

RESEARCH
BOB Economics Research | Fuel Prices

Do states have space to lower VAT on petrol?

SUMMARY
India Economics: Fuel Prices

With rise in international oil prices in the last year retail price of petrol has moved up ever since the government linked the base price to global trends i.e. April onwards. The central government has provided relief in terms of excise duty cut first in Nov'21 and more recently in May'22. The message passed on to the states is that they too must try and lower their taxes to lower price of fuel products. However, the challenge for any government (centre or states) is that if taxes are reduced there would be a tendency for their tax collections to get affected. It is a zero sum game.

[Click here for the full report.](#)

Daily macro indicators

Indicator	14-Jun	15-Jun	Chg (%)
US 10Y yield (%)	3.47	3.28	(19bps)
India 10Y yield (%)	7.58	7.59	1bps
USD/INR	78.01	78.07	(0.1)
Brent Crude (US\$/bbl)	121.2	118.5	(2.2)
Dow	30,365	30,669	1.0
Hang Seng	21,068	21,308	1.1
Sensex	52,694	52,541	(0.3)
India FII (US\$ mn)	13-Jun	14-Jun	Chg (\$ mn)
FII-D	(42.2)	(12.7)	29.6
FII-E	(456.4)	(552.9)	(96.6)

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



FUEL PRICES

16 June 2022

Do states have space to lower VAT on petrol?

With rise in international oil prices in the last year retail price of petrol has moved up ever since the government linked the base price to global trends i.e. April onwards. The central government has provided relief in terms of excise duty cut first in Nov'21 and more recently in May'22. The message passed on to the states is that they too must try and lower their taxes to lower price of fuel products. However, the challenge for any government (centre or states) is that if taxes are reduced there would be a tendency for their tax collections to get affected. It is a zero sum game.

Dipanwita Mazumdar
Economist

When the centre lowers the excise duty there is an automatic transmission to the base price on which the VAT is imposed and the revenue can get affected in parallel. The countervailing force is that as the base price increases with international price of crude going up there is a natural upside to the VAT revenue. The net effect is what matters.

The analysis below looks at the retail price of petrol in different states assuming that the basic price to the dealers plus excise charged by the centre and dealer commission is the same. The VAT rates are then superimposed on the base price of petrol for two points of time- November 4th and June 1st. The VAT rates as of April 1st have been used for all states as provided by PPAC. Some states have lowered their VAT rates subsequently, which is not considered here. The purpose is to analyze the fiscal space that is available to states to lower VAT rates on petrol given that the base price has changed with the centre lowering the excise duty by Rs 8 in May while the crude oil price rise has caused the cost for OMCs to increase.

The base price for petrol was Rs 79.98/litre in November and after lowering of excise by Rs 8 in May, brought the base price to Rs 81.01, which is higher. This is so because in this period the crude oil price had gone up thus enhancing the cost to the OMC by Rs 9.10/litre (the dealer commission has come down marginally).

Some results

It has been observed that 16 States have made gain between 20-30 paise/litre due to the increase in oil prices combined with cut in excise duty of the centre, while for another 12 States, the gain has been between 10-20 paise/litre. Therefore it may be concluded that States have limited fiscal space to further cut VAT rates, in consonance with the current excise duty cut if they have to ensure that their revenue does not decrease.



Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Rating distribution

As of 31 May 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 69 have BUY ratings, 25 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 16 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have "long" or "short" positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed

in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.