

The motor spirit (petrol) ethanol blending program (EBP) has been successful in restricting pure petrol demand and consequent crude oil import dependency over the years, resulting in forex savings. In ESY 2025-26, 20% EBP would amount to ~12bn ltr (based on YTD annualized rate), which is 3-4% of India's crude imports. As blending increases from 20% to 30%, the implied forex savings would increase further. This benefits the country and ethanol industry players (farmers, FCI, distillers), though for OMCs, the impact is mixed and depends on pure petrol RTP, ethanol procurement costs, and excise duty movements. Lower calorific value and hygroscopic nature of ethanol affect vehicle mileage and fuel storage, but the impact is difficult to estimate in real-world settings given driving conditions, engine efficiency, and refueling frequency (criticisms are largely perception-driven). We hence view developments wrt EBP as neutral for OMCs for now.

+12bn ltr ethanol procurement in ESY 2025-26 at 20% blending

The ESY 2025-26 (Nov-Oct) saw OMCs seeking 10.5bn ltr of ethanol in Oct-25, while 17.8bn ltr was offered (>70% grain-based, with ~20bn ltr ethanol capacity in the country). By May-26, 6.2bn ltr was supplied against 8.6bn ltr of contracted volumes under Cycle-1. Based on ESY YTD runrate, the full-year requirement at 20% EBP would be +12bn ltr of ethanol, not accounting for any sequential growth. Based on these supply dynamics, OMCs could move to E22-25 EBP, though vehicle engine compatibility and logistics would need clarity.

Forex saving for country and beneficial to ethanol ecosystem

~12bn ltr of EBP would save ~10mmt of crude oil, equivalent to 3-4% of total imports for domestic consumption, thereby containing the forex bill depending on oil prices. EBP has also made ethanol supplies to OMCs more profitable for distillers and farmers vs extra neutral alcohol (ENA)/potable and other uses. Hence, the offered volume in October was much higher than what OMCs sought and closer to total capacity.

Ethanol procurement costs similar to pure petrol under a base-case scenario

Ethanol procurement cost for OMCs currently averages ~Rs70/ltr, inclusive of 5% GST and ~Rs1/ltr of average freight cost. While ethanol pricing excludes union excise duties (no excise on EBP), dealer commission and VAT apply on the blended component. Assuming a base case of USD80/bbl oil, USD12/bbl petrol crack, Rs93/USD currency, and Rs16.9/ltr excise duty (assuming some hike), petrol price charged to dealers, excl gross margins, would also be ~Rs70/ltr.

Mileage and storage issues for vehicles are present but not clearly quantifiable

Ethanol, due to 30% lower calorific value, results in lower mileage vs pure petrol depending on blending levels, while its hygroscopic nature can create storage issues (phase separation and corrosion). However, higher RON is a benefit. Vehicle mileage in real-world conditions is difficult to estimate, while average mileage reported by vehicle manufacturers has improved materially over time. Storage-related issues also depend on filling cycles and other climatic conditions.

Gradual increase in EBP expected; E85-100 to remain showcase products

We expect a gradual increase in EBP, while variants such as E85 and E100 are likely to be limited to specific use cases. Large-scale adoption would require tax restructuring to offer attractive discounts, and the vehicle universe would take time to adapt to higher blending levels. We believe a shift from E20 to E30 is achievable over the next 5-10 years. Recent BIS standards and excise duty exemptions for E22, E25, E27, and E30 petrol implies that the government is preparing for this transition.

Pure petrol available in the form of premium fuels but costly and niche

E0 petrol is available in the country in the form of 99 and 100 RON fuels (XP, Speed, and Power by IOCL, BPCL, and HPCL) though they are Rs40-65/ltr more expensive than regular E20 and available only at a few hundred outlets in metropolitan areas. 95 RON, which is Rs8-10/ltr costlier, is mostly E20 with more additives for better performance.

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