Walmart Has New Passage to India --- Retailer joins others for 75% stake in online marketplace Flipkart; Alphabet also on board

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FULL TEXT

Walmart Inc.'s battle with Amazon.com Inc. is heading to India.

Walmart is leading a group that will invest about $15 billion for a roughly 75% stake in Flipkart Group, India's largest e-commerce company, according to people familiar with the matter. Google parent Alphabet Inc. is planning to invest in Flipkart as part of the deal, other people familiar with the situation said.

It would be a big bet by Walmart that India will be a source of growth at a time when Amazon is gaining ground in the country.

Flipkart, which was started by two former Amazon employees in 2007, has already raised billions from investors including SoftBank Group Corp., Tencent Holdings Ltd., and Microsoft Corp. It sells everything from sofas to shoes to smartphones.

Flipkart's board has approved the transaction, which values the startup at $20 billion before the investment, one person said. Walmart would control the company if the deal is completed, the person said. Flipkart said it was valued at $11.6 billion in a funding round in April 2017.

Bloomberg earlier Friday reported that Walmart was near a deal and its terms.

The agreement would be Walmart's largest deal since its purchase of U.K. retailer Asda for $10.8 billion in 1999. On Monday, Walmart said it had agreed to sell Asda to a U.K. supermarket rival, raising almost GBP 3 billion ($4 billion) in cash. Walmart is also in talks to sell a controlling stake in its Brazil operations, people familiar with the matter have said.

The potential Flipkart deal opens another front in Walmart's battle with Amazon as it also invests heavily to grow online in the U.S., where it earns the majority of sales. Walmart for years has grown slowly in India with stores and held talks with Indian e-commerce startups that didn't lead to an investment.

In part, Walmart's move is defensive. Though online buying makes up a small percentage of the Indian retail landscape, it is expected to grow quickly. Amazon founder

Jeff Bezos has pledged to invest $5 billion in India, and the U.S. titan has made rapid gains against Flipkart since its 2013 launch.

"We estimate that India makes up a material portion of the 'other' international retail business, which is expected to drive 30% of Amazon's total retail revenue growth over the next 3 years," Brian Nowak, an analyst at Morgan Stanley, said in a recent note on the potential deal. For weeks, there have been reports out of India on a possible hookup between Walmart and Flipkart.

Walmart executives have indicated they plan to compete in the country. "India is a market, over time, that I think, whether it's 10 years, 20 years, 30 years from now, we'll be glad we're in India, and I think there's a lot of growth opportunities there," Walmart finance chief Brett Biggs said last summer. Walmart CEO Doug McMillon said India is a key growth market for the company, along with North America and China, during a February earnings call.

Unable to sell products directly to consumers because of tight regulations, Walmart first opened wholesale outlets in India in 2009. To date, it has opened 21 Best Price wholesale stores, with plans to open 50 more. The member-only stores resemble U.S. warehouse chains like Costco and Sam's Club, but are only open to licensed businesses owners in compliance with government regulations.

As Walmart's store footprint grew slowly, India's e-commerce startups proliferated. In 2011, Walmart executives traveled to India to talk with several such startups about the market, including Snapdeal.com, another large e-commerce retailer, said a person familiar with Walmart's efforts.

Then in 2016, as Amazon rapidly grew in India and local players sparred for funding, Walmart spoke with Flipkart about a potential investment.

The total Indian retail market accounts for more than $800 billion a year in sales and is headed north of $1 trillion in the next two years, according to research firm Forrester.

But most of the sales are fragmented between small mom-and-pop retailers and brands. Marks &Spencer, Zara, H&M and others global brands have set up physical shops. IKEA says it will open in India soon. These retailers are allowed in because they only sell their own products. Foreign-owned companies aren't allowed to sell others' brands.

Online retail, however, provides an opening. Amazon gets around restrictions by acting as a marketplace only. Its website sells third-party products.

Amazon is now the second-largest Indian e-commerce company after Flipkart by sales, kicking Snapdeal off that perch, according to some analysts. Softbank, an investor in both Flipkart and Snapdeal, had pushed the two homegrown firms to merge last year without success.

A Walmart investment in Flipkart would show "further consolidation of the forces against Amazon," said Satish Meena, an analyst at Forrester. Flipkart last year raised $1.4 billion from Microsoft, eBay Inc. and Tencent. In August it raised about $2.5 billion from SoftBank.

Online retail in India is small compared with other markets like China and the U.S., but it is expected to grow quickly as shoppers become more comfortable paying online. Online retail in India was worth about $20 billion last year but should rise to $35 billion by 2019, according to Forrester.

"It makes sense for both Flipkart and Walmart," Mr. Meena said of a potential deal. Flipkart would benefit from

Walmart's experience in brick-and-mortar retail.

Newley Purnell contributed to this article.

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DETAILS

Subject:	Retail stores; Discount department stores; Startups; Electronic commerce
Location:	United States--US India North America United Kingdom--UK China Brazil
People:	McMillon, Douglas Bezos, Jeffrey Biggs, Brett
Company / organization:	Name: Alphabet Inc; NAICS: 551114; Name: Microsoft Corp; NAICS: 334614, 511210; Name: Morgan Stanley; NAICS: 523110, 523120, 523920; Name: Walmart Inc; NAICS: 452112, 452910, 454111; Name: Amazon.com Inc; NAICS: 334310, 454111, 518210; Name: Costco Wholesale Corp; NAICS: 452910; Name: Sams Club; NAICS: 452910; Name: Tencent Holdings Ltd; NAICS: 517210; Name: Marks &Spencer PLC; NAICS: 445110, 452111; Name: Google Inc; NAICS: 334310, 519130; Name: Snapdeal.com; NAICS: 454111; Name: eBay Inc; NAICS: 454112
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