

Online Gaming Industry in India

Led by penetration of smartphones

2018

In this issue:

- 1 Global Online Gaming Market
- 2 Online Gaming in India
- 3 Outlook
- 4 M&A and PE Transactions

\$138 bn

Global Gaming Market (2018E)

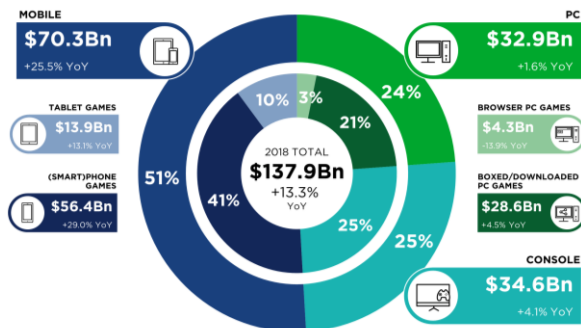
2.3 bn

Gamers across the globe

Global Online Gaming Market Size

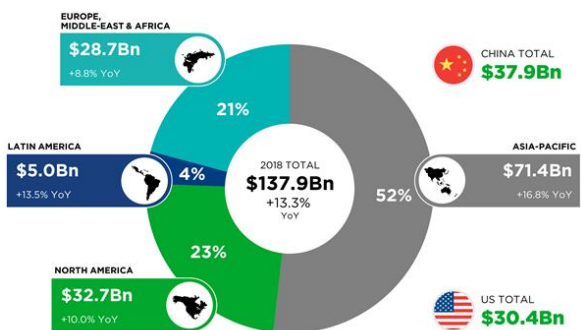
Global online gaming market has grown rapidly over last few years and stands currently at around \$138bn.

This growth has been mainly due to increasing deployment of advanced technologies for the convergence of games and videos on a global scale. Various business models and platform seem to have aligned and supported this growth. Consumer spend on games is expected to grow to \$180 bn by 2021



Mobile phones dominate gaming

Mobile gaming accounted for the largest share in the global gaming market. This is primarily because of increasing popularity, adoption of large screen phones, and rising penetration of mobile internet across the globe. Further availability of free mobile games under freemium business model is attracting new gamers.



Mobile gaming will continue to be the largest segment following 10 years of double-digit growth since the first iPhone was launched in 2007. In total, mobile revenues will grow +25.5% year on year to reach \$70.3 bn. Mobile game revenue growth will continue to outpace the overall games market, growing to \$106.4 bn in 2021. Engagement with PC games to continue to grow, driven by competitive play and esports.

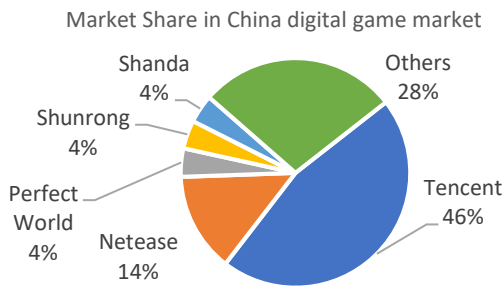
Dominance of China

Combined market share of China, US and Japan in gaming globally is over 60%. Domestic market coupled with relatively low-cost developer ecosystem have resulted in countries like Turkey, Poland and other East European nations emerge on the global gaming arena.

Access to China's digital game market is heavily restricted. To enter China, one must either apply for licences or partner with Chinese operators. Within this protected market, China's digital game firms have emerged as some of the

	China	US	Japan
Market Size (2018E)	\$38bn	\$30bn	\$18bn
Games penetration (% of online population)	71%	61%	59%
Investments in gaming (% of global)	22%	25%	3%
Ecosystem	Local companies dominate	850+ developers & publishers	125+ developers & publishers

Source: Newzoo April 2018 Quarterly update, KPMG-Google report on Online gaming in India, Emerging Trends in India Gaming Industry - CII



Source: China's Digital Game Sector, US-China ESRC

largest in the world and have begun acquiring foreign game companies. China's Tencent is the world's largest gaming firm, having 46% of domestic market and 13% of global digital game revenue. Tencent today owns the world's top mobile and PC games by revenue. Since 2015, Chinese companies accounted for 70 % of all digital game company acquisitions.

Key Trends in Global Market

- Large Publishers are focused large budget games which provides opportunity for smaller game developers to work on niche.
- Freemium business model is most preferred.
- Virtual reality, Augmented Reality, e-Sports are still in nascent early stages.
- Industry is consolidating. Way to growth for large gaming companies is either way of bringing sequels or acquiring/partnering IP, studios and publishers

210+ mn

Gamers in India

\$740+mn

Total game revenue (2018E)

\$480+ mn

Online gaming market in India (2018E)

Indian ranks #17 in Global Gaming industry

Indian online gaming started in early 2000 through the popularity of consoles and desktop computers. With birth of social networking like Orkut and Facebook, we saw rise of social games like Farmville and Mafia Wars. By 2009, online community had grown and local companies with India centric games like Rummy and Teen Patti emerged. Accessibility to devices and internet had been limited and not affordable.

However, in last 3 years, we have seen amazing penetration of smartphone and 4G network. Data prices have dropped and have supported rapid growth in online mobile gaming in India.

The Indian Gaming market is today estimated to be worth US\$ 740 million of which online gaming, the fastest growing segment, is expected to be US\$480 million

Indian Gaming industry is set to cross \$1bn in 2021

Online gaming is expected to grow at ~30% y-o-y to reach US\$1.1 billion in another 3 years adding another 150+ million online gamers during this period

Investor perspective

Indian online gaming market is currently in state where ecommerce was a decade ago. The industry has matured, and players have developed capabilities at par to global players. However, most players are still small, in terms of revenue primarily due to following reasons

1. In app purchase as business model has not gained traction. Mobile payments, UPI is very recent phenomenon. Traditionally payments had been cumbersome with 2-factor authentication.
2. Further conversion to free players to paid players in India has been. This has resulted in low monetization and ARPU.
3. With low entry barriers and low game success ratios, Global players are cautious and haven't aggressively expanded.

Time spent on smartphone



Source: KPMG Google reports

4. Fantasy games and Card games are popular game formats in India. Both the segments have seen considerable PE/VC interest.

Investors are waiting for the tipping point where they see increased virality in Indian games and higher monetization rates

Indian games and studios are making mark globally.

Select Case Studies

Indian Gaming Studio creating game for Global audience

Nukebox is one of the leading gaming services companies with 200+ games and 25mn downloads. Its most popular casual mobile game is 'Food Truck Chef', which has been chosen as Best of 2017 on the Google Play store. Launched in Aug 2017, it has 15mn+ installs within a year and users from over 150 countries.

Indian gaming studio creating global kids' brand

Axis entertainment has over 350+ Baby Hazel games – episodic games for under 10 kids with intent to develop and hone social skills in kids through gameplay. Since first game launch in 2012, company has 100+ mn downloads across 185 countries. Today Company plans to leverage this brand through additional regional assets and merchandise.



Global players including the likes of Tencent, Amazon, Zynga, Microsoft among others are keen to capitalize on the growth in the domestic market and will therefore, like in other geographies, look to increase its scale of operations through acquisitions.



Just as in IT Services and product development, the development cycle for a game includes several steps such as concepts development, scripting, programming, character design and creation, animation, level creation and testing. Considering the increasing cost of game development and availability of skilled, creative, and comparatively cheaper talent in India, gaming firms will increasingly look to establish their development centres here. E.g. Zynga has one of its largest studios outside the US in Bangalore

The gaming industry has its inherent challenge like that of the movie business; is in a way a hit-and-miss business. So, to create great gaming companies out of India, size and scale is important which helps reduce risks – this makes a strong case for consolidation in the industry. We also expect a few indie developers, who find success, to build scale through select acquisitions; certain indie developers and independent studios would also see merit in selling out to achieve scale. Outbound acquisitions, though not common yet is also expected to increase as companies in India acquire for extending distribution reach and to onboard certain skills.

At IMAP, we believe that Indian gaming studios would be looking for global partners either for marketing their products globally or provide development services. This shall result in significant deal activity in coming years.

Year	Company	Investor	Deal type
2018	Rooter	Venture Catalysts	PE
2018	Instasportz	Nazara	PE
2018	Dream11	Tencent	M&A
2018	PayTM Gamepind	AGTech Holdings Ltd/Alibaba	PE
2018	9Stacks	Waterbridge	PE
2018	NODWIN Gaming	Nazara	M&A
2018	Nextwave Multimedia	Nazara	M&A
2018	Djuzz	Nazara	M&A
2018	Mygamma	Nazara	M&A
2018	AFK Gaming	AFK Gaming	PE
2018	Mercury Poker	Pokernation	M&A
2017	Nazara	Multiple investors	PE
2017	Moong labs	Nazara	PE
2017	Halaplay	Nazara, Kae Capital	PE
2017	Dream11	Multiples PE	PE
2017	99Games	Dream Incubator	PE
2017	Mech Mocha	Shunwei Capital	PE
2017	Jetsyntheses	Kris Gopalakrishnan, others	PE
2017	Head InfoTech	Clairvest	M&A
2017	Adda52	Delta corp	M&A
2016	Mastermind sports	Nazara	PE
2016	Playsimple	IDG,SAIF	PE
2015	Moonfrog labs	Tiger Global, Sequoia	PE
2015	Dream11	Kalari Capital	PE
2014	Octro Games	Sequoia Capital India	PE
2014	Mango Games	Social+Capital Partnership, Others	PE
2014	Hashcube	Nazara	M&A

Source: Multiple Industry News

About IMAP

191
Deals closed in 2017

\$12+ bn
Transaction value of
deals closed in 2017

36%
Cross border
transactions share in
2017

IMAP is a global network of investment banking firms with presence in 35 countries. IMAP closed over 2100 transactions valued at \$90+bn in last 10 years. IMAP is ranked 7th in the world in the mid-market segment by Thomson Reuters and has executed 191 transactions worth US\$12 billion in 2017. IMAP has 48 offices in more than 35 countries, > 400 M&A professionals. IMAP India is exclusive India partner of IMAP.

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