THE INDIAN TEXTILE JOURNAL

135 YEARS 1890 - 2025

www.indiantextilejournal.com

Circulated in India & South Asia | ISSN0019 - 6436 | January 2025 | ₹ 150

The Indian Textile Journal **January 2025** Vol.135 No.4

THE INDIAN TEXTILE JOURNAL

ASAPP INFO GLOBAL GROUP

FOUNDER & EDITOR-IN-CHIEF
PRATAP PADODE

EXECUTIVE EDITOR
RAKESH RAO
Email: Rakesh.R@ASAPPinfoGLOBAL.com

FOR ADVERTISEMENT
Adsales@ASAPPinfoGLOBAL.com

Ahmedabad/Rajkot: Sunil Anand
Mobile: 84228-74011

Bangalore : Albert Louis Raj
Mobile: 84228-74014

Kolkata : Abhijit Saha
Mobile: 84228-74022

New Delhi, NCR, Rajasthan, UP, Uttarakhand, Chandigarh: Sanjay Jain
Mobile: 84228-74040.

Pune : Nilesh Guhagarkar
Mobile: 84228-74036

Representative in Taiwan: Kenly Chang
Tel.: +886-4-251 23015. Email: Buildwel@ms23.hinet.net / Global@acw.com.tw

The Indian Textile Journal
A - 303, Navbharat Estates, Zakaria Bunder Road, Sewri (West), Mumbai 400 015.
Tel: 022-3103 3000.

Contents

Scan to read online

Unlocking Opportunities for Global Brands in India

India's retail market holds immense potential for international apparel brands, driven by a young population, rising incomes, and shifting preferences towards sustainability and digital retailing, says **Vyshna R** and **Ridhi Kukreja**.

India's vibrant retail market, driven by a young population and rising incomes, is increasingly attractive to foreign apparel brands. With a positive economic outlook for the next two decades, over 25 international lifestyle and luxury brands are expected to enter India.

This article explores how global apparel brands can capitalise on the India opportunity, addressing FDI policy challenges, prevailing trends, and potential improvements to facilitate entry and growth.

Megatrends driving apparel industry growth in India

India's economy ranks among the top four globally, with the retail sector growing at 9-10 per cent, outpacing overall economic growth. Apparel, accounting for 8-9 per cent of retail demand, is expanding at a CAGR of 10-11 per cent and is expected to grow further. This growth is driven by several trends:

- Shift from unbranded to branded
- Growth in organised retail
- Customer shift from "value" to "aspirational"
- Growth in tier 2/3 cities
- Increase in usage occassions

FDI policies for foreign brands – current regulations: Pros & cons

Apparel retailing models include:

- **Single Brand Retail Trading (SBRT)** sells products under one brand (e.g., Marks & Spencer, Uniqlo, Nike, Adidas)
- **Multi Brand Retail Trading (MBRT)** features multiple brands in one store (e.g., Pantaloons, Lifestyle, Shoppers Stop).

The FDI regulations are different for the two-retailing model, which can be summarised as follows:

Parameter	Single Brand Retail Trading (SBRT)	Multi Brand Retail Trading (MBRT)
Approval route	As of January 2018, 100 per cent FDI is allowed under the automatic route for SBRT, eliminating the need for prior government approval.	FDI is capped at 51 per cent, and prior government approval is required. There is no automatic route available for MBRT
Sourcing requirement	Foreign brands owning over 51 per cent of a single-brand entity must source 30 per cent of their product value locally from the 6th year.	At least 30 per cent of goods must be procured from Indian small and medium enterprises (SMEs)
Coverage and E-commerce restrictions	No restrictions on coverage, and SBRT entities are also permitted to sell through e-commerce platforms	Multi-brand retailers with 51% FDI can only operate in cities with >1 million population and must use brick-and-mortar stores, not online channels.
Pros	The 100 per cent FDI automatic route eases market entry, while the 30 per cent local sourcing boosts domestic textiles.	Under MBRT, Large investments boost economic growth, develop infrastructure, create jobs in the apparel industry.
Cons	Meeting the 30 per cent local sourcing requirement is challenging for specialised brands, as it becomes difficult to source a few high-quality products domestically	The 51 per cent FDI cap deters full control. The $100 million minimum investment, with 50 per cent for back-end infrastructure, and the e-commerce ban complicate investments.

Challenges and strategic moves by foreign brands

Over the past decade, the apparel industry has seen approximately $700 million in FDI inflows, which is below its potential. Several challenges have hindered greater foreign investment are finding local partners, e-commerce restrictions, regulatory uncertainties and domestic sourcing requirements.

Meeting 30 per cent local sourcing requirement in India for foreign brands in SBRT and MBRT is a complex but achievable task and requires strategic adjustments. Some challenges faced by foreign brands are quality control, supply chain complexity and regulatory hurdles.

Brands like Hollister and Lululemon have avoided India due to these challenges, and even luxury retailer Saks Fifth Avenue abandoned its 2015 entry plan due to regulations. The MBRT regulations, particularly affecting apparel, have hindered foreign retailers from entering the Indian market.

However, global brands like Decathlon, H&M, and Zara are thriving in India by embracing local sourcing. Collaborating with local manufacturers ensures compliance and quality, while also offering several advantages:

- Cost efficiency: Reduces import duties and logistics costs.
- Market adaptation: Allows quicker response to market trends and consumer preferences.
- Sustainability: Lowers carbon footprint by minimising long-distance shipping.

Some successful examples:

Decathlon: Transitioned to single-brand retail in 2013, now operates 129 stores, and supports the 'Make in India' initiative by sourcing locally.

H&M: Entered in 2015, rapidly expanded, and met the 30% local sourcing requirements through partnerships with local suppliers.

What other changes can be made to the current FDI policies to help the foreign brands

India's FDI policies are stricter compared to countries like Vietnam, Singapore, and Bangladesh, for example:

Vietnam allows 100 per cent foreign ownership with fewer restrictions and no stringent local sourcing requirements, making it easier for foreign investors.

Singapore offers tax incentives, grants, and a streamlined regulatory framework to attract FDI.

Bangladesh attracts FDI in apparel through tax holidays, duty-free machinery imports, and export incentives.

The above comparison draws some areas where India can improve its attractiveness for foreign investors:

- Ease local sourcing requirements: Provide more flexibility to make compliance easier for foreign brands.
- Streamline regulations: Simplify processes and provide clear guidelines to reduce entry barriers.
- Relax FDI Caps: Increase caps and ease e-commerce sales policies to attract more investment.
- Grant industry status: Simplify single-brand FDI policies and enhance access to financing. At Bharat Tex 2024, CMAI highlighted that industry status would improve regulatory compliance and access to structured financing

Easy route for foreign brands to enter India: Advantage to domestic retailers

Facing various challenges, many international brands prefer partnerships like licensing, joint ventures, and franchising to enter India rather than the SBRT route. These methods allow foreign companies to own equity in Indian businesses under India's FDI policy. Joint ventures and licensing agreements are particularly popular due to India's restrictions on foreign equity in the retail sector, prompting international brands to collaborate with local companies.

India's retail industry is steadily growing, with global brands expanding their presence. For instance, Chinese fast fashion giant Shein will re-enter the Indian market through a licensing agreement with Reliance Retail Ventures Limited.

Licensing agreements offer a flexible entry method for foreign brands, with Indian companies investing in marketing and launching the brand, often paying fees or royalties. Sometimes, the foreign brand owner may invest in the Indian retailer to enhance brand visibility and market reach.

Examples of leading conglomerates like TATA Trent and Reliance have capitalised on this opportunity, partnering with brands like Zara, Marks & Spencer, and Hugo Boss. ABFRL has also partnered with Christian Louboutin, Hackett London, Fred Perry, and Ralph Lauren. Upcoming collaborations, including Reliance Retail with ASOS, Old Navy, and Pull&Bear, and ABFRL with Galeries Lafayette, highlight a significant shift in India's retail landscape, helping foreign brands navigate the market and leverage local insights.

Conclusion

India's retail market holds immense potential for international apparel brands, driven by a young population, rising incomes, and shifting preferences towards sustainability and digital retailing. Brands like Levi's are implementing take-back programs and resale platforms, while Nike and Adidas are enhancing their online presence with AI and AR technologies and adopting omnichannel strategies for a seamless shopping experience. Despite FDI challenges, strategic partnerships and alternative entry models can ensure successful market entry. Easing FDI policies could significantly boost market growth. ITJ

About the authors:

Vyshna R is a Consultant at Avalon Consulting specialising in cost optimisation, market entry, and performance improvement. He is MBA graduate from IIM Mumbai. Vyshna has engaged closely with India's largest fashion & retail house.

Ridhi Kukreja is a consultant at Avalon specialising in Consulting, Advisory and Risk Management. With an MBA from IIFT in Strategy & Marketing, she offers strategic insights to clients at work. Apart from this, Ridhi is a dancer and writes occasionally.