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INDUSTRY OUTLOOK

STEPPING INTO THE FUTURE: GROWTH OUTLOOK OF THE INDIAN FOOTWEAR INDUSTRY

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Introduction

The footwear industry is one of India's most important fashion segments in the retail industry, second only to apparel. India is the world's second-largest producer and consumer of footwear after China. India contributes 10.7 per cent to global footwear production and consumes 11.7 per cent of global footwear consumption. The industry includes leather, footwear, and accessories, and it contributes 2 per cent to the national GDP .

The Indian footwear market is expected to generate revenue of USD 24.86 billion by 2023, with a 4.84 per cent annual growth rate (CAGR 2023-2028). The market's biggest segment is leather footwear, which is estimated to be worth USD 17.28 billion in 2023. In contrast, the US is predicted to have the highest global revenue in the footwear market, amounting to USD 88.47 billion in 2023. The per capita revenue of the Indian footwear industry is projected to be USD 17.51 in 2023. Further, the volume of the Indian footwear market is predicted to increase to 2,226.00 million pairs by 2028, with a growth rate of 0.4 per cent in 2024. The average volume of footwear per person in India is expected to be 1.52 pairs in 2023. By the end of 2023, it is anticipated that non-luxury footwear will account for 98 per cent of the total sales in the market .



Status of Global Footwear Industry

The size of the global footwear market reached USD 234.5 billion in 2022 and is projected to grow at a CAGR of 3.9 per cent during 2023-2028¹. The market is being driven by the changing fashion trends and increasing demand for comfortable and stylish footwear with superior quality. The global footwear market was hit hard by supply chain constraints and rising prices, resulting in weaker-than-expected sales in Q3 and Q4 of 2022. According to a recent survey by AlixPartners, inflation-related concerns caused 43 per cent of women and 30 per cent of men to deprioritize footwear purchases. The survey also indicated that the price is now a top priority for most consumers, with 60 per cent willing to switch brands and 80 per cent willing to switch retailers to save money. While 77 per cent of people prefer to shop for shoes in-store, 56 per cent reported buying shoes online - a significant 20 per cent increase from last year².

The global footwear market is segmented into non-athletic footwear and athletic footwear, with non-athletic footwear holding the largest market share.

Structure of Footwear Industry in India

The footwear industry in India is structured as follows:

- i. **Manufacturers:** This includes large-scale manufacturers who produce footwear in bulk quantities using machines and other modern production techniques. There are also small-scale manufacturers who produce footwear on a smaller scale and may rely on manual labour.
- ii. **Suppliers:** This includes suppliers of raw materials, such as, leather, rubber, plastic, and textiles used in the production of footwear.
- iii. **Retailers:** This includes brick-and-mortar stores, online retailers, and distributors who sell footwear to end customers.
- iv. **Exporters:** India is a major exporter of footwear to countries around the world. Exporters source footwear from manufacturers and sell them in international markets.
- v. **Support services:** This includes service providers, such as, designers, logistics and transportation companies, and marketing agencies, who support the footwear industry with their expertise and services.

The footwear industry in India is a major contributor to the country's economy and provides employment to millions of people. The industry is constantly evolving with new trends, styles, and technologies, making it an exciting and dynamic sector to be a part of.

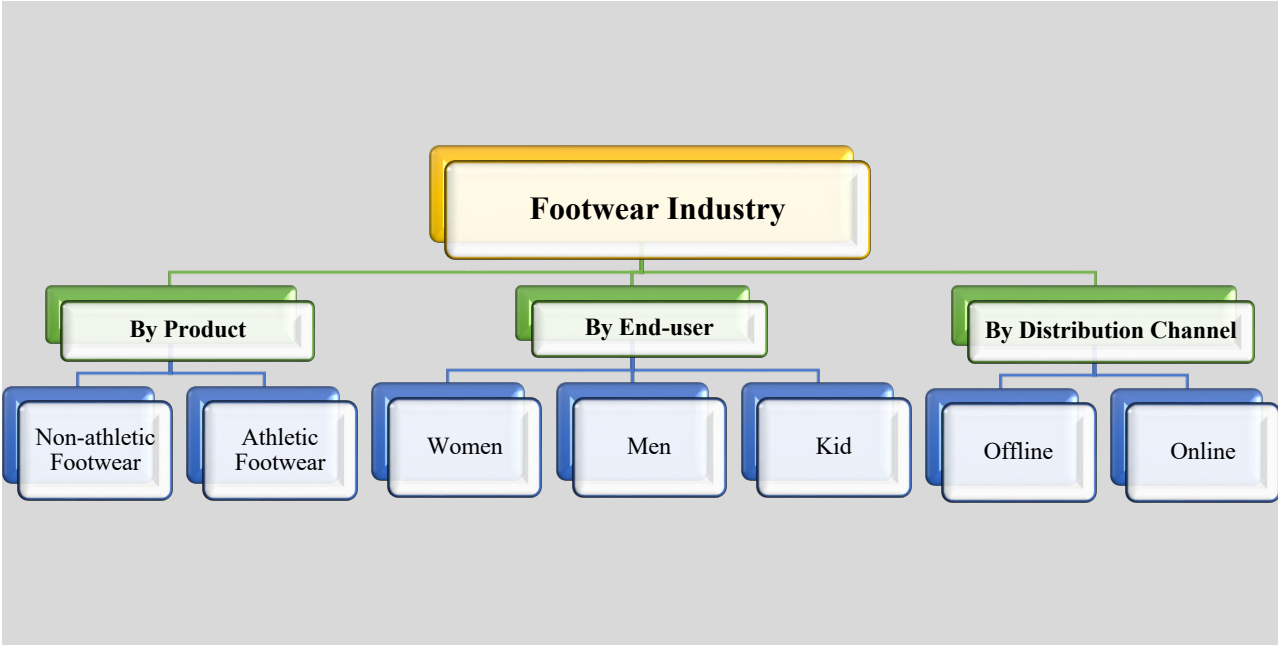
The footwear industry in India can be divided into two main segments based on production and consumption:

Production segment: The production segment of the industry includes the manufacturing and production of footwear, leather, and accessories. The footwear production segment in India is largely unorganized, with many small-scale producers, but there are also some major players in the organized sector.

Consumption segment: The consumption segment of the industry includes the buying and selling of footwear, which can be classified into various categories based on usage, such as athletic, casual, formal, and city footwear. This segment caters to all age groups, from children to adults.

The Indian footwear industry can be segmented into product, end-user, and distribution channel categories in the following way (see Chart 1).

**Chart 1: Classification of Indian footwear industry
(Based on by product end user, and distribution channel)**



Source: IMARC Group

One important point to note is that the Indian footwear market does not include shoes meant for work and safety purposes. With the advent and widespread use of technology in every sphere of human existence, a new evolution in consumer behaviour can be observed. Consumable items related to humans are just a click away now. This has significantly impacted traditional retail settings, which have been in place for a long time. Similarly, the Indian footwear market is undergoing a tremendous transformation due to a significant shift in consumer purchasing behaviour in the last few decades. The presence of online and e-commerce stores has had an adverse impact on traditional retail stores.

Footwear Production in India

In January 2023, footwear production decreased by 2.6 per cent compared to January 2022. The total number of pairs produced was 17,432.7 thousand. In February 2023, production fell by 5 per cent compared to February of the previous year, with 17,172.3 thousand pairs produced during the month. Cumulative production during April-February 2023 fell by 10.5 per cent to 178,216.1 thousand pairs. The cumulative change in the production figures of footwear production from April to February in the last five financial years can be summed up as follows (see Table 1):

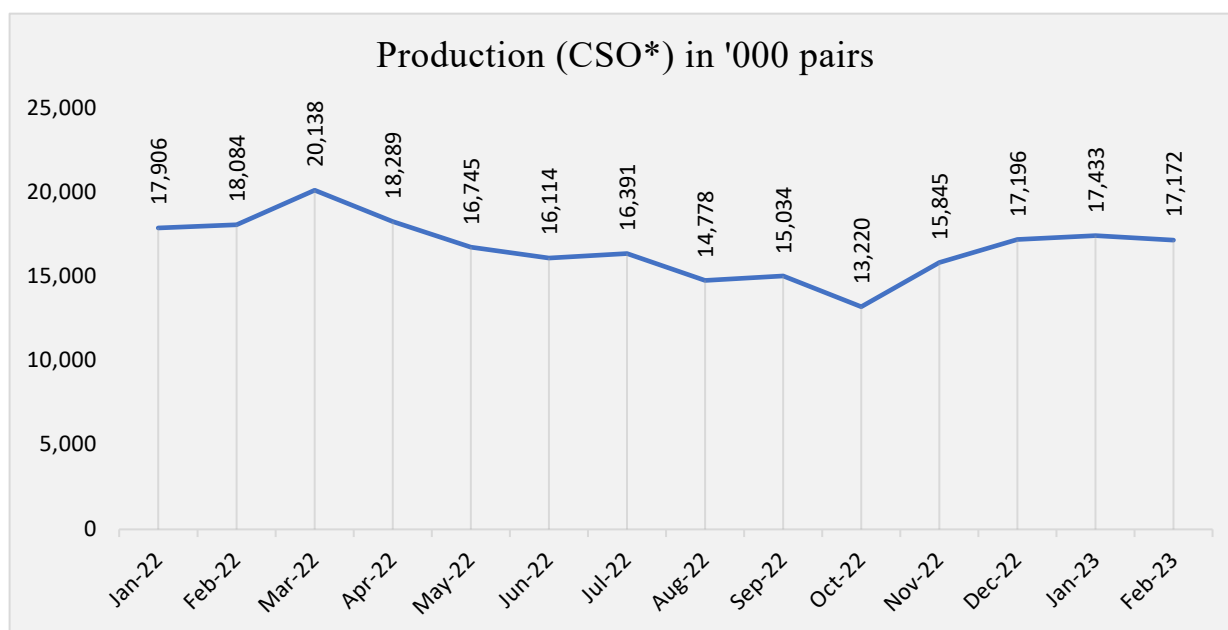
Table 1: Cumulative Change in Production of Footwear in India in the last Five Years (Apr-Feb)

Cumulative Change in Production of Footwear (April-February)	
2018-19	1.53%
2019-20	-2.38%
2020-21	-12.1%
2021-22	-6.8%
2022-23	-10.52%

Source: CMIE, Infomerics Economic Research

During the entire financial year of 2022-23 (until February 2023), the monthly production of footwear consistently fell below the production levels (except May 2022 with an increase of 36.6 per cent) of the corresponding months in the previous financial year of 2021-22 (y-o-y) (see Chart 2).

Chart 2: Monthly Production of Footwear in India during 2022-23

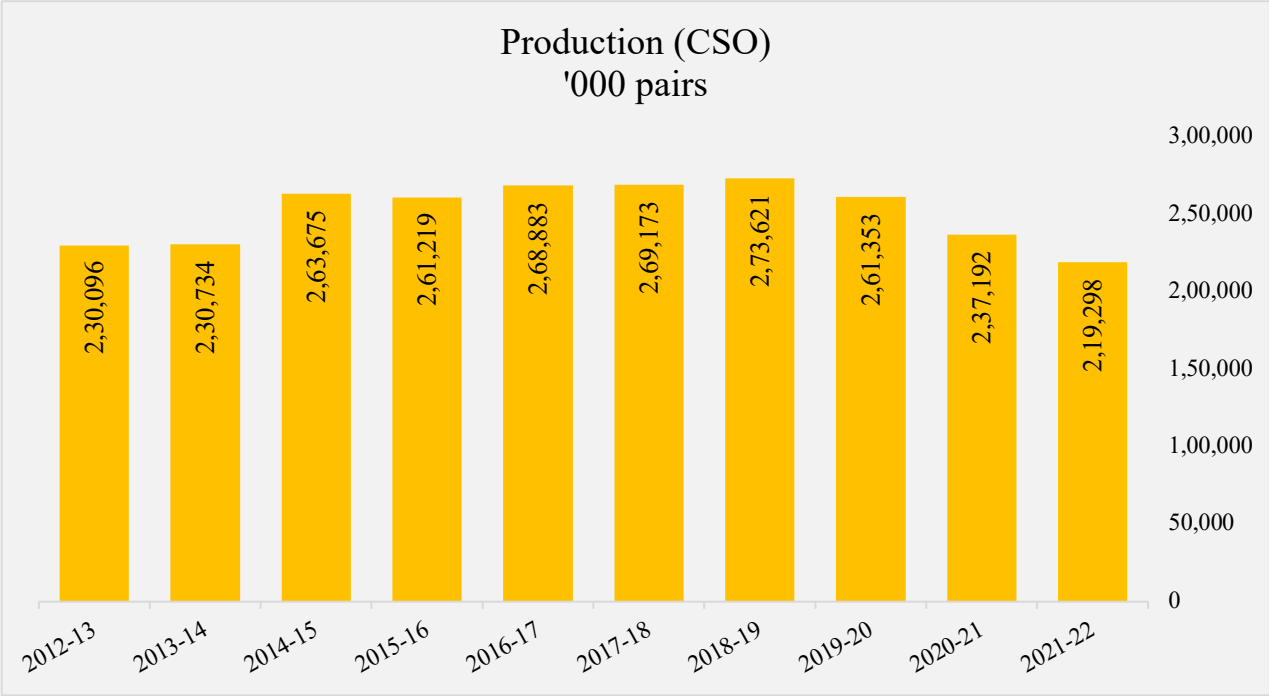


*Central Statistical Office, GoI

Source: CMIE, Infomerics Economic Research

Initially, the disruptions caused by the Covid-19 outbreak had a major impact on global and national production systems, as well as trade. There was a lower availability of raw materials for further production, coupled with stringent restrictions on mobility and the shutdown of marketplaces, which drastically reduced the demand for footwear products. In terms of volume, the growth in footwear production was reported to be negative in consecutive three financial years e.g., FY21, FY22, and FY23 (see Chart 3).

Chart 3: Footwear Production in India from 2012-13 to 2021-22

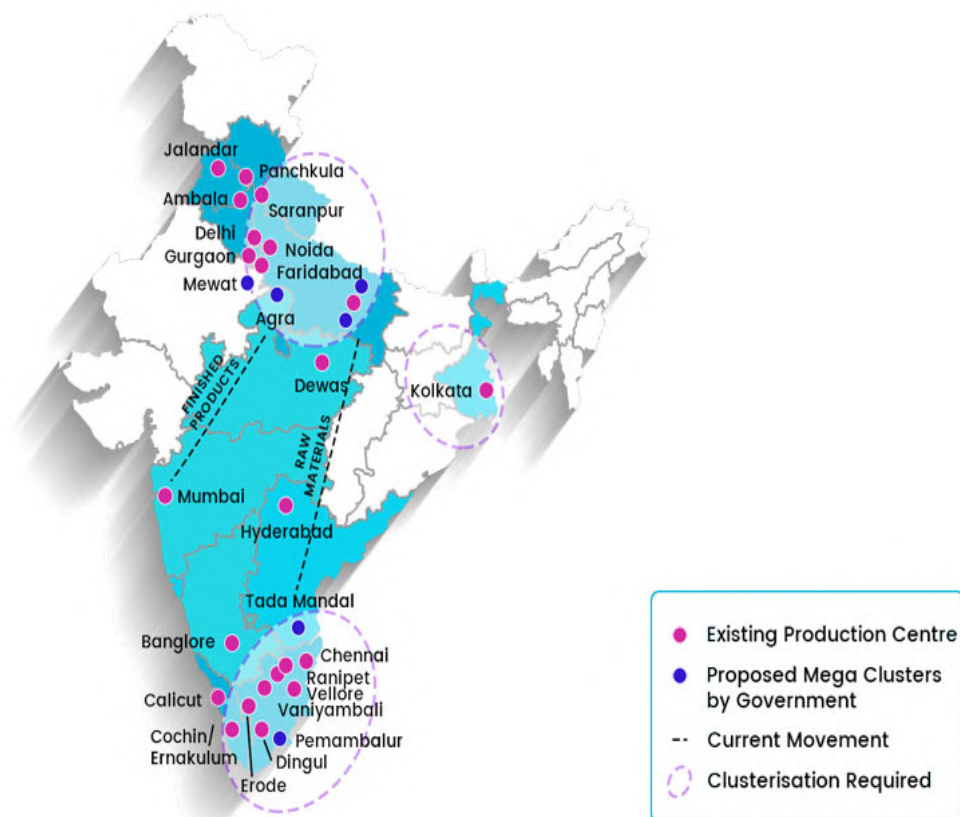


Source: CMIE, Infomerics Economic Research

One of the reasons for the downside risks facing the footwear industry may be the hike in the Goods and Services Tax (GST) rate last year. Effective from January 1, 2022, the Goods and Services Tax (GST) rate on footwear priced below ₹1,000 has been raised from 5 per cent to 12 per cent, while the rate for footwear costing above ₹1,000 has been rationalised to 12 per cent, down from 18 per cent. Industry stakeholders such as the Confederation of All India Traders (CAIT) and the Indian Footwear Association (IFA) had raised concerns and urged the government to roll back the GST on footwear to 5 per cent from 12 per cent. According to a report by Moneycontrol, 85 per cent of consumers use footwear priced less than ₹1,000, and any increase in the GST rate will directly impact them³.

The primary locations for footwear production in India include Chennai, Ranipet, Ambur, Mumbai, Kanpur, Jalandhar, Agra, Delhi, Karnal, Ludhiana, Sonapat, Faridabad, Pune, Kolkata, Calicut, and Ernakulam (See Map 1). Approximately 1.10 million people are employed in this industry⁴.

Map 1: Footwear Production Clusters in India



Source: FDI India

Trade Position of the Indian Footwear Industry

India exports various types of footwear such as Dress Shoes, Casuals, Moccasins, Sport Shoes, Horrachies, Sandals, Ballerinas, Boots, Sandals, and Chappals that are made using materials like rubber, plastic, P.V.C., and other substances.

Export

The footwear exports in FY2022 and FY2023 have improved, with the US, the UK, and Germany emerging as major export destinations. However, India remains a marginal player with only approximately 1 per cent share in global trade.

The table given below provides information on the export of footwear from India in terms of value in USD million for each month from April 2022 to February 2023, as well as the total export value for the entire period (see Table 2).

Table 2: Monthly Comparison of Footwear* Exports from India*(in USD Million)*

Month/Year	2022-23: Value	2021-22: Value	Y-o-Y Growth	2022-23 Cumulative Value	2021-22 Cumulative value	Cumulative Y-o-Y Growth
April, 2022	239.36	164.42	45.58%	239.36	164.42	45.58%
May, 2022	248.66	144.16	72.49%	488.03	308.58	58.15%
June, 2022	272.06	187.81	44.85%	760.09	496.39	53.12%
July, 2022	297.70	214.97	38.48%	1,057.79	711.37	48.70%
August, 2022	267.28	221.49	20.68%	1,325.07	932.86	42.04%
September, 2022	257.93	208.86	23.50%	1,583.00	1,141.71	38.65%
October, 2022	217.44	197.99	9.83%	1,800.44	1,339.70	34.39%
November, 2022	232.90	194.20	19.93%	2,033.34	1,533.90	32.56%
December, 2022	248.65	236.57	5.11%	2,281.99	1,770.47	28.89%
January, 2023	243.31	241.00	0.95%	2,525.30	2,011.47	25.54%
February, 2023	215.58	242.30	-11.03%	2,740.87	2,253.77	21.61%
Total	2740.87	2253.77	21.61%			

*Footwear includes Footwear of Rubber/Canvas + Leather Footwear Components + Footwear of Leather

Source: Ministry of Commerce and Industry, GoI

The data shows a consistent increase in the export value of footwear from India during the FY 2022-23, with the total export value for the year being USD 2740.87 million, compared to USD 2253.77 million in the previous year. However, the export value of footwear in February 2023 decreased by 11.03 per cent compared to the same month in the previous year. Overall, the data indicates that the export of footwear from India is experiencing positive growth, with some fluctuations in certain months.

The USA is a top destination for India's footwear exports (USD 584 million) followed by UAE (USD 75 million), Netherland (USD 104 million)⁵. According to a government report, Tamil Nadu produced 45 per cent of India's footwear exports over the past five years with several brands, including Giorgio Armani and Gucci.

Import

The footwear import has increased significantly in the current year compared to the previous year. The y-o-y growth rate ranges from 5.99 per cent to 167.80 per cent, with an average of 49.39 per cent. The highest growth rate was observed in August 2022, while the lowest growth rate was seen in February 2023. Overall, the total import value for the period has increased by 49.39 per cent compared to the previous year (see Table 3).

Table 3: Monthly Comparison of Footwear* Imports by India

(in USD Million)

Month/Year	2022-23: Value	2021-22: Value	YoY Growth	2022-23: Cumulative Value	2021-22: Cumulative Value	Cumulative Y-o-Y Growth
April, 2022	60.46	40.87	47.95%	60.46	40.87	47.95%
May, 2022	63.80	47.89	33.22%	124.26	88.75	40.00%
June, 2022	84.86	70.35	20.63%	209.12	159.10	31.44%
July, 2022	85.31	51.99	64.11%	294.43	211.09	39.48%
August, 2022	100.45	37.51	167.80%	394.89	248.60	58.84%
September, 2022	89.76	47.76	87.96%	484.65	296.36	63.54%
October, 2022	75.51	46.58	62.10%	560.16	342.94	63.34%
November, 2022	68.53	46.90	46.14%	628.69	389.84	61.27%
December, 2022	79.35	56.82	39.65%	708.04	446.66	58.52%
January, 2023	80.22	61.72	29.97%	788.26	508.38	55.05%
February, 2023	70.30	66.33	5.99%	858.56	574.71	49.39%
Total	858.56	574.71	49.39%			

*Footwear includes Footwear of Rubber/Canvas + Leather Footwear Components + Footwear of Leather.

Source: Ministry of Commerce and Industry, GoI

India's footwear market has been experiencing healthy demand, with an increase in footfalls and an uptick in discretionary spends by consumers during festive seasons in 2022. As a result, the cumulative value of footwear imports steadily rose from April 2022 to February 2023, reaching a total of USD 858.56 million. Looking ahead, it is expected that the demand for footwear will continue to grow slightly in the current fiscal year on top of the increased levels of the last fiscal year.

China, Vietnam, Indonesia, and Bangladesh are the major sources of footwear imports for India, with China being the largest supplier, accounting for 38.2 per cent of India's imports. Vietnam has also witnessed a significant rise in its share of Indian footwear imports, from USD 76.6 million in 2017 to USD 267.3 million in 2022⁶.

Investments

The Footwear sector is now de-licensed and de-reserved, paving the way for expansion of capacities on modern lines with state-of-the-art machinery. To further assist this process, the Government has permitted 100 per cent Foreign Direct Investment through the automatic route for the footwear sector⁷.

Recently, High Glory Footwear, a subsidiary of Taiwan's Pou Chen Group has signed a 'structured package agreement' with the State Government of Tamil Nadu. The signed agreement is about an investment commitment of ₹ 2,302 crores by the Pou Chen Group for setting up a manufacturing plant in the state⁸. Operating in more than five countries with more than three lakh employees, the Pou Chen Corporation is the largest manufacturer of branded footwear in the world. It manufactures for footwear brands like Nike, Adidas, Reebok, and Asics. In 2022, it manufactured 272.7 million pairs for dozens of international footwear brands.

The sources from the Tamil Nadu's nodal agency for investment promotion and single window facilitation has revealed that the partnership with Pou Chen Corporation will generate employment opportunities for more than 20,000 people over the course of 12 years in the non-leather footwear sector, especially for the youth and women in and around the Kallakurichi District in the state⁹. Earlier, another Taiwanese company, Hong Fu Group, signed a deal almost a year ago to invest ₹10 billion to produce footwear in the southern state.

The Indian footwear industry witnessed a significant increase in the number of projects under implementation and outstanding from 2018-19 to 2022-23. This indicates that there has been a surge in investment in projects, which is likely to have a positive impact both on the footwear industry and the Indian economy (see Table 4).

Table 4: Investment Trends in Indian Footwear Industry in the last 5 years

Year	Projects under implementation		Projects outstanding	
	Cost ₹ Million	Project Count	Cost ₹ Million	Project Count
2018-19	250	1	852.8	3
2019-20	1,213.20	2	1,463.20	3
2020-21	1,813.20	2	5,313.20	3
2021-22	313.2	1	24,113.20	9
2022-23	20,313.20	4	80,402.50	16

Source: CMIE, Infometrics Economic Research

The increasing trend in the project costs under implementation and outstanding is quite remarkable for the growth of the footwear industry. With a large number of projects in the pipeline, the prospects of the footwear industry look bright, and it is expected to attract more investors to India.

Industry Risks and Challenges

The Indian footwear industry's growth is being affected by a decline in demand for its products due to a slowdown in the US and Europe. This is an issue of concern because these two regions are significant export destinations for Indian footwear products, making them vital to the industry's success.

According to data from the Ministry of Commerce and Industry as covered above, India's imports of footwear increased by 49.39 per cent y-o-y bases in FY2022-23 compared to FY2021-22. China, Vietnam, and Bangladesh were among the top three countries exporting footwear to India. These countries' ability to offer products at lower prices intensified competition for the Indian manufacturers, exacerbating pressure on the domestic industry.

One of the risks always remained with the footwear industry is the changing consumer preferences. With changing fashion trends and consumer preferences, there is a constant need for innovation and design in the footwear industry, which can be a challenge for footwear manufacturing firms to keep up with.

Operational hazard is one of the big concerns associated with the shoemaking process. Various organic solvents are found in footwear chemicals: glues, primers, cleaning agents. The shoemaking firms do not equip the worker with adequate worker protection, when handling such hazardous glues, primers, degreasers, and cleaners.

Institutional Initiatives

The Union Minister of Commerce and Industry, Consumer Affairs, Food & Public Distribution, and Textiles, Piyush Goyal urged industrialists engaged in manufacturing of sports shoes in India to focus on quality and reduce import dependence to capture a larger share in the international market. Quality Control Orders (QCO) for leather and non-leather footwear will be implemented from 1 July 2023, and BIS standards need to be followed for better quality and larger production. The government is open to taking action if industry stakeholders provide substantial facts/data regarding under invoicing and under valuing of imports. Also, the government is reluctant to address the need for high quality production for large capacities, improving business practices, reducing dependence on low-quality raw materials, encouraging domestic machinery manufacturers, supporting the creation of Common Facility Centres, and studying international best practices of quality¹⁰.

A Road Ahead

The Indian footwear industry has displayed resilience after the pandemic-led shocks and has been exhibiting healthy growth in recent years. This growth is expected to continue driven by higher disposable income across geographies and segments, the increasing ascendancy of the middle class and the demand for new and comfortable footwear, especially among women, and the constantly changing fashion trends. Additionally, the launch of therapeutic footwear that provides comfort to the feet is expected to offer profitable growth opportunities for the market in the future.

However, India's footwear and leather exports are vulnerable to the anticipated slowdown in advanced economies, especially the US and the eurozone, which are significant export destinations for India. The expected decline in these regions' economies would result in constricted demand for Indian exports.

The textile, footwear, and leather sectors in India are labour-intensive and rely heavily on these two regions, making them more susceptible to a slowdown in these economies.

The government must be cautious about increasing the GST rate further on footwear as it could negatively impact consumer sentiment and result in financial difficulties for the Micro, Small, and Medium Enterprises (MSMEs) that play a significant role in the footwear industry.

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