

PROJECT PROFILE

ON

LEATHER SUIT CASES AND TRAVEL BAGS

Month & Year
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INTRODUCTION

Travelling bag is one of the convenient goods used for carrying the belongings such as clothes, daily-use articles and other essentials during traveling from one place to other. Some other types of products are also used for carrying important documents and office use equipments by the executives and high profile personnel. Although this product is manufactured from various types of materials such as textile, jute, coated fabrics, yet leather traveling bag is having wider acceptance due to its superior strength, aesthetic look and up-man-ship among middle and high-income group people. A wide range of traveling bags are in use for various purposes. The cost of the leather bags depends upon the type of leather, space and/or style of it. This project aims at manufacturing two types of bags i.e.:

- i) Bags of single large pocket with one or two zips usually made from heavy cow or buffalo leather and
- ii) Bags of multi pockets with interlining and re-enforcement, flap type, fitted with magnetic press buttons, commonly made from cow nappa leather.

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:

		(In Million US\$)	
Product Category	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%

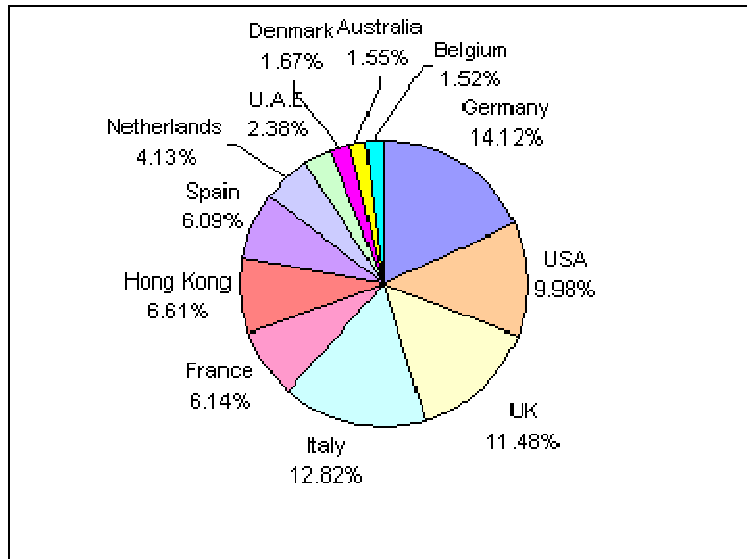
Country-wise analysis

- 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	No of working hours per day	Capacity per day	Capacity per annum 300 days per annum
Leather suitcases and travel bags	8	50	15000

PLANT AND MACHINERY

SI.No	Name of the Machinery	Qty	Value
1.	Strap cutting machine Straight (120 knives)	1	75000
2.	Pneumatic stamping machine stamping wheel(0-9 nos)	1	113000
3.	Upper Skiving Machine	1	75000
4.	Flat bed single needle sewing machine	3	99000
5.	Heavy duty flat bed single needle sewing machine	1	45000
6.	Cylinder bed sewing single	2	210000
7.	Combined finishing machine	1	83000
8.	Riveting machine		10000
9.	Electrification and erection of machine		70000
	TOTAL		780000

MANUFACTURING PROCESS

The leather traveling bags proposed to be manufactured in this project are mainly of two types. One is of single large pocket with a space of 3 to 6 ft. fitted with one or two fasteners and a long strap handle and other one is of multi-pockets (3 to 5) fitted with different types of fasteners like zips, Velcro or press buttons. While heavy cow or buffalo bag leather with the thickness of 2.0 to 2.5mm without lining is preferred for making the former, the softy type of leather like cow nappa leather with the inter-lining and reinforcement is usually used for the later.

First of all the components are cut from suitable materials. The basic raw material is the finished leather, which is not uniform, irregular in shape and size, variation with grain structure and presence of defects on the surface. On the other hand, the components are generally regular or rectangular shape and the adjacent components should have similar shade and structure. Therefore, necessary care should be taken in cutting the components. The cut components are then skived to the edges for ease of folding and/or stitching. The edges are then beaded and the zips and other fasteners attached as per the specification. The outer surface (leather), the inner surface (lining) and the re-enforcement materials if required so, are attached first with the adhesive and then by stitching. The linings and thread-ends are trimmed and sealed. The surface is cleaned and polished and made ready for 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-R.
Heavy cow or buffalow chrome tanned	sft	8.5	45.00	382.50
Lining & reinforcements	sft			50.00
Magnetic press butyon				35.00
Zip, Thread , adhesives				32.00
Total material cost per piece				499.50

The total material cost for 15000 bags works out to Rs.74.93 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- 10HP	KW	7.42
Power charges Rs. lakhs p.a		0.95
For process-Litres per day		Nil
For human consumption-litres/day		500

MANPOWER

Category	Nos.	Monthly	Total monthly

		Salary	Salary
Production Manager	1	10000	10000
Accountant	1	7000	7000
Mechanic	1	7000	7000
Skilled	5	6000	30000
Semiskilled	3	5000	15000
Unskilled	2	3000	6000
Total	13		75000
Add Benefits		0.20	15000
			90000
Annually		Rs.lakhs	10.80

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	15000 Leather Suit cases and bags per annum
Capacity utilisation	Year-1-60% Year-2-70% Year-3-80%
Selling price	Rs.900.00 per bag
Raw materials	As per the details given above
Packing materials	As per details given above
Power	Rs.0.95 lakh per annum at 100%
Wages and salaries	Rs. 10.80 lakhs with increase 5% every year.

Repairs and Maintenance	Rs.0.60 lakh per annum
Depreciation	Written down value method -15 % on machinery
Selling general and administrative expenses	Rs.3.60 lakh per annum
Interest on Term loan	13% per annum
Interest on working capital	13 % per annum
Income tax	34 % on profits

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
Madivala
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	1.00
Plant & Machinery	7.80
Other Misc. assets	1.00
Pre-Operative expenses	2.00
Margin for WC	2.76

	14.56

2. MEANS OF FINANCE

Capital	8.71
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Term	5.85
Loan	-----
	14.56

3. COST OF PRODUCTION & PROFITABILITY STATEMENTS

Years	1	2	3
Installed Capacity (No.of pieces p.a.)	15000	15000	15000
Utilisation	60%	70%	80%
Production/Sales (No. of pieces p.a.)	9000	10500	12000
Selling Price	Rs.900	per bag	
Sales Value	81.00	94.50	108.00
Raw Materials	45.86	53.50	61.14
Power	0.57	0.67	0.76
Wages & Salaries	10.80	11.34	11.91
Repairs & Maintenance	0.60	0.63	0.66
Depreciation	1.56	1.33	1.14
Cost of Production	59.39	67.47	75.61

Admin, & General expenses	3.60	3.78	3.97
Interest on Term Loan	0.70	0.61	0.44
Interest on Working Capital	1.40	1.40	1.40
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Total Profit Before Tax	65.09	73.26	81.42
Provision for tax	15.91	21.24	26.58
Profit After Tax	5.41	7.22	9.04
Tax	10.50	14.02	17.54
Add:			
Depreciation	1.56	1.33	1.14
Cash Accruals	12.06	15.35	18.68

4. WORKING CAPITAL:

	Months Consumptions	Values	%	Margin Amount	Bank Finance
Raw Materials	1.00	3.82	25%	0.96	2.86
Finished goods	0.50	2.47	25%	0.62	1.85
Debtors	1.00	6.75	10%	0.68	6.07
Expenses	1.00	0.50	100%	0.50	0.00
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		13.54		2.76	10.78

Say --> Rs.10.75 lakhs

6. PROFITABILITY RATIOS BASED ON 80% UTILISATION

<u>Profit after Tax</u>	17.54	
Sales	108.00	16%

Profit before Interest and Tax	28.42	
<hr/>	<hr/>	112%
Total Investment	25.31	
Profit after Tax	17.54	
<hr/>	<hr/>	201%
Promoters Capital	8.71	

7. BREAK EVEN LEVEL

Fixed Cost
(FC):

	(Rs.lakhs)
Wages & Salaries	11.91
Repairs & maintenance	0.66
Depreciation	1.14
Admin. & General expenses	3.97
Interest on TL	0.44
	<hr/>
	18.12
	<hr/>

Profit Before Tax (P) 26.58

$$\text{BEL} = \frac{\text{FC} \times 100}{\text{P} + \text{FC}} = \frac{18.12}{26.58 + 18.12} \times 100 = 40.80\% \text{ of installed}$$

FC +P