

## Private Equity in Sports Franchises in India

The advent of the Indian Premier League (IPL) in the early 2000s generated a lot of interest in, and investment by, large corporates and celebrities, and has arguably led to the professionalization of cricket. The success of the IPL has seen the emergence of such professional leagues in other sports – the Indian Super League (for football) and the Pro Kabaddi League being the two predominant success stories – where the franchises are owned by either high net worth individuals (individual or collectively, usually through an investment company) or business conglomerates.

With the recent expansion of the IPL to include two new teams, CVC Capital Partners, a leading international private equity firm with approximately USD 111 billion in secured commitments since inception, acquired the Ahmedabad franchise (now named Gujrat Titans), surprising many. This is the first instance of a significant private equity investment in professional sports in India.

### PRIVATE EQUITY INVESTMENT IN WORLD SPORTS

While professional sports leagues are a relatively new phenomenon in India, such leagues have existed and thrived globally for many decades – football leagues (such as the ones in England, Italy and Spain) as well as the American sports leagues (such as the National Basketball Association (NBA), the National Football League (NFL), the National Hockey League (NHL) and the Major League Baseball (MLB)) have existed for over a century. With over 150 sports franchises in these major American sports leagues, the nature of team ownerships have been constantly evolving. Ted Leonsis, who owns the Washington Capitals (NHL), Washington Wizards (NBA) and Washington Mystics (WNBA) teams, has said that there have been three generations of business types who purchase sports franchises: the first were real estate people in the rental business, looking to build or buy the stadium; the second was entrepreneurs, mostly media oriented; the third generation was the web/internet entrepreneurs; we are seeing now the fourth generation – private equity investors.

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Sports offer a global and consistent reach to the consumers, including through difficult times like the pandemic – during the pandemic, the outreach of the sports (including through over-the-top platforms) has continued to increase consistently. Sports franchises globally are providing excellent returns on investment – according to Pitchbook, between 2002 and 2021, while the average S&P 500 return was 458%, the average returns on franchises were as follows: NBA – 1057%, MLB – 669%, NFL – 558%, while NHL had a (relatively) more modest return of 467%.

Sports leagues have traditionally had reservations in allowing private equity investors to invest in sports franchises, fearing the creation of unwieldy and unstable ownership structures, since private equity funds generally have a fixed life (usually 5-10 years). However, from 2019, league rules have been changed to permit professional investment in the form of private equity.

The attraction of extremely high returns, together with the effort to increase global presence of the NBA and other leagues (including in Asia and Africa), has resulted in private equity investments between 2019 and 2021 increasing manifold. Sports franchises are also seeking investment to facilitate growth, including upgrades to facilities.

Despite the rules changes from 2019, the NBA and the MLS continue to have limits on the level of investment that is permitted by a private equity investor. The NBA has a limit of 30% investment by private equity investors, of which a maximum of 20% can be held by one investor; an investor cannot hold stakes in more than five teams. MLS requires a minimum investment of USD 20 million from the private equity investor. MLB evaluates investments on a deal-by-deal basis. NFL is considering amending its rules to allow private equity investments (with some safety nets, like in the NBA or the MLS).

Following the amendments to the rules allowing investment by private equity investors, the investments in sports franchises has grown significantly. According to Pitchbook's 2021 private equity breakdown, private equity investors invested approximately USD 2 billion in US sports franchises in 2021. Arctos Sports Partners, which was formed as a private equity platform dedicated to the professional sports industry, has raised approximately USD 3 billion for investing solely in sports franchises. Arctos has been one of the most active private equity investors in sports, acquiring interests in 12 teams across the sports leagues in the United States of America, including Golden State Warriors and Sacramento Kings in the NBA, Tampa Bay Lightning and Pittsburgh Penguins in the NHL, Boston Red Sox in the MLB, and Liverpool in the English Premier League.

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Private equity in football teams across Europe has also picked up in recent times, with many teams across leagues being acquired (in part or in whole) by private equity investors. Liverpool (as part of the Fenway Group, where Arctos is an investor), Inter Milan (Oaktree Capital Management), AC Milan (where Elliott Management Corp. is an investor), Atletico Madrid (where Ares Management Corporation is an investor) and Manchester City (where Silver Lake Partners has invested in the City Football Group, the parent of Manchester City and that also owns New York City FC, Melbourne City FC and Girona FC) are just a few examples of football teams in Europe having significant investments through private equity investors.

## **INVESTMENT BY CVC CAPITAL PARTNERS**

CVC Capital Partners has been active in investments in sports for nearly two decades. CVC previously owned a majority stake in Formula One between 2006 and 2017, and has invested significantly into rugby, acquiring a 28% stake in the United Rugby Championship and a 14% stake in Six Nations Rugby, and is reportedly in talks for an investment in World Rugby; CVC also invested USD 300 million in International Volleyball Federation. It has been reported that CVC was also in talks to invest USD 600 million in a combined ATP and WTA tour. CVC had previously also been in talks to invest in the media rights for La Liga (Spanish football league) and Serie A (Italy's top flight football league).

However, some of these investments have been critiqued. CVC had proposed to invest EUR 2.7 billion into La Liga in exchange for a 10% stake in its television rights over 50 years; the deal was approved by 38 out of the 42 clubs in the top two divisions; however, Real Madrid, Barcelona, Athletic Bilbao and a fourth unnamed club opposed the deal (Real Madrid, Barcelona, Athletic Bilbao and the Spanish FA (or the REEF) have initiated/joined a lawsuit challenging the deal and seeking an annulment of the agreement between La Liga and CVC). According to reports, the investment amount was reduced to EUR 2.1 billion following this development. CVC was also a part of a consortium (including Advent International) that was in talks with Serie A for an investment of USD 2 billion for a 10% stake in the media company of Serie A – seven clubs (including Juventus, Inter Milan and Lazio) have opposed the investment by CVC, and have called for the removal of the president of the league.

In India, CVC's successful bid for the Ahmedabad franchise came in for criticism because of its portfolio investments in betting and online gaming companies. It has been reported that the BCCI considered the matter, and eventually permitted CVC to become the owner of the Ahmedabad franchise.

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## PRIVATE EQUITY INVESTMENT IN INDIAN SPORTS

Professional sports leagues are relatively in their infancy in India. Investment by CVC Capital, a private equity investor, is an interesting move that opens the doors for more investments in IPL and the other leagues going forward, and marks the advent of the “fourth generation” of investors in sports franchises in India.

### Opportunity and Optimism

Private equity investment in India could be driven by several factors. The huge reach of sports in a country with a large population is one such factor – this is also a reason why leagues in other countries (such as the NBA in the US and the Premier League in England) have focussed on expanding in India – with a population of nearly 800 million people above the age of 15, the captive population for watching sports in India is huge. Further, with the advent of professionally operated sports leagues, corporates are looking for sponsorships more actively.

Media rights associated with sports leagues are also very attractive, resulting in an increase in the valuation of such entities. For example, Sony purchased the media rights for IPL for the first ten years for INR 8,200 crores; Star India bought the media rights for the period from 2018 until 2022 for INR 16,347.5 crores. According to reports, the next cycle of media rights is expected to go for approximately INR 32,000 crores. Along with TV broadcasting, the benefits of the penetration of technology/digital growth, coupled with increased accessibility through over-the-top platforms available on affordable smart mobile phones, also provides a greater outreach to the Indian population.

However, the growth of professional sports leagues has been slow thus far – except IPL (which is the leader by far), the ISL and the Pro Kabaddi League have seen some impetus. With ISL integrating into the existing footballing system to become the top football league in India, there is potential for interest from and investment by private equity investors. Similarly, the Pro Kabaddi League offers potential as well.

### Caution

While the investment from private equity investors may provide a shot in the arm for sports franchises by allowing them to expand their facilities and outreach, sports regulators must take note of concerns based on the experiences in other jurisdictions. Where the private equity investors are driven solely by profits, their investment may come at a cost to the sport or the league (see above concerns raised in respect of Serie A and La Liga in respect of investments by private equity investors), and this must be kept in mind while considering investments from private equity investors.

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There have been instances of investments by investors which have led to soured relations between the owners and the fans – the desire of the fans to get the best players may need to be balanced by a private equity investor’s desire to maximize returns in the short term – this conflict may end up affecting the sport, the league and the team adversely in the long term. This may be addressed to some extent by providing that private equity investors in sports must have a fund life of a specified time period.

Regulations also need to be in place in relation to conflict of interest – investments by private equity firms in multiple teams could be restricted. While the investment by CVC Capital has been permitted up to 100% in the Ahmedabad franchise, regulators may also consider whether there should be limitations on ownership (such as those adopted by the American leagues like the NBA, NHL and MLS) should be adopted in respect of investments by private equity firms.

Investments in the IPL have been the subject of controversy in the past. Due to a dispute regarding the payment of the bank guarantee element of the franchise fee, the Kochi Tuskers were expelled from the IPL; Pune Warriors withdrew from the IPL over financial differences with the IPL organization committee; Chennai Super Kings and Rajasthan Royals were suspended due to alleged involvement of their owners in illegal betting. League regulators need to ensure that an efficacious and transparent dispute resolution process is in place in the event any dispute arises with franchises owned by all investors, including private equity investors.

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