

PROJECT PROFILE

ON

LEATHER GARMENTS

Month & Year
December 2009

**PREPARED BY
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LEATHER GARMENTS

INTRODUCTION

Leather Garments are one of the sophisticated products of finished leather. Leather Garments consists of articles of leather apparel and other cloth accessories as per ITC Classification which would include more specifically Gents Leather jackets, Long Coats, Waist/Shorts, Leather Pants/Shorts and Children Garments. These are used only in cold places and usually garments made for autumn – winter are made of some what heavy leather from Hides with thick lining of either wool or artificial sheep nappa is generally high for European markets in spring summer while that for cow hides and somewhat heavy sheet skin is high for the autumn-winter in Europe and the USA.

MARKET

MARKET POTENTIAL

There has been remarkable demand for leather products and exports of leather garments, shoes, and shoe uppers have been having increasing trend in exports. The figures of leather exports from India in the past have been as under:

Year	Volume in Million US\$
1994-95	1612.16
1995-96	1762.99
1996-97	1618.27
1997-98	1671.90
1998-99	1654.89
1999-2000	1604.35
2000-01	1963.60
2001-02	1936.00

2002-03	1875.21
2003-04	2216.45
2004-05	2379.44
2005-06	2694.59
2006-07	2981.79
2007-08	3480.00
2008-09	3598.64

Source: Council for Leather Exports.

The product wise exports of leather and leather products from India for the past 5 years are as under:

US \$ million

Category	2004-05	2005-06	2006-07	2007-08	2008-09
Finished leather	577.00	606.06	688.05	807.19	673.37
Footwear	601.73	786.76	950.90	1174.03	1243.78
Footwear components	163.67	179.04	212.65	269.30	246.35
Leather garments	318.73	328.44	308.98	345.34	426.15
Leather goods	568.46	649.14	690.66	800.46	873.30
Saddlery and Harness	59.64	76.40	81.85	106.18	92.15
Leather gloves	*	*			
Non-leather footwear	90.21	68.75	48.69	46.02	43.53
Total	2379.44	2694.59	2981.75	3548.51	3598.64

Leather gloves are included in Leather Goods.

Analysis of Export Performance of leather and leather products during

April-March 2007-08 vis-à-vis April-March 2008-09

- The export of leather and leather products for the period April-March 2008-09 touched US\$ 3598.64 million against the performance of US\$ 3548.51 million in the

- corresponding period of last year, registering a positive growth of 1.41% in Dollar Terms. In rupee terms the export touched Rs.165513.28 million against the previous years performance of Rs.142865.69 million showing a positive growth of 15.85%.
- The export value during 2007.08 was revised upwards by DGCI&S, from US\$ 3477.52 million (Rs.140007.33 million) to US\$ 3548.51 million (Rs.142865.69 million).

A Statement showing the Product-wise Export performance during April-March 2007-08 vis-à-vis April-March 2008-09 is given below:

CATEGORY	(Value in Million Rs)		
	APR-MAR	APR-MAR	% VARIATION
	2007-08	2008-09	
FINISHED LEATHER	32498.11	30970.72	-4.70%
LEATHER FOOTWEAR	47267.13	57205.46	21.03%
FOOTWEAR COMPONENTS	10842.27	11330.34	4.50%
LEATHER GARMENTS	13903.47	19600.26	40.97%
LEATHER GOODS	32227.20	40165.81	24.63%
SADDLERY AND HARNESS	4274.78	4238.48	-0.85%
NON-LEATHER FOOTWEAR	1852.73	2002.21	8.07%
TOTAL	142865.69	165513.28	15.85%
Source : DGCI &S			

Export Target Vs Achievement

As against the envisaged export target of US\$ 4000 million for the year 2008-09, the actual export performance was US\$ 3598.63 million, recording an achievement of 89.97% over the targeted export. The product specific export target vis-à-vis achievement is given below:

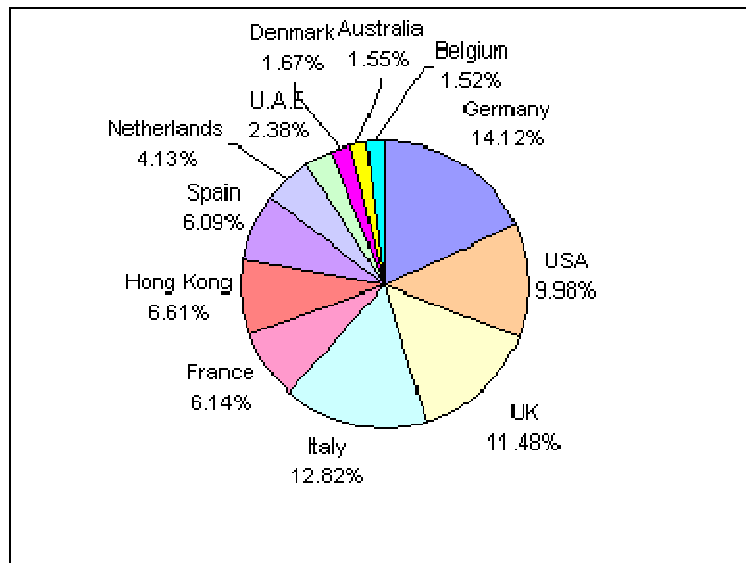
Product Category	(In Million US\$)		
	Export Target	Actual Export	% Achievement
	2008-09	Apr- March 2008-09	
Finished Leather	799.00	673.37	84.28%

Footwear	1816.00	1533.66	84.45%
Leather Garments	380.00	426.15	112.14%
Leather Goods	875.00	873.30	99.81%
Saddlery & Harness	130.00	92.15	70.88%
Total	4000.00	3598.63	89.97%

Country-wise analysis

- The major markets for Indian leather products are Germany with a share of 14.12%, Italy 12.82%, UK 11.48%, USA 9.98%, Hong Kong 6.61%, Spain 6.09%, France 6.14%, Netherlands 4.13%, UAE 2.38% and Australia 1.55%. ***These 10 countries together accounts for nearly 75.30% of India's total leather products export.***
- Overall positive growth is seen in markets like Germany 3.02%, USA 15.43%, France 11.34%, Spain 1.44%, Netherlands 10.40%, Australia 10.55%, Denmark 21.24%, Switzerland 1.09%, Austria 5.97%, Japan 26.93%, U.A.E. 12.54%, Finland 7.85% and Saudi Arabia 20.60%
- Overall decline is seen in markets like UK 1.06%, Italy 5.96%, Hong Kong 15.39%, Russia 23.86%, New Zealand 2.55%, Greece 24.43%, Canada 4.41%, Sweden 2.47%. South Africa 19.56%, and Portugal 15.38%

Major markets for Indian Leather Products and their import share



Trend in Major importing Countries of Leather & Leather Products

(Value in Million US\$)

COUNTRY	APR-MAR		% change
	2007-08	2008-09	
GERMANY	493.34	508.26	3.02%
U.S.A.	311.21	359.22	15.43%
U.K.	417.64	413.23	-1.06%
ITALY	490.77	461.52	-5.96%
FRANCE	198.52	221.03	11.34%
HONG KONG	280.97	237.72	-15.39%
SPAIN	216.07	219.18	1.44%
RUSSIA	15.77	12.01	-23.86%
NETHERLANDS	134.75	148.77	10.40%
AUSTRALIA	50.44	55.76	10.55%
NEWZEALAND	5.61	5.46	-2.55%
DENMARK	49.58	60.12	21.24%

GREECE	23.57	17.82	-24.43%
CANADA	36.92	35.29	-4.41%
SWITZERLAND	25.79	26.07	1.09%
SWEDEN	38.99	38.03	-2.47%
S. AFRICA	27.90	22.45	-19.56%
AUSTRIA	25.68	27.22	5.97%
BELGIUM	55.32	54.77	-1.00%
JAPAN	15.95	20.24	26.93%
PORTUGAL	56.93	48.17	-15.38%
CHINA	55.46	49.96	-9.92%
IRELAND	8.15	6.37	-21.92%
U.A.E.	76.23	85.79	12.54%
Source : DGCIS			

The Government of India had identified the **Leather Sector** as a **Focus Sector** in its Foreign Trade Policy 2004-09 in view of its immense potential for export growth prospects and employment generation. Accordingly, the Government is also implementing various **Special Focus Initiatives** under the Foreign Trade Policy for the growth of leather sector. **Hence, considering the current export trends and the previous growth rates, the export target in respect of leather & leather products is envisaged to touch US\$ 7.03 billion mark by the financial year 2013-14.**

There is a good demand for the Indian finished leather and the demand is increasing. The finished leather is converted into value added products and therefore the supply of the finished leather has to be increased.

There exists a large raw material base. This is on account of population of 194 million cattle, 70 million buffaloes and 95 million goats. According to the latest census, India ranks first among the major livestock holding

countries in the world. With 48 million of sheep, it claims the sixth position. These four species provide the basic raw material for the leather industry.

The annual availability of about 200 million hides and skins is the main strength of the industry. Some of the goat/calf/sheep skins available in India are regarded as specialty products commanding a premium market. 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.

The leather industry is spread in different segments, namely, Tanning & Finishing, Footwear & Footwear components, Leather Garments, Leather Goods including saddlery & Harness, etc. the estimated production capacity in different segment is furnished in the following table; -

Product	Capacity
Hides	65 million pieces
Skins	170 million pieces
Footwear & Footwear components	
a) Leather Footwear	776 Million pairs
b) Leather shoe uppers	112 million pairs
c) Non-leather Footwear	960 million pairs
Leather garments	18 million pieces
Leather goods	60 million pieces
Industrial gloves	52 million pieces
Saddles	0.10 million pieces

(Source: Council for Leather Exports)

The China has emerged as a major competitor for India holding nearly 27% of world market followed by Italy with 15%. India's share is only 2.59%, which has to be improved. The Council of Leather Exports has been successful recently promoting Indian exports after its delegation's visit to Latin American Countries, when they could muster large export orders. The Government has recently set up Leather Technology mission to augment resources, improvement in quality and other technical aspects of leather production. The problems of effluent have been solved with the setting up of individual Effluent Treatment Plants and Common Effluent Treatment Plants. All necessary steps are being taken to boost the exports on one side and to maintain matching quality of production on the other by technological advancement.

The Global Import of Leather Goods in terms of value was around US\$ 4955 million, accounting for a share of 7.26% in the total global import of leather and leather products. India's export of total global import of leather goods is around US\$ 444 million holding a share of 7.60% in the global import of this product. There is thus enormous scope for furthering our export of leather products.

The major markets for Indian Leather and leather products are the USA, Germany, the UK, Italy, France, Spain and within lands accounting for almost 72% of total export.

INSTALLED CAPACITY

Product	Installed capacity per hour	No of working hours per day	Capacity per day	Capacity per annum 300 days per annum
Leather Garments	25	8	200	60000

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PLANT AND MACHINERY

Sl.No	Name of the Machinery	Qty	Value
1.	Flat Bed, Lock Stitch Sewing M/c	5	225000
2.	Flat Bed Two Thread, Double Needle Lock Stitch Sewing M/c	4	415000
3.	Zig-Zag Stitch Sewing M/c	2	84000
4.	Cylinder Bed Lockstich Sewing M/c	2	210000
5.	High Speed Single Thread Lock Stitch Sewing M/c	2	96000
6.	Strap Cutting M/c	1	28000
7.	Post Bed Lock Stitch Sewing M/c	2	120000
8.	High Speed Single Thread Chain Stitch Sewing Machine	1	48000
9.	Button Stitching Sewing, Single Thread	1	57000
10.	Hem Turning M/c, Clicking Press	1	41000
11.	Skiving Machine	1	59000
12.	Clicking Press	1	415000
13.	Tools and Equipments		40000
14.	Electrification and installation of		180000
	TOTAL		2018000

MANUFACTURING PROCESS

The manufacturing process in the industry does not involve much complicated techniques. Leather garments industry is normally based on strict specification of buyer and country to which items are exported. Due care has to be taken in the manufacturing garments as follows:

- I. The component of the article is to cut from the material as per specification or keeping in view the quality. This comprises a complete list of properly evaluated materials both leather and auxiliaries, components in addition to correct pattern for cutting leather, lining etc.
- II. The design evaluation may be conducted in a small batch or trial production to find out the production difficulties so that these can be sorted out and timely corrected.
- III. The items should be manufactured as per strict design and specification of the buyer or standards.
- IV. Component Specification: This consists of details of materials plus dimensional stability or tolerance so that the component will fit up or stand satisfactorily.
- V. Process and Production Control: This is an area where control could be actually implemented. As for materials, Leather lining and auxiliaries should be tested for tear, stitch tear and tensile strength. Fastness of colours of Leather has to be tested repeatedly.

Threads: One of the most important requirement in thread is a level of properly balanced twist, particularly in Garment industry, stitching plays a vital role and synthetic thread is much stronger than cotton and does not absorb moisture so readily.

Glue and Cements: Adhesive plays a dominant role in the fabrication of leather joints is first secured by adhesives and later by means of stitching.

Grindery and Hardware: These are known as metal grindery or hardware and some of the embellishments and fittings are also grouped in this category.

Zip Fastener: In garment industry zip Fastener plays a key role and oftenly tear and wear related complaint come from buyers. So the imported fastener may be sued duly tested by repeated closing and opening method. Finally in the assembling section, which is mainly concerned with the workmanship is carried out at each stage. The final inspection takes place before the goods are packed and sent for stores.

Embellishment: Due care should be taken while doing this job, a small negligence will damage the whole product.

RAW MATERIALS

The Raw materials required for the production at full capacity is given below:

Calculation of Raw Materials	Unit	Qty	Rate-Rs	Value-Rs
Nappa Leather	sft	25	55.00	1375.00
Lining	sft	3	75.00	225.00
Zip,Buttons,Threads,Adhesives, Embellishments,Other accessoies			150.00	100.00
Packing materials				30.00
				1730.00

For 60000 garments per annum the total value works out to Rs.1038.00 lakhs.

LOCATION LAND AND BUILDING

Built up area-Sq.ft	10000
Rent p.m.-Rs per .10 per sq.ft	100000
Advance-10 months. Rs	1000000

UTILITIES

Three phase-	20HP	KW	14.92
Power charges Rs. lakhs p.a			1.87
For process-Litres per day			Nil
For human consumption-			500
litres/day			

MANPOWER

Category	Nos.	Monthly Salary	Total monthly Salary
Production Manager	1	15000	15000
Supervisor	2	8000	16000
Assistant	1	4000	4000
Accountant	1	6000	6000
Substaff	3	3000	9000
Skilled workers	20	7000	140000
Semi skilled	6	5000	30000
Unskilled	1	7000	7000
Total	35		227000
Add Benefits		0.20	45400
			272400
Annually		Rs.lakhs	32.69

SCHEDULE OF IMPLEMENTATION

If the financing arrangements are finalised the project can be implemented in three months time.

COST OF PRODUCTION AND PROFITABILITY

A cost and profitability statement projected for the first 3 years of operations is given in Annexure. The profitability is based on the following assumptions.

Assumptions

Installed capacity	60000 Leather Garments per annum
Capacity utilisation	Year-1-60% Year-2-70% Year-3-80%
Selling price	Rs.2500.00 per Leather Garment
Raw materials	As per the details given above
Packing materials	As per details given above
Power	Rs.1.87 lakh per annum at 100%
Wages and salaries	Rs. 32.69 lakhs with increase 5% every year.
Repairs and Maintenance	Rs.1.20 lakhs per annum
Depreciation	Written down value method -15 % on machinery
Selling general and administrative expenses	Rs.12.00 lakh per annum
Interest on Term loan	13% per annum
Interest on working capital	13 % per annum
Income tax	34 % on profits

ADDRESSES OF MACHINERY AND RAW MATERIAL SUPPLIERS

LIST OF MACHINERY SUPPLIERS

1. Juki Machinery (India) AC-8 (31) 1 st Floor
4 th Avenue Annanagar
Chennai 600 040
2. K.S.R.Agencies
17/13 First Floor,3. Kattur Sadayappan Street
Periamet
Chennai 600 003
3. Cardinal Industries

No 4/8 Ganapathy Nagar 1st street

Ekkatuthangal

Chennai 600 097

5. M/s. Leather Machinery Corporation

11, Harrington Road,

Chetpet,

Chennai 600 006.

6. M/s. Paul Bros. and Co.

642, Annal Salai,

Thousand Light,

Chennai 600 006.

RAW MATERIAL SUPPLIERS

1. M/s. Prototype Dev Training Centre

B/24, Guindy Estate,

Ekkaduthangar,

Chennai 600 009.

2. M/s. Cochin Leathers Pvt. Ltd

Industrial Dev. Area,

Edayar, Muppathadam PO,

Cochin 683 102.

3. M/s. Twin Star Engineering

2, Thiruneermala Road,

Pammal, Chennai 75.

4. M/s. Atlant Trading PVt Ltd.

Atur House, Worli Naka,

Mumbai 400 018.

5. M/s. Valliappa leather Corporation

3/5, Narayana Chetty Street,

- Periamet, Chennai 600 003.
6. M/s. Solar
Atur House,
Worli Naka,
Mumbai 400 018
 7. M/s T. Abdul Wahid and Co
26, Vepey High Road,
Chennai 600 003.
 8. M/s. Chandra's Chemical Ent Ltd,
5, Naval Hospital Road,
1st Floor, Periamet,
Chennai 600 003.
 9. M/s. Akay Sales Corporation
Office: c-8-346, Ring Road,
Naraina, New Delhi 110028.
 10. M/s. Zeb Exports Pvt Ltd
280, Sidappa Lay Out,
Bornmanhalli Post
Madviala
Bangalore 560 068.
 11. M/s. Jay Cee Enterprises (P) Ltd
E-357, Greater Kailash – II
New Delhi 110048.

FINANCIAL ASPECTS

1. COST OF PROJECT

(Rs.lakhs)

Building-Rented-Advance	10.00
Plant & Machinery	20.18
Other Misc. assets	2.00

Pre-Operative expenses	3.00
Margin for WC	27.87

	63.05

2. MEANS OF FINANCE

Capital	47.92
Term Loan	15.14

	63.05

3. COST OF PRODUCTION & PROFITABILITY STATEMENTS

Years	1	2	3
Installed Capacity (Nos p.a.)	60000	60000	60000
Utilisation	60%	70%	80%
Production/Sales (Nos p.a.)	36000	42000	48000
Selling Price	Rs.2,500	per Leather garment	
Sales Value	900.00	1050.00	1200.00
Raw Materials	622.80	726.60	830.40
Power	1.12	1.31	1.50
Wages & Salaries	32.69	34.32	36.04
Repairs & Maintenance	1.20	1.26	1.32
Depreciation	3.66	3.13	2.67
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Cost of Production	661.47	766.62	871.93
Admin, & General expenses	12.00	12.60	13.23
Interest on Term Loan	1.97	1.72	1.23
Interest on Working Capital	16.52	16.52	16.52
	<hr/>		
Total	691.96	797.46	902.91
Profit Before Tax	208.04	252.54	297.09
Provision for tax	70.73	85.87	101.01

Profit After Tax	137.31	166.67	196.08
Add: Depreciation	3.66	3.13	2.67
Cash Accruals	140.97	169.80	198.75

4. WORKING CAPITAL:

	Months Consumptions	Values	%	Margin Amount	Bank Finance
Raw Materials	1.00	51.90	25%	12.98	38.92
Finished goods	0.50	27.56	25%	6.89	20.67
Debtors	1.00	75.00	10%	7.50	67.50
Expenses	1.00	0.50	100%	0.50	0.00
		154.96		27.87	127.09
Say --					
>		Rs.127.06	lakhs		

6. PROFITABILITY RATIOS BASED ON 80% UTILISATION

Profit after Tax	196.08	
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Sales	1200.00	16%
Profit before Interest and Tax	314.84	
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Total Investment	190.11	166%
Profit after Tax	196.08	
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Promoters Capital	47.92	409%

7. BREAK EVEN LEVEL

Fixed Cost
(FC):

(Rs.lakhs)

Wages & Salaries	36.04
Repairs & maintenance	1.32
Depreciation	2.67
Admin. & General expenses	13.23
Interest on TL	1.23
	<hr/>
	54.49
	<hr/>

Profit Before Tax (P) 297.09

$$\text{BEL} = \frac{\text{FC} \times 100}{\text{FC} + \text{P}} = \frac{54.49}{351.58} \times 100 = 15.50\%$$

15.50% of installed capacity