

Global Value Chains

Sourcing & Retail in India's USD 1 Tn Consumer Market



By:
Remya Lakshmanan, Kanika Verma &
Kartikeya Saigal
Strategic Investment Research Unit,
Invest India

Abhiram Bhalerao & Rajat Yadav
Retail Sector, Invest India

Art Direction:
Sanya Datt
Brand Communications, Invest India

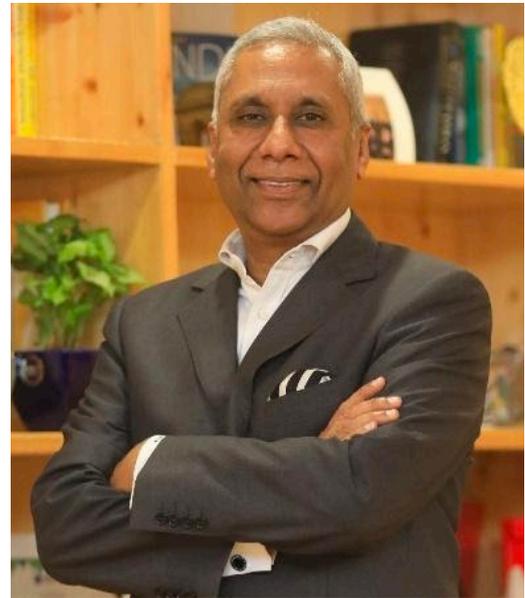
Foreword

Under the leadership of Prime Minister Narendra Modi, India has cut red-tape, introduced rapid digitisation and made sweeping tax reforms. This restructuring of the economy has caused a rapid growth in many sectors, including retail.

India's retail market is estimated to reach USD 1.75 Trillion by 2026, from USD 0.79 Trillion in 2018, growing at a CAGR of 9 to 11 per cent. It's e-commerce industry is expected to cross USD 200 Billion mark by 2026. India's economic growth and demographic profile make it a compelling opportunity for existing global retailers as well those planning on expansion. The robust retail ecosystem is currently driven by higher disposable incomes, a growing, aspiring middle-class, and a large digitally savvy young populace. There is untapped consumption potential in the villages and smaller towns too. Finally, the liberalisation of foreign direct investment (FDI) in single-brand retail and the expected opening-up of FDI in multi-brand retail have generated significant interest among multinational retailers.

India also remains one of the 10 best destinations for FDI and the third-largest startup ecosystem in the world. The Government of India is set to spend nearly USD 1.4 Tn on infrastructure development in the coming years. The Pradhan Mantri Kisan Sampada Yojna, for instance, is a comprehensive package which aims to create modern infrastructure with efficient supply chain management from the farms to retail outlet. The Government of India supports the development an ever greater and more dynamic infrastructure ecosystem, both physical and digital.

This report highlights India's retail landscape, the opportunities therein and government policies, incentives and schemes. I hope you find it enlightening and useful from, both, a social and economic standpoint.



Mr. Deepak Bagla
Managing Director and CEO,
Invest India

Retail Opportunity

SECTOR OVERVIEW: INDIA'S USD 1.1 TRILLION OPPORTUNITY

The retail market in India has undergone a major transformation and witnessed tremendous growth in the last 10 years. The overall retail market, that grew to USD 0.7 Trillion (Tn) in 2019, is expected to cross the USD 1.1 Tn mark by 2025.¹ India ranks among the best countries to invest in the retail space. Factors that make India so attractive include its large population, a middle-class of 600 Million (Mn) people, increasing urbanisation, rising household incomes, connected rural consumers and increasing consumer spending.

India is largely an unorganised retail market. While the unorganised sector contributes 88 per cent to the total retail sector, the organised retail sector is also set for a stupendous growth in the coming years due to increase in use of technology and consumption trends.

In the backdrop of upcoming trends in the retail market, lie the expectations and demands of the Indian consumer. The new found freedom of choice increase in personalisation, multi-channel engagement, as well as growing, consciousness towards healthy living are some of the expectations defining changes in taste and preferences. The retailers are also reorienting strategies to align their operations to the comfort of each consumer segment. This has resulted in the emergence of mixed pathways for retail operations with value retail emerging as one of the key criteria.

The consumer spending in India stands at USD 1.5 Tn today is likely to rise to USD 6 Tn by 2030.² This entails a tremendous opportunity for companies from around the world, many of whom are already part of the India story, and leverage the advantage.

INDIAN RETAIL MARKET TO CONTINUE WITNESSING DOUBLE DIGIT GROWTH

Indian retail expected to grow at 9-11%

CAGR
9-11%

Size of retail (USD Tn)

Year



SECTOR HIGHLIGHTS



India ranked **No. 2** in Global Retail Development Index (GRDI) in 2019



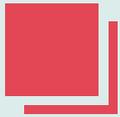
India has a large retail footprint



14 Mn Retail Outlets (18,000 Modern Trade & >13Mn General Trade)



650+ Malls & **100+** High Streets



120 Mn Square Feet (Sq. Ft.) of Modern Retail Space



India contributes **4%** to the Global Retail Industry



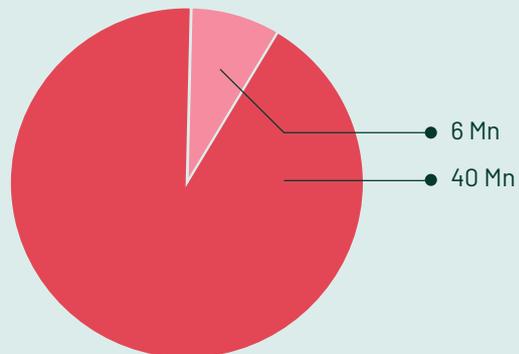
Retail contributes to **10%** of India's GDP & **8%** of Total Employment

Employment Data (organised/unorganised):

46 Mn

Total No. of employees in Indian Retail

- Total No. of employees in Modern/Organised Retail
- Total No. of employees in Unorganised Retail



Source: Invest India, Retailers Association of India

INDIA'S RETAIL FOOTPRINT IS ON THE RISE

Retail space in India has seen a significant rise in the past decade, growing from 64 Mn square metres in 2012 to 76 Mn square metres in 2017.

This figure is likely to rise further to nearly 91 Mn square metres by 2022, representing a CAGR of over 3.7 per cent.³



E-COMMERCE IS AT THE FOREFRONT OF INDIA'S DIGITAL ECONOMY

The Indian retail market is at the cusp of transformation and is witnessing the emergence of e-retail and its influence on the Indian shoppers. The Indian e-commerce industry, especially, has been on an upward growth trajectory. By 2026, it is expected to reach USD 200 Billion (Bn) and by 2034, it is predicted to surpass the United States to become the second largest e-commerce market globally.⁴

A young demography, increasing internet and smartphone penetration, and relatively better economic performance are some key drivers of this sector. Internet penetration in India grew from just 4 per cent in 2007 to 52 per cent in 2019, registering a Compound Annual Growth Rate (CAGR) of 24 per cent during the same period.⁵ It is also expected to grow at a rate of 45 per cent in rural India by 2021,

as compared to the current rate of 22 percent.⁶ As of 2019, internet subscribers in India stood at almost 665 Mn and with growing numbers, internet users in India are expected to reach 835 Mn by 2023.⁷ Each month, India adds approximately 10 Mn daily active internet users- the highest rate in the world.

The e-commerce trend is gaining major popularity even in the tier-2 and tier-3 cities since people in those cities often have limited access to brands. The number of online shoppers in India reached 120 Mn in 2018 and is expected to be on the rise and reach 220 Mn by 2025.⁸ According to 2019 data, it was estimated that one in every three Indians shopped using a smartphone. Out of nearly 100,000 pin codes in India, online retailers deliver to 15,000 to 20,000 pin codes.⁹

The 'Digital India' campaign of the government aims to create a trillion-dollar online economy by 2025. The government's policies and regulatory frameworks in this aspect will propel the growth in this sector. Additionally, the recent rise in digital literacy has led to an influx of investment in the e-commerce space. Digitisation has been a welcome move for new players in the market, and has helped the older players re-innovate.

The e-commerce sector in India, will be a boon for both consumers and sellers. With respect to the consumer, it will provide convenient access

to a wide assortment of products across all geographies and income segments. It has also benefited millions of consumers by increasing their choices, price transparency, access and convenience.

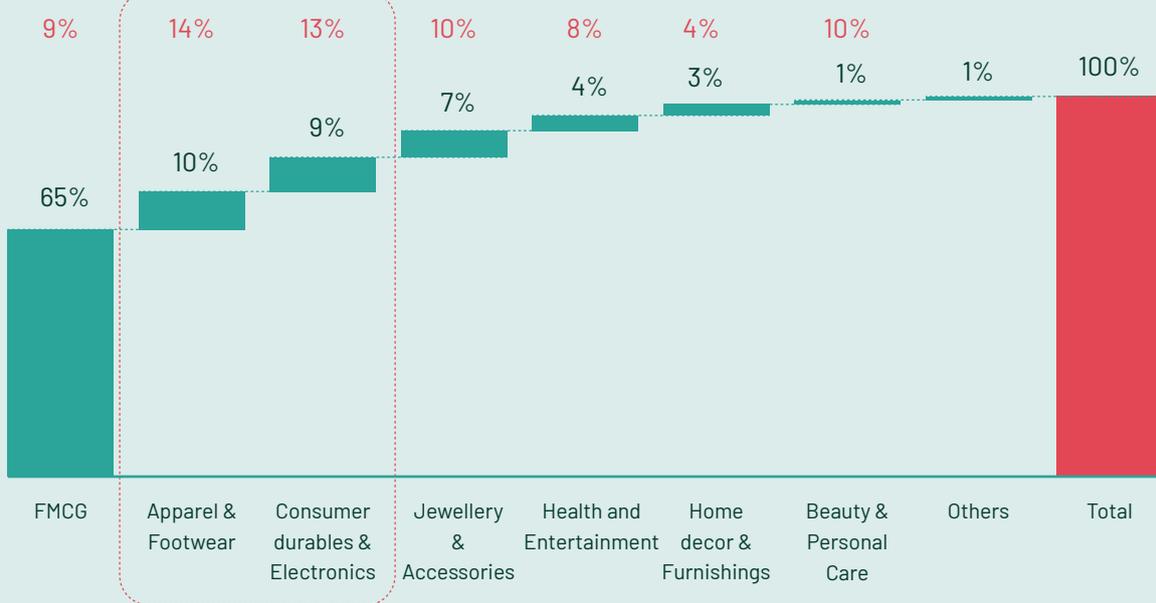
Similarly, for sellers (*kiranas*, artisans, traders and homemakers) it will provide them an easy access to a large base of customers across the country and the luxury of keeping their stores running 24x7.

The advent of e-retail has already democratised the shopping space and has also been successful in empowering India's small sellers while breaking go-to-market barriers for insurgent and incumbent brands.

MAJOR CATEGORY SEGMENTS OF RETAIL

CATEGORY-SEGMENTS

CAGR



Share of organised trade



Estimated market size in 2027 (USD Bn)



GROWTH OF ORGANISED RETAIL

The share of organised retail will rise to nearly 11 per cent of total retail market by 2027, with few categories such as apparel, personal care and electronics witnessing significant penetration in the market. Representing nearly 25 per cent of the total expected retail market size, and an increase of organized retail in these segments will drive the major growth of organized retail in India.¹¹

Apparel & footwear and consumer durable & electronics have seen double-digit growth in the last few years and are likely to propel growth in organised retail in the coming decade. Fast Moving Consumer Goods (FMCG) is an underpenetrated market for organised retail and is likely to constitute a USD 1.1 Tn dollar market by 2027.¹⁰

Organised retail has been significantly influenced by the stability of the economy, consumption, and many other macroeconomic factors that have directed India's growth in the last three decades.

Historically, the transformation in this space was facilitated by the opening of the economy

and the launch of the modern trade format in India in early 1990s.

The first decade of the 20th century witnessed the advent of hypermarkets and supermarkets, drawing upon the newfound income of the Indian middle class. Owing to reforms in FDI policies, India saw multiple foreign brands and e-commerce players establish their presence. It remains to be seen to what 2020s may bring for the organised retail segment; however, history is a true testament to the potential of this space, and retail in India presents exceptional opportunities for global company.

Among the many factors that will drive the consumption this decade is the increase in preferences for global brands across tier-2 and tier-3 cities in India. Additionally, internet penetration helps raise awareness among the populace about global trends. An example to this effect is that of 35 per cent of luxury brand sales come from tier-2 and tier-3 cities in India.¹² Further, with ease of doing business reforms, many regulatory impediments will stand dissolved, making way for easier compliance and market entry.

KEY PLAYERS

Largest Retailers in India



Key FDI Investors in Retail



Ikea- witnessed **40,000** footfall on first day of Hyderabad Store Opening

Reliance Retail featured among **Top 250** Global Retailers by Deloitte (**#1** of the Fastest 50 Growth Companies)

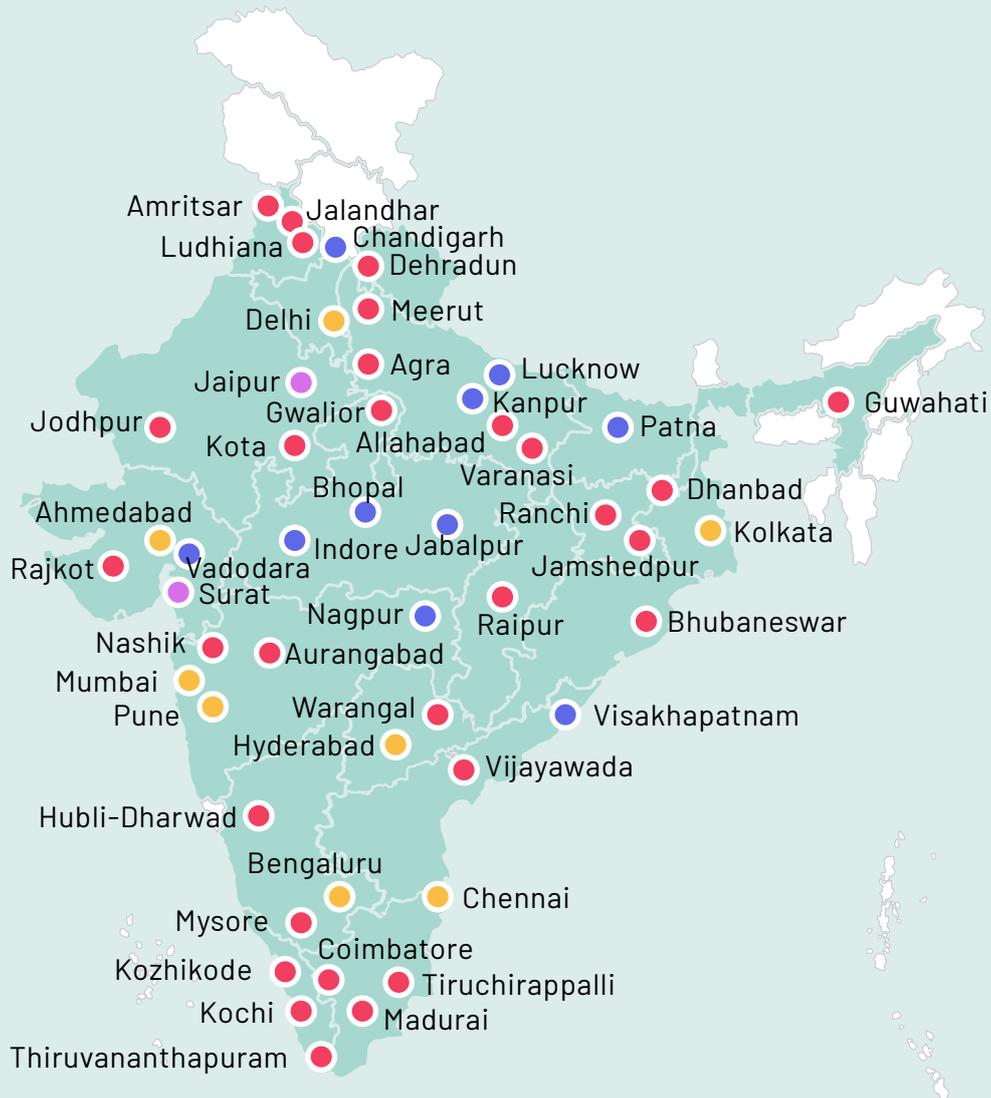
H&M- Reported Revenues of **~USD 200 Mn**

Decathlon- **Largest** Single Brand Retailer of Sports Goods in India

US retailer Walmart acquires Flipkart for **USD 16 Bn**, which makes it the world's largest e-commerce deal

RETAIL HUBS AND CLUSTERS

EMERGING RETAIL HUBS



- Traditional Metros (8)
- Fresh metros (2)
- Additional emerging markets (30)
- Next set of high-potential cities (10)

Source: Invest India

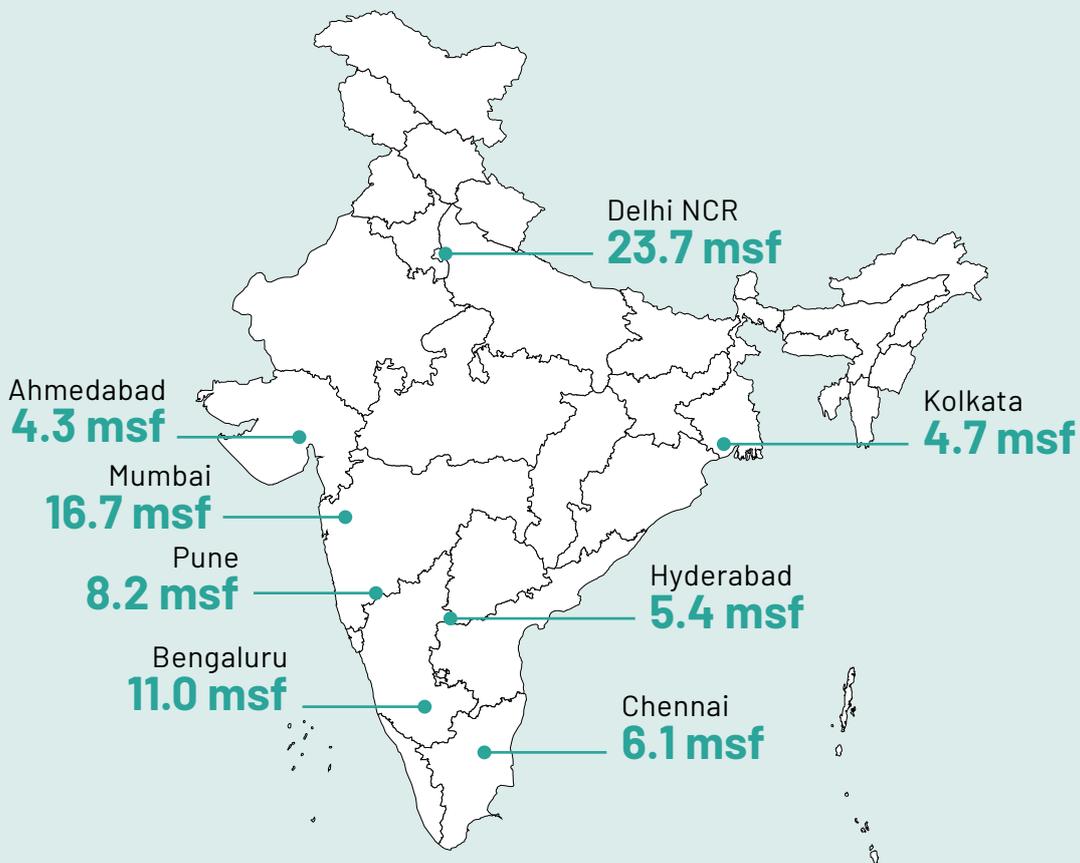
*Map not to scale

By 2030, 40 per cent of India's population is expected to be residing in urban areas. This population will not only be in the traditional metros, but also inhabit the newer set of emerging metros in India such as Agra, Allahabad, Kochi, and many others. These cities will be supplemented by the rise of nearly 5,000 urban towns across the country, integrated through a network of

road, rail and air transport and will not only house more people but act as a conduit to drive consumption.¹³

For instance, India's top 40 cities alone will drive a consumption of over USD 1.5 Tn. Thus, rapid urbanization in the country will create avenues for retailers to substantially increase presence and scale revenues.¹⁴

INDIA'S ORGANIZED RETAIL FOOTPRINT



Organised Retail Market in India:
120 Mn Sq.Ft.

Organised Retail Space Across Tier-2 & Tier 3 Cities in India:
42 Mn Sq.Ft.

Growth of Organised Retail in 8 Metro Cities in India

Year	2001	2018
Organised Retail Space (Mn Sq. Ft.)	1.5	78

Source: Tracking Investments in the India Retail Sector, Cushman & Wakefield, 2019

RETAIL CONSUMER SPENDING IN CITIES

Share of Retail Consumer Spending by Cities



Next 6 Cities: Bangalore, Chennai, Hyderabad, Ahmedabad, Pune, Kolkata

Next 16 Cities: Surat, Jaipur, Lucknow, Nagpur, Patna, Indore, Coimbatore, Vadodara, Ludhiana, Bhopal, Kochi, Vishakapatnam, Madurai, Nashik, Jamshedpur, Guwahati

The top-24 cities (metros, mini-metros and tier-1 cities) account for 29 per cent of total retail spending, with the Delhi and Mumbai clusters contributing about nine per cent.

The top 72 cities account for 38 per cent of total retail consumer spending, which highlights, that the 71 per cent share lies with the rest of India.¹⁵

GROWTH DRIVERS

OVERVIEW

Owing to the large size of India's population, 1.35 Bn and counting, its retail market is one of the most dynamic in the world, with consumer preferences changing by the day due to influx of technology and increase in income.¹⁶

With a median age of just 31 years by 2030, India's consumption will also be driven by the nearly 90 Mn new households headed by millennials and the 370 Mn Generation Z consumers who would have grown up in the internet age.¹⁷

Adding to that, nearly 60 per cent of India's Gross Domestic Product (GDP) is driven by domestic private consumption, thus, making retail a necessary edifice for the growth of the economy.¹⁸

According to a World Economic Forum Report, a focus towards health and wellness will contribute ~50 per cent in incremental expenditure in categories such as food, while premiumisation alone will make up nearly 59 per cent and 33 per cent of incremental consumption in the personal care and apparel segments respectively in India between 2018-30.¹⁹

This and the fact that India will likely see its consumer spending grow from USD 1.5 Tn today to nearly USD 6 Tn by 2030, signals the presence of a massive market for global companies to tap into.²⁰

SOCIO-DEMOGRAPHIC FACTORS DRIVING INDIA'S CONSUMPTION IN THE LONG TERM

FACTOR	SHIFT	IMPLICATION ON CONSUMPTION
 <p>Income Growth</p>	<p>2.5x Increase in income per capita from 2016 to 2027</p> <p>2.0x Increase in Elite & Affluent HHs from 2020 to 2025</p>	<p>2.5x Spend increase with income growth from USD 1,600 to USD 4000 p.a by 2027</p>
 <p>Urbanisation</p>	<p>39% Urban population by 2027 versus 33% in 2016</p>	<p>2.2x Average consumption per household in urban versus rural</p>
 <p>Nuclear Families</p>	<p>75% Households to be nuclear by 2027 as against 68 per cent in 2016</p>	<p>20-50% Higher consumption of nuclear versus joint families</p>
 <p>Consumption</p>	<p>1.2x increase in proportion of Affluent & Elite consumers in Tier 2 & Tier 3 cities by 2025</p>	<p>Potential to significantly expand store footprint to Tier 2 & Tier 3 towns</p>
 <p>Gen 'I'</p>	<p>80 per cent - Population will belong to Gen 'I' by 2027 versus 70% in 2016</p>	<p>Have options, higher appetite to spend, comfortable with credit</p>

INCREASE IN INCOME BRACKETS IN INDIA

By 2030, the Well-to-do Households (HHs) in India will increase exponentially to a figure of nearly 70 Mn. Further, based on current

trends, India will pull out nearly 75 Mn strugglers out of poverty.²¹

GROWTH OF INCOME BRACKETS IN INDIA

Income Class	2019	Growth in # of HHs	2030
Well-to-do >15k USD	17	4.3x	73
Aspirers 10-15k USD	28	2.8x	79
Next billion 5-10k USD	111	1.2x	120
Strugglers < 5k USD	100	0.3x	25
Number of HHs (in Mn)	257		296

Annual Gross HH Income (USD per annum)
Exchange Rate 1 USD = INR 70

Well-to-do Expansion:

By 2030, India will add nearly

56 Mn households in the well-to-do category, reflecting growth of over

400 percentage points

- Kerala
- Karnataka
- Andhra Pradesh
- Telangana
- Tamil Nadu
- Delhi
- Haryana
- Punjab
- Maharashtra
- Gujarat

Breakthrough States:

While India's aggregate income and consumption will grow rapidly,

10 large "breakthrough" states will lead the way:

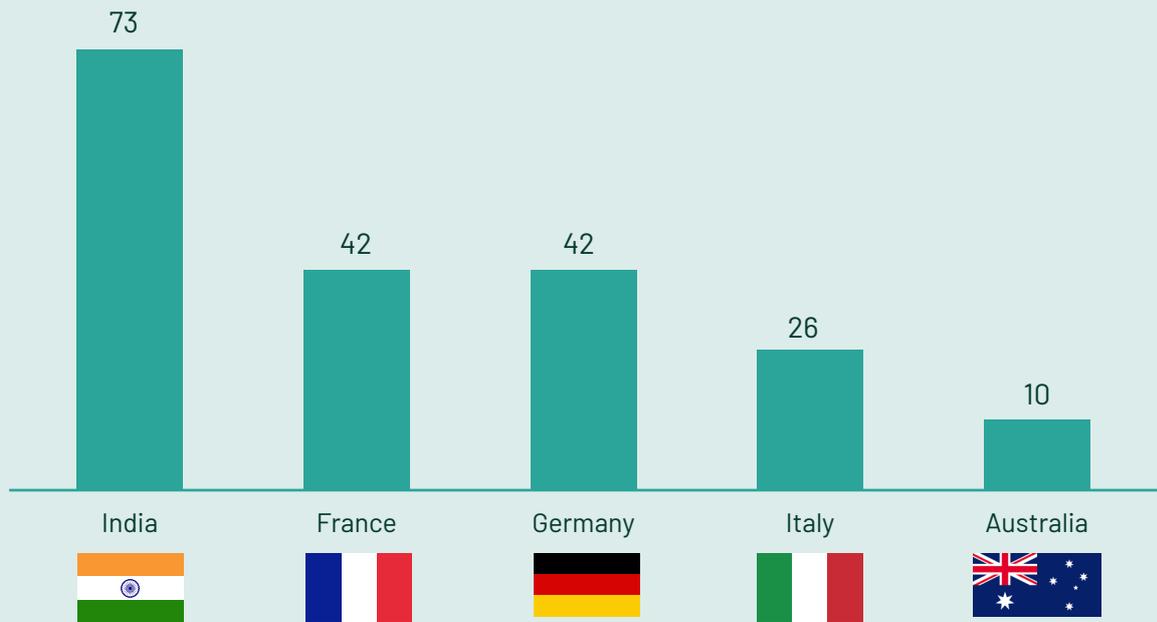
Poverty Elimination:

The number of 'Strugglers' in India is likely to come down from

100 Mn in 2019 to **25 Mn** in 2030.

RANKINGS # OF WELL-TO-DO HOUSE HOLDS (HH) BY 2030

■ # of Well-to-do HHs (Mn)

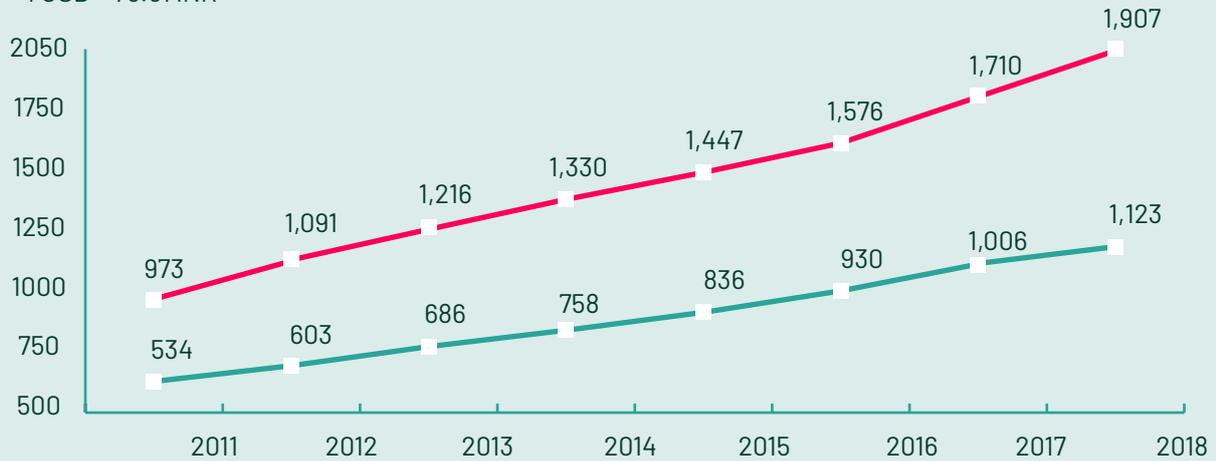


As given in above figure by 2030, India's class of Well-to-do Households will far outrank many developed countries such as France and Germany, countries whose per capita income currently are larger by a factor of 20 compared

to India's. The emergence of such new classes will further give impetus to the rising per-capita disposable income and consumption, which have risen in tandem over the past decade.²²

PER CAPITA DISPOSABLE INCOME AND CONSUMPTION DOUBLED IN LAST 7 YEARS

1 USD = 75.51 INR



— Per Capita Private Consumption Expenditure

— Per Capita Gross Disposable Income

Source: Reserve Bank of India (RBI), World Bank

DIGITAL TRANSACTIONS INCREASED ~10X IN 5 YEARS

Digital Transactions Per Capita Per Annum



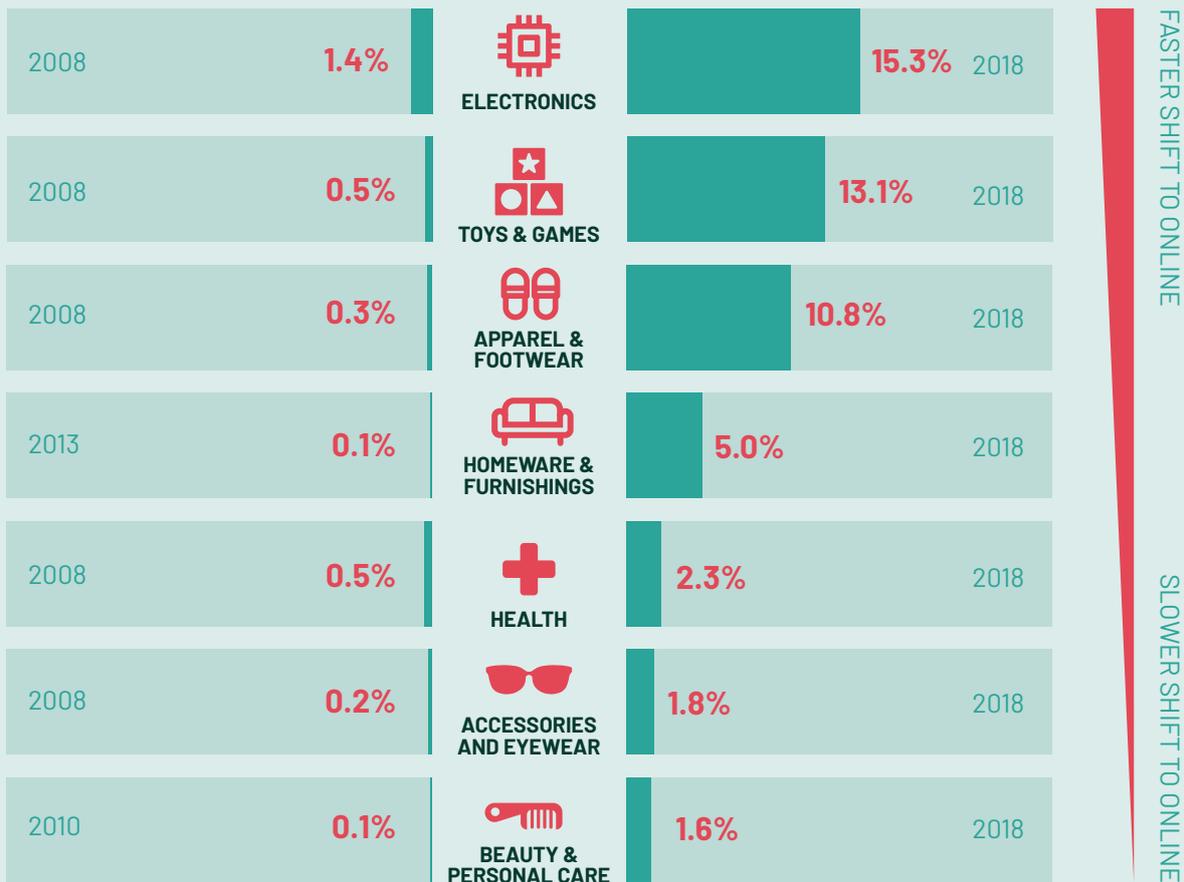
Source: Reserve Bank of India (RBI)

India is one of the fastest growing countries in the digital transactions space in the world, having showcased a growth of nearly ~70 per cent within a year between 2018-19.²³ These trends can be attributed to many factors such as deep penetration of smart phones, that stands at 22 percent²⁴ of the population, as well as government initiatives such as Digital India and its offshoots like Unified Payments Interface (UPI).²⁵

These factors complement the fact that nearly 80 percent of internet users in India access it through their mobile phones.²⁶ Further, government schemes such as Jan Dhan Yojna have enabled bank account penetration to nearly ~78 per cent of the adult population.²⁷ Hence, one may see increase in digital transactions in India as a phenomenon where creating technological infrastructure has led to an early and easy adoption of technology, thus, an paving way for increased access.

INCREASING DIGITAL INFLUENCE

Online share of total retail sales in India



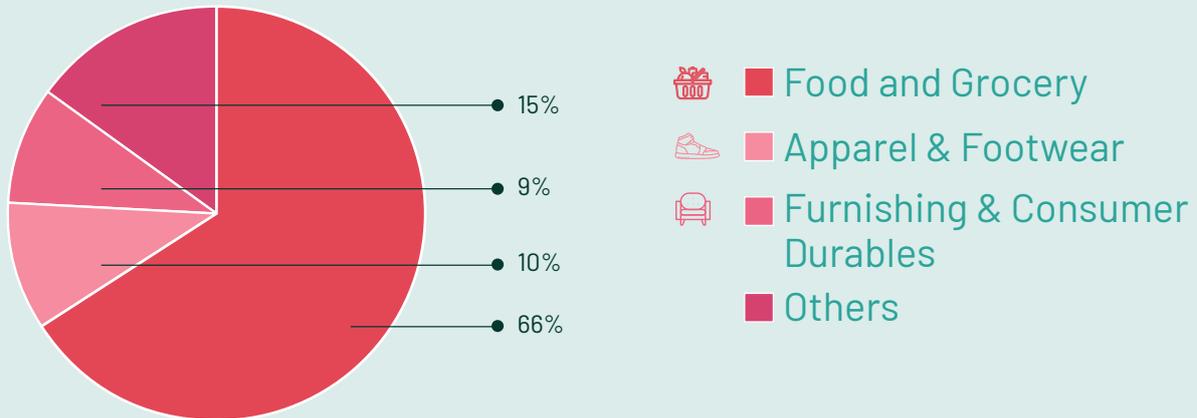
Source: BCG Analysis

Increasing adoption of technology has allowed many retailers to adopt an omni-channel route to cater to the consumer. This strategy has been employed by retailers across sub-segments, especially by players in the electronics and toys & games industry, where the penetration has been upwards of 10 percentage points in the

decade between 2008-18.²⁸ While online retail represents less than USD 5 Bn of total sales, it has grown at a rate of ~70 per cent between 2013-18 in India. Thus, digitally influenced consumption will garner a significant share of each sub segment in the near future.²⁹

SECTOR SEGMENTATION

RETAIL SECTOR: KEY SEGMENTS



FOOD RETAIL

OVERVIEW

The growth of the Indian food retail sector has been significant due to evolving consumer preferences and increased convenience associated with the sector. Owing to evolving lifestyles and purchasing habits, more consumers are choosing to shop at modern retail stores (hypermarkets and supermarkets) on a weekly or monthly basis, instead of shopping at traditional grocers, daily. This developing pattern is encouraging modern retailers to expand their product range and invest in innovative product displays, in-store food service, and other comforts to enhance

the consumer's shopping experience. Modern retail outlets are becoming one-stop shops, providing goods from farm to table. Moreover, these outlets have begun to provide organic, natural and vegan grocery options to their customers as part of an ongoing healthy eating trend emerging in India.

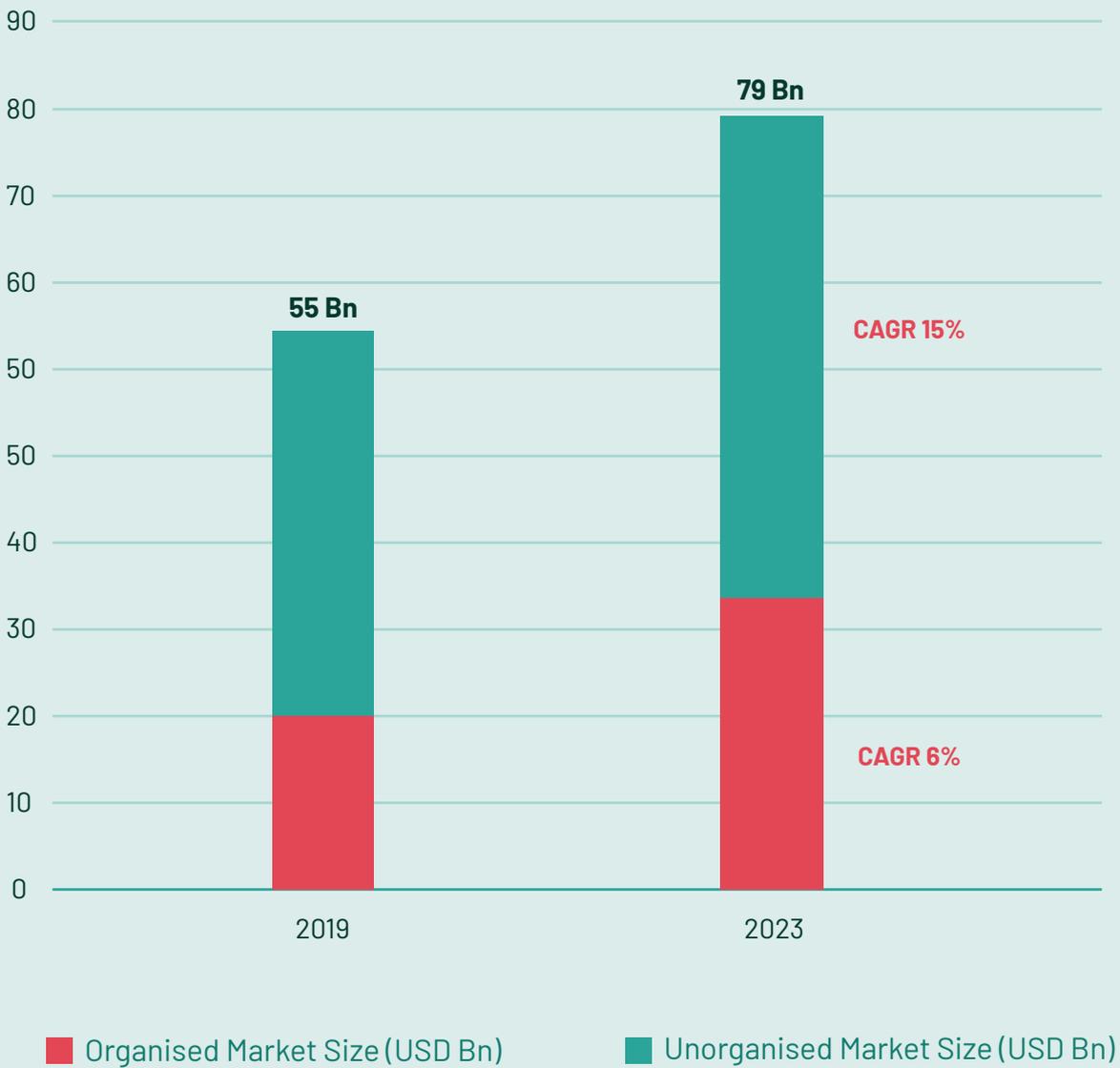
Both store-based and e-commerce retailing continues to experience strong growth as urban households adopt more modern lifestyles, resulting in a preference for modern retail outlets due to their convenience. In response,

modern grocery retailers are developing new marketing strategies to attract these households to their stores. These strategies include new payment schemes and options along pricing strategies via the creation of private label products. Having said that, independent small grocery retailers, also

known as kirana stores, remain the most popular retail format in India with over 12 Mn stores, particularly in lower-tier cities and rural areas.³⁰ While kirana store sales are expected to grow by nearly ~10 per cent,³¹ they are facing significant competition from modern grocery retailers in first tier cities.³²

FOOD RETAIL SEGMENTS

Organised Food Retail 35% Market Share



KEY PLAYERS

Top Indian food retailers



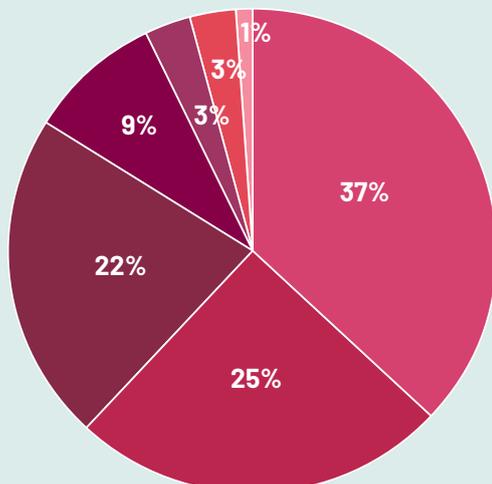
Indian food e-retailers



International Food Retailers



BREAKUP OF INDIAN FOOD & RETAIL GROCERY MARKET



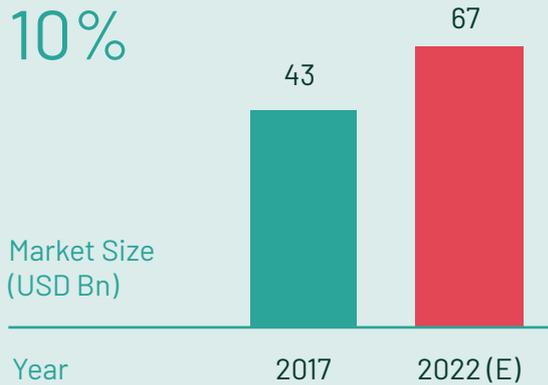
Product



APPAREL AND FOOTWEAR

APPAREL MARKET SIZE

CAGR
10%

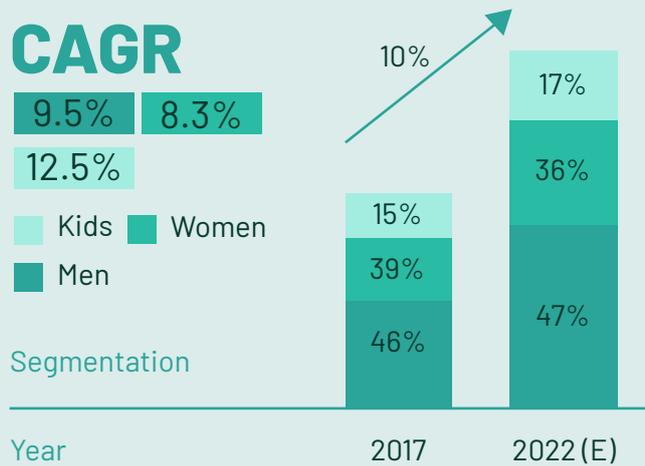


CAGR

9.5% 8.3%
12.5%

Kids Women
Men

Segmentation



OVERVIEW

As the Indian economy grows, with commensurate increase in income, there have been significant shifts in consumer preferences. Brand awareness is increasing, and so is the desire for global brands. India has seen forays by international brands such as H&M, Zara and Gap to leverage the second largest segment of the India retail market worth over ~ USD 42 Bn in size.³³ With influx of different players catering to different strata of the society, the apparel and footwear market has seen luxury brands, value brands, and fast fashion brands emerge and cohabit the same space.

Apparel and footwear brands in the country are exhibiting a growing consciousness about their retail presence. The brands are looking to tap the emerging opportunities available in tier-2 and 3 markets. Tier-3 cities and semi-urban cities are next-in-line on the target list of organised players, who see immense potential in this space. The channel proves to be worth tapping onto by domestic and international retailers, since there is growing consciousness towards fashion across these

cities. Indian tier-2 and 3 cities are no more inhibited in replicating consumption trends as those assumed by the metros.

INDIAN FOOTWEAR MARKET

Share of Organised Market

35%
45%



The apparel & footwear sector in India continues to be characterised by local Indian players such as:

- Future Lifestyle Fashion
- Aditya Birla Fashion & Retail Ltd.
- Arvind Fashion Ltd.

These players, through licensed agreements with foreign players have managed to build a strong portfolio which helps them sustain their competitive advantage. However, with an

increase in international brands such as H&M, Zara, Gap etc. penetrating the Indian market, the competition has increased.

Over the next five years, the apparel & footwear sector are projected to continue experiencing growth in value terms.

Children's wear and women's wear are two categories which seem most popular and are set to experience a stronger growth.

KEY PLAYERS

Apparel:

Indian brands



International Brands



Footwear:

Indian brands



International Brands



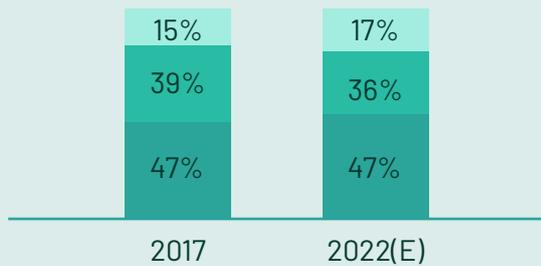
E-Commerce Players:



PREFERENCES ACROSS DEMOGRAPHICS

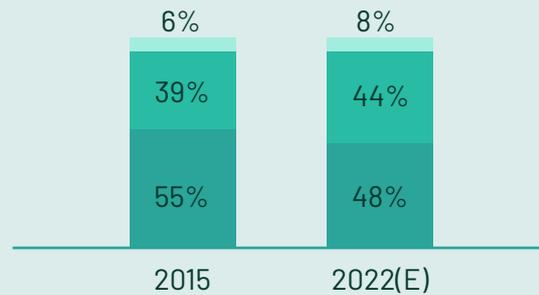
Apparel Categories

■ Kids ■ Women ■ Men



Footwear Categories

■ Kids ■ Women ■ Men



RAPID PREMIUMISATION EXPECTED IN THE MARKET

The Indian footwear industry has clearly shifted towards the premium segment with respect to consumer preferences. The premium footwear

segment in the country has witnessed a 1.75x growth in its market share since 2009 and now occupies 28 per cent of the footwear market.³⁴

FURNITURE & HOME DECOR

OVERVIEW

India's social evolution is evident in programmes like 'Housing for All by 2022', 100 smart cities, 100 per cent FDI in realty, among others. These programmes work towards the vision of providing a *pukka* house to every Indian. Such initiatives coupled with an increasing number of foreign tourists have directly increased the demand for ancillary and complementary markets, namely the furniture market.

Further, the wooden furniture sub-segment of the industry is anticipated to continue its dominance in the Indian furniture market and grow at a CAGR of 11.32 per cent from 2018-2023.³⁵ However, the growth of nuclear families and impact of western culture has affected the demand for wood furniture. Changing consumer preferences is diverting interests towards other materials like leather

and glass, making them a lucrative segment in the coming future.

The unorganized sector dominates India's furniture market, as it offers cheaper products in comparison to the ones available through the organized category. Moreover, product customization availability in the unorganized sector is also expected to aid the segment's leading market position during the forecast period.

A report by Hong Kong Trade Development Council expects the Indian furniture market to grow over USD 27 Bn from its current market size of USD 12 Bn by 2022, representing a huge opportunity for furniture exporters across Asia.³⁶

INDIAN FURNITURE MARKET



In terms of supply, the market is categorized into domestic and imported segments. The domestic segment accounts for most of India's domestic furniture market (~95 per cent) and the trend is expected to continue in the coming years.³⁷

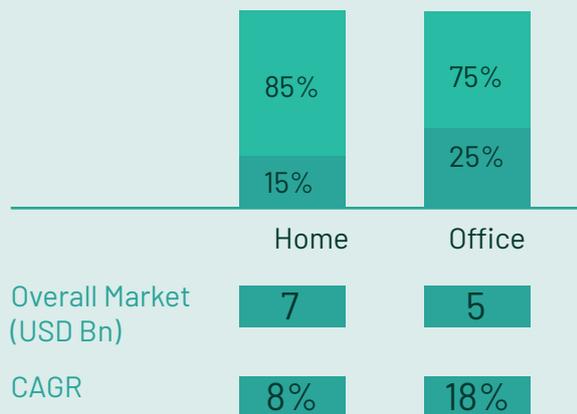
Due to the dedicated interventions by the government, it is expected that there would be a surge in demand for the below sub-sectors of furniture:

- Residential furniture
- Commercial furniture (office/corporate)
- Hotel furniture
- Furniture parts

Within the largest subsegments of home and office furniture, beds, sofa and dining sets account for nearly 65 per cent, and seating, desking and open plan office system account for nearly 90 per cent respectively.³⁸

FURNITURE MARKET: HOME & OFFICE FURNITURE

■ Unorganised ■ Organised



KEY PLAYERS

Indian Companies:



International Companies:



E-Commerce players:



Sourcing Opportunity

Globalization has made it easier for companies to consider procurement from all around the world. However, India continues to be one of the most preferred destinations for industries across the world considering offshore procurement. India provides the following advantages for those looking to source:

- The diversity of its culture
- Convenience of its geography
- Financially attractive location
- Deep skill base
- Vendor reliability

As Dan Scheinman from Cisco System Inc. told to Business Week **"We came to India for the costs, stayed for the quality and are now investing for innovation."** The country's deep skill base, vendor reliability, better understanding of the western business requirements has made it a favourable choice. Also, manufacturers in India understand the importance of long-term relationships with their global partners. To quote Prime Minister Narendra Modi, **"The world is looking for a trusted, reliable partner. In India, we have potential, strength and ability. All industries must benefit from the trust that has developed for India all over the world."**

SOURCING BY GLOBAL RETAILERS FROM INDIA

Even before venturing into retail in the country, many global retailers have traditionally sourced from India. Amongst these some notable companies are Marks & Spencer, Decathlon, Ikea and Siam Makro.

While Marks & Spencer sources apparel, footwear, bags, accessories etc.

Decathlon extensively sources both raw materials and finished products such as yarn, cycles, and shoes from India. While Ikea opened its first retail store in 2018, it has been sourcing from India for over 30 years.

MICRO, SMALL AND MEDIUM ENTERPRISES ECOSYSTEM

Micro, Small and Medium Enterprises (MSMEs) ecosystem are the backbone of the Indian economy. MSMEs contribute to about 30 per cent of the country's GDP (7 per cent of manufacturing GDP and 25 per cent of services GDP) and over 48 per cent of India's exports.³⁹ The total number of MSME units is estimated at 63.3 Mn of which nearly 63 Mn (or 99 per cent) are micro enterprises.⁴⁰ The MSME segment employs approximately 25 per cent of India's workforce. MSMEs account for more than 80 per cent of the total industrial enterprises in India, creating more than industrialised value-added products.⁴¹

The MSME sector has been a pillar of support to the economy and a necessary channel for employment over the last five decades. It contributes significantly in the economic and social development of the country by fostering entrepreneurship and generating the largest employment opportunities at comparatively lower capital cost, next only to agriculture.

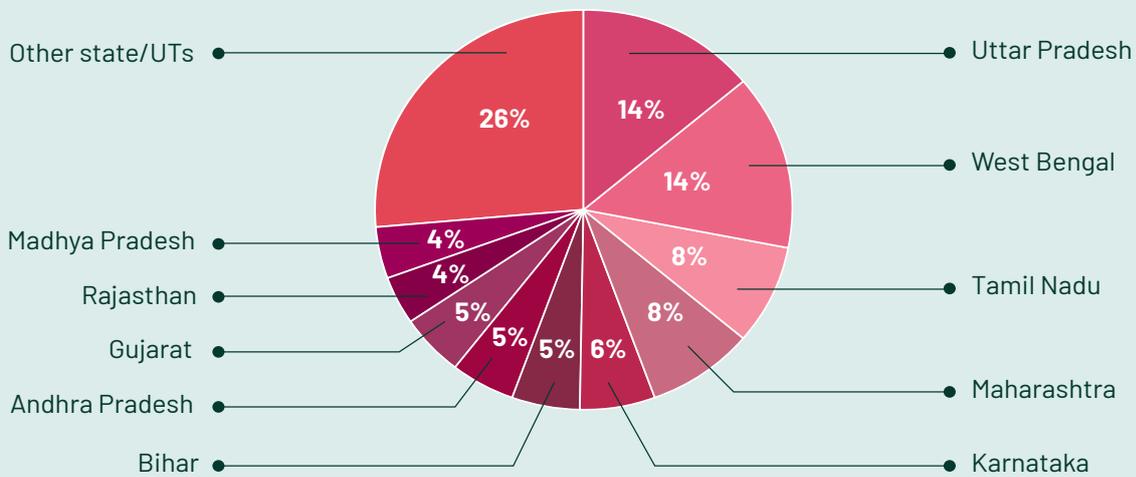
MSMEs not only play a crucial role in providing large employment opportunities at a comparatively lower capital costs than large industries but also help in the industrialisation of rural and backward areas thereby, reducing regional imbalances and assuring more equitable distribution of national income and wealth.

MSMEs are also complementary to large industries as ancillary units and this sector contributes enormously to the socio-economic development of the country. The MSMEs are widening their domain across sectors of the economy, producing diverse range of products and services to meet demands of domestic as well as global markets. Modern products

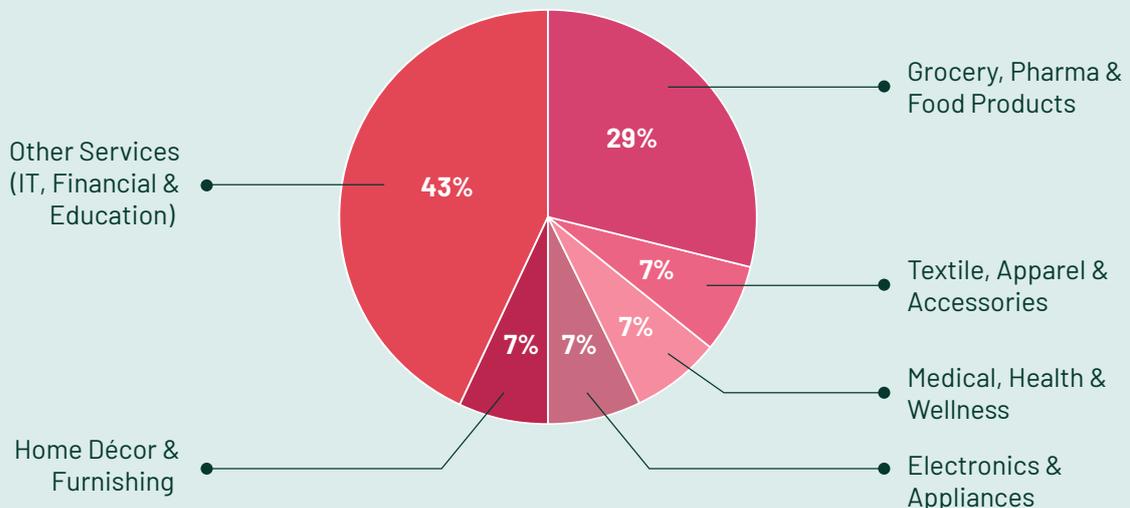
account for more than 95 per cent of MSME exports.⁴²

In a country like India, MSMEs have benefitted from the viable business atmosphere which exists, aided by ecosystem enablers and facilitated by the government. The MSME sector, as the engine of growth for India, will be the vehicle of future development in the country.

NO. OF MSME UNITS ACROSS STATES



PERCENTAGE SHARE OF MSME UNITS ACROSS BUSINESS CATEGORIES



SOURCING CLUSTERS

TOYS

The USD 100 Bn global toy industry is currently dominated by China, however, there is a huge opportunity for promoting toy exports from India.⁴³ Rising wages and tariffs in China are forcing global brands to look for alternate bases for manufacturing. India has a comparative advantage on labour intensive toys due to cheaper labour rates and raw material availability. Further, small product lifecycle implies a low feasibility for automation, and hence, makes a case for India as the alternate investment destination.

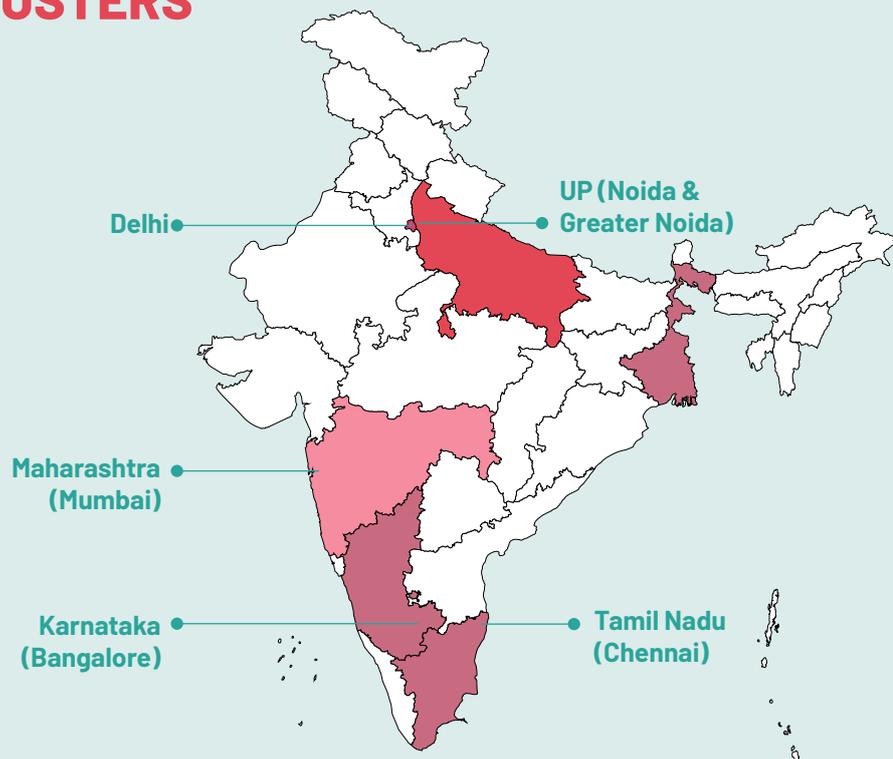
While major toy companies such as Mattel & Hasbro have historically relied on cheaper outsourcing operations in Asia for manufacturing products, changing global dynamics, induced by costs and trade wars, they are now hedging their risks to such disruptions.

Companies such as Hasbro have announced plans to shift 40 per cent of its order book from China by 2020.⁴⁴ India's upcoming cluster of toy manufactures are likely to attract about USD 400 Mn to USD 1,000 Mn of this over the next four to five years.⁴⁵ Even smaller Chinese companies, such as Pals Plush, have realised the advantage of producing in India and begun to move operations here. Hangzhou, China-based soft toy manufacturer moved its operations to Sri City in Andhra Pradesh, investing over USD 3.5 Mn and creating over 600 jobs.⁴⁶

India's capacity to build can be affirmed by its network of manufacturing clusters that include Maharashtra, Karnataka, and Delhi. Clusters for modern toy manufacturing exist around all major Indian cities such as Bengaluru, Hyderabad, Chennai, Pune, Mumbai, Delhi NCR, Ahmedabad, and Kolkata.

KEY TOY CLUSTERS

- Northern
- Western
- Other regions



APPAREL

India is the world's largest producer of cotton and jute with 27 per cent of the global share. India is also the world's second largest producer of polyester and related fibres with 8 per cent of the global share.⁴⁷

Labour cost in India is significantly lower than Vietnam and China, only slightly higher than Bangladesh. With an increase in urbanisation, growth of organized retail and increase in per capita income, India's apparel demand is also poised to grow. India's exports in apparel are expected to grow from USD 17 Bn to nearly USD 32 Bn between 2020-26.⁴⁸

Increasing focus on the apparel market in India has led to many government reforms to revamp the sector and secure its financial health. A measure of its financial health is the fact that

more than 50 public listed companies in India in the textile, apparel and allied sectors clocked turnovers in excess of USD 100 Mn in 2019.⁴⁹

The presence of an entire textile value chain from yarn to readymade garments is another reason to why India is an attractive destination. Aided by multiple government initiatives like Amended Technology Upgradation Scheme, Scheme for Integrated textile parks, integrated Skill Development scheme, Market Development Assistance and Market Access Initiative, the apparel sector is likely to see a further surge in capabilities.

In terms of building an ecosystem, the government has proposed 66 textile parks across the nation, over and above the ones given in figure.⁵⁰

KEY APPAREL CLUSTERS IN INDIA

■ Spinning Clusters:

Ludhiana, Baddi, Coimbatore, Erode, Guntur

■ Weaving Clusters:

Surat, Tarapur, Mumbai, Amravati, Ahmedabad

■ Knitting Clusters:

Delhi, Ludhiana, Tiruppur

■ Knitting Clusters:

Delhi, Ludhiana, Tiruppur



FOOTWEAR AND LEATHER

The Indian footwear and leather industry employs both traditional and modern technological methods to produce a wide range of products and since India is a country with a diverse culture, there are a variety of traditional footwears.

In this industry, an essential role is played by the small and medium enterprises (SME), who have helped develop and advance the footwear sector by sustaining and enhancing their export contribution vis-a-vis development of clusters.

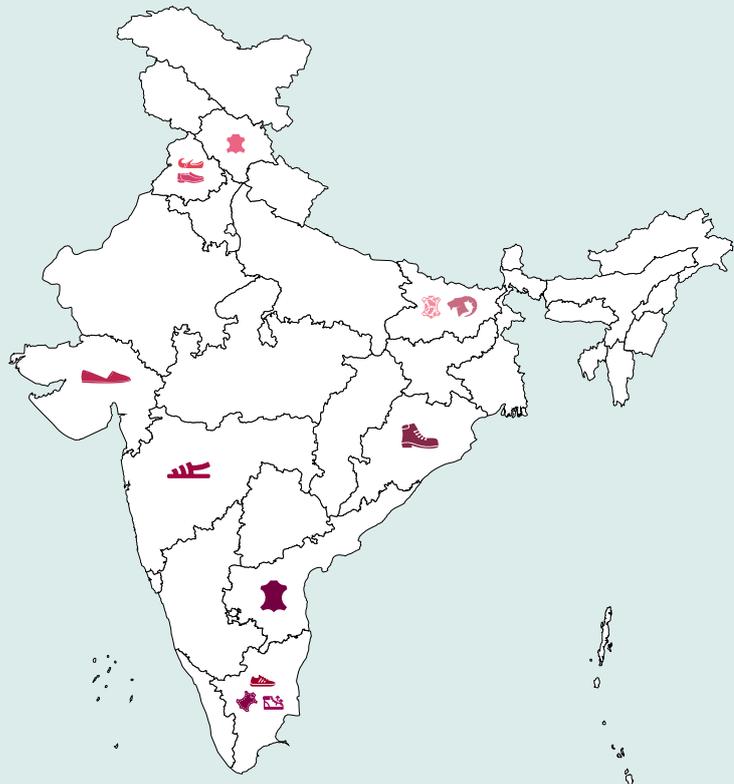
The strength of this industry lies in a strong and eco-sustainable tanning base, modernized manufacturing units, trained and skilled manpower and world class support for R&D. All these elements have also received support from the government. On the policy front,

the Ministry of MSMEs has introduced clustering across the footwear sector to establish co-operation and joint strategy among firms as well as the government to ensure subsistence and growth in the SME sector.

For instance, the Agra shoe industry is one of the largest leather footwear clusters in India with the Central Footwear Training Institute and MSME Development Institute in Agra as major stakeholders in the Agra footwear cluster. Many such initiatives are being run across the country and cluster development activities in the industry have given a major boost to private capital inflow into the organized segment, enhancing capacity to keep pace with future growth prospects.

KEY FOOTWEAR & LEATHER CLUSTERS IN INDIA

-  Soft Leather Shoes
-  Cattle hides
-  Leather footwear
-  Finished Leathers
-  Hides and Skins
-  Traditional footwear
-  Leather Finishing
-  Goat Skins
-  Vegetable leather shoe
-  Leather footwear
-  Raw Hides and Skins
-  Shoe uppers
-  Finished shoes



FOOD

The Indian food and grocery retail market is the sixth largest globally. The country's food ecosystem offers huge opportunities for investments. With the support of favourable economic policies and attractive fiscal incentives. The food and grocery retail market

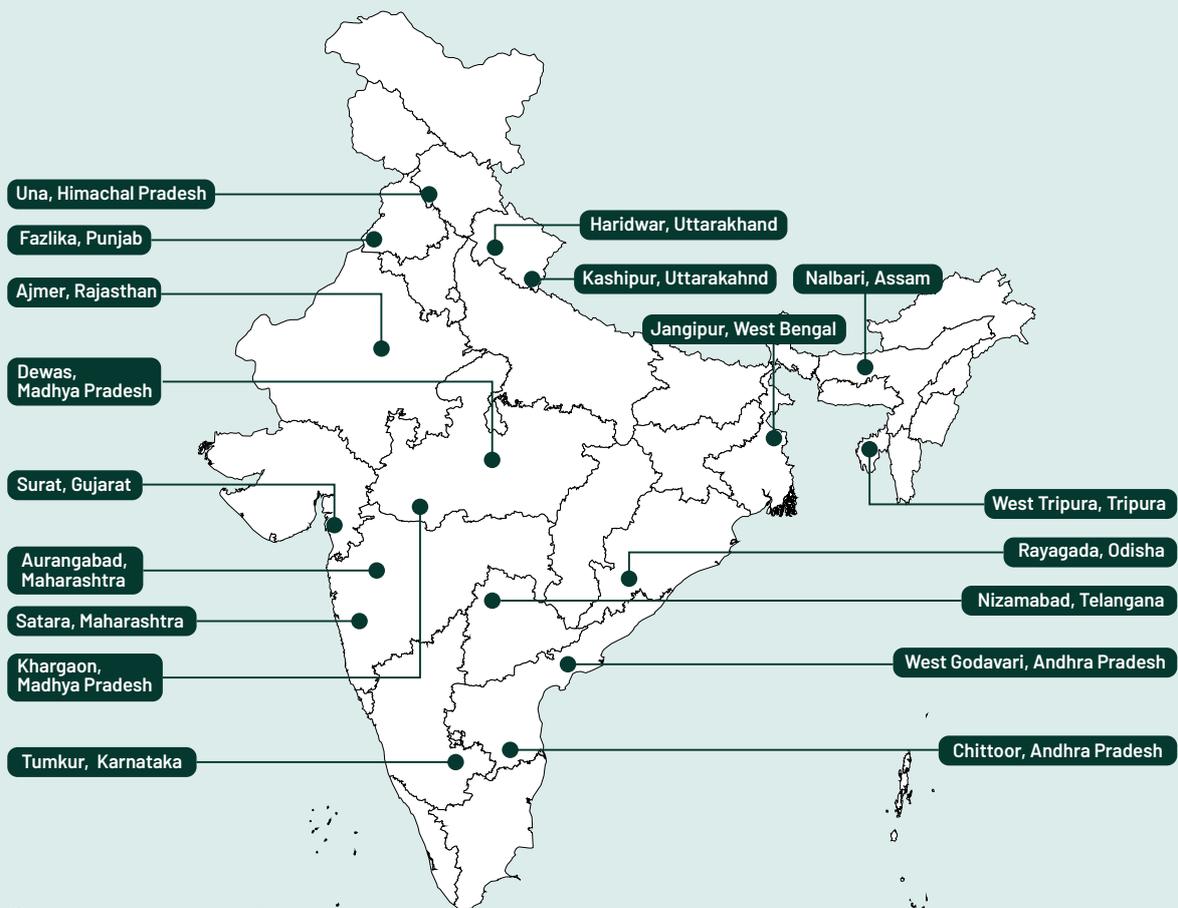
has grown and constitutes close to 65 per cent of the total retail market in the country.⁵¹ Through the Ministry of Food Processing Industries (MoFPI), the Indian government is actively taking all necessary steps to boost investments in the food processing.

MEGA FOOD PARKS

Under the mega food park scheme, the government has sanctioned 39 Mega Food Parks (MFPs) to be set up in India. The mega food park scheme is based on the 'Cluster' approach and envisages creation of state-of-the-art support

infrastructure in a well-defined agricultural / horticultural zone for setting up of modern food processing units in the industrial plots provided in the park with well-established supply chains. Currently, 18 MFPs have become functional.⁵²

MEGA FOOD PARKS IN INDIA



- Operational Mega Food Parks
- Ready Infrastructure
- 37 Approved Mega Food Parks
- 18 operational Mega Food Parks
- * Under MoFPI assistance

Cold Chain units- 289 approved cold chain projects by MoFPI

FURNITURE AND HOME DÉCOR

India is a desirable destination for global furniture players due to its quality and affordability. Since India is home to several tree species and indigenous wood, wood accounts to 65 per cent of the furniture. The segment is expected to grow even more in the future due to favourable FDI regulations and infrastructure growth.

There are 26 furniture manufacturing clusters and 1,419 registered manufacturing units in India. Furniture manufacturing in India is largely concentrated in the following five states primarily due to the location and demographic advantages⁵³:

- Maharashtra (222)
- Tamil Nadu (201)
- Rajasthan (124)
- Andhra Pradesh (119)
- Karnataka (112)

Recently, single brand retailer and world's largest furniture retailer, IKEA have shown their commitment to comply with the local sourcing norms by announcing to double their sourcing in India.

The wooden furniture exports have shown a massive jump of nearly USD 40 Mn, according to ministry of commerce, from USD 449.66 Mn in the year 2016-17 to USD 533.10 Mn in 2017-18.⁵⁴ Maximum exports within the furniture segment are to the United States and United Kingdom, which account for 47 per cent of total furniture exports.⁵⁵

SOURCING CLUSTERS: FURNITURE & HOME DECOR



Kanpur Steel furniture



Lucknow Steel furniture



Saharanpur Wood furniture



Malappuram wood furniture



KEY STAKEHOLDERS TO HELP FACILITATE SOURCING



Export Promotion Councils

These councils are government backed agencies that seek to promote trade and assist companies keen on building global businesses. Further, there are a number of councils with each looking after a specific set of products, commodities, and services.

The list of notable export promotion councils in India is given in the Annexure 1.

National Industry Associations

These associations are organisations founded and run by businesses, collaborating to organise, represent and work towards the welfare of member companies. India has many such associations, such as the Federation of Indian Chambers of Commerce and Industry (FICCI), the Associated Chambers of Commerce and Industry of India (ASSOCHAM), etc.

KEY INFRASTRUCTURE AND FINANCE SCHEMES

MICRO AND SMALL ENTERPRISES - CLUSTER DEVELOPMENT PROGRAMME

The Ministry of MSME, government of India has adopted the cluster development approach as a key strategy for enhancing productivity and competitiveness as well as capacity building of MSMEs and their collectives in the country. The aim of the programme is that clustering of units will enable various service providers to cater to them, including banks and credit agencies, thus reducing costs and improving the infrastructure working alongside these enterprises. Thus far, a total of 964 clusters have been registered under this programme across 29 states and 1 Union Territory.

PRIME MINISTER EMPLOYMENT GENERATION PROGRAMME

This scheme is implemented by the Khadi and Village Industries Commission (KVIC). This scheme is aimed at generating employment opportunities, bringing together widely dispersed artisans, and increasing their wage-earning capacity in rural as well as urban areas of the country through setting up of new self-employment ventures/projects/micro enterprises. The government subsidy under the scheme is routed by KVIC through identified banks for an eventual distribution to beneficiaries / entrepreneurs in their bank accounts.

CREDIT LINKED CAPITAL SUBSIDY SCHEME FOR TECHNOLOGY UPGRADATION

The objective of this scheme is to facilitate technology upgradation in MSEs by providing an upfront capital subsidy of 15 per cent (on institutional finance of up to USD 10 Mn availed by them) for the induction of well-established and state of the art technology in the specified 51 sub-sectors/products approved. The scheme is a demand driven without any upper limit on the overall annual spending on subsidy disbursement.⁵⁶

MARKETING ASSISTANCE SCHEME

The Ministry of MSMEs has implemented the Marketing Assistance Scheme to encourage manufacturing MSEs in their efforts of tapping and developing domestic / overseas markets through barcoding of products, facilitating market linkages under the Public Procurement Policy and educating the MSEs on latest technologies, international developments and import-export policies and procedures.

TECHNOLOGY CENTRES AND BUSINESS INCUBATORS SCHEME

Under the Technology and Incubators Scheme, the Ministry of MSME has developed 18 technology centres to assist MSME ventures in the country through access to advanced technologies, giving technical advisory support and providing technical skill development to the youth.⁵⁷ Additionally, the scheme also supports creation of business incubators to promote and support creativity of individual innovators and to assist them to become technology-based entrepreneurs.

FOREIGN TRADE AND MANUFACTURING/ SOURCING INCENTIVES

KEY TRADE RELATED SCHEMES

Export Oriented Unit Scheme

The Export Oriented Unit Scheme was first introduced in 1981. Under the scheme, companies are provided tax benefits and special waivers in compliance against an obligation to export 100 per cent of goods produced by the unit and is complimentary to schemes for Free Trade Zone, Export Processing Zone, etc.

Duty Exemption and Remission Scheme

The Duty Exemption and Remission Scheme allows for duty-free import of inputs for export production, and include the following duty exemption schemes:

- Advance Authorisation Scheme
- Advance License for Annual Requirement
- Duty-free Import Authorisation
- Duty Drawback Scheme

KEY MANUFACTURING/SOURCING INCENTIVES

Activity / Category	Central Government	State Government
 <p>MANUFACTURING SECTOR</p>	<p>Income Tax Act 1961</p> <ul style="list-style-type: none"> • 4 year window of lower Corporate Income Tax (17.169) for new manufacturing units till 31 March 2023 	<p>State Industrial Policies and Specific Sectoral Policies</p> <ul style="list-style-type: none"> • Drafted by Industries & Commerce Department of States valid for a period of 5 years • Incentivises capital expenditure and reduces operating expenditure • Quantum varies by investment size, employment generation, location
	<p>Special Economic Zones</p> <ul style="list-style-type: none"> • Deemed foreign territory, Direct Tax, Indirect Tax and non-fiscal benefits Manufacturing Sector • Units must be Net Foreign Exchange earner over a period of 5 years 	
	<p>Custom Bonded Manufacturing</p> <ul style="list-style-type: none"> • Deferred duty on capital goods and raw materials 	

Special Economic Zones

These zones are specially demarcated duty-free zones, which operate as foreign territories for the purpose of trade, duties and tariffs. The economic laws in SEZs differ from those applicable to the rest of the country (Domestic Tariff Zones). These SEZs act as necessary conduit for employment and foreign exchange. India currently has eight functional SEZs.

Custom Bonded Manufacturing

Section 65 of the Customs Act allows companies to manufacture while being able to defer duty on imported capital goods and raw materials, as well as transfer commodities from warehouse to warehouse without paying duty. This scheme has no fixed export obligation and allows companies to avail exemptions with less compliance costs associated with it.

State Industrial Policies and Sector Specific Policies

- Drafted by Department of Commerce and Industry of state governments, valid for a period of five years
- Incentivises capital expenditure and reduced operating expenditure
- Quantum of incentive varies by investment size, employment generation and location

Customs Reforms to Facilitate Sourcing

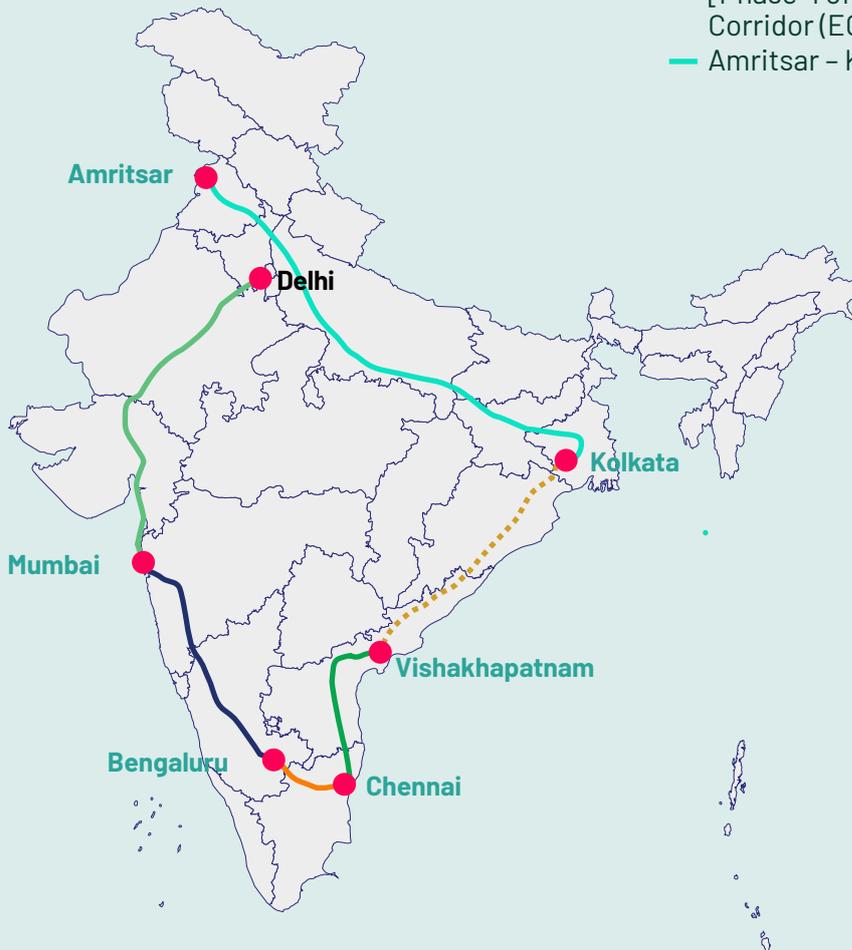
Foreign Post Offices (FPOs): In order to help facilitate movement of goods from India to other countries, customs has permitted all e-commerce exports through all FPOs across the country. By increasing the capacity, this has helped alleviate bottlenecks in securing clearances before shipment.

Infrastructure in India

NATIONAL INDUSTRIAL CORRIDOR PROGRAMME

GOVERNMENT OF INDIA HAS TAKEN UP DEVELOPMENT OF FIVE INDUSTRIAL CORRIDORS

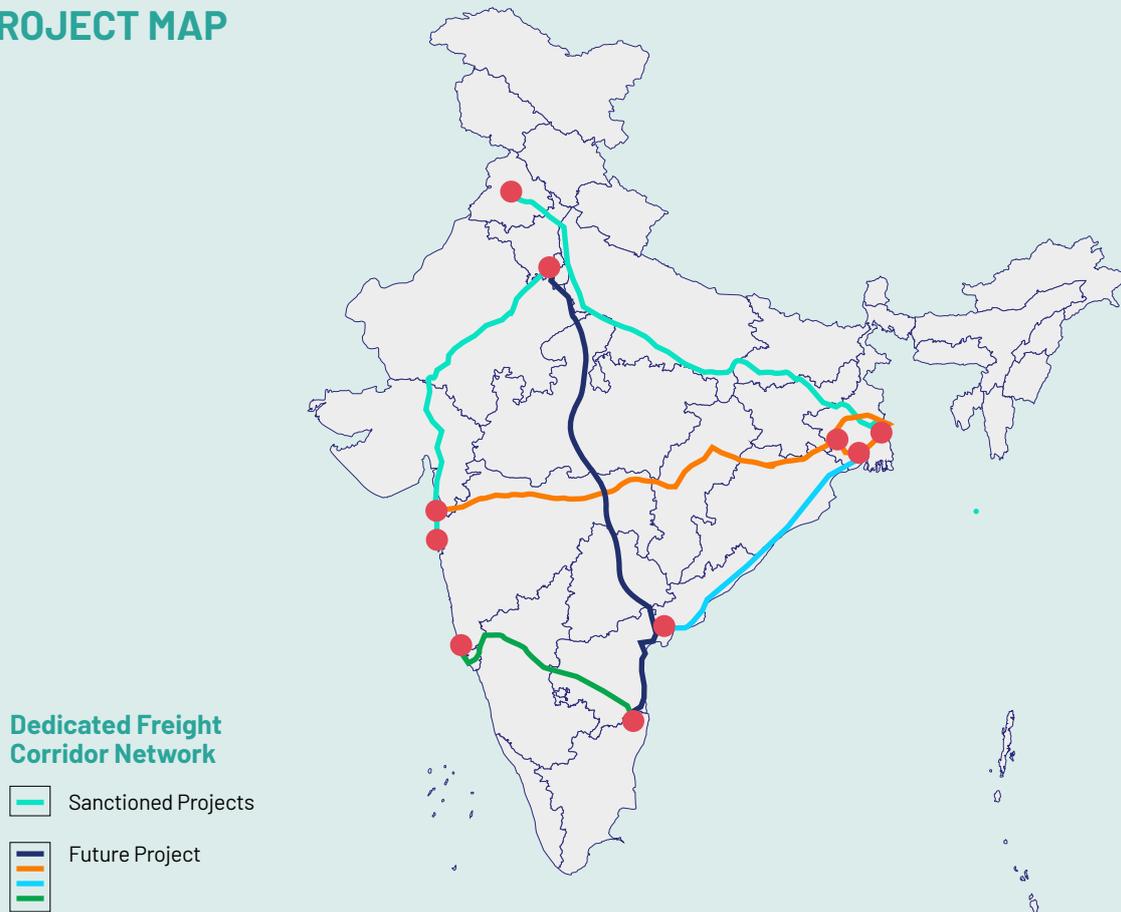
- Delhi Mumbai Industrial Corridor (DMIC)
- Bengaluru Mumbai Economic Corridor (BMEC)
- Chennai Bengaluru Industrial Corridor (CBIC)
- Vizag Chennai Industrial Corridor [Phase-1 of East Coast Economic Corridor (ECEC)]
- Amritsar - Kolkata (AKIC)



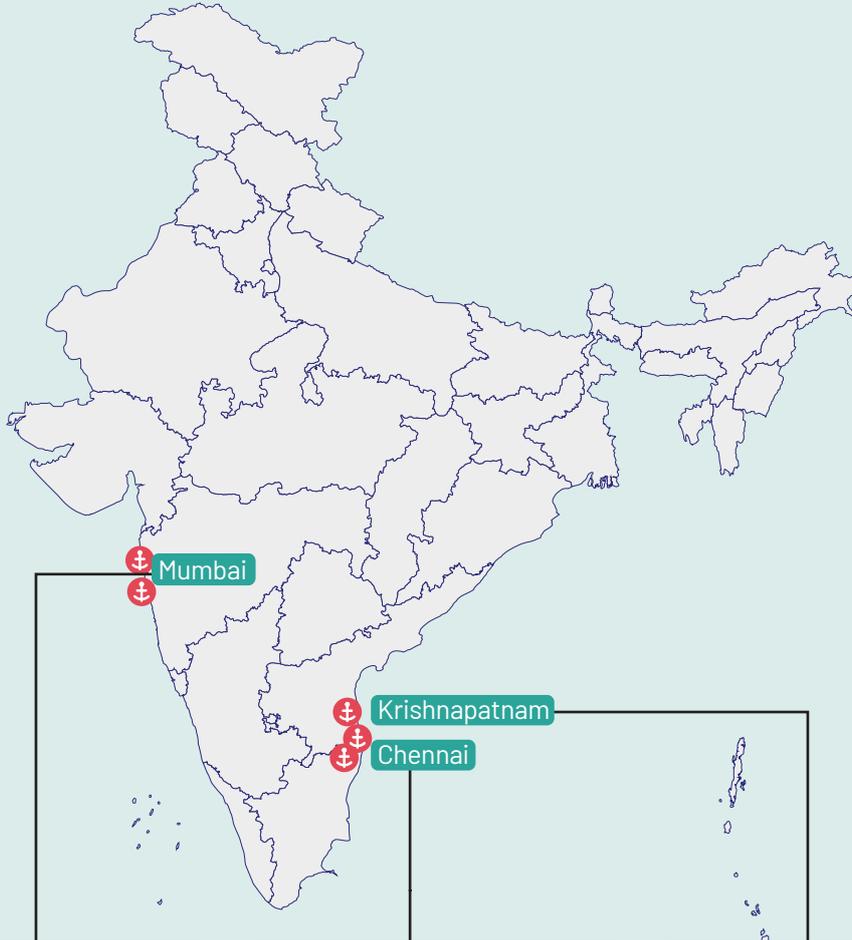
- GDP
- Manufacturing
- Employment
- Exports
- Urbanisation
- Sustainability

DEDICATED FREIGHT CORRIDORS

PROJECT MAP



KEY PORTS



Jawaharlal Nehru Port Container Terminal
NavaSheva International Container Terminal

Closest Highway:
 NH348

Dedicated Freight Corridor:
 Western Dedicated Freight Corridor from JNPT to Dadri, UP (under construction)

Logistics Park Integration:
 Multimodal Logistics Park (proposed by NHAI)

Chennai International Terminal
Chennai Container Terminal

Closest Highway:
 NH4, NH5, NH45

Dedicated Freight Corridor:
 North-South Dedicated Corridor (proposed)

Logistics Park Integration:
 Multimodal Logistics Park (proposed by NHAI)

Krishnapatnam Port Container Terminal

Closest Highway:
 NH67

Dedicated Freight Corridor:
 Hyderabad Krishnapatnam Dedicated Freight Corridor (Planned by Sagarmala Development Company)

Logistics Park Integration:
 Multimodal Logistics Park (proposed by NHAI)

Government Policy, Incentives and Initiatives

KEY FDI AND EXPORT POLICIES

FDI POLICY

Sector/Activity	FDI Cap (% of Equity)	Entry Route
 Cash & Carry Wholesale Trading/Wholesale Trading (including sourcing from MSEs)	100%	Automatic
 Food Retail Trading	100%	Automatic
 Single Brand Retail Trading	100%	Automatic
 Multi Brand Retail Trading	51%	Government
 Duty Free Shops	100%	Automatic
 E-commerce activities (B2B)	100%	Automatic

LOCAL SOURCING NORMS

To promote Make in India and Skill India initiatives, with respect to proposals involving foreign investment beyond 51 per cent under Single Brand Retail Trading (SBRT), the government has mandated sourcing of 30 per cent of the value of goods purchased will be done locally. The provisions of local sourcing under the FDI Policy allow for such sourcing provided the requisite criteria is met.

Recent changes in the FDI regulations for the Retail Sector:

- 100 per cent FDI under the automatic route in contract manufacturing in India.
- Online retailing now permitted prior to opening of brick and mortar stores- with the condition of opening up offline retail within a 24-month period.

- All procurements made from India by the SBRT entity for that single brand shall be counted towards local sourcing.
- Sourcing of goods from India for global operations can be done directly by the entity undertaking SBRT, its group companies, or through a third party.
- It has been now decided that entire sourcing from India for global operations shall be considered towards local sourcing requirement.
- For compliance with local sourcing norms as defined in FDI Policy on SBRT, sourcing of goods from SEZs would be counted against local sourcing requirement.

ENABLING POLICIES

MAKE IN INDIA

Devised to transform India into a global design and manufacturing hub, Make in India initiative was launched by the prime minister in September 2014. The initiative has propelled India's manufacturing capabilities and has improved its ranking across several indexes.

India ranks as the 68th most competitive economy on the World Economic Forum's global competitiveness index as of 2020 has moved to 63 position in the World Bank's Ease of Doing Business rankings.⁵⁸

DIGITAL INDIA

The Digital India, a flagship programme of the GOI was initiated to transform India into a digitally empowered society and knowledge economy by enabling e-governance and promoting inclusive growth. Several initiatives

such as the Bharat Net, Jan Dhan-Aadhar-Mobile (JAM) trinity, Unified payments interface (UPI) and Bharat Interface for Money (BHIM) were initiated under the ambit of the Digital India programme.

GOODS AND SERVICES TAX

Goods and Services Tax (GST) is one indirect tax for the entire country that subsumed almost all the indirect taxes that previously existed in India. Eliminating border taxes, thus, resulting in reduced travel time in interstate

movement by 20 per cent, bringing accountability and transparency in the unorganised sectors and simplifying taxation process are some of the key outcomes of GST.⁵⁹

CONSUMER PROTECTION ACT 2019

The landmark Consumer Protection Act 2019 aims to provide the timely and effective administration and settlement of consumer disputes. This will provide enhanced protection to the consumers for both products as well as services taking into consideration the booming e-commerce industry which includes modern

methods of providing goods, online sales, tele-shopping, direct selling and multi-level marketing, in addition to the traditional methods. The new regulations and supervision will reinforce competition and efficiency within the Indian retail market.

INTELLECTUAL PROPERTY LAWS IN INDIA



Copyright

To streamline the copyright process, all Intellectual Property Rights (IPRs) are now administered by the Department for Promotion of Industry and Internal Trade (DPIIT), Ministry of Commerce.



Designs

Under the laws of Designs Act 2000 and the Designs Rules 2001, designs are valid for a maximum of ten years, renewable for a further five years.



Patents

Patents are valid for 20 years from the date of filing an application, subject to an annual renewal fee. India's patent law operates under the 'first to file' principle - i.e. if two people apply for a patent on an identical invention, the first one to file the application will be awarded the patent.



Trademarks

The regulatory authority for patents is the Controller General of Patents, Designs and Trademarks under the DPIIT which enforces trademark law, including the ability to search premises and seize goods suspected of being counterfeit without a warrant. A trademark is valid for ten years and can be renewed thereafter indefinitely for further ten-year periods.

TAX REFORMS

Before

CORPORATE TAX

25% - Revenue < USD 60 Mn
30% - Revenue > USD 60 Mn

MINIMUM ALTERNATE TAX

18.5%

After

CORPORATE TAX

15% - New Manufacturing Units*
22% - Domestic Companies*

MINIMUM ALTERNATE TAX

15%

Duties

ADVANCED AUTHORIZATION

- Duty free import of inputs for export products
- Necessitates exports with minimum value addition of **15%**

USD 20.7 Bn Tax Revenue Forgone

ROBUST POLICY FRAMEWORK

Aadhar



1.2 Bn
Enrolments

Digital India



661 Mn
Internet Users

Jan Dhan Yojana



375 Mn
New Bank Accounts

Startup India



Fastest Growing
Ecosystem

Mobile Phones



1.2 Bn
Mobile Subscribers

Goods & Services Tax



17+
Indirect Taxes subsumed

Make in India



Minimum Local Sourcing
Norms under FDI Regulations

UPCOMING POLICIES

NATIONAL RETAIL POLICY

The GoI has proposed to have a National Retail Trade Policy to create conducive environment for retail trade which includes simplifying

rules and regulations hindering the growth of retail sector.

NATIONAL E-COMMERCE POLICY

Along with the existing Make in India and Digital India policies, the National E-Commerce Policy aims to create a framework for achieving holistic growth of the e-commerce sector. Since inclusive growth of the sector will be an important catalyst for achieving economic

growth and other public policy objectives, the policy proposes to set up a legal and technological framework to restrict cross-border data flow and conditions to collect or process sensitive data locally and storing it abroad.

India Advantage

India ranks second globally in terms of population and is expected to become the third largest consumption market by 2025. The country in its strides to becoming one of the most formidable global economies, has invested significantly in revamping its policies and infrastructure and has also climbed 79 places in the World Bank's Doing Business Ranking from 142 to 63.⁶⁰ Recently, India also announced a major reduction in the corporate tax rate thus, making it one of the

most competitive countries in that space. As per a Bloomberg survey, India outranks Association of South East Asian Nations (ASEAN) countries in factors such as political stability, currency stability, production costs and Intellectual Property Right (IPR). Additionally, the country's decision to introduce a single GST, subsuming 14 state and central indirect taxes and initiatives such as Digital India have further strengthened India's fiscal and trade capabilities.

INDIAN SUBSIDIARIES PERFORMANCE

Indian Subsidiaries Outperform Global Parents

2012 - 2017

Global parents' revenues	6.9% ↓
Indian subsidiaries' revenues	12.6% ↑
Global parents' net profits	4.4% ↓
Indian subsidiaries net profits	30.6% ↑
Average IRR of All-Asia based funds:	11.9%
Average IRR of India-focused funds:	14.4%

CASE STUDIES

DECATHLON

- The French brand has become the largest single brand retailer in sports and apparel in India.
- Decathlon has ~70 large scale stores in India and retails ~5,000 products across 80 sports.



DECATHLON

CASE STUDY: DECATHLON

Largest Single Brand Retailer in Sports Goods

Omni-Channel Presence

- Sells through own website, Amazon and Flipkart
- Much larger physical stores than peers

Pushing the frontiers with technology & Make in India

- Innovative technology at retail outlet
- Sourcing Hub: Manufacturing and export base setup in India

Road Ahead for Decathlon

- Plans to become most recognised sport brand in India
- Plans to incorporate IOT across all stores

Decathlon India Revenues

CAGR
63%



Store Growth

Growth
3.75x





CASE STUDY: IKEA

Record footfalls and revenues signify growth promise for the Swedish brand in India

- Launched its first store in Hyderabad in August 2018
- Steady expansion in online segment- services Mumbai, Pune & Hyderabad
- Ikea witnessed ~USD 300 thousand daily revenue run rate in just seven months of operations
- ~8,000 Footfall on weekdays, ~20,000 footfall on weekends
- Lower prices (30-50% lower than rivals) driven by global cost leadership strategy
- Setup experience centres in malls before launch
- **Sourcing Hub:** Supplier base in India before entry-Works with 45+ suppliers & engages 45,000+ workers in India
- Plans to launch Navi Mumbai store followed by Nagasandra in North Karnataka - targets presence in 49 cities by 2030
- Committed investment of USD 1.7 Bn for India expansion.

Revenue

August 2018
Launch

FY19
52 Mn

ADVANTAGE INDIA: INPUT AND PRODUCTION COSTS

INDIA OFFERS A COMMERCIAL ADVANTAGE ACROSS KEY INPUT COSTS WITH COMPETITIVE SUPPORTIVE INFRASTRUCTURE

In comparison to major manufacturing hubs globally, India has been fast emerging as a cost competitive alternative.

Counties	Labour Wages	Power Cost	Water Cost	Lending Rate
	USD/month	USD/KWh	US\$/m ³	Per cent (%)
 China	550 - 600	0.15 - 0.16	55 - 60	4.0% - 5.0%
 India	160 - 180	0.10 - 0.12	16 - 20	9% - 10%
 Bangladesh	110 - 120	0.09 - 0.12	20 - 22	12% - 14%
 Vietnam	190 - 200	0.08 - 0.10	50 - 80	7.0% - 8.0%
 Ethiopia	80 - 90	0.03 - 0.04	30 - 40	8.5% - 9.0%

- Adoption of modern technologies
- Better capacity building
- Best lending rates in the region
- Lowest water cost globally and more than 200 per cent cheaper than China⁶¹
- Duty free European Union (EU)
- Highly competitive and low labour costs
- India's wage cost is lower than China and Vietnam
- Power cost in India is comparable to other competing nations and cheaper than China
- With available government subsidies, effective cost of capital in India is competitive as well

LEAP IN EASE OF DOING BUSINESS RANKINGS

WORLD BANK'S DOING BUSINESS RANKING



Source: World Bank



79 Places ↑
Ease of Doing Business Ranking #63 (2019)



29 Places ↑
Global Innovation Index #52 (2019)



10 Places ↑
Logistics Performance Index #44 (2018)

ROBUST STARTUP AND INNOVATION ECOSYSTEM

India ranks among the top 10 Research and Development (R&D) spenders in the world with a USD 48.1 Bn spending according to the UNESCO Institute of Statistics.⁶² With a five-place jump in the Global Innovation Index rankings, the country currently stands at the 52nd position and is likely to get in to the top 25 by 2027.⁶³ With R&D spending constituting 2.7 per cent of the global share, India currently boasts of 7,000 R&D institutions.⁶⁴ Additionally, India is ranked as the top innovation destination in Asia and second in the world for innovation centres.

India is swiftly becoming a top R&D outsourcing destination. Around 60 per cent of new Multinational Companies (MNCs) have already established global in-house R&D centres,

which is likely to accelerate as new MNCs eye India to set up base.⁶⁵ India already has a presence of 83 of the top 100 global R&D spenders as per a 2017 study by Confederation of Indian Industry. Companies like Microsoft, Oracle, Motorola, Intel, IBM and GE have set up R&D or design centres in India. R&D facilities of GE and Bosch in India are, respectively, the largest and second largest in the world.

Not only is India home to a massive and growing R&D ecosystem but has the second greatest number of startups. The country also hosts accelerator programmes mentoring start-ups powered by global giants and enjoys over 1500 global in-house centres operated by MNCs across India.⁶⁶

RESEARCH AND INNOVATION IN THE RETAIL SECTOR

The Indian shopper is chasing experiences, not just the merchandise. The shoppers are getting more tech-savvy, time constrained, aspirational and upwardly mobile. In response, retailers are experimenting with newer formats and are adopting technology in order to increase engagement. Newer formats electively use technology for in-store experience, faster check-out, better displays and digital trial rooms. Augmented Reality (AR) mobile applications that mimic the instore experience for retail customers is also gaining popularity amongst luxury brands. Even with physical retailers, there is an increased adoption of minimalistic store design, light-weight modular fixtures, and focused lighting. Therefore, over the last five years in the top malls, the space share of experiential retail - restaurants, cafes, Quick Service Restaurants, theme-based entertainment etc. has gone significantly up. Such experiential retail provides a solid competition against e-commerce which can offer only merchandise and enhances repeat visits.

Brands such as McDonalds in India reported that they have deployed self-ordering and payment kiosks in more than 50 of their restaurants. Other such innovations include Big Bazaar Gen Next, Van Heusen Style Studio, Benetton On-Canvas Family Store, Max Millennial stores, Future Group Cover Story and Bombay Shirt Company's experiential stores.

Additionally, with an increase in the purchasing power of the customer and the elevated

accessibility to cashless transactions has really kindled the flame of the retail industry further. Keeping up with the changing consumer mindset, the startups in retail need to keep themselves updated with real time data to get more educated and well informed. The digital identity of this sector is motivating companies and even the newer entrants to experiment more and create niche for their innovations in the marketplace. Numerous products in the lifestyle, healthcare and personal hygiene verticals amongst others are getting widely circulated and recognised pan India.

Startups like Smerkato, Peel Works, and ShopKirana are also trying to change the way small retailers use technology to connect with consumers and increase their margins. With the increasing use of technology, the massive retail opportunity in India, translates into a huge opportunity for startups that can help improve sales and margins for small retailers. Some other prominent examples include Aahaa, Boriali, Ecohoy, Elanic, Fresh to home, Generico, Onlyrice.com, Spexy, the Celiac Store, Vendiman etc. Among the major players, companies like Walmart which established its Walmart Labs in Bengaluru in 2008 and is now looking at opening another lab in Chennai. The lab was envisaged to augment value proposition for consumers, as well as redesign tools and software for Walmart.

Covid-19 Impact & Way Forward

The economic disruption due to Covid-19 was faced by many businesses across the value chain. While consumption of essentials through a few channels of retail increased, retail of non-essential commodities declined significantly. The pre-lockdown period showed a boost in sales from 15 to 80 per cent for essential goods such as pulses, cooking oils, fast moving consumables and health care products while there was a sharp decline of 20 to 40 per footfall for eateries, malls and recreation centres.⁶⁷

As India moved to the lockdown phase, the sector faced several unprecedented challenges. Shortage in workforce, disruptions in supply chain leading to out of stock challenges, mobility issues, liquidity issues due to high inventory stock of non-essential products propelled the decline in retail consumption. A sharp fall was seen in discretionary spend due to low spending capacity and/or cautious spending (consumption of low-middle income fell ~67 per cent). Categories such as baby care and toys; apparel, footwear, and accessories; and household services; fitness witnessed a fall in consumption of >30 per cent.

However, as the economy started to reopen, the retail financial transactions through digital

mode via the National Payments Corporation of India platforms, showed an increase from USD 95.88 Bn in April to USD 137.88 Bn in May and the trend is expected to continue in June driven by a sustained pick-up in real activity.⁶⁸

Citing other signs of recovery, the finance ministry said, railway freight traffic saw a 26 per cent improvement in May (82.6 Mn tonnes) compared to 65.4 Mn tonnes in April.⁶⁹ "The improvement is likely to continue in June in sync with growth in movement of goods on National Highways," said the ministry.

E-commerce companies such as Amazon witnessed an increase of over ~50 per cent⁷⁰ in demand as compared to pre-Covid lockdown days upon the lowering down on restriction on delivery of non-essentials in May.⁷¹ Such trends are visible owing to the latent demand created by the lockdown.

According to a survey conducted by the Retailers Association of India (RAI), 30 per cent of Indian shoppers are excited to shop post lockdown and conversely, 51 per cent of the retailers feel that they are likely to recover within 6 to 12 months.⁷² The post pandemic world will experience a set of new trends and consumer behaviour within the retail sector.

TRENDS AND OUTLOOK

- Retailers' Outlook: Survey conducted by RAI
 - 20 per cent retailers to make profits by August 2020
 - Minimal manpower loss among medium and large retailers
 - 75 per cent of shoppers in tier-2 and tier-3 cities are planning to visit a retail store within the next 3 months
- Safe and Hygienic Shopping Experience:⁷³
 - 75 per cent of respondents prefer 'Regular sanitisation of stores'
 - 67 per cent of respondents prefer 'Everyday body temperature checks'
 - 57 per cent of respondents prefer 'Minimal staff interaction'
 - 43 per cent of respondents prefer 'Home delivery/Pickup of returns'
 - 48 per cent of respondents prefer 'Sealed products'

- Trends
 - Reversal of Past Trends
 - › Trust is paramount consideration amongst consumers
 - › Shopping is primarily for utilities
 - › Trading down and bargain hunting on upsurge
 - Acceleration of Existing Trends
 - › Embracing digital services and experiences
 - › Accelerated adoption of e-commerce and online-to-online
 - › Consciousness towards health and wellness
 - › Rise of smart shopper

Several economic monetary relief measures have been rolled out to mitigate the economic impact of Covid-19 on different channel partners including MSMEs and Non-Banking Financial Companies (NBFCs) that will influence the retail value chain and help businesses remain robust. Conversely, companies should reconcile to changing consumer behaviour and operating models, and drive quick actions across all major cost factors to ensure sustainability. Investments should be encouraged for unmanned, contactless delivery and storage and organized retailers will have to accelerate their omni-channel presence.

POST COVID-19 GOVERNMENT REFORMS

AMENDMENT TO ESSENTIAL COMMODITIES ACT

Commodities like cereals, pulses, oilseeds, edible oils, onion and potatoes will be removed from list of essential commodities under the amended Essential Commodities Act. This will remove fears of excessive regulatory interference in their business operations among private investors. The freedom to

produce, hold, move, distribute and supply will harness economies of scale and attract FDI and private sector investment into the agriculture sector. It will help drive investments in cold storages and lead to modernisation of the food supply chain.

THE FARMER'S PRODUCE TRADE AND COMMERCE (PROMOTION AND FACILITATION) ORDINANCE, 2020

One India, One Agriculture Market: The government of India passed an ordinance in June, 2020 that aims at creating additional trading opportunities outside the Agriculture Produce Market Committee (APMC) market yards, to help farmers get remunerative prices from additional competition. This will supplement the existing Minimum Support

Price (MSP) procurement system which provides stable income to farmers. The farmers will not be charged any cess or levy for sale of their produce under this Act. Furthermore, there will be a separate dispute resolution mechanism for the farmers.

REDUCTION IN TAX DEDUCTED AT SOURCE (TDS) AND TAX COLLECTED AT SOURCE (TCS)

For sellers, a 25 per cent cut in TDS on e-commerce participants will make e-commerce more attractive for sellers.

Additionally, the cut in TDS on their commissions will immediately provide them with more working capital.

GOODS PRODUCED IN SEZs BY SBRT

According to a clarification released by the DPIIT regarding procurement of products by SBRT from SEZs against the local sourcing norms requirements, they said, "As regards sourcing of goods from units located in SEZs in India, it may be clarified

that sourcing of goods from such units would qualify as sourcing from India for the purpose of 30 per cent mandatory sourcing from India for proposals involving FDI beyond 51 per cent, subject to SEZ Act, 2005,"

ESTABLISHMENT OF HANDHOLDING MECHANISM NAMED "CHAMPIONS" TO ASSIST MSMEs

SBRT aimed at assisting Indian MSMEs to evolve into national and global champions, www.champions.gov.in was launched alongside

a technology driven Control Room-Cum-Management Information System and utilises modern Information that Information and Communication Technology (ICT) tools.

CUSTOMS REFORMS

In the wake of the pandemic, the Central Board for Indirect Taxes and Customs has come forward with a slew of reforms. Many processes including automating procedures,

clearing goods by accepting electronic country-of-origin certificates, and other forms of digitisation have facilitated and expedited customs clearance.

MONETARY RELIEF MEASURES FOR MSMEs

- Collateral free automatic loan stimulus package of USD 40 Bn, ensuring 100 per cent credit guarantee to Banks/NBFCs. This will allow nearly 4.5 Mn MSMEs units to resume business activity.
- Subordinate debt for stressed MSMEs stimulus package of USD 2.6 Bn to help MSMEs which are declared non-performing assets or are financially stressed.
- Equity for MSMEs stimulus package of USD 6.7 Bn to encourage MSMEs to get listed on main board of stock exchange

Road Ahead

India's rapid urbanisation and reforms have given a strong fillip to the growth of retail in the country. A growing, prosperous middle-class, and soaring millennial aspiration has caused a mini retail revolution in the country. Whether it is the entry of multi-brand global giants or the success of home-grown unicorns in everything from apparel and electronics to home and office furnishings, the retail sector is booming.

Both domestic and international retailers are looking to establish footprint in India. Single-brand retailers are increasing store count and planning growth strategies with relaxed FDI norms allowing 100 per cent ownership in this segment and driven by immense consumption potential in the country. Growth in organised and contemporary retail such as malls, multiplexes, shopping and experience centres has attracted large-scale investments in real estate and developing infrastructure for retailing businesses, contributing to the overall growth of the sector.

The boom of e-commerce sector has opened yet another avenue for growth in retail space. The structural shifts in the digital payment space and e-wallets assisted by smart phone penetration, have also played their part in Indians taking to the online shopping space. The Indian e-retail market is primed to reach nearly 300 Mn to 350 Mn shoppers over the next five years, propelling the online gross merchandise value to USD 200 Bn.⁷⁴ India's e-commerce growth will empower both sellers and consumers by democratising the shopping landscape. For sellers, it provides access to a vast consumer base, while the shoppers have access to increased merchandise choice and price transparency while augmenting access and convenience.

Lastly, the present disruption of supply chains across the globe is a golden window of opportunity for India. Many companies are looking to mitigate their sourcing exposure and create a reliable sourcing base. The story of India is rapidly evolving from one of under-realised potential in a large consumption economy to a state-of-the-art global sourcing hub.

Testimonials



WALMART

Dan Bryant, Sr. VP, Global Public Policy and Government Affairs

"The smoothing of obstacles, facilitating to invest more, support in doing business has been evident in every respect, so we are very impressed by India's commitment through Invest India."

Krish Iyer, Former President and CEO

"Over the last year, I've had a few meetings with the CEO of Invest India and his team, and it felt like one corporate talking to the other."



AMAZON INDIA

Amit Agarwal, Sr. VP and Country Manager

"We are very excited about our partnership with Invest India because Amazon at its core is centred on innovation and an organisation such as this is precisely the kind of DNA we look to partner with."



HABA LEARNING

Samriddhi Sharma, MD and CEO

"Invest India helped us get into a roundtable directly with the ministry's executives, where we discussed our issues face to face and got clarifications."



DANUBE HOME

Uday Singh, Manager

"Thanks for all the support extended from you and your team, Ms. Shruti Chandra from the retail team has been very supportive to us during the entire tenure of our set up."

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APPENDIX 1: KEY STAKEHOLDERS TO FACILITATE SOURCING IN INDIA

INDUSTRY ASSOCIATIONS

- Retailers Association of India
- Federation of Indian Chambers of Commerce and Industry (FICCI)
- Apparel Export Promotion Council (AEPC)
- Council for Leather Exports (CLE)
- Handloom Export Promotion Council
- The Sports Goods Export Promotion Council
- Wool Industry Export Promotion Council
- The Cotton Textiles Export Promotion Council (Texprocil)
- Modular Furniture Manufacturers' Association (MFMA)
- Confederation of Real Estate Developers' Association of India (CREDAI)
- World Retail Congress
- The All India Toy Manufacturers' Association (TAITMA)
- The Toy Association of India
- Textiles Association of India
- Indian Home & Personal Care Industry Association
- All India Food Processors' Association
- Indian Leather Products Association
- All India Gem and Jewellery Domestic Council
- Garments Exporters & Manufacturers Association

- Council for Footwear, Leather & Accessories
- Indian Leather Technologists' Association
- CII (Confederation of Indian Industry)
- ASSOCHAM (Associated Chambers of Commerce and Industry)
- Export Promotion Council for Handicrafts (EPCH)
- Federation of Indian Export Organisations (FIEO)
- Project Exports Promotion Council of India
- ICRIER (Indian Council for Research on International Economic Relations)

STATE INVESTMENT PROMOTION AGENCIES (IPAS) AND INDUSTRIAL DEVELOPMENT CORPORATIONS (IDCS)

- Gujarat Industrial Development Corporation (GIDC) & inDEXTb, Gujarat
- Karnataka Industrial Area Development Board (KIADB) and Invest Karnataka Forum, Karnataka
- Kerala State Industrial Development Corporation (KSIDC) and Bureau of Industrial Promotion, Kerala
- Maharashtra Industrial Development Corporation (MIDC), Maharashtra
- State Industries Promotion Corporation of Tamil Nadu (SIPCOT) and Industrial Guidance and Export Promotion Bureau, Tamil Nadu
- Telangana State Industrial Infrastructure Corporation (TSIIC) and Investor Facilitation Cell (Commissionerate of Industries), Telangana
- Delhi State Industrial and Infrastructure Development Corporation (DSIIDC), Delhi
- Invest Haryana (HEPC) and Haryana State Industrial and Infrastructure Development Corporation (HSIIDC), Haryana
- IDCO Go-Plus, Invest Odisha, Odisha
- Punjab State Industrial Development Corporation (PSIDC) and Punjab Investment Promotion Bureau, Punjab
- Rajasthan State Industrial Development and Investment Corporation (RIICO) and Bureau of Investment Promotion, Rajasthan
- Uttar Pradesh State Industrial Development Corporation (UPSIDC), Noida Authority, Greater Noida Authority, Yamuna Expressway Industrial Development Area (YEIDA), Uttar Pradesh

NATIONAL INVESTMENT PROMOTION AND FACILITATION AGENCY

- Invest India



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