



FROM RAPID BOOM TO A CRASHING HALT

UNDERSTANDING THE LEGAL AND ECONOMIC
IMPLICATIONS OF THE PROMOTION AND REGULATION
OF ONLINE GAMING ACT, 2025



BEGUR & PARTNERS

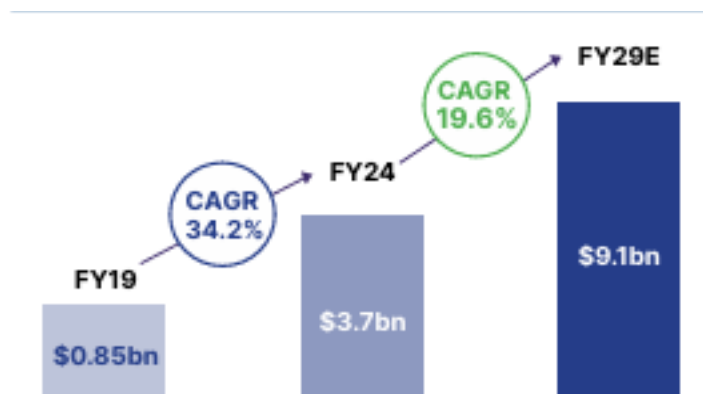
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THE RISE OF INDIA'S ONLINE GAMING SECTOR

India's online gaming industry has witnessed exponential growth in recent years, emerging as one of the fastest growing segments of the country's digital economy. Fuelled by the rapid penetration of affordable smartphones, widespread internet access and a digitally savvy young population, the sector has evolved from what was once considered to be a casual pastime to a **USD 3.7 billion** industry, as of 2025.

Figure 1 Market Value of Indian Gaming Industry



SOURCE: Indian Gaming Report, 2025

A significant contributor to this surge has been real money gaming (RMG) platforms, which allow users to stake actual currency in online games in anticipation of winning substantial cash rewards. Several venture backed companies like Dream11, MPL, and Rummy Circle, riding on this unprecedented wave of growing consumer participation have raised billions of dollars in recent times to scale up operations, improve technology, and strengthen their market presence.

Tempted by the lure of making quick returns, a large segment of the Indian population, especially lower and middle income groups gravitated towards RMG platforms, viewing them as an opportunity to break out of financial hardship and significantly improving their fortunes.

Yet, due to the inherent structure and profit-driven business models of such games, only a small percentage of users walked away with any form of winnings. The vast majority unfortunately ended up losing their entry fees, often repeatedly. Over time, this pattern led to a range of unintended and troubling consequences, including rising financial stress within families, compulsive gaming behavior, and individuals taking on loans to offset their previous losses. In some tragic cases, this spiral of debt and addiction eventually led to instances of self-harm and suicide.

PROMOTION AND REGULATION OF ONLINE GAMING ACT, 2025

The Government, taking note of the rising popularity of such RMGs and their adverse consequences on the larger populace took a rather abrasive step of prohibiting all forms of such games. The Promotion and Regulation of Online Gaming Act, 2025 ("**Act**") passed by both the houses of the Parliament in August, 2025 and having received presidential assent, has imposed a blanket ban on all forms of RMGs, irrespective of whether such games are based on skill or chance.

We analyse some of the important features of the Act:

1. **Characterisation of Online Games:** The Act characterises all online games into the following:

Online Games Money	<ul style="list-style-type: none"> - Online games, whether based on skill or chance, played by a user through the deposit of money with an expectation of returns - Involve any element of betting or wagering on the outcome of an event <p>POPULAR EXAMPLES: Dream 11, MPL, My 11 Circle</p>
E-Sports	<ul style="list-style-type: none"> - Multi-sports, competitive and multiplayer contests between individuals or teams - Recognised under the National Sports Governance Act, 2025 - Outcomes that are based solely on skill (e.g., physical dexterity, mental agility, strategic thinking) - May allow registration/participation fees (for entry or admin costs) and performance-based prize winnings - Excludes all forms of betting and wagering <p>POPULAR EXAMPLES: Fortnite, Valorant, Counterstrike</p>
Online Games Social	<ul style="list-style-type: none"> - Online games played without staking money, valuables, or any expectation of a monetary gain; may be accessed via subscription or one-time fee (not a wager)

	<ul style="list-style-type: none"> - Offered solely for the purposes of entertainment, recreation and skill development; not an online money game or e-sport. <p>POPULAR EXAMPLES: Candy Crush, Ludo King, Clash of Clans</p>
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2. Complete Prohibition on Online Money Games

The Act ***prohibits the offering, aiding, abetting, inducing, or participating in any online money game***. It further bans any advertisements promoting such games and restricts banks and financial institutions from facilitating transactions related to payments for these games, with violations attracting fines, imprisonment, or both.

In our view, this is an extremely restrictive measure disregarding the established distinction between games of skill and games of chance, a principle that has been consistently upheld by Indian courts who have repeatedly affirmed that any game involving even an element of skill must be permitted. Such a sweeping move would not only cripple legitimate businesses but push users towards unregulated offshore platforms, possessing even greater risks than the ones contemplated by the government in introducing the Act.

Owing to the strict prohibitions introduced by the Act, the RMG industry is bound to witness several companies shutting down thus resulting in mass layoffs, impacting economic growth and significantly reducing government revenue.

FUNDING RAISED BY REAL MONEY GAMING COMPANIES IN INDIA		PROMINENT INVESTORS
 DREAM11 \$1.24 B		Multiples Alternate Asset Management, Tiger Global, ChrysCapital, TPG, Alpha Wave Global
 MOBILE PREMIER LEAGUE \$396 M		Peak XV Partners, BeeNext, RTP Global, Venture Highway (General Catalyst), Google Ventures
Games24x7 \$108 M		Tiger Global, Malabar Investments, Raine, Bain Capital 

Instead of an outright ban, other balanced approaches such as targeted regulations, strict age-gating mechanisms, robust verification procedures, imposing participation

limits and a collaborative engagement with platforms to address concerns such as the involvement of bots would have been far more effective and proportionate.

3. Promotion of esports and social games

While the Act prohibits all forms of online betting, it seeks to promote e-sports and social games. However, the definition of E-Sports is fraught with ambiguities, particularly due to the absence of clarity on what qualifies as a “multi-sport event.” While the definition provided under the Act refers to the National Sports Governance Act, 2025, the latter contains no mention of E-Sports, further compounding the interpretational challenges.

Further, it has been proposed to establish an authority which shall register and regulate such games along with formulating policies and implementing measures for the promotion and development of the online gaming industry. One of our key concerns with the formation of the proposed Authority is that, being bureaucratic in nature, it may not be able to fully grasp the nuances of the highly dynamic and technology-driven gaming industry. Over-regulation will instead burden the sector with unnecessary compliances, eventually stifling innovation and hindering its growth.

4. Lack of clarity on treatment of existing deposits

The Act offers no clarity on the treatment of existing deposits made by players in their accounts to participate in such RMGs and in many cases, these balances remain unused for future gameplay, leading to concerns whether such deposits will be refunded, forfeited, or allowed to be utilized under the new framework.

This uncertainty not only affects players’ rights but also places RMGs in a spot with respect to compliance and financial management. Clear guidelines on how existing deposits will be addressed are therefore essential to ensure fairness and avoid any disputes between operators and users.

INVESTOR RISKS AND OTHER IMPLICATIONS ARISING FROM THE ACT

1. Negative signal for Indian economy and FDI

The abrupt shutdown of an entire industry sends a rather discouraging signal to global investors, undermining confidence in India as a stable and predictable investment jurisdiction. Such abrupt regulatory shifts shall potentially hinder future inflows of foreign direct investment into other similar high-growth sectors as well.

2. Massive value erosion in investments

The RMG sector, which has drawn billions of dollars from marquee investors like Tiger Global, Tencent, Kalari Capital, and BeeNext, now faces the risk of large-scale write-offs due to the collapse of its business model, affecting not only the existing investors but also reducing the likelihood of follow-on capital being deployed in the digital economy.

3. Regulatory unpredictability

The Act emphasizes the issue of regulatory uncertainty especially prevalent in India's emerging digital sectors, making it difficult for investors to assess long-term viability, compelling investors to account for greater risk premiums, which may inflate the cost of capital to Indian startups.

4. Need for caution in unregulated sectors

Investors must be wary of sectors that are not viewed favourably by the government and should avoid relying solely on future growth potential or strong consumer demand. This necessitates stronger due diligence before committing capital, rather than purely focusing on potential market size or current traction.

5. Need for adoption of risk-mitigation measures

Investment exposure in such unregulated sectors should be limited with investment agreements incorporating protective provisions (e.g., exit clauses, downside protection) to preserve capital and maintain flexibility in the light of any subsequent regulatory changes. Robust contractual safeguards can help investors recover at least part of their investment if any subsequent policy headwinds abruptly disrupt the business.

CONSTITUTIONAL CHALLENGE TO THE ACT

The Act, in its current form, faces several constitutional hurdles and might struggle to hold up against judicial scrutiny. We discuss below the crucial legal issues that are likely to arise in any constitutional challenge to the Act:

1. Legislative competence

- a. "Betting and gambling" falls within the State List of the Indian Constitution.
- b. A central law in this domain risks being struck down as encroaching on state powers.

2. Broad definitions

- a. The Act clubs together both games of chance and games of skill, going against long-standing jurisprudence protecting skill-based gaming from legislative prohibition.

3. Fundamental rights concerns

- a. Blanket restrictions on offering real money gaming impact the right to carry on trade and business under Article 19(1)(g).
- b. Players' freedom of choice and expression may also be curtailed.

4. Judicial Precedent: Crypto case

- a. The Supreme Court had, in 2020 overturned a directive by the Reserve Bank of India that prohibited banks for dealing with cryptocurrency exchanges, thus preventing the cryptocurrency industry from being shut down.
- b. A similar reasoning could be applied to the current case, potentially preventing a complete shutdown of the online gaming industry.

The Supreme Court has transferred to itself all pleas filed before various High Courts challenging the constitutionality of the Act to avoid the possibility of potentially conflicting judgements. Whether the apex court affords relief to the RMG industry taking into consideration the above factors or upholds the validity of the Act, citing the broader public risks associated with online money games remains to be seen.

CONCLUSION

The Act addresses important social issues resulting from the unchecked expansion of the RMG industry, such as growing addiction among youth resulting in significant financial indebtedness for vulnerable gamers. At the societal level, the Act seems like a step in the right direction towards protecting public well-being. Moreover, the Supreme Court has the daunting task of adjudicating on the legality of the Act, addressing issues stretching from legislative competence to individual rights to broader implications for an entire sector.

For the investment community, however, the abrupt change has resulted in complete mayhem. Portfolio companies which were viewed as winning bets suddenly face having to completely pivot to a different business model or wind up operations, potentially resulting in a write off of billions in market value. In many ways, the goalpost has shifted leaving investors and operators alike scratching their heads in light of the new legal reality.



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IFLR1000 (34th Edition) 2024

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2. Firm Ranking: Recommended Firm
3. Southern Asia, Australasia and Central Asia Ranking: Highly Regarded

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RSG Consulting 2019

Top 40 Indian Law Firm

