

Evolving Trade Relations to Strengthen India's Leather Industry



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Synopsis

India is the 2nd-largest exporter of leather garments, the 3rd-largest exporter of saddlery and harness, and the 4th-largest exporter of Leather Goods in the world. The sector is known for its consistent export earnings and is among the top ten foreign exchange earners for the Country.

India's Union Budget 2026–27, along with the completion of the India–European Union (EU) Free Trade Agreement (FTA) as of January 27, 2026, and the recent cut in U.S. import tariffs, collectively create a positive policy environment for India's leather industry. The Budget's focus on streamlining import duties, reducing input costs, and simplifying procedures is likely to boost cost efficiency and operational performance. Additionally, the EU–FTA significantly improves market access and export competitiveness.

Given the industry's existing focus on finished footwear, leather goods, and garments, the improved trade environment strengthens its ability to scale exports, stabilise demand, and deepen engagement with global buyers, enabling the Indian leather industry to capture a larger market share in the medium to long term. Together, these developments are expected to generate cost efficiencies, thereby improving profitability margins.

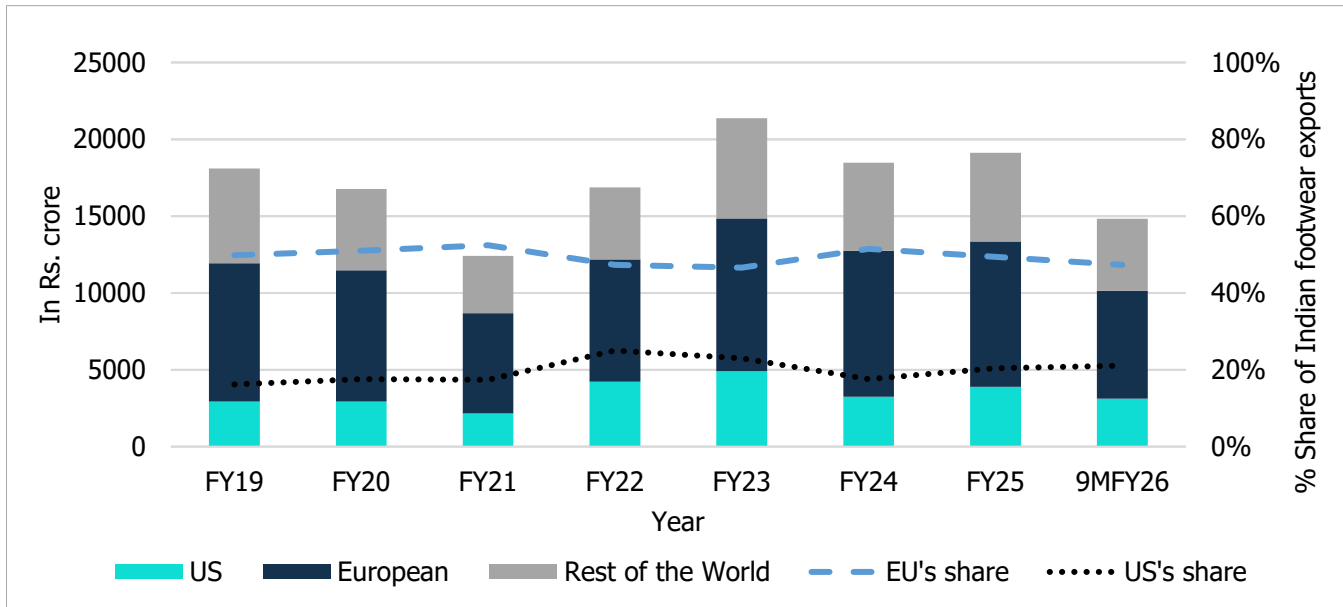
Industry Overview

India's leather industry remains a value-added, labour-intensive sector with a strong export orientation. The industry's export basket is dominated by finished products such as footwear, leather goods, and garments, rather than raw hides, indicating significant domestic processing and value addition.

Footwear Industry

India's leather footwear industry is a well-established segment of the country's manufacturing sector. The industry serves both domestic and international markets, with Europe and the US as key destinations. Despite challenges such as cost pressures, regulatory changes, and recent production disruptions, the sector continues to play an important role in India's export basket. The trends in India's leather footwear export from FY19 (FY refers to April 01 to March 31) to 9MFY26 (9M refers to April 01 to December 31), along with India's market share in the US and European markets (UK, Germany, Netherland, Italy, France, Spain, Belgium and Poland) are presented below in Exhibit 1.

Exhibit 1: India's leather footwear export



Source: Centre for Monitoring Indian Economy

While exports declined in FY21 amid pandemic-related disruptions, followed by a recovery to nearly Rs. 0.21 lakh crore by FY23, and moderated thereafter, reflecting India's continued competitiveness in the international leather footwear market despite pressures on domestic production. On the demand side, Europe remains India's dominant export market, consistently accounting for ~50% of total leather footwear exports, reflecting stable, sustained demand. However, over the past five years ending FY25, the US market share remained volatile, ranging from 17% to 25%, and stood at approximately 21% in 9MFY26.

Other Leather-related Products

India's leather industry, beyond footwear, includes a diverse range of products, including leather garments, bags, and accessories, serving both domestic and international markets. These non-footwear leather segments consistently contribute to India's leather product mix and serve end-use industries such as fashion and travel. As consumer preferences and product compositions continue to shift, these segments remain a core component of India's leather manufacturing ecosystem. Table 1 indicates a disruption across leather product segments in FY21, followed by a differentiated recovery trajectory through 9MFY26.

Table 1: Production of leather-related products

Particulars (Rs. crore)	FY19	FY20	FY21	FY22	FY23	FY24	FY25	9MFY26
Leather garments	864.50	830.90	471.90	670.00	739.20	974.50	1226.60	1370.10
Tanned or dressed leather	1167.70	1015.20	682.20	848.20	719.10	659.20	715.10	674.10
Other accessories	1792.50	2099.70	1089.10	1753.50	2077.00	2198.30	2161.10	2171.80
Total	3824.70	3945.80	2243.20	3271.70	3535.30	3832.00	4102.80	4216.00

Source: Centre for Monitoring Indian Economy

Market Access under the EU-FTA

Elimination of EU import tariffs currently as high as 17% under the agreement substantially enhances the cost competitiveness of Indian leather and footwear products in the European market. This will support India’s exports of around Rs. 0.21 lakh crore (USD 2.4 billion) and help Indian companies gain a larger share of the EU’s leather and footwear market imports valued at approximately Rs. 8.71 lakh crore (USD 100 billion). Exhibit 2 illustrates recent EU tariff changes across key exporting countries in the leather and footwear sector.

Table 2: Key changes in tariff structure of major leather exporting countries

Country	Pre-FTA tariff status	Post FTA (in early FY26) tariff status	Expected Benefits
India	~17% Most Favoured Nations (MFN)	0%	Major competitiveness and export boost
Bangladesh	0% Everything but Arms (EBA)	0% subject to Least Developed Country (LDC) status	No change Retains duty-free access
China	16-17% MFN	16-17% MFN	High tariff continues
Turkey	0%	0%	Stable duty-free access
Vietnam	0% under EU–Vietnam FTA (tariffs removed since 2020)	0%	Preferential access maintained

Source: EU Trade Agreement

India emerges as the principal gainer, with tariffs falling sharply from around ~17% to 0% in FY26, thereby enhancing its cost competitiveness and export potential. The removal of these duties under the new agreement is expected to improve India’s relative value proposition and drive a material expansion in demand, particularly from major European fashion houses in Italy, France and Germany.

Budget 2026: Customs and Trade Relief

In the Union Budget 2026-27, the Indian government introduced policies to strengthen the leather manufacturing and export sector.

- Relaxation of Basic Custom Duty (BCD) on key imported inputs used in the leather and footwear value chain. This measure is expected to lower overall production costs for manufacturers that rely on imported materials for quality, durability, or design requirements. For exporters competing with low-cost producers from Southeast Asia and Africa, reduced input costs directly translate into improved price competitiveness in global markets.
- Extension of export timelines for realisation of export proceeds from six months to one year for leather and footwear exporters will ease working-capital pressures and better align Indian production schedules with European buying cycles. This step is expected to offer exporters greater operational flexibility, simpler compliance requirements, and improved working capital management.

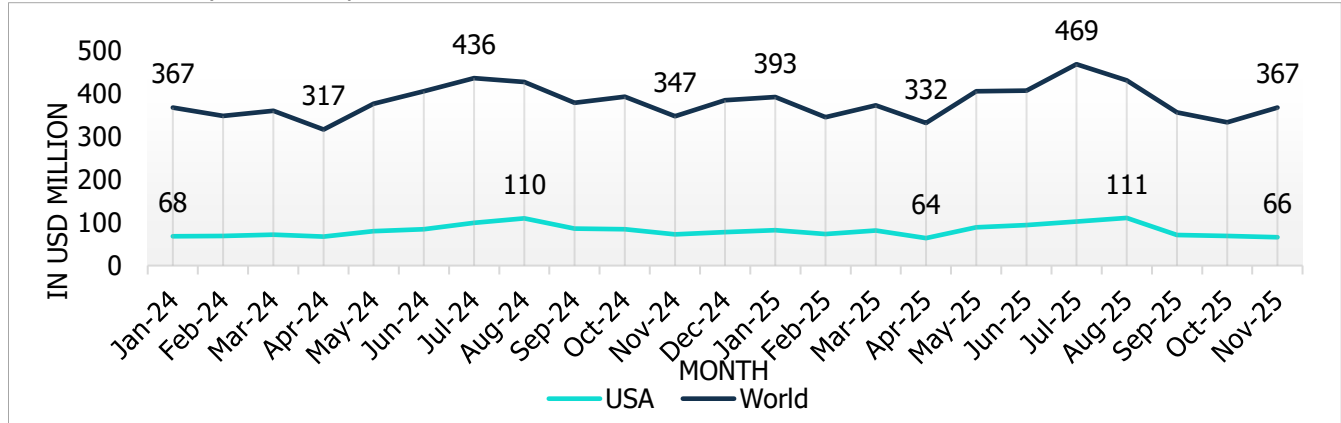
Budget 2026 is expected to have a positive impact on leather exports, mainly by improving cost competitiveness, increasing operational flexibility, and enhancing Indian exporters' competitiveness in global markets.

Reduction in US Import Tariffs in February 2026

The Indian leather export market contributed USD 4.58 billion in FY25, of which ~22% share was to the US market. Following the aggressive 50% tariff hike (a 25% reciprocal tariff plus a 25% penalty) in 2025, exports to the US

market became uncompetitive, prompting manufacturers to shift their focus to less profitable markets. Exhibit 2 shows uneven growth, highlighting the vulnerability of exports to demand fluctuations and cost pressures.

Exhibit 2: Monthly leather export trend



Source: Centre for Monitoring Indian Economy

The reduction of US tariffs to 18% effective February 03, 2026, is expected to enhance the price competitiveness of Indian products in the US market, potentially strengthening buyer interest and supporting exporters' margins. The improved cost position may also allow India to regain export share in the US leather market, which had previously shifted to less profitable markets. As demand stabilises, exporters may see better production planning, order pipelines, and improved capacity use across key manufacturing hubs.

CareEdge Ratings' View

"The alignment of trade liberalisation, fiscal measures, and tariff adjustments has created a meaningful inflection point for India's leather industry, offering more than a temporary recovery. Enhanced access to European markets, the restoration of competitiveness in the United States, and reduced domestic cost pressures together improve India's standing in global trade," said Rajan Sukhija, Associate Director, CareEdge Ratings.

Puneet Kansal, Director, CareEdge Ratings, opined, "India's leather sector is poised for strong and sustained export momentum, supported by zero-duty access to the EU under the 2026 FTA and Budget-led measures that enhance cost efficiency, ease input sourcing, and improve execution timelines. The recent reduction in US tariffs further strengthens demand visibility across key markets, positioning Indian exporters to capture higher-value opportunities, deepen engagement with global brands, and consolidate their presence in international supply chains."

"The Indian leather sector is set for significant expansion, targeting a USD 50 billion turnover by 2030, supported by rising export momentum and increasing domestic consumption. The industry is prioritising sustainability and technology adoption to enhance global competitiveness. Key initiatives include eco-friendly tanning, zero-liquid-discharge systems and comprehensive waste-reduction practices. At the same time, companies are accelerating value-added production, particularly in footwear, to capture greater market share in the US and EU. Its renewed focus on innovation, environmental compliance and export diversification positions it as a strong contributor to India's growth trajectory and a sector with substantial opportunities for scale and modernisation," says Priti Agarwal, Senior Director, CareEdge Ratings.

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