



Fair Competition
For Greater Good

COMPETITION COMMISSION OF INDIA

(Combination Registration No. C-2014/06/181)

04.09.2014

Notice u/s 6 (2) of the Competition Act, 2002 (“Act”) given by:

- (a) Zuari Fertilisers and Chemicals Limited (“ZFCL”); and
- (b) Zuari Agro Chemicals Limited (“ZACL”).

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

1. On 11th June 2014, the Competition Commission of India (“**Commission**”) received a notice under sub-section (2) of Section 6 of the Act, given by ZFCL and ZACL (ZFCL and ZACL collectively referred to as the “**Acquirers**”) pursuant to a shareholders agreement dated 12th May 2014, entered into between the Acquirers, and UB group comprising of United Breweries (Holdings) Limited, Kingfisher Finvest India Limited and McDowell Holdings Limited (“**Shareholders Agreement**”).
2. As per information provided in the notice, the proposed combination relates to acquisition of upto 3,08,13,939 equity shares of Mangalore Chemicals and Fertilizers Limited (“**MCFL**”) (representing additional 26 per cent stake in MCFL) by the Acquirers by way of a competing open offer as per the relevant provisions of Securities and Exchange Board of India (Substantial Acquisition of Shares & Takeovers) Regulations, 2011 (“**Open Offer**”). The public announcement (PA) for the Open Offer was issued, *inter alios*, by the Acquirers on 12th May 2014.

Hereinafter, the Acquirers and MCFL are collectively referred to as the “**Parties**”.
3. ZFCL is a wholly-owned subsidiary of ZACL. As stated, ZFCL is currently setting up a Single Super Phosphate (“**SSP**”) plant at Mahad in Maharashtra. ZFCL does not yet manufacture or trade in any fertilizer products.
4. ZACL is a public limited listed company incorporated under the Companies Act, 1956. ZACL is mainly engaged in the manufacture and trading of fertilizers in India. It has manufacturing facilities at Zuarinagar, Goa, where it produces Urea and complex



COMPETITION COMMISSION OF INDIA



Fair Competition
For Greater Good

- fertilizers. ZACL caters to the agricultural sector largely in India through: (a) its wholly owned subsidiary Zuari Seeds Limited (“ZSL”) which produces and sells seeds; (b) its wholly owned subsidiary ZFCL; (c) its joint venture Zuari Rotem Speciality Fertilizers Limited (“Zuari Rotem”) which produces and sells water-soluble fertilizers, and; (d) its joint venture Zuari Maroc Phosphates Limited (“ZMPL”). As stated in the notice, ZMPL was established as a special purpose vehicle to acquire stake in Paradeep Phosphates Limited (“PPL”) and it presently has 80.45 per cent stake in PPL. PPL is engaged in the manufacture and sale of complex phosphatic fertilizers. Further, as stated in the notice, ZACL, through ZFCL, currently holds 16.43 per cent of the equity share capital of MCFL.
5. MCFL is a listed company incorporated in India under the Companies Act, 1956. MCFL is, *inter alia*, engaged in the production and trading of fertilisers, plant protection chemicals and industrial chemicals.
 6. The proposed combination falls under Section 5 of the Act.
 7. In terms of Regulation 14 of the Competition Commission of India (Procedure in regard to the transaction of business relating to combinations) Regulations, 2011 (“Combination Regulations”), vide letter dated 18th June 2014, the Acquirers were required to remove certain defects and provide information/documents. The Acquirers filed their reply on 7th July 2014, after seeking an extension. Further, in terms of Regulation 14, sub-regulation (4) of Regulation 5 and sub-regulation (2) of Regulation 19 of the Combination Regulations, vide letter dated 11th July 2014, the Acquirers were further asked to remove defects and furnish additional information. The Acquirers filed their reply on 23rd July 2014, after seeking an extension in this regard. The Acquirers were required to remove certain defects and provide additional information vide letter dated 1st August 2014. The Acquirers filed their response in this regard on 13th August 2014, after seeking extensions twice to file the reply. Vide letter dated 21st August 2014, the Acquirers were again required to remove defects for which the Acquirers filed their response on 21st August 2014.
 8. As stated in the notice, ZACL manufactures urea, di-ammonium phosphate (“DAP”) and NPK. It also trades in fertilizers such as DAP, DAP lite, NPK, muriate of potash



COMPETITION COMMISSION OF INDIA



Fair Competition
For Greater Good

("MOP"), single super phosphate ("SSP"), Potassium Nitrate, Calcium Nitrate, SOP (also known as Potassium Sulphate), Mono ammonium phosphate ("MAP"), Mono Potassium Phosphate ("MKP"), various grades of water-soluble NPKs, Zinc Sulphate, Bentonite Sulphur and Boron. Apart from the aforesaid chemical fertilisers, ZACL also trades in pesticides, seeds and organic products such as compost. As stated already, ZFCL does not currently manufacture or trade in any fertiliser or non-fertiliser product. PPL, *inter alia*, manufactures DAP, NPK, sulphuric acid and Zypmite (soil conditioner). It also trades in fertilizers such as DAP, DAP lite, various NPK grades, MOP, Potassium Nitrate, Calcium Nitrate, SOP, MAP, MKP, water-soluble NPK 19:19:19 and Zinc Sulphate. Apart from the aforesaid chemical fertilisers, PPL also trades in pesticides, ammonia and seeds. Zuari Rotem manufactures various grades of water soluble NPKs.

9. In the fertiliser segment, MCFL, *inter alia*, manufactures urea, DAP and NPKs. It also trades in various fertilizers such as DAP, SSP, MOP, NPKs, water soluble fertilizers, micronutrients, organic products and soil conditioners. In the industrial chemicals segment, the products which MCFL manufactures include ammonium bi carbonate, sulphonated naphthalene formaldehyde and sulphuric acid. MCFL also trades in liquid nitrogen, ammonia and pesticides.
10. On the basis of the information provided by the Acquirers, it is observed that the Parties have overlaps in the fertilisers, pesticides and chemicals and organic products. However, it is observed that the overlap in pesticides, chemicals and organic products is minimal. The assessment with respect to overlapping products in the fertiliser segment is discussed in the ensuing paragraphs.
11. Further, considering the common promoter shareholding and presence of common directors in ZACL, Zuari Global Limited (a holding company of ZACL) and Chambal Fertilisers and Chemicals Ltd. ("Chambal"), for the purpose of competition assessment of the proposed combination, the market shares of Chambal in respect of relevant products have been ascribed to those of the Parties.
12. The fertiliser sector in India has traditionally been regulated due to its importance to India's large agricultural sector. The Fertiliser (Control) Order, 1985 issued by the



COMPETITION COMMISSION OF INDIA



Fair Competition
For Greater Good

Government of India, sets out the regulatory framework for the manufacture, import, sale, pricing, and quality control of fertilisers in India. The Government of India through the Department of Fertilisers (“**DoF**”), Ministry of Chemicals & Fertilisers, aims to ensure adequate and timely availability of fertilisers at affordable prices for maximizing agricultural production in the country. Under the present policy, Urea is sold at a statutorily notified uniform sale price. The maximum retail price (**MRP**) of phosphatic and potassic fertilizers has been left open and fertilizer companies are allowed to fix the MRP at reasonable rates. As per the Annual Report for the year 2012-13 published by the DoF, imports play a major role in the fertiliser market in India, especially in the Potassic and Phosphatic (P&K) segment in the form of either finished products or raw material(s). Under the current policy of the Government, subsidized P&K fertilisers including complex fertilisers can be imported under the Open General Licence (“**OGL**”). Further, under extant government regulations, subsidy is provided for non-urea fertilisers on the basis of their nutrient content under the Nutrient Based Subsidy scheme (“**NBS**”). It is noted that although the manufacturers and traders of fertilisers, excluding urea, are free to sell their fertilisers anywhere in India, the DoF regulates the movement of these fertilisers to bridge the supplies in underserved areas. The distribution and movement of fertilisers, their imports, inputs and production by indigenous units is also monitored under Government’s “Fertiliser Monitoring System”.

13. It is observed that fertiliser market can be broadly delineated on the basis of nutrients, (e.g. Nitrogen, Phosphorus, Potassium, Sulphur, Calcium, Magnesium, Zinc, etc.) or specific products (e.g. urea, DAP, MOP, SSP, etc.). Nutrients can be further divided into primary nutrients, secondary nutrients (e.g. Sulphur) and micronutrients (e.g. Calcium, Magnesium). Nitrogen (“**N**”), Phosphorus (“**P**”) and Potassium (“**K**”) constitute the primary plant nutrients which are needed in large quantities for agricultural applications. Further, fertilizers can be sub-classified as straight fertilisers (i.e. single salt products obtained through a chemical process that contain only one or two nutrients) and complex fertilisers (such as NPK fertilizers). A complex fertiliser may contain any combination of N, P and K. This may be achieved by chemical means (compound fertilizers) or mechanically (blended fertilizers). For. e.g. urea, ammonium sulphate and calcium ammonium nitrate are straight nitrogenous fertilisers, SSP is a



COMPETITION COMMISSION OF INDIA



Fair Competition
For Greater Good

straight phosphatic fertiliser, and SOP and MOP are straight potassic fertilisers; whereas NPKs, DAP, Calcium Nitrate are examples of complex fertilisers. Further, each fertiliser product may also be considered as a separate relevant product market. Apart from urea, which is considered as the most used fertiliser in India, DAP, MOP, SSP and NPKs are other fertilisers that are heavily used in India (urea, DAP, MOP, SSP and NPKs may be referred to as bulk fertilisers). Furthermore, in the instant case, a precise market definition may be left open as no competition concerns arise in any of the possible relevant market definitions.

14. On the basis of the information furnished in the notice with respect to the Parties' involvement in the Indian fertiliser market, it is observed that apart from a few fertilisers which they manufacture, they are largely involved in trading of fertilisers. Further, the composite market shares of the Parties in primary nutrients, as well as in overlapping straight and complex fertilisers such as urea (straight nitrogenous fertiliser), MOP (straight potassic fertiliser), SSP (straight phosphatic fertiliser) and NPK (complex fertiliser), except for in Calcium Nitrate, are not substantial. Also the incremental change in the market share is minimal in most cases. With respect to most of the remaining overlapping fertiliser products, including Calcium Nitrate, the Parties' presence is only through trading. Further, most of these overlapping products also fall under the OGL, and therefore, any person with requisite approvals can import them into India. Significant competitors are present in the market, such as Indian Farmers Fertiliser Cooperative Limited, National Fertilisers Limited, Fertilizers & Chemicals Travancore Limited, Coromandel International Limited, DCM Shriram Consolidated Limited, Nagarjuna Fertilizers & Chemicals Limited, Deepak Fertilizers and Petrochemicals Corporation Limited, etc.
15. Considering the facts on record and the details provided in the notice given under sub-section (2) of Section 6 of the Act and the assessment of the combination after considering the relevant factors mentioned in sub-section (4) of Section 20 of the Act, the Commission is of the opinion that the proposed combination is not likely to have 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. This order is, however, issued without prejudice to the proceedings under Section 43A of the Act.



COMPETITION COMMISSION OF INDIA



Fair Competition
For Greater Good

16. This approval is without prejudice to any other legal/statutory obligations as applicable.
17. This order shall stand revoked if, at any time, the information provided by the Acquirers is found to be incorrect.
18. The Secretary is directed to communicate to the Acquirers accordingly.