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## **An Analysis of Investment Pattern and State wise Annual Turnover of Indian Leather Industry**

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### **Abstract:**

*The leather and leather products industry is one of India's oldest manufacturing industries. The industry employs about 2.5 million people with a large number of them belonging to poor and marginalized sections of society. The highest number of people is employed in the most basic activity of this sector which is flaying, curing and carcass recovery followed by Chappal and sandals making. The leather industry also provides employment to a large number of women. The industry covers a vast spectrum of inputs activities, skills and products i.e. livestock, hides and skins, tanning, leather products and exports. The Indian Leather Industry is growing by leaps and bounds. More than 80 percent of the businesses in the leather segment fall in the category of Small and Medium Enterprises (SMEs). The export of Leather products has increased manifold over the past couple of decades, touching US\$ 4.99 billion in 2012-2013. This means a cumulative annual growth rate of about 8.54 percent in five years. The Industry has an annual turnover of over US\$ 8.5 billion. High standards and good compliance with norms are helping the Indian Leather Industry stand tall in the global market. Hence, an attempt has been made in this paper to highlight "An Analysis of Investment Pattern and State wise Annual Turnover of Indian Leather Industry".*

**Keywords:** *Leather Industry, SMEs (Small and Medium Enterprises), Annual Turnover*

### **1. Introduction**

Leather was one of the first manufactured materials and the Leather Technologist can claim to be a member of an ancient profession. Leather has long outgrown in its practical purpose and today is regarded more as a luxury than a necessity, particularly in the affluent west. The global industry is valued at about RS.396404 billion (71.27 Billion Euro). Most of the producing countries are developing countries, yet China and Italy are the leading producing and exporting nations in the world with exports worth RS.886.16 billion (15.93 billion Euros) and Rs.606.32billion (10.901 billion Euros) respectively.

The industry is buyer-driver, with producing countries manufacturing in line with specifications, guidelines and technical advice provided by the buyer countries. The Indian Leather Industry, one the most vibrant sector of the country's economy, is well structured and well recognized in the international market. The Indian Leather goods constitute about 7% of India's export earnings/ besides being a significant earner of foreign exchange, the leather industry generates employment, ensuring jobs for over 2.5 million people, with 75% of the production from small and cottage sectors. India, with an output of Rs.186.56 billion (3.354 billion Euros) and exports of Rs.125.46 billion (2.225 billion Euros) is placed 3<sup>rd</sup> while developed markets such as US are major consumers of leather products. The industry covers a vast spectrum of inputs activities, skills and products i.e. livestock, hides and skins, tanning, leather products and exports. The Indian Leather Industry is growing by leaps and bounds. One must be wondering why India is exporting so much of leather to western countries. Apparently because leather wear still enjoys a great demand abroad and now –a-days even the domestic market is developing and consuming the offerings of this industry. Hence, an attempt has been made in this paper to highlight "An analysis of Investment pattern and State wise Annual Turnover of Indian Leather Industry".

### **2. Significance of the Study**

The leather and leather products industry is one of India's oldest manufacturing industries. The industry employs about 2.5 million people with a large number of them belonging to poor and marginalized sections of society. The highest number of people is employed in the most basic activity of this sector which is flaying, curing and carcass recovery followed by Chappal and sandals making. The leather industry also provides employment to a large number of women. More than 80% workers employed in the leather goods and garments and shoes uppers segments are women. Women are also employed in small jobs done on scrap leather.

Moreover, nearly 70% of the leather sector is comprised of small-scale firms, although there also a significant number of medium and large-sized firms in all segments of the industry. The Indian leather industry is spread in about six key segments: (i) tanning and finishing; (ii) leather footwear; (iii) footwear components; (iv) leather garments; (v) leather goods; and (vi) saddler and harness. The footwear and saddler and harness segments have the highest shares of the household, tiny and cottage sector. In the tanneries segment, the presence of the medium and large-scale sector is the strongest with a share of 55%. The presence of small-scale units is the highest at 95% in garments, followed by leather goods, saddler and harness.

### 3. Review of literature

Review of Literature is an essential aspect which helps the researcher to get more acquainted with the subject matter and directs the efforts towards the desired goal. The related studies are presented below

- **Murugesan and Subramanian, (1990)**, try to study the extent of market potential for various leather and leather products, identify the countries where the market is perspective and formulate a suitable strategy for the improvement of export performance of the leather Industry.
- **Nanjappan, (1971)**, in his paper says that the Leather has developed from the primitive stage of an unplanned cottage industry to a well organized modern industry largely due to the result of the encouragement, it has receive after independent and during the successive 5 year plan.
- **Subash Kumar (1997)**, in his study stated that the export sector of leather industry has emerged as one of the thrust sectors for foreign exchange earning. The exponential growth rate of total exports is higher of than growth rate of total exports of the country. Further, the significance of the industry is increasing realized in recent years owing to acute shortage of foreign exchange. The author argues that India has emerged as an exporter of finished goods.

### 4. Objectives of the Study

The present study has the following objectives

- To bring out the profile of Indian Leather Industry.
- To assess the role of SMES in Leather Industry.
- To analyze the investments and Annual Turnover of Leather industry.

### 5. Research Methodology

Secondary data for this study were collected from various, journals, magazines, council's report, and websites containing useful information pertaining to this paper.

The following tools such as Mean, Standard Deviation, Co-efficient of variation are used for analysis.

### 6. Profile of Indian Leather Industry

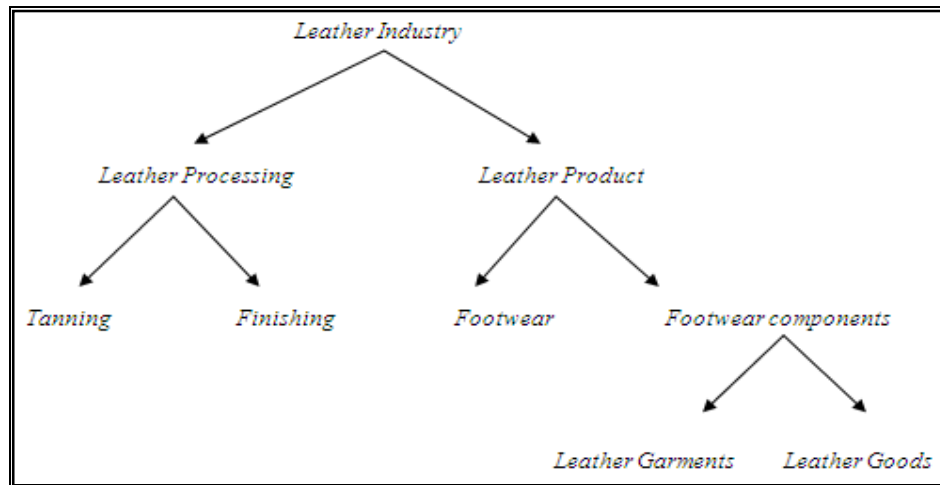
India is the largest livestock holding country 21% large animals and 11% small animals

- A source for 10% global leather requirement.
- Annual production value over Rs. 186.56 billion (3.354 billion Euros).
- Annual export value over Rs. 125.46 billion (2.225 billion Euros).
- Export growth CAGR (compound annual growth rate) 8.61% (5 years).
- About 2.50 million workforces (30% women).
- Promising technology inflow and Foreign Direct Investment.
- Enormous potential for future growth (domestic as well as export).

### 7. Horizontal spread of the Industry

Leather industry can be broadly divided into leather processing and leather product.

The flow chart elucidates the structure.



### 8. Institutions of Leather Industry

The industry has a very strong institutional set up. The following are the major institutions cater to the industry:

- CLE Council for Leather Exports (Under Ministry of Industries and Commerce)
- CLRI Central Leather Research Institute (Under Department of Scientific and Industrial Research, Ministry of Science and Technology)
- AISHTMA, All India Skin Hide Tanners Merchants Association
- ISF, Indian Shoe Federation
- IFLMEA, Indian Finished Leather Manufacturers and Exporters Association
- CFTI Central Footwear Training Institute
- ILIFO, Indian Leather Industry Foundation

Regional Tanners Associations

- Common Effluent Treatment Plants
- Special Purpose Vehicles promoted to implement certain infrastructure projects
- IILP, Indian Institute of Leather Products
- UPLIA, Uttar Pradesh Leather Industries Association
- AFMEC, Agra Footwear Manufacturers and Exporters Association
- CLCTA, Calcutta Leather Complex Tanners Association

### 9. Leather Park

Under the leather park package, Chennai is going to have two parks- one for footwear and the other for components. An exclusive park for tanneries is also coming up at Nellore, a leather goods park within the upcoming Calcutta Leather Complex in Kolkata and another component park in Agra.

The leather goods park project of Indian Leather Products Association (ILPA), coming up on approximately 69 acres of land inside the Calcutta Leather Complex (CLC) at Bantala in east Kolkata, is expected to be completed by 2008-09. The facility will put Kolkata on the international leather goods buyers' map.

Ten leather product manufacturing companies, including Liberty Shoes and Irving Leather Company of the US besides a couple of Chinese companies, are keen to set up units in the leather park proposed to be set up in Nellore district.

### 10. SMES a big slice of Indian Leather Industry

The Indian leather industry has a significant share in the overall exports of the country. More than 80 per cent of the businesses in the leather segment fall in the category of Small and Medium Enterprises (SMEs). The Government of India considers the leather industry as a focused sector.

### 11. The role of SMEs in the Indian leather industry

SMEs are the most important component of this industry segment. Close to 80 per cent of the business of this industry comes from SMEs. India is the second largest producer of footwear and leather garments in the world, accounting for a share of 3.05 per cent in the global leather import trade of USD159.89 billion in 2011. This year, SMEs have achieved exports of close to USD4 billion. Apart from the exports, India's domestic market for leather and footwear products is also very lucrative.

### 12. Indian leather industry – Investment & Sales

The ratio of investment: sales value is 1:2.25, which is very low when compared to other industries. This is mainly due to low capacity utilization of the units. The capacity utilization of units in respect of hides converting raw into unfinished leathers is estimated at 49%, raw to finished 60% and unfinished to finished 70%

In the case of skin based tanneries, the respective percentages are 64, 67 and 70. The main reasons reported for under utilization of capacity are raw material shortage, high price of raw materials, and lack of modernization, financial constraints, power constraints and stringent environmental regulation.

### 13. Sector Wise Investments

Sector	No. of Units	Average Investment per unit* (in Rs. Crores)	Total Cost (in Rs. Crores)
Tanning SSI	1077	2.25	2423.25
Large/medium	80	5.00	400.00
		Sub – Total(I)	2832.25
Foot Wear SSI	550	0.80	440.00
Large / medium	50	3.78	189.00
		Sub – Total(II)	629.00
Leather goods SSI	390	0.50	195.00
Large / medium	10	1.68	16.80
		Sub – Total(III)	211.80
Leather Garments SSI	390	1.00	390.00
Large / medium	10	4.00	40.00
		Sub – Total(IV)	430.00
Total (I+II+III+IV)			4094.05
Unorganized sector (@30% of total amount)			1228.21
Total Amount			5322.26

Source: Council of leather export

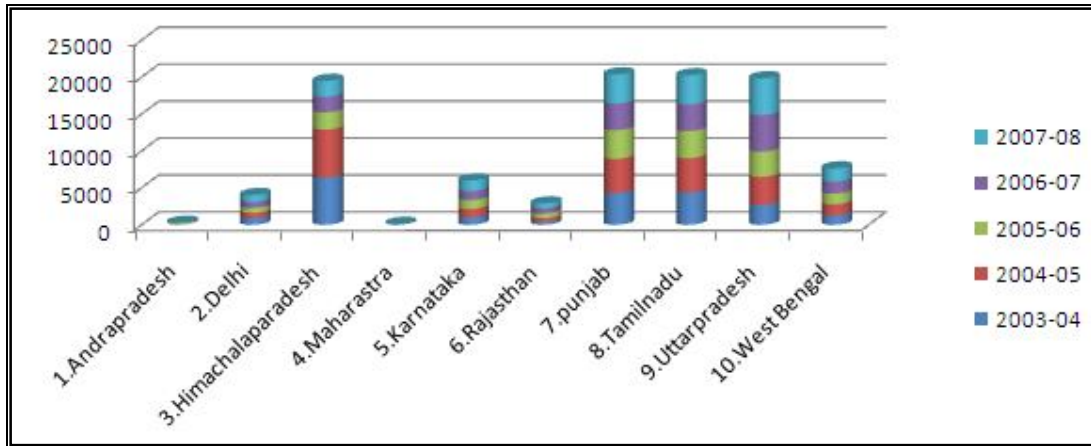
### 14. State wise Annual Turnover of Indian Leather Industry

The following tables reveal the state wise annual turnover of Indian Leather Industry. States included for analysis are Andhra Pradesh, Delhi, Himachal Pradesh, Maharashtra, Karnataka, Rajasthan, Punjab, Tamil Nadu, Uttar Pradesh, and West Bengal.

States	2003-04	2004-05	2005-06	2006-07	2007-08
1.Andrapradesh	-	12	220	26	8
2.Delhi	917	690	676	803	940
3.Himachalpradesh	6400	6500	2326	2107	2143
4.Maharastra	10	17	22	29	40
5.Karnataka	1022	1121	1222	1223	1423
6.Rajasthan	405	506	606	740	633
7.punjab	4296	4638	3884	3610	3933
8.Tamilnadu	4396	4638	3664	3610	3933
9.Uttarpradesh	2697	3801	3402	4957	4975
10.West Bengal	1251	1525	1453	1625	1788

Annual Turnover (Rs. in Lakhs)  
Source: Council of Leather Export

15. State wise Annual Turnover of Indian Leather Industry



- Mean**  
 The Mean is used to measure the central tendency with regard to various aspects. The formula for calculating central tendency is as follows  
 $Mean = \frac{\sum X}{N}$
- Standard deviation**  
 To know how far Annual Turnover of Indian Leather Industry fluctuate from their mean perception. The Standard Deviation is calculated using the following formula:-
- Standard deviation**  $\sigma = \frac{\sqrt{\sum x^2}}{N}$
- Co-Efficient of Variation**  
 To find out the consistency of Indian Leather Industry over the period of time CV is used. The formula for calculating CV is given below,  
 Co-Efficient of Variation = Standard Deviation /Mean

16. State wise Annual Turnover

Year	Turn over Rs. in lakhs	(x-28)	X <sup>2</sup>
2003-04	-	-28	784
2004-05	12	-16	256
2005-06	20	-8	4
2006-07	26	-2	4
2007-08	80	52	2704
	$\sum x$ 138		$\sum x^2$ 3812

Andhra Pradesh

- Mean value** =28
- Standard deviation**=27.6
- Co-Efficient of Variation**=98.57%

Total turnover of Andrapradesh is Rs. 138 lakhs then, the Mean value is 28, Standard deviation value is 27.6 and Co-efficient of Variance value is 98.57%.

Year	Turn over Rs. in lakhs x	(x-805)	X <sup>2</sup>
2003-04	917	112	12544
2004-05	690	-115	13225
2005-06	676	-129	13225
2006-07	803	-2	16641
2007-08	940	135	4
	$\sum x$ 4026		$\sum x^2$ 60639

Delhi

- **Mean value** = 805
- **Standard deviation** = 110.12
- **Co-Efficient of variation** = 13.67%

Total Turnover of Delhi is Rs. 4026 lakhs then, the Mean value is 805, Standard deviation value is 110.12 and its Co-efficient of variance value is 13.67%.

Year	Turn over x Rs. in lakhs	(x-3895)	X <sup>2</sup>
2003-04	6400	2505	6275025
2004-05	6500	2605	6786025
2005-06	2326	-1569	2461761
2006-07	2107	-1788	3196944
2007-08	2143	-1752	3069504
	$\sum x$ 19476		$\sum x^2$ 21789259

*Himachala Pradesh*

- **Mean value** = 3895
- **Standard deviation** = 2087.5
- **Co-Efficient of variation** = 53.59%

Total Turnover of Himachala Pradesh is Rs. 19476 lakhs then, the Mean value is 3895, Standard deviation value is 2087.5 and Co-Efficient of variance value is 53.59%.

Year	Turn over x Rs. in lakhs	(x-24)	X <sup>2</sup>
2003-04	10	-14	196
2004-05	17	-7	49
2005-06	22	-2	4
2006-07	29	5	25
2007-08	40	16	256
	$\sum x$ 118		$\sum x^2$ 530

*Maharashtra*

- **Mean value** = 24
- **Standard deviation** = 10.29
- **Co-Efficient of variation** = 42.87%

Total Turnover of Maharashtra is Rs. 118 lakhs then, the Mean value is 24, Standard deviation value is 10.29 and Co-Efficient of variance value is 42.87%.

Year	Turn over x Rs. in lakhs	(x-1202)	X <sup>2</sup>
2003-04	1022	-180	32400
2004-05	1121	-81	6561
2005-06	1222	20	400
2006-07	1223	21	441
2007-08	1423	221	48841
	$\sum x$ 6011		$\sum x^2$ 88643

*Karnataka*

- **Mean value** = 1202
- **Standard deviation** = 133.15
- **Co-Efficient of variation** = 11.07%

Total Turnover of Karnataka is Rs. 6011 Lakhs then, the Mean value is 1202, Standard deviation is 133.15 and Co-Efficient of variance Value is 11.07%.

Year	Turn over x Rs. in lakhs	(x-578)	X <sup>2</sup>
2003-04	405	-173	29929
2004-05	506	-72	5184
2005-06	605	28	784
2006-07	740	162	26244
2007-08	633	55	3025
	$\sum x$ 2890		$\sum x^2$ 65166

*Rajasthan*

- **Mean value** = 578
- **Standard deviation**= 114.16
- **Co-Efficient of variation** =19.75%

Total Turnover of Rajasthan is Rs. 2890lakhs then, the Mean value is 578, Standard deviation is 114.16 and Co-Efficient of variance is 19.75%.

Year	Turn over x Rs. in lakhs	(x-269)	X <sup>2</sup>
2003-04	177	-92	8464
2004-05	177	-92	8464
2005-06	177	-92	8464
2006-07	227	-42	1764
2007-08	587	318	101124
	$\sum x$ 1345		$\sum x^2$ 128280

*Punjab*

- **Mean value** = 269
- **Standard deviation**= 160.17
- **Co-Efficient of variation** =59.53%

Total Turnover of Punjab is Rs.1345 lakhs then, the Mean value is 269, Standard deviation is 160.14 and Co-Efficient of variance is 59.53%.

Year	Turn over x Rs. in lakhs	(x-4028)	X <sup>2</sup>
2003-04	4296	268	71824
2004-05	4638	610	372100
2005-06	3664	-364	132496
2006-07	3610	-418	174724
2007-08	3933	-95	9025
	$\sum x$ 20141		$\sum x^2$ 760169

*Tamil Nadu*

- **Mean value** = 4028
- **Standard deviation**= 389.9
- **Co-Efficient of variation**=9.67%

Total Turnover of Tamil Nadu is Rs. 20141 lakhs, then the Mean value is 4028, Standard deviation is 170.16 and Co-Efficient of variance is 9.67%.

Year	Turn over x Rs. in lakhs	(x-24)	X <sup>2</sup>
2003-04	2697	-1269	1610361
2004-05	3801	-165	27225
2005-06	3402	-564	318094
2006-07	4957	991	982081
2007-08	4975	1009	1018081
	$\sum x$ 9832		$\sum x^2$ 3955844

*Uttar Pradesh*

- **Mean value** = 3966
- **Standard deviation** = 889.47
- **Co-Efficient of variation**=22.42%

Total Turnover of Uttar Pradesh is Rs. 19832 lakhs, then the Mean value is 3966, Standard deviation value is 889.47 and CV is 22.4%.

Year	Turn over x Rs. in lakhs	(x-1528)	X <sup>2</sup>
2003-04	1251	-277	76729
2004-05	1525	-3	9
2005-06	1453	-75	5625
2006-07	1625	97	9409
2007-08	1788	260	67600
	$\sum x$ 7642		$\sum x^2$ 149963

*West Bengal*

- **Mean value** = 1528
- **Standard deviation** = 173.18
- **Co-Efficient of variation**=11.33%

Total Turnover of West Bengal is Rs. 7642 lakhs, then the Mean is 1528, Standard deviation is 173.18 and CV value is 11.33%.

States	Mean	Standard Deviation	Co-Efficient of Variation
Andhra Pradesh	28	27.6	98.57
Delhi	805	110.12	13.67
Himachal Pradesh	3895	2087.5	53.59
Maharashtra	24	10.29	42.87
Karnataka	1202	133.15	11.07
Rajasthan	578	114.16	19.75
Punjab	269	160.14	59.53
Tamil Nadu	4028	389.9	9.67
Uttar Pradesh	3966	889.47	22.42
West Bengal	1528	173.18	11.33

*Calculated Values  
Source: Compiled*

The table reveals Mean value, Standard Deviation value, and Co-Efficient of Variation value of State wise Annual Turnover of Indian Leather Industry. Since ,Co-Efficient of Variation of Annual Turnover of Leather Industry in Tamil Nadu 9.67 is less than other states such as Andhra Pradesh(CV) 98.5, Delhi(CV) 13.67, Himachal Pradesh(CV) 53.59, Maharashtra (CV) 42.87, Karnataka (CV) 11.07, Rajasthan(CV) 19.75, Uttar Pradesh (CV) 22.42, West Bengal(CV) 11.33. So, Tamil Nadu has more consistent annual turnover.

### 17. Galloping Exports

India's leather industry has witnessed robust growth, transforming from a mere raw material supplier to a value-added product exporter. In fact, today, almost 50 per cent of India's leather business comes from international trade.

- The major markets for Indian leather products are Germany, US, UK, Italy, France, Hong Kong, Spain, Netherlands and UAE.
- In 2013-14, India's leather exports recorded a growth rate of 17.81 per cent, reaching US\$5908.82 million as against the performance of US\$5015.41 million in the corresponding period of last year.



- Finished leather registered export revenues of US\$77716.43 million in 2013-14, witnessing an increase of 30.59 per cent over exports in 2012-13
- Export of different categories of Footwear holds a major share of about 43 per cent in India's total leather and leather Products exports with an export value of US\$2531.04 million, followed by leather goods and accessories with a share of 23 percent and, finished Leather with 22 per cent.

### 18. Suggestion

- Small units may be combined to become viable economic units in the cottage and small scale sector.
- Sufficient funds required chemical consumable should be provided to modern tanning units to produce quality leather.
- Import of spare parts and machinery components should be subject to less import duty.
- Regional development of industry reset upon the integrated development of different sector (cottage, small, large) and close link between three segment of the industry.
- To produce environmental friendly leather it helps to prevent the pollution.

### 19. Conclusion

The Government of India has identified the leather industry as a '**focus sector**' in its foreign trade policy 2004-09, in view of its immense potential for export growth and employment generation. Accordingly, various **Special Focus Initiatives** are been implemented, under the foreign trade policy, for the growth of this sector. Areas such as skilled manpower development, availability of innovative technology, increasing industry compliance to international environmental standards, and ensuring dedicated support of allied industries are been focused on by the government.

The leather industry is an employment-intensive sector, providing jobs to about 2.5 million people, mostly from the weaker sections of the society. Women employment is predominant in the leather products sector, at about 30 per cent of the total number of workers.

During the 11<sup>th</sup> Five Year Plan period (2007-2012), the Department of Industrial Policy & Promotion (DIPP) has implemented an Indian Leather Development Programmers (ILDPP) for the overall growth of the leather sector, with a total plan outlay of Rs.1,251.29 crore. However, for the 12<sup>th</sup> Five Year Plan (2012-2017), this outlay has been increased to Rs 3,600 crore. The thrust of the ILDP scheme is on technology up gradation, modernization of production units, expansion of production capacities, creation of institutional facilities in the country and training human resources for the leather sector, providing support to rural artisans for design and product development, creating market linkages, and helping the tanning sector achieve environment conservation, among other things.

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