



3 - 5 November • New Delhi

# Food Processing

## A ready reckoner for FDI in India



**Ministry of Food Processing Industries**

*Government of India*



Building a better  
working world

Knowledge Partner



**Confederation of Indian Industry**

National Event Partner



# Food Processing

## A ready reckoner for FDI in India

**Published for the Ministry of Food Processing Industries (MoFPI) by Ernst & Young LLP (EY) and Confederation of Indian Industry (CII)**

Without limiting the rights under the copyright reserved, this publication or any part of it may not be translated, reproduced, stored, transmitted in any form (electronic, mechanical, photocopying, audio recording or otherwise) or circulated in any binding or cover other than the cover in which it is currently published, without the prior written permission of MoFPI, EY and CII.

All information, ideas, views, opinions, estimates, advice, suggestions, recommendations (hereinafter 'content') in this publication should not be understood as professional advice in any manner or interpreted as policies, objectives, opinions or suggestions of EY and CII. Readers are advised to use their discretion and seek professional advice before taking any action or decision, based on the contents of this publication. The content in this publication has been obtained or derived from sources believed by EY and CII to be reliable but MoFPI, EY and CII do not represent this information to be accurate or complete. MoFPI, EY and CII do not assume any responsibility and disclaim any liability for any loss, damages, caused due to any reason whatsoever, towards any person (natural or legal) who uses this publication.

This publication cannot be sold for consideration, within or outside India, without express written permission of MoFPI, EY and CII. Violation of this condition of sale will lead to criminal and civil prosecution.

MoFPI, Ernst & Young LLP (EY) and Confederation of Indian Industry © 2017

# Contents

<b>Executive summary</b>	<b>  10</b>
<b>Indian food and retail industry</b>	<b>  12</b>
<b>India: Key statistics and facts</b>	<b>  20</b>
<b>Investors outlook towards India</b>	<b>  24</b>
<b>Introduction to forex laws in India</b>	<b>  26</b>
<b>FDI in India- The journey so far</b>	<b>  30</b>
<b>FDI regulations as on date</b>	<b>  32</b>
<b>Single-brand or multi-brand retail?</b>	<b>  38</b>
<b>Illustrative business models</b>	<b>  40</b>
<b>Conclusion and the road ahead</b>	<b>  46</b>
<b>Appendices</b>	<b>  49</b>
<b>Sources of information</b>	<b>  53</b>





## Foreword

Food processing is considered as one of the fastest growing industries in India. The growth of the industry is supported by the availability of a large raw material production base. India is the largest producer of milk, bananas, mangoes, guavas, papaya, ginger, okra, second largest producer of wheat, rice, fruits, vegetables, tea, sugarcane and cashew nut and the third largest producer of cereals, coconut, lettuce, chicory, nutmeg, mace, cardamom and pepper globally.

Given the natural supply advantage and a population of 1.3 billion people (that spend a high proportion of their disposable income on food), there is a potential to nurture mutually beneficial relationships with global food processing, food retail and related supply chain organizations who could realize significant business growth opportunities in India, through new technologies, innovations and other methods of value additions.

Further, India's geographical location gives it a unique advantage when it comes to exports, having convenient connectivity to Europe, Middle East & Africa from the western coast, and Japan, Singapore, Thailand, Malaysia, Korea, Australia & New Zealand from the eastern coast.

Food processing is a priority sector for the Indian Government, as well as one of the focus sectors in the Make in India initiative. Further, the availability of affordable credit and other fiscal incentives has also led to India being considered as one of the most favourable markets.

In light of the above factors, and with total consumption of the food and beverage segment in India expected to increase from US\$ 369 billion to US\$1.142 trillion by 2025, output of the food processing sector (at market prices) is expected to increase to US\$ 958 billion for the same period. These estimates clearly evidence the vast market opportunity offered by the Indian food processing, food retail, transport, logistics and related infrastructure sectors to players in the food processing value chain.

We trust that this report would be a useful guide for international as well as domestic food processing, food retail and related supply chain companies that are looking to invest or expand their presence in India.

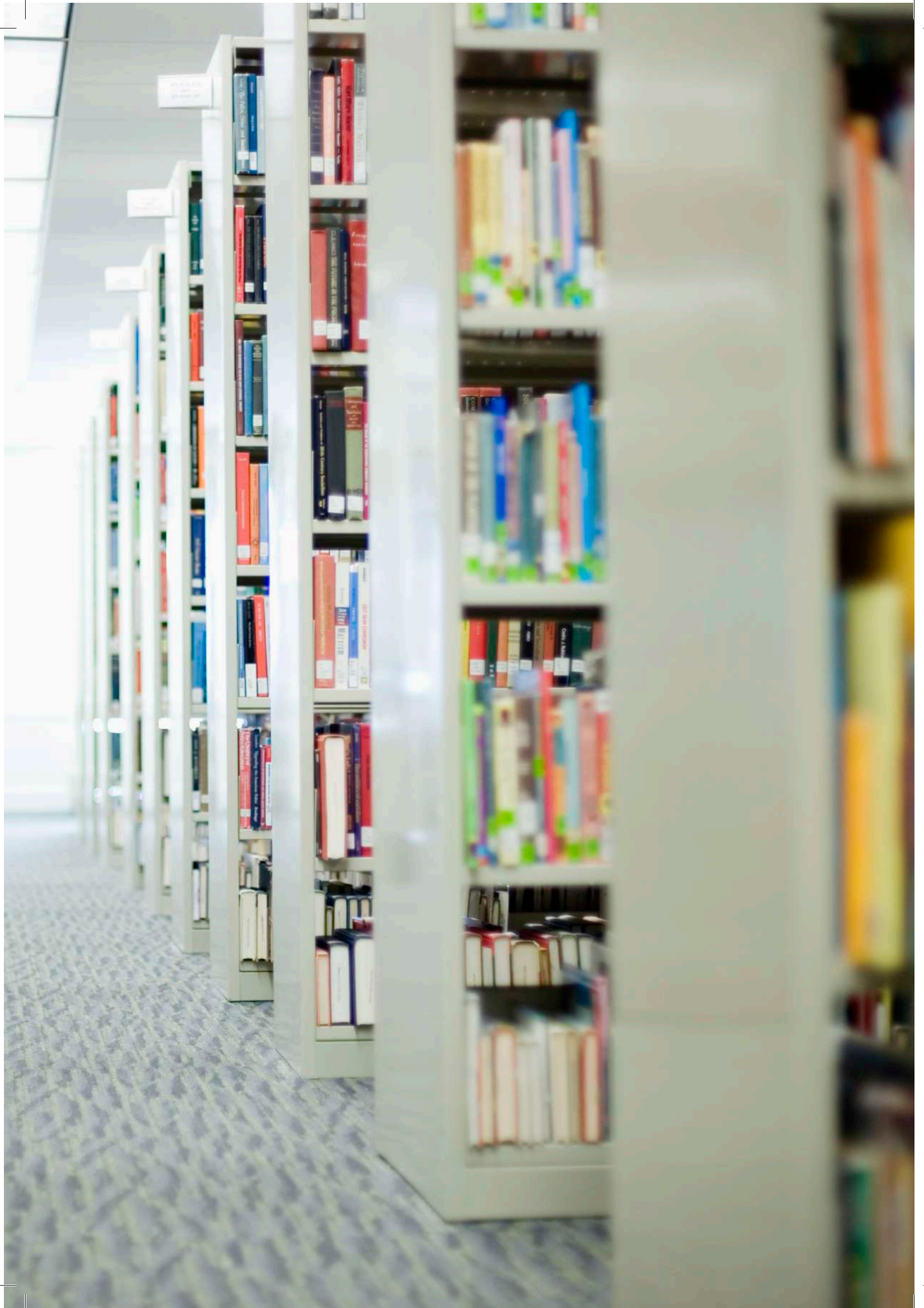
## Preface

The food processing industry in India is a sunrise sector that has gained prominence in recent years. Branded food and beverage products, rising middle class households and disposable income and food safety regulations aligned with global standards have begun to give shape to the Indian food processing and food retail sector.

India has displayed a natural affinity for food production, being the largest and the second largest producer of milk, rice, wheat, fruits and vegetables globally. However, a very low proportion of the food produced is presently being processed in India. This offers a significant opportunity for various global food processing, food retail and related supply chain companies to identify and realize the real business prospects and increase the level of food processing in India\*.

The Indian government has, in recent times, shown a clear intent to improve competitiveness and reduce wastage in the sector by attracting foreign investments and collaborations through various policy reforms and liberalizations, including introduction of GST. The landmark FDI liberalization whereby 100% FDI is now permitted for retail trading (including e-commerce) for food products manufactured and/or produced within the country was indeed a welcome move, and is expected to be the turning point in the Indian food processing story going forward.

It is hoped that this report is useful for both, global organizations looking to invest in the Indian food sector, and for domestic food companies looking to attract foreign investments/ funding.





## Glossary of terms

Abbreviation	Full Form
b	Billions
B2B	Business to Business
B2C	Business to Consumer
CAGR	Compounded Annual Growth Rate
DIPP	Department for Industrial Policy and Promotion
EY	Ernst & Young LLP
FDI	Foreign Direct Investment
FEMA	Foreign Exchange Management Act, 1999
FERA	Foreign Exchange Regulations Act, 1973
FIFP	Foreign Investment Facilitation Portal
FIPB	Foreign Investment Promotion Board
GDP	Gross Domestic Product
GMV	Gross Merchandise Value
GVA	Gross Value Added
IMF	International Monetary Fund
INR	Indian National Rupee
JV	Joint Venture
m	Millions
MBRT	Multi Brand Retail Trading
MoFPI	Ministry of Food Processing Industries
RBI	Reserve Bank of India
SBRT	Single Brand Retail Trading
US\$	United States Dollars
WOS	Wholly Owned Subsidiary



# Executive summary

India is one of the fastest growing economies in the world, emerging as a top FDI destination. A large consumer base, growing disposable incomes and improvement in the ease of doing business are key drivers for the emerging global preference for investing in India.

For the food processing sector in particular, the large and diversified production base, nascent level of processing, conducive policies (including liberalized foreign investment rules), readymade infrastructure, changing consumer preferences and increasing expenditure level on food help build a very strong case for global companies to invest across the entire value chain of food processing in India.

Between April 2000 and June 2017, India has attracted approximately US\$ 342.40b of FDI. Coupled with the liberalisation witnessed in the FDI policies since 1991, more particularly in the trading sector with wholesale trading in 1997, followed by SBRT in 2006 and MBRT in 2012, it makes for a very positive global outlook towards the country. Of the mentioned foreign investments, US\$ 7.81b has been in the food processing industry, making it the 13th largest sector receiving FDI in India. While initially there was some resistance in opening up the food processing sector to foreign investments, a landmark liberalization in 2016 permitted 100% FDI for retail trading in this sector, for food products that have been manufactured or processed within India. The same reflects the Government's positive outlook, and a clear intent to develop the sector.

With the government making food processing in India a priority sector with various schemes and incentives to promote ease of doing business in India, foreign investments in the sector have seen a steep increase. This is evident from the fact that over 80% of the sector's FDI since April 2000 has been received since April 2012.

FY 2017-18 has continued to display the upward positive trend of foreign investment in the sector, with US\$ 263m having already been invested within the first quarter (April to June 2017).

Over the last decade since FDI in retail trading has been permitted, there have been further policy changes and amendments in the regulations, to support global retail giants in establishing a presence in India (one such amendment being the 2014 amendment that permitted SBRT entities to also undertake trading activities through e-commerce). In light of the same, there are now several global retail organizations that have established a strong presence in the Indian market.



### Snapshot of FDI limits in India

SBRT	MBRT	Wholesale	E-Commerce
<b>Upto 100% FDI permitted</b> Upto 49% under automatic route and beyond 49% under approval route	<b>Upto 51% FDI permitted under the approval route</b>	<b>Upto 100% FDI permitted under the automatic route</b>	<b>Upto 100% FDI permitted under the automatic route</b>

100% FDI (under the approval route) is permitted for trading (including through e-commerce) for food products manufactured or produced in India

With the rapid urbanization and rising affluence, coupled with an increase in share of household consumption expenditure towards food, increased digital awareness and constant policy support from the Indian government, food processing and retail are truly amongst India's sunrise sectors.

# Indian food and retail industry



## Indian food and retail industry

With a population of 1.3b people, a median age of 27.6 years, a birth rate more than double of the death rate and a rapidly growing middle class population that spends a high proportion of their disposable income on food, the Indian food and retail sectors may be poised to witness tremendous growth in the coming years.

In India, the food sector has emerged as a high-growth and high-profit sector due to its immense potential for value addition, particularly within the food processing industry.

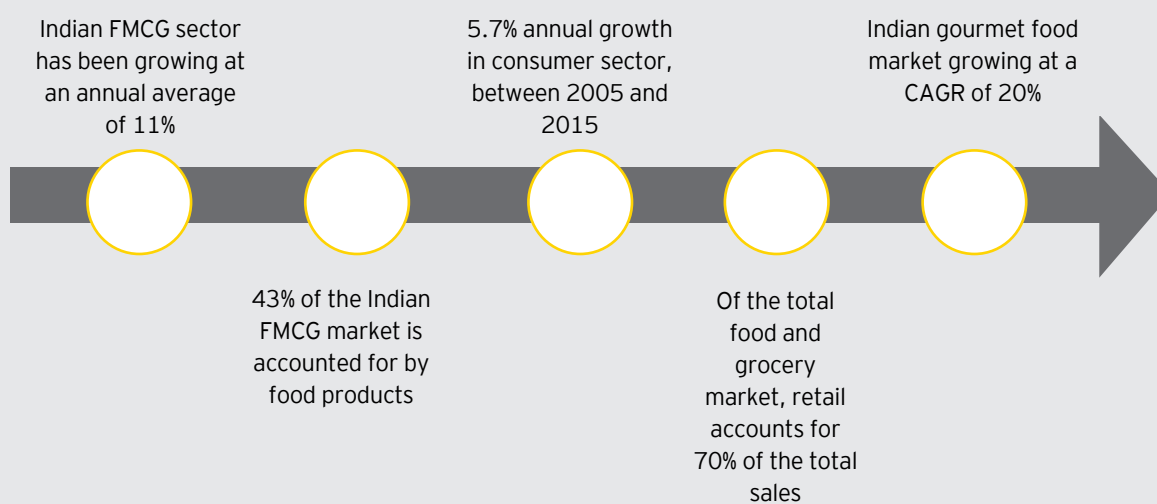
Food processing in India covers fruit and vegetables, plantations, grain processing, spices, milk and dairy products, meat and poultry, fisheries, non-alcoholic and alcoholic beverages, as well as other consumer

product groups such as confectionery, chocolates, cocoa products, soya-based products, mineral water and high protein foods.

The Indian food processing industry accounts for 32% of the country's total food market, is one of the largest industries in India and is ranked fifth in terms of production, consumption, export and expected growth. The sector constitutes around 8.80% and 8.39% of GVA in manufacturing and agriculture respectively, 13% of India's exports and 6% of total industrial investment<sup>1</sup>.

India's geographical location gives it a unique advantage, having convenient connectivity to Europe, the Middle East and Africa (amongst others) from the western coast and Japan, Singapore, Thailand, Malaysia, Korea, Australia and New Zealand (amongst others) from the eastern coast.

**The Indian food retail sector has witnessed tremendous growth, which is expected to continue in the sustainable future<sup>1</sup>**



<sup>1</sup>IBEF Reports - Food processing, Retail and FMCG Industries





India's natural food processing advantage, coupled with the growing consumer expenditure and demand in the country, has created vast potential in the food retail segment.

The FMCG sector in India has grown at an annual average of about 11% over the last decade, with food products accounting for 43% of the total segment.

The Indian gourmet food market is currently valued at US\$ 1.3b and is growing at a CAGR of 20%. India's organic food market is expected to increase three fold by 2020.

The online food ordering business in India is presently at a nascent stage, but witnessing exponential growth. With online food delivery players building scale through partnerships, the organised food business has a huge potential and a promising future. The online food delivery industry grew at 150% year on year, with an estimated GMV of US\$ 300m in 2016<sup>2</sup>.

Apart from the above, the constant policy support from central and state governments, along with the landmark implementation of the Goods and Service Tax in India have created a significantly compelling case for India to be amongst the top investment destinations worldwide.

### India showing strong promise in the food and retail sectors<sup>2</sup>

6th largest food and grocery market globally	Expected to become the world's largest consumer market by 2025	Organic food market expected to increase three-fold by 2020
5th largest retail market globally	Consumer spending expected to reach US\$ 4 trillion by 2025	Food processing is the 13th largest sector receiving FDI in India and has been growing rapidly in recent years

<sup>2</sup>IBEF Reports - Food processing, Retail and FMCG Industries

## Key growth drivers

Growing awareness, easier access, and changing lifestyles have been the key growth drivers for the consumer market. These factors, coupled with the growing purchasing power and rising influence of social media have enabled Indian consumers to increase discretionary spending and develop brand awareness.

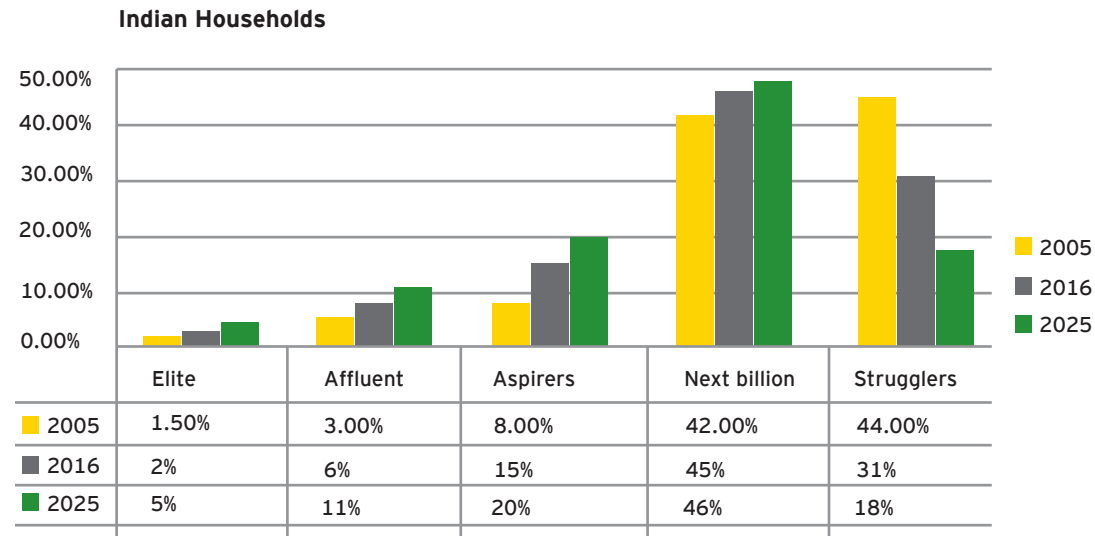
With a 12% nominal year on year expenditure growth rate (more than double of the global average rate of 5%), India is set to become the third largest consumer market in the world by 2025.

### Rising affluence

Rising affluence has been the biggest driver of India's increasing consumption expenditure. Of India's five broad household categories (elite, affluent, aspirers, next billion, and strugglers), the top two income classes are the fastest growing.

Income category	Annual gross income (US\$)
Elite	Greater than 30,800
Affluent	15,400-30,800
Aspirers	7,700-15,400
Next billion	2,300-7,700
Strugglers	Less than 2,300

From 2016 through 2025, the **share of elite and affluent households is anticipated to increase from 8% to 16%** of the total while the **share of strugglers would likely drop from 31% to 18%**.

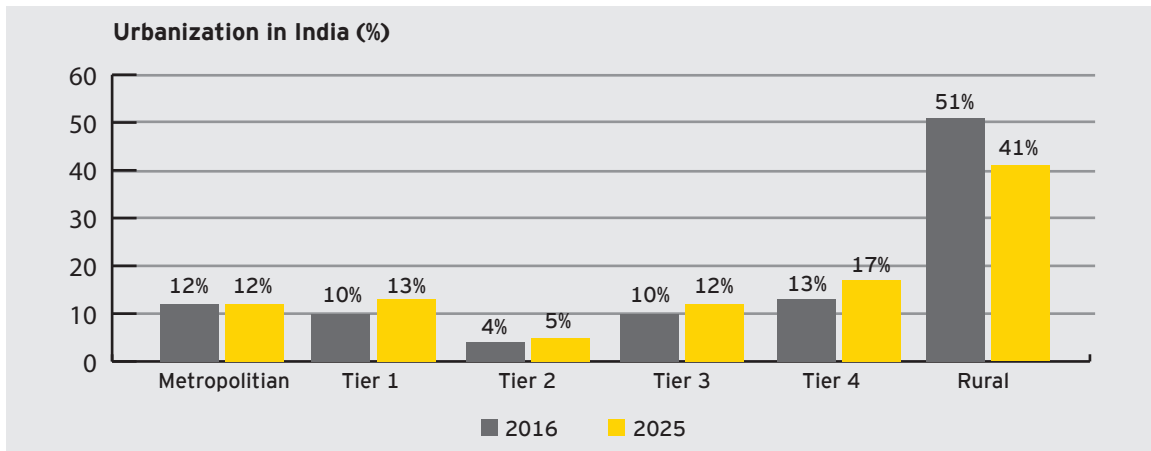


Source: 'BCG Report - The New Indian (March 2017)'

On account of conversion rates applied, all percentages do not add up to 100%

## Rapid urbanization

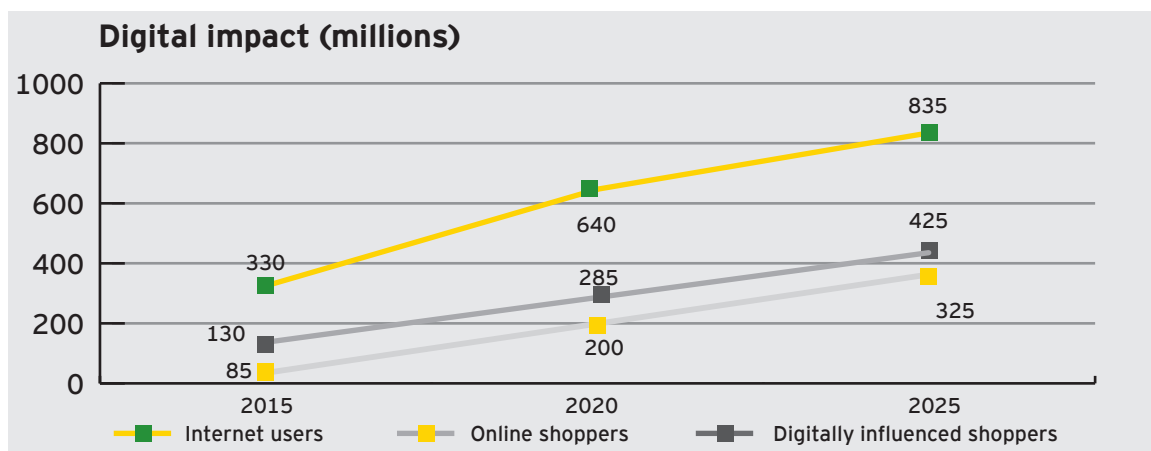
In terms of consumption expenditures, emerging cities (those with populations of less than 1m) have been the fastest growing. Fuelled by rising affluence, expenditures in these cities are rising by nearly 14% annually, while consumer spending in India's biggest cities is increasing at about 12%.



Source: 'BCG Report - The New Indian (March 2017)'

## Rise of digital India

The rapid growth of internet users, online shoppers as well as digitally influenced shoppers in India have played a crucial role in the rise of Indian retail and e-commerce. Come 2025, it is anticipated that digitally influenced spending in India will be more than US\$ 500b, and will account for 30-35% of all retail sales in the country.



Source: 'BCG Report - The New Indian (March 2017)'

**In light of the several growth drivers, the division of the Indian demographic and positive outlook, several global food and retail conglomerates have set-up operations in India, and are looking to expand in the country. Select examples of the strong global presence in India have been highlighted in the following pages.**

## Strong global presence

Given the strong global presence in the Indian food and retail sector, we have highlighted below the Indian presence that has been established by certain global food and retail conglomerates.

### Nestle (Switzerland)<sup>3</sup>

Nestle has been a partner in India's growth for over a century now, and has built a very special relationship of trust and commitment with the people of India.

Nestle India manufactures products of truly international quality under renown brand names such as Nescafe, Maggi, Milkybar, Kit-Kat, Bar-One, Milkmaid and Nestea. Further, in recent years the company has also introduced products of daily consumption and use such as Nestle Milk, Nestle Slim Milk, Nestle Dahi and Nestle Jeera Raita.

Nestle has 8 manufacturing units (Punjab, Haryana, Tamil Nadu, Goa (2), Karnataka, Uttarakhand and Himachal Pradesh), as well as 4 branch offices in India.

### Mondelez (USA)<sup>4</sup>

Mondelez is a market leader in India, having a 60% market share in the chocolate and confectionary segment. It's brands such as Cadbury Dairy Milk, Dairy Milk Silk, Bournville, 5-Star, Temptations, Perk, Eclairs, and so on are synonymous with chocolates in the country.

Rural sales contribute almost 20% of Mondelez's total revenue, with the Company's reach doubling to 40,000 villages in the last year.

Mondelez has 7 manufacturing units in India, with its largest plant (Andhra Pradesh) having been inaugurated in 2016.

### Coca-Cola (USA)<sup>5</sup>

Coca-Cola re-entered the Indian market post the economic liberalization of 1991 and established Coca-Cola India Private Limited as its WOS, in 1992.

Since then, Coca-Cola India has gone on to establish a large portfolio of beverages, with its leading beverage brands like Coca-Cola, Coca-Cola Zero, Diet Coke, Thums Up, Fanta, Fanta Green Mango, Limca, Sprite, Sprite Zero, VIO Flavored Milk, Maaza, Minute Maid range of juices, Georgia and Georgia Gold range of hot and cold tea and coffee options, Kinley and Bonaqua packaged drinking water, Kinley Club Soda and BURN energy drink.

Coca-Cola has already invested over US\$ 2b in India, and is expected to take its total investment in the country to US\$ 7b by 2020.

In India, Coca-Cola has 57 manufacturing plants, 14 bottlers, and a reach to 2.6m retailers and over 7,000 distributors.

### Starbucks Corporation (USA)<sup>6</sup>

In January 2012, Starbucks Corporation announced a 50:50 joint venture with Tata Global Beverages known as Tata Starbucks Limited (now known as Tata Starbucks Private Limited) to own and operate outlets branded as 'Starbucks, a Tata Alliance'.

Come October 2012, the JV opened its first outlet in India (in Mumbai). Since then, Starbucks has opened outlets in several other Indian cities and as of April 2017, there were 91 outlets in 8 major Indian cities.

<sup>3</sup> <https://www.nestle.in/aboutus/presenceacrossindia>

<sup>4</sup> <http://in.mondelezinternational.com/about-us/india-business>

<sup>5</sup> <http://www.coca-colaindia.com/about-us/coca-cola-worldwide-and-in-india>

<sup>6</sup> [http://www.starbucks.in/media/1TheTatagroupandStarbucksCoffeeCompanyStrengthenGlobalPartnershipwithMultipleNewCommitments\\_tcm87-16176.pdf](http://www.starbucks.in/media/1TheTatagroupandStarbucksCoffeeCompanyStrengthenGlobalPartnershipwithMultipleNewCommitments_tcm87-16176.pdf)



## Tesco Plc (UK) <sup>7</sup>

In 2014, Tesco announced the forming of a 50:50 joint venture with Trent Limited (part of the Tata Group), by purchasing a 50% stake in Trent Hypermarket Limited ('THL') for GBP 85m. THL operates the multi-brand 'Star Bazaar' retail outlets in India, making Tesco the first company to invest in India's multi-brand retail sector. THL presently has 45 stores in India.

Tesco also has a global service entity in India which is involved in creating and executing strategic initiatives covering IT, financial, commercial and property, among others. Further, Tesco has also set-up a sourcing base in India, majorly for apparels, whereby Tesco leverages on the low cost advantage of India by sourcing cheap but quality products.

In 2017, Tesco has announced plans to open 50 stores in Hyderabad over the next 2-3 years, as well as a distribution centre. The expansion is part of the 200 stores expansion plan for Mumbai, Pune, Hyderabad and Bengaluru.

## Walmart Stores, Inc. (USA) <sup>8</sup>

Wal-mart India Private Limited was established as a WOS of Walmart Stores Inc. and opened its first store in India in 2009 (in Amritsar). Wal-Mart India owns and operates 21 'Best Price Modern Wholesale' stores in 9 states across India. A typical Best Price cash-and-carry store spans over 50,000 square feet and sells a wide range of fresh, frozen and chilled foods, fruits and vegetables, dry groceries, personal and home care, hotel and restaurant suppliers, clothing, office supplies and other general merchandise items. In July 2014, Wal-Mart India launched a B2B e-commerce platform and extended it to its Best Price store members, providing them with a convenient online shopping opportunity.

## Metro AG (Germany) <sup>9</sup>

Incorporated in 2001, Metro Cash and Carry India Private Limited is a WOS of the German Metro group. Metro Cash and Carry commenced operations in India in 2003 with the opening of its first wholesale distribution centre in India at Yeshwantpur, Bangalore. In India, Metro Cash and Carry currently has 23 operational wholesale centres, 6 in Bangalore, 3 in Hyderabad, 2 each in Mumbai and Delhi, and 1 each in Kolkata, Ludhiana, Jalandhar, Zirakpur, Amritsar, Lucknow, Vijayawada, Indore, Jaipur and Surat.

Metro Cash and Carry India offers close to 7,000 world class products across a multitude of categories, such as fruits and vegetables, general grocery, dairy, frozen and bakery products, fish and meat, confectionery, detergents and cleaning supplies, health & beauty products, media and electronics, household goods and apparel.

In 2017, Metro Cash and Carry announced plans to add 26 stores in India by 2020, entailing a total investment of INR 16.9b.

<sup>7</sup><https://www.tescopl.com/about-us/our-businesses/tesco-in-india/tesco-in-india/>

<sup>8</sup><http://www.wal-martindia.in/about-us/our-business> ; <http://economictimes.indiatimes.com/industry/services/retail/walmart-evaluating-fdi-guidelines-on-food-retail-in-india-ceo/articleshow/58166422.cms>

<sup>9</sup><https://www.metro.co.in/about-us> ; [http://www.business-standard.com/article/companies/metro-cash-carry-to-invest-over-rs-1-690-cr-in-india-by-2020-117061300898\\_1.html](http://www.business-standard.com/article/companies/metro-cash-carry-to-invest-over-rs-1-690-cr-in-india-by-2020-117061300898_1.html)

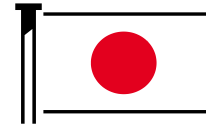
## Recent investments in India<sup>10</sup>



India's largest online supermarket



Amazon Corporate Holdings, Grofers India and Super Market Groceries Supplies (Big Basket) have recently received approval for investing a total of **US\$ 695m** in the Indian food retail sector.



Japanese brands such as Marubeni Corporation, Ise Foods, House Foods Group and Kagome are planning to invest in India to source for raw materials.

The Japanese firms are also planning to invest in cold chains and other infrastructure.



With an investment of **US\$ 148.74m**, Amway plans to open 50 retail stores in the country by 2018



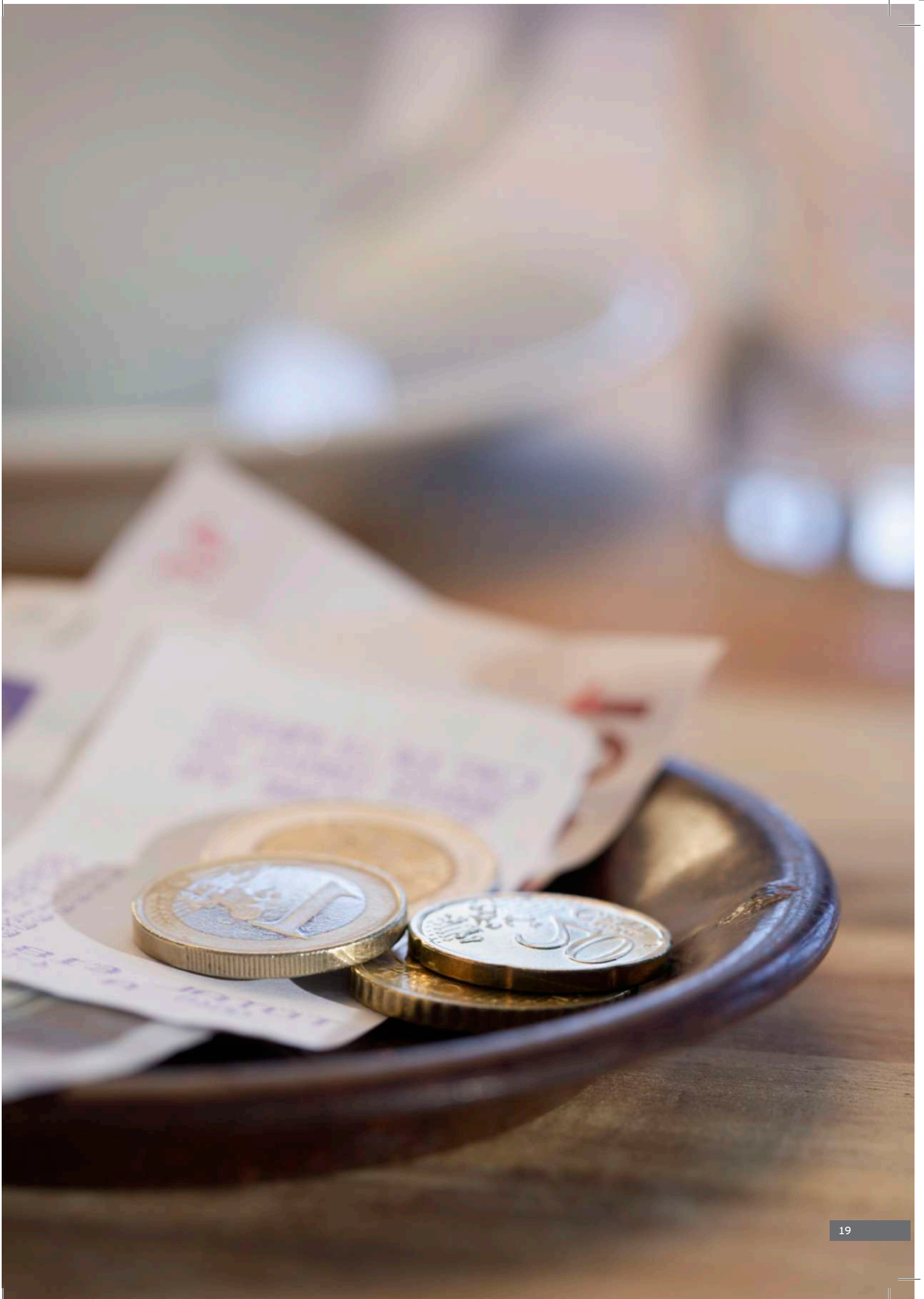
In 2016, Mondelez commissioned the first phase of its largest Asia-Pacific manufacturing facility coming up in Andhra Pradesh's Sri City. The factory has been set up with an initial investment of **US\$ 190m**.



Future Consumer Ltd has formed a JV with UK's largest wholesaler, Booker Group, with an investment of INR 50cr (**US\$ 7.5 m**), to set up 60-70 cash-and-carry stores in India in the next 3-4 years.



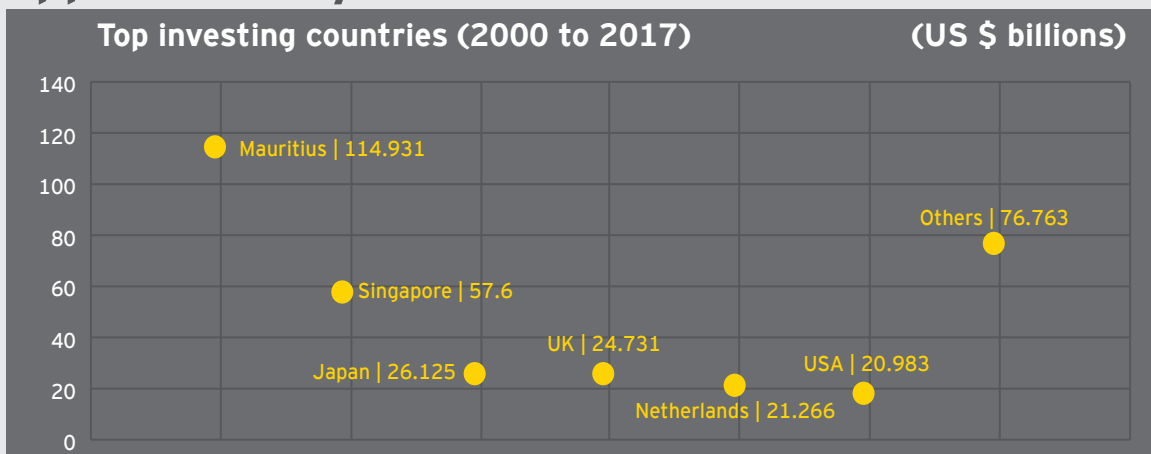
<sup>10</sup> IBEF Reports - Foreign Direct Investment, Food processing, Retail and FMCG Industries



# India: Key statistics and facts



The total FDI equity inflows<sup>11</sup> to India from the period April 2000 to June 2017 aggregated to approximately US\$ 342.40b.



While countries like Mauritius, Singapore and Netherlands feature amongst the top investors in India, the same is largely on account of funding by various global companies through these jurisdictions on account of favorable tax treaty network.

Various global food and other retail companies have invested in India, such as:

**Food processing and food retail** - Nestle, General Mills, Bunge, Mondelez, Tesco, Lotte, Domino's, Pizza Hut, KFC, TGI Friday's, Perfetti, Unilever, Coca-Cola, PepsiCo, McDonald's, Burger King, Carlsberg, Diageo, Ajinomoto, Kellogg's, Starbucks, Taco Bell, Cinnabon, Archer Daniels Midland, Mead Johnson, Abbott, Amway, Ferrero, etc.

**Wholesale trading** - Red Bull, Walmart, Metro AG, etc.

**Retail trading (other than food)** - Zara, Marks and Spencer, H&M, Gap, Benetton Group, Tommy Hilfiger, DKNY, Forever 21, Kenneth Cole, Superdry, Decathlon, etc.

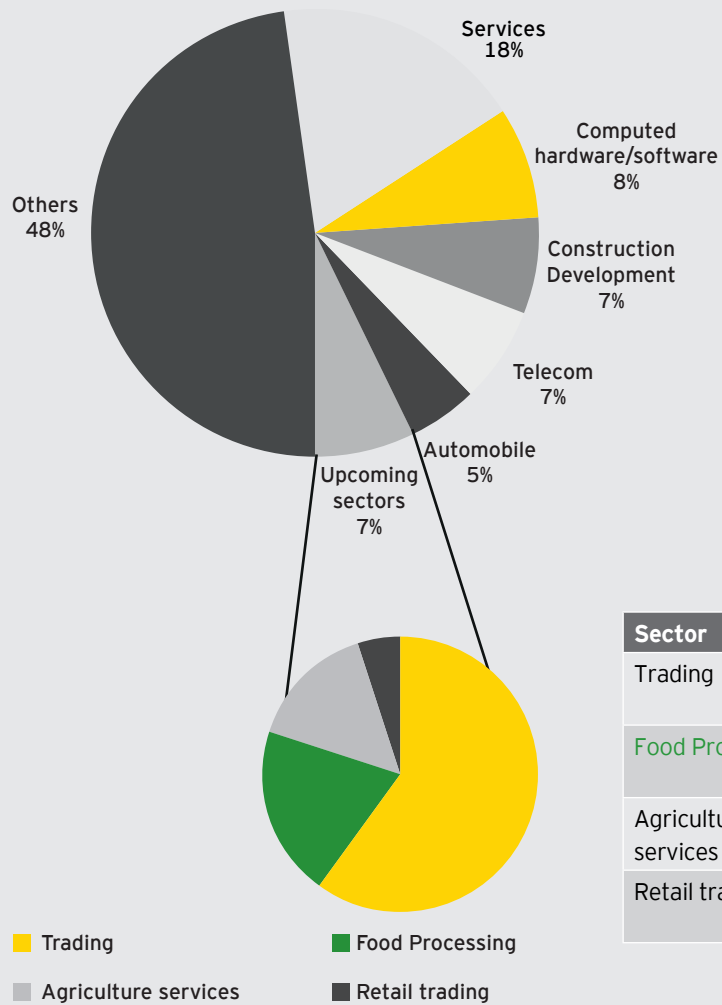
India's rank in the FDI Confidence Index has been consistently improving, and is now at Rank 8 (from 9 in 2016 and 11 in 2015)<sup>12</sup>.

Rank (2017)	Country
1	USA
2	Germany
3	China
4	UK
5	Canada
6	Japan
7	France
<b>8</b>	<b>India</b>
9	Australia
10	Singapore





Amongst 63 sectors that attract FDI in India, traditionally the top 5 sectors (services, automotive, construction, computer software/hardware and telecommunications) account for almost 45% of the total FDI equity inflows from April 2000 to June 2017<sup>13</sup>.



Sector	FDI since April 2000
Trading	4.37% share, with FDI amounting to <b>US\$ 14.98b</b>
Food Processing	<b>2.28% share, with FDI amounting to US\$ 7.81b</b>
Agriculture services	0.58% share, with FDI amounting to <b>US\$ 1.99b</b>
Retail trading	0.30% share, with FDI amounting to <b>US\$ 1.04b</b>

<sup>11</sup>DIPP Quarterly Fact Sheet (April 2000 to June 2017)

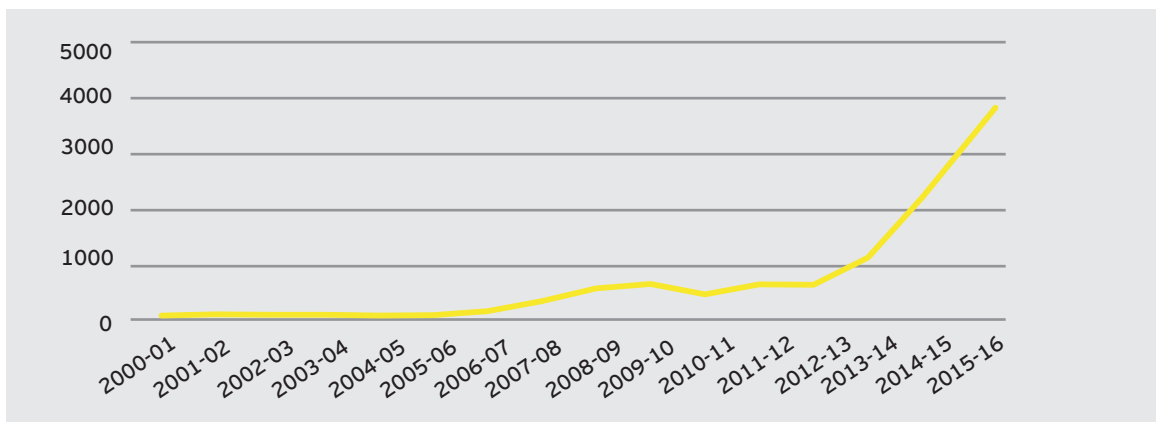
<sup>12</sup>AT Kearney's FDI Confidence Index

<sup>13</sup>DIPP Quarterly Fact Sheet (April 2000 to June 2017)

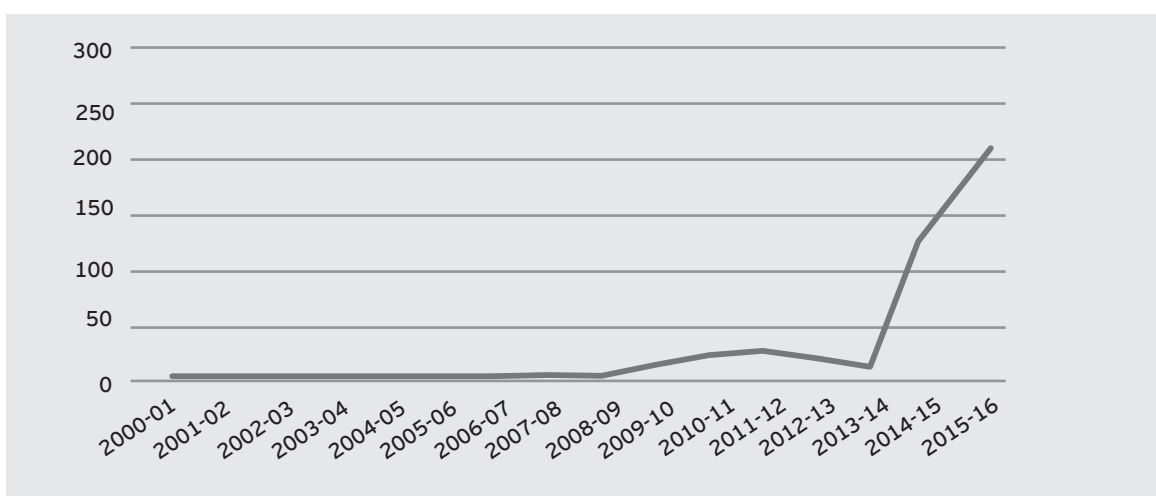


Since April 2000, foreign investments in India have shown steady growth in several sectors. The growth trends in certain relevant sectors have been graphically depicted below.

### Trading (US\$ m)

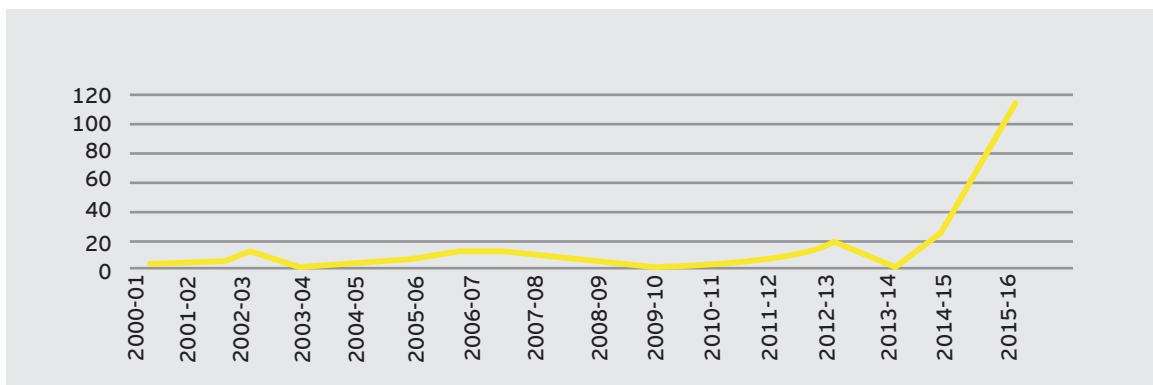


### Retail Trading (US\$ m)

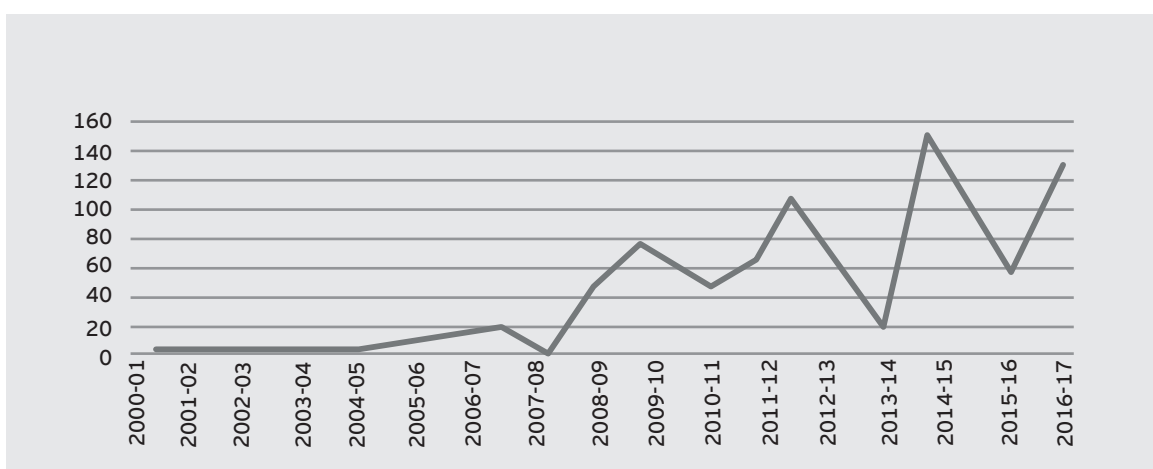




**Sugar (US\$ m)**



**Vegetable Oils (US\$ m)**



# Investors outlook towards India



## The India advantage

### Positive outlook amongst investors

Brand India is overall very positive one, with investors viewing the country as a vast, diverse, technologically advanced and a fast developing economy.

Further, India's low cost of labor is an advantage to foreign investors looking for an alternative low cost manufacturing center.

India, being the third largest economy (in terms of purchasing power parity) makes for an extensive consumer goods and B2B sales market.

The World Bank has predicted a growth rate of 7.2% for India in 2017 (against 6.8% in 2016). Further, India's growth is projected at 7.5% in 2018 and 7.7% in 2019<sup>14</sup>.

India has retained its position as the top FDI destination globally, in FY 2016-17.

Further, India has had the highest GDP growth market in the world for the second consecutive year, and is estimated to continue similarly in the sustainable future due to its strong macro-economy.

### Key factors attracting investments

- ▶ Domestic market size
- ▶ Growing middle class population
- ▶ Rising disposable income
- ▶ High proportion of disposable income spent on food
- ▶ Rising awareness on account of multi-channel retail formats

Demand

- ▶ Cost of labour
- ▶ Skilled workforce
- ▶ Technological capability
- ▶ Vast natural resources
- ▶ Abundance of raw materials, specifically for the food processing sector
- ▶ Availability of manufacturing facilities, food parks and other supply chain infrastructure

Supply

*"In this cloudy global horizon, India is a bright spot. Recent policy reforms and improved business confidence have provided a booster shot to economic activity"*

-Christine Lagarde (Chief of International Monetary Fund)

<sup>14</sup>World Bank Report - Global economic prospects - June 2017





## Infrastructure to fuel FDI

With the aim of time-bound creation of world class infrastructure in the country, the Indian government has, in addition to implementation of several policies and schemes, allocated a large amount towards development of the sector in 2017.

For further accelerating the growth in manufacturing and ensuring scientifically planned urbanization, integrated industrial corridors are being developed in the country. Presently, the following five corridors have been planned, wherein manufacturing will be a key economic driver and these projects are seen as critical in raising the share of manufacturing in India's GDP to 25% by 2025<sup>15</sup>.

- ▶ Delhi Mumbai Industrial Corridor
- ▶ Chennai-Bengaluru Industrial Corridor
- ▶ Amritsar Kolkata Industrial Corridor
- ▶ Bengaluru- Mumbai Economic Corridor
- ▶ Vizag-Chennai Industrial Corridor

India's commitment to improve its infrastructure and related facilities has also been acknowledged by the World Bank in its Logistics Performance Index wherein **India's ranking has improved by 19 places in 2016 to reach 35**, from rank 54 in 2014 (amongst 150 countries). Further, in 2017, **India ranks 26<sup>th</sup>** (amongst 190 countries), improving from rank 51 in 2016, when it comes to getting electricity as per the World Bank's report on Ease of Doing Business.

Apart from the schemes and funds set-up for the development of overall infrastructure of the country, MoFPI has also implemented several schemes and fiscal incentives for promoting the development

of infrastructure specifically related to India's food processing industry. Majority of such schemes are covered under the 'Pradhan Mantri Kisan Sampada Yojana', which is an umbrella scheme launched by MoFPI, and includes the following:

- ▶ Mega Food Park Scheme
- ▶ Scheme of cold chain, value addition and preservation infrastructure
- ▶ Scheme for creation/expansion of food processing and preservation capacities
- ▶ Infrastructure for agro-processing clusters
- ▶ Scheme for creation of forward and backward linkages
- ▶ Food safety and quality assurance infrastructure
- ▶ Human resources and institutions

Further information on the various schemes and incentives offered by MoFPI can be found at <http://mofpi.nic.in/>

While the overall development of infrastructure will play a big part in developing the various sectors of the Indian economy (including food processing), the above initiatives of MoFPI are aimed at improving yield levels and to effectively integrate the food processing supply chain in the country.

The above factors, coupled with the availability of skilled and low cost labour, focus of research and development activities and strong manufacturing capabilities make India increasingly preferable as an attractive investment destination with tremendous potential by not only global food processing and food retail companies, but also by several global logistics and other related infrastructure companies.

<sup>15</sup><http://pib.nic.in/newsite/PrintRelease.aspx?relid=155056>

# Introduction to forex laws in India



## Introduction

Prior to 1999, Indian cross-border and exchange control regulations were covered under FERA, which prohibited several cross border business transactions, unless specifically permitted.

In 1991, the Indian Government introduced various landmark reforms liberalizing the regulations governing cross-border transactions and foreign investments in the country. Given that FERA was no longer compatible in the post-liberalization era, the same was replaced in 1999 by FEMA.

Accordingly, as on date, Indian exchange-control regulations with respect to cross-border and foreign currency transactions are governed under FEMA (alongwith the regulations and guidelines prescribed thereunder).

Further, since 1999 (and to date), the FDI regime in India has been progressively liberalized with most restrictions on foreign investments being removed and procedures being simplified.

FDI in India is permitted either under the automatic route or the approval route, as explained below:

- ▶ **Automatic route:** No prior approval is required to be sought by the investor. The only requirement would be to intimate the RBI (through an AD Bank), within 30 days of the inflow of funds and issuance of shares respectively.
- ▶ **Approval route:** Prior approval of the government is required to be obtained by the investor. Till 2017, FIPB was entrusted with the authority to provide such approval. However, w.e.f. from 2017, the FIPB has been replaced by the online Foreign Investment Facilitation Portal (refer next page).

Foreign currency transactions can be broadly classified into capital and current account transactions, as under:

- ▶ **Capital account transactions:** Such transactions are generally prohibited, unless specifically permitted under the relevant regulations.
- ▶ **Current account transactions:** Such transactions are freely permitted, unless specific restrictions are prescribed under the relevant regulations.





With respect to food processing and retailing, FDI regulations have been segregated into the following broad categories, each having certain conditions that are to be fulfilled:

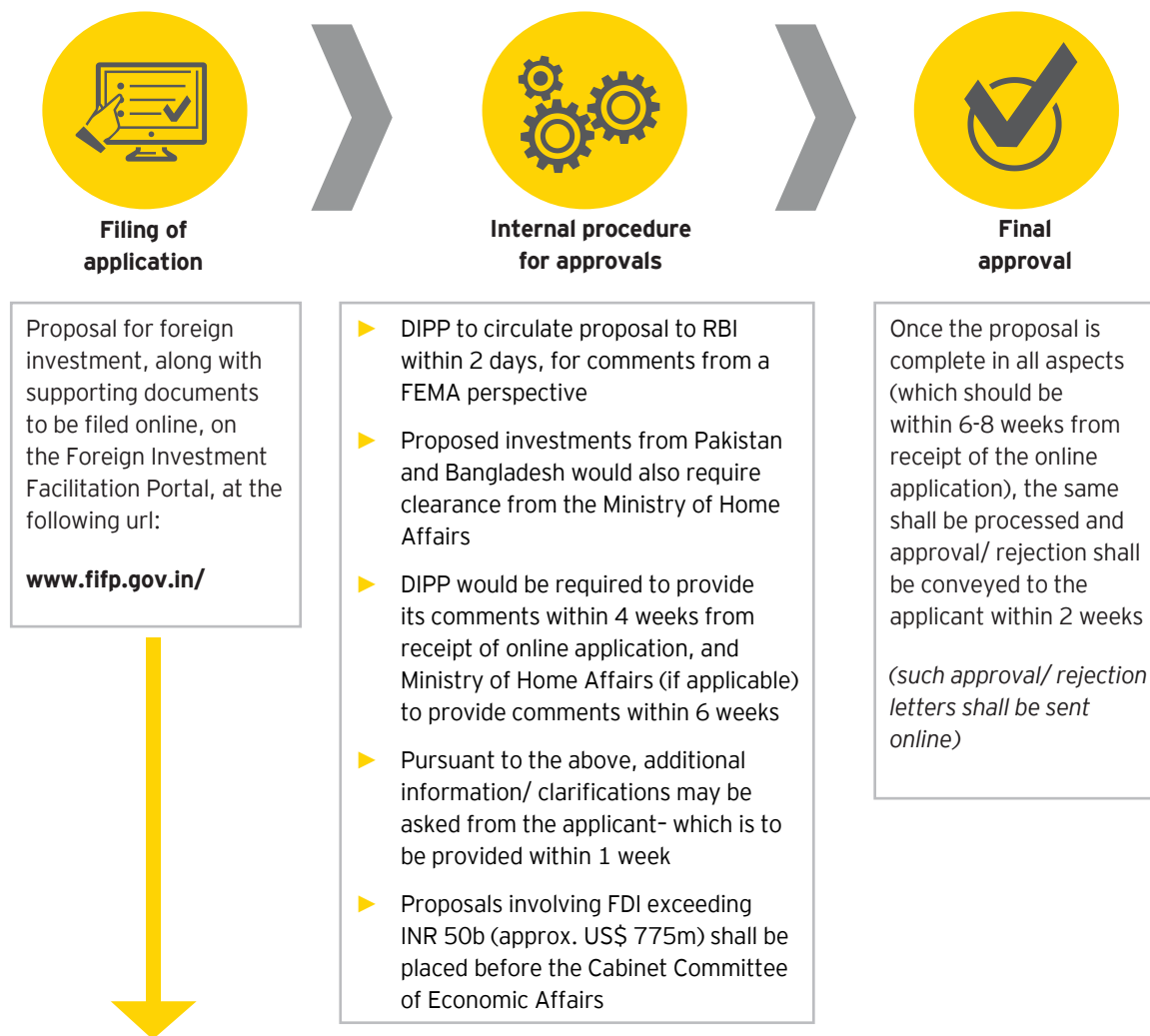
Category	Description
Manufacturing	Entities that undertake manufacturing operations in India
Agriculture	Entities engaged in floriculture, horticulture, apiculture and cultivation of vegetables
Plantation	Entities engaged in plantation of tea, coffee, rubber, cardamom, palm oil and olive oil
Wholesale trading	Entities that sell goods to other retailers, industrial, commercial or business users, but not to end consumers
SBRT	Entities that sell goods (to end consumers) of only one brand
MBRT	Entities that sell goods (to end consumers) of various brands
E-commerce	Entities that act as a digital marketplace for other retailers to sell products to end consumers
Food retail	Entities that sell (including through e-commerce) food products manufactured or processed in India (to end consumers)



## Abolishment of FIPB

In 2017, in order to further enable ease of doing business in India, the Finance Minister, inter alia, announced phasing out of the FIPB, as a part of his Union Budget speech. Pursuant to the same, on 29 June 2017, the DIPP issued a notification<sup>15</sup> whereby the FIPB was replaced by the online Foreign Investment Facilitation Portal for processing of FDI proposals covered under the approval route.

FIFP is an online single point interface of the Indian government for investors to facilitate FDI. The procedure for processing FDI proposals (for retail trading and food retail, where under the approval route), has been broadly summarized below:

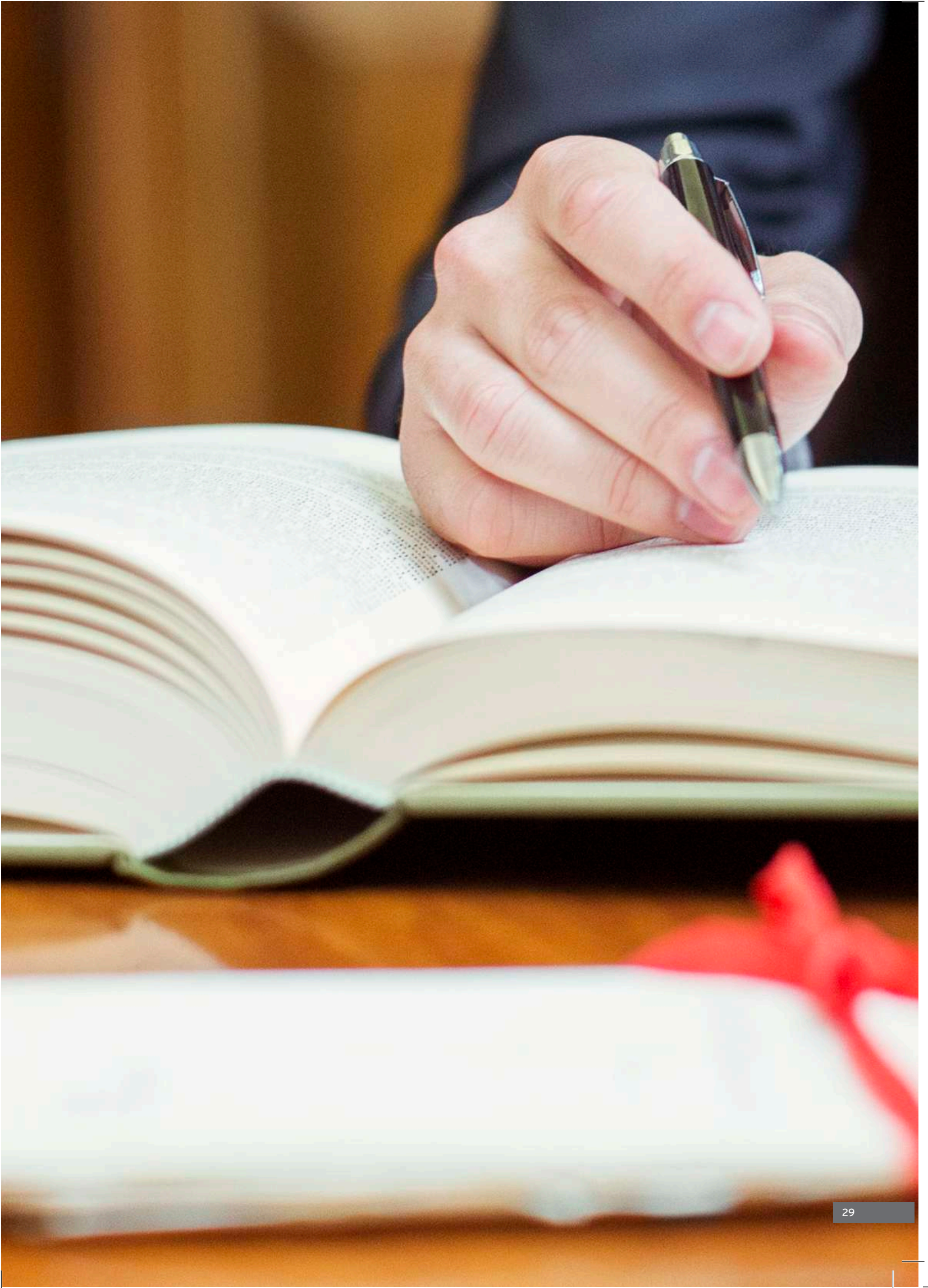


Where the online application is digitally signed by an authorised signatory, there is no requirement for physical submission of the application. However, for applications without a digital signature, once the e-filing of the application is complete, the applicant is required to file one signed copy of the printed application, along with duly authenticated copies of the documents attached with the application, with the nodal officers of the concerned Ministry/Department. In case of applications for retail trading and food retail, physical applications will need to be filed with the following officer:

**Sh. Sushant Sudan (Deputy Director, DIPP),**  
 Room No. 359 A, Udyog Bhawan,  
 New Delhi.

<sup>15</sup> SOP for processing FDI Proposals issued by DIPP







# FDI in India - The journey so far



While there were various restrictions on investing in the Indian market in the past, in 1991, the investment policy was significantly liberalized with the express intent to simplify and attract foreign investments in the country.

Further, given that the erstwhile FERA was not compatible with the new pro-liberalization policies

of the government, the same was replaced in 1999 by FEMA, with a view to consolidate and amend the law relating to foreign exchange and to facilitate external trade and payments and for promoting the orderly development and maintenance of the foreign exchange market in India.

1997

Upto 100% FDI in wholesale trading permitted for the first time (under the approval route).

2006

FDI in wholesale trading brought under the automatic route.

Upto 51% FDI in SBRT was permitted for the first time (under approval route).



Prior to 1997

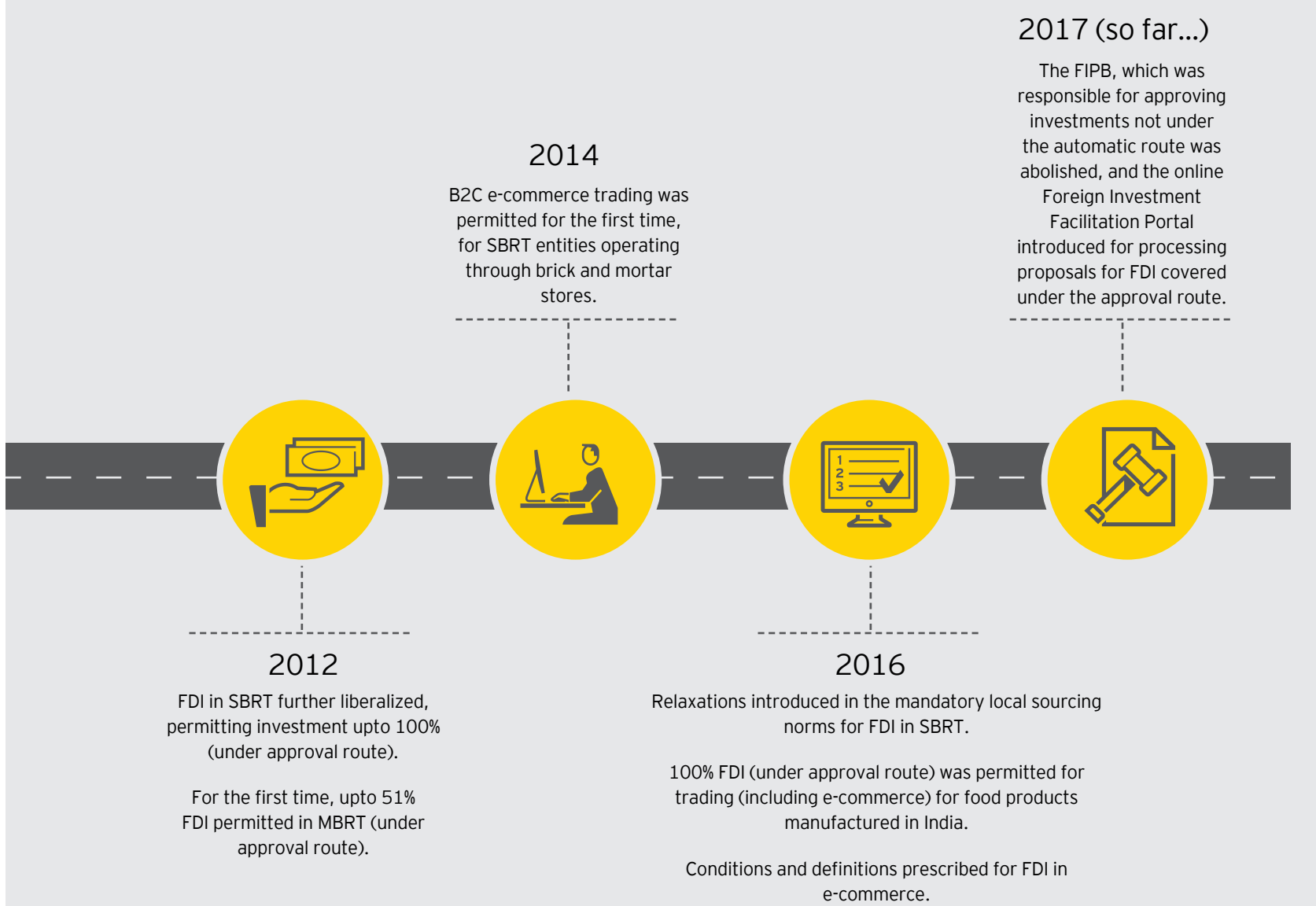
While several liberalizations were introduced with respect to FDI in the early '90s, FDI in any form of retail trading was completely prohibited until 1997.



2000

Upto 100% FDI in B2B e-commerce permitted for the first time (under the automatic route).





# FDI regulations as on date



## Manufacturing and food processing

### Manufacturing sector

Historically, the Indian government has placed high importance on the manufacturing sector, with a view to bolster industrialization and generate employment opportunities in the country. **100% FDI** is permitted for the manufacturing sector under the **automatic route**.

A manufacturer is also permitted to sell its products manufactured in India through wholesale, retail or e-commerce activities.

Further, notwithstanding the FDI provisions applicable to the retail trading sector, **100% FDI** under the **approval route** is permitted for food products manufactured or produced in India.

### Agriculture Sector

**100% FDI** is permitted, under the **automatic route** for the following activities:

- ▶ Floriculture, horticulture, apiculture and cultivation of vegetables and mushrooms under controlled conditions (ie where climatic and related conditions are controlled artificially)
- ▶ Development and production of seeds and planting material
- ▶ Services related to agro and allied sectors

*Other than the above, FDI is not permitted for any other agricultural activities.*

### Plantation Sector

**100% FDI** is permitted, under the **automatic route** for the following plantations:

- ▶ Tea and coffee
- ▶ Rubber
- ▶ Cardamom
- ▶ Palm oil and olive oil

*Other than the above, FDI is not permitted for any other plantation activities.*

## Single-brand retail trading

With a view to improve the availability of goods in the country, encourage local sourcing of products from India, improve the competitive landscape in the retail sphere and promote best practices in the industry, upto **100% FDI** is now permitted for companies looking to undertake SBRT in India.

SBRT refers to the trading of products that have been branded (during manufacture) under a single brand. FDI in SBRT has shown consistent growth in India, with various global conglomerates having set-up operations in the country.



- ▶ FDI **upto 49%** is permitted under the **automatic route**
- ▶ FDI **beyond 49%** (and upto 100%) is permitted under the **approval route**
- ▶ Where FDI in SBRT **exceeds 51%**, mandatory **local sourcing norms** would be applicable
- ▶ SBRT entities operating through brick and mortar stores would also be permitted under retail trading through e-commerce activities
- ▶ Products sold should be of a single brand only

### **Sub-brands covered under single brand?**

A sub-brand is ordinarily understood as a brand that is affiliated with a parent brand, but has its own brand name.

As on date, the FDI regulations do not provide direct clarity as to whether such companies should be covered under SBRT for FDI purposes.

It is however understood that DIPP has permitted companies to be classified as undertaking SBRT activities subject to the main parent brand ("house brand") logo appearing alongside the sub-brand logo on the relevant products.

### **Mandatory local sourcing norms for investing in SBRT:**

- ▶ Where FDI in SBRT exceeds 51%, mandatory local sourcing norms would be applicable
  - ▶ *At least 30% of the value of goods purchased should be from India (preferably from MSMEs, artisans, craftsmen or village/cottage industries)*
- ▶ In the first instance, the local sourcing requirement should be met as an average of 5 years (i.e., from 1 April of the financial year where the first store was opened), and thereafter annually
- ▶ Local sourcing norms would not be applicable for the first 3 years (i.e., from 1 April of the year where the first store was opened), for entities trading products having "state-of-the-art" or "cutting-edge" technology, or where local sourcing is not possible
- ▶ Where such relaxation is claimed for local sourcing norms (i.e., for state-of-the-art or cutting edge technology, or where local sourcing is not possible), the same shall be examined and verified by a committee formed under the chairmanship of DIPP's Secretary, along with representatives from the National Institute for Transforming India (NITI Aayog), and independent technical experts on the subject

## Indian brands seeking foreign investment

### Erstwhile FDI regulations:

As per the erstwhile FDI regulations, an Indian manufacturer was permitted to sell its own branded products in India through wholesale, retail, or e-commerce.

Further, the regulations defined an Indian manufacturer as a company cumulatively satisfying the following conditions:

- ▶ Should be the investee company
- ▶ Should own an Indian brand
- ▶ Should manufacture at-least 70% (in value) of products in-house and source the balance from Indian manufacturers

The regulations went on to define an Indian brand as one that is owned/controlled by resident Indians, or by a company that is owned/controlled by resident Indians.

Given that the above regulations were part of the FDI regulations governing SBRT, the same created ambiguity for Indian brands looking to receive foreign investment. The dichotomy that arose was whether or not Indian brands receiving FDI would be required to manufacture 70% of their products in-house and source the balance from Indian manufacturers.

### Clarity provided in the FDI Policy of 2017

Given the dichotomy that arose with respect to Indian manufacturers undertaking SBRT, the said provisions have now been removed in the consolidated FDI Policy of 2017 (w.e.f. 28 August 2017).

Further, the definition of "Indian brand" has been retained to mean one that is owned/controlled by resident Indians, or by a company that is owned/controlled by resident Indians, thus implying FDI in such cases should not exceed 50%.

In light of the above, it is now clear that Indian brands would be permitted to obtain funding by way of FDI, and would not be subject to mandatory in-house manufacturing or local sourcing requirements.

This amendment in the FDI Policy of 2017 is a welcome move by Indian brands seeking foreign investments, and also by foreign venture capital/private equity funds looking to invest in India's retail sector.

Refer to Appendix A for a detailed list of conditions that apply to FDI in SBRT





# Multi-brand retail trading

While the Indian government has historically maintained a protective stance towards foreign investments in the multi-brand retail sector (such as super-markets, hyper-markets, malls and so on), in 2012, the government opened its doors to FDI in the sector subject the following conditions:

- ▶ **FDI upto 51%** is permitted under the government **approval route**
- ▶ The minimum amount required to be brought in as FDI for MBRT would be **US\$ 100m**
- ▶ At least 50% of the first tranche of US\$ 100m is required to be invested in **'back-end infrastructure'** within 3 years

*Back-end infrastructure includes all capital expenditure, excluding that on front-end units. Examples: Quality control, distribution, packaging, warehousing, design improvement, logistics, etc. (expenditure on land and rentals is specifically excluded)*

- ▶ Entities having FDI, and engaged in MBRT activities, would not be permitted to engage in trading vide e-commerce

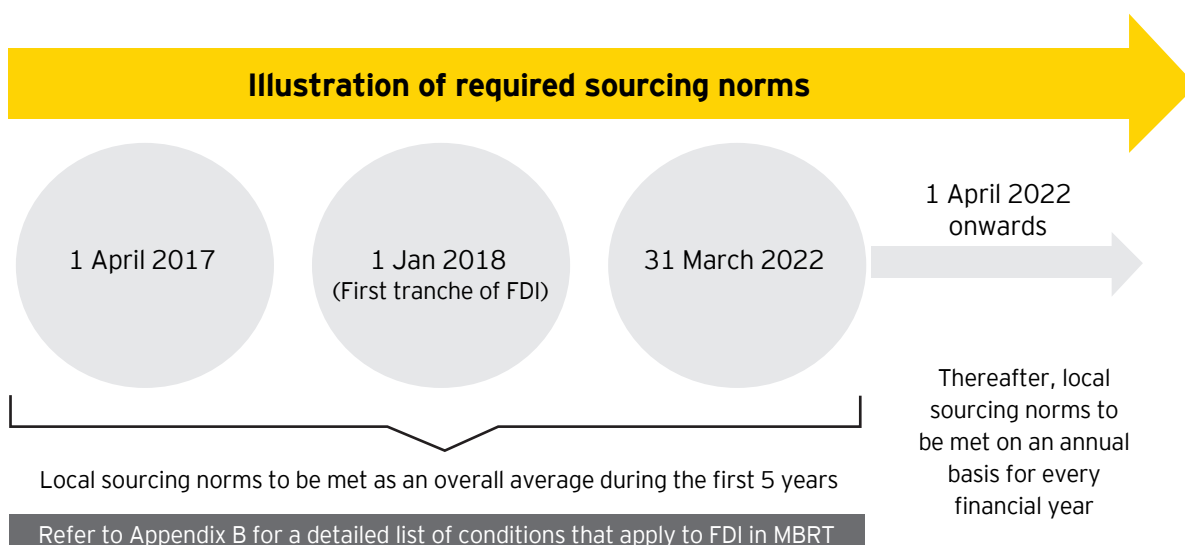
## Local sourcing norms for investing in MBRT:

- ▶ At least 30% of the value of procurement should be sourced from Indian MSMEs that have a total investment in plant of machinery not exceeding US\$ 2m  
  
(sourcing from agricultural and farmers co-operatives would also fall in this category of sourcing)
- ▶ In the first instance, the local sourcing requirement should be met as an average of 5 years (i.e., from 1 April of the year where the first tranche of FDI was received), and thereafter annually (refer below illustrative timelines)

## State government discretion:

- ▶ The FDI policy on MBRT is only enabling in nature, and retail outlets can only be set-up in states/union territories that have agreed to this policy
- ▶ Further, retail outlets may only be set-up in cities with a population exceeding 1m (or other cities prescribed by State Governments)

*States where MBRT is permitted: Andhra Pradesh, Assam, Delhi, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman and Diu (Union Territory)*



# Wholesale and e-commerce

## Wholesale trading

- ▶ Wholesale trading refers to sale, for the purpose of trade, business or profession, as opposed to sale for personal consumption
- ▶ FDI upto 100% is permitted for wholesale cash and carry trading, under the automatic route
- ▶ Wholesale trade of goods would be permitted to companies of the same group, but the same should not exceed 25% of the total revenue earned by the wholesale venture
- ▶ Wholesale entities would also be permitted to undertake SBRT, subject to separate books of accounts being maintained (and audited) for each business arm, and fulfilment of the prescribed FDI conditions for each business arm

## E-Commerce

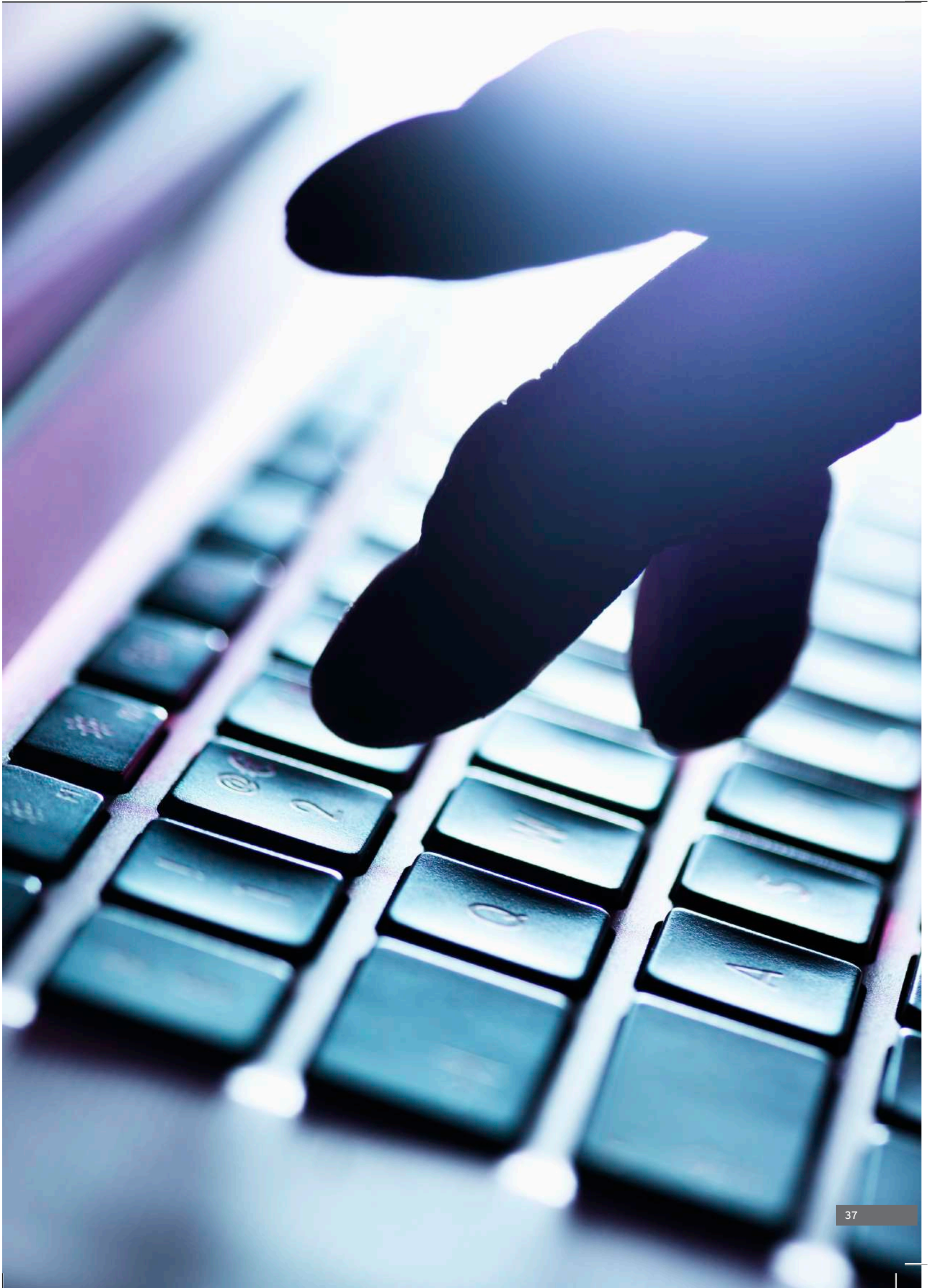
E-commerce refers to buying and selling of goods/ services (including digital products) over digital and electronic networks. The rapid increase in digitization globally, including in India, has led to a rapid growth in e-commerce trading.

While SBRT entities operating through brick and mortar stores are permitted to undertake e-commerce activities, there are separate regulations prescribed for entities that purely run an e-commerce platform/ marketplace.

- ▶ FDI **upto 100%** is permitted for e-commerce activities under the **automatic route**
- ▶ *FDI in e-commerce is only permitted for a market-place model of e-commerce, and not for an inventory-based model*
- ▶ A market-place model refers to a e-commerce entity providing an IT platform on a digital/ electronic platform to act as a facilitator between buyers and sellers
- ▶ Not more than 25% of total sales (*during a given financial year*) affected through an e-commerce marketplace should be from one vendor or its group companies

Refer Appendix C for a detailed list of conditions that apply to FDI in Wholesale and e-commerce





# Single-brand or multi-brand retail?



## Single-brand or multi-brand?

Criteria	SBRT	MBRT
Permitted FDI	Upto 100%	Upto 51%
Approval required?	Upto 49%: <b>No</b> Beyond 49%: <b>Yes</b>	<b>Yes</b>
Minimum investment	No minimum investment	US\$ 100m
E-commerce	Permitted for SBRT entities operating through brick and mortar stores	Not permitted
Sourcing norms	Only if FDI exceeds 51%	Applicable for any amount of FDI
Relaxation of sourcing norms	Yes, for first 3 years in case of "cutting edge" or "state of the art" technology, or where local sourcing is not possible	No relaxation of sourcing norms in any case
Discretion of states?	No	Yes, FDI policy is only enabling in nature





“ While both the models facilitate growth in the retail sector, MBRT has typically been tightly regulated, considering the associated economic and political challenges. On the other hand, over the years, SBRT regulations have been consistently liberalized, providing the necessary impetus to the sector and has made more international brands accessible to Indian consumers at their doorstep. ”

**Aashish Kasad**

Partner and CPR Tax Leader,  
Ernst & Young LLP



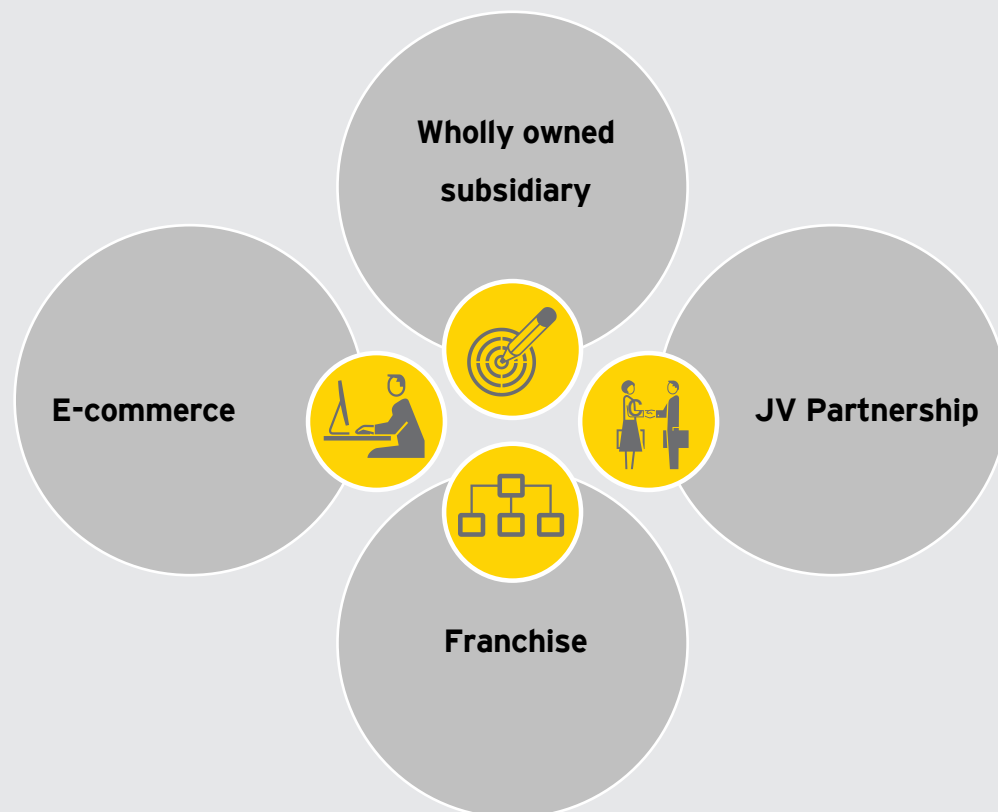
# Illustrative business models



There are various possible business models for single-brand and multi-brand retail trading concerns where FDI is involved.

While alternative business models are common for SBRT and MBRT companies having FDI, multi-national groups looking to enter the wholesale or e-commerce sector exclusively generally incorporate a WOS in India (as upto 100% FDI under the automatic route is permitted in these sectors).

Further, certain companies also consider having an Indian franchisee to establish a presence in the country. It would be prudent to note that no foreign equity is involved in such a form of presence, and the same is accordingly not subject to FDI regulations.



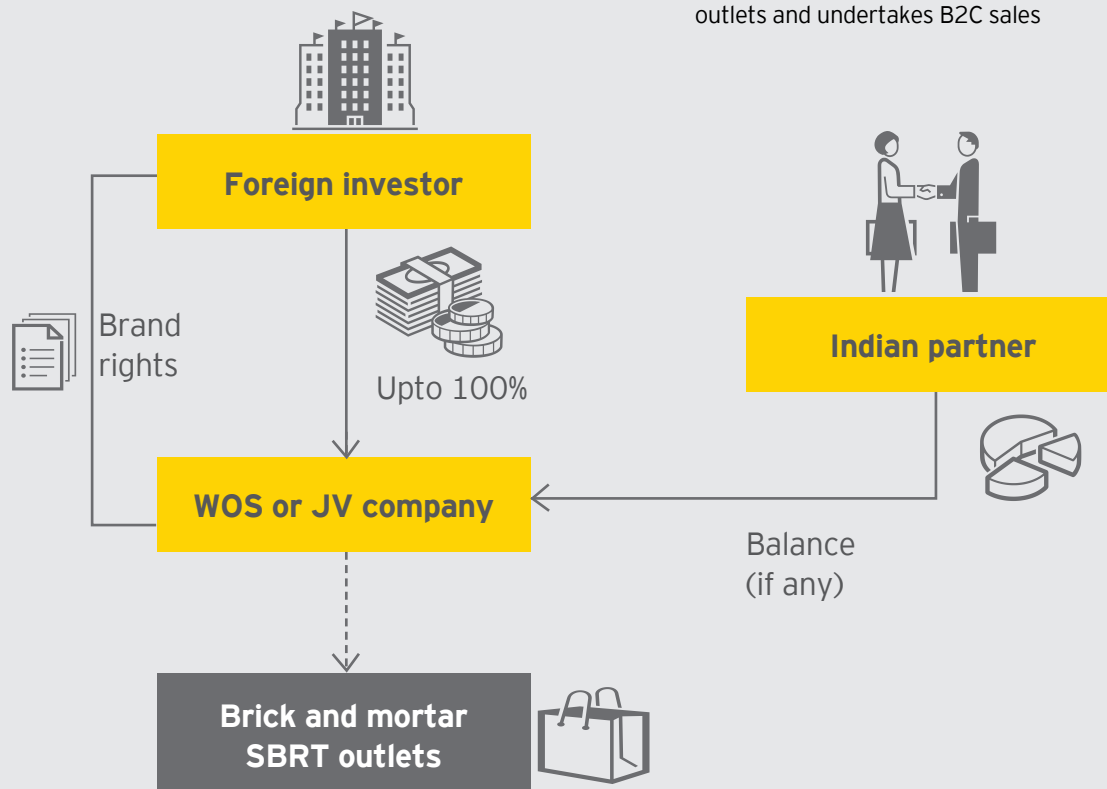
A few typical models involving foreign investment have been illustrated in the following pages



### SBRT models- Alternative 1

Forming a local entity would be amongst the most common forms of FDI for undertaking single brand retail trading activities in India. The parent company subsequently grants requisite brand rights, for the Indian entity to carry on independent business activities.

- ▶ The foreign investor can set-up a WOS, or identify a local Indian partner and incorporate a JV company (where foreign investment is less than 100%)
- ▶ The foreign company grants brand rights to the WOS/JV company, who in turn sets-up SBRT outlets and undertakes B2C sales



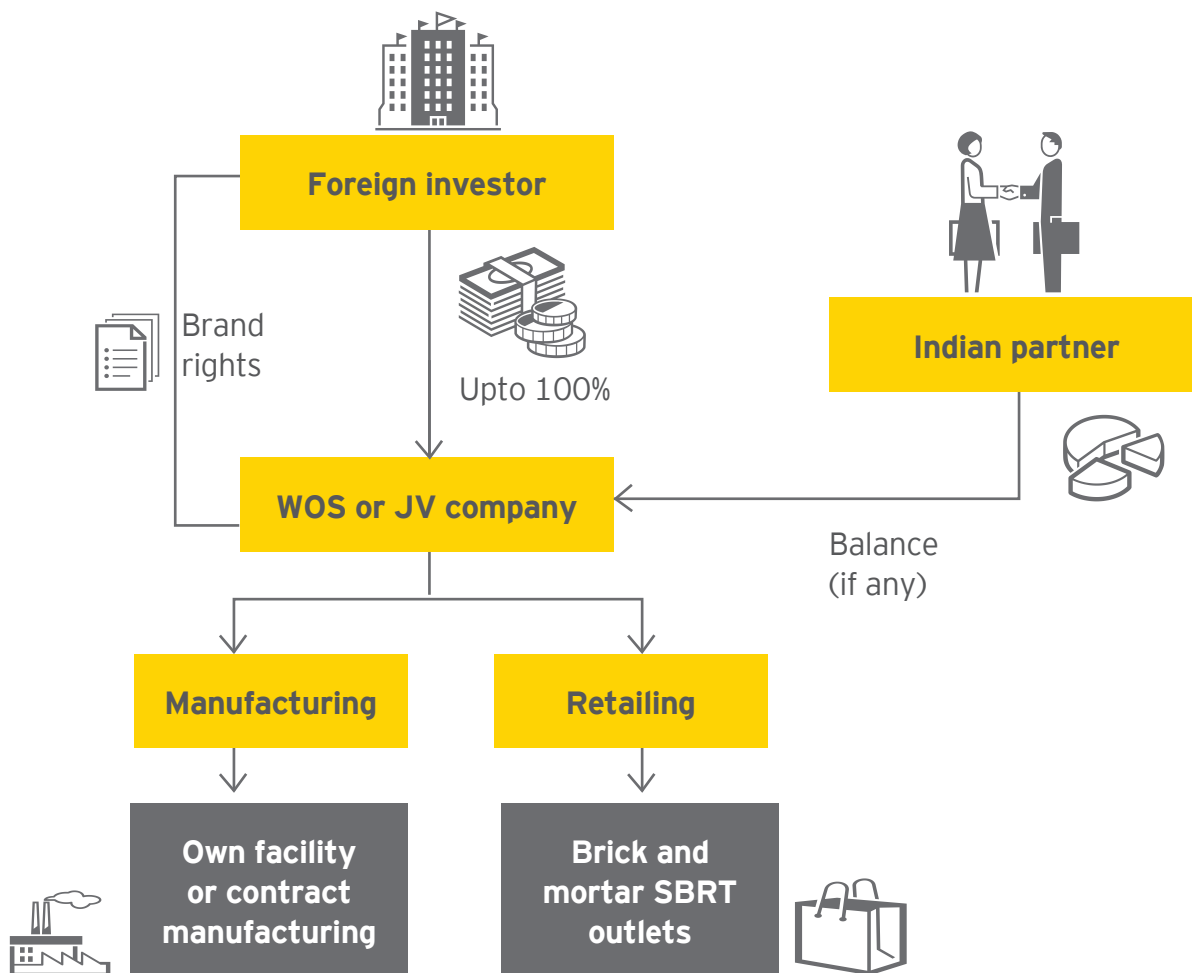
#### Key considerations for this business model:

- ▶ Where FDI exceeds 51%, the mandatory local sourcing norms would be applicable
- ▶ The WOS or JV Company would be **permitted to undertake e-commerce** activities, as long as it is also operating through brick and mortar stores

## SBRT models- Alternative 2

Another common business model for single brand entities would be to form a local entity to undertake both manufacturing/sourcing, as well as retail trading activities. The parent company subsequently grants requisite brand rights, for the Indian entity to carry on independent business activities.

- ▶ The foreign investor can set-up a WOS, or identify a local Indian partner and incorporates a JV company (where foreign investment is less than 100%)
- ▶ The WOS/JV company is set-up to undertake both manufacturing and trading activities
- ▶ The foreign company grants brand rights to the WOS/JV company, who in turn sets-up SBRT outlets and undertakes B2C sales



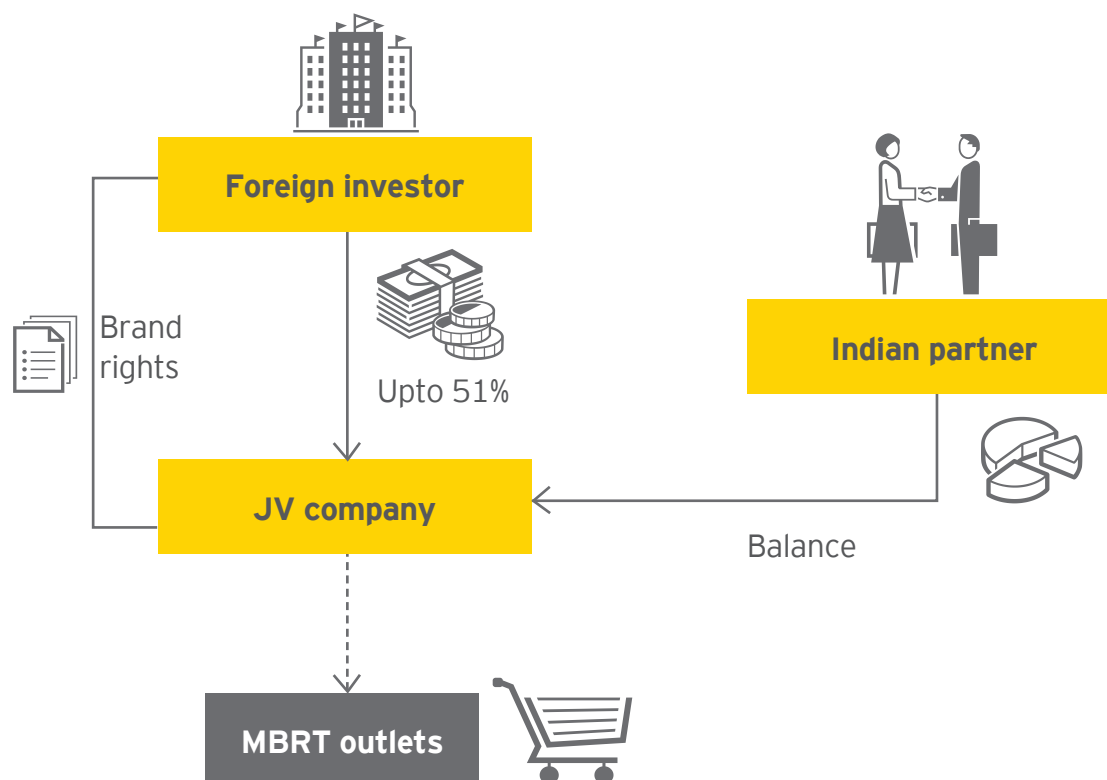
### Key considerations for this business model:

- ▶ **FDI typically exceeds 51%** in this model as local sourcing norms are satisfied with by the manufacturing unit
- ▶ The WOS or JV Company would be **permitted to undertake e-commerce** activities, as long as it is also operating through brick and mortar stores

## MBRT models- Alternative 1

As FDI is only permitted upto 51%, a multinational company would be required to identify a local Indian partner for undertaking MBRT activities in the country. Accordingly, a joint venture company, wherein upto 51% equity is owned by a foreign investor is feasible. The parent company subsequently grants requisite brand rights, for the Indian entity to carry on independent business activities.

- ▶ The foreign investor identifies a local Indian partner and incorporates a JV company (where foreign investment is upto 51%)
- ▶ The foreign company grants brand rights to the JV company, who in turn sets-up MBRT outlets and undertakes B2C sales



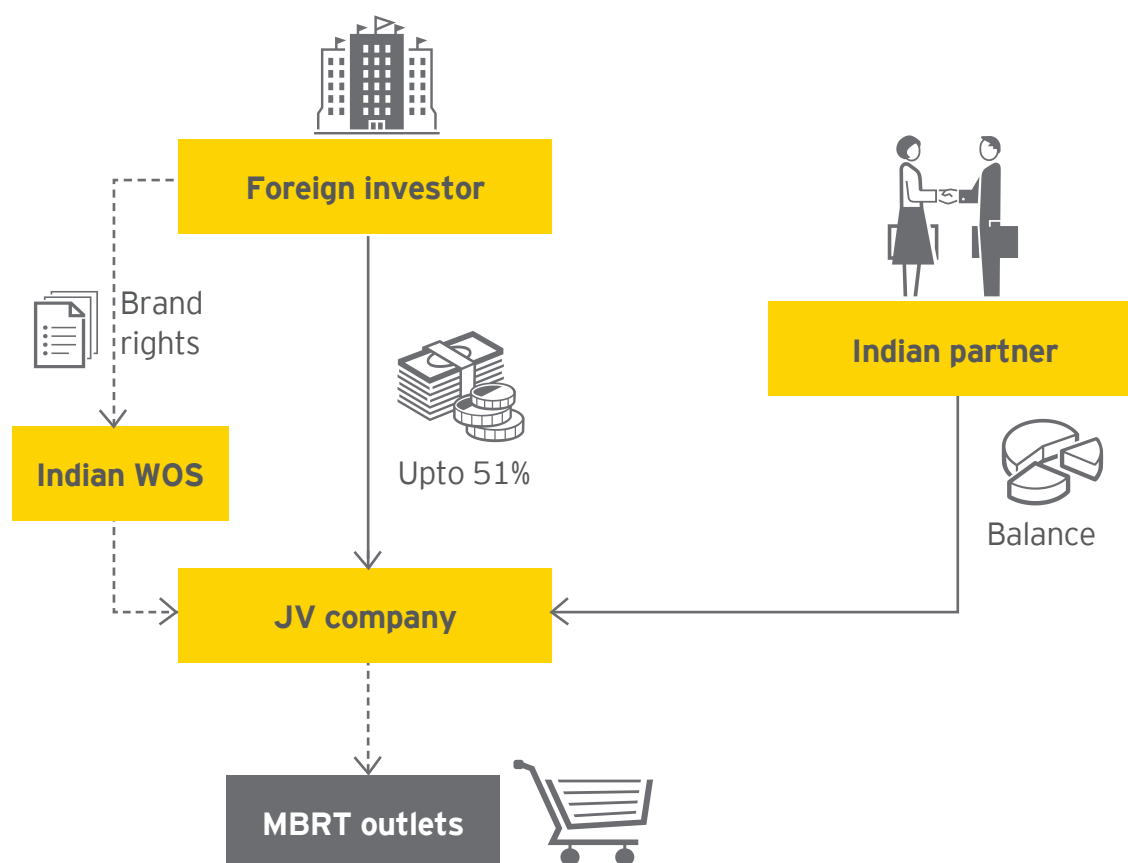
### Key considerations for this business model:

- ▶ Local sourcing norms (and other conditions prescribed for FDI in MBRT) would need to be complied with
- ▶ E-commerce activities would not be permitted under any MBRT business model

## MBRT models- Alternative 2

As an alternative to the prior MBRT model, it is also possible to simultaneously form a WOS in India to whom requisite brand rights are granted. The Indian WOS further grants the brand rights to the JV company, who shall operate MBRT outlets.

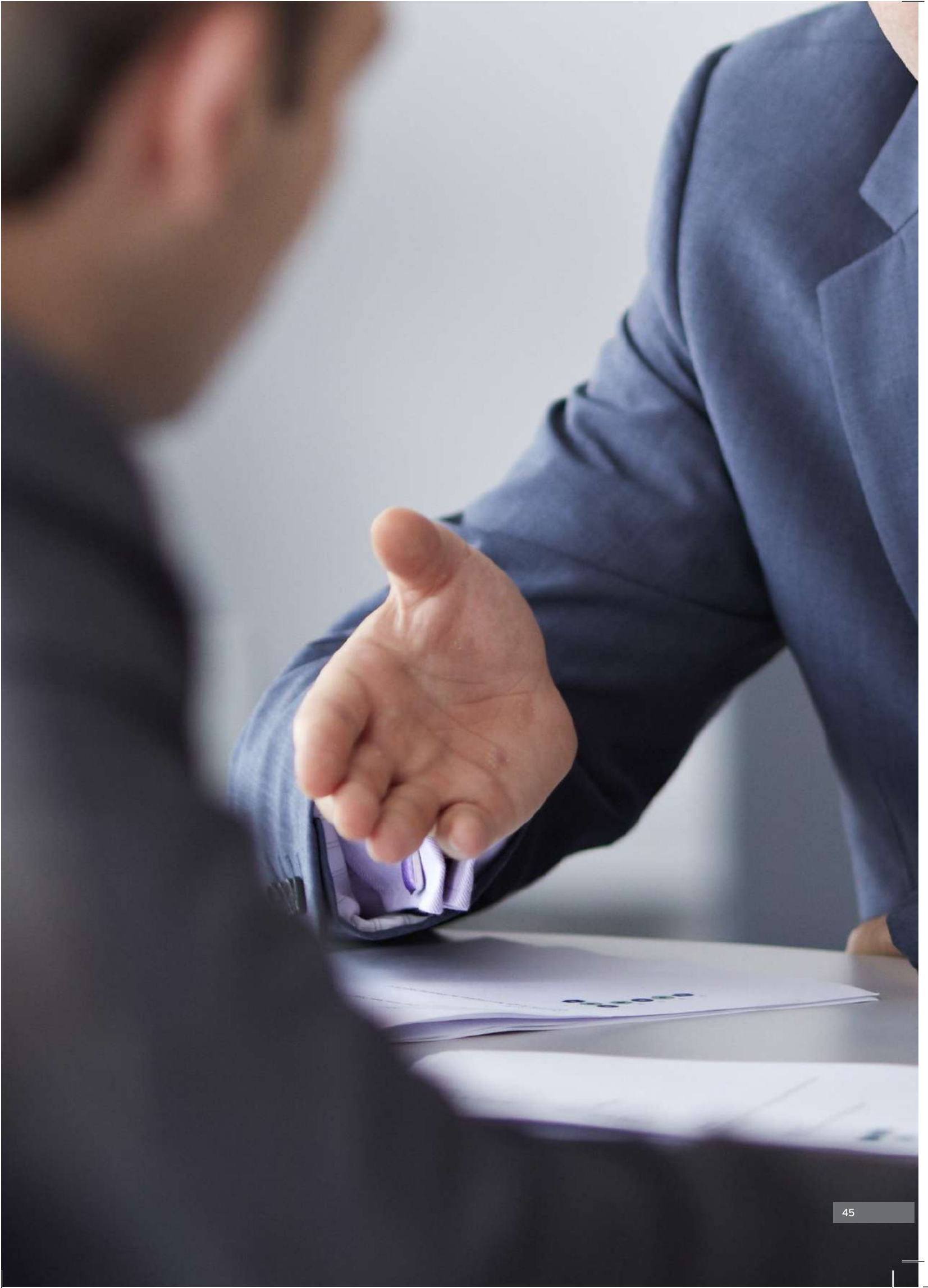
- ▶ The foreign investor identifies a local Indian partner and incorporates a JV company (where foreign investment is upto 51%)
- ▶ At the same time the foreign company also incorporates a WOS in India to whom the required brand rights are granted
- ▶ The WOS then grants brand rights to the JV company, who in turn sets-up MBRT outlets and undertakes B2C sales



### Key considerations for this business model:

- ▶ An Indian WOS is formed to grant brand rights to the JV in this model, typically to avoid multi-jurisdictional litigation with the Indian partner (if any)
- ▶ Local sourcing norms (and other conditions prescribed for FDI in MBRT) would need to be complied with
- ▶ E-commerce activities would not be permitted under any MBRT business model






# Conclusion and the road ahead

# 9

In conclusion, given the steady liberalizations in the relevant FDI regulations in India, multinational corporations engaged in retail trading and food processing, now have various options for setting up operations in the country. Tabulated below are certain possible combinations of business operations that foreign entities can set-up in India.

Entity engaged in:	Form of sale			
	SBRT	MBRT	Wholesale (B2B)	E-Commerce
Manufacturing	✓	✓	✓	✓ (B2C)
SBRT (Note 1)	✓	X	✓	✓ (B2C)
MBRT	X	✓	X	X
E-Commerce	X	X	X	✓ (B2B)
Food retail (Note 2)	✓	✓	✓	✓

 FDI permitted under approval route

Note1: FDI in SBRT exceeding 49% would be under the approval route

Note2: FDI in food retail would be for food products manufactured or processed in India

Given the intent of the Indian government, the priority being placed on the sector, and rapidly growing focus on infrastructure, one may expect the growth story of FDI in food processing, food retail and related supply chain sectors to continue for the foreseeable future.







# Appendix A

## Conditions for FDI in single-brand retail trading\*

- ▶ Products sold should be of a 'single brand' only
- ▶ SBRT would only cover products that have been branded during manufacture
- ▶ Products should be sold under the same brand internationally (*i.e., should be sold under the same brand in one or more countries other than India*) - **This condition is not applicable in case of an Indian brand**
- ▶ Foreign investors, whether the owner of the brand or not would be permitted to undertake SBRT in India for the specific brand either directly or through a legally tenable agreement with the brand owner - **This condition is not applicable in case of an Indian brand**
- ▶ 30% local sourcing norms would be applicable where FDI exceeds 51% (discussed earlier in this report)
- ▶ SBRT entities operating through brick and mortar stores are permitted to undertake retail trading through e-commerce
- ▶ Applications for FDI in SBRT are required to mention the product/ product categories that are proposed to be sold under the "single brand". Any addition to the product/ product categories to be sold shall require a fresh approval

*(The onus for ensuring compliance with this condition shall lie with the Indian entity undertaking SBRT, and the investing company would need to substantiate this aspect at the time of investing in India)*



# Appendix B

## Conditions for FDI in multi-brand retail trading\*

- ▶ Fresh agricultural produce (including fruits, vegetables, flowers, grains, pulses), fresh poultry, fishery and meat products may be unbranded
- ▶ Minimum amount to be bought in as FDI by the foreign investor would be US\$ 100m
- ▶ At least 50% of first tranche of US\$ 100m is required to be invested in back-end infrastructure (discussed earlier in this report)
- ▶ At least 30% of procurement should be sourced from Indian MSME having a total investment in plant and machinery of not more than US\$ 2m (including farmers and agricultural co-operatives) The small status would be reckoned only at the time of first engagement with the retailer, and it would maintain this status throughout its relationship with the retailer, even if the total investment in plant and machinery exceeds US\$ 2m (illustrative timelines for sourcing requirements discussed earlier in this report)
- ▶ Government will have first right to procurement of agricultural products
- ▶ E-commerce retail trading is prohibited for companies with FDI, undertaking MBRT activities
- ▶ Retail sales will only be permitted in states with population in excess of 1m (as per 2011 census), and any other cities as per the discretion of state governments
- ▶ FDI Policy with respect to MBRT is only enabling in nature, and state governments are free to decide whether or not to implement the same States where MBRT is permitted: Andhra Pradesh, Assam, Delhi, Haryana, Himachal Pradesh, Jammu and Kashmir, Karnataka, Maharashtra, Manipur, Rajasthan, Uttarakhand, Daman and Diu and Nagar Haveli (Union Territories)

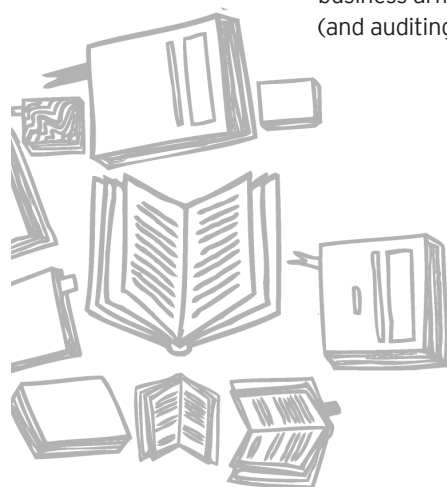




# Appendix C

## Conditions for FDI in cash and carry wholesale trading\*

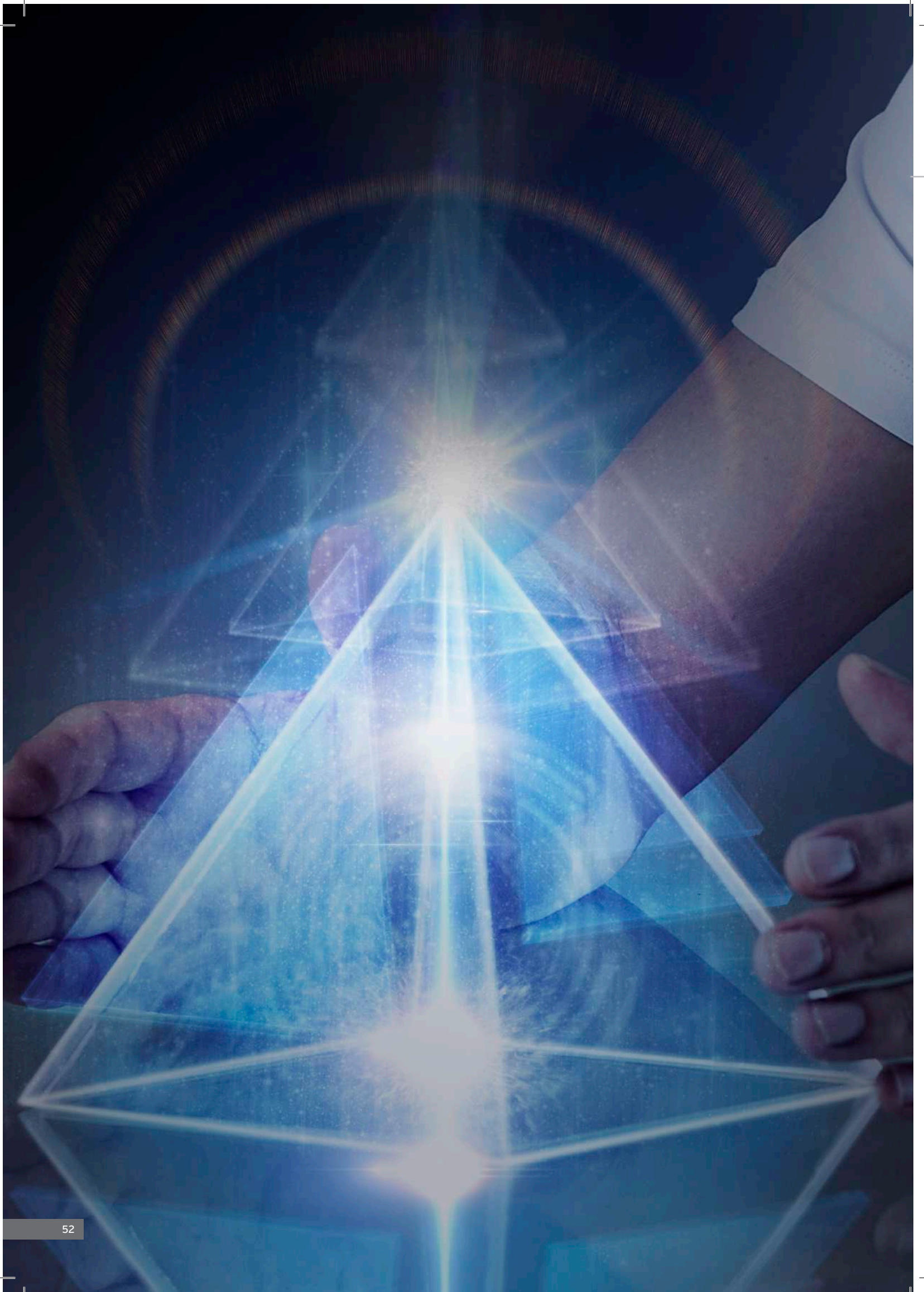
- ▶ For undertaking wholesale trading, all requisite licenses, permits and registrations prescribed by the states should be obtained
- ▶ Except in case of sales to the government, sales made by a wholesaler would be considered as to have been made to valid business customers only when they such customers have valid indirect tax registrations, trade licenses, or permits/licenses for undertaking retail trade
- ▶ Full records indicating all details of sales and buyers should be maintained on a day to day basis
- ▶ Wholesale trade of goods to group companies is permitted, but the same should not exceed 25% of the total sales affected by the wholesale entity
- ▶ Wholesale trade can be undertaken as per normal business practice, including extending credit facilities (subject to applicable regulations)
- ▶ Wholesale traders can also undertake SBRT, subject to fulfilment of FDI conditions of both business arms independently, and maintaining (and auditing) separate books of accounts



\* Consolidated FDI Policy 2017

## Conditions for FDI in e-commerce\*

- ▶ Digital and electronic networks would include network of computers, television channels, and any other internet application used in an automated manner such as web pages, extranets, mobiles, etc.
- ▶ Market-place e-commerce entities are permitted to enter into transactions with sellers registered on the platform, on a B2B basis
- ▶ E-commerce entities may provide support services to sellers with respect to warehousing, logistics, call centers, payment collection, etc.
- ▶ E-commerce entities should not exercise ownership over inventory
- ▶ Not more than 25% of sales affected through an e-commerce marketplace (on a financial year basis) should be from one vendor or its group companies
- ▶ The e-commerce platform should clearly mention the name, address and other contact details of the seller, and post sales, the delivery of goods and customer satisfaction would be the responsibility of the seller
- ▶ The e-commerce platform should clearly provide all details of the seller, and delivery/ customer satisfaction would be the responsibility of the seller
- ▶ Payments for sale may be facilitated by the e-commerce entity (subject to RBI guidelines)
- ▶ Any warrantee/ guarantee should be the responsibility of the seller
- ▶ E-commerce entities should not directly or indirectly influence the price of goods sold, and shall maintain a level playing field
- ▶ All the guidelines prescribed for cash and carry wholesale trading would also apply to B2B e-commerce entities



# Source of information

## **IBEF Reports - Indian Food Industry, Indian Consumer Market (June 2017)**

<https://www.ibef.org/industry/indian-food-industry.aspx>

<https://www.ibef.org/industry/indian-consumer-market.aspx>

<https://www.ibef.org/industry/fmcg-presentation>

## **Consolidated FDI Policy of 2017**

## **DIPP Fact Sheet for FDI (April 2000 to June 2017)**

[http://dipp.nic.in/sites/default/files/FDI\\_FactSheet\\_June2017\\_2\\_0.pdf](http://dipp.nic.in/sites/default/files/FDI_FactSheet_June2017_2_0.pdf)

## **DIPP Notification - Standard Operating Procedure (SOP) for Processing FDI Proposals**

## **FDI Confidence Index 2017 - AT Kearney**

[https://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index/publication/-/asset\\_publisher/oXeK018TjbvE/content/the-2017-foreign-direct-investment-confidence-index/10192](https://www.atkearney.com/gbpc/foreign-direct-investment-confidence-index/publication/-/asset_publisher/oXeK018TjbvE/content/the-2017-foreign-direct-investment-confidence-index/10192)

## **BCG Report - The New Indian (March 2017)**

## **MoFPI official website**

<http://mofpi.nic.in/>





## EY offices

### Ahmedabad

2<sup>nd</sup> floor, Shivalik Ishaan  
Near C.N. Vidhyalaya  
Ambawadi  
Ahmedabad - 380 015  
Tel: + 91 79 6608 3800  
Fax: + 91 79 6608 3900

### Bengaluru

6<sup>th</sup>, 12<sup>th</sup> & 13<sup>th</sup> floor  
"UB City", Canberra Block  
No.24 Vittal Mallya Road  
Bengaluru - 560 001  
Tel: + 91 80 4027 5000  
+ 91 80 6727 5000  
+ 91 80 2224 0696  
Fax: + 91 80 2210 6000

Ground Floor, 'A' wing  
Divyasree Chambers  
# 11, O'Shaughnessy Road  
Langford Gardens  
Bengaluru - 560 025  
Tel: +91 80 6727 5000  
Fax: +91 80 2222 9914

### Chandigarh

1<sup>st</sup> Floor, SCO: 166-167  
Sector 9-C, Madhya Marg  
Chandigarh - 160 009  
Tel: +91 172 331 7800  
Fax: +91 172 331 7888

### Chennai

Tidel Park, 6<sup>th</sup> & 7<sup>th</sup> Floor  
A Block (Module 601,701-702)  
No.4, Rajiv Gandhi Salai  
Taramani, Chennai - 600 113  
Tel: + 91 44 6654 8100  
Fax: + 91 44 2254 0120

### Delhi NCR

Golf View Corporate Tower B  
Sector 42, Sector Road  
Gurugram - 122 002  
Tel: + 91 124 464 4000  
Fax: + 91 124 464 4050

3<sup>rd</sup> & 6<sup>th</sup> Floor, Worldmark-1  
IGI Airport Hospitality District  
Aerocity, New Delhi - 110 037  
Tel: + 91 11 6671 8000  
Fax + 91 11 6671 9999

4<sup>th</sup> & 5<sup>th</sup> Floor, Plot No 2B  
Tower 2, Sector 126  
Noida - 201 304  
Gautam Budh Nagar, U.P.  
Tel: + 91 120 671 7000  
Fax: + 91 120 671 7171

### Hyderabad

Oval Office, 18, iLabs Centre  
Hitech City, Madhapur  
Hyderabad - 500 081  
Tel: + 91 40 6736 2000  
Fax: + 91 40 6736 2200

### Jamshedpur

1st Floor, Shantiniketan Building  
Holding No. 1, SB Shop Area  
Bistupur, Jamshedpur - 831 001  
Tel: +91 657 663 1000  
BSNL: +91 657 223 0441

### Kochi

9<sup>th</sup> Floor, ABAD Nucleus  
NH-49, Maradu PO  
Kochi - 682 304  
Tel: + 91 484 304 4000  
Fax: + 91 484 270 5393

### Kolkata

22 Camac Street  
3<sup>rd</sup> Floor, Block 'C'  
Kolkata - 700 016  
Tel: + 91 33 6615 3400  
Fax: + 91 33 2281 7750

### Mumbai

14<sup>th</sup> Floor, The Ruby  
29 Senapati Bapat Marg  
Dadar (W), Mumbai - 400 028  
Tel: + 91 22 6192 0000  
Fax: + 91 22 6192 1000

5<sup>th</sup> Floor, Block B-2  
Nirlon Knowledge Park  
Off. Western Express Highway  
Goregaon (E),  
Mumbai - 400 063  
Tel: + 91 22 6192 0000  
Fax: + 91 22 6192 3000

### Pune

C-401, 4<sup>th</sup> floor  
Panchshil Tech Park  
Yerwada  
(Near Don Bosco School)  
Pune - 411 006  
Tel: + 91 20 6603 6000  
Fax: + 91 20 6601 5900

## Key contacts

### **Dr. Bijaya Kumar Behera**

Economic Adviser  
Ministry of Food Processing Industries  
Panchsheel Bhawan, August Kranti Marg  
Khelgaon, New Delhi-110049  
Tel: 011- 26491810  
Fax: 011-26493228  
Email: behera.bk@nic.in  
Website: <http://mofpi.nic.in/>

### **Aashish Kasad**

India region tax leader for the Consumer Products and Retail sector  
Ernst & Young LLP  
16th Floor, The Ruby, 29 Senapati Bapat Marg,  
Dadar (West), Mumbai - 400 028, Maharashtra, India  
Tel: +91 22 6192 0000  
Fax: +912261921000  
E-mail: [Aashish.Kasad@in.ey.com](mailto:Aashish.Kasad@in.ey.com)  
Website: [www.ey.com](http://www.ey.com)

### **Manish Whorra**

Director  
Confederation of Indian Industry  
The Mantosh Sondhi Centre  
23, Institutional Area, Lodi Road, New Delhi - 110 003 (India)  
Tel: 91 11 45771000 / 24629994-7  
Fax: 91 11 24626149  
E-mail: [manish.whorra@cii.in](mailto:manish.whorra@cii.in)  
Website: [www.cii.in](http://www.cii.in)













**Ministry of Food Processing Industries**  
Government of India

The Ministry of Food Processing Industries is concerned with formulation and implementation of the policies for the food processing industries within the overall national priorities and objectives.

The Ministry acts as a catalyst for bringing in greater investment into this sector, guiding and helping the industry and creating a conducive environment for healthy growth of the food processing industry. The Ministry aims at:

- ▶ Creating the critical infrastructure to fill the gaps in the supply chain from farm to consumer;
- ▶ Value addition of agricultural produce;
- ▶ Minimizing wastage at all stages in the food processing chain by the development of infrastructure for storage, transportation and processing of agro produce;
- ▶ Induction of modern technology in the food processing industries;
- ▶ Encouraging R&D in food processing for product and process development;
- ▶ Providing policy support, promotional initiative and facilities to promote value added produce for domestic consumption and also exports.



**Ernst & Young LLP**

**EY | Assurance | Tax | Transactions | Advisory**

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit [ey.com](http://ey.com).

Ernst & Young LLP is one of the Indian client serving member firms of EYGM Limited. For more information about our organization, please visit [www.ey.com/in](http://www.ey.com/in).

Ernst & Young LLP is a Limited Liability Partnership, registered under the Limited Liability Partnership Act, 2008 in India, having its registered office at 22 Camac Street, 3rd Floor, Block C, Kolkata - 700016

EYIN1710-018

ED None



**Confederation of Indian Industry**

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering industry, Government, and civil society, through advisory and consultative processes.

As a developmental institution working towards India's overall growth with a special focus on India@75 in 2022, the CII theme for 2017-18, **India@75: Inclusive. Ahead. Responsible** emphasizes Industry's role in partnering Government to accelerate India's growth and development.

Founded in 1895, India's premier business association has over 8500 members, from the private as well as public sectors, and an indirect membership of over 200,000 enterprises from around 250 national and regional sectoral industry bodies. With 67 offices in India and 11 overseas offices, CII serves as a reference point for Indian industry and the international business community.