

## **DIPP ISSUES CLARIFICATION ON CONDITIONS FOR FDI IN MULTI-BRAND RETAIL TRADING**

Last year the Government allowed 51% foreign investments in multi brand retail trading ('MBRT') subject to fulfillment of certain conditions. However, prospective investors/stakeholders have sought for clarifications from DIPP on the said conditions. Set out below are the DIPP responses to key issues raised by stakeholders with respect to these conditions:

### ***1. At least 30% sourcing of manufactured/processed products from small industries:***

- **Issue:** Can 30% of the manufactured/processed products be purchased from small industry be distributed through retail operations and/or cash & carry operations and/or export for investors' international retail & trading purpose  
**Response:** No. Multi brand retail trading entity cannot engage in any form of distribution and has to be used only with reference to front end store.
- **Issue:** Whether farmer, cooperative, agro-business will be counted as sourcing from small industry if its investment is within USD 1Mn for procurement of fresh products.  
**Response:** No fresh products are not covered by this condition. It relates only to manufactured/processed products.
- **Issue:** Whether 'small industry' refers to actual legal entity with investment within USD 1 Mn and shall not include its parent company, subsidiaries, affiliates and/or franchisor  
**Response:** It is specifically clarified that small industries with maximum investment in Plant & Machinery at USD 1 Mn shall be taken into consideration.
- **Issue:** What form of authentication is required to confirm the status of 'small industry'?  
**Response:** Certificate issued by District Industries Centre should be adequate authentication

### ***2. At least 50% of the total FDI bought to be invested in 'backend infrastructure'***

- **Issue:** Can the new retail entity acquire or supply chain/back-end assets or stake from existing company having such assets/stake to be counted as investment in back-end infrastructure  
**Response:** No. The entire investment in back-end structure must be done separately. Thus the investment in the backend infrastructure must be in greenfield assets only.
- **Issue:** Whether capital/equity investment in company engaged in development of back-end infrastructure is counted as investment in back-end infrastructure  
**Response:** No it cannot be counted as investment in back-end infrastructure
- **Issue:** Whether investment in back-end infrastructure in non-FDI approved states will be counted as investments in back-end infrastructure  
**Response:** Yes such investments will be counted as investment in back-end infrastructure

- Issue: Whether the MBRT entity include back-end facilities that will supply back-end services to its own business, third party companies including company's existing wholesale entity and retail franchisee.  
Response: MBRT entity cannot undertake wholesale activity. The front-end stores set up by MBRT entity will have to be 'owned and operated' by MBRT entity only. Further, MBRT entity cannot set up retail franchisee stores as the same is not permissible under the FDI Policy.
- Issue: Whether company engaged in wholesale trading/cash & carry trading be considered as investment in back-end infrastructure  
Response: No. FDI in MRBT will require fresh investment in back-end infrastructure
- Issue: If a foreign investor is an investor in companies engaged in back-end activities, can an aggregate of such investments be considered as investment in back-end infrastructure  
Response: No, such investment cannot be counted as an investment in back-end infrastructure
- Issue: Can the back-end entity be 100% owned by a foreign entity wherein such back-end entity is engaged in back-end infrastructure  
Response: Back end entity can be 100% owned by foreign entity provided the investor in MBRT has been able to satisfy the condition that 50% of FDI is invested in backend infrastructure

3. *Investments in non-FDI supporting states*

States that have approved the FDI policy for MBRT have already been notified. In case, consent for MBRT is given to a foreign investor by the state government not included in the notified list, such approval is sufficient for the central government to notify such state. Further, state government has the prerogative of imposing additional conditions over and above the conditions set out in the FDI Policy.

Further, the investments in back end infrastructure can be made across all states irrespective of the fact whether FDI in MBRT is allowed in that state or not.

4. *Minimum Amount of USD 100 Mn to be invested by the foreign investor*

Issue: Can the minimum investment of US\$ 100 Million be used to acquire existing retail stores or setting up new retail stores or a combination of both?

Response: At least 50% of the FDI investments, must be invested in back-end infrastructure, and any amount spent in acquiring front end retail stores would not be counted towards back-end infrastructure. The front-end retail stores must also be set up additionally and not through acquisition of existing stores.

5. *DIPP is yet to provide clarity on the following:*

- *Sourcing restriction amongst 'group companies'.*
- *Requirement of 50% investment in 'backend infrastructure' within three years of the first tranche of FDI.*

- *Requirement of 30% sourcing from 'small industry'. Whether sourcing from such 'small industry' can be allowed towards fulfillment of this condition, if it outgrows, and if so, till what period?*