Case Study -2

As a sunrise sector, India’s skill-based online gaming industry could play a crucial role in making India a US$5 trillion economy by 2025. Online games may be categorized into two broad categories basis the involvement of element of skill and chance – skill-based games (i.e. where the outcome is mostly dependent upon player’s skills, knowledge, training, etc. with less/minimal dependence on chance factor) and chance-based games (i.e. games where the outcome is primarily dependent upon chance and wherein player’s skills, knowledge, etc. have limited influence over the same). The online skill-based gaming industry in India may be categorised into real money games (RMG) (a game where a user makes a deposit in cash or kind with the aim of earning winnings on the deposit) and non-real money games (non-RMG). Skill based games are played in one of the following formats, namely – casual games, card games, fantasy sports, etc.

The online game industry has undergone a significant evolution from its humble beginnings of pixelated arcade games in the 1970s to ~US$ 200 billion industry with cutting-edge graphics, immersive gameplay, and an ever-expanding audience. With an estimated 3 billion active players worldwide, the gaming industry has a massive and growing audience. In fact, approximately 50% of these active players are also active buyers of in-game assets, such as virtual goods. This highlights the significant economic potential of the gaming industry and its ability to generate substantial revenue through in-game purchases and other related transactions. Gaming is rapidly emerging as the future of entertainment, with its market size already surpassing that of the global music and movie industries. In fact, the gaming industry is currently 7 times larger than the global music industry and 5 times larger than the global movie industry, making it a major player in the entertainment landscape.

India's online gaming segment is experiencing remarkable growth, indicating substantial economic potential. With a robust gaming community consisting of approximately 42.5 crore gamers—second globally after China − the sector has potential to accelerate Foreign Direct Investment inflows, job creation, and investments across various sectors. For the segment to truly thrive, a stable regulatory and legal framework is imperative. Uncertainties can impede the realization of its full potential and hinder rapid scalability. Over the past three years, the online gaming industry has grown at a CAGR of 28%, reaching ₹ 16,000 crore in F.Y.2023-24 and is likely to reach ₹ 32,000 crore by F.Y.2027-28. This boost is largely attributed to factors like widespread smartphone penetration, improved internet connectivity, a growing youth population, and the development of local gaming content. Over the course of time as younger generations become the key customers, the spending patterns and the market is expected to shift to become a core gaming market. Additionally, the pandemic played a significant role in driving up mobile game downloads as people sought digital entertainment. India continues to be a 'mobile first' market, with 94% of its gamer base engaging in mobile gaming. Despite the rapid increase in game consumption, India's online gaming revenue is still merely 1.1% of global online gaming revenue.

As online gaming continues to catalyse ancillary sectors like fintech, cloud services, data analytics, and cybersecurity, India takes a significant leap in its digital economy landscape. The growth of this segment poses an enabling environment for future investments and potential economic development. Guidelines by the Ministry of Electronics and Information Technology have been instrumental in removing ambiguity, bolstering investor sentiment, attracting funding, and encouraging innovations in India's digital economy, while prioritising user safety. India is witnessing increasing financial and digital inclusion boosting the growth of the gaming industry. The growth mainly is driven by the following factors:

- India, with the highest population in the world at 1.4 billion also boasts of one of the largest markets for smartphones. This increased digital penetration catalysed by the affordability of mobile data and accessibility of smartphones is further supporting the expansion of the skill-based online gaming industry in India. Another pertinent development is the burgeoning production of smartphones in India that has led to the availability of advanced specifications of smartphones at an affordable rate.
- As 5G services are rolled out throughout the country, it may unlock a new era of cloud gaming, super-fast downloads, high-quality live streams, and seamless multiplayer online gaming. 5G may also enable more realistic Extended Reality (XR) and empower large-scale, platform-agnostic events and social experiences with seamless interactions between users.
- In absolute numbers, India may have a working-age population of more than a billion by 2030. With the largest youth population in the world, the median age in the country is just 28 years. A young demographic means an increasing inclination towards various types of gaming products and services available in the market.

Fastest Finger Limited (FFL) founded by Mr. Viper Armstrong has embarked on the mission to enhance India's footing in the global landscape. With innovation and adaptability at core, FFL is positioned to not only match the pace of change in the gaming world but to take the lead as it undergoes a massive transformation. FFL is a diversified gaming and sports media platform headquartered in Bangalore, with a presence in both developing and developed global markets such as Africa and North America. FFL is confident in shaping the future and expanding its leadership, both in India and globally, with operational efficiencies and industry-leading mindset. Refer annexure for details on FFL's popular games.

F.Y. 2023-24 has proven to be another year of progress for the company, FFL continue to rank among the popular companies worldwide. While FFL faced certain challenges that tested its resilience, FFL emerged triumphant but delivered muted results.

FFL's existing business strategy comprise the following:

Segment	Organic growth	Inorganic growth
Gaming	Focus on driving organic growth through strategic investments in user acquisition with a strong emphasis on sustainable unit economics. Consistently update product features and content to improve user retention, engagement, and satisfaction, fostering long-term customer loyalty.	Expand the gaming vertical by acquiring games with valuable intellectual properties (IPs) that demonstrate high growth potential and the ability to deliver a 20% EBITDA margin. Leverage existing expertise in user acquisition and analytics to maximize the post-acquisition performance and accelerate market presence.
eSport	Fuel non-linear EBITDA growth by enhancing internal capabilities, expanding the local ecosystem, and consolidating leadership in the Indian market. Strengthen brand positioning through internal innovation, community engagement, and organic market penetration.	Develop a comprehensive 360-degree eSports ecosystem by exploring acquisitions of specialized brands or capabilities, particularly in the US sports sector. These strategic acquisitions will help diversify FFL's portfolio and expand its market reach globally.

Mr. Viper Armstrong, the CEO, is concerned about FFL's prospects for the future. FFL is suffering from strategic drift and has no clear vision about its purpose or direction. It is active in the domestic and international markets but is consistently losing its dominant presence. There are no plans to put more investment into promoting foreign revenue.

A particular concern is a long-term contract to provide Teen Patti (i.e., premium online new games) facilities to a major theme park in India. This five-year contract is due to end next year, and although it may be renewed, the CEO suspects that the customer may switch its business to a larger competitor. Loss of this contract would have a serious impact on FFL's business, reducing annual profit by as much as 10% and almost certainly leading to some redundancies among the work force.

The CEO is aware from lengthy discussions with the product development team that FFL could invest in developing a more engaging and revamped type of premium online gaming experience for the domestic market. Developing this new gaming experience would, however, require a substantial capital investment. It would also mean having to resort to from external designers/ resources. It would also mean having to appoint some experienced personnel to research and development unit, because FFL does not currently have resources with sufficient knowledge of the new technology.

The product development team are all in favour of the new investment, and the CEO believes that such investing will give FFL a much clearer strategic vision of what it should be trying to achieve. Some colleagues disagree strongly. The Operations Director sees no need to change the offering that FFL has been making successfully and the Sales and Marketing Director believes that the contract with the major customer will be renewed next year. Human Resources relations are also not good in FFL, following strike action last year in support of a claim for a pay rise and against planned redundancies amongst the staff. No one seems to understand the need for a new product, or the reason for change.

The achievement of the above objectives would entail significant funding. Considering the quantum of investment required FFL decided to list its shares on the recognised Indian stock exchanges. The Initial Public Offer would comprise of fresh issue of equity shares, aggregating up to ₹ 500 crores. FFL would utilize the Net Proceeds towards funding the following objects:

- The business is working capital-intensive, and FFL funds its working capital requirements in the ordinary course of business from internal accruals and financing from various banks and financial institutions. As of 31 December 2023, FFL had a total sanctioned limit of working capital facilities of ₹ 350 crores on a consolidated basis, including fund based and non-fund based sub-limits, and had an aggregated outstanding borrowing of ₹ 215 crores on a consolidated basis. FFL proposes to utilize an amount of up to ₹ 100 crores of Net Proceeds, towards working capital requirements of FFL in F.Y.2024-25 and F.Y. 2025-26.
- FFL seeks to continue expanding its offerings to include emerging areas such as Metaverse leveraging artificial intelligence, and ancillary services. FFL intends to expand into these new verticals through strategic partnerships and acquisitions. By diversifying into new related verticals, FFL seeks to be able to attract more users to its platforms, increase user engagement and serve as a comprehensive ‘one-stop’ solution. In addition to growing business organically, FFL have in the past and may continue to pursue targeted acquisitions or investments that complement its service offerings, strengthen or establish presence in target market or help in gaining access to new markets, technology and teams. FFL expects to utilize the remaining of the Net Proceeds towards funding inorganic growth segment through unidentified acquisitions and other strategic initiatives and general corporate purposes.

Since FFL is in the process of being listed, Companies Act, 2013 would require it to prepare its financial statements under Ind AS. The first set of financial statements under Ind AS which comprise the balance sheet as at the end of the financial year, statement of profit and loss, statement of cash flow for the financial year; statement of changes in equity; and any explanatory note annexed to. The first set of Ind AS financial statements would also include three balance sheets i.e., balance sheets as at 31stMarch 2024, 31stMarch 2023 and 1stApril 2022.

First time implementation of Ind AS posed many challenges including determination of comparative information including opening balance sheet and reconciliations as at the transition date.

Accordingly, CFO was given the responsibilities to identify the GAAP differences and suggest the transition options. The CFO suggested as follows:

- Elected the deemed cost exemption in accordance with the relevant Ind AS which permits to continue with the carrying value for all of its property, plant and equipment as per the previous GAAP and use that as deemed cost for the purposes of first-time adoption of Ind AS.
- Entity, being the first-time adopter may elect not to apply Ind AS 103 retrospectively to past business combinations (business combinations that occurred before the date of transition to Ind ASs).

The CFO also mentioned that FFL had made certain investments in Dream Play Limited's convertible debt instruments. The conversion rights are substantive rights and would provide FFL with a controlling stake over Dream Play. FFL has evaluated that Dream Play Limited would be treated as its subsidiary under Ind AS and, hence, would require consolidation in its Ind AS based consolidated financial statements. Dream Play Limited was not considered as a subsidiary, associate or a joint venture under previous GAAP.

Under the latest GST norms, the CFO's snapshot of amount received towards online money is as follows:

- The total amount received from online bets is ₹ 35 crores after 1st October, 2023. After accounting for refunds amounting to ₹ 1 crore and unused or returned amounts totaling ₹ 4 crores, the amount utilized for the purpose of placing online bets is ₹ 30 crores.
- FFL also received a demand cum show cause notice from the GST department alleging that non-payment of GST of ₹ 50 crores in the previous years. FFL filed an appeal by 31st March 2024 against the demand notice.

On 15th April,2024, a Board Meeting was called to discuss the matters on hand. This included matter related to FFL's listing on 28th March,2024 and approval of financial statements for the F.Y.2023–24. Mr. Viper Armstrong, the CEO of FFL attended the Board Meeting through video conference. Other directors attended the Board Meeting physically.

ANNEXURE

Extract of Statement on Matters Specified in paragraphs 3 and 4 of the Companies (Auditors Report) Order, 2020 from the Independent Auditor's Report

vii) (a) According to the information and explanations given to us, and based on the audit procedures performed by us, in our opinion, amounts deducted/ accrued in the books of account in respect of undisputed statutory dues including Goods and Services Tax ('GST'), Provident fund, Employees' State Insurance, Income-Tax, Duty of Customs, Profession Tax, Cess and other statutory dues have been regularly deposited by the Company with the appropriate authorities wherever applicable, and there are no such outstanding dues as at March 31, 2024, for a period of more than six months from the date they became payable.

(b) According to the information and explanations given to us and on the basis of our examination of the records of the Company, statutory dues relating to Goods and Services Tax ('GST') which have not been deposited on account of any dispute are as follow:

Name of Statute	Nature of dues	Amount not deposited on account of demand (In crore)
Goods and Service Tax, 2017	GST	50.00

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FFL's Popular Games

Chakde India	Teen Patti	Z Sports	NOX-A
▪ World's largest cricket simulation game with 1.5 million daily active users and 9 million monthly active users ▪ Revenue grew by 7% (last year: 10%) ▪ Shows reduced retention metrics with Day 1 retention of 46%, Day 7 retention of 18% and Day 30 retention of 7% in F.Y. 2023-24	▪ Classic card games. A Premium offering by FFL ▪ Revenue grew by 8% (last year: 12.5%) ▪ FFL is further strengthening its position in this sector	▪ Multi-sports destination. Dominant position in key markets ▪ Revenue grew by 14% (last year: 25%) ▪ Strong customer loyalty followed with high unique customer additions	▪ This innovative game is having a life cycle of less than one year ▪ Currently, it is in the introduction stage of its life cycle and is generating significant unit profits ▪ FFL adopted a market skimming pricing policy ▪ FFL expects that other companies will try to join the market very soon