

FDI in retail: Still a distant dream

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**The organised retail segment has been clamouring for foreign direct investment, but the recent Budget has not been forthcoming on this front**

The organised retail industry has been awaiting a governmental nod for foreign direct investment (FDI) to boost capital inflows. However, some industry experts point out that the recent budget does not clearly approve the same.

In his Budget speech, finance minister Pranab Mukherjee had said that the government would address the issue of opening up of retail trade and will help to bring down the considerable difference between farm gate, wholesale and retail prices. The minister also mentioned that the ministry has developed schemes for setting up and operating of cold chains and storage facilities for the Food Corporation of India (FCI).

“This is certainly a step in the right direction. However, it is still too early to say what it means for the sector as I would like to see the concrete measures that the government intends to take in this regard,” said Thomas Varghese, chief executive, Aditya Birla Retail Ltd.

Mr Varghese also pointed out, “The definition of service tax on rent has been widened to include services other than rent. The government has also retrospectively declared that no court cases can be maintained against levy of service tax on rent.”

The retail industry, which wanted to expand rapidly, will now have to go slow on expansion plans, as retailers now have to pay 10% service tax on rentals. In India, most retail space is rented as this has been a profitable model for the industry.

The finance minister’s speech also highlighted that the agricultural supply chain will see more foreign investment coming in. “My sense is that there will be foreign participation in the agricultural supply chain and possibly rules governing this will be rationalised to make it simpler and more attractive to invest and repatriate returns,” said Bijou Kurien, president and chief executive for lifestyle, Reliance Retail.

“We expected some roadmap at least for FDI, but it did not happen. We also expected an industry status to retail so that it is easy to bring in FDI. The service tax on rents is a big deterrent for the industry,” said Susil Dungarwal, founder and chief mall mechanic, Beyond Squarefeet.