

Indian Footwear, Leather & Accessories

Domestic Sector

June, 2016

Outline



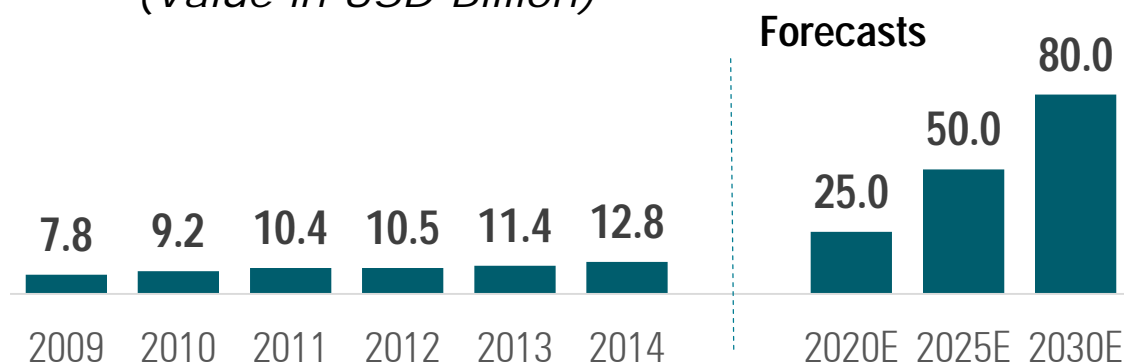
Why Footwear?

Chosen as a top priority sector, with a potential to grow eight times its current value by 2030

- **Footwear, leather & accessories sector** was chosen as **top priority sector** amongst 25 sectors for **'Make in India'** workshop chaired by Honorable Prime Minister of India at Vigyan Bhawan on 29th December 2014
- The sector **has the potential to grow up to USD 80 billion**, or eight times its present size, **by 2030**

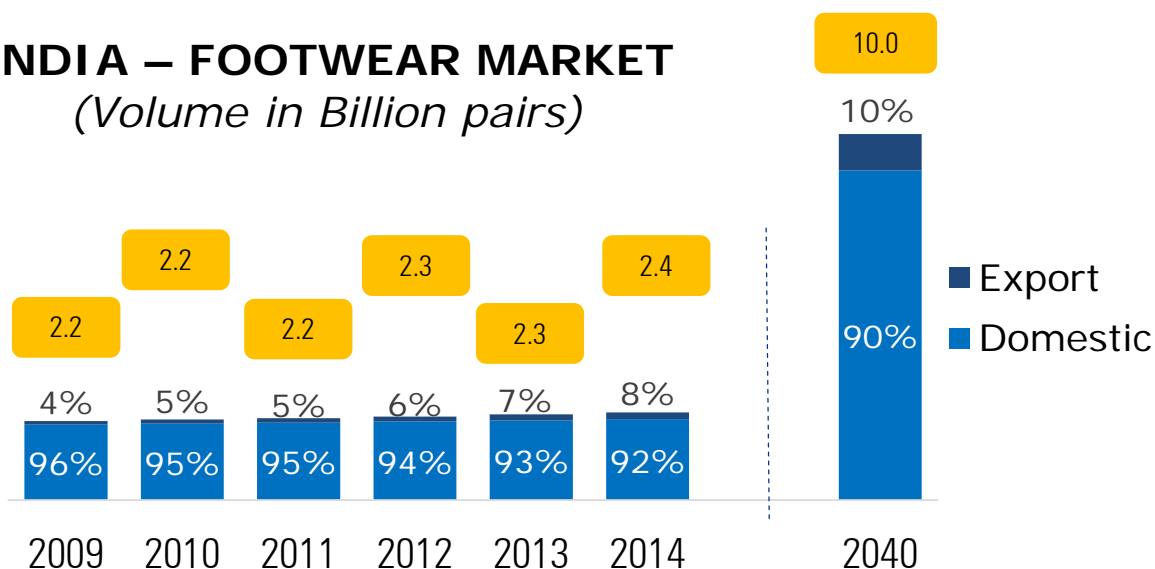
INDIA – FOOTWEAR MARKET

(Value in USD Billion)



INDIA – FOOTWEAR MARKET

(Volume in Billion pairs)



Why Footwear?

It is a GREEN category industry, with no real burden on country's natural resources



Environment friendly

- No effluent, liquid waste, water waste
- No noise pollution
- Limited water requirement



Power friendly

- Very low intensity of electricity is required, hence there is no significant burden on the power grid



Limited land requirement

- Land requirement for setting up a footwear manufacturing unit is very low compared to other industries such as automotive, refining, electronics, etc.



Easy to skill

- It is easy to skill and start operations in the footwear industry



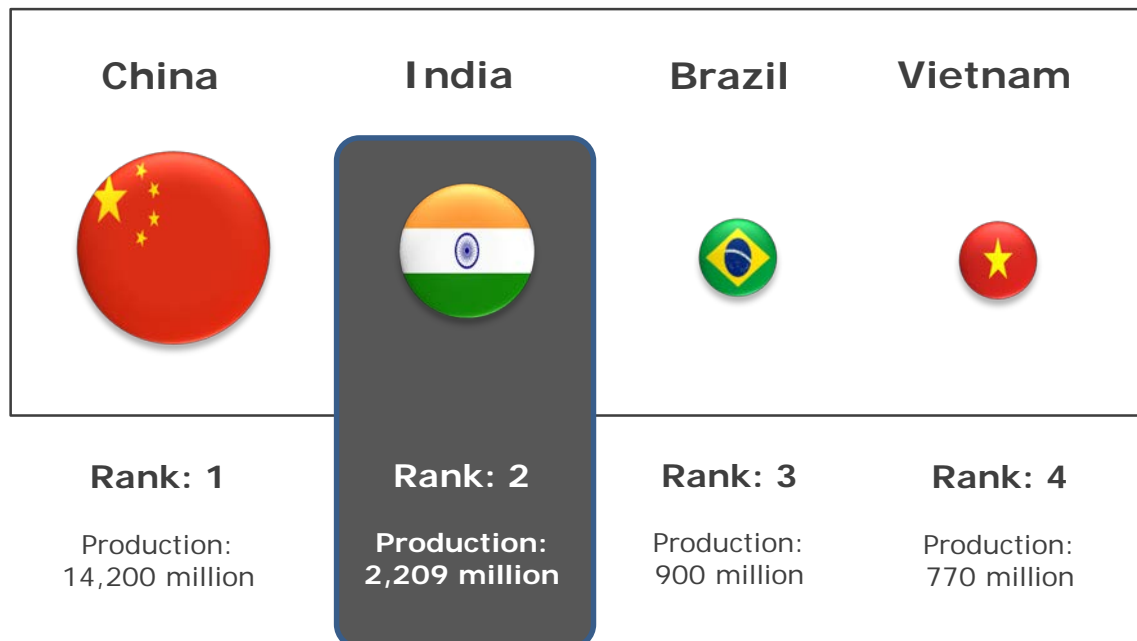
Industry Overview

India is the 2nd largest producer of footwear globally, with ~95% of its produce meeting domestic demand

- **India is the second largest producer of footwear globally**, accounting for **13 per cent of the global footwear production**, next to China, which dominates the global footwear industry accounting for close to 67 per cent of the market
- The **country produces ~2.2 billion pairs of footwear** annually in different categories of footwear and **exports about 180 million pairs**
 - As a result, around **95 per cent of its produce meets its own domestic demand**

Footwear Production

Key Developing Markets



Industry Overview

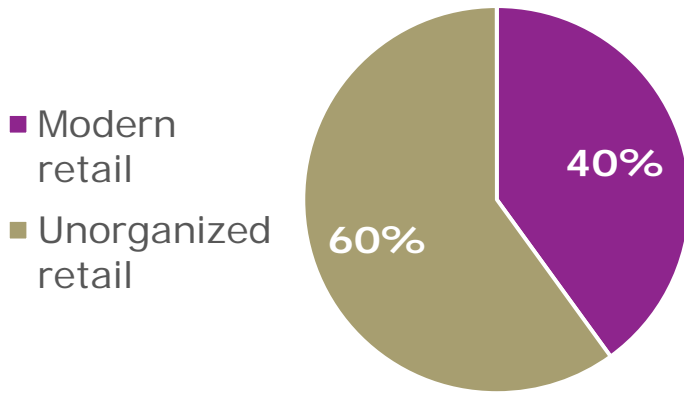
Understanding the footwear market (1/2)

	Current	Expected by 2020
Size of Indian retail market	USD 500 billion	USD 1.3 trillion
Modern retail's penetration	USD 27 billion	USD 220 billion
Footwear retail market	USD 5 billion	USD 26 billion

- Currently footwear accounts for 1 per cent of the Indian retail market and is expected to increase to 2 per cent by 2020
- India's strong growth fundamentals, along with increased urbanization and consumerism offer immense scope for retail expansion for foreign players
- Rapid emergence of organized retail outlets such as mega malls and hypermarkets, are augmenting the growth of organized retail in the country
- With increased consumption and enhanced sharing of information, awareness about global brands is increasing

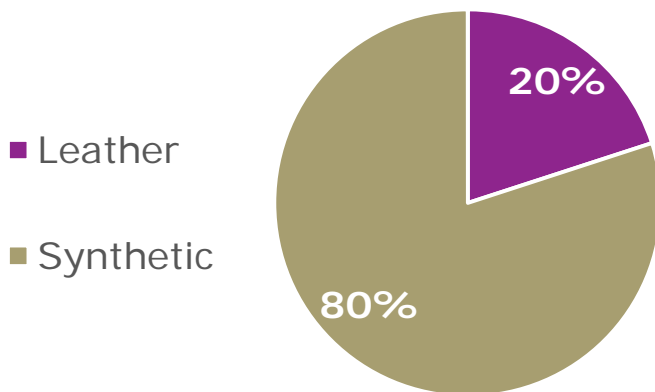
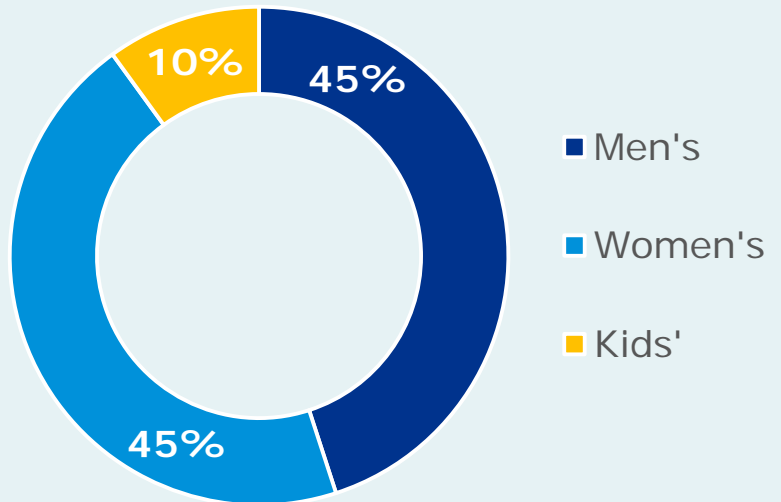
Industry Overview

Understanding the footwear market (2/2)



- In terms of channel of distribution, unorganized retail dominates with around 60 per cent sales share

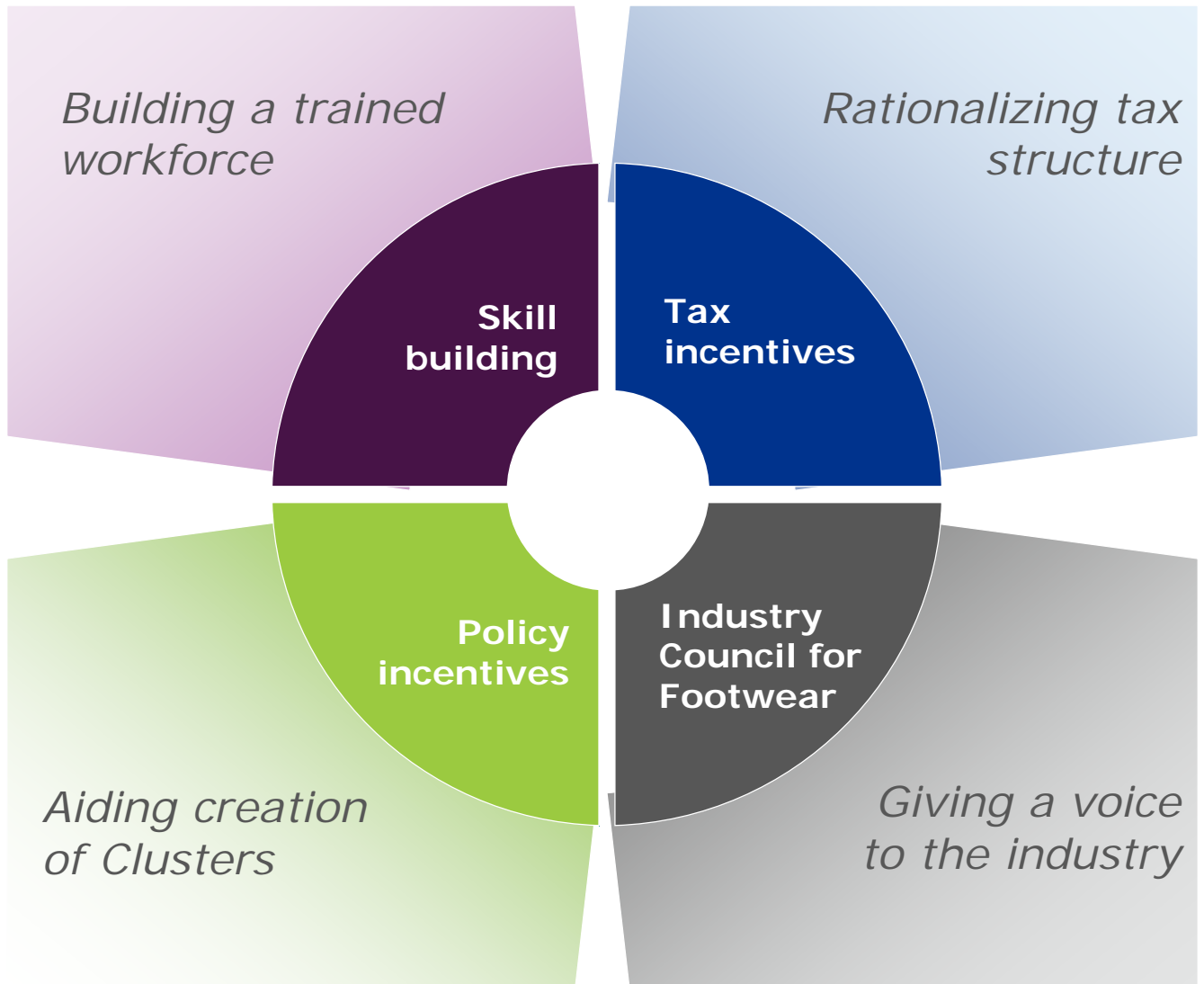
- Men's and women's category account for an equal share of 45 per cent in the Indian footwear market
- The kids' category account for the rest 10 per cent



- Synthetic footwear market is approximately four times the leather footwear market in India

Industry Overview

Drivers for industry growth



Challenges

China's footwear, leather and accessories pose a real threat to the domestic industry



- A key challenge has been the **stagnation in production capacity**, which stands today at about 2.2 billion pairs
- This is **due to the focus of the policy on Small and Medium businesses**, and the **burden of taxation for the industry on the organized sector**, which has not encouraged the growth of the sector

How China's footwear impacts domestic industry

- Cheap and under-invoiced imports
- Imports to the tune of 200 million pairs from China alone annually
- Outflow of precious foreign exchange to the tune of USD 1 billion (INR 65 billion) on readymade goods from China alone
- China enjoys about 20 per cent market share of the domestic consumption
- About 10 lakh job losses to China
- Huge blow to the 'Make in India' initiative as we're exporting jobs of the poor and needy to China

Challenges

Lack of branding and imports from China, leading to a significant unorganized market, are key challenges

1

Lack of branding in Indian footwear

- Despite being one of the largest employers, **marketing and branding activities** at the industry level **are poor and ineffective**
- At the company level, **low marketing budgets** result in **ineffective, short term marketing campaigns** which do not go beyond generating awareness

2

Challenge from China and other low cost markets

- Indian footwear industry is reeling under pressure as **China is dumping its goods in India at a lower rate**
 - **People prefer Chinese footwear over domestically** produced goods as they are **cheaper** and offer a **wide variety** of goods
- Out of the total Indian footwear imports, **63% is imported from China**, and the **import has increased by 295%** in last 5 years
- Further, most of these footwear products are **sold in the un-organized retail market**, without VAT and excise addition, **causing a significant loss to the exchequer** and a **potential loss of more than 214,000 jobs**

3

Unorganized industry structure and India's competitiveness

- The primary reason for the unorganized and small scale setup of Indian leather industry is the **historical restrictions of licensing and SME reservation of the sector** until 2001
- Further, **majority of companies** in the Indian leather and footwear sector **are proprietorship or partnership firms**, which generally **have a lower risk appetite** and are unwilling to undertake major capacity expansions

Challenges

Other challenges include tax and regulations, lack of skilled labour and labour wages

4

Tax and Trade Regulations

- In India, **footwear attracts excise duty** similar to other consumer durables **unlike global trend where footwear is considered as part of the apparel category** and taxed similarly
- The **effective excise duty rate for footwear is approximately 26%** of transaction value. In addition to excise, **Value Added Tax (VAT) of 12–15% and octroi (or local body tax) of 2–5%** are also levied

5

Lack of skilled labor

- The production process of a leather shoe **requires a significant level of knowledge and skill**, considering the number of components that go into the making of a leather shoe
- While the need for appropriately trained and skilled manpower is felt across all levels, **the shortage is felt more acutely at the lower level of semi-skilled work force**

6

Impact of wages

- With up to **25% of 'cost of goods sold' being contributed by labor costs**, even a 10% increase in the labor component erodes profitability by a big margin
- An unskilled worker at the **prevailing Minimum Wage of INR 7,600 per month** actually has a **total remuneration of INR 9,439 per month**

Opportunities

There are huge opportunities for domestic manufacturers to leverage the Indian advantages

- Huge market for domestic consumption and sustainable growth
- All resources for the industry are indigenously available:
 - 80-90% non-leather segment
 - 10-20% leather segment
- Abundant availability of all raw materials / inputs in India such as leather, fabrics, synthetics, rubber, PVC, etc.
- Abundant availability of rural and unskilled labor

The industry works on Hub-and-Spoke model

- Nearly 80% opportunities are for SME's/MSME's
- SME's/MSME's start-ups need small sheds to start manufacturing
- Very short start-up time for new players (6 months)
- Skilling for blue collar jobs in 4-6 weeks
- Employability is very quick

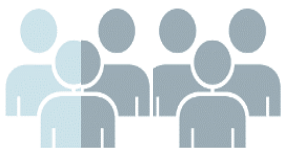
Opportunities

The industry offers significant employment opportunities, specially for the weaker section

Maximum Job in Minimum Time

1.1 million employed

80 per cent



**Employed by
unorganized sector**

~50 per cent



**Semi-skilled and
skilled**

~500,000



Women workers

A 2 million new jobs opportunity in next five years at grass root level

- Weaker sections, unskilled labor, rural population, women, poor and needy to be the major beneficiaries

Recommendations

Immediate needs of the industry – Taxation and regulatory

- **Reduce the excise duty** from 12.5% to 6% on all categories of footwear
 - No exception and **no differentiation of leather and non-leather**
- **Increase abatement** on footwear from 25% to 50% RSP
- **5% VAT rate pan-India** on all categories of footwear **for shoes priced above INR 500**
- **Zero VAT rate pan-India for shoes priced below INR 500**
- **Merit rate of GST** as and when implemented
- **3% interest subvention for domestic segment**, since 80–90% of the industry belongs to SME's/MSME's
- **20% safe-guard duty on cheap and under-invoiced imports**, for domestic industry to be competitive and successfully implement 'Make in India'

Recommendations

Short-Medium term requirements

- **Skill Building:** Considering 80% of the jobs are blue collar, at least ***INR 200 crores annual budget allocation*** for mass training
- **Branding Support:** Provide branding support to Indian manufacturers
- **Adequate Support:** Create brands as national assets for branded domestic and export growth
- **Creation of Indian leather mark**
 - ***To standardize Indian products*** making them competitive in the domestic as well as global markets
 - With an aim **to create 5 world class brands** in the Indian footwear and leather products sector with unmatched brand image in India and overseas
- **Quality Standards:** Development of a 'quality manual and accreditation scheme' which defines the quality standards
 - Applicants would be required to meet in order to be accepted in the program and for use of the ***"Indian Leather Mark"***

Recommendations

Medium-Long term requirements

Creation of a world class 'Central Footwear Research Institute' at a national level

Encapsulating the following:

- R&D of technology for footwear manufacturing
- Development and innovation of new materials for footwear
- Development of new materials to provide for import substitution
- Research on foot anatomy, foot diseases
- Laboratory research and requisite testing
- Research papers on modern technology
- Educational setup and programs
- Skill building and development

Key action items

Interventions required to make the Indian footwear, leather and accessories industry globally competitive

Need for Structural Reforms/ Institutional Reforms

- There is a **need to create a National Level Body** particularly for domestic business
- The body would serve as an important **bridge between Domestic players and State/Central Governments** for Policy advocacy, infrastructural developments & fiscal support to Indian companies

Building the Indian Footwear Brand

- Branding strategy, through **media and celebrity endorsements**, could help Indian companies come to the global map
- Key points to help bring the Indian footwear brand on the global scene include:
 - *Attract FDI*
 - *Increase domestic manufacturing*
 - *Increase cost competitiveness*
 - *Create quality and brand consciousness*

Cluster development efforts yielded high benefits in leather sector

- **Cluster initiatives** have **allowed internationally competitive** manufacturing of products
- The close geographical location of similar manufacturers within a cluster **enables flexibility and capacity pooling** to better handle uncertain demand

Taxation/Regulatory Issues

Following interventions are required:

- Bring **footwear at par with the apparel** industry
- The **challenge** of **low abatement rate**
- **Minimize Chinese** low quality **products** invasion into Indian markets
- Bring the **unorganized sector into mainstream** for greater Tax Revenue

Skill building

- There should be **focus on vocational training** through the existing institutions, especially in the **areas of manufacturing, quality control and designing**
- The industry needs **mass training programs in the areas of cutting, stitching, Assembly, Lasting/Soling, QC & Packing**

The 'Make in India' vision for Indian footwear

- The footwear industry provides a **realistic opportunity to implement and sustain the "MAKE-IN-INDIA"** program in true spirit
- To realize this potential, there is an **urgent need to encourage investment** in the footwear industry to tide over the dis-economies of scale and loss of competitive edge

Appendix

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