

Indian Leather Industry likely to grow significantly in coming years

Leather is one of the most widely-traded commodities globally. The growth in demand is driven by the fashion industry, especially footwear, furniture and interior design, and the automotive industry, among others. The Leather Industry holds a prominent place in the Indian economy. This sector is known for its consistency in high export earnings and it is among the top ten foreign exchange earners for the country.

With an annual turnover of over \$11 billion, the export of leather and leather products increased manifold over the past decades and touched \$5.91 billion during 2013-14, recording a cumulative annual growth rate of about 14.77% (5 years). The Leather industry is bestowed with an affluence of raw materials as India is endowed with 21% of world cattle & buffalo and 11% of world goat & sheep population. Added to this are the strengths of skilled manpower, innovative technology, increasing industry compliance to international environmental standards, and the dedicated support of the allied industries. The leather industry is an employment intensive, providing job to about 2.5 million people, mostly from the weaker sections of the society. Women employment is predominant in leather products sector with about 30% share.

India is the second largest producer of footwear and leather garments in the world. The major production centers for leather and leather products in India are located in Tamil Nadu - Chennai, Ambur, Ranipet, Vaniyambadi, Vellore, Pernambut, Trichy, Dindigul and Erode; West Bengal - Kolkata; Uttar Pradesh - Kanpur, Agra, Noida, Saharanpur; Maharashtra - Mumbai; Punjab - Jalandhar ; Karnataka - Bangalore ; Andhra Pradesh - Hyderabad; Haryana - Ambala, Gurgaon, Panchkula, Karnal and Faridabad; Delhi; Madhya Pradesh - Dewas; Kerala - Calicut and Ernakulam / Cochin.

India's export of leather and leather products

India's leather industry has witnessed robust growth, transforming from a mere raw material supplier to a value-added product exporter. In fact, nowadays, almost 50 per cent of India's leather business comes from international trade. In 2013-14, India's leather exports recorded a growth rate of 17.81 per cent, reaching \$5908.82 million as against the performance of \$5015.41 million in the corresponding period of last year. Finished leather registered export revenues of \$77716.43 million in 2013-14, witnessing an increase of 30.59 per cent over exports in 2012-13.

Export of different categories of Footwear holds a major share of about 43 per cent in India's total leather and leather Products exports with an export value of \$2531.04 million, followed by leather goods and accessories with a share of 23 percent and, finished Leather with 22 per cent.

India's leather exports are likely to grow 20 per cent at \$6 billion by the end of the current fiscal, and may even touch \$14-billion mark by the end of the 12th Five Year Plan.



Segment-wise Analysis

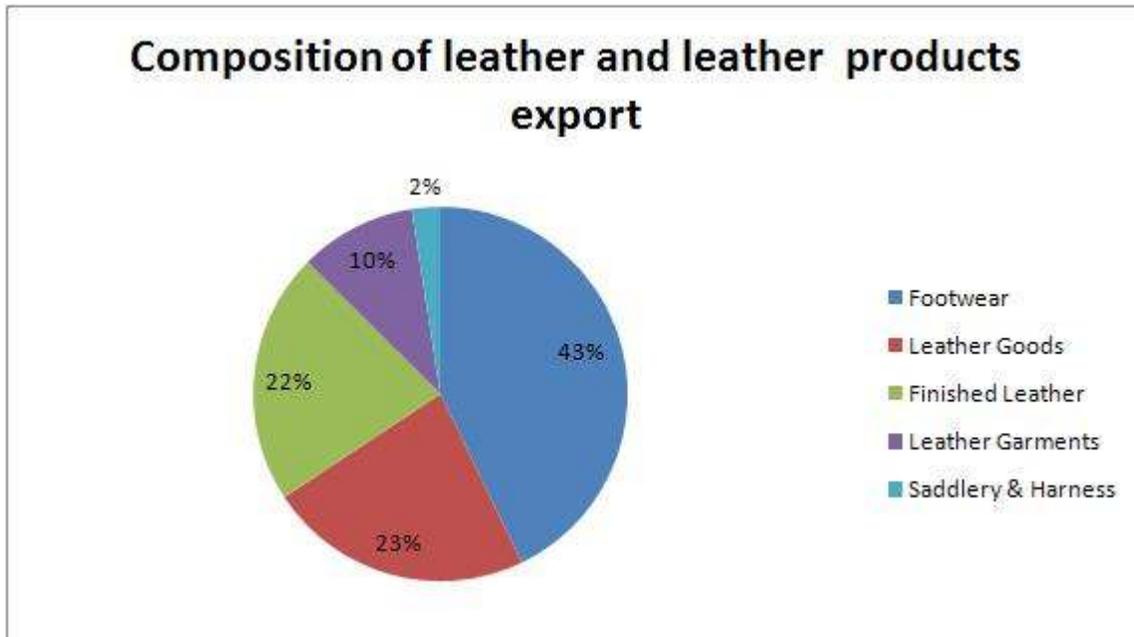
Indian Leather Footwear Industry: India is the world's second largest producer of footwear. Of total turnover, footwear accounts for 43 percent share of total leather exports. Various types of shoes produced and exported from India include dress shoes, casuals, moccasins, sports shoes, horacchis, sandals, ballerinas, and booties. Major production centres are Chennai (Madras), Delhi, Agra, Kanpur, Mumbai (Bombay), Calcutta and Jalandhar. Most of the modern footwear manufacturers in India are already supplying to well establish brands in Europe and USA. The large domestic market and the opportunity to cater to world markets make India an attractive destination for technology and investments. Equally relevant is it for the footwear components industry, at this juncture, it is posed for real growth and diversification.

Indian Leather Goods Industry: Items produced by this sector include, bags, handbags, hand-gloves and industrial gloves, wallets, rucksacks, folios, brief cases, travel-ware, belts, sports goods, upholstery and saddlery goods. A surfeit of modern units in Chennai, Kanpur and Calcutta employing skilled human resources and equipped with modern and sophisticated machinery account for a diversified range of superlative small leather goods including bags, purses, wallets, industrial gloves etc. made of quality leathers of cows, sheep, goats and buffaloes. The products meet the requirement of bulk buyers and consumers in Europe, USA and Australia.

The major market for Indian leather goods is Germany, with an off-take of about 25 per cent of the leather goods produced in India followed by USA, UK, France and Italy. With products ranging from designer collections to personal leather accessories, this sector has a share of 23 per cent in the leather industry, while maintaining an average growth rate of 11 per cent recorded in the last five years.

Finished Leather: India has amongst the largest livestock population in the world, providing a strong raw material base in goat, buffalo, cow and sheep leather. In terms of raw material availability in pieces, India is endowed with 12.55% of Bovine hides & skins, 12.29% of goat and kid skins, and 3.48% of Sheep and Lamb skins in the world.

The range of finished leathers includes classic finishes (polish, glazed, aniline, patent), matt surfaces (suede, nubuck), nappa, burnished & oily leathers, crackled & distressed finishes etc. Amongst the major producers of finished leather in the world, the Indian Leather Industry has a long tradition of supplying high quality leather for the global market. Indian tanning industry produces over 2 billion square feet of leather per annum. The Industry has the tanning capacity to fulfill 10% of global leather requirements. Major tanning clusters in the country are Chennai, Ambur, Ranipet, Kolkata, Kanpur, Jalandhar etc. There are around 2091 tanneries in the country - 45% in Tamil Nadu, 26% in West Bengal, 18% in Uttar Pradesh.

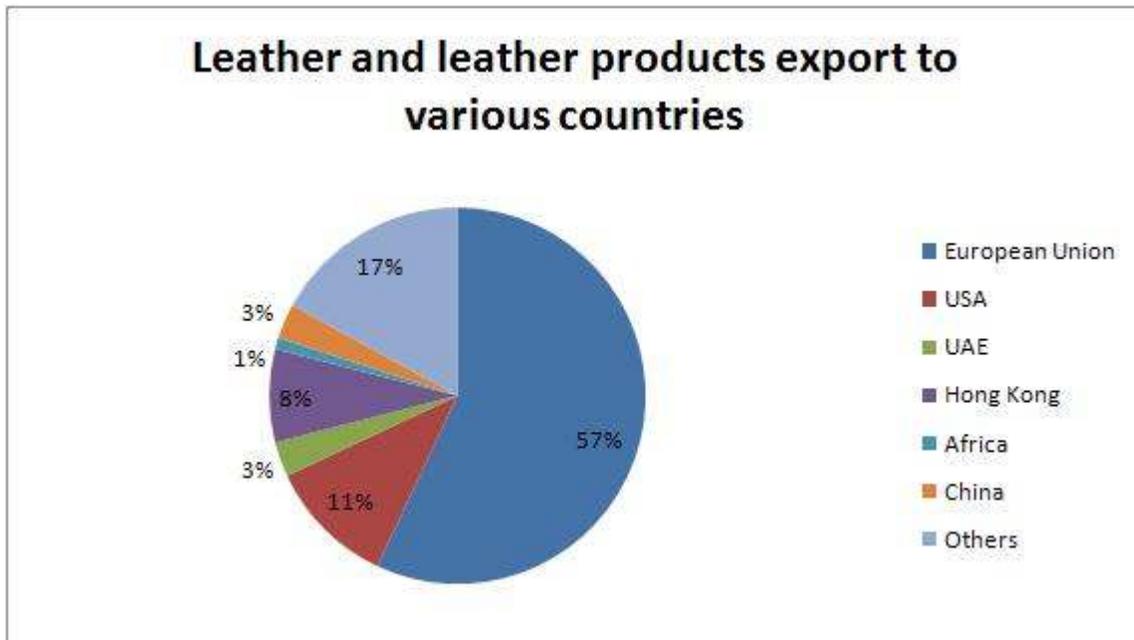


Indian Saddlery Industry: India is one of the largest producers of saddlery and harness goods in the world. The saddlery industry was established in the 19th century primarily to cater to the needs of military and police. From then on initiatives were taken to develop, the industry and nowadays there are over 150 units in the organised sector, out of which approximately 105 are 100% export oriented units. Kanpur, in the state of Uttar Pradesh, is a major production centre for saddlery goods in India accounting for more than 95% of the total exports of saddlery items from India. Kanpur, because of its specialisation in tanning and finishing of buffalo hides is the only centre in the country where harness leather, which is major input for saddlery industry, is manufactured. The major importers of Indian saddlery are Germany, USA, UK, France, Scandinavia, Netherlands, Japan, Australia and New Zealand.

Indian Leather Garments Industry: The Leather Garment Industry occupies a place of prominence in the Indian leather sector. The product classification of leather garments comprise of jackets, long coats, waist coats, shirts, pant/short, children garments, motorbike jackets, aprons and industrial leather garments. The major export destination of leather garments from India is Germany. In 1997, German imports of leather garments aggregated DM 1786 million of which DM 304 million worth of imports went from India. India, China and Turkey were the major suppliers of leather garments for the German market, as they accounted for about 78% of the market share.

Percentage share of various countries in India's leather & leather products export

In 2013-14, the major markets for Indian Leather & Leather Products are Germany with a share of 12.92%, USA 11.32%, U.K. 11.20%, Italy 8.73%, France 5.99%, Hong Kong 7.98%, Spain 5.21%, Netherlands 3.66%, China 2.60%, Denmark 1.51%, UAE 3.05% and Belgium 1.62%. These 12 countries together accounts for nearly 76% of India's total leather& leather products export. European Union accounts for 57% of India's total export of leather and leather products. Moreover, export of leather & leather products to major markets like Germany, USA, UK, Italy, Hong Kong, France, Spain, Russia, Canada, Japan, Portugal, UAE, China have shown positive growth during April-June 2014.



Region-wise Export of Leather & Leather Products

In FY14, the southern region of India, with 37% representation, accounted for the maximum number of exporters. It was followed by 24% northern-based exporters and 19% central-based

exporters. Tamil Nadu in the south and Uttar Pradesh in the north emerged as a strong base for a sizeable number of exporters.

Majority of exporting companies from the north and south regions were from the engineering sector, accounting for 26% and 22% respectively. Meanwhile, more than 50% of the exporters in chemicals, IT, pharmaceuticals and textile sectors were public limited entities.



Challenges for the industry

Environmental issues: The leather industry is considered to be a major pollutant, especially during the last stages of production in tanning. As the leather industry also releases its waste and chemicals in to water bodies it is known to badly affect groundwater. Due to its nature, importing countries have set global standards, besides banning usage of many chemicals.

Unavailability of raw materials: The unavailability of raw materials is a serious problem for both the developed countries and the developing countries like India. Other components like fittings, adhesives and many more are also less accessible in preferred scale.

Chinese competition: China dominates the global leather industry due to its low production costs.

Lack of technology: In India leather is produced in the old fashioned way through tanning that takes a lot of time to process raw hide skin into leather. Further, the activities of designing, cutting and stitching are done manually, which affects the quality and unit value realisation of

products. Evidently, the industry lacks in terms of level of modernisation and technology readiness.

Inadequate investments: The leather industry needs to make high capital investments for proper production processes and infrastructure.

Lack of skilled labour: The industry is affected by lack of skilled labour, and low level of labour productivity, as the employees are not exposed to any formal training.

Underutilisation of capacity: Due to deficient raw materials, shortage of finance, labour problems and regular power failures there is underutilisation of capacity in the industry.

Outlook

Indian leather industry is not only a major foreign exchange earner for the country but one of the largest employment providers, particularly for weaker sections of the society. Exports from the leather sector have grown to an all time high value of \$6 billion in 2013-14. Exports are projected to grow at more than 20% in the next five years. The domestic market for leather and leather products, which is presently about \$5 billion, is also expected to double in the next 5 years.

Meanwhile, the Government is also implementing various Special Focus Initiatives under the Foreign Trade Policy for the growth of leather sector. With the implementation of various industrial developmental programmes as well as export promotional activities; and keeping in view the past performance, and industry's inherent strengths of skilled manpower, innovative technology, increasing industry compliance to international environmental standards, and dedicated support of the allied industries, the Indian leather industry aims to augment the production, thereby enhance export, and resultantly create additional employment opportunities.

Companies Financial Data In Industry

COMPANY NAME	CMP	MCAP (Rs.Crore)	BOOK VALUE	DIV. YEILD %	TTM EPS	TTM PE
Superhouse Ltd.	278.80	307.38	182.91	0.54	33.41	8.34
Bata India Ltd.	1321.85	8494.71	141.85	0.49	29.43	44.92
Relaxo Footwears Ltd.	479.55	2877.59	49.94	0.10	11.20	42.82
Bhartiya International Ltd.	377.05	420.93	134.34	0.27	8.75	43.07
Liberty Shoes Ltd.	291.45	496.63	84.58	0.00	8.14	35.79
Cosco (India) Ltd.	76.00	31.62	45.83	0.00	7.31	10.40
Tinna Rubber & Infrastructure Ltd.	89.35	76.53	80.23	1.12	5.82	15.36
Sarup Industries Ltd.	41.20	13.40	86.51	4.37	4.95	8.32
Mirza International Ltd.	39.55	366.65	31.96	1.26	4.89	8.10
Oscar Global Ltd.	7.98	2.63	11.98	0.00	3.45	2.32
Mayur Leather Products Ltd.	26.15	12.64	34.26	3.82	2.45	10.67
Lawreshwar Polymers Ltd.	15.80	21.61	22.41	0.00	1.31	12.03
Super Tannery Ltd.	4.47	48.26	6.90	1.12	0.89	5.04
Phoenix International Ltd.	8.96	15.04	40.76	0.00	0.54	16.50
Pretto Leather Industries Ltd.	0.71	0.55	8.21	0.00	-0.02	0.00
Worldwide Leather Exports Ltd.	10.35	3.07	23.59	0.00	-0.44	0.00
Crew BOS Products Ltd.	2.92	4.09	-71.94	0.00	-92.23	0.00

Source – Ace Equity

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