

Multi Brand Retail and Other Big Ticket FDI Reforms on Track

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The Government of India ("GoI") on September 14, 2012 has finally decided to permit Foreign Direct Investment ("FDI") in multi brand retail, a decision much awaited by the industry players and foreign investors. The decision to permit 51% FDI in multi brand retail will clear the way for a number of multi brand retailers to open stores in India. However, subject to final release of the notification for amending the FDI Policy of India, the permission to bring in FDI in multi brand retail is reportedly expected to come with certain conditions, which would, inter alia, include:

- FDI in multi brand retail shall be under prior FIPB approval route;
- Foreign investor should make a minimum investment of \$100 million, 50% of which should be invested in the 'back-end infrastructure';
- 30% of the products must be procured from small-scale industries, i.e., units which have a total plant and machinery investment (at the time of installation) not exceeding \$ 250,000; and
- The final decision of permitting FDI in multi brand retail vests with the respective State Governments. Thus, retail sales outlets may be set up only in such States which agree to allow FDI in multi brand retail and the outlets should comply with the state legislations of the respective states.

In addition, the GoI is also expected to ease the 30% mandatory sourcing condition for FDI in single brand retail.

Separately, the GoI has also taken the following decisions:

- Permitting FDI up to 49% in scheduled and non-scheduled air transport services. FDI in air transport services has also been permitted under prior FIPB approval route and the investor would also need clearance from the Ministry of Home Affairs;
- Permitting FDI up to 49% in power exchanges, a decision which is expected to inject capital and global practices in the inter-face between buyers and sellers of electricity and make the market more competitive; and
- Raising the FDI limit from 49% to 74% in direct-to-home, cable networks and teleports and permit FDI up to 74% in mobile TV.

We will be circulating a detailed analysis on amendments to the FDI Policy of India, upon release of the official notification giving effect to the aforesaid decisions of the GoI.

By: Alishan Naqvee, Partner (anaqvee@lexcounsel.in) and Dhruv Manchanda, Associate (dmanchanda@lexcounsel.in)

LexCounsel, Law Offices

C-10, Gulmohar Park
New Delhi 110 049, INDIA.

Tel.: +91.11.4166.2861
Fax: +91.11.4166.2862

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