

Foreign Direct Investment: A Wave To The Growth Of Retail Sector In India

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Abstract

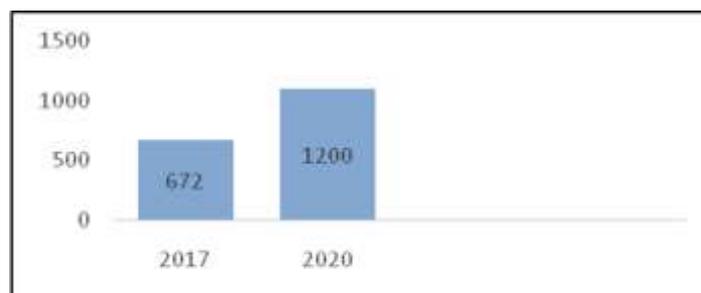
India is one among the developing country; Government of India has allowed Foreign Direct Investment (FDI) in retail of major brand of products in retail industry which suggests that foreign companies in specific categories can sell products through their own retail shop within the country. So Foreign Direct Investment (FDI) is promoted and rise within the retail sector which affect the growth of the economy where major players and more sectors have opened for foreign investment. The Indian retail sector is emerging together as one of the vital sectors within the economy. During 2015, the entire market size was estimated to be around US\$600 billion, comparing with a CAGR of 7.45% since 2000. The retail industry is predicted to grow to US\$1.3 trillion by 2020, as compared a CAGR of 9.7% between 2000 and 2020. Currently the Government of India (GoI) has allowed 100% FDI in online retail of products to incentivize the international retailers. The paper highlights the significance of FDI and the growth of the Retail sector in India.

Keywords: FDI, Indian Economy, Retail Industry and its Growth

1. Introduction

The Indian retail sector of buying and selling has obtained Foreign Direct Investment (FDI) equity an inflow totalling was reached to US\$ 1.85 billion in April 2000–June 2019. With the increasing need for purchaser items in different sectors such as costumer electronics and home equipment, many corporations have invested within the Indian retail space in the past few months. India's investment in retail sector achieved Rs 1,300 crore of doubled (US\$ 180.18 million) in 2018. The largest retail store Wal-Mart Investments Cooperative U.A has invested Rs 2.75 billion (US\$ 37.68 million) in Wal-Mart India Pvt Ltd. In the world the Indian retail sector is one of the fastest growing markets due to economic growth. The retail market in India is anticipated to increase US\$ 672 billion in 2017 comparing US\$ 1.1 trillion in the current year 2020.

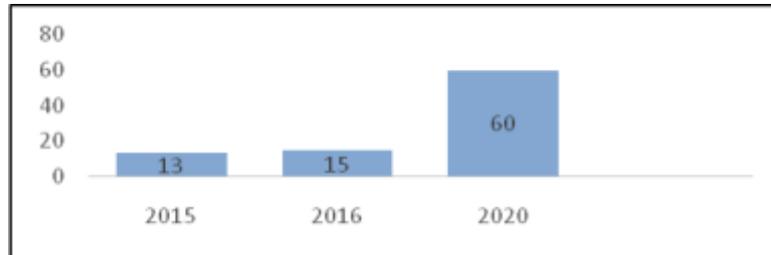
Fig: Retail Market in India (US\$ billion)



Source: www.ibef.org

Foreign and private players greater in participation to encourage retail infrastructure, as the revenue created from online retail is generated to increase US\$ 60 billion by 2020.

Fig: Revenue from online retail in India (US\$ billion)



Source: www.ibef.org

1.2 OBJECTIVE OF THE STUDY

The objective of the study is to analyze the current trends in retail, with reference to India, which the retailers need to understand and the significance of FDI. The paper is based on the case studies of leading companies and growth of the retail sector in India through understanding of various journals, research papers, newspapers and websites.

1.3 LEADING RETAIL COMPANIES IN INDIA

India-based company Avenue Supermarts Limited which owns and operates DMart stores. DMart is a store that provides customers a scale of homely and personal products under one roof. Each DMart store has inventory like household products, including food, toiletries, beauty products, garments, kitchenware, bed and bath linen, home appliances and also provides its products under various categories like dairy products, frozen, fruits, vegetables, bed & bath, crockery, games & toys, kid's & men apparel, women garments, personal care, daily essentials, grocery & staples, and also DMart brands. DMart has 163 locations across the states like Maharashtra, Gujarat, Andhra Pradesh, Madhya Pradesh, Karnataka, Telangana, Chattisgarh, NCR, Tamil Nadu, Punjab and Rajasthan and it has 176 stores and multiple stores in cities, such as Mumbai, Ahmedabad, Baroda, Bengaluru, Hyderabad, Pune and Surat. The total income of Rs 19,968 crore (US\$ 2.86 billion) in the financial year 2019 compare to Rs 11,750.3 crore (US\$ 1.68 billion) in the year 2020.

The other largest India based company is Future Retail Limited which is primarily engaged in the trade of multiple brand retail trade where a range of household and consumer products through departmental store facilities under various formats. The company access to around 20 solid hypermarkets and over 210 supermarket easy day stores. Its retail layouts fundamentally comprise of value and home business. The value of commercial enterprise encompass Big Bazaar, a hypermarket layout; Food Bazaar, a chain store; fbb, a trend destination; Food hall, a grocery and easy day convenient stores wherein as domestic enterprise, Hometown operations, a one-shop destination for domestic development, and eZone, a consumer durable and electronics chain. The future retail has 1,035 stores, 321 cities and its total income of Rs 20,185 crore (US\$ 2.89 billion) in the year 2019 and Rs 10,676.90 crore (US\$ 1.53 billion) in the year 2020.

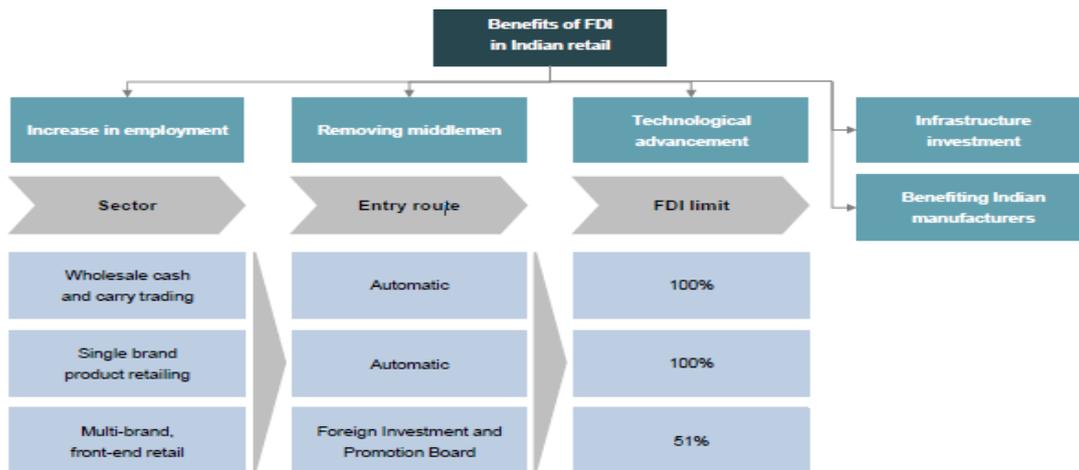
Shoppers Stop Limited is a holding company which is engaged in the business of retailing a range of household and consumer products of apparels and non-apparels through departmental stores. Non-apparel categories such as cosmetics, personal accessories and

leather goods, home wares, electronics, books and music. The company also provides national & international brands in terms of men's, women's and kids' apparel; gifts and fashion accessories, such as ladies & men's watches, artificial & fine jewellery, handbags, fragrances, footwear for men's and women's, home furnishing and decor products through online (shoppersstop.com). STOP, Kashish, Life, Haute Curry, Velorio Fratini and Elliza Donatein are the six private brands and also offers First Citizen Loyalty Program for customers. The application of the store is available on Google Play Store and Apple App Store. It has 240 and more stores in more than 38 cities and the total standalone income of Rs 3,499 crore (US\$ 500.67 million) in the year 2019 and Rs 1,698.27 crore (US\$ 242.99 million) in 2020.

1.3 BENEFITS OF FDI IN INDIAN RETAIL

The benefits of Foreign Direct Investment (FDI) in Retail sector in India plays a vital role as there is high growth in technology and employment for the different sector wise like wholesale cash and carry trading, single brand product retailing, multi-brand, front-end retail for the better infrastructure investment and benefiting Indian manufacturers with the Foreign Direct Investment (FDI) limit of 100% and 51% based on the sector wise. The below figure depicts the benefits of Foreign Direct Investment in Indian Retail.

Fig: Benefits of FDI in Indian Retail



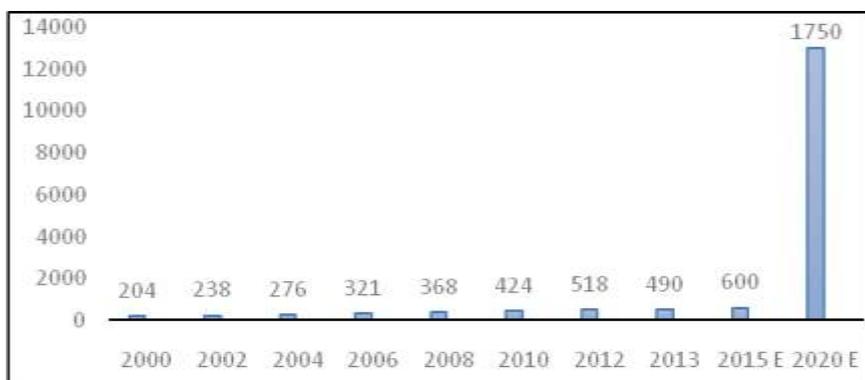
Source: www.ibef.org

2 OVERVIEW OF RETAIL INDUSTRY

Globally the Indian retail industry is one of the fastest growing it reached to Rs 66.39 lakh crore (US\$ 950 billion) in 2018 at CAGR of 13% and expected to reach Rs 76.87 lakh crore (US\$ 1.1 trillion) by 2020 and also India placed 77th in World Bank's Doing Business 2019. India is the fifth largest preferred retail destination and it is one among the highest country in the world in terms of per capita retail store availability. It is a sector which is enhancing the exponential growth in terms of healthy economic growth, changing demographic profile, increasing disposable incomes, urbanisation, changing consumer tastes and preferences are the other factors driving growth in the organised retail market with the development taken place not just in major cities and metros, but also in Tier-II and

Tier-III cities. The modern retail market in India is expected to grow from Rs 94,421 crore (US\$ 13.51 billion) in 2016 to Rs 1.86 lakh crore (US\$ 26.67 billion) in 2019.

Fig: Market size over the past few years (US\$ billion)



* E-estimate *Source: www.ibef.org*

India's population is placing to online retail in a bigger way as the online retail sale is forecasted to grow at the rate of 31% to reach Rs 2.28 lakh crore (US\$ 32.70 billion) in the year 2018. Revenue generated from online retail is projected to grow to Rs 4.19 lakh crore (US\$ 60 billion) by 2020. Organised retail penetration is expected to increase to 18% in 2021 from an estimated 9% in 2017. India is anticipated to be the world's third-largest consumer economy, reaching Rs 27.95 lakh crore (US\$ 400 billion) in terms of consumption by 2025. Foreign and private player's participation is increased to boost Indian retail industry. The price competitiveness attracts India's large retail players to use as a sourcing base. The global retailers namely walmart, GAP, Tesco and JC Penney are increasing their sourcing from India and are moving as the third-party buying offices for the establishment of their own wholly owned or wholly managed sourcing and buying offices. India's retail sector investments doubled to reached Rs 1,300 crore (US\$ 180.18 million) in 2018 and the revenue of India's offline retailers known as brick and mortar retailers, is expected to increase by Rs 10,000-12,000 crore (US\$ 1.39-2.77 billion) in the financial year 2020.

The Government of India has introduced reforms to attract Foreign Direct Investment (FDI) in retail industry and also has approved 51% FDI in multi-brand retail and for single brand retail 100% is anticipated to encourage for ease of doing business and Make in India and permits 100% FDI in e-commerce. India's fashion retailers are a favourable market to a large young adult consumer base, increasing disposable incomes and relaxed FDI norms. Indian organised retailers faced various challenges in terms of conscious value, connected consumers digitally, low bargaining power against suppliers, tough competition from traditional retailers & ecommerce as well as regulatory barriers. 350-400 million retail consumers would be digitally influenced that is their decision making process is influenced by digital. These consumers would have retail spend of US\$ 240-250 billion. The below diagram depicts the competitive landscape in Indian Retail Sector

Fig: Indian Retail Sector



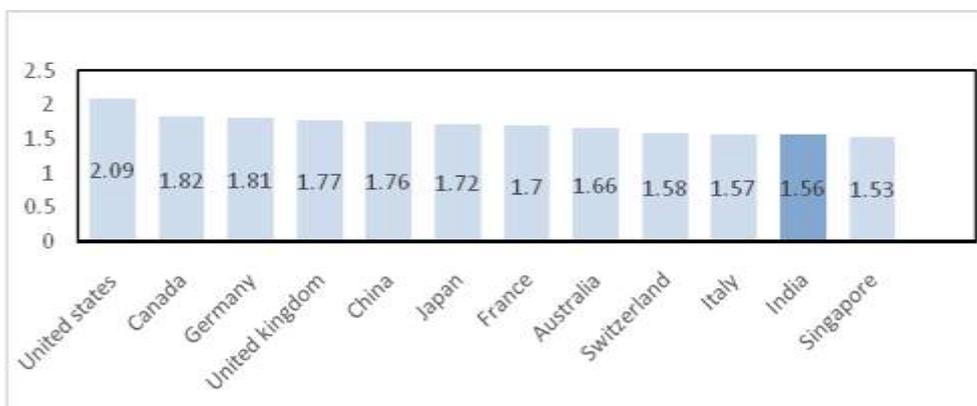
Source: www.ibef.org

This year 2020, the food and grocery segment is increased to 66% of the total revenues in the retail sector, followed by apparel segment and the demand for Western outfits & readymade garments arising annually at 40–45%.

3. RETIAL SECTOR ATTRACTING INVESTORS

In global retail rankings India has occupied a remarkable position with high market potential, low economic risk and moderate political risk. The increased growth of India's potential compared to global peers which has made it more favourable. By 2025 India is expected to become the globally 3rd largest consumer economy to reach consumption of US\$ 400 billion. As per the (Foreign Direct Investment) FDI Confidence Index, India ranks 11th after U.S., Canada, Germany, UK, China, Japan, France, Australia, Switzerland and Italy and also India ranked first in the Global Retail Development Index 2017, by rising middle class and rapidly increasing spending of consumer. The Below Diagram Indicates that the retail sector's high growth potential is attracting the investors.

Fig: High growth potential is attracting the investors



Source: *FDI confidence index 2018*

4.1 GROWTH DRIVERS OF RETAIL SECTOR

Indian Retail Industry is one of the quickest converting and vibrant industries which has contributed with huge potential economic growth of the country. Within a short span of time, Indian retail enterprise has become attractive, rising retail market in the international and also has a tremendous growth in the terms of demographics, technology and Foreign Direct Investment (FDI) which are termed as growth drivers of the retail sector for the longer period.

Fig: Growth Drivers

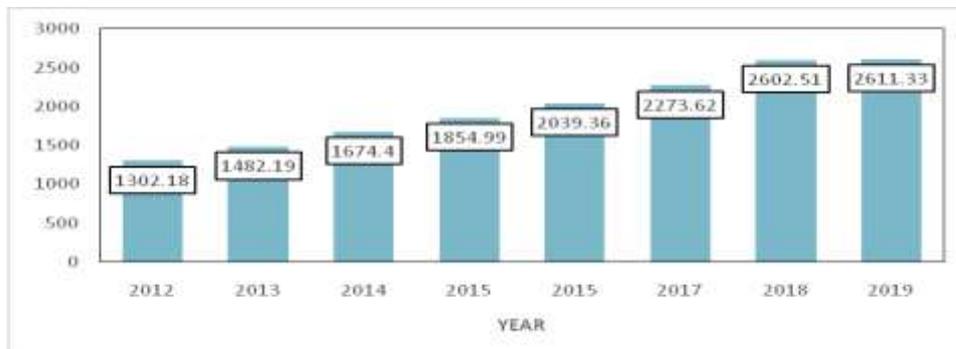


Source: www.ibef.org

4.2 INCOME GROWTH DRIVE DEMAND FOR ORGANIZED RETAIL

The retail sector in India is an aggregate of offline and on-line platforms, throwing up great task opportunities. The retail surroundings is converting rapidly the world over and India is one of the maximum interesting markets nowadays. The country's huge and aspiring middle elegance, growing disposable income, a supportive commercial enterprise surroundings, sturdy GDP increase, and growing smart phone and internet penetration and use. The retail quarter consistent with se has vast potential to make contributions to the country's financial system in numerous approaches, which include being engine of boom; spurring manufacturing; contributing to jobs; strengthening supply chain and logistics and developing shared price. Retail drives the virtuous cycle of boom in the financial system as it isn't on the end of the chain but is at the beginning of it. Retail drives intake which in turn drives call for and hence therefore ends in potential advent or utilisation. The following graph depicts the income growth to drive demand for the organized retail sector.

Graph: GDP at current prices US \$ (billion)



Source:

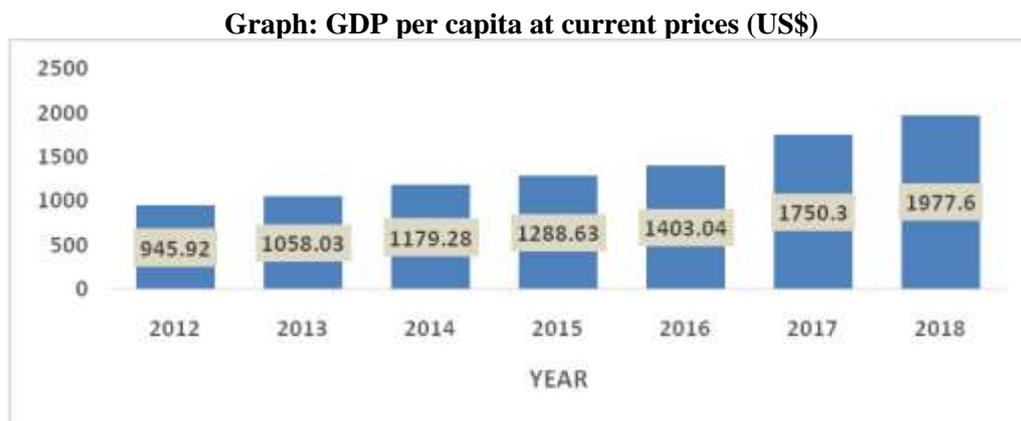
www.ibef.org

4.3 FACTORS DRIVING ORGANIZED RETAIL

- Excessive disposable incomes
- Acquire of essential and luxury products
- Acquisition of latest technology and lifestyle
- Opportunity to credit facilities
- Families of nuclear
- Increase in the number of working women & rural income
- Migration to cities and towns from villages
- Widening of recent trading formats such as malls, hyper markets etc

Key Points

- In Indian retail Multiple of drivers are main to robust boom through a consumption growth.
- Great boom in discretionary profits and converting lifestyles are a few of the principal increase drivers of Indian retail culture.
- Easy accessibility of credit and use of 'plastic money' have contributed to a robust and growing purchaser in India.
- Attractiveness and usage of e-stores by using clients are increasing because of convenience and secured economic transactions.
- Enlargement in the length of the top centre class and commercial has caused more spending on luxury merchandise and high logo attention.
- Gross Domestic Product (GDP) at current prices was US\$ 2,611.33 billion and Gross Domestic Product (GDP) per capita at current prices was US\$ 1,960.46 in the financial year 2019.



Source: www.ibef.org

CONCLUSION

Foreign Direct Investment (FDI) in retail sector is a very essential role is undertaken to ensure further growth in the Retail Industry of India which will transform the retail ecosystem of the country in a significant manner. Foreign Direct Investment (FDI) in Indian Retail not only prove fruitful for the growth economy as a whole but it also integrate with

the global retail market. Currently the Government of India (GoI) has allowed 100% FDI in online retail of products to incentivize the international retailers today its retail sector is the fastest growing markets due to economic growth in the world. Further FDI in retail in India may also assist technology advancement and increase in employment to set up efficient supply chains which could act as models of development. Today most of the nations liberalize its economic policies in order to attract investments not only from domestic players rather also from foreign players.

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