

Online gaming in India – deal activity and growth drivers

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Online gaming is an emerging sector in India and has shown robust growth on account of increase in the wireless internet users and smartphone base, and changes in perception of gaming as a means of entertainment. Data usage per telecom subscriber has grown from ~0.4 GB per month in 2015 to ~10.4 GB per month in 2019, with a corresponding decline in the data cost over the same period.¹ Further, the widespread adoption of digital payment mechanisms like Unified Payments Interface (UPI) (value of UPI transactions has grown from ~INR2 trillion in Jan 20 to ~INR4 trillion in Jan 21)² have also been key growth drivers for online gaming. Real money gaming including card-based games and online fantasy sports segments have seen strong traction in the recent years, driven by the high affinity for Indian users to pay for games if there is a monetary incentive involved.

The COVID-19 induced lockdown helped to accelerate the adoption of online gaming in the Indian market with the spurt in the installs of gaming apps on mobiles. This was owing to a significant number of people turning to gaming for entertainment and socialising. Further, consumers spending on mobile games also increased with the revenues at their peak during the lock down period. The average time spent on mobile phones also increased from ~2.5 hours pre-COVID-19 to ~4.1 hours during the lockdown period.³ Post lockdown, in June 2020, there was a normalisation in both the revenues and time spent, but the new normal was higher than the pre-COVID-19 levels by almost 15-20 per cent.⁴

Recent deal activity and deal themes in online gaming

Significant deal activity took place post the COVID-19 lockdown and the year 2020 witnessed more investments in gaming than the last five years put together. The gaming sector in India attracted an investment of USD544 million⁵ during August 2020-January 2021 period.

Multi-gaming platforms saw increased deal activity with significant funds being raised by popular players. These funds are typically spent on marketing and technological advancements aiming to extend a seamless and high-end user experience. Another sub-segment to witness funding activity is real money gaming and online fantasy sports gaming with the lockdown serving as a catalyst for increased user engagement and monetisation. The Real Money Gaming (RMG) space has expanded from card-based games to fantasy sports and recently to hyper casual/casual games, leading the way to strong investment opportunities.

However, these investments are not restricted to large players and there have also been a number of smaller investments in niche categories and at pre-Series A and seed funding stages. Other niche sub-segments like e-sports and mid-core games have also seen early-stage funding rounds.

One of the recent sector highlights was an initial public offering (IPO), seeing a favourable listing on the Indian stock exchanges, making the brand the first gaming company to list in India, where the stock made a stellar debut with an oversubscription of more than 170 times, making it the third biggest IPO ever with a size of over INR2 billion.

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The investment in gaming sector is likely to grow at a fast pace in the next 12-18 months on the back of higher user awareness and accelerated engagement. A plethora of investors are likely to be looking to deploy funds in this sector with a user base of around 400 million gamers. Improvement in avenues of monetisation in the casual gaming sector and increased regulatory clarity on real money gaming will be key factors catalysing deal flows. Multi-gaming platforms are popular to the Indian gaming market and are likely to see continued investor interest given the traction they have seen in terms of users and engagement in the recent past.

While there is significant traction in investment activity, long term sustainability will depend on how the sector will deal with challenges like low average revenue per user (ARPU), low proportion of paid users for in-app purchases, lack of an evolved online gaming culture as compared to developed countries and regulatory uncertainty around real money gaming (For more information, refer KPMG in India's Media & Entertainment report titled "[A year off script: Time for resilience](#)".)

¹ Lockdown ensures significant average data consumption uptick; ARPU touches Rs 80 after 9 quarters, CNBC TV18, 27 August 2020

² UPI clocks 2.29 bn transactions worth INR4.25 tn in February, Mint, 2 March 2021

³ KPMG in India analysis from secondary and primary sources

⁴ KPMG in India analysis from secondary and primary sources

⁵ Gaming sector in India attracted investments worth \$544 million, Business Standard, 14 March 2021

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