



# State of play

India's toy story- Unboxing fun and beyond ...

September 2021



# Preface

Toys have been an integral part of Indian culture and heritage since time immemorial. Simple toys made of clay, sophisticated playthings crafted by expert artisans and mechanical toys have been found in the excavated remains of the Indus Valley, Harappa and Mohenjo-Daro. Many games popularly played across the world have origins in ancient India, Chaturanga is the predecessor of modern-day chess and Pachisi is the predecessor of modern-day Ludo. Even today traditional toy manufacturing hubs in India, such as Channapatna, Chitrakoot and Kondapalli, have artisans creating toys that not only connect young minds of our nation with our history but also augment their cognitive skills.

While the desire to play is as unabated today as ever before, the global toy industry has come a long way. The nature and techniques of play are fast evolving keeping pace with changes in technology and market demands. Whereas globalization has expanded market access for raw materials and finished goods, the COVID-19 pandemic has exposed the vulnerabilities of global firms procuring from a single source market. The established need for de-risking supply chains has presented India with another opportunity to embrace its heritage and inherent advantages in skill and technology to become a global player in the industry.

The Indian toy industry is also capable of registering strong growth, owing to a large domestic market, rising disposable income, and low domestic per capita spend on toys. However, the vastly unorganized and fragmented Indian toy industry faces challenges due to the lack of design innovations, linkages with bulk buyers, quality training and testing, and low expenditure on advertising or brand building.

**Promoting quality toys and maintaining the affordability of those quality products are the two key pillars.** The Indian toy market remains highly import dependent with the domestic industry having a

minuscule global footprint. The desired model for India is to incentivize global as well as domestic players to build end-to-end, integrated manufacturing facilities. Several initiatives have already been taken by the Government of India to promote the domestic toy industry such as identifying **toys as one of the key sectors under Aatmanirbhar Bharat Abhiyan** and preparing a National Action Plan to propel growth and supporting development of toy manufacturing clusters. KPMG in India and FICCI have also supported the Government in organizing the first of its kind digital event, "The India Toy Fair 2021".

Ever since our **honorable Prime Minister** had asked to boost the global imprint of Indian toys, states across the country are spearheading initiatives to nurture toy manufacturing ecosystems as well as developing and marketing new toy clusters, heralding a significant change in domestic toy manufacturing. Beyond supporting livelihoods and children's right to play, toys are also an **essential pedagogical tool as recognized by the New Education Policy 2020**. Introduction of the **QCO helps Indian toy manufacturers** to be globally competitive and increase exports. With this, Indian toys will be on par with international quality & safety standards.

This report presents a detailed overview of the Indian toy industry focusing both on demand and supply side measures. Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

We are hopeful that the report will create desired interest and involvement of all stakeholders to make India a global toy manufacturing hub.

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# Toyconomy



## **Large domestic market and spending potential**

## High labour multiplier

## Larger share of Indian made toys for exports & domestic consumption

1. World Population Prospects, 2019, United Nations
2. Statista



# Making children future ready!



## A child's Right to Play: The UN Convention on the Rights of the Child

"Article 31 (Leisure, play and culture): Children have the right to relax and play, and to join in a wide range of cultural, artistic and other recreational activities"<sup>3</sup>

**Children learn by playing and toys are the instruments that allow them to discover**

### Socio-cultural



Toys bring to life society's traditions, beliefs, values, and ethos



Aid in educating the children about different cultures



Act as a source of livelihood to numerous craftsmen and artisans

### Educational



Toys have an impact on overall development of a child. Eg: motor, psychomotor, cognitive skills and also stimulate creativity



Toys act as a medium of self-expression, Aid better focus concentration, problem solving and lateral thinking



Catalyst for enhancing curiosity, creativity, sociability, self-esteem, emotional stability, and more

Sources: 3. Convention on the Rights of the Child - <https://www.ohchr.org/en/professionalinterest/pages/crc.aspx>

# Opportunities to play exist everywhere

India has a huge potential to play in the global toy market

USD93 Bn  
Global Trade in 2020



8.9%

CAGR in 2015-2020



## Top 5 Importers\* (Imports in 2020)

1. USA (\$27 Bn | 31%)
2. Germany (\$6.5 Bn | 8%)
3. UK (\$5.2 Bn | 6%)
4. Japan (\$4 Bn | 5%)
5. France (\$3.8 Bn | 4.5%)

## Top 5 Products\* (Imports in 2020)

1. Dolls, Action figures (\$47 Bn | 60%)
2. Electronic toys (\$22 Bn | 26%)
3. Other toys (\$5 Bn | 8%)
4. Board game & Puzzles (\$4.8 Bn | 2%)
5. Plush toys (\$1 Bn | 1%)

## Top 5 Exporters\* (Exports in 2020)

1. China (incl. Hong Kong) (\$57.8 Bn | 63%)
2. Germany (\$4.4 Bn | 5%)
3. Czech Republic (\$3.8 Bn | 4%)
4. USA (\$3.4 Bn | 3.6%)
5. Japan (\$3.3 Bn | 3.4%)

Source: UN Comtrade; Other toys include arts and crafts, festive articles, novelty, etc.  
Note: Trade statistics may vary from data gathered from stakeholder consultation,  
\*Share in global imports

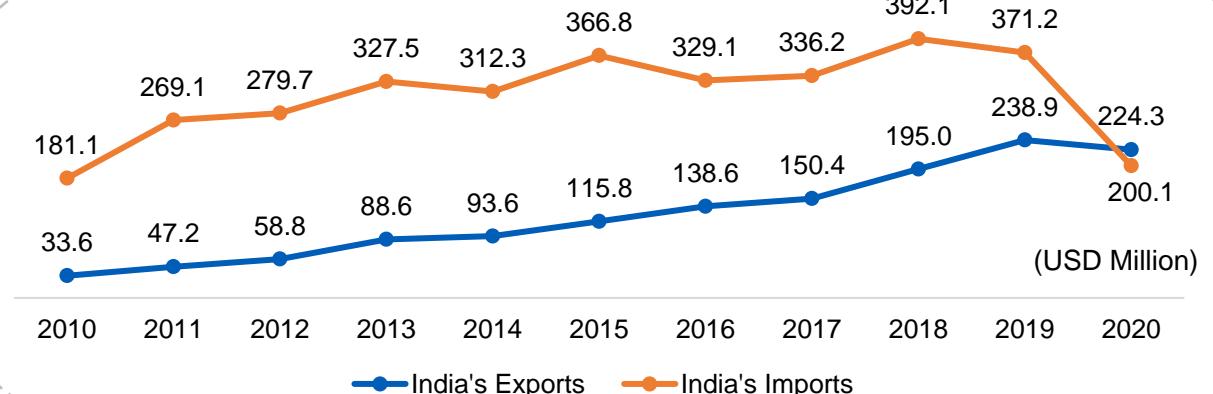


0.4% + 0.2%

Share in Global Imports in 2020

0.2%

Share in Global Exports in 2020



Export

29<sup>th</sup> -6%

Biggest Exporter of toys Export Growth in 2020 v 2019

Import

44<sup>th</sup> -46%

Biggest Importer of toys Import Growth in 2020 v 2019

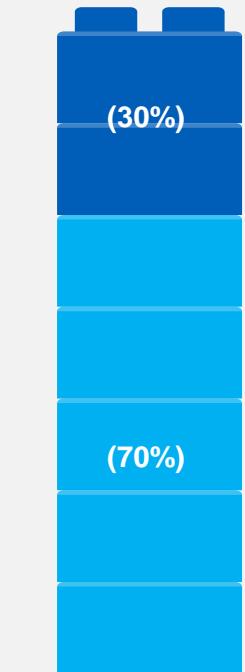


# The toy market



## Global toy market

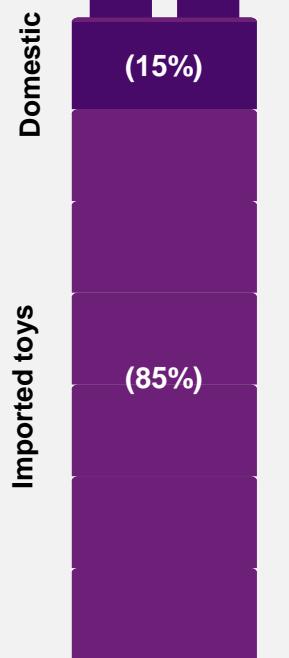
USD~95 Bn (estd.)  
in 2020



Sourced from  
Asia,  
predominantly  
China

## Indian toy market

USD1 Bn (estd.)  
in 2020



Largely  
unorganized  
& import  
dependent

Significant scope  
for **growth in  
Gross Value  
Addition** with the  
inclusion of  
unorganized units.

Average amount spent per child on toys worldwide is USD 50-69 in 2019 by region \*

- Europe USD212
- North America USD 300
- South America USD 44
- Africa USD7
- Asia USD34
- **India USD~3**

Source: UN Comtrade and Based on Industry consultations,, current environment and certain policy could impact Indian toy market's growth <https://www.statista.com/statistics/194424/amount-spent-on-toys-per-child-by-country-since-2009/>

Note: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.



# India's toy story: domestic & export market opportunity



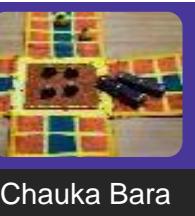
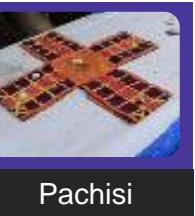
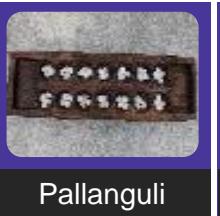


# From traditional toys to modern toys... India has it all



Representative and not exhaustive

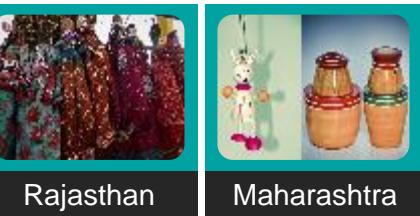
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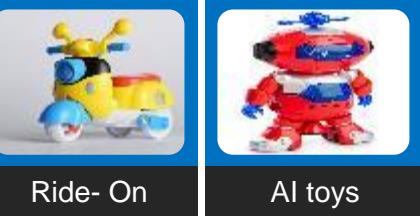
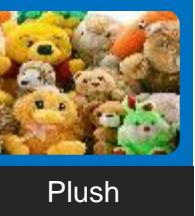
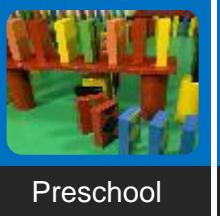
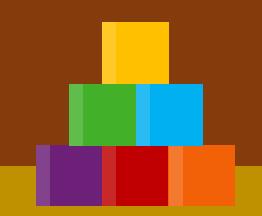
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3



4

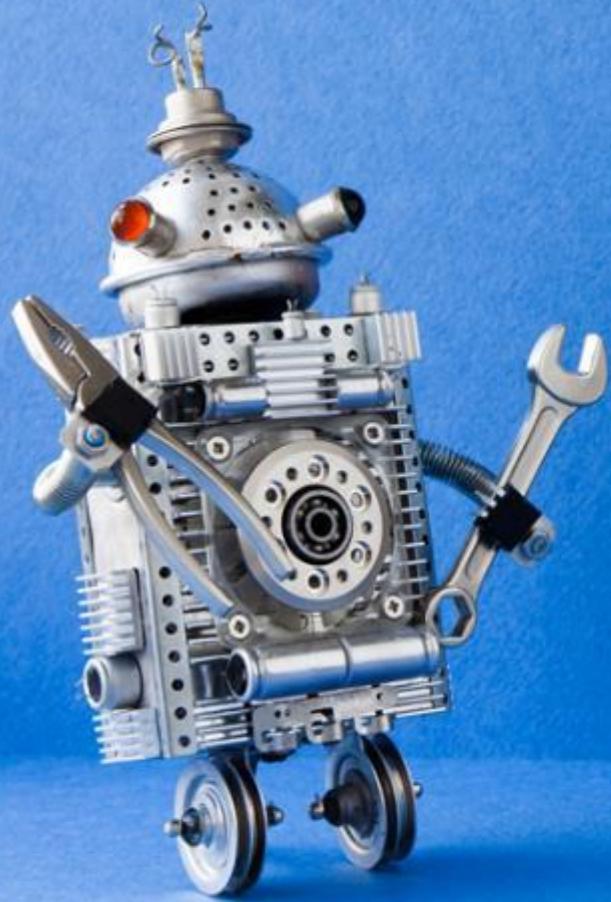


- 5,000 years rich heritage of Indian toys - The excavated toys and dolls found in Harappa and Mohenjo-Daro included small carts, dancing woman, etc.<sup>4</sup>
- Rich culture of storytelling through its toys - The religious influence also led to a different set of toys depicting stories from epics like Ramayana and Mahabharata.
- Over the years, the toy industry has evolved with the development of innovative, creative and technology enabled modern toys.

Sources:4. Toy Story - Promotion of Indigenous Toys of India, 2020; \* indicative and not exhaustive.

# Segmental shift: Digitization of play

Tech Infused future toys - Artificial intelligence, 3D printing, and augmented reality specially in STEM toys are defining the future of toys



Product segmentation				
	Market Share* (%)	Import Dependency	Labor Intensity	Skill Intensity
Dolls, Action Figures, Baby toys, etc.	Baby & Infant	18.5		
	Pre-school	7.7		
	Dolls & Accessories	5.7		
	Action Figures	3.4		
Board games & Puzzles		5.1		
	Electronic, Remote control toys and Video games.	24		
Other Toys	Activity toys (Model vehicles, guns, etc.)	11.5		
	Construction	5.5		
	Outdoor	4.2		
	Arts & Crafts	3.6		
Plush		5.6		
	Ride-on Vehicles	2.4		
Others	2.8	-	-	-

## India's Cost Competitiveness vis-à-vis other nations

Countries	Labor cost per hour (\$)	Quality of power supply**	Power cost, kWh (\$)	Logistics efficiency
China	5.8	4.98	0.10	3.60
India	1.7	4.68	0.11	3.22
Indonesia	1.3	4.43	0.07	3.08
Vietnam	2.7	4.34	0.08	3.16

- Toys categories such as **dolls, soft toys, baby & infant, pre-school and board games** are **highly labor intensive** and have high potential for manufacturing in India; easy to penetrate export market. Except for items that require decorations, electronics and similar value additions where the productivity levels are significantly lower (35-40%) than China.
- India has limited manufacturing capability in battery operated, electronic and technology-based toys. These can be scaled up.
- Labor intensive sub-segments constituting 50-60% of toys market can scale up immediately in India; giving an **indigenization push** to these segments could provide enormous impetus to **job creation**.



Source: Industry consultations, World Bank, global petrol prices.com (power cost for businesses), Statista, KPMG in India Analysis; \*Market share in value terms. \*\*score on 1-7 scale with 7 being the best. Note: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

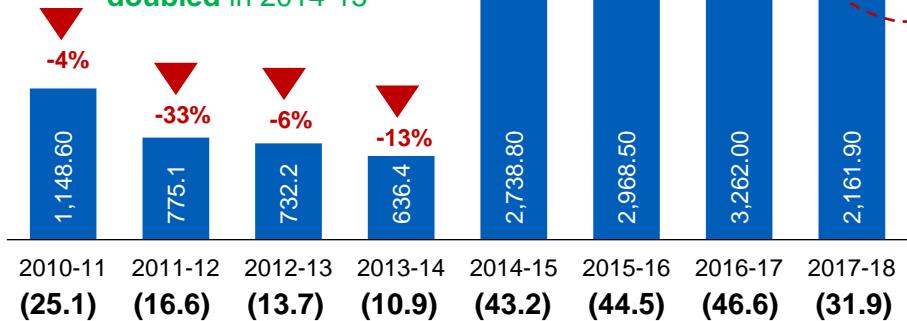
# Significant scope for growth in gross value addition

with inclusion of unregistered units in India

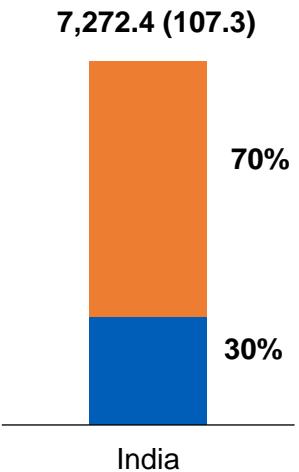


## India's toys & games value addition INR Mn (USD Mn)

Higher domestic & foreign demand due to rise in disposable income; No. of units in operation doubled in 2014-15



## India's output in INR Mn (USD Mn) in 2017-18



## State's export performance of toys and games

Top States	Toys Exports (USD Million)	
	2017-18	2019-20
Maharashtra	32.97	76.31
Uttar Pradesh	33.48	49.46
Karnataka	23	36.49
Delhi	16	15.8
Haryana	13	16.93
Rajasthan	6	8.44
<b>Total</b>	<b>152.7</b>	<b>238.75</b>

Source: Annual Survey of Industries as of October 2020 (available only for organized sector) and KPMG in India Analysis GVA (gross value added = output - input) numbers available till 2017-18

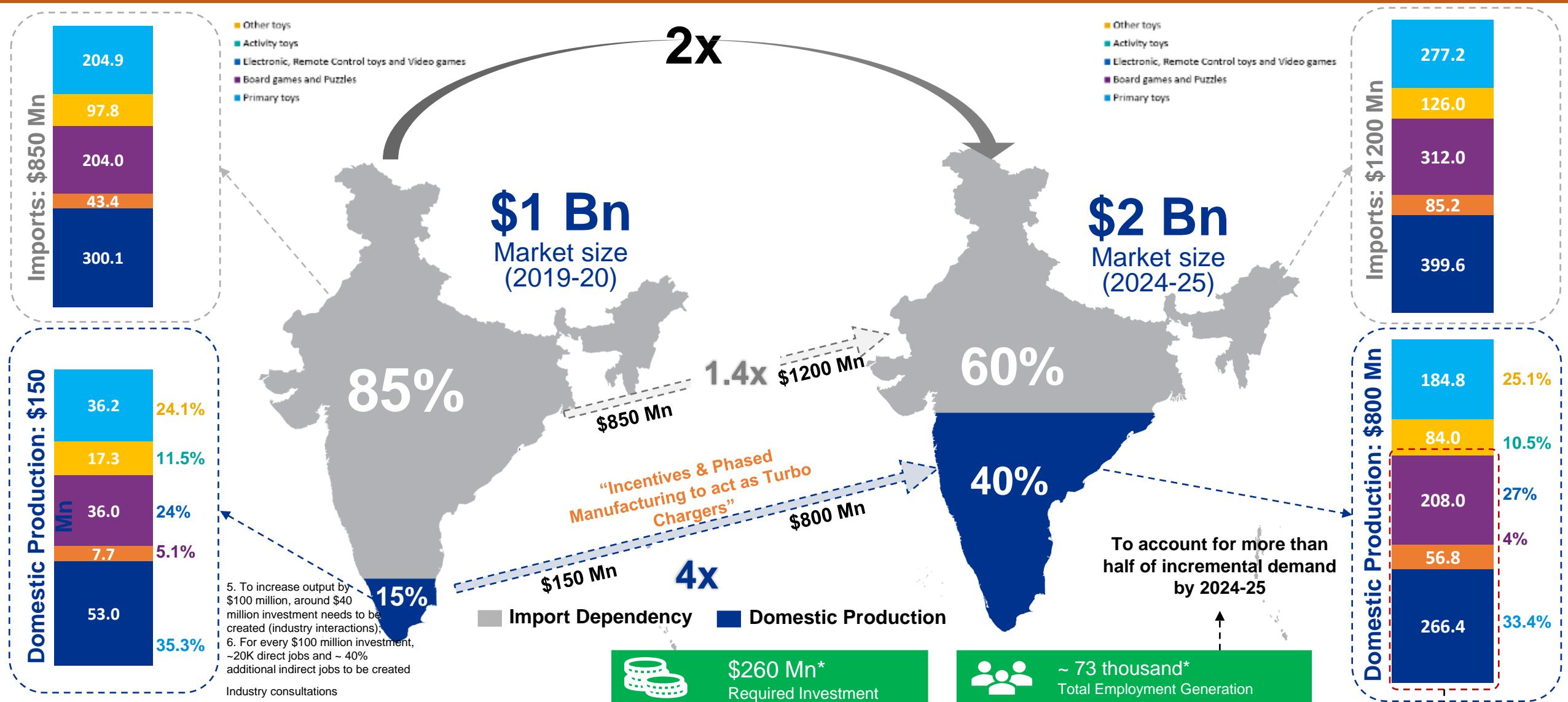
**India toy exports**  
\$224 million in 2020  
\$239 million in 2019

## Key takeaways

- Skewed output and exports due to exclusion of output figures for unregistered units
- Significant contribution by unorganized toy manufacturers in exports acting as tier 2 and 3 suppliers to large scale manufacturers
- Illustration: Compared to China, generic plastic moulded toys by Indian manufacturers who have automated facilities don't have a significant difference in productivity when made in scale for exports. For MSMEs who cater to smaller quantities for domestic markets, productivity would be 20 per cent lower. The difference in productivity for value added, decorated items, electronics and using masking etc, could be 35-40 per cent lower in India.
- Lower productivity leads to lower profit margins



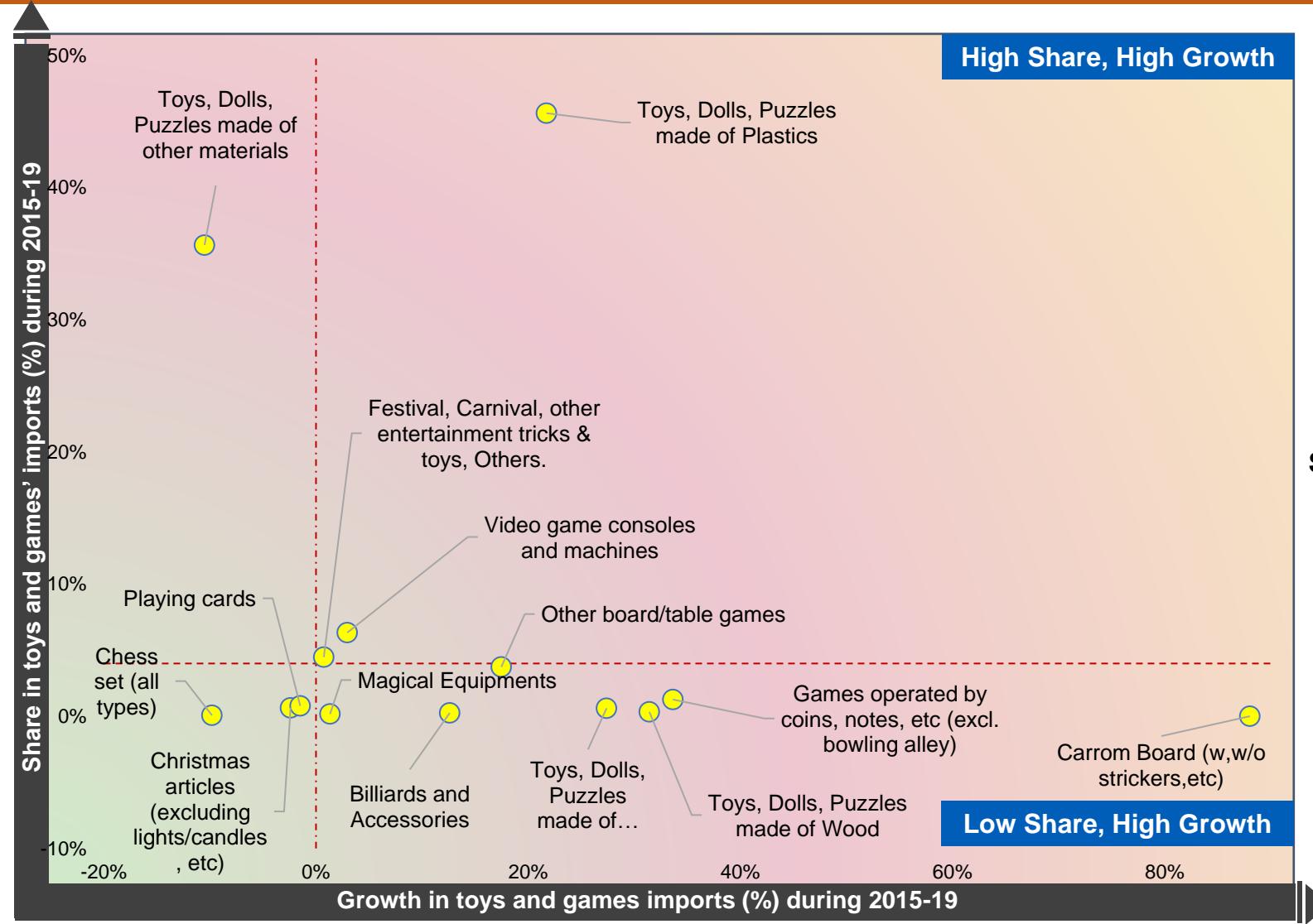
# The power of play - A \$2 billion opportunity!



Note: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.



# India - High import dependencies in plastic and electronic toys including raw materials

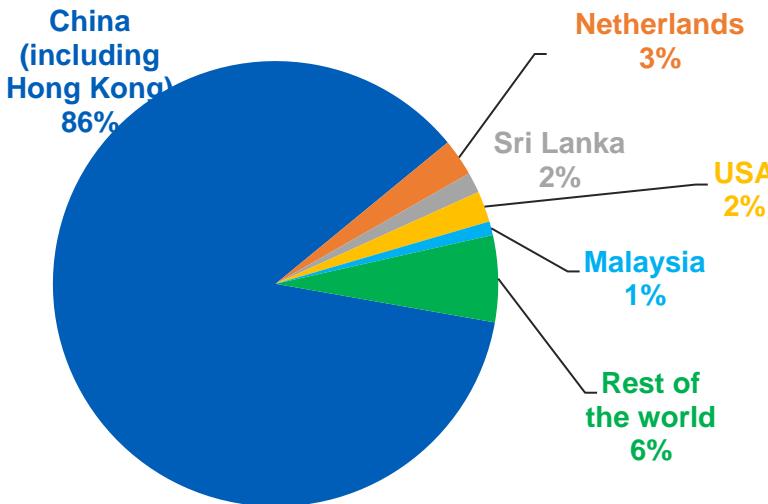


Source: Trademap Database; \* item share greater than 5% is considered;

**\$224Mn**  
Toys imports during 2020  
**0.4%**  
Toys share in overall imports during 2020  
**-12.3%**  
Growth in toys' imports during CAGR 2016-20\*

Imports of toys declined from \$329 Mn in 2016 to \$200 Mn in 2020

## Share of top countries exporting toys to India (2016-2020)



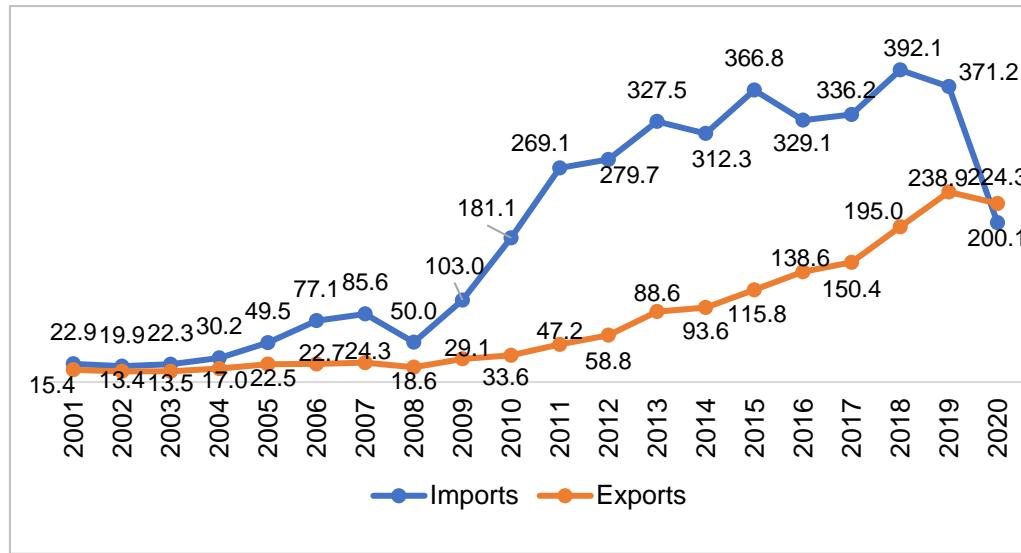


# High growth potential for India in plastic toys

and board games in USA and EU



## India's toys and games exports (USD Million)



## India's top export items for toys and games

Code	Product label	Exports (USD Mn) in 2020	Share in Exports (%)	CAGR (%) 2016-20
950300	Tricycles, scooters, pedal cars and similar wheeled toys; dolls' carriages; dolls; other toys; reduced-size scale" recreational models, working or not; puzzles of all kinds"	128.52	57%	13.4%
950510	Christmas articles (excluding candles and electric lighting sets, natural Christmas trees and Christmas tree stands)	63.1	28%	11.7%
950490	Tables for casino games, automatic bowling alley equipment, and other funfair, table or parlour games, incl. pintables (excluding operated by any means of payment, billiards, video game consoles and machines, and playing cards)	16.6	7%	17.0%
950590	Festival, carnival or other entertainment articles, incl. conjuring tricks and novelty jokes, n.e.s.	7.61	3%	1.7%
950440	Playing cards	6.48	3%	15.4%
950430	Games with screens, flipper and other games, operated by coins, banknotes, bank cards, tokens or by other means of payment (excluding bowling alley equipment)	1.32	1%	83.0%
950450	Video game consoles and machines (excluding operated by any means of payment)	0.48	0.1%	40.2%
950420	Billiards of all kinds and accessories	0.31	0.1%	-18.4%

- High export potential in toys such as dolls made of plastic and wood.
- India also has the potential to be a major hub for electronic toy exports such as STEM toys, video game consoles, etc.
- Export potential** in the range of USD0.9 Mn – USD4.4 Bn by focusing on high value toy exports to USA, EU and Middle East.

Export Destinations	2016 (USD million)	2020 (USD million)	CAGR (2016-20) (%)	Share in Exports (%) in 2020
	49.1	93.9	17.6%	41.9%
UK	14.0	18.1	6.7%	8.1%
Germany	8.0	15.6	18.2%	6.9%
Netherlands	2.5	7.8	33.3%	3.5%
UAE	5.0	5.3	1.6%	2.4%
Denmark	2.1	5.1	25.2%	2.3%
Poland	7.7	5.1	-9.7%	2.3%
China	8.5	4.9	-12.8%	2.2%
Belgium	4.5	4.8	1.6%	2.1%
Sweden	1.4	4.6	35.9%	2.1%
<b>Top 10 export destinations</b>	<b>102.7</b>	<b>165.4</b>	<b>12.6%</b>	<b>73.7%</b>
<b>Rest of the world</b>	<b>35.9</b>	<b>58.9</b>	<b>13.2%</b>	<b>26.3%</b>
<b>World</b>	<b>138.58</b>	<b>224.3</b>		

Source: Official Statistics of DGCIS

# Substantial scope of growth from China's exports



Global Toys Imports in 2020 (\$92.9 bn)	Toys and Games Top Exporters						Top 3 products in toy imports (%)
	China* (1st)	Germany (2nd)	Czech Republic (3rd)	USA (4th)	Other major Exporters	India (29th)	
Top Importers	\$58 bn	\$4.4 bn	\$3.4 bn	\$3.3 bn		\$0.224 bn	
USA (\$26.6 billion)	82%	0.3%	0.3%	-	Vietnam (7%) Mexico (3%)	0.5%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (60%) 2. Video game consoles and machines (16%) 3. Christmas articles (excluding candles and electric lighting sets (12%)
Germany (\$6.5 billion)	38%	-	15%	1%	Japan (14.3%) Poland (8%)	0.3%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (54%) 2. Video game consoles and machines (35%) 3. Tables for casino games, automatic bowling alley equipment, etc. (4%)
UK (\$5.2 billion)	62%	5.5%	6%	2.1%	Poland (4%) Netherlands (3%)	0.4%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (59%) 2. Video game consoles and machines (22%) 3. Christmas articles (excluding candles and electric lighting sets (6%)
Japan (\$3.9 billion)	85%	0.3%	0.2%	1.3%	Vietnam (7%)	-	1. Video game consoles and machines (51%) 2. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (35%) 3. Christmas articles (excluding candles and electric lighting sets (4%)
France (\$3.8 billion)	53%	7%	6%	1.7%	Japan (5.5%) Netherlands (4%)	0.3%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (57%) 2. Video game consoles and machines (34%) 3. Tables for casino games, automatic bowling alley equipment, etc. (7%)
Poland (\$2.9 billion)	44%	15%	5.4%	0.1%	Japan (23%) Netherlands (3%)	0.3%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (58%) 2. Video game consoles and machines (28%) 3. Tables for casino games, automatic bowling alley equipment, etc. (6%)
Canada (\$2.7 billion)	71%	1%	0.4%	11%	Mexico (6%) Vietnam (4%)	0.3%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (49%) 2. Video game consoles and machines (19%) 3. Games with screens, flipper and other games, operated by coins, banknotes, etc. (11%)
Netherlands (\$2.3 billion)	45%	11%	5.1%	4.1%	Hong Kong (8%) Belgium (6.2%)	0.4%	1. Video game consoles and machines (52%) 2. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (41%) 3. Christmas articles (excluding candles and electric lighting sets (3%)
Spain (\$2.1 billion)	59%	5.1%	3%	0.8%	Poland (6%) UK (4.5%)	0.3%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (48%) 2. Video game consoles and machines (35%) 3. Games with screens, flipper and other games, operated by coins, banknotes, etc. (8%)
World (\$92.9 billion)	62%	4.7%	3.6%	3.5%	Japan (3.4%) Poland (2.9%)	0.3%	1. Tricycles, scooters, pedal cars and similar wheeled toys, etc. (58%) 2. Video game consoles and machines (23%) 3. Christmas articles (excluding candles and electric lighting sets (6%)

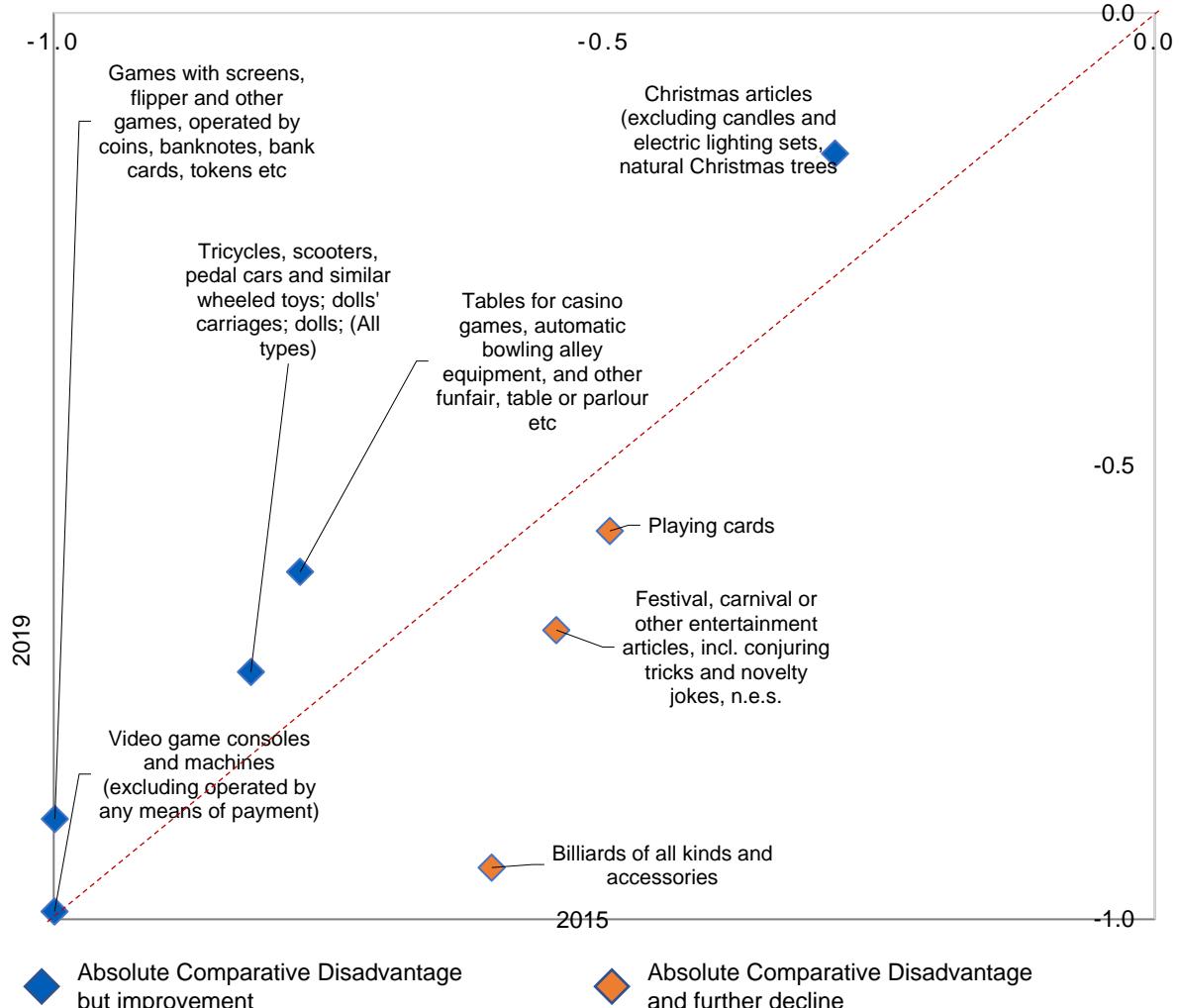
\*China including Hong Kong; Note: Top 4 exporters account for 74% of the toys exports; Top 10 importers account for 62.5% of the global toys imports. Source: Trademap Database



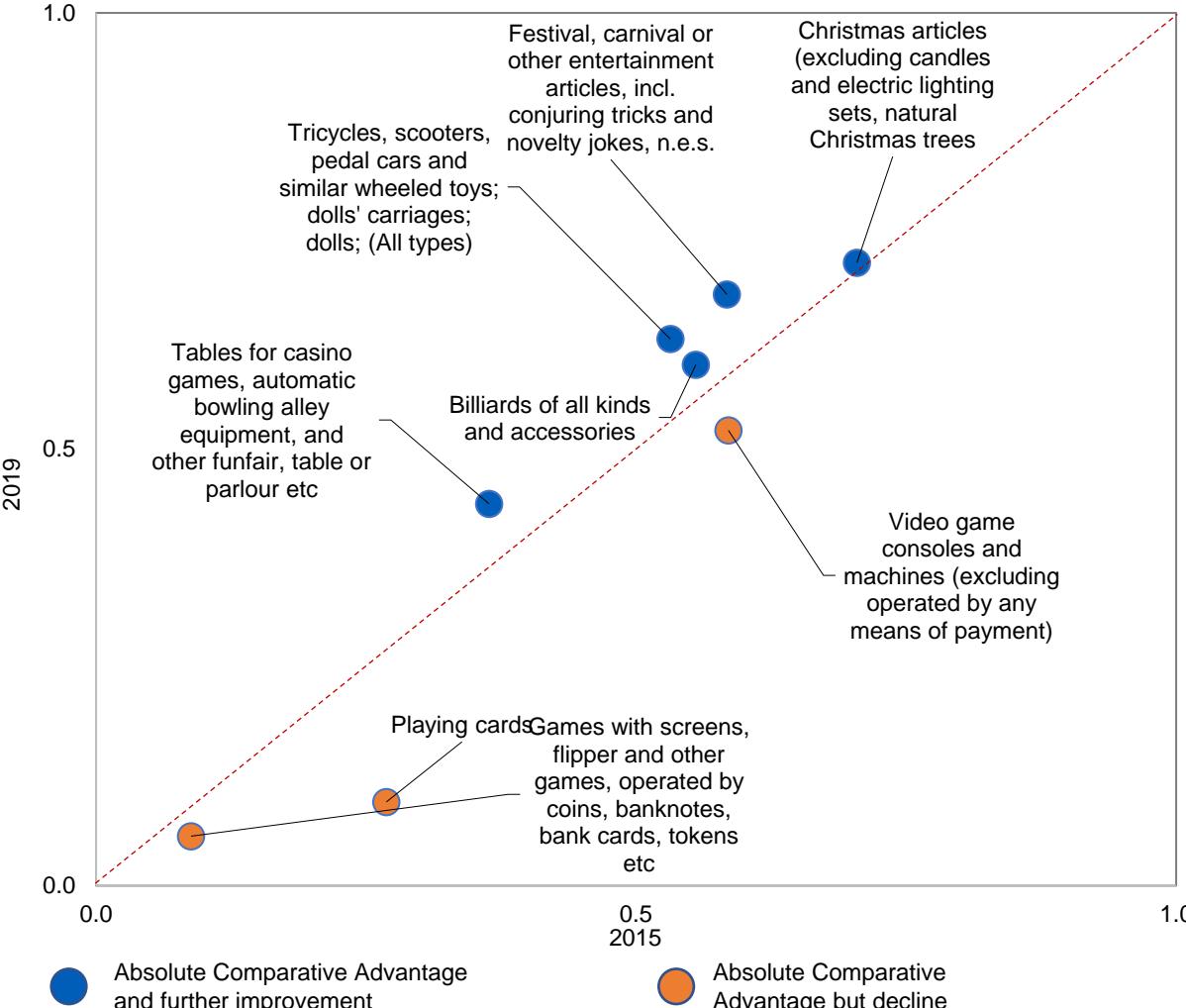
# Comparative advantage - India vis-à-vis China



**India's Normalized – RCA (2015 – 19)**



**China's Normalized – RCA (2015 – 19)**



Note: N-RCA is between -1 and 1; Value Greater than 0 are Revealed Comparative Advantageous and Values less than 0 are Revealed Comparative Disadvantageous;

Source: KPMG in India Analysis, Trademap

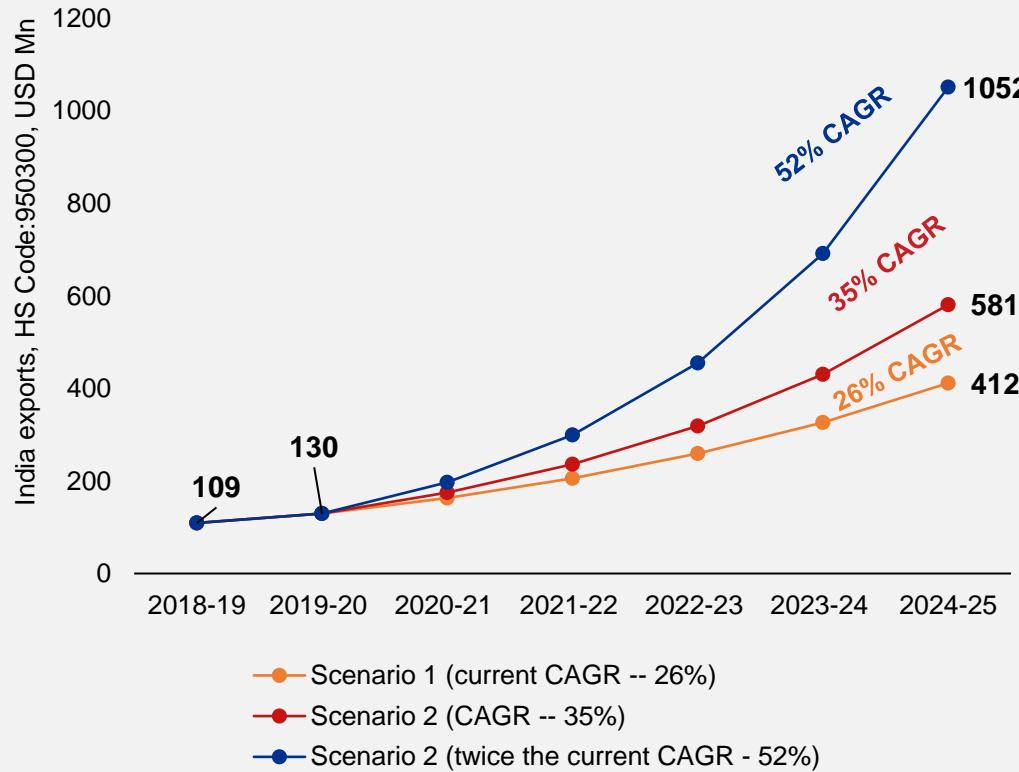




# Exports of HS 950300 category shows high growth potential



## HS Code: 950300 - a CAGR of 26% during FY15-20



Source: Ministry of Commerce, KPMG in India Analysis

Note: To achieve 52% CAGR, USD360 million investment would be needed, which could create around 1 lakh jobs (both direct and indirect)

Note: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

Plastic toys category has majorly driven exports of HS Code: 950300

Categories	Share*, %	5-yr CAGR (FY15-20, %)
Plastic toys	61	36
Metal toys	0.5	31
Wood toys	3.6	57
Other toys	35.3	14.4

Source: Ministry of Commerce, KPMG in India Analysis, \*share in total exports of HS Code: 950300

China's exports of HS Code: 950300 stand around **\$25 billion**; capturing even 5% of this through focused policy steps could go a long way in helping India's exports meet the **half billion mark**

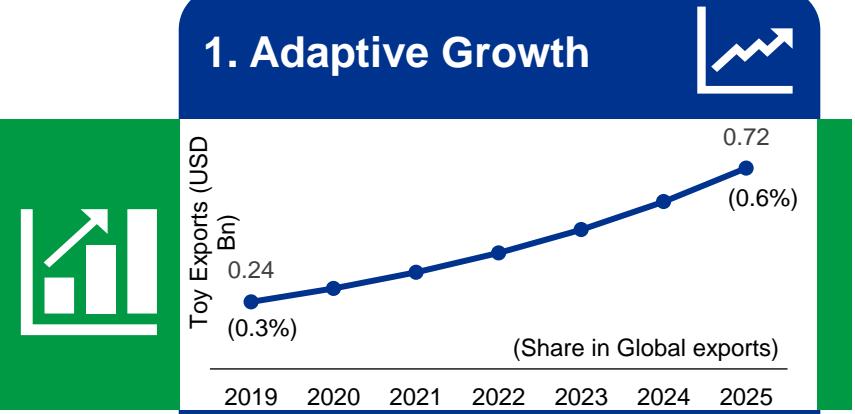
## Positive impact on employment (for 35% CAGR)

- Total investment needed to bring exports from \$100 million to \$580 million: **\$160 million**
- Total employment generation: ~ **45K** (32K direct jobs & 13K indirect jobs)

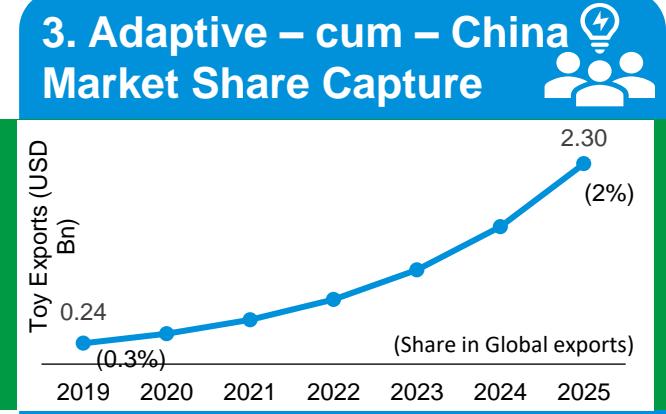
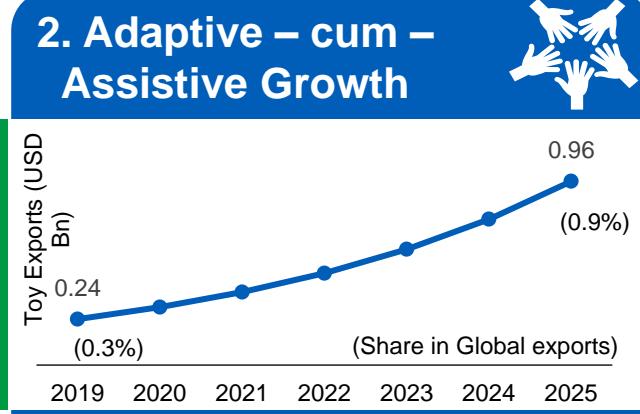
# India's export potential - 3 key scenarios



**Export Projection**



## Export Potential Scenarios



**Assumptions**

**Market Growth**

**Growth Drivers**

- Toys Exports continues to grow at CAGR of 20% (2015-19) by 2025.

- Toy Exports continue to grow at a CAGR of 20% (+5% assistive) (2015-19)
- Assistance in the form of incentives.

- Toy Exports continue to grow at a CAGR of 20% (2015-19) by 2025 (+5 Assistive) (+20% from China market share capture) Assistance in the form of incentives.
- Supply chain realignment and shift from China to other economies due to COVID.

- Activity toys (model vehicles, gun, etc.), plush, dolls and others to drive the majority of India's toys export growth.

- Activity toys (Model vehicles, guns, etc.), dolls and accessories
- Simplify BIS process, EODB reforms, dedicated Toy policy, phased manufacturing programme, etc.
- Bringing unregistered manufacturing units under formal regime.

- Electronic, and digital toys, activity toys (Model vehicles, guns, etc.), to drive the growth.
- Around 10% production base shift from China to other Asian nations
- Implementation of suggested recommendations.

Note: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

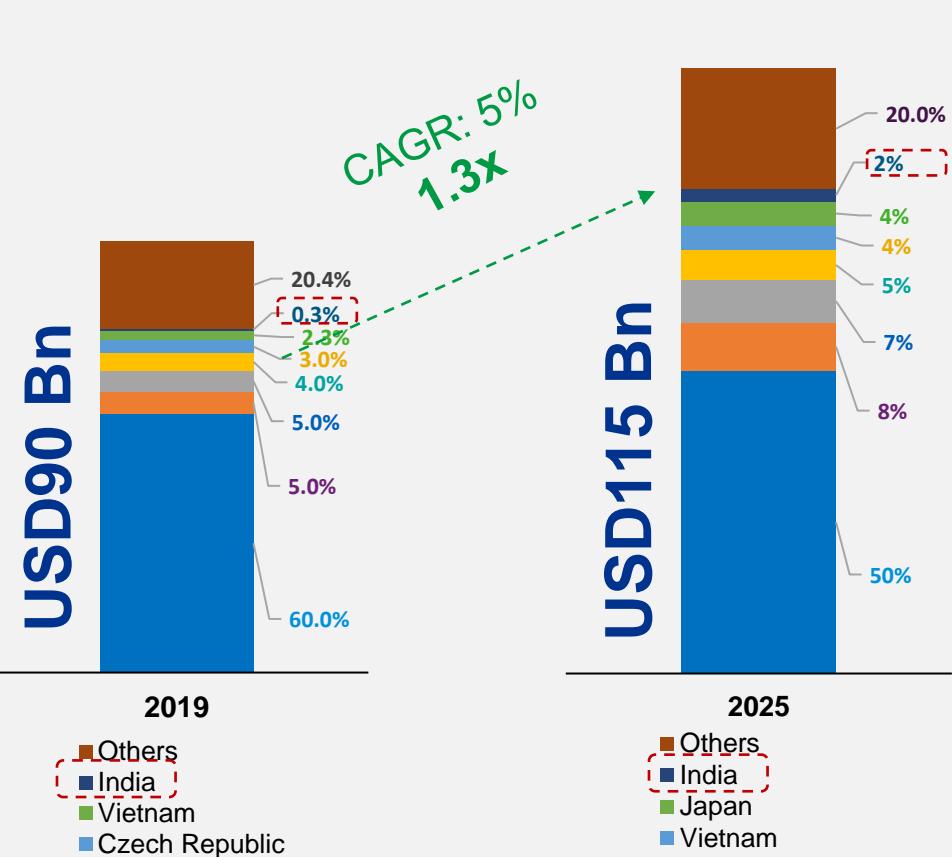
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# India's export potential - Scenario 3

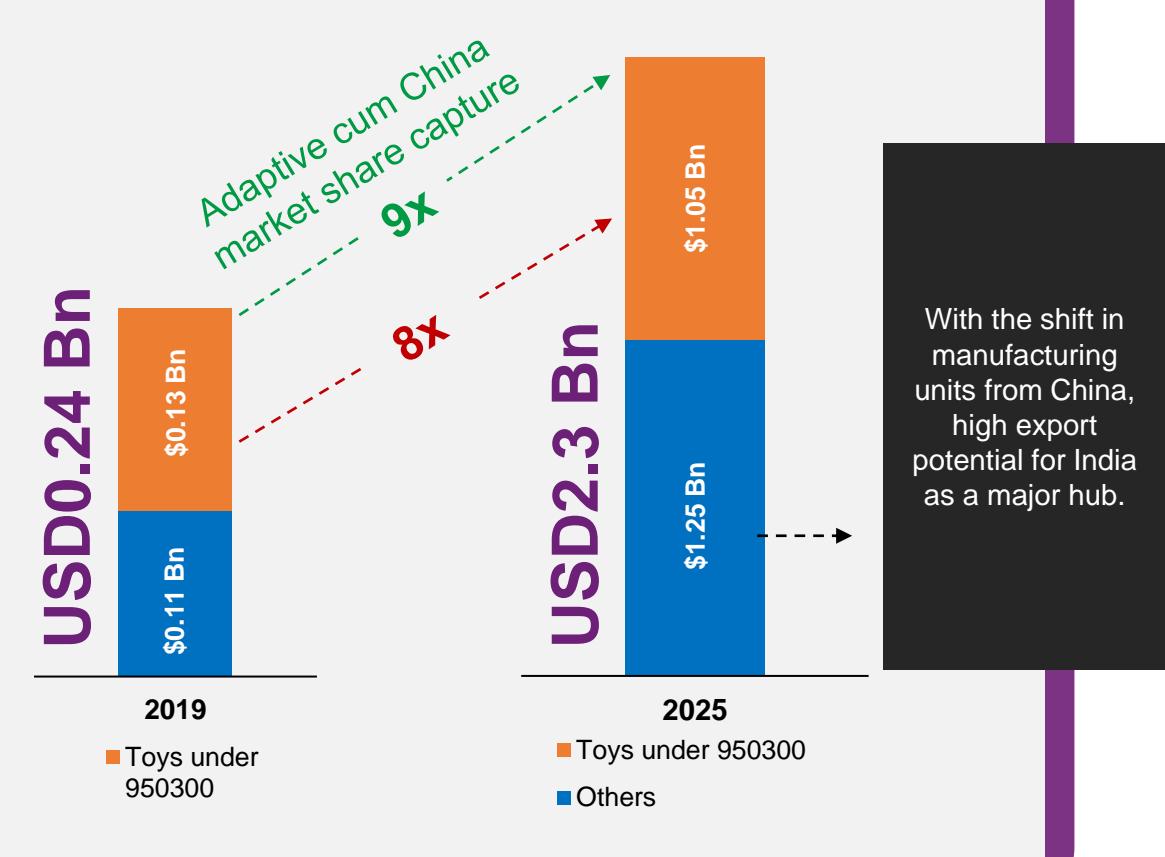
Plastic toys, electronic toys to drive India's export potential



## Global Toy Market Potential



## India's Toy Exports Potential



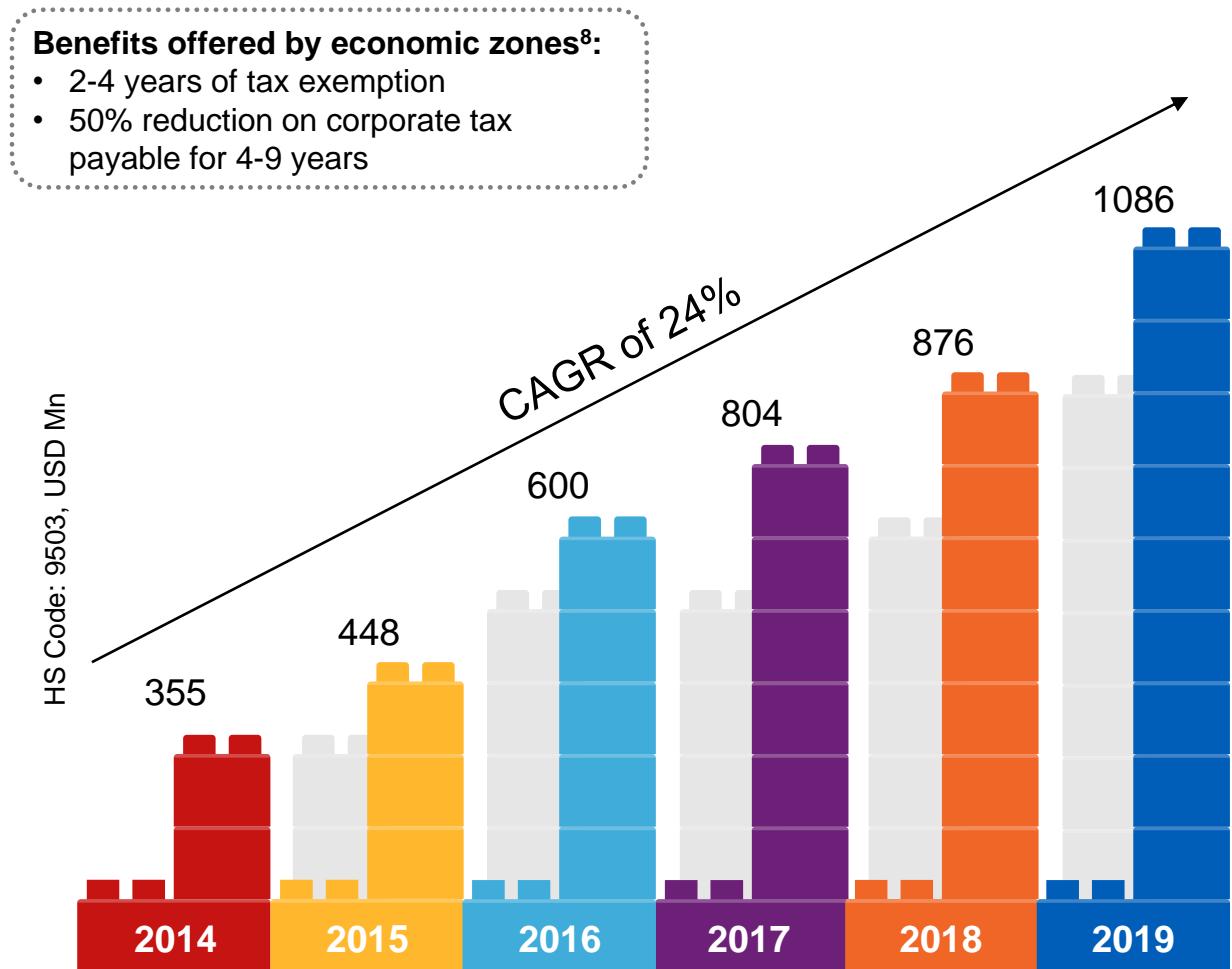
Source: KPMG in India Analysis; Stakeholder Consultation; Note: Analysis has been limited to HS950300.

Assumptions: India to capture 2% global market share by 2025 based on stakeholder consultations and market trends; For the ease of representation, different toy categories have been clubbed together.

Note: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

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# Learnings from Vietnam: Strong export growth



Source:

7. Vietnam is a rising export hub, despite US tariff threat, Castlereagh Associates, September 2019, accessed in May 2021

8. Tax Incentives for Foreign Investment in Vietnam, Dezan Shira & Associates, February 2018, accessed in May 2021

9. Vietnam's Free Trade Agreements – Opportunities for Your Business, Dezan Shira & Associates, March 2021, accessed in May 2021

- In Vietnam, governmental approval is not required to set up a unit in a pre-approved industrial park, which grants the license obtained from the local authority<sup>11</sup>

- Vietnam prioritized manufacturing export facilitation and developed more than **350 industrial and export processing zones<sup>7</sup>**

## Aggressive trade liberalization and active participation in trade negotiations<sup>9</sup>

Vietnam is,

1. A signatory of the global Comprehensive and Progressive Agreement for Trans-Pacific Partnership
2. A beneficiary from a comprehensive EU-Vietnam free trade agreement
3. Participating in the Asia Pacific Regional Comprehensive Economic Partnership negotiations

10. UN Comtrade (the values are for HS Code: 9503), accessed in May 2021

11. Encouragement of migration of industries from China to India, PGurus, April 2020, accessed in May 2021



# Keeping the supply chain running and lowering costs to capitalize on export opportunities (1/2)

Indicative and not exhaustive

- Fair availability of raw materials
- Overall price point of polymers 10% higher than China for domestic market. For EOU/Exports, difference is only in the freight cost, i.e. 3-4%.
- Paper and board are more expensive. Stiff board quality available in India is mostly not as per international standard and a example would be Kappa branded boards used widely for game boards, jigsaw puzzles and packaging internationally
- Certain key non-toxic paints not available in India.

## Access to raw materials



## Machinery, molding and tooling facilities



- Strong injection molding industry for ancillary industries exists (auto components, consumer products, engineering goods etc.) with capacity to pivot for toy manufacturing as well.
- Need to strengthen know-how for manufacturing injection moulds, rotary moulds, etc.
- Moulds are imported due to shorter lead time, reduced cost, and additional cost in terms of GST at 18% for Export Oriented Units (EOUs).

## Electronic components



## Fabrics, other components, 3D product prototype visualization



- Fabric (30% raw material input of plush toys) used for toys not available domestically and needs to be mainly imported from China
- Both hair fiber and hair rooting machines for doll manufacturing are not available in India
- Lack of design and engineering skills specifically for toy manufacturing (including 3D product prototype) impacts innovation and new product launches.

## Printing and packaging



## Testing



- Number of certified testing facilities that cover NABL, Bureau of Indian Standards (BIS), International Laboratory Accreditation Cooperation (ILAC), etc. should be increased.

- For Indian toy manufacturers, 85% is the variable cost and 15% is the fixed cost (ex-factory) whereas China having depreciated assets can reduce their fixed costs to 10% (ex-factory) in their cost sheets providing additional advantage of ~5%)
- Gross Margin – 8-10% (ex-factory price for Indian manufacturers)
- Raw materials costs ~ Polymers 10% higher than China for domestic production. For EOU/Exports, difference is only in the freight cost, i.e. 3-4%
- Cost of finance, lease rent & land cost approximately double that of China
- Tax Credits @ 13-14 % (in China);

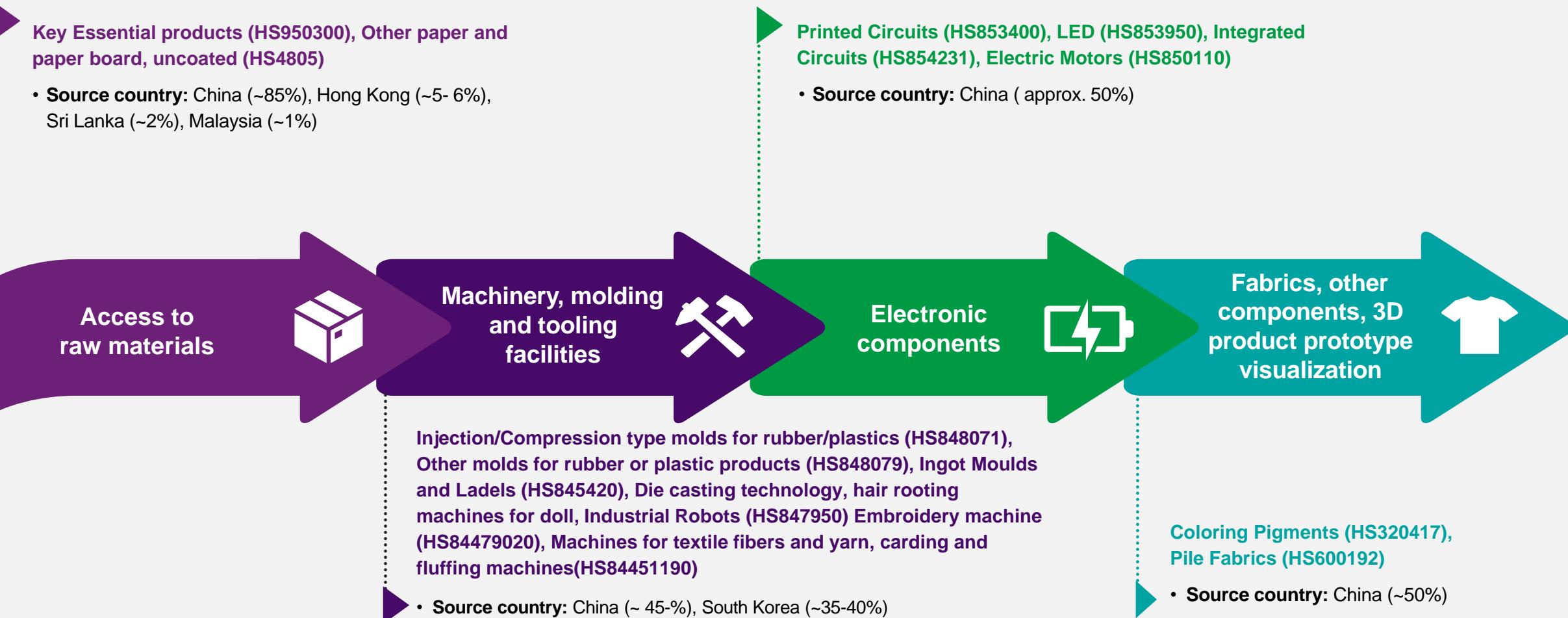
\*Source: As per multiple industry consultations

\*Source: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and msme manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

**India needs a balanced, lean and responsive supply chain to be domestically sustainable and globally scalable**

# Keeping the supply chain running and lowering costs to capitalize on export opportunities (2/2)

Indicative and not exhaustive



\*Source: Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and msme manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.  
Source: tradestat.commerce.gov.in; indiantradeportal. ITC market access map



# Government initiatives aiding industry growth



# Government initiatives aiding industry growth



First-of-its-kind **Virtual India Toy Fair** 2021 was organized from 27<sup>th</sup> February 2021 to 4<sup>th</sup> March 2021<sup>12</sup>



“Toys” identified as one of the **key sectors** under **Aatmanirbhar Bharat Abhiyan**<sup>12</sup>



**A National Action Plan for toys** devised in consultation with several central ministries and departments<sup>13</sup>



In August 2020, a **clarion call** was made by the Hon’ble Prime Minister of India to take steps to boost the toy Industry<sup>12</sup>.



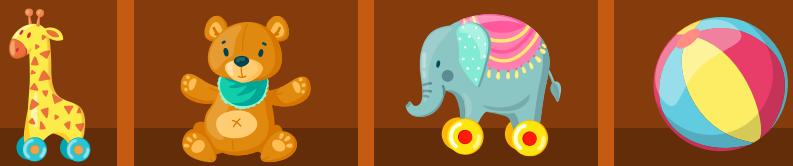
**Toycathon-2021** launched by the Ministry of Education to challenge India’s innovative minds to conceptualize novel toy and games based on Indian civilization, history, culture, mythology, and ethos.<sup>12</sup>



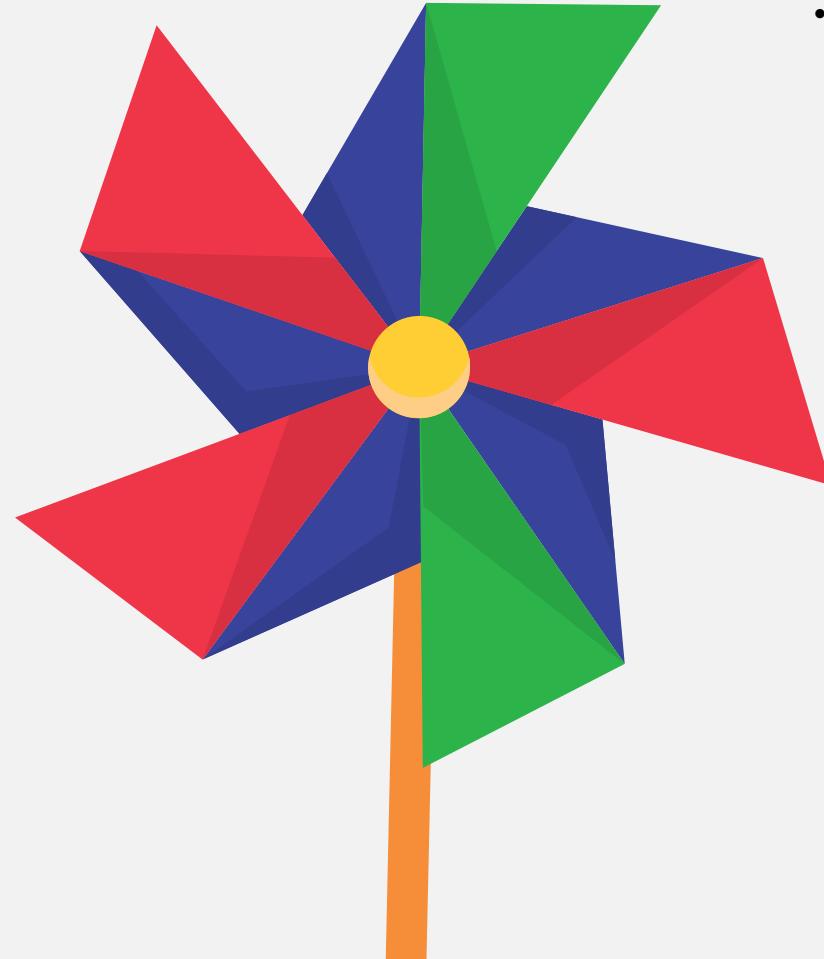
12. Sports goods export promotion council



# The India Toy Fair - A promising step forward



- A first-of-its kind inter-ministerial initiative, The India Toy Fair 2021 aimed at bringing all stakeholders from toy industry ranging from toy manufacturers, associations, investors, startups, artisans, MSMEs, children, parents, teachers, etc. on one common virtual platform.
- Held during 27<sup>th</sup> February to 4<sup>th</sup> March 2021, the Virtual Fair gave visitors an opportunity to connect with toy exhibitors across toy clusters in India.
- The Fair is an important step for the Industry to continue the momentum to achieve the vision of making India “Aatmanirbhar” in toys.



- The event hosted a plethora of engaging dialogues and sessions with representations from Government, industry, academia, toy experts etc. to discuss and carve the path forward for the Indian toy industry.



Sources: [The India Toy Fair Website](#)

**KPMG is proud to be associated as the knowledge partner for the India Toy Fair 2021**

# The National Action Plan for toys paves the collective way ahead



Source: DPIIT

- 1 Use toys as a learning resource
- 2 Designing of toys based on Indian values, culture ad history
- 3 Organize hackathons and grand challenges for toy designing and manufacturing
- 4 Utilize toys as a mean to promote “Ek Bharat Shrestha Bharat (EBSB)”
- 5 Public procurement of indigenous toys
- 6 Promote “Made in India” toys and organizing National toy Fair (virtual)
- 7 Promoting indigenous toy clusters
- 8 Consumer awareness campaigns
- 9 Digital and online games
- 10 Creating toy repositories
- 11 Promotion of toy tourism including operating toy express
- 12 Promote domestic manufacturing of toys
- 13 Promote export of Indian toys
- 14 Monitor quality of toys
- 15 Promote investments in toy industry
- 16 Development of skills for toy industry
- 17 Create awareness in urban areas about Indian toys
- 18 Prepare a catalogue of books and references on toys since ancient times
- 19 Research on toys on Indian culture and historical traditions
- 20 Study on global markets to understand trends in the toy manufacturing and consumption
- 21 Conduct competition on creation of best toys from waste in 1000 cities and towns of the country



# Other key initiatives by the government (1/2)



## Enforcing Quality Control and safety standards for toys.

**Eight new toy manufacturing clusters** approved with an outlay of INR2,300 crore.  
(03- Madhya Pradesh, 02- Rajasthan, 01 each- Karnataka, Uttar Pradesh and Tamil Nadu)<sup>14</sup>

Call to Start-ups/Entrepreneurs/Educational Institutions to **innovate in toy technology and design and promote local toys**<sup>15</sup>

**Inclusion of toys in the National Education Policy (NEP) 2020** reiterating the significance of toys in the overall growth and development of children<sup>16</sup>



Source:

14. Government approves eight toy manufacturing clusters worth Rs 2,300 crore, Economic Times, February 2021, accessed in April 2021

15. Vocal for Local: PM Modi discusses ways to boost toy manufacturing in India, CNBC TV18, August 2020, accessed in May 2021

16. New Education Policy: Toys Representing Indian Culture To Be Used In Schools, NDTV, August 2020, accessed in May 2021

## Other key initiatives by the government (2/2)



Introducing a new norm in the minds of consumers and making them aware to purchase safe and good-quality 'Made in India' toys<sup>17</sup>

Forming toy producer clusters and linking them with artisans to address skill upgrades and credit needs and to facilitate engagement with foreign investors<sup>18</sup>

Encouraging domestic manufacturing of electronic toys<sup>19</sup>



Source:

17. Behavioural interventions for an Atmanirbhar toy industry, livemint, August 2020, accessed in May 2021

18. National Toy Action Plan - Department for Promotion of Industry and Internal Trade

19. Central Board of Direct Taxes and Customs, accessed in May 2021

# Building it! State governments are providing the foundational building blocks for clusters(1/2)

## GUJARAT

The Gujarat government has proposed dedicated toy manufacturing clusters in the state and has invited Indian and multinational toy manufacturers and startups to set up operations<sup>20</sup>

## WEST BENGAL

The West Bengal Exim Association has sought land from the government for setting up a toy park to develop indigenous manufacturing capacity in the state<sup>21</sup>

## KARNATAKA

In Koppal the toy manufacturing cluster - a 400-acre SEZ is estimated to generate 40,000 jobs in 5 years<sup>22</sup>



## ANDHRA PRADESH

Andhra has identified toys as the thrust sector in its industrial policy. Also, a draft toy incentive package is in offing

## UTTAR PRADESH

The Uttar Pradesh government has allotted 134 plots to domestic toy manufacturers near the upcoming Jewar International Airport. 92 applications from domestic toy manufacturers have been received to set up units at the hub<sup>23</sup>

## RAJASTHAN

The state government has developed a dedicated industrial area in Khuskheda near Bhiwadi over seven acres of land with 39 plots. It is estimated to create 7,500 jobs<sup>24</sup>

Source:

20. Gujarat government proposes toy manufacturing clusters, Times of India, September 2020, accessed in May 2021

21. Toy industry shifts focus to manufacturing, seeks land from West Bengal, Times of India, September 2020, accessed in May 2021

22. The Toy Story: India's First Toy Manufacturing Cluster All Set To Woo Investors To Karnataka, Swaraja, September 2020, accessed in May 2021

23. UP govt receives 92 applications from domestic toy manufacturers, Economic Times, September 2020, accessed in May 2021

24. Govt creates sports and toys mfg zone in Khuskheda, Times of India, October 2020, accessed in May 2021

# Building it! State governments are providing the foundational building blocks for clusters(2/2)

## MADHYA PRADESH

The MSME department of Madhya Pradesh has invited proposals from investors to set up operations in newly proposed toy cluster coming up in the Indore region<sup>25</sup>

## HIMACHAL PRADESH

The state govt. has expressed the intent to introduce a package of incentives for the Toy Sector, including concessions for land and power tariff support<sup>26</sup>

## MAHARASHTRA

Maharashtra, which contributes 32.6% of the country's toy exports, has proposed clusters at Khalapur, Shahapur, Nashik, Malegaon, and Solapur<sup>27</sup>

## HARYANA

Toy sector is recognized in the list of "Import Substitution Products" as part of the Haryana Enterprises And Employment Policy, 2020, which entitles the entities of the sector to avail a variety of incentives such as land concessions, interest and investment subsidy among others<sup>28</sup>



Source:

25. MP: 3,000 investors ready to do business in MSME clusters, Times of India, January 2021, accessed in May 2021

26. India's leap towards becoming a global toy hub, January 2021, accessed in May 2021

27. Haryana Enterprises And Employment Policy, 2020, December 2020, accessed in May 2021

28. India Toy Fair 2021

When all pieces come together, a jigsaw puzzle produces a complete picture

Over 60 toy clusters in India and counting...

#### Other Regional Clusters

Region
Goa
Haryana
Chandigarh
Jammu & Kashmir
Ladakh (UT)
Puducherry
Uttarakhand
Andaman & Nicobar
Sikkim
Tripura
Punjab

## Toy Clusters in India<sup>29</sup>



Map indicative only

Leveraging the power of cluster – Systematic, Synergetic and Scalable model



# Enabling ecosystem for cluster development

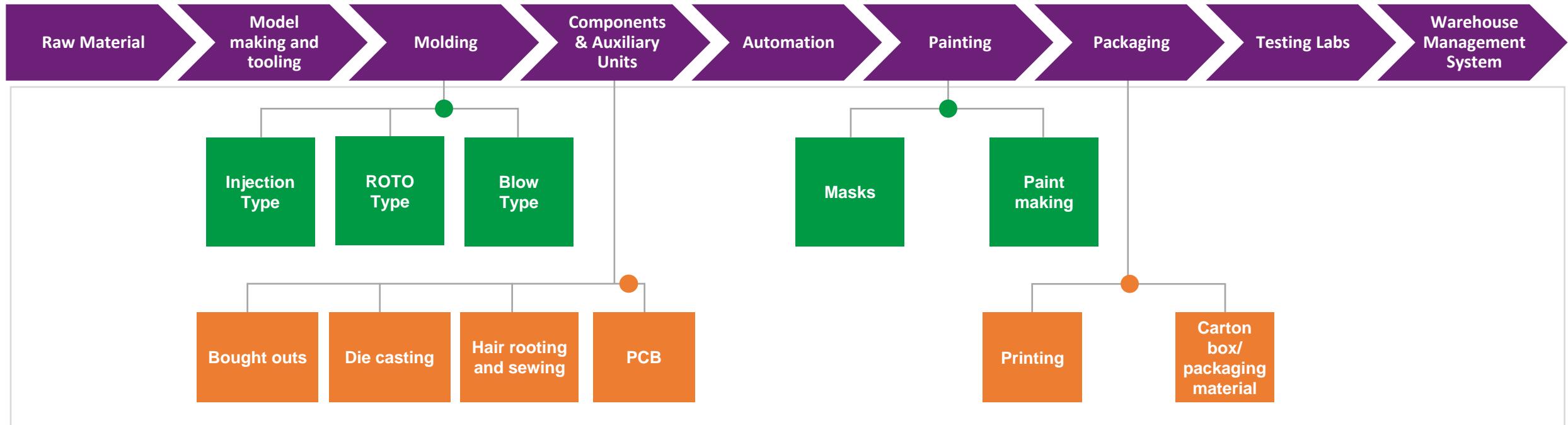
Indicative and not exhaustive

Agile  
industrialization

Statutory compliances  
& customs clearance

Plug and play

Source: Industry Consultation



Infrastructure &  
common facilities

Centralized  
network structure

Focus on value creation  
through co-innovation

Source: Industry Consultation

# Fiscal incentives at a modern toy cluster in Koppal



Illustrative



Sl. No.	Components	Incentives
A. Units		
1.	Capital Investment Subsidy	30% on Fixed Assets (Land, Building, Machinery, ETP, and Dormitory). Subsidy to be released in 5 annual instalments linked to achievement of annual sales turnover
2.	Reimbursement of Stamp duty & Registration charges	100%
3.	Reimbursement of Land conversion fee	100%
4.	Interest Subsidy on Term loan	5% subject to a maximum of INR 7.5 crore per annum on Term Loan for 5 years
5.	Power Tariff Subsidy	INR 2.00 per unit for 5 years
6.	Electricity duty reimbursement	100% for 5 years
7.	ESI & EPF Reimbursement (Employers Contribution)	75% for 5 years capped at 20% of VFA
8.	Wage subsidy (only for direct employment and continuous employment of at least 6 months)	INR 1500/- per month for 5 years
9.	Freight Subsidy (Only for exports)	Only for Rail/Road freight charges to seaport as below: Year 1 & 2: 75% Year 3, 4, & 5: 50%
10.	Rent subsidy for units within SEZ	Reimbursement of 50% of rent of maximum INR 5.00 per sq. ft. per month for 3 years (minimum lease period should be 10 years)
11.	Skill development Assistance	INR 12500/- per candidate per training course of minimum 30 days or actual, whichever is less
12.	Assistance for common facility centres	1. Subsidy of 25% for Common Facility Centres established for the use of multiple units on chargeable basis in the cluster. 2. 25% cost reimbursement on Certifications. 3. Centre of Excellence, CTPET Centre, NID Centre: Subsidy of 50% on fixed investment.

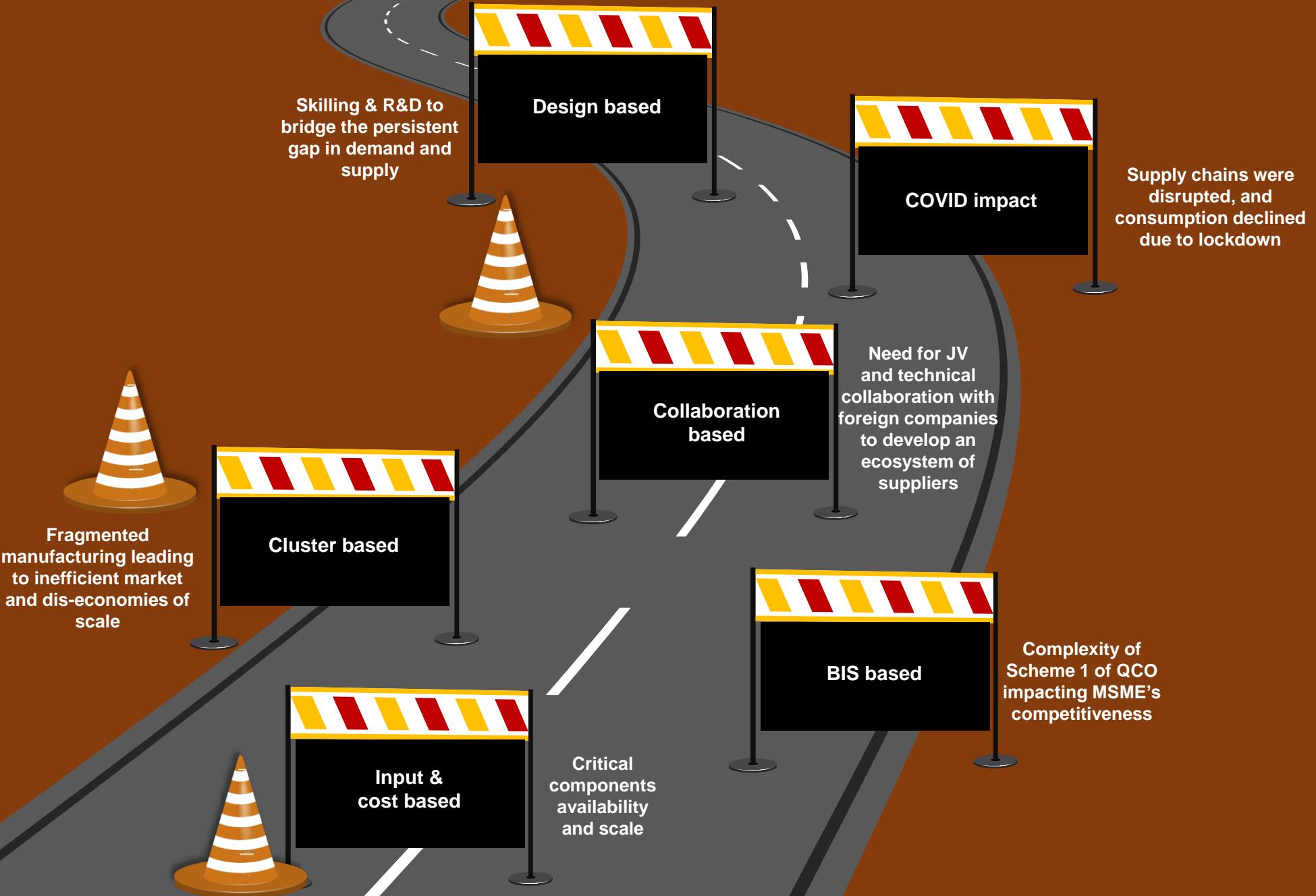
Source:Aques



# Growth challenges

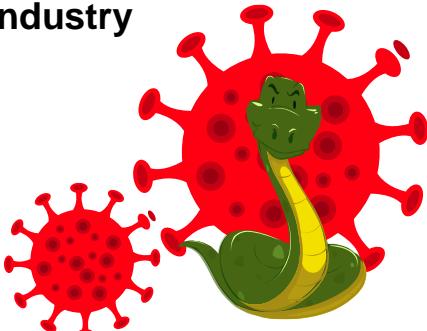


# Growth challenges



# COVID impact (1/2) - Preliminary assessment based on discussions with select toy manufacturers & retailers (1/2)

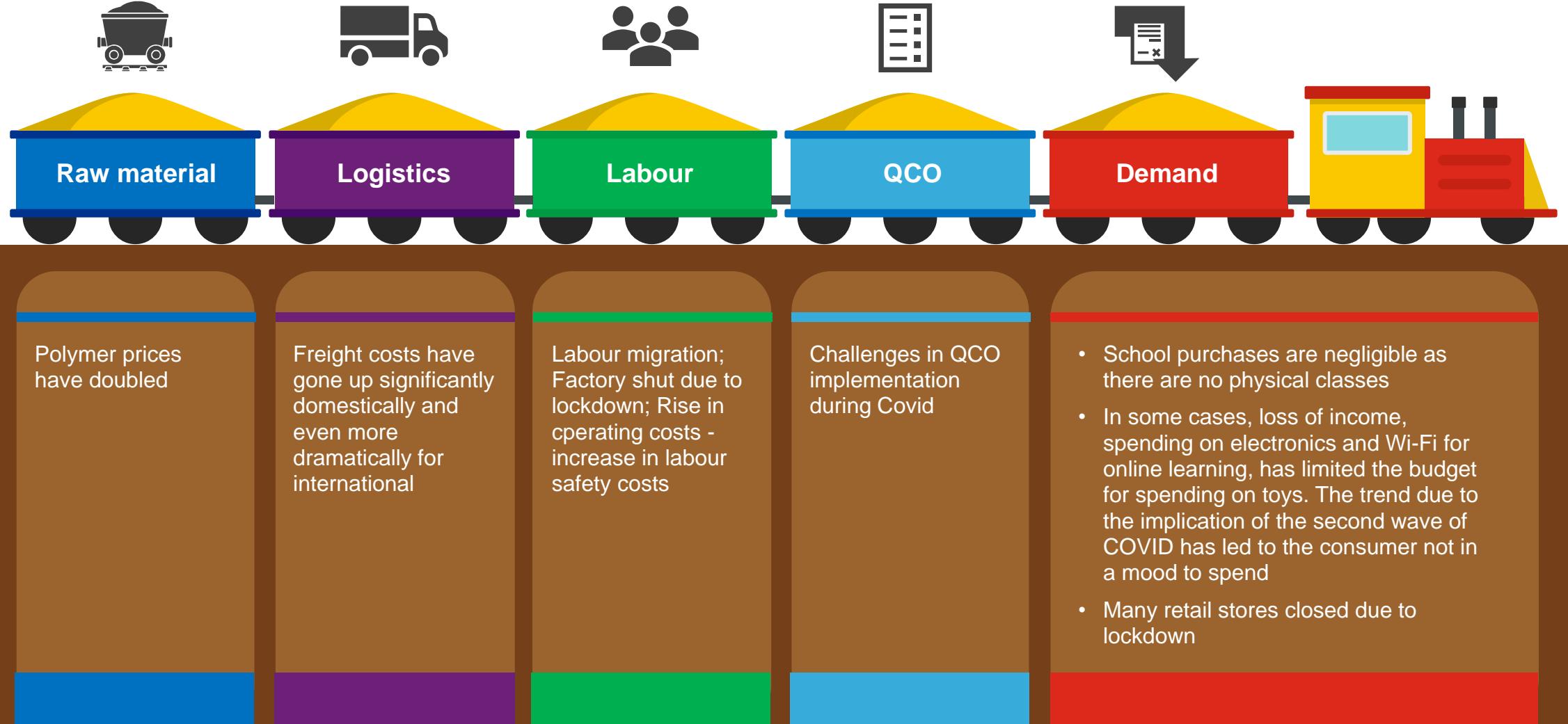
Covid-19 and its  
continued impact  
on the Indian toy  
industry



18	19	20	21	FINISH
17	16 Survey estimates indicate that 90% of companies are likely to report a loss during FY20-22	15	14	13 Bad Debts on an average have doubled for most due to frequent lockdowns and inconsistent purchase cycles by retailers and distributors
9	10	11 Rise in online sales of toys	12 Working Capital needs have grown by 50% due to a longer cash flow cycle	6 Negative outlook for future investments due to slowing down of demand
8	7	4	5	3
2	Overall sales are down 40%	START	1	DICE

\*Source :Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

# Covid impact (2/2) - Reasons contributing to the challenges



\*Source :Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.



## Potential for growth in India



- Large child population
- ~17% of world's child population by 2036
- Rise in consumer spending
- Increasing per capita and disposable income<sup>31</sup>
- Increased awareness on toys having a positive effect on child development
- Demand for innovation. Shorter product lifecycle leading to need for a continuous flow of new products
- Digital & technology advancement in toys is leading to rising application of AI especially in STEM toys
- New channels for sales such as e-commerce are fueling growth.

## Favorable ecosystem in India

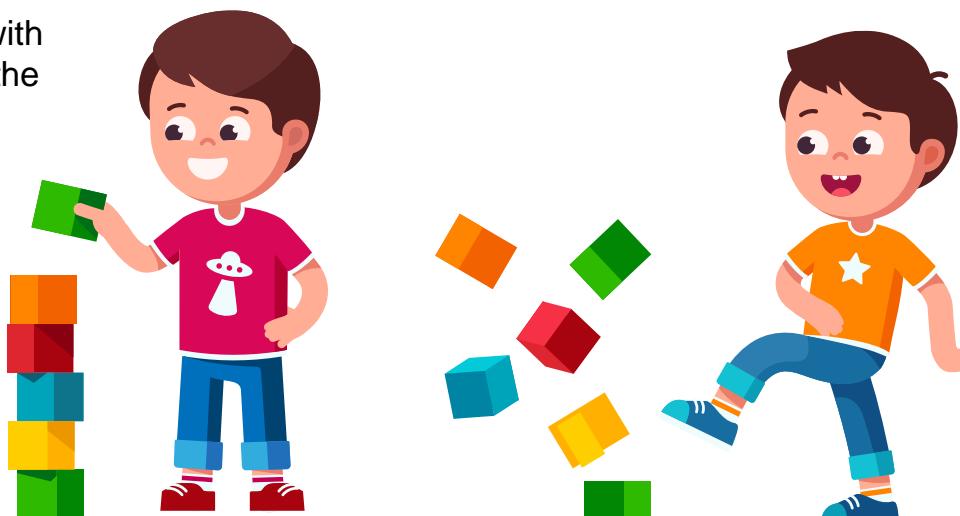


- Veteran artisans and toy legacy of over 5000 years<sup>30</sup>
- Special focus on toys in 'National Education Policy'
- Potential for scaling manufacturing capabilities
  - (70% Micro, 25% MSME, 3% large)<sup>32, 33</sup>
  - ~4-5 lakhs artisans involved at cottage industry level<sup>34</sup>
- Abundant employment potential
- Focus on boosting toy manufacturing with favourable government policies under the Atmanirbhar Bharat Abhiyaan.

## Manufacturing potential in India



- 100% FDI under automatic route<sup>32</sup>
- Focus on 'Self Reliance' in toy sector
- For ancillary toy components made in India
- Cluster development program to support toy manufacturing
- 8 new toy manufacturing clusters approved with an outlay of INR 2,300 crore<sup>35</sup>
- Focus on innovative, high quality 'Made in India' toys to boost exports.



Source:

30. Toy Story - Promotion of Indigenous Toys of India, 2020

31. World Population Prospects, United Nations, 2019, accessed in May 2021

32. Industry Interaction

33. Fortune India, February 2021, accessed in April 2021

34. Sports goods export promotion council

35. Government approves eight toy manufacturing clusters worth Rs 2,300 crore, Economic Times, February 2021, accessed in April 2021



The  
way forward

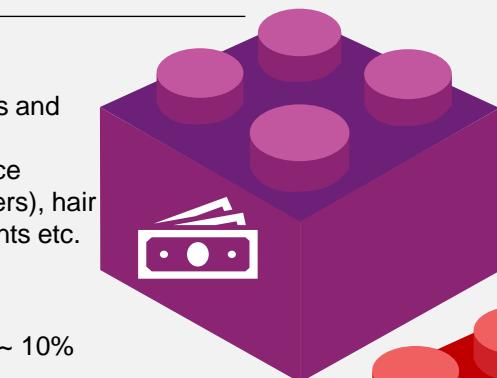


# To be ahead of the game (1/2)

## Enhancing manufacturing competitiveness

Unavailability of certain key components and raw materials in India (DC Motors, IC & Electronic components, specifically (price volatility in fabrics (for soft toys), polymers), hair fibers for dolls, non-toxic decorative paints etc.

- Raw material availability not as per requirement of QCO
- Higher raw material prices vs China ~ 10% and higher
- GST input credit not available to exporters for tools and moulds, affects costing
- Supply chain issues
- Phased Manufacturing Programme (PMP) for making India Atmanirbhar to mature and develop.



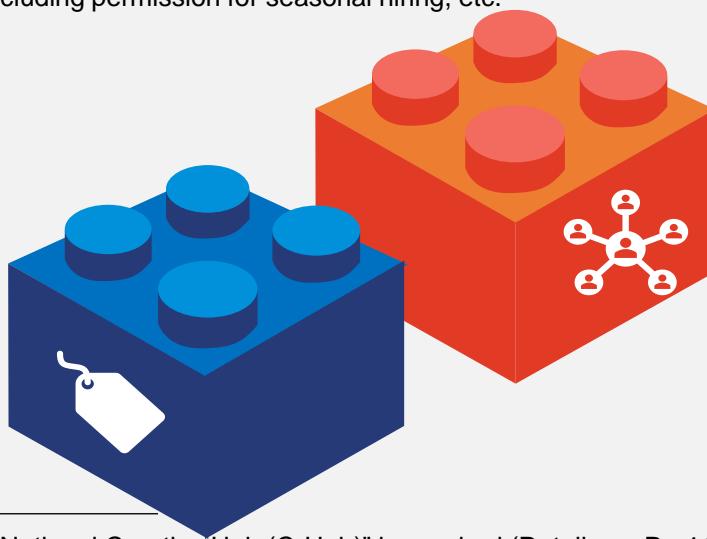
## Tech collaboration need of the hour

- Strategic relationships with global players to leverage Science, Technology, Engineering, Art and Math toys
- Need for JV and technical collaboration with international companies for current manufacturing and to develop an ecosystem of suppliers



## Policy

- Creation and implementation of a Dedicated Toy Policy
- Simplification of BIS ( details on Page 42)
  - Complexity in Scheme-1 of the Quality Control Order (QCO) needs to addressed
- Unified/Single rate of GST for toys at 12% or lower (Eg Electronic toys are at 18% other toys are at 12%)
- EPCG scheme for capital goods, tools and moulds
- Labor reforms including permission for seasonal hiring, etc.



## Ease of doing business

- Nodal agency, a one-stop shop like "National Creative Hub (C-Hub)" is required (Details on Pg 44)
- Simplify mandatory compliances
- Improve digital preparedness
- Introduce self-certification (for testing, factory licenses, etc.) as per Scheme-II of the BIS act
- Leverage the growing start-up ecosystem
- Standardization of KYC –PAN or GST number should be sufficient for all government approvals including MSME schemes

## Skilling & R&D to bridge the persistent gap in demand and supply

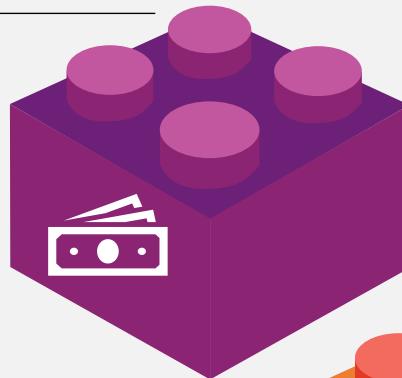
- Lack of design and engineering skills specifically for toy manufacturing (including 3D product prototype) impacts innovation and new product launches
- Development of toy design centres with focus on R&D to encourage innovation
- Incentivize technical institutes to offer specialized courses in toy and game design
- Enable knowledge transfer between countries
- Incentivize tooling centres specialized in toys and tool creation.
- Train people in development of 3D product prototype visualization, assembling electronics toys, masking etc (Details on Pg 43)

\*Source :Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

# To be ahead of the game (2/2)

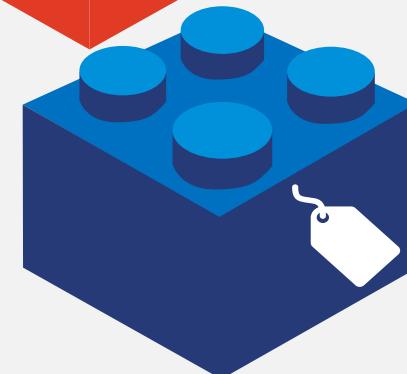
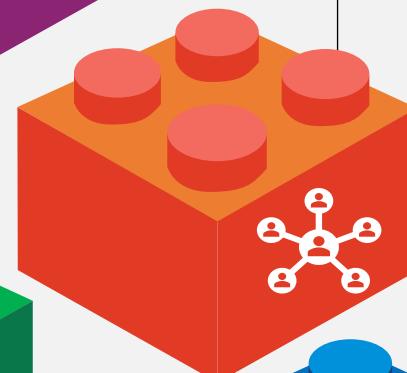
## Building a “Playful, Creative and Innovative Economy”

- Leverage National Education Policy 2020 to push local artisans
- Promote toy-based tourism; Local “Toy Banks” or “Toy Library” models to be developed; Encourage Start ups in toy sector
- Set up of toy/doll museum in some states.



## Testing and certification

- Not enough labs covering testing of all parts as per the IS9873 standards norm
- Increase number of labs and expand geographic coverage of labs



## Distributors/retailers perspective

- Due to the ongoing COVID situation impacting international travel and lack of virtual audit solutions, the gap in imports is leading to a significant impact on retail
- Feedback from various organized and unorganized retailers, distributors and related associations indicates a wide gap in the market on demand fulfillment. As a result, a lot of large & small retailers are unable to sustain business and are shutting down. The direct (employees in these stores) and indirect impact (warehousing, logistics, service providers etc.) on employment is significant
- The consumer is unable to get the variety of good quality toys & games that was available earlier. While the move for encouraging local production & self-sufficiency is the right one, the industry is requesting for a phased manufacturing plan to ensure holistic development of raw material sourcing and the component eco-system.

## Develop 3-4 plug and play clusters in line with global success stories

- Incentivize development of vendor base and integrated capabilities
- Subsidize transportation costs
- Develop large modern toys manufacturing/assembly capacities encompassing the entire supply chain from design houses, model making, tool making, electronics, paint making, packaging, hardware to testing labs.

\*Source :Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.



# Simplification of BIS process



QCO is a step forward and the industry welcomes it as it helps Indian toy manufacturers to be globally competitive and increase exports. With this, Indian toys will be on par with international quality & safety standards.

As per the industry, complexity of Scheme-1 of the Quality Control Order (QCO) has bigger impact on business and can be resolved by the following measures:

## 1 Eliminate need for internal lab

- In-house laboratories for testing should not be mandatory and any external BIS accredited lab should be allowed for standards certification as in any case the internal lab is only for one of the parts of the test required and the rest are allowed to be done by external labs.
- The issue faced by the industry is that this involves additional cost ( buying the equipment for the lab; hiring a technically qualified person to operate and leads to extensive effort in terms of book- keeping which can be only done manually and record keeping is not allowed to be kept digitally).

## 2 Extensive categorization requires multiple tests leads to additional costs

- This is based on ISO standards (146 subcategories) which deal with behavioral and other skill sets and not from a toy safety standard. This leads to identical products being put in more than 1 category (duplication) and increases cost of testing and in cases where a product doesn't fit into a defined category, the product cannot be registered. EG: If one wants to combine two products into one and if there is no clear cut category the same cannot be registered. To simplify it and in line with the international norms and as being followed by both DGFT and GST, grouping of toys should be defined by their HSN codes.

## 3 One license for both general and electric toys

- To facilitate manufacturing units and encourage a larger variety of toys to be made in lieu of imports (80% of toy imported from China are electric) one should look at having one license for both electronic & non-electric toys. The testing standards are defined in any case for different categories of toys will be applicable and the end product will be fully compliant.

## 4 Frequency of testing every three months leads to additional costs and overall cost to be reduced

- Following international norms wherein testing is required every 2 years (unless there is a material change within the manufacturing process), the frequency of testing required under the BIS norms should be once every 2 years. This will lead to efficiency in costs and do away with over testing.

## 5 Foreign factories should be permitted to submit applications in digital format instead of hard copy format.

## 6 As BIS officers cannot visit the factories for audit due to the pandemic, third party auditors/virtual audits could be appointed, to ensure variety for children through supply of quality and legally imported products.

\*Source :Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.

# Design institutes can play a pivotal role in skilling and R&D

It is imperative to engage competent and professionally established entities capable of assuming a guiding role towards enriching the toy sector.

- Development of toy design centers with focus on R&D to encourage innovation
- Incentivize technical institutes to offer specialized courses in toy and game design
- Enable knowledge transfer between countries
- Train people in development of 3D product prototype visualization

**Expanding the role of toys in mainstream education**

**Capacity building towards creating toy specialists in all educational categories**

**Support Industry to increase supply of safe, high quality, innovative toys**

## Potential areas of collaboration

Setting up dedicated toy design centers across regions will spur innovation

Design Institutes can partner with educational boards and help design toy-based pedagogy for schools

Build toy specialist in teachers training colleges. Example: The MIT concept of teachers training workshop

Practical learning through apprenticeship and mentorship programmes can be encouraged

Design institutes can help in formulation of design features and technical specifications for safety and quality standards

### Collaboration with MSMEs

Knowledge transfer on toy commercialization (sale & scalability) market dynamics in terms of demand, logistics, profitability, international requirement, new designs, safety, sustainability, packing design, new raw materials etc.

Train people in development of 3D product prototype visualization etc.



# Nurturing a creative and innovative economy

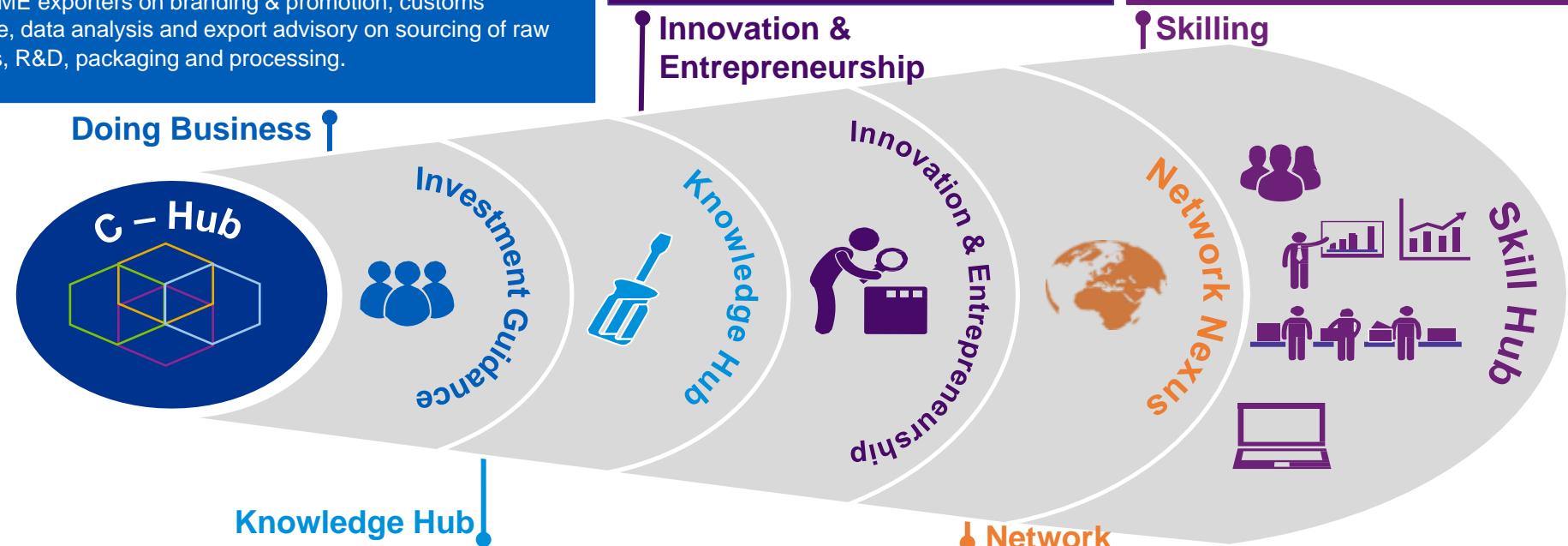


## Dedicated Nodal Agency chairing the one stop-shop for toy manufacturers with service offerings across the entire investment value chain

- Leverage State Government Investment Desks to guide and attract large investors
- Identify key players both from a buyer perspective & manufacturers who can help scale up exports and link them with potential MSME exporters
- Help MSME exporters on branding & promotion, customs clearance, data analysis and export advisory on sourcing of raw materials, R&D, packaging and processing.

- Building the startup and MSME ecosystem and support early-stage companies with access to funding, talent and market
- Offer KYC & e-lockers: MSME schemes

- Dedicated programmes and trainings with focus on toy manufacturing for:
- Upskilling of existing workforce through integration of technology
  - Nurture academia-industry collaboration for innovation



- Preparation of toolkits and knowledge collaterals as information booklets for investors
- Resolve queries of potential investors across the investment cycle

- Support manufacturers with access to market by bridging the buyer-seller gap
- Support manufacturers connect with global players for efficient supply chains and potential for collaboration

\*Source :Given the highly unorganized nature of the industry, data availability was a big constraint. Views of various stakeholders from the toy industry including large and MSME manufacturers, retailers, international sourcing companies, members of FICCI and other toy associations have been included to arrive at estimates wherever data was not available.



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