Leather units to float SPV for new cluster in Tamil Nadu

T E NARASIMHAN
Chennai, 24 September

The leather industry in Tamil Nadu, dominated by small and medium enterprises (SMEs), plans to add fresh capacity by setting up a new cluster. The industry in the state, which accounts for around 40 per cent of India's total leather exports, has chosen Perambalur district as the location of its new cluster.

Industry representatives said the addition of new capacity was essential, as units in China had started closing down due to high costs. Buyers are looking at countries that are not only cost-effective but also have high capacity.

M Rafeeque Ahmed, chairman, Ficci Tamil Nadu State Council, and chairman, Farida Prime Tannery Pvt Ltd, said that representatives of 17 companies had visited the district, which was the most backward in the state, but had substantial labour resources.

Leather hangs at a tannery. The proposed cluster will also have common infrastructure, which will reduce the running cost for individual units. PHOTO: BLOOMBERG

At present, one of the biggest challenges the industry faces elsewhere is availability of manpower. Around 10,000 people in the age group of 18-30 are readily available here for employment even today. The district administration has a ready database.

Besides, the district is also well connected with the national highway and two major ports – Chennai and Tuticorin – which are just a three-to-four-hour drive away. Land prices are also lower in Perambalur, since it is not viable for agriculture and no industry has come up so far.

The cluster will be for dry processing. Due to non-availability of water, the industry will not be able to set up tanneries there

Today, most of the local population worked in cement factories at Ariyalur and the textile industry in Coimbatore and Tirupur, which were a two-hour drive away, said Ahmed.

The leather units are planning to float a special purpose vehicle to develop the cluster, which will be spread over 150-200 acres.

"The government has already sanctioned ₹75 crore for the cluster, and the rest of the money will come from entrepreneurs. Our estimate is that the cluster will attract investments to the tune of ₹1,000-1,500 crore," said Ahmed.

The industry had formed a core committee, which would negotiate with the land owners. The cluster would be ready in the next two or two-and-a-half years and would create some 25,000 jobs in this district, said Ahmed. Around 60 per cent of the units in the new cluster will be SMEs.

The cluster will be for dry processing. Due to non-availability of water, the industry will not be able to set up tanneries there, according to Vijayakumar, a resident of Perambalur.

On the other advantages, Ahmed said, capital cost would be less to set up units here, since the government subsidised 60 per cent of the investment. Besides, at present the industry is not able to expand factories at existing locations due to non-availability of land. Whatever land is available is costly.

The cluster will also have common infrastructure, which will reduce the running cost for individual units. The infrastructure includes inland container depots, a Customs area and training schools.

Asked whether the cluster would be viable given the current slowdown, Ahmed said 2011-12 was a record year for the industry. In 2011-12 the industry reported 23 per cent growth and posted export earnings of $4.9 billion, against the projected $4.7 billion.

"This financial year started with negative growth, but we are confident that by the end of the year we will have 10 per cent growth." Pricing, power, labour and marketing continued to be challenges, he added.

Besides, industrialists need to think about the future, considering that China is planning to vacate the industry in the next three to five years because, due to the high cost of manufacturing and labour-related issues, customers are looking at other countries. "At present we don't have capacity, that's why we have decided to go in for a new cluster," said Ahmed.