



Investing in India's Online Gaming Sector: Market Profile, Growth Drivers

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India's online gaming industry is growing at a rapid pace. In 2016, the country's online gaming market stood at US\$290 million and is expected to hit the US\$1 billion mark by 2021, with a userbase of more than 628 million gamers.

Key drivers for market growth

- India is a **young country** with about half of its population under the age of 25.
- **Availability of smart phones** at low cost. Smartphone users are expected to reach the 859 million mark by 2022 from 468 million in 2017, an increase of 84 percent.
- India is only second to China in terms of the number of internet users. **The number of active internet users** is expected to sharply increase to 829 million users by 2021 from **451 million** in 2019.
- **Games and in-game content are popular when localized to cater to the Indian market.** Some of the popular online games in India are Teen Patti by Octro, Ludo King by Gametion Technologies, online multiplayer shooter game PUBG developed by South Korea's Bluehole Studio. Almost all online gaming companies hold special events to coincide with popular Indian festivals, such as Holi, Diwali, Eid, etc. Game developers have also launched the option to play games in Indian regional languages like Gujrati, Bangla, Marathi, Telegu, and more. The Delhi headquartered online gaming platform WinZO has entered into a partnership with Tencent Games to enable PUBG Mobile gaming tournaments on their platform in ten Indian regional languages.
- **Strong and booming IT Sector.** The number of online game developers rose to 275 in 2019 from a mere 25 in 2010. In fact, because of a growing pool of talented IT engineers, India is becoming a popular backend development center for gaming companies.
- **Widespread adoption of digital payment methods.** Digital payment users are expected to grow from 100 million users in 2019 to 300 million users in 2022. This has contributed to the rapid growth in online payments on gaming portals.



India's gaming market

India is among the top five online mobile gaming countries globally. [Around](#) 5.6 billion mobile gaming apps were downloaded in India in 2019, the highest in the world. More recently, online shooter games like PUBG, Call of Duty, and Fortnite have expanded their mobile gaming userbase in India.

As per a study by Federation of Indian Chambers of Commerce & Industry (FICCI), an association of business organizations in India, online gaming in India is expected to grow faster than the global online gaming industry. Over 150 million Indians play PUBG Mobile regularly. Facebook games like Candy Crush, Farmville, and Criminal Case had gone viral a couple of years back with users spending hours and hours playing these games and inviting their friends to join them in their gaming journey.

Online fantasy sports gaming is another popular segment among Indians. It is skill-based and allows users to assemble players and form their own teams. It is played for various sports, including the national favorite, cricket, and football. The diversifying viewership of sports in the country and emergence of new sports leagues, such as the Indian Premier League (IPL) have contributed to the massive growth in fantasy sports gaming with the userbase growing from 20 million in 2017 to 50 million plus in 2019.

Profile of an Indian gamer

As per a report by [POKKT](#), a leading mobile video advertising platform in India, Southeast Asia, and Middle East and North Africa (MENA) – puzzle, action, and adventure genres have seen the most growth in Indian user activity.

Demographics change depending on the type of games. Action and adventure games are more popularly played by males while puzzle and quiz games are played by more females. Preferences also change according to the age of gamers.

Even though the preference for games might be different, it has been [found](#) that females spend a similar amount of time on gaming as compared to males in India. Average time spent by a gamer is 28 minutes in a day while 76 percent of the gamers play twice daily.



Most gamers are under the age of 24 years, probably because this age group has more free time at hand and is more tech savvy. However, the adoption of gaming among older age groups is also becoming significant. These are important aspects which companies should consider while developing and marketing games.

Foreign investment in India's gaming market

Some examples of the businesses set up in India's online gaming sector are mentioned below:

- French video game company **Ubisoft has two development studios in India.**
- American video game publisher **Rockstar Games acquired Dhruva Interactive**, an Indian video game development company headquartered in Bengaluru in 2019. It was later merged into Rockstar India Studio and has around 500 employees in India.
- Kolkata-headquartered online games platform **Baazi Games plans to invest US\$5 million in India's gaming market in 2020.** Investment will focus on gaming start-ups to nurture the latest gaming technology. The online portal offers card-based games, such as Poker Baazi and Rummy Baazi, and fantasy cricket Balle Baazi, on its online platforms. Indian Olympic medalist boxer Vijender Singh has been the brand ambassador of Poker Baazi.
- Noida-headquartered ecommerce and payments firm **PayTM and Alibaba Group's Hong Kong based AGTech Holdings formed a joint venture in 2018 to launch Gamepind** – a localized platform hosting popular casual and sports games. PayTM (through its parent company One97) invested US\$8.8 million for 55 percent holding while AGTech Holdings invested US\$7.2 million for the remaining 45 percent shares.
- **Chinese gaming company Youzu Interactive entered the Indian market in 2017** with [plans](#) to invest US\$10 million to develop local games and forge partnerships.
- Vietnam-based game developer StomStudio has partnered with Indian game distributor and publisher, Gamesbond, to develop casual arcade games.
- Indian gaming companies like Moonfrog labs and Octro have seen investments from top venture capitalist firms, such as Sequoia Capital.
- The Chinese internet and gaming giant, Tencent, is also considering investing in India's gaming market.



It is evident that foreign companies have taken note of India's gaming preferences, growing userbase, and market opportunities.

What are the available monetization strategies in the online gaming sector?

There are several strategies that gaming companies adopt to earn revenue. We briefly discuss them below.

Free-to-play

In this model, the game is provided to users at no cost. Revenue is earned when users want extra features in the game, such as virtual goods and premium features. In the online action game, PUBG, full access to the game is provided to users from the beginning but if users want fancy costumes for their character – then they have to pay for such features.

In-game advertising

Excess advertisement within the game can be annoying to users but this model serves as one way to earn revenue. Here, users get to access the full game from the beginning, but ads are shown from time to time. Puzzle games often showcase ads whenever a user clears one level and jumps to the next. In PUBG, a user can watch ads to earn extra battle coins, which can be used to purchase in-game items.

Demo and full version

Game studios often release a free trial or limited (demo) version of their game to give a taster and hook the audience to the full game. Users can then pay to unlock the entire game.

Play-to-win

In this model, gamers who pay extra for premium items get advantage over the free gamers. Free gamers may need to spend considerable time to unlock these premium items.

Pay to play

In this model, gamers can use actual money buy in-game coins, which enables them to play a certain game. On adda52.com, an online card gaming portal, users can use



actual money to buy chips, which would allow them to play paid games and tournaments.

Other ways to make revenue include co-branding within the game and selling game merchandise, such as keychains, t-shirts, posters, etc. in the market. Electronics and hardware manufacturer Asus' gaming brand, ROG, has partnered with Tencent to create gaming content for its ROG Phone 2.

These revenue models work when developers are publishing their own game. However, if a developer is working for a publisher then:

1. The publisher can hire the developer to develop the game at an agreed price. The developer does not get any share from the sales and has no other rights to the game.
2. Another model is a publishing license agreement, where the publisher pays a certain advance sum to the developer to develop the game and once the game is launched in the market, the developer gets a royalty based on profits or percentage of sales.

Gaming in India amid the COVID-19 outbreak

Amid a [nationwide lockdown](#), and confined within their homes, more people have turned to online games to kill their boredom. Mobile games have seen a surge in the number of downloads across countries during the pandemic.

Mobile-based gaming platform, **PayTM First Games**, **saw an increase of 200 percent in its userbase in March 2020**. The platform registered over five million app downloads during the ongoing lockdown. Online regional games like Ludo and Rummy saw a growth of four to five times. **Over 400,000 users are playing the Ludo game daily during the lockdown**. It is expected that this number will increase to 1 million in coming weeks. Over 200,000 new users are playing the game every day. On the platform, **average time spent on games also increased from 32 minutes to 45 minutes**.

WinZO observed 30 percent higher traffic on the weekend of March 15 with the number of gameplays increasing by three times the usual number. Their **multiplayer mode witnessed a growth of 35 percent** considering that people wanted to play



with their family and friends. People were found to be **actively using the audio and video features** while playing the game to socialize with their fellow co-players.

During COVID-19 coronavirus pandemic, even the **World Health Organization (WHO) is encouraging people to stay at home and play video games**. Gaming campaign #PlayApartTogether has gone viral over social media with the WHO and several gaming giants, such as the California-headquartered video game company Activision Blizzard supporting it.

Discounts and bundle offers are being promoted online by gaming companies and online gaming stores to encourage people to play video games. American video game developer and publisher, Epic Games, is offering one game per week for free in 2020. Once claimed, the game will remain with the user forever. GOG, a Poland-headquartered digital distribution platform for video games was offering huge discounts on its portal till March 30.

Internet search giant **Google has started featuring doodles of its popular games** on its homepage. During the pandemic, to encourage people to stay at home and socialize with their family and friends, **Google is offering its online cloud gaming service, Stadia, free of cost** for two months. This move will enable Google to take a lead over its rivals in the cloud gaming market.

“Keeping social distance is vital but staying home for long periods can be difficult and feel isolating. Video games can be a valuable way to socialize with friends and family when you’re stuck at home”, [said](#) Vice President and GM, Google Stadia, Phil Harrison.

How is online gaming regulated in India?

Betting and gambling are state subjects under the Constitution of India, which means that each state has the exclusive legislative jurisdiction to enact laws relating to betting and gambling within the state (whether online or offline).

While skill-based games are permitted under most laws, games of chance are prohibited under most Gaming Enactments (The Public Gambling Act, 1867 and the various gaming laws enacted by states in India). Under certain Indian laws, ‘gaming’



is used to refer to gambling activities. Simply understood, games of skill are permitted, but games of chance require the review and permissibility by law.

The Public Gambling Act, 1867 (“PGA”) and Prize Competitions Act, 1955 (“PCA”) are the two main acts applicable to the regulation of gaming in India.

Section 12 of the PGA states, “Nothing in the foregoing provisions of this Act contained shall be held to apply to any game of mere skill wherever played”, meaning PGA exempts games of mere skill from penal provisions associated with gambling.

PGA has been adopted by certain states in India, while other states have enacted their own legislation to regulate betting and gambling activities within the state. Wherever a state legislature exists on gambling, it supersedes the PGA.

As per the FDI policy of India, foreign direct investment and foreign technology collaboration in any form, including licensing for franchise, trademark, brand name, and management contract is prohibited for lottery business, gambling, and betting activities.

The terms “lottery, gambling, and betting” have not been defined under the FDI policy of India. Any arrangement between Indian and foreign entities for operating a gaming business in India is required to be structured carefully to avoid any risks under the FDI policy of India.

Under the Foreign Exchange Management Act, 1999 (FEMA), read with the Foreign Exchange Management (Current Account Transaction) Rules, 2000 (“Current Account Rules”), remittance for the following is prohibited:

- Remittance out of lottery winnings;
- Remittance of income from racing/riding, etc, or any other hobby; and
- Remittance for the purchase of lottery tickets, banned/ prescribed magazines, football pools, sweepstakes, etc.

Whether a game is a game of skill or game of chance depends on each individual case as pronounced by judicial pronouncements.



For instance, India's apex court has held that betting on horse racing was a game of skill. Consequently, betting on horse racing is considered as a game of skill and is exempt from the prohibitions under most Gaming Enactments.

Whether sports betting is a game of skill is pending before the Supreme Court in the case of Geeta Rani v Union of India. Casino games are majorly seen as chance-based games, so are treated as betting and gambling activities, and are therefore prohibited under most Gaming Enactments (except for the North-Eastern state of Sikkim, which permits certain casino games).

How is online gaming taxed in India?

If a gaming activity does not fall into the category of betting or gambling (that is, in case of a game of skill), no Goods and Services Tax (GST) may be levied. However, GST may be levied on the consideration amount payable/collected for the supply of goods or services, or both, on a gaming platform at the rate of 18 percent. Please note that the exact nature of the product offering should be analyzed in order to ascertain the rate of taxation.

As per Indian income tax laws, any income by way of winnings from any lottery, crossword puzzle, card game, or other game of any sort (including games of skill) that exceed INR 10,000 (US\$132.28), is subject to a withholding tax of 30 percent (exclusive of applicable surcharge and cess).

A situation may arise where winnings are (a) wholly in kind or (b) partly in cash and partly in kind, and the cash component of winnings is less than the withholding obligation of total winnings. In such a case, it is the duty of the payor that tax at above mentioned rate is paid before winnings are handed over to the payee.

Under the GST laws, services by way of admission to entertainment events or access to casinos, etc. are taxable at a rate of 28 percent. Furthermore, GST at the rate of 28 percent is applicable on betting or gambling services provided by casinos on the transaction value of the betting.



Are online poker and rummy games of skill?

The majority of states in India (except states like Assam and Orissa) exempt games of skills from the purview of gambling. In 1967, the Supreme Court ruled that rummy is a game of skill and cannot be considered gambling.

Online rummy portal, adda52rummy, permits players from all states of India except – the states of Assam, Odisha, Nagaland, and Telangana – due to the peculiar wording of gaming legislations in these four states.

Certain variations of poker are games of skill for the purpose of most Gaming Enactments in India. Accordingly, such games are permitted to be offered in most Indian states that have an exemption for games of skill.

The Gaming Enactments/courts in certain Indian states have specifically recognized poker as a game of skill, such as West Bengal (excluded poker from the definition of “gambling” under the West Bengal Gambling and Prize Competitions Act, 1957) and Nagaland (specifically categorized poker as a game of skill). Based on this background, industry experts are of the view that online poker is legal in India.

Hence, how online games are regulated need to be checked under the gaming laws of each state.

The Information Technology (Intermediaries Guidelines) Rules, 2011, requires internet intermediaries to inform the users of computer resource not to host content relating to gambling.

Online games that do not involve prize money or such offering are *generally* not considered as gambling. Depending upon the content of the games, laws relating to obscenity, violence, intellectual property, and personality rights may be involved. However, there are no dedicated regulations for online games.

The absence of comprehensive regulations in the gaming sector makes the subject complex. Wherever applicable, licenses to online games are issued by most of the states on the basis of games of skill as mentioned under the PGA, which is an archaic legislation, brought into effect much before the era of the internet.



Industry players believe that the lockdown has generally been favorable for gaming businesses in India. During the lockdown, online gaming companies get the opportunity to showcase their offerings while helping the community maintain social distance and staying connected with friends and family. User-relationships built now can have a long-term impact on the future of the business.

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