सत्यमेव जयते

Fair Competition For Greater Good

COMPETITION COMMISSION OF INDIA

(Combination Registration No.C-2021/12/886)

23.02.2022

Notice under Section 6(2) of the Competition Act, 2002 filed by Kirloskar Ferrous Industries Limited

CORAM:

Mr. Ashok Kumar Gupta
Chairperson

Ms. Sangeeta Verma
Member

Mr. Bhagwant Singh Bishnoi
Member

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

1. On 03.12.2022, the Competition Commission of India (**Commission**) received a notice under sub-section (2) of Section 6 of the Competition Act, 2002 (**Act**), filed by Kirloskar Ferrous Industries Limited **(Acquirer).** The notice has been filed pursuant to the Share Subscription Agreement **(SSA)**, dated 25.11.2021, executed amongst the Acquirer, ISMT Limited (**Target**) and certain promoters forming the promoter group of the Target Company (Hereinafter, the **'Taneja Group'**), Shareholders' Agreement (**SHA**) executed between the Acquirer and the Taneja Group dated 25.11.2021 and Unsecured Loan Agreement executed between the Acquirer and the Target dated 25.11.2021. (Hereinafter, the Acquirers and the Target are collectively referred to as the '**Parties**').

2. The proposed combination involves (i) infusion of capital by the Acquirer in the Target by acquisition of equity shares of the Target pursuant to the SSA, which would, upon

allotment, represent 51.25% of the resultant paid up share capital of the Target, (ii) grant of an unsecured loan amounting to INR 194 crore by the Acquirer to the Target and (iii) a consequent Open Offer which would be for a sum of INR 239.71 crore (assuming full acceptance) in accordance of Securities and Exchange Board of India (Substantial Acquisition of Shares and Takeovers) Regulations, 2011. Further, the Acquirer would acquire the management and sole control of the Target. **(Proposed Combination)**

3. In terms of Regulation 14 of Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 **(Combination Regulations)**, the Commission, *vide* communication dated 17.12.2021, sought certain information(s) / clarification(s), *inter alia*, relating to the activities of the Parties; response to the same was received on 01.02.2022 **(Response)**. Further, certain further clarification(s) / information(s) necessary for the competition assessment of the Proposed Combination were provided on 04.02.2022, 11.02.2022 and 18.02.2022.

4. The Acquirer, a public listed company incorporated in India, is a wholly owned subsidiary of the Kirloskar Group. The Acquirer is engaged in the business of manufacturing iron castings comprising of two further product lines: (i) Pig Iron which is used as a raw material in a number of business segments, and is supplied by the Acquirer to entities engaged in manufacture of products used in segments such as automotive, engineering, steel, pipes, pumps, etc., and (ii) Grey Iron Castings produced by Acquirer such as cylinder blocks, cylinder heads, axle parts, brakes, and different types of housings are required by automotive industry, to manufacture engines used in tractors, multi-utility vehicles, off highway vehicles etc.; construction equipment industry; agricultural equipment industry and diesel engine industry.

5. The Target is a public listed company incorporated in India. It is a part of the Indian Seamless Group and is engaged in the business of manufacturing steel, carbon steel billets, alloy and carbon casts, hot and cold finished seamless tubes and pipes. The products manufactured by the Target are used in auto components, hydraulic cylinders, bearings, hollow bars etc.

6. In relation to the horizontal overlaps amongst the Parties, the Acquirer has submitted that the products manufactured by both the Acquirer and Target are distinct and thus, exhibit no horizontal overlaps. With respect to the vertical relationship between the Parties, it is submitted in the notice that one of the outputs of the Acquirer, i.e., Pig Iron becomes one of the raw materials required to produce the outputs of the Target Company i.e., steel billets (square) or rounds, depending on the requirement of the customers, and seamless tubes. Thus, for the purpose of this vertical relationship the relevant market for the Acquirer at the upstream level could be defined as the "*Market for manufacture and sale of Pig Iron in India"* and the relevant markets at the downstream level for the Target could be defined as "*Market for the manufacture and sale of steel billets and cast rounds in India*" and "*Market for the manufacture and sale of seamless tubes in India*".

7. The Commission decided to assess the Proposed Combination in the segments identified by the Parties. However, exact delineation of the relevant market has been left open as the material available on record does not suggest that the proposed combination is likely to cause any competition concern in India.

8. Based on the submissions of the Parties, it is noted that the vertical relationship is quite negligible between the Parties. Further, as per the information provided in the notice, out of total raw material consumed by the Target during 2020-21, less than 5% was supplied by KFIL. Moreover, the Target buys the pig iron from 3 to 4 other sources, including KFIL. Additionally, the Target also uses other raw material apart from pig iron, viz., shredded and heavy melting scrap, DRI and sponge iron and internal plant generations and its usage of pig iron depends on the relative price of such other raw material. Furthermore, the market share of the Parties is not significant in any of the relevant markets identified in the notice. Besides, it is submitted that the relevant markets are characterised by presence of other players also such as RINL, Tata Steel, JSW Steel etc.; and relatively smaller and medium scale units such as sponge iron plants, mini-blast furnace units, electric arc furnaces, re-rolling mills, cold-rolling mills and cooling units, etc.

9. Before concluding, the Commission notes that an application dated 12.01.2022, was received from Jindal Pipes Limited (**JPL**), in relation to the Proposed Combination urging

the Commission not to approve the same. The Commission has considered the contentions raised by the Applicant in light of various factors mentioned under Section 20(4) of the Act, which, *inter alia*, include market share of the parties to the combination, extent of vertical integration, entry barriers, etc., to determine the effect of the proposed combination on competition in the relevant markets. Upon due consideration, the Commission is of the view that the Proposed Combination is not likely to raise competition concerns in terms of the provisions of the Act.

10. Considering the facts on record, details provided in the notice given under sub-section (2) of Section 6 of the Act and assessment of the Proposed Combination on the basis of factors stated in sub-section (4) of Section 20 of the Act, the Commission is of the opinion that Proposed Combination is not likely to have an appreciable adverse effect on competition in India. Therefore, the Commission approves the Proposed Combination under Section 31(1) of the Act.

11. This order may be revoked if, at any time, the information provided by the Acquirer is found to be incorrect.

12. The Secretary is directed to communicate to the Acquirer accordingly.