

BANGLADESH TANNERY &  
FOOTWEAR INDUSTRY REVIEW

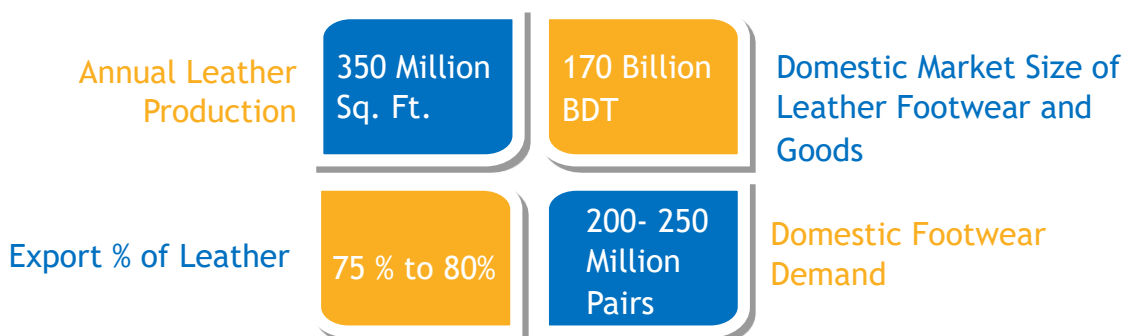
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## Bangladesh Tannery & Footwear Industry Review

Leather & Leather Products industry is export oriented while both domestic & export demand drives footwear industry

The amount of leather produced each year is 350 million Sq. ft.<sup>1</sup> Out of the total leather production, 20-25 percent is used to meet the domestic demand while the rest is exported. In the footwear industry, Bangladesh produces 378 million pairs of shoes (all forms of footwear along with leather is included) each year. Bangladesh currently stands at 8<sup>th</sup> position in the global footwear market in terms of production volume.<sup>2</sup>

The domestic market size of footwear is around TK 170 billion. Domestic demand for footwear industry is around 200 to 250 million pairs a year.<sup>3</sup> Out of the total domestic demand, approximately 24 million pairs were imported in FY'2016-17.<sup>4</sup> In 2018-19, Bangladesh had exported \$607.88 million worth of leather footwear and \$271.53 million worth of non-leather footwear. Global footwear market was valued at \$246 billion in 2017 and is expected to reach a valuation of \$320 billion by 2021. There are currently 220 tanneries, 2,500 manufacturing units and 90 larger firms operating in Bangladesh.<sup>5</sup>



### Lack of monitoring and co-ordination lead to wasted raw hides in 2019

One of the main sources of production in the footwear and leather product industry is raw hide which is mainly collected from the livestock. The livestock population of Bangladesh has shown a steady growth trend which indicates that Bangladesh has enough raw materials that are required to support the increasing production of leather and leather goods. 11.8 million cattle, buffalo, sheep and goat were supplied in 2019 Eid al- Adha .<sup>5</sup> Almost 50% of the raw hides get sourced during Eid al-Adha season.

| Livestock Species          | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 |
|----------------------------|---------|---------|---------|---------|---------|
| Cattle                     | 23.49   | 23.64   | 23.79   | 23.94   | 24.09   |
| Buffalo                    | 1.46    | 1.46    | 1.47    | 1.48    | 1.49    |
| Sheep                      | 3.21    | 3.27    | 3.34    | 3.40    | 3.47    |
| Goat                       | 25.44   | 25.60   | 25.77   | 25.93   | 26.10   |
| Total Livestock Population | 53.59   | 53.97   | 54.36   | 54.75   | 55.14   |
| Growth Rate                | 0.71%   | 0.71%   | 0.71%   | 0.71%   | 0.72%   |

Source: Department of Livestock Services

<sup>1</sup> <http://www.theindependentbd.com/post/179028>

<sup>2</sup> <https://thefinancialexpress.com.bd/economy/bd-to-be-leading-actor-in-global-footwear-market-say-experts-1510771658>

<sup>3</sup> <https://www.prothomalo.com/economy/article/1594561/>

<sup>4</sup> Comprehensive Report 2017 On Bangladesh Leather Goods and Footwear Industry

<sup>5</sup> <https://www.thedailystar.net/business/news/rawhide-prices-unchanged-eid-1782826>

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In the 2019 Eid al-Adha, the price of rawhide had slumped significantly. The government had set the same price for rawhide as the previous year. However, where cowhides and goathides were sold at BDT 1,000 and BDT 50 respectively in the past year, cowhides and goathides could only be sold at around BDT 350 to 400 to BDT 25 to 30 respectively this year. It was reported that, tanners already had large stocks of rawhide. The price and demand in the international market were also at a low level. The tannery owners had also invested heavily in the transfer of the tannery relocation from Hazaribagh to Savar. Several government officials also objected that, tanners and merchants had created a syndicate to bring down the price. These factors have contributed to the slump in rawhide price this year. The situation was further complicated by the fact that rawhide merchants (They buy rawhides from small traders and sell them to tanners) had refused to buy due to non-payment of the BDT 4000 million arrears by the tanners. Due to very low price, many small traders had thrown away their rawhide and the market value of these wasted rawhides are estimated to be around BDT 1,000 million.<sup>6</sup> In such scenario, Government had decided to allow export of the rawhide to ensure that small traders get fair price. FBCCI was delegated to mediate the talk between merchants and tanners and after negotiations, finally tanners had decided to start payment in three phases.<sup>7</sup> After the payment started, merchants started to sell rawhides to the tanners at the price fixed by the government and the rawhide trading scenario had moved from its stagnated phase. However, the whole situation had created a risk of causing rawhide crisis in the local tannery industry going forward due to wasted raw hides and probability of large amount of raw hides being exported.

# 2.4%

**Bangladesh's Share in the World Cattle Population as of 2018**

Source: United States Department of Agriculture

### Increasing investment fuels production growth

Because of increased investments from both foreign and local investors in increasing the production capacity, overall production capacity for the industry is expected to increase in the coming years. Currently, 15-20 new leather product & footwear factories are being opened in the country each year. Wages in competitor countries such as China (19% increase), Vietnam (14% increase), India (13% increase), and Indonesia (30% increase) have increased relatively faster compared to Bangladesh.<sup>1</sup> The cost of production has increased significantly in the competitor countries mainly due to rising wages. Bangladesh also can export footwear with zero percent tariff. As a result of these advantages, Bangladesh is becoming a desirable place for the manufacturer of leather goods.

The impact of these recent investments can be seen in the Foreign Direct Investment net inflow data in leather & leather products segments as the amount has increased significantly in recent years. In last 2 years, the numbers were at an all-time high with USD 70.2 million and 60.8 million FDI net inflows.

Some major investments in the leather and footwear sector that have been carried out recently and are expected to be carried out in the near future are noted below:

**Figure 1: FDI Net inflows in Leather & Leather Products (In USD Million)**



Source: Bangladesh Bank & EBLSL Research

<sup>6</sup> <https://www.thedailystar.net/backpage/news/3-factors-behind-rawhide-mess-1785940>

<sup>7</sup> <https://www.thedailystar.net/business/news/tanners-pay-rawhide-traders-three-phases-1789336>

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|                                 |  |
|---------------------------------|--|
| <b>VKC Footwear</b>             | Establishing a joint venture with Footsteps Bangladesh where VKC footwear (2 <sup>nd</sup> largest footwear manufacturer of India) will be investing \$2 million.  |
| <b>Chinese Investors</b>        | Will establish 15 new export oriented footwear factories in the Chattogram Export Processing Zone (CEPZ).  |
| <b>Polish Investors</b>         | Shifted their business from China due to higher wage costs. Will invest BDT 150 million in Bangladesh.   |
| <b>TBS Group</b>                | Vietnam's Leading Leather Goods manufacturer plans to invest \$100 million for setting up a factory in 1.30 to 1.50 lakh square meter space. The main reason for the investment is to avail duty benefits. |
| <b>Walkar</b>                   | BDT 1500 million will be invested by Walkar (A sister concern of RFL) to set up four manufacturing units and to increase production amounts by fourfold.   |
| <b>Sanghavi Shoe Accesories</b> | Forming a joint venture to invest \$1.2 million to cater to both local and foreign markets.  |
| <b>Farida Group</b>             | Chennai based Farida Group with an export turnover of 1,600 crore is building a 100,000 Sq. Ft. factory in Dhaka which will be able to produce 3,000 pairs of shoes each day.                              |

## Domestic brands are strengthening their foothold in the Domestic Footwear Industry

Domestic footwear industry of Bangladesh has two sections- branded or organized footwear market and non-branded or unorganized footwear market. Unorganized footwear market still dominates the majority of sales. However, the market share of branded footwear is increasing and currently stands at 30% of the total market. Increase in per capita income, fashion consciousness and health consciousness are some of the key drivers behind the increase in the branded footwear market share. High rent fee is the key challenge for increasing the number of retail showrooms for the branded segment.

The overall footwear market is growing at 12%-15% rate. However, inflation consists of a big portion of this total growth and sales volume are not increasing significantly. Footwear business has cyclicity effect as almost 25%-30% footwear are sold during the Eid Al-Fitr period.<sup>8</sup>

Organized footwear market of Bangladesh was dominated by foreign companies mainly by Bata even a decade ago. Most of the local manufacturers were focused on exporting their products. But, in the recent years, local manufactures are entering the domestic footwear market with their own brand to capitalize on the growing demand in the domestic market. Almost 30 exporters have introduced local brands. Some of the local popular brands that are currently operating in the market are Bay, Hamco, Jennys, Fortuna, Crescent, Vibrant, Leatherex, STEP, Walkar, Orion, Falcon, Zeils, Shampan etc. Along with footwear brands, clothing

| <b>Footwear Brand</b> | <b>Number of Outlets</b> |
|-----------------------|--------------------------|
| Bata                  | 261                      |
| Apex Footwear         | 220                      |
| Bay Emporium          | 50                       |
| Walkar                | 50                       |
| Orion                 | 30                       |
| Crescent              | 20                       |
| Fortuna               | 15                       |
| ZEIL's                | 12                       |
| Shampan               | 9                        |
| Vibrant               | 6                        |

Source: EBLSL Research

<sup>8</sup> <https://www.prothomalo.com/economy/article/1594561/বড়-হাঙ্গে-ব্র্যান্ডের-জুতার-বাজার>

## Bangladesh Tannery & Footwear Industry Review

brands such as Ecstasy, Sailor, Occult and Freeland are also selling shoes to the local consumers. Apex footwear is currently the largest domestic footwear manufacturer with 17.82 million pair

annual production capacity. Most of the exporters have entered the local market in last decade. Bay Emporium has entered the market in 2006. ZEIL's Brand has entered the market in 2012. Shampan group has introduced its "Shampan" brand in 2012. Hamco group, Orion footwear, Walkar and Vibrant have entered the market respectively in 2014, 2015, 2017 and 2018.<sup>9</sup> In the next decade, local footwear manufacturers are expected to increase their share of the domestic footwear industry.

Apex Footwear, Bata Shoe and Fortune Shoe's utilization of production capacity is at a very efficient level with 91.68%, 80.68% and 79.83% respectively. However, Apex Tannery has a comparatively lower capacity utilization of 49.02% due to drop in sales. Samata Leather had a very low 3.53% capacity utilization rate due to lack of order received. However, the rate is expected to increase once the export sales reach a satisfactory level

**Table 3: Annual Production Capacity of Public Listed Companies**

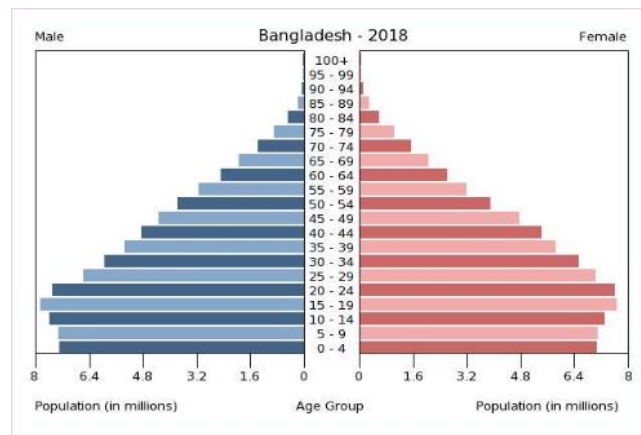
| Company                             | Production Capacity ('000 Pairs) | Actual Production | Capacity Utilization (%) |
|-------------------------------------|----------------------------------|-------------------|--------------------------|
| Apex Footwear                       | 17,821                           | 16,338            | 91.68%                   |
| Bata Shoe                           | 36,096                           | 28,886            | 80.03%                   |
| Fortune Shoes                       | 3,504                            | 2,797             | 79.83%                   |
| Apex Tannery (In SFT)               | 32,000,000                       | 15,685,631        | 49.02%                   |
| Samata Leather Complex Ltd (In SFT) | 9,000,000                        | 317,847           | 3.53%                    |

Source: Respected Companies Recent Annual Report;

\*Samata Leather Complex's data are from 2016-17 Annual Report

### Drivers of the Organized Footwear Industry

**Consistent Population Growth ensures steady increase in footwear demand.** Bangladesh had a 1.13% CAGR of population from 2007 to 2017.<sup>10</sup> Out of the total population, 46.43% of the population is between 0-24 years old.<sup>11</sup> The steady population growth means the footwear demand will naturally increase at the rate of population growth. Also, a large young population also can positively influence the footwear demand, as young population are more frequent buyer and look for more trendy and fashionable footwear options.



**Figure 2: Population Pyramid of Bangladesh**

Source: CIA Factbook

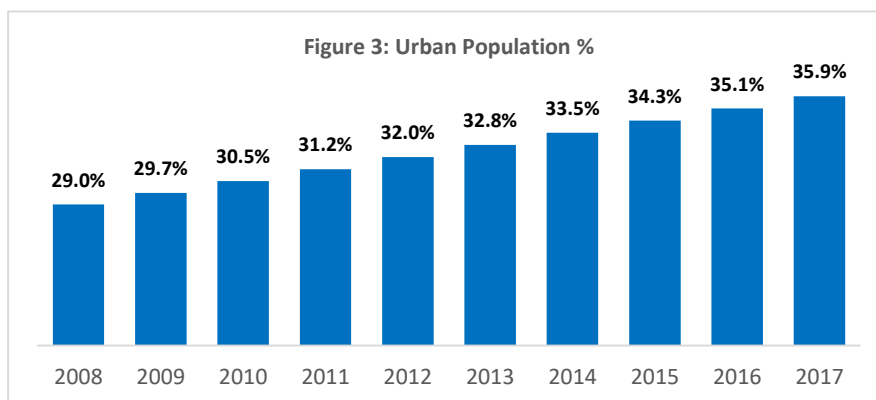
**Urban Population Growth will fuel sales from the branded retail stores.** Urban population of Bangladesh is increasing rapidly as urban population percentage of total population has reached to 35.9% in 2017 from 29% in 2008.<sup>3</sup> According to United Nations Population Division, the urban population of Bangladesh will exceed the rural population of Bangladesh.<sup>12</sup> This trend is favorable for the long term growth prospects of the organized footwear industry as most of the retail stores of organized footwear companies such as Bata, Apex is located at the urban areas and most of the sales are driven by urban population's purchase.

<sup>9</sup><https://www.dailysun.com/printversion/details/347745/2018/11/04/Local-brands-now-dominate-footwear-market>

<sup>10</sup> World Bank

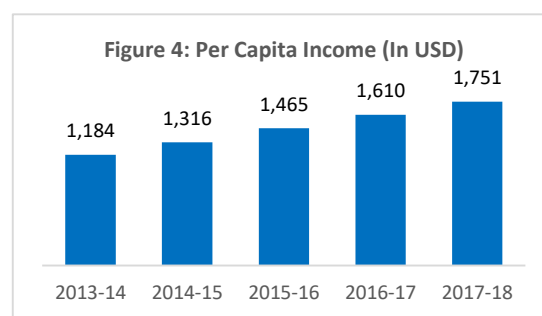
<sup>11</sup> CIA Factbook

<sup>12</sup> <https://www.dhakatribune.com/bangladesh/2018/05/17/un-bangladesh-urban-population-will-overtake-rural-population-by-2030>



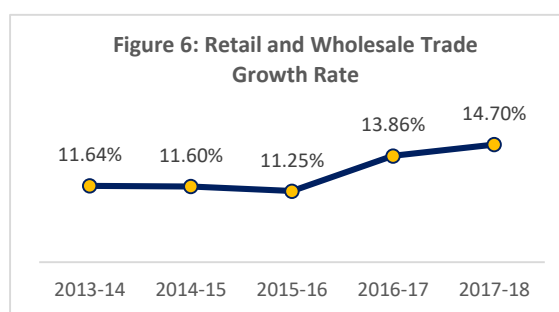
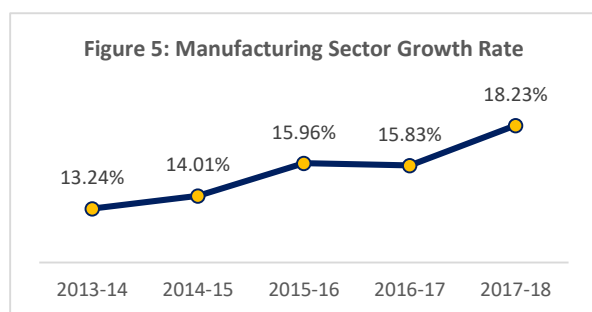
Source: World Bank

**Market share of the organized footwear industry will increase as a result of per capita income growth.** Per capita income of Bangladesh has risen from USD 1,184 in 2013-14 to USD 1,751 in 2017-18 at a CAGR of 10.28%.<sup>13</sup> The increase in per capita income means the purchasing power of Bangladeshi population has increased. This trend indicates that organized footwear industry's market share out of the total footwear industry will increase going forward.



Source: Bangladesh Bureau of Statistics

**Uptrend in Retail & wholesale trade and manufacturing sector growth indicates stable business environment and positive consumer sentiment.** Retail and wholesale has witnessed incremental growth rate and has grown at 14.70% rate in 2017-18. Manufacturing sector has also grown incrementally and growth rate in 2017-18 is 18.23%.<sup>14</sup> These growth trends indicate vibrant business environment, private sector business growth and positive consumer sentiment. So, it can be concluded that Bata and the footwear industry does not have any macroeconomic risk resulting from slower economic growth or political instability.



Source: Bangladesh Bureau of Statistics

<sup>13</sup> Bangladesh Bureau of Statistics<sup>14</sup> Bangladesh Bureau of Statistics

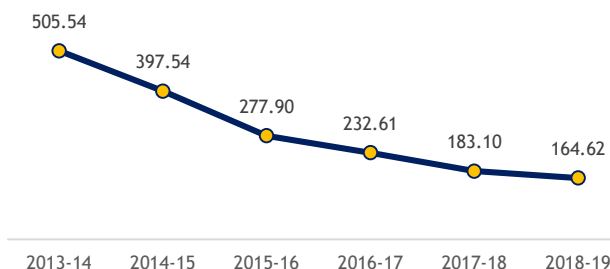
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### Downtrend in LLG export growth is not matching the ambitious export target

Leather and Leather Goods (LLG) is the second largest export category of Bangladesh after Ready Made Garments. Bangladesh has a target to achieve a total \$60 billion export earnings by 2021 of which \$5 billion is expected to be achieved from LLG.<sup>15</sup> But, the probability of achieving the goal within the given timeline is becoming more and more unlikely as the export growth has not been satisfactory in the last few years. The CAGR of the last 5 years growth rate has been a negative 1.93%. LLG export in 2018-19 suffered a 6% drop from last year.<sup>16</sup>

Export of leather has been on the downward trend since 2013-14. The export amount has come down from BDT 505.54 million in FY 2013-14 to BDT 164.62 million in FY 2018-19. One of the main reasons behind the decrease is the degraded condition of the raw hides of the slaughtered animals. As a result, the quality of processed leather has deteriorated which further reduced the price of processed leathers that are being exported.<sup>17</sup> Along with that, issues aroused from tannery relocation to Savar in 2017 has caused further downfall in the export amount.

Figure 7: Finished Leather Export (BDT mn)



Leather products have shown promising growth from 2013-17 but in 2017-18 and 2018-19, leather products export growth has been decreased by around 27% in both years. One of the reasons behind the decrease is the popularity of Rexine, which is a strong coated cloth and a cheaper imitator of leather.<sup>8</sup> Tannery relocation from Hazaribagh to Savar has also impacted the sales of leather products.

Leather Footwear has grown consistently over the years amidst the downturn of leather and leather products although the growth rate has slowed down in the last 4 years. The growth rate was mainly driven by the increase in leather footwear exports to United States. Exports of leather footwear to United States has increased from USD 31 million in 2013-14 to USD 143 million in 2018-19 at a CAGR of 35.60% while the overall leather footwear export CAGR was 9.94% during the same period.

Table 4: Export Amount and Growth Rate of LLG Goods (In Million USD)

| Item Name        | Export (2012-13) | Export (2013-14) | Export (2014-15) | Export (2015-16) | Export (2016-17) | Export (2017-18) | Export (2018-19) |
|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| Leather          | 399.73           | 505.54           | 397.54           | 277.90           | 232.61           | 183.10           | 164.62           |
| Y-o-Y Growth %   |                  | 26%              | -21%             | -30%             | -16%             | -21%             | -10%             |
| Leather Products | 161.60           | 240.08           | 249.16           | 388.22           | 464.43           | 336.81           | 247.28           |
| Y-o-Y Growth %   |                  | 49%              | 4%               | 56%              | 20%              | -27%             | -27%             |
| Leather Footwear | 305.11           | 378.54           | 483.81           | 494.83           | 536.96           | 565.60           | 607.88           |
| Y-o-Y Growth %   |                  | 24%              | 28%              | 2%               | 9%               | 5%               | 7%               |
| <b>Total</b>     | <b>866.44</b>    | <b>1124.16</b>   | <b>1130.51</b>   | <b>1160.96</b>   | <b>1233.99</b>   | <b>1085.51</b>   | <b>1019.78</b>   |
| Y-o-Y Growth %   |                  | 30%              | 1%               | 3%               | 6%               | -12%             | -6%              |

Source: Export Promotion Bureau

<sup>15</sup><http://www.theindependentbd.com/printversion/details/126448>

<sup>16</sup> Export Promotion Bureau

<sup>17</sup><https://www.dhakatribune.com/business/commerce/2018/07/05/leather-export-earnings-suffer-12-drop>



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Figure 8: Leather Products Export

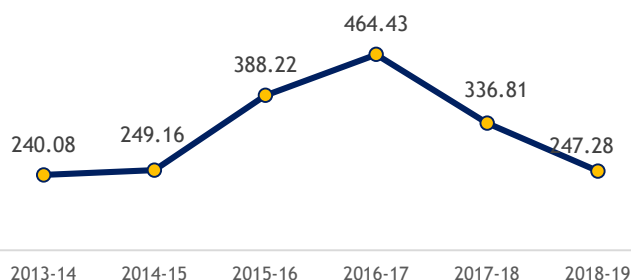


Figure 9: Leather Footwear Export

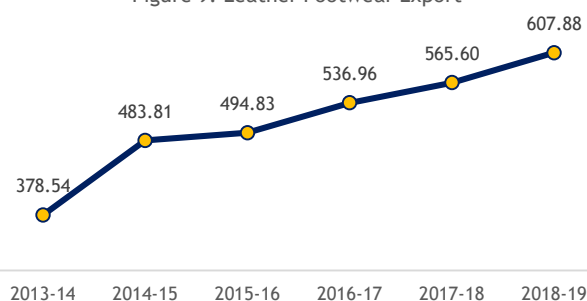


Figure 10: LLG as a % of Total Export

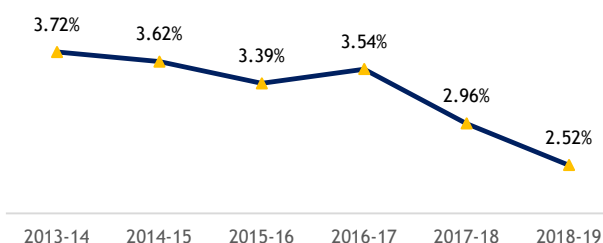
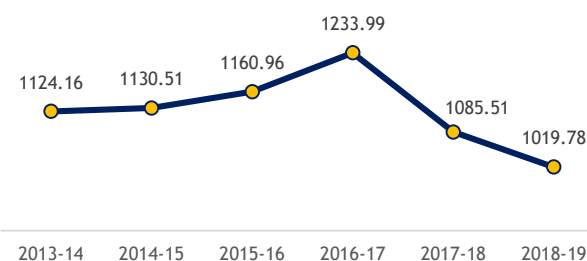


Figure 11: Overall LLG Export



Source: Export Promotion Bureau

Since 2013-14, Bangladesh's export has shown steady growth rate as export has increased from USD 30.19 billion to USD 40.54 billion. During the same period, LLG export has decreased from USD 1.12 billion to USD 1.02 billion. As a result, contribution of LLG in total export has decreased from 3.72% to 2.52%.

Table 5: Export Destination of LLG Goods (In USD Million)

| Country Name  | Export Amount- (July- Jun 2018-19) |               |          | Total  |
|---------------|------------------------------------|---------------|----------|--------|
|               | Leather                            | Leather Goods | Footwear |        |
| UNITED STATES | 0.20                               | 63.07         | 143.88   | 207.14 |
| JAPAN         | 10.69                              | 51.31         | 49.21    | 111.20 |
| GERMANY       | 0.78                               | 15.93         | 88.70    | 105.40 |
| NETHERLANDS   | 0.003                              | 11.70         | 81.37    | 93.07  |
| HONG KONG     | 45.39                              | 13.99         | 13.07    | 72.45  |
| ITALY         | 21.52                              | 2.55          | 28.15    | 52.23  |
| CHINA         | 38.91                              | 2.24          | 11.57    | 52.72  |
| POLAND        | 1.13                               | 2.84          | 44.72    | 48.69  |
| CANADA        | 0.05                               | 3.76          | 39.32    | 43.13  |

The biggest export destination of Bangladesh for LLG goods are United States, Japan, Germany, Netherlands, Hong Kong etc. For leather footwear, the most prominent export destinations are United States, Germany, Netherlands etc. However, Bangladesh exports most of its finished leather to Hong Kong, China and Italy as these countries use finished leather to manufacture leather goods and leather footwear. Bangladesh exports most of its leather goods to mainly United States and Japan.



Table 6: Target Amount vs. Actual Export (2018-19)

| Particulars         | Target (2018-19) | Export (2018-19) | Deviation     |
|---------------------|------------------|------------------|---------------|
| Leather             | 184.00           | 164.62           | -10.53%       |
| Leather Products    | 340.00           | 247.28           | -27.27%       |
| Leather Footwear    | 600.00           | 607.88           | 1.31%         |
| <b>Total Export</b> | <b>1124.00</b>   | <b>1019.78</b>   | <b>-9.27%</b> |

Source: Export Promotion Bureau (EPB)

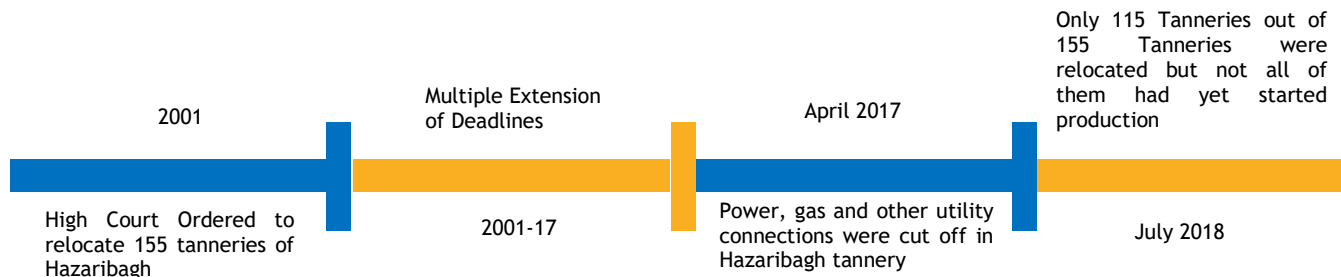
Leather and leather products have failed to achieve their target for 2018-19 by 10.53 % and 27.27% respectively. However, Leather footwear export has exceeded its' target amount by 1.31%. Total export for 2018-19 was 9.27% below its target amount.

### Relocation failed to produce expected benefits due to sluggishness and non-Compliance

Tannery relocation process from Hazaribagh to Savar had been accomplished in 2017 following a High Court Order in 2001. But, the relocation process has been a lengthy and complicated one as the tannery owners have missed deadlines after deadlines of relocation of their factories.

On April 8<sup>th</sup>, 2017, power, gas and other utility connections were cut off in the Hazaribagh tannery. As a result, a good number of factories had to stop production. Even one year after that, only 110 factories out of 155 factories could start production by July 2018.<sup>18</sup>

Figure 12: Timeline of Tannery Relocation from Hazaribagh to Savar



After the relocation, compliance issues have arisen as a result of non-functioning Central Effluent Treatment Plant (CETP). Most of the tanneries had the infrastructure ready to process raw hides, but could not start tanning because of the absence of a functioning CETP. The purpose of CETP is to treat liquid wastes before they flow into river. As it is not yet completed, the liquid wastes are polluting the nearby Dhaleshwari River. Along with it, construction process for dumping yard for solid wastes has not yet been started. The solid wastes are being dumped in open spaces and as a result, this is also causing environmental pollution.<sup>19</sup> Because of environmental non-compliance, the tannery industry of Bangladesh is losing international customers which were a major reason for the decline in export earnings.

<sup>18</sup> <https://www.bd-pratidin.com/last-page/2018/07/21/346857>

<sup>19</sup> <https://www.dhakatribune.com/business/2018/08/19/savar-leather-estate-rife-with-environmental-hazards>

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Even after one year of relocation, tanneries did not receive any land registration document and as a result, they could not get any loan as the land registration document is required to be used as collateral while obtaining loans. As a result of lack of financing option, most tanneries cannot start their full-fledged operation.<sup>9</sup>

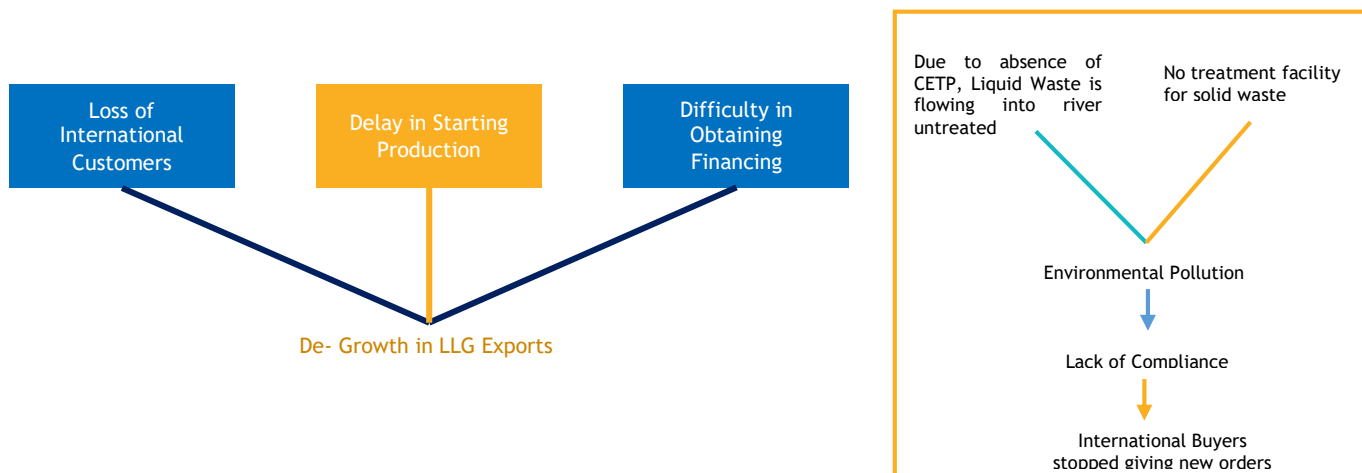


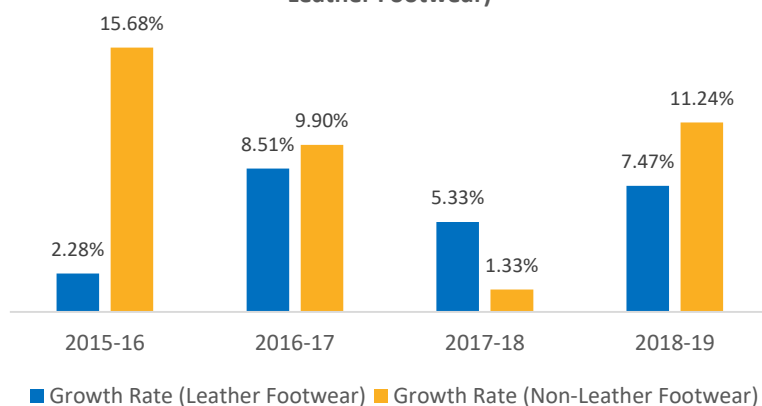
Figure 13: Reasons behind de-growth in LLG exports

Figure 14: Lack of compliance resulting in lost sales

Non-leather footwear export growth is showing promising trend in the recent years

While the leather footwear export has slowed down since 2014-15, non-leather footwear export is growing. In the last four years, leather footwear has grown at a rate of 5.87% while non-leather footwear has grown at 9.41%. In 2018-19, non-leather footwear has achieved 11.24% growth rate where leather footwear has achieved 7.47% growth rate. In 2018-19, Bangladesh exported \$271.53 million worth of non-leather footwear. Main export destinations of non-leather footwear are Spain, Belgium, France, Netherlands, South Korea, India, Italy, Germany,

Figure 15: Growth Rate (Leather Footwear vs Non-Leather Footwear)



Source: Export Promotion Bureau

Table 7: Non Leather Footwear Export in 2018-19 (In USD Million)

| Countries   | Non Leather Footwear Export (2018-19) |
|-------------|---------------------------------------|
| Spain       | 67.05                                 |
| Belgium     | 31.62                                 |
| France      | 28.35                                 |
| Netherlands | 20.01                                 |
| South Korea | 18.51                                 |
| India       | 14.45                                 |
| Italy       | 10.22                                 |
| Germany     | 10.00                                 |
| Poland      | 9.04                                  |
| Morocco     | 7.89                                  |

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Quality product, reasonable price and increased capacity owing to new investments are some of the reasons behind the growth of non-footwear leather exports. US-China trade war and rising production costs of China have also fueled the growth in recent times. Non-leather footwear accounts for 60% to 75% demand for shoes around the world. Cheaper price of synthetic/non-leather shoes is fueling the growth. The global synthetic leather market is expected to grow by 14.2% over the next decade and the market size is expected to be around \$195.27 billion by 2025. Lack of skilled manpower, high import duty, custom-related complexity are challenges in growing non-leather footwear export.

With the increasing popularity of non-leather footwear and decreasing popularity of leather footwear in the global market, we may see inverse growth trend in exports in these two sectors in the coming years.

### Outlook: Opportunities, Issues, Policy and Promise

#### **Opportunities exist in Global Leather and Footwear Market and in exploitation of finished leather.**

Australia Bangladesh Chamber of Commerce and Industry (ABCCI) has said in 11<sup>th</sup> March 2019, if Bangladesh can be compliant, then there is a huge market opportunity for Bangladesh in Australia. Australia had imported \$3.14 billion worth of leather, leather goods and footwear in 2017 alone where Bangladesh has exported only \$14.91 million worth of leather, leather goods and footwear to Australia from July-Dec 2018 period.<sup>20 21</sup>

In 2017, EU had imported \$236 billion worth leather, leather goods and footwear. China is a big leather supplier in EU but its competitive advantage is decreasing because of rising wages and domestic demands. As the manufacturing cost is increasing, European buyers are looking for low cost suppliers, where Bangladesh has competitive advantage.<sup>22</sup>

Trade War between US and China has resulted in US imposing 25% tariff on China's leather and leather goods. Bangladesh has the opportunity to exploit this trade war as ADB has projected Bangladesh could gain up to \$0.4 billion in exports from the trade war in different sectors such as RMG, Leather and Leather Goods.<sup>23</sup> Many companies are trying to relocate their sourcing from China and most of these companies are placing orders in Bangladesh and Vietnam. LLG export of Bangladesh in US has already increased by 34.10% in 2018-19. Two US brands have already expressed their intent to purchase from Apex Footwear as they are trying to relocate their sourcing from China.<sup>24</sup> Fortune Shoes has also signed a \$4 million export deal with Steven Madden (New York based shoe designer and marketer) which is scheduled to be shipped by October 2019.<sup>25</sup>

Tannery industry in Kanpur was shut down at the end of 2018 in a bid to reduce pollution in Ganga, which resulted in customers of Kanpur Tanneries procuring soft leather from Bangladesh. Kanpur used to supply \$2.9 billion worth of leather domestically and \$1.16 billion worth of leather internationally. This shift can positively impact Bangladesh's LLG export to India in the coming months.

Out of the total finished leather produced, only 30 percent had been used to generate the \$1.1 billion worth of export.<sup>26</sup> in 2017-18. Rest of the finished leather is exported mainly to China, with one square foot being sold at a price of \$0.60 where footwear prepared from 3 square foot of finished leather can be sold at \$5.00. Using the rest of the finished leather can result in exponential growth in export value in LLG for Bangladesh.

<sup>20</sup><https://www.dhakatribune.com/business/2019/03/11/abcci-australia-a-huge-market-for-bangladeshi-leather-goods>

<sup>21</sup><https://globaleedge.msu.edu/countries/australia/tradestats>

<sup>22</sup><https://www.thedailystar.net/business/huge-market-europe-bangladeshi-leather-goods-1565959>

<sup>23</sup><http://businessnews24bd.com/bangladesh-stands-to-gain-from-us-china-trade-conflict-adb-chief-economist/>

<sup>24</sup><https://www.dhakatribune.com/business/economy/2019/07/13/bangladesh-looking-to-make-the-most-of-us-china-trade-war>

<sup>25</sup><https://thefinancialexpress.com.bd/stock/bangladesh/fortune-signs-export-deal-with-steve-madden-1563769959>

<sup>26</sup><https://www.thedailystar.net/business/news/exploit-finished-leather-treble-export-earnings-1664701>

## Bangladesh Tannery & Footwear Industry Review

### ***Non Compliance issues need to be solved to end the downturn in LLG export.***

Tannery factories have been transferred from Hazaribagh to Savar in a bid to increase environmental compliance. But, the CETP has not yet started its full-fledged operation and as a result, global compliance standards have not been achieved. Solid wastes are also being dumped in open space which also adds up to the non-compliance issue.

In October 2018, 58 global investors have expressed concern regarding labor and human rights and environmental practices in Bangladesh Leather sector.<sup>27</sup> To exploit the export opportunities in the global market, compliance must be achieved as soon as possible, as many international buyers have already stopped buying because of non-compliance issues in the Savar leather industrial park. The new deadline for the completion of the construction of the CETP is December 2019.<sup>28</sup> Completion of the construction will contribute a great deal in achieving compliance.

### ***Establishment of more modern slaughterhouses like the Chittagong's one can improve the quality of rawhide resulting in increased value of finished leather exports.***

ECNEC (Executive Committee of the National Economic Council) has approved a BDT 80 Crore project of establishing five-story modern slaughterhouse over 88 decimal land in Chittagong. In this facility, 100 cattle could be slaughtered at a time.<sup>29</sup> Establishment of more slaughterhouses like this across this country can play a crucial role in increasing exports.

### ***Govt. promised 2 new industrial leather parks and newly drafted leather policy can boost Bangladesh LLG export to achieve the expected growth.***

Prime minister has promised to establish 2 new leather industrial parks in Chittagong and Rajshahi. This will improve overall production capacity.<sup>30</sup>

Draft of 'Leather and Leather Products Development Policy 2019' has been finalized in February, 2019.<sup>31</sup> The policy was approved on August, 2019. In this policy, emphasis has been given on implementation of labor laws and safety standards, compliance with environmental laws, establishment of modern slaughtering house, showcasing of leather and leather products to attract foreign investors, getting cash incentives and other facilities etc. 17 types of incentives were approved in this policy to achieve \$5 Billion export by 2024. One of the incentives are to provide low cost loans to the investors who adopts green technology. Environmentally friendly industries will also be given cash incentives according to this policy.<sup>32</sup> Given the proper implementation of the policies, Bangladesh will be able to regain the trust of international buyers and will be able to achieve accelerated growth in LLG export.

### ***LLG export may witness de-growth in the next fiscal year but can start showing positive growth after that.***

Leather and leather products exports are not likely to show any positive growth trend in 2019-20. However, leather footwear exports are likely to continue its positive growth trend by mainly riding the trend of increased leather footwear exports in United States. Given the proper functioning of CETP, swift implementation of "Leather and Leather Products Development Policy 2019" and exploration of more export destination, Leather and Leather products exports can start seeing positive growth trends in two to three years' time.

<sup>27</sup> <http://www.newagebd.net/article/54425/58-global-investors-express-concern-over-bangladesh-leather-sector>

<sup>28</sup> <https://www.thedailystar.net/business/news/leather-sectors-woes-not-ending-soon-1791220>

<sup>29</sup> <https://www.dhakatribune.com/bangladesh/nation/2019/04/04/chittagong-to-get-its-first-modern-slaughterhouse>

<sup>30</sup> <https://www.thedailystar.net/is-polls-2018/two-more-leather-industrial-parks-if-al-re-elected-next-bangladesh-national-election-2018-1663693>

<sup>31</sup> <http://www.newagebd.net/article/65739/draft-leather-policy-eyes-5b-annual-export-by-2021>

<sup>32</sup> <https://www.thedailystar.net/business/news/more-incentives-leather-exporters-1791172>

## Bangladesh Tannery &amp; Footwear Industry Review

## COMPARATIVE OVERVIEW OF LISTED TANNERY COMPANIES

| Company Fundamentals       | APEXFOOT | APEXTANRY | BATASHOE | FORTUNE | LEGACYFOOT   |
|----------------------------|----------|-----------|----------|---------|--------------|
| Market Cap (BDT mn)        | 3,031    | 1,836     | 13,043   | 4,710   | 1,617        |
| Market Weight              | 0.08%    | 0.05%     | 0.35%    | 0.13%   | 0.04%        |
| Free-float (Public+ Inst.) | 74.52%   | 56.95%    | 28.29%   | 69.07%  | 70.00%       |
| No of Shares (mn)          | 11.25    | 15.24     | 13.68    | 124.94  | 13.08        |
| 52-week Low                | 263.0    | 120.0     | 936.0    | 27.9    | 91.1         |
| 52-week High               | 320.0    | 158.6     | 1287.0   | 42.8    | 273.7        |
| Last Declared Dividend     | 55% C    | 40% C     | 345% C   | 15% B   | 5% C & 15% B |

| Ticker                     | Close Price | EPS            |         |         | NAVPS  | Shareholding Structure |             |         |        | Paid Up<br>(In BDT mn) |
|----------------------------|-------------|----------------|---------|---------|--------|------------------------|-------------|---------|--------|------------------------|
|                            | 12-Sep-19   | 2018-19<br>An. | 2017-18 | 2016-17 |        | Sponsor                | Institution | Foreign | Public |                        |
| <a href="#">APEXFOOT</a>   | 270.2       | 11.11          | 11.54   | 7.21    | 247.25 | 25.48%                 | 33.40%      | 0.00%   | 41.12% | 112.5                  |
| <a href="#">APEXTANRY</a>  | 122.8       | 1.41           | 2.53    | 2.95    | 69.21  | 41.94%                 | 22.38%      | 0.00%   | 35.58% | 152.4                  |
| <a href="#">BATASHOE</a>   | 954.1       | 41.00          | 72.79   | 82.34   | 357.11 | 70.00%                 | 19.36%      | 1.84%   | 8.80%  | 136.8                  |
| <a href="#">FORTUNE</a>    | 39.2        | 2.23           | 1.86    | 1.8     | 15.22  | 30.93%                 | 10.66%      | 0.00%   | 58.41% | 1249.4                 |
| <a href="#">LEGACYFOOT</a> | 132.6       | 6.60           | 2.01    | 1.01    | 19.29  | 30.00%                 | 7.16%       | 0.00%   | 62.84% | 130.8                  |

| Financial Information (BDT mn) | APEXFOOT | APEXTANRY | BATASHOE | FORTUNE | LEGACYFOOT |
|--------------------------------|----------|-----------|----------|---------|------------|
| Sales                          | 15948    | 2414      | 9521     | 1378    | 151        |
| Gross Profit                   | 3333     | 318       | 4206     | 274     | 58         |
| Operating Profit               | 862      | 113       | 1463     | 231     | 29         |
| Profit After Tax               | 130      | 39        | 994      | 202     | 23         |
| Total Assets                   | 15041    | 2473      | 8797     | 1854    | 457        |
| Total Debt (LTD+STD)           | 9951     | 1005      | -        | 26      | 218        |
| Equity                         | 2750     | 1101      | 4748     | 1693    | 200        |
| Retained Earnings              | 1498     | 447       | 4501     | 607     | 12         |
| Cash                           | 111      | 73        | 803      | 8       | 22         |
| <b>Margin:</b>                 |          |           |          |         |            |
| Gross Profit                   | 20.90%   | 13.19%    | 44.18%   | 19.91%  | 38.14%     |
| Operating Profit               | 5.40%    | 4.66%     | 15.37%   | 16.78%  | 18.91%     |
| Pre Tax Profit                 | 1.53%    | 2.57%     | 16.68%   | 16.75%  | 18.01%     |
| Net Profit                     | 0.81%    | 1.60%     | 10.44%   | 14.66%  | 15.20%     |
| <b>Growth:</b>                 |          |           |          |         |            |
| Sales                          | 12.23%   | 23.68%    | 5.32%    | -3.50%  | 48.96%     |
| Gross Profit                   | 17.67%   | 22.19%    | 3.94%    | -3.54%  | 50.28%     |
| Operating Profit               | 17.33%   | 9.91%     | -11.66%  | 2.08%   | 113.76%    |
| Net Profit                     | 60.02%   | -14.28%   | -13.21%  | 8.20%   | 89.99%     |
| <b>Profitability:</b>          |          |           |          |         |            |
| Return on Asset                | 0.90%    | 1.59%     | 12.02%   | 11.50%  | 5.34%      |
| Return on Equity               | 4.79%    | 3.47%     | 22.17%   | 12.74%  | 12.17%     |
| <b>Leverage:</b>               |          |           |          |         |            |
| Debt Ratio                     | 0.66     | 0.41      | 0.00     | 0.01    | 0.48       |
| Debt-Equity                    | 3.62     | 0.91      | 0.00     | 0.02    | 1.09       |
| Altman-Z Score                 | 1.54     | 2.30      | 5.50     | 20.40   | 4.34       |
| <b>Valuation:</b>              |          |           |          |         |            |
| Price/Earnings                 | 23.88    | 54.39     | 14.02    | 20.97   | 52.84      |
| Price/BV                       | 1.13     | 1.90      | 2.94     | 2.50    | 5.60       |
| Price/Sales                    | 0.19     | 0.87      | 1.47     | 3.53    | 9.21       |
| EV/EBITDA                      | 10.02    | 8.13      | 8.74     | 17.34   | 48.52      |
| EV/Sales                       | 0.83     | 0.90      | 1.58     | 3.56    | 10.81      |

\*All the Financial Information are from the latest audited financial statements of the respective companies

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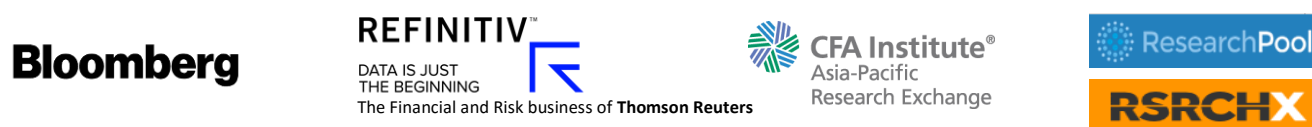
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