

Indian Retail Sector: Opening doors to new prospects

India's retail sector has long been firmly underpinned by strong demographic fundamentals including rising population, rapid urbanization and an emerging middle-income group. There is no doubt that over the last few years the Indian retail sector has been expanding rapidly and its importance in the macro economic landscape of the country has been accepted by all. The pace of transformation and growth witnessed in the sector has been phenomenal and the series of steps proactively undertaken during the last few years both by the government and the industry has been very impressive. The India retail growth story is quite firm as substantiated by a study by Deloitte according to which the Indian retail industry has experienced growth of **10.6% between 2010 and 2012** and is expected to increase to **USD 750-850 billion by 2015**

Liberalization of the FDI policy in the multi-brand retail trade would further provide impetus to the sector also opening the door of opportunities for the International brands. Also, if the guiding principles of the FDI policy are strategically introduced, it would not only create a synergetic relationship between the small Indian retailers and the larger global retail chains but at the same time benefit the consumers. It can be said that **liberalization of FDI would usher in quality and discipline in the Indian retail sector** besides giving consumers a wider choice and options.

It is pertinent to understand the key highlights of the FDI policy in order to comprehend the opportunities and the challenges that have shaped up due to its liberalization.

Key Highlights of the FDI Policy: Multi Brand Retail Trading

As per the present FDI policy, **100 per cent FDI is allowed in Single brand product retail trading**. In addition, the government of India has **allowed up to 51 per cent of the FDI in Multi Brand Retail Trading**. This implies that the international player would require an **Indian joint venture partner to invest the balance 49 per cent**. However, at the same time it has put forth **some conditions** that need to be fulfilled by international retailers to enter in the country in the Multi Brand Retailing. These conditions are listed below:

- Sourcing of at least 30% of the value of the procurement of products from small industries whose investments do not exceed USD 1 million in total
- Investing at least USD 100 million, half of which has to go into backend infrastructure over a period of three years.
- Retail sales outlets may be set up only in cities with a population of more than 1 Million as per 2011 Census.
- Retail trading, in any form, by means of e-commerce would not be permissible, for companies with FDI, engaged in the activity of multi-brand retail trading.

The Opportunity for International retail chains

Through the opening up of the FDI policy in multi brand retailing, the international retailers can tap the opportunity which exists in Indian retail market due to its favorable demographics including inexorable growth of the urban middle classes, rising younger population and disposable incomes. **Nearly 64% of the Indian population is in the working age group of 15-64 and 35% is relatively young, aged 15-34. The share of urban population has also increased from 28% in 2001 to 31% in 2011. As per IMF estimates, the per capita GDP of the country was INR 46,221 per annum at the end of 2011, which is forecasted to rise to INR 58,224 by the end of 2015.**

Indeed there is a huge possibility of investment in the Indian retail sector, as the entry of large retailers would catalyze more demand from the consumers and concomitant retail real estate development. It can prove to be a game changer for the Indian retail sector by making it more competitive and organized in the long run provided if there is supporting growth in infrastructure and quality retail real estate supply pipeline. Specifically for the retail real estate sector, the increased demand brought about by the opening up of new business avenues by increased FDI in Indian retail will lead to higher absorption of shopping malls and greater demand for standalone large format stores.

The **first movers** for Multi Brand Retail Trading are expected to be international retailers belonging to **Grocery and Apparel categories**. In both these categories, there are potential big domestic players already existing who can form a joint venture with international brands. However, the international retail players need to take cognizance of the fact that the opportunities exist but with some challenges that needs to be overcome before entering into Indian markets.

The Key Challenges

In light of the policy conditions placed by the Government, there are some **challenges for international players**. It would be difficult for certain international brands in selected categories to make **substantial investments required in the backend infrastructure**. **The cost of the land and real estate is not included in the mandatory investment in the backend infrastructure over a three year period**. Also, it would be a **challenge for some of the international chains to source 30% of the products from small enterprises**. Apart from these there are also other political and social challenges which an international player has to face before entering India. Correspondingly, **availability of quality real estate space, appropriate size stores and affordable rental values** is also an imperative issue that needs to be dealt especially by categories which require larger areas such as hypermarket operators and department stores. Notwithstanding the challenges exist for entering into Indian retail market, but at the same time it cannot be ignored that the Indian retail and real estate industry is undergoing profound transformation to embrace the trends of globalization and modernization.

Importantly, the concerns related to FDI in multi-brand retailing should not be viewed in isolation but as a part of continuum of issues like investment in logistics, retail supply chain network, skill development and up gradation in technology

Transformation of Retail Real Estate Space: Getting ready for International chains

Growing consumerism, changes in consumers' tastes and heightened brand consciousness has been fast replacing traditional mom and pop stores in India with organized retail malls that house lifestyle and luxury brands from national and international retailers.

There is no doubt that the implementation of the FDI policy would further lead to **adoption of international standard, technology and practices in the industry**. Already as part of its retail transformation, India has seen substantial proliferation of quality mall space in recent years. Infact, quality retail real estate supply is gradually building up in the form of several well-planned and managed prime shopping centres that have the ability to accommodate the upcoming international retailers. Moreover, the FDI policy has provided a boost to the developers to launch new malls with larger size and good infrastructure. The average size of shopping malls in India has already begun to increase as developers have started focusing on larger spaces. Quality would also get a significant enhancement as the malls would be constructed to meet international standards and norms. **As a result both mall supply and size are expected to increase in medium to long term horizon**. As a result, Indian developers are increasingly adopting practices such as proper trade and tenant mix planning, appropriate store sizing and improved mall management techniques.

We are standing on the threshold of an era in Indian retail sector where the foreign direct investment would usher in the structural efficiencies and increased productivity for all stakeholders. It would provide a push up to employment opportunities, boost to back-end infrastructure and enhanced efficiency of retailers.