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India

Franchise & Licensing

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This country-specific Q&A provides an overview of franchise & licensing laws and regulations applicable in India.

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India: Franchise & Licensing

1. Is there a legal definition of a franchise and, if so, what is it?

India has had no standalone franchise statute and does not currently have a statutory definition of a franchise. For completeness, the erstwhile Finance Act 1994 (since repealed) did define franchise (albeit in the context of service tax) to mean an agreement by which the franchisee is granted the representational right to sell or manufacture goods or to provide service or undertake any process identified with a franchisor, with respect to any trademark, service mark, trade name, logo, etc. Franchisor was defined as any person who enters into a franchise arrangement with a franchisee and the term franchisee was construed accordingly. These definitions are not in the law relating to the goods and services tax.

In practice, parties document a franchise as a bundle of contractual rights and obligations, including a licence to use trademarks, trade dress/look and feel business format and know-how, and other intellectual property and access to continuing support and quality control, franchisee conduct and performance, and payment of consideration to the franchisor as royalties or fees. The franchisee would also procure goods from the franchisor (or authorised suppliers), or the right to manufacture them, for resale as part of the franchise business.

The governing law of the franchise contract where the franchisor is non-resident Indian will often be that of a common law jurisdiction. Where both parties are Indian residents' contractual rights and obligations would be governed by Indian laws, with the (Indian) Contract Act 1872 supplying the principal framework for formation, performance, breach and remedies.

The arrangement may be supplemented where applicable by the Sale of Goods Act 1930, Trade Marks Act 1999, Copyright Act 1957, Designs Act 2000, Competition Act 2002 (as amended by the Competition (Amendment) Act 2023), Consumer Protection Act 2019, income tax and GST (Goods and Services Tax) legislation, the Foreign Exchange Management Act 1999 (FEMA) and the Digital Personal Data Protection Act 2023 (DPDP Act). E-commerce arrangements add a further regulatory layer comprising the Consumer Protection (E-Commerce) Rules 2020 as amended in 2026 and foreign direct investment (FDI) conditions. The Consumer Protection (E-Commerce) Rules 2020, as amended in 2026 are

particularly relevant to marketplace and direct-to-consumer franchise models alongside the applicable requirements concerning e-commerce entities, seller and product disclosures, consumer grievance redressal, and protection against unfair trade practices and dark patterns. The Guidelines for Prevention and Regulation of Dark Patterns, 2023 further regulate deceptive interface and consumer-choice practices on digital platforms. The Bharatiya Nyaya Sanhita 2023 (which replaced the Indian Penal Code from 1 July 2024) and the Bharatiya Sakshya Adhiniyam 2023 (which replaced the Indian Evidence Act from 1 July 2024) may also be relevant to fraud, forgery, evidentiary standards and criminal liability in franchise disputes.

The label is not determinative. Courts and regulators will look at substance, including whether the franchisee runs as a principal an independently owned business under the franchisor's brand, the franchisor meaningfully provides a service by supplying its brand, systems, and standards, and whether the consideration lends itself properly to the relationship. Accordingly, parties will typically describe themselves as independent contractors, allocate operational responsibilities and risk and rewards expressly and ensure practice matches the contractual framework.

Further, while no franchise-specific approval, disclosure filing or registration is required, underlying laws that may be applicable to the relevant business are to be complied with such as those relating to shops and establishments, packaging, product safety, local municipal laws, consumer protection, intellectual property, GST, FEMA and data-protection.

This overall flexibility places a premium on careful drafting and regulatory analysis.

2. Are there any structuring considerations for foreign franchisors (e.g. use of master franchisees, local presence requirements)?

Foreign franchisors need not establish an Indian entity merely to grant a franchise, and (subject to the scope and nature of the involvement of a foreign franchisor in the local operations) there is no general local-presence requirement. The preferred approach depends on and is selected by reference to parties' control, capital, tax,

regulatory and litigation objectives. Of course, from an operations' perspective a local presence may be opted for where a foreign franchisor intends to engage in a broader role to support the franchise operations locally (such as back-office support or 3PL/fulfilment services).

Common models are: (i) Indian subsidiary or joint venture: used where the foreign brand seeks to partly fund the business and exercise and have direct and greater management and visibility over operations, customer experience, supply chain and expansion; (ii) Master franchise or area-development: an Indian partner develops and operates the business and may, where permitted, appoint sub-franchisees; (iii) Direct unit franchising: the foreign franchisor contracts directly with individual Indian franchisees; (iv) Brand licence, distribution and services arrangements: the Indian partner operates the business while the foreign franchisor licenses its trademarks, know-how and operating system.

In the first model where the foreign brand owner takes equity in the Indian operating entity, at the threshold the structure must be tested against India's FDI policy. The interplay between FDI policy and franchise structuring is felt most acutely in the retail sector. Single-brand retail trading permits 100% FDI under the automatic route, subject to the 30% domestic sourcing requirement for FDI exceeding 51%, which works well for mono-brand fashion, eyewear and cosmetics concepts. On the other hand, multi-brand retail formats, such as international department store chains or beauty multi-brand retailers, face the 51% FDI cap under the government approval route, together with conditions regarding minimum investment, back-end infrastructure and sourcing from Indian MSMEs. Separately, cash-and-carry or wholesale trading and the marketplace model of e-commerce have separate 100% automatic-route frameworks, each subject to its own conditions, while an inventory-based e-commerce model is treated differently.

In fact, many international multi-brand retail concepts have entered India through franchise or brand-licensing arrangements precisely to navigate these FDI constraints, with the Indian franchisee holding 100% of the operating entity's equity while the foreign brand earns royalties and licensing fees. The royalty and fee structure must comply with FEMA's current account transaction framework, and transfer-pricing documentation is critical given the global profile of these brands and the scrutiny that high-value trademark licence arrangements attract from Indian tax authorities.

In all models, the franchise agreement itself will have robust do-s and don'ts (increasingly for both parties, especially as an increasing number of Indian franchisees

are large enough and experienced corporate houses). The franchise agreement becomes more critical however in a master franchise arrangement where typically the franchisor will not have privity with the last-mile sub-franchisee but is keen to have the business operate properly. The franchise agreement would thus operate to provide franchisor rights and protections over the business through the master franchisee itself, including as to approvals for appointment of sub-franchisees, their sites, brand use, training, suppliers, data, audit and termination. Again, sophisticated agreements must be in place ensuring not only enforceability of rights and protections but also providing for consequences of violations including cross-defaults and the fate of the sub-franchise or indeed the franchisee network.

In certain cases, including in the models discussed above, the intellectual property owner may also run regional franchise business through their local/regional subsidiary wherein the local/regional subsidiary obtains rights from the intellectual property owner to enter into franchise agreements, and thereafter contracts/sub-licenses the intellectual property to the local Indian franchisees. In such situations, global tax structures may require careful consideration with royalties involved.

3. Are there any requirements that must be met prior to the offer and/or sale of a franchise? If so, please describe and include any potential consequences for failing to comply.

No franchise-specific pre-offer qualification, disclosure document or governmental approval is required. The general rules on free consent, fraud and misrepresentation under the (Indian) Contract Act 1872 would of course apply. Sales materials, financial projections and statements about outlets, territory, returns or support must therefore be accurate and capable of substantiation.

Before offering or opening a franchise, the franchisor typically confirms that it owns or is authorised to license the relevant marks, know-how, software and other intellectual property. Additionally, the proposed business must be capable of operating lawfully in the relevant state and sector. Food, retail, consumer products, advertising, fire, building, labour, import and local municipal requirements may apply even though they are not franchise-specific. Accordingly, the preferred approach is to complete this rights and regulatory review before the franchise is marketed or the outlet is opened.

Failure to comply does not create a standalone franchise penalty. That said, it can lead to rescission, restitution,

damages, injunctions or contractual claims, and misleading sales conduct may also constitute an unfair trade practice under the Consumer Protection Act 2019. The relevant regulator can also act under sectoral legislation and the absence of a franchise disclosure regime therefore does not eliminate general-law exposure. Ergo, a disciplined pre-offer process remains important even without a franchise disclosure document regime.

4. Are there any registration requirements for franchisors and/or franchisees? If so, please describe them and include any potential consequences for failing to comply. Is there an obligation to update existing registrations? If so, please describe. Are there any practical or timing implications (e.g. typical registration timelines, delays in practice)?

There is no central franchise register or periodic franchise filing. Franchisees may operate as a company, LLP, partnership or proprietorship, subject to the rules for that form.

Separate registrations may be needed for the franchise business, including GST, state shops and establishments, local trade and municipal permissions, FSSAI for food businesses, Legal Metrology registrations, import-export registrations, labour and social-security registrations, and fire or premises approvals. The list varies by state, outlet activity and premises. It is also advisable for the franchisor to obtain trademark and other intellectual property registrations for the intellectual property to be licensed (discussed below). Additionally, in case of registered trademark(s), a trademark licence may be recorded through the registered-user mechanism in Section 49 of the Trade Marks Act 1999; recordal is not a condition to franchising but can improve evidentiary and enforcement certainty, in certain cases. From a practical perspective, the parties should distinguish registrations required for the business from any optional IP recordal.

The execution of a franchise agreement is subject to levy of stamp duty on a State-specific basis in India. If the documentation grants or leases an interest in immovable property, registration and additional stamp or registration requirements may arise. The parties should check whether manuals, security documents or guarantees require separate stamping, since those documents can affect implementation and enforcement.

That said, since there is no franchise filing, there is no standard statutory timeline or update filing for a franchise

system. In practice, company, GST and basic local registrations may be obtained relatively quickly, whereas trademarks, FDI reporting, premises approvals and food or sector licences can create lead times. Where there is a change in the constitution, legal name, ownership or other material particulars of the franchisee, the franchisee should assess and, where required, update or amend its existing registrations, licences, tax records and other regulatory filings within the applicable statutory timelines. Accordingly, changes to corporate details, registered-user records, tax registrations, licences or FEMA filings should be updated when the relevant statute requires it. The timing analysis is therefore driven by the underlying business and regulatory approvals, not by a franchise-registration process.

5. Are there any disclosure requirements (franchise specific or in general)? If so, please describe them (i.e. when and how must disclosure be made (is there a minimum disclosure period before signing or payment (e.g. cooling-off period)), is there a prescribed format, must it be in the local language, do they apply to sales to sub-franchisees) and include any potential consequences for failing to comply. Is there an obligation to update and/or repeat disclosure (for example in the event that the parties enter into an amendment to the franchise agreement or on renewal)? What are the consequences of late or incomplete disclosure?

No. India does not have a franchise-specific pre-contractual disclosure regime. There is no requirement to provide a prescribed franchise disclosure document, observe a minimum disclosure or cooling-off period, use a prescribed format or language, or make separate disclosure in the case of sub-franchising. There is also no franchise-specific obligation to update or repeat disclosure on an amendment or renewal.

However, general principles under the (Indian) Contract Act 1872 apply. A franchisee may challenge an agreement where its consent was induced by fraud or misrepresentation. While mere silence does not ordinarily constitute fraud, liability may arise where there is a duty to disclose or where silence is equivalent to a representation. Any information provided—including projections, presentations or sales materials—should therefore not be false, misleading or presented as a half-truth. Material inaccuracies should be corrected before signing.

There is no standalone penalty for late, incomplete or omitted disclosure. That said, if the omission or inaccuracy induced the franchisee to contract, the franchisee may seek rescission, restitution, damages or other contractual remedies. Consumer-protection remedies may also apply, although a conventional commercial franchisee may not qualify as a "consumer".

In case of trademark registered user agreements (i.e. license agreements registration) under Section 49 of the Trade Marks Act 1999, the Registrar of Trade Marks may demand additional information of the license granted including the manner in which the trademark owners intend to maintain control over the licensee/franchisee particularly quality control.

6. If the franchisee intends to use a special purpose vehicle (SPV) to operate each franchised outlet, is it sufficient to make disclosure to the SPVs' parent company or must disclosure be made to each individual SPV franchisee?

In the absence of a franchise disclosure regime (as described above), there is no statutory rule requiring disclosure to a parent entity rather than to each operating SPV. As a threshold matter, the use of a dedicated SPV for each franchised outlet is not mandatory under Indian law and is only one of several approaches which are commonly adopted by the contracting parties. In practice, Indian franchise operators may (i) incorporate a separate SPV for each brand or outlet format (which is typical for multi-brand retail operators managing distinct franchise relationships with different international franchisors), (ii) house all franchise operations under a single operating entity (which is common where the operator runs multiple outlets of the same brand or where the promoter prefers administrative simplicity and consolidated compliance), or (iii) use a hybrid model with one SPV per brand but multiple outlets within each SPV. The choice is driven by liability ring-fencing objectives, the franchisor's requirements, tax and GST structuring, FEMA considerations (where foreign investment is involved) and the operator's own corporate governance preferences.

However, to add, where an SPV structure is adopted, the master franchise agreement typically sits at the parent or promoter level, with each SPV entering into a sub-franchise or unit franchise agreement that flows down brand standards, the IP licence, audit rights and termination triggers. In such cases, the parent receives the group-level business model and financial projections, while each SPV reviews and executes its own outlet-specific agreement covering fees, territory, operating

obligations, data arrangements and liability allocation. Parent guarantees, keep wells and cross-default arrangements are documented separately. On the other hand, where all outlets are housed in a single entity, the contracting and disclosure process is considerably simpler: the single franchisee entity receives all disclosure directly and executes the franchise agreement in its own capacity, and there is no need for separate SPV-level board approvals, KYC or stamping.

Where the SPV model is used, relying solely on parent-level disclosure and execution creates avoidable risks: an SPV may contend that it did not independently rely on the information, that its board did not separately authorise the transaction, or that outlet-specific facts (such as territory restrictions, capex obligations or local regulatory conditions) were not disclosed to it. These risks are heightened where SPVs are incorporated after the master agreement (which is common in phased roll-outs) and where different SPVs are held by different investor groups within the promoter family. Accordingly, separate board approvals, KYC, stamping and signed acknowledgements at each SPV level remain standard in well-structured franchise entries, regardless of whether the commercial terms were negotiated at the group level.

7. What actions can a franchisee take in the event of mis-selling by the franchisor? What are the main legal grounds for such claims (e.g. misrepresentation, statutory disclosure breaches, unfair commercial practices)? To what extent can liability be excluded or limited by non-reliance or entire agreement clauses or disclaimers in the franchise agreement, disclosure document or sales material?

As between a franchisor and franchisee, this would largely be governed by the contractual terms read with the governing law of contract. Typically, the negotiated contract will itself provide for consequences for various events and will limit applicability of other consequences for the same events under law.

In a contract governed by Indian law, a franchisee alleging mis-selling may under the (Indian) Sale of Goods Act 1930 seek specific remedies based on whether the mis-selling breaches a "Condition" (vital to the contract) or a "Warranty" (collateral to the contract). For example, if the franchisor delivers goods that fail fundamental criteria (such as fitness for a specific purpose or matching the sample), the franchisee may reject the shipment, rescind that part of the contract, and demand a full refund. On the other hand, if the warranty is breached

or goods accepted are defective, the franchisee may sue the franchisor for diminution or extinction of the price, or file a separate claim for damages caused by the breach.

The franchisee may also rely on fraudulent misrepresentation under the (Indian) Contract Act 1872, innocent or negligent misrepresentation, and the contractual and statutory remedies that follow for voidable contracts and remedies for breach. The claim may concern false statements, an unsubstantiated earnings projection, concealment of a material fact where there was a duty to speak, or a sales presentation that conveyed a materially misleading overall impression. From an enforceability perspective, the substance of the sales process matters more than the label applied to the material. Accordingly, contemporaneous evidence of what was said and provided remains important.

The Consumer Protection Act 2019 may provide an additional route where the claimant and transaction fall within the statutory definition of consumer, and it addresses unfair trade practices, misleading advertisements and unfair contract terms. A commercial franchisee taking services for a commercial purpose may face limits on consumer-jurisdiction standing, so contractual claims, arbitration, civil proceedings or sectoral remedies may be more relevant. Separately, the Specific Relief Act 1963 can support rescission or injunctive relief where its requirements are met. The appropriate route therefore depends on the claimant's status, the transaction structure and the remedy sought.

Legal Metrology requirements may also be relevant, particularly for pre-packaged goods. The Legal Metrology Act 2009 and the Legal Metrology (Packaged Commodities) Rules 2011 prescribe mandatory declarations on packages, and failure to provide required declarations or providing inaccurate information may result in regulatory action and, depending on the facts, support a broader mis-selling or misleading-sale claim.

Under intellectual property law, there could be issues such as (i) in case of unregistered marks, the franchisor projecting such marks as registered, or (ii) the franchisor or any of its appointed influencers disparaging competitors' products.

Of course, where the franchisor is non-resident, typically it will seek to have franchisee be responsible for local law compliance to the extent possible.

An entire-agreement, non-reliance or disclaimer clause can help define the contractual record and reduce disputes about informal sales statements, particularly between sophisticated commercial parties. It should

identify the information actually relied upon and avoid contradicting approved marketing materials. Nevertheless, it cannot normally exclude liability for fraud, deliberate concealment, statutory rights or the legal consequences of a representation that induced the contract. Courts will also scrutinise a clause that is inconsistent with the franchisor's own conduct.

Practical risk is reduced by controlled sales materials, approval of financial-performance representations, written assumptions for forecasts, a clear due-diligence process and a signed disclosure acknowledgement. Additionally, the franchisor typically retains evidence of what was provided and corrects material errors promptly. A franchisee's remedies may include avoidance, return of money, damages for loss caused by the breach and urgent relief to protect its business or data, subject to proof and contractual forum provisions. The preferred approach is therefore to control both the content of the disclosure and the record of delivery.

8. Would it be legal to issue a franchise agreement on a non-negotiable, "take it or leave it", basis?

Yes – a standard form agreement is not invalid merely because the franchisee could not negotiate it.

However, this freedom has its limits. (Indian) Contract Act 1872, the Competition Act 2002 where market power is relevant, and the Consumer Protection Act 2019 for qualifying consumer transactions, can affect one-sided terms. Clauses allowing arbitrary unilateral variation, disproportionate penalties, automatic forfeiture, misleading disclaimers or termination without the agreed process are more vulnerable than ordinary brand-standard provisions. From an enforceability perspective, the commercial context and the practical effect of the clause remain decisive. Courts may strike down unconscionable terms imposed by a party with superior bargaining power as void under the (Indian) Contract Act 1872, being contrary to public policy.

9. How are trademarks, know-how, trade secrets and copyright protected in your country? Are there any specific requirements or risks relating to the licensing of know-how and trade secrets in a franchise context?

Trademarks

Trademarks are protected by registration under the Trade Marks Act 1999 and, the said Act also recognises rights

in unregistered marks, by permitting the common law action for passing off. Key points: (i) Registration and prior use: registration lasts ten years and is renewable indefinitely. India follows a first-to-use rather than a pure first-to-file approach, so a prior user's (without registration) rights can defeat a prior registrant (with subsequent use). Foreign franchisors should file early and ideally cover local-language and transliterated versions of the mark; (ii) Transborder reputation: concept of transborder reputation is recognised in India and therefore it is advisable to collate evidence to that effect so as to create robust rights for enforcement based on registrations, transborder reputation, and the reputation developed due to Indian use; (iii) It is important to seek counsel and registration of non-conventional trademarks such as distinctive motion marks, sound marks, olfactory marks etc which are now registrable in India and may become relevant for the franchise in India; (iv) Other India centric electronic assets related to the trademarks such as .IN domain names, social media handles and mobile application software should also be considered from a registration standpoint; (v) Well-known marks can now be registered at the (Indian) Trade Marks Registry by making a formal application to list the relevant mark in the list of well-known marks.

Trademark Licensing

Under the (Indian) Trade Marks Act 1999 licensing of both registered and unregistered marks is recognised. However, a registered user agreement is only possible in case of registered marks, which entails a tedious process and requirements. While a registered user process permits the licensee to file infringement action in its own name, given the strict requirements, typically parties do not prefer to utilise this process since it is anyway optional.

Generally, a trademark license should specify the following: (i) whether the license is a sole or non-exclusive or exclusive license, (ii) the purpose of the license, (iii) the quality control and brand usage guidelines for use of the mark, (iv) the term and territory of the mark/franchise, (v) negative covenants which prohibit the licensee to challenge the ownership and use by the trademark owner, (vi) marking requirements including a notice to specify trademark owner's name on the usage, (vii) licensor's conduct over proceedings involving any infringement/violation of the mark. (viii) parties' representations, warranties and indemnities. (ix) termination triggers and effect of termination, and (x) dispute resolution clause. Amongst the aforesaid lot, the provisions on quality control and brand usage guidelines are most important since they protect the distinctiveness of the mark.

Copyright and designs

Subject to originality and creativity thresholds, copyright automatically subsists upon creation under the Copyright Act 1957. Registration of copyright is not mandatory, but it is advisable to register at least key copyright works for the easing the enforcement process. In a franchise system it will likely protect: (i) operations manuals and concept notes (ii) training materials (iii) software (iv) menus (v) artwork (vi) marketing content.

Importantly, assignments and licences of copyright must be in writing. Agreements should state the term and territory expressly or it is deemed to be restricted to 5 years and to the Indian territory respectively. Content commissioned locally, for example marketing produced by a franchisee's agency, does not automatically vest in the franchisor. A written assignment from the creator is needed. Trade dress may also be protected as a trademark or copyright or through passing off.

Store designs, fixtures, product/packaging shapes/configuration may be registered under the Designs Act 2000.

Know-how and trade secrets

India does not provide statutory protection for trade secrets and trade secrets are protected through: (i) contractual confidentiality obligations; (ii) the equitable action for breach of confidence; and (iii) practical controls.

Confidentiality and non-use obligations should generally survive termination. They must, however, protect genuinely confidential information and not operate as a disguised non-compete. Ideally, in case of key trade secrets, more than generic contracts, provisions for: (i) identification of confidential information, (ii) treatment and ownership of improvements and derivative materials should be appropriately documented, (iii) confidentiality clubs should be insisted within the recipient's set-up, (iv) if possible ready materials/confidential information should be released to the franchisee in ready form that too on need to know basis, and if possible without providing the actual recipes/formulations to prepare the ready materials, and (v) destruction of the information after termination of the contract, should be insisted.

10. Are there any franchise specific laws governing the ongoing relationship between franchisor and franchisee? If so, please describe them, including any terms that are required to be

included within the franchise agreement.

As mentioned above, India has no franchise-specific statute governing the ongoing relationship and no mandatory list of franchise-agreement terms. In the pure-Indian context, the (Indian) Contract Act 1872 remains the primary framework, supplemented by the Sale of Goods Act 1930, the Trade Marks Act 1999, Copyright Act 1957, Competition Act 2002, Consumer Protection Act 2019, FEMA, GST, employment, data-protection and sector-specific laws. Mandatory statutory requirements cannot be displaced by describing an arrangement as a franchise. Accordingly, the parties' contractual allocation must be read together with the laws governing the underlying business.

A well-structured agreement normally covers (i) the grant and scope of rights, territory and any exclusivity; (ii) term, renewal, fees, royalties, taxes and reporting; (iii) approved suppliers and pricing, manuals, training and support; (iv) brand standards, quality control and marketing; (v) technology and data; (vi) insurance and indemnities; (vii) audit rights, transfers and change of control; (viii) confidentiality and compliance; and (ix) suspension, termination, de-branding, post-termination assistance and dispute resolution. Additionally, the agreement distinguishes the obligations of the franchisor, franchisee, master franchisee and any sub-franchisee. This allocation is particularly important where the operating model includes several layers of contracting parties. From a structuring perspective, clarity on those roles reduces avoidable disputes over responsibility and remedies.

For retail systems, the parties typically allocate responsibility for premises, local licences, product sourcing, recalls, consumer refunds, product liability, inventory, employees, safety, cybersecurity, channels and customer data. The agreement ordinarily states which standards may be updated, how material changes are implemented and what happens if a new law makes a business model unlawful. Additionally, the parties address the effect of those changes on manuals, systems and outlet operations. Clear allocation is especially important because no franchise statute supplies default rules on these matters.

11. Are there any aspects of competition law that apply to the franchise transaction (i.e. is it permissible to prohibit online sales or use of online marketplaces (e.g. Amazon, third-party platforms), insist on exclusive supply, fix or set

maximum retail prices, operate dual distribution/hybrid franchisor models)? If applicable, provide an overview of the relevant competition laws.

The Competition Act 2002 is the principal statute. Section 3(4) identifies five categories of vertical agreements that may be anti-competitive: (i) tie-in arrangements, (ii) exclusive supply agreements, (iii) exclusive distribution agreements, (iv) refusal to deal, and (v) resale price maintenance. Unlike horizontal agreements (such as cartels, which are presumed anti-competitive under Section 3(3)), vertical restraints are not per se unlawful. The Competition Commission of India (CCI) applies a rule-of-reason analysis under Section 19(3), weighing factors such as the degree of market foreclosure, barriers to entry, countervailing buyer power, consumer benefits and efficiency gains. Separately, Section 3(5)(i) carves out reasonable conditions that are necessary to protect intellectual-property rights, which is particularly relevant to franchise arrangements involving trademark and know-how licences.

Online sales and marketplace restrictions: A franchisor may prescribe authorised sales channels, require use of approved e-commerce platforms and restrict unauthorised online sales where the restriction is linked to legitimate objectives such as brand integrity, product quality, customer safety or data security. However, a blanket prohibition on all online sales or a complete ban on third-party marketplaces (such as Amazon, Flipkart or Myntra) is more vulnerable to challenge, particularly where the franchisor holds significant market power or where the restriction forecloses a substantial route to market for the franchisee. The CCI has not issued franchise-specific guidance on marketplace restrictions, but its decisional practice on selective distribution and e-commerce suggests that restrictions must be objectively justified and proportionate. Exclusive supply: Requiring a franchisee to source products or raw materials exclusively from the franchisor or its approved suppliers is common and generally defensible where it serves quality control, product consistency, food safety or brand-standard objectives. Duration, the availability of equivalent alternatives and the proportion of the franchisee's total purchases captured by the exclusivity are the key factors under the rule-of-reason analysis.

Resale price maintenance (RPM): Fixed or minimum resale prices carry the highest competition-law risk among vertical restraints. Under Section 3(4)(e), an agreement that fixes resale prices may constitute RPM and attract CCI scrutiny. Maximum or recommended retail prices are generally less problematic, provided they

are genuinely advisory and are not enforced through threats, monitoring, penalties or withdrawal of supply. In practice, franchise agreements commonly include recommended price lists while stopping short of fixing minimum prices.

FDI and e-commerce policy conditions (including Press Note 2 of 2018) must also be checked where the franchisor or its marketplace has foreign investment.

12. Are there any ESG, compliance or supply chain-related legal requirements impacting franchise systems?

India has no single franchise-specific ESG statute, but franchise systems are affected by environmental, labour, product, consumer and corporate-compliance requirements. Depending on the business, these include the Environment (Protection) Act 1986 and waste-management rules, extended producer responsibility for packaging, plastic, e-waste and other waste streams, pollution and consent requirements, energy and water rules, food safety, Legal Metrology, fire safety and product standards. Obligations vary materially by product, outlet and state. Accordingly, the relevant requirements are mapped to the actual supply chain and operating footprint.

Supply-chain diligence typically addresses sourcing, traceability, quality control, recalls, counterfeit or unsafe goods, labour standards, child and forced labour, minimum wages, social-security obligations, workplace safety and prevention of sexual harassment. Anti-bribery and books-and-records controls may also be relevant under the Prevention of Corruption Act 1988, the Companies Act 2013 and the franchisor's home-country laws. Listed Indian companies may have additional ESG reporting expectations, even where a franchisee is not itself listed. From a compliance perspective, these requirements should flow through the supplier and outlet network rather than remain only at head-office level.

Franchise documents commonly include compliance warranties, supplier and conduct codes, audit and certification rights, incident and recall reporting, remediation plans, record-retention obligations and termination or suspension rights for serious breaches. These requirements need to be proportionate and capable of being implemented by an Indian outlet operator; otherwise, they may create avoidable disputes, data-protection issues or competition concerns. Additionally, the franchisor typically controls how ESG claims are made to avoid greenwashing or misleading-advertising allegations. The preferred approach is to link

the contractual controls to operationally verifiable standards.

13. Are in-term non-compete and non-solicitation clauses enforceable and are there any limitations on the franchisor's ability to impose and enforce them?

Section 27 of the (Indian) Contract Act 1872 provides that an agreement in restraint of trade is void, subject to the narrow statutory exception for the sale of goodwill. India has no separate franchise exception. Nevertheless, in-term non-competes and exclusivity provisions are generally more enforceable because they protect the bargain during the period in which the franchisor is providing the system, brand and know-how. The restriction is typically ancillary to the franchise, limited to competing activities and no broader than reasonably necessary.

Non-solicitation provisions are fact sensitive. A targeted restriction on soliciting identified employees, franchisees or customers using confidential information is more defensible than a prohibition on dealing with an entire market or hiring anyone who has worked in the system. The drafting typically defines the protected group, activity, territory and duration, and avoids operating as a disguised post-term restraint on trade. From an enforceability perspective, precision in the protected interest is central.

Post-term non-competes are generally vulnerable under Section 27 of the (Indian) Contract Act 1872, although confidentiality, intellectual-property, de-branding and non-use obligations remain important. Additionally, injunctive relief is more realistic where the franchisor proves misuse of confidential information or a clear in-term obligation than where it seeks to prevent ordinary competition after termination. The remedy sought therefore needs to match the interest the clause legitimately protects. Confidentiality, IP, de-branding and non-use obligations remain enforceable, and injunctions are more readily granted for misuse of confidential information than to prevent ordinary competition.

14. Is there an obligation (express or implied) to deal in good faith in franchise relationships? If so, what practical effects does this have on the relationship between franchisor and franchisee?

Indian law does not impose a general, codified duty of good faith on every commercial contract. The (Indian)

Contract Act 1872 addresses free consent, fraud, undue influence and lawful performance, including performance of promises under Section 37, while good-faith obligations may also arise from express wording, agency, fiduciary circumstances or the nature of the relationship. Courts may restrain fraud or an arbitrary exercise of contractual discretion without rewriting the bargain. Accordingly, the practical effect of good faith is driven by the agreement and the factual relationship between the parties.

In practice, a franchisor uses approval, audit, quality-control, renewal and termination powers consistently, gives the notice and cure opportunity promised by the agreement, and avoids misleading the franchisee about investment or performance. The franchisee is correspondingly expected to operate the outlet, pay fees, report accurately, protect the brand and comply with the system. Additionally, a documented rationale for material decisions is useful where a discretion is challenged. These practices give effect to the contractual allocation without converting good faith into a general duty to renegotiate.

The Consumer Protection Act 2019 addresses unfair trade practices and unfair contract terms in qualifying transactions, so a one-sided clause cannot be assumed to prevail merely because it is written into the agreement. Good faith does not create a general renewal right or require a party to renegotiate commercial terms. Accordingly, precise drafting, fair process and contemporaneous records remain the preferred protection. The parties' conduct in administering the agreement will often be as important as the wording of the clause itself.

15. Are there any employment or labour law considerations that are relevant to the franchise relationship? Is there a risk that the staff of the franchisee could be deemed to be the employees of the franchisor? What level of operational control may a franchisor exercise without creating employment or agency risk? What steps can be taken to mitigate this risk?

The franchisee will ordinarily be the employer of outlet staff, and the use of a franchisor's brand does not by itself transfer employment status. The risk of a deemed employment or principal-employer relationship turns on substance, including who hires, pays, supervises, disciplines and terminates staff, who controls leave and performance, the degree of economic dependence, and how integrated the workforce is into the franchisor's

business. The Contract Labour (Regulation and Abolition) Act 1970 and applicable state and social-security laws remain relevant, alongside the evolving labour-code framework. From an enforceability perspective, actual operating practice is more important than the contractual label.

A franchisor may prescribe brand standards, customer-service requirements, product and food-safety procedures, training, qualifications, staffing outcomes and health and safety controls. However, it typically avoids hiring or firing outlet staff, determining individual pay or leave, running payroll, issuing day-to-day instructions or conducting performance discipline. Operational control protects the system and the customer experience, but does not amount to routine personnel supervision. Accordingly, the parties distinguish system oversight from employment management in both the agreement and the manuals.

Risk mitigation includes an express independent-employer covenant, separate employment contracts and payroll, statutory registrations, wage and social-security compliance, POSH and safety procedures, child-labour controls, insurance, audits and indemnities. Manuals typically state that the franchisee is responsible for personnel and that franchisor training does not create authority to manage staff. Additionally, centralised or shared services require a separate analysis and clear allocation of statutory responsibility. These measures reduce, but do not eliminate, the risk that a worker or authority will rely on the factual relationship.

The franchisor typically uses contractual remedies, including notice, cure, suspension or termination, for failures to meet brand standards rather than directly taking over personnel decisions. Even a well-drafted agreement cannot prevent a worker or authority from relying on the factual relationship. Accordingly, the parties periodically review actual practices, not only the written allocation of responsibilities. This is particularly important where the franchisor provides extensive training, technology or operational support.

16. Is there a risk that a franchisee could be deemed to be the commercial agent of the franchisor? What steps can be taken to mitigate this risk?

Chapter X of the (Indian) Contract Act 1872, comprising Sections 182–238, governs agency. A franchisee may be characterised as an agent where it has authority to act for or bind the franchisor, represents that it is the franchisor's representative, collects or contracts in the

franchisor's name, or operates in circumstances creating apparent authority or holding out. Extensive control over day-to-day operations can reinforce the risk, although economic dependence alone is not determinative. From an enforceability perspective, the factual presentation of the relationship remains central.

The agreement typically describes the franchisee as an independent contractor, denies authority to bind the franchisor, requires separate invoices, bank accounts, tax registrations, employment and supplier contracts, and makes the franchisee responsible for its own operating costs. Signage, websites, receipts and customer communications identify the outlet as independently owned and operated, while the licence to use the brand remains clear. Additionally, the parties align these external representations with the actual allocation of functions. Contractual drafting is therefore supported by operational separation rather than used as a substitute for it.

Contractual disclaimers do not protect against authority actually conferred or a third party's reasonable reliance on the franchisor's conduct. Any limited agency, for instance accepting bookings or payments, is expressly defined, with procedures, financial controls, indemnities and insurance. The franchisor also trains personnel and monitors public representations so that brand consistency does not become a representation of legal agency. Accordingly, limited agency functions are managed as defined exceptions rather than left to implication.

17. Are there any laws and regulations that affect the nature and payment of royalties to a foreign franchisor and/or how much interest can be charged? Are there any requirements for payments in connection with the franchise agreement to be made in the local currency? Are there any restrictions on structuring payments (e.g. royalties vs service fees vs mark-ups)?

FEMA does not generally prohibit a foreign franchisor from receiving royalties, licence fees or service fees. Payments are typically made through an authorised dealer bank under the applicable FEMA rules and the Reserve Bank's current-account directions, subject to tax withholding, documentation, pricing and reporting requirements. There is no general requirement that franchise payments be denominated in Indian rupees (INR); the agreement may use INR or a foreign currency, with an agreed exchange-rate and bank-charge mechanism. From a structuring perspective, the payment

route and supporting documents are addressed before remittance begins.

The remitting party typically maintains the executed agreement, invoices, evidence of the rights or services supplied, tax-residency and withholding documentation, and any filings required by the authorised dealer bank. Royalty, technical-support, marketing and management charges are mapped to genuine rights or services rather than selected solely for tax or remittance convenience. Additionally, gross-up, audit and change-in-law clauses are useful where tax treatment may change. This documentation supports the stated characterisation from both a tax and foreign-exchange perspective.

Interest on delayed payments or shareholder or group funding is subject to the relevant FEMA, external-commercial-borrowing, tax, company-law and transfer-pricing rules. India has no franchise-specific ceiling on interest, but an excessive or punitive amount may be challenged under general contract principles, Section 74 of the (Indian) Contract Act 1872 and applicable tax rules. Interest paid to a non-resident may also attract withholding. Accordingly, the parties typically analyse the payment and funding terms together rather than in isolation.

Whether a payment is called a royalty, service fee, reimbursement or mark-up is not conclusive. Sections 161-173 of the Income Tax Act 2025 and transfer-pricing principles apply to international associated-enterprise arrangements, while GST classification and reverse charge may apply to imported services. The parties typically document the functions, assets and risks supporting each charge and avoid artificial recharacterization that could be challenged by tax or foreign-exchange authorities. From a tax-efficiency standpoint, substance and supporting records remain more important than the contractual label.

18. Is it possible to impose contractual penalties on franchisees for breaches of restrictive covenants etc.? If so, what requirements must be met in order for such penalties to be enforceable?

If the restrictive covenant itself is not a void contract, then yes, but the enforceability of such clauses in India differs significantly from jurisdictions that distinguish between enforceable liquidated damages and unenforceable penalties. Under Section 74 of the (Indian) Contract Act 1872, Indian law treats all pre-agreed sums for breach alike – whether the clause is labelled a "penalty" or "liquidated damages" – and the court has discretion to award only "reasonable compensation" for

the breach, subject to a ceiling equal to the amount stated in the contract. In practical terms, this means: (i) the franchisor cannot automatically collect the stipulated amount as a debt merely by pointing to the clause — it must go to a court or arbitral tribunal; (ii) the court or tribunal will assess what compensation is reasonable in the circumstances, considering the nature and gravity of the breach, the commercial context, the franchisor's actual or likely loss, mitigation efforts and whether the amount is disproportionate to the harm; and (iii) the stated sum operates as a maximum cap, not a guaranteed recovery — the court may award less than the stipulated amount, but will not award more. The only exception to show actual loss is in rare cases when the loss is inherently impossible or extremely difficult to calculate; there, the court may accept the contractually named sum as reasonable compensation without strict proof.

Given the Section 74 framework, franchisors structuring penalty clauses for Indian agreements should consider the following practical points. First, the clause should be framed as a genuine pre-estimate of loss (or at least a reasonable approximation) rather than as a deterrent — linking the amount to a measurable commercial metric such as lost royalties over the remaining term, the franchisor's customer-acquisition or remediation cost, or the cost of de-branding and reputational repair. Second, different breaches should attract different consequences: a breach of an in-term non-compete or IP misuse clause justifies a higher stipulated amount than, for example, a late reporting default. Third, where the breach involves a post-term restrictive covenant (such as a non-compete), the underlying covenant must itself be enforceable — if the covenant is void under Section 27 of the (Indian) Contract Act 1872 as an unreasonable restraint of trade, the penalty clause attached to it will fall with it. Fourth, injunctive relief under the Specific Relief Act 1963 is often more effective than a monetary penalty for ongoing breaches such as continued use of the brand, disclosure of confidential information, or failure to de-brand — and the franchise agreement should expressly preserve the right to seek urgent interim relief from a court or arbitral tribunal alongside or instead of damages. Fifth, practical protective mechanisms such as escrow deposits, bank guarantees, security deposits, suspension of access to systems and supply, and step-in rights frequently provide faster and more certain remedies than litigating a penalty clause. As a matter of practice, well-drafted Indian franchise agreements use a combination of proportionate stipulated sums, injunctive relief carve-outs, security mechanisms and termination rights rather than relying on a single large penalty figure.

19. What tax considerations are relevant to franchisors and franchisees? Are franchise royalties subject to withholding tax?

Legislative transition

The Income-tax Act 2025 replaced the Income-tax Act 1961 from 1 April 2026, broadly preserving the substantive rules. Agreements should refer to tax law 'as amended, re-enacted or replaced'.

Withholding on payments to foreign franchisors

Consideration for the use of trademarks, know-how and similar rights is 'royalty', and technical or managerial services may be 'fees for technical services'. Both are taxable in India on a gross basis at 20% (plus surcharge and cess) where the foreign franchisor has no permanent establishment (PE) in India. The Indian payer must withhold tax and file remittance forms.

Lower treaty rates, typically 10% to 15%, apply if the franchisor provides: (i) a tax residency certificate; (ii) a prescribed electronic declaration (Form 41); and (iii) a PAN or the alternative prescribed documents.

Some treaties (for example, with the US, UK and Singapore) tax service fees only if technology is 'made available'. Ordinary support services may therefore escape Indian tax (under the treaty) except in case of services which are ancillary to the licensing transaction which, along with the trademark licence element would be subject to Indian taxes. However, fees for end-user software licences are generally not royalty under treaties, which is relevant to point of sale (POS) systems and franchise software. Bundled fees should therefore be suitably split in the agreement so that each component can be characterised correctly.

Treaty benefit also depends on beneficial ownership and the principal purpose test introduced under the MLI. The Indian franchisee would therefore typically seek declarations from the foreign franchisor to confirm that the foreign franchisor (i) does not have a permanent establishment in India; and (ii) is entitled to tax treaty benefits; prior to applying a beneficial withholding tax rate under a tax treaty.

From a compliance standpoint, in addition to the provision and maintenance of the documents mentioned above (ie TRC, Form 41 and PAN); the foreign franchisor shall also be required to file an annual tax return in India, in situations where it avails the beneficial provisions of a tax treaty.

Some treaties (for example, with the US, UK and Singapore) tax service fees only if technology is 'made available'. Ordinary support services may therefore escape Indian tax, whereas the trademark licence element will not. Fees for end-user software licences are generally not royalty under treaties, which is relevant to point of sale (POS) systems and franchise software. Bundled fees should be split in the agreement so that each component is characterised correctly.

Permanent establishment

The terms of the franchising arrangements (more particularly, the control rights sought by a franchisor under the agreement) require careful review to ensure that such rights do not result in the franchisor being considered to have a permanent establishment (ie taxable presence) in India. This is particularly relevant in light of a recent decision of the Indian apex court in the case of the Hyatt hotel group, wherein the court held that extensive and enforceable rights to oversee, supervise and ensure compliance with operational standards may, depending on the facts and the manner in which such rights are exercised, contribute to the creation of a permanent establishment of the foreign entity in India.

Additionally, any seconded arrangements, presence of foreign franchisor's personnel in India, right to the franchisor's personnel to access the franchisee's premises etc; require careful review. Profits attributable to a PE are taxed on a net basis @ 35% (plus surcharge and cess).

Domestic franchisors

Royalties and technical fees paid by an Indian franchisee to an Indian franchisor attract withholding at 10% (2% for certain technical services).

Franchisee deductions

Recurring royalties are generally deductible. A lump-sum initial franchise fee may be treated as capital expenditure and availability of depreciation or amortization on the same would need to be reviewed on a case-to-case basis.

GST

Licensing of trademarks and franchises is a supply of services taxable at 18%: (i) on imported services, the Indian franchisee pays GST under reverse charge; and (ii) on domestic supplies, the franchisor charges GST.

In both cases, the franchisee can usually claim input tax credit. Marketing fund contributions, recharges and

training fees should be analysed separately, as should related-party valuation.

Transfer pricing

Royalties and service fees paid to associated enterprises must be at arm's length and supported by documentation. Indian authorities scrutinise: (i) high royalty rates; (ii) stacked royalty and service fee structures; (iii) advertising, marketing and promotion expenditure incurred by an Indian entity that may build the foreign owner's brand.

The general anti-avoidance rule (GAAR) may apply to arrangements lacking commercial substance.

Similarly, for sales or purchases of goods or services exceeding INR 2,00,000 per transaction, the buyer is generally required to quote its PAN under Rule 159 of the Income-tax Rules 2026, subject to applicable exceptions and prescribed alternatives. Accordingly, the franchisee should ensure that the buyer's PAN is obtained and appropriately recorded for transactions falling within this requirement.

From a compliance and evidentiary perspective, maintaining appropriate buyer identification and transaction records can also be important where a transaction subsequently becomes the subject of a cyber-crime investigation, fraud investigation or other law-enforcement inquiry. Subject to applicable privacy and data-protection requirements, the franchisee should therefore maintain the PAN, prescribed KYC/identification information and relevant transaction records where such information is required or lawfully collected, so that the franchisee can respond appropriately to lawful requests from competent authorities and establish the circumstances of the transaction.

20. How is e-commerce regulated and does this have any specific implications on the relationship between franchisor and franchisee? For example, can franchisees be prohibited or restricted in any way from using e-commerce in their franchise businesses? Are there any rules regarding online sales within or outside a franchisee's territory?

E-commerce in India is regulated through a layered framework comprising the Consumer Protection Act 2019, the Consumer Protection (E-Commerce) Rules 2020 as amended in 2026 vide the Consumer Protection (E-Commerce) (Amendment) Rules 2026 (**E-Commerce 2026 Amendment**), and the FDI policy (principally Press Note 2

of 2018 and Press Note 4 of 2019). The E-Commerce 2026 Amendment, introduces additional compliance requirements relevant to franchise systems operating through online channels. These include requirements concerning the appointment of designated compliance and grievance-contact personnel, disclosure of information relating to products and sellers, transparency in e-commerce operations, and consumer grievance redressal. E-commerce entities must also comply with the Guidelines for Prevention and Regulation of Dark Patterns, 2023, which addresses manipulative interface practices, including false urgency, forced action, drip pricing and disguised advertisements. Existing e-commerce requirements also address the disclosure of country of origin and manufacturer or importer information, as well as transparency concerning product listings and ranking. From an FDI perspective, the distinction between a permitted marketplace model and a restricted inventory-based model remains critical and is reinforced by the E-Commerce 2026 Amendment. An e-commerce entity with foreign investment operating under the marketplace model cannot exercise ownership or control over inventory, cannot permit more than 25% of aggregate sales from a single vendor or its group companies, and cannot influence pricing. The E-Commerce 2026 Amendment further clarify that an e-commerce entity must not adopt any algorithm or practice that results in the preferential treatment of any seller (including a seller related to the e-commerce entity or the franchisor), which has direct implications for dual-distribution franchise models where the franchisor or its affiliates also sell through the same platform. Franchise agreements must ensure that the Indian franchisee (not the foreign franchisor) holds inventory and bears the commercial risk of sale, to avoid inadvertent non-compliance with FDI conditions. Where a franchise brand operates its own direct-to-consumer website with India delivery alongside the franchisee's domestic e-commerce operations, the arrangement must be structured so that neither channel is characterised as inventory-based e-commerce by a foreign-invested entity.

A franchisor may contractually restrict or regulate the franchisee's use of e-commerce channels, including by specifying approved platforms, mandating brand presentation standards, requiring minimum fulfilment and customer-service levels, and restricting sales on unauthorised marketplaces. However, as discussed in the competition law analysis above, a blanket prohibition on all online sales is more exposed to challenge under Section 3(4) of the Competition Act 2002 where the franchisor has market power or the restriction forecloses a viable route to market. Territorial rights should expressly address online sales: who owns the online

customer relationship, how orders originating outside the franchisee's physical territory are attributed, whether click-and-collect or cross-territory delivery is permitted, how national digital advertising is funded, and who handles returns, complaints and product liability for online orders. The E-Commerce 2026 Amendment also require that every e-commerce entity (including a franchisee's brand website) establish a consumer grievance redressal mechanism with acknowledgement within 48 hours and resolution within one month, which should be factored into the franchise agreement's customer-service allocation.

21. What are the applicable data protection laws and do they have any specific implications for the franchisor/franchisee relationship? In particular, what are the key data protection considerations in a franchise relationship, including: (a) allocation of controller/processor roles; (b) use of customer databases; (c) cross-border data transfers; and (d) marketing and CRM activities?

The DPDP Act and the Digital Personal Data Protection Rules 2025 (notified in November 2025) are being implemented in phases. Most substantive obligations take effect 18 months after notification, which is expected in May 2027. Until then: (i) Section 43A of the Information Technology Act 2000 and the SPDI Rules 2011 continue to govern sensitive personal data; and (ii) franchise systems should use the transition period to prepare.

Roles

A party deciding the purpose and means of processing is a 'Data Fiduciary'. A party processing only on documented instructions is a 'Data Processor'. Franchisors and franchisees are often each Data Fiduciaries for different purposes. Data Fiduciaries remain responsible for their processors and must have a valid contract with them. The agreement, data processing terms and operating model must align, because labels alone do not decide the issue.

Customer databases

Processing requires notice and consent, or one of the limited 'legitimate uses' in Section 7. There is no general 'legitimate interests' basis. Data must be: (i) limited to specified purposes (ii) kept secure and (iii) deleted once the purpose is served.

Children's data requires verifiable parental consent, and tracking and targeted advertising directed at children are prohibited. Contractual 'ownership' of customer data does not displace statutory duties to Data Principals. The agreement should therefore address: (i) access and loyalty data (ii) data principal requests (iii) breach notification to the Data Protection Board and affected individuals (iv) retention and (v) treatment of data on termination.

Cross-border transfers

Transfers are permitted except to countries the Central Government restricts. Sectoral localisation rules (for example, for payments data) continue to apply. Franchisors should: (i) document transfer purposes (ii) use secure vendors (iii) control onward transfers and (iv) provide for incident notification and cooperation with Indian authorities.

Marketing and CRM

Clear allocation is needed for: (i) notices and consent capture (ii) preference management and withdrawal of consent and (iii) campaign approvals.

Telemarketing and SMS campaigns must also comply with the Telecom Commercial Communications Customer Preference Regulations 2018 of the Telecom Regulatory Authority of India (TRAI). Auditable consent records are essential. Penalties under the DPDP Act reach INR 250,00,00,000 per instance.

22. Is the franchisor permitted to restrict the transfer of (a) the franchisee's rights and obligations under the franchise agreement or (b) the ownership interests in the franchisee? Can the franchisor impose conditions on transfers (e.g. approval rights, fees, qualification criteria)?

Parties are generally free to restrict assignment of franchise rights and obligations. An anti-assignment clause is ordinarily enforceable, particularly because the franchisor is selecting a business operator to use its brand and know-how. A transfer of contractual obligations normally requires the franchisor's consent or a novation, and the agreement typically distinguishes assignment of payment rights from transfer of the operating franchise. From an enforceability perspective, that distinction avoids treating a financial transfer as a transfer of the business relationship.

A transfer of shares or partnership interests is legally distinct from an assignment of the franchise, but the

agreement may treat a direct or indirect change of control as a transfer requiring approval. The franchisor typically aligns that covenant with the Companies Act 2013, the company's articles, shareholder arrangements, FEMA and FDI rules, and any financing documents. The change-of-control analysis is coordinated with the corporate and regulatory structure.

Transfers that alter foreign ownership or the payment flow may require further FEMA, tax, stamping or reporting steps. From a market-practice perspective, transparent criteria reduce disputes over an approval decision.

23. To what extent can a franchisor impose audit rights, reporting obligations, and operational controls on a franchisee, and what legal limits apply?

Audit, reporting and operational-control rights are principally contractual; there is no franchise statute that supplies a standard scope. A franchisor may reasonably require sales, inventory, royalty, tax, customer-service, safety, insurance, data-security and compliance reports, and may inspect premises, systems and records on reasonable notice. The agreement typically defines frequency, access hours, confidentiality, auditor costs, retention and treatment of privileged or third-party information. Accordingly, the scope of the rights is calibrated to the risks the franchisor is entitled to monitor.

Operational controls may include approved suppliers, product specifications, manuals, training, store design, technology, safety procedures, customer-service standards, mystery shopping and corrective-action plans. These controls are directed to protecting the brand, consumer safety and system consistency, rather than controlling the franchisee's employees or creating agency. Price and channel controls are also reviewed under competition law, and data access complies with the DPDP Act. From a structuring perspective, the controls need to be consistent across the franchise system and workable at outlet level.

Reporting is proportionate to the risk and permits the franchisor to verify royalties, detect diversion or counterfeit products, investigate complaints, monitor ESG and labour compliance, and manage recalls or data incidents. Repeated failures can support cure notices, suspension, step-in or termination where the agreement provides for them. Additionally, the franchisor typically applies the process consistently and gives the franchisee an opportunity to correct remediable failures. This approach preserves oversight without converting audit

rights into day-to-day management.

The legal limits are general contractual good faith, privacy and data-security duties, labour and consumer protection, competition law, confidentiality and the prohibition on oppressive or unlawful conduct. Audit rights do not become an unrestricted right to copy personal data or confidential information of unrelated parties. Independent auditors, clean-team protocols and role-based access are useful where the franchisor needs assurance without taking over the franchisee's business.

24. Does a franchisee have a right to request a renewal on expiration of the initial term? In what circumstances can a franchisor refuse to renew a franchise agreement? If the franchise agreement is not renewed or if it terminates or expires, is the franchisee entitled to compensation? If so, under what circumstances and how is the compensation payment calculated?

There is no statutory right in India to request or receive renewal of a franchise, and no franchise-specific compensation is payable merely because the initial term expires. Renewal depends on the agreement, including any option, notice deadline, renewal fee, performance thresholds, compliance record, site status, updated form of agreement and any requirement to invest in a refreshed format. A franchisor typically states these conditions clearly and applies them consistently. From an enforceability perspective, the renewal process is driven by the agreed contractual criteria.

A franchisor may generally refuse renewal on expiry. Nevertheless, the refusal cannot be fraudulent, discriminatory, retaliatory or inconsistent with an express renewal right or agreed process. India has no general statutory goodwill or termination payment for franchisees, and local customer goodwill is not automatically a separate asset from the licensed brand. Accordingly, the agreement is the principal source of the parties' renewal and compensation expectations. The commercial allocation therefore depends on the negotiated exit arrangements.

If compensation is expressly agreed, the contractual formula governs subject to Section 74 of the (Indian) Contract Act 1872; otherwise, a franchisee must establish a contractual breach and recoverable loss under Section 73. The parties typically address unsold inventory, fit-out and equipment, lease rights, employee transition, customer communications and any permitted sell-off period separately. A clear transition mechanism usually

reduces disputes more effectively than an open-ended compensation promise.

25. Are there any mandatory termination rights which may override any contractual termination rights? Is there a minimum notice period that the parties must adhere to? Are there any requirements regarding notice periods and opportunities to remedy breaches before termination?

India has no franchise-specific mandatory termination right or universal minimum notice period. The contractually agreed termination provisions generally govern, subject to mandatory law and ordinary contract principles. (Indian) Contract Act 1872 permits termination where performance becomes impossible or unlawful. Insolvency and statutory moratoria may also affect enforcement in a particular case. Accordingly, the termination analysis turns on both the agreement and the circumstances of the breach or event.

Notice and cure rights are normally contractual. A serious breach, such as unauthorised use of the mark, fraud, serious health or safety risk, insolvency, abandonment, repeated non-payment or conduct causing immediate brand harm, may justify suspension or immediate termination if the agreement provides for it. Remediable defaults typically receive the notice and cure period promised in the agreement, and the franchisor follows the agreed service and escalation process. From an enforceability perspective, the response needs to match the seriousness and urgency of the default.

The agreement typically addresses termination for convenience, material breach, change of control, regulatory prohibition, force majeure, data or cybersecurity incidents, and failure to open or meet development milestones. Contractual rights cannot waive mandatory consumer, employment, insolvency, intellectual-property or public-policy protections. Accordingly, the termination regime is drafted together with the transition mechanics rather than as a standalone walk-away provision.

There is no general statutory requirement to offer a further opportunity to remedy every breach. Nevertheless, a reasonable cure process, consistent treatment of franchisees and a documented basis for urgent action reduce the risk of allegations of bad faith, wrongful termination or unconscionability. Interim relief and damages remain available subject to the dispute-resolution clause and the evidence of breach and loss.

The preferred approach is therefore to document both the default and the reason for the selected response.

26. Are there any intangible assets in the franchisee's business which the franchisee can claim ownership of on expiry or termination, e.g. customer data, local goodwill, etc.

The franchisor's trademarks, trade dress, manuals, software, know-how and other licensed intellectual property remain its property or that of its licensors, subject to the agreement. The franchisee ordinarily retains ownership of its corporate entity, outlet equipment, inventory, books and independently acquired assets, unless those assets are subject to a purchase, security or transfer arrangement. Improvements, local adaptations, content and operational data are addressed expressly because ownership does not automatically follow the franchise label. From a structuring perspective, the parties distinguish licensed IP from assets created or acquired locally.

Customer data is not treated as an unrestricted item of property that the parties can allocate without regard to the DPDP Act. Ownership language is supplemented by a role-based framework covering the Data Fiduciary or Data Processor, lawful purpose, customer notices, access, retention, deletion, security and transfer on termination. The franchisee may need to retain transaction and tax records, while customer-facing CRM use is authorised and limited to the agreed purposes. Accordingly, the treatment of data on exit is addressed as a compliance and operational issue, not only as an ownership question.

Local goodwill may have commercial value, but India has no franchise rule granting the franchisee a separate right to retain or monetise goodwill associated with the franchisor's mark after termination. Domains, phone numbers, social-media accounts, local listings, customer communications, independently developed materials and lease rights are allocated in the agreement, together with any sell-off or transition period. From an enforceability perspective, the post-termination allocation needs to be reflected in actual de-branding and communications.

27. What post-termination obligations are typically enforceable (e.g. de-branding, return of confidential information, non-compete, non-solicitation) and how readily are such post-term restrictions enforced in practice?

De-branding, cessation of the use of mark and trade dress, removal of signage, return or destruction of manuals and confidential information, discontinuation of approved websites and social-media use, and transfer or disablement of franchise technology are ordinarily enforceable when clearly stated. The agreement typically also covers final inventory, customer communications, outstanding orders, records, audit access, assistance to a replacement operator and the handling of personal data subject to retention duties. Additionally, the parties address the timing and evidence of completion of these steps. Clear post-termination mechanics materially improve enforcement.

Confidentiality, non-use of trade secrets, non-disparagement, restrictions on representing continuing affiliation may survive termination where they protect a legitimate interest and are drafted narrowly. A post-term non-compete is generally vulnerable under Section 27 of the (Indian) Contract Act 1872, and a broad ban on dealing with customers or working in the industry is unlikely to be saved merely by calling it a franchise protection. Accordingly, the surviving protections are tailored to the interest the franchisor can legitimately protect.

In practice, Indian courts are more willing to grant urgent relief for continuing trademark misuse, passing off, disclosure of confidential information, destruction of records or breach of a clear de-branding obligation than to enforce a broad restraint on ordinary competition. Interim measures may be sought from courts or an arbitral tribunal under the Arbitration and Conciliation Act 1996, and damages remain subject to the (Indian) Contract Act 1872. Evidence of actual misuse and a precise contractual obligation materially improve enforcement prospects. From an enforceability perspective, a targeted remedy is more effective than an overbroad restraint.

28. Is there a national franchising association? Is membership required? If not, is membership commercially advisable? What are the additional obligations of the national franchising association?

The Franchise Association of India (FRAI) is a voluntary industry body. Membership is not required to establish or operate a franchise in India, and FRAI is not a statutory regulator. There is no mandatory association registration, industry licence or compulsory code of conduct that applies merely because a business is franchised. Accordingly, association membership does not replace

the legal and regulatory analysis applicable to the franchise system.

Membership may nevertheless be commercially useful for networking, market information and engagement with franchisors, franchisees and service providers. A member may be subject to the association's membership terms, voluntary standards or event and conduct rules, but those obligations do not replace the (Indian) Contract Act 1872, competition, consumer, tax, IP, FEMA or sectoral requirements applicable to the franchise. From a market-practice perspective, the value of membership depends on the relevant segment and the participant's need for local market contacts. It is therefore a commercial choice rather than a regulatory prerequisite.

29. Are foreign franchisors treated differently to domestic franchisors? Does national law/regulation impose any debt/equity restrictions? Are there any restrictions on the capital structure of a company incorporated in your country with a foreign parent (thin capitalisation rules)?

Foreign franchisors are not subject to a separate franchise law, but their investment, ownership, remittances and downstream arrangements are subject to FEMA and India's FDI policy. The applicable sectoral cap and route depend on the activity: single-brand retail permits 100% FDI under the automatic route subject to conditions, multi-brand retail permits up to 51% with government approval and conditions, and cash-and-carry or wholesale and marketplace e-commerce have separate frameworks. Retail, e-commerce and regulated products therefore require activity-specific analysis. From a structuring perspective, the franchise model is assessed together with the foreign-investment route.

There is no franchise-specific debt-to-equity ratio or general requirement that an Indian franchisee have a particular capital structure. Companies and LLPs remain subject to the Companies Act 2013 or LLP law, and foreign borrowing should be compliant with external-commercial-borrowing, pricing, maturity, security and reporting rules. Royalties, service fees, guarantees and shareholder funding are reviewed together so that the commercial structure does not inadvertently become a prohibited or unreported financial arrangement. Accordingly, the absence of a franchise-specific capital rule does not remove the need for financing analysis.

30. Must the franchise agreement be governed by local law?

The franchise agreement is not required to be governed by Indian law. Commercial parties may choose Indian law, the law of the franchisor's home jurisdiction or another governing law, subject to Indian conflict-of-laws principles, mandatory statutes and public policy. A foreign governing law does not displace Indian requirements on the operation of an Indian outlet, including consumer protection, labour, tax, GST, FEMA, competition, data protection, premises and local licensing. Accordingly, the choice of law is assessed together with the location of the operations and assets.

Indian courts generally respect a clearly drafted foreign-law clause in a commercial contract, but will not enforce a result contrary to Indian public policy or mandatory law. Indian trademark and other IP rights, local employment relationships, GST and foreign-exchange compliance ordinarily require Indian-law analysis regardless of the contract's chosen law. Additionally, the parties consider the law applicable to security, premises, corporate approvals and enforcement against Indian assets. From an enforceability perspective, a foreign-law clause is therefore not a substitute for local-law diligence.

For a retail franchise operating in India, Indian law is often selected for the core franchise and local operating documents because it aligns with the regulatory environment and available remedies. A split structure may use a foreign-law master agreement together with Indian-law trademark, technology, data, employment, premises or supply documents. The contract typically states the seat of arbitration, jurisdiction for interim relief and treatment of mandatory local law. The preferred structure here depends on the parties' enforcement objectives and the location of the relevant rights and operations

31. What dispute resolution procedures are available to franchisors and franchisees? Are there any advantages to out of court procedures such as arbitration versus litigation, in particular if the franchise agreement is subject to a foreign governing law?

Arbitration is widely used in Indian franchise transactions under the Arbitration and Conciliation Act 1996, as amended. Indian-seated arbitration is governed principally by Part I, while a foreign-seated arbitration and enforcement of a qualifying foreign award engage Part II. Negotiation, mediation and civil litigation remain

available, including for urgent injunctions, non-arbitrable matters, certain insolvency issues and claims involving third parties.

Arbitration can offer confidentiality, a neutral forum, procedural flexibility, specialist decision-makers and better cross-border enforceability than a domestic court judgment. A foreign governing law does not prevent arbitration; the clause should distinguish governing law from seat and procedural law. Court or tribunal interim relief may be available under Sections 9 and 17, and a foreign award is enforceable in India subject to the limited statutory grounds, including public policy, under Section 48.

Litigation may be preferable where the dispute requires a public injunction, joinder of non-parties, local evidence, a statutory remedy or direct relief against Indian assets. Consumer, IP, employment and insolvency matters may require separate or parallel proceedings. The dispute clause should specify the seat, institution or appointment process, language, confidentiality, interim measures, joinder or consolidation, governing law and any negotiation or mediation step, with master-franchise and sub-franchise clauses tied in.

Typically, where the franchisor is non-resident, arbitrations are institutional, foreign-seated usually in a common law neutral jurisdiction and before three arbitrators.

32. Must the franchise agreement and disclosure documents be in the local language?

There is no general Indian requirement that a franchise agreement or franchise disclosure materials be in a local or regional language. English is routinely used for cross-border and sophisticated commercial franchise documentation, and the absence of an Indian-language version does not by itself invalidate the contract. The (Indian) Contract Act 1872 nevertheless requires consent, in a way that a party can understand the terms or obtain an appropriate translation and legal advice. This is generally covered by language referencing to the parties' sophistication and the evidence of consent.

Separate language requirements may arise for consumer-facing notices, product labels, advertising, invoices, food information, Legal Metrology disclosures, state shops and establishments matters or other sectoral and local requirements. Those obligations concern the customer or operation rather than the language of the franchise contract itself. Additionally, a foreign franchisor ensures that manuals and safety procedures can be understood

by outlet personnel. The relevant language analysis therefore extends beyond the signed agreement.

A bilingual agreement is considered where the franchisee or its guarantors are more comfortable in an Indian language. The parties typically identify the controlling version, allocate translation responsibility, retain signed copies of both versions and avoid inconsistencies in defined terms, manuals, renewal notices and termination communications. Disclosure and sales materials are translated where needed to ensure that claims and exclusions are not misunderstood. From an enforceability perspective, consistency between the language versions and the parties' conduct is central.

33. Is it possible to sign the franchise agreement using an electronic signature (rather than a wet ink signature)?

Yes. A franchise agreement may generally be executed using electronic signatures under Indian law; there is no general requirement for wet ink signatures. The Information Technology Act 2000 (IT Act) recognises electronic records and electronic signatures under Sections 4 and 5, and Section 10A provides that a contract cannot be denied validity solely because it was formed electronically. The IT Act recognises digital signatures under Section 3 and other prescribed electronic signature methods under Section 3A, including Aadhaar-based eSign.

A franchise agreement does not ordinarily fall within the categories of documents excluded from the IT Act's electronic execution framework. If the broader arrangement includes a lease or another transfer of an interest in immovable property, the execution, stamping and registration requirements applicable to that document should be considered separately.

In practice, parties should: (i) Use a recognised signing method, preferably a Digital Signature Certificate issued by a licensed Certifying Authority or an authorised Aadhaar-based eSign service; (ii) Retain the final signed document and available supporting records, including the signature certificate, audit trail, timestamps and signer authentication details, to establish authenticity and document integrity if needed; (iii) Ensure that the agreement is duly stamped under the applicable state stamp law; electronic execution does not dispense with stamp duty; (iv) Assess any related lease or property document separately for applicable execution and registration formalities; (v) Consider including an express provision confirming the parties' consent to electronic execution and their acceptance of electronically signed

counterparts.

That said, based on our experience, wet-ink signatures continue to be a commonly preferred method for executing agreements as a matter of practical convenience.

34. Do you foresee any significant commercial or legal developments that might impact on franchise relationships over the next year or so?

Franchise networks using marketplaces, brand websites or aggregator channels will need to comply with the Consumer Protection (E-Commerce) Rules, 2020, as amended in 2026, together with other applicable consumer-protection requirements. These include obligations relating to grievance redressal, seller and product disclosures, country-of-origin information, transparency in search rankings and differentiated treatment of sellers, as well as compliance with the Guidelines for Prevention and Regulation of Dark Patterns, 2023. Marketplace sellers are required to ensure that consumer complaints are acknowledged within 48 hours and redressed within one month. The regulatory distinction between marketplace and inventory-based e-commerce models also remains relevant to FDI structuring, inventory ownership, pricing arrangements and the allocation of online customer-facing responsibilities among franchisors, franchisees and platform operators.

Implementation of the Digital Personal Data Protection Act 2023, including the detailed rules, institutional arrangements and guidance on consent, notices, security safeguards, breach response, Data Fiduciary accountability and cross-border transfers. Franchise systems are preparing their data maps, customer notices, processor terms, incident playbooks and termination procedures now, because the contractual allocation of data responsibilities needs to match the final operating framework. Accordingly, implementation of the DPDP Act is likely to affect both the franchise agreement and the

operating manuals. The practical focus remains on aligning legal allocation with actual data flows.

Competition enforcement is likely to remain important in digital and retail markets. The Competition Amendment Act 2023 introduced, among other changes, a deal-value threshold for combinations, while the Competition Commission of India continues to examine market power, vertical restraints, resale-price practices, exclusivity, platform conduct and information exchange. Franchise groups expanding through acquisitions, hybrid distribution or online channels therefore review both combination filings and the design of their commercial restrictions. From a structuring perspective, competition analysis is becoming an earlier part of the expansion process.

Retail FDI policy and e-commerce supervision are likely to evolve as marketplace and inventory models expand. Consumer authorities are also focusing on dark patterns, misleading claims, refunds, platform transparency and seller accountability. At outlet level, extended producer responsibility, packaging and waste rules, food and product safety, labour compliance and ESG reporting expectations continue to flow through supply chains and franchise manuals. Accordingly, franchise systems are increasingly managed through periodic regulatory and operational reviews.

The evolving intellectual property law jurisprudence on permitting or prohibiting usage of AI (artificial intelligence) for unauthorised training and creating outputs/materials, is likely to impact how franchises deal with creating materials for their business through AI.

However, there is no clear indication of an imminent standalone Indian franchise statute, so the practical trend will remain incremental regulation through contract, competition, consumer, tax, IP, foreign-exchange, data and sectoral law. Luxury systems should future-proof agreements through change-in-law, channel reallocation, data migration, sustainability substantiation, product recall and regulatory-cooperation mechanisms.

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