



A comparison of developments in Franchise law

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Franchise law in India: bridging legal gaps

Franchising as a form of business ownership has transformed the retail sector of India, which has for generations been dominated by family-owned stores. Once viewed merely as a gateway for the entry of international brands to India, franchising has evolved into a profound instrument for growth that bridges the gap between traditional trade and modern retail.

The sector today contributes to nearly 2% to India's GDP with more than 200,000 outlets employing 5.5 to 6 million people. Franchises continue to grow in smaller cities and towns, capturing tier II and III markets. Growing at an impressive 30-35% annually, India's franchise industry is currently valued at USD47-48 billion and is projected to reach USD140-150 billion by 2028. But these raw figures mask a deeper shift.

What began as a gateway for Western brands has evolved into a strategic tool for Indian businesses to scale up while preserving local relevance. Today's franchise networks span an improbable range, from medical testing centres to traditional medicine retailers, and cloud kitchens to education providers.

The model's appeal lies in its ability to solve a uniquely Indian challenge: how to scale businesses in a market where consumer preferences and business practices vary dramatically across regions. By combining standardised operations with local market knowledge, franchising offers a middle path between the informality of traditional trade and the rigidity of corporate chains. Remarkably, this expansion has taken place without dedicated franchise laws or regulators, relying instead on mutual adaptation and trust between franchisors and franchisees.

To understand where Indian franchising is headed, it helps to examine how the sector has evolved, what rules govern it, and why it matters.

Legal framework

The evolution of franchise law in India presents an intriguing interplay between judicial interpretation and statutory provisions. In *McDonald's India Private Limited v Vikram Bakshi*, Delhi High Court confronted fundamental questions about arbitration, jurisdiction and international franchise agreements. The court's analysis established that anti-arbitration injunctions warrant exceptional



circumstances, marking a departure from earlier approaches that readily entertained challenges to international arbitration.

This judicial framework operates against a backdrop of statutory provisions. While India lacks dedicated franchise legislation, the sector operates under multiple laws. The Indian Contract Act 1872 governs basic obligations. The Consumer Protection Act 2019 holds franchisors accountable for product and service standards. The Competition Act 2002 prevents restrictive practices in franchise agreements, from territorial limits to pricing controls.

International franchises face additional requirements. The Foreign Exchange Management Act regulates royalties and franchise fees. Recent court interpretations have clarified when Indian courts can intervene in international franchise disputes, primarily when agreements are void or incapable of performance, not merely because litigation might be more convenient in India.

Data protection presents fresh challenges. The pending Data Protection Bill will likely impose stricter requirements on customer data handling, particularly affecting franchises in healthcare and financial services. Intellectual property protection has also gained importance as franchises expand into smaller markets where enforcement becomes more difficult.

Recent reforms in foreign investment rules and tax administration have simplified operations. Yet gaps remain in quality control standards and dispute resolution mechanisms.

Policy reform

India's policy reforms in franchising tell two stories: one of systematic barrier removal, another of financial access expansion. The government's success in streamlining business processes shows in India's Ease of Doing Business ranking, a climb from 142nd in 2014 to 63rd in 2020 in the World Bank's assessment.

The introduction of the National Single Window System marks a shift from India's traditionally fragmented regulatory approach. Where businesses once needed to approach multiple departments for approvals, a single digital interface now handles clearances, particularly valuable for franchise networks managing multiple outlets.

The numbers show the impact. Between 2014 and 2024, India attracted USD667.4 billion in FDI, a 119% increase from the previous decade. Manufacturing alone drew USD165.1 billion in equity inflows. These figures reflect deeper changes in India's investment climate, with liberalised FDI norms now allowing 100% foreign investment through automatic routes in most sectors.

The Jan Vishwas Act of 2023 addresses a longstanding business concern. By decriminalising minor regulatory violations, the act reduces compliance risks for franchise operations. This reform particularly benefits multi-unit franchisees who previously faced potential criminal liability for



technical breaches across their networks.

Recent initiatives focus on capital access. New MSME policies help franchisees secure bank financing. The government's push to recapitalise public sector banks has increased lending capacity, while specialised loan programmes target franchise expansion. The Startup India programme, with its recognition of more than 140,000 startups, has created new pathways for innovative franchise models.

These changes reflect a shift in regulatory philosophy. Rather than controlling business operations, policy now aims to enable growth while maintaining necessary oversight. For franchising, this means simpler establishment procedures, clearer operational guidelines and better access to growth capital.

Rise of small-format franchising

India's franchise revolution is unfolding far from urban centres. In small towns, neighbourhood tea stalls transform into branded chains, local diagnostic labs standardise their operations, and educational centres adopt systematic teaching methods while maintaining their community connections.

Franchise adoption in smaller markets stems from local entrepreneurial adaptation rather than corporate strategy. Small business owners, recognising the benefits of standardisation and brand recognition, have modified franchise models to suit their markets. With lower investment thresholds and simplified operating procedures, these micro-franchises make organised retail accessible to a broader entrepreneurial class.

Financial services offer clear examples of this adaptation, with networks using physical outlets backed by digital tools to expand market reach. Retail franchises have developed models that maintain local connections while standardising core operations.

Rather than following established corporate models, these businesses create hybrid systems that combine organised retail's efficiency with local market understanding. Their success suggests that India's franchise future may lie not in replicating large chains but in adapting the model to serve smaller markets effectively.

Emerging issues in franchise operations

The core challenge in franchise operations stems from India's sectoral regulations. Take data protection: franchisors not only need to comply with impending legislation but must also navigate sector-specific rules.

Healthcare franchises, for instance, must reconcile telemedicine guidelines with franchise data



sharing practices. The proposed Digital Personal Data Protection Bill will add requirements for cross-border data transfers, a critical issue for international franchise networks managing customer data across jurisdictions.

Contract construction has gained complexity with technological integration. Courts must interpret traditional franchise clauses considering new business models. When does a mobile app's geolocation feature violate territorial exclusivity? How do cloud kitchens affect non-compete obligations? Such questions require fresh legal analysis as digital operations blur traditional franchise boundaries.

Regulatory overlaps create tension. A franchise might comply with FEMA guidelines on royalty payments yet face Competition Commission scrutiny over the same fee structure's market impact. Similarly, while the Consumer Protection Act creates direct liability for franchisors, the extent of this liability remains untested when franchisees use independent technology platforms for delivery or customer service.

The interplay between state and central regulations adds another dimension. Food safety standards, shop establishment laws and local trading licences vary by state. These variations affect how franchise agreements can standardise operations while ensuring local compliance. Professional service franchises face additional complications when state regulations govern service delivery, as with healthcare or education franchises navigating different state regulatory frameworks.

Maintaining uniform standards across diverse regulatory environments while allowing necessary local adaptations likely means creating more sophisticated legal structures that can accommodate both standardisation and flexibility.

The next legal frontier

Franchising forces courts to reconsider fundamental concepts of agency, control and liability in an era where business relationships defy traditional categories.

Traditional principles of vicarious liability strain when applied to modern franchise operations that blend standardisation with autonomy. Competition law must reconcile network effects with market efficiency. Intellectual property protection faces new challenges when brand value derives not just from trademarks but from data-driven customer relationships and algorithmic business insights.

These tensions suggest that India's next phase of commercial law development may emerge from franchise disputes. As courts grapple with these cases, they must develop doctrines that balance standardisation with market adaptation, central control with local autonomy, and brand protection with competition.

The principles emerging from these cases will echo beyond franchise law, influencing the broader



development of commercial jurisprudence.



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