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Dollar floodgates opens in retail

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"We need them now, when India looks increasingly tattered compared with alternative investment opportunities, not five years from now when growth recovers."
— Raghuram Rajan, chief economic advisor, in April.

In a major overhaul aimed at bolstering retail domestic enterprises, bringing in foreign funds and creating local employment, India has finally approved 51 per cent foreign direct investment (FDI) in multibrand retail. The move will reshape one of the world's most entrepreneurial economies where everyone who can't find a job thinks of starting his own retail business. It has the potential to shift a major industry to foreign players.

The reform would allow global retail giants such as US-based Walmart, French Carrefour, and Britain's Tesco to set up shops in India with a local partner and sell directly to consumers for the first time. It would also be an olive branch to several struggling retailers who are desperate for an infusion of foreign capital to survive and grow as the domestic economy slows. "At least a billion dollars will flow into India as a result of this policy change. In fact most multibrand retailers will not be able to manage with bringing in an investment of just $100 million, which is the minimum specified amount for holding a 51 per cent stake in the Indian venture. They will need to invest more and governments will woo them as they will create jobs and back end infrastructure that benefits farmers and artisans," said Nikhil Chaturvedi, managing director of Provogue.

However, the decision to implement the policy on multibrand retail has been left to states after state governments of Bihar, Karnataka, Kerala, Madhya Pradesh, Tripura and Odisha expressed reservations. The Cabinet, in its meeting on November 24, 2011, had approved the proposal on multibrand retail trading. However, its implementation was deferred for evolving a broader consensus on the subject. As of now, states of Delhi, Assam, Maharashtra, Andhra Pradesh, Rajasthan, Uttarakhand, Haryana, Manipur and the union territory of Daman & Diu and Dadra and Nagar Haveli, have expressed support for the policy in writing. The chief minister of Jammu & Kashmir has publicly endorsed the policy and asked for its implementation.

Industry experts say this move for the Indian retail sector would reduce its piling debt and stimulate investment (especially in logistics and cold chain). "Biggest plays on this are Pantaloon Retail and Trent. We also expect Walmart to be a key beneficiary due to its tie-up with Bharti Group. Other potential beneficiaries could be Spencer's (part of CESC), Reliance Retail, Lifestyle, Birla Retail, Globus among others," said Abneesh Roy, associate director of Edelweiss Institutional Equities.

Govind Shrikhande, managing director of Shoppers Stop, said that Future Group, Trent, Walmart would benefit the most in the short term. "For HyperCITY, we will look at partnerships," added Shrikhande. Kabir Lumba, MD of Lifestyle, Landmark Group, said that they were looking forward to funding from foreign investors even though the company was not in any dire need of funds.

"Most of the states which have agreed to allow multibrand retail are also the ones that MNC retailers are interested in as these are the progressive states. Once investments starts flowing to these states, it will automatically create pressure on other states to amend the policy to allow investment in their states too," said Ramesh Tainwala, CEO of Planet Retail

Holdings.

After Friday's decision on multibrand retail, companies would now be allowed to set up retail sales outlets in cities with a population of more than 10 lakh as per 2011 Census. Moreover, at least 50 per cent of total FDI brought in shall be invested in 'backend infrastructure' within three years of the induction of FDI. This would include capital expenditure on all activities like investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, warehouse and agriculture market produce infrastructure.

"The decision to open up FDI in multibrand retail would benefit stakeholders across the entire span of the supply chain. Farmers stand to benefit from the significant reduction in post-harvest losses, expected to result from the strengthening of the backend infrastructure and enable the farmers to obtain a remunerative price for their produce," said Anand Sharma, union commerce and industry minister.

Kishore Biyani, group CEO of Future Group told TV channels, "We see opportunity of partnerships in home appliances, electronic, food business. Asian retailers and investors are mostly interested in talking with us. It opens up avenues for funding." Biyani, who was engaged in talks with multiple partners but has been stymied by the lack of enabling laws to induct a foreign partner, now expects to seal multiple deals. Similarly, Spencer's is already in talks with a number of foreign players in the retail space and could see the much-needed infusion of money and expertise to turnaround its operations.

Sanjiv Goenka, chairman of the Kolkata-headquartered, RP Sanjiv Goenka Group, which owns Spencer's, said, "This is a positive and welcome step for the retail industry and the reforms process and the consumers as well." He declined to divulge the names of the companies Spencer's intends to partner.

Shobana Kamineni, executive director of Apollo Group, said that after a year of inertia, the government had taken this bold decision. "It will benefit the consumer the most in terms of better price and superior offerings. Retail chains like us, which dominate pharma retail with about 1,400 stores and are profitable, will have options of partnering with global players to unlock shareholder value and/or expand even faster and/or explore new retail formats," said Kamineni.

"A number of companies that have entered India through the cash and carry route where 100 per cent foreign ownership was allowed will now want to set up conventional retail outlets selling to consumers too. All big global retailers will be interested in the Indian market," said Nadir B Godrej, managing director of Godrej Industries. It's expected that Walmart would now buy a stake in the front-end retail venture which operates the Bharti Easyday stores.

The government has also eased entry of foreign retailers into single-brand retail significantly by relaxing the clause that made 30 per cent sourcing from medium and small enterprises (MSMEs) mandatory to just 30 per cent mandatory local sourcing. Tainwala said that many large retailers already source significant value of goods from India, and hence, it will not be a challenge for them to meet the new norms. The government also relaxed the definition of which company can enter into single-brand retail. "This would be through a legally tenable agreement, with the brand owner for undertaking single brand product retail trading in respect of the specific brand for which approval is being sought and the onus for ensuring compliance with this condition shall rest with the Indian entity carrying out single-brand product retail trading in India," said Sharma.

Anshuman Singh, CEO of Future Supply Chain Solutions said the announcement is good for everybody. "For us, the growth in retail consumption will help us grow as we are into the logistics of consumer goods. The relaxation in some of the clauses also will encourage entry of more number of single brand retailers," he added.

Spencer's officials said that the move would certainly lead to disintermediation of the supply chain and bring substantial investments and technology in the back-end, thereby reducing wastages and improving efficiencies, which will have a softening impact on inflation in the long run.

Kumar Rajagopalan, CEO of Retailers Association of India, said that 30 per cent sourcing from small and medium enterprises was a pain for the retail companies and had kept many of them away. “The government has now made sourcing ‘preferable’ against ‘necessary’. The government also has relaxed the clause regarding the holding company and this will be a good boost for the single brand retailers,” added Rajagopalan.

“As for multibrand retail, the central government has left the decision making with the states. Now, the states can take a call on allowing multibrand retail. The companies should invest minimum $100 million of which 50 per cent has to be spent on the back-end infrastructure. This will help increase employment and investment in infrastructure. Some of the states will be willing to allow multibrand retail and these benefits will probably force others to re-think on it. Needless to say, the Indian retailers will get much-needed funds for the business,” said Rajagopalan.

Harminder Sahni, MD of Wazir Advisors, said that while the move might still take some time for retailers who weren’t already in India to open stores to make a move, but the ones who were here would certainly move immediately to take market positions.” We also expect a lot of M&A activity that could lead to consolidation in some segments,” Sahni added.

“It is a positive government decision to allow FDI in the retail sector. This will bring in huge investments into the retail industry and generate employment opportunities,” Pranab Barua, business director at the Rs 1,800 crore apparel and retail business of Aditya Birla group, told Financial Chronicle. He said this move would help bring relevant technology, increase competition and improve customer service, ultimately benefiting the farmers and consumers too. “However, as we have not seen the fine print, we will need to study the impact at the state level and the ability to implement the policy will depend on how many states will opt for it,” Barua added.

Susil S Dungarwal, founder and CEO of Squarefeet Management said, “Indians are little pessimistic when it comes to investments. The second key benefit of this will be purely on the supply chain and back end areas. Because this has been one area people were hesitant to pump in money. So supply chain will see a major overhaul and more efficiency will be attempted. Once this supply chain and efficiency comes into place, the margin of the retailers will increase and that will propel him to pass on the benefits to end customers, thereby increasing the sales.

The government had allowed FDI in multibrand retail in December 2011, but the decision was suspended following widespread opposition from the allies and opposition parties. The UPA II government ally Trinamool Congress, BJP expressed strong opposition on the government’s decision.

(***With inputs from Sangeetha G, Ritwik Mukherjee, Michael Gonsalves, B Krishna Mohan, G Balachandar)***

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