

India—on a roll

It is not only China that is doing well in world footwear markets. The outlook for India's leather and footwear industry is also looking very positive according to a recent study by the Confederation of India Industry (CII), with exports growing at 8% and likely to double by 2010. Nevertheless, its share of world markets is still only 2.44% of a global trade worth \$97.61 billion, so there is plenty of room for growth. To do this, it will need assistance and the CII is urging the Indian government to put it on a par with the textile and apparel industry in order to generate large scale employment and achieve an estimated sales target of \$7 billion in exports and \$5 billion in the domestic market by 2012.

The report also highlights the fact that besides being an increasingly significant player in world markets, India is also attracting the attention of more and more multi-nationals, many of whom have already entered India in different ways. Although the government appears keen to support further modernisation of the industry, more investment in both manufacturing and training is needed in order to provide more production facilities and skilled workers if these ambitious targets are to be achieved.

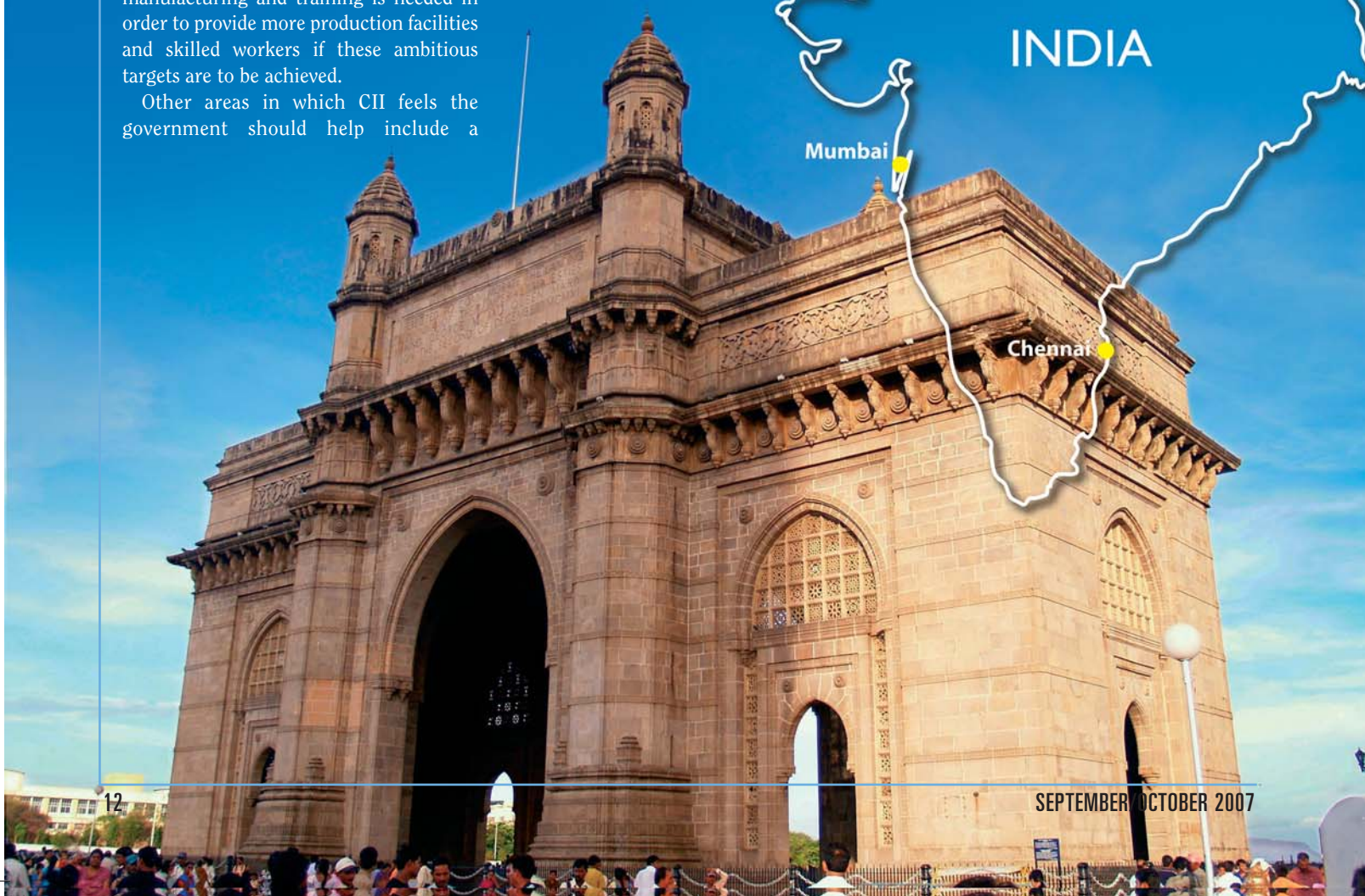
Other areas in which CII feels the government should help include a

rationalisation of taxes on machinery, raising investment opportunities including FDI and the removal of excise on all components covered under the DFIS policy which allows duty free imports of 3% of FOB to exporters. It says that this kind of approach is vital for the industry to be able to build strong Indian footwear brands and the infrastructure necessary to support them.

The National Manufacturing Competitiveness Council (NMCC) has also weighed into the debate and identified leather and footwear as one of twelve focus manufacturing sectors in terms of competitiveness and untapped potential in the country. It is one of the top eight foreign exchange earners worth \$22.38 billion per annum. Of the total purchase of footwear, leather garments, leather goods and accessories by leading brands, 15% in Europe and 10% globally source from India. Footwear currently accounts for 32% of the total value of all Indian leather and leather product exports.

High exports and low imports

The leather industry as a whole currently employs around 2.5 million people—30% of whom are women—with around 60-65% of output coming from small enterprises. Some 90% of footwear is produced by small to medium enterprises (SMEs), with about 42,000 units registered under SSI and largely concentrated in Agra, Kanpur and Tamil Nadu. Although output of leather footwear and footwear components has increased by 60% over the last five years, most SSI



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Indian leather exports for the ten-month period from April 2006 to January 2007 totalled \$2.5 billion and a 9.5% increase compared with \$2.2 billion in the previous corresponding period. A breakdown shows finished leather exports rose 7.9% to \$567.4 million, while leather footwear exports increased 20.5% to \$755.35 million. Footwear component exports rose 22.9% to \$181.28 million and leather goods increased 4.9% to \$573.14 million. However, leather garment exports fell 8.5% to \$269.16 million compared with \$294.18 million in the corresponding period last year. Imports were also up during the ten months with raw hides, skins and finished leather rising 20.8% to a total of \$296.43 million.

units are now also producing non-leather footwear as well. The domestic market still takes 75% of production and, while the main output of the rest of the world is women's shoes, India produces proportionally more men's.

There is still huge potential here as India has a large and rapidly growing consumer class estimated at around 90 million households. While incomes are low by western standards, the smaller Indian footwear producers have low costs and should be able to benefit from this growing market opportunity and so help to keep footwear imports down to current low levels. Imports are mostly comprised of hides and skins, and semi-finished or fully-finished leathers.

India's advantages

India has some real advantages if only the industry can organise itself sufficiently well to fully exploit them. While production costs are not as low as in China, they are still highly advantageous. Add to this a variety and abundance of raw materials, an awareness of the importance of quality and customer service and improving R&D and training facilities, and it becomes clear that India has all the necessary ingredients to become a major force in the global industry.

Unfortunately, it has suffered from poor organisation in the past and, to a certain extent, still lacks the overall coherence that the Chinese industry so quickly established. This is most likely why the latter has attracted ten times more investment than India over the last 20 years. It has to be said that the country as a whole has not been alive to its real

potential to attract investment and this has been its loss and China's gain. It is belatedly trying to catch up but the gap is now too wide and it will be forced to settle for second place.

A source of employment

India has long sought to find industrial employment for its teeming rural population in an effort to raise them from abject poverty. Footwear manufacture is one industry that can provide employment to a poorly educated population. As a result, 40% of employees are unskilled workers performing off-line bench operations by hand. There are also large employment opportunities on the input side, where many minority community and low caste people base their sole source of livelihood on collecting carcasses, skinning dead animals and tanning leather in micro operations.

The industry's new found confidence has led it to claim that it will be able to generate a further 300,000 jobs over the next three years. While the potential for employment is in theory across all skill levels, 92% would be semi-skilled and unskilled production line workers, 7% technical and supervisory staff and a mere 1% entrepreneurs, senior managers and technologists. The problem will be education and training, as creating 3,000 managers and 21,000 supervisory staff in only three years is quite a challenge.

Research and training

A clear sign that the industry is striving to improve skills is the recent move by India's Footwear Design and Development Institute (FDDI) to create a complete Sole Design curriculum using CimatronE ShoeExpress CAD/CAM software. The aim of the course is to assist students in mastering traditional sole design skills, whilst using state-of-the-art design tools. The use of this software will enable students to train in all aspects of soling design including complete sole units, separate soles, heels, models and mould creation to the very highest standards.

Headquartered at Noida, just outside Delhi, FDDI claims to be India's premier footwear training centre and able to provide training, HRD, design and development, as well as testing and consultancy services to major footwear manufacturers countrywide. It is an ISO 9001 and ISO 14001 institute and has ISO 17025 certified laboratories. It

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also collaborates with other institutions such as PFI Germany and Thomas Bata University in the Czech Republic.

Possible problems

As well as producing predominantly mens' shoes, India's footwear exports are also largely skewed towards Europe where it sells 63% of them as against only 12% to the USA.

One reason is that America has always felt more at ease in the Far East, where it established strong commercial ties in the aftermath of World War II. Europeans on the other hand, and the British and Germans in particular, have always felt more comfortable with India. Another may be the type of shoes produced. India's manufacturers have gone for the best quality they can produce, with prices typically in the \$15-20 range. The mass market so dominated by China and Vietnam has prices of between \$4-8, a huge difference. Indian shoemakers are being encouraged to go for more volume markets but, one suspects, they would prefer not to do so.

They have a current advantage in Europe due to the anti-dumping duties imposed on China and Vietnam. But these will only run until August 2008 as things stand at present and, to set against this temporary gain, there is the factor of an appreciating rupee. The CLE, the Indian Council for Leather Exports, has called for a reduced transaction cost for exports so that the country does not lose out in this respect.

Adesh Gupta, CEO of India's largest footwear manufacturer Liberty Group and chairman of the FDDI has gone so far as to urge the government to freeze the dollar/rupee exchange rate for at least three years. He says that Indian ➤



Traditional chappals

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exporters have incurred considerable losses this year as a result of the stronger rupee. He has also asked for tax relief for the sector, stating that a mere eight to ten Indian footwear manufacturers currently account for 80% of all exports.

Large companies are becoming larger

Mr. Gupta's Haryana-based company Liberty Shoes Ltd. now claims to be the fifth largest footwear manufacturer in the world. Established in 1954, it recently announced plans to set up a new factory in southern India in order to meet growing demand in the domestic market. The company produces men's and women's shoes, sandals and slippers, with 70% sold domestically and the remaining 30% exported to Europe, the USA, Middle East and southern Asia.

It currently owns a tannery and four shoe factories in northern India and reported 2006 sales of \$125 million, 25% more than in the previous year. Production capacity was recently doubled to 100,000 pairs per day after it established

three new manufacturing plants at a cost of around \$27.1 million, two in Himachal Pradesh and one in Uttarakhand. This is phenomenal growth by any measure and shows how the standard of living in India is really starting to rise.

Another very successful Indian company is Superhouse Ltd. Based in Tamil Nadu in the south it currently has 15 production facilities, including tanneries and leathers goods manufacturing units, employing over 3,000 staff. It has also announced major expansion with a \$12.24 million investment for 2008. The reason this time is said to be increased demand from the USA. Capacity will be increased by 50% to 15,000 pairs of fashion and safety footwear per day, through the addition of two new footwear facilities in Agra and Kanpur. It will also set up a new tannery at Unnao to ensure an adequate supply of raw materials to the new facilities.

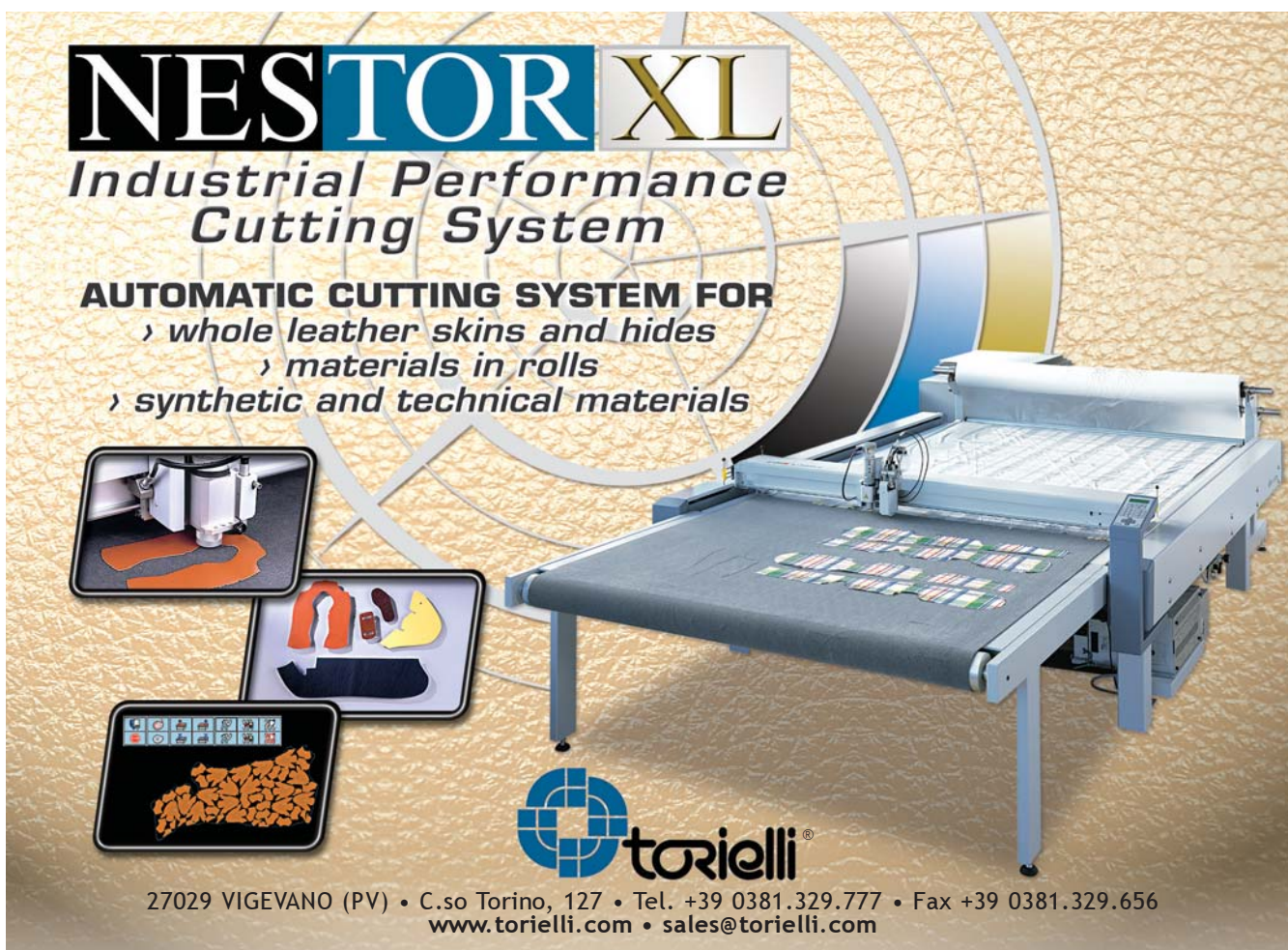
IILF 2007—new initiatives

The organisers of India's International Leather Fair held at Chennai earlier this

year, say they hosted over 10,000 trade visitors and 394 participants from around the world. It was also the biggest so far in terms of size, covering 25% more area than in 2006 and attracting 20% more exhibitors, plus featuring numerous seminars, buyer seller meets and special publications.

Demonstrating the on-going quest for accelerated investment from both domestic and international sources, the CLE announced a number of road shows to be held in Romania, Brazil, France and the UK. It was also hoped that these would lead to technical collaborations or joint venture alliances with foreign companies which would also benefit the industry.

Scandinavia has been largely ignored by Indian exporters, so the CLE also announced Buyer Seller Meets (BSMs) in selected Scandinavian and other European countries to promote the Indian leather industry. How successful any of these events have been is not yet known, but the industry certainly appears to be trying to spread its net in a drive to catch up with its more easterly neighbours. 



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