Deloitte.

Retail FDI in India

Towards a brighter tomorrow

October, 2016

Contents

Foreword

Foreign Direct Investment (FDI) in India has been on the rise in the past few years especially in the retail, e-commerce, hospitality, and travel space. This growth in the retail and e-commerce business has gradually attracted attention from leading international retailers and e-commerce players and more sectors have opened up for foreign investment in India.

The government has also supported this by introducing various reforms and initiatives, which include allowing FDI up to 100% in certain sectors, increasing sectoral cap, permitting FDI under automatic route as against government approval route and removing certain sector specific restrictions.

The Indian retail and e-commerce segment is uniquely classified and is distinct from the other country markets, hence retailers and e-commerce companies keen to invest in the segment will need to familiarize themselves with the key terms on which regulations are structured.

This thoughtware aims to unravel the current regulations and possible doubts that international companies will have while investing in the Indian Consumer Business market.

This document will give the desired direction and information to enable tapping the Indian retail market.

Anil Talreja

The retail market

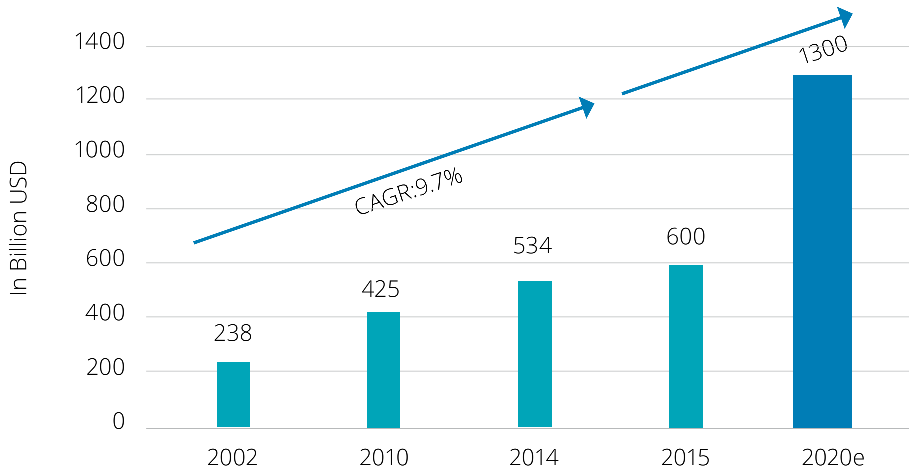
Today's consumers have far evolved, and they expect their shopping experience to be seamless across every channel, whether it's a brick-and-mortar store, an e-commerce website, a mobile app, or even a phone call with customer service. IoT technology (Internet of Things) is already reshaping and revolutionizing the retail industry, yielding advances and new opportunities in customer service, throughout the supply chain and in brick-and-mortar stores and other channels — including new venues that show a lot of promise, such as home-based connected platforms. Globally, retailers looking to gain a competitive advantage are installing smart shelves that detect when inventory is low, RFID sensors that track goods throughout the supply chain, systems that send personalized digital coupons to shoppers when they enter the store, and sensors that monitor the quality of perishable items.

In India, the retail sector is emerging as one of the largest sectors in the economy. By 2015, the total market size was estimated to be around US$600 billion, thereby registering a CAGR of 7.45% since 2000. The retail industry is expected to grow to US$1.3 trillion by 2020, registering a CAGR of 9.7% between 2000 and 2020.

To incentivize the international retailers, the Government of India (GoI) has now allowed 100% FDI in online retail of goods and services through the automatic route, thereby providing clarity on the existing businesses of e-commerce companies operating in India.

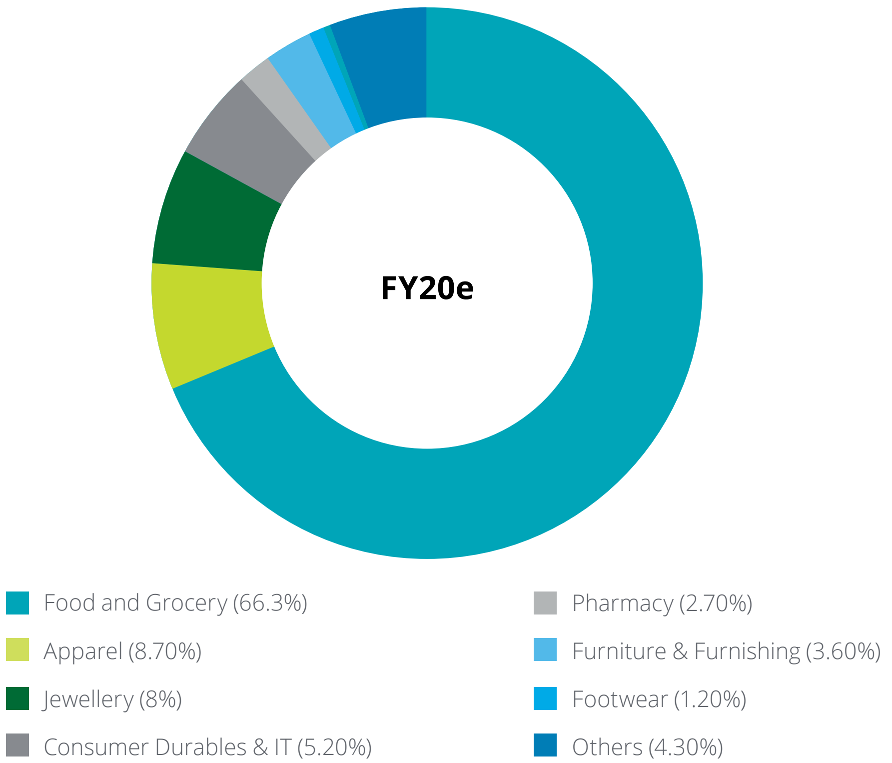
Recently, the government achieved a milestone towards introducing the Goods and Services Tax (GST). The implementation of GST is expected to enable easier movement of goods across the country, thereby improving retail operations for pan-India retailers which should benefit the ultimate consumer.

Market size (USD billion)



Source: IBEF January, 2016 retail report

Share in retail revenue



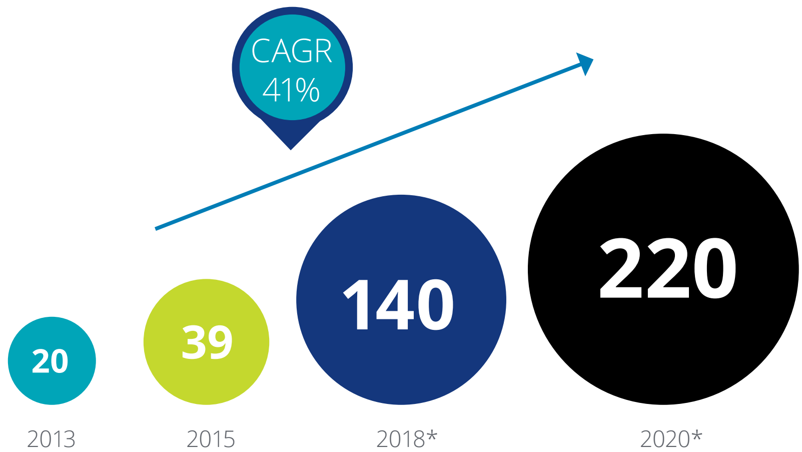
Source: IBEF January, 2016 retail report

The government has also approved a proposal to scrap the distinctions among different types of inbound overseas investments by shifting to a single composite limit, which means portfolio investment up to 49% will not require government approval nor will it have to comply with sectoral conditions as long as it does not result in a transfer of ownership and/or control of Indian entities to foreign investors. As a result, foreign investments are expected to increase, especially in the lucrative retail sector.

E-commerce is also expanding steadily in the country. Customers have the ever increasing choice of products at the lowest rates. E-commerce is probably creating the biggest revolution in the retail industry, and this trend will continue in the years to come. Retailers should leverage the digital retail channels (e-commerce), which would enable them to spend less money on real estate while reaching out to more customers in tier-2 and tier-3 cities.

Both, organized as well as unorganized retail companies have to work together to ensure better prospects for the overall retail industry, while generating new benefits for their customers.

Number of Online Shoppers in India (in millions)



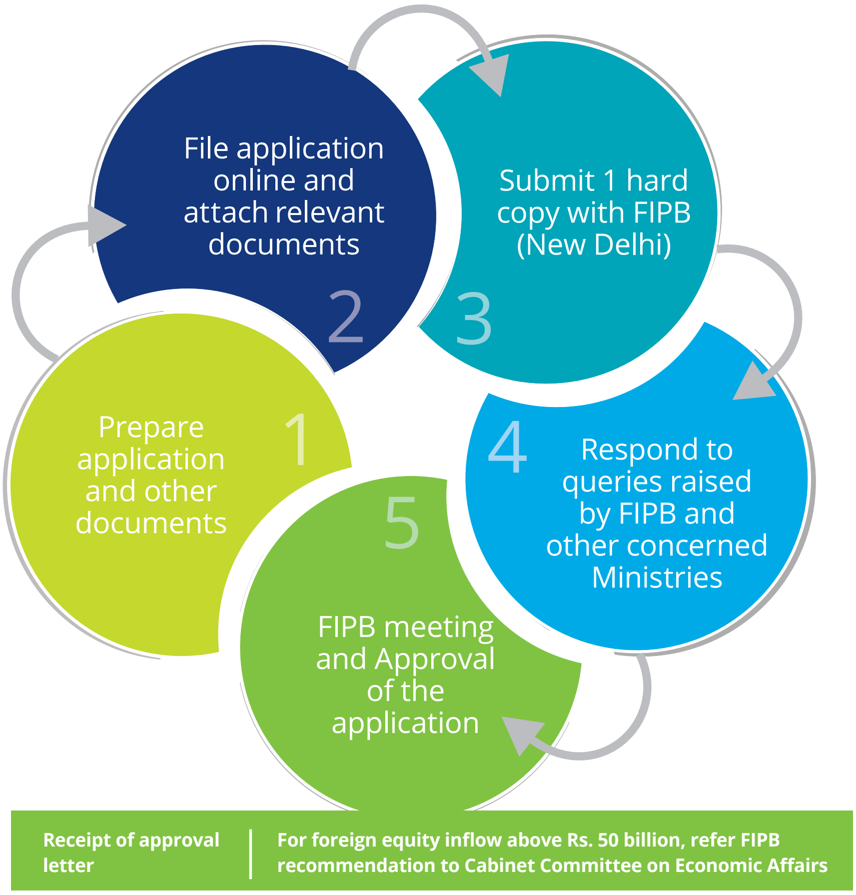
*Estimated Numbers

Source: Euromonitor, IAMAI, Media Reports

Retail models and the opportunities they offer

Mechanism of retail	Impact / Opportunities
Cash & Carry / Wholesale trading	In India, the consumer goods/FMCG products retailing is clearly divided between urban and rural markets. While the global businesses will focus on the urban markets, the impact of ease of FDI regulations on the existing businesses both in urban and rural zones is to be seen in the future. So far, this segment has had automatic investments to the tune of 100% per the regulations set by the government.
Single Brand Retail Trading (SBRT)	The government has eased the sourcing norms in this segment and allowed single brand retail outlets by international brands. This immediately opens up opportunities for consumer durables especially the global technology products companies for starting retail operations of their globally successful products in India. The single brand retail model will now be allowed to operate on the e-commerce front which was not allowed previously as part of the Government regulations. The automatic route for FDI in this area is up to 49% and government route beyond that level of investment.
Multi Brand Retail Trade (MBRT)	These are traditional styled shops or retail chains established across India, historically known as 'Bazaars' or "Mom and Pop" stores as known in most countries. The impact of the government-approved route in retailing by grocery chains or consumer goods retailing is perceived to be strong in various analyses done on this market. The global businesses in this segment tend to operate in the urban landscapes with fairly large investments on infrastructure and emphasis on generating high volumes of business. The competition in this segment is expected to be rising significantly in the urban markets. Nevertheless, there will be enough room for growth in the organized retailing of multi-brand establishments. On the regulation front, this is the most debated area in terms of the investment portion allowed into the country. In a recent development, the government is set to allow multi-brand retail companies to sell processed food as long as they are produced and manufactured in India. This new development is expected to be seen as a significant challenge for many global retail giants altering their plans and usual operating methods.
E-commerce (Retail Marketplace model)	This segment is allowed to bring in investments in the automatic mode to the tune of 100%. Some of the largest brands of the world are operational in this segment and have had significant success nationally. However this segment is facing immense competition from several other domestic companies. The developments in this area included mergers and acquisitions in a short span of time. Over the last decade, growth in this space had been in triple digits and continues to grow. There is a tremendous level of innovation that this segment is driving with modern retail concepts and use of technology in almost every part of their retail sale process.

FIPB Approval process

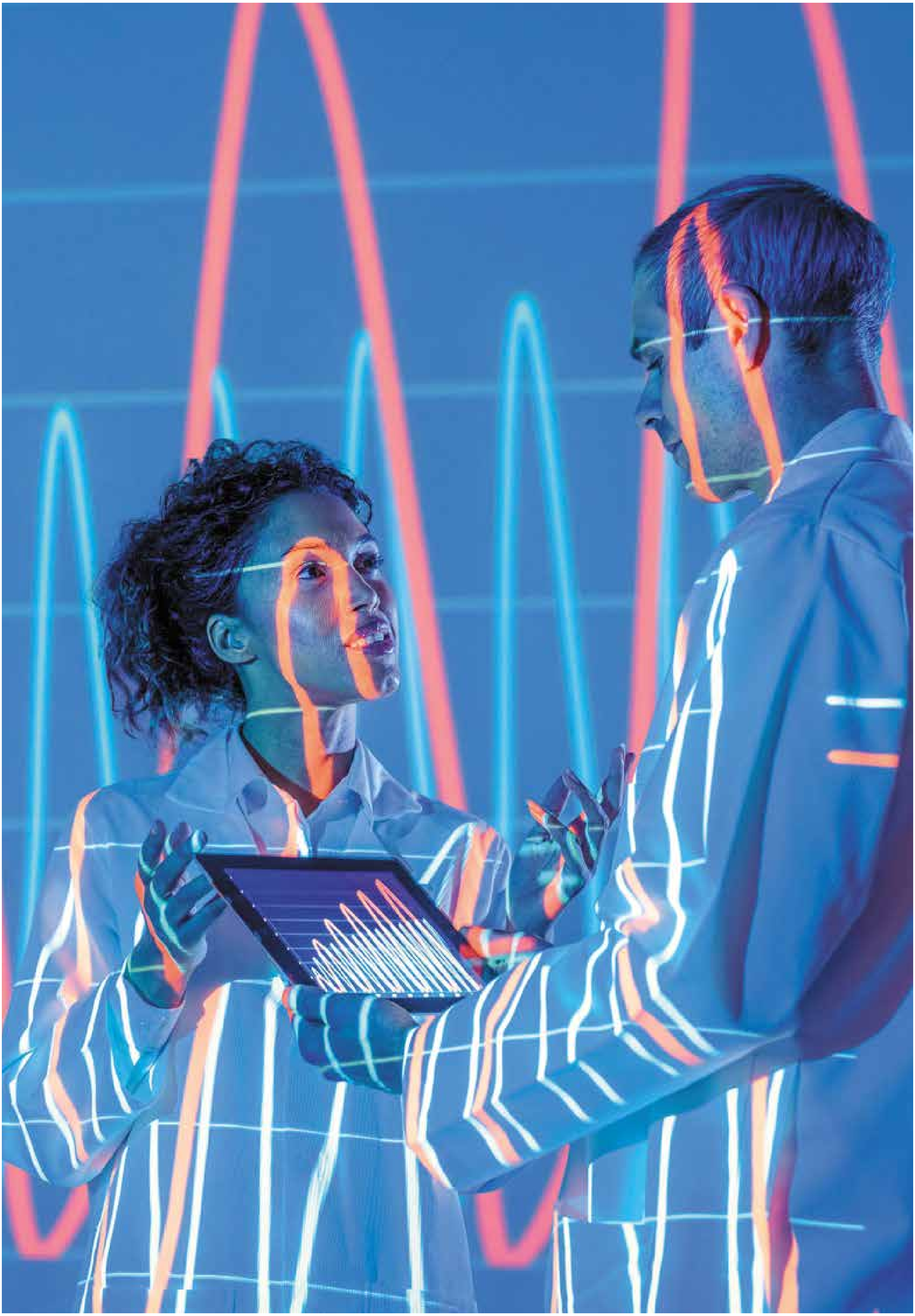


Time frame – Generally 3 – 4 months

FDI Equity inflow in select sectors

(Amount in USD million)

Sector	April 2000 to March 2016	April 2000 to March 2015	Increase in 2015-16
Trading	11,872.47	8,060.37	3,812.10
Hotel & Tourism	9,227.33	7,916.40	1,310.93
Food Processing Industries	6,815.69	6,310.67	505.02
Hospital & Diagnostic Centres	3,592.11	2,945.12	646.99
Soaps, Cosmetics & Toilet Preparations	1,111.32	916.37	194.95
Vegetable Oils and Vanaspati	589.06	550.30	38.76
Retail Trading	537.61	275.38	262.23



The impact of FDI

Competition landscape

With the implementation of retail good practices, the organized retail brands globally prove to keep costs lower as well as stay competitive in the consumer market. The extent of competition can be learnt from the recent growth story of the e-commerce market with both international and domestic companies actively innovating to gain marketshare. This development revealed the Indian market potential in certain sectors at unprecedented levels.

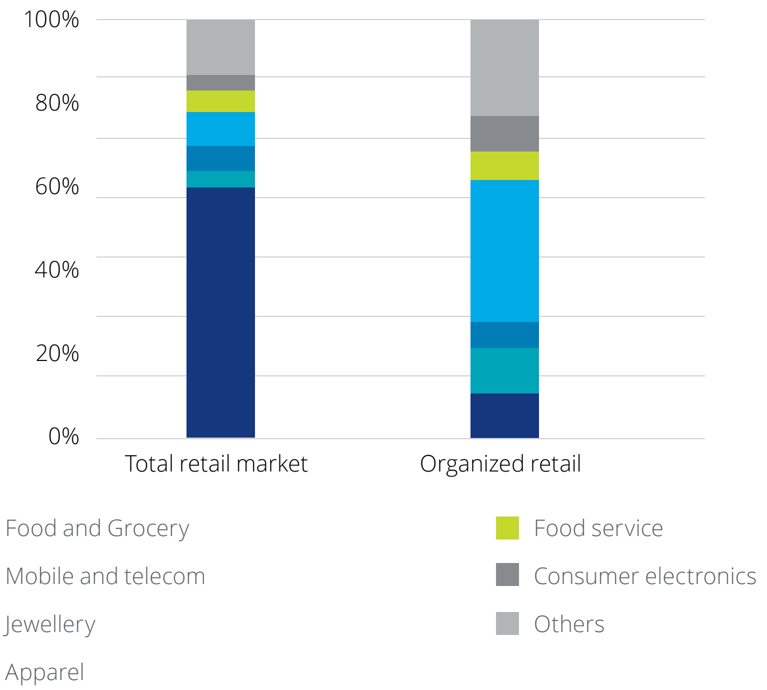
Inflation

The retailing models followed by large global companies in most economies have largely managed to lower inflation and food prices with tightly managed processes. This is one of the most prominent elements of organized retailing that impact at the macro-economic levels of a country. With food inflation causing uncertainties in the market over the past decade, organized retailing have a role to play in the country's economy in a major way.

Logistics and supply chain

Global best practices in supply chain infrastructure and logistics (cold storage, warehousing, transport infrastructure-rail, road, logistics companies, etc.) are expected to be implemented in India which will eventually have effect on time-to-

Comparison of shares in total retail and organized retail



Source: Deloitte Touche Tohmatsu India Private Limited, September 2014

market and pricing of the products offered to consumers. There are more than 6,000 cold storage facilities spread out across the length and breadth of India. Less than 10% of these facilities belong to the organized sector. Of the fragmented establishments, a majority of them are set up to support the agriculture sector for storage of harvest. These establishments are recent developments and seem to have been set up over the last 5-7 years. The international companies will be seen setting up their own infrastructure around logistics rather than depending on the existing available infrastructure as there is bound to be vast differences in the maturity stages of each of the logistics models. The models used by domestic companies may vary from the ones followed by large global companies.

GST implementation in India

The implementation of GST cannot be de-linked while we discuss Retail FDI as a combination of these regulations change the business landscape to a large extent. There will be a lowering of logistics costs once GST is implemented as there will be free movement of goods across state borders. What can be expected with GST here is that the idling time at check-posts for clearance of goods across the state borders will come down significantly, thereby speeding up the logistics of goods. This will surely be seen as a timely advantage for the global companies they can foresee a range of operational and cost advantages.

Challenges of scale

Historically, some of the largest retail brands of the world are known to work with a limited number of suppliers in their sourcing chain. India is known to be a highly fragmented market where the supply scales needed by the large retailers are met by fewer suppliers who enjoy the scale of production at the quality levels required by the retailers. These conditions will encourage investment by domestic suppliers to drive large-scale production using technology resulting in high quality of products.

Sectors impacted by Retail FDI

More than 90% of India's $500 billion retail market is driven by family-owned small businesses. According to an earlier Deloitte report, Competitiveness: Catching the next wave India, the food and groceries sector has a market share of 60%. Some of the largest brands who have had operations in India or plan to set up operations fall into this category. The less than 10% share of organized retail can be expected to increase to 20% by the year 2020.

Unique India challenges affecting global retailers

55% rural market

Some prominent global food and beverage companies have found a fair amount of success in operating within this market over the past couple of decades. Although it had its unique characteristics, these companies developed strategies to deal with the underlying challenges over the period of time to be successful in this market. The lessons learned by these companies could be studied by the new entrants in the retail space and adopt the best practices established by the existing players in the market.

Cost-conscious market

The market in India around cost consciousness is as divided as Urban-Rural. With changing socio-economic conditions, consumers in India are willing to pay more for quality service and efficiency. In a Deloitte study named *The Future of Mobility*- The changing nature of mobility, India ranks the highest among the major economies of the world in consumer preference for products which have efficiency, ease of purchase, and high use of technology.

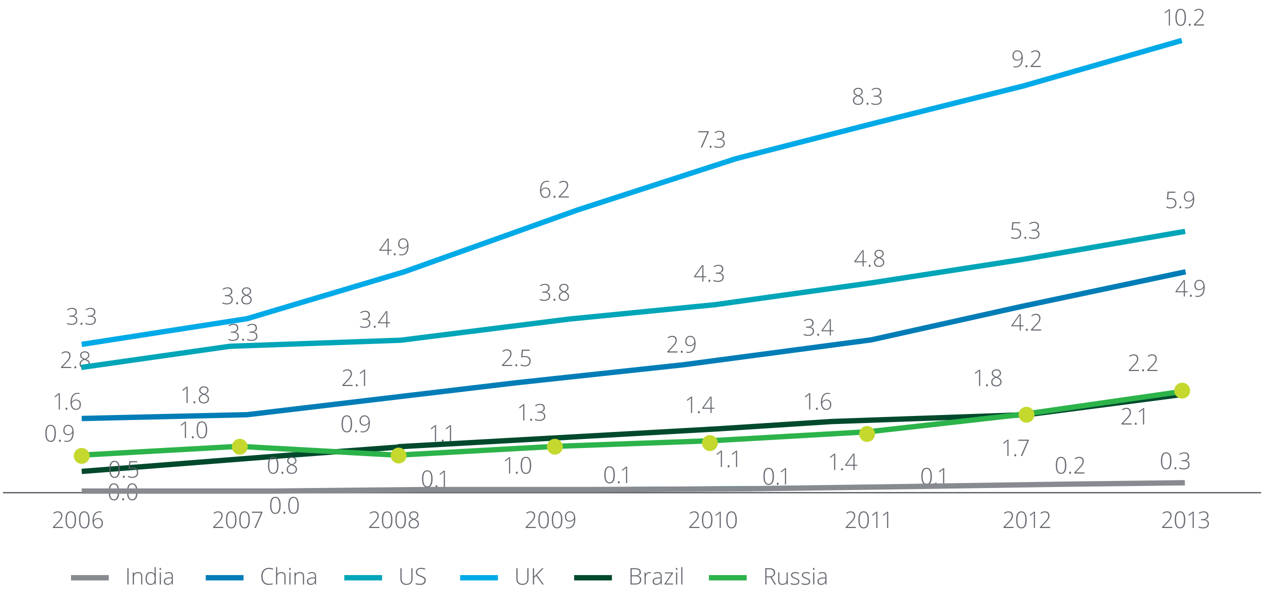
Regulations

With the ease of regulations for Retail FDI, there will still be some restrictions on various aspects of investment controlled by the government. For example, the single brand retailers need to source at least 30% of the material required for products from local suppliers (preferably from MSMEs, village and cottage industries, artisans and craftsmen in all sectors) as part of a three-year grace period to comply with regulations. However such local sourcing condition has been relaxed for products having 'state-of-art' and 'cutting edge' technology and where local sourcing is not possible. This would directly impact technology products retailers who may need to change their operating models in terms of sourcing components needed for their products.

The rise of online retailing in almost all sectors

Some traditional offline retail companies will have challenges in addressing the market necessities due to their fixed business models of operating in the offline mode. However, there are many Indian home-grown retail chains that have adopted both online and offline retail models to address the new-age demands of the consumers. Many shoppers are adopting online options to purchase products as it offers comparison of prices and convenience to get it delivered at their place. Another important factor we need to examine here is the population growth in urban centers that have increased the congestion levels in the urban marketplace, making it a challenge for the consumers to navigate the conditions and complete their purchases. As a result,

Share of Online Channel in Overall Retail (%)



Source: Deloitte report 'Online retail in India-Clicking Towards Growth'

many consumers choose to shop online for a more convenient experience with a well-informed purchase process.

According to a Deloitte report *Online retail in India-Clicking Towards Growth*, the share of online retail is predicted to take a non-linear growth in the years to come. This is mainly due to mobile user growth which in-turn is attributed to the exponential growth in mobile internet and smartphone usage.

Opportunities

Local sourcing

The timing to source is eased by reckoning compliance from the date of opening of the first store. This provides some relief to foreign retailers because by counting the time to comply with this rule from store opening, they will have more time to comply with the requirement and to build long-term sustainable supply chains that would benefit not only the businesses but also India and Indian consumers.

Further, global brands, particularly those offering technology products, will now be able to seek a waiver from the government if local supply chain is inadequate to meet their required high-tech specifications.

Timely and effective implementation of GST

The implementation of GST will bring about market integration—streamlining the barriers for inter-state movements and removal of all octroi and sales tax check points.

Single brand retailers allowed to undertake e-commerce activities

Going forward, foreign single brand stores with permission to undertake Single Brand Retail (i.e., sell through brick-and-mortar stores) in India will be permitted to engage in e-commerce activities and sell products through online channels. With e-commerce business booming in India in recent years, this opens up a significant investment opportunity for foreign retailers.

Same entity can carry out both Single Brand Retail and Wholesale

This opens up a significant opportunity for global single brand retailers interested in operating a mix of retail and wholesale activities in India.

Indian manufacturers with 70% FDI can now sell online

Indian manufacturers with foreign investment that are controlled by Indians can now sell their products in any manner, i.e., wholesale, retail, including through online channels, provided they make 70% of the products and source the remainder from local companies. Earlier, they could sell online only if they made 100% products in house.

M-Commerce

Smartphones are also emerging as a hybrid retail channel, delivering footfall for physical stores through innovations such as geotagging, beacon engagement, and mobile payment systems, which are all tipped for strong growth.

Sectoral cap

Sector/Activity	% of Equity/ FDI Cap	Entry Route
Cash & Carry Wholesale Trading/ Wholesale Trading (including sourcing from MSEs)	100%	Automatic
Single Brand product retail trading	100%	Automatic up to 49% Government route beyond 49%
Multi Brand product retail trading	51%	Government
Duty Free Shops	100%	Automatic
E-commerce activities	100%	Automatic
Agriculture: a) Floriculture, Horticulture, and Cultivation of Vegetables & Mushrooms under controlled conditions; b) Development and Production of seeds and planting material; c) Animal Husbandry (including breeding of dogs), Pisciculture, Aquaculture, Apiculture; and d) Services related to agro and allied sectors Note: Besides above, FDI is not allowed in any other sector / activity.	100%	Automatic
Plantation: (i) Tea sector including tea plantations (ii) Coffee plantations (iii) Rubber plantations (iv) Cardamom plantations (v) Palm oil tree plantations (vi) Olive oil tree plantations Note: Besides above, FDI is not allowed in any other plantation sector / activity.	100%	Automatic

Salient features of the key conditions are given in the Appendix.

Way forward

As it is said, *Change is inevitable and is the law of life.* The retail sector in India is on an ever-changing mode and is suited well in the backdrop of the growth trajectory. The two main causes for this constantly changing sector are as follows:

- Consumer behaviour, profile and digitization and
- Competition and price wars, product and business model innovation.

The very nature of retail competition is changing as digital technologies become more democratized and barriers to entry fall. Retailer market share is fragmenting, as a result these newer retailers are rampantly (although not always) turning digital in nature accessed by customers online, and operate with vastly different business models than their more entrenched counterparts. Smaller, online retailers are often more nimble from an assets and infrastructure perspective as well, choosing, for instance, not to pay for their own costly data centers or call centers.

The next generation of Retail Technology is indicating the rise of the digitally influenced shopping experience and the tidal wave of exponential technologies on the horizon. One digital 'size' does not fit all customers within a marketplace.

With the growing Indian market and also the consumption potential of the country, the need for higher capital and technology is imperative. Opening up of the Foreign Direct Investment regulations in the retail sector has an inherent benefit for the foreign retail companies as well as the Indian consumer – the foreign companies get to tap the vast Indian market and the consumer gets the benefit of the products made by these companies. Joint Venture arrangements with Indian companies in this sector would help the Indian companies to impact the technology as well as increase the penetration levels. Subsectors such as apparel, cosmetics, food, and other consumer goods will be commonly seen in this space.

The government's proactive approach has been appreciated by the global retailers. They will now need to take a serious look before it gets too late for them.

Appendix: Sectoral specific conditions under FDI Policy

Sector/ Activity

Cash & Carry Wholesale Trading/ Wholesale Trading (including sourcing from MSEs)

Definition: Cash & Carry Wholesale trading/Wholesale trading, would mean sale of goods/merchandise to retailers, industrial, commercial, institutional or other professional business users or to other wholesalers and related subordinated service providers. Wholesale trading would, accordingly, imply sales for the purpose of trade, business and profession, as opposed to sales for the purpose of personal consumption. The yardstick to determine whether the sale is wholesale or not would be the type of customers to whom the sale is made and not the size and volume of sales. Wholesale trading would include resale, processing and thereafter sale, bulk imports with ex-port/ex-bonded warehouse business sales and B2B e-Commerce.

Guidelines for Cash & Carry Wholesale Trading/Wholesale Trading (WT):

(a) For undertaking WT, requisite licenses/registration/ permits, as specified under the relevant Acts/Regulations/Rules/Orders of the State Government/Government Body/Government Authority/Local Self-Government Body under that State Government should be obtained.

(b) Except in case of sales to Government, sales made by the wholesaler would be considered as 'cash & carry wholesale trading/ wholesale trading' with valid business customers, only when WT are made to the following entities:

- (I) Entities holding sales tax/ VAT registration/service tax/excise duty registration; or
- (II) Entities holding trade licenses i.e. a license/registration certificate/membership certificate/registration under Shops and Establishment Act, issued by a Government Authority/Government Body/Local Self-Government Authority, reflecting that the entity/person holding the license/ registration certificate/ membership certificate, as the case may be, is itself/ himself/herself engaged in a business involving commercial activity; or
- (III) Entities holding permits/license etc. for undertaking retail trade (like tehbazari and similar license for hawkers) from Government Authorities/Local Self Government Bodies; or
- (IV) Institutions having certificate of incorporation or registration as a society or registration as public trust for their self consumption.

Note: An entity, to whom WT is made, may fulfill any one of the 4 conditions.

(c) Full records indicating all the details of such sales like name of entity, kind of entity, registration/license/permit etc. number, amount of sale etc. should be maintained on a day to day basis.

(d) WT of goods would be permitted among companies of the same group. However, such WT to group companies taken together should not exceed 25% of the total turnover of the wholesale venture.

(e) WT can be undertaken as per normal business practice, including extending credit facilities subject to applicable regulations.

(f) A wholesale/cash & carry trader can undertake single brand retail trading, subject to the conditions applicable to SBRT. An entity undertaking wholesale/cash and carry as well as retail business will be mandated to maintain separate books of accounts for these two arms of the business and duly audited by the statutory auditors. Conditions of the FDI policy for wholesale/cash and carry business and for retail business have to be separately complied with by the respective business arms.

Single Brand product retail trading (SBRT)

1. Foreign Investment in SBRT is aimed at attracting investments in production and marketing, improving the availability of such goods for the consumer, encouraging increased sourcing of goods from India, and enhancing competitiveness of Indian enterprises through access to global designs, technologies and management practices.
2. FDI in SBRT would be subject to the following conditions:
   - (a) Products to be sold should be of a 'Single Brand' only.
   - (b) Products should be sold under the same brand internationally i.e. products should be sold under the same brand in one or more countries other than India.

(c) 'Single Brand' product-retail trading would cover only products which are branded during manufacturing.
(d) A non-resident entity or entities, whether owner of the brand or otherwise, shall be permitted to undertake 'single brand' product retail trading in the country for the specific brand, directly or through a legally tenable agreement with the brand owner for undertaking SBRT. The onus for ensuring compliance with this condition will rest with the Indian entity carrying out SBRT in India. The investing entity shall provide evidence to this effect at the time of seeking approval, including a copy of the licensing/ franchise/sub-licence agreement, specifically indicating compliance with the above condition. The requisite evidence should be filed with the RBI for the automatic route and SIA/ FIPB for cases involving approval.
(e) In respect of proposals involving foreign investment beyond 51%, sourcing of 30% of the value of goods purchased, will be done from India, preferably from MSMEs, village and cottage industries, artisans and craftsmen, in all sectors. The quantum of domestic sourcing will be self-certified by the company, to be subsequently checked, by statutory auditors, from the duly certified accounts which the company will be required to maintain. This procurement requirement would have to be met, in the first instance, as an average of 5 years' total value of the goods purchased, beginning 1st April of the year of the commencement of the business i.e. opening of the first store. Thereafter, it would have to be met on an annual basis. For the purpose of ascertaining the sourcing requirement, the relevant entity would be the company, incorporated in India, which is the recipient of foreign investment for the purpose of carrying out SBRT.
(f) Subject to the conditions mentioned above, SBRT entity operating through brick and mortar stores, is permitted to undertake retail trading through e-commerce.

3. Application seeking permission of the Government for FDI exceeding 49% in a company which proposes to undertake SBRT in India would be made to the Secretariat for Industrial Assistance (SIA) in the Department of Industrial Policy & Promotion (DIPP). The applications would specifically indicate the product/product categories which are proposed to be sold under a 'Single Brand'. Any addition to the product/product categories to be sold under 'Single Brand' would require a fresh approval of the Government. In case of FDI up to 49%, the list of products/product categories proposed to be sold except food products would be provided to the RBI.
4. Applications would be processed in the DIPP, to determine whether the proposed investment satisfies the notified guidelines, before being considered by the FIPB for Government approval.

Notes:
(i) Conditions mentioned at 2(b) and 2(d) above will not be applicable for undertaking SBRT of Indian brands.
(ii) An Indian manufacturer is permitted to sell its own branded products in any manner i.e. wholesale, retail, including through e-commerce platforms.
(iii) Indian manufacturer would be the investee company, which is the owner of the Indian brand and which manufactures in India, in terms of value, at least 70% of its products in house, and sources, at most 30% from Indian manufacturers.
(iv) Indian brands should be owned and controlled by resident Indian citizens and/ or companies which are owned and controlled by resident Indian citizens.
(v) Sourcing norms will not be applicable upto 3 years from the commencement of the business i.e. opening of the first store for entities undertaking SBRT of products having 'state-of-art' and 'cutting-edge' technology and where local sourcing is not possible. Thereafter, provisions of local sourcing will be applicable.

Multi Brand product retail trading (MBRT)

1. FDI in MBRT, in all products, will be permitted, subject to the following conditions:
   (i) Fresh agricultural produce, including fruits, vegetables, flowers, grains, pulses, fresh poultry, fishery and meat products, may be unbranded.
   (ii) Minimum amount to be brought in, as FDI, by the foreign investor, would be US $ 100 million.
   (iii) At least 50% of total FDI brought in the first tranche of US $ 100 million, shall be invested in 'back-end infrastructure' within 3 years. 'Back-end infrastructure' will include capital expenditure on all activities, excluding that on front-end units; for instance, back-end infrastructure will include investment made towards processing, manufacturing, distribution, design improvement, quality control, packaging, logistics, storage, ware-house, agriculture market produce infrastructure etc. Expenditure on land cost and rentals, if any, will not be counted for purposes of backend infrastructure. Subsequent investment in backend infrastructure would be made by the MBRT retailer as needed, depending upon its business requirements.
   (iv) At least 30% of the value of procurement of manufactured/processed products purchased shall be sourced from Indian micro, small and medium industries, whichhave a total investment in plant & machinery not exceeding USD 2.00 million. This valuation refers to the value at the time of installation, without providing for depreciation. The 'small industry' status would be reckoned only at the time of first engagement with the retailer, and such industry shall continue to qualify as a 'small industry' for this purpose, even if it outgrows the said investment of USD 2.00 million during the course of its relationship with the said

retailer. Sourcing from agricultural co-operatives and farmers co-operatives would also be considered in this category. The procurement requirement would have to be met, in the first instance, as an average of 5 years' total value of the manufactured/processed products purchased, beginning 1st April of the year during which the first tranche of FDI is received. Thereafter, it would have to be met on an annual basis.

(v) Self-certification by the company, to ensure compliance of the conditions at serial nos. (ii), (iii) and (iv) above, which could be cross-checked, as and when required. Accordingly, the investors shall maintain accounts, duly certified by statutory auditors.

(vi) Retail sales outlets may be set up only in cities with a population of more than 1 million as per 2011 Census or any other cities as per the decision of the respective State Governments, and may also cover an area of 10 kms around the municipal/urban agglomeration limits of such cities; retail locations will be restricted to conforming areas as per the Master/Zonal Plans of the concerned cities and provision will be made for requisite facilities such as transport connectivity and parking.

(vii) Government will have the first right to procurement of agricultural products.

(viii) The above policy is an enabling policy only and the State Governments/Union Territories would be free to take their own decisions in regard to implementation of the policy. Therefore, retail sales outlets may be set up in those States/Union Territories which have agreed, or agree in future, to allow FDI in MBRT under this policy. The list of States/Union Territories which have conveyed their agreement is at (2) below. Such agreement, in future, to permit establishment of retail outlets under this policy, would be conveyed to the Government of India through the DIPP and additions would be made to the list at (2) below accordingly. The establishment of the retail sales outlets will be in compliance of applicable State/Union Territory laws/regulations, such as the Shops and Establishments Act etc.

(ix) Retail trading, in any form, by means of e-commerce, would not be permissible, for companies with FDI, engaged in the activity of MBRT.

(x) Applications would be processed in the DIPP, to determine whether the proposed investment satisfies the notified guidelines, before being considered by the FIPB for Government approval.

2. List of States/Union Territories mentioned in 1(viii) above are as under:
    1. Andhra Pradesh
    2. Assam
    3. Delhi
    4. Haryana
    5. Himachal Pradesh
    6. Jammu & Kashmir
    7. Karnataka
    8. Maharashtra
    9. Manipur
    10. Rajasthan
    11. Uttarakhand
    12. Daman & Diu and Dadra and Nagar Haveli (Union Territories)

Duty Free Shops

(a) Duty Free Shops would mean shops set up in custom bonded area at International Airports/International Seaports and Land Custom Stations where there is transit of international passengers.

(b) Foreign investment in Duty Free Shops is subject to compliance of conditions stipulated under the Customs Act, 1962 and other laws, rules and regulations.

(c) Duty Free Shop entity shall not engage into any retail trading activity in the Domestic Tariff Area of the country.

E-commerce activities Duty Free Shops

- 100% FDI under automatic route is permitted in marketplace model of e-commerce.
- FDI is not permitted in inventory based model of e-commerce.

Subject to provisions of FDI Policy, e-commerce entities would engage only in Business to Business (B2B) e-commerce and not in Business to Consumer (B2C) e-commerce.

Definitions:

i) *E-commerce* - E-commerce means buying and selling of goods and services including digital products over digital & electronic network.
ii) *E-commerce entity* - E-commerce entity means a company incorporated under the Companies Act 1956 or the Companies Act 2013 or a foreign company covered under section 2(42) of the Companies Act, 2013 or an office, branch or agency in India as provided in section 2(v)(iii) of FEMA 1999, owned or controlled by a person resident outside India and conducting the e-commerce business.
iii) *Inventory based model of e-commerce* - Inventory based model of e-commerce means an e-commerce activity where inventory of goods and services is owned by e-commerce entity and is sold to the consumers directly.
iv) *Marketplace based model of e-commerce* - Marketplace based model of e-commerce means providing of an information technology platform by an e-commerce entity on a digital & electronic network to act as a facilitator between buyer and seller.

Other Conditions

i) Digital & electronic network will include network of computers, television channels and any other internet application used in automated manner such as web pages, extranets, mobiles etc.
ii) Marketplace e-commerce entity will be permitted to enter into transactions with sellers registered on its platform on B2B basis.
iii) E-commerce marketplace may provide support services to sellers in respect of warehousing, logistics, order fulfillment, call centre, payment collection and other services.
iv) E-commerce entity providing a marketplace will not exercise ownership over the inventory i.e. goods purported to be sold. Such an ownership over the inventory will render the business into inventory based model.
v) An e-commerce entity will not permit more than 25% of the sales affected through its marketplace from one vendor or their group companies.
vi) In marketplace model goods/services made available for sale electronically on website should clearly provide name, address and other contact details of the seller. Post sales, delivery of goods to the customers and customer satisfaction will be responsibility of the seller.
vii) In marketplace model, payments for sale may be facilitated by the e-commerce entity in conformity with the guidelines of the Reserve Bank of India.
viii) In marketplace model, any warrantee/ guarantee of goods and services sold will be responsibility of the seller.
ix) E-commerce entities providing marketplace will not directly or indirectly influence the sale price of goods or services and shall maintain level playing field.
x) Guidelines on cash and carry wholesale trading will apply on B2B e-commerce.

Subject to the conditions of FDI policy on services sector and applicable laws/regulations, security and other conditionalities, sale of services through e-commerce will be under automatic route.

Agriculture

The term “under controlled conditions” covers the following:

‘Cultivation under controlled conditions’ for the categories of floriculture, horticulture, cultivation of vegetables and mushrooms is the practice of cultivation wherein rainfall, temperature, solar radiation, air humidity and culture medium are controlled artificially. Control in these parameters may be effected through protected cultivation under green houses, net houses, poly houses or any other improved infrastructure facilities where micro-climatic conditions are regulated anthropogenically.

Plantation

Prior approval of the State Government concerned is required in case of any future land use change.

Contacts

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