International Journal of scientific research and management (IJSRM)
||Volume||3||Issue||3||Pages|| 2283-2290||2015||
Website: www.ijsrm.in ISSN (e): 2321-3418

Foreign Direct Investment In Brand Retail Sector In India: A Forecasting Approach

***Dr.K.Tirumalaiah*[1] *V.Satish Kumar*[2] *W.R.Sony*[3]**
[1]Professor, Rayalaseema Institute of Information and Management Sciences, Tirupati.
[1] Kumar, Associate Professor, Rayalaseema Institute of Information and Management Sciences, Tirupati.
[1] Assistant Professor, Rayalaseema Institute of Information and Management Sciences, Tirupati

Abstract:

India is the tenth largest economy in the world of nominal GDP and growth rate is 5.2%. Indian Companies allowed raising equity capital in the international market through the issue of GDRs/ ADRs/FCCBs. In Indian Statistics, the FDI in India is 76%. The two stages of retail marketing is expressed with modern retailing and anti competitive behaviour. The inflow of foreign capital helps in removing the balance of payment over time. By taxing the profits of foreign enterprise, the developing countries mobilize funds for development projects. India being a signatory to World Trade Organization's General Agreement on Trade in Services, which include wholesale and retailing services, had to open up the retail trade sector to foreign investment.

Key words: *Balance of Payment, Single Brand Retailing, Multi-brand Retailing.*

INTRODUCTION

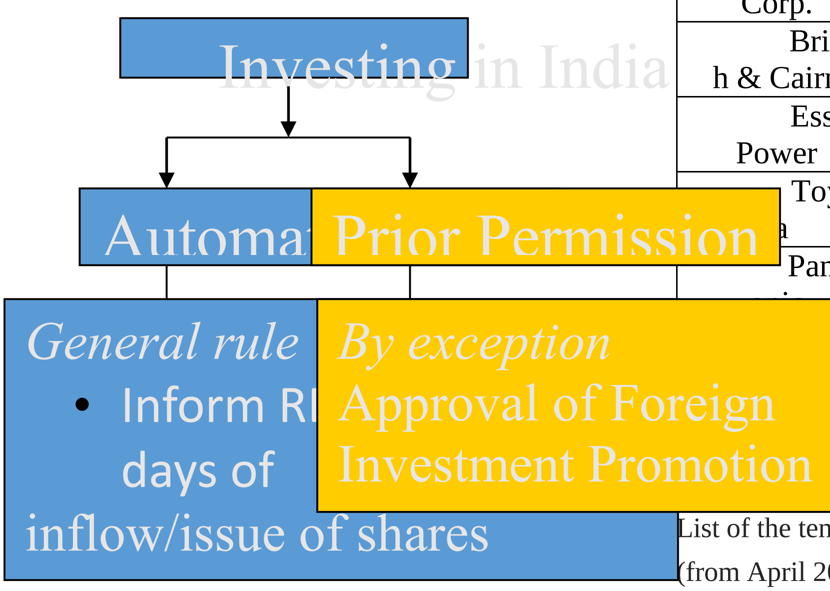
Foreign direct investment is the investment in physical assets by foreign individuals, companies or financial institutions. Foreign portfolio investment in the investment made in financial assets. It includes investments made by foreign institutional investors. In most developing countries like India, domestic capital is inadequate to meet the purpose of economic growth. Generally speaking FDI refers to capital inflows from abroad that invest in the production capacity of the economy and are *"usually preferred over other forms of external finance because they are non-debt creating, non-volatile and their returns depend on the performance of the projects financed by the investors. FDI also facilitates international trade and transfer of knowledge, skills and technology."*

A significant protest that took political roots began in the form of the Swadeshi Jagaran Manch (SJM) created by the RSS in the November of 1991; a few months after the new liberal economic policy. The 'fight' against globalisation and privatisation found its chief targets in multinational companies. FDI was seen to be a new form of 'western imperialism' which the Indian Nation was to combat through indigenous capabilities. The Indian Retail Industry is the 5th largest retail destination and the second most attractive market for investment in the globe after Vietnam as reported by At Kearney's seventh annual Globe Retail Development Index (GRDI), in 2008.The growing popularity of Indian Retail sector has resulted in growing awareness of quality products and brands. As a whole Indian retail has made life convenient, easy, quick and affordable. Indian retail sector specially organized retail is growing rapidly, with customer spending growing in unprecedented manner. It is undergoing metamorphosis.

The retail market of India is one of the largest and most progressive retail markets in the whole world, with a high growth rate equaling to 15% every year. FDI was introduced in 1991 as Foreign Exchange Management Act(FEMA), dr*iven by present prime minister and ex.finance minister in 1991Manmohan singh.* Foreign direct investment has many forms. Broadly, foreign direct investment includes "mergers and acquisitions, building new facilities, reinvesting profits earned from overseas operations and intra company loans". In a narrow sense, foreign direct investment refers just to building new facilities. The numerical FDI figures based on varied definitions are not easily comparable.

Basically, the FDI classification was on the following basis:

- **Greenfield Investment:** It is the direct investment in new facilities or the expansion of existing facilities. It is the principal mode of investing in developing countries.
- **Mergers and Acquisition:** It occurs when a transfer of existing assets from local firms takes place.
- The following was the FDI entry process in india.



(Source: FDI: Evolution & Local Regime from Luthra and Luthra Law Office)

Objectives

1. To study the impact of and roots of FDI in retail sector in india.
2. To discuss the FDI policies and implications in Indian retail sector.
3. To analyse the changes in trend of FDI in retail sector in india.

IMPACT OF FDI POLICIES ON INDIAN MARKET

Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act (FEMA) 1999. The Reserve Bank of India (RBI‘) in this regard had issued a notification, Foreign Investment in India is governed by the FDI policy announced by the Government of India and the provision of the Foreign Exchange Management Act(FEMA) 1999. The Reserve Bank of India (RBI‘) in this regard had issued a notification,

Table 1: Company wise FDI in INDIA

Companies	Sector	Investment
Wal mart, Marks	Retail	US $ 10 Billion
Intel Corp.	I.T	US $ 40 Billion
British & Cairn	Oil & Energy	US $ 2 Billion
Essar Power	Power Sector	US $ 2 Billion
Toyo a	Automobile	US $ 10.51 Billion
Panas	Telecommunication	US $ 200 Million

Source: www.slideshare.com

largest foreign companies investing in India)00- January 2011) are based in Mauritius. List of the ten largest foreign companies investing in India (from April 2000- January 2011) are as follows

Table 2: FDI Investment in India from 2000-11

S.No.	Name of the Company	Rs. In'crores	In Millions
1.	TMI Mauritius Ltd	7294	1600
2.	Carin UK Holding	6663	1492
3.	Oracle Global (Mauritius Ltd)	4805	1083
4.	Mauritius Debt Management LTD	3800	956
5.	Vodafone Mauritius Ltd	3268	801
6.	Etisalat Muritius Ltd	3228	
7.	CMP Asia Ltd	2368.25	653.74
8.	Oracle Global Mauritius Ltd.	2578.88	563.94
9.	Mweeill Lynch Ltd	2230.02	483.55
10	Dhabol Power Ltd		

Review of Literature

Chopra[4] (2006) reports that Retailing in India is evolving rapidly with an increasing number of global retail firms and several foreign investors are willing to invest in this sector. The sector is on a high-growth trajectory and is expected to grow by more than 27 percent over the next five to six years.

Mukherjee[5] and Patel (2005) opined that consumers are the major beneficiaries of the retail boom as organized retailers are initiating measures such as tracking of consumer behaviour and consumer loyalty programmes to retain their market share.

Tripathi[6] (2009) feels that it is essential that FDI be allowed in the retail sector at 100%equity, because this is likely to encourage domestic investment into the sector too, and generate further employment opportunities. In addition to this, he commented that during the economic downturn that is currently being experienced, most of the retail industry players, both large and small, felt that it would be good to boost the economy by facilitating higher FDI inflows.

The ICRIER[7] (2005) study also reported that those in favour of FDI argued that the reality of the situation is that foreign retailers are already operating in India due to the loop holes in current policy and regulation, and that if fdi was opened up, this would help to improve the transparency of the regulatory system.

Methodology

The principle of Least Squares is the most popular and widely used technique for fitting mathematical functions to the any given set of observations. Let us consider the straight line equation

$$y = a+bx$$

The above equation represents a family of straight lines for different values of the arbitrary constants 'a' and 'b'. Now, we are able to obtain a, b values using the legender's principle of least squares. From the principle of maxima and minima, the partial derivatives of 'E'(the residual sum of squares) with respect to a, b and equating to zero, we get the following normal equations

[5] Mukherjee, A. and Nitisha Patel (2005): "FDI in Retail Sector: India", Academic Foundation, New Delhi, October, pp. 29- 33.

[6] Tripathi, Karthik, Retailing360, Guest Column, 27th April 2009, page 1 - http://www.retailing360.com/article/8/2009062420090624193427218739345f/Barring-foreign-players-will-hurt-Indian-retailersKarthik-Tripathi-Silk-Hut.html

[7] ICRIER, 2005, quoted from foreword by A VirmaniNaoum, Dr S G, "Dissertation Research & Writing for Consttruction Students", ButterworthHeinemann, 2nd Edition, 2007

$$\sum_{i=1}^{n} y_i = na + b\sum_{i=1}^{n} x_i$$

$$\sum_{i=1}^{n} x_i y_i = a\sum_{i=1}^{n} x_i + b\sum_{i=1}^{n} x_i^2$$

These are the normal equations for estimating a and b.

By using the Principle of Least squares mentioned above, the fitted form of Trend for the Amount of FDI inflows is

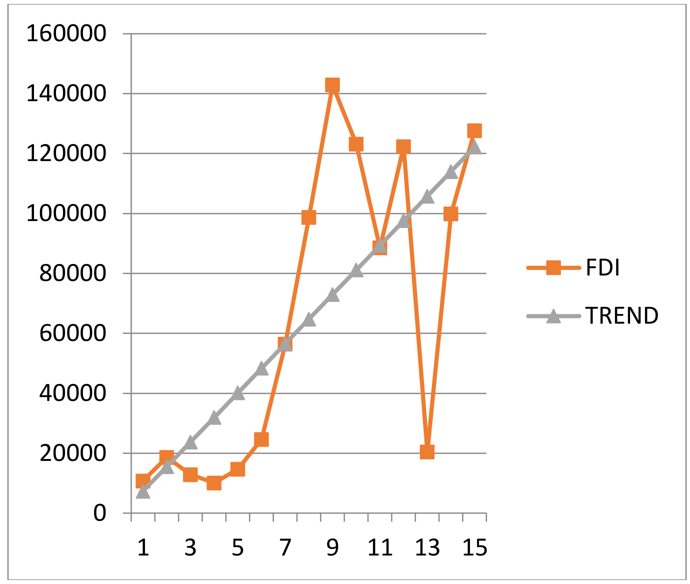
y^ = -877.886+(8203.036)x

The trend analyzed for the year 2020 is y^=Rs. 163182.8 crores

Table 3: FDI Equity inflows from 2000-2014

S.NO.	Financial year (April-March)	Amount of FDI inflows (in ‘ crores)	Trend of Amount of FDI inflows (in ‘ crores)
1.	2000-01	10733	7325.15
2.	2001-02	18654	15528.19
3.	2002-03	12871	23731.22
4.	2003-04	10064	31934.26
5.	2004-05	14653	40137.29
6.	2005-06	24584	48340.33
7.	2006-07	56390	56543.36
8.	2007-08	98642	64746.4
9.	2008-09	142829	72949.44
10.	2009-10	123120	81152.47
11.	2010-11	88520	89355.51
12.	2011-12	122307	97558.54
13.	2012-13	20407	105761.6
14.	2013-14	99813	113964.6
15.	2014-15	127609	122167.7

Fig 1: FDI Equity inflows from 2000-2014



FDI Policy with Regard to Retailing in India

FDI Policy issued in 2012 September issue which provide the sector specific guidelines for FDI with regard to the conduct of trading activities.

a) FDI up to 100% for cash and carry wholesale trading and export trading allowed under the automatic route in single brand retail sector

b) FDI up to 51 % with prior Government approval (i.e. FIPB) for retail trade of multi Brand‘ products.

Prospected Changes in FDI Policy for Retail Sector in India

The government (led by Dr.Manmohan Singh), announced following prospective reforms in Indian Retail Sector:

1. India will allow FDI of up to 51% in —multi-brand sector.
2. Single brand retailers such as Apple and Ikea, can own 100% of their Indian stores, up from previous cap of 51%.
3. The retailers (both single and multi-brand) will have to source atleast 30% of their goods from small and medium sized Indian suppliers.
4. All retail stores can open up their operations in population having over 1million. Out of

approximately 7935 towns and cities in India, 55 suffice such criteria.

5. Multi-brand retailers must bring minimum investment of US$ 100 million. Half of this must be invested in back-end infrastructure facilities such as cold chains, refrigeration, transportation, packaging etc. to reduce post-harvest losses and provide remunerative prices to farmers.
6. The opening of retail competition

FDI in Single-Brand Retail

The Government has not categorically defined the meaning of ―Single Brand anywhere neither in any of its circulars nor any notifications.

In single-brand retail, FDI up to 51 per cent is allowed, subject to Foreign Investment Promotion Board (FIPB) approval and subject to the conditions mentioned :

a) only single brand products would be sold (i.e., retail of goods of multi-brand even if produced by the same manufacturer would not be allowed),
b) products should be sold under the same brand internationally,
c) single-brand product retail would only cover products which are branded during manufacturing and
d) any addition to product categories to be sold under ―single-brand‖ would require fresh approval from the government.

The Phrase single brand has not been defined, it implies that foreign companies would be allowed to sell goods sold internationally under a ‗single brand ‘,viz., Reebok, Nokia, and Adidas. Retailing of goods of multiple brands, even if such products were produced by the same manufacturer, would not be allowed.

FDI in Single brand‘retail implies that a retail store with foreign investment can only sell one brand. For example, if Adidas were to obtain permission to retail its flagship brand in India, those retail outlets could only sell products under the Adidas brand and not the Reebok brand, for which separate permission is required. If granted permission, Adidas could sell products under the Reebok brand in separate outlets. As per department of industrial policy and promotion statistics, the single brand retail sector inflows from 2000-2014 is 1549.72 crores and the percentage of total inflows is 0.12%.

FDI in Multi-Brand Retail

The government has also not defined the term Multi Brand. FDI in Multi Brand retail implies that a retail store with a foreign investment can sell multiple brands underone roof. In July 2010, Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce circulated a discussion on allowing FDI in multi-brand retail. If FDI was implemented, it would open the doors for global retail giants to enter and establish their footprints on the retail landscape of India. Opening up FDI in multi-brand retail will mean that global retailers including Wal-Mart, Carrefour and Tesco can open stores offering a range of household items and grocery directly to consumers in the same way as the ubiquitous ‘*kirana’* store.

Till 2011, **foreign direct investment** in the **single-brand retail sector** of India was limited to 51%. Now, as per the recent development and declaration of the Government of India (made in September 2012), this limit is finally extended up to 100% ownership by foreign retailers and investors. Thus, great and elusive opportunity for entering into vast and abundant retail sector of India, is now generously offered to all foreign companies, retailers, and investors of the world over. To globally prominent and popular single-brand retailers like IKEA, Apple, Nike, and several others, this declaration of Indian Government is certainly a magnificent boon. Exclusive and refined information about the retail sector of India is being provided below, as service to our Indian and global visitors.

The retail market of India is one of the largest and most progressive retail markets in the whole world, with a high growth rate equaling to 15% every year. Currently, the retail industry of India (including both single-brand and multi-brand) is worth US $450 billion, and contribute about 15% to the national GDP of India every year. Almost all sectors of Indian economy have been developing and progressing fast constantly since a decade, to expand and enrich the retail industry also, besides all other sectors. The national GDP growth rate of 8% has been boosting the financial status of the majority of Indian population, to enhance their purchasing power. Moreover, the organized retail sector of India is inadequately developed, and thus, has ample potential for tremendous growth, as in many well-developed nations of the world.

After the recent FDI liberalization policies in the retail sector of India, the organized retail sector of India is expected to grow with a rate of over 10% every year. The foreign direct investment in the **single-brand and multi-brand retail sectors**, is hoped to reach the level of US $ 2.5-3 billion, in the next five years. However, the foreign single-brand retailers will have to procure at least 30% of their products and goods from the local or domestic industries and companies, to do business in India. Providing well-rounded, perfect, and swift legal help and services for foreign direct investment in India in its diverse sectors, we are well-equipped to offer legal services for fdi in the retail sector of India, under both the categories of single-brand retail and multi-brand retail. Here, it may be noted that in the multi-brand retail sector, the permitted level of FDI is up to 51% only, according to the latest governmental declaration.

The recently declared policy of the Government of India regarding foreign direct investment in the Multi- brand Retail sector of India, is like a welcome and great boon to all foreign retailers and investors. The Government of India has now finally decided to allow FDI up to 51% in the Multi-brand Retail sector of India. For a long time, the vast $450 billion retail market of India has been striking and alluring to foreign investors and retailers of the world over, for making highly profitable and secure foreign direct investment. Now, they are fully enabled and well-facilitated to perform such lucrative investments in huge and constantly growing retail sector of India. Some of the most outstanding features of the retail sector of India are described below, as service to all foreign retailers, companies, and investors of diverse sectors of commerce and industry. Ours prestigious and globally reputed legal organization is well-equipped to provide prompt and impeccable services for most secure and productive foreign direct investment in Indian retail sector. Ours well-experience law firm has been offering refined and swift legal services to people and entities in almost all economic sectors in India and countries worldwide.

Table 4: Economic Indicators of Indian Income from 2012-14 and forecasting estimation till 2020

India	2012	2013	2014	2015*	201
GDP(in %)	4.74	5.02	5.63	6.35	6.4
FDI(inflows) (in 'crs)	173947	113610	147518	146192	1512

(Source:
http://www.rbi.org.in/Scripts/AnnualReportPublications.aspx?Id=1110)

Note: for the financial year 2011-12 i.e. march, 2011 to march, 2012 is considered as 2012 and the remaining vice-versa

Fig 2: FDI inflows and forecasted trend values

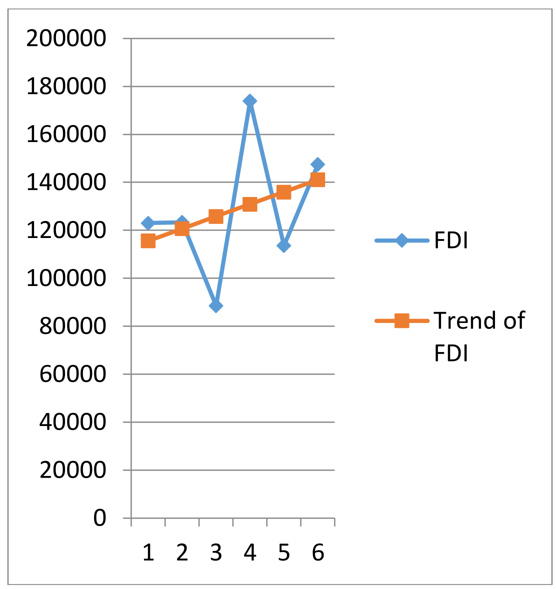
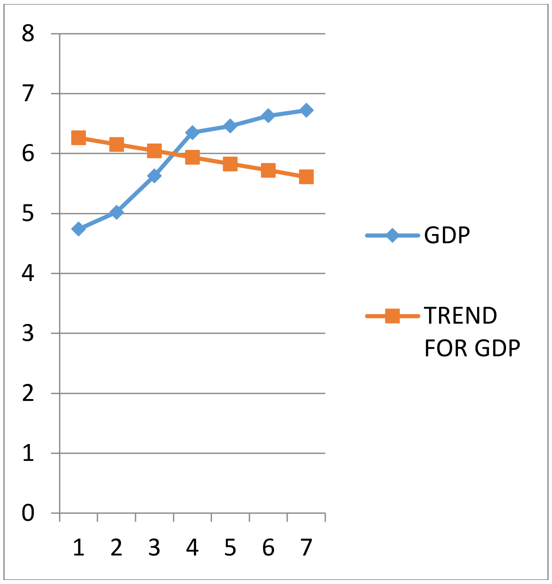


Fig 3: GDP inflows and forecasted trend values



In 2014, the retail industry of India is estimated to be worth US $ 450 billion, and by dint of this economic value, it is regarded as one of the top five largest retail markets in the whole world. The constantly growing economy of India with an average rate of 8% and India's 1.2 billion people, together make the retail industry of India highly growth-oriented and immensely profitable in present and future times. As per an estimate by mellow and expert economists, the retail market of India can reach the level of around $ 650 billion by the year 2015. The latest decision of Indian Government is to boost the growth in retail, further more. According to percipient and discerning economists, the organized retail sector of India has potential to grow at the rate of over 15% every year, especially after this visionary decision of Indian Government.

It is impossible to know how foreign big-box stores will loosen the grip that small traders have on the market today. (Small traders control an estimated 90% of India's $450 billion retail sector.) At the other end, economists and other supporters of the reform are quick to point out that the organized retail sector already present in India has not adversely affected small shops, whose numbers, according to government statistics, have seen a threefold increase in recent years.

Observations:

- FDI tends to act as a catalyst in the host economy, bringing to the fore both its advantages and its problems.
- It has been found that FDI inflows in india in 2011-12 was rose by 12% and created a new era for upcoming trends as shown in table 4.
- As single brand retail increased to 100% created a scope for the new brand retailing sector and the forecasting assumptions for 2020 is expected to be 163182.8.
- FDI has found to be influenced by trade openness of country which implies that a more liberalized foreign investment policy framework is required in India to decrease the gap in FDI inflows of India.
- The impact of foreign direct investment on an economy can also be investigated by increasing variables, at micro and macro level whereas the present study carried only with retail sector.

Conclusion:

Thus from developed countries experience retailing can be thought of as developing through two stages. In the first stage, modern retailing is necessary in order to achieve major efficiencies in distribution. The lesson for developing countries is that effective competition policy needs to be in place well before the second stage is reached, both to deter anticompetitive behaviour and to evaluate the extent to which retail power is being used to unfairly disadvantage smaller retailers and their customers. The sources of retail power need to be understood to ensure that abuses of power are curbed before they occur.

References:

- Tripathi, Salil (29 December 2011). "India needs Supermarkets". London: The Guardian.
- 27."India government puts foreign supermarkets "on pause"". Reuters. 4
- December 2011 28. "Farmer Organisations back retail FDI". The Financial Express, 2 December 2011.

- "The Bird of Gold - The Rise of India's Consumer Market". McKinsey and Company. May 2007.
- "Winning the Indian consumer". McKinsey & Company. 2005.
- “WalmartFact Sheets". Walmart. November 2011.
- Nabael Mancheri, India‘s FDI policies: Paradigm shift, http://www.eastasiaforum.org/2010/12/24/indias-fdi-policiesparadigm-shift/-
- “Role of FDI in Retailing” , Ms.P.Usha Devi and Mrs. P.Alekhya, IJRC, Asia Pacific Journal of Marketing and Management Review, vol.2, October 2012, ISSN 2319-2836.