

PROJECT PROFILE

ON

LEATHER SOLE COMPONENTS

Month & Year
December 2009

**PREPARED BY
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LEATHER SOLE COMPONENTS

INTRODUCTION

Leather Sole components include all those items used for shoe soles.

Insole

The insole is the interior bottom of a shoe, which sits directly beneath the foot. Many shoes have removable and replaceable insoles, and extra insoles are often added for comfort (to control the shape, moisture, or smell of the shoe) or health reasons (to help deal with defects in the natural shape of the foot or positioning of the foot during standing or walking).

Outsole

The outsole is the layer in direct contact with the ground. Dress shoes have leather outsoles; casual or work-oriented shoes have outsoles made of natural rubber or a synthetic imitation. The outsole may comprise a single piece, or may comprise separate pieces of different materials. Often the heel of the sole is rubber for durability and traction, while the front is leather for style. Specialized shoes will often have modifications on this design: athletic cleats have spikes embedded in the outsole to grip the ground; many kinds of dancing shoes have much softer or harder soles.

Midsole

The layer in between the outsole and the insole that is typically there for shock absorption. Some types of shoes, like running shoes, have another material for shock absorption, usually beneath the heel where one puts

the most pressure down. Different companies use different materials for the midsoles of their shoes. Some shoes may not have a midsole at all.

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	Export Target	(In Million US\$)	
		Actual Export	% Achievement
		Apr- March	
	2008-09	2008-09	

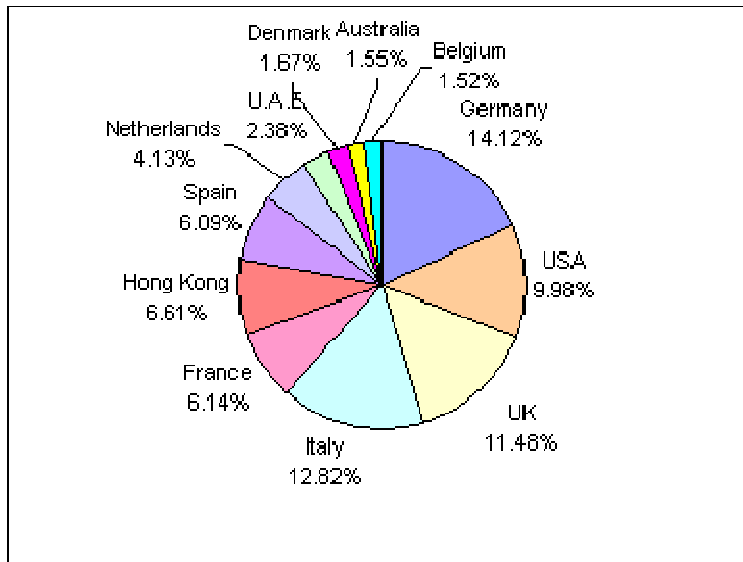
Finished Leather	799.00	673.37	84.28%
Footwear	1816.00	1533.66	84.45%
Leather Garments	380.00	426.15	112.14%
Leather Goods	875.00	873.30	99.81%
Saddlery & Harness	130.00	92.15	70.88%
Total	4000.00	3598.63	89.97%

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
Sole components	375	8	3000 pairs	900000

PLANT AND MACHINERY

Sl.	Shoe components plant	Qty
1	Clicking machine	4 nos
2	Counter moulding	2 nos
3	Sole levelling	1 no
4	Sole buffing	1 no
5	Sole splitting	1 no
6	Sole trimming	1 no
7	Sole brushing	3 nos
8	Sole pressing	1 no

9	Sole roughing	1 no
10	Welt attaching	1 no
11	Heel trimming	1 no
12	Heel scooping	1 no
13	Sole decoration	1 no
14	Sole moulding	1 no
15	Heel nailing	1 no
16	Heel pressing	1 no
17	Heel pasting	1 no
18	Heel flexing	1 no
19	Sole stamping	1 no
20	Sole colouring	1 no
21	Elgi compressor	2 nos
22	Genset – 75 KVa	1 no

The total cost of the machinery is estimated at Rs.30.00 lakhs

MANUFACTURING PROCESS

Purchase of leather, Polyurathnae and other materials-Cutting and pasting-Pressing-Packing

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.
Leather				15.00

PU	8.00
Threads,Adhesives,	2.00
Embellishments,Other accessoies	
Packing materials	1.00
	26.00
Production	900000
Total RM cost per annum	Rs.234.00 lakhs

LOCATION LAND AND BUILDING

Built up area-Sq.ft	1000
Rent p.m.-Rs per .10 per sq.ft	10000
Advance-10 months. Rs	100000

UTILITIES

Three phase- 30HP KW	22.38
Power charges Rs. lakhs p.a	2.82
For process-Litres per day	Nil
For human consumption- litres/day	500

MANPOWER

Category	Nos.	Monthly	Total
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		Salary	monthly Salary
Production			
Manager	1	10000	10000
Supervisor	1	8000	8000
Accountant	1	6000	6000
Substaff	3	3000	9000
Skilled workers	10	7000	70000
Semi skilled	4	5000	20000
Unskilled	1	7000	7000
Total	21		130000
Add Benefits		0.20	26000
			156000
Annually		Rs.lakhs	18.72

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	900000 Pairs of Shoe components per annum
Capacity utilisation	Year-1-60% Year-2-70%

	Year-3-80%
Selling price	Rs.35.00 per pair of shoe component.
Raw materials	As per the details given above
Packing materials	As per details given above
Power	Rs.2.82 lakh per annum at 100%
Wages and salaries	Rs. 18.72 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 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 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	1.00
Plant & Machinery	30.00
Other Misc. assets	2.00
Pre-Operative expenses	5.00
Margin for WC	6.76

	44.76

2. MEANS OF FINANCE

Capital	22.26
Term Loan	22.50

44.76

3. COST OF PRODUCTION & PROFITABILITY STATEMENTS

Years	1	2	3
Installed Capacity (No.of pairs p.a.)	900000	900000	900000
Utilisation	60%	70%	80%
Production/Sales (No. of pairs p.a.)	540000	630000	720000
Selling Price	Rs.35	per pair of Shoe upper	
Sales Value	189.00	220.50	252.00
Raw Materials	140.40	163.80	187.20
Power	1.69	1.97	2.26
Wages & Salaries	18.72	19.66	20.64
Repairs & Maintenance	1.20	1.26	1.32
Depreciation	5.43	4.63	3.95
Cost of Production	167.44	191.32	215.37

Admin, & General expenses	6.00	6.30	6.62
Interest on Term Loan	2.93	2.56	1.83
Interest on Working Capital	3.66	3.66	3.66
Total	180.03	203.84	227.48
Profit Before Tax	8.97	16.66	24.52
Provision for tax	3.05	5.66	8.34
Profit After Tax	5.92	11.00	16.18
Add:			
Depreciation	5.43	4.63	3.95
Cash			
Accruals	11.35	15.63	20.13

4. WORKING CAPITAL:

	Months	Values	%	Margin	Bank
	Consumptions			Amount	Finance
Raw					
Materials	1.00	11.70	25%	2.93	8.77
Finished					
goods	0.50	6.98	25%	1.75	5.23
Debtors	1.00	15.75	10%	1.58	14.17
Expenses	1.00	0.50	100%	0.50	0.00
		34.93		6.76	28.17
Say -					
->		Rs.28.14	lakhs		

6. PROFITABILITY RATIOS BASED ON 80% UTILISATION

Profit after Tax	16.18
_____	_____ 6%
Sales	252.00
Profit before Interest and Tax	30.01
_____	_____ 41%
Total Investment	72.90

Profit after Tax	16.18
—————	———— 73%
Promoters Capital	22.26

7. BREAK EVEN LEVEL

Fixed Cost
(FC):

	(Rs.lakhs)
Wages & Salaries	20.64
Repairs & maintenance	1.32
Depreciation	3.95
Admin. & General expenses	6.62
Interest on TL	1.83
	—————
	34.36
	—————
Profit Before Tax (P)	24.52
	FC x
	100
	—————
BEL =	58.88
	—————
	0.80
	—————
	47%
	of installed capacity

FC +P