SECTOR STUDY . APRIL 2026

Leather

Research Team

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Leather

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Leather

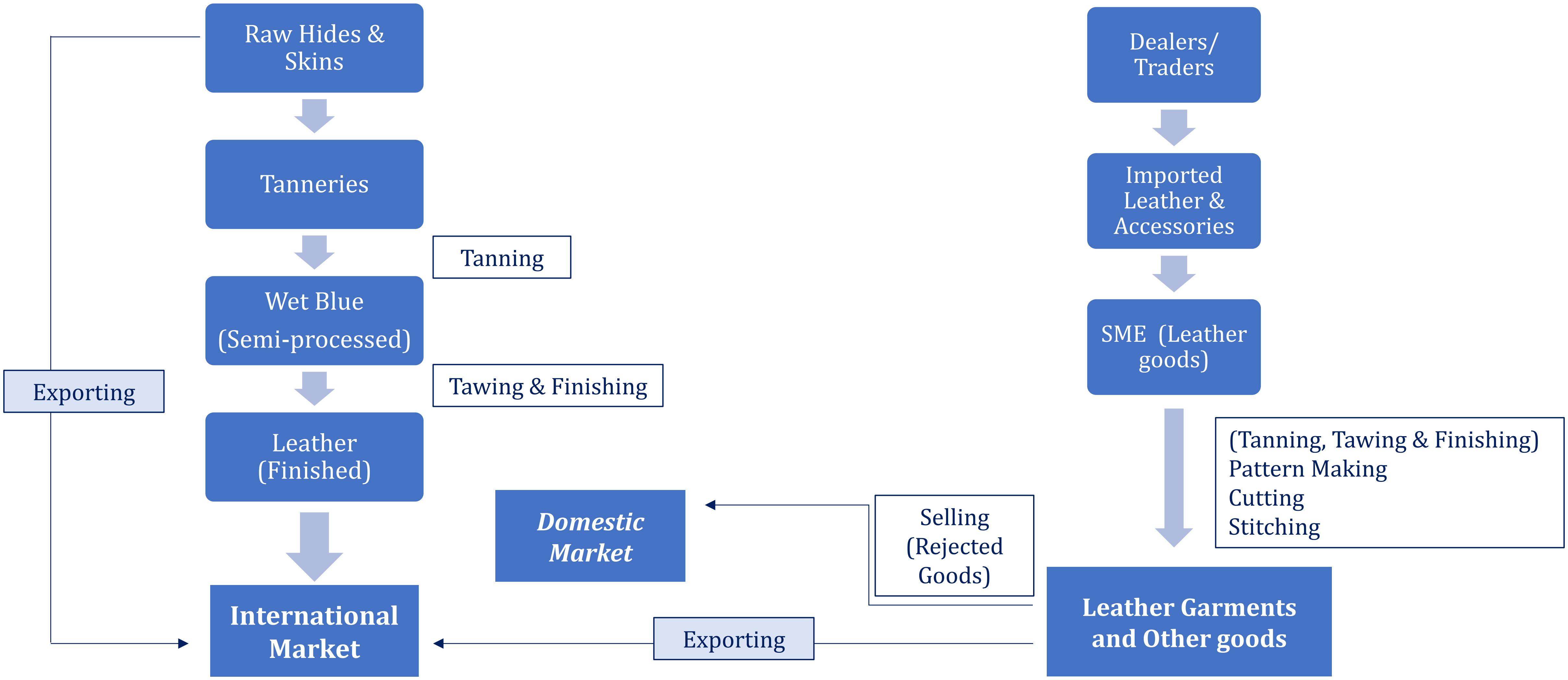
Introduction

- **Leather** is a durable, flexible material that can be made into many different types of clothing and articles. It is often used in shoes, jackets, belts, bags, and other articles. Leather is also often used to make leather accessories such as wallets, purses, and hats.
- The primary raw material for the leather industry (animal hides) is taken from slaughterhouses and waste from the meat industry. The hides are processed and converted into usable leather in tanneries. Hence, the tanning industry is considered an integral part of the entire supply chain.
- The demand for leather is driven by the fashion industry that includes footwear, garments, bags, and belts. Apart from this, the furniture and automotive industries also use leather. The broad categories of the leather sector include the following:
  - **Tanned leather:** Treating the skins and hides of animals.
  - **Garments and accessories:** Leather jackets, long coats, waistcoats, pants, and gloves.
  - **Footwear:** Formal footwear, boots, sandals, and clogs with leather uppers for both men and women.
  - **Bags and Belts:** Wallets, handbags, backpacks, cosmetic cases, laptop bags, and leather belts.
  - **Furniture**: Mainly used for furniture covers.
  - **Automotive:** Used for car interiors, especially seats.

Source: OEC

Leather

Leather & Leather Goods Value Chain



Source: ILO

Leather

Global | Overview

- The global leather industry, comprising tanned leather, leather garments, gloves, bags & belts, footwear, and intermediate products (grain-like/ synthetic leather), reached value of USD ~531bn in CY25 and formed ~0.4% of the world's GDP. Europe led with ~37.3% market share in 2025, driven by luxury demand, fashion innovation, and strong tourism-related retail activity.
- Leather Footwear was the highest exported category, making up ~87.9% (SPLY: ~94.6%) of total leather exports, followed by leather apparel at ~11.2% (SPLY: ~5.0%) and tanned leather at ~0.9% (SPLY: ~0.4%).
- The demand for traditional leather products has reduced due to growing awareness regarding environmental sustainability and ethical sourcing. Product innovation and development in the synthetic and vegan leather segments are expected to drive demand as they align with sustainability trends. Moreover, increasing investment by well-known luxury brands, towards bio-leather products and others, are expected to create new opportunities in the global leather industry. Genuine leather held a ~54.1% share in 2025, while synthetic/vegan leather is gaining ground and made the remaining share.
- Various chemicals and gases are produced during the tanning process, leading to increased environmental and health concerns. The regulations regarding these emissions are particularly strict in the United States and Europe.
- In the U.S., all tanneries are required to meet the Environmental Protection Agency waste standards, which apply to the disposal of liquid wastes into public waste treatment facilities. In Europe, there are several EU environmental regulations that have strict implications for tanneries.

Global Overview	CY23	CY24	CY25
Market Size (USD bn)	444.1	498.6	531.1

Leather Exports | CY25 (USD mn)*	
Leather Footwear	55,241
Leather Apparel	7,040
Tanned Leather	566
Total Leather Exports	**62,847**

***Note**: HS Codes as follows: Leather Apparel (4203), Tanned Leather (4113), Footwear (6403), Other Exports (HS Chapter 42, except 4203)*

**Imports and exports are equal across all leather segments.*

Source: European Commission, USEPA, OEC

Leather

Global | Exports

Leather Apparel

- In CY25, the top 10 exporting countries held ~74.9% (SPLY: ~78.6%) share in global exports of leather apparel. Italy held the highest share of ~19.6% (SPLY ~18.2%) valued at USD ~1,378mn. France and China followed this ~11.2% and ~11.1% shares (SPLY: ~12.7% and ~11.6%), respectively. Meanwhile, Germany rounded out the top five with USD ~ 417mn, holding a share of ~5.9%.

Tanned Leather

- The share of tanned leather in exports remains low as total exports for tanned leather decreased to USD ~566mn (CY24: USD ~648mn) by ~12.7%. As of CY25, the top 10 exporters held ~82.4% (SPLY: ~78.7%) share in global tanned leather exports. Italy had the highest share, ~24.7% (SPLY: ~22.5%), followed by India and Singapore with ~14.0% and ~10.4% (SPLY: ~11.7% and ~9.1%) shares, respectively.

Leather Footwear

- During CY25, Italy, China, and Germany held the top three positions in the global exports of leather footwear with ~15.2%, ~12.7%, and ~10.4% (SPLY: ~14.4%, 19.1%, and ~6.9%) shares, respectively. The Top 10 exporters held a share of ~69.7% (SPLY: ~77.1%). Footwear continued to dominate leather exports.

Top Exporters | CY25 (USD mn)						
Sr.	Leather Apparel		Tanned Leather		Leather Footwear	
1	Italy	1,378	Italy	140	Italy	8,380
2	France	789	India	79	China	7,018
3	China	784	Singapore	59	Germany	5,509
4	India	776	China	54	Netherlands	3,163
5	Germany	417	South Africa	34	Indonesia	3,062
6	Spain	297	Spain	34	France	2,962
7	Netherlands	291	Taipei, Chinese	21	Belgium	2,800
8	Poland	202	France	18	Poland	1,980
9	Türkiye	178	Indonesia	14	Spain	1,865
10	Indonesia	163	Thailand	13	India	1,741
	ROW	1,765	ROW	100	ROW	16,761
	Total	7,040	Total	566	Total	55,241

***Note**: HS Codes as follows: Leather Apparel (4203), Tanned Leather (4113), Footwear (6403).*

Source: ITC

Leather

Global | Imports

Leather Apparel

- In CY25, top 10 importers of leather apparel held ~68.1% (SPLY: ~64.4%) share in global imports. The USA held the highest share of ~20.9% (SPLY: ~20.3%) with an import bill of USD ~1,472mn, followed by Germany, France, and Italy with ~9.3%, ~7.6%, and ~6.0% (SPLY: ~7.7%, ~7.4%, and ~5.8%) shares, respectively.

Tanned Leather

- In CY25, top 10 importers of tanned leather held ~80.0% (SPLY: ~63.6%) share in global tanned leather imports. France held the highest share of ~26.1% (SPLY: ~19.6%) with imports of USD ~145mn, followed by Cambodia, Italy, and China with ~12.9%, ~7.7%, and ~6.3% (SPLY: ~7.9%, ~5.4%, and ~6.3%) shares, respectively. Other than France, the majority of importing countries use tanned leather as input for exports.

Leather Footwear

- The U.S., Germany, and France held top three positions in global leather footwear imports in CY25 with ~20.7%, ~10.9%, and ~7.4% (SPLY: ~20.2%, ~9.3%, and ~6.9%) shares, respectively. In value terms, overall imports of Leather footwear decreased by ~5.6% in CY25, accounting for USD ~55,241mn (SPLY: USD ~58,488mn)

Top Importers | CY25 (USD mn)						
Sr.	Leather Apparel		Tanned Leather		Leather Footwear	
1	USA	1,472	France	145	USA	11,436
2	Germany	656	Cambodia	72	Germany	6,020
3	France	532	Italy	43	France	4,095
4	Italy	419	China	35	Italy	3,385
5	China	340	Spain	31	Netherlands	3,204
6	Japan	314	Indonesia	30	China	2,455
7	U.K	283	Portugal	29	Poland	2,200
8	Netherlands	279	USA	25	U.K	2,156
9	Spain	274	Germany	18	Spain	2,028
10	Poland	222	Hong Kong	17	Belgium	1,820
	ROW	2,249	ROW	121	ROW	16,442
Total		7,040	Total	566	Total	55,241

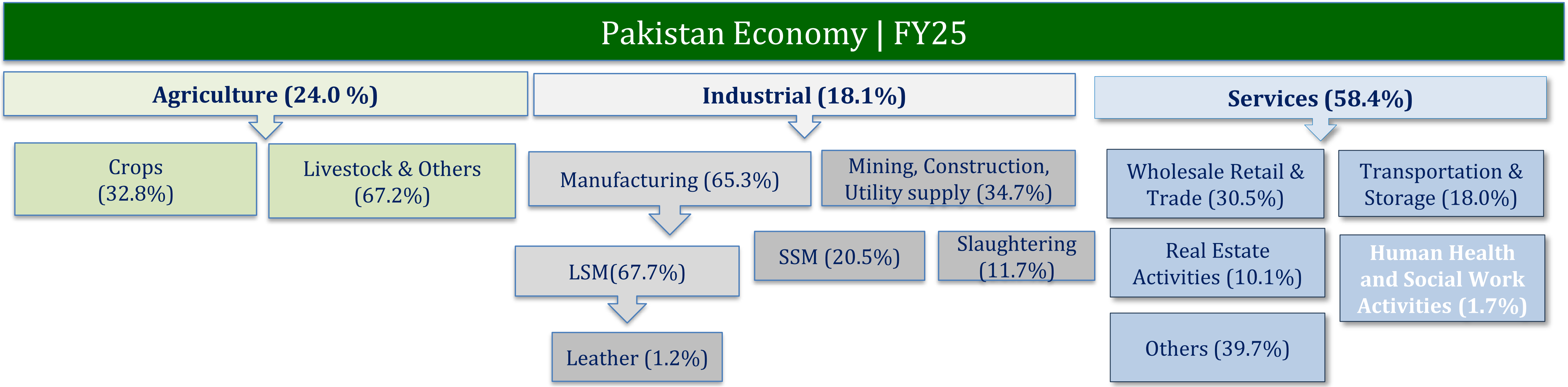
***Note**: HS Codes as follows: Leather Apparel (4203), Tanned Leather (4113), Footwear (6403).*

Source: ITC

Leather

Local | Introduction

- In FY25, Pakistan's Real GDP recorded a growth of ~2.7% (SPLY: ~2.4%) while Nominal GDP reached PKR ~114.7Tn (SPLY: PKR ~105.1Tn), reflecting a ~9.1% increase. During 1QFY26, GDP growth was recorded at ~3.7% (SPLY: ~1.6%).
- Industrial activities in FY25 held ~18.1% share (FY24: ~21.3%) in the GDP, while the manufacturing activities made up a substantial portion of ~65.3% of the value addition.
- The Leather sector is classified as a Large-Scale Manufacturing (LSM) industrial component within the industrial sector. Overall, LSM grew by ~5.8% during 1HFY26, after posting a contraction in recent years.
- In FY25, the Leather sector's weight in the QIM was recorded at ~1.2%, and during 1HFY26, it registered a negative growth of ~1.0% YoY (SPLY: ~0.8%).



__Note__: Sectoral shares are based on GVA.

Source: PBS, SBP

Leather

Local | Overview

- Pakistan's leather sector has an estimated market size of PKR ~1.4Tn (FY24: PKR ~1.3Tn), up ~8.1% YoY in FY25. During the year, upper leather production clocked in at ~11.5mn sq. ft., down ~13.2% YoY, while leather footwear registered a positive growth of 7.2% YoY at ~37.7mn pairs. Sole leather produced stood at ~192,000 sq m, up ~1.6% YoY.
- Total leather footwear exports made up ~5.6% of total leather exports in FY25. In 8MFY26, these clocked in at ~6.5mn pairs, registering ~2.7% YoY growth in volumetric terms with PKR ~27,186mn (SPLY: PKR ~27,313mn) value.
- In quantity terms, leather apparel/accessories exports registered a ~2.2% increase while tanned and footwear exports witnessed ~14.3% and ~5.9% decline YoY, respectively, during FY25.
- During 8MFY26, in value terms, leather apparel/accessories recorded a positive growth of ~1.0%, while tanned exports saw a decline of ~4.9% compared to 8MFY25. Footwear, however, posted a modest positive shift of ~0.5% compared to 8MFY25.
- The sector is one of the five key export-oriented sectors (alongside textiles, sports goods, surgical goods, and carpets) and enjoys duty-free access to the European Union (which is the largest consumer of leather goods globally) under the EU's Generalized Scheme of Preferences (GSP+).
- The three main relevant associations include PFMA (Pakistan Footwear Manufacturing Association), PTA (Pakistan Tanners Association), and PLGMEA (Pakistan Leather Garments Manufacturers & Exporters Association).

Snapshot Particulars	Units	FY23	FY24	FY25	8MFY26
Market Size	PKR bn	1,003.8	1,262.9	1,365.7	943.2*
Share in LSM%		~1.2%			
Exports	PKR bn	205	229	237	163
Players No.	~ 800 tanneries and ~6 listed companies				
Production | Volume					
Upper leather	'000'Sq M.	13,642	13,251	11,500	6,278
Sole leather	'000'Sq M.	192	189	192	112
Leather Footwear	'000" Pairs	32,011	35,152	37,682	21,933
Exports | Volume					
Leather Manufactures	'000'Dozen	137,184	130,332	142,344	102,492
Leather Tanned	MT	11,032	9,917	8,501	5717
Leather Footwear	'000" Pairs	8,102	9,472	8,914	6,482
Exports | Value					
Leather Apparel/ Accessories	PKR (mn)	141,861	154,610	159,892	111,636
Leather Tanned	PKR (mn)	41,368	38,914	38,611	23,850
Leather Footwear	PKR (mn)	22,132	35,368	38,415	27,186

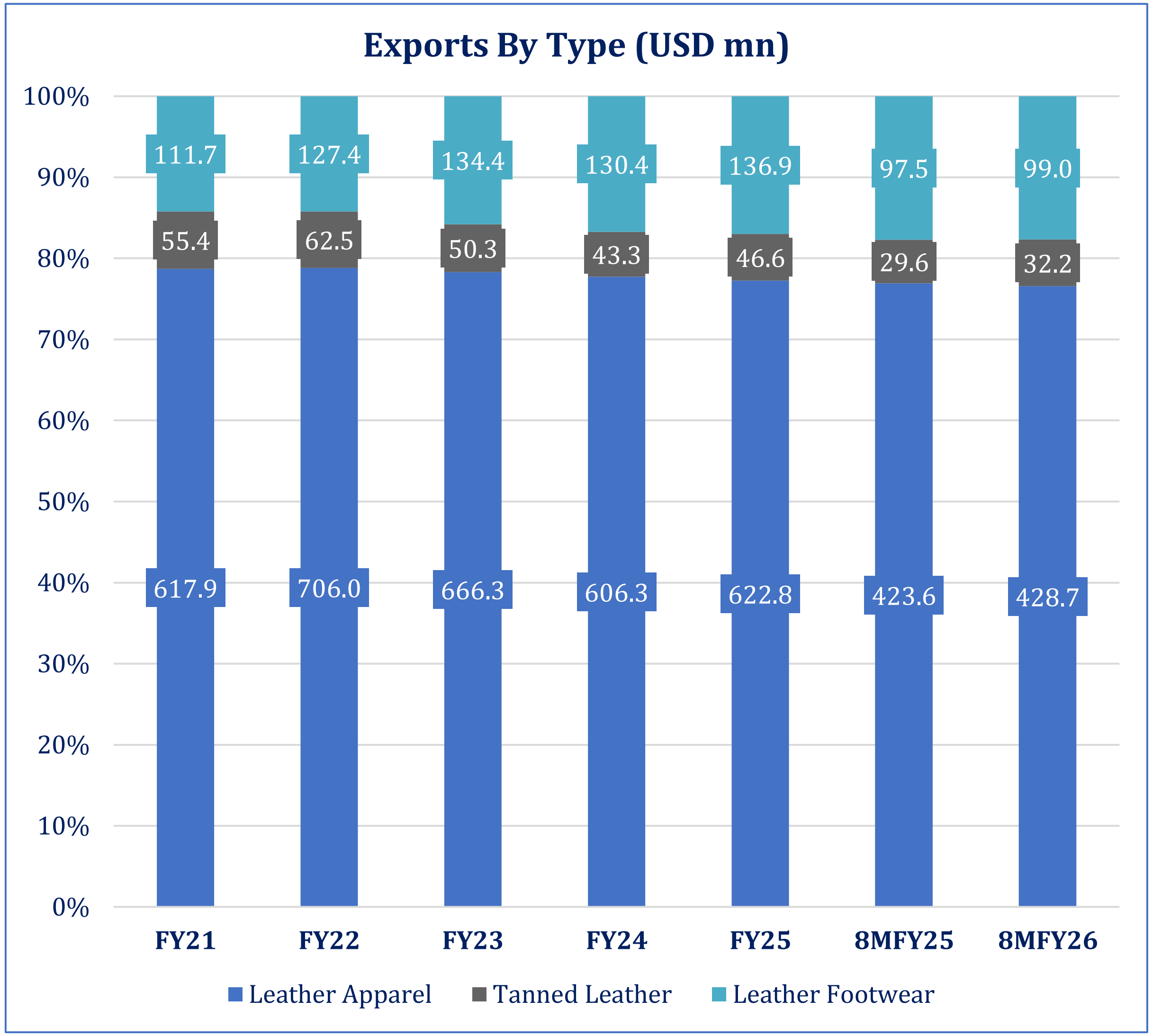
***Note**: Market Size is estimated based on % share in LSM at GDP calculated at current market prices. *Calculations based on IMF growth rate for FY26*
Leather Manufacturers include Leather Garments, Gloves and other Leather manufactured items.

Source: ILO, PTA, PBS, PES,, PSX

Leather

Exports | Export Competitive Analysis

- FY25 marked a broad-based recovery across all three leather sub-segments after two consecutive years of decline. This is the first time since FY22 that all segments have posted positive YoY growth, albeit modest, as the sector stabilized and low base effect kicked in.
- Tanned Leather recorded the strongest growth in this period at ~7.6%, rising to USD ~46.6mn (FY24: USD ~43.3mn). The segment declined by ~9.0% in FY24 alone, making the reversal more pronounced. However, it remains very small in value terms when compared to ither segments. During 8MFY26, Tanned Leather sustained its performance and posted growth of ~8.7%. This trend suggests better demand from major importing countries like Italy.
- Leather Footwear grew ~1.5% in 8MFY26, rising from USD ~97.5mn to USD ~99.0mn. This is on the backdrop of ~5.0% growth in FY25, The leather footwear is losing ground within the total footwear category to non-leather alternatives. The exports of this segment have stagnated with need to finding better prospects.
- Leather Apparel grew just ~1.2% in 8MFY26, slowing further from the modest ~2.7% growth recorded in FY25. The segment has the largest share of total leather export in value terms but the pace of growth has slowed considerably.



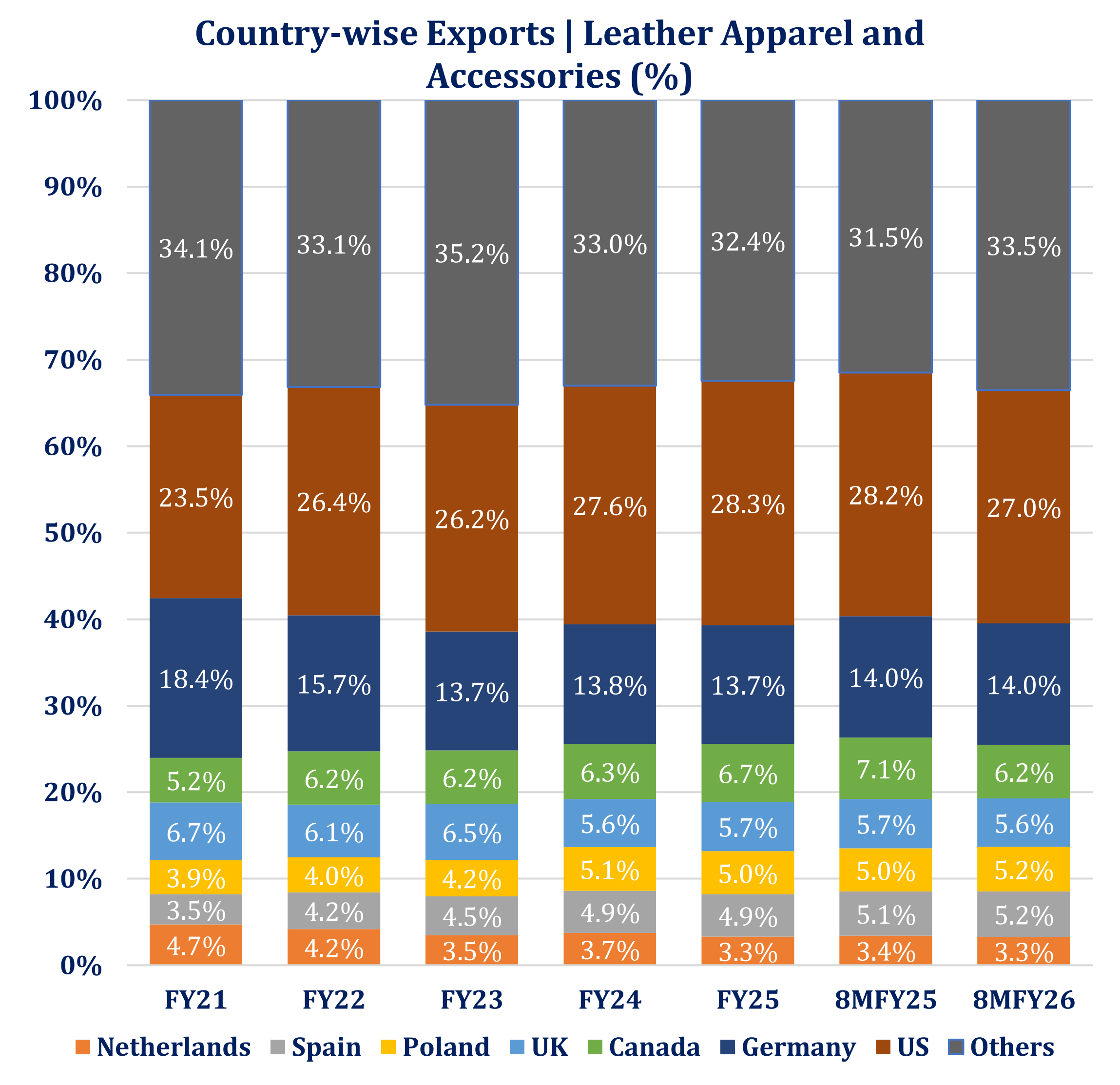
__Note__: Data in value terms (USD) is reflective of SBP latest data, while data for quantities has been sourced from PBS.

Source: PBS,SBP

Leather

Exports | Leather Apparel and Accessories

- Pakistan's leather apparel and accessories sector continued to rely on key Western markets, underpinned by competitive pricing, GSP+ trade access, and established buyer relationships in North America and Europe. The top three markets (U.S., Germany, U.K.) collectively account for ~47.7% of Pakistan's total leather apparel exports, indicating a higher dependence on Western consumer spending.
- The leather apparel segment recovered slightly in FY25, after a contraction in FY24. Total apparel exports reached USD ~622.8mn, representing a growth of ~2.7% (FY24: USD ~606.3mn)
- The U.S. retains the highest share in exports with ~28.3% (~27.6% in FY24). However, in 8MFY26, U.S. exports dropped ~4.3% YoY to ~27.0% (SPLY: ~28.2%).
- European destinations (Germany, UK, Poland, Netherlands, Spain) together represent ~34.3% of exports. The European share has historically been the largest when smaller EU markets are included, making GSP+ access critical to the sector's viability. Pakistan has to meet stricter environmental and social standards to retain the GSP+ status beyond 2027.
- In 8MFY26, Pakistan's leather apparel and accessories exports recorded a marginal improvement, with total shipments rising to USD ~428.7mn (SPLY: USD ~423.6mn), a growth of ~1.2% YoY.



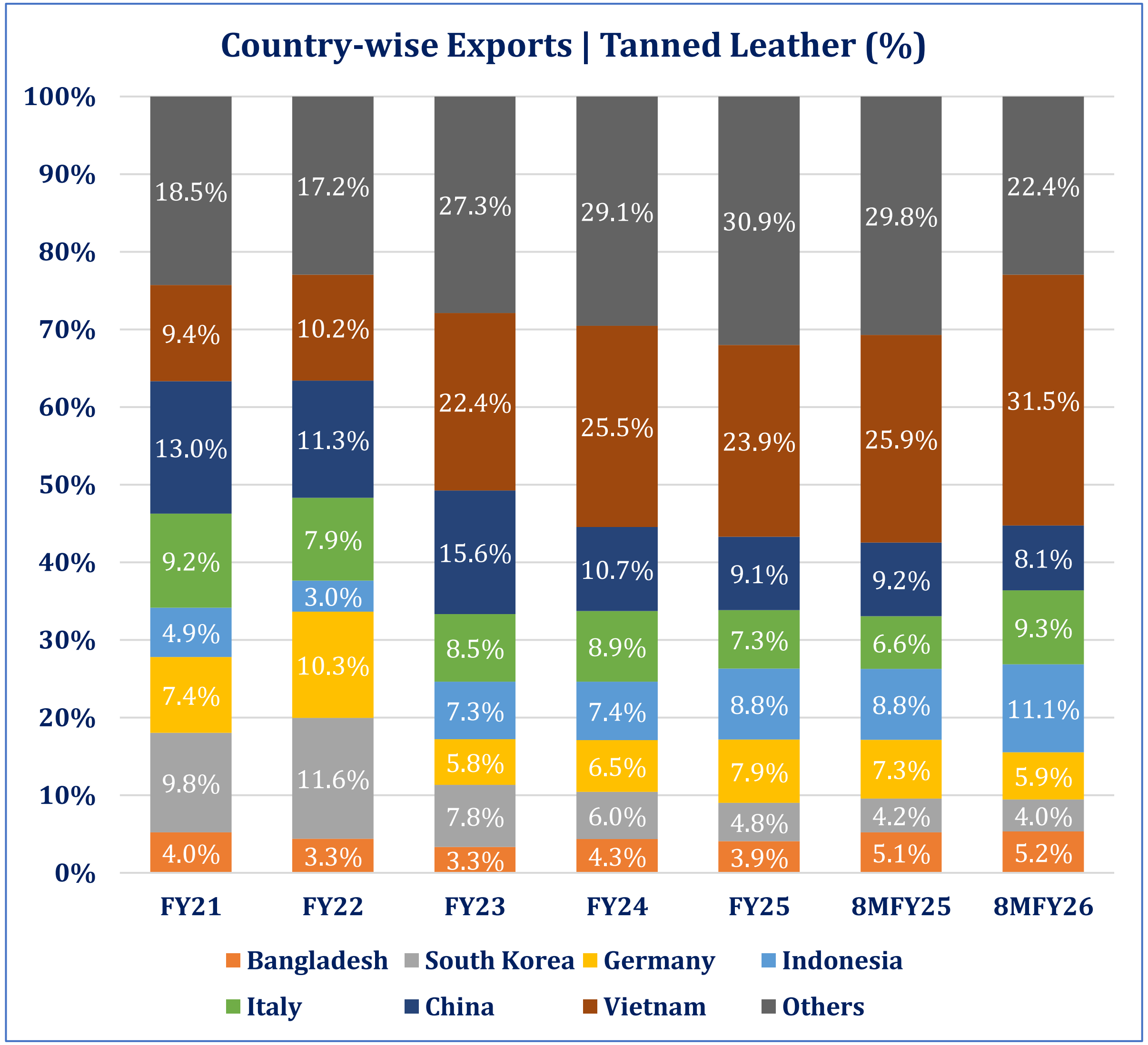
***Note**: Data in value terms (USD) is reflective of SBP latest data, while data for quantities has been sourced from PBS. HS Code: 4203.*

Source: PBS,SBP

Leather

Exports | Tanned Leather

- Pakistan functions as a premier tannery exporter, occupying a specialized niche where it exports world-class intermediate leather rather than scaled finished goods. Pakistan supplies raw materials to manufacturing hubs like Vietnam. Italy and South Korea, instead of capturing the higher margins associated with exporting its own finished footwear and apparel.
- Pakistan's leather exports showcased a growth of ~7.6% YoY, increasing to USD ~46.6mn in FY25 (SPLY: USD ~43.3mn) whilst making efforts to diversify its export base across a broader range of international markets. Vietnam remained the primary destination, maintaining nearly a quarter of total exports with ~23.9% of market share in FY25.
- During 8MFY26, total exports grew ~8.7%, slightly faster than the full-year FY25 pace. Exports to Vietnam showed YoY growth of ~21.6%, representing a ~31.5% (SPLY: 25.9%) share within this category. Although generating nearly a third of sectoral revenue, Vietnam and other countries underscore Pakistan's integration into global supply chains. This heavy reliance creates a critical concentration risk, leaving the industry highly vulnerable to the demand-side shocks from a single dominant buyer.



Note: Data in value terms (USD) is reflective of SBP latest data, while data for quantities has been sourced from PBS. HS Code: 4113.

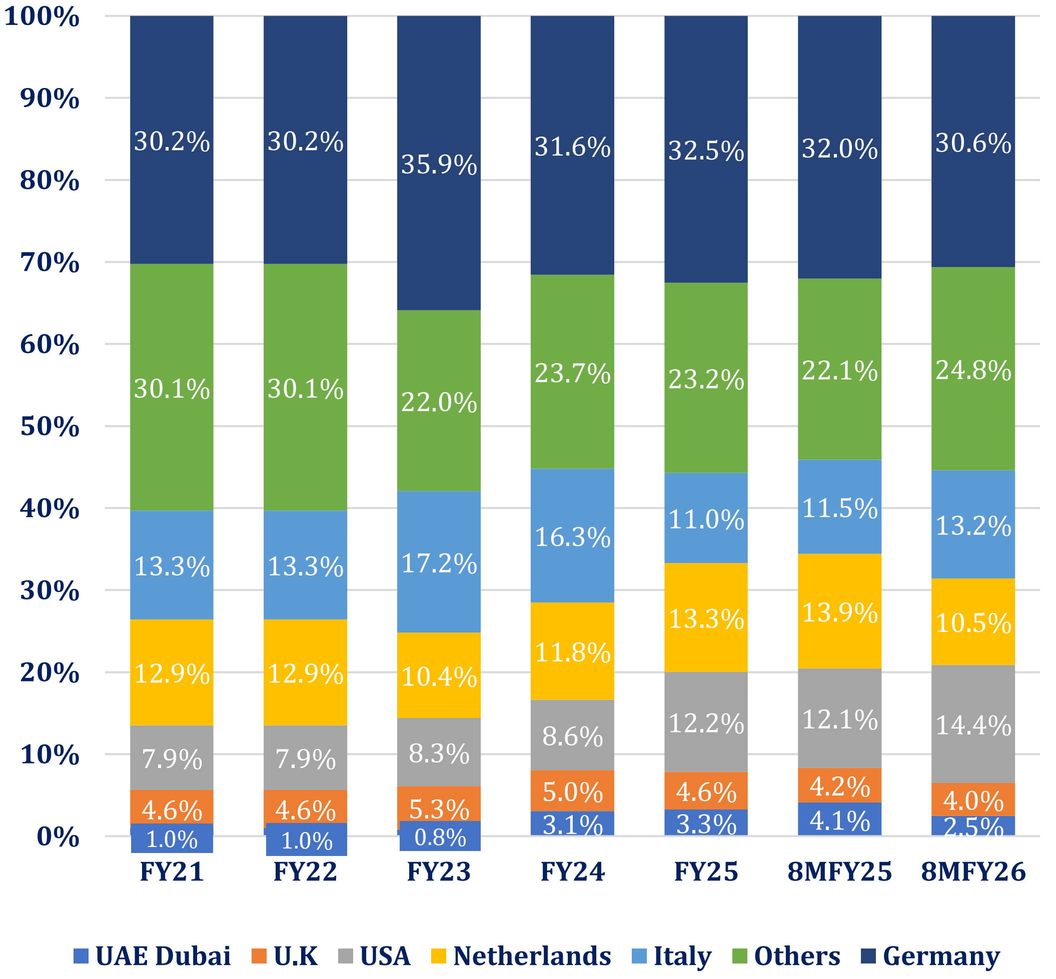
Source: PBS,SBP

Leather

Exports | Leather Footwear

- Leather Footwear refers to the value-added manufacturing segment that utilizes the country's massive livestock resources. Unlike the export of raw hides or semi-finished leather, footwear represents value addition, involving intricate cutting, stitching, and finishing. These products range from high-end formal dress shoes for global brands to specialized safety and work boots.
- The export performance of Pakistan's leather footwear sector across FY24 and FY25 reflects a period of moderate growth underpinned by significant regional shifts. Total exports rose to USD ~136.9mn in FY25 (USD ~130.4mn in FY24), representing a ~5.0% increase. This growth was largely driven by a surge in exports to the USA market, which saw its share climb to ~12.2% (SPLY: ~8.6%). Germany maintained its position as the dominant buyer, holding nearly a third of the total market at ~32.5% (FY24: ~31.6%).
- In 8MFY26, a modest increase of ~1.5% was seen as compared to the previous period. Italy increased its share in exports from Pakistan, growing its share to ~13.2% from ~11.5%. Conversely, the Netherlands experienced a sharp contraction, with its share falling to ~10.5% (SPLY: ~13.9%). The Rest of the World (ROW) category reached ~24.8% (SPLY ~22.1%) of total footwear exports. This indicates efforts by Pakistani exporters to diversify their client base and reduce over-reliance on a few specific European nations.

Country-wise Exports | Leather Footwear (%)



Note: Data in value terms (USD) is reflective of SBP latest data, while data for quantities has been sourced from PBS. HS Code: 6403.

Source: PBS,SBP

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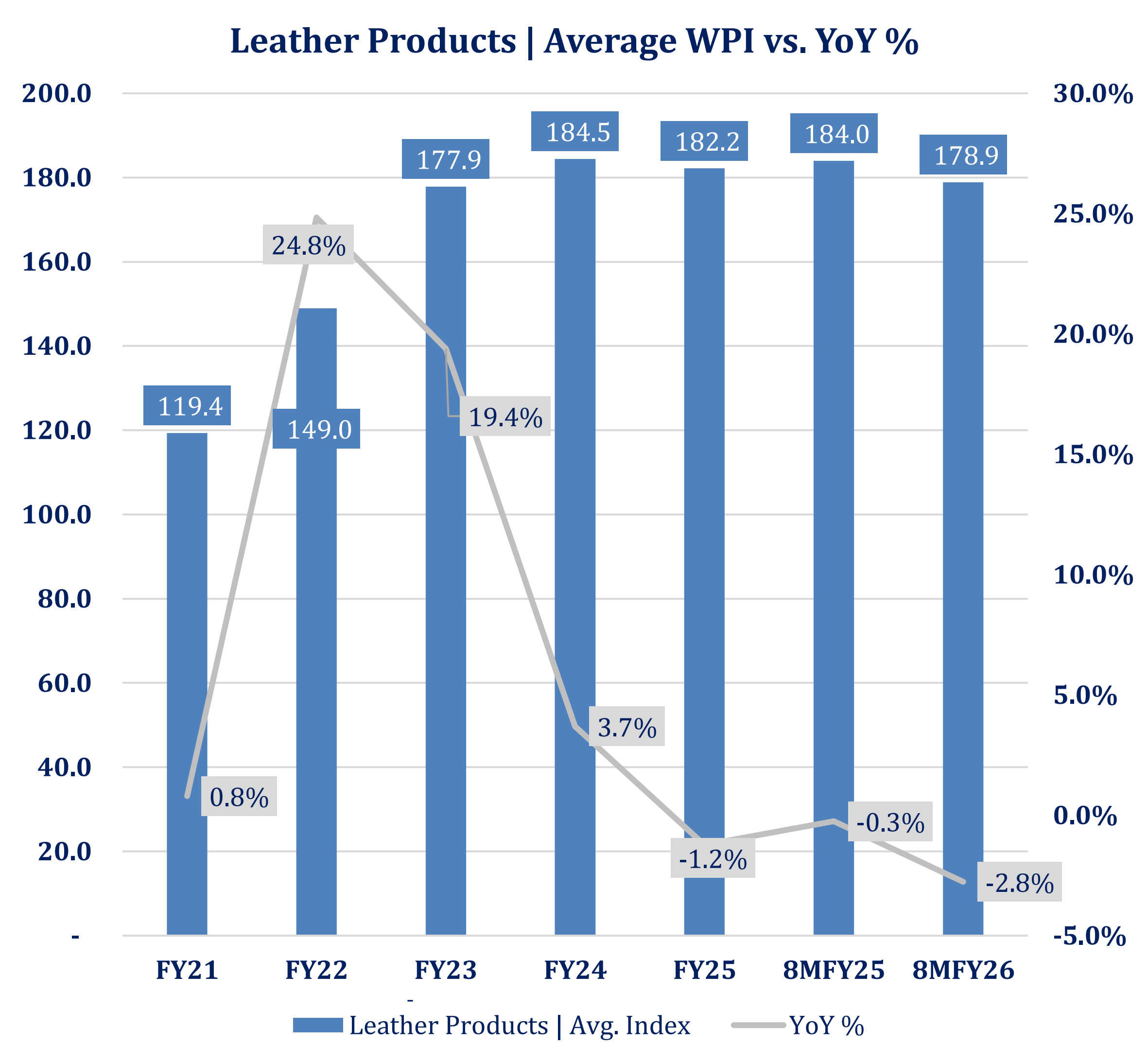
Local | Wholesale Prices

- The Wholesale Price Index (WPI) for leather products tracks price movements at the wholesale level, reflecting the prices that producers and tanneries can realize in the market.
- After recording strong growth of ~24.8% and ~19.4% in FY22 and FY23, respectively, driven by post-pandemic demand recovery and elevated global commodity prices, the index has gradually moderated, declining to ~182.2 in FY25 and further to ~178.9 in 8MFY26.
- YoY growth has turned negative, recording ~-1.2% in FY25 and ~-2.8% in 8MFY26, reflecting a broad softening in wholesale leather prices at the market level. This trend, alongside persistent input cost pressures on the raw material side, has contributed to the sector-wide margin compression observed in recent periods, as the ability to pass on cost increases to buyers has become more constrained.
- The price contraction becomes more apparent during 8MFY26, where the average index declined to ~178.9 (SPLY: ~184.0), with the YoY contraction widening from ~-0.3% in 8MFY25 to ~-2.8% in 8MFY26, reflecting a continuation of the moderation trend observed since FY24.



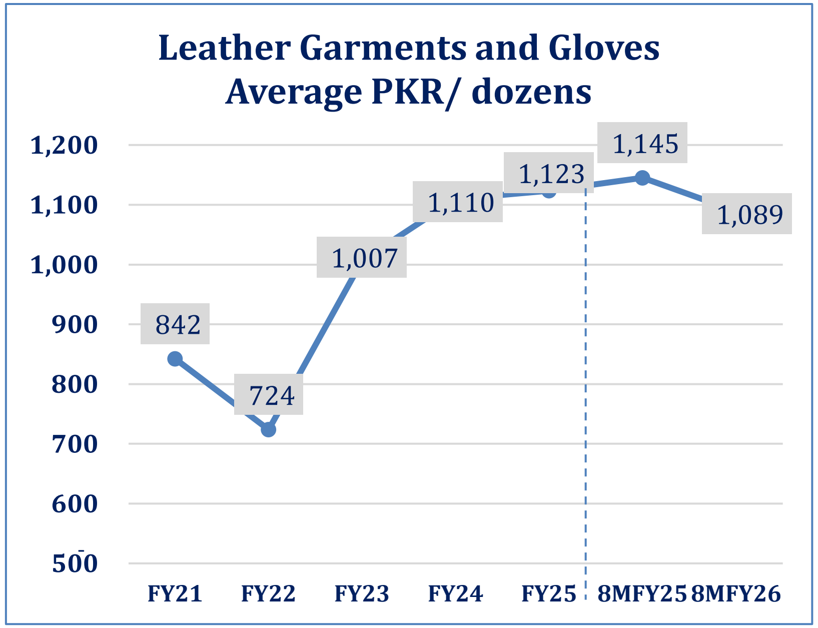
***Note**: Leather' Products in Wholesale Price Index include Leather without Hair, Other Leather N.E.C and Footwear, as defined by PBS. All data are latest available.*

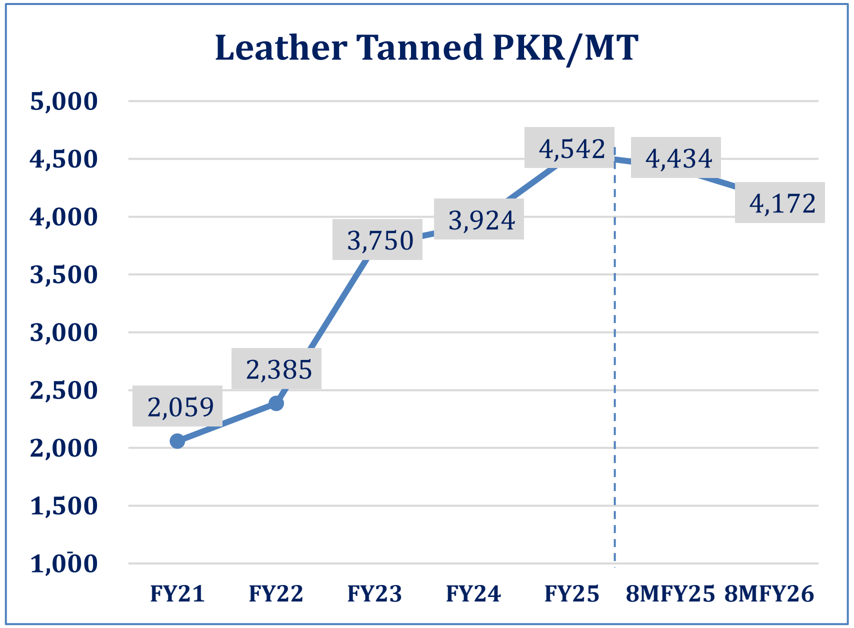
Source: PBS

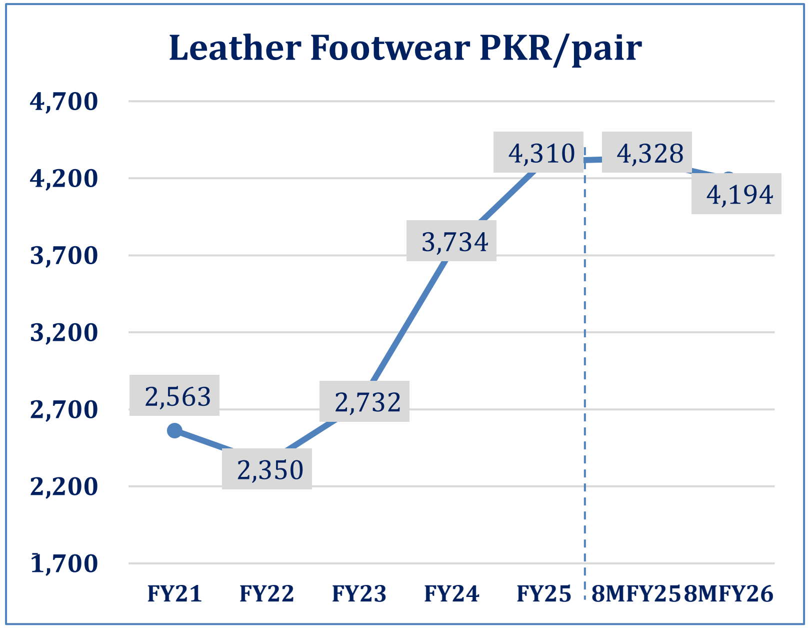
Leather

Local | Export Prices

- In FY25, the average export prices for leather garments and gloves remained relatively flat with a marginal increase of ~1.2% YoY to PKR ~1,123 per dozen (FY24: PKR ~1,110 per dozen). In 8MFY26, the average prices dropped to PKR ~ 1,089 per dozen (SPLY: PKR ~1,145 per dozen), representing a ~4.9% decrease. This indicates a cooling of wholesale prices compared to the peak period of the previous year.
- Tanned leather exhibits the steepest price escalation, doubling in value between FY21 and FY25. This period saw a massive surge, with prices jumping to PKR ~4,542/MT in FY25 (FY24: PKR ~3,924/MT). This ~15.7% increase reflects inflationary pressure and higher costs for chemicals used in the tanning process. During 8MFY26, prices fell to PKR ~4,172/MT from PKR ~4,434/MT in 8MFY25. While prices remain much higher than historical averages, this ~5.9% drop suggests a correction in the industry's raw materials segment.
- Similar to tanned leather, footwear saw high growth, rising to PKR ~4,310 per pair in FY25 (SPLY: PKR ~3,734 per pair). This ~15.4% increase likely reflects the pass-through effect of rising tanned leather costs (the primary input) into the finished consumer product. The trend in 8MFY26 has shifted towards a slight decline. Prices moved down to PKR ~4,194 per pair (SPLY: PKR ~ 4,328 per pair).







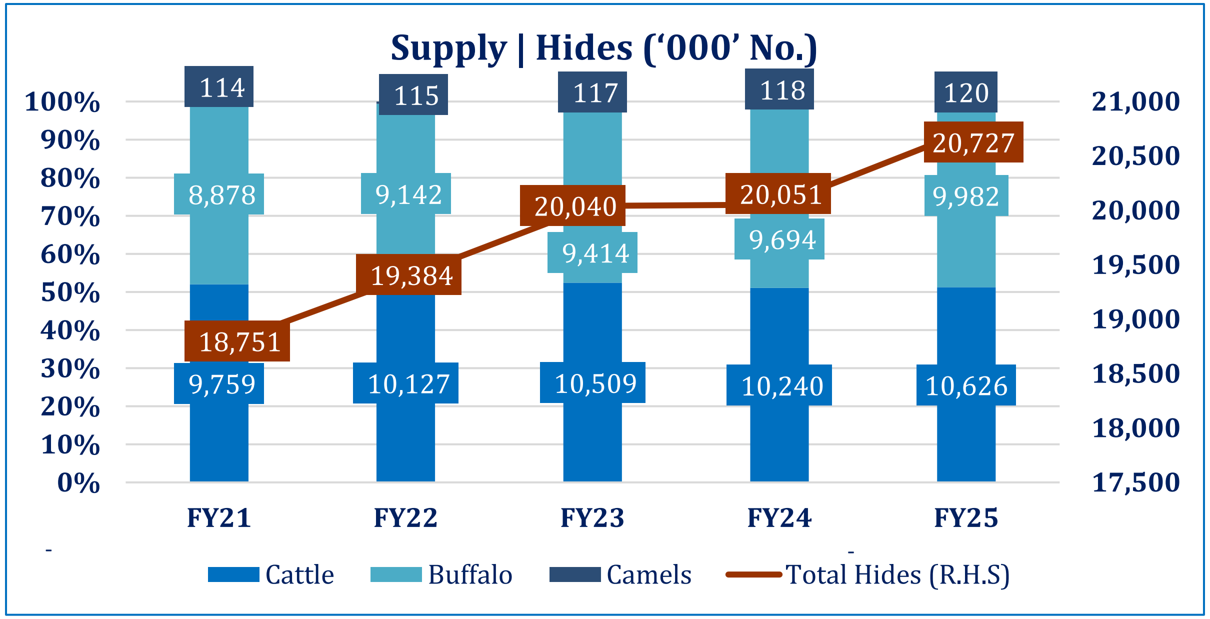
***Note**: All data are latest available. Prices depicted are export prices.*

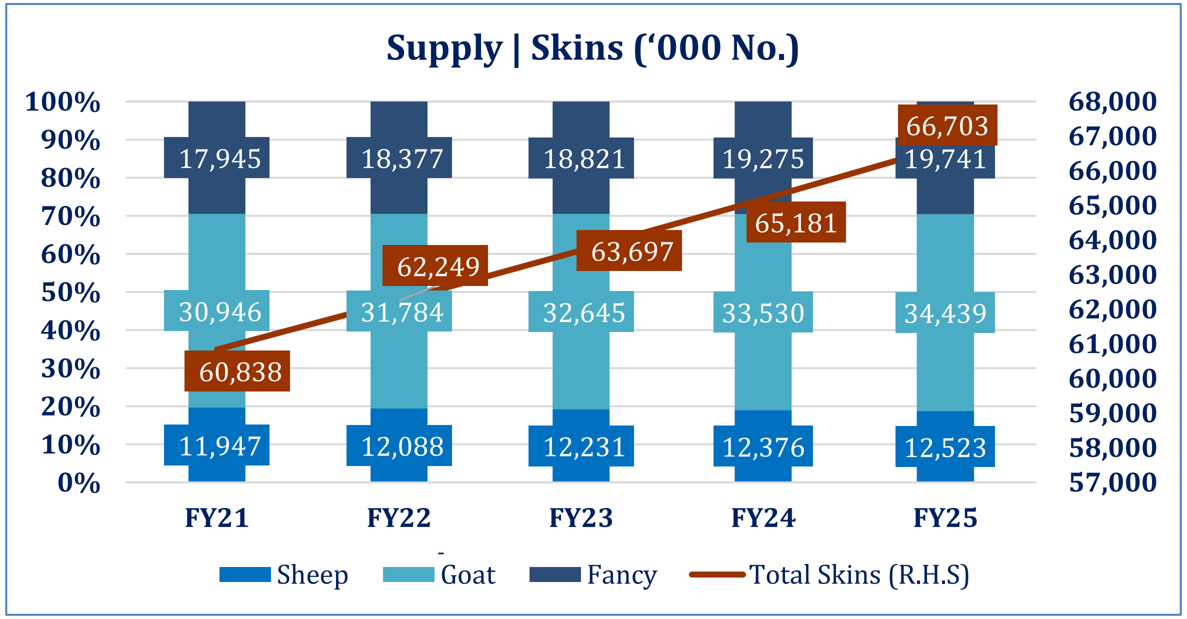
Source: PBS

Leather

Local | Supply

- The sector relies on locally available as well as imported raw material, including hides and skins produced from livestock such as cattle, buffalo, and goats. Total hides supply has expanded consistently YoY, though individual categories such as cattle hides recorded a temporary dip in FY24.
- In FY25, total hides recorded at ~20.7mn hides against FY24's ~20.1mn hides, a YoY gain of 3.4%, which is actually the strongest single-year growth rate in the five years. Cattle hides are the dominant contributor of ~51.3% and also the fastest-growing category in FY25, rising to ~10.6mn hides(FY24: 10.2mn hides), up ~3.8%. Buffalo hides followed closely, moving to ~9.9mn buffalo hides, a ~3.0% increase.
- The skins segment is significantly larger in volume than hides, with total supply reaching ~66.7mn in FY25 compared to ~65.2mn in FY24, a YoY increase of ~2.3%. Goat skins are the engine of this segment, contributing the largest volume of ~51.6% and posting a ~2.7% growth in FY25 to reach ~34.4mn goat skins. Fancy skins is the second largest category, reaching ~19.7mn in FY25, up ~2.4%, followed by sheep skins being the smallest and slowest-growing category, making up ~18.8% of total skins.





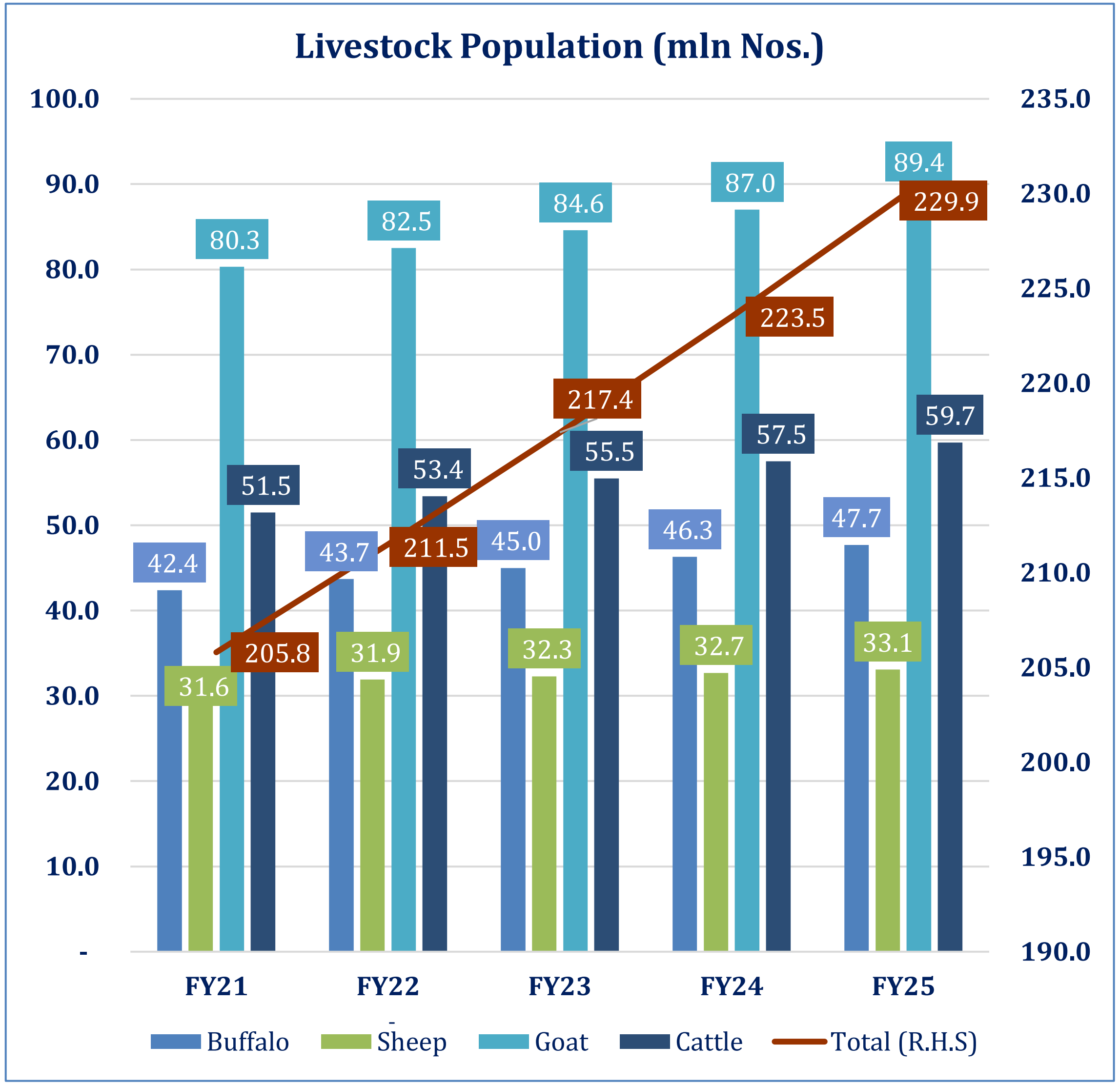
***Note**: All data are the latest available.*
"Cattle" refers to cows in the above figures.

Source: PES

Leather

Local | Supply

- Pakistan's livestock sector serves as a cornerstone of the national economy, contributing significantly to agricultural GDP, rural livelihoods, and raw material supply for the leather and food processing industries. The consistent expansion in livestock population across all major categories from FY21 to FY25 reflects the sector's underlying resilience. This sustained growth not only strengthens Pakistan's raw hide and skin availability but also serves as a critical upstream input for the leather industry.
- Goats represent the largest livestock category, growing to ~89.4mn in FY25(FY24: ~87.0mn), registering an overall increase of ~11.3% over five years, reinforcing their dominance as the most populous livestock in Pakistan.
- Cattle have experienced significant growth, increasing to ~59.7mn in FY25, which represents a rise of ~3.8% YoY. This indicates a growing demand for beef and dairy production throughout the country.
- The Buffalo population has grown steadily to ~47.7mn in FY25 (FY24: ~46.3mn). In contrast, the sheep population remains the slowest-growing category, registering at ~33.1mn in FY25, recording a modest growth of ~4.7% over the last five years.
- The combined livestock population across all four categories increased by ~2.9%, reaching ~229.9 million in FY25 (FY24: ~223.5mn) and an overall expansion of ~11.7%. This shows that Pakistan's livestock sector has demonstrated remarkable stability even amid recurring climate shocks and persistent macroeconomic pressures.



***Note**: All data are latest available..*

Source: PES

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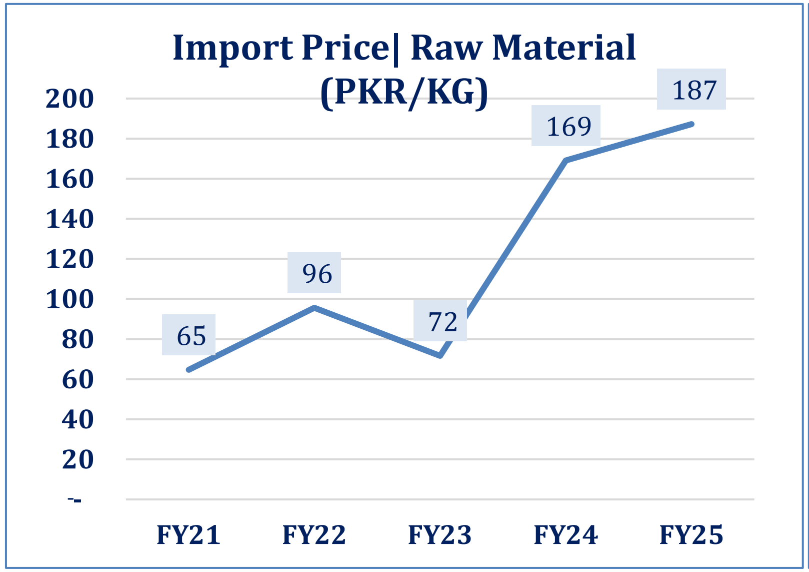
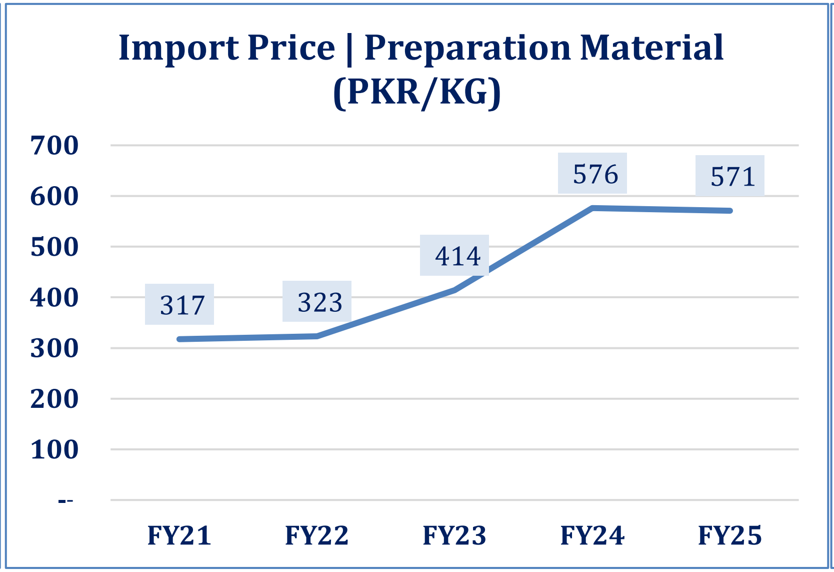
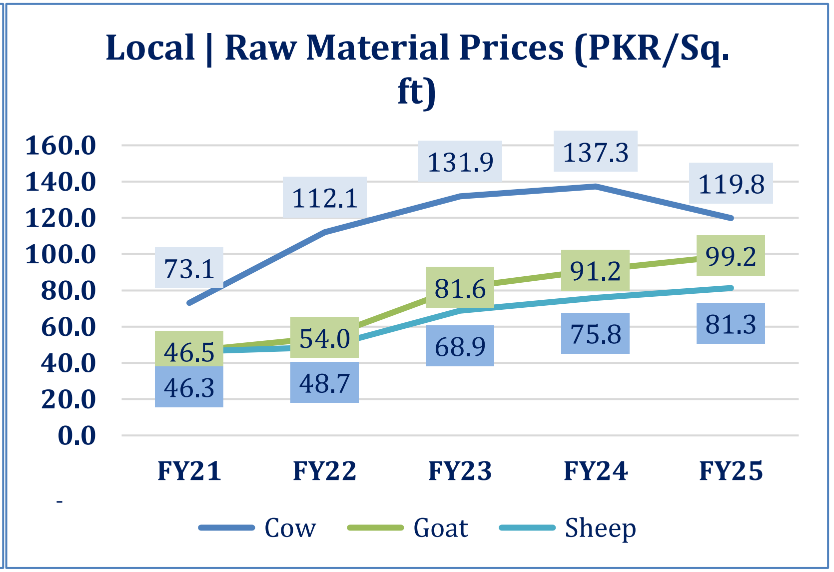
Local | Raw Material Prices

- Pakistan supplements its domestic hide supply with imports, primarily to bridge the shortfall arising from spoilage and inadequate preservation of locally collected hides. Average import prices for raw material (including skins/hides) recovered from PKR ~72/kg in FY23 to PKR ~169/kg in FY24, and further to PKR ~187/kg in FY25, largely reflecting PKR depreciation against the USD, alongside the gradual easing of import restrictions that allowed procurement to normalize following a suppressed FY23.
- Import prices for preparation material (chemicals, lubricants, and related inputs) rose steadily from PKR ~317/kg in FY21 to PKR ~576/kg in FY24, before marginally easing to PKR ~571/kg in FY25, reflecting sustained input cost pressures across the sector. Given that tanning chemicals are predominantly sourced internationally, this represents a significant cost burden, particularly for smaller tanneries.
- Locally sourced raw material prices recorded a mixed trend in FY25, cow hide, the most expensive input at PKR ~119.8/sq. ft, declining ~12.7% YoY, likely reflecting improved domestic supply, while goat and sheep hide prices continued their upward trajectory, rising ~8.8% and ~7.3% YoY to PKR ~99.2 and ~81.3/sq. ft respectively. Given the sector's heavy reliance on local raw material, these price movements carry meaningful implications for production costs, particularly for smaller tanneries with limited pricing power.







__Note__: HS Codes for the data are as follows - __Raw Materials__ 4101.5020 and 4101.5090, 4102.1020, 4102.2120, 4103.9010, 4104.1900, 4105.1000, __Preparation Materials__: 3403.1110. Local RM (Raw Material) prices are representative of Lahore and Kasur markets.

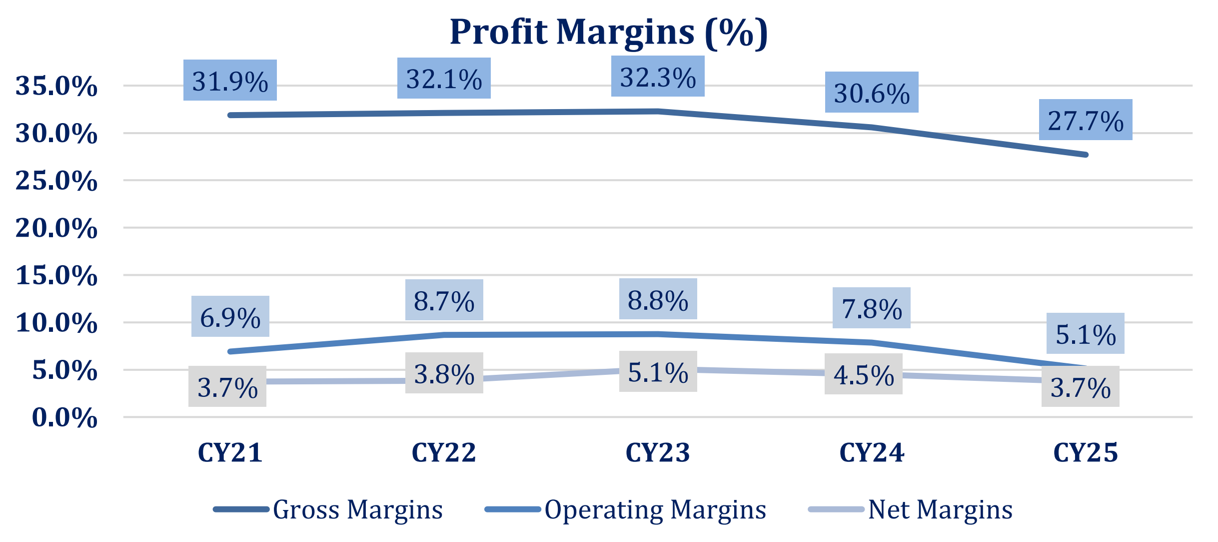
Source: PBS, PACRA Database

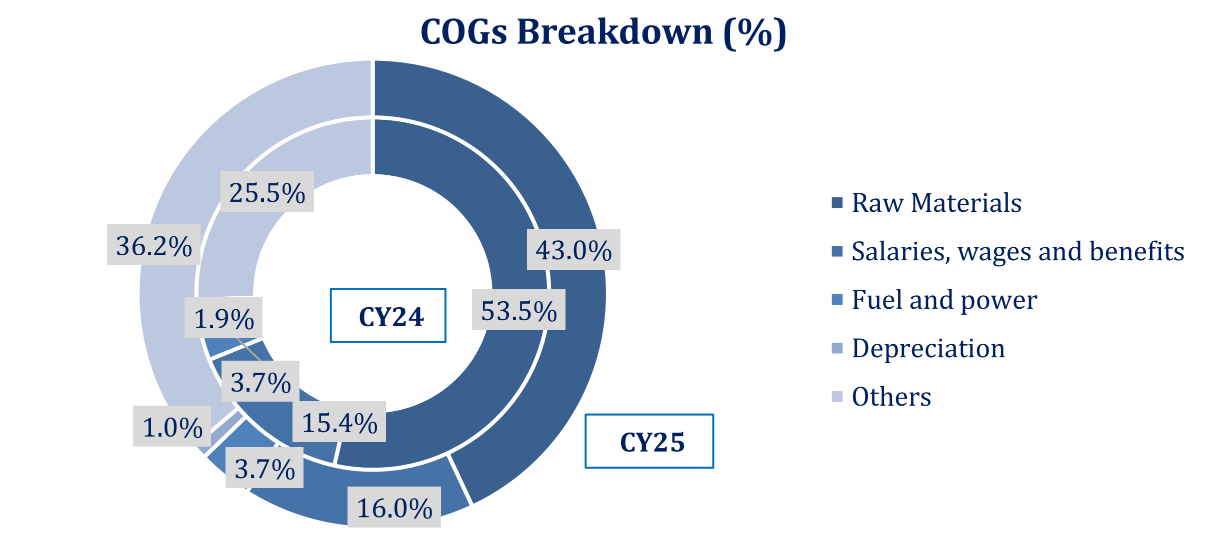
Leather

Together. Creating Value.

Business Risk | Margins & Cost Structure

- Average gross profit margins of the leather sector, for the period CY21-23, recorded at ~32.1% while in CY25, these declined to ~27.7% (CY24: ~30.6%) as a result of high-cost pressure. Overall, the sector's total sales were up ~5.6% YoY during CY25, while cost of goods sold registered ~9.4% YoY increase, which outpaced the positive revenue growth.
- Operating margins stood at ~5.1% in CY25, contracting from ~7.8% in CY24, largely mirroring the decline in gross margins over the same period. Administrative expenses recorded a moderate increase, primarily driven by higher salaries and wages, reflecting the broader inflationary environment. However, this was not a significant driver of the overall margin contraction, with the decline in operating profitability predominantly flowing through from compressed gross profits. Net margins stood at ~3.7% in CY25 (CY24: ~4.5%), remaining under pressure from taxation and finance costs.
- Raw materials held the largest share at ~43.0% in CY25 (CY24: ~53.5%). Despite this relative decline in share, raw materials continue to dominate the cost architecture. The primary raw material inputs for leather sector players in Pakistan comprise raw hides and skins and tanning chemicals. A meaningful portion of these chemical inputs is import-dependent, rendering the cost base structurally sensitive to PKR/USD exchange rate movements. Elevated logistics costs have similarly permeated other costs, contributing to the observable expansion in the Others category to ~36.2% in CY25 (CY24: ~25.5%)





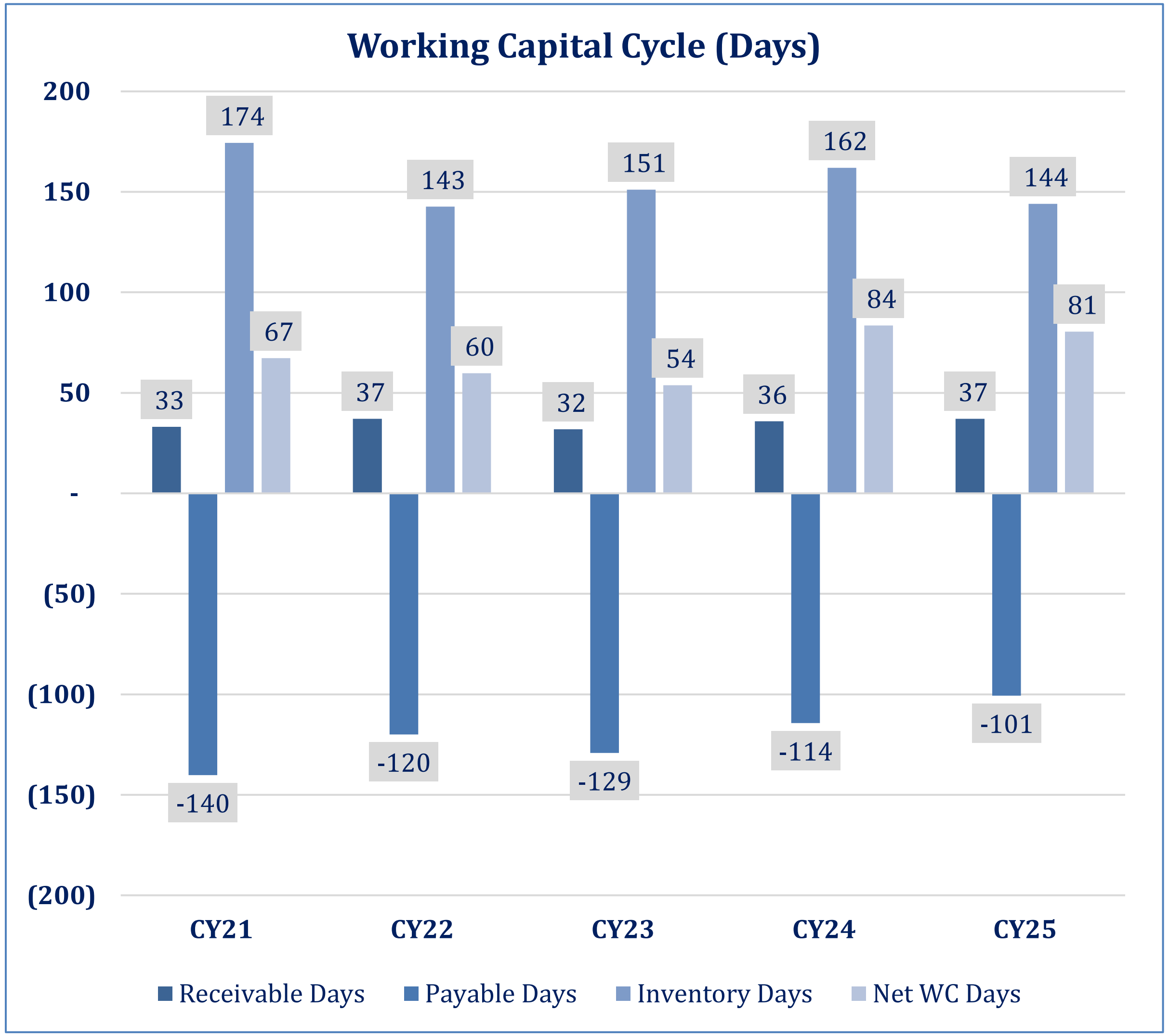
***Note**: Calculations are based on the financials of ~6 Listed/PACRA-rated clients reporting on a Calendar Year (CY) basis.*

Source: PSX, PACRA Database

Leather

Financial Risk | Working Capital Management

- In CY25, net working capital days of the sector were recorded at ~81 days, down from ~84 days in CY24.
- Receivable days of the sector were recorded at ~37 days during CY25 (CY24: ~36 days). The decline in payable days, from ~114 to ~101 days, alongside relatively stable receivables, tightened the working capital cycle, creating cash flow pressure at a time of compressed margins and elevated finance costs.
- Inventory days decreased to ~144 days in CY25 from ~162 days in CY24. Raw hides are a seasonal commodity where the bulk of the supply comes around the religious month of Zil Hajj. Tanneries must buy and store large quantities of raw hides at that moment or miss the supply window entirely for months. This creates a natural inventory build that takes the rest of the year to work through.



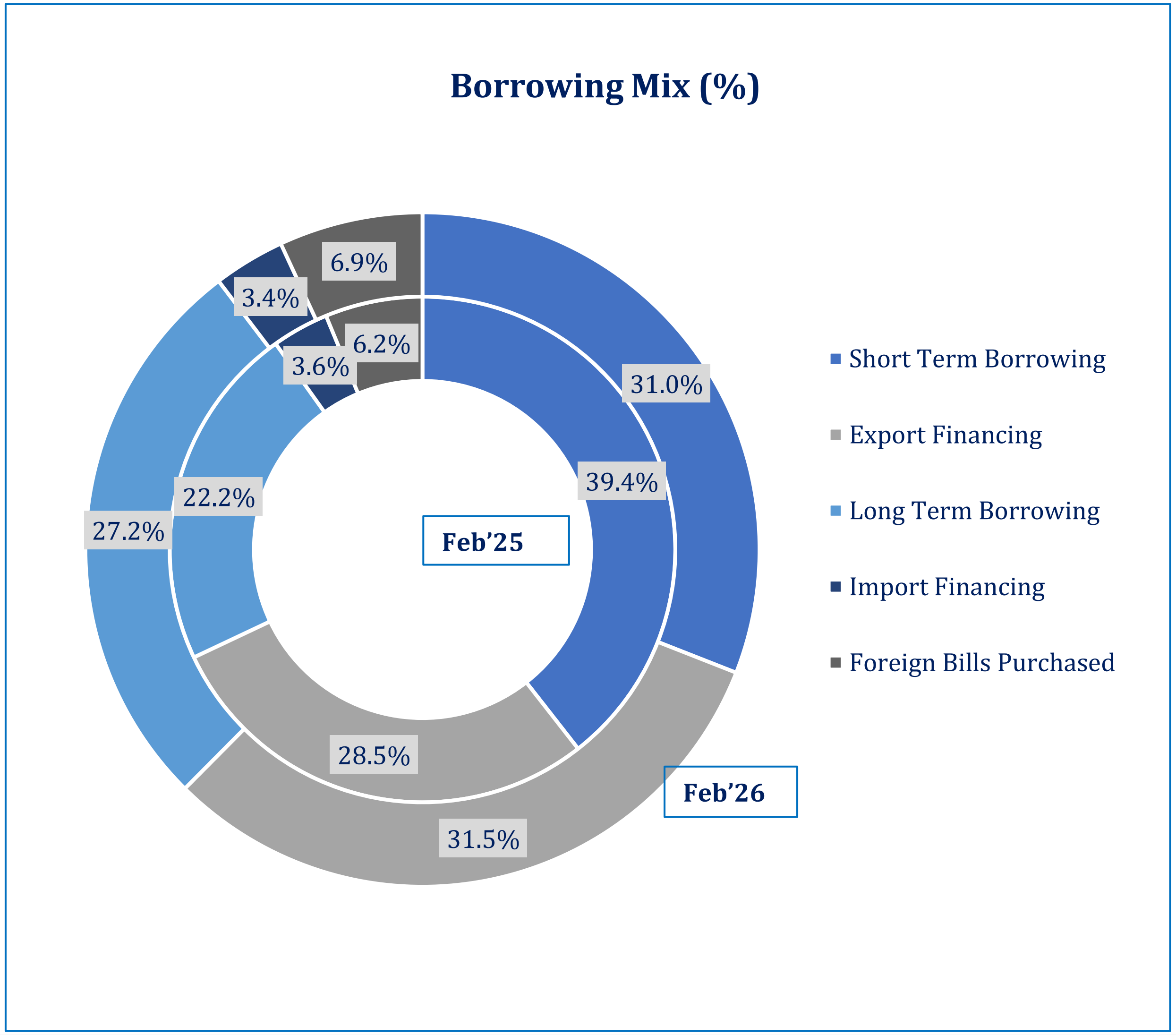
***Note**: Calculations are based on financials of ~6 Listed/ PACRA-rated clients.*

Source: PSX, PACRA Database

Leather

Financial Risk | Borrowing Mix

- The total outstanding debt of the sector as at End-Feb'26 was recorded at PKR ~55,089mn (SPLY: PKR~53,896mn), depicting a positive growth of 2.2%.
- Export financing constituted the largest proportion, standing at ~31.5% as at End-Feb'26 (End-Feb'25: ~28.4%), considering that the sector is largely export-oriented. Total export financing stood at PKR ~17,351mn (SPLY: PKR ~15,382mn)
- Short-term borrowing constituted the second largest portion (31.0%) of total borrowing, accounting for PKR ~17,054mn (End-Feb'25: ~39.4%) and share decreasing by 21.5%.
- Long-term borrowing constituted ~27.2% of total borrowings at End-Feb'26 (End-Feb'25: ~22.2%), with PKR ~14,988mn of borrowings.
- Import financing holds the smallest share of total borrowings at ~3.4%(SPLY: ~3.6%) accounting for PKR ~1,891mn.



***Note**: Borrowing figures are representative of 'Manufacture of Leather and Related Products' as per SBP classification.*

Source: SBP, PACRA Database

Leather

Duty Structure

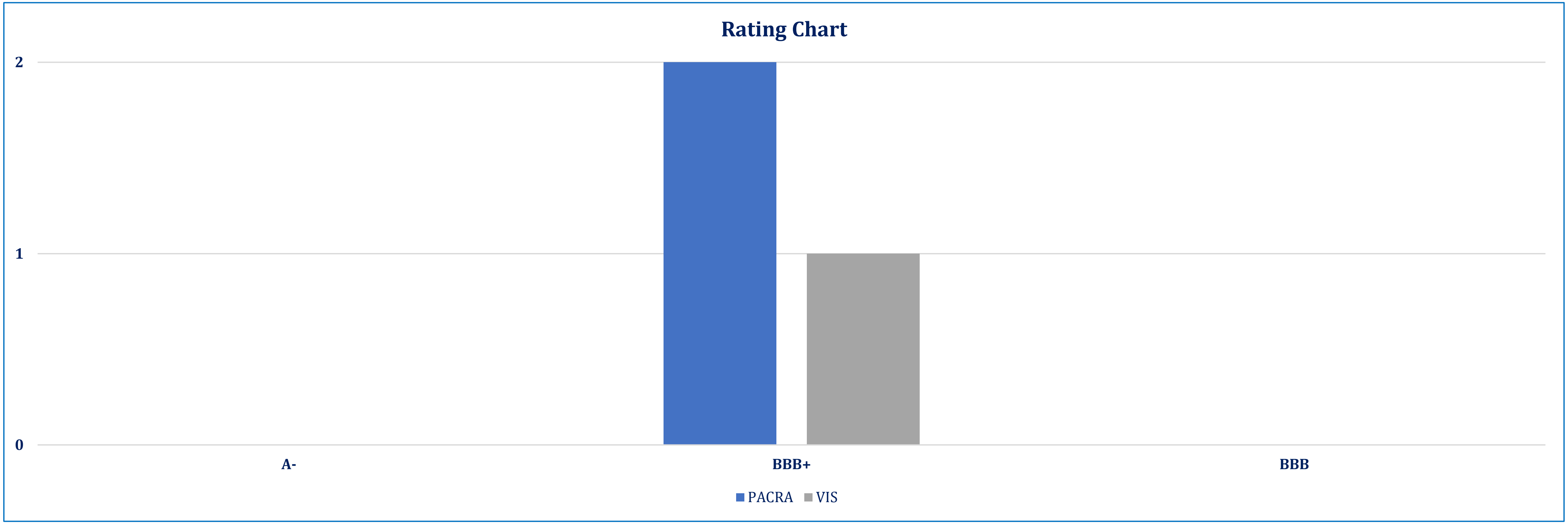
PCT Code	Description	Custom Duty		Additional Custom Duty		Regulatory Duty		Total	
		FY25	FY26	FY25	FY26	FY25	FY26	FY25	FY26
4203.1010, 4000	Articles of apparel and clothing accessories, of leather or of composition leather.	20%	20%	6%	4%	50%	40%	**76%**	**64%**
6403.1200	Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather.	20%	20%	6%	4%	20%	20%	**46%**	**46%**
6403.9900	Other footwear	20%	20%	6%	4%	40%	32%	**66%**	**56%**
4202.1120, 2100, 3100	Suit-cases, of leather or composition leather, handbags, other articles.	20%	20%	6%	4%	20%	20%	**46%**	**44%**
4101.5020	Raw hides and skins of buffalo and cow (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment- dressed or further prepared), whether or not dehaired or split.	0%	0%	2%	0%	0%	0%	**2%**	**0%**
4102.1020, 2120	Raw skins of sheep (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment dressed or further prepared), whether or not with wool on or split	0%	0%	2%	0%	0%	0%	**2%**	**0%**
4103.9010	Other raw hides and skins (fresh, or salted, dried, limed, pickled or otherwise preserved, but not tanned, parchment dressed or further prepared), whether or not dehaired or split	0%	0%	2%	0%	0%	0%	**2%**	**0%**
4104.1900	Tanned or crust hides and skins of bovine (including buffalo) or equine animals, without hair on, whether or not split, but not further prepared.	0%	0%	2%	0%	0%	0%	**2%**	**0%**
4105.1000	Tanned or crust skins of sheep or lambs, without wool on, whether or not split, but not further prepared.	0%	0%	2%	0%	0%	0%	**2%**	**0%**
3403.1110	Preparations of a kind used for the oil or grease treatment of textile materials, leather, fur skins or other materials, but excluding preparations containing, as basic constituents, 70 % or more by weight of petroleum oils or of oils obtained from bituminous minerals.	16%	15%	4%	2%	0%	0%	**20%**	**17%**

Source: FBR

Leather

Rating Curve

PACRA rates 2 players in the leather sector, with a long-term rating of BBB+.



Leather

SWOT Analysis

Strengths

- Ample availability of raw material (hides and skins of animals) locally
- Export-friendly government policies

Weaknesses

- Lack of advanced technology, resulting in higher cost of production as compared to international competitors
- Lack of skilled labor force in the country
- Lack of strong presence in the global fashion market at the high end

Threats

- Introduction of low-priced alternatives, such as synthetic leather
- High concentration in the European market.
- Switch to vegan/bio leather

Opportunities

- Growing local market with increasing fashion consciousness, resulting in higher demand for leather accessories and footwear in Pakistan
- High untapped potential in US and China markets

Leather

Outlook: Stable

- Pakistan’s economy posted a real GDP growth of ~2.7% in FY25 (FY24: ~2.4%), and the average CPI for 7MFY26 increased by ~5.8%, marking a significant increase from ~2.4% in the same period last year. In FY25, the Leather sector accounted for ~1.2% of the QIM. During the 1HFY26, it recorded a YoY decline of ~1.0%, compared to a contraction of ~0.8% in the same period of the prior year.
- In FY25, leather footwear accounted for ~5.6% of total footwear production. Across the broader leather segment, export performance was mixed as leather apparel saw modest volumetric growth of ~2.2% YoY, while tanned leather and footwear exports declined by ~14.3% and ~5.9%, respectively.
- Among the three leather sub-segments, Tanned Leather stands out as the most promising growth driver. Having rebounded sharply from a ~9.0% decline in FY24, it posted the strongest growth of ~7.6% in FY25 and has since accelerated further to ~8.7% in 8MFY26, marking the only sub-segment gaining momentum rather than losing it. This trajectory points toward a structural recovery, making Tanned Leather the key segment to watch within the broader leather sector going forward.
- Pakistan's leather apparel sector remains heavily reliant on Western markets, with the top three destinations (U.S., Germany, and U.K.) collectively accounting for ~47.7% of total exports, while the U.S. share has already begun to slip, registering at ~27.0% in 8MFY26 (SPLY: ~28.2%), a trend worth monitoring given its dominance as the single largest market.
- Despite a ~5.6% YoY increase in total sales during CY25, profitability came under pressure as the cost of goods sold grew faster by ~9.4% YoY, eroding margins across the board. Gross margins declined to ~27.7% (CY24: ~30.6%), while operating margins contracted sharply to ~5.1%(SPLY: ~7.8%), dragged down by rising raw material costs and elevated administrative and operating expenses. With limited pricing power, net margins narrowed to ~3.7% in CY25 from ~4.5% in CY24.
- The EU-India Free Trade Agreement of January 2026 represents a structural shift in the competitive dynamics of the European leather trade. For over a decade, Pakistan's GSP+ zero-duty access gave its leather exporters a tangible price advantage over Indian competitors who faced duties as high as 17%. With this agreement, India now has duty-free access to the European leather market. Faced with India’s lower energy costs and superior supply chains, Pakistan’s leather sector can no longer rely on tariff preferences to remain competitive. To survive this shift, exporters must pivot toward high-value finished goods and rigorous EU sustainability compliance. Ultimately, Pakistan’s future in the European market will be determined by its ability to offer superior quality and environmental standards rather than its previous tax-exempt status.

Leather

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