

Retail roulette puts investors on edge

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Using “multi-brand retail” and “foreign investment” in the same breath may no longer be taboo in light of the discussion paper recently released by the Department of Industrial Policy and Promotion on the subject. Retail trade has hitherto been a holy cow for Indian policymakers and the sector’s liberalization has been much resisted, given the socio-economic and political sensitivities surrounding it. The attempt to insulate retail trade from foreign investment is a protectionist move for the benefit of local mom-and-pop stores, which dominate the Indian retail sector.

Retail trade: the story so far

Although the liberalization of the Indian economy began nearly two decades ago, a hard embargo on foreign investment in retail trade existed till as recently as 2006, when offshore investment was first permitted in single-brand retail in India. Even this window was highly regulated, with foreign investment requiring prior governmental approvals and being capped at 51%, amongst other conditionalities.

While the move brought some cheer to the Indian fashionista who no longer had to go abroad to get her fix of Armani and Cartier, it did not have a large scale impact on the retail landscape in India.

The relaxation on foreign investment in single-brand retail did not, however, satiate the appetite of global giants that wanted a larger share of the pie. Some, like Walmart, attempted to enter the lucrative Indian market indirectly through the wholesale “cash and carry” trading route, where 100% foreign investment was permitted.

In what is now an infamous structure, Walmart tied up with the business house Bharti to set up wholesale stores making supplies exclusively to Bharti’s front

end retail arm. The profits from the retail operations were ploughed back offshore under the guise of technology licence payments. Though this worked for a few years, the regulator eventually wised up to the market practice and plugged the loophole by imposing a cap on the supplies permitted to group entities.

The multi-brand discussion

At first blush, this move suggested that the government was strongly opposed to foreign participation in the Indian retail space. However, close on the heels of the stricture has followed the discussion paper exploring the possibility of opening multi-brand retail to foreign players. This comes as a breath of fresh air, particularly to industry watchers who sensed gloom on the horizon.

The discussion paper comprehensively analyses the Indian retail market and the various forces at play in this sector. It goes on to consolidate the views of various market participants and stakeholders in relation to deregulation of multi-brand retail. The retail liberalization experiences of various economies positioned similarly to the Indian economy have been examined, with a particular focus on the impact on domestic organized and unorganized players.

While the paper continues to be mindful of the concerns which fuel the ban on foreign investment in multi-brand retail, it candidly acknowledges the upsides as well. The government perfunctorily tips its hat to potential benefits in the form of technology and management know-how and the availability of foreign funds to spur on retail growth, provide dynamism and efficiency in the marketing system and then directs the spotlight on to the potential benefit to agriculture, the mainstay of the nation’s economy.

The anticipation is that, in contrast to the existing public procurement

and distribution system, the advent of large-scale organized retail involving global best practices will increase the farmers’ take home, lead to more efficient food supply management, and keep inflation in check.

The aim of the paper is to initiate discussion and debate in the public domain on the merit and manner in which to approach the deregulation exercise. Towards this end, the paper leaves the reader with fundamental questions, on which comment has been invited.

The road ahead

One hopes that, as part of this initiative, the government will provide a robust and unambiguous framework for foreign investment in retail trade in India. It would be useful if clarity is provided on certain grey areas that investors have been grappling with, particularly in relation to the scope and meaning of “multi-brand retail”. For instance, it is unclear whether a pharmacy attached to a hospital or a general store in a hotel would amount to multi-brand retail, even though the retail outlet is ancillary to the primary business.

While the discussion paper has generated much press in various quarters, it conspicuously omits to make a mention of the manner in which deregulation of the sector is being considered. It contains no hints on whether such investment will be subject to caps and whether there will be other attendant restrictions. There is also no timeline stipulated for concluding this deliberative exercise. This promises to be a nail-biting wait.

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