COMPETITION COMMISSION OF INDIA

4th October, 2012

Combination Registration No. C-2012/08/72

Order under Section 31 (1) of the Competition Act, 2002

1. On 6th August, 2012, the Competition Commission of India (hereinafter referred to as the "**Commission**") received a notice under sub-section (2) of Section 6 of the Competition Act, 2002 (hereinafter referred to as the "**Act**"), from Ultimate Logistics Solutions Private Limited (hereinafter referred to as "**ULSPL**"), Metallurgical Engineering and Equipments Limited (hereinafter referred to as "**MEEL**") and Lloyds Steel Industries Limited (hereinafter referred to as "**LSIL**") (hereinafter ULSPL, MEEL and LSIL are collectively referred to as "**parties to the combination**").

2. The notice was given to the Commission pursuant to the execution of an investment agreement between ULSPL, MEEL, LSIL and the existing promoters of LSIL on 14th July, 2012.

3. In terms of Regulation 14 of the Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 (hereinafter referred to as "**Combination Regulations**"), vide letters dated 11th August, 2012, 4th September, 2012, 14th September, 2012 and 20th September, 2012, parties to the combination were required to provide certain information and documents, which were furnished by them on 28th August, 2012, 12th September, 2012, 19th September, 2012 and 27th September, 2012, respectively.

4. As per the information provided in the notice and the documents annexed thereof, the proposed combination relates to the acquisition of equity shares of LSIL by ULSPL and MEEL, by way of (i) preferential allotment of equity shares of LSIL to ULSPL and MEEL, constituting approximately 27.46 percent of the equity share capital of LSIL after completion of the preferential allotment and (ii) further acquisition of equity shares of LSIL by ULSPL and MEEL pursuant to the Open Offer which ULSPL and MEEL intend to make to the shareholders of LSIL in terms of the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011 ("**SEBI Takeover Regulations**") to acquire upto 26 percent of the equity share capital of LSIL after the completion of the preferential allotment. It has been stated in the notice and other documents on record that ULSPL and MEEL are both promoted by the members of the Miglani family and that upon completion of the said acquisition of equity shares of LSIL, the Miglani family would have a controlling interest in LSIL.

5. As per the information provided in the notice, currently, ULSPL and MEEL together hold approximately 24.53 per cent of the present paid-up equity capital of LSIL, which was acquired by them by way of a preferential allotment in March, 2012. As a result of the proposed combination, the combined equity shareholding of ULPSL and MEEL, pursuant to the abovementioned preferential allotment of 27.46 percent of the equity share capital of LSIL, would be around 51.99 percent of the equity share capital of LSIL after the

completion of the preferential allotment, which may further increase pursuant to the Open Offer intended to be made by ULSPL and MEEL to the shareholders of LSIL under the provisions of the SEBI Takeover Regulations.

6. The proposed combination falls under Section 5(a) of the Act.

7. LSIL, a listed public limited company incorporated under the provisions of the Companies Act, 1956, is stated to have experienced financial difficulties, and a reference was, therefore, filed by it in June 2001 with the Board of Industrial and Financial Reconstruction (hereinafter referred to as "**BIFR**") which declared LSIL to be a sick company in March, 2006. LSIL, thereafter, underwent a process of rehabilitation and, on achieving a positive net worth in the year 2011-12, was deregistered by the BIFR in May 2012. LSIL is primarily engaged in the business of producing steel and capital equipment and executing turnkey projects. LSIL produces steel products such as slabs, hot rolled plates/coils/sheets, cold rolled coils/sheets and galvanized plain coils/sheets and galvanized corrugated sheets.

8. ULSPL, a private limited company incorporated under the provisions of the Companies Act, 1956, is stated to have recently entered into the logistics and transportation business. MEEL, incorporated as a private limited company by the name of Siddharth Holdings Private Limited, was recently converted into a public limited company under the provisions of the Companies Act, 1956. MEEL is stated to have recently started a business of trading in all kinds of machinery and other equipment such as vessel, tank, filter, air drawing plants, heat recovery system, power equipment, steel tubes, iron and steel, metal (ferrous and non-ferrous), steel alloys, scrap, pipe, etc.

9. As already mentioned, both ULSPL and MEEL are promoted by the Miglani family. In response to the Commission's letter dated 11th August, 2012, it has been stated that the Miglani family primarily comprises of the individuals including Mr. Rajinder Miglani and other members of the family who individually or alongwith other members of the family have shareholding/ control in various companies including ULSPL, MEEL and other companies which are stated to be entities forming part of the Miglani family (hereinafter the Miglani family together with the entities forming part of Miglani family are collectively referred to as the "**Miglani family group**"). It has been stated in the notice that the Miglani family group has existing business interest in the steel sector and that the proposed combination would create synergies between the existing business of LSIL and Miglani family group companies, namely Uttam Galva Steels Limited (hereinafter referred to as "**UGSL**") and Uttam Galva Metallics Limited (hereinafter referred to as "**UGML**").

10. UGML, a closely held public limited company incorporated under the provisions of the Companies Act, 1956 and promoted by the Miglani family group, as per details provided in the notice, is primarily engaged in the production of Hot Metal (Liquid Metal) and Pig iron from the Hot Metal (Blast Furnace) Plant. UGML also has coke oven plant, sinter plant, captive power plant and top gas recovery turbine. The final products produced by the UGML include hot metal, sinter, lam coke and power of which Sinter, lam coke and power are stated to be largely captively consumed by UGML. Coke Oven Gas,

Granulated Slag and Coal Tar are the saleable by-products produced during the production process by UGML.

11. UGSL, a listed public limited company incorporated under the provisions of the Companies Act, 1956 and co-promoted by the Miglani family group and Arcelormittal Netherlands BV, is primarily engaged in the business of procuring Hot Rolled coils and processing these into Cold Rolled coils/sheets which are further processed into Galvanised coil/sheets and Colour Coated / Pre-Painted Galvanised Iron (PPGI) coils/ sheets. The Cold-Rolled coils/sheets which are not further processed into Galvanised coils/sheets are sold by UGSL as Cold-Rolled Closed Annealed (CRCA) coils, Cut to Length sheets and Cold-Rolled Full Hard (CRFH) coils/sheets.

12. From the information provided in the notice and other documents on record regarding the nature of businesses of various enterprises of the Miglani family group, it is observed that most of the companies in the group are engaged in the trading of iron and steel or are investment companies and that, it is primarily through UGML and UGSL that Miglani family group is engaged in the business of manufacture/ production of steel products, a business in which LSIL is also engaged.

13. On consideration of the various products being manufactured by LSIL, UGML and UGSL it is observed that although there are no significant identical / similar / substitutable products being manufactured/ produced by LSIL and UGML, there are two significant flat steel product categories which are manufactured/produced in India by both LSIL and UGSL i.e., Cold Rolled coils/sheets and Galvanized Plain (GP)/ Galvanized Corrugated (GC) coils/sheets.

14. As regards the product category of Cold Rolled coils/ sheets, it is observed from the details provided in the notice and other documents on record that during the financial year 2011-12, the domestic sales by LSIL, which captively consumed more than 95 percent of the total volume of cold rolled coils produced by it for manufacturing galvanized coils/sheets and sold only around 3 percent in the domestic market, constituted even less than 0.1 percent of the total apparent consumption of cold rolled flat steel products in India. Further, during the same period, the domestic sales by UGSL, which captively consumed around 50-55 percent of the total volume of cold rolled coils/sheets produced by it for manufacturing galvanized coils/sheets and sold the remaining volume in the domestic or overseas market, constituted around 4 per cent of the total apparent consumption of cold rolled flat steel products in India. Therefore, considering the fact that almost the entire volume of cold rolled coils/sheets being produced by LSIL is being captively consumed and that the domestic sale of LSIL in this category is negligible, the proposed combination does not give rise to any competitive concern in the market for cold rolled flat steel products in India.

15. As regards the product category of GP/GC coils/sheets, as per the details provided in the notice and other documents on record, it is observed that during the financial year 2011-12, the domestic sales by LSIL constituted around 4 percent of the total apparent consumption of galvanised flat steel products in India, and during the same period, the domestic sales by UGSL constituted around 7 percent of the total apparent consumption

Competition Commission of India ★ New Delhi of galvanised flat steel products in India. In view of the aforesaid, pursuant to the proposed combination, the domestic sales by LSIL and UGSL may together constitute around 10-11 percent of the total apparent consumption of galvanised flat steel products in India. From the information on record, it is observed that the grades and dimensions of GP/GC coils/sheets manufactured by UGSL and LSIL which find use in diverse applications such as construction, roofing, manufacture of white goods, furniture, bodies of vehicles such as buses, etc., are also produced by various competitors of UGSL and LSIL in this product category, which include the integrated steel producers such as Steel Authority of India Limited, Tata Steel Limited, ESSAR Steel Limited, JSW Steel Limited as well as other domestic and global steel producers. Considering that the combined domestic sales by the LSIL and UGSL would constitute only a small portion of the total apparent consumption of galvanised flat steel products in India and that this product category is characterised by the presence of a number of steel producers, domestic as well as global, providing numerous alternate sources of supply of various grades and dimensions of GP/GC coils/sheets to the customers in India, the proposed combination does not give rise to any adverse competition concern in the market for GP/ GC coils/sheets.

16. Considering the main products of LSIL, UGML and UGSL, it is observed that certain products produced by LSIL are sold to UGSL for use in its production process. Similarly certain products produced by UGML are sold to LSIL for use in its production process.

17. As per the information provided in the notice and other documents on record, the products sold by UGML to LSIL include hot metal, which is used by LSIL in production of hot rolled products, and coke oven gas which is used as a fuel by LSIL. It is observed that almost entire quantity of the hot metal and coke oven gas being produced by UGML is being sold to LSIL for use by LSIL in different stages of its production process. Considering that the sale and purchase of these products from and to UGML and LSIL is mostly in the nature of captive consumption, the vertical linkages between UGML and LSIL in respect of the said products is not likely have any effect in the respective upstream and downstream market for these products in India. The vertical linkages between UGML and LSIL pursuant to the proposed combination, therefore, do not give rise to any adverse competition concern in India.

18. From the details disclosed in the notice and other documents on record, it is observed that the products sold by LSIL to UGSL include hot rolled flat steel products that are used by UGSL in the production of cold rolled products. In this regard, it is observed that during the financial year 2011-12, out of the total volume of hot rolled flat steel products purchased by UGSL, only around 4 per cent was purchased from LSIL and the remaining was either imported or purchased from other domestic producers. On the other hand, out of the total volume of sales by LSIL in this product category, around 8 per cent was sold to UGSL and the remaining was sold to a number of other customers. Further, the total volume of sales of LSIL during the previous financial year constituted around 2 per cent of the total apparent consumption of hot rolled flat steel products in India and the total installed capacity of LSIL for production of hot rolled flat steel products constituted around 5 per cent of the total apparent consumption of hot rolled flat steel products in

India. Considering the aforesaid facts and that the market for hot rolled and cold rolled flat steel products in India is characterised by the presence of a large number of domestic as well as global steel producers engaged in sale and purchase of various grades and dimensions of hot rolled plates/ coils/sheets in India, it is observed that the vertical linkages between LSIL and UGSL in respect of the abovesaid products, pursuant to the proposed combination, do not give rise to any adverse competition concern in India.

19. In view of the foregoing, as regards the nature and extent of horizontal overlap and vertical linkages that may result between the products of LSIL, UGML and UGSL pursuant to the proposed combination, it is observed that none of the horizontal overlap or vertical linkages, as discussed above, is likely to raise any adverse competition concern in India.

20. Considering the facts on record and the details provided in the notice and the assessment of the proposed combination after duly considering the relevant factors mentioned in the sub-section (4) of Section 20 of the Act, the Commission is of the opinion that the proposed combination is not likely to have an appreciable adverse effect on competition in India and therefore, the Commission hereby approves the proposed combination under sub-section (1) of Section 31 of the Act.

21. This approval is without prejudice to any other legal/statutory obligations as applicable.

22. This order shall stand revoked if, at any time, the information provided to the Commission is found to be incorrect.

23. The Secretary is directed to communicate to the parties to the combination accordingly.

प्रतिस्पर्धा आयोग Competition Commission of India भारतीय नई दिल्ली / New Delhi

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