

New FDI rules a setback for foreign, local retailers

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New rules requiring foreign supermarkets to set up their own warehouses and stores in India are likely to further delay the entry of companies like Wal-Mart Stores Inc, increase costs and hurt cash-strapped local retailers eager to partner with foreign companies.

India allowed foreign chains to enter the country to set up retail stores in September 2012, but ambiguities in the policy means that so far, no foreign company has applied to the government for permission to set up shop in the \$500 billion industry.

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Under the new rules, the government late on Thursday said global supermarket operators cannot acquire existing assets of Indian companies and said the initial mandatory \$100 million investment to set up supply chain infrastructure and stores must be new.

That means any existing supply chains, including those owned by a domestic retailer that a foreign company might look to buy, will not count towards the \$100 million minimum.

"In a nutshell this will delay everybody's plans," said Devangshu Dutta, who heads retail consultancy Third Eyesight in Bangalore. "Companies like Wal-Mart, Tesco can acquire assets later on but not initially and that means more time to start their operations," he said.

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A spokeswoman for a joint venture between Wal-Mart and Bharti Enterprises said the company was studying the government's clarification on retail rules. Bharti Walmart Pvt Ltd is a wholesale joint venture started in 2007.

Companies such as Future Retail Ltd , which runs the Big Bazaar hypermarkets, Shopper's Stop Ltd , which runs Hypercity, and Trent Ltd with its Star Bazaar hypermarkets, are all open to selling stakes in their operations to foreign partners in an effort to access funds required for expansion.

"These rules are disappointing and will delay our plans," said the chief executive of an Indian retail firm who did not wish to be named. "It will make it difficult to do business, but obviously this is not the end of the road," the executive said.

Shares in Future Retail fell as much as 3.4% on Friday after the announcement. Trent and Shoppers Stop remained flat on low volumes.

(Business Standard)