# 2014

# FASHION AND BEAUTY SECTOR INDIA:
## Market Entry Opportunities for UK Companies

CLUTTONS

UK INDIA BUSINESS COUNCIL

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# FASHION AND BEAUTY SECTOR INDIA: Market Entry Opportunities for UK Companies

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# FOREWORD

**India is currently experiencing a revolution in how consumer goods are marketed, sold and used.**

At the cutting edge of these changes is India's Fashion and Beauty Sector, which is currently growing at around 15 per cent per annum, with personal care products such as deodorants achieving exceptional growth of over 40 per cent per annum and demand for western outfits and readymade garments growing at 40-45 per cent annually. What's more a large proportion of this growth is in high value goods, with luxury retail growing it at 20 per cent last year putting it on track to reach GBP 9.5 billion by 2015.

This surge in India's Fashion and Beauty Sector is driven by a burgeoning middle class – particularly from a young aspirational professional urban class with a growing disposable incomes. In fact, over the next two decades India's middle-class will grow to over 40% of population, creating the world's fifth largest consumer market.

In general, retail is one of the largest and most dynamic sectors in India, and encouraging reforms to India's single and multi-brand retail sectors, the accelerating growth in e-commerce, and a shift from small and localised street markets to modern shopping centres and malls Indian's are spending more on fashion and beauty than ever before.

As a result India's organised retail sector presents immense opportunities for UK Fashion and Beauty companies, which benefit from India's continuing love affair with British brands and belief. In the minds of Indians, UK brands represent style and quality. As such, UK companies have a unique window of opportunity across India. So, to help UK companies make sense of this transition, the UK India Business Council, together with Cluttons, have produced this report on the opportunities and challenges in India's Fashion and Beauty sector, and how companies such as Burberry, Lush, Pavers England and the Body Shop have accessed the emerging Indian opportunities securing rewards along the way.

We hope you will find this report both interesting and useful whilst developing your Indian investment plans, and if you require more assistance understanding or accessing the India, please do not hesitate to get in touch.

**Richard Heald**
Chief Operating Officer
UK India Business Council

# FOREWORD

**The Indian retail market has attracted great attention over the past decade and continues to do so as its economy matures through phases of regulatory liberalisation and as the country's demographics prove to be a macro competitive strength.**

Few commentators will or can argue against the opportunity that exists in your sector for established UK brands that have the aspirational power to attract the Indian consumer, however, a balanced view must equally highlight the difficulties that understandably partner this emerging opportunity. To discount the complexities of the sheer scale of the task in hand as India's political mechanism adapts to change and attempts to reach the expectations of the nation's aspirational population would be fool hardy. Cluttons would always advise an agile risk management strategy with strong in-country advice to reduce the fragility of the market entry process.

The operational risks and challenges that exist in the India market can seem inhibiting to a new market entrant and the real estate sector holds equal risk and opacity. Anchored in key geographical locations and well networked within the Indian market Cluttons is tactically placed to provide quality advice to the UK retail sector on all aspects of real estate for market entry strategies, lease advisory, developer due diligence and development.

Cluttons have purposely positioned our India business as boutique, discrete and more importantly independent. We believe this enables us to understand the local context without jeopardizing our ability to provide you the benefit of our professional experience in an unbiased manner.

We are also experienced in the dynamics of the retail brand franchise model in emerging markets and are able to tailor advice according to the pitch and appeal of a retail offer. In effect, we are able to secure solid, well reasoned retail real estate solutions in the sub markets of India by combining brand knowledge with appropriate local application.

Cluttons is pleased to partner with the UK India Business Council on this report for the benefit of UK businesses and also having successfully used the UKIBC Launchpad service in Delhi.

**Ian Gladwin**
Cluttons India

# EXECUTIVE SUMMARY

The retail sector in India is delicately poised. On the one hand the socio-economic indicators show enormous growth potential. On the other hand, the convoluted regulatory environment, complex taxation system, and ambiguous political climate have deterred foreign entrants. This whitepaper highlights the growth potential of the Fashion and Beauty sectors and informs potential entrants about options to tackle regulatory and operational challenges. Key findings include:

- There is a change in consumer preference especially for foreign brands, spurred by greater disposable incomes
- Organised retail will capture a greater share of the overall market. Its current share of eight per cent is expected to rise to 24 per cent in the next decade, adding up to GBP 131 billion to the retail sector
- The organized Fashion and Beauty and Personal Care products markets are expected to experience dynamic growth. These sectors are forecast to grow at a CAGR of 16 per cent and 15 per cent over the next decade to reach GBP 36 billion and GBP three billion respectively
- As companies seek new avenues of growth Tier II and Tier III cities are expected to be the new engines of growth, both in terms of mall development as well as new consumers
- E tailing will grow in importance with deeper Internet penetration and faster smart phones sales. Such 'asset light' business models will expand consumer reach
- The rationalization of the tax regime and relaxing of FDI norms will allow foreign brands to calibrate their business models to exert greater control over their operations
- The business environment for Fashion and Beauty and Personal Care products in India is fairly mature. The variety of stakeholders, including JV partners, contract manufacturers, and real estate developers have considerable experience working with local and global brands. They are equipped to help new entrants set up operations in the country
- Lastly, the recipe for success in India is to have a clearly formulated strategy, adequate funding, a strong distribution model, and a customised product portfolio that strikes the right balance between global standards and local trends.

India has great opportunity but is by no means an easy market to crack. Foreign brands that have succeeded have shown tremendous patience and determination to tailor their strategies to the changing business dynamics in the country.

The market has tremendous growth potential and the sheer scale of demand offsets the potential obstacles and challenges. In this retail sector in India, in the long run, perseverance pays.

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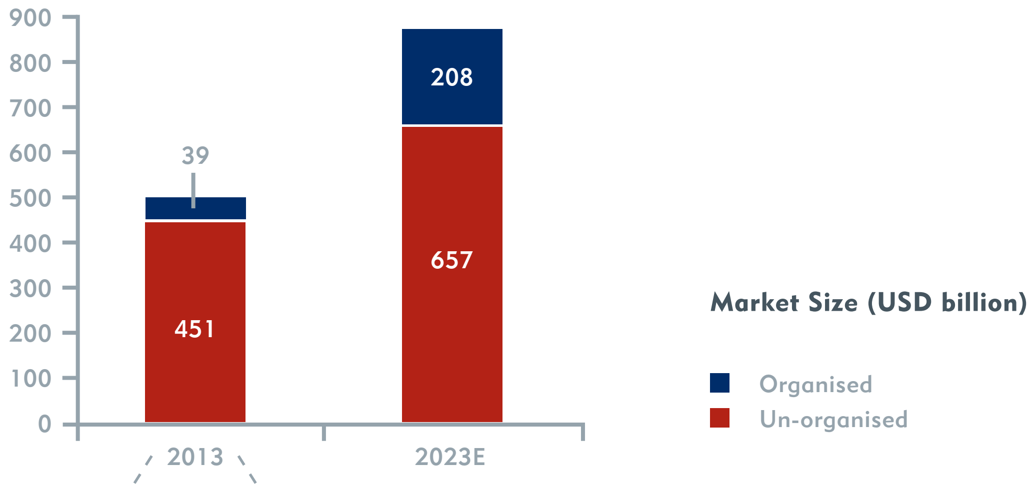
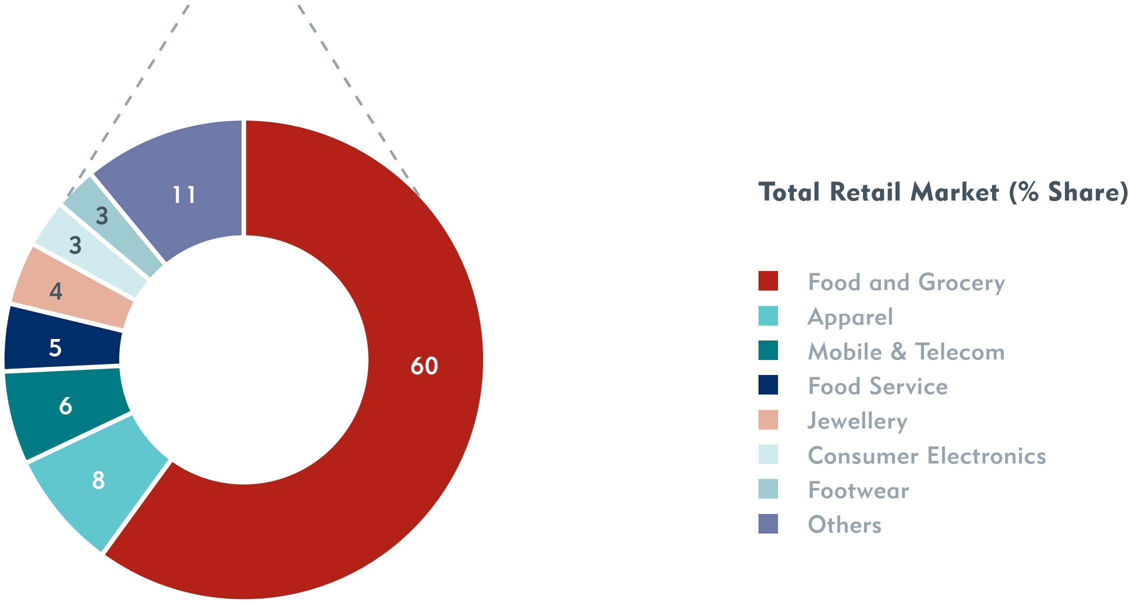
# 1.0 CHANGING FACE OF RETAIL

Currently valued at GBP309 billion, India's retail industry is poised to grow at a CAGR of more than six per cent. The sector is expected to be worth GBP545 billion by 2023. Increasing disposable incomes, a buoyant and fashion-conscious middle class, and the rise of alternative retail channels such as direct selling, home shopping, and e-commerce are expected to drive growth. Regulatory reforms will also be a critical impetus.

According to estimates, organised retail currently accounts for eight per cent of the total market. By 2023 it is expected to outperform traditional channels accounting for 24 per cent or GBP131 billion of the retail market. The overall retail market, both organised and un-organised, is dominated by the Food and Grocery segment; It accounts for 60 per cent of the market. The Apparel segment follows with eight per cent.



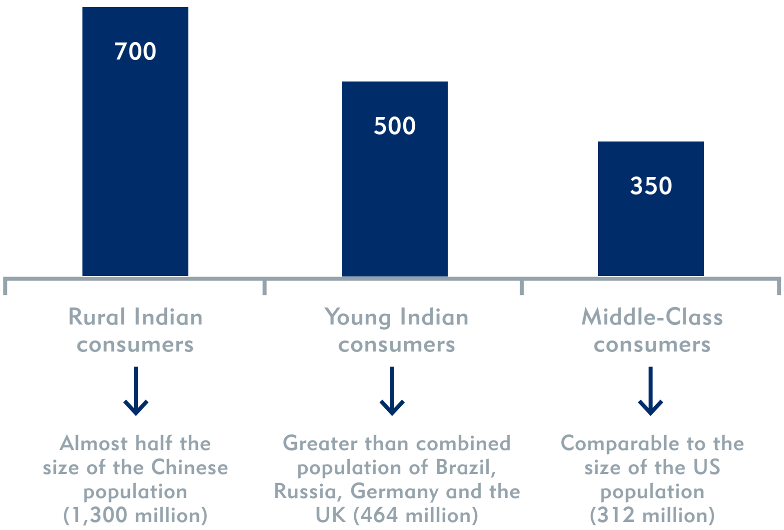




*Source: Technopak, Ibef*

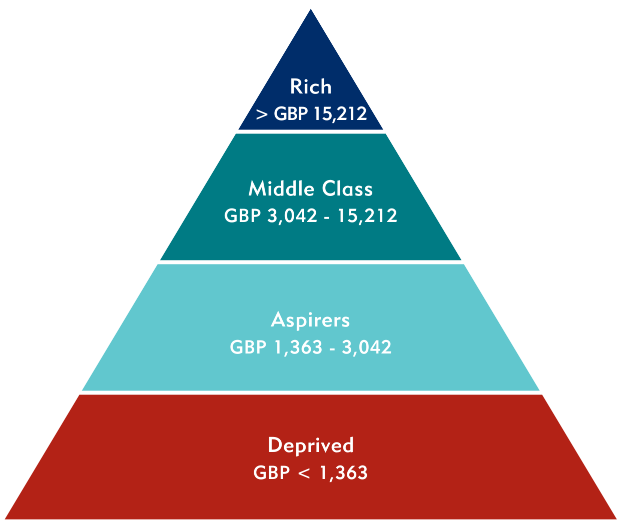
## 1.1 Key Drivers of Growth in Retail

- **Macroeconomic Factors:** Economic headwinds have slowed down India's growth rate to a decade low of 4.5 per cent for FY 2012-13, down from a high of 9.3 per cent in FY 2007-08. Notwithstanding this, foreign retailers remain bullish especially as growth in developed economies slows down. Having a stable, pro-industry federal government in New Delhi has fuelled optimism prompting an upward revision in GDP growth estimates. India's GDP is now expected to grow at 5.4 per cent in 2014 and 6.4 per cent the following year.

- **Demographics:** Favourable socio-economic indicators continue to highlight India as a key retail market.




**Demographic groups in India (figures in million)**




Annual Household Income (GBP) at 2001-02 prices
(1 GBP = INR 69.227)

| 2010-11 | | 2015-16 | CAGR |
|---|---|---|---|
| 3.2m (0.4%) | → | 6.6m (1.7%) | 12.8% |
| 31.4m (5.7%) | → | 53.3m (12.8%) | 9.2% |
| 70.7m (21.9%) | → | 89.4m (33.9%) | 4% |
| 134.7m (71.9%) | → | 113.3m (51.6%) | -2.8% |

*Source: PwC, NCAER-CMCR Analysis*

- **Younger Population:** By 2020 India is estimated to become the world's youngest emerging economy with around 64 per cent of its population of working age. This offers significant opportunities for companies to target these new savvy and connected consumers. Consequently, consumption patterns have also undergone a paradigm shift: India has shifted from a need-based economy to an aspiration-based one. The country has 500 million people under the age of 25 joining the workforce, driving growth with their increasing disposable incomes.

- **Rise of Semi-Urban Centres:** The growing number of Tier II and Tier III cities will fuel consumer demand and continue to present opportunities for the organised retail sector, especially supermarkets. India is expected to have around 8,500 supermarkets by 2016, up from 500 in 2006.

- **Regulatory Changes and Liberalisation in FDI Norms:** The recent regulatory reforms augur well for the retail sector. Under the updated FDI policy, the federal government will allow up to 51 per cent FDI in multi-brand retail and up to 100 per cent in single-brand retail.

- **Rise of Alternative Sales Channels:** Increased access to the Internet and widespread mobile phone penetration has spurred the growth of online retail channels, and telesales. Online retail revenues have been growing at a staggering ~50 per cent year on year adding up to GBP 10 billion in 2013. This is estimated to reach GBP 35 billion by 2023.

- **Access to Credit:** Increasing access to credit cards (CC) and debit cards (DC) with higher spending limits is expected to boost retail revenues. The number of credit and debit cards increased from 4.2 million and 0.3 million respectively in 1999 to 18 million and 228 million in 2011. By FY 2015 there will be an estimated 73 million credit cards and 350 million debit cards in circulation.

## 1.2 Key Challenges

- **Infrastructure Issues:** Inadequate infrastructure, especially in the supply chain, transport, and logistics may have a negative impact on growth. This inadequacy will be particularly pronounced in the rural and non-metropolitan areas. Though tipped to be the real engines of growth in the next decade, these areas face multiple challenges: procedural delays, lack of supply chain integrity, and the resulting difficulties in meeting tough deadlines for goods transfer. In addition to poor road and rail infrastructure, there's the lack of backward integration and fragmented supply chains to contend with. All this results in under-developed logistics capabilities and increasing costs. Whereas the cost of logistics is about 2-5 per cent globally, it is as high as 7-12 per cent in India.

- **Regulatory Environment:** Despite the recent reforms in FDI regulations, there is a real need for the laws to be simplified and made easier to implement. Policy conditions such as 50 per cent investment in back-end operations and 30 per cent sourcing from small industries have opened the retail market to some extent.  However, there remain barriers to entry in multi-brand retail in categories such as Food and Drink, Fashion, Consumer Electronics, Beauty, and Wellness.

- **Complicated Tax/Compliance Structure:** A complicated tax regime, both at the federal and state-level poses a challenge, especially for new entrants to the market. However, simplification of the tax regime through the implementation of the proposed Goods and Services Tax (GST) is expected to alleviate the problem. The government has committed to rolling out a new version of GST by July 2015.

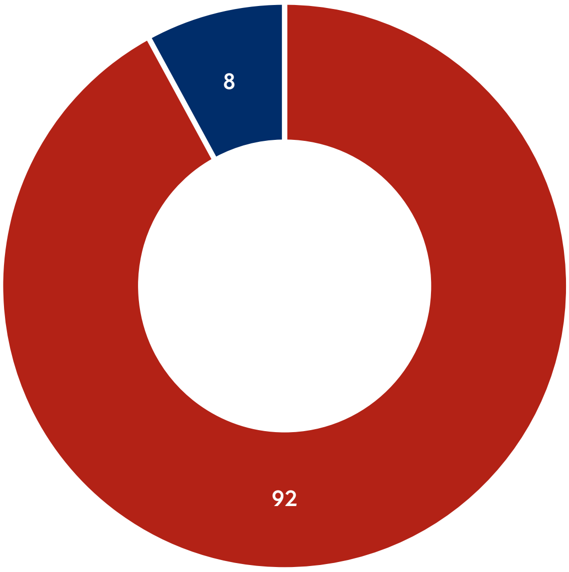
- **Political Uncertainty:** The on-going political uncertainty, with key national and regional parties opposing multi-brand FDI has caused foreign players to adopt a wait-and-watch policy.

- **Shortage of Skilled Labour:** Proliferation of organised retail has highlighted the acute shortage of skilled labour, especially in front-end retail staff. Experienced supply chain executives are also in short supply. There are fewer initiatives for structured skills development and a lack of incentives and benefits for new recruits.

- **Domestic Competition:** Large Indian retailers such as Shoppers Stop, Pantaloons, and Reliance Retail are well entrenched in the domestic market. E-commerce sellers and discount retailers have also made significant inroads into the retail market making the sector very competitive.

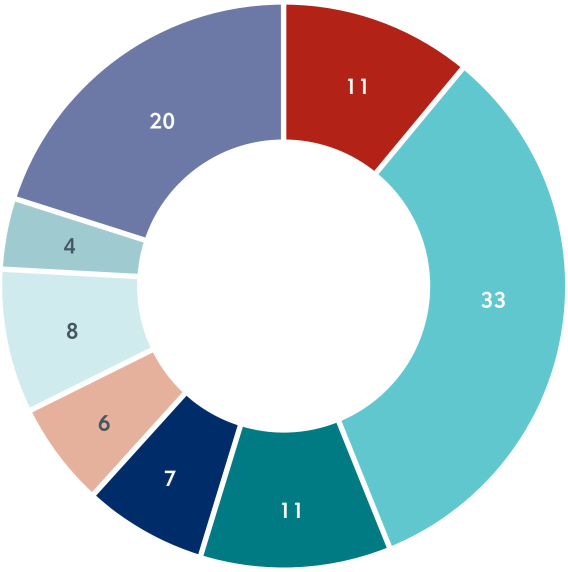
- **High Rental Costs:** Escalating property rentals, especially in prime locations, have eroded retailers' profitability. In the top seven cities, the average rental rate in prime grade malls was GBP 54per sq ft per year for Q12013 compared to GBP 35 per sq ft for Q42011.

- **Heterogeneous Market:** With its social and cultural diversity, the Indian retail market is more heterogeneous than in most developed economies. For instance, India has approximately 14 shops per 1,000 people compared to four in the US. Although many of them are of the small kirana (grocery store) and 'mom & pop' variant, retailers have an in-depth understanding of diverse consumer preferences and offer products and services to match.




**Market Penetration (%)**

- Organised
- Un-organised




**Organised Retail Share (%)**

- Food and Grocery
- Apparel
- Mobile & Telecom
- Food Service
- Jewellery
- Consumer Electronics
- Footwear
- Others

*Source: Technopak, Ibef*

## 2.1 Market Sizes – Present and Projected[1]

| | 2013 | CAGR | 2023 |
|---|---|---|---|
| **Total Retail Market** | GBP 309 billion | 6% | GBP 545 billion |
| **Organised Retail** | GBP 25 billion (8% of total retail) | 18% | GBP 131 billion (24% of total retail) |
| **Organised Apparel** | GBP 8.2 billion (33% of organised retail) | 16% | GBP 36 billion (27% of organised retail) |
| **Organised Beauty and Personal Care Products** | GBP 0.7 billion (3% of organised retail) | 15% | GBP 3 billion (2% of organised retail) |

*Source: Technopak, Wazir Advisor, IANS*

## 2.2 Existing Landscape in Organised Retail

### 2.2.1 Overview:

As is evident from the diagram above, over the next decade organised retail will grow much faster than the un-organised segment. The convenience of shopping through organised retail channels is likely to act as a catalyst for the Fashion and Beauty sectors, which are poised for sustained growth. A growing appetite for foreign brands in the Apparel, Beauty and Personal Products sectors represents a serious opportunity for foreign manufacturers.

### 2.2.2 Geographic Distribution:

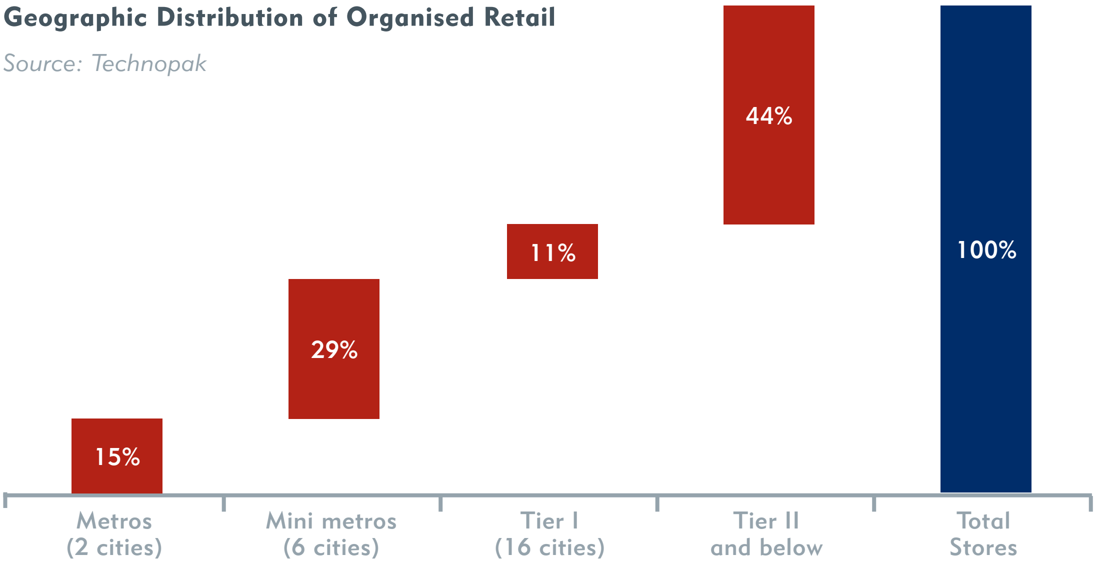
Currently the top 24 Indian cities contribute around GBP 13 billion to the retail market. This corresponds to 56 per cent of the organised retail and 30 per cent of the overall retail market.

In the next few years organised retail is expected to grow at 50–60 per cent annually in Tier II and III cities compared to around 30 per cent in the main metropolitan hubs. In 2014-15 80 per cent of new mall development is expected to take place in non-metros.

[1] Breakup of organised retail for 2013 is extrapolated from 2012 data, assuming that organised retail's break-up has not changed from 2012. 2023's estimates are based on CAGR data available

**Geographic Distribution of Organised Retail**

*Source: Technopak*




### 2.2.3 Store Formats and Channels:

Growth in organised retail is likely to come from expansion in mall space, the preferred channel for modern retail. By the end of 2013-14, the top four cities – Delhi National Capital Region, Mumbai, Kolkata, and Chennai – are expected to have about 45 million sq ft of cumulative mall space. The next four cities - Bengaluru, Pune, Hyderabad, and Ahmedabad – will have cumulative retail space of 21 million sq ft. Hypermarkets are likely to dominate, taking up about 21 per cent of overall mall space, followed by Apparel stores at 14 per cent.

E-tailing offers a relatively less risky model for entering the retail market. It circumvents issues such as rentals, regulatory clearances, and sales staff training. While current FDI rules bar foreign retailers from setting up their own e-tailing operations, they can still tie up with third party online retailers such as Jabong, Flipkart, and Myntra. In fact, a number of European fashion brands keen to enter India have taken this route. Two British brands, Dorothy Perkins and Miss Selfridges, have recently announced plans to tie up with online fashion retailer Jabong.

In the 2014-15 Union Budget Finance Minister Arun Jaitley announced that manufacturers will be allowed to sell their products through e-commerce channels. Foreign companies manufacturing their products in India, with up to a 100 per cent stake in operations, will be permitted to set up online marketplaces without additional approval. This is aimed at encouraging domestic manufacturing and is likely to benefit retailers such as Marks & Spencer, Nike, Puma, and Benetton who have manufacturing units in India and currently sell their products online through local franchisees or licensing agents.

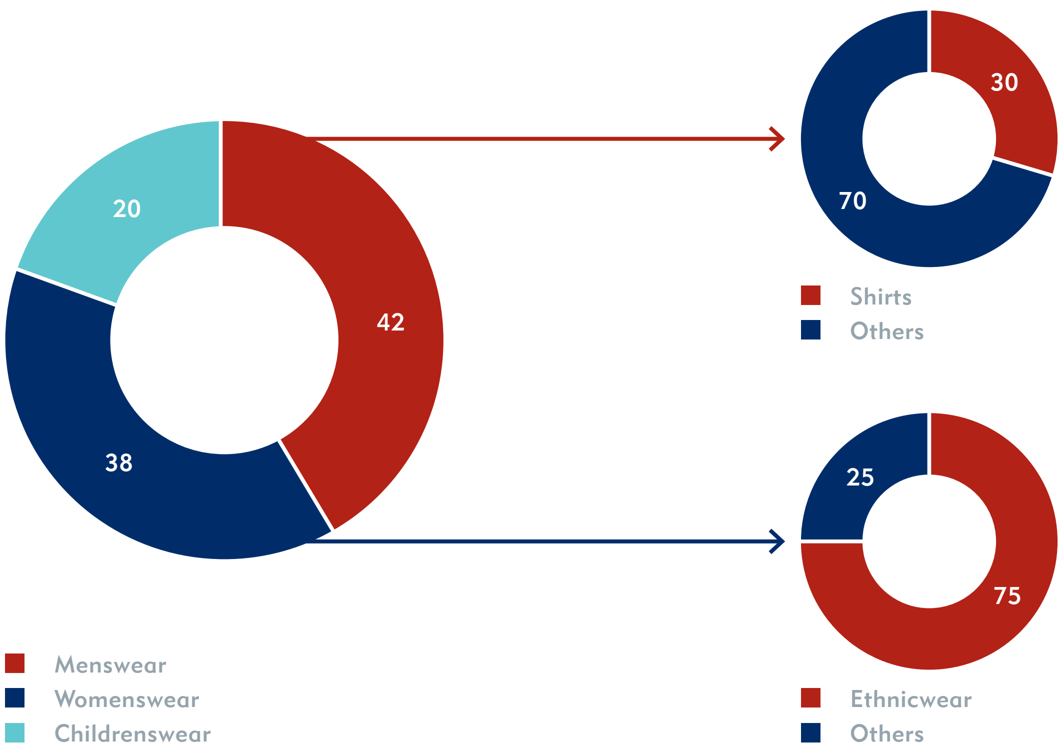
**A recent study conducted by the Associated Chamber of Commerce and Industry (ASSOCHAM) found that India's online retail market expanded by 88 per cent in 2013 and was worth GBP 10 billion. It is expected to reach GBP 35 billion within the next ten years.**

# 3.0 FASHION SECTOR IN INDIA

The Fashion sector in India represents a lucrative opportunity for foreign brands considering the sheer size of the market and its growth potential. The Apparel market, accounting for the largest share in organised retail, is likely to benefit most.

## 3.1 Overview of Fashion Retail in India

In 2013, the overall Apparel industry (organised and un-organised) in India stood at GBP 24 billion. It is expected to grow at a CAGR of nine per cent to reach GBP 57 billion by 2023. Per capita spend on Apparel is expected to increase almost four-fold from GBP 22 in 2012 to GBP 87 by 2025. There has been a strong shift in consumer preference towards branded apparel. This bodes well for foreign brands looking to enter the Indian market. Branded apparel, which constituted 27 per cent of the market in 2012, is expected to expand to 50 per cent of the overall Apparel market by 2025.



## 3.2 Competitive Landscape in the Fashion Sector

**International Brands Operating in India**

| COMPANIES | SALES (GBP MILLION) | | | STORE COUNT |
|---|---|---|---|---|
| | FY11 | FY12 | FY13 | 2013 |
| **Benetton** | 53.6 | 56.2 | 61.0 | 668 |
| **Levi's** | 84.5 | 96.9 | 56.6 | 400 |
| **Inditex Trent (Zara)** | 21.0 | 33.8 | 47.2 | 16 |
| **M&S Reliance** | 27.9 | 36.8 | 43.7 | 26 |
| **Arvind Mills (Tommy Hilfiger)** | 11.4 | 18.3 | 22.0 | 118 |

*Source: Economic Times (2013)*

Foreign brands in India are aggressively ramping up their operations and increasing their store count in order to match the scale of their Indian counterparts. Marks & Spencer plans to increase its store count to 100 by 2016 while Zara plans to open 18 new stores. Swedish major H&M, which is expected to commence operations this year, is planning to open 50 stores in India. Tommy Hilfiger aims to add 500 stores in India over the next five years.

The Apparel segment is fairly competitive, with Indian brands, with first mover advantage, well entrenched in the market. They have established a strong store network and have good recall value among consumers.

**Popular Domestic Apparel Brands**

| BRAND | STORES |
|---|---|
| **Louis Philippe** | **~215** |
| **Van Heusen** | **~259** |
| **Allen Solly** | **~191** |
| **Peter England** | **~610** |
| **Raymond** | **~700** |
| **Fabindia** | **~175** |
| **Provogue** | **~250** |

*Source: Economic Times (2013)*

## 3.3 Key Trends in the Fashion Sector

The Apparel sector is dominated by domestic players either through their own brands or through licensing agreements with foreign brands. In the last few years there has been a shift in licensing and/or partnership agreements in line with the market dynamics of the overall Indian retail sector. With FDI norms being relaxed, many foreign companies have opted to set up subsidiaries and/or change their operation models in the country. Mothercare, Promod, S. Oliver, and Canali are examples. Others such as Dorothy Perkins and Miss Selfridges have opted for an asset-light business model. They are taking the e-tailing route in to the India by tying up with online retailer Jabong. With Amazon entering India, local online retailers are consolidating (Flipkart and Myntra have merged) to stay competitive.

Greater Internet penetration (currently at around 10 per cent), increasing access to smart phones and credit cards coupled with aggressive discounting and marketing, will help online retailing emerge as a significant channel in the Apparel sector. In 2013 online Apparel sales constituted just one per cent of the Apparel market – it is expected to reach four per cent by 2025.

| | 2013 | CAGR | 2023 |
|---|---|---|---|
| **Apparel market** | **GBP 24 billion** | **9%** | **GBP 57 billion** |
| **Online apparel** | **GBP0.24 billion (1% of Apparel market)** | **25%** | **GBP2.3 billion (4% of Apparel market)** |

*Source: Technopak, Wazir Advisors*

The following factors will significantly change the competitive Apparel sector:

- **Growing Value Consciousness:** Although Indian consumers are willing to spend more on fashion and accessories, they are increasingly demanding better value for their money. This may force manufacturers to provide higher quality at reduced prices, affecting profitability.

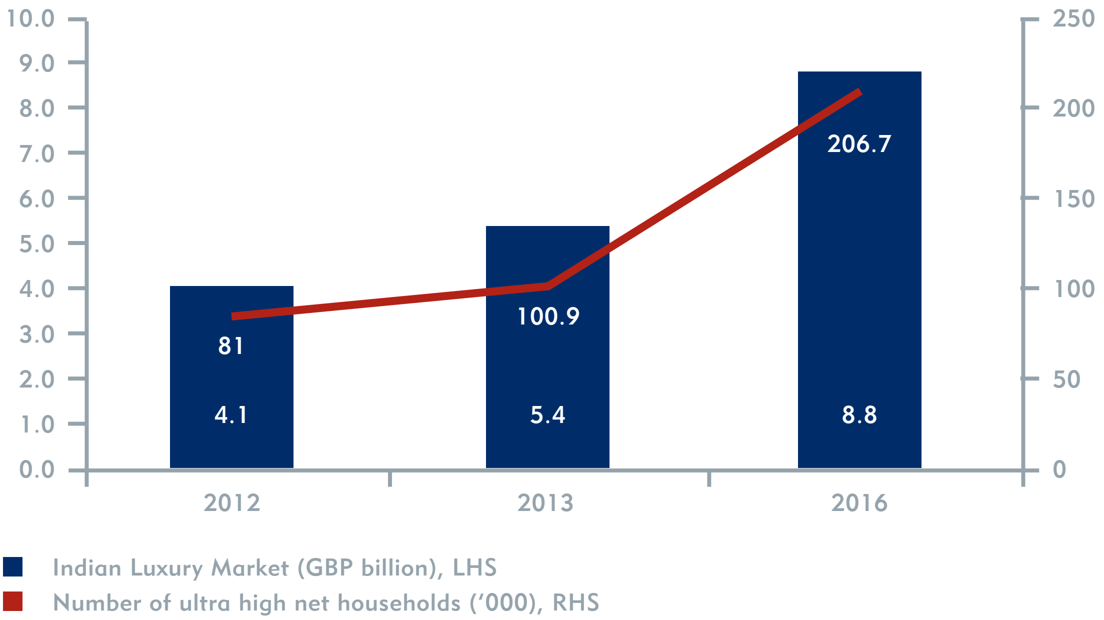
- **Rise of Private Labels:** Retailers are increasingly moving to their own private labels to increase margins, gain better control over product lines, and improve brand recognition. Private labels also help manage the supply chain and pricing, and improve the bottom-line. This means more competition for new entrants and those operating via licensing agreements.

- **E-tailing:** A growing Internet user base is driving online retail in India. Over the past year alone, it grew by a staggering 28 per cent – from 190 million to 243 million. Growth is expected to accelerate over the coming years, especially as online retailers offer significant discounts and other services such as cash-on-delivery and free shipping.

- **Innovation:** Intensifying competition in the Apparel sector has caused manufacturers to leverage technological innovations to deliver high value products at a premium. A recent example of this strategy is retailer Color Plus' collaboration with selected textile mills and international firms such as 3M to develop their wrinkle-free 'Diet Chino'.

- **Luxury Segment:** India's luxury market comprises a wide variety of products, services, and assets. It grew by 30 per cent in 2013 to reach GBP 5.4 billion and is expected to reach GBP 8.8 billion in 2016.

**Indian Luxury Market**




*Source: KPMG*

This growth can be attributed to the increase in the number of UHNW (ultra-high net worth) households in India, expected to grow at a CAGR of 27 per cent from 2012/13 to 2017/18. Potential threats such as increasing import duties and prevalence of pirated copies have failed to deter luxury brands from entering the Indian market. However, counterfeit luxury products, in particular, are seen as a major threat, currently growing at an annual rate of 40-45 per cent. Most of these counterfeits are sourced from China, which is responsible for 80 per cent of the supply.

## 3.4 Legislative Framework for Apparel Industry

**Government Policies**

Manufacturing

- TUFS - Under the Technology Upgradation Fund Scheme (TUFS), India's textile industry will receive a subsidy on capital expenditure on approved hi-tech machinery. A government resolution on a revised, restructured TUFS has been issued for operating this scheme in to the 12th Five Year Plan (2012-17)
- Scheme for Integrated Textile Parks (SITP) – This was formulated in the 11th Five Year Plan with the aim of creating international-standard textile parks close to potential growth centres. As per current estimates 40 such parks have been sanctioned, mainly in Maharashtra, Gujarat, and Tamil Nadu

Pricing/Taxation

- The industry's tax-related challenges began in 2011-12 with the introduction of 10 per cent excise duty on branded apparel with an abatement rate of 55 per cent. In 2012-13 the abatement rate was increased to 70 per cent but the excise duty increased from 10 per cent to 12 per cent. As a consequence the effective excise duty decreased from 4.5 per cent to 3.6 per cent, a reduction of 90 basis points
- The implementation of VAT for the Apparel industry has long been a contentious issue. Various state implement VAT differently. The governments of Delhi, Uttar Pradesh, Punjab, and Rajasthan charge five per cent VAT on apparel while most other states charge four per cent. Some states charge VAT on textile items while others were forced to rollback VAT after an initial announcement
- In the fiscal year 2012-13, service tax was increased two per cent and additional service categories, which were previously exempt from tax, were included in the list. As a result retailers and manufacturers saw an increase in costs. They had to pay additional tax for each service they used such as rent and electricity. Most retailers were unwilling to pass this on to consumers leading to erosion in profit margins
- Many apparel retailers are looking forward to the implementation of the Goods and Services Tax (GST) which has been in the works for the last decade. The new Union government is expected to expedite implementation of the GST. Under the present tax regime taxes on services cannot be set off against taxes on goods. Retailing being a service industry has to pay service tax in addition to tax on goods manufactured. GST is expected to solve the service tax problem and also reduce other tax-related problems in the value chain through the introduction of a uniform SGST (State GST)

**FDI Rules**

- Hundred per cent FDI in the textile sector allowed under the automatic route
- Fifty-one per cent FDI in multi-brand retail and 100 per cent FDI in single brand retail

  This includes a clause where retailers have to source 30 per cent of their products from local SMEs over the first five years and then 30 per cent annually in subsequent years

## 3.5 Key Stakeholders for Fashion

### Contract Manufacturing in Apparel Segment

Contract manufacturing for apparel is a major industry in India with most global brands sourcing from local companies. Manufacturers are concentrated in the textile hotspots of Ludhiana (Punjab), Tirupur (Tamil Nadu), Bangalore (Karnataka), Kolkata (West Bengal), and Delhi. They have built up a reputation for producing high quality apparel. India is an export hub to global fashion giants Gap, Decathlon, H&M, Zara, and Marks & Spencer who are already sourcing from the country.

| COMPANIES | DESCRIPTION | ASSOCIATION |
|---|---|---|
| **Arvind Mills** | One of the leading denim manufacturers in the world. Also manufactures cotton shirts, knits, and bottom-weights (khakis) fabrics. | Lee, Wrangler, Levi's |
| **Madura Garments Exports** | Integrated textile and garments manufacturing company. Exports products to 25 countries. Its integrated operations include yarn dyeing, weaving, and fabric processing. | FCUK, Teddy Smith, PROMOD, Rip Curl, All Saints, Artman, Simint Spa, Gintonic, No Excess |
| **Sudar Industries** | Contract manufacturers for domestic brands and merchant exporters. Also manufactures APIs and agrochemical products. | In-house brand – Glory to Glory |
| **SSIPL Retail** | Primarily a footwear manufacturer, Nike being its main client. Manufactures apparel for Levi's. Also has an in-house brand, Sierra, in addition to operating several retail outlets for other brands. | Nike, Lotto, Puma, Bata, Levi's, UCB, BHPC |
| **Prateek Apparel** | Apparel manufacturer that also provides brand research, fashion forecast, brand communication, design and product development, merchandising client interface, sourcing, production, planning and control, manufacturing and quality assurance expertise. | Levi's, Dockers, Lee, Wrangler |

## 3.6 Fashion Sector - Case Studies

### CASE-IN-POINT: BURBERRY

**Industry:** Apparel

**Year Established:** 2008

**Presence:** Operates nine stores with a presence in Delhi, Gurgaon, Mumbai, Kolkata, Bangalore, Hyderabad, and Chennai

**Overview:** Burberry offers premium menswear, womenswear, accessories, eyewear, watches, and fragrances

**Mode of Operation:**

- Entered the Indian market in 2008 through a distribution agreement with Mumbai-based Media Star Pvt Limited
- In 2009 Burberry formed a JV with Genesis Colors Pvt Ltd. The latter already had distribution rights for Bottega Veneta (handbags) and Jimmy Choo (shoes)
- The company made announcements to invest GBP 2.1 million for a 51 per cent stake in the venture and plans to have a net turnover of GBP 33 million by 2018-19
- Since its launch in India Burberry has had operations in either high-end malls or luxury hotels and positions itself as a premier brand catering primarily to high net worth individuals (HNWI)
- Burberry has used social media campaigns to connect with Indian HNWIs, especially men. Between 2009 and 2011 the company added new product categories such as menswear, men's accessories and fragrances to its catalogue

**Outlook:**

- Burberry is likely to continue operate as a JV as it already faces high import duties in India owing to a luxury tax on high-end goods
- Burberry's traditional raincoats are made in England, and most of its leather products are procured from Italy. Consequently if it decided to establish a wholly-owned subsidiary it might encounter difficulties in satisfying its sourcing requirements
- The brand aims to open 21 stores by 2018-2019

## 3.6 Fashion Sector - Case Studies (cont...)

### CASE-IN-POINT: PAVERS ENGLAND

**Industry:** Footwear and Accessories

**Presence:** 30 stores in collaboration with franchise partner

**Revenue (FY2013):** GBP 7.7 million

**Overview:** Pavers England is headquartered in the UK with a retail presence and an R&D/manufacturing facility in India. It is the first foreign company to receive permission for 100 per cent investment in single-brand retail in India. Operating with local franchise partner Triton Retail, it subsequently bought out the franchise.

**Operating Model:** Entered India with a franchise partner. First multi-national to get permission for 100 per cent FDI under the new norms

**Mode of Operation:**
- Exclusive Stores: Exclusive stores across major cities, originally in partnership with the local franchise partner.
- Shops-in-Shops: Over 70 outlets in major department stores such as Reliance Footprint, Lifestyle, Shoppers Stop, and Westside.
- R&D centre in Tamil Nadu set up in 2008 also serves as a global export hub.

- **Success Factors:**
- Multiple Sales Channels: Direct selling, shop-in-shops and sales via franchise partners. Significant growth expected after receiving permission for 100 per cent FDI in single-brand retail.
- R&D: R&D centre in India helps the company meet domestic and international needs while allowing for customisation to meet regional style and size requirements.
- Customer Service: The company made significant investment in training front-end staff and improving overall customer service
- Positioning: Well positioned to fill the gap between premium high-end women's footwear and low-end merchandise from the unorganised sector. The company is planning to launch a semi-premium footwear range available exclusively at Reliance retail outlets

- **Outlook:**
- Planning to invest more than GBP 95 million
- The company plans to expand to 500 points of sale, 120 exclusive stores, and 350 shops-in-shops by 2015

# 4.0 BEAUTY SECTOR IN INDIA

## 4.1 Overview of Beauty and Personal Care Sector

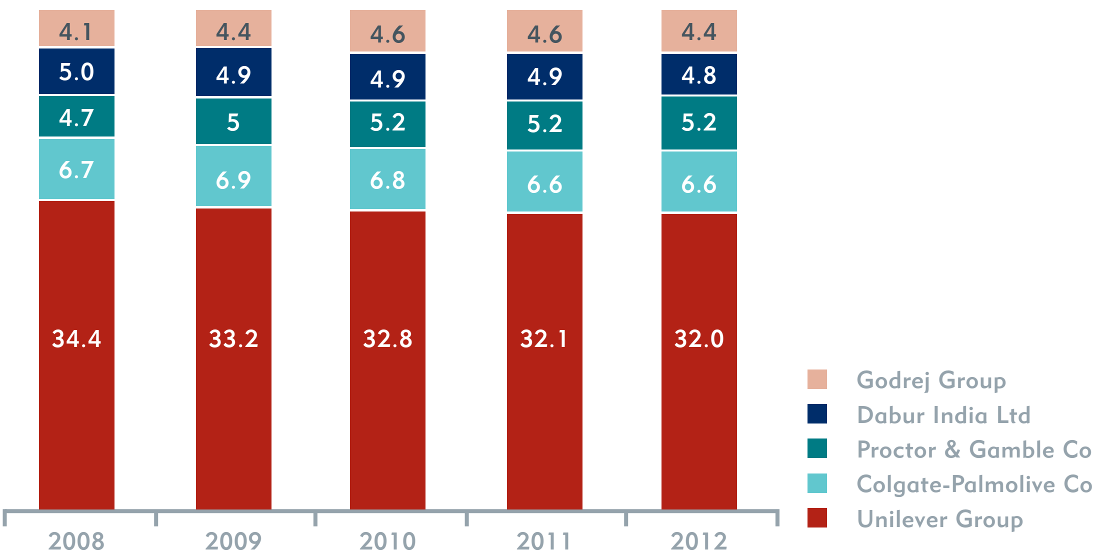
The organised Beauty and Personal Care products segment in India is valued at GBP 0.7 billion and is expected to grow at a CAGR of 15 per cent to reach GBP 3 billion by 2023. The cosmetics market in India is growing at 15-20 per cent annually, twice as fast as in the US and European markets.

The market is consolidated with the top five players in a strong position to defend their market shares.

***"The Beauty market is set to double in size in the next ten to fifteen years: all the world's regions will grow, some faster than others. And the profiles of consumers and their needs will also change. More than half of these consumers will be located in tropical zones, with hot, humid climates; and by 2020, some 60 per cent of the world's population will live in major urban centres affected by pollution." - L'Oreal***

**Market Share of top players (%)**

*Source: Euromonitor (2012)*




As per a Euromonitor report published in 2013, L'Oreal India held a value share of four per cent in the Beauty and Personal Care sector in India in 2012.

## 4.2 Competitive Landscape in Beauty and Personal Care Sector

**Competitive Landscape as of 2012**[2]

| PRODUCT TYPE | Hindustan Unilever Ltd | Dabur India Ltd | Godrej Consumer | L'Oréal India |
|---|---|---|---|---|
| Value share (%) *(Rank)* | | | | |
| **Beauty and Personal care** | 31.7 *(1)* | 4.8 *(4)* | 4.4 *(5)* | 3.8 *(6)* |
| **Colour cosmetics** | 29.5 *(1)* | n/a | n/a | 13.6 *(2)* |
| **Hair care** | 17.3 *(1)* | 10.9 *(2)* | 5.3 *(6)* | 8.4 *(4)* |
| **Men's grooming** | 16.8 *(2)* | n/a | 1.2 *(12)* | 1.0 *(14)* |
| **Skin care** | 55.8 *(1)* | n/a | n/a | 6.8 *(2)* |
| **Bath and shower** | 49.7 *(1)* | 0.3 *(16)* | 10.3 *(2)* | n/a |
| **Sun care** | 36.5 *(1)* | n/a | n/a | n/a |

As per data from 2012, P&G has a 26 per cent market share in shampoos, 10 per cent in detergents and 35 per cent in anti-ageing creams. Their competitor Hindustan Unilever (HUL), India's biggest FMCG player, commands a 46 per cent share in shampoos, 35 per cent in detergents, and 16 per cent in anti-ageing creams.

*Source: Euromonitor*

[2] Market Share by Value mentioned in % and Ranking mentioned in parenthesis

## 4.3 Key Trends in the Beauty and Personal Care Sector

- **Advertising and Marketing:** Spending on advertising and marketing continues to be a significant expenditure for Beauty and Personal Care companies as they look to maximise their reach and drive growth. Companies are increasingly shifting to digital advertising to address consumers on social media and other digital platforms, in line with changing consumer preferences.

- **Innovation:** Innovation or 'Indianisation' of products continues to be a key differentiator for companies in this market. According to EY, 17 per cent of consumer product companies cite bringing innovations to the market as a key success strategy. The innovations developed take into account factors such as changing customer needs, evolving technology, shortening product life cycles, and adherence to local trends and preferences.

**Key Innovations and Customisations Examples:**

- Pond's Age - Miracle Cell Regen range claiming to speed up the cell renewal process
- Garnier two-in-one shampoo – Offers a combination of oil and shampoo, the former considered essential for healthy hair in India
- Maybelline New York's Colossal Kajal– Offers dark lines and long-lasting qualities, preferred by Indian women
- L'Oreal BB cream – Introduced a variant specific to Indian skin

- **Partnerships:** In addition to existing B2C channels, companies are actively building other channels of growth such as B2B partnerships and selling direct-to-consumer. Beauty and Cosmetic companies actively engage with spas, salons, and hotels to reach consumers and also provide high-end professional services and products directly to consumers.

- **Brand extension:** Leading manufacturers in India have launched a number of new products under existing brand names to gain maximum mileage from the brand's popularity.

- Reckitt Benckiser (India) introduced moisturisers under depilatories brand Veet
- HUL extended its brand, Dove's presence from soap into hair care and skin care
- Marico introduced body moisturisers under its brand Parachute

## 4.4 Legislative Framework for Beauty Products Industry

- The Bureau of Indian Standards (BIS) regulates Indian cosmetic products under the Drugs and Cosmetics Act, 1940 and Rules 1945 and Labelling Declarations. BIS sets the standard for cosmetics products listed under Schedule 'S' of the Drugs and Cosmetics Rules, 1945

- The BIS lays down specifications for skin creams and lipsticks in the Indian Standards (IS) 6608:2004 and 9875:1990 respectively

- The Ministry of Health and Family Welfare introduced new rules for imported cosmetics in April 2013. These are an amendment to the existing Drugs and Cosmetics Rules, 1945 and incorporate the following provisions:

    - All cosmetic products that are imported for sale in India now need to be registered with the Central Drugs Standard Control Organisation (CDSCO) which has been appointed licensing authority. Some definitions were also altered as per the new rules:

        - A 'Manufacturer' is the 'Brand/Trade Name Owner' and not the actual manufacturer

        - A 'Brand' is a category/class of product as opposed to being just the trade name /brand. For example, the 'Brand' will include all brands of lipsticks imported by the applicant and not just a particular lipstick 'brand name'. Further, a separate application needs to be filed for each product class. For example, shampoos and conditioners belong to different classes even though they may have a common 'brand name'. A single application might be made for registering more than one brand of cosmetics (including its different variants and pack sizes) by the same manufacturer

*Source: Lexology*

# 4.5 Key Stakeholders for Beauty Products

### Contract Manufacturing in the Beauty Segment

Contract manufacturing of cosmetics in India is well established with a number of large players catering to global brands, besides having their own portfolio of private labels. The majority of global brands, including luxury brands, source products from Indian contract manufacturers. This is testimony to the maturity of contract manufacturing processes and adherence to global quality standards in the country.

| COMPANIES | OVERVIEW | CURRENT RELATIONSHIPS |
|---|---|---|
| **Clarion Group** | Manufactures products for haircare, skincare, nail enamel, and white petroleum jelly products. | Hindustan Unilever, Avon Beauty Products Pvt Ltd, Oriflame, Modicare, Colorbar, Revlon, Gala of London, Amway, Biotique |
| **Officiana Farmaceutica Italiana (OFI)** | Italian cosmetics contract manufacturer currently awaiting approval. Plans to form a joint venture with local partner, San Pellegrino Cosmetics. | n/a |
| **ESPI Industries and Chemicals** | Primarily manufactures pharmaceutical products. Also exports products to Mozambique and Angola. | Proctor & Gamble (Oil Of Olay) |
| **Aero Pharma Group** | Has three manufacturing plants producing lipsticks, foundations, compact powders, eye make-up, skin care creams, hair care creams, lotions, shampoos, aerosols. | Hindustan Unilever, Aviance, Avon, Oriflame, Revlon, JK Helene Curtis, Gillette, Modicare, Marico, E. Merck, Godrej Sara Lee |
| **VVF India** | Manufactures soaps, shampoos, conditioners, deodorants, hand sanitiser, face wash, skin moisturiser, cream, lotions, shower gels. Has 15 manufacturing plants across Asia, Europe and North America. Manufactures private labels as well. Also has a separate distribution and sales company. | Johnson & Johnson, Henkel, Reckitt Benckiser, J L Morrison and Cussons<br>Private labels: Jo and Doy |

## 4.6 Beauty and Personal Care - Case Studies

### CASE-IN-POINT: LUSH

**Industry:** Luxury cosmetics and personal care products

**Entry Year in India:** 2004 **Exit Year in India:** 2013

**Presence:** Before closing operations, Lush had 13 stores across Bangalore, Mumbai, Delhi, Chennai, Ahmedabad, Hyderabad, Mangalore, and Kolkata

**Overview:** During 2004-2013, the company offered various beauty and personal care products such as shampoo bars, bath ballistics, soaps, shower gels, shower jellies, smoothies, cleansers, toner tabs, moisturisers, shaving cream, and solid deos

**Mode of Operation:**

- The brand entered the market in 2004 through a distribution agreement with Amaltas Retail Pvt Limited and opened its first store in Bangalore
- Lush was cautious about expanding in India and opened its next store three years later in 2007. Between then and 2013 the company opened 11 additional stores
- **Value Proposition:** Lush positioned itself as a premium brand that offered only handmade organic products. The company aimed to attract upper middle class and rich Indian consumers

**Re-visiting the strategy:**

- The company suddenly exited the Indian market in 2013. Its franchise agreement with its local partner in India expired and was not renewed. This was because the company wanted to re-enter the market through a wholly-owned subsidiary, taking advantage of new the 100% FDI in single brand retail regulation
- Lush regularly procures raw materials from India for its organic products. In 2013 it sourced henna, indigo, saffron and jasmine worth GBP 1.3 million from India
- The company also sourced cotton rag paper used to wrap gifts from a small company in Southern India. It also sells scarves and bags sourced from an Indian co-operative called 're-wrap'

**Outlook:**

- In 2014, Lush applied to set up a 100% owned subsidiary in India. This proposal is currently pending clearance from the DIPP (Department of Industrial Policy and Promotion)
- Lush plans to open one store in Delhi and intends to test the market before making additional investment
- It is also open to exploring the online distribution channel, subject to the Indian government's approval of foreign investment in e-commerce

## CASE-IN-POINT: BODY SHOP

**Industry:** Cosmetics and personal care products

**Year Established:** 2006

**Presence:** Operates 116 stores in 35 Indian cities.

**Overview:** Body Shop offers bath and body, skin care, hair, make up, fragrance, men's, accessories, and beauty and personal care related gifts.

**Operating Model:**

- The brand entered the Indian market through a franchise agreement with Haryana based Quest Retail Private Ltd, itself a franchise of Mumbai based Planet Retail, the seller of Guess, Accessorize, Next, Debenhams Lifestyle, and Nautica products in India
- Interestingly, Planet Retails' global brands are entirely imported
- **Value Proposition:** Body Shop positions itself as a brand that caters to customers between the mass and premium range. Its products are manufactured from 100 per cent vegetarian raw materials, another key selling point
- **Pricing strategy:** After three years of its launch, the company slashed prices of its 200 top selling products by 20-30 per cent. Therafter, in 2010, it slashed prices by almost 10-35 per cent on more than 600 products
- **Special focus on Tier II cities:** Body Shop has 61 per cent of its stores located in Tier I cities. Out of the remaining, 36 per cent (around 42 stores) are located in Tier II cities while three per cent are based in Tier III cities
- **Online presence:** In 2014 the company launched its online website which will be operated by Quest Retail Private Ltd. It also has tie-ups with Indian online retailers such as Flipkart.

**Marketing Strategy:**

- In spite of being a wholly-owned subsidiary of L'Oreal, which invests heavily in marketing, Body Shop funds its own advertising and relies on its stores and sales associates for marketing. It also focuses on hosting events to promote its products

# 5.0. OVERALL REGULATORY ENVIRONMENT

## MAJOR REGULATORY CHALLENGES FACED BY RETAILERS

- Regulatory restrictions on debt funding into India
- Taxes charged on repatriation of profits from India. Consequently, treaty structures and transfer-pricing policies have huge significance
- India requires international transactions between related parties to be transfer priced
- Application of indirect taxes on in-country transactions and movement of goods within and between states
- Valuation of imported goods - customs officials like to see higher values on imported goods in order to recover higher duties, whereas transfer-pricing officials like to see lower values, with a view to increasing profits
- Overall tax rate is very high i.e. 41 per cent[1] – to reduce overall tax burden companies generally consider introducing debt in their structure or resort to transfer-pricing techniques
- Royalty payments out of India are subject to withholding tax. The tax rate was hiked to 25 per cent from 10 per cent last year by the previous administration

## GOVERNMENT INITIATIVES TO ATTRACT FOREIGN INVESTMENT

- Reduction in import duties and excise duties over the years
- Relaxation in FDI conditions:
    - Earlier, only one foreign investor was permitted to undertake single brand retail (SBRT). This has recently been changed and multiple owners can now undertake SBRT directly or through a legally tenable agreement with the brand owner
    - Other amendments pertaining to sourcing of materials and location of stores have been made regarding multi brand retail (MBRT)

## OUTLOOK

Introduction of the Goods and Service Tax (GST) is likely to lead to the following:

- Simplification of taxes, particularly regarding procurement and distribution arrangements
- Elimination of tax cascading, which in turn will reduce input costs and improve profitability
- Organizations would be able to design their networks based on supply chain considerations and not tax considerations

*Source: Press Information Bureau, Technopak*

[1] Current effective tax rate including dividend distribution tax is approximately 41%

# 6.0 ROUTE TO MARKET – INDIA AS A DESTINATION FOR UK COMPANIES

Despite myriad challenges, foreign brands are still actively scouting for opportunities in India to achieve their growth objectives. According to a survey conducted by EY, India accounts for more than 20 per cent of total capital allocated for the developing world among companies that have an emerging market strategy.

As organisations explore opportunities in India, they must evaluate the different modes of entry that align best with their strategic plans and future vision. Factors that have an impact on market entry strategy include:

- **Current Structure and Mode of Operations:** Choosing the mode of entry that best aligns with the company's existing structure and does not disrupt the organisation's DNA.

- **Level of Investment:** Financial position and access to capital significantly impact the choice of market entry. A higher level of expected investment often correlates with the need for greater control.

- **Time to Break Even:** Expected return on investment and anticipated investment time horizon also dictate the mode of entry into a new market.

- **Nature of Product:** The nature of product/services offered and broader competitive landscape and product portfolios dictate the mode of entry into the market. Issues related to IP and confidentiality also influence the decision.

- **Local Laws and Regulations:** The regulatory environment prevalent in the target market strongly influences the agreements and business relationships needed to be established for market entry.

- **Business Model Complexity:** The complexity of the business model and ease of duplication/supervision govern the mode of entry in a new market.

- **Internal Capabilities:** Available competencies, infrastructure, and resources within the organisation play a critical role in the market decision.

**Four Structures: Wholly owned subsidiary, JV, Franchise, Exporting**

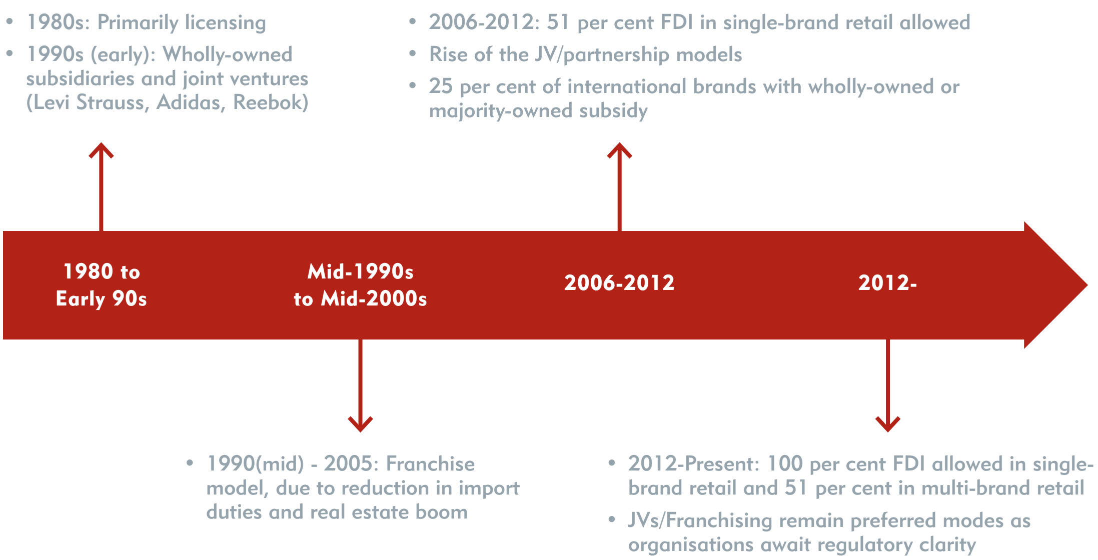
Foreign entrants can choose the optimum entry route from four possible structures. Each of the entry models given below offers different levels of control to the parent organisation and should be explored depending on broader organisation strategy and its goals in India.

| METHOD OF ENTRY | DEFINITION | BUSINESS MODELS | EXAMPLES |
|---|---|---|---|
| **Exporting** | Allows the partner to distribute products in the country via channels such as stores, e-tailing | • Distribution agreement | • Burberry and Genesis Colors |
| **Licensing/ Franchising** | Allows partner to operate stores under the retailer's brand. Additionally, partner may manufacture the licensed products locally | • Area development<br>• Master franchise<br>• Direct franchise<br>• Hub and spoke | • Arvind Mills and Lee |
| **Joint Venture** | Shared ownership agreement with a partner | • Joint venture<br>• Franchise agreement through a JV | • M&S and Reliance |
| **Owned Subsidiary** | Company-owned and wholly funded operations | • Acquisition<br>• Brand statement store<br>• Shop-in-shop<br>• Pop-up-shop | • Clarks |

## 6.1 Evolution of Route to Market Strategies for India

The modes of entry into the Indian market have evolved as organisations have developed an understanding of the market and the regulatory environment. Indian companies, both manufacturers and retailers, have also evolved as partners and distributors of global retailers and acted as platforms for launching foreign brands in the Indian market. The evolution of routes to market for retailers into the Indian market can be demonstrated as below:

**Evolution of Market Entry Modes into India in Retail**



Following the relaxing of FDI norms over the past few years, companies are increasingly selecting routes to market that allow them greater control of operations. In the future as regulatory clarifications are more forthcoming, international brands are expected to increasingly opt for joint ventures or fully-owned subsidiaries as the mode of operations, especially as they look to expand and aim for a larger market share. Over the years, retailers have also undergone a change in operating structures as they work closely with local partners or explore additional opportunities and tie-ups (Mothercare, Louis Vuitton, Lee Cooper, Promod) In some cases they have changed their local partners to align with business priorities and strategic goals.

Franchising still remains an option for international brands to explore the Indian market because of the flexibility it offers. It is also an attractive proposition for companies that are looking to moderate their initial capital investments. The flexibility in franchising agreements allows retailers to limit investments and reduce risk.

## 6.2 Identifying and Managing Key Stakeholders

The success of foreign fashion and beauty brands in India is contingent on their successful engagement with key local stakeholders – both from a B2B and B2C perspective. These are constituents that determine the outcome of a new market entrant in India. At operational level, successful partnerships with JV and franchise partners as well as suppliers is critical. Given India's convoluted regulatory environment, having a meaningful dialogue with various government agencies is paramount. Industry health often depends on prevailing policies and laws. On the consumer side, companies that have successfully managed to strike a chord with their customers, with the right amount of 'Indianisation' and customisation have experienced sustained and robust growth. Some of the factors that foreign entrants need to consider while evaluating stakeholders in India are:

- **Alignment with Strategy and Vision:** Identify and work with stakeholders who share a common vision that fits well with your organisational structure and principles.
- **Local Expertise:** Select stakeholders with extensive knowledge of local conditions and challenges. Work with them to use their expertise in local markets.
- **Reputation and Goodwill:** Consider local partners' goodwill and reputation. Reputational issues can significantly damage prospects in new and established markets, especially due to the proliferation of Internet and social media.
- **Capabilities and Resources:** Identify and select stakeholders who offer complementary capabilities. Use stakeholders' capabilities to gain a strong foothold in the local market and reduce challenges.

**Key Stakeholders for New Market Entry**

**OTHERS**
- Central government, State government/Local bodies
- Non-Government/Social Actors, Consultants

**CUSTOMER**
- Customer Identification
- Customer Engagement
- Customer Retention

**PARTNER**
- Partner identification
- Mode of operation: JV/Partnership/ Franchise/Subsidiary
- Relationship management

**SUPPLIER**
- Supplier identification
- Supplier selection
- Relationship management

## 6.3 Potential Partners

The Indian market offers a wide range of potential partners who can support a new entrant enter and help alleviate some of the operational and financial risks associated with any new market entry initiative:

**Major JV Players**

| COMPANIES | OVERVIEW | CURRENT RELATIONSHIPS |
|---|---|---|
| Reliance Brands | Part of an Indian conglomerate, Reliance Industries Limited. Also involved in investing in home-grown Indian brands and launching private labels. | • JVs: Brooks Brothers, Diesel, Ermenegildo Zegna, Iconix<br>• Franchise/License: Hamleys, Kenneth Cole, Steve Madden, Thomas Pink |
| DLF Brands | Subsidiary of real estate major DLF Ltd. Focuses on introducing international brands, primarily in the luxury segment to India. | • JVs: Sephora, Kiko, Forever 21, Beverly Hills Polo Club<br>• Franchise / License: Armani, Boggi, Alcott, DKNY, Claire, Mango |
| Arvind Brands | Subsidiary of Arvind Mills. Operates private labels and has affiliations with international brands. | • JVs: Calvin Klein, GAP, VF Corp<br>• Franchise/License: Tommy Hilfiger, Arrow, Cherokee, USPA, Izod |
| Major Brands | A partnership/licensing firm with a focus on introducing international brands to India. | • JVs: Promod<br>• Franchise/License: Mango, Aldo, Inglot |
| Brandhouse Retail | Subsidiary of SKNL group. A fashion retailer in India, operating both private labels and international brands. | • Franchise / License: Stephen Brothers, Carmichael House, Dunhill |
| Genesis Luxury | Subsidiary of Genesis colours. A marketing and distribution firm for international luxury labels in India | • JVs: Burberry, Villeroy & Boch AG, Canali<br>• Franchise/License: Armani, Paul Smith, Tumi, Jimmy Choo |

Other potential partners include companies such as Madura Garments Lifestyle Retail Company Limited (Aditya Birla subsidiary), Trent Limited (Tata group subsidiary), and Future Group.

## 6.4 Key Steps to Success

The Indian market offers a wide range of potential partners who can support a new entrant enter and help alleviate some of the operational and financial risks associated with any new market entry initiative:

### MARKET ENTRY PHASE

- Forming FDI-compliant legal structure
- Regulatory schemes
- Funding model
- Formulating strategy: expansion vs control
- Identifying the right partner: franchisee, licensing, contract manufacturing

### SET-UP PHASE

- Managing high rentals i.e. revenue sharing lease models
- Tax effective supply chain
- Distribution channels i.e. e-tailing, departmental stores, malls

### OPERATIONAL PHASE

- Marketing and advertising: social media, print and television media
- Brand positioning: Pricing as per customer base
- Promotional schemes
- Brand portfolios: Customisation of brands

# 7.0 APPENDIX

## 7.1 Tax Structure in India (High level)

**TAXES**

- **DIRECT TAX**
  - Income Tax
    Domestic - 30.90 to 33.99
    Foreign – 41.20 to 43.26
  - Minimum Alternate Tax (MAT) 19.06 to 20.96%
  - Dividend distribution tax 16.995%
  - Buy back tax 22.66%
  - Wealth tax
- **INDIRECT TAX**
  - Customs duty on import of goods in India, 28.85%
  - Excise duty on manufacture of goods in India, 12.36%
  - Service tax on specified categories of services, 12.36%
  - VAT (Value added tax) on sale of goods within the state, ranges from 4%-15%
  - CST (Central sales tax) on inter-state sales of goods, 2% or VAT rate applicable on the goods from dispatching state
  - Entry tax on entry of goods into a state/ local area for consumption use or sale, varies as per state
  - R&D cess on import of technology in India under foreign collaboration, 5%
- **LEVIES ON TRANSACTION**
  - Stamp Duty:
    Non-delivery trade – 0.002%
    Delivery trade – 0.01%
  - Securities Transaction Tax 0.025 to 0.125%
  - Commodity Transaction Tax 0.01%

## 7.2 Regulatory changes in the Indian Retail Sector

| MULTI-BRAND RETAIL | SINGLE-BRAND RETAIL |
|---|---|
| Fifty-one per cent FDI permitted for all products with government approval, subject to the following conditions:<br><br>• Retail sales stores will be set up only post state approval and only in cities with a population of more than 1 million based on 2011 census<br><br>• In States and Union Territories (UT) with population less than one million, stores may be set up in cities as per state or UT's choice. In such cases, the city is likely to be the largest city and may also cover an area of 10 kilometres around the municipal or urban agglomeration limits of such cities<br><br>• At least 50 per cent of total FDI brought in must be invested in back-end infrastructure such as processing, manufacturing, distribution, quality control, packaging, logistics, storage within three years of the FDI<br><br>• A minimum of GBP 59 million to be invested by the foreign investor<br><br>• At least 30 per cent of the value of procurement of processed product must be sourced from small Indian industries that have a total investment cost in plant and have machinery valued at less than GBP 1.2 million at the time of installation<br><br>• Government will have the first right to procurement for agricultural products | Up to 100 per cent FDI is permitted for all products with government approval, subject to the following conditions:<br><br>• Up to 49 per cent is permissible under the automatic route (no prior approval of government required)<br><br>• Beyond 49 per cent is permissible subject to prior government approval<br><br>• Products to be sold should be of a single brand<br><br>• Products should be branded during manufacturing<br><br>• Non-resident entities have to undertake SBPRT in the country for a specific brand directly or through a legally tenable agreement with the brand owner<br><br>• Companies manufacturing in India are allowed to sell their products through E-commerce channels<br><br>• Foreign companies investing more than 51 per cent in operations in India are required to source 30 per cent of the value of their goods from micro, medium, and small enterprises, village and cottage industries, artisans and craftsmen, for the first five years of operation |

Going forward, FDI in single-brand retail is expected to lead in terms of investment. The Indian government has shown a preference for foreign investments in SBRT by allowing 100 per cent FDI in the sector. Additionally, it has proposed allowing e-commerce for SBRT players who manufacture in India. On the other hand FDI in multi-brand retail is likely to remain fixed at 51 per cent. Nonetheless, India allows 100 per cent FDI in wholesale cash-and-carry stores, which has attracted the attention of global giants such as Tesco and Walmart.

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Whether you're thinking about doing business in India, or have already taken the first steps, we, along with UK Trade & Investment (UKTI) and the British Business Groups (BBGs), provide the resources, knowledge and experience you'll need to take advantage of the exciting emerging opportunities India offers.

"A RAPID EXPANSION OF TRADE AND INVESTMENT WILL MEAN NEW JOBS AND NEW GROWTH, BOTH HERE AND IN INDIA, AND THAT IS WHERE THE UK INDIA BUSINESS COUNCIL COMES IN."

**David Cameron** UK Prime Minister

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