

Leather companies ratio analysis essay sample



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Leather is a durable and flexible material created by the tanning of animal rawhide and skin, often cattle hide. It can be produced through manufacturing processes ranging from cottage industry to heavy industry. The paper is an interpretation of the three companies we have chosen, Bata Leather, Apex Tannary Limited and Samanta Leather Limited and comparison within its own years (2009, 2010, 2011) and also with one another.

By the end of the analysis we were able to conclude that the overall performance of all the three companies amongst the three years was best in 2010 where the sales were highest and so were its net profit margins, return on investment and return on equity. However, there was a noticeable increase in the inventories in the same year which means that there could have been an external cause related to it. Also Bata Leather Company had an overall better performance in 2011 than did the other two.

We provided ratio analysis, information, interpretation of ratio analysis, reasons behind the results of the interpretation, necessary charts, graphs, background of leather companies in Bangladesh, recent conditions and financial information regarding shareholders' condition in those companies. We tried to concise the whole analysis within certain boundaries as instructed. Outside the page limit we provided appendices for brief explanation and citation. Background of Leather Industries: Leather making and hide curing have gone from ancient practice to booming business.

Tanneries and modern techniques like fat liquoring have aided in the transformation. In the case of leather tanning, though, these compounds (for

the most part found in wax or soap) were applied liberally to animal hides to make them stronger, more flexible, and more durable. According to the Tanners Council of America's "The Romance of Leather," published in 1937, "today more than ever before fine quality leather begins to take shape from the moment the animal is born." Evidently, everything right up to the slaughter is carefully calculated, from physical environment to quality of diet.

Even after the slaughter, an unsteady hand or dull blade can determine whether leather becomes a fine couch or a cheap belt. Further, according to the Leather Research Institute on-line, there are approximately 20 established steps in creating leather for commercial consumption, which include, "soaking, pickling, unhearing, buffing, conditioning, and (the rather ominous-sounding) fleshing. Nevertheless, tannins have played a crucial role in the development of hide tanning, and the leather industry has no doubt reaped benefit from this discovery. World Market & Production of Leather Industries:

In the overall food chain, the positive economic importance of the industry taking care of one of its major waste products should not be underestimated or marginalized. As the tanning industry is sometimes criticized on environmental grounds, ponder the alternative hazard of millions of dumped, putrefying hides and skins. Whoever it was who first thought of preserving hides and skins did mankind a tremendous service. The leather industry in total produces about 18 billion square feet of leather a year, and the total value of this is estimated at about \$40 billion.

If the by-product of the meat industry, hides and skins, was not used to produce this quantity of leather, then, for example, shoes and upholstery would be manufactured from alternative, non-renewable raw materials such as plastics and other petrochemical based products. Developing countries now produce over 60% of the world's leather, and this proportion is growing. About 65% of the world production of leather is estimated to go into leather footwear and the global production of footwear is estimated at around 11 billion pairs (worth an estimated \$150 billion at wholesale prices).

The value of leather products at retail level would be commensurately higher - and the value of products containing leather, if one counts automobiles and aircraft, would be substantially greater than a straight proportion of the footwear value. The value of leather produced for the automotive industry has been calculated at \$1, 350 million internationally. Trade and employment The number of people employed in the tanning industry worldwide is estimated at well over 500, 000 and the numbers employed in downstream manufacturing sectors would increase this number substantially.

The leather industry is very much an international industry - with raw hides and skins, part processed leather, finished leather, leather components and leather products widely imported and exported. FAO quote figures which demonstrate how important the leather sector is in international trade terms - much bigger than meat and other commonly recognized commodities.

Leather Industry in Bangladesh: Leather Industry developed in Bangladesh on a large-scale basis from the 1970s.

About 95% of leather and leather products of Bangladesh are marketed abroad, mostly in the form of crushed leather, finished leather, leather garments, and footwear. Most leather and leather goods go to Germany, Italy, France, Netherlands, Spain, Russia, Brazil, Japan, China, Singapore and Taiwan. Value addition in these exports averages 85% local and 15% foreign. About 100 modern tannery units are now in operation in the industry. These are located mostly in the Hazaribagh area of Dhaka city. In 1998, the sector exported 178 million sq ft of leather and earned \$160 million.

The country's share in the world leather market is 2%. The export of finished products such as shoes, slippers, leather jackets, hand gloves, bags, purses, wallets, and belts also earn a sizeable amount of foreign exchange.

Bangladesh intends to increase its range of leather products to penetrate new market segments. The country is endowed with luxurious vegetation encouraging a large livestock population. The quality of the raw hide and skin is relatively good, as barbed wire fencing that damage the skins of animals is not used in the natural farms and fields.

Black goatskin of Kushtia is particularly noted for its fine grain structure and tensile strength. The tradition of humane care of domestic animals also contributes significantly to keeping the leather quality high. About 40% of the supply of hide and skin comes from animals slaughtered during the annual Muslim festival of Eid-ul-Azha. In addition to daily consumption of meat, festivals, Muslim weddings, and other celebrations yield a substantial supply of hide and skin. The tanning industry got a big boost following the government decision to promote more value addition in exports.

The installed capacity for crust leather production increased. At present, it is double the domestic supply of raw hide and skin. Investments are also made in installing new finishing capacity. The trends encourage more tanneries to produce finished leather on a commercial basis. The government of Bangladesh provides a support to the leather industry through various steps, including monitoring the export market, evaluating the performance of the sector by a permanent parliamentary committee, and liberal bank credit.

During the 1990s, the export market for Bangladeshi leather grew at an average of 10 – 15% per annum. The average yearly exports accounted for \$225 million. Fine grain leather of Bangladesh enjoys preferential demand in Western Europe and Japan. Low wage level and the ban on exporting wet blue leather helped the industry receive a new thrust in the country.

Environmental concerns arising out of the high concentration of production units in a small area of the older part of Dhaka city are being addressed with plans for their relocation outside the city.

Leather goods producers in Bangladesh tend to be associated only with manufacturing and exporting. They do not have much control over downstream operations. However, the success of a number of Bangladeshi firms in attracting such brand names as Puma, Pivolinos and Hugo Boss to source from this country proves that there is ample scope for the industry's upward mobility. Marketing of Leather Industries in Bangladesh: At present leather sector accounts for 3-4 per cent of total export earnings.

Of the total 214 tanneries in the country the majority are wet blue producers. Hardly 45 per cent of the total hides and skins are now processed into

finished leather — 18 per cent low grade for local consumption and 27 per cent for export either in the form of finished leather or leather products. Only a few tanneries are capable of producing export quality finished leather for export. There are about 15 export oriented shoe manufacturing units located mostly in and around Dhaka city. There are more than 2000 shoe making units supplying the domestic market.

Leather and leather products have the potential to make a major contribution to export earnings and to the economic development of the country. In the leather processing industries there are three categories of producers, large industries, small/medium size industries and commercial exporters. The large industries with bonded warehouses pay no import duties or VAT. They are not eligible for duty draw-back and have to operate on a virtual 100 per cent export basis. There are 6-7 large producers, estimated to be 60 per cent of the total country leather output.

Small/medium size industries pay import duties or VAT on chemical and other items at differing rates. These industries take duty draw-back at prefixed rates after each consignment of export is executed. Commercial exporters are engaged in the export of crust and finished leather purely on a job-work basis. All their production inputs are from local suppliers. They also claim duty draw-back. Leather footwear sector has two categories of exporters, those with bonded warehouses and those with no bonded warehouses. Those with bonded warehouses do not pay import duties or VAT.

They are not eligible for duty draw-back but receive a cash incentive of 15 per cent on the export (FOB) value of their products. Only 6-7 producers are responsible for 40 per cent of footwear exports. The exporters without bonded warehouse pay all import duties and VAT on duty paid values. They are eligible for duty draw-back and receive 15 per cent cash incentive on the export (FOB) values. Leather Export from Bangladesh: In 2008-09 total export of leather, leather goods were \$381. 14m. Bangladesh produces between 2% and 3% of the world's leather.

Most of the livestock base for this production is domestic, which is estimated as comprising 1. 8 % of the world's cattle stock and 3. 7 % of the goat stock. The hides and skins (average annual output is 15sq. meter) have a good international reputation. Foreign direct investment in this sector along with the production of tanning chemicals appears to be highly rewarding due to this presence of basic raw materials for leather goods including shoes, a large pool of low cost, trainable labor, and a tariff concession facility to major importing countries under Generalized System of Preferences (GSP) coverage.

Thus Bangladesh is an ideal offshore location for leather and leather products manufacturing with low cost but high quality. The government is in the process of setting up a separate Leather Zone, relocating the existing industry sites to a well-organized environment. Exports include some ready-made garments, although that aspect is confined mainly to a small export trade in “ Italian-make” garments for the US market. Footwear is more important in terms of value addition. This is the fast growing sector for leather products.