

Digital push to drive growth for Leather sector

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Government initiatives to provide fillip to leather industry

The leather industry enjoys a predominant place in the Indian economy and has been a major contributor to export earnings since long. India has an abundance of basic resources for the leather industry with access to 20% of world's cattle and buffalo and 11% of the world's goat and sheep population. Globally, India is the 2nd largest producer of Footwear and also 2nd largest exporter of Leather Garments.

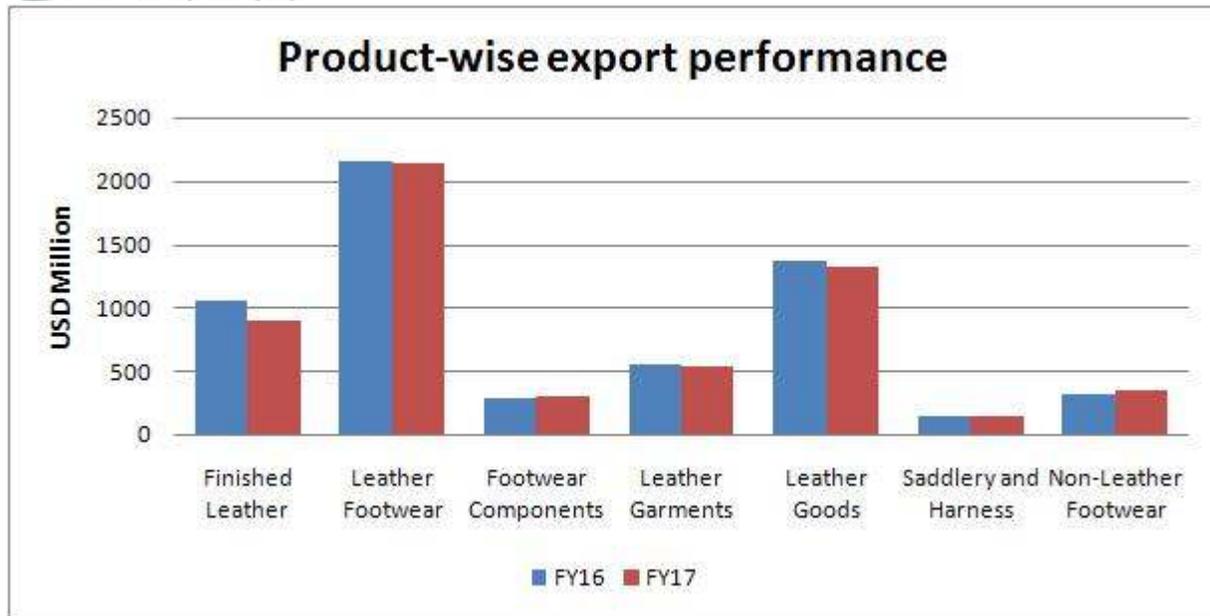
Leather is one of the most widely traded commodities globally. The growth in demand for leather is driven by the fashion industry, especially footwear. Apart from this, furniture and interior design industries, as well as the automotive industry which has huge demand for leather. The leather industry has become important part of the Indian economy on the back of significant export earnings and growth. The Indian leather industry accounts for around 12.9 per cent of the world's leather production of hides/skins. The country ranks second in terms of footwear and leather garments production in the world.

India's leather industry is set to grow exponentially over the next five years with a growth target of 50% in exports from 2016-20. Per capita consumption of footwear in India is projected to increase and total domestic consumption is expected to reach up to 5 billion pairs by 2020. The industry is highly labour intensive and employs around 3 million people out of which 30% are women. The sector has a potential to generate 250 jobs for every Rs 1 crore investment.

Exports

The export of leather & leather products for the FY17 reached \$5855.06 million as against the export of \$5665.91 million in the corresponding period of last year, recording a negative growth of (3.23%). In rupee terms, the export touched Rs 383321.67 million in FY17 as against Rs 380024.07 million in the same period previous year, registering a negative growth of (-0.86%).

Exports of all the leather & leather products, barring Non-Leather Footwear and Footwear Components, have showed decline during the first ten months of the financial year 2016-17 on Y-o-Y basis. Export of leather footwear holds a major share of around 38% in India's total leather & leather Products exports, followed by Leather Goods with a share of 23%, Finished Leather 16%, Leather Garments 10% and Non-leather footwear 6%.



The major markets for Indian Leather & Leather Products are U.S.A having 15.36% share of total exports, followed by Germany 11.65%, UK 10.74%, Italy 6.63%, Spain 5.19%, France 5.10%, Hong Kong 4.70%, UAE 4.01%, China 3.07%, Netherlands 3%, Belgium 1.85% and Poland 1.79%. These 12 countries together accounts for over 73% of India's total leather & leather products export.

Export of leather & leather products to major markets like Germany, UK, Italy, Hong Kong, France, Spain, Netherlands, UAE, Korea Rep etc., have shown negative growth during April-March 2016-17. The percentage share of countries namely UK, Hong Kong, UAE, South Africa etc has declined to around 1 to 2% during 2016-17 comparing to 2015-16.

The Countries namely China, Russia, Belgium, which showed negative growth during April-March 2015-16, registered positive growth during April-March 2016-17. Moreover, USA & Japan after showing positive growth in 2015-16 sustained the same trend in 2016-17 also. USA continue to lead as number one in the list of top importing countries with its percentage share increasing to 15.36% during 2016-17 from 14.25% in 2015-16.



FDI in Leather Sector

Leather, leather goods and pickers attracted foreign direct investment (FDI) worth \$2.04 million between April - December FY17. The sector has attracted FDI worth \$14.84 million or Rs 97.85 crore in FY16 as compared to \$36.5 million or Rs 222.71 crore in FY15.



Reforms under Foreign Trade Policy 2015-20

- 3% duty scrip under Merchandise Exports from India Scheme (MEIS) for notified leather products and footwear and 2% duty scrip for finished leather products for export to Group A and B countries.
- Infrastructure Projects in Export Clusters under ASIDE2 Scheme: The Council for Leather Exports (CLE) has been notified as a Central Agency for implementing Infrastructure projects relating to Leather Sector across the country with financial assistance from the Department of Commerce (DOC) under ASIDE Scheme as well as from the State Government.
- Zero duty Export Promotion Capital Goods Scheme (EPCG) implemented in previous Foreign Trade Policy (FTP) has been retained in FTP 2015-20.
- Zero import duty on hides & skins, semi-processed as well as finished leather, raw and tanned fur-skins.

Recent developments

Government to give Rs 4,000 crore package to Leather, footwear industry

The Department of Industrial Policy and Promotion (DIPP) has sought a package of Rs 4,000 crore from the Finance Ministry to support the leather and footwear industry, which may turn out to be a game-changer for the sector. DIPP is awaiting comments from all ministries concerned with the leather sector including Skill Development, Environment and Water Resources Ministry. Once these ministries come up with their preliminary views by the month-end, the Finance Ministry's expenditure finance committee (EFC) will examine the proposal. In the Budget 2017-18, Finance Minister Arun Jaitley had said that a special scheme for creating employment in the leather and footwear industries will be launched and will be on lines of the Rs 6,000 crore package which was announced for the textile sector last year. DIPP is the nodal agency for the central sector scheme, (Indian Leather Development Programme), which was approved with an outlay of Rs 990.36 crore, during 12th Plan period (2012-17). The Centre has already allocated Rs 500 crore towards ILDP for the current financial year. With six sub-schemes including Integrated Development of Leather Sector (IDLS), human resource development, support to the artisan, leather technology innovation and mega leather cluster under ILDP, DIPP wants more incentives to scale up the programme. The scheme is expected to boost exports, generate employment and make the leather and footwear industry competitive globally.

Tannery body inks pact with east African countries

In order to promote trade and investment partnerships in the leather sector, the All India Skin and Hide Tanners and Merchants Association (AISHTMA) has signed memorandum of understandings (MoUs) with East African countries, Kenya and Tanzania, United Nations Agency and with the International Trade Centre. The signing of MoUs is supported by Supporting Indian Trade and Investment for Africa agency and funded by United Kingdom's Department for International Development. The MoUs would focus on trade information exchange, trade and investment promotion, sharing of best practices and joint development of

services among others. AISHTMA would promote trade and investment partnerships between India and East Africa initially and later extend it to other geographies.

Tamil Nadu's leather tannery residual salt can be processed, marketed

The leather industry in Tamil Nadu that amounts to almost 40 per cent of the country's total leather exports claims to have found ways to convert waste residual from the leather manufacturing units into saleable raw material. The residual that can neither be stocked nor disposed posed huge risks to the environment. The research helps separate sodium chloride and sodium sulphate in the residual, making the residual saleable in the market.

Outlook

India has become prominent player in the field of leather exports in international markets. India is the second largest producer of leather after China and it also has the benefit of being the one of the oldest manufacturing industries catering to the global markets. From being just raw material supplier, the Indian leather industry has transformed itself as an established exporter of value-added and finished leather products, contributing significantly to export earnings. The industry offers tremendous potential for employment opportunities driven by the growth in global demand for leather products, especially in footwear, furniture, interior design and in the automotive industry, among others. The outlook of the sector looks promising as the Government is providing various incentives to the leather industry in Foreign Trade Policy and allowing concessional Duty for import of Machinery. Moreover, signing agreement with east African countries and allocation of Rs 4,000 crore package to leather, footwear industry too will provide fillip to the sector significantly in coming time.

Companies Financial Data in Industry

| Company Name | CMP | MCAP | BOOK VALUE | DIV. YEILD % | TTM EPS | TTM PE |
|-----------------------------|--------|--------|------------|--------------|---------|--------|
| Bhartiya International Ltd. | 591.40 | 718.06 | 187.65 | NA | 12.88 | 45.92 |
| Euro Leder Fashion Ltd. | 17.25 | 7.72 | 27.19 | NA | 1.38 | 12.53 |
| Phoenix International Ltd. | 11.00 | 18.47 | 41.90 | NA | 0.88 | 12.50 |
| Namaste Exports Ltd. | 2.60 | 36.23 | -55.36 | NA | 0.42 | 6.12 |

Sorted with TTM EPS (High to Low)

Source – Ace Equity

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