

Reliance, Essar in race to sell diesel to Railways

Participants in latest tender include private oil majors

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Private companies Reliance Industries Ltd (RIL) and Essar Oil Ltd have joined the race to supply diesel to the Indian Railways for the next year, a business so far dominated by public sector companies.

With bulk diesel prices now market-linked, private refiners are keen to get a share of this 2.5-million-tonne business. The Railways are the country's single largest consumer of high-speed diesel (HSD).

The tenders for the next calendar year opened on Wednesday. Essar has bid for one location - Gujarat - while Mukesh Ambani-led RIL has bid for 11 locations.

"We had been supplying earlier, but because of the subsidy issue (public sector companies were selling the fuel at Government-controlled prices and getting reimbursed),



Till now, diesel supply to the Railways was dominated by three public sector companies.

we had stopped," a senior RIL official said.

Some officials said the Railways had used the discount rates offered by RIL as a negotiating tool to get the best rates from PSUs.

At present, the three public sector firms—Indian Oil Corp Ltd, Bharat Petroleum Corp Ltd and Hindustan Petroleum Corp Ltd—have a contract

with the Railways for a discount of Rs 525 a kilolitre (about 52 paise a litre) over the bulk diesel rate. The bulk diesel price is Rs 63 a litre.

The contract can be extended by another year. But OMCs do not want to extend the discounts any longer, say Railways officials. They want the Railways to buy the fuel at market rates.

The market rates are about Rs 9-10 higher than the subsidised rate.

The Railways buy HSD through the annual rate contract with oil marketing firms. It invites bids from the firms, keeping the discount level as a parameter. Once the discount rate is agreed upon, Railways inform its zones of the agreed discount rate and

zonal Railways are free to procure diesel from oil companies which have depots in their zones.

It is learnt that Essar has offered a discount on the refinery gate price — a price at which one oil company sells the product to another. RIL has based its pricing on a formula linked to import parity. There are indications that private players would have offered a price close to Rs 62 a litre.

"While the exact calculations are yet to be done, private refiners have offered a discount of about Rs 1,500 per kilolitre of HSD from select locations." On an all-India basis, all rates even out as there is a Rs 2/km freight charge," a Railway official said. Added an Essar official: "Though we are looking at this market, the majority share will still belong to the public sector refiners as their reach is wider."

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