Game changer in retail FDI

The world's largest retail chain, Bentonville-based Walmart, can now get ready to set up stores in India, as the UPA government has allowed up to 51 per cent foreign direct investment (FDI) in multi-brand retail on Friday, after years of slugfest with some of its allies and the opposition parties.

This US-based giant had entered India in 2006 in the hope of setting up a chain in the country but ended with only a cash-and-carry or wholesale venture with Bharti Enterprises. Also, Swedish furniture giant IKEA can now go ahead and set up its stores in India, as the single-brand sourcing norms have been diluted.

Another single-brand norm changed on Friday relates to ownership. "Only one non-resident entity, whether owner of the brand or otherwise, shall be permitted to undertake single-brand product retail trading in the country for the specific brand," goes the change. This step will benefit many single-brand companies.

MSME sourcing

While the 30 per cent sourcing from micro, small and medium enterprises (MSMEs) by foreign companies remains mandatory in the case of multi-brand retail, the clause has been diluted for single-brand companies. Now, single-brand companies. must source that much from India as a whole. The Cabinet has tweaked the policy to state that MSME sourcing is "prefereable".

Walmart and Bharti are now expected to extend their back-end and cash and carry tie-up to front-end stores across states that permit FDI in multi-brand retail. Speaking to Business Standard, Rajan Bharti Mittal, vice-chairman and managing director of Bharti Enterprises, said the company would have to begin talks with the partners soon, referring to Walmart. He said Easy Day, the retail chain of the Bharti group, was likely to be the front-end for the venture.

International majors such as French chain Carrefour and the UK's Tesco, in a tie-up with the Tatas, are also in India, waiting for the FDI opening.

When Business Standard called the IKEA headquarters after the cabinet decision, the spokesperson said the company would have to "look into the details of this decision".

"We are positive to the development and remain hopeful that we will soon be able to set up our first store in the country, subject to 100 per cent approval of our application to the government of India," was the comment.

IKEA, which had told the government in its June 22 proposal that it was impossible to follow the 30 per cent MSME sourcing norm, has been in discussion with the commerce and industry ministry on easing the rule book.

In November 2011, the Cabinet had cleared FDI in multi-brand retail but the decision had to be put on hold due to resistance from the allies and opposition parties. Almost after a year, the Cabinet has revisited the issue but with a change.

While permitting 51 per cent FDI in the sector, the Cabinet Committee on Economic Affairs (CCEA) put the ball in the states' court, by leaving the implementation on them.

Minister of Commerce and Industry Anand Sharma said at a press conference after the meet, "If we wait for unanimity, it will take eternity."

Delhi, Assam, Maharashtra, Andhra Pradesh, Rajasthan, Jammu and Kashmir, Uttarakhand, Haryana, Manipur, Daman & Diu and Dadra & Nagar Haveli have expressed support for the policy, said Sharma. Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura and Odisha have not. Retail sales outlets can be set up only in cities with a population of more than a million and cover an area of 10 km around the municipal agglomeration limits of such cities.

For states and union territories which do not have such cities, the retail outlets may be set up in 'preferably' the largest city.

The MSME ministry, led by Vayalar Ravi, has been opposing dilution of the sourcing clause in single-brand retail.

After the government allowed 100 per cent FDI in single-brand retail last year, only two applications have come, from IKEA and Pavers. IKEA wants to invest ¤1.5 bn over several years in India.

The MSME ministry, led by Vayalar Ravi, has been opposing dilution of the sourcing clause in single-brand retail. Just a few days earlier, Ravi had written an angry letter to Prime Minister Manmohan Singh against any move to dilute the clause. Yet, Ravi was in Friday's cabinet meeting that took the decision to tweak the single-brand rules.

Other specifics

Recently, the Foreign Investment Promotion Board (FIPB) has rejected a proposal from Zara Holding, which had applied for setting up a 51:49 joint venture with the Tata Group-owned brand Trent. The fashion clothing retail chain, a 100 per cent subsidiary of Spanish clothing giant Inditex, had applied to the Board for opening the 'Massimo Dutti' format store in the country. FIPB was of the view that the investment for opening the stores was being made by Zara Holding rather than Inditex, owner of the brand. This, said the Board, was a violation.

Reacting to the multi-brand change, Kishore Biyani, CEO of the Future Group, said, "It is a bold move and it will open both FDI as well as FII (foreign institutional investment) doors."

Venugopal Dhoot, chairman of the Videocon group, said, "What the government was unable to do in the last one year, it has done in one hour." He added, "We are expecting at least $15 billion to come in multi-brand retail alone."

(Business Standard)