

A photograph showing several brown leather handbags in a workshop or store setting. The bags are arranged in a row, with the most prominent one in the foreground. The background is slightly blurred, showing shelves with various items, including what appears to be leather goods and tools. The lighting is warm, highlighting the texture of the leather.

Leather and Leather Products Sector Risk Index

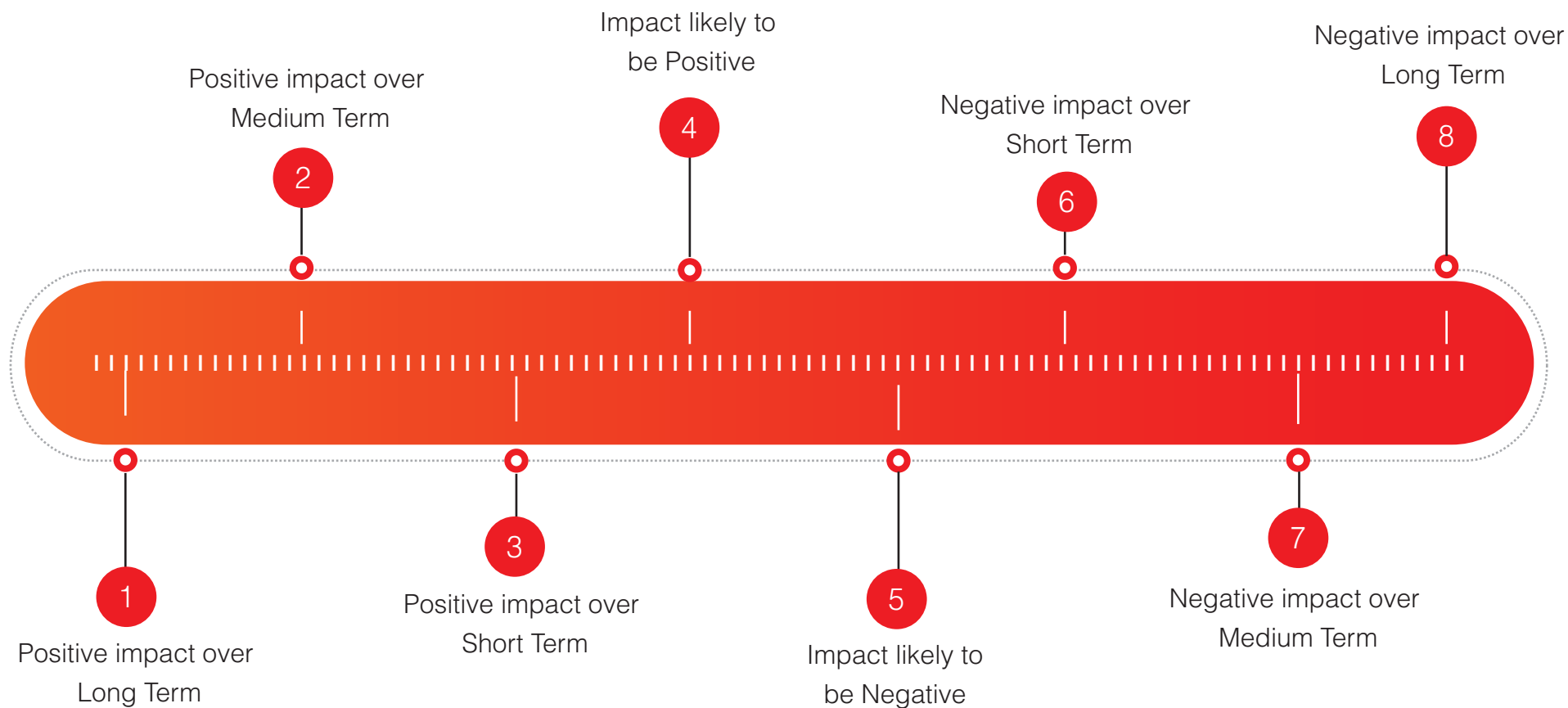
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Explanation of Sector Risk Index

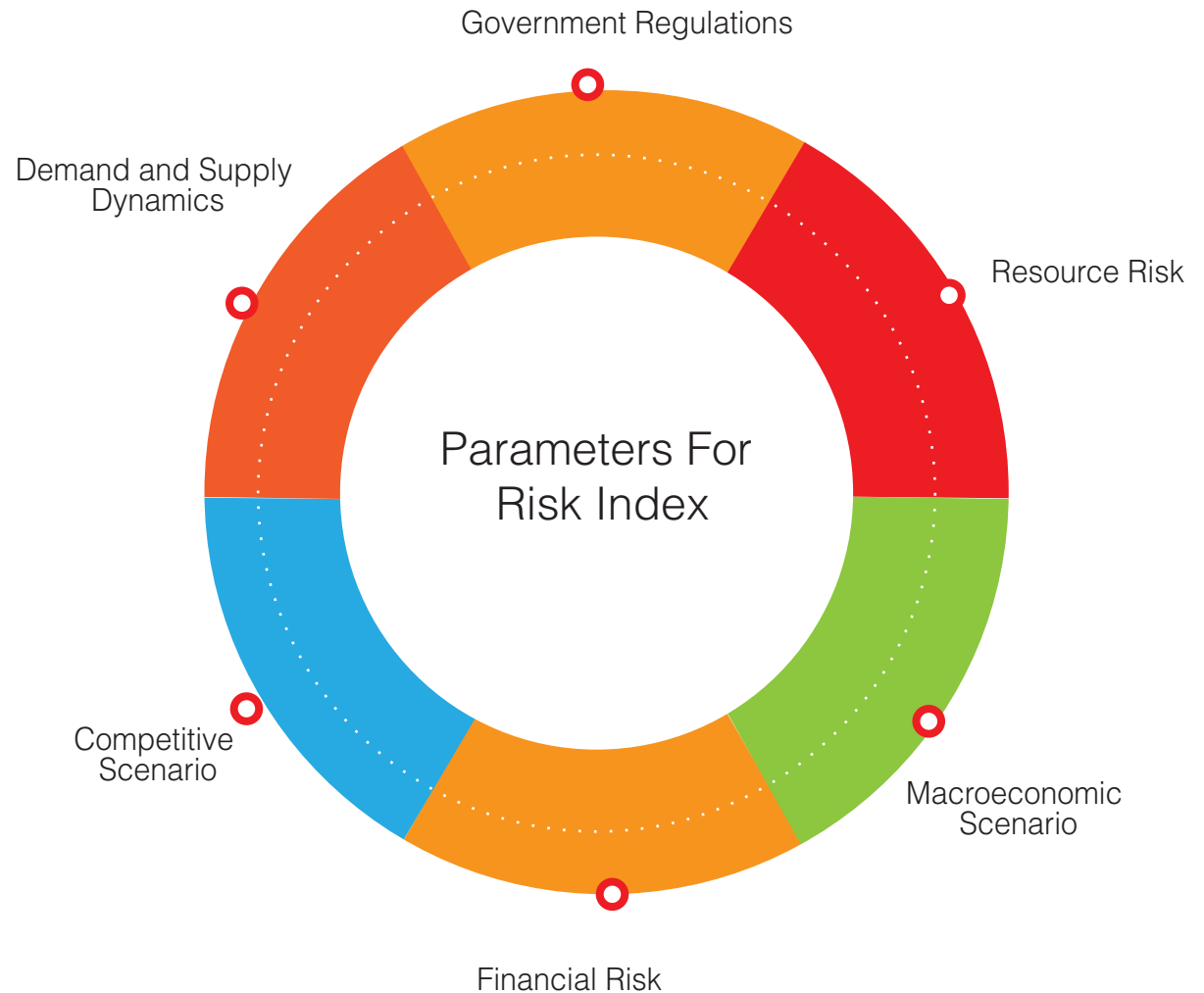
Sector Risk Index reflects the effect that the various factors have on the business prospects and operating environment of the sector over the next 12 months. The risk index arrived at is an aggregate of the individual scores assigned to the relevant sector parameters identified.

The sector risk index has been graded on an 8 point scale with 1 indicating low risk and 8 indicating high risk.



Parameters for Sector Risk Index

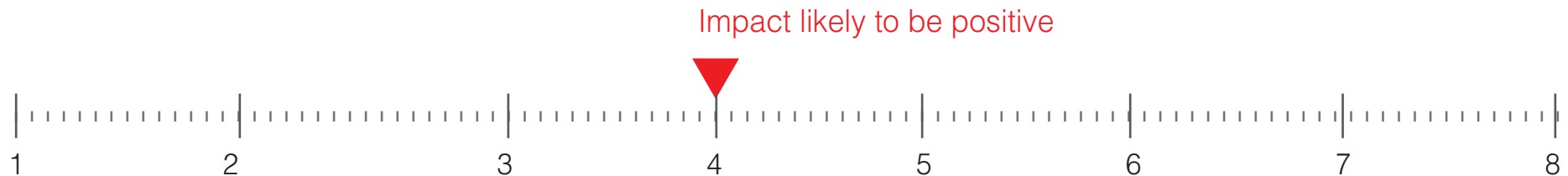
The selected parameters are government regulations, demand supply dynamics, competitive scenario, macro-economic variables, resource risk and profitability and cost structure. The scores given to individual parameters reflect the extent of positive/ negative impact on the business operating environment.





With poor export scenario of European Union and falling Euro against Rupee, the sector does not look very conducive. However, domestic demand is expected to rise with increasing disposable income.

Risk Index of Leather & Leather Products



↔ Demand and Supply Dynamics

the demand for leather products are expected to face a slowdown due to continuing crisis in Europe, which remains the largest market for leather exporters. However, with higher disposable income in the hands of consumers in India, there will be growth in domestic demand.

↑ Macro Economic Scenario

India's gross domestic product (GDP) has been growing at an average rate of approximately 6.33% during the period from FY 2011–12 to FY 2014–15.

↓ Resource Risk

India faces low risk of raw material availability, however, quality of leather remains a concern.

↓ Competitive Scenario

Leather and leather products sector is highly unorganised with large number of players belonging to MSME sector.

↓ Financial Risk

Revenue and margins are vulnerable to fluctuations in foreign exchange rates.

↑ Government Regulations

The Government of India has allowed 100% foreign direct investment (FDI) in leather and leather products sector through automatic route.

Executive Summary

- 1** The leather and leather product industry is one of the fastest growing industry in the country and has been growing at a CAGR of approximately 10.51% over the period FY 2010-14.
- 2** India is the world's 2nd largest manufacturer of leather garments and footwear.
- 3** It is predominantly an export oriented sector. With an annual turnover of over USD 9.67 billion, the export of leather and leather products increased manifold over the past decades and touched USD 5.79 billion in FY 2013-14, recording a cumulative annual growth rate (CAGR) of about 14.77 % (FY 2009-10 to FY 2013-14).
- 4** Leather sector is labour intensive which provides jobs to about 2.5 Million people, with women employment imposing a 30% share in the jobs.
- 5** The industry enjoys an advantage of abundant raw material availability, with India having the largest livestock population in the world.
- 6** Rising disposable incomes, abundance of raw material, rising retail opportunities and buoyant export market have been the main demand drivers of the growth of the Indian leather industry.

Product Profile

- 1** Footwear constitutes the major share of the industry followed by leather goods and garments.
- 2** This sector relies a lot on fashion and is based on traditional clusters which have developed on the basis of local skills, availability of raw material and market potential thereby effecting product differentiation.
- 3** There is a high threat of substitutes as textile and plastic and plastic products are capturing a share of leather market.

Figure 1. Product Wise Market Share



Macro Economic Analysis

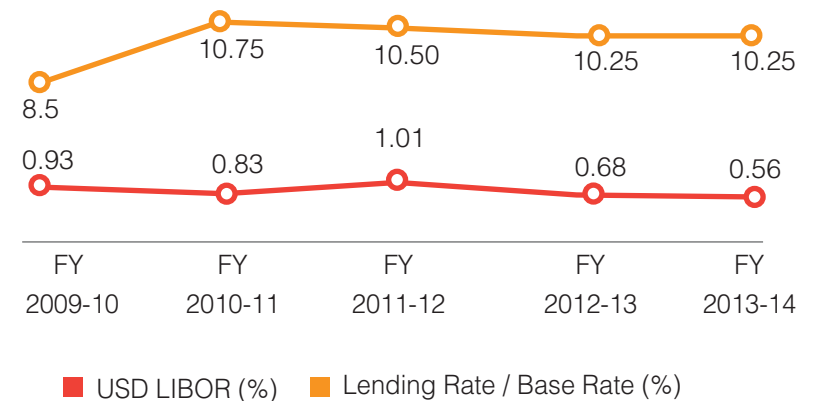
Macro-Economic Growth

- 1** India's gross domestic product (GDP) has been growing at an average rate of approximately 6.33% during the period from FY 2011–12 to FY 2014–15 and has touched USD 2.05 trillion in financial year 2014–2015 (FY 2014–15).
- 2** Rising disposable incomes and changing preferences have contributed to the growth of this sector.
- 3** Improving global and domestic economic conditions are going to further boost the sales of this industry.

Interest Rate Risk

- 1** Interest rates have declined in the domestic markets during FY 2011–12 and are continuing to decline. This has a positive impact on the borrowing cost of the companies relying on domestic sources of funds. But interest rates have shown a mixed trend in the international markets. It has declined during FY 2012–13 and is continuing to decline, which has created a positive impact on borrowing of the companies relying on overseas sources of funds.

Figure 1. Interest Rate Trends (Domestic and International)



Source: Reserve Bank of India



Macro Economic Analysis

Interest Rate Risk

1 The debt-equity ratio has remained stable over the years thereby indicating there has been no movement in terms of capacity addition.

Figure 3. Interest Rate Risk

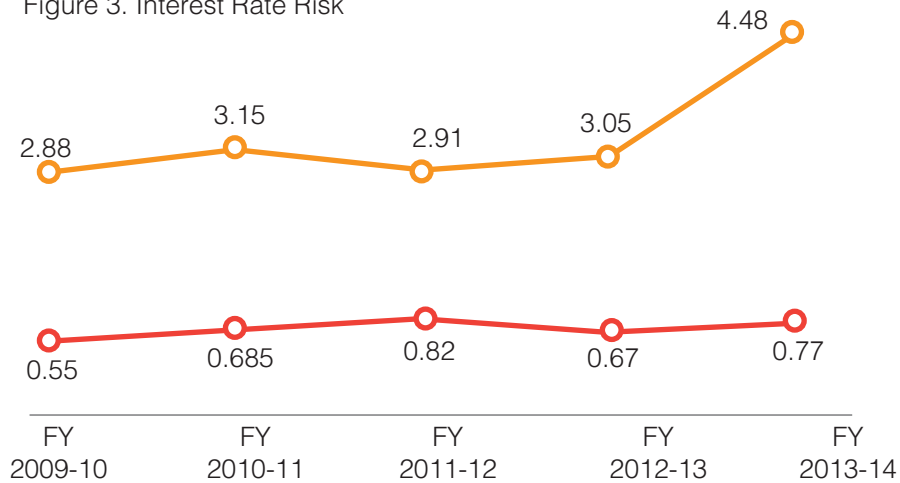
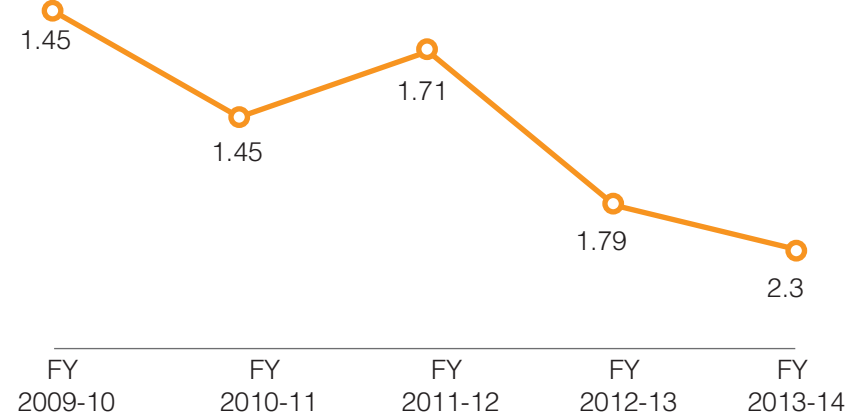


Figure 4. Interest as % Sales



■ Interest Coverage Ratio (Times) ■ Debt-Equity Ratio (Times)

Source: CMIE Prowess

2 Despite increased borrowings, interest expenses have subsided as the growth in sales outpaced the growth in the cost of borrowings.

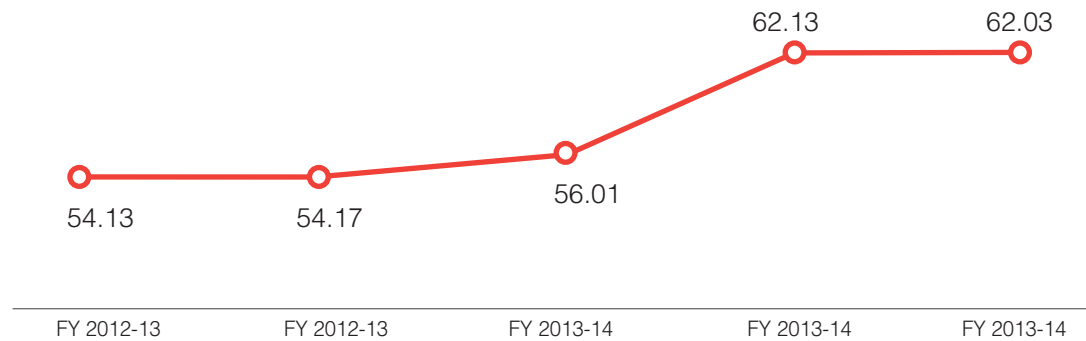


Macro Economic Analysis

Foreign Exchange Fluctuations

Exports have grown at around 49.77% over the period from FY 2009–10 to FY 2013–14. Contribution of leather and leather products on total exports of India has also increased. Weakening of the rupee against the dollar could positively affect this industry.

Figure 5. Foreign Exchange Rate Movement



Source: RBI.org



Government Regulations

Duty Structure

Excise duty on footwear with leather uppers and having retail price of more than INR 1000 per pair reduced from 12% to 6% in FY 2015–16.

The general rate of Central Excise Duty of 12.36%, including the cesses is being rounded off to 12.5% in FY 2014–15.

Excise and customs duty remain unchanged for FY 2015–16.

In the leather footwear segment, reduced excise duty from 12% to 6% might benefit the manufacturers, who shall sell footwear in the domestic markets in FY2015–16.

Customs duty on leather and leather products was 10% in FY 2014–15.



Government Regulations

Government Initiatives

1 The Government of India has identified the Leather Sector as a Focus Sector in the Indian Foreign Trade Policy in view of its immense potential for export growth prospects and employment generation.

- Import of specified machinery for use in leather and footwear industry to get 5% concessional import duty. .
- Duty free import of specified critical inputs for manufacturing of leather garments and other leather products including footwear under Duty Free Import Scheme.
- Entire leather sector is de-licensed by Foreign Trade Policy of the Government of India (GOI) for the expansion.

2 100% FDI has been permitted through automatic route.

3 Financial assistance is being provided to organise overseas marketing activities to promote exports from the country under Marketing Development Assistance (MDA) scheme and for enhancement of export through accessing new markets or through increasing the share in existing markets under Market Access Initiatives Scheme (MAIS).



Demand Supply Dynamics

Demand Growth

- 1** The leather and leather product sector is one of the fastest growing sectors in the country and has been growing at a compound annual growth rate (CAGR) of approximately 10.51% over the period from FY 2009–10 to FY 2013–14.
- 2** The overall size of India's leather sector is estimated to be USD 11.37 billion in FY 2013-14.
- 3** The export of leather and leather products increased manifold over the past decades and touched USD 5.79 billion in FY 2013-14, recording a CAGR of about 49.77% (5 years). This is mainly because of cost efficiencies and availability of resources as well as government initiatives.
- 4** The major production centers for leather and leather products are located at Tamil Nadu (Chennai, Ambathur, Ranipet, Vaniyambadi, Tiruchirappalli, Dindigul) followed by West Bengal (Kolkata), Uttar Pradesh (Kanpur, Agra, Noida). Maharashtra (Mumbai) has the lowest number of manufacturing units.



Demand Supply Dynamics

Demand Drivers

- 1** The strength of the economy resulting in the rise in income in the urban and rural areas. As per a McKinsey Global Institute report, India's urban population is expected to touch 590 million in 2030, from 340 million in 2008 and India can make use of this potential to generate new markets. India's urban population is projected to increase at an annual rate of 2.3 per cent in the period from FY 2005–06 to FY 2015–16.
- 2** Online retailing, both direct and through channels such as eBay, flipkart, etc will grow threefold and become INR 50 billion industry by 2016, increasing at 50-55% annually over the next three years.
- 3** Rising retail opportunities increase the demand of the leather. The government has enabled 51% FDI in multi-brand retail and 100% in single-brand retail in a bid to bring in more foreign investment.
- 4** Duty free import also rises the demand of the leather and leather products.

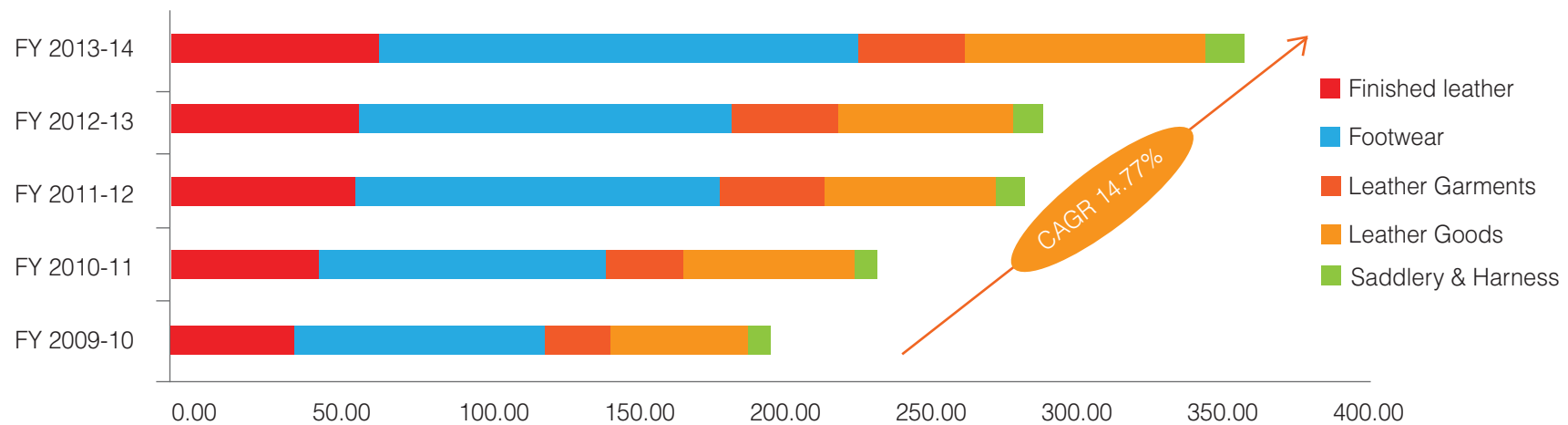


Demand Supply Dynamics

Import Export Scenario

The leather and leather products is an export-oriented industry. Import and export of leather and leather products have increased year-on-year (YoY) basis. Exports have grown with a CAGR of 14.77% from FY 2009-10 to FY 2013-14.

Figure 6. Segment Wise Export Trend (In INR Billion)



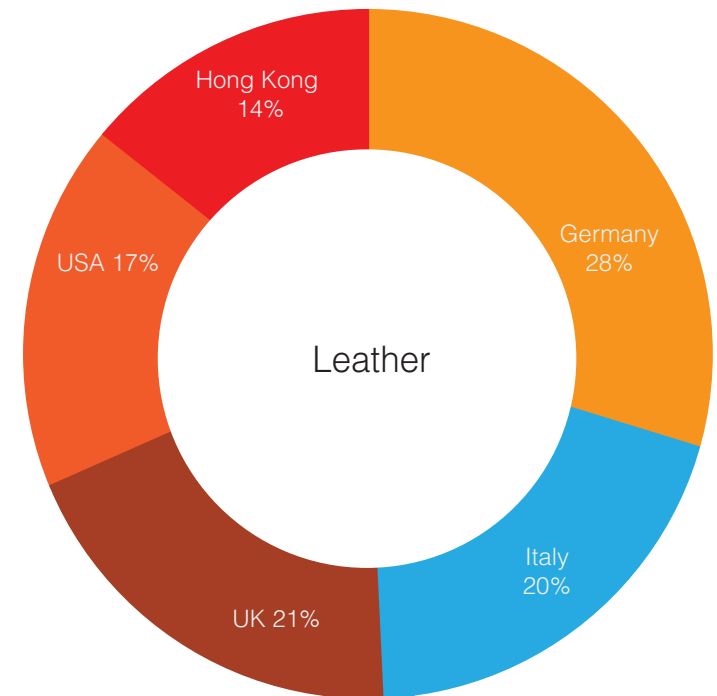
Source: Directorate of Foreign Trade

Demand Supply Dynamics

Import-Export Scenario

- 1** Indian footwear sector has a significant position in the leather industry. Out of the total exports, 42.83% constitutes of footwear followed by leather goods, which constitutes 22.87% and is far below the footwear segment.
- 2** The major markets for Indian leather and leather products are Germany, UK, Italy, USA, Hong Kong, France, Spain, etc. These 7 countries together account for nearly 70% of India's total leather and leather products export.
- 3** European Union accounts for 57% of India's total export of leather and leather products.

Figure 7. Country-wise Share in India's Leather and Leather Products Export



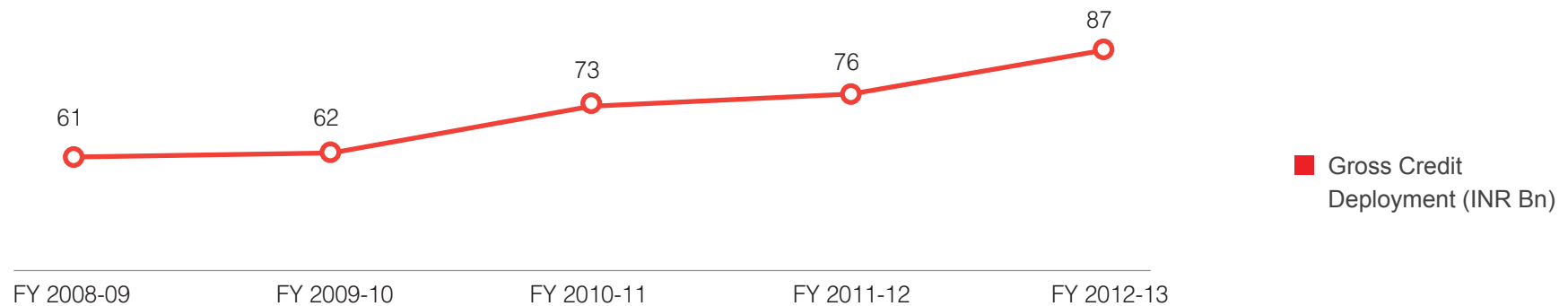
Source: Gems and Jewellery Export Promotion Council

Demand Supply Dynamics

Capacity Addition

- 1** The industry has not seen substantial investments over a long period of time.
- 2** Gross credit deployment in the sector has grown at a CAGR of 9.28% from FY 2008-09 to FY 2012-13. It stood at approximately INR 87 billion as of FY 2012-13.
- 3** As per the expansion plans of Khadim India Ltd., the company intends to invest at least INR 40 crore over the next 3 years to set up 100 company-owned stores across India. It will entail an investment of INR 40 lakh.

Figure 8. Gross Bank Credit Deployment



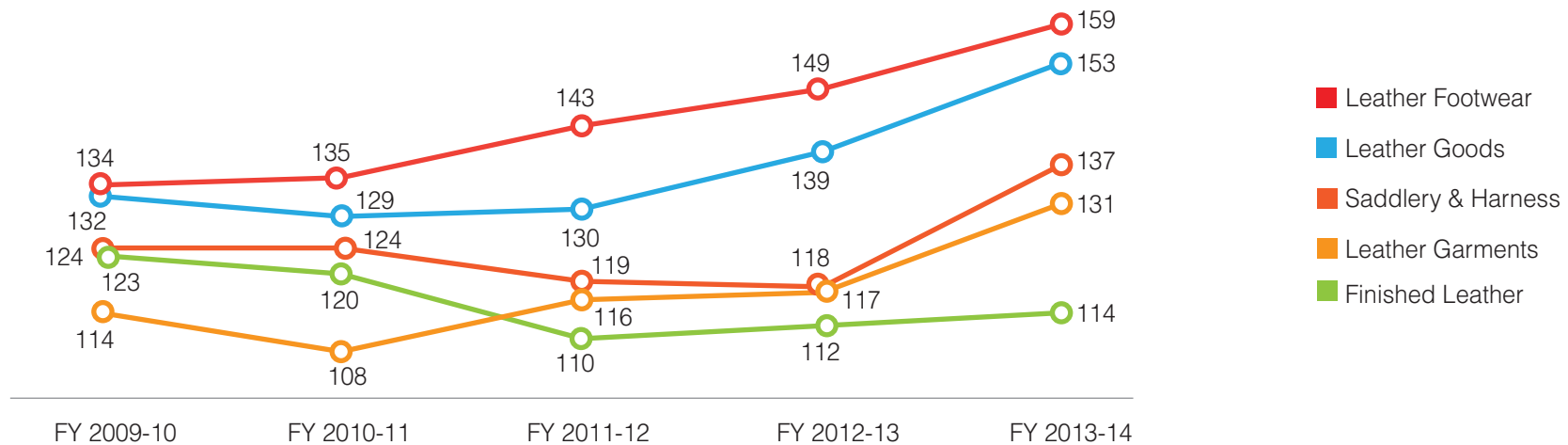
Source: RBI.org

Demand Supply Dynamics

Price Trends

In the last five years, prices of luxury fashion products have grown at more than twice the rate of general inflation. Price of leather and leather products has shown a growth in FY 2013–14 on account of increase in the demand of the product from the export market. Also increasing raw material prices and rising labour cost has led to an increase in the price of the leather goods.

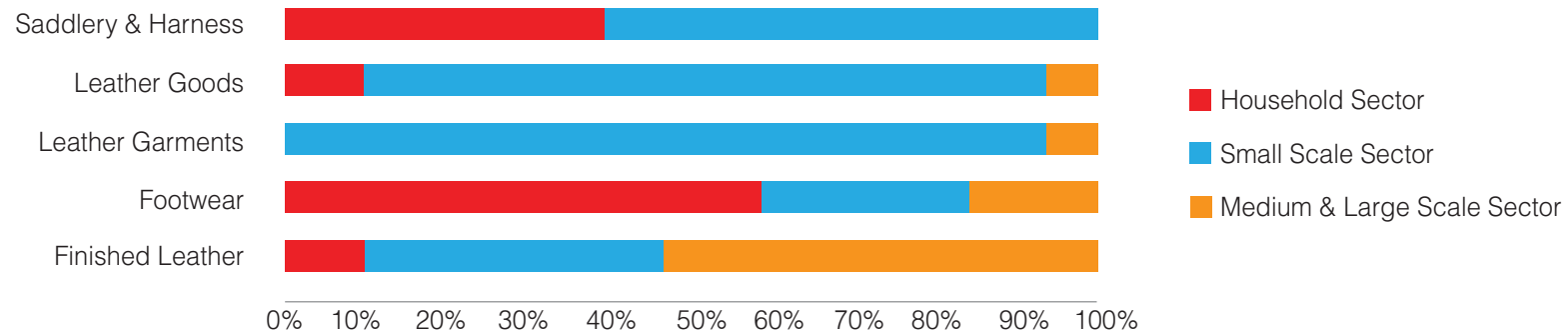
Figure 9. Whole Sale Price of Leather & Leather Products



Competitive Scenario

- 1** The leather and leather product industry is highly unorganized and fragmented in nature with approximately 1.50 lakhs enterprises belonging to MSME sector in the country
- 2** Unorganized sector plays a dominant role in the entire production of leather and leather products. 75% of the total production is contributed through small scale, cottage and artisan sectors.
- 3** While footwear production is undertaken both in large and small-scale sectors, leather garments and other products are mainly produced in the small-scale sector. There are about 42,000 registered SSI units in India producing leather footwear.

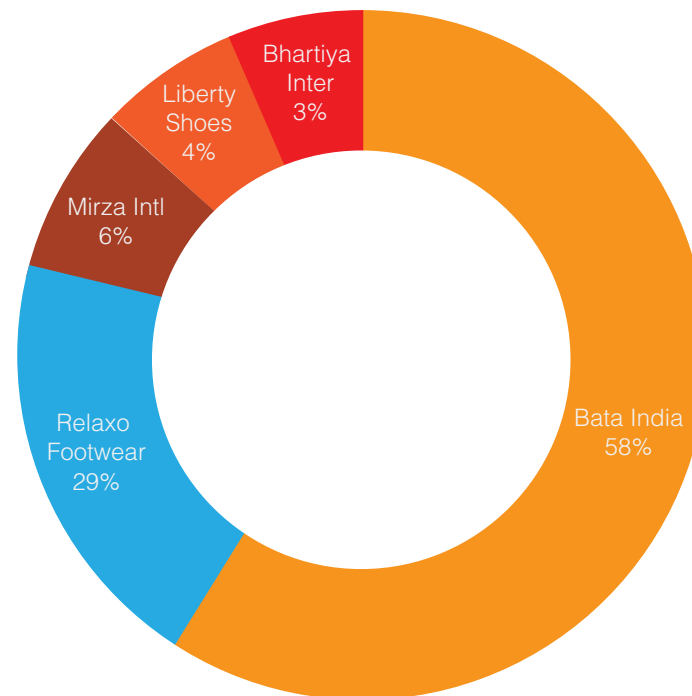
Figure 10. Production Base of Leather and Leather Products



Competitive Scenario

Switching cost is low as there is high threat of substitutes as well as intense competition with unorganised players, which results in high bargaining power of customer.

Figure 11. Company wise Share in Turnover FY 2013-14



Resource Risk

- 1** The industry faces low risk of raw material shortage and currency fluctuation as India is gifted with abundant raw material. About 90% of the raw material for the tanneries is sourced from within the country and only 10% is imported.
- 2** India accounts for 21% of the world's cattle and buffalo and 11% of the world's goat and sheep population.
- 3** 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.

Table 1. India's live stock & production details

		FY 2008-09	FY 2009-10	FY 2010-11	FY 2011-12
Production of Bovine hides and skins	Million Pieces	24.4	25.7	26.6	27.4
Production of sheepskins and lambskins	Million Pieces	32.6	32.5	32.9	33.5
Production of Goatskins and Kidskins	Million Pieces	72.3	72	73	74.3
Production of Light Leather from Bovine animals	Million Square Feet	648.8	699.9	665.9	-
Production of Light Leather from Sheep and Goats	Million Square Feet	655	665.1	661.7	-

- 4** Abundance of traditional skills in tanning, finishing and manufacturing downstream products and relatively low wage rates are the two other factors of comparative advantage for India.



Financial Risk

There is fluctuation in the sale of leather and leather products. It has declined during the period from FY 2010–11 to FY 2012–13 and then, it increased in FY 2013–14. The decline is mainly attributed to fall in global demand.

Figure 12. Sales Trend (INR Billion)

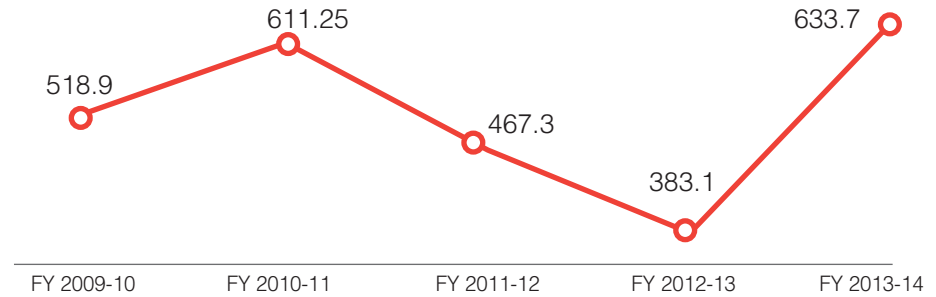
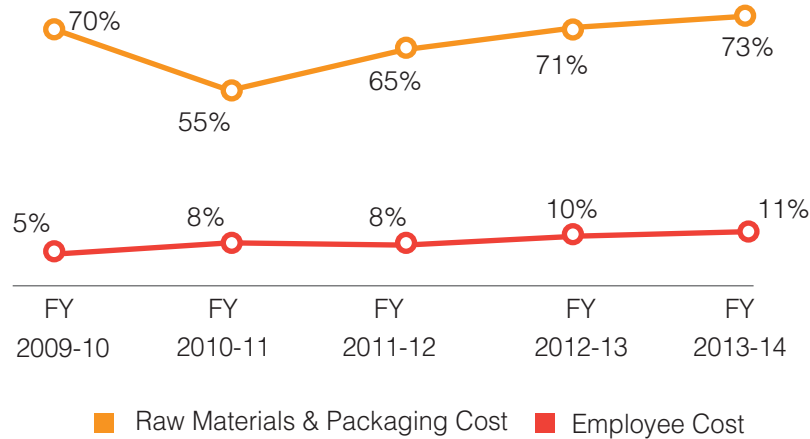


Figure 13. Cost Structure (In %)



Raw material and packaging expenses continuously increased since FY 2010–11 due to increase in the price of raw material. Raw material has the major contribution in total expenses.



Financial Risk

Key Indicators	Unit	FY 2013-14
EBITDA Margin	%	10.85
Net Profit Margin	%	2.86
Return on Capital Employed	%	4.32
Return on Net worth	%	8.32
Current Ratio	Times	1.18
Quick Ratio	Times	0.63
Debtor Days	Days	53
Payable Days	Days	71
Inventory Days	Days	13
Total outside liabilities/ Total Net worth	Times	1.24
Debt-Equity Ratio	Times	0.75
Asset Turnover	Times	1.22

Sample Set : 17 Companies

The significant difference between the current ratio and quick ratio is due to the large stock of inventory.



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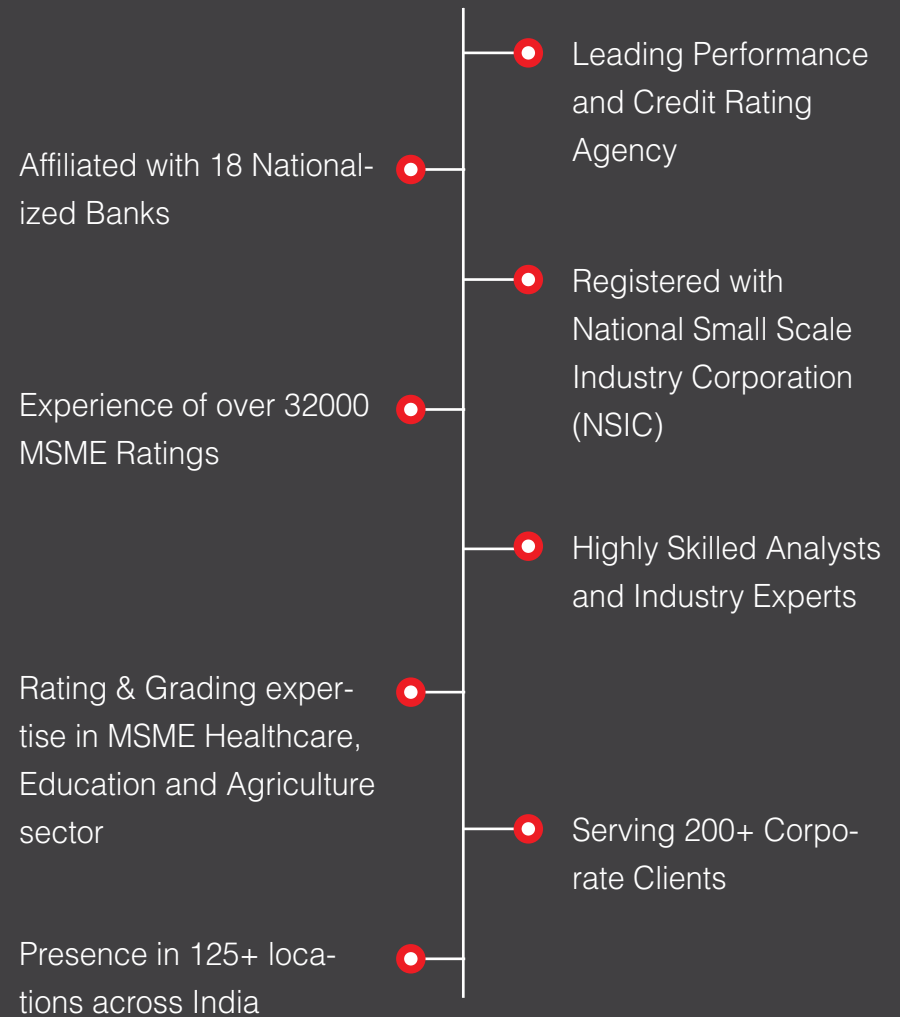
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