



COMPETITION COMMISSION OF INDIA
(Combination Registration No. C-2017/11/535)

19.12.2017

Notice under Section 6(2) of the Competition Act, 2002 given by IndusInd Bank Limited and Bharat Financial Inclusion Limited

CORAM:

Mr. S. L. Bunker
Member

Mr. U. C. Nahta
Member

Mr. G. P. Mittal
Member

Legal representative for:

IndusInd Bank Limited: *Cyril Amarchand Mangaldas*

Bharat Financial Inclusion Limited: *AZB & Partners*

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

1. On 15.11.2017, the Competition Commission of India (“**Commission**”) received a notice under sub-section (2) of Section 6 of the Competition Act, 2002 (“**Act**”), jointly given by IndusInd Bank Limited (“**IBL**”) and Bharat Financial Inclusion Limited (“**BFIL**”). The notice was filed with the Commission pursuant to resolutions passed by the respective Board of Directors of IBL and BFIL, each dated 14.10.2017 and execution of an Implementation Agreement dated 14.10.2017 between IBL and BFIL (hereinafter, IBL and BFIL are collectively referred to as the “**Parties**”).
2. The proposed combination envisages the following steps:



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- i. amalgamation of BFIL into IBL (“**Amalgamation**”), in consideration of which IBL will issue its share to the shareholders of BFIL in accordance with the share entitlement ratio as set out in the Scheme of Arrangement under Sections 230-232 of the Companies Act, 2013;
 - ii. allotment, on a preferential basis, of share warrants convertible into one share of IBL, to IndusInd International Holdings Limited (“**IIHL**”) and IndusInd Limited (“**IL**”) (collectively, “**IBL Promoters**”), as an integral part of the Scheme, in a manner such that the IBL Promoters will hold up to 15 per cent (on an aggregate basis) of the total expanded issued and paid up equity share capital of IBL on a fully diluted basis; and
 - iii. post the Amalgamation, transfer of the undertaking of IBL in relation to the Business Correspondent Business, as a going concern from IBL to its wholly-owned subsidiary (“**Subsidiary**”) by way of a slump exchange, in consideration for which the Subsidiary will issue its equity shares to IBL.
3. It has been stated in the notice that steps (ii) and (iii) are not notifiable to the Commission under Section 6(2) of the Act, on a standalone basis. However, in terms of Regulation 9(4) of the Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 (“**Combination Regulations**”), Parties have filed a single notice, covering all interconnected transactions (one or more of which is notifiable).
4. IBL is a private sector bank engaged in providing a range of banking and financial services to individual consumers, corporate and commercial entities. It has been stated that in addition to its core activities, IBL also provides small and affordable financial services in under-served areas through business correspondent arrangements with non-banking financial company - micro finance institutions (“**NBFC-MFIs**”).
5. BFIL is a listed public company and is registered with the Reserve Bank of India as NBFC-MFI. It is stated to be primarily engaged in providing small value loans and



certain other basic financial services to women, prominently in rural areas in India. BFIL also acts as a collection agent for portfolio which is securitized to several banks.

6. On the basis of information provided by the Parties, the Commission observed that the proposed combination primarily relates to the micro finance sector as both IBL and BFIL are engaged in providing microfinance services. Accordingly, there exists a horizontal overlap between the activities undertaken by the Parties. In this regard, the Parties have submitted that there are different institutional sources of micro finance loans in India, namely micro finance institutions, scheduled commercial banks, small finance banks, *etc.* In addition, the micro finance sector is marked with the presence of a huge number of unorganized/individual lenders also. From a supply side perspective, the customers can avail of micro financing from any of these entities. Accordingly, the Parties have delineated the relevant product market as the market for provision of micro finance loans, by organized financial institutions as well as by the unorganized sector *i.e.* non-institutional lenders.
7. In relation to the relevant geographic market, the Parties are of the view that given their pan-India presence, absence of any regulatory barriers in the provision of micro finance services *inter-se* the States and homogenous nature of the micro finance services provided by the Parties across India, the relevant geographic market for the proposed combination may be considered as the territory of India.
8. The Commission assessed the horizontal overlap between the Parties in different plausible relevant markets. Based on its assessment, the Commission is of the view that the combined market share of the Parties in all such markets is insignificant to raise any competition concerns as such. In addition to the market share data, it is further noted that the relevant market is characterized by presence of several other players, including public sector banks. Accordingly, the horizontal overlap between the Parties is not likely to result in any appreciable adverse effect on competition in India.
9. In relation to the vertical linkages involved in the proposed combination, it is noted that IBL provides micro finance services through business correspondent arrangements with various NBFC-MFIs, including BFIL through the Business Correspondent Agreement



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dated 01.10.2014 with BFIL (“**BCA**”). Under the BCA, BFIL *inter alia* assists IBL in administering the extension of finance to borrowers and in collecting repayments from the borrowers.

10. Further, NBFC-MFIs mobilize resources through various ways, including obtaining loans from banks and other financial institutions, debentures, *etc.* for onward lending to micro finance borrowers. In the present matter, IBL has sanctioned a term loan to BFIL for provision of credit facilities for micro financing. Thus, IBL is placed vertically upstream to BFIL in regard to relevant market for provision of credit facilities for micro financing also.
11. The Commission assessed the possibility of vertical foreclosure, if any, that could result in the aforementioned vertical markets and the downstream market for provision of micro finance services and observed that the Parties have a limited presence in such markets. Therefore, the proposed combination is not likely to result in any input or customer foreclosure so as to appreciably adverse competition in any relevant market.
12. Since the proposed combination is not likely to cause any appreciable adverse effect on competition in any of the alternative and plausible relevant markets that may be defined, the Commission decided that the exact delineation of the relevant market may be left open in the instant matter.
13. Considering the facts on record, details provided in the notice and an assessment of the proposed combination on the basis of factors stated in Section 20(4) 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, hereby approves the same under sub-section (1) of Section 31 of the Act.
14. This order shall stand revoked if, at any time, information provided by the Parties is found to be incorrect.
15. The information provided by the Parties is confidential at this stage, in terms of, and subject to provisions of Section 57 of the Act.



16. The Secretary is directed to communicate to the Parties accordingly.