

Rupee fall may erase OMC gains

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Calcutta: A sharp fall in the rupee is threatening to dilute the relief that state-run oil marketing companies (OMCs) hoped to gain from the recent ₹3 per litre increase in petrol and diesel prices, as rising import costs driven by currency depreciation continue to inflate the crude oil bill.

The rupee's slide has accelerated over the past two months, weakening from around 91 against the US dollar at the beginning of March to beyond 95 on May 15, amid elevated crude oil prices, widening trade deficit and persistent foreign fund outflows linked to geopolitical tensions in West Asia.

The government had recently approved a ₹3 per litre hike in retail fuel prices to partially cushion OMCs against mounting under-recoveries on petrol and diesel sales. With pump prices unchanged for

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

Source: SBI Research

an extended period despite soaring global crude prices, public sector fuel retailers are estimated to be incurring daily losses of nearly ₹1,000 crore.

The latest fuel price increase is expected to provide a relief of around ₹52,700 crore to OMCs in FY27, equivalent to roughly 15 per cent of their projected losses for the year.

However, economists warn

that continued weakness in the rupee could quickly wipe out these gains.

According to a report by the economic research department of SBI, the rupee has nearly exhausted its role as a "shock absorber" for the economy. SBI estimates that even an additional depreciation of ₹2 against the dollar could neutralise the benefits arising from the current

fuel price hike.

"Assuming an average FY27 exchange rate of ₹94 per dollar and an average Indian basket crude oil price of \$106 per barrel, the present landed cost works out to nearly ₹9,964 per barrel. The ₹3 per litre increase provides an estimated benefit of ₹477 per barrel for OMCs," the report said.

"However, even an additional depreciation of ₹2 raises the effective crude oil price significantly, pushing up landed import costs and fully offsetting gains from the fuel price hike," the SBI Research report added.

More interventions

The rapid depreciation of the rupee has also revived expectations of fresh intervention measures from the RBI and the government.

Earlier in April, the RBI had tightened foreign exchange market regulations by replacing the earlier 25 per cent limit on banks' net open rupee posi-

tions with a stricter \$100 million cap. It had also temporarily barred banks from offering rupee non-deliverable forward contracts to residents and non-residents to curb arbitrage between offshore and onshore markets.

Subsequently, as volatility eased marginally, RBI restored permission for authorised dealers to offer rupee-denominated NDF contracts.

Market participants now expect additional measures, including a possible concessional dollar swap window for foreign currency non-resident deposits — a strategy last used during the 2013 currency crisis. Other options under consideration include allowing banks to issue foreign currency bonds to prop up the rupee, providing tax relief for foreign investors, faster repatriation of export proceeds and tighter controls on outward remittances to conserve foreign exchange reserves.