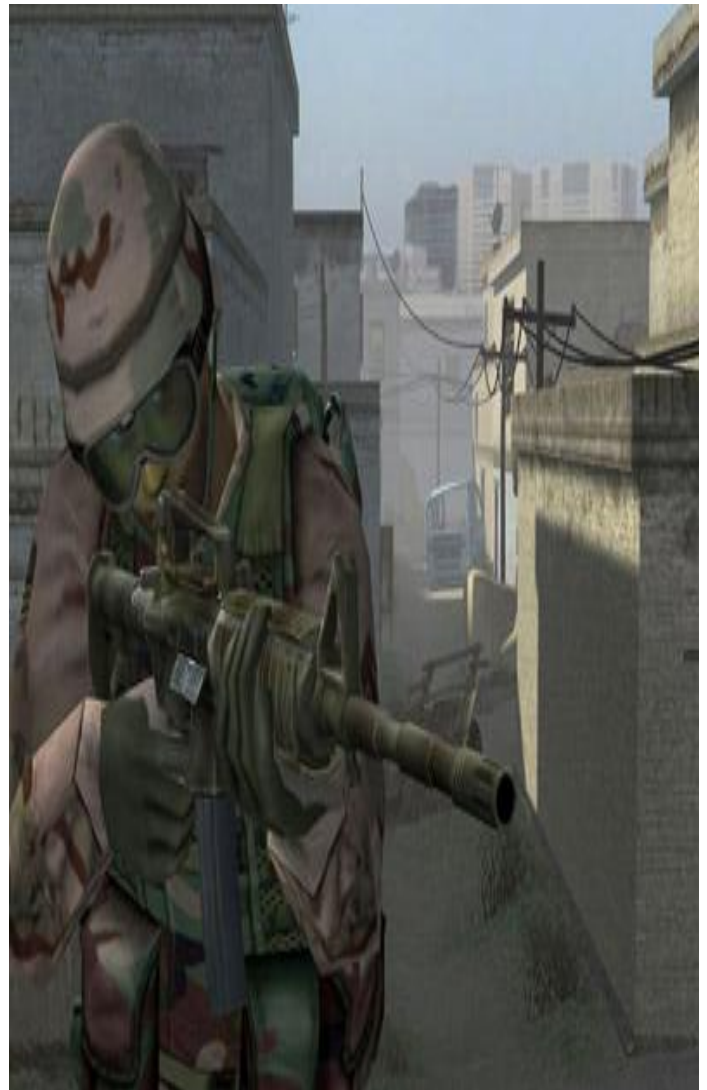




INDIAN GAMING INDUSTRY - 2012



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1. Market Size

The gaming industry is still at an emergent stage in India, but it promises immense growth potential. Some of the major driving factors that is propelling this industry include a high percentage of young population, steadily rising disposable incomes, rise in wireless usage and a proliferation of game developers. A significant rise in penetration of personal computers and mobile phones has also helped in accelerating the industry. The global gaming industry is constantly evolving with the introduction of new technologies in the gaming circuit and this has had a domino effect in India. The domestic market too is witnessing a constant rise in demand for new innovations from customers.

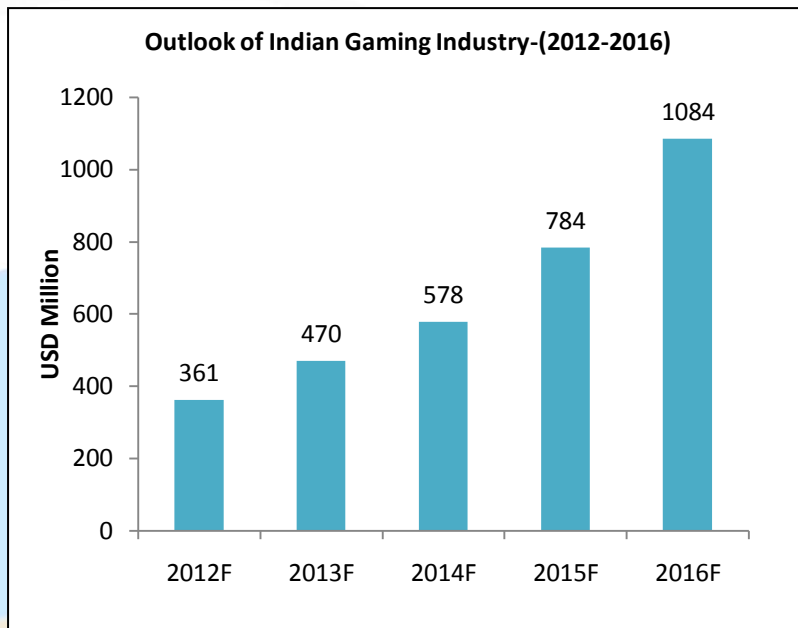


Source: FICCI-KPMG, Gyan Research and Analytics

The Indian gaming industry touched USD 171.66 million in 2010, from USD 144.56 million in 2009. The FICCI-KPMG report estimates that the Indian gaming industry is expected to have a Compound Annual Growth Rate (CAGR) of 32.1 percent in the next five years. The overall size of the gaming industry in India includes revenue generated from the consumer market, the service market and the non-development outsourcing services rendered to international gaming companies.



The performance of the three major market segments: mobile gaming, personal computer (PC) and online gaming, and console gaming, dictates the dynamics of the gaming industry in India. Currently, the major thrust of the industry is focused on creating a talent pool of game developers and increasing cost-competitiveness. In comparison to other outsourcing locations like Taiwan and South Korea, India already offers comparative cost advantages in game development. This is expected to initiate further growth of the overall industry.



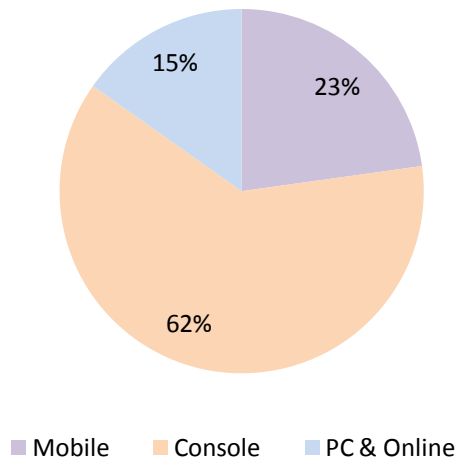
Source: FICCI-KPMG, Gyan Research and Analytics



2. Market Segmentation

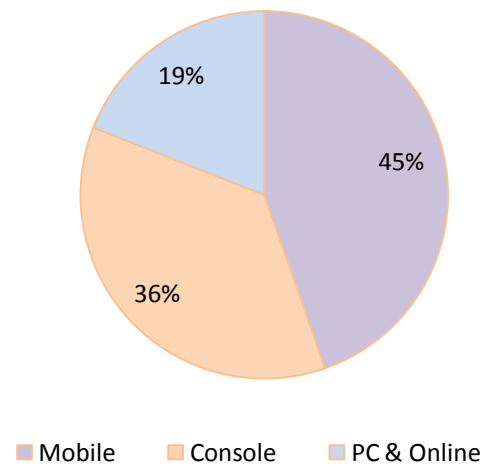
The gaming industry in India can be categorized into three segments - mobile gaming, console gaming and PC & online gaming. Out of the three segments, console gaming contributed the major share of the total gaming revenues in 2009, followed by mobile gaming and PC & online gaming. In 2009, console gaming secured a market share of 62 percent, while mobile gaming garnered 23 percent. It is estimated that by 2014, the market share of console gaming would drop significantly to 36 percent, whereas the mobile gaming segment would acquire a market share of 45 percent. This substantial rise in the market share of mobile gaming would arise from an expansion in mobile penetration and an upsurge in use of smart phones; smart phone are classically designed to support technologically advanced games. The PC & online gaming segment reported a market share of 15 percent in 2009, which is expected to increase to 19 percent by 2014 - a meager 4 percent rise in five years.

Market Share of Gaming Industry Components - 2009



Source: Gyan Research and Analytics

Outlook of Market Share of Gaming Industry Components - 2014



Source: Gyan Research and Analytics



2.1. Mobile Gaming

The Indian mobile gaming industry, valued at USD 32.5 million, accounts for a little over 5 percent of the gross mobile value-added service revenues in 2009. Meanwhile, the growth rate of the telecom industry in India continued to gather momentum with over 500 million subscribers in 2009. A steady rise in the number of wireless subscribers along with increasing usage of data enabled handsets is providing a strong base for the gaming industry. The Indian mobile gaming industry is projected to witness a CAGR of 50.7 percent and the market is expected to reach USD 574 million in 2016.

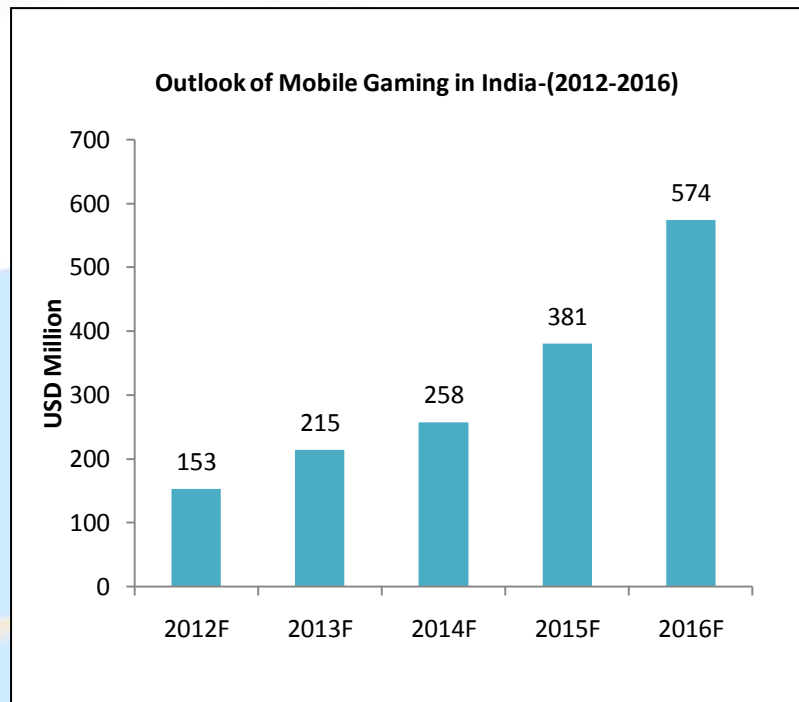


Source: FICCI-KPMG, Gyan Research and Analytics

In order to take a slice of the Indian gaming industry pie, a few multinational organizations have started operations in India. Several have entered into distribution agreements with some of the major Indian mobile gaming companies with the intention of distributing their products in India. The increased competition has triggered off tariff wars, which has resulted in price friendly tariff for consumers looking to utilize the mobile gaming option. Further, with telecom companies focusing primarily on providing valued added services, the gaming industry has benefitted from a mutually beneficial partnership.



Although the mobile gaming industry is poised for a high growth rate in the coming years, the industry is facing some challenges like lack of brand awareness, spectrum shortage - leading to congestion in the existing infrastructure - and disagreement about revenue sharing between telecom operators and game publishers. The industry has to overcome these bottlenecks in order to grow in the future.



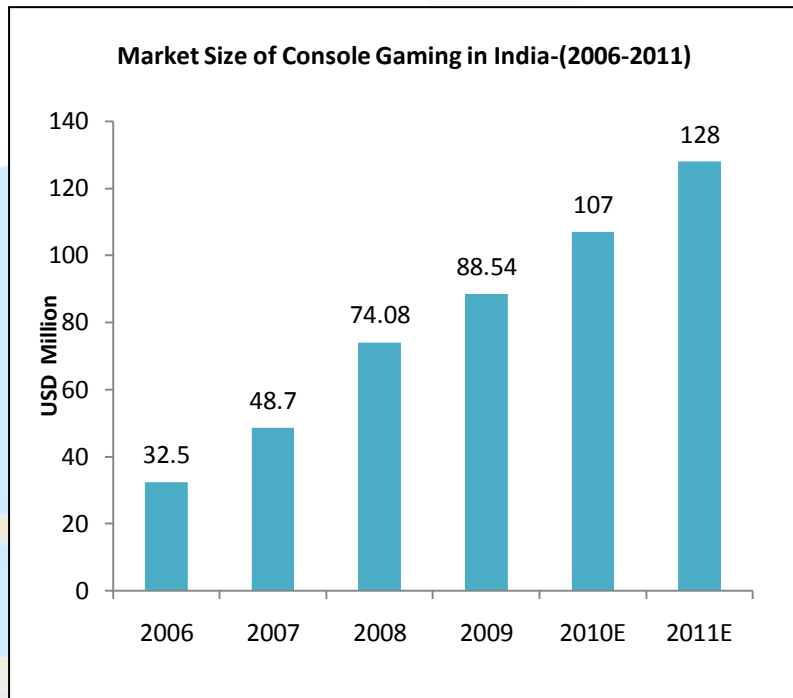
Source: FICCI-KPMG, Gyan Research and Analytics

Demographics of Game users in India	
Kids (10-14 years old)	Play games but usually under parental supervision
College Students (18 – 23 years old)	Play games which are technology advanced
Early Earners (24 -28 years old)	Those who were attracted towards gaming earlier but could not actively play games due to lack of development of Indian gaming Industry.



2.2. Console Gaming

Console gaming contributes the largest share of gaming revenues both globally as well as in India. This segment accounted for 62 percent of the market share of the total gaming revenues in 2009. However, console gaming is expected to experience a drop in market share by 2015, as the total market share for mobile gaming is expected to increase in the next five years.



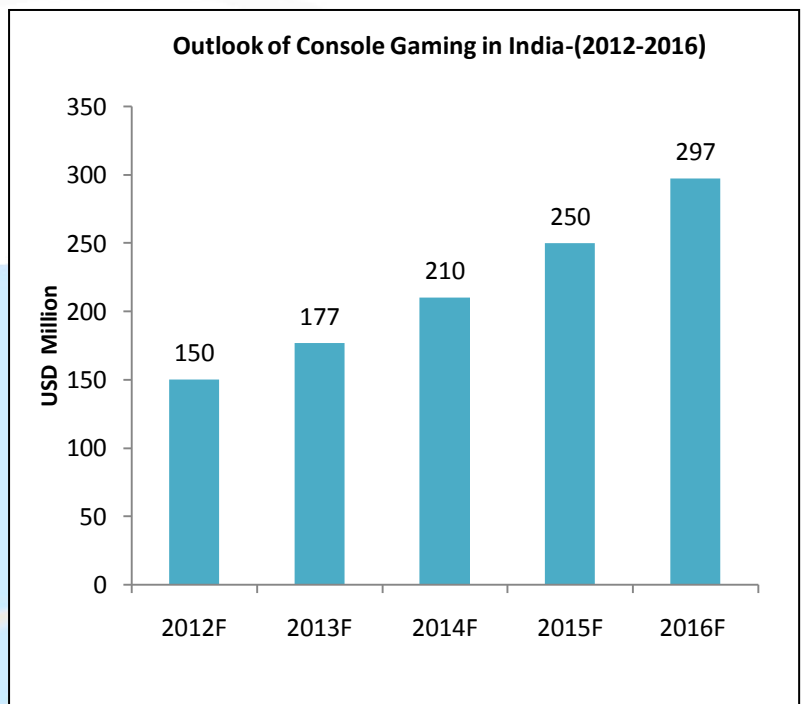
Source: FICCI-KPMG, Gyan Research and Analytics

Console gaming in India dates back to 2002 when portable play stations and play station 2 (PS 2) were introduced in the country. The launch of Microsoft's XBOX in 2006 was a clear indication that global game developers were considering India as a significant potential market.

The console gaming market in India reached USD 88.54 million in 2009. This smart figure can be mainly attributed to the launch of new products, awareness of console gaming concepts and the use of console games as teaching aids. In addition, organized retail chains added to the popularity of console gaming. Thanks to these factors, console gaming has undergone a major transformation - from being a product for cult groups, it has now become a lifestyle oriented product. Currently, increase in planned marketing programs has resulted in expanding demand among Indian consumers. Availability of console games have further contributed to the growth of this market segment. The console gaming segment is expected to grow at a CAGR of 18.8 percent and reach USD 297 million in 2016.



Imposition of indirect taxes and high customs duties that have resulted in a price hike of console games by 40 percent as compared to the grey market. Prices for some the games could be as high as USD 50; coupled with a high import duty the game becomes very expensive for end users. Therefore, not surprisingly, console gaming has been restricted to the more affluent urban population. Mobile gaming on the other hand is cheaper and has the capability of evolving faster than console gaming. With a strong telecom subscriber base and increased penetration, mobile gaming is forecasted to be a tough competitor for the console gaming market in India.

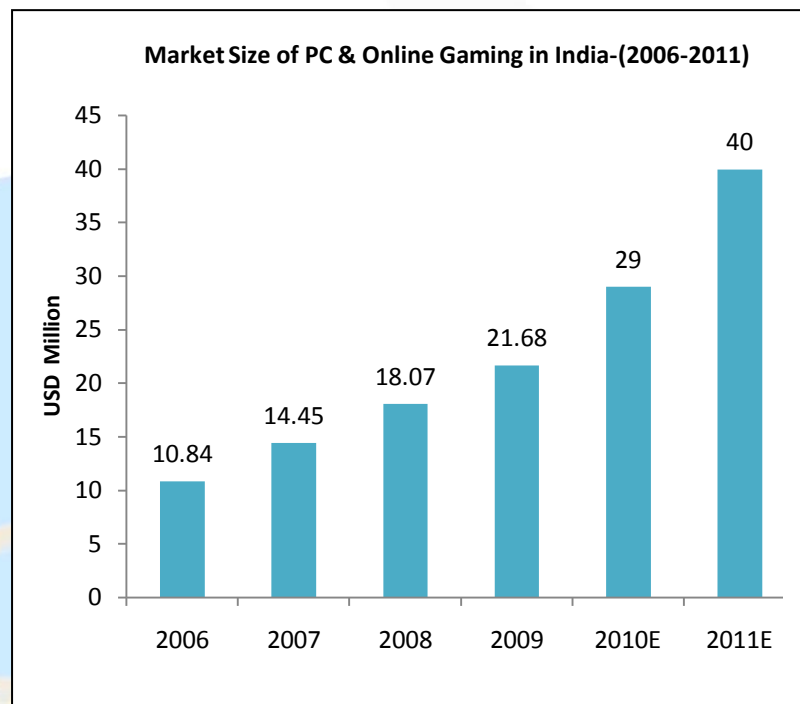


Source: FICCI-KPMG, Gyan Research and Analytics



2.3.PC/Online Gaming

Though several gaming companies launched various games in the past, most of such efforts remained futile as the games were launched without considering the psyche of the Indian gamer. Presently, a rise in the usage of social networking and proper marketing of online gaming have increased the level of user conversion, resulting in a 30 percent growth in the online gaming segment.



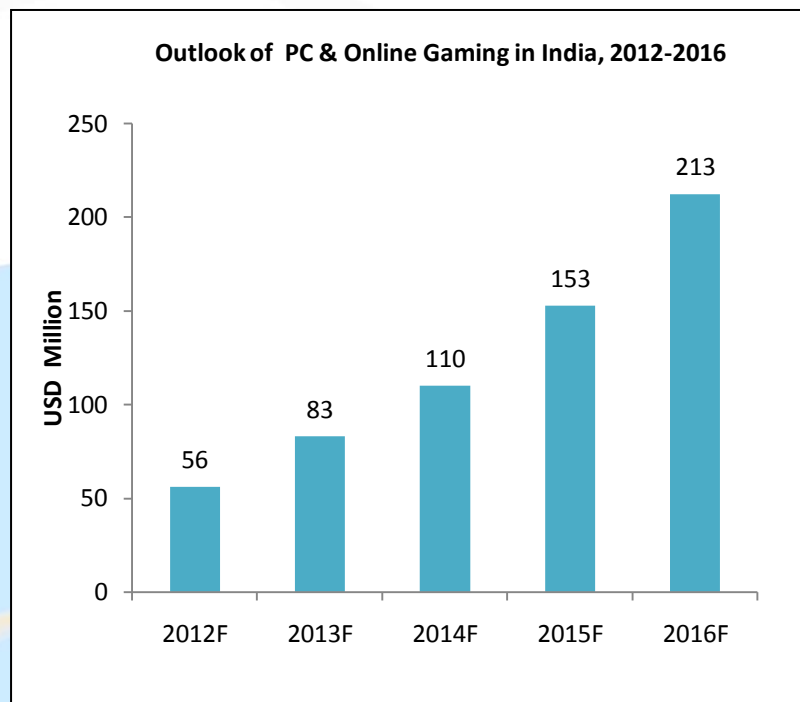
The size of the PC/online gaming segment in India reached USD

Source: FICCI-KPMG, Gyan Research and Analytics

21.68 million in 2009, 17 percent higher than that of 2008. This segment is expected to have a whopping CAGR of 37.8 percent during 2009-2014, to touch USD 110 million in 2014. A single-player, single-session game comprises the leading category of online games played in India. A single-session game usually represents card games, which are easy to play but manage to create considerable amount of interest that engages the gamer for longer periods. Further, popularity of social networking has made the concept of social gaming immensely popular in western countries. Indian gaming companies are also capitalizing on the growing trend by introducing various gaming options in social networking portals. Online games relating advertisement support have been one of the major sources of revenue for online gaming enterprises in India.



Advertisement supported games provide the opportunity for corporates to create brand promotion campaigns that cater to their target group. Multiple-player, single-session games provide the opportunity for two or more players to play against each other at the same time. Games relating to sports and action animations typically fall under the category of multiplayer, single-session games. Some Indian gaming companies like Zapak.com and Game on India have launched a chain of gaming cafes across metro cities and even

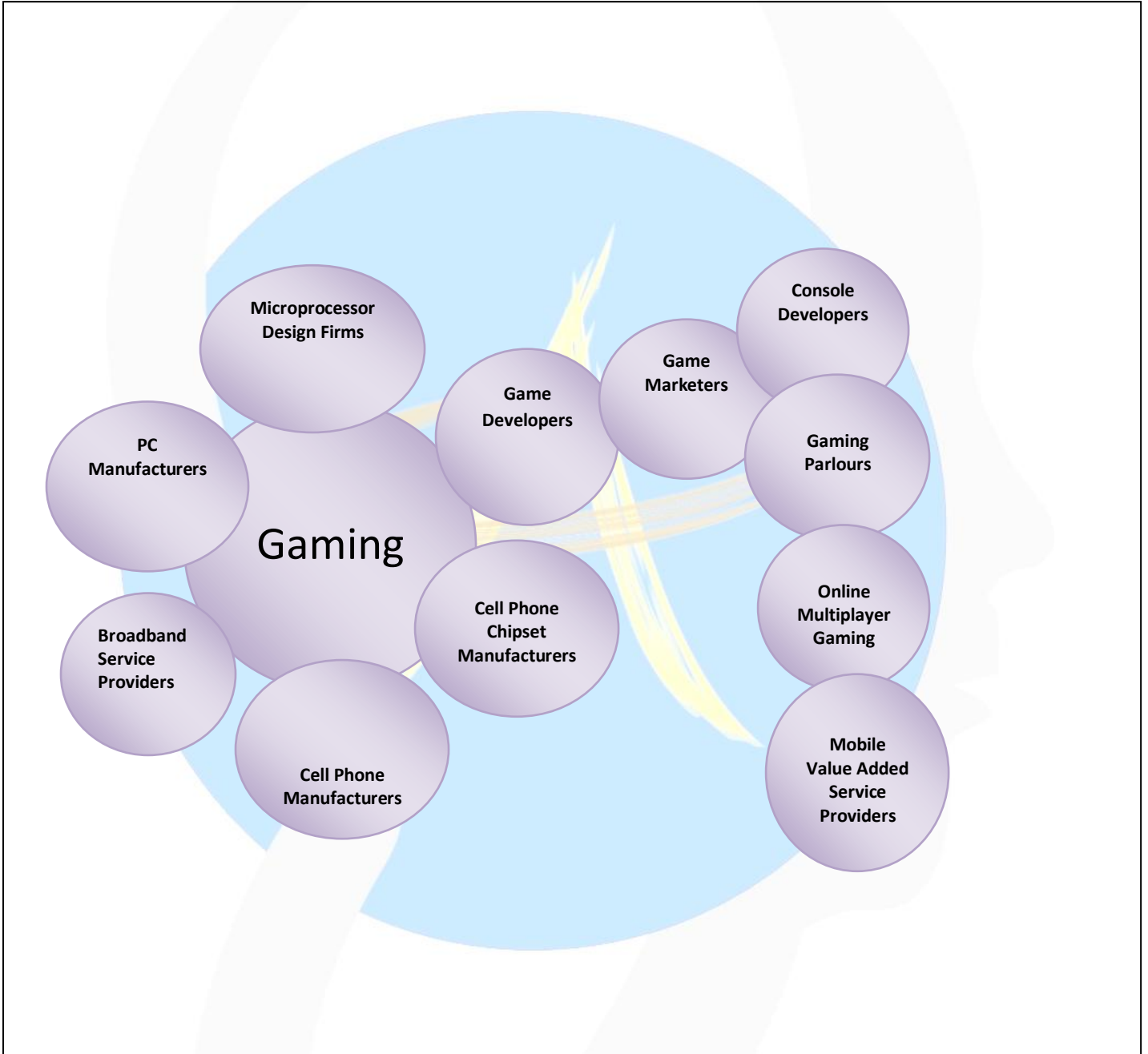


Source: FICCI-KPMG, Gyan Research and Analytics

organized gaming tournaments in order to provide a thrilling gaming experience for experienced gamers. Thus gaming interest among the young population in India is quite high and several gaming companies are looking to tap such huge market opportunity.



3. Components of Industry Vertical



Source : Mudra Institute of Communication Ahmedabad (MICA)



4. Growth Drivers

Increased mobile subscriber base: Mobile subscriber base in India has been growing at more than 60 percent per annum. The growth rate is expected to continue in the near future as the gross mobile penetration rate in India is comparatively well below that of the developed countries. With the rise of mobile penetration in the country, a larger customer base would gain exposure to mobile games, and this would lead to a rise in mobile game downloads.

Introduction of 3G enabled handsets: The launch of 3G enabled mobile handsets has provided more efficient, high-speed, data-enabled networks to mobile gamers, thus resulting in a rise in the usage of mobile games. Further advancement into 4G enabled telecom services would add greater fillip to the growth of the mobile gaming segment.

Increased focus on 'Value Added Services' by telecom operators: A drop in profitability due to decreasing voice tariff mainly as result of increased competition among various telecom operators, would drive telecom operators in India toward providing more value added services. Value added services, as a percentage of overall revenue contribution, is far behind the global percentage. This indicates the scope for growth of the market. These value added services usually include gaming options, primarily developed by local developers. Further, a drop in tariff rates and higher exposure to gaming is certain to drive the demand for mobile games in India.

Increase in production of console games overseas: A rise in production of console games overseas would fuel the console gaming market in India, as a large number of customers are always looking out for new gaming innovations in this segment. Most Indian gaming companies are not being able to produce games that would attract gamers in India.

Demographics and Rising Income: The demographics in India are favourable to gaming, since two thirds of the population is at an average age of under 35. In addition, a rise in disposable incomes, mainly in urban areas, has created an ideal opportunity for the growth of the console gaming segment in the country.

Product to services model: Console gaming companies are shifting their focus from product to service oriented model. The console gaming system not only provides the option of playing games, but is also packed with other services such as uploading photos, watching movies and so on.



Broadband Penetration: Broadband penetration in India reached 9.1 million in 2010; and is expected to grow rapidly. This would help to increase the spread of the gaming market in India.

Marketing and Distribution Chain: Advertising of gaming products through social networking channels and a strong distribution base of gaming products is likely to propel growth of the pc gaming segment.



5. Issues and Challenges

Delay in Proposed Technology Advancements: If the adoption of 3G and 4G enabled handsets is delayed, the mobile gaming segment is likely to be hit adversely. In such a scenario, the growth process might slow down or become stagnant. The pricing of 4G services is also a cause for concern, as higher prices would lead to lower usage of such value added services.

Skewed Revenue Sharing Agreement between Game Developers and Telecom Operators: Telecom operators in India have the billing right with subscribers and usually acquire a revenue share in the range of 60–70 percent. Thus, gaming companies end up with a revenue share of around only 25–30 percent. As compared to the Indian markets, content companies in the developed countries secure a revenue share of around 60 percent. This is negatively impacting the development of the gaming industry in India and could inhibit its growth process.

Lack of Localized Content: The console gaming segment mainly uses content developed overseas. There is a lack of localized content based on Indian culture and contexts. Console gaming with a localized content could go a long way in developing the gaming industry in India.

Regulatory Hurdles: The presence of high import duty coupled with indirect taxes has made the prices of console games dearer by 40 percent, as compared to the prices prevailing in the grey market. Infact, the presence of the grey market is a major cause for concern as authorized game retailing chains are being badly affected by it.

Price sensitivity: High-end pc games require installation of advanced graphic card and this escalates the price of a pc by up to USD 710. Thus, pc gaming is still considered an elitist form of entertainment.

Lack of Skilled Manpower: The development of the gaming industry is constrained by the lack of skilled manpower. The demand for skilled manpower is expected to grow in tandem with the growth of the gaming industry. Infrastructural developmental initiatives, in order to avoid the problem of the availability of trained manpower, is the need of the hour.



6. Outlook

The Indian gaming industry is currently at a nascent stage, with a marginal share of a mere 1 percent of the global gaming industry and an 8 percent share of the outsourcing industry. However, the gaming industry in India has proved its capability in terms of delivering quality products and has the potential for acquiring a large domestic as well as overseas market. A considerable amount of increase in the number of overseas expansion of Indian companies, introduction of new technologies in the gaming circuit and investments from private equity funds have been major reasons for the growth of the Indian gaming industry. The industry suffers from a lack of adequately skilled labor and the supply of talent needs to be ensured in order to further develop the gaming industry in the country. Tax incentives, government aid and a lowering of the import duty rate would go a long way in adding competitiveness to the industry.

The gaming segment in India is experiencing a radical shift from the use of pcs to mobiles. The success of the XBOX 360 and play stations have given the necessary impetus to the Indian gaming industry, which was passing through a lull. With the increase in the penetration of value-added services, a further shift from pc gaming to mobile gaming is anticipated. The key players in the gaming market are focusing on expanding the total consumer base of the industry with offerings that may even reach out to a new customer base - such as housewives.