

PROJECT PROFILE

ON

LEATHER SHOE UPPERS

Month & Year
December 2009

**PREPARED BY
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LEATHER SHOE UPPERS

INTRODUCTION

Any shoe has an upper part that helps hold the shoe onto the foot. In the simplest cases, such as sandals or flip-flops, this may be nothing more than a few straps for holding the sole in place. Closed footwear, such as boots, sneakers and most men's shoes, will have a more complex upper. This part is often decorated or is made in a certain style to look attractive. The making of shoe uppers is almost 50% of the making of the shoe.

MARKET

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:

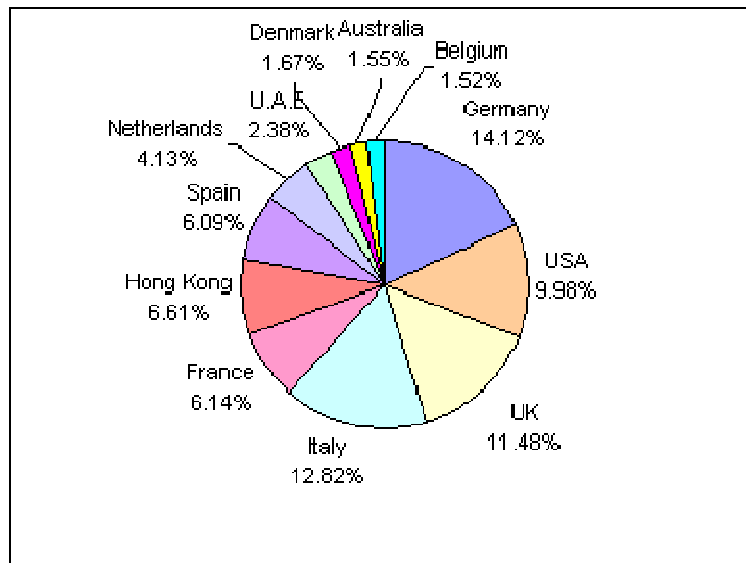
Product Category	(In Million US\$)		
	Export Target	Actual Export	% Achievement
	2008-09	Apr- March 2008-09	
Finished Leather	799.00	673.37	84.28%

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.

CURRENT MARKET FOR FULL SHOES

According to new Research Report, the India Footwear Market Forecast to 2012 emerging possibilities of footwear export, the Indian footwear

export is projected to grow at a CAGR of nearly 20% between 2008-09 and 2010-11. It will account for over 60% of total leather export from India. Easy availability of raw materials and skilled manpower at relatively much lower cost are expected to keep the demand for Indian footwear buoyant in near future much lower cost are expected to keep the demand for India footwear buoyant in the near future.

In order to reduce the impact of economic recession of the footwear market, India is trying to diversify its footwear market from its present market potential exporting markets to new avenues. As of now most of the Indian export is concentrated in EU and United States, but the country is targeting the Middle east region to sell leather goods and foot wear. With a view to further explore the possibilities to this potential market, Indian Leather Council has given emphasis on undertaking aggressive market development activities in the middle east region. Among the middle East countries Saudi Arabia and Jordan imports around US\$414 million, while India 's exports to these countries is only about US\$16 million holding a share of 3.88%. Hence there is huge scope for further enhancing India's market share in these countries.

Demand for high quality footwear produced in Europe and other parts of the world is expected to slow down as people will look for medium or lower priced products. This is a good sign for the India Footwear industry since India along with China is the main supplier of low priced footwear. However, Chinese producers are facing serious problems due to rising labour cost, which has risen around 40% since January 2009 and currency appreciation. Chinese products which used to be cheaper by around 10% compared to India products are no longer cheaper. Under these circumstances, India is the only major source for supplying medium and low priced foot wear. Moreover , most of the global footwear

manufacturers, particularly European manufacturers who were sourcing from China have now turned to India .Nike, Addidas, and Puma are some of the footwear majors are expected to route parts of their production and purchase out from China to India .

INSTALLED CAPACITY

Product	Installed capacity per hour	No of working hours per day	Capacity per day	Capacity per annum 300 days per annum
Shoe uppers	100	8	800	240000

PLANT AND MACHINERY

UPPER PLANT		
	Upper clicking press	10 nos
1	Stitching single needle	26 nos
2	Stitching double needle	10 nos
3	Stitching zig zag	2 nos
4	Binding machine	2 nos
5	Skiving machine	7 nos
6	Fusing machine	1 no
7	Eyeleting machine	1 no
8	Hammering machine	1 no
9	Embossing machine	1 no
10	Stamping machine	1 no
11	Toe puff attaching machine	1 no
12	Elgi compressor 7.5 HP	1 no

The total cost of machinery is estimated at Rs.80.00 lakhs .

MANUFACTURING PROCESS

The manufacturing of full shoes involves the following sequence of operations.

Designing and pattern cutting: As per the selected designs, the patterns are prepared, checked for accuracy, and then master patterns are developed. Then these patterns are graded into different sizes and dies are prepared.

Clicking: The upper, lining and stock components are cut from suitable materials by the help of dies with the clicking press. While clicking, it is essential to consider the importance of the components and the corresponding portion of leather, directional properties of components and that of leather portion, degree of defects, and the best possible inter lock to have minimum wastage. The components are to be necessarily marked with sizes and sides are kept separately to avoid the confusion.

Closing: The cut components are checked to sizes and defects, skived to the edges, folded and other edge treatments are done as per specification. These are then assembled together initially with adhesive and finally with stitching. The eyelets are fixed, the upper is checked and then sent for next operation.

Bottom components preparation: Bottom components such as the insole, toe – puff and stiffeners are cut from suitable materials and skived as per

specification. The PVC sole is cleaned with the solvent like Methylene – Ethylene – Ketone (MEK) and the TPR sole is cleaned and applied with chemical primer (Halogen) and dried.

Construction and shoe making: The toe – puff, stiffeners are inserted between upper and lining at the toe and back part. The insole is fixed on the last and the upper is mounted (Lasting) onto it by pulling the toe part, back part and finally the side portion. The edges are hammered for smooth feather edge. The bottom filling is done into the cavity formed due to lasting. The surface is then scoured and roughened to get levelled but rough surface is then cleaned with solvent like MEK and dried. Both the sole and lasted upper surface are then applied polyurethane adhesive and allowed to dry completely. The dried surfaces are then reactivated to gain adhesion properties and then the sole is fitted on the lasted upper accurately and pressed under sole attachment machine for strong and permanent bond. In this condition the shoe is kept for few hours for a permanent shape.

Finishing: The upper and sole is then cleaned and finished with the wax and other finishing chemicals. The shoe is then de – lasted, cleaned from inside, inserted with stamped sock lining, the laces are attached, inspected and packed for dispatch.

The quality of shoe has to be maintained as per buyer's specification. However, the main criteria for quality control are selection of suitable materials (Especially the leather with required thickness, shade, strength and softness) cutting components from suitable portions of leather, assembling, regular stitching with suitable thread with specified stitch

length and finishing, lasting, alignment, sole attachment, finishing and packing.

RAW MATERIALS

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

STATEMENTS DETAILS

Calculation of Raw Materials		Unit	Qty	Rate-Rs	Value-Rs
Leather 1	Sheep Nappa 1/2 Sheep +	sft	3	46.8	140.00
Lining 1	Socks	sft	2	38.5	87.00
Lining 2	D.Khaki	sft	1	4.65	3.00
Counter stiffeners	1.4 Mm Solvent	pairs	1	5.75	6.00
Foam	6mm 95d - Full	sft	2	23	36.00
heel Grip	H / G - Nr	Sft	0	16	0.00
Reinforcing cloth	T 814	Sft	2	3.8	9.00
Sock cushion	3 Mm	sft	1	4.75	3.00
Toe cap		pairs	0		0.00
Sub-Material		Rs/pair	1	15	15.00
					299.00
	Add 10% for wastage				29.90
	Total material cost per pair				328.90
					329.00
Production			240000		
Total RM cost per annum					Rs.789.36

Leather - sheep

Lining - Sheep

Materials (Thread, Tape, Adhesives)

Die Cost

Materials (soles Finishes, Adhesives)

consumables goods

Packing Materials

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- 120 HP KW	89.52
Power charges Rs. lakhs p.a	11.28
For process-Litres per day	Nil
For human consumption- litres/day	2000

MANPOWER

Category	Nos.	Monthly Salary	Total monthly Salary
Production Manager	1	15000	15000
Line In charge	3	10000	30000
QC Inspector	1	10000	10000
Cutting In charge	2	10000	20000
Leather Assorter	1	8000	8000
Store In charge	2	7000	14000
Accountant	2	7000	14000
Mechanic	1	7000	7000
Checking	8	6000	48000
Stitcher	38	6000	228000
folder	6	5000	30000
Attacher	10	4000	40000
Helper	20	3000	60000
Cutter	8	5000	40000
Driver	1	5000	5000
Total	104		569000
Add Benefits		0.20	113800
			682800
Annually		Rs.lakhs	81.94

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	240000 pairs of Shoe uppers per annum
Capacity utilisation	Year-1-60% Year-2-70% Year-3-80%
Selling price	Rs.450.00 per pair of Shoe uper
Raw materials	As per the details given above
Packing materials	As per details given above
Power	Rs.11.28 lakh per annum at 100%
Wages and salaries	Rs. 81.94 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.6.00 lakhs 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 EQUIPMENT SUPPLIERS

1.Harman Sales Pvt Ltd

Harman Chennai Clicking Dies

No. 51, Maddax Street,
2nd Floor, Verepy High Road,
Choolai, Chennai – 600112.

2.Shutan International

79 EVK Sampath Road

Chennai 600 007

3. Torielli India Pvt Ltd

10 Siri Fort Road-II floor, Ormes Road

Kilpauk, Chennai-600010

4. Itlaprogetti Asis Pvt Ltd

4, Ramawamy Street

T-Nagar Chennai -600017

5. EPM Italia machines Pvt Ltd

14/53, V.V. Koil Street,

Chinmaya Nagar, Stage-I,

Chennai - 600092

6. Fizya International

2/12 Palliappan Street

Periyar Nagar, Pallavaram

Chennai-600044

RAW MATERIALS SUPPLIERS

All major finished leather suppliers in Chennai and other leather centres

1. M/s. Valliappa Leather Corporation

3/5 and 6, Narayana Chetty Street

Periamet,

Chennai 600 003.

2. M/s. T. Abdul Wahid and Co

26, Vepery High Road,

Chennai 600 003.

3. M/s. Tamil Nadu Leather Dev Corporation Ltd

857, Periyar SVR High Road,

Chennai 600 010.

4. M/s. Bharani Agencies
126, Thambu Chetty Street,
3rd Floor,
Chennai 600 001.
5. M/s. Popular Thread Factory
No.28, Kasi Chetty Street,
Chennai 600 097.
6. M/s. Skandia Sales and Services (P) Ltd
1-B, gen, Colling Road,
Choolai, Chennai 600 112.

FINANCIAL ASPECTS

1. COST OF PROJECT

(Rs.lakhs)

Building-Rented-Advance	10.00
Plant & Machinery	80.00
Other Misc. assets	5.00
Pre-Operative expenses	10.00
Margin for WC	22.24

	127.24

2. MEANS OF FINANCE

Capital	67.24
Term Loan	60.00

	127.24

3. COST OF PRODUCTION & PROFITABILITY STATEMENTS

Years	1	2	3
Installed Capacity (No.of pairs p.a.)	240000	240000	240000
Utilisation	60%	70%	80%
Production/Sales (No. of pairs p.a.)	144000	168000	192000
Selling Price	Rs.450	per pair of Shoe upper	
Sales Value	648.00	756.00	864.00
Raw Materials	488.02	569.35	650.69
Power	6.77	7.90	9.02
Wages & Salaries	81.94	86.03	90.33
Repairs & Maintenance	1.20	1.26	1.32
Depreciation	13.97	11.90	10.14
Cost of Production	591.90	676.44	761.50
Admin, & General expenses	6.00	6.30	6.62
Interest on Term Loan	7.80	6.83	4.88
Interest on Working Capital	12.68	12.68	12.68
Total	618.38	702.25	785.68
Profit Before Tax	29.62	53.75	78.32
Provision for tax	10.07	18.27	26.63
Profit After Tax	19.55	35.48	51.69

Add:			
Depreciation	13.97	11.90	10.14
Cash			
Accruals	33.52	47.38	61.83

4. WORKING CAPITAL:

	Months	Values	%	Margin	Bank
	Consumptions			Amount	Finance
Raw Materials	1.00	40.67	25%	10.17	30.50
Finished goods	0.50	24.66	25%	6.17	18.49
Debtors	1.00	54.00	10%	5.40	48.60
Expenses	1.00	0.50	100%	0.50	0.00
		<hr/>			
		119.83		22.24	97.59

Say -
-> Rs.97.56 lakhs

6. PROFITABILITY RATIOS BASED ON 80% UTILISATION

Profit after Tax	51.69	
<hr/>	<hr/>	
Sales	864.00	6%
Profit before Interest and Tax	95.88	

<hr/>	<hr/>	43%
Total Investment	224.80	
<hr/>	<hr/>	77%
Profit after Tax	51.69	
Promoters Capital	67.24	

7. BREAK EVEN LEVEL

Fixed Cost
(FC):

(Rs.lakhs)

Wages & Salaries	90.33
Repairs & maintenance	1.32
Depreciation	10.14
Admin. & General expenses	6.62
Interest on TL	4.88
	<hr/>
	113.29
	<hr/>

Profit Before Tax (P) 78.32

	$\frac{FC \times 100}{FC + P}$	<hr/>	113.29	0.80	
BEL =		<hr/>	191.61	47%	of installed capacity

