



Retail FDI in India

Leaping forward

August 2018



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Foreword by Deloitte

Foreign Direct Investment (FDI) in India has been on the rise in the past few years especially in the retail, e-commerce, hospitality, and travel space. This growth in the retail and e-commerce business has gradually attracted attention from leading international retailers and e-commerce players and more sectors have opened up for foreign investment in India.

The government has also supported this by introducing various reforms and initiatives, which include allowing FDI up to 100% in certain sectors, increasing sectoral cap, permitting FDI under automatic route as against government approval route, abolishing Foreign Investment Promotion Board and removing certain sector specific restrictions.

The Indian retail and e-commerce segment is uniquely classified and is distinct from the other country markets, hence retailers and e-commerce companies keen to invest in the segment will need to familiarize themselves with the key terms on which regulations are structured.

This thoughtware aims to unravel the current regulations and possible doubts that international companies will have while investing in the Indian Consumer Business market.

This document will give the desired direction and information to enable tapping the Indian retail market.



Foreword by RAI

India is one of the most lucrative retail markets in the world, making it a magnet for big retail brands from different countries. Global brands like H&M, Marks & Spencers, McDonalds, Burger King, Starbucks and Ikea have entered India and seen encouraging results. However, entry into the Great Indian market has not been an easy ride for most retailers, thanks to the complicated Foreign Direct Investment (FDI) rules of the country. The classification of retail as per brands and channels is posing great challenges for foreign retailers. Looking at the Flipkart – Walmart deal, it is evident that there is a huge potential for exploring synergies between Indian and foreign brands that will help raise the quality of retailing in the country. It now depends on FDI policies and other policies that impact retail in India and managing expectations of key stakeholders.

There is a desperate need for retailers in the country to become world-class, and this cannot get done without the right kind of investment climate. While the Indian retail needs foreign retailers to come into the country, there is a greater need for the government to create a level-playing field by enabling them easy access to foreign funds. The report RAI – Deloitte report 'Retail FDI in India: Leaping forward' comes at an opportune time and is a short but comprehensive guide for those retailers who are mulling an India entry and also for those who are exploring foreign tie-ups. We hope it equips them with all the right information they need to succeed in their FDI related endeavours.



Kumar Rajagopalan
Chief Executive Officer
Retailers Association of India

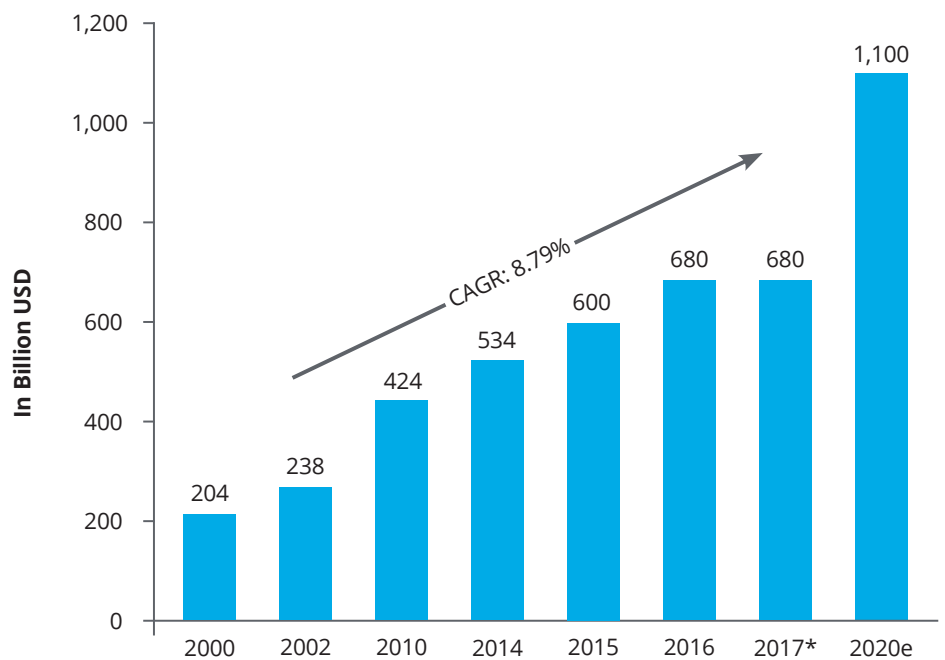


The retail market

The shopping experience of today's consumers continues to be seamless across every channel, whether it's a brick-and-mortar store, an e-commerce website, a mobile app, or even a phone call with customer service. IoT (Internet of Things) technology is already reshaping and revolutionising the retail industry, yielding advances and new opportunities in customer service, throughout the supply chain and in brick-and-mortar stores and other channels — including new venues that show a lot of promise, such as home-based connected platforms. Globally, retailers continue to explore avenues to gain a competitive advantage and are installing smart shelves that detect when inventory is low, RFID sensors that track goods throughout the supply chain, systems that send personalised digital coupons to shoppers when they enter the store, and sensors that monitor the quality of perishable items.

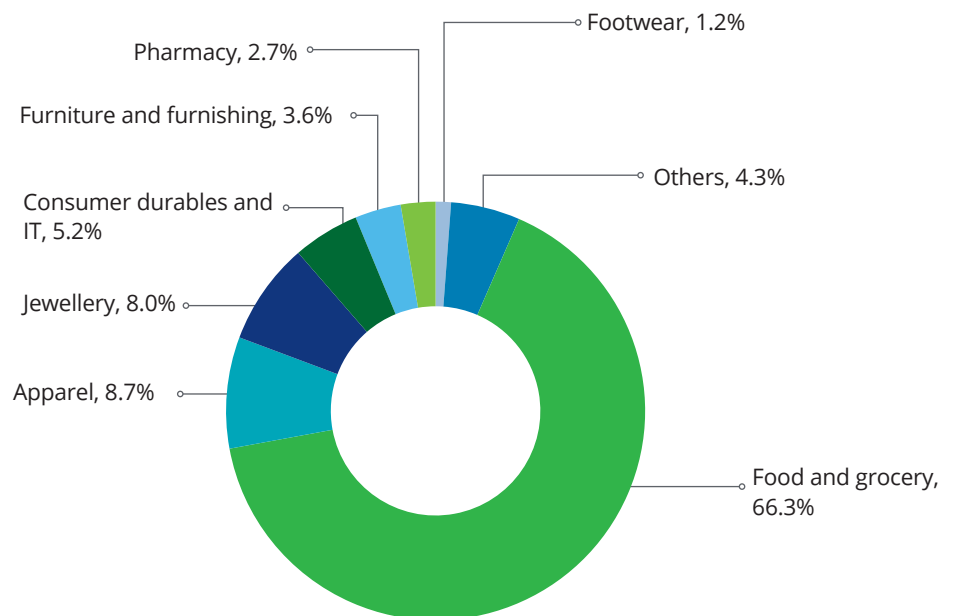
In India, the retail sector is emerging as one of the largest sectors in the economy. The Indian retail industry is expected to grow to US\$1.1 trillion by 2020, registering a CAGR of 8.79% between 2000 and 2020.

To incentivise international retailers, the Government of India (GoI) has allowed 100% FDI through automatic route in e-commerce entities engaging only in Business-to-Business model of operation. However, it has been clarified that retail trading by means of e-commerce is not permissible for companies with FDI engaged in the activity of multi brand retail trading. These measures have provided some level of clarity on the existing businesses of e-commerce companies operating in India.



* Till November 2017
e = estimated numbers
Source: IBEF 2018 retail report

Revenue share of India (FY20E)



Source: IBEF 2018 retail report

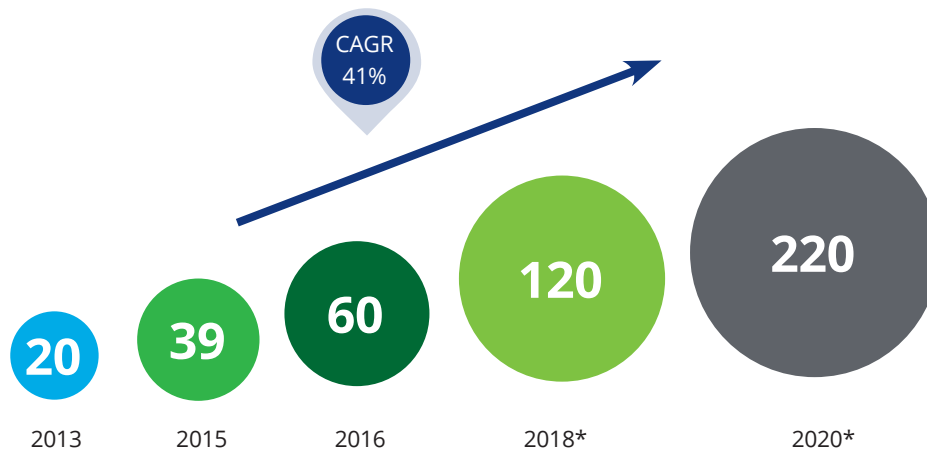


The government achieved a milestone towards introducing the Goods and Services Tax (GST) in July 2017. The implementation of GST has enabled easier movement of goods across the country, thereby improving retail operations for pan-India retailers which has benefited the ultimate consumer.

Another significant development has been the abolishment of the Foreign Investment Promotion Board ('FIPB') as announced by the Finance Ministry in 2017, whereby it was declared that respective competent authorities would be constituted to consider and approve proposals requiring Government approvals for various sectors in which foreign investment was proposed to be made. It has now been announced that the competent authority for Trading (Multi brand and food product retail trading) shall be Department of Industrial Policy & Promotion ('DIPP').

The government has also approved a proposal to scrap the distinction among different types of inbound overseas investments by shifting to a single composite limit, which means portfolio investment up to 49% will not require government approval nor will it

Number of online shoppers in India (in millions)



Source: Media Reports (NDTV, ET), Assocham, WEF, Deloitte analysis

* Estimated Numbers

have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreign investors. As a result, foreign investments are expected to increase, especially in the lucrative retail sector.

E-commerce is also expanding steadily in the country. Customers have an ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the

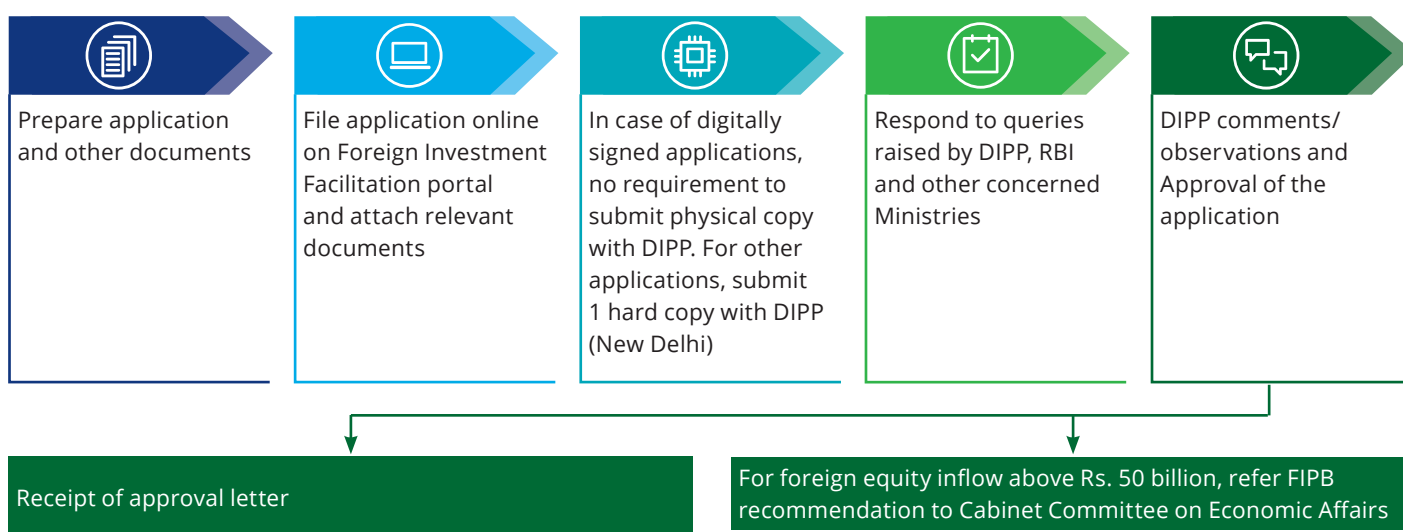
retail industry, and this trend will continue in the years to come. Retailers should leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier 2 and tier 3 cities.

Both organised as well as unorganised retail companies have to work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers.

Retail models and the opportunities they offer

Mechanism of retail	Impact/Opportunities
Cash & Carry/Wholesale trading	<p>In India, consumer goods/FMCG products retailing is clearly divided between urban and rural markets. While global businesses will focus on urban markets, the impact of ease of FDI regulations on existing businesses both in urban and rural zones is to be seen in the future. So far, this segment has had automatic investments to the tune of 100% per the regulations set by the government.</p>
Single Brand Retail Trading (SBRT)	<p>The government has eased the sourcing norms in this segment and allowed single brand retail outlets by international brands. The Government has now permitted 100% FDI under automatic route of SBRT. This immediately opens up opportunities for consumer durables especially the global technology products companies for starting retail operations of their globally successful products in India. The single brand retail model will now be allowed to operate on the e-commerce front which was not allowed previously as part of the Government regulations.</p> <p>Entities engaged in SBRT would be allowed to set off their incremental sourcing of goods from India for global operations during initial 5 years beginning from 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India. Sourcing norms will not be applicable up to 3 years from commencement of business, i.e., opening of first store for entities undertaking SBRT of products having 'state-of-art' and 'cutting edge' technology and where local sourcing is not possible. A Committee under the Chairmanship of Secretary, DIPP, with representatives from NITI Aayog, concerned Administrative Ministry and independent technical expert(s) will examine proposals which would be eligible for the relaxation from the local sourcing criterion under the SBRT norms.</p>
Multi Brand Retail Trade (MBRT)	<p>These are traditional styled shops or retail chains established across India, historically known as 'Bazaars' or "Mom and Pop" stores as known in most countries. The impact of the government-approved route in retailing by grocery chains or consumer goods retailing is perceived to be strong in various analyses done on this market. The global businesses in this segment tend to operate in the urban landscapes with fairly large investments on infrastructure and emphasis on generating high volumes of business. The competition in this segment is expected to be rising significantly in the urban markets. Nevertheless, there will be enough room for growth in the organised retailing of multi-brand establishments.</p> <p>On the regulation front, this is the most debated area in terms of the investment portion allowed into the country. As per the recently announced FDI policy for 2017, the government has allowed 100% FDI under automatic route for selling, including by way of e-commerce, processed food as long as they are produced and/or manufactured in India. This new development is expected to be seen as a significant challenge for many global retail giants altering their plans and usual operating methods.</p>
E-commerce (Marketplace model)	<p>This segment is allowed to bring in investments in the automatic mode to the tune of 100%. Some of the largest brands of the world are operational in this segment and have had significant success nationally. However this segment is facing immense competition from several other domestic companies. The developments in this area included mergers and acquisitions in a short span of time. Over the last decade, growth in this space had been in triple digits and continues to grow. There is a tremendous level of innovation that this segment is driving with modern retail concepts and use of technology in almost every part of their retail sale process.</p>

DIPP Approval process



Time frame – Generally 3–4 months

FDI Equity inflow in select sectors

(Amount in USD million)

Sector	April 2000 to March 2018	April 2000 to March 2017	Increase in 2017-18
Trading	18,558.99	14,210.86	4,348.13
Hotel & Tourism	11,275.43	10,143.46	1,131.97
Food Processing Industries	8,447.81	7,542.91	904.90
Hospital & Diagnostic Centres	5,047.58	4,339.49	708.09
Soaps, Cosmetics & Toilet Preparations	1,340.95	1,203.92	137.03
Vegetable Oils and Vanaspati	782.63	697.51	85.12
Retail Trading	1,212.34	988.56	223.78



The impact of FDI

Competition landscape: By implementing best practices, the organised retail brands globally prove to keep costs lower as well as stay competitive in the consumer market. The extent of competition can be learnt from the recent growth story of the e-commerce market with both international and domestic companies actively innovating to gain market share. This development revealed the Indian market potential in certain sectors at unprecedented levels. Cost reduction techniques are the order of the day in the Indian market and have proven to be a catalyst to success.

Inflation: The retailing models followed by large global companies in most economies have largely managed to lower inflation and food prices with tightly managed processes. This continues to be the most prominent elements of organised retailing that have an impact at the macro-economic levels

of a country. With food inflation causing uncertainties in the market over the past decade, organised retailing has a role to play in the country's economy in a major way.

Logistics and supply chain: Global best practices in supply chain infrastructure and logistics (cold storage, warehousing, transport infrastructure-rail, road, logistics companies, etc.) are expected to be implemented in India which will eventually have effect on time-to-market and pricing of the products offered to consumers. There are more than 7,500 cold storage facilities spread out across the length and breadth of India. Less than 10% of these facilities belong to the organised sector. Of the fragmented establishments, a majority of them are set up to support the agriculture sector for storage of harvest. These establishments are recent developments and seem to have been set up over the last 5-7 years. The international

companies will be seen setting up their own infrastructure around logistics rather than depending on the existing available infrastructure as there is bound to be vast differences in the maturity stages of each of the logistics models. The models used by domestic companies may vary from the ones followed by large global companies.

Technology and market access: Foreign companies establishing their operation centres in India bring along a host of technologically advanced processes, methods and services which not only benefit the consumers but the domestic retail industry as well. Technologies such as Internet of Things, Artificial Intelligence, Machine Learning, Predictive Analysis, Virtual & Augmented Reality, etc. originated in developed countries for being leveraged in retail, and are now getting infused in the Indian retail landscape.



Similarly, multi-national companies, with their better infrastructure and global rapport, help with an easier and wider access to domestic as well as export markets.

GST implementation in India: The implementation of GST cannot be ignored as Retail FDI as a combination of these regulations change the business landscape to a large extent. With GST now being implemented with effect from 1 July 2017, early indications are that there is lowering of logistics costs as there is free movement of goods across state borders. This is in addition to the efficiencies achieved in terms of removal of idling time at check-posts for clearance of goods across the state borders, thereby speeding up the movement of goods within India. This is now noticed as an operational and cost advantage measure by retail companies.

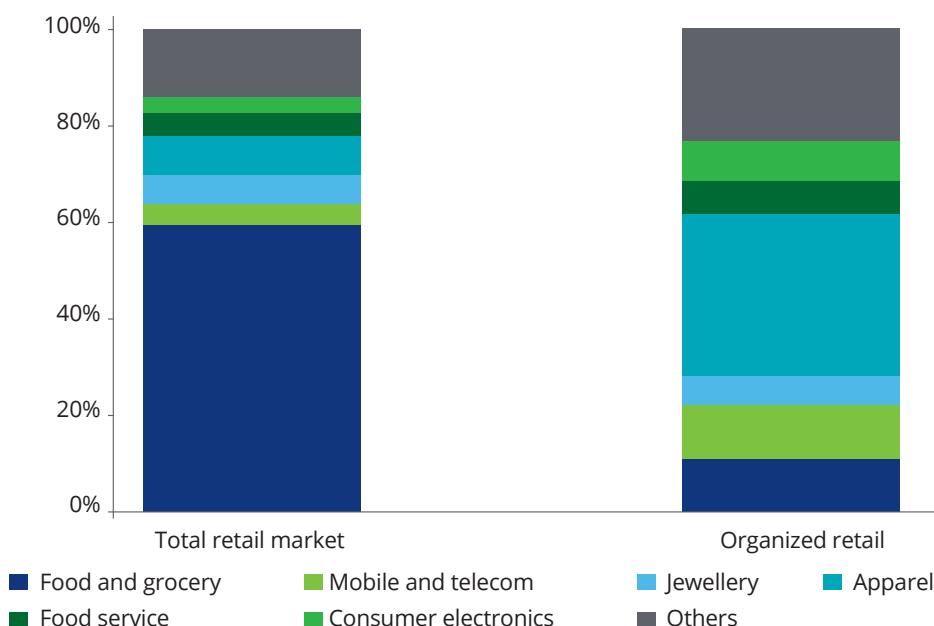
Challenges of scale: Historically, some of the largest retail brands of the world are known to work with a limited number of suppliers in their sourcing chain. India continues to be known as a highly fragmented market where the supply scales needed by large retailers are met by fewer suppliers who enjoy the scale of production at the quality levels required by the retailers. These

conditions will encourage investment by domestic suppliers to drive large-scale production using technology resulting in high quality of products.

Sectors impacted by Retail FDI: More than 90% of India's \$500 billion retail market is driven by family-owned small businesses. According to an earlier

Deloitte report, Competitiveness: Catching the next wave India, the food and groceries sector has a market share of 60%. Some of the largest brands who have had operations in India or plan to set up operations fall into this category. The share of organised retail can be expected to increase to 20% by the year 2020.

Comparison of shares in total retail and organised retail



Source: Deloitte Touche Tohmatsu India Private Limited, September 2017



Business models for operating in Indian retail sector

There are various models for foreign players to operate in the retail sector in India. Each model has its advantages and disadvantages and prospective entrants need to make the choice suited to their aspirations, management bandwidth, and business strategy.

Operating model	Potential advantages	Potential disadvantages
Licensee/Distribution	<ul style="list-style-type: none"> • Lower investments • Higher reach through multi-brand outlets 	<ul style="list-style-type: none"> • Lower control on business • Partner may be a licensee to multiple brands and pay limited attention
Micro Franchisee	<ul style="list-style-type: none"> • Possibility of faster roll out • Micro franchisees have better understanding of local market 	<ul style="list-style-type: none"> • Multiple partners, hence difficult to manage
Master Franchisee	<ul style="list-style-type: none"> • Lower investments • Benefits from partner's existing infrastructure • Easier to manage 	<ul style="list-style-type: none"> • Lower control on business • Difficult to locate a partner with deep investment capability
JV with Indian Company	<ul style="list-style-type: none"> • Leverage partner's strength • Better management • High level of control on business • Undertake e-commerce model 	<ul style="list-style-type: none"> • High dependence on partner • Partner interest may vary in long term
100% Owned subsidiary	<ul style="list-style-type: none"> • Operational flexibility • High level of control on business • Undertake e-commerce model 	<ul style="list-style-type: none"> • Need to build various operational, regulatory and tax complexities • Initial roll out may be slower due to longer learning curve
Limited Liability Partnership	<ul style="list-style-type: none"> • Lesser tax outflow as compared to subsidiary/ company model • Lesser compliance/ reporting requirements • Undertake e-commerce model 	<ul style="list-style-type: none"> • Downstream investment by LLP with FDI is subject to fulfilment of conditions • Relatively newer model of operation and accordingly may not be preferred from credit perspective • Not permissible to list the business in future

Unique India challenges affecting global retailers

Rural market: Some prominent global food and beverage companies have found a fair amount of success in operating within this market over the past couple of decades. Although it had its unique characteristics, these companies developed strategies to deal with the underlying challenges over a period of time to be successful in this market. The lessons learned by these companies could be studied by new entrants in the retail space who can adopt the best practices established by existing players in the market.

Price conscious market: The market in India around price consciousness is as divided as Urban-Rural. With changing socio-economic conditions, consumers in India are willing to pay more for quality service and efficiency. In a Deloitte study named *The Future of Mobility-The changing nature of mobility*, India ranks the highest among the major economies of the world in consumer preference for products which have efficiency, ease of purchase, and high use of technology.

Regulations: With the ease of

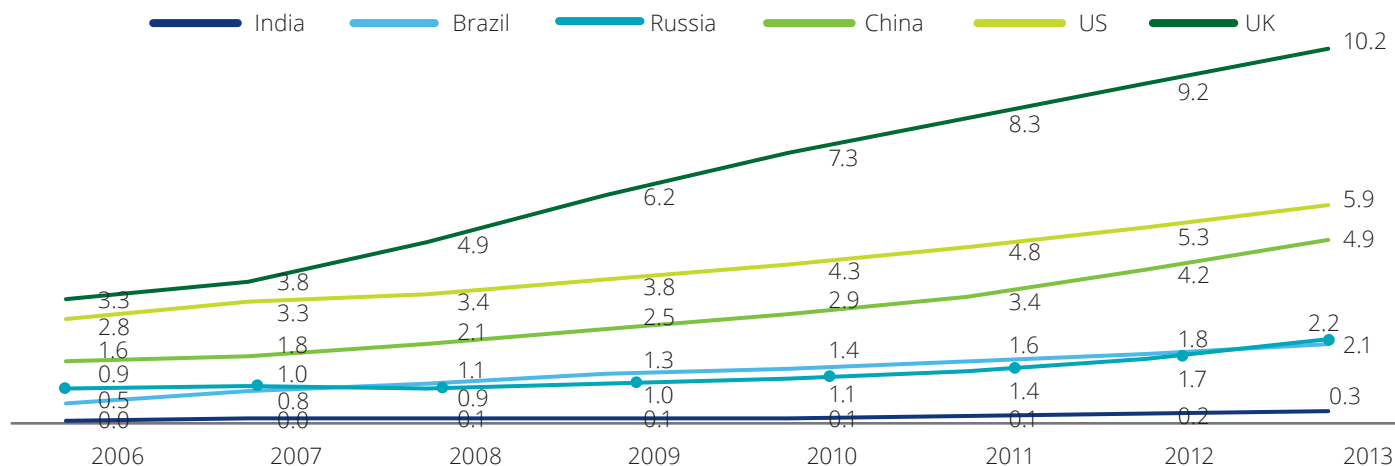
regulations for Retail FDI, there are some restrictions on various aspects of investment controlled by the government. For example, the single brand retailers involving foreign investment beyond 51% need to source at least 30% of the material required for products from local suppliers (preferably from MSMEs, village and cottage industries, artisans and craftsmen in all sectors) as part of a three-year grace period to comply with regulations. However such local sourcing condition has been relaxed for products having 'state-of-the-art' and 'cutting edge' technology and where local sourcing is not possible. This would directly impact technology products retailers who may need to change their operating models in terms of sourcing components needed for their products.

The rise of online retailing in almost all sectors: Some traditional offline retail companies will have challenges in addressing the market necessities due to their fixed business models of operating in the offline mode. However,

there are many Indian home-grown retail chains that have adopted both online and offline retail models to address the new-age demands of the consumers. Many shoppers are adopting online options to purchase products as it offers comparison of prices and convenience to get it delivered at their place. Another important factor we need to examine here is the population growth in urban centres that have increased the congestion levels in the urban marketplace, making it a challenge for consumers to navigate the conditions and complete their purchases. As a result, many consumers choose to shop online for a more convenient experience with a well-informed purchase process.

According to a Deloitte report *Online retail in India-Clicking Towards Growth*, the share of online retail is predicted to take a non-linear growth in the years to come. This is mainly due to mobile user growth which in turn is attributed to the exponential growth in mobile internet and smartphone usage.

Share of Online Channel in Overall Retail (%)



Source: Deloitte report 'Online retail in India-Clicking Towards Growth'



Opportunities

Local sourcing: The Government has provided a relaxation in terms of sourcing norms, whereby, the condition of sourcing 30% of goods purchased will not be applicable up to 3 years beginning from opening of the first store of entities undertaking SBRT of products having 'state-of-the-art' and 'cutting edge' technology and where local sourcing is not possible. Further, entities engaged in SBRT may be allowed to set off their incremental sourcing of goods from India for global operations during initial 5 years beginning from 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India. Thus, global brands, particularly those offering technology products, will now be able to seek a waiver from the government if local supply chain is inadequate to meet their required high-tech specifications.

This provides some relief to foreign retailers because by counting the time

to comply with this rule from store opening, they will have more time to comply with the requirement and to build long-term sustainable supply chains that would benefit not only the businesses but also India and Indian consumers.

Timely and effective implementation of GST: The implementation of GST is witnessing the beginning of market integration—streamlining the barriers for inter-state movements and removal of all octroi and sales tax check points.

Single brand retailers allowed to undertake e-commerce activities: Going forward, foreign single brand stores with permission to undertake Single Brand Retail (i.e., sell through brick-and-mortar stores) in India will be permitted to engage in e-commerce activities and sell products through online channels. With e-commerce business booming in India in recent years, this opens up a significant

investment opportunity for foreign retailers.

Same entity can carry out both Single Brand Retail and Wholesale: This opens up a significant opportunity for global single brand retailers interested in operating a mix of retail and wholesale activities in India.

Indian manufacturers with 70% FDI can now sell online: Indian manufacturers with foreign investment that are controlled by Indians can now sell their products in any manner, i.e., wholesale, retail, including through online channels, provided they make 70% of the products and source the remainder from local companies. However, there has been some relaxation in the sourcing norms as discussed in the section above. Earlier, they could sell online only if they made 100% products in house.



Sectoral cap

Sector/Activity	% of Equity/ FDI Cap	Entry Route
Cash & Carry Wholesale Trading/Wholesale Trading (including sourcing from MSEs)	100%	Automatic
Single Brand product retail trading	100%	Automatic
Multi Brand product retail trading	51%	Government
Duty Free Shops	100%	Automatic
E-commerce activities	100%	Automatic
Agriculture:	100%	Automatic
a) Floriculture, Horticulture, and Cultivation of Vegetables & Mushrooms under controlled conditions;		
b) Development and Production of seeds and planting material;		
c) Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture, Apiculture; and		
d) Services related to agro and allied sectors		
Note: Besides above, FDI is not allowed in any other sector/activity.		
Plantation:	100%	Automatic
(i) Tea sector including tea plantations		
(ii) Coffee plantations		
(iii) Rubber plantations		
(iv) Cardamom plantations		
(v) Palm oil tree plantations		
(vi) Olive oil tree plantations		
Note: Besides above, FDI is not allowed in any other plantation sector/activity.		

Salient features of the key conditions are given in the Appendix.

Way forward

The retail sector in India continues to be on an ever-changing mode and is suited well in the backdrop of the growth trajectory.

The digital revolution is a main contributor to a paradigm shift in consumer behavioural patterns resulting in revamping of strategies formulated by retailers and the complete supply chain. Increasing number of new retailers are rampantly turning digital in nature and are operating with vastly different business models than their more entrenched counterparts.

The next generation of Retail Technology is indicating the rise of the digitally influenced shopping experience and a tidal wave of exponential technologies on the horizon. One digital 'size' does not fit all customers within a marketplace.

With the growing Indian market and also the consumption potential of the country, the need for higher capital and technology is imperative. Opening up of Foreign Direct Investment regulations in the retail sector has an inherent benefit for foreign retail companies as well as the Indian consumer—the foreign companies get to tap the vast Indian market and the consumer gets the benefit of the products made by these companies. Joint Venture arrangements with Indian companies in this sector would help Indian companies to impact the technology as well as increase the penetration levels. Subsectors such as apparel, cosmetics, food, and other consumer goods will be commonly seen in this space.

The government's proactive approach has been appreciated by global retailers who were always sitting on the fence to invest into India, but have now taken a serious look before it gets

too late for them. According to the UNCTAD's World Investment Report 2017, 20% of the global executives favoured India as the host destination for investments during 2017-19, ranking the nation third after the US and China¹. Given the increasingly favourable macroeconomic environment in India and the government's consistent focus on making the business environment more conducive, the quantum of foreign investments flowing into the country is only expected to increase.

Government policies and regulations are thus the backbone of growth of the consumer industries. If executed well, these policies can bring about a developmental shift in the industry with incoming foreign investments and technologies. Multi-national brands operate in India with their own set of expertise and thus bring a novel factor to consumer industries which helps in further development of the sector.



1. The United Nations Conference on Trade and Development (UNCTAD)

Appendix

Sectoral specific conditions under FDI Policy

Sector/Activity

Cash & Carry Wholesale Trading/Wholesale Trading (including sourcing from MSEs)

Definition: Cash & Carry Wholesale trading/Wholesale trading, would mean sale of goods/merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related subordinated service providers. Wholesale trading would, accordingly, imply sales for the purpose of trade, business and profession, as opposed to sales for the purpose of personal consumption. The yardstick to determine whether the sale is wholesale or not would be the type of customers to whom the sale is made and not the size and volume of sales. Wholesale trading would include resale, processing and thereafter sale, bulk imports with ex-port/ex-bonded warehouse business sales and B2B e-Commerce.

Guidelines for Cash & Carry Wholesale Trading/Wholesale Trading (WT):

- (a) For undertaking WT, requisite licenses/registration/ permits, as specified under the relevant Acts/Regulations/Rules/ Orders of the State Government/Government Body/Government Authority/Local Self-Government Body under that State Government should be obtained.
- (b) Except in case of sales to Government, sales made by the wholesaler would be considered as 'cash & carry wholesale trading/wholesale trading' with valid business customers, only when WT are made to the following entities:
 - (I) Entities holding sales tax/ VAT registration/service tax/excise duty registration; or
 - (II) Entities holding trade licenses i.e. a license/registration certificate/membership certificate/registration under Shops and Establishment Act, issued by a Government Authority/Government Body/Local Self-Government Authority, reflecting that the entity/person holding the license/ registration certificate/ membership certificate, as the case may be, is itself/ himself/herself engaged in a business involving commercial activity; or
 - (III) Entities holding permits/license etc. for undertaking retail trade (like tehbazari and similar license for hawkers) from Government Authorities/Local Self Government Bodies; or
 - (IV) Institutions having certificate of incorporation or registration as a society or registration as public trust for their self-consumption.

Note: An entity, to whom WT is made, may fulfil any one of the 4 conditions.

- (c) Full records indicating all the details of such sales like name of entity, kind of entity, registration/license/permit etc. number, amount of sale etc. should be maintained on a day to day basis.
- (d) WT of goods would be permitted among companies of the same group. However, such WT to group companies taken together should not exceed 25% of the total turnover of the wholesale venture.
- (e) WT can be undertaken as per normal business practice, including extending credit facilities subject to applicable regulations.
- (f) A wholesale/cash & carry trader can undertake single brand retail trading, subject to the conditions applicable to SBRT. An entity undertaking wholesale/cash and carry as well as retail business will be mandated to maintain separate books of accounts for these two arms of the business and duly audited by the statutory auditors. Conditions of the FDI policy for wholesale/cash and carry business and for retail business have to be separately complied with by the respective business arms.

Single Brand product retail trading (SBRT)

1. Foreign Investment in SBRT is aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices. The Government has now permitted 100% FDI under automatic route for SBRT.

Sector/Activity

2. FDI in SBRT would be subject to the following conditions:
 - (a) Products to be sold should be of a 'Single Brand' only.
 - (b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.
 - (c) 'Single Brand' product-retail trading would cover only products which are branded during manufacturing.
 - (d) A non-resident entity or entities, whether owner of the brand or otherwise, shall be permitted to undertake 'single brand' product retail trading in the country for the specific brand, directly or through a legally tenable agreement with the brand owner for undertaking SBRT.
 - (e) In respect of proposals involving foreign investment beyond 51%, sourcing of 30% of the value of goods purchased, will be done from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors. The quantum of domestic sourcing will be self-certified by the company, to be subsequently checked, by statutory auditors, from the duly certified accounts which the company will be required to maintain. This procurement requirement would have to be met, in the first instance, as an average of 5 years' total value of the goods purchased, beginning 1st April of the year of the commencement of the business i.e. opening of the first store. Thereafter, it would have to be met on an annual basis. For the purpose of ascertaining the sourcing requirement, the relevant entity would be the company, incorporated in India, which is the recipient of foreign investment for the purpose of carrying out SBRT.
 - (f) Subject to the conditions mentioned above, SBRT entity operating through brick and mortar stores, is permitted to undertake retail trading through e-commerce.
 - (g) Entities engaged in SBRT may be allowed to set off their incremental sourcing of goods from India for global operations during initial 5 years beginning from 1st April of the year of the opening of first store against the mandatory sourcing requirement of 30% of purchases from India. For this purpose, incremental sourcing will mean the increase in terms of value of such global sourcing from India for that single brand (in INR terms) in a particular financial year over the preceding financial year, by the non-resident entities undertaking SBRT, either directly or through their group companies. After completion of this 5 year period, the SBRT entity shall be required to meet the 30% sourcing norms directly towards its Indian operations on an annual basis.

3.

Notes:

- (i) Conditions mentioned at 2(b) and 2(d) above will not be applicable for undertaking SBRT of Indian brands.
- (ii) An Indian manufacturer is permitted to sell its own branded products in any manner i.e. wholesale, retail, including through e-commerce platforms.
- (iii) Indian manufacturer would be the investee company, which is the owner of the Indian brand and which manufactures in India, in terms of value, at least 70% of its products in house, and sources, at most 30% from Indian manufacturers.
- (iv) Indian brands should be owned and controlled by resident Indian citizens and/ or companies which are owned and controlled by resident Indian citizens.
- (v) Sourcing norms will not be applicable up to 3 years from the commencement of the business i.e. opening of the first store for entities undertaking SBRT of products having 'state-of-art' and 'cutting-edge' technology and where local sourcing is not possible. Thereafter, provisions of local sourcing will be applicable. A Committee under the Chairmanship of Secretary, DIPP, with representatives from NITI Aayog, concerned Administrative Ministry and independent technical expert(s) on the subject will examine the claim of applicants on the issue of the products being in the nature of 'state-of-art' and 'cutting-edge' technology where local sourcing is not possible and give recommendations for such relaxation.

Multi Brand product retail trading (MBRT)

1. FDI in MBRT, in all products, will be permitted, subject to the following conditions:
 - (i) Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded.
 - (ii) Minimum amount to be brought in, as FDI, by the foreign investor, would be US \$ 100 million.
 - (iii) At least 50% of total FDI brought in the first tranche of US \$ 100 million, shall be invested in 'back-end infrastructure' within 3 years. 'Back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure. Subsequent investment in backend infrastructure would be made by the MBRT retailer as needed, depending upon its business requirements.
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Sector/Activity

- (iv) At least 30% of the value of procurement of manufactured/processed products purchased shall be sourced from Indian micro, small and medium industries, which have a total investment in plant & machinery not exceeding USD 2.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. The 'small industry' status would be reckoned only at the time of first engagement with the retailer, and such industry shall continue to qualify as a 'small industry' for this purpose, even if it outgrows the said investment of USD 2.00 million during the course of its relationship with the said retailer. Sourcing from agricultural co-operatives and farmers co-operatives would also be considered in this category. The procurement requirement would have to be met, in the first instance, as an average of 5 years' total value of the manufactured/processed products purchased, beginning 1st April of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis.
 - (v) Self-certification by the company, to ensure compliance of the conditions at serial nos. (ii), (iii) and (iv) above, which could be cross-checked, as and when required. Accordingly, the investors shall maintain accounts, duly certified by statutory auditors.
 - (vi) Retail sales outlets may be set up only in cities with a population of more than 1 million as per 2011 Census or any other cities as per the decision of the respective State Governments, and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; retail locations will be restricted to conforming areas as per the Master/Zonal Plans of the concerned cities and provision will be made for requisite facilities such as transport connectivity and parking.
 - (vii) Government will have the first right to procurement of agricultural products.
 - (viii) The above policy is an enabling policy only and the State Governments/Union Territories would be free to take their own decisions in regard to implementation of the policy. Therefore, retail sales outlets may be set up in those States/Union Territories which have agreed, or agree in future, to allow FDI in MBRT under this policy. The list of States/Union Territories which have conveyed their agreement is at (2) below. Such agreement, in future, to permit establishment of retail outlets under this policy, would be conveyed to the Government of India through the DIPP and additions would be made to the list at (2) below accordingly. The establishment of the retail sales outlets will be in compliance of applicable State/Union Territory laws/ regulations, such as the Shops and Establishments Act etc.
 - (ix) Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of MBRT.
2. List of States/Union Territories mentioned in 1(viii) above are as under:
1. Andhra Pradesh
 2. Assam
 3. Delhi
 4. Haryana
 5. Himachal Pradesh
 6. Jammu and Kashmir
 7. Karnataka
 8. Maharashtra
 9. Manipur
 10. Rajasthan
 11. Uttarakhand
 12. Daman and Diu and Dadra and Nagar Haveli (Union Territories)
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Duty Free Shops

- (a) Duty Free Shops would mean shops set up in custom bonded area at International Airports/International Seaports and Land Custom Stations where there is transit of international passengers.
 - (b) Foreign investment in Duty Free Shops is subject to compliance of conditions stipulated under the Customs Act, 1962 and other laws, rules and regulations.
 - (c) Duty Free Shop entity shall not engage into any retail trading activity in the Domestic Tariff Area of the country.
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E-commerce activities

- 100% FDI under automatic route is permitted in marketplace model of e-commerce.
- FDI is not permitted in inventory based model of e-commerce.

Subject to provisions of FDI Policy, e-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.

Sector/Activity

Definitions:

- i) **E-commerce** - E-commerce means buying and selling of goods and services including digital products over digital & electronic network.
- ii) **E-commerce entity** - E-commerce entity means a company incorporated under the Companies Act 1956 or the Companies Act 2013 or a foreign company covered under section 2(42) of the Companies Act, 2013 or an office, branch or agency in India as provided in section 2(v) (iii) of FEMA 1999, owned or controlled by a person resident outside India and conducting the e-commerce business.
- iii) **Inventory based model of e-commerce** - Inventory based model of e-commerce means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
- iv) **Marketplace based model of e-commerce** - Marketplace based model of e-commerce means providing of an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.

Other conditions

- i) Digital & electronic network will include network of computers, television channels and any other internet application used in automated manner such as web pages, extranets, mobiles etc.
 - ii) Marketplace e-commerce entity will be permitted to enter into transactions with sellers registered on its platform on B2B basis.
 - iii) E-commerce marketplace may provide support services to sellers in respect of warehousing, logistics, order fulfilment, call centre, payment collection and other services.
 - iv) E-commerce entity providing a marketplace will not exercise ownership over the inventory i.e. goods purported to be sold. Such an ownership over the inventory will render the business into inventory based model.
 - v) An e-commerce entity will not permit more than 25% of the sales affected through its marketplace from one vendor or their group companies.
 - vi) In marketplace model goods/services made available for sale electronically on website should clearly provide name, address and other contact details of the seller. Post sales, delivery of goods to the customers and customer satisfaction will be responsibility of the seller.
 - vii) In marketplace model, payments for sale may be facilitated by the e-commerce entity in conformity with the guidelines of the Reserve Bank of India.
 - viii) In marketplace model, any warrantee/guarantee of goods and services sold will be responsibility of the seller.
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Sector/Activity

- ix) E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field.
- x) Guidelines on cash and carry wholesale trading will apply on B2B e-commerce.

Subject to the conditions of FDI policy on services sector and applicable laws/regulations, security and other conditionalities, sale of services through e-commerce will be under automatic route.

Agriculture

100% FDI in agriculture under automatic route is permitted only in the following activities:

- i) Floriculture, Horticulture, and Cultivation of Vegetables & Mushrooms under controlled conditions;
- ii) Development and Production of seeds and planting material;
- iii) Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture, Apiculture; and
- iv) Services related to agro and allied sectors.

The term “under controlled conditions” covers the following:

‘Cultivation under controlled conditions’ for the categories of floriculture, horticulture, cultivation of vegetables and mushrooms is the practice of cultivation wherein rainfall, temperature, solar radiation, air humidity and culture medium are controlled artificially. Control in these parameters may be effected through protected cultivation under green houses, net houses, poly houses or any other improved infrastructure facilities where micro-climatic conditions are regulated anthropogenically.

Plantation

100% FDI in plantation under automatic route is permitted only in the following activities:

- i) Tea sector including tea plantations
- ii) Coffee plantations
- iii) Rubber plantations
- iv) Cardamom plantations
- v) Palm oil tree plantations
- vi) Olive oil tree plantations

Prior approval of the State Government concerned is required in case of any future land use change.



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