Emerging Investment opportunities in India : The Multi-Brand Retail Segment

Indian Economy: the Investor's paradise

A consensus has emerged in the government to permit foreign direct investment (FDI) in multi-brand retailing.

The Ministries of agriculture and food processing and the Planning Commission have suggested FDI up to 100 per cent in this sector, where other ministries have suggested smaller caps and sought more suggestions from industry.

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The commerce ministry note says at least 50 per cent of the total FDI should be invested in backend infrastructure. However, the backend infrastructure can be made not necessarily by the same entity which is investing, but by an outsourced entity commissioned for this purpose. The minimum limit for FDIs to be brought is Rs 4500 million. Another rider is that cities with a population of 1 million (based on 2011 Census) can be locations for multi-brand retail stores. An area of 10 km around the municipality limits of such cities could also be included in the permission location.

However, outlets will be set up only in those states where the states agree to allow FDI in multi-brand retail. Thirty per cent of the sales turnover should be made directly or through wholesale cash-and-carry units set-up for this purpose. State governments can put conditions for integrating the small retailer or kirana merchants in the value chain. Also, 30 per cent of the value of the manufactured items procured (excluding food products) should be sourced from the SME sector. The respective state governments would put in place frameworks to monitor compliance with these conditions. It points out that prominent organized domestic retailers have generally supported FDI in multi brand retailing while small retailers have opposed it. The support says the observations by the department of domestic retailers could emanate from two reasons –they feel they are fully equipped to face competition or they expect FDI to bring them technology and innovation and they could look forward to joint ventures.

The move will help a bevy of foreign retail chains, including WalMart, Careffour and Tesco, which have been making a beeline for India. Under the existing rules, FDI is not allowed in retail, except for trade of "single brand" products; where up to 51 per cent foreign investment is permitted. FDI up to 100 per cent is also allowed in wholesale cash-and-carry trade. Many companies like WalMart have already come through this route by setting up a whole sale cash and carry business in a joint venture with the Bharti group.

However, the policy constraints have ensured that FDI in retail has been limited. Since 2006, when FDI was partially allowed in retail, the government has received an inflow of over Rs 8500 million. With 15 million outlets, India's retail sector is highly fragmented. Only 4 per cent of the outlets are bigger than 500 square feet in area and the remaining 96 per are in the unorganized sector.