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## Leather

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### Research Team

**Saniya Tauseef** | Senior Manager

**Ayesha Wajih** | Supervising Senior Research

**Sundus Fatima** | Senior Research Analyst

**Sabeen Mirza** | Research Analyst

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# Leather

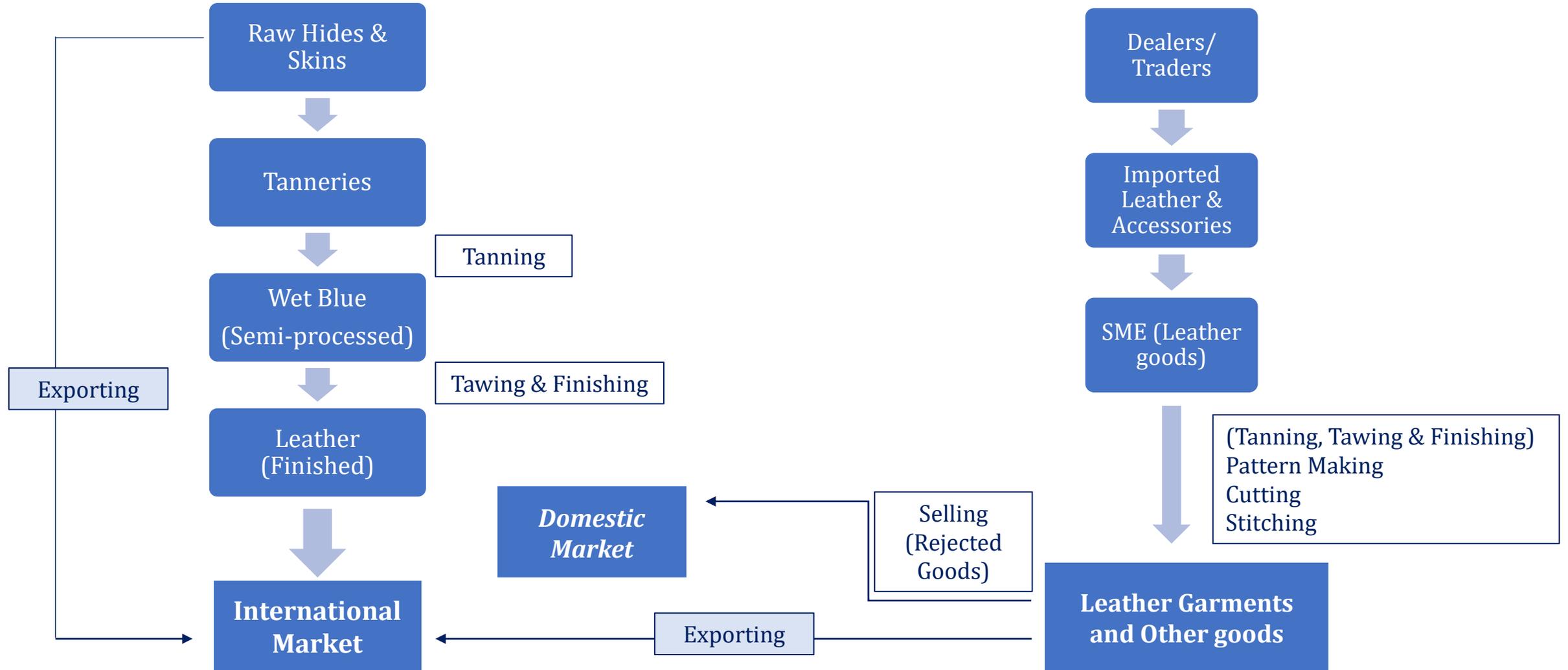
## Introduction

- Leather is a durable, flexible material that can be made into many different types of clothing. It is often used in shoes, jackets, belts, and other articles of clothing. Leather is also often used to make leather accessories such as wallets, purses, and hats.
- The primary raw material for leather industry is derived from slaughter houses and waste from the meat industry. This raw material is processed and converted into usable leather in tanneries. Hence, tanning industry is considered as one of the primary leather processing units in the entire leather industry.
- The demand for leather is driven by the fashion industry that includes footwear, garments, bags and belts. Apart from this, furniture and automotive industry also demand leather. The broad categories of leather sector include the following:
  - **Tanned leather** is produced from treating skins and hides of animals.
  - **Garments** include leather jackets, long Coats, waist coats, pants, and accessories such as gloves.
  - **Footwear** includes formal footwear, boots, sandals and clogs with leather uppers for both men and women.
  - **Bags and Belts** includes wallets, handbags, backpacks, cosmetic cases, laptop bags and leather belts.
  - **Furniture:** majorly used for furniture covers.
  - **Automotive** majorly comprises leather used for car interior, especially seat covers.



# Leather

## Leather & Leather Goods Value Chain



# Leather

## Global | Overview

- The global leather industry comprising tanned leather, leather garments, gloves, bags & belts and footwear grew by ~20% YoY, reaching a value of USD~444.1bln in CY23 (USD~441.0bln in CY22).
- Leather products traded globally in CY22 amounted to USD~67.0bln, where Leather Footwear was the highest traded category making up ~87.3% of total leather exports followed by leather apparel (~11.5%) and tanned leather (~1.2%). In CY22, Leather Footwear was the world's ~77<sup>th</sup> traded product (out of ~1,218), and represented ~0.3% of total world trade.
- Factors such as high cost of leather products and absence of developed supply chain in major exporting countries is expected to hamper the growth of global leather market.
- However, increasing investment by well-known luxury brands and approach towards rising trends development, such as bio-leather products, are factors that are expected to create a whole new world of opportunities in the global leather industry.
- Various chemicals and gases are produced due to the tanning process and strict regulations have caused closure of some tanneries in Europe and U.S in the recent past. In the US, all tanneries must meet the Environmental Protection Agency waste standards which apply to disposal of liquid wastes into public waste treatment facilities. In Europe, there are several EU environmental regulations which have implications for tanneries.

Global Overview	CY22	CY23
Market Size (USD bln)	441.0	444.1
Leather Exports   CY22 (USD mln)		
Leather Apparel	7,671	
Leather Footwear	58,488	
Tanned Leather	811	
<b>Total Leather Exports</b>	<b>66,970</b>	

# Leather

## Global | Exports

### Leather Apparel

- In CY22, top 10 exporters of held ~76.0% share in global exports of leather apparels. Italy held the highest share (~18.2%), with export value of USD~1,403mln, followed by China and India with ~15.0% and ~10.0% shares respectively. Meanwhile, Pakistan with a share of ~9.0%, held the fourth position in global leather apparel exports during CY22.

### Tanned Leather

- In CY22, top 10 exporters held ~72.0% share in global exports. Italy held the highest share (~20.0%) with export value of USD~166mln, followed by India, Singapore and Pakistan with ~11.0%, ~9.0% and ~8.0% share respectively, in the global exports of the tanned leather during CY22.

### Leather Footwear

- During CY22, China, Italy and Vietnam held the top three positions in the global exports of leather footwear with ~19.0%, 14.0% and ~13.0% share in the global exports of leather footwear, respectively.

Top Exporters   CY22 (USD mln)					
Leather Apparel		Tanned Leather		Leather Footwear	
Italy	1,403	Italy	166	China	11,185
China	1,182	India	88	Italy	8,430
India	746	Singapore	71	Vietnam	7,452
Pakistan	676	Pakistan	61	Germany	4,032
France	675	China	42	Indonesia	3,307
Germany	370	South Africa	39	France	2,530
Spain	209	Nigeria	37	Netherlands	2,337
Netherlands	204	Spain	31	India	2,192
Vietnam	182	France	29	Portugal	1,817
Hong Kong	178	Switzerland	22	Belgium	1,815
ROW	1,846	ROW	225	ROW	13,391
<b>Total</b>	<b>7,671</b>	<b>Total</b>	<b>811</b>	<b>Total</b>	<b>58,488</b>

# Leather

## Global | Imports

### Leather Apparel

- In CY22, top 10 importers of leather apparels held ~64.0% share in global imports. USA held the highest share (~22.0%) with an import bill of USD~1,697mln, followed by Germany, France, China, Italy and UK with ~8.0%, ~7.0%, ~5.0%, ~5.0% and ~4.0%, respectively.

### Tanned Leather

- In CY22, top 10 importers of tanned leather held ~70.0% share in the global imports of tanned leather. France held the highest share (~15.0%) in the global imports of tanned leather with import bill amounting to USD~124mln, followed by Vietnam, Italy and China with ~13.0%, ~8.0% and ~8.0% shares, respectively, in global imports of tanned leather during CY22.

### Leather Footwear

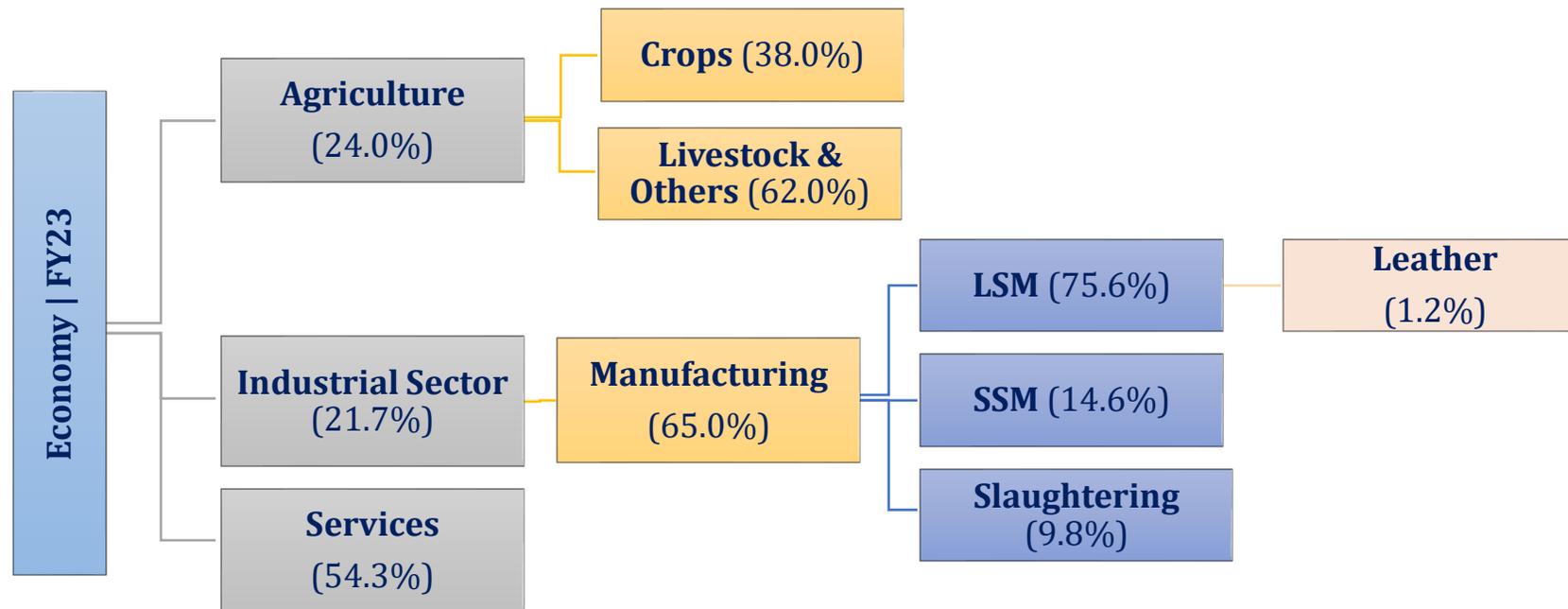
- During CY22, USA, Germany and France held the top three positions in the global imports of leather footwear with ~26.0%, 9.0% and ~7.0% shares, respectively, in global imports of leather footwear.

Top Importers   CY22 (USD mln)					
Leather Apparel		Tanned Leather		Leather Footwear	
USA	1,697	France	124	USA	15,049
Germany	580	Vietnam	108	Germany	5,534
France	506	Italy	66	France	3,948
China	394	China	61	Italy	3,265
Italy	377	Portugal	44	Netherlands	2,945
UK	278	Spain	38	China	2,784
Netherlands	277	Cambodia	36	UK	2,474
Japan	273	USA	32	Republic of Korea	1,624
Canada	260	Germany	31	Poland	1,559
Republic of Korea	243	Romania	29	Spain	1,535
ROW	2,786	ROW	242	ROW	17,771
<b>Total</b>	<b>7,671</b>	<b>Total</b>	<b>811</b>	<b>Total</b>	<b>58,488</b>

# Leather

## Local | Introduction

- In FY23, Pakistan’s GDP (nominal) stood at PKR~79.7tln (FY22: PKR~63.3tln), contracting, in real terms, by ~0.17% YoY (FY22: ~6.3% growth). Industrial activities in FY23 held ~22% share in the GDP while the manufacturing activities made up ~65% of the value addition. In 1QFY24, Pakistan’s GDP (nominal) stood at PKR~22.6trn (1QFY23: PKR~18.4trn), rising in real terms by ~2.13% (1QFY23: ~0.96%).
- Large Scale Manufacturing (LSM) in Pakistan is essential for the economic growth considering its linkages with other sectors, as it represented ~75% value of all manufacturing activities in FY23. The LSM fell by ~10.3% in FY23 (FY22: ~11.7%) however it increased by ~0.51% YoY in 7MFY24 period.
- The Leather sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY23, the Leather sector’s weight in the QIM was recorded at ~1.2%. The Leather sector in LSM experienced a growth of ~4.4% in 7MFY24.



*Note: Leather’s share in LSM is representative of Upper Leather, Sole Leather and Footwear.*

# Leather

## Local | Overview

- Pakistan's leather sector had a market size of PKR~243bln, up ~29.3% YoY in FY23. During the year, leather production (upper and sole) clocked in at ~13.8mln sq. ft., down ~8.6% YoY, while leather footwear produced was recorded at ~32.0mln pairs, up ~7.4% YoY.
- In 7MFY24, these clocked in at ~8.1mln sq. ft. and ~20.1mln pairs, registering ~(3.6%) and ~8.6% growth YoY, respectively.
- Of total leather production in the country, ~80-95% is exported annually. Leather exports fetched USD~887.1mln in FY23, down ~7.0% YoY while forming ~3.2% in country's total export receipts (SPLY: ~3.0%). During 7MFY24, these clocked in at USD~481.5mln, ~2.7% of country's total exports during the period (SPLY: ~3.4%).
- The three main relevant associations include PFMA (Pakistan footwear manufacturing association), PTA (Pakistan Tanners Association) and PLGMEA (Pakistan Leather Garments Manufacturers & Exporters Association).

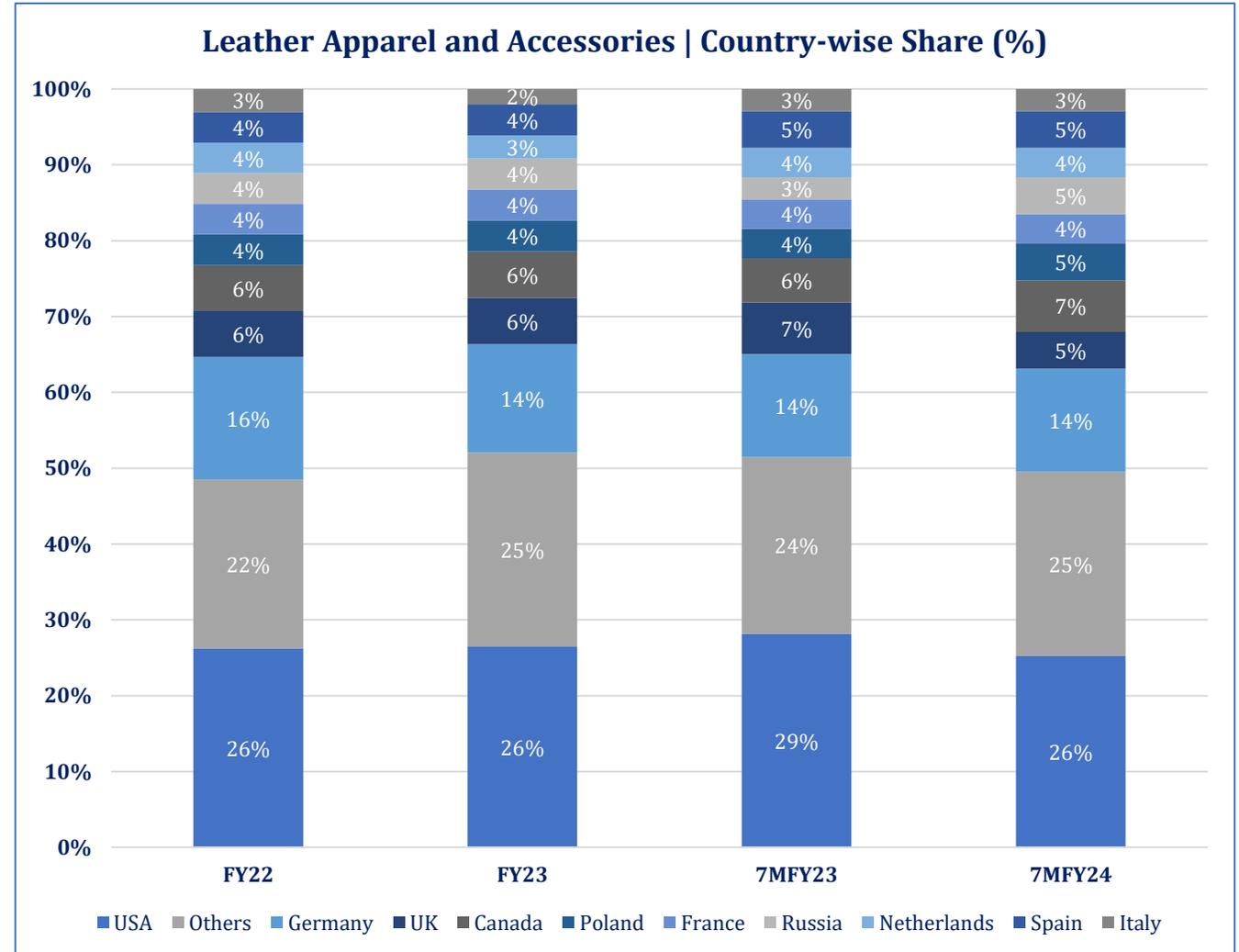
Snapshot Particulars	FY22	FY23	8MFY24
Market Size (PKR bln)	188	243	172
Share in LSM	~1.2%		
Exports (PKR bln)	169	218	155
No. of Players	~800 tanneries and ~6 listed companies		
Exports   Volume			
Leather Manufacturers ('000' Dozen)	12,303	11,432	7,522
Leather Tanned (MT)	15,535	11,032	6,495
Leather Footwear ('000' Pairs)	8,102	10,239	7,040
Exports   Value (PKR mln)			
Leather Manufacturers	110,160	141,861	106,211
Leather Tanned	37,044	41,368	25,210
Leather Footwear	22,132	34,899	24,359
Exports Value (USD '000')			
Leather Manufacturers	621,076	577,433	372,065
Leather Tanned	208,091	167,615	88,358
Leather Footwear	124,535	142,059	85,367

**Note:** Market Size is estimated based on exports' share in total production. Leather Manufacturers include Leather Garments, Gloves and other Leather manufactured items.

# Leather

## Exports | Leather Apparel and Accessories

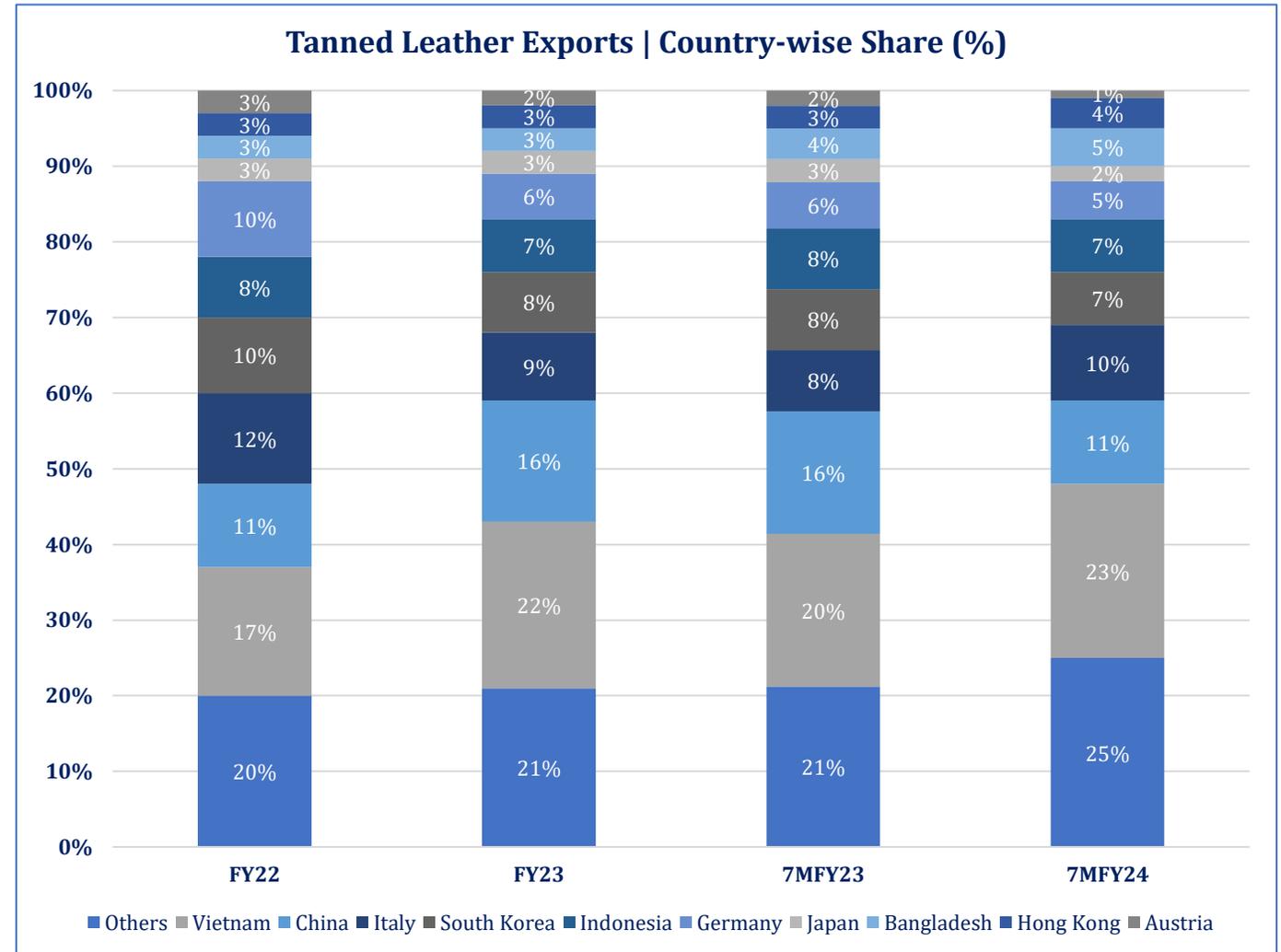
- Pakistan's export of leather apparel and accessories decreased ~5.7% YoY to USD~666.2mln in FY23. In quantity terms, leather gloves recorded ~6.9% YoY decline, while leather garments registered ~8.2% YoY decline (together, these form ~97.4% of leather apparel and accessories exports in USD terms).
- During 7MFY24, these stood at USD~381.6mln, down ~5.0% YoY. Volumetrically, gloves' exports were up ~5.0% while those for garments rose by ~7.6% YoY.
- The sector is one of five key export-oriented sectors (alongside textiles, sports goods, surgical goods and carpets) and enjoys duty-free access to the European Union (which is the largest consumer of leather goods globally) under the EU's Generalized Scheme of Preferences (GSP+).
- USA, Germany, UK, Canada, Poland & France are the more common export destinations for leather apparel and accessories.



# Leather

## Exports | Tanned Leather

- Pakistan’s export of tanned leather decreased ~19.5% YoY to USD~50.3mln in FY23. Additionally, exports registered ~29.0% decline in volumetric terms.
- During 7MFY24 period, tanned leather exports, these amounted to USD~23.8mln, marking a YoY decline of ~24.9%. In volumetric terms, these were down ~7.3% YoY.
- Top tanned leather export destinations include Vietnam, China, Italy, South Korea, Indonesia and Germany.

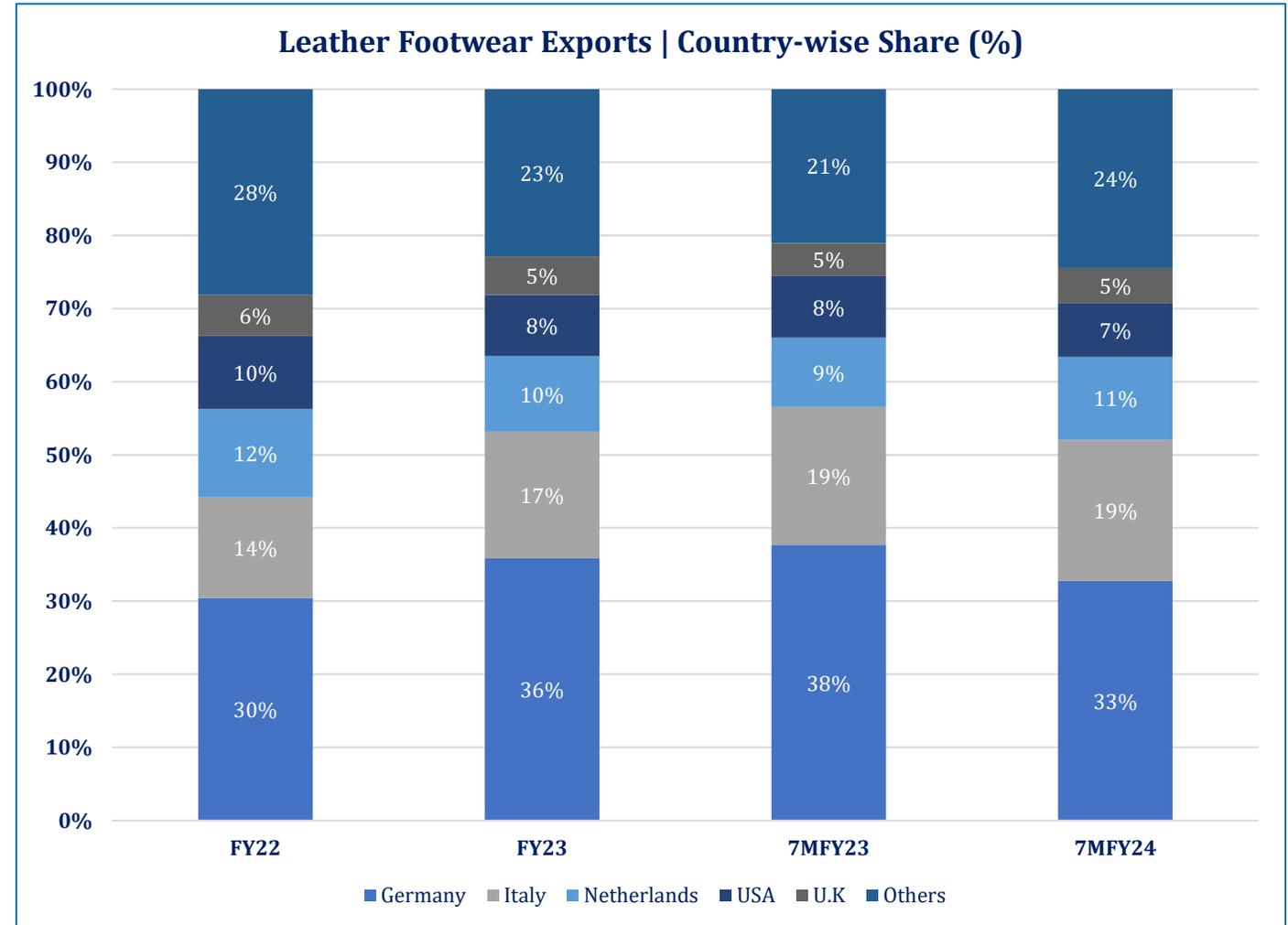


*Note: Data in value terms (USD) is reflective of SBP latest data, while that in volumetric terms is sourced from PBS. HS Code: 4113.*

# Leather

## Exports | Footwear

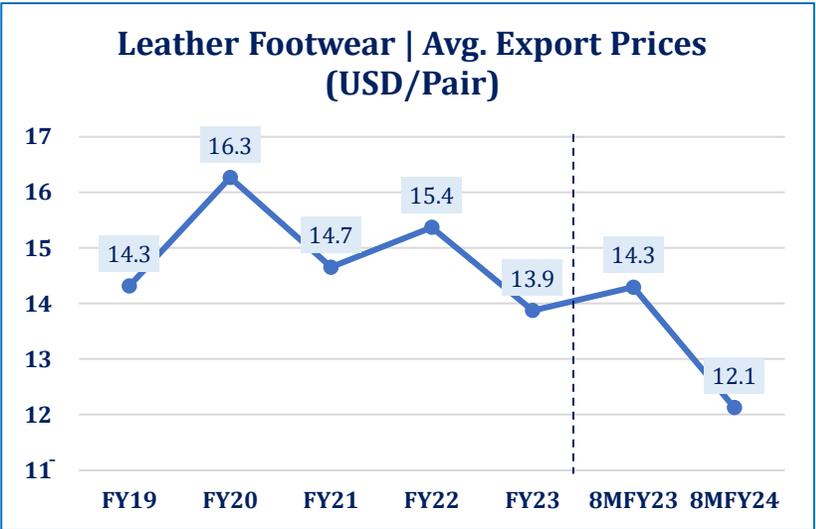
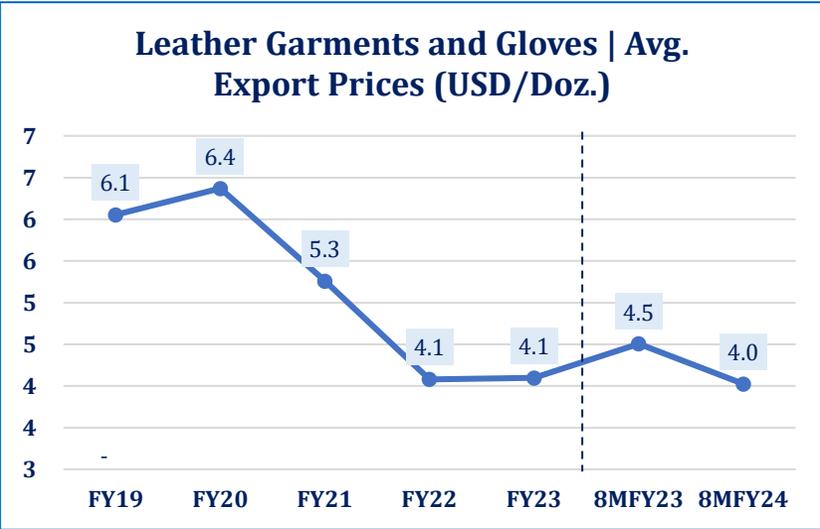
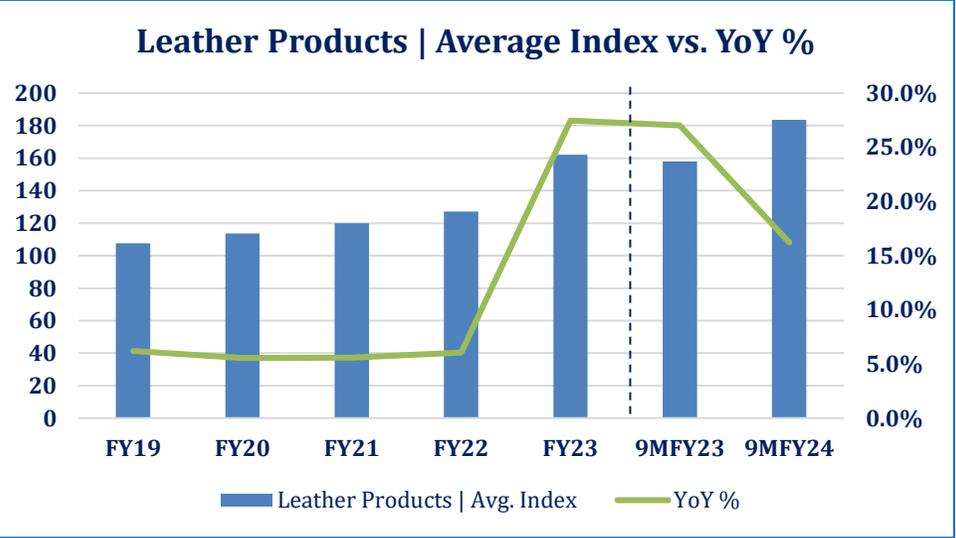
- Pakistan’s export of footwear increased ~5.4% YoY to USD~134.2mln in FY23. However, during 7MFY24 period, these clocked in at USD~77.8mln, down ~11.8% YoY.
- In volumetric terms, leather footwear exports were recorded at ~10.2mln pairs, marking ~25.9% YoY increase. In the 7MFY24 period, these clocked in at ~6.0mln pairs, staying relatively the same as SPLY.
- Germany is the top destination for footwear exports followed by Italy, Netherlands, USA and UK.



# Leather

## Local | Demand

- Local leather prices, as captured by Leather Products Index (classified under the Wholesale Price Index), remained relatively stable during FY19-22, averaging at ~117.1 points.
- In FY23, however, this increased ~27.5% YoY to register at ~162.2 points, coinciding likely with the overall inflationary pressures during the year (national CPI was up ~18.9% YoY during the year).
- In 9MFY24, the index for leather products recorded ~16.2% YoY increase, compared with ~27.0% increase recorded in SPLY.
- Where average export prices for garments and gloves remained the same during FY23, those for tanned leather were up ~13.4% YoY (likely due to ~29.0% YoY volumetric exports decline) while footwear segment recorded ~9.7% YoY decline, owing to ~25.9% YoY increase in volumetric exports.

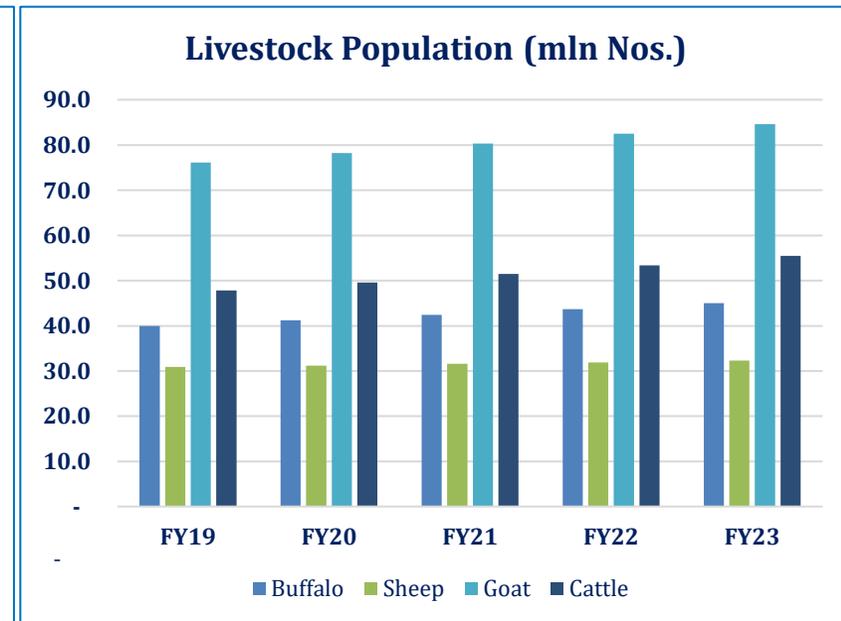
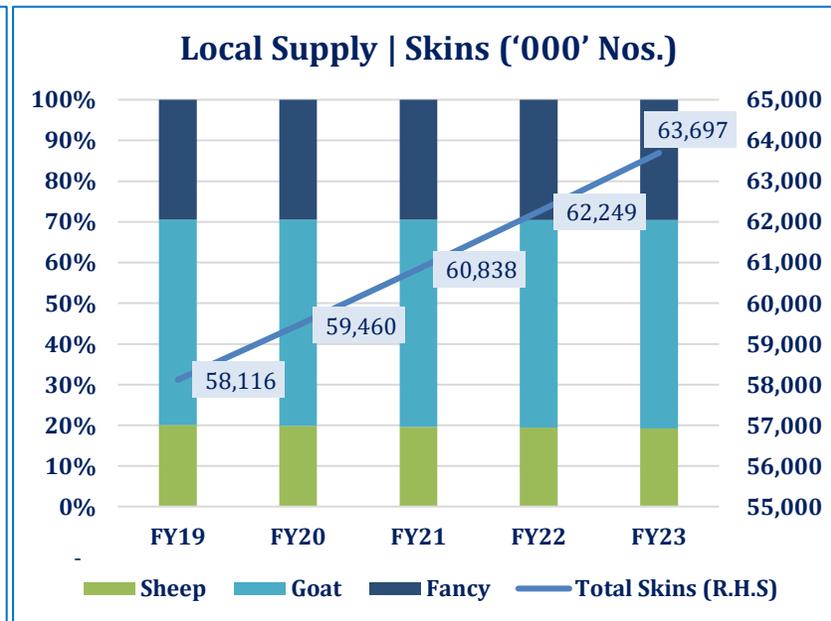
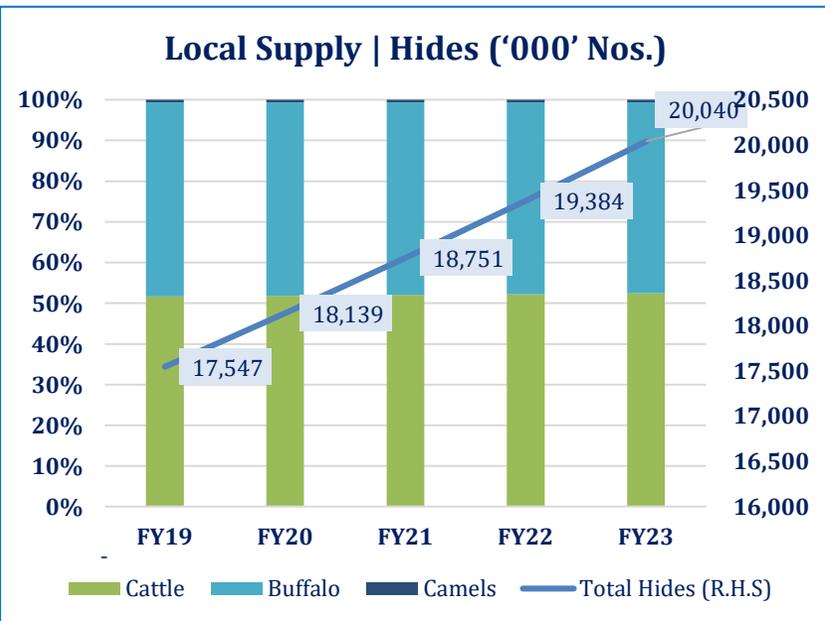


Note: Leather Products in Wholesale Price Index include Leather without Hair, Other Leather N.E.C and Footwear, as defined by PBS. All data are latest available.

# Leather

## Local | Supply

- The sector relied largely on locally available raw material, including hides and skins produced from livestock such as Cattle, Buffalos, Sheep and Goats. In the wake of Jul-Aug'22 floods, ~1.0mln livestock was lost, whereas total economic damages amounted to USD~30.1mln, of which agriculture formed ~43.0%.
- However, supply of hides and skins remained stable during FY23, registering ~5.3% and ~3.2% YoY increase, respectively. Moreover, the total number of livestock, including only buffalos, sheep, goats and cattle amounted to ~217.4mln, up ~2.8% YoY (same as SPLY).

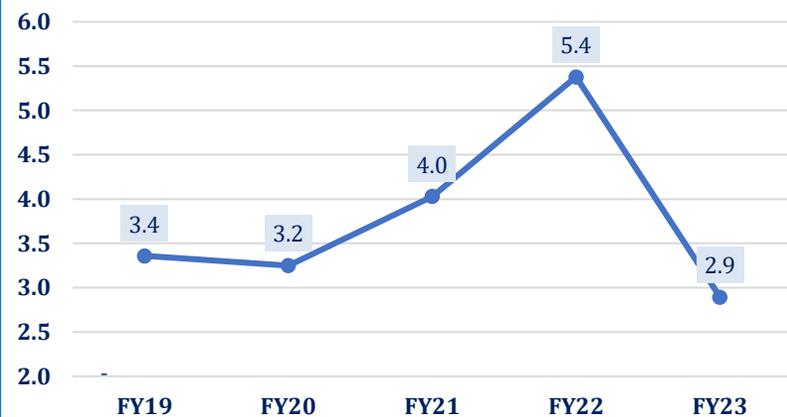


# Leather

## Local | Raw Material Prices

- Average import price for raw material (including skins/ hides) declined by ~46.3% YoY, majorly reflecting higher imports in volumetric terms (~102.2% YoY, recorded at ~13,232MT) as opposed to ~8.9% YoY increase in USD import bill. In PKR terms, import bill was up ~51.5% YoY (clocking in at PKR~9,478mln during the year), reflecting ~39.0% YoY PKR depreciation against the USD.
- With respect to preparation material (lubricating materials, including oil or grease treatment), average import prices were down ~5.6% YoY, on the back of ~10.6% higher volumetric imports (these registered at ~1,476MT during the year).
- The sector relies majorly on locally available raw material, prices of which registered a steady increase in FY23. Average prices for buffalo hides stood at PKR~97.8/Sq. Ft, up ~121.3% YoY, while those for cow hide as well as goat and sheep skins stood at PKR~131.9/Sq. Ft, PKR~81.6/Sq. Ft and PKR~68.9/Sq. Ft, marking ~17.7%, ~51.5% and ~41.5% YoY increase, respectively.

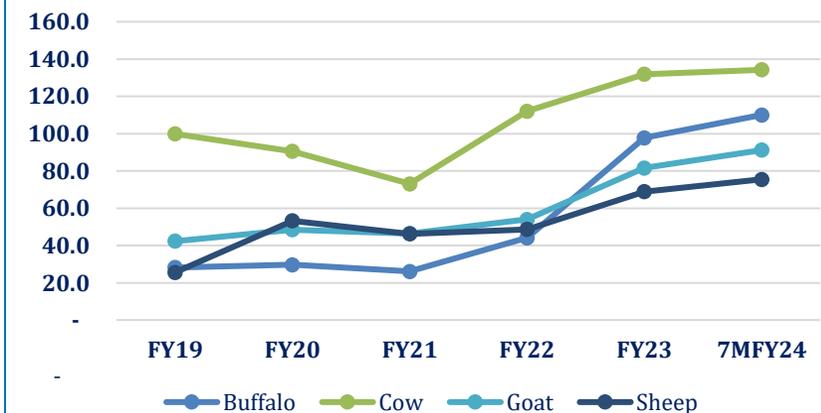
**Raw Material | Avg. Import Price (USD/Kg)**



**Preparation Material | Avg. Import Price (USD/Kg)**



**Local | Average Raw Material Price (PKR/ Sq. Ft)**

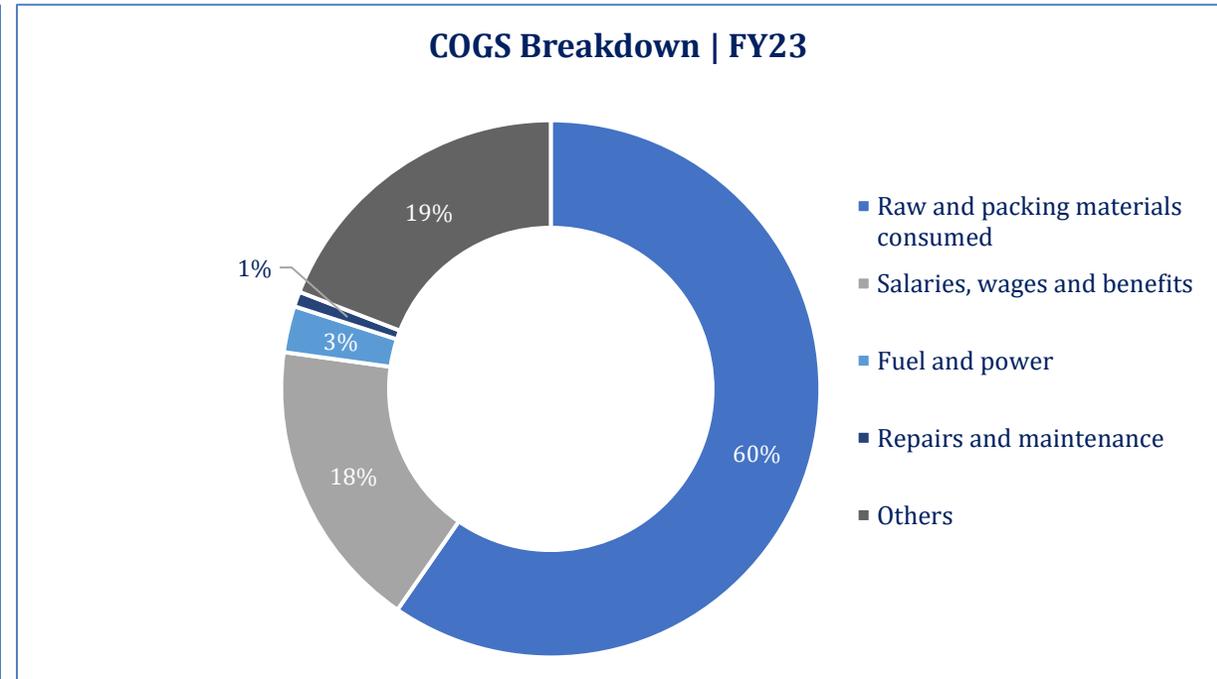
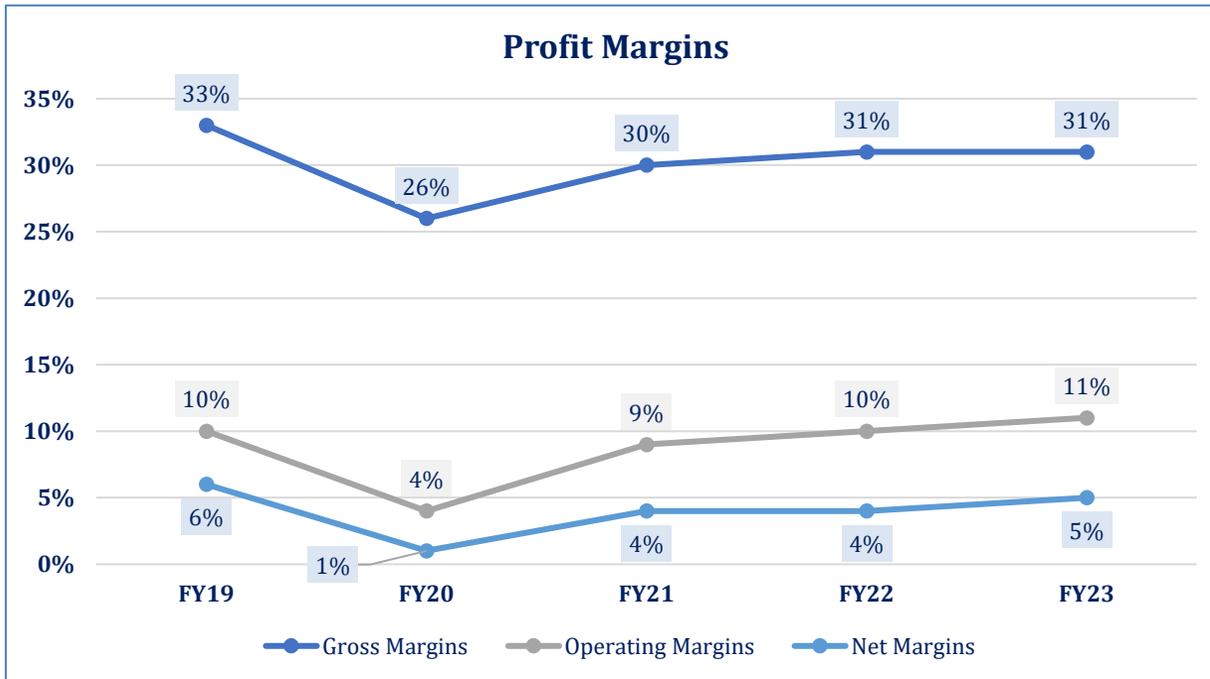


**Note:** HS Codes for the data are as follows - Raw Materials 4101.5020 and 4101.5090, 4102.1020, 4102.2120, 4103.9010, 4104.1900, 4105.1000, Preparation Materials: 3403.1110. Local RM (Raw Material) prices are representative of Lahore and Kasur markets.

# Leather

## Business Risk | Margins & Cost Structure

- Average gross margins of the leather sector for the past five years (FY19-23) remained largely stable standing at ~30%. In FY23, these increased to ~31%, same as last year, while average net margins increased to ~5% (FY22: ~4%). Overall, sector's total sales were up ~15% YoY, clocking in at PKR~43bln during the year. Moreover, average finance costs registered ~59% YoY increase.
- Raw material and packing costs constituted ~60% of the total COGS in FY23, followed by salaries and wages (~18%) and fuel costs (~3%). The total COGS for the sector registered ~16% YoY increase during the year.

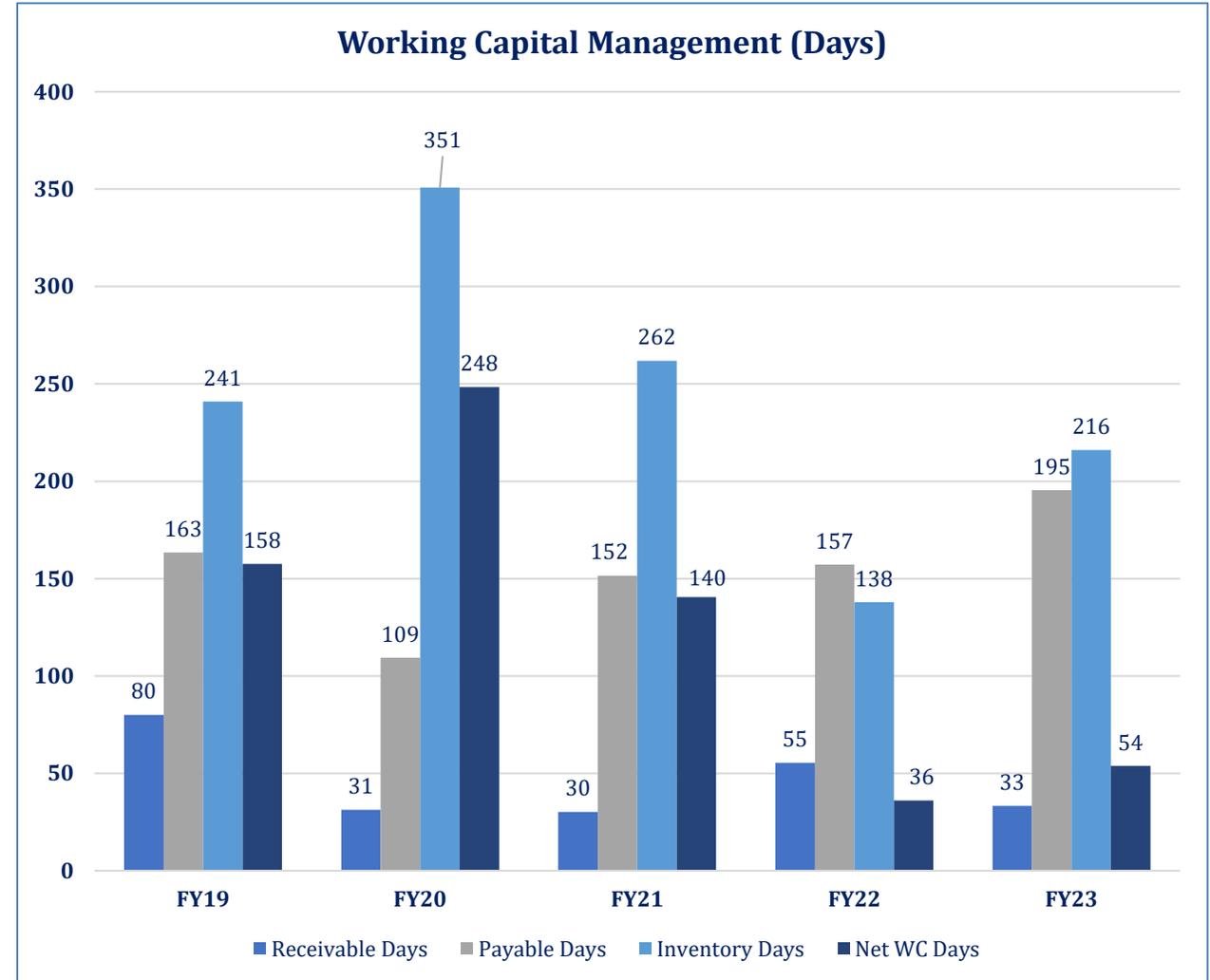


*Note: Calculations are based on financials of ~5 Listed/ PACRA-rated clients. Margins are revenue-weighted.*

# Leather

## Financial Risk | Working Capital Management

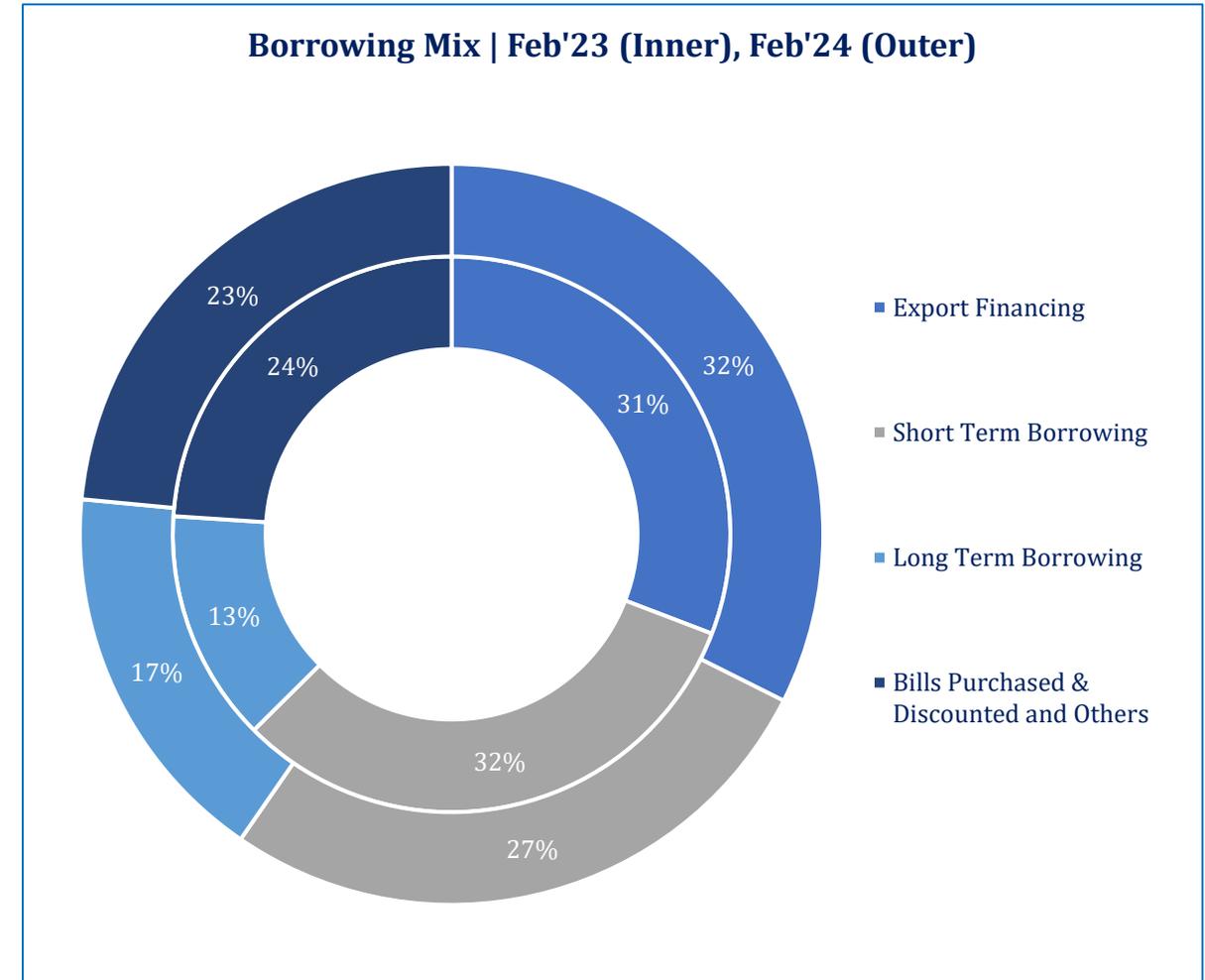
- In FY23, net working capital days of the sector were recorded at ~54 days, up ~1% YoY (FY22: ~36 days).
- Average receivable days of the sector were recorded at ~33 days during FY23 (FY22: ~55 days), signaling therefore, better cash recovery.
- However, on the other side, average payable days increased in FY23 in comparison to the level observed in FY22 (~195 versus ~157 days, respectively). This likely reflects sector players' lower capacity to meet requirements of creditors.
- Meanwhile, average inventory days increased from FY22 to FY23 by ~78 days, with the decline likely signifying a slowdown in sales during the year.



# Leather

## Financial Risk | Borrowing Mix

- The total outstanding debt of the sector as at End-Feb'24 was recorded at PKR~51,682mln as compared to PKR~54,553 at End-Feb'23, depicting a negative growth of ~19%.
- Export financing constitutes the largest proportion standing at ~32.0% as at End-Feb'24 (End-Feb'23: ~31.0%), considering that the sector is largely export-oriented.
- Short-term borrowing constitutes the second major portion (~27.0%) of total borrowing (End-Feb'23: ~32.0%).
- Long-term borrowing constituted ~17.0% of total borrowing at End-Feb'24 (End-Feb'23: ~13.0%).



# Leather

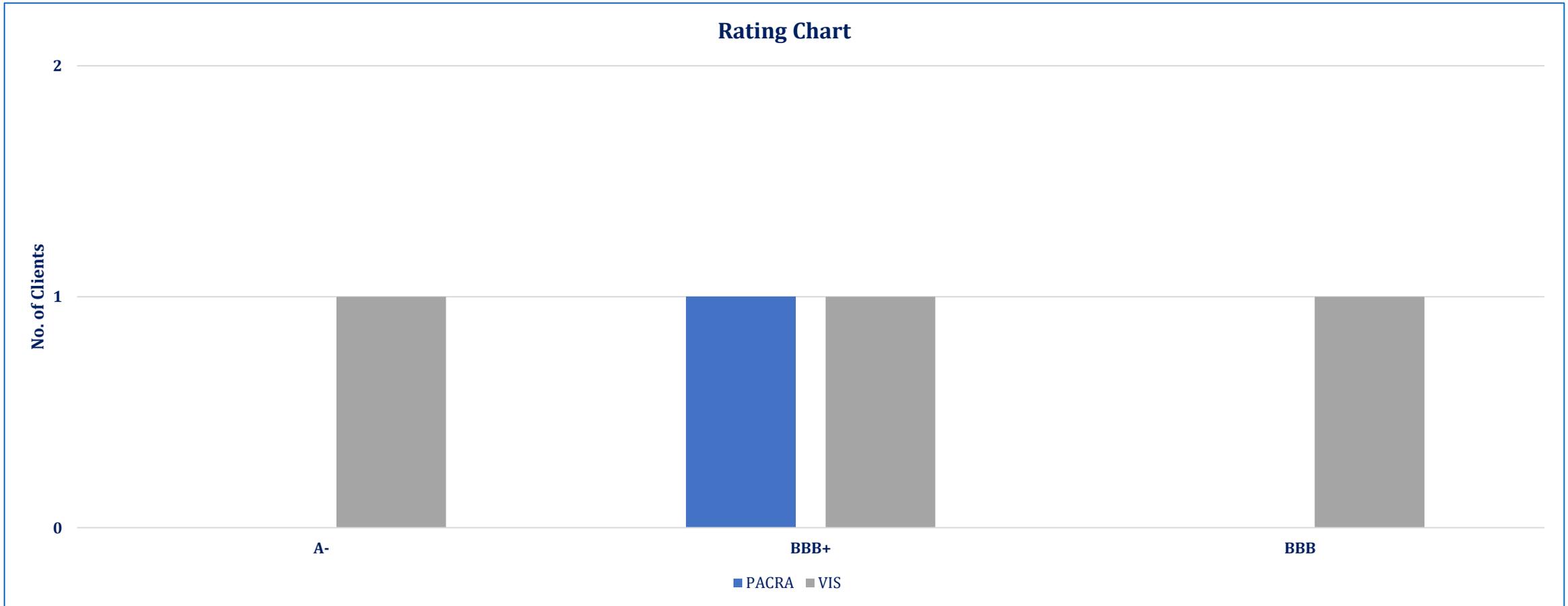
## Duty Structure

PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY23	FY24	FY23	FY24	FY23	FY24	FY23	FY24
<b>4203.1010, 4000</b>	Articles of apparel and clothing accessories, of leather or of composition leather.	20%	20%	6%	6%	50%	50%	<b>76%</b>	<b>76%</b>
<b>6403.1200, 9900</b>	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.	20%	20%	6%	6%	20-40%	20-40%	<b>46%-66%</b>	<b>46%-66%</b>
<b>4202.1120, 2100, 3100</b>	Suit-cases, of leather or composition leather, handbags, other articles.	20%	20%	6%	6%	49%	20%	<b>75%</b>	<b>46%</b>
<b>4101.5020</b>	Raw hides and skins of buffalo and cow (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment-dressed or further prepared), whether or not dehaired or split.	0%	0%	2%	2%	0%	0%	<b>2%</b>	<b>2%</b>
<b>4102.1020, 2120</b>	Raw skins of sheep (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment dressed or further prepared), whether or not with wool on or split	0%	0%	2%	2%	0%	0%	<b>2%</b>	<b>2%</b>
<b>4103.9010</b>	Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchmentdressed or further prepared), whether or not dehaired or split	0%	0%	2%	2%	0%	0%	<b>2%</b>	<b>2%</b>
<b>4104.1900</b>	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared.	0%	0%	2%	2%	0%	0%	<b>2%</b>	<b>2%</b>
<b>4105.1000</b>	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared.	0%	0%	2%	2%	0%	0%	<b>2%</b>	<b>2%</b>
<b>3403.1110</b>	Preparations of a kind used for the oil or grease treatment of textile materials, leather, fur skins or other materials, but excluding preparations containing, as basic constituents, 70 % or more by weight of petroleum oils or of oils obtained from bituminous minerals.	16%	16%	4%	4%	0%	0%	<b>20%</b>	<b>20%</b>

# Leather

## Rating Curve

PACRA rates 1 player in the leather sector, with long-term rating of BBB+.



# Leather

## SWOT Analysis

- Ample availability of raw material (hides and skins of animals) locally
- Export-friendly government policies

- Insufficient degree of advanced technology, resulting in higher cost of production as compared to international competitors
- Lack of skilled labor force in the country
- Lack of strong presence in the global fashion market



- Introduction of low-priced alternatives, such as synthetic leather
- High concentration in the European market

- Increasing fashion consciousness, resulting in a new market for leather garments and footwear
- High untapped potential for exports in USA and China
- Depreciating PKR, resulting in increased revenue

# Leather

## Outlook: Stable

- In FY23, Pakistan's economy posted a real GDP contraction of ~0.17% (FY22: ~6.1% growth). Meanwhile, the LSM shrunk by ~10.3% (FY22: ~11.8%), owing majorly to supply-chain disruptions which resulted from SBP-imposed import restrictions, along with the flash floods of Aug'22 and consequent sluggish demand across major industrial sectors of the country. In 2QFY24, however, the real GDP growth stood at ~1.0% (SPLY: ~2.2%).
- Meanwhile, the SBP estimates the GDP growth at ~2-3% for FY24, while IMF reduced Pakistan's GDP forecast to ~2.0%. FY23 was also marred by significantly high levels of inflation with average national CPI recording at ~29.4% (SPLY: 21.3%). However inflation has eased and stood at ~23.1% as at Feb'24 (Feb'23: ~31.5%). Additionally, the PKR experienced depreciation of ~39.0% against the USD during FY23. Meanwhile, the MPR has stood steady at ~22.0% Jun'23.
- The leather sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. The Leather sector is classified as a Large Scale Manufacturing (LSM) industrial component within the industrial sector. In FY23, the Leather sector's weight in the QIM was recorded at ~1.2%, while it experienced a growth of ~4.4% in 7MFY24 LSM. Moreover, it recorded a market size of PKR~243bln, up ~29.3% YoY in FY23. During the year, leather production (upper and sole) clocked in at ~13.8mln sq. ft., down ~8.6% YoY, while leather footwear produced was recorded at ~32.0mln pairs, up ~7.4% YoY.
- Of total leather production in the country, ~80-95% is exported annually. Leather exports fetched USD~887.1mln in FY23, down ~7.0% YoY while forming ~3.2% in country's total export receipts (SPLY: ~3.0%). During 7MFY24, these clocked in at USD~481.5mln, ~2.7% of country's total exports during the period (SPLY: ~3.4%).
- The sector relies majorly on locally available raw material, prices of which registered a steady increase in FY23. Average prices for buffalo hides stood at PKR~97.8/Sq. Ft, up ~121.3% YoY, while those for cow hide as well as goat and sheep skins stood at PKR~131.9/Sq. Ft, PKR~81.6/Sq. Ft and PKR~68.9/Sq. Ft, marking ~17.7%, ~51.5% and ~41.5% YoY increase, respectively.
- Sector's average profit margins remained relatively stable during FY23, despite the floods of Jul-Aug'22 and SBP's hawkish monetary stance during FY23. This likely reflected the sector's export earnings and prudent expense management by sector players. Going forward, sector's performance is likely to stay rangebound, with global recessionary fears subsiding and inflation levels tapering off.

# Leather

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<b>Research Team</b>	<b>Saniya Tauseef</b> <i>Senior Manager</i> <a href="mailto:saniya.tauseef@pacra.com" style="color: white;">saniya.tauseef@pacra.com</a>	<b>Ayesha Wajih</b> <i>Supervising Senior</i> <a href="mailto:ayesha.wajih@pacra.com" style="color: white;">ayesha.wajih@pacra.com</a>	<b>Sundus Fatima</b>   <i>Senior Research Analyst</i> <a href="mailto:sundus.fatima@pacra.com" style="color: white;">(sundus.fatima@pacra.com)</a>  <b>Sabeen Mirza</b>   <i>Research Analyst</i> <a href="mailto:sabeen.mirza@pacra.com" style="color: white;">(sabeen.mirza@pacra.com)</a>
<b>Contact Number: +92 42 35869504</b>			

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