

IICCI – Short Market Overviews

The Indian Leather Industry

1. Leather Industry in India

Leather Industry occupies a place of prominence in the Indian economy in view of its massive potential for employment, growth and exports. There has been increasing emphasis on its planned development, aimed at optimum utilisation of available raw materials for maximising the returns, particularly from exports.

The leather industrial sector comprises of:

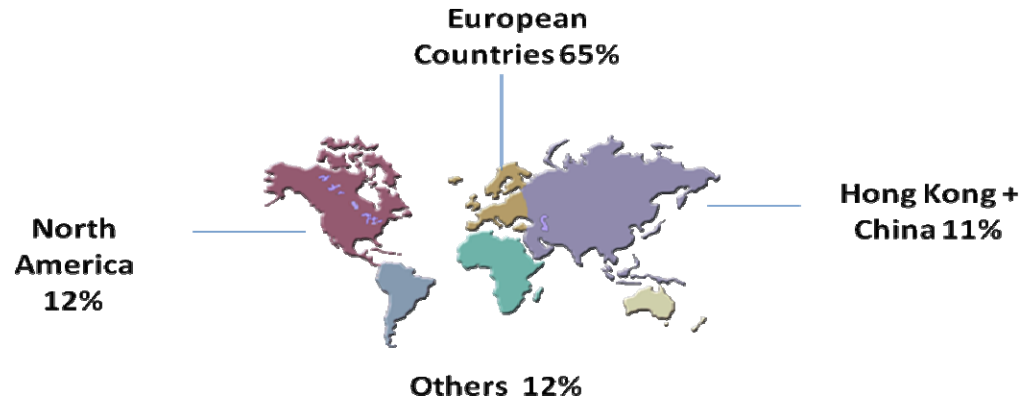
- a) tanneries (where raw hides and skins are converted into leather)
- b) factories transforming leather into a variety of consumer products such as footwear, garments and outerwear, and assorted leather goods such as wallets, passport cases, key chains, handbags and brief cases.

Apart from the quality of raw material, the process of its conversion into leather and, later, of the design, product development and process of manufacture, of products play a key role in adding value to it.

Some features of Indian leather industry

- The Government policies on leather and leather product export started changing from 1974. Priorities were given for export of value added goods. From the year 1991 onwards only finished leather were exported and export of raw or semifinished leather was banned;
- Many tanners started setting up factories for manufacturing leather products after 1991-92 like shoe uppers, shoes, garments and leather goods. Similarly many shoe and garment manufacturers began to seek backward linkage, by taking on lease or setting up tanneries. This is a unique development in India, a tanner becoming product maker and the product sector setting up tanneries or leasing out tanneries;
- At the same, as incentive to the exporters, the import duties on capital goods have been reduced;
- Until 2002, the leather sector was reserved for small scale sector and this may have prevented Foreign Direct Investment (FDI) in this sector. The FDI in this sector from August 1991 to December 2005, is US\$ 51.84 millions. This is only 0.15% of total FDI inflows and ranked at 30;
- Today the industry ranks 8th in the export trade in terms of foreign exchange earnings of the country;
- India is largest livestock holding country;
- The Indian leather sector meets 10% of global finished leather requirement.

- The export destinations of Indian finished leather and leather products in 2006-07 were as follows:



Source: Council for Leather Exports

- The main production centres for leather and leather products are the following:
 - Tamil Nadu – Chennai, Ambur, Ranipet, Vaniyambadi, Trichy, Dindigul and Puducherry
 - West Bengal – Kolkata
 - Uttar Pradesh – Kanpur, Unnao, Banther, Agra and Noida
 - Punjab – Jalandhar

Tamil Nadu accounts for about 40% of India's exports and has about 60% of tanning capacity.
- The Indian leather industry employs about 2.5 million workforce and 30% of the workforce is women.
- The industry has a very strong institutional set up. The following are the major institutions cater to the industry:
 - CLE Council for Leather Exports (Under Ministry of Industries and Commerce);
 - CLRI Central Leather Research Institute (Under Department of Scientific and Industrial Research, Ministry of Science and Technology)
 - AISHTMA, All India Skin Hide Tanners Merchants Association
 - ISF, Indian Shoe Federation
 - IFLMEA, Indian Finished Leather Manufacturers and Exporters Association
 - CFTI Central Footwear Training Institute
 - ILIFO, Indian Leather Industry Foundation

- Regional Tanners Associations
- Common Effluent Treatment Plants
- Special Purpose Vehicles promoted to implement certain infrastructure projects
- IILP, Indian Institute of Leather Products
- UPLIA, Uttar Pradesh Leather Industries Association
- CLCTA, Kolkata Leather Complex Tanners Association
- AFMEC, Agra Footwear Manufacturers and Exporters Association

Structure of the Industry

In India, the fact that this industrial sector remained, by and large, reserved for the small scale sector* until as recently as 2002, is reflected in its structure. The production base of leather and leather products in the country is presented below:

Table 1 - Production base of leather and leather products					
	<i>Sector / Product</i>	<i>Estimated annual production capacity</i>	<i>Household Sector</i>	<i>Small scale sector</i>	<i>Medium & Large scale sector</i>
1.	Tanneries – Leather	2.5 billion sq.ft. .	10%	35%	55%**
2.	Footwear – Leather	1009 million pairs (includes about 100 million pairs of shoe uppers)	60%	25%	15%
3.	Footwear – Non leather	1056 million pairs	15%	70%	15%
4.	Garments and outerwear	20 million pieces	Nil	95%	5%
5.	Assorted leather goods	120 million pieces	10%	85%	5%
6.	Saddlery and Harness	12 million pieces	40%	60%	Nil
7.	Leather gloves	100 million pieces			

*A small scale industrial unit is one where the investment in plant and machinery does not exceed Rs. 10 million.

**In respect of leather, while a sizeable percentage of goat and sheep skins as also calf skins is processed in better organised modern tanneries of Tamilnadu, a predominant share of the heavy hides such as of cow and buffalo is processed in Kanpur and Kolkata. The quality of finished skins produced in India is highly regarded globally; however, processed heavy hides have limited range and average finish. Kanpur has emerged as the main centre of buffalo leather while

Kolkata specializes in cow leather. In the past few years, modern tanneries have come up in Kanpur and Kolkata too for processing hides. New products such as upholstery leather are now manufactured by tanneries in Kanpur and Kolkata.

Note: In absence of any reliable survey, the above figures are based on available data and an educated guesstimate.

Historical review

The historical review of the performance of the industry over the past three and a half decades is presented in the following table.

Table 2 - Performance of Indian Leather Industry (in US\$)					
	1972	1985	1995	2005	2007
<i>Total Exports</i>	239.88	552.10	1752.38	2421.59	2982
<i>Domestic market*</i>	162.50	320.00	1145.00	2045.00	2600
<i>Total turnover</i>	402.38	872.10	2897.38	4466.59	5582
<i>Global export</i>	4000	16000	54350	75260	n.a.
<i>India's % on global exports</i>	4.00	3.44	3.22	3.22	

Current output and exports

The current (2007) value of output of this industrial sector is estimated at over Rs. 250,000 millions per annum. Of this, export accounted for Rs. 134,920 millions in 2005-07 and the remainder, by the domestic market. The main products of leather sold in the domestic market are footwear and assorted leather goods. There is a very small demand for leather garment in the colder regions of the country. It may be noted that whereas the export figures are accurate, based on customs data, the domestic consumption figures are estimates.

Table 3 - Current export basket of Indian leather industry		
<i>Product category</i>	<i>Exports, US\$ mln</i>	<i>% on total exports</i>
Finished leather	688.05	23%
Leather footwear	950.90	32%
Footwear components	212.65	7%
Leather garments	308.98	10%
Leather goods	690.66	23%
Saddlery and harness	81.85	3%
Non-leather footwear	48.69	2%
Total	2981.79	100%

2. Environmental compliance of the Indian tanning industry

- More than 95% of the tanneries in India have pollution control devices. The clustered manufacturing has resulted in common effluent treatment plants. There are 19 common effluent treatment plants are operational in India and out of which 14 are operational in Tamil Nadu. More than 150 individual effluent treatment plants are operational in isolated tanneries and locations where the common facilities are not possible
- In Tamil Nadu alone about Rs.225 crores (US\$ 56.25 million) have been invested in pollution control devices since 1996
- In order to comply with recent legal compliance, the tanneries in Tamil Nadu have to meet zero liquid discharge norms, being this norm is not applicable even in industrialized countries. This will result in increased product cost of about 12% over the cost of other tannery centres within India or outside India.
- In order to meet the additional expenditure, Government of India is assisting the common effluent treatment plants by capital grants upto 75% of investment cost which will meet the recent legal requirement. Under this programme, project with Government grant upto Rs.1000 millions are being implemented. For the remaining production centres in Tamil Nadu, project proposals have been submitted to Government with an project outlay of Rs.3000 millions.
- This has resulted in freezing of capacity in tanneries in Tamil Nadu. As of now the increase in capacity of tanneries located in Tamil Nadu is without a solution.

Challenges for the tannery sector

- Increased cost of production per unit area of finished leather due to stringent environmental norms
- Expansion of production capacities – issue in Tamil Nadu due to local laws despite compliance
- Increasing demand of raw material – raw hides, skins and semifinished leathers
- Low level of technology in small tanneries
- No specific dedicated industrial areas for leather sector in Tamil Nadu
- Poor capacity utilization in most tanneries leading higher financial cost and overheads

Challenges in leather product sector, particularly footwear sector

- Varying levels of technology in the factories depends on the size of the factories
- Low quality of shoes – threat of shift in production to other areas or countries where wages levels are low if the quality is maintained at same level
- Most companies work on subcontract basis – design, component selection and methods of production are given by the buyers and do not provide their own fashion collections, however companies are able to make prototypes based on ideas provided by the buyer
- Strong requirement to increase quality as well as quantity
- Availability of right raw material (finished leather) at right time
- Under developed designs for footwear components sector
- Absence of own collections and poor development of footwear components, particularly for women's footwear – Market size of women's footwear in the world is 63% of total footwear market, but the share of women's footwear exports out of India's total footwear is only 34%
- Meeting manpower requirement under the state of affairs of rapid industrialization

Government policies in support of the industry

- The entire leather sector is now de-licensed and de-reserved, paving way for expansion on modern lines with state-of-the art machinery and equipment
- 100% Foreign Direct Investment and Joint Ventures permitted through the automatic route
- 100% repatriation of profit and dividends, if investments made in convertible foreign currency. Only declaration to this effect to the Reserve Bank is required.
- Promotion of industrial parks (one leather park in Andhra Pradesh, one leather goods park in West Bengal, one footwear park in Tamil Nadu and one footwear components park in Chennai).
- Funding support for modernizing manufacturing facilities
- Funding support for establishing design studios
- Duty free import of raw materials (namely raw skins, hides, semifinished leather and finished leather) and of embellishments and components under specific scheme
- Concessional duty on import of specified machinery for use in leather sector
- Duty neutralization / remission scheme

UNIDO's Consolidated Project for SME Development in India

UNIDO has assisted Indian leather sector on several areas in the past. Currently, UNIDO has been implementing a Consolidated Project for SME Development in India since 2007. The project is targeting clusters belonging to the industrial sectors of Leather & Leather Goods (Chennai, Agra and Shantiniketan). This project aims at three components, namely:

- a) *Cluster twinning* - the establishment of Cooperation Agreements between the Indian and the corresponding Italian clusters,
- b) *Investment and Technology Promotion* - promotion of foreign direct investment & transfer of technology and
- c) *Mutual credit guarantee scheme* - promotion in India of the Italian Mutual Credit Guarantee Schemes.

Two cooperation agreements between two Indian and two Italian corresponding associations, namely leather and footwear, have been entered under the aegis of the project. The project addresses the challenges faced by the industry in the following ways:

- Bringing the successful cluster model of Italian companies to Chennai for leather and footwear sectors;
- Disseminating the best practices from Italy to Indian enterprises;
- Creating awareness on latest technological advances;
- Forging partnership with Indian and foreign trade associations of same sectors;
- Development of Subcontracting and Partnership Exchange (SPX) for better capacity utilization, promotion of trade and business partnerships;
- Assistance in developing business plans and carrying out project pre-appraisal by utilizing a UNIDO methodology of COMFAR;
- Assistance to local SMEs in raising necessary finance for their investment projects;
- Introduction of mutual credit guarantee schemes