Notice under Section 6 (2) of the Competition Act, 2002 filed by Nippon Express (South Asia & Oceania) Pte. Ltd.

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 16th October, 2019, Competition Commission of India (“Commission”) received a notice under Section 6(2) of the Competition Act, 2002 (“Act”), filed by Nippon Express (South Asia & Oceania) Pte. Ltd. (“Nippon Express /Acquirer”). The notice has been filed pursuant to the execution of (i) Share Purchase Agreement (“SPA”) (ii) Share Subscription Agreement (“SSA”) and (iii) Shareholder’s Agreement (“SHA”) each dated 20th September, 2019.

2. The proposed combination involves acquisition by Nippon Express of total 22% (approx.) equity share capital of Future Supply Chain Solutions Limited
(“FSCSL/Target”) on fully diluted basis. This is envisaged through (i) purchase of approximately 14.63% equity share capital of the Target from Griffin Partners Limited (GPL) and (ii) primary subscription of approximately 8.64% equity share capital of Target on a fully diluted basis (“Proposed Combination”).

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 (“Combination Regulations”), a letter dated 5th November, 2019 was issued to the Acquirer regarding certain clarifications, inter alia, on contract logistics services in India and a response to which was submitted on 8th November, 2019. As the previous response was not complete, another letter dated 27th November, 2019 was issued to the Acquirer and a response was received on 4th December, 2019.

4. Acquirer is a Singapore-based entity and is a wholly owned subsidiary of Nippon Express Co. Ltd. (“Acquirer Group”). Acquirer Group, headquartered in Tokyo, Japan, is a logistics company and provides one-stop logistics services on global basis which includes transport services through ground, air and ocean solutions, industry-specific transport services, specialized transport services such as, moving and relocation, heavy haulage and construction, and warehouse and distribution services. (Hereinafter, Acquirer/Acquirer Group and Target are collectively referred to as “Parties”).

5. Acquirer serves as the regional headquarter of the Acquirer Group for South Asia and Oceania regions. Acquirer Group is present in India through its following subsidiaries namely: (a) Nippon Express (India) Private Limited; (b) Nittsu Logistics (India) Private Limited; (c) Nittsu Shoji (India) Private Limited. These three Indian subsidiaries are also broadly engaged in the provision of logistics services in India.

6. FSCSL is a subsidiary of Ritvika Trading Private Limited, which is in turn a wholly owned subsidiary of Future Enterprises Limited, an entity promoted by Mr. Kishore Biyani. It is a third-party supply chain and logistics service provider, which offers
automated and IT-enabled warehousing, distribution and other logistics solutions. The Target’s wholly owned subsidiary, Vulcan Express Private Limited (“Vulcan Express”), operates order processing centres for its clients where ordered items are picked up from its client’s sellers, processed at those centres (quality check and packaging) and then handed over to the client's courier partners. However, the divestment of Target’s entire stake in Vulcan Express is a condition precedent to the Proposed Combination.

7. It is also submitted that Parties propose to enter into a Business Collaboration Agreement to grow their logistics business and to realize synergies.

8. The Commission, based on material on record and submissions of the Acquirer, observed that Parties exhibit horizontal overlaps broadly in the provision of following four services:
   i. Contract Logistics: It refers to management of flow of goods from the manufacturer to the consumer either across the entire supply chain or in a certain leg of it. It includes warehousing, distribution, delivery management, end-to-end supply chain management solutions and value-added services.
   ii. Road Transport Services: It refers to the provision of transportation services by road for distribution of consignments/goods.
   iii. Cross-border Freight Forwarding Services by Water and
   iv. Cross-border Freight Forwarding Services by Air: Cross-border freight forwarding services by water and air refers to the service of organizing the transportation and shipment of goods from one country to another country.

9. It is submitted that the Parties are specialised contract logistics or third party logistics (3PL) service providers of integrated services and do not provide warehousing and distribution services on standalone basis. However, it is stated that both Parties in exceptional cases may provide warehousing and distribution management on a standalone basis.
10. The Commission decided to leave the delineation of the relevant market open as it was observed that the Proposed Combination is not likely to cause an appreciable adverse effect on competition in any of the possible alternative relevant markets.

11. Acquirer has provided information on both contract logistics as an integrated service as well as on warehousing as a standalone service and accordingly the assessment has been carried out at both levels. The Commission noted that combined market share of the Parties, in terms of value, is in the range of [0-5%] in each of the segments namely contract logistics segment, road transport services, cross-border freight forwarding services by water and cross-border freight forwarding services by air. Further, with regards to the logistics sector, it has been submitted that 90% of the sector is unorganized and both organized and unorganized players impose significant competitive constraints on each other. Some of the big players operating in the sector are Mahindra Logistics, TVS Supply Chain Solutions, DHL, Transport Corporation of India, Blue Dart etc.

12. With regard to vertical or complementary relationship(s), Acquirer has submitted that there are no existing relationships between the business activities of the Parties. However, there could be potential vertical overlaps in the activities of the Acquirer/Acquirer Group in the cross-border freight forwarding by water and air (Upstream Markets) and the activities of the Target in provision of contract logistics (Downstream Market) and vice versa. However, the Commission noted that these relationships may not cause any competition concerns due to lack of ability and incentive to foreclose the competition in any of the market(s) by the Parties.

13. 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 the proposed combination is not likely to have an appreciable adverse effect on competition in India and therefore, the Commission, hereby, approves the same under sub-section (1) of Section 31 of the Act.
14. This order shall stand revoked if, at any time, the information provided by the Acquirer is found to be incorrect.

15. The information provided by the Acquirer shall be treated as confidential in terms of and subject to provisions of Section 57 of the Act.

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