronet LNG Ltd and Indraprastha Gas -

share purchases which will be countered by other promoters of the two firms such as GAIL to save from going private, officials said.

Bharat Petroleum Corporation Ltd (BPCL) holds 12.5 per cent of the shareholding in India's largest liquefied natural gas importer, Petronet, and a 22.5 per cent stake in city gas retailer, IGL. It is a promoter of

both the listed companies and holds board positions.

As per the legal position evaluated by the Department of Investment and Public Asset Management (DIPAM) - the department running the process for the sale of the government's entire 52.98 per cent stake in BPCL - the acquirer of BPCL will have to make open offers to the minority shareholders of Petronet and IGL for the acquisition of 26 per cent shares.

To avoid such a scenario, an exemption request was made to the Securities and Exchange Board of India (SEBI).

"We have been informally told that the exemption request is unlikely to be acceded as SEBI mandate is to protect minority shareholder interest," a top government official, who did not wish to be named as the information is not public, said.

If the open offers are successful, the acquirer of BPCL would also become the largest shareholder in Petronet (12.5 per cent of BPCL plus 26 per cent from the public) and get a controlling holding in IGL (22.5 per cent of BPCL and 26 per cent from public).

"So in essence, the two companies will also get divested alongside BPCL," the official said.

To check this from happening, the other promoters of Petronet and IGL would also launch counter offers to buy an equivalent 26 per cent stake so as to ensure public sector firms retain a controlling stake. MPOST

How India can ensure a steady supply of gas

One of the last major political acts of German chancellor Angela Merkel before the end of her tenure was the decision to go ahead with the Nordstream II project. This will bring an additional 55 billion cubic metres (BCM) per annum of Russian gas to Germany through a pipeline under the Baltic Sea, and double the volume of gas Germany currently receives from Russia. She allowed neither American pressure nor Ukraine's objection to override German interest in energy security.

After her meeting with United States (US) President Biden on July 21, Merkel said, about Nordstream II, "We have come to different assessments". She visited Ukraine to mollify the authorities. Ukraine, however, feels that the project will undermine the existing pipeline from Russia to Europe, which goes through the country.

DP Srivastava

Gas is a bridging fuel for the transition to a low-carbon economy, as it is less polluting than coal. Most Western economies have retained gas as a substantial part of their energy basket. It accounts for 34% of the US's primary energy consumption, 38% of the United Kingdom (UK)'s, and 25% of Germany's. Germany also has the option of buying American liquefied natural gas (LNG), which Donald Trump was pushing for. But it preferred the pipeline option to meet the bulk of its needs since piped gas is cheaper than LNG for distances up to 2,000 km.

Europe is undergoing a major energy crisis, as the price of electricity has shot up. It went up to $395 a megawatt-hour (MWh) in the UK and €131 a MWh in Germany. The immediate trigger was slowing wind speed. The UK (24%) and Germany (23.7%) depend on wind power to meet a large part of their electricity demand. But underlying this was the upward trend in gas prices since early this year.

European politicians and the media have blamed Russia for the short supply, but Russia denies the charge. Deregulation of the energy market, and growth of the spot market, may have brought about greater competition. However, this has also introduced greater price volatility. The answer, therefore, lies in pipeline contracts, which are concluded on a long-term basis.

India is an LNG importer, which plays a major role in the production of fertiliser and petrochemicals, along with fuelling power plants. Our import requirements are bound to grow. The government has a target to increase the share of gas in India's energy mix from the current 6% to 15% by 2030. The success of this plan depends on the availability of cheap gas.

LNG prices are subject to market dynamics. LNG is currently trading above $37 per metric million British thermal units (MMBtu) in Asian markets. The availability of piped gas will help introduce both competition and price stability.

India needs both LNG and piped gas. The size of its import requirements is large enough to accommodate both. This is also required to diversify India's import requirements and avoid undue dependence on one source.

So, what are our choices? India signed an agreement with Turkmenistan to bring gas to India through the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline. This has been on hold due to political uncertainties associated with the route passing through Pakistan. With the rise of the Taliban in Afghanistan, the prospects of importing gas through TAPI have become even more remote.

Myanmar has some offshore gas fields. GAIL has acquired a stake in some of these assets. However, the absence of a pipeline makes it difficult to bring the gas to India.

India could bring gas from the Gulf or Iran through an undersea pipeline. SAGE, an Indian company, has done considerable work in exploring various options. Technology exists for laying deep-sea pipelines. Money could be raised from international markets, once an assurance for gas off-take is given. Oman is keen to supply gas. It is connected with the United Arab Emirates (UAE) and Qatar through the Dolphin pipeline, and can draw upon its gas reserves. The UAE is developing its gas reserves, which will come on-stream in two-three years.

The project is estimated to cost $4.5 billion and the 1,300 km pipeline can be completed in five years, if fast-tracked. It can bring gas worth 31.1 million standard cubic meters per day (mmscmd) to India. Indian companies can produce steel pipelines for the project and will be an expression of Prime Minister Narendra Modi's Make in India programme.

An alternative route to India is from Iran. Iran has the second biggest gas reserves in the world. The two countries have earlier discussed an Iran-Pakistan-India (IPI) pipeline. This would have been subjected to threats of disruption in the case of an India-Pakistan war. This was a major reason for India's decision not to go ahead with the project.

Since then, Pakistan has pulled out of this project despite having signed an agreement with Iran. However, a sub-sea pipeline from Chabahar to India will not be burdened by geopolitical tensions. Iran's proximity to India makes it a competitive source of supply. There could also be an agreement on the nuclear issue with the US. In the case of both routes, the landfall for the pipeline will be the Gujarat coast in India. Gujarat is the hub of the petrochemical industry. The biggest advantage of an under-sea pipeline is that this avoids the geopolitical risks associated with overland routes. India's energy needs are increasing, as climate concerns mount. Gas is a bridge fuel to a low-carbon economy, and holds the key to India's transition to one.

THE GOVERNMENT HAS A TARGET TO INCREASE THE SHARE OF GAS IN INDIA'S ENERGY MIX FROM THE CURRENT 6% TO 15% BY 2030. THE SUCCESS OF THIS PLAN DEPENDS ON THE AVAILABILITY OF CHEAP GAS

DP Srivastava is a former ambassador
The views expressed are personal

India Inc likely to post 20% revenue growth in Q2: Report

MUMBAI: India Inc is set to post an 18-20 per cent revenue growth for July-September as compared to the year-ago period, domestic rating agency Crisil said on Thursday ahead of the filing of quarterly earnings by companies.

The handsome growth in the topline will be driven by both higher volumes and higher commodity prices, the rating agency said. However, the rising input prices may have capped operating profit margin expansion for companies when compared to the preceding quarter, the agency said.

Companies had taken a cautious approach immediately after the onset of pandemic and resorted to a host of cost control measures including salary cuts which resulted in businesses being largely protected even as demand dried up.

Crisil said the recovery for the Q2 was seen across sectors, led by higher volumes and commodity prices. Volume gains are attributable to a low base of the second quarter of fiscal 2021, which saw regional lockdowns and slower economic activity.

Of the 40 sectors represented by its sample set of 300 companies (excluding financial services and oil), 24 are expected to have grown by over 20 per cent, it said. If one excludes commodity-linked sectors such as steel products and aluminium, overall growth is expected to have been a notch lower at 15-17 per cent, it added.

On a sequential basis, however, revenue is likely to have risen 8-10 per cent in the second quarter of FY2022 as demand was impacted in the first quarter due to the second wave of Covid-19.

For the first half of fiscal 2022, overall revenue is expected to have reached Rs 15.8 lakh crore, up 30-32 per cent over the first half of fiscal 2021, it said.

From a sectoral perspective, it said consumer discretionary and construction will be driving the revenue growth, and telecom will also be in the positive territory.

Aluminium players are expected to have increased their revenue by 45-50 per cent, aided by a 40 per cent estimated increase in domestic prices and 5-7 per cent increase in volume, while the same for steel companies will be up to 40 per cent. PTI

Petrol, diesel prices at record high levels

Petrol and diesel prices raised again by 30 paise and 35 paise a litre respectively

OUR CORRESPONDENT

NEW DELHI: Petrol and diesel prices across the country soared to all-time high levels on Thursday as rates were hiked again in line with the spurt in international oil prices.

Petrol price was increased by 30 paise per litre and diesel by 35 paise a litre, according to a price notification of state-owned fuel retailers.

The price of petrol in Delhi rose to its highest-ever level of Rs 103.24 a litre and to Rs 109.25 per litre in Mumbai, the notification showed.

Diesel rates too touched a record high of Rs 91.42 in Delhi and inched closer to the Rs 100-a-litre mark in Mumbai. It currently costs Rs 99.55 a litre in Mumbai. Prices differ from state to state depending on the incidence of local taxes.

The increase on Thursday pushed rates to a new record high. Petrol crossed the Rs 100-a-litre mark in Lucknow and Gandhinagar - the last of the handful of state capitals that had rates less than that.

Petrol prices, which is dictated by the incidence of local taxes and freight, had already crossed the Rs 100 mark in several places in Uttar Pradesh and Gujarat.

The only state capitals where petrol now is less than Rs 100 are Dehradun, Chandigarh, Guwahati and Ranchi.

Diesel is already above the Rs 100 mark in several cities in Madhya Pradesh, Rajasthan, Odisha, Andhra Pradesh and Telangana.

Sri Ganganagar, the border town in Rajasthan, had the costliest fuel in the country with petrol costing Rs 115.14 a litre and diesel coming for Rs 105.64. UT of Daman had the cheapest petrol at Rs 98.26 per litre.

State-owned fuel retailers have in the past few days resorted to modest increases to align domestic rates with cost. But with international benchmark Brent crude soaring to USD 81 per barrel after the decision by OPEC+ not to increase output more than 0.4 million barrels per day, fuel rates are being increased by a larger proportion.

A month back Brent was around USD 72 per barrel.

Being a net importer of oil, India prices petrol and diesel at rates equivalent to international prices.

With international crude oil prices moving in both directions during July and August, no price increase was carried out by oil marketing companies (OMCs) from July 18 to September 23. Instead, petrol price was cut by Rs 0.65 a litre and diesel by Rs 1.25.

However, with no respite from surging international prices, OMCs have started to increase the retail selling price of petrol and diesel with effect from September 28 and September 24, respectively.

Since then, diesel rates have gone up by Rs 3.15 paise per litre and petrol price has increased by Rs 2.15.

Prior to the July/August price cuts, the petrol price was increased by Rs 11.44 a litre between May 4 and July 17. Diesel rate had gone up by Rs 9.14 during this period.

The price of petrol in Delhi rose to ₹103.24 a litre. HT PHOTO

Petrol, diesel prices at record high levels as rates hiked again

Press Trust of India
feedback@livemint.com

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The Pioneer
Petrol, diesel prices at record high levels as rates hiked again
Oct 8, 2021 | Delhi | Pg No.: 9 | | Sq Cm:65 | AVE: 617796 | PR Value: 3088982

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SEBI may insist on open offers in BPCL deal

PRESS TRUST OF INDIA
NEW DELHI

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As per the legal position evaluated by the Department of Investment and Public Asset Management (DIPAM), the acquirer of BPCL will have to make open offers to the minority shareholders of Petronet and IGL for the acquisition of 26% shares.

To avoid such a scenario, an exemption request was made to the Securities and Exchange Board of India (SEBI).

The Hindu
SEBI may insist on open offers in BPCL deal
Oct 8, 2021 | Delhi | Pg No.: 12 | | Sq Cm:52 | AVE: 194822 | PR Value: 974111

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The Indian Express
What spike in crude prices means for economy, markets
Oct 8, 2021 | Delhi | Pg No.: 13 | | Sq Cm:1055 | AVE: 8230481 | PR Value: 41152403

EXPLAINED YOUR MONEY

What spike in crude prices means for economy, markets

SUNNY VERMA & SANDEEP SINGH

THE RECENT spike in global crude oil prices above the $80-per-barrel mark led to a dip in key indices in the stock market as concerns rose over the impact on inflation, currency and input cost for companies across sectors. However, as prices eased, indices in India recovered Thursday in line with global markets.

Why are oil prices rising?

Since hitting a low of $16 per barrel on April 22 last year, the price of Brent crude oil has been rising steadily. Since the beginning of the year, it has risen nearly 58% from about $51.8 per barrel to about $81 at close on Wednesday. The rise has been sharp over the last six weeks, from $65 per barrel on August 20. According to analysts, prices are nearing their intermediate top level of $86 per barrel, around which some cooling off is expected even though the broader trend remains rising.

Crude prices have risen sharply in 2021 on the back of a recovery in global demand as the world economy recovers from the pandemic. Supply restrictions maintained by the OPEC+ grouping, too, have kept international oil prices high. So far, these oil-producing economies have signalled only slow production increases, which is leading to a rise in gas prices as well. A shortage of gas in Europe and Asia has boosted demand for oil for power generation.

The rise in crude prices has contributed to petrol and diesel prices hitting all-time highs in India. Prices of petrol and diesel in India are pegged to a 15-day rolling average of the international prices of these fuels. High taxes by the central and state governments too have contributed to retail prices being far higher.

How will this impact stocks and bonds?

While a sharp surge in oil prices can create short-term panic in the equity markets, historical precedents show that equity markets often bottom out alongside a bottoming out of oil prices. When oil futures turned negative last year at the peak of the pandemic, stock markets bottomed out, but since then they have been on a rising spree in line with surging oil prices. Analysts point out that increasing oil prices reflect growing demand in the economy, and equities often deliver more than the expected inflation that the oil surge may lead to. In line with oil, prices of other commodities including coal has been rising sharply. The BSE Basic Materials Index has risen more than three times from a low of 1,761 on April 3, 2020 to 5,725 at Wednesday's close. This reflects the general view that economic recovery will strengthen going forward.

As for bonds, the situation can get tricky: Any hint of sustained high inflation can result in rising yields and falling bond prices. So, debt investors need to be watchful whether the interest rate cycle is moving upwards in case the central bank tries to contain inflation. If inflation remains transitory and rising oil prices do not lead to a broad-based increase in prices, the monetary policy is expected to remain accommodative, keeping in check the surge in yields. For bonds, central bank policies will play a far greater role than the direct impact of rising oil prices. As for equity investors, they can increase their exposure to upstream oil companies, which benefit from rising prices. In sectors where oil is a major cost component, a negative reaction on returns can be expected.

How does it impact currency and the economy?

Rising crude prices tend to depress the rupee, as India being a major importer of oil needs more dollars to buy the same amount of crude. Winter tends to put pressure on prices in normal times too. Of late, the power shortage in some geographies, especially China, has been caused by supply chain issues regarding coal. This in turn has increased the demand for oil, aggravating the situation.

CARE Ratings Chief Economist Madan Sabnavis said surging prices will lead to expansion in the import bill and a downward pressure on the rupee. "It is expected now that Brent crude can test the $ 90/barrel mark… Intuitively $10/barrel will mean an increase in the import bill by $ 8.2-$ 9.1 billion for this period (October-March). In FY20 the oil bill was $ 130 billion and in FY21 $ 82.4 billion. In the first 6 months of FY22, oil imports were $ 70.5 billion, and hence, assuming a similar quantum would be imported in the second quarter, there would be an increase in the half-yearly bill by 11.6% to 12.9%. This will tend to impact the trade deficit too," he said.

The rupee has already started slipping and is moving towards the $ 75 per dollar mark. "At this stage this may be a welcome development as it would aid exports, though imported goods will tend to be more expensive. In the short run a range of Rs 75-75.5 per dollar may be expected before clarity descends on OPEC+ action," Sabnavis said.

How can it hurt inflation, government finances, and the markets?

Crude import accounts for nearly 20% of India's import bill. The fuel import bill jumped from $8.5 billion for the quarter ended June 2020 to $24.7 billion for the quarter ended June 2021. A rise in prices could lead to a surge in inflation, forcing the RBI to go for liquidity tightening measures followed by rate hikes. Besides its use as a fuel and a key commodity for the transportation sector, oil is a necessary raw material for several industries. An increase in crude prices means an increase in the cost of producing and transporting goods. It thus adds to inflation; economists say an increase of $10/barrel in crude oil prices could raise inflation by 10 basis points.

A surge in crude prices tends to increase India's expenditure and adversely affects the fiscal deficit. On the other hand, a rise impacts the current account deficit — a measure of value of imported goods and services exceeding the value of those exported, and indicates how much India owes in foreign currency.

Investors with an exposure to equity markets will have to carefully watch the crude price movement. Sectors including refining, lubricants, aviation and tyres are sensitive to oil price movement. As a rise in crude oil prices impact their input raw material cost, their profitability comes under pressure, thereby hurting their share prices.