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India Allows Foreign Investment in Retail, Paving Wal-Mart Entry
2011-11-24 16:47:04.877 GMT

By Bibhudatta Pradhan and Malavika Sharma

Nov. 24 (Bloomberg) -- India approved allowing overseas companies to own as much as 51 percent of retail chains that sell more than one brand, paving the way for global retailers such as Wal-Mart Stores Inc. and Tesco Plc to own stores.

Trade Minister Anand Sharma told reporters after a cabinet meeting today that he will make a statement on the government’s rationale for opening multibrand retail to foreign investment in parliament tomorrow. Specific conditions linked to the approval weren’t immediately known.

Wal-Mart and Carrefour SA have been seeking to enter the world’s second-most populous nation to tap a market that is expected to double to $785 billion by 2015 from $396 billion this year, according to Business Monitor International.

Organized stores account for about 5 percent of the total Indian retail market, according to the Associated Chambers of Commerce and Industry of India.

“Foreign retailers must be licking their lips at this opportunity,” said Narayanan Ramaswamy, executive director at KPMG India, which advises retail companies. “It has to be one of the biggest opportunities in the world right now.”

Overseas retailers may be required to invest a minimum of $100 million in India, with at least half of the total investment in back-end infrastructure, an official who declined to be identified said on Nov. 23.

Retailers Gain

Indian retailers gained in Mumbai trading ahead of today’s meeting as overseas companies will need local partners to set up operations in the South Asian nation. Pantaloon Retail India Ltd., the country’s largest chain by market value, jumped 13 percent to 201.20 rupees, the most in more than two years.

Shoppers Stop Ltd. advanced 5.5 percent and Trent Ltd., which has a franchise agreement with Tesco, rose 1.1 percent.

“It can be a game changer for us,” Kishore Biyani, the founder and managing director of Pantaloon, said in a Nov. 18 phone interview when asked about the possibility of the rules being relaxed. “We’ll get opportunities to align with various businesses with stronger partners.”

India also allowed companies that sell a single brand to own 100 percent of their operations from 51 percent earlier, Food Minister K.V. Thomas told reporters after the cabinet meeting.

India permitted foreign retailers to own wholesale stores in 1997. Wal-Mart has set up 14 such stores in India through a joint venture with billionaire Sunil Bharti Mittal’s Bharti Enterprises to gain a foothold in the country, while Metro AG operates six wholesale stores. Carrefour opened its first outlet in December.

Political Opposition

The decision to permit foreign retailers came even as Prime Minister Manmohan Singh’s parliamentary ally the Trinamool Congress opposed the move. The main federal opposition Bharatiya Janata Party was also against the decision.

“Small and medium retailers, which employ a large number people, will be affected,” Arun Jaitley, a BJP leader, said in New Delhi today. “We oppose it completely.”

Policy makers have been debating approving the idea for at least the last seven years.

Raj Jain, president of Wal-Mart India, said in April 2010 the company can help reduce prices by improving supply chain and infrastructure to cut waste. About 40 percent of India’s fruit and vegetables rot before they are sold because of a lack of cold-storage facilities and poor transport infrastructure, according to the government estimates.

Bharti-Walmart, the local joint venture, buys fresh produce directly from about 1,200 farmers in Punjab and helps them improve their yield through better farming practices, Jain said in May.

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