

In this month's newsletter we will explore the import substitution as well as export story of the Indian toy industry—a budding and extremely potential market. Due to favourable tailwinds in consumer behaviour, government policies, China + 1, and increase in the demand for domestic toys, India is rapidly expanding its prospects in this industry.



India's has
300 Million
Children aged 0 to 14

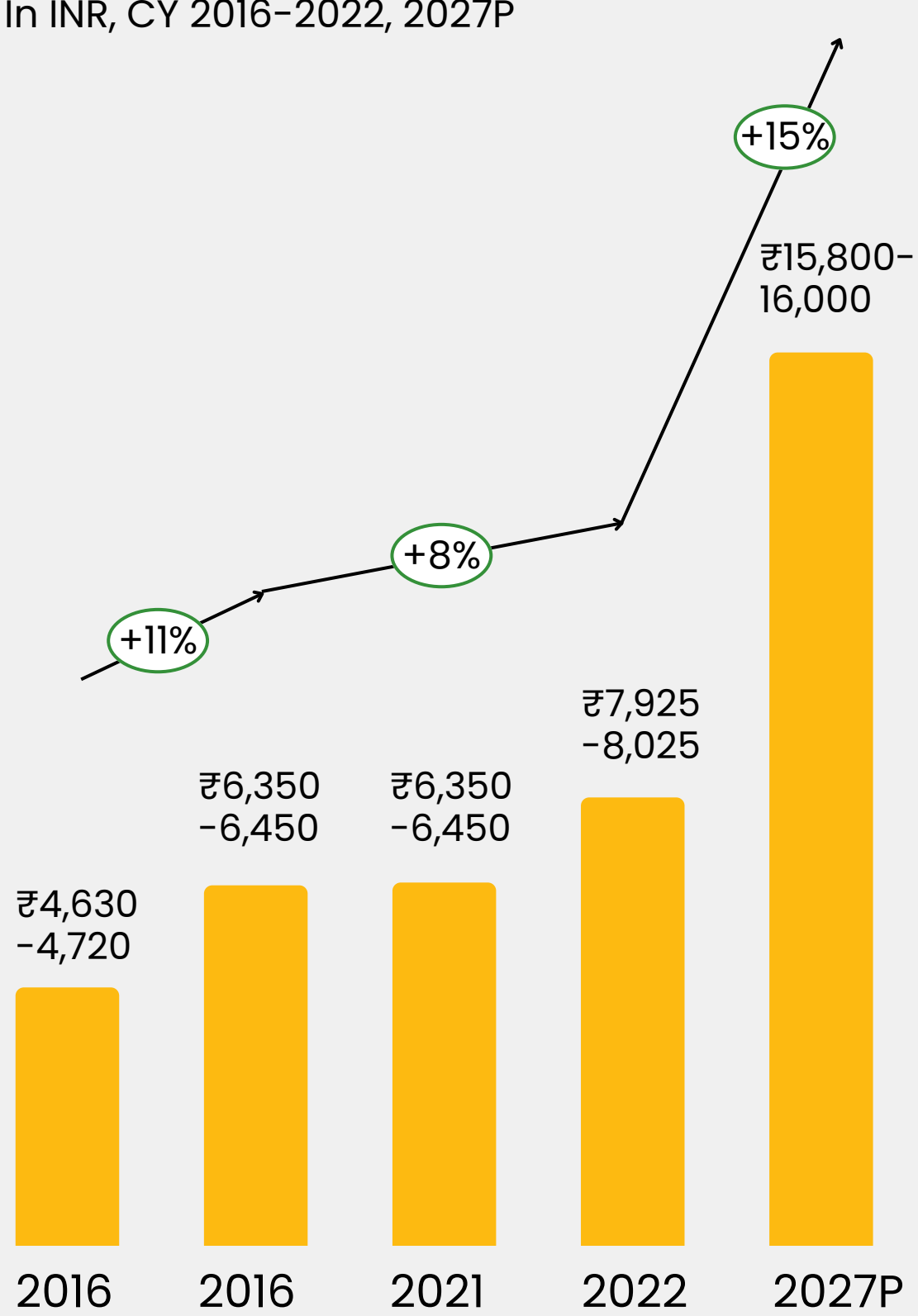


India is expected to have
17% of world's
child population by 2036

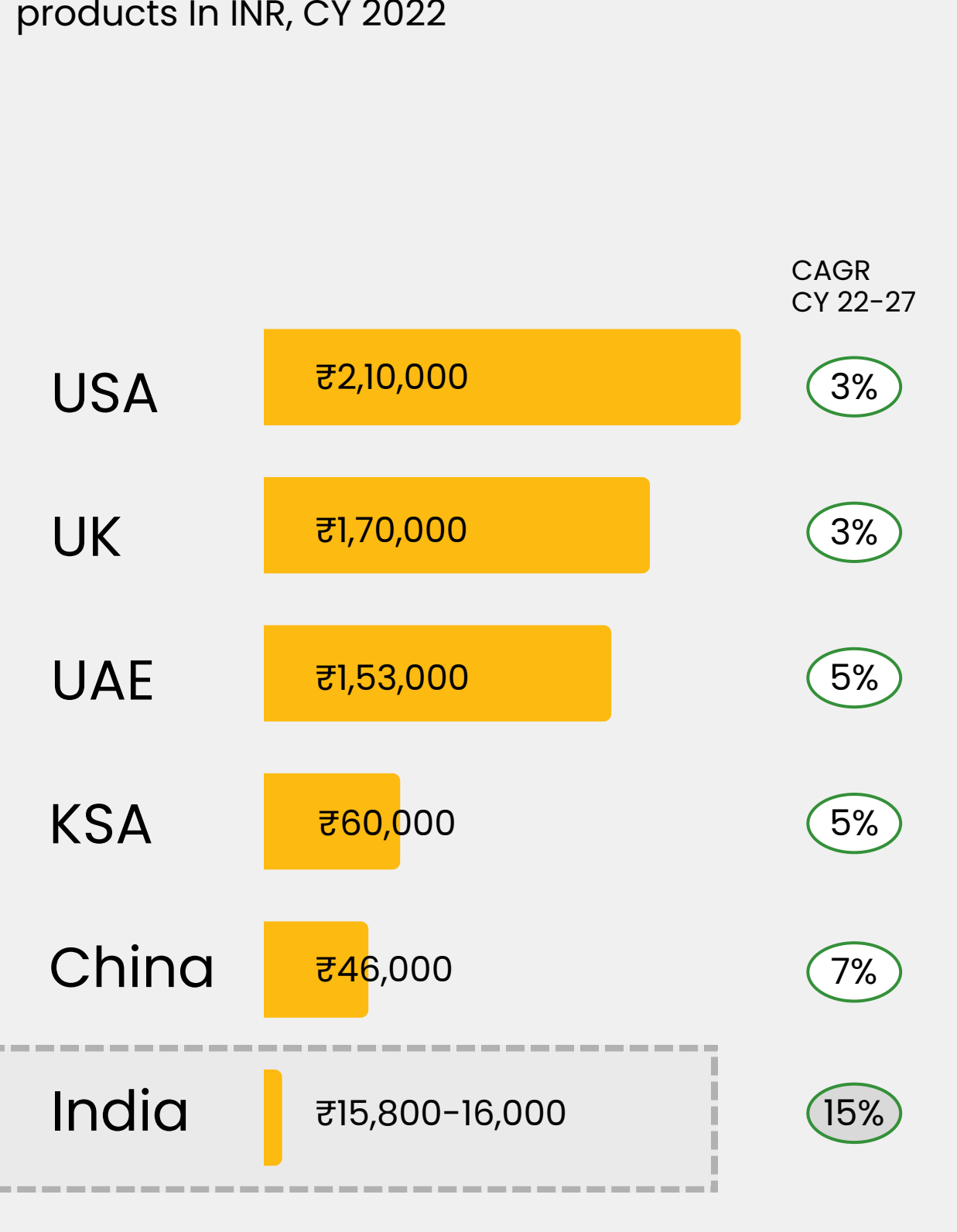
With the increasing disposable income of families in India and the rising child population, there will be an increase in domestic demand for toys. We believe this demand will predominantly be met by toys 'made in India'.

Childcare Products spending in India is currently nascent and is projected to grow faster than key global markets

Spend per child on Childcare products in India
In INR, CY 2016–2022, 2027P



Global benchmarks – spend per child on Childcare products In INR, CY 2022



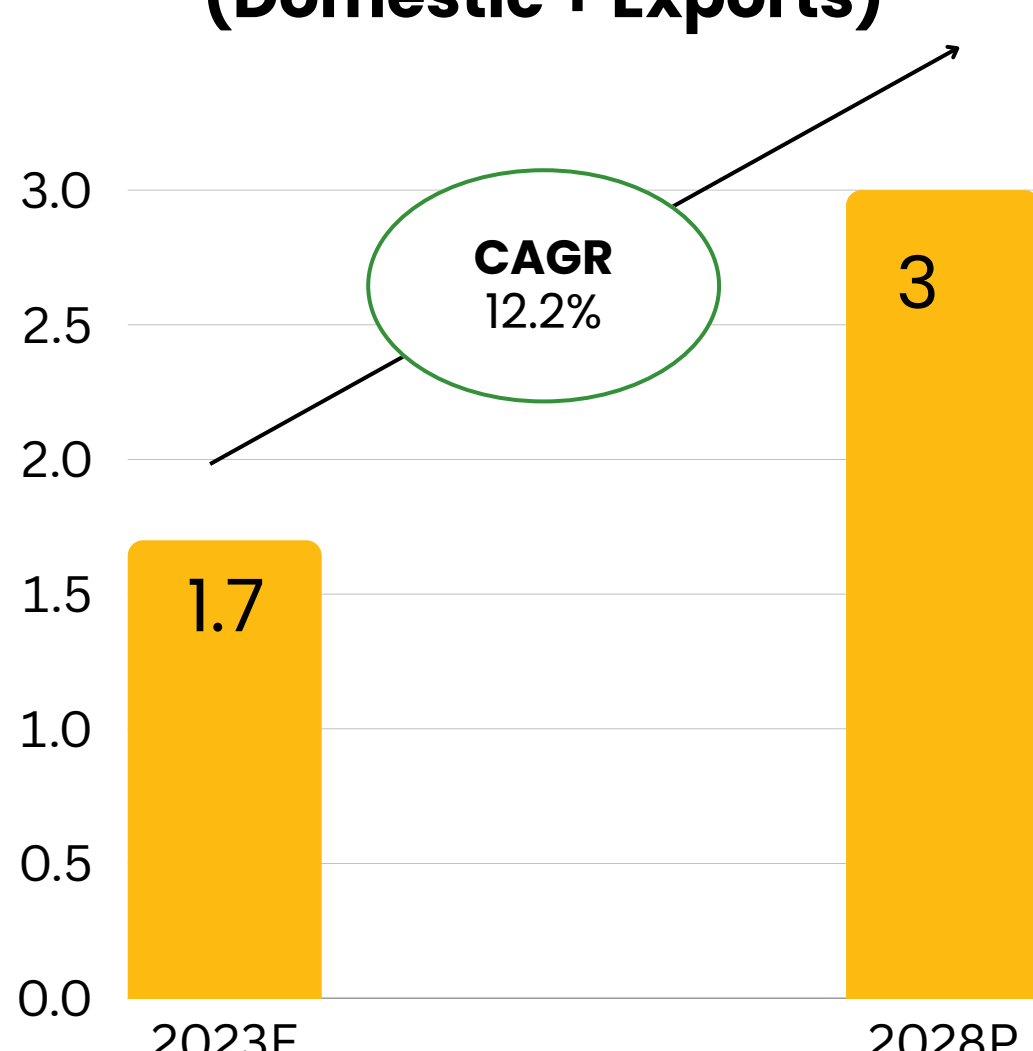
Source: Redseer Research, Redseer Analysis

Note: 1. Childcare products include apparel (clothing, Jootwear, and accessories), consumables (diapering, bath & skin care, baby jood etc.), toys & games, hard goods (Prms, feeding bottles, nursery & safety gears) and others that are used by children in the age group of 0–12 years; 2. USS1 – 280

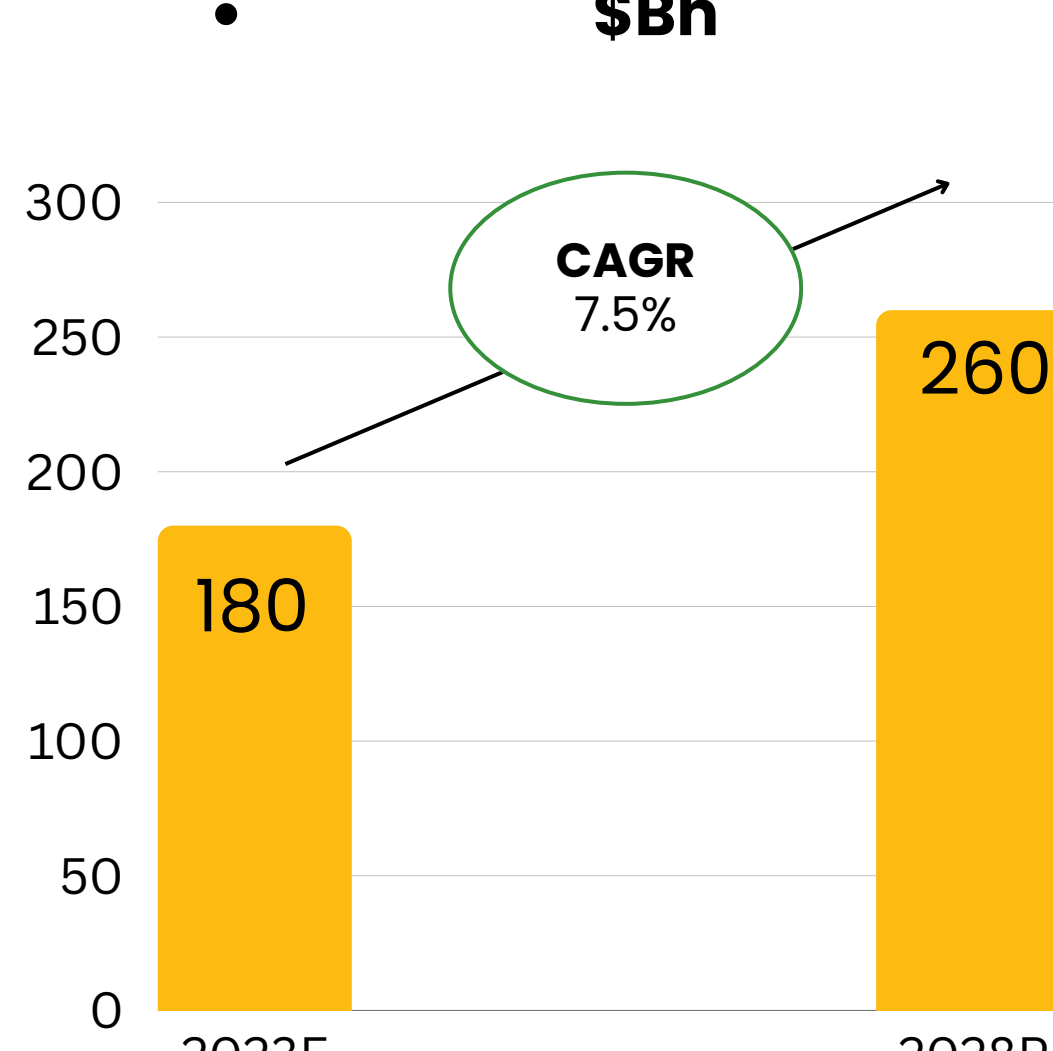
India Toy Story:

India has a rich history of producing toys, dating back to the Indus Valley Civilization, around five thousand years ago. The original toys comprised whistle-shaped parrots, toy monkeys, and miniature farm carts. All these toys were made from natural materials such as bamboo sticks, hay, and natural clay-like soil, rocks, and fiber cloth. Popular board games such as Chess and Ludo also have ancient Indian origins.

Indian Toy Market Size- \$Bn (Domestic + Exports)



Global Toy Market Size \$Bn



Despite this, **India's market penetration is <1% (domestic + exports)** of the global toy market due to a lack of large-scale manufacturing facilities.

Indian toy market is valued at
\$1.7 Billion

By 2028 projected to grow to by
\$3 Billion

By 2028 projected to grow to by
CAGR 12.2%

The Indigenisation of toys and China + 1 story:

“China is no longer the low-cost producer of anything. It's only the pre-existing sunk costs of the industrial plant. I realise that you don't move that industrial plant overnight, but if it's going to die anyway, sooner rather than later.” **Peter Zeihan, Geopolitical analyst**

India has traditionally been a net importer of toys. During the 2016–2020 period, China accounted for 86% of India's total toy imports for domestic consumption. China has historically dominated the toy manufacturing sector, benefiting from a large, cheap labour force and established supply chains. **However, the competitiveness of China is decreasing due to several reasons:**

Rising Labour Costs: As China's economy has developed, wages have increased significantly, making it less viable for low-cost production of toys. The GDP per capita in China has risen from \$195 in 1980 to \$10,500 in 2020, leading to higher expectations for wages among workers.

Labour Shortages: China's demographic challenges, including a declining birth rate and an aging population, have resulted in a labour shortage. Analysts estimate that China has around 20 million fewer workers than needed, a situation that is expected to worsen over time.

Geopolitical Risks: The geopolitical relationship between the USA and China has become increasingly strained, raising concerns over supply chain stability and reliability.

India is emerging as a significant alternative to China for toy production due to:

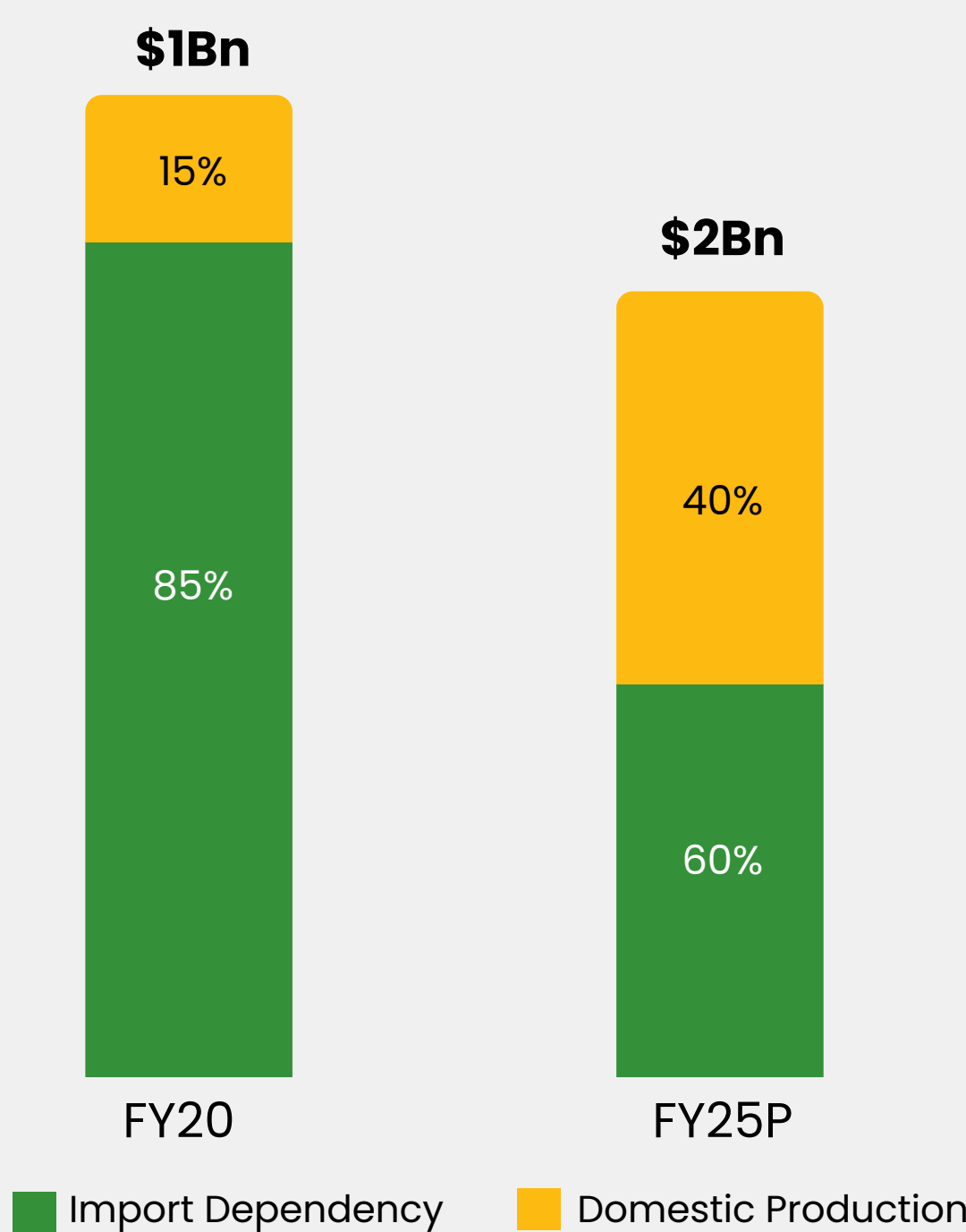
Increase in Basic Customs Duty (BCD): A substantial increase in BCD on toys (from 20% to 60% in February 2020, and subsequently to 70% in March 2023) aims to protect the domestic toy industry from cheaper imports and encourage local manufacturing

Massive Labour Pool: India has a young and abundant workforce, with over 400 million people available for work. This demographic advantage ensures a continued supply of low-cost labour for the foreseeable future. While Vietnam, Indonesia and Mexico are strong contenders, India has the advantage of cheap labour. India's labour cost is 1/5th of China's and half of Vietnam's. Hasbro plans to de-risk 60% of its sourcing from China by 2025 and looking to move its sourcing to Vietnam and Indian suppliers.

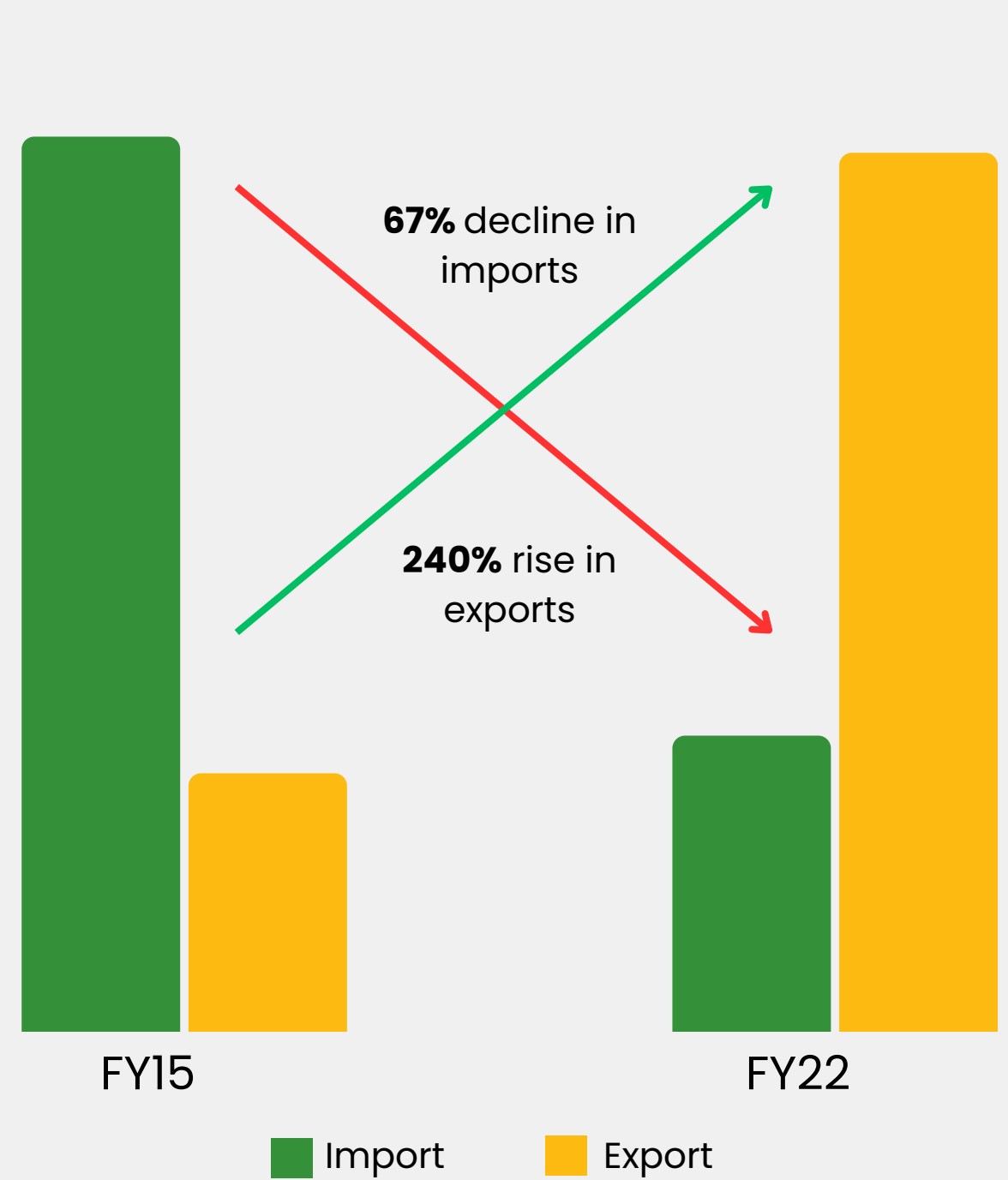
Industrial Capacity: India possesses latent industrial capacity and is actively working to develop a full local supply chain for toy manufacturing. This potential for capacity uplift is unmatched by other countries, making India a key player in the future of toy production.

Strategic Supply Chain Diversification: Covid 19 pandemic, increased trade restrictions on Chinese imports, and supply chain disruptions have exposed the vulnerabilities of being over-dependent on a single supply source. As companies look to diversify their supply chains away from China, India stands out as the only country capable of matching China's production capacity in the long term.

India's Market Size (\$Bn) - Domestic Production and Import Dependency



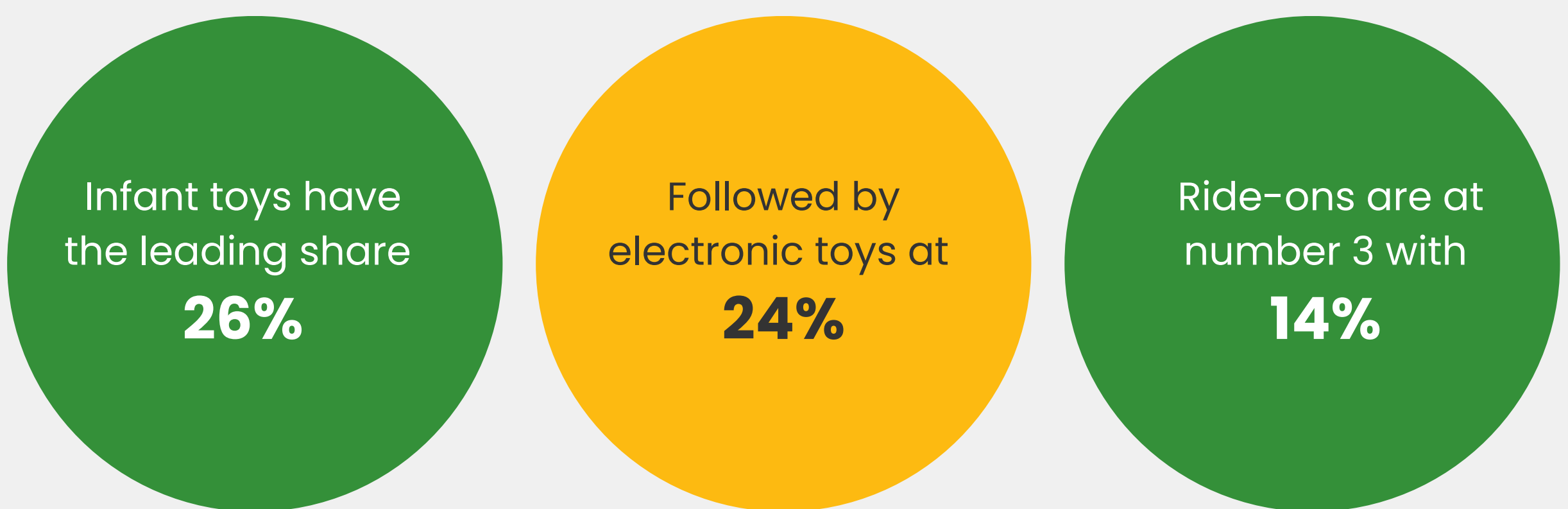
India's Import and Export Market (\$ Mn)



Key Categories:

There are diverse toy **categories** – **electronics, plush (soft toys), educational toys, and others (plastic/wooden toys)** with different price ranges catering to different customer segments and age -groups. Toys for infant and preschool children under the age group of 0–5, constitute the largest share of total revenues in India.

In the key toy categories (of the total Indian toy market)



From the managing partner's desk:



GAURAV VK SINGHVI
Managing Partner,
Avinya Ventures

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. We are extremely bullish on the industry and we believe that India will emerge as a key stakeholder in this industry given that toys have been an integral part of Indian culture and heritage since time

immemorial. We are exploring to bet on an emerging leader in the space who has the right experience and resources to take on this available opportunity in India. Wishing you and your loved ones a Happy, safe and a prosperous Diwali 2024.