

India goes for growth

Indian leather exports passed the \$2 billion mark last year and with a target of \$4 billion by 2010, the leather industry is gearing up to expand its capacity. The de-reservation of the leather sector and permission for 100% FDI (Foreign Direct Investment) under the automatic route is expected to encourage overseas companies to switch to India or to create joint ventures with local companies. Europe, and to an extent the USA, which were solely looking at China, have begun to identify opportunities in India.

This in turn is expected to generate additional employment opportunities for at least one million people in the country over the next five years. Since most of this additional employment will be generated in semi-urban and rural areas, it will have a positive impact on the rural economy. This is politically significant, as it was largely the rural vote that put the present government in power.

CLE is pushing for expansion

"We are much more confident than earlier. Exports have shown a growth of 17% up to September 2004 and are expected to touch 20% by the end of this fiscal period," says Rafeeqe Ahmed, chairman of the Council for Leather Exports. According to him, the efforts of CLE in organising more buyer-seller meets and a focused approach on products, apart from initiatives of individual exporters, have helped to spur growth in the domestic leather industry.

Mr Ahmed also observed that the government went to the rescue of the textile industry by designing a scheme to the tune of Rs250 million (\$5.5 million) five years ago, which resulted in a turnaround across the textile industry segment. The leather industry did not require as much and a government intervention of around Rs20 million (\$4.4 million) would help the industry to modernise and expand capacities when opportunities presented themselves.

The government has indeed indicated a willingness to focus and develop the leather industry. Given this positive backdrop and the visible growth path, CLE is saying that the industry has to double its capacity.

According to Mr Ahmed, over 300,000 of these new jobs will come from the organised sector. However, since the focus will also be on enabling existing workers to upgrade their skills, it will also lead to higher salary levels.

S Audiseshiah, CLE's executive director, is equally upbeat in saying that the organisation's marketing initiatives have played a major role and as a result companies from Europe and other western regions are looking at India keenly.

Three joint ventures have already materialised in the recent past and more are in the pipeline. "While one cannot expect many overseas companies to set up shop using the 100% FDI route, joint ventures with equity participation from companies abroad will help India establish itself as a sourcing base for leather and leather products among others," he said.

Government shows support

An additional boost to the industry's confidence has come from the government's commitment to establish a 'shoe and accessory park' at Sriperumpudur with a view to promoting the production of leather goods in south India.

The accessories section will occupy an area of some 25 acres, which has been allotted by the State Industries Promotion Corporation Ltd (SIPCOT). Central government has sanctioned Rs100 million (\$22 million) for the creation of common facilities at the park, in which space will be sold at the rate of Rs1.4 million (\$300 thousand) per acre.

A consortium called Shoe Manufacturers Ltd, has been created to act as a facilitator for the project. The company has not been registered under any Act but will act as a facilitator to attract component manufacturers for the shoe industry. Five foreign and six Indian companies are already said to be negotiating to establish facilities at the park.

SIPCOT has also earmarked a further 125 acres for the shoe section of the park, next to that for accessories. This latter development will be based on the Chinese model so that there is a close inter-link between the two.

FACTS AT A GLANCE

The country

- The world's largest democracy
- Politically stable
- Transparent investment policies
- Good investment returns (India 16%, China 14%, Thailand 13%)
- Large reservoir of skilled labour
- Solid banking system 23 stock exchanges and 9000 listed companies
- Rapidly improving infrastructure.

The economy

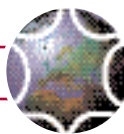
- GDP \$2.89 trillion, per capita \$2704, growth rate 8.10% (2003-4)
- Growth in industrial output 6% plus
- Inflation below 5% Bank rate 6%
- Exports \$61.84 billion (2003-04) – 17% growth
- Imports \$75.20 billion (2003-04) – 24% growth
- Foreign exchange reserves at Dec. 2004: \$130 billion
- Foreign Direct Investment 1991-2003: \$33.37 billion.

The leather industry

- 21% of world's cattle & buffalo, 11% of world's goats & sheep
- Source for 10% of global leather requirement at 2 billion sq.ft
- World's second largest producer of footwear at 1.85 billion pairs
- Third largest exporter of leather garments at 12 million pieces
- Fourth largest exporter of leather goods at 70 million pieces plus 60 million pairs of gloves
- Annual production valued at \$4 billion
- Annual exports valued at \$2 billion.

Government support policies

- Duty-free import of raw materials
- Duty-free import of critical inputs & embellishments under specific schemes
- Concessional duty on imported machinery & equipment
- Duty neutralisation & remission schemes Lower import tariff – FTAs with many countries
- No quantitative restrictions on import or export
- Automatic approvals for Foreign Direct Investments.



Indian leather and leather products Apr-Sept 2003 vs: Apr-Sept 2004 (Value in Million US\$)

Category	April - September 2003	2004
Finished Leather	262.65	282.59
Leather Footwear	234.38	272.66
Footwear Components	83.07	76.41
Leather Garments	146.25	171.18
Leather Goods	228.97	280.62
Saddlery and Harness	23.45	29.34
Non-Leather Footwear	18.07	46.37
Total	996.84	1159.17

Source: DGCI &S

New Drawback Duty rates

-20%	Leather footwear (64.01) – new rate 7.9% maximum Rs 61 per pair Leather footwear uppers (64.10) Industrial leather gloves (42.11) Leather sandals (64.04)
-10%	Leather bags (42.05) Other leather gloves (42.13)
+20%	Lining leather (41.01) Rubber canvas footwear (64.08)
+10%	Leather sandal uppers (64.13)
Zero	Leather apparel (42.09) Leather wallets and purses etc (42.07) Finished leather (41.02)

Investment and targets

Overall, the footwear and footwear component industry has said it needs an investment of Rs50.3 million (\$1.1 million) to reach its declared target of \$2 billion in exports in the next six years.

A background paper prepared by the Central Leather Research Institute (CLRI), suggests that this level of investment is required to accelerate the modernisation of existing small and medium sector units in the footwear industry and to establish state-of-art footwear industrial complexes complete with sufficient infrastructure to attract large outside investment.

Dr T Ramasami, director of CLRI, has said that the estimations of resource needs have been based on the target to enhance the installed capacity for the annual production of export quality footwear from 70 to 350 million pairs. This is indeed a bold target.

The government must also feel confident as it has announced a Rs4 billion (\$88 million) development package for the leather industry as a whole. Of this Rs2.9 billion (\$64 million) is for modernisation and Rs1.1 billion (\$24 million) is for the setting up of five leather parks—two in Chennai and one each in Nellore, Agra and Kolkata.

In Nellore, the proposal is to set up an international tannery complex to attract FDI and a detailed project report is under preparation for this project. The Chennai parks will involve footwear and accessories as previously mentioned, while Agra will focus on footwear and Kolkata on leather goods.

India's exports increase

As Mr Ahmed has said, the good times would appear to be returning to the Indian leather industry. It has a current growth

rate of 17% and expects the trend to continue and for exports to double in six years. This may well be so, but the world economy is an uncertain place these days, six years is a long time and much could change over that period.

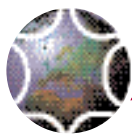
After three static years, the Indian leather garment industry finally saw an increase in exports during the first six months of the fiscal year 2004/2005. Figures released by CLE showed a 17% increase from \$146.25 million in the first half of 2003/2004 to \$171.18 million in the second. One reason cited for this increase is the exchange rate between the rupee, the euro and the dollar. This is thought to have had a positive effect on European buyers, who are the largest consumers of Indian leather garments.

And, it is not only the leather garment industry that is enjoying a positive trend at the moment. Total exports from India for April-November 2004 increased by 23% on the same period for 2003. Some of the best-performing sectors were leather and manufacturing, gems and jewellery, engineering goods, petroleum products, chemicals and related products, textiles and cereals.

Changes in drawback duties

The Indian Ministry of Finance has announced significant changes of duty in its drawback system. For the leather industry, the rate has decreased on some items and increased on others, so it is very much a case of the curate's egg.

The method of calculating drawback rates has also altered in that most of the amounts will now be quoted in metric tonnes/kg to increase transparency and to avoid disputes and litigation. New rates became valid as of January 19, 2005.



The new CVC tannery

Can Chennai leather be as good as Italy's?

Italy has always prided itself on making some of the world's finest leather products, but this might be about to change with the recently opened joint venture between Italy's Conceria Virginia and India's Forward Group, called Conceria Virginia Chennai or CVC for short.

Conceria Virginia produces a million sq.ft of specialised finished leather for the European market every month. A new 50,000 sq.ft high-tech factory has been set up in the tanning area of Pammal on the outskirts of Chennai at a cost of Rs120 million (\$2.6 million) and on a fifty/fifty equity basis. It is hoped that revenues of Rs400 million (\$8.8 million) will be earned in the first twelve months. The overall production target is 6 million sq.ft of finished leather per year and with exports worth Rs300-400 million (\$6.6-8.8 million) in the next two years.

The new bovine facility is connected to the Pallavaram Tanners and Industrial Effluent Plant and the Central Effluent Treatment Plant, thereby ensuring 100% protection to the local environment. Effluent from the factory will be treated according to the highest standards maintained in India and Italy. Forward Group already has an excellent R&D facility and a reputation for high quality leathers. Conceria Virginia is expert in all types of tannages and finishing

techniques, so the blend of the two should result in some successful products.

"While China has for so long been the destination of European leather manufacturers, the focus is bound to shift to India," said Asgar Ali Dhala, chairman of The Forward Group. "The Indian leather industry has received a great impetus with the government allowing FDI, we have the skills, our products are very competitive and Indian colours already dominate world fashion trends."

An Indo-Italian first

The CVC factory is the first Indo-Italian tanning facility in the country and the theory is that as the European tanning industry continues to decline, it makes sense for an international company like Conceria Virginia to set up a finishing plant in India. It can save three to four weeks time in bringing over fully finished leather from Europe to be turned into finished products destined for the huge and growing Asian market.

The output of the CVC facility will certainly help to fill the current lack of a bovine tannery of Italian-quality leather. India, of course, does not produce quality bovine hides, so wet blue material will be imported from Europe, as also will some chemicals and finishes. However, there do appear to be plans to look at processing Indian buffalo and goat hides in the future.

In the last six months, the company has made around 18 kinds of leather, including calf, heavy and performance leathers, suedes and nubucks, and has won initial orders from companies such as Marc Shoe, Clark International and Antonioni. It is also tapping markets in Korea, China and Vietnam.

CVC has also launched an exclusive 3,000 sq.ft showroom in the heart of Chennai City to provide a window to the complete range of products to its customers.

An interesting sidelight on this partnership is the fact that Italy is currently the fourth largest of India's trading partners among the EU countries. Bilateral trade with Italy saw significant growth during 2003/04 and hitting a new high of \$2.77 billion—an increase of 28% over the previous year. During the first six months of 2004/05 (April-September), bilateral trade grew a further 21%.

Italy is also 12th in the list of countries from which foreign direct investment (FDI) has been approved in India since 1991. Total FDI approved from Italy during the period 1991-2004 (September) was \$1.31 billion or about 1.95% of the total approved from all countries. The actual inflow of FDI from Italy is in the order of \$448 million. This is about 1.83% of the total from all countries, and to date, around 1,011 collaborations have been approved with Italian companies. ■



IILF defies the Tsunami

The 20th edition of the India International Leather Fair (IILF) also opened with confidence on January 31, despite fears that it might not be held due to the Tsunami disaster. However, although the coastal areas of Tamil Nadu State were devastated by the tidal wave, the leather industry is situated inland and was not directly affected. So much of the area around Chennai relies on the leather industry in terms of employment and revenue that the organisers bravely decided to proceed.

280 participants including 62 from 18 overseas countries participated. Also present was a team from Pakistan, a welcome sign that relations between the two countries are at last beginning to improve. The fair, which ran until February 3, covered an area of 4,800 sq.m and hosted country-level delegations from Brazil, Bangladesh and Italy.

The four-day event, organised by the India Trade Promotion Organisation (ITPO) was opened by Shipping Minister T.R. Baalu and Minister of State for Commerce and Industry E.V.K.S. Elangovan. During the show, awards were presented to Superhouse Leather Ltd for overall exports and Bharatiya International Ltd for brand promotion award. The footwear export prize went to United India Shoes and the industrial leather export award to Zenith Exports Ltd.

As well as touring all the exhibitor stands, visitors were able to attend seminars by SATRA on the use of Satrasum software for grading and cutting, and a presentation on Footwear Production and Planning. The evening Fashion Show was as usual both colourful and stylish, and offered an excellent insight into the high standard of design that is now coming out of India. It was again disrupted by animal



rights extremists who seem totally unaware or unconcerned as to the importance of the leather industry to India's economy. The fact that the government has taken firm action to improve animal welfare also seems to have passed them by.

2006 will see a major change in that the fair will become South-East Asian rather than purely Indian. Neighbouring countries will be invited to showcase the potential of the region as a whole in terms of leather, leather products and accessories. India sees itself very much as the economic driving force in the region and we are perhaps seeing the beginnings of greater economic co-operation in the face of China's continued industrial expansion. ■