

# FDI in Indian retail industry: an unfinished agenda



ICRA RESEARCH SERVICES

## Contacts:

Subrata Ray  
+91 22 6114 3408  
[subrata@icraindia.com](mailto:subrata@icraindia.com)

Kinjal Shah  
+91 22 6114 3442  
[kinjal.shah@icraindia.com](mailto:kinjal.shah@icraindia.com)

Sakshi Suneja  
+91 22 6114 3438  
[sakshi.suneja@icraindia.com](mailto:sakshi.suneja@icraindia.com)

## What's Inside

---

- I. FDI Policy: **An overview**
- II. FDI Regulation: **Cash and carry wholesale trading**
- III. FDI Regulation: **Single brand product retail trade**
- IV. FDI Regulation: **Multi brand product retail trade**
- V. FDI Regulation: **Food retailing**
- VI. FDI Regulation: **E-commerce**
- VII. Conclusion: **Way forward**

## Glossary & Definitions

---

- FDI: Foreign direct investment
- SBRT: Single brand product retail trade
- MBRT: Multi brand product retail trade
- DIPP: Department of industrial policy and promotion
- B2B: Business to business
- B2C: Business to consumer
- FIPB: Foreign investment promotion board
- FIFP: Foreign investment facilitation portal
- APMC: Agricultural produce marketing committee

## Retail sector prospects plagued by inefficient supply chain infrastructure

The Indian retail sector is estimated at US\$ 770 billion, with organised retail accounting for around 7-8%. Favourable demographics and rising disposable incomes are the key growth drivers, especially for organised retail. However, supply chain infrastructure, especially cold storage and warehousing, remains a key bottleneck. While the investment requirements remain sizeable, so far it has been able to attract only limited domestic capital - the segment can certainly benefit from the inflow of foreign funds, which can help bridge capital deficit and thus remove the supply chain inefficiencies. Furthermore, since most of the international retail chains procure directly from farmers / manufacturers, foreign direct investment (FDI) would aid removal of intermediaries, leading to improved farm income. In addition, increased competition and operating efficiency would benefit consumers by way of improved product quality, availability and customer service.

## FDI in Indian retail industry remains miniscule

As per the Department of Industrial Policy and Promotion (DIPP), India received total equity FDI inflow of US\$ 389.6 billion between April 2000 and June 2018, of which retail trading accounted for a nominal 0.36%, amounting to US\$ 1.4 billion. Despite liberalisation of the economy in 1991, it was only during 1997, when foreign inflows were first allowed in the cash and carry wholesale segment of retail. Single-brand product retail trade (SBRT) and multi-brand product retail trade (MBRT) segments were permitted to receive FDI only in 2006 and 2012, respectively, with riders pertaining to mandatory local sourcing.

## Indian FDI policy has been gradually liberalised

The Government of India has made several amendments to the FDI policy over the last decade to encourage foreign participation. SBRT has been gradually brought under the purview of 100% FDI under the automatic route, with various relaxations in local sourcing norms. MBRT has been allowed to receive 51% FDI under approval route, subject to riders. Guidelines have been defined for FDI inflows in business-to-business (B2B) e-commerce trading, while foreign entities engaged in SBRT and food products retailing have been permitted to undertake business-to-consumer (B2C) e-commerce trading also. The Government of India has also eased the process of obtaining permission under the approval route by abolishing the erstwhile Foreign Investment Promotion Board (FIPB) and replacing it with single-point online Foreign Investment Facilitation Portal (FIFP).

## FDI inflow has been slow, reflecting on-ground challenges

Despite being in place for over a decade, there has been limited progress on FDI inflows in cash and carry wholesale, due to on-ground implementation challenges. Furthermore, since cash and carry wholesalers are not permitted to undertake MBRT, many of these players have faced challenges with respect to monetisation of their investments in back-end infrastructure. The Government has also been slow to open up SBRT to FDI; most of the foreign retailers are already present in India since long, by way of franchise arrangements. Thus, no major FDI inflow has happened in SBRT even after complete opening up of

the segment to foreign participation and relaxations in local sourcing norms. Among the various retail segments, MBRT remains the most restrictive with respect to FDI, with a cap of 51% and various guidelines relating to mandatory investments in back-end infrastructure and local sourcing norms. Besides, there remains on-ground opposition from local traders, who fear risk of being thwarted by the deep pockets and increased competition from foreign players. While the traditional retail segments (cash and carry, SBRT and MBRT) have witnessed muted FDI inflows, e-commerce space has witnessed greater participation with entry of global giants like Amazon and Walmart (through its acquisition of Flipkart)<sup>1</sup>. Recently, in a bid to have some brick and mortar presence, Amazon has also picked up a 5% stake in Shoppers Stop, which has Amazon to set up experience centres across Shoppers Stop stores, where customers can ‘touch and feel’ products available online.

### **Room for greater relaxations in FDI policy**

The recent traction in FDI inflows in the Indian e-commerce space as well as foreign (minority) investments made in offline retail space bears testimony to the attractive valuation of the Indian retail segment as perceived by the foreign players. With a population of 1.3 billion, favourable demographics and rising middle-class, India presents an enormous untapped market opportunity for foreign players. While many of these foreign players have expressed their interest in catering to the Indian markets, restrictive nature of the traditional, especially B2C MBRT segment, has curtailed their operations in India. This also explains the huge investments being attracted by the e-commerce sector, which is the next-best customer (last mile) centric segment, and has been allowed 100% FDI under automatic route. There is a case for the Government to relook at the existing FDI policy. Inter-segment restrictions, especially for MBRT, can be eased to facilitate monetisation of investments in other segments of retail. Conditions such as mandatory investments in back-end infrastructure can be made flexible to accommodate the interests of the foreign retailers. Raising the cap for foreign investment in MBRT will also provide Indian retailers access to the much needed capital. Conditions on local sourcing, however, can be retained to provide fillip to the Make in India campaign and spurt the growth of the domestic economy.

---

<sup>1</sup> Walmart shall be investing US\$ 16 billion for acquiring 77% stake in Flipkart. This includes US\$ 2 billion of fresh equity infusion by Walmart in Flipkart. While the initial investments will be made by Walmart in Flipkart Pte Limited-Singapore, same will be later deployed in the Indian entity-Flipkart India Private Limited



### **Business Contacts**

Mr. L. Shivakumar  
E-mail: [shivakumar@icraindia.com](mailto:shivakumar@icraindia.com)  
Tel: +91 22 6114 3406 / +91 98210 86490

Mr. Jayanta Chatterjee  
E-mail: [jayantac@icraindia.com](mailto:jayantac@icraindia.com)  
Tel: +91 80 4332 6401/ +91 98450 22459

### **Media and Public Relations**

Ms. Naznin Prodhani  
E-mail: [communications@icraindia.com](mailto:communications@icraindia.com)  
Tel: +91 124 4545 860

### **Branches**

#### **Registered Office:**

1105, Kailash Building, <sup>11<sup>th</sup></sup> Floor,  
26, Kasturba Gandhi Marg,  
New Delhi - 110 001  
Tel: + 91 11 2335 7940-45

#### **Corporate Office:**

Building No.8, 2<sup>nd</sup> Floor,  
Tower A, DLF Cyber City Phase II,  
Gurgaon- 122 002  
Tel: +91 124 4545300

#### **Ahmedabad**

907 & 908, Sakar – II,  
Ellisbridge, Opp. Town Hall,  
Ahmedabad - 380 006  
Tel: +91 79 4027 1500/01

#### **Bengaluru 1**

'The Millenia', Tower- B,  
Unit No. 1004, <sup>10<sup>th</sup></sup> Floor, 1 & 2 Murphy  
Road,  
Bengaluru - 560 008  
Tel: +91 80 4332 6400

#### **Bengaluru 2**

<sup>2<sup>nd</sup></sup> Floor, Vayudooth Chamber,  
15-16, Trinity Circle, M.G. Road,  
Bengaluru - 560 001  
Tel: +91 80 4922 5500

**Chennai**

5<sup>th</sup> Floor, Karumuttu Centre,  
634, Anna Salai, Nandanam  
Chennai - 600 035  
Tel: +91 44 4596 4300

**Hyderabad 1**

No. 7-1-58, 301, 3<sup>rd</sup> Floor, 'CONCOURSE',  
Above SBI-HPS Branch,  
Ameerpet,  
Hyderabad - 500 016  
Tel: +91 40 4920 0200

**Hyderabad 2**

4A, 4<sup>th</sup> Floor, SHOBHAN,  
6-3-927, A&B Somajiguda,  
Raj Bhavan Road,  
Hyderabad – 500082  
Tel: +91 40 40676500

**Kolkata**

A-10 & 11, 3<sup>rd</sup> Floor, FMC Fortuna 234/3A,  
A.J.C. Bose Road,  
Kolkata -700 020  
Tel: +91 33 7150 1100/01

**Mumbai**

3<sup>rd</sup> Floor, Electric Mansion  
Appasaheb Marathe Marg, Prabhadevi,  
Mumbai - 400 025  
Tel: +91 22 6169 3300

**Pune**

5A, 5<sup>th</sup> Floor, Symphony, S. No. 210  
CTS 3202 Range Hills Road, Shivajinagar,  
Pune - 411 020  
Tel: +91 20 2556 0194, 020 6606 9999

**Email:** [info@icraindia.com](mailto:info@icraindia.com)

**Helpdesk:** 124 3341580

**Website:** [www.icra.in/](http://www.icra.in/) [www.icraresearch.in](http://www.icraresearch.in)

© Copyright, 2019, ICRA Limited. All Rights Reserved. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions presented in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.