

LEATHER





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A report by KPMG for IBEF

Market Overview

The global leather industry is valued at about US\$ 85 billion. Most of the producing countries are developing countries, while developed markets such as the US are major consumers of leather products. The industry is buyer-driven, with producing countries manufacturing in line with specifications, guidelines and technical advice provided by the buyer countries.

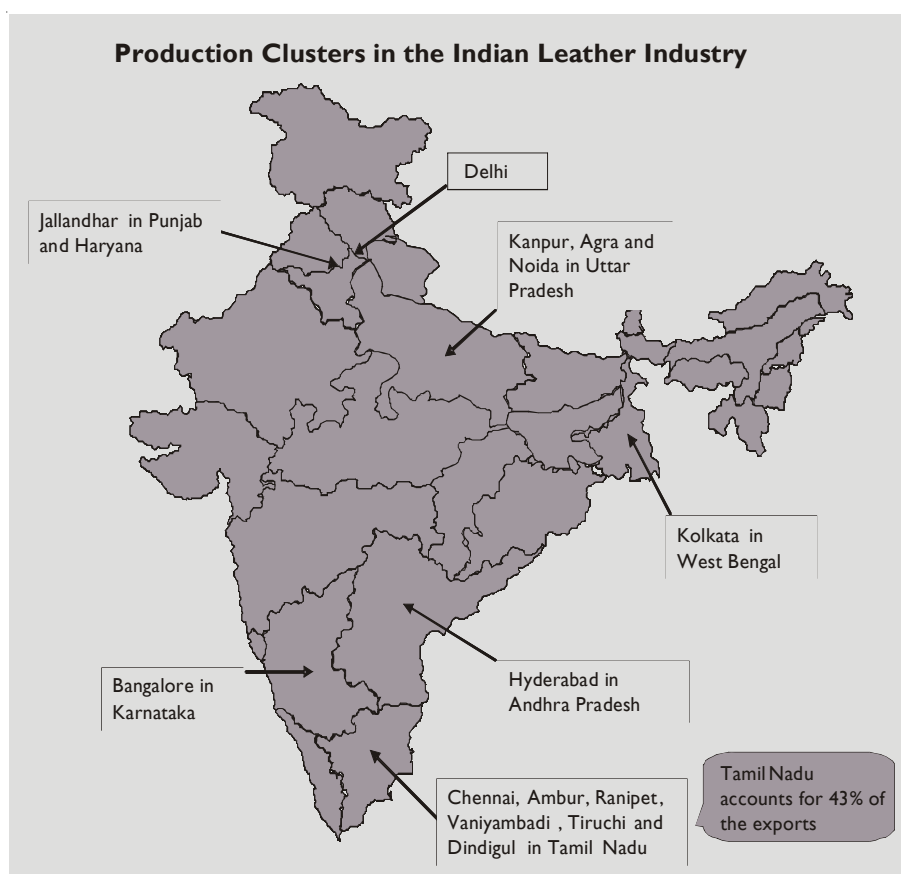
China and Italy are the leading producing and exporting nations in the world with exports worth US\$ 19 billion and US\$ 13 billion respectively. India, with an output of US\$ 4 billion and exports of US\$ 2.4 billion, is placed third. The leather industry occupies a prominent place in the Indian economy in view of its substantial export earnings, employment potential and growth. The industry provides employment to about 2.5 million people, of which 30 per cent are women.

Exports have risen from US\$ 1604 million in 1999-2000 to US\$ 2379 million in 2004-05 at a CAGR of 8 per cent. India has a 2.32 per cent share in the global leather trade and ranks eighth in the world in terms of the country's foreign exchange earnings from the industry. The composition of exports has also been changing, with more and more value added products being exported. In 2004-05, for example, value added finished products constituted around 80 per cent of the total exports from the industry, a far cry from 7 per cent in 1956-57. The value addition is at present to the tune of 200 to 500 per cent. India has plans to double its leather exports over the next 5 years. It has been estimated that India has the capacity to meet nearly 10 per cent of global leather requirement.

India has a well established leather industry that is present across three regions

The Indian leather industry comprises the following key sub-sectors - tanning and finishing, footwear, footwear components, leather garments and leather goods and accessories. A large part (nearly 60-65 per cent) of the production is done by the small/cottage sector.

Leather and leather products production is centred in southern, northern and eastern India. Key production units are located in Tamil Nadu, West Bengal, Uttar Pradesh, Punjab, Karnataka, Andhra Pradesh, Haryana and Delhi. Tamil Nadu is the biggest leather exporter in the country with the



south accounting for 43 per cent of the country's share. The industry uses primarily indigenous natural resources with little dependence on imported resources.

The industry has production capacity across all key sectors, as shown in the table below:

Product	Production capacities
Hides	65 million pieces
Skins	170 million pieces
Leather Footwear	776 million pairs
Leather Shoe Uppers	112 million pairs
Non-leather Footwear	960 million pairs
Leather Garments	18 million pieces
Leather Goods	60 million pieces
Industrial Gloves	52 million pairs
Saddlery	0.10 million pieces

Source: http://www.leatherindia.org/ind_at_glance.asp

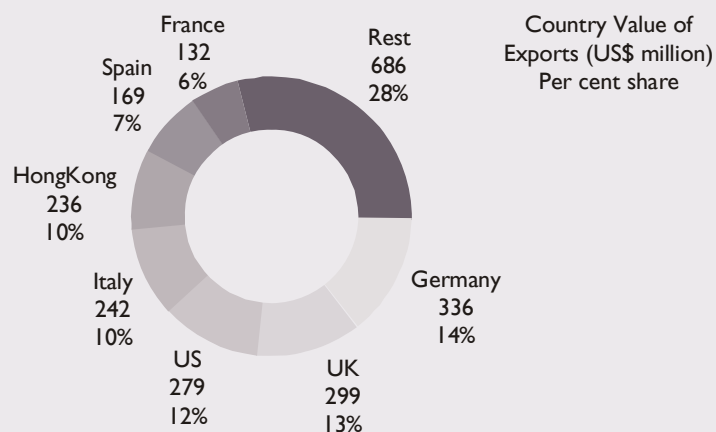
Nearly 60 per cent of the capacity is used for exports and India has emerged as a key player in the global leather trade.

The industry has been experiencing strong export performance

The leather industry is among the top 10 export earners of the country. Exports from the sector constitute about 4 per cent of India's total exports. The key markets for leather products exported from India are Germany, UK, USA and Italy, which together consume about 49 per cent of Indian exports.

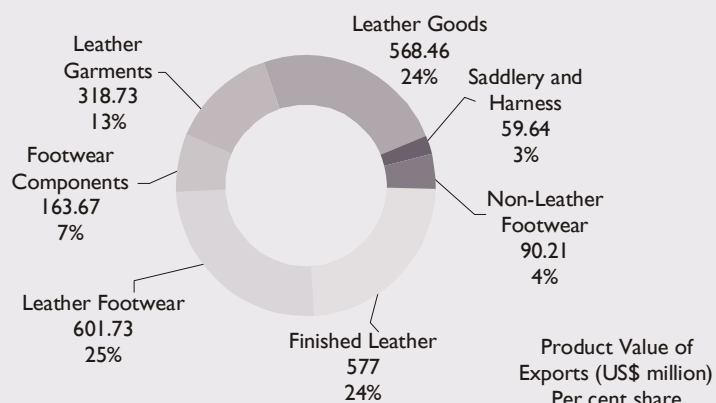
In terms of product category, leather footwear, finished leather and leather goods together account for over 75 per cent of exports. Leather footwear exports were to the tune of US\$ 601 million in 2004, finished leather exports were US\$ 577 million and leather goods stood at US\$ 568 million.

Share of Indian Leather Exports(2004-05)
Total Exports - US\$ 2379 million



Source: http://www.leatherindia.org/country_wise2.asp

Components of Indian Leather Exports(2004-05)
Total Exports - US\$ 2379 million



Source: http://www.leatherindia.org/country_wise2.asp

The southern region accounted for the bulk of the exports from the country.

Leather industry has been identified as one of the thrust areas of exports. The footwear sector has been identified as an area of extreme focus. The Indian leather industry is targeting to grow exports from the present size of US\$ 2.4 billion to over US\$ 5 billion by 2010. India possesses several advantages that can be leveraged by the industry to grow in exports, as well as the domestic market.

Competitive Advantages

The leather industry can benefit from several characteristics of the Indian market and the corresponding advantages they offer. Some of these advantages are:

1 Supply side advantages

- Availability of low cost skilled labour
- Abundance of raw material
- Availability of supporting institutions to develop the industry

2 Demand side advantages

- Large and growing domestic market

3 Regulatory / Policy related advantages

Supply side advantages

Availability of low cost, skilled labour

India's advantage as a source of low cost, skilled labour is quite relevant to industries such as manufacturing of leather goods and footwear that are relatively labour intensive. India has among the lowest cost of labour among key footwear producing countries.



Source: http://www.factbook.net/leather_patterns.php, values are for 1998

In addition to low costs, India also has the world's largest technically trained manpower in leather craft. The twin advantages of low cost and technical skills offer India a distinct competitive advantage in this industry.

Availability of Raw Materials

India is the largest livestock holding country with 21 per cent of the large animals and 11 per cent of small animals in the world. The large population of cattle, buffaloes, goat and sheep that the country possesses ensures that India has ten per cent of the world's raw material base. In addition, some of the leather available in India is premium quality and much sought after.

Availability of supporting institutions

India has institutions that support the leather industry in specific areas such as product development, design and R&D. These institutions enable capability building in the industry and help it become globally competitive.

Product development/ design

A design development centre for leather garments and leather accessories is underway under the joint efforts of the Council for Leather Exports and the National Institute of Fashion Technology (NIFT). The design development centre functions from the NIFT campus in New Delhi.

Research and Development capabilities

The Central Leather Research Institute (CLRI) (is the world's largest leather research institute. CLRI today, is a central hub in Indian leather sector with direct roles in education, research, training, testing, designing, forecasting, planning, social empowerment and leading in science and technology relating to leather. State-of-art facilities in CLRI support innovation in leather processing, creative designing of leather products and development of novel environmental technologies for the leather sector.

Demand side advantages

Large domestic market

India has a large and growing consuming class (with an annual income of US\$ 449 or above), that constitutes the largest segment of the population today. This segment is estimated to constitute nearly 90 million households by 2006-07, up from just 32.5 million households in 1997-98 – a CAGR of over 12 per cent. Coupled with relatively lower penetration levels – penetration levels for footwear has been estimated to be about 60 per cent – this represents a large and growing market for leather goods.

Government Regulation & Support

The Government of India has announced various initiatives to make the leather industry more competitive. Key policy initiatives include:

- De-licensing of integrated tanneries that convert raw hides and skins into finished leather.
- Several leather goods have been de-reserved from the Small Scale sector.
- Free import of raw hides & skins, semi-finished and finished leather.
- Concessional duty on imported machinery and chemicals.
- Free export of raw hides & skins, semi-finished and finished leather and leather products.
- Policies to facilitate modernisation / upgradation: In June 2005 the government initiated a US\$ 64 million 'modernising scheme' called the 'Integrated Leather Development Programme', whereby all leather tanning and product units will be eligible for modernisation assistance. The assistance will be to the extent of 30 per cent of project cost for SSI units and 20 per cent for non-SSI units, subject to a ceiling of US\$ 110 thousand per unit.
- Setting up of leather parks: An outlay of US\$ 24.5 million for setting up five leather parks — two in Chennai and one each in Nellore, Agra and Kolkata. 12 The Council for Leather Exports has estimated that this scheme will generate a total investment of US\$ 267 million in about three years.
- Establishment of 'design centres' at individual manufacturing units, to facilitate improvement in design capabilities: Under this scheme, 25 per cent of the project cost is provided to the units under the market access initiative scheme of the Ministry of Commerce and Industry. Several individual units have come forward to establish their own design centres.

Licensing policy

After the dereservation of 11 items in the leather sector, which include semi-finished hides and skins, leather shoes, leather washers and laces, moulded rubber soles and heels for footwear, flexible polyurethane foam, polyurethane shoe soles, shoe-tacks & eyelets and leather pickers and other leather accessories for textile industry, vide Notification No. SO 603(E) dated 29 June, 2001; no Industrial Licence is required to manufacture of most of the items of the leather industry. The location of industrial projects will, however, be subject to central or state

environmental laws or regulations including local zoning and land use laws and regulations. Industrial undertakings desiring to set up industrial undertakings for manufacture of these items have to only file an Industrial Entrepreneurs' Memorandum (IEM), in the prescribed format, with requisite fees to Secretariat for Industrial Assistance in the Department of Industrial Policy & Promotion, Government of India, Udyog Bhawan, New Delhi-110011.

Some of the items of the leather industry, viz. leather shoe uppers (closed), leather sandals and chappals, leather garments, industrial leather gloves, leather suitcase and travel goods, leather purses and hand bag, fancy leather goods and novelty items, watch straps and leather straps of all types are still reserved for exclusive manufacture by the small scale sector. Small scale sector units are defined in terms of investment in plant and machinery. Non-small scale units can manufacture these items after obtaining industrial licence, which is granted subject to an export obligation of 50 per cent of the production each year.

Key Domestic & Foreign Players

Superhouse Leathers

Superhouse Leathers Ltd. was incorporated in 1980 by a private Indian party to produce shoe uppers. The company has plants at Jaimau (Kanpur Dehat, Uttar Pradesh) producing leather goods, at Kanpur (Uttar Pradesh); shoe uppers, at Noida (Ghaziabad, Uttar Pradesh); leather and textile garments, at Sikandra (Agra, Uttar Pradesh); shoes at Unnao (Uttar Pradesh) shoes and sole leather, at Unnao (2 plants; in Uttar Pradesh) producing chrome leather and chrome leather (skins).

Revenue for the year 2004-05 was US\$ 45 million.

Mirza International

Mirza Tanners Ltd. was incorporated in 1979 by the Mirza Tanners Group to produce leather shoes. The company has plants at Juhi, Kanpur Nagar (in Uttar Pradesh), for manufacturing shoe uppers and shoes; at Magarwara, Unnao (Uttar Pradesh) for bags, finished leather, shoe uppers and shoes; at Noida, Ghaziabad, in Uttar Pradesh, which produces shoe uppers and shoes and another at Shahjani, Unnao (Uttar Pradesh) which produces bags, finished leather, shoe uppers and shoes. Its revenue for the year 2004-05 stood at US\$ 57 million.

Bata India Ltd.

Bata India Ltd. was incorporated in 1931 by a private Indian party and mainly produces leather shoes. The company has plants at Bangalore (Karnataka), Bataganj (Patna, Bihar), Hosur, (Dharmapuri, Tamilnadu) and at Batanagar (North 24 Parganas, West Bengal) producing leather footwear; at Faridabad in Haryana producing rubber & canvas footwear and at Mokamehghat (Patna, Bihar), which produces finished leather from hides. Bata India Ltd. is an affiliate of the Toronto based Bata Shoe organisation. Bata India had revenues of US\$ 158 million in the year 2003-04.

Liberty Shoes Ltd.

Liberty Shoes Ltd. was incorporated in 1996 by a private Indian party and produces shoes. The company has plants at Kutail, (Karnal, Haryana) producing Eva co-polymer compound, Ishoe uppers, leather shoes, non leather shoes and rubber chappals (slippers). The revenue for the year 2004-05 was US\$ 44.5 million and the profit stood at US\$ 2.2 million.

Bhartiya International Ltd.

Bhartiya International Ltd. was incorporated in the year 1987 by a private Indian party. The company mainly produces leather apparel and clothing accessories. The company has a plant at Bangalore, Karnataka, producing leather garments. The revenue and profit for the year 2004-05 was US\$ 21 million and US\$ 1 million respectively.

Lakhani India Ltd.

Lakhani India Ltd. was incorporated in 1981 by the Lakhani group and produces leather shoes. The company has plants at Faridabad in Haryana for producing leather shoes. The revenue and profit for the year 2004-05 was US\$ 28 million and US\$ 0.6 million respectively.

Forward Group

The company generated revenues of US\$ 25 million in 2003. Nearly 90 per cent of its revenue comes from the UK market. The Forward group has entered into a first-of-its-kind joint venture with Conceria Virginia Italy (CVI), a 10-year-old Italian tannery, specialising in leathers for shoes and leather goods, and has set up a six million sq. ft state of- the-art leather manufacturing facility in Chennai. This is the first FDI in the tanning sector in India with investments by both partners, 'raw material resourcing expertise' & 'technology transfer' from Italy and marketing by the joint venture partner.

Future outlook

India has distinct advantages in the leather industry. These are primarily low costs, widely available raw material and well-developed quality and research and development facilities. These have enabled India to become a significant player in the world leather market, with exports growing at 8 per cent CAGR. Multinational companies in this sector are increasingly looking at India and many of them have also entered India in different ways. For example:

- International fashion chain Fossil has already picked up a minority stake of 2.5 per cent in domestic fashion accessories major Crew B.O.S. Products, while a Spain-based fashion chain is in talks with Worldwide Leather for a joint venture.
- The Forward group has entered into a joint venture with Conceria Virginia Italy (CVI), a 10-year-old Italian tannery specialising in leathers for shoes and leather goods; the joint venture has set up a six million sq. ft state of- the-art leather manufacturing facility in Chennai.

With the government keen to support the industry to modernise and grow and double exports by 2010, the outlook for the leather industry in India is quite positive.

CONTACT FOR INFORMATION

Information on the market and opportunities for investment in the leather sector in India can be obtained from the Council for Leather Exports.

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