BID TO BECOME COMPLIANT WITH ECOMM FDI RULES

Wholesale Makeover Likely for Cloudtail and Appario

Amazon's 2 most prominent sellers may sell to slew of vendors, who will undertake sales to consumers

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Changing Tack

BUSINESS MODEL

Wholesale companies owned by Amazon (Amazon Wholesale) and Flipkart (Flipkart India Pvt Ltd) purchase branded goods in bulk from manufacturers

These products are then sold on Amazon's and Flipkart's marketplaces through preferred sellers offering discounts

AMAZON'S OWNERSHIP

Cloudtail is owned 100% by Prione Business Services which is a 49-51 JV between Amazon and Catamaran India

Appario is a 51-49 JV between Amazon and the Patni Group

Kolkata | New Delhi: Amazon is looking at converting Cloudtail and Appario — two of the most prominent sellers on the platform — into wholesale entities undertaking business-to-business (B2B) transactions in order to be compliant with ecommerce foreign direct investment (FDI) rules that came into effect on February 1.

Cloudtail and Appario, in which Amazon holds 49% each, will then sell to a battery of third-party, preferred vendors that will undertake final sales to consumers, said people with knowledge of the matter.

Category managers at the marketplace are already in the process of identifying preferred sellers for each channel. They will source products from Cloudtail and Appario, according to executives of several brands and suppliers who work with them.

Cloudtail and Appario went off Amazon.in on February 1 since group companies are prohibited from selling through the marketplace under the norms. However, both are selling through Amazon Business in India, Amazon's B2B marketplace in India.

Walmart-owned Flipkart is compliant with the latest norms and hence there has been no major disruption in services, experts said. All products, including platform-exclusive ones, are still available, they added. Wholesale arm Flipkart India Pvt purchases goods from manufacturers and sells to preferred vendors, which make the final sale to consumers. Flipkart has no stake in these preferred sellers.

Products of some leading electronic brands are listed as currently unavailable on Amazon, since they were only sold through Cloudtail and Appario. Amazon's Echo speakers are available but not from Appario as they used to be.

Another executive said Amazon has still not given up on the idea of offloading stakes in Cloudtail and Appario to comply with the revised norms, thus allowing them to sell directly to consumers.

"The legal teams are finalising the correct structure so that the Indian operation is fully compliant as per the new policy," he said. "But the stake sale idea has taken a backseat since the wholesale trading route will be a faster process, compliant with the FDI norms and Amazon will continue to enjoy the value in these two entities which are critical for growth."

Cloudtail and Appario didn't respond to queries. Amazon said it doesn't comment on speculation or on behalf of sellers. The remaining 51% stake in Cloudtail and Appario are held by NR Narayana Murthy's Catamaran Ventures and the Patni Group, respectively.

The government spurned requests by Amazon and Flipkart to extend the February 1 deadline.

The revised policy bars marketplaces and their group companies from having equity participation in any of their vendors and prohibits them from having control over inventory sold on the platforms.

Executives said Cloudtail and Appario have informed brands that their products will be live on the marketplace very soon. Both have also said that they are not cancelling purchase orders due in February and March. Cloudtail hasn't cancelled any orders, said Manmohan Ganesh, chief operating officer of BPL, which is available exclusively on Amazon.

Cloudtail and Appario went off Amazon.in on February 1 since group companies are prohibited from selling through the marketplace under the norms

"We are hopeful to continue selling through Amazon complying with the terms of the new policy," he said.

TV makers TCL and Kodak said they have been assured their products will be live on Amazon soon.

Several brands have also started approaching top third-party sellers on Amazon, Primarc Pecan Retail, to continue selling on the platform. However, the seller is in wait-and-watch mode, said Primarc director Siddharth Pansari.

ET Q&A

SUBHASH CHANDRA GARG
Economic Affairs Secretary

Interim Budget Not Inflationary: Garg

The budget assumes growth of 7.5% next year and builds on the 10-point vision presented earlier, economic affairs secretary Subhash Chandra Garg told **Vinay Pandey**. He expects the full budget in July will be a continuation of the exercise aimed at creating a $10 trillion economy. The dividend and profit figures in the budget do not assume any extra payments that may come from the Reserve Bank of India following the review of its economic capital framework. Edited excerpts:

The speedy decline in inflation had built up rate-cut expectations in the coming policy. However, there is a view that the budget has dented those hopes, given the fiscal deficit...

The budget is not inflationary. The revised numbers are very close to the budget – 3.3% of GDP fiscal deficit is roughly there. So, it doesn't add any draft in that sense where there would be a material impact on inflation because of the budget. So, the Reserve Bank and the MPC (monetary policy committee) will take a decision on the data. But this doesn't seem to change anything adversely to my mind.

Are you going with the working growth assumption of 7.5% for next year?

We have taken nominal growth of 11.5%, 7.5% real and 4% inflation, so we are sticking to it. (For the) current year, the CSO (Central Statistics Office) number suggested (is) 12.2% nominal growth, which was higher than our estimate at 11.5%.

Key reforms like the public-private participation (PPP) policy, monetising public assets... these were ideas that were being discussed. But we haven't seen much progress, private investment is still a concern. What happened there?

PPP policy was not an announcement in the current year but there was monetisation of public assets. DIPAM (Department of Investment and Public Asset Management) has done work on it. I understand they have already prepared a note to approach the cabinet.

What about the PPP policy?

PPP is a difficult subject considering the experience and it would require careful consideration. I think when the new government is there, we should be able to present a much more thought-out PPP policy and whatever changes may be justified. But otherwise, India's PPP program is going on reasonably well. This budget talks about creating infrastructure for 2030. A $10 trillion economy's infrastructure is being talked about. So, we will have to pay a lot of attention on how we construct the infrastructure and much of that would have to be in the private and the PPP mode.

The budget has assumed dividend and profit of ₹1.36 lakh crore. Does it envisage a hefty dividend from the RBI? Is this in the usual course or are you expecting something via the review of the capital framework?

Nothing is assumed on the basis of the review of the economic capital framework because that report is not available. We have estimated only based on what is the current trend the RBI surplus would be. As you know the surplus is required to be transferred to the government in the form of dividend after providing for the necessary reserves and all. So that is what is being reflected.

On stamp duty, how far does the budget proposal go in addressing the issues on financial instruments?

I think this is a very far-reaching and enormously simplifying measure. Today, stamp duty is levied by different states, only the rate is decided by the Centre. Somebody levies on X document, somebody on the Y document, somebody through the stock sales, somebody through other arrangements. So, there is lot of chaos. The mechanism is very simple – something on the lines of the securities transaction tax (STT), in fact simpler than that.

Real Estate Transactions Nailed Kochhars

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Mumbai: Real estate transactions between the Kochhars and the Dhoots of Videocon Group nailed the quid pro quo arrangement between them, said people with knowledge of the matter. These were a key element in the report that found former ICICI Bank chief executive Chanda Kochhar had violated the lender's code of conduct by not disclosing conflicts of interest, they said.

Chanda Kochhar and Videocon Group chairman Venugopal Dhoot denied this. ICICI Bank declined to add anything to comments it has already made on the report it commissioned by retired justice BN Srikrishna.

It said the relationship between the two families was a longstanding one that began before Chanda Kochhar became CEO of ICICI Bank in 2009. The Kochhars' residence at CCI Chambers, opposite the Cricket Club of India, in south Mumbai, is said to have been bought from the Videocon Group in a complex transaction in the mid-1990s. The apartment was purchased through Credential Finance, a financial services firm established by Deepak Kochhar, Chanda Kochhar's husband, and his brother Rajiv Kochhar. The Videocon Group too had a stake in Credential Finance, according to the report.

"One of the main findings of the enquiry report has been linking their relationship (Kochhars and Dhoots). The relation went a long way back, when they acquired their residential flat from parties linked to the Videocon Group," said one of the persons cited above. "The report is quite detailed covering all the laws and talks about preponderance of probability and said such serious lapses — not informing the bank about conflict of interest with regard to Dhoots/Videocon Group — can't be made by a person holding a senior position."

Chanda Kochhar said there was no such involvement.

"The flat at CCI Chambers was conveyed from Bilquis Jahan Begum to Deepak Kochhar and his brother in February 1996," she told ET. "Since then, Deepak Kochhar has been the owner and occupant till date. The conveyance deed and share certificate reflect the same."

Venugopal Dhoot also denied being part of the deal.

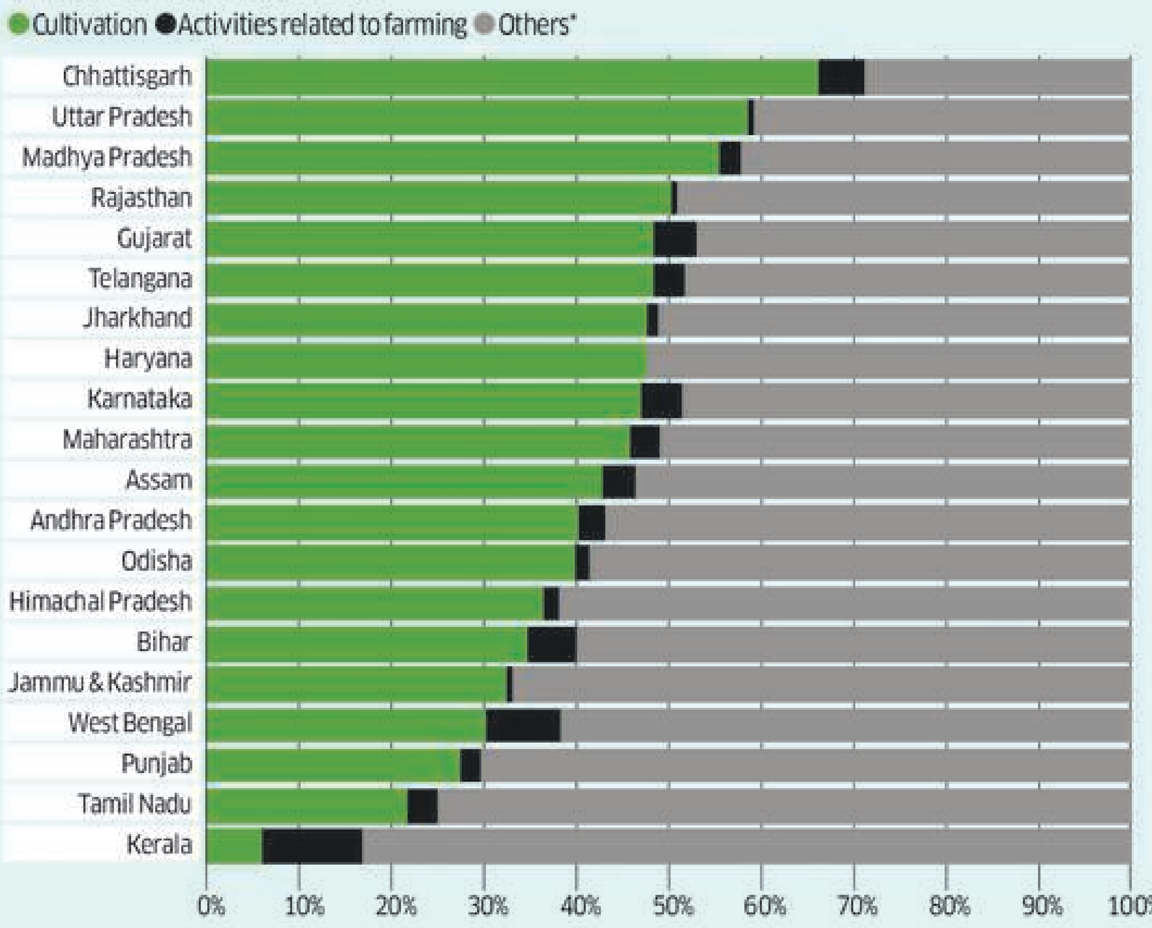
"It (the flat) was owned by the Kochhar family from the beginning and we never ever had any ownership or other interest in the said flat," he told ET.

ET GRAPHICS

Hindi Belt Main Target of PM-KISAN

NDA's budget announcement of Rs 6,000 cash transfer programme will mainly benefit marginal and small farmers in Hindi-belt states – Uttar Pradesh, Madhya Pradesh, Chhattisgarh, Rajasthan, Jharkhand and Haryana – all of which are electorally key for BJP. A ranking of states by proportion of agricultural households shows the scheme will be somewhat important in Bihar and West Bengal. It may not have much of a coverage in Tamil Nadu and Kerala, where the saffron presence anyway is negligible. Here's a look...

% HOUSEHOLD SELF-EMLOYED IN



% OF HOUSEHOLDS BY SIZE OF HOLDING

	Marginal	Small
Chhattisgarh	61.29	21.43
Uttar Pradesh	83.52	8.36
Madhya Pradesh	61.25	17.83
Rajasthan	57.45	18.81
Gujarat	63.07	12.3
Telangana	70.59	14.37
Jharkhand	88.77	6.34
Haryana	73.43	11.06
Karnataka	62.2	15.35
Maharashtra	55.9	16.66
Assam	72.67	14.85
Andhra Pradesh	68.18	9.09
Odisha	85.48	6.83
Himachal Pradesh	76.06	7.49
Bihar	89.02	3.87
Jammu & Kashmir	88.77	6.34
West Bengal	90.53	2.44
Punjab	74.91	7.88
Tamil Nadu	82.01	5.19
Kerala	86.41	3.32

* Others: households engaged in livestock farming, non-agriculture activites, wage earners

Source: Household Ownership and Operational Holdings in India

SEPARATE REGULATOR UNLIKELY

FDI Norms to Feature in E-Business Policy

FINAL TOUCHES DPIIT to meet with stakeholders including those opposed to tighter FDI rules, which kick in from Feb 1

Changed Dynamics

DIPP had in December barred marketplaces from selling products from sellers in which they have an equity interest and from entering into a deal with any brand to sell products exclusively

Norms also stipulate that inventory will be deemed to be controlled by the marketplace if more than 25% of the vendor's purchases are from the marketplace entity, including its wholesale unit

The opposition

Amazon, Flipkart, American Chamber of Commerce in India, Internet and Mobile Association of India and the US-India Strategic Partnership Forum have opposed the norms

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New Delhi: The upcoming policy to govern the country's ecommerce is unlikely to provide for a separate regulator for the sector but will incorporate the recently updated foreign direct investment (FDI) norms. The Department for Promotion of Industry and Internal Trade (DPIIT) will hold a meeting with stakeholders including those companies and groups that were opposed to the tighter FDI guidelines, which became effective February 1, before finalising the policy. The government had turned down demands for an extension of the deadline.

"We will have a stakeholder meeting soon where FDI issues would be discussed. However, we are not sure if a separate regulator will be setup for ecommerce," said a senior official aware of the details. The DPIIT, which was until recently the Department of Industrial Policy and Promotion (DIPP), has been made responsible for the promotion of internal trade, including retail trade and welfare of traders and their employees, which was the mandate of the consumer affairs ministry earlier.

In September last year, it was made the nodal department for the government's ecommerce initiatives.

"With both ecommerce and retail trade in the department's ambit, another agency is not required to regulate the sector," said another person with knowledge of the details.

A draft ecommerce policy released last year had called for a regulator for the sector.

However, the recently tightened FDI rules will make it to the policy along with more clauses to plug any loopholes that may be exploited by online platforms to engage in multi-brand retail.

DIPP had issued a Press Note in December barring marketplaces from selling products from sellers in which they have an equity interest and from entering into a deal with any brand to sell any product exclusively on their platforms.

REPLY SOUGHT IN 10 DAYS, DATA WILL BE SHARED WITH GOI EVEN WITHOUT CLIENT CONSENT

Swiss Tax Letters Leave Indians in HSBC List in a Catch-22 Situation

Giving consent to send info to Indian authorities would be admission of guilt, no reply would make it tough to prepare defence strategy

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Mumbai: After many twists and turns, the story of Swiss accounts of Indian clients of HSBC Geneva has now entered the last lap.

Since last week, the Swiss Federal Tax Administration (FTA) has started shooting letters to these customers, seeking their consent — an old ritual under the Swiss law — before revealing their account information to Indian authorities.

At least four persons — including a diamond merchant, a wholesale trader, and people controlling mid-sized manufacturing companies — have till now received the Swiss FTA communiqué, a source aware of the development told ET.

They will have to respond in ten days. The development has put these people in a Catch-22 situation. "The information would reach India sooner or later. If they give their consent, it would be an admission of their guilt of holding undisclosed funds in Swiss accounts. But, if they don't, they would find it difficult to prepare their defence strategy as they would not know the nature of information which is shared with India," said another person specialising in cases related to offshore accounts.

Once consent is given, the data would be immediately passed on to the Indian income tax department as well as shared with the customer. However, even information on customers who do not give consent would be disclosed after it is recorded in the Swiss official gazette.

The policy to obtain customer consent owes its origin to a decision in 1713 when the Great Council of Geneva restricted banks from disclosing information of clients — a code that had transformed Switzerland into a fortress of secrecy.

Indians who had sensed the brewing trouble early and were smart enough to close their accounts before April 1, 2011 may eventually escape the glare. "No Swiss bank will share information on accounts which have ceased to exist before the date the information sharing agreement between Switzerland and India came into effect," said the source.

Till now, most Indian accountholders had put up the defence that the information based on which the tax authorities conducted raid on them, reopened assessment, and claimed tax on the 'undisclosed income' in HSBC accounts was stolen data – that reached India from France after a computer technician of HSBC Geneva had walked away with reams of confidential client information.

That defence is now on a comparatively shaky ground. The letters from FTA are a consequence of the Swiss apex court decision that information can be shared as long as the stolen information matches with the real information.

Indians who had sensed the brewing trouble early and were smart enough to close their accounts before April 1, 2011 may eventually escape the glare

"Many cases are before the appellate body with assesses contesting the department's stand. The department had initiated action as the cases would have become time-barred. In most cases, the I-T department did not find any incriminating document in the course of raid, but simply added the amount mentioned in the HSBC leaked document to reopen assessment. The account holders are likely to insist on their right to cross-examine the original source," said a tax practitioner.

"Also, if funds had been withdrawn or moved elsewhere before April 1, 2011 and the amount lying in an account post that date is significantly smaller, they would question the I-T department's claim which may be based on the peak amount in the account," said a person.

However, if any new information is shared by Switzerland, the government may invoke the new harsh laws against black money and laundering to go the once prized clients of HSBC.