

**ID#092301**

PUBLISHED ON  
FEBRUARY 8, 2011

**THE JEROME CHAZEN  
CASE SERIES**

**THE BRITE CONFERENCE  
CASE SERIES**

# The Launch of the Indian Premier League

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## ABSTRACT

In December 2007 Lalit Modi was finalizing his plans to launch a domestic cricket league in India. Modi's challenge was to build a sustainable business model which would create the proper incentives to motivate players, broadcasters, franchise owners, and the various cricket boards to join his effort. And he had four months before the first tournament was set to begin.

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### *Acknowledgements*

*We thank Lalit Modi, Peter Griffiths, and Andrew Wildblood for their guidance, and Radhika Moolraj and Sonali Chander for their support. Alan Cordova, MBA '08, Atul Misra, EMBA '09, Valeriy Elbert, MBA '10, Jonathan Auerbach, and Nate Nickerson provided research and writing support. This case was sponsored by the Chazen Institute and the Columbia University Center for International Business Education and Research (CIBER).*

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## Introduction

It had always been Lalit Modi's dream to launch a domestic cricket league in India—one with city-based teams akin to football and basketball franchises in the United States. And in December 2007 he was poised to finalize plans for such a venture—The Indian Premier League (IPL). With \$25 million in seed money from the Board of Control for Cricket in India (BCCI) to recruit players, he still faced much risk and uncertainty. Would Indians enjoy a fast-paced, three-hour version of a game whose current short form took *all day*? Would they root for teams based in various Indian cities instead of for a national team? Would the BCCI and other important cricket boards around the world buy in to this new format?

The BCCI gave him his recruitment money on the condition that he run the league out of his personal Mumbai office, earn no salary, and pay all personal costs incurred in pursuing IPL interests. Modi, in turn, agreed, with the stipulation that the BCCI would not interfere with the operations of the IPL for the first five years and would defer to his judgment in the selection of the IPL Board of Governors.

Thus, Modi's task, as he neared the realization of his dream, was to create the right set of incentives to motivate players, broadcasters, franchise owners, and the various cricket boards to support the IPL. What kinds of deals should he strike to guarantee long-term commitment without conceding too much of the earnings he expected the league to generate? And what should he do to ensure that the IPL would become a permanent part of the Indian sports landscape?

The first IPL tournament was set to be played in April; he had four months to get it all right.

## Dreams of a Domestic League

Lalit Modi began dreaming of a domestic Indian cricket league as an undergraduate at Duke University, nearly 20 years before the launch of the IPL. Impressed by the success of American professional sports, Modi wanted to start up a professional cricket league in India, one that would borrow from what he'd seen in the United States.

In 1996 Modi approached the BCCI with the proposal of starting a professional One Day International (ODI)<sup>1</sup> cricket league, the Indian Cricket League. It would have Indian fans cheering not for a national team, as they long had, but rather for various city-based teams. Modi would own the league and sell the teams as franchises. ESPN, the number one sports channel in India, would broadcast the matches and they would pay an annual royalty to the BCCI. The BCCI would provide access to its cricket grounds and to the players in the Indian national team. After obtaining BCCI approval, Modi spent millions of dollars signing up players for his eight teams. Then, as Modi

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<sup>1</sup> An ODI is a cricket match played during the course of one day, as opposed to traditional Test matches which are played over the course of five days.

recalled, an honorary officer of the nonprofit BCCI asked for a bribe. Modi refused. As a result, according to Modi,

Every door was shut, and the league was scuttled before a single game could be played. As I learned about the game of cricket, I found that there was more beneath the soil than one could see. Only a few people were making the money, and then for their own personal selves, at the cost of the entire country. It was a closed club: nobody could enter it.<sup>2</sup>

Modi became determined to clean up the governance of Indian cricket. “The only way was to become a member of the BCCI—and that began a ten-year-long journey,” he explained, beginning as a member of a local club and finally gaining membership to the BCCI board itself. Along the way, according to Modi, “The value of cricket had changed, and I found that billions and billions of dollars were being siphoned out of the BCCI.”

Eventually, Modi ascended to the chairmanship of the league’s marketing committee, with an agenda to develop a more transparent set of operations for the BCCI. As marketing chairman, he auctioned sponsorships and media rights for the coverage of Indian cricket at previously unimagined prices. Based on his experiences while engaged in a previous business partnership with ESPN, Modi knew that the board had severely undervalued the sport’s financial impact:

ESPN would spend a small amount of money to buy 5% of the content for cricket, but that would finance 100% of the channel. The broadcasters were basically using cricket to finance everything else. So I worked to clean that up and, over the years, built the revenues of the BCCI to over three billion dollars.

With Modi at its marketing helm, the BCCI came to control 80% of global cricket revenues. (See Exhibit 1.) And having won the respect of the BCCI board, Modi had now cleared the path to his dream of launching a domestic cricket league in India.

## Cricket Tradition and Culture

Indian cricket is seen by many as a national institution; in this view, its rise and the rise of India are one and the same. For example, Sachin Tendulkar is considered to be the most revered player in the history of Indian cricket. Yet Tendulkar is not merely seen as an outstanding cricket player. Instead, the country sees in his success an example of *their* success, and in his behavior an example of their best selves: gentle, modest, and cerebral on the one hand; self-confident, fiercely competitive, and all-conquering on the other.

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<sup>2</sup> All statements by Mr. Modi are cited from his October 7, 2008 email correspondence or from an October 28, 2008 interview in Los Angeles, California, unless otherwise noted.

## CRICKET BOARDS

Organized cricket has long been run in each of the major Test playing countries by a single cricket board, such as the BCCI in India. Each of these boards reports to the International Cricket Council (ICC), which is the worldwide organizing body for the sport. These official bodies have run every aspect of the domestic and international game for as long as organized cricket has been played: the ICC was formed in 1909 (it was then called the Imperial Cricket Conference); the BCCI was formed in 1928. From the beginning, these sporting bodies have been run as nonprofit institutions, staffed by volunteer administrators who are often wealthy patrons or former cricket players. These organizations are monopolies that control all aspects of the game, including the selection and payment of players, the scheduling of domestic and international tournaments, and the introduction of new rules and formats of the game.

Profits generated by national cricket teams (from ticket sales, broadcasting revenues, etc.) flow directly to the coffers of these boards.

## MULTIPLE FORMS OF CRICKET

By 2007 international cricket matches were being played in three different formats:

**Test cricket** is the oldest and most prestigious form of cricket, and its matches take the longest time to play. It is considered the ultimate test of playing ability, both for teams and for individual players. The first Test matches were played without any time limit. By 2007 Test matches were played over five days, two innings<sup>3</sup> per side, and could still end in a draw if all four innings were not completed. Preserving the integrity of Test cricket is considered to be the most important job of the cricket boards around the world.

**One Day International** differs from Test cricket in three ways: it is played over seven or eight hours during a single day, each side plays only one inning, and each side plays at most 50 overs.<sup>4</sup> The format was introduced in 1977 by Australian media tycoon Kerry Packer, who sought a game better suited to television than Test cricket; his format was designed to be faster and to ensure a winner. Packer signed up international cricket stars to play in a new one-day league. The ICC initially banned any professionals participating in the league from playing for their country in Test matches. Over time, the ban was revoked, and the one-day game grew in popularity, earning millions for both the cricket boards and the players, especially the celebrity players who could command large fees for product endorsements.

India's masses developed a seemingly limitless appetite for one-day cricket after their unheralded national team won the one-day World Cup of Cricket in 1983. There were several reasons for this interest. Unlike the populations of developed countries, most Indians could not afford to spend much money on entertainment. Television was relatively new at the time to small-town and rural India, and one-day cricket broadcasts provided free entertainment. ODI cricket also gained the passionate

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<sup>3</sup> An inning consists of one complete cycle of both teams' chance to bat.

<sup>4</sup> An over is a series of six balls bowled—or pitched—by one bowler.

support of sports enthusiasts in a country whose other national teams often lost ground to those of richer countries, which could afford expensive facilities and staff as well as top-level international coaches.

**Twenty20 cricket** is played over about three hours and guarantees a winner. Each side plays one inning comprising 20 overs at most. The emphasis of this highly shortened form of the game is on furious hitting and fielding. The strenuous pace of the game demands athleticism and a high level of physical fitness. Twenty20 players are often younger than those in Test and ODI cricket.

The English Cricket Board (ECB) designed Twenty20 cricket in 2003 as a response to continued loss of interest in cricket: match attendance, television viewership, and the associated revenues had steadily declined in Britain. Market research by the ECB suggested that a shorter, more entertaining version of cricket might appeal to a broader audience. Twenty20 cricket was positioned as a “perfect blend of sports and entertainment.” It featured loud music, dancers, cheerleaders, and wired-up players providing commentary on the game as it was being played. Cricket purists scoffed at the gimmicks and felt that Twenty20 was a travesty. Nonetheless, the format proved to have great appeal in Britain. As experts decried the technical inelegance of its play, spectators enjoyed being able to watch a complete game in three or four hours.

By 2005 the Twenty20 format had gained a reasonable level of popularity in most major cricket-playing nations. India remained an exception; its national team had played no Twenty20 international matches. One reason was that the Indian team already had a packed schedule of ODIs and Test matches. (See Exhibit 2.) It was also believed that more cricket, even if it could be fit in, would increase the risk of injuries to already overworked players, and create a situation in which too much live cricket was broadcast on television, leading to possible loss of interest in the sport. Another reason was that the BCCI was comfortable with the money and clout it earned from one-day and Test cricket; each ODI, for example, fetched it around \$7.5 million in television revenue. Thus there appeared to be no compelling reason to introduce an unproven format that could only cannibalize ODIs and might bring in less media revenue per game due to its shorter duration. The BCCI therefore took a wait-and-see attitude.

The wider reaction in India to Twenty20 was mixed. Some critics saw it as a way to appeal to hero worshippers. Others thought that this very attribute created the potential for widespread popularity among more casual fans, especially among young people who were of great appeal to advertisers. “Sponsors will drool,” said Ayaz Memon, an editor at *DNA*, a Mumbai newspaper. “The game has found favor across age groups, and more significantly, across genders. It could even emerge as a potent challenge to Bollywood, because it lasts just about three hours.”<sup>5</sup>

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<sup>5</sup> Somini Sengupta, “If It’s Hip, Fast and Furious, Is It Cricket?” *New York Times*, September 25, 2007 (accessed online through ProQuest).

## CULTURE OF INTERNATIONAL TEAMS

In India, cricket audiences have historically been devoted fans of their national cricket teams. One reason that Indian audiences may have preferred watching national rather than domestic teams is that international cricket matches pit the best players against each other. Simply put, national teams have been the best available product. There has also been a long history of watching international matches—India has had a national team since 1935, and has developed a loyal and passionate following. In contrast, the most prestigious domestic tournaments, the Ranji Trophy and the Duleep Trophy, played in nearly empty stadiums and were not shown on TV because the ratings would have been so low.

Many Indian sports authorities believe that Indians view in cricket a way for their country to compete with the nations of the world in something approaching parity; Indian children dream of playing for their *country*, not for their states or clubs.

## Competitive Landscape

In Modi's own estimation, "As far as entertainment was concerned, only two things mattered to Indians: Bollywood and cricket." In 2007 Bollywood, the Indian film industry, was poised for dramatic growth. In 2006 Bollywood generated revenues of \$1.75 billion, with that figure estimated to rise to \$3.4 billion by 2010.<sup>6</sup> In December 2006 Aasish Saksena, COO of PVR Cinemas, announced, "There will be 40% more multiplexes in 2007. Most big production houses will have three/four releases that are expected to earn big money."<sup>7</sup> The average ticket price for a Bollywood movie in India in 2007 was \$3.

And other sports were also luring some traditional cricket fans into their stadiums. On June 13, 2006, the *Asian Times* announced, "The World Cup has sent cricket-crazed Indians into a soccer frenzy. The game has never been bigger in the country."<sup>8</sup> The article went on to note that women, who were accounting for a growing mass of soccer and cricket viewers in India, were losing interest in cricket: "I like soccer because the men who play the sport are strong, fit, aggressive and much better looking," explained one young woman in the article, "...Cricketers are softer in comparison."<sup>9</sup>

Competition within the game itself was also beginning to heat up. On April 3, 2007, a Twenty20 cricket league, called the Indian Cricket League (ICL),<sup>10</sup> was announced in India. This newly formed

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<sup>6</sup> Woke, comment on "Bollywood vs. Hollywood—The Complete Breakdown," Mutiny, comment posted February 1, 2007 (accessed via Google on 2/10/09).

<sup>7</sup> Author unknown, "Bollywood booty breaks billion-dollar barrier," *The Financial Express*, December 31, 2006, (accessed via Google on 2/10/09).

<sup>8</sup> Siddharth Srivastava, "Soccer gives cricket a run in India," *Asia Times*, June 13, 2006 (accessed via Google on 2/10/09).

<sup>9</sup> Ibid.

<sup>10</sup> This should not be confused with Modi's ill-fated 1996 league concept of the same name.

ICL was owned and operated by a single entity, called the Essel Group.<sup>11</sup> The Essel Group owned Zee TV, an entertainment television network in India, and had tried on multiple occasions to obtain the broadcast rights from the BCCI for ODIs and Test matches featuring the Indian national team. It had not succeeded in these efforts, although on its last attempt Zee TV had been the highest bidder.

Subhash Chandra, the chairman of the Essel Group, raised a reported \$1 billion rupees (approximately \$25 million) to fund the ICL. He installed a board comprised of former cricket stars Dean Jones (Australia), Tony Greig (England), Kiran More (India), and Kapil Dev (India). Jones and Greig were highly regarded cricket commentators; More had served as chairman of the selection committee for the Indian national team; and Dev was a former Indian captain, widely regarded as one of the best cricket players to emerge from India. With a centralized business model in mind, the Essel Group would produce and distribute the TV broadcasts, own the rights to all merchandising, and employ all players and coaches. Six teams were set to compete in the inaugural tournament, which was planned to run from November 30 to December 16, 2007. The winning team would win a cash prize of \$1 million.

According to Modi, the BCCI had several objections to the ICL concept:

It does not respect official cricket, it contributes nothing back into the game. It is a commercial venture that in reality is created not for the good of the sport but for the good of the media company that owns it and of its shareholders. It does not respect the FTP,<sup>12</sup> and it has made no contribution to the development of the players it employs.

Chandra argued that the ICL was not in conflict with the BCCI. Instead, he explained, it would develop local talent and provide a pipeline of players that could be used by the BCCI as a feeder to the national cricket team.

The BCCI nonetheless refused to give its official approval to the ICL. Further, it said that players who joined the ICL would be barred from representing the Indian national team or playing in domestic tournaments run by the BCCI. It also did not allow the ICL access to the cricket grounds it controlled through the various state cricket boards in India. The ICL sought the assistance of the courts, filing a petition with the Delhi High Court in August 2007 that it be allowed permission to use the state-controlled cricket grounds in India. Even as the case progressed in the court, the ICL was pressed to find alternative cricket grounds that would meet international standards of play and would have facilities for playing cricket at night, broadcasting booths, and adequate seating for spectators.

In another setback for the ICL, the cricket boards of all major cricket-playing countries announced their agreement with the BCCI's position. They declared the ICL an unofficial cricket league and announced that players who signed with the ICL could not represent their countries in ODIs and Test

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<sup>11</sup> FAQ: The Indian Cricket League, "Everything you want to know about the ICL," Cricinfo, <http://content-usa.cricinfo.com/icl/content/current/story/310677.html> (accessed via Google on 2/10/09).

<sup>12</sup> This refers to the Future Tours Programme of the International Cricket Council.

matches. Regardless of these rulings, by September 2007 the ICL had signed 44 players, including several recently retired international cricket stars. Notable among them were two former international cricket captains, Brian Lara from West Indies and Inzamam-ul-Haq from Pakistan. Lara was reported to have signed a million-dollar annual contract. Other international players recruited by the ICL came from Australia, New Zealand, Pakistan, South Africa, Sri Lanka, and West Indies. The ICL also signed up promising Indian players, including some who had earlier played for the Indian national team but were now playing domestic cricket.

Despite these setbacks, the Essel Group was not about to disappear from the competitive landscape. Chandra announced in October 2007 that the company's second-quarter performance was "commendable," with operating profits up by 508% vs. a year before—with this substantial growth "led by a robust increase in advertising revenues."<sup>13</sup>

## IPL Concept Launched

On September 12, 2007, Modi's Indian Premier League was formally launched in a high-profile ceremony in New Delhi. Modi was joined by some of cricket's most powerful men. Among them were the IPL Board of Governors, made up of three former captains of the Indian national team and four BCCI officials. Several players of international stature, including Sachin Tendulkar, Rahul Dravid, Sourav Ganguly, Anil Kumble, Australia's Glenn McGrath, and New Zealand's Stephen Fleming, were also on hand to support the league, as were the chairmen of various cricket boards and the ICC. All of India's major television networks and newspapers covered the event. Modi announced that the IPL would initially be comprised of eight franchises, each linked to a city. The teams would play an annual tournament featuring Twenty20 cricket, with each game lasting roughly three hours.

Modi's concept for the IPL would be to "entice an entire new generation of sports fans into the grounds throughout the country. The dynamic Twenty20 format has been designed to attract a young fan base, which also includes women and children." (See Exhibit 3.) He said that the ultimate goal was to create a franchised domestic cricket structure for India. The league's board would be responsible for creating the tournament schedule, providing regulations and match officials, maximizing media coverage, and guaranteeing exclusivity within a team's geographic region. "Each franchisee will get one home ground and will have to commit to building stadiums at their base," said Modi. "These franchisees will get marketing rights and also a share in the centralized revenue, which is yet to be decided. They will also be entitled to local revenue from ticket sales and other sources."

Modi envisioned that each team was to have 16 players, including a maximum of four foreign players and a minimum of four players drawn from the Under-19<sup>14</sup> teams or from the metropolitan area in

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<sup>13</sup> Televisionpoint.com correspondent, "Zee Entertainment Enterprises Q2 Revenues at Rs 398.6," Televisionpoint.com., October 23, 2007 (accessed via Google on 2/10/09).

<sup>14</sup> This refers to those teams whose players are all under the age of 19.

which each team was based. International players would require the approval of their respective countries' cricket boards; matches to be played for their countries would always take precedence over IPL matches. Players would earn salaries, but not the options and bonuses common in American sports leagues. Many would likely earn considerably more from sponsorship contracts. There would be a player draft, similar to those in American professional sports leagues, and teams would be permitted to trade players.

As Modi then conceived the inaugural tournament, the league's eight teams would participate in 59 matches played over 44 days in April and May 2008. The first 56 games would feature each team playing each other team twice in a round-robin format. The four teams with the most points in the round-robin matches would qualify for the second, knock-out stage, featuring two semifinals and a final. The tournament winner would earn a cash prize of \$3 million, with additional cash prizes for the best pitcher and outfielder, and for a variety of other special awards.

The IPL launch made headline news in India. Still, the league had made no formal arrangements with any players, franchisees, sponsors, or TV broadcasters. Nor was Modi actually sure about the feasibility of the franchises building stadiums. And there was competition to consider: Chandra's domestic ICL was about to play its inaugural tournament.

## 2007 World Cup

Between September 11 and September 24, 2007, South Africa hosted the first Twenty20 World Cup, a 12-team international tournament sponsored by the ICC. Upon his arrival in South Africa, just after the formal launch of the IPL, Modi set out to meet with members of the ICC as well as with administrators of the various national cricket boards, which had authority over their own national and domestic teams. His IPL tournament, he knew, would raise two central concerns: the impact it would have on domestic and international schedules, and the extra demands it would impose on already overworked players. He sought to convince executives from the cricket boards that the IPL would accommodate their interests and not compromise their control over their own players and calendars. Modi also wanted to meet with players in order to convince them that far from being a hardship, the IPL would benefit them directly.

Modi knew that if he could not sign up great players for domestic Twenty20 cricket, his league would stand no chance. "Without the players, we have nothing," he said. Modi came to South Africa armed with BCCI approval to offer players contracts never before seen in cricket. In 2007 the annual salaries for cricket players ranged from \$100,000 to over \$1 million, depending on the player's skill level and the country in which he played. Players—especially the Indian players, whose faces sold everything from soft drinks to refrigerators—also earned money from sponsorships and advertising contracts.

Modi had classified the top 100 players in the world into four categories, based on their annual earnings and skill levels. He decided to offer minimum salaries of \$100,000, \$200,000, \$300,000, and \$400,000 to players in the different categories. (See Exhibit 4.) In all, he was willing to offer \$20 million for the top 100 players in the world. Modi determined that most players would at least double their annual earnings by playing 14 IPL games over two months, and could earn additional money from sponsorships. Modi had already spoken to many players, and they had reacted favorably to the proposed terms. With the check from the BCCI in his pocket, Modi could now offer them contracts.

After two days in South Africa, Modi's focus unexpectedly shifted from negotiating player contracts to the games themselves.

The Indian team was not expected to fare well in the tournament. It had just concluded a hard tour of England. Most of its leading players, including the legendary Tendulkar, had opted out of the tournament. Consequently, the Indian team in South Africa had many young, inexperienced players, and a new captain, M. S. Dhoni. Unlike the players from Australia, England, New Zealand, and South Africa, none of the Indian players had ever before played serious Twenty20 cricket. Nonetheless, on September 14, India unexpectedly beat archrival Pakistan in a tense fight to the finish. The tide had turned for India's team and now all of India was glued to their television sets waiting for the rest of the tournament to unfold.

The final match of the tournament was played at the Wanderers Stadium in Johannesburg on September 24. As if prescribed, the other finalist was Pakistan. The match itself lived up to its billing, and by some reckoning was better than the earlier match between the two teams. Pakistan, which appeared to be winning, lost the match when their most dependable batter, Misbah-ul-Haq, lofted the ball and was caught out with his team needing just six runs from the last four balls to win.

All of India was euphoric. "It was just something else," says Modi. "In a matter of weeks, cricket fans in India had gone from being curiously interested in Twenty20 cricket to becoming its most ardent supporters." Broadcast live to 100 countries, the India-Pakistan final achieved TV ratings in India of 21.2 on ESPN, and Star Cricket captured 47.2% of all TV viewers even though the matches competed against popular reality shows.<sup>15</sup>

Modi and the Indian team headed back to India.

The BCCI had arranged for the victorious Twenty20 team to take an open-top double-decker bus from the Mumbai Airport to the Wankhede Cricket Stadium. Modi recalled:

The worry I had was, 'Will people come out to watch the team and felicitate them?' It was pouring and pouring. Well, when the team landed and we came out, there were over 100,000 people at the airport alone braving the rain. And the journey from the

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<sup>15</sup> ICC History, "ICC World Cup, Event History," ICC Cricket, <http://icc-cricket.yahoo.com/wt20-2009/event-history.html> (accessed via Google on 2/10/09).

airport to the stadium, which should have taken 40 minutes, took over nine hours, and it is estimated that over two million people came onto the road to greet the team. This was covered wall-to-wall across all TV channels in India. This just reinforced my thoughts that people want a winner and they love the format. A lot, of course, had to do with the Indian national team. But the take-home for me was that this format is totally unpredictable, can grab one's attention, and can have one at the edge of his seat till the last ball is bowled. This is something people will love. So that's when work began in full swing.

## Shaping the IPL Model

Upon his return from the World Cup tournament, Modi partnered with Andrew Wildblood and Peter Griffiths, both vice presidents at IMG World, a major international sports marketing firm, to give scope and definition to his vision for the IPL. Modi and the IMG team scrutinized the business models of myriad sports leagues in the United States and Europe in order to determine which aspects they would borrow to form the IPL. (See Exhibits 5 and 6.)

In guiding the work of IMG, Modi identified four constituencies whose interests they had to examine in detail: players, broadcasters, franchisees, and cricket boards (including the BCCI, the ICC, and various country-level boards around the world). They also had to consider the competition; after all, Chandra was also working to build his ICL into a successful intercity Twenty20 league.

The first game in the IPL's inaugural tournament was to be played on April 18, 2008. Ahead of that date, Modi needed to convince each of the four main constituencies that the league was in their best interests. What follows is a snapshot of where things stood between Modi and the four major constituencies in late December 2007. Nothing was yet set in stone.

### PLAYERS

The players—whose buy-in Modi and IMG knew was a prerequisite for a successful league—were on board. They had liked the offers Modi made at the Twenty20 World Cup. What's more, in the interim, Modi had decided to sweeten the offers further. The amounts he had promised the players would now be minimum guarantees; franchises were free to bid for players in an open auction, and pay them market prices.

Though he was sure this arrangement would strengthen the league by ensuring the attraction and retention of top players, he was concerned about the prospect of bidding wars, which could make the tournament lopsided—and even ruin some franchises. Richer and more aggressive franchises, after all, might lure all the top international stars, leaving the other franchises with unknown and lesser players. For the weakest teams, merchandizing and sponsorship revenue would be gravely affected.

A second issue concerned the inclusion of domestic players and the Under-19 players. Should they be promised minimum salaries and included in the bidding?

A third issue was the role that certain marquee players would play in the formation of the league. It seemed to Modi that some players from the Indian national team were so closely associated with certain cities that they had to be assigned to these cities. The most prominent of these players were: Sachin Tendulkar (Mumbai), Saurav Ganguly (Kolkata), Virender Sehwag (New Delhi), Yuvraj Singh (Chandigarh), Rahul Dravid (Bangalore), and VVS Laxman (Hyderabad). Should these players be pre-assigned to the franchises associated with these cities? If so, how would the franchises and the players in question react, and how would they be paid if not through the auction?

A final issue concerned the uncertainty around the availability of certain players. Some players might only be able to play for part of the IPL season if, for example, they were needed to represent their countries for Test matches or ODIs. Should these players be included? If so, how should they be treated in the player auction?

### **BROADCASTERS**

The primary revenue stream for broadcasters comes from advertisers, who pay to air commercials during breaks in programming. Viewership of popular programming, particularly Bollywood movies and soap operas, had exploded in India since the 1990s. Likewise, cricket revenues had grown by extraordinary multiples, in large part because of Modi's own efforts in marketing live cricket to television audiences. Broadcasters and advertisers recognized cricket as a powerful communication force. Demand for commercial TV spots had skyrocketed. (See Exhibit 7.)

Just as broadcasters are paid by advertisers, sports leagues are paid by broadcasters. Cricket matches featuring the Indian national team fetched the highest broadcast revenues in the world. Although it was not clear what audiences the IPL might obtain, Modi knew that ODIs in India fetched the BCCI approximately \$7.5 million per game. Modi was not certain what broadcasters would pay the IPL for each Twenty20 game. Wildblood, Griffiths, and their IMG team suggested \$1 million per game for each of 59 games played per season. This was a good starting point, but Modi's aim was to sell the broadcast rights for a ten-year period and he was not sure whether it made sense to commit the IPL to a set fee per game for as long as a decade.

Broadcasters in India typically expected to earn two dollars in advertising revenues for every dollar they spent acquiring the rights to a given program; to pay Modi \$1 million per match, a broadcaster would have to feel confident in receiving at least \$2 million per match in advertising. The league would be designed with advertising in mind: an IPL game could feature 72 30-second commercial spots. Each 30-second commercial spot during prime time sold for approximately \$11,000 per rating point (one rating point equals viewership by one percent of all households with television sets in the country).

Modi's discussions with several TV broadcasters in India and abroad had not been promising. Although interested, most broadcasters he met considered the IPL a risky venture compared to the revenue ODIs brought in: an ODI was a sure bet for broadcasters with 400-500 30-second spots per game garnering ratings in the 2-3 point range. Given the riskiness of the proposition, the broadcasters

told Modi that the live TV coverage was feasible only if the IPL could deliver an average of 4 rating points per game—reasoning that since a Twenty20 game was half as long, they should be able to earn twice as much per second. Modi thought this feasible after the tremendous ratings achieved by the matches featuring India in the Twenty20 World Cup. However, a great deal would depend on when the IPL matches were played, and the audiences they delivered.

Some broadcasters, like ESPN Sports, proposed a revenue-sharing arrangement. Modi was opposed to this idea because he thought the broadcaster must share some risk.

Prime-time television (aired 8-11 p.m.) had the potential of delivering the largest audience, but also the risk of more intense competition from other television channels. Women had historically not been drawn to cricket matches in India. Most Indian households had a single TV, and there was a risk that a prime-time IPL broadcast might not garner the potential audiences unless it was compelling enough to attract a broad viewership. A lot would thus depend on how the IPL was marketed and how the television broadcaster packaged the programming surrounding the match play.

Modi also thought it might be possible to tie the IPL in with Bollywood. Mixing the glamour of film with the fast action of Twenty20 cricket could be potentially irresistible for television audiences, provided it were done carefully and in good taste. He was aware that for many Indians, television shows were the principal form of free entertainment (See Exhibit 8.) But how well would IPL cricket do against family-oriented prime-time television programs, such as the Indian version of *Who Wants to Be a Millionaire*, which was hosted by the famous Indian actor Amitabh Bachchan?

There was also the huge international market for pay-per-view (PPV) sporting events to consider; in fact, the BCCI earned more revenue from PPV in the United States than from the much more cricket-friendly markets of Australia and England combined.

## **FRANCHISES**

Modi believed that a franchise structure, similar to the one used in American professional sports, had significant benefits over centralized ownership. But it was still not clear if anyone in India would buy an IPL franchise.

After all, in selling an IPL franchise, Modi would not be selling a stadium, but instead would be asking the buyer to eventually build one at enormous expense. Modi had a work-around solution for the short term: he had access to existing stadiums run by state cricket boards, which reported to the BCCI. Modi figured that a fee of about \$100,000 per game would cover the operating and maintenance costs for these existing stadiums. He also estimated that player salaries for each franchise would average \$6 million in 2008, assuming a \$5 million cap on auction bidding plus the cost of local players.

But though he could convince prospective franchisees that league play could begin immediately, he still had to face a daunting sticking point to any sale. On the one hand, franchisees were not likely to want to invest hundreds of millions of dollars in stadiums meant to host a 44-day annual tournament.

On the other hand, the potential franchise owners to whom Modi spoke repeatedly asked him one question: what were they going to buy if not a stadium? Modi explained about exclusive franchise rights, but it remained unclear to them why these might be of any value. So how could Modi link the valuation of franchises to their projected revenue streams? He planned to distribute 80% of the revenues the BCCI would earn from broadcasters, split evenly among each of the eight franchises—with this dropping to a 60% cut in year five.

The franchises could also make money from local sponsorships, gate receipts, merchandizing, and hospitality. Cricket stadiums in India could accommodate between 30,000 and 90,000 spectators. (See Exhibit 9.) Thus ticket revenues could be substantial, even if tickets to IPL games were priced at only \$5 per game, which was slightly higher than the price of a movie ticket in India. However, gate receipts might be unpredictable since the IPL tournament was set to be played in the dead of the Indian summer—when even nighttime temperatures averaged close to 90 degrees—and in stadiums that were difficult to access and which boasted few amenities. Merchant and concession sales were expected to average \$2 per ticket, with local sponsorships expected to earn an average of \$1 million per franchise in 2008. Modi estimated that corporate hospitality suites could fetch another \$1 million annually.

Modi intended to use a sealed-bid auction for the sale of franchise rights. He hoped to raise a minimum of \$50 million from the sale of each franchise, to be paid in 10 equal installments of \$5 million per year starting in 2008. Equity in sports teams represented a lucrative investment around the world, but Modi needed a way to communicate the full benefits to potential owners in India. George Steinbrenner's quip, that "owning the (New York) Yankees is like owning the Mona Lisa," would not be well understood in a country without a history of private control over domestic teams.

Modi spoke to Sharukh Khan, an old school friend and now a leading Indian film star, about buying a franchise. Khan was interested but confessed to knowing next to nothing about cricket or franchising. Then on a visit to Thailand over the New Year break, Modi met Preity Zinta, another Bollywood star, who was vacationing in Phuket with her boyfriend, Ness Wadia. Would they be interested in buying an IPL franchise? Wadia was excited by the prospect, Zinta intrigued. Modi promised to help both Khan and Zinta understand the basics of the cricket business. An idea was forming in his mind—if he could get these stars on board, he might have a marketable IPL-Bollywood connection.

### **THE CRICKET BOARDS**

The BCCI and state cricket boards were allies, but there were practical realities with which Modi had to contend. The BCCI was set to receive 20% of league broadcasting and sponsorship revenues. However, the major concern for the BCCI was the impact the IPL would have on Test matches and ODIs, and on the relationships with other cricket boards around the world.

In 2007 there were 10 Test matches and 39 ODIs featuring the Indian national team. All these matches, and many others between non-Indian teams, were shown live on Indian television. As a result, there was almost nonstop cricket coverage on Indian television. Test match attendances had

diminished, although ODIs continued to draw almost-full stadiums; Eden Gardens in Kolkata, full to the rafters with nearly 100,000 spectators, was a sight to behold.

Modi was committed to one overarching objective: any new format of cricket, including the Twenty20, must not compromise the traditional game of cricket in any manner. Test cricket was more than a century old, and he believed it must be preserved like the jewel in cricket's crown. ODIs were the bread and butter of cricket, the cash cow that had made the BCCI the richest cricket board in the world. India had become the economic powerhouse of cricket, earning, according to Modi, 80% of the worldwide cricket revenues. ODIs were central to this power and money. Thus he had to make sure that the IPL offered a differentiated product; it could not cannibalize ODIs and Tests.

Finally, Modi had to address the BCCI's concerns about its relations with the ICC and the cricket boards of other countries, which already felt resentment at the economic clout exercised by the BCCI. Modi thought the problem was that the countries that had for so long controlled the game could not bear to lose their hold. Still, the BCCI had to act responsibly, as a member of the larger cricketing community. Already, the ECB—which had developed Twenty20 in 2003—was expressing displeasure at the prospect of the IPL. The ECB watched in chagrin as Modi looked to use English players for a domestic Indian tournament and ultimately announced that no English player would be available for the first season of the IPL. Fortunately, the executives of the other boards, with whom Modi had spoken in South Africa, were supportive. The ICC had given its formal approval; thus Modi had to figure out how to include the ICC and the other cricket boards in the equation.

## Finalizing the Plan

IMG's Wildblood and Griffiths spent the night before Christmas working in Mumbai. The inaugural season of the rebel ICL had just finished, and it had been reasonably successful,<sup>16</sup> with Zee TV carrying the matches live from the two or three stadiums that it had managed to secure from various parties—including Indian Railways and several Indian state governments—despite the BCCI's opposition.

At the most basic level, Modi and his IMG colleagues had to decide how to position an IPL franchise as a marketable and sustainable commodity. In any event, there was an auction for the broadcast rights and a players auction to plan for—all within a month. And all of these decisions would be made in the glare of public scrutiny and the media spotlight. For months Modi had scarcely been able to walk the streets of Mumbai without a journalist or a camera in his face. Every sentence he uttered was dissected and analyzed. It was likely to stay that way for some time to come. Fail or succeed, it would all happen in the most public way for Lalit Modi and the Indian Premier League.

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<sup>16</sup> It was difficult to accurately measure the success of the ICL's first season due to a lack of transparency in league operations.

## Appendix A

### A Cricket Primer

Cricket was invented in England long enough ago that its origins are the stuff of legend—the first known written mention of the game occurs in 1598.<sup>17</sup> The first international cricket match was played between the United States and Canada in 1844. Although baseball replaced cricket in North America, cricket gained in popularity in the other British colonies.

In 2007 the sport was played at the international level by teams representing Australia, Bangladesh, England, India, New Zealand, Pakistan, South Africa, Sri Lanka, and West Indies. Most international cricket matches were broadcast live on television and radio, and typically eclipsed in popularity the domestic tournaments in these cricket-playing nations. Long-standing rivalries, such as those between Australia and England or India and Pakistan, filled stadiums and attracted large TV audiences.

#### RULES OF THE GAME

Cricket resembles its cousin sport, baseball: two teams take turns batting in an effort to score more runs than the other. In cricket, the bowler bowls (pitches) a hard red or white ball toward the batsman, who stands in front of three sticks, called stumps or wickets. Unlike baseball, in traditional (or Test) cricket, a batsman can remain at bat as long as he is not “out”—there are no balls and strikes.

A batsman can score runs by:

1. hitting the ball and running back and forth between a pair of wickets located 20 meters apart on a pitch;
2. hitting a home run (which fetches six runs); or
3. hitting the ball past the boundary of the playing field (which fetches four runs).

A batsman is out if:

1. the ball hits the wicket behind him;
2. he uses his legs instead of the bat to block a ball headed toward the wicket;
3. he hits the ball in the air and it is caught by a fielder; or
4. the wicket is broken by a fielder when the batsman is outside his crease, a region extending 20.12 meters in front of the wicket.

Bowlers take turns bowling *overs*: each over is a series of six balls delivered by one bowler. A bowler can bowl more than one over, but not two consecutive overs. Once 10 of the batting team’s 11 batsmen are out, the teams reverse positions; one complete cycle is an *inning*.

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<sup>17</sup> About the Club, “About Guildford Cricket Club,” Guildford Cricket Club, <http://www.guildfordcc.com/about.html> (accessed via Google on 2/10/09).

## Appendix B

### India in 2007

India, at the time of IPL's launch, was a country of 1.1 billion people and the world's largest democracy; it was, in 2007, about as upwardly mobile as a country could be. For while it was home to poverty of a depth and a scale hardly imaginable—as much as a half of the population lived on less than one dollar per day; half of all Indian children were clinically malnourished; 60% of Mumbai's 18 million inhabitants lived in slums or on the street—India was also a place where people up and down the social order were staging what amounted to a quiet revolution, one fueled as much by a slow withering of fatalism as by a fast expansion of wealth. The consequent social changes were uneven, halting, incomplete, and unpredictable, but one thing was certain: India was no longer a nation of the very rich and the very poor alone. It was also becoming, according to a 2007 report by McKinsey & Co.'s Global Institute, a nation with a middle class. (See Exhibit 10.)

At the heart of the growth of the middle class was the expansion of the economy itself. India had for the past five years enjoyed an annual growth rate of 8.8%. For that, it could offer great thanks to Prime Minister Manmohan Singh, who in 1992, as India's finance minister, pushed through reforms that freed up industry and reduced taxation and tariffs; his efforts led to an annual growth rate of 6% between 1992 and 2002. In this period of heady growth, headlines told the tales of the nation's brilliant technology industry, its glamorous Bollywood, and the entrepreneurial spirit that neatly underscored the nation's new faith in ambition. But the reforms were most meaningful for their success not in creating wealth, but rather in relieving poverty. From 1985-2007 the number of Indians living on one dollar per day had fallen from 93% to 54% of the population. By that measure, these reforms had helped more poor people than any government effort in history.

Indian modernization in 2007 was a work-in-progress. It was predicted that if its current pace of growth continued, India would within 20 years be the fifth-largest consumer market in the world. What's more, it would be powered by youth. India had the youngest population in the world: half of its people were under the age of 25, and by 2015 there were estimated to be 550 million teenagers in India.

As India boomed, it became more and more of an urban country. In 2007 city dwellers accounted for 28% of the population: one projection saw that figure doubling in the next 30 years. The Indian government was preparing to deal with the problems that this vast expansion of cities would bring. In 2005 Prime Minister Singh inaugurated an urban-renewal program that committed \$28 billion to alleviating poverty and making urban life viable. That would be good news to the inhabitants of Mumbai, 99% of whom were exposed to air deemed unsuitable by the World Health Organization.

The 2007 McKinsey report saw an India fundamentally changed by an explosion in wealth. India's middle class—defined by McKinsey as people with a household income, when cost of living was taken into account, between \$23,000 and \$118,000—was made up of 50 million people, but was

expected to balloon, in 2025, to 583 million people. What's more, the firm guessed that middle-class Indian households would see their incomes, in that time, grow eleven-fold. McKinsey also took note of the wealthiest Indians—those earning more than the American equivalent of \$118,000. There were only about a million of them in 2007, but by 2025 there were expected to be 9.5 million, and they were expected to spend scads of money—representing 20% of Indian consumption—on luxury goods and services.

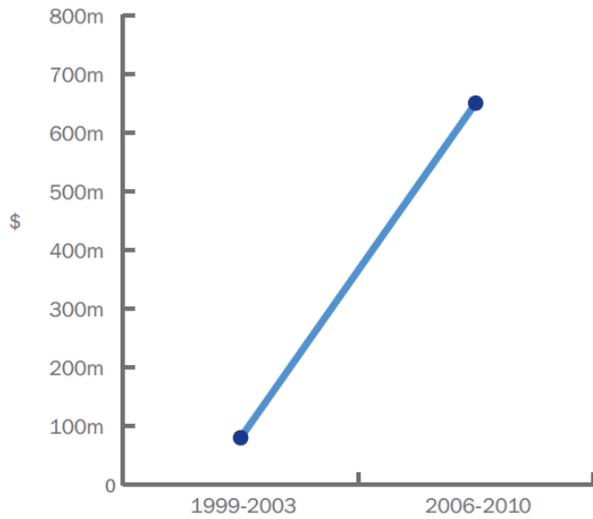
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## Exhibits

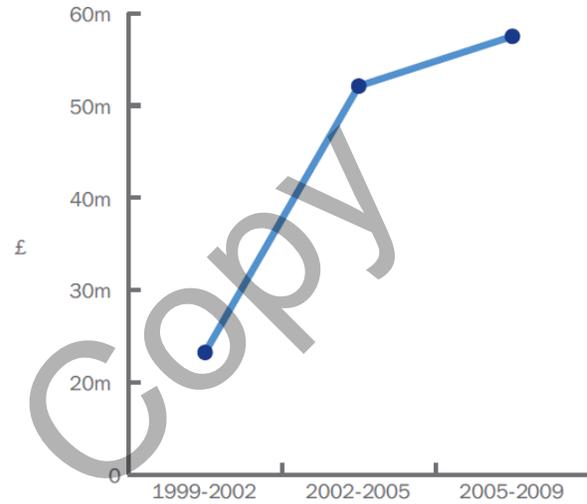
### Exhibit 1

#### 2007 Global Television Revenues for Cricket

Value of BCCI global television rights



Value of ICC global television rights

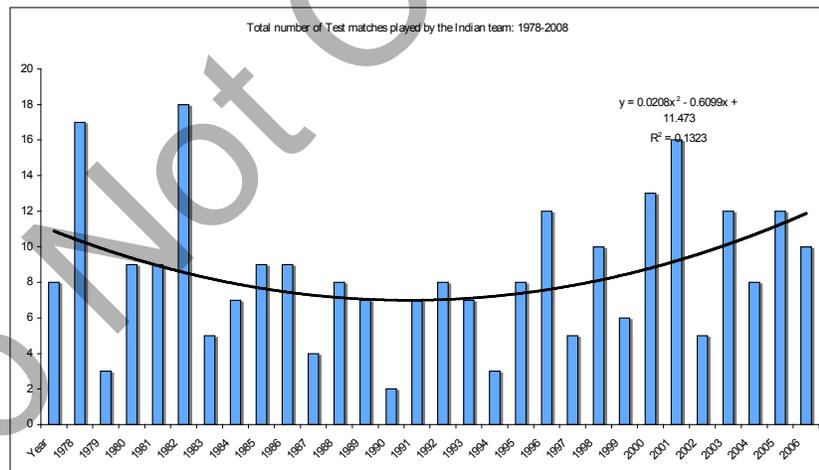
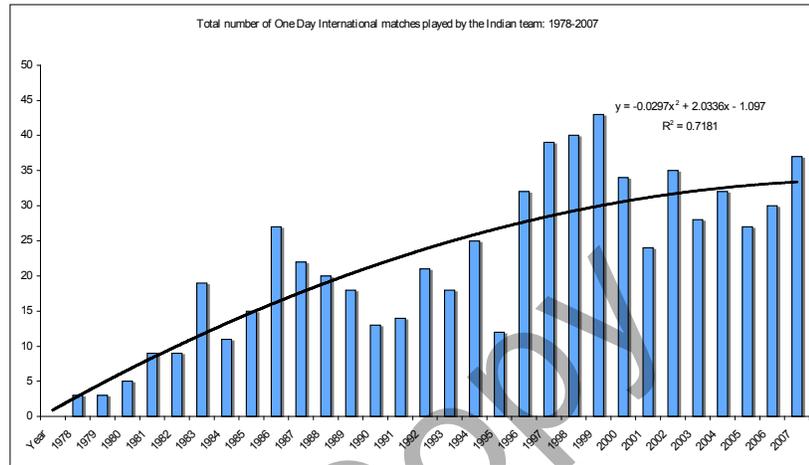


Source: IPL Prospectus

## Exhibit 2

### ODI and Test Matches Played by the Indian National Team (1978-2007)

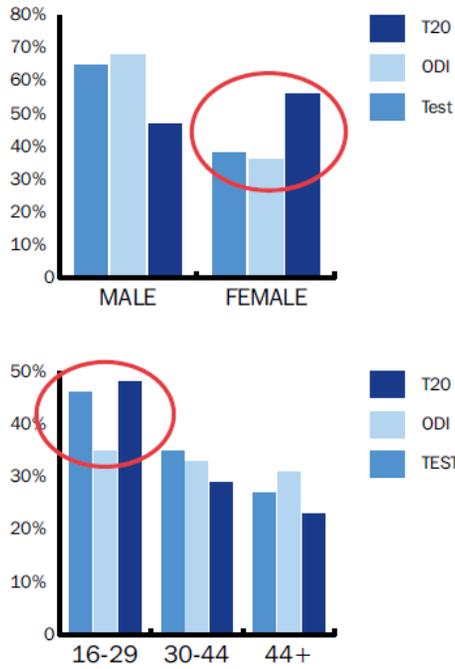
Year	No. of ODI	No. of Test
1978	3	8
1979	3	17
1980	5	3
1981	9	9
1982	9	9
1983	19	18
1984	11	5
1985	15	7
1986	27	9
1987	22	9
1988	20	4
1989	18	8
1990	13	7
1991	14	2
1992	21	7
1993	18	8
1994	25	7
1995	12	3
1996	32	8
1997	39	12
1998	40	5
1999	43	10
2000	34	6
2001	24	13
2002	35	16
2003	28	5
2004	32	12
2005	27	8
2006	30	12
2007	37	10



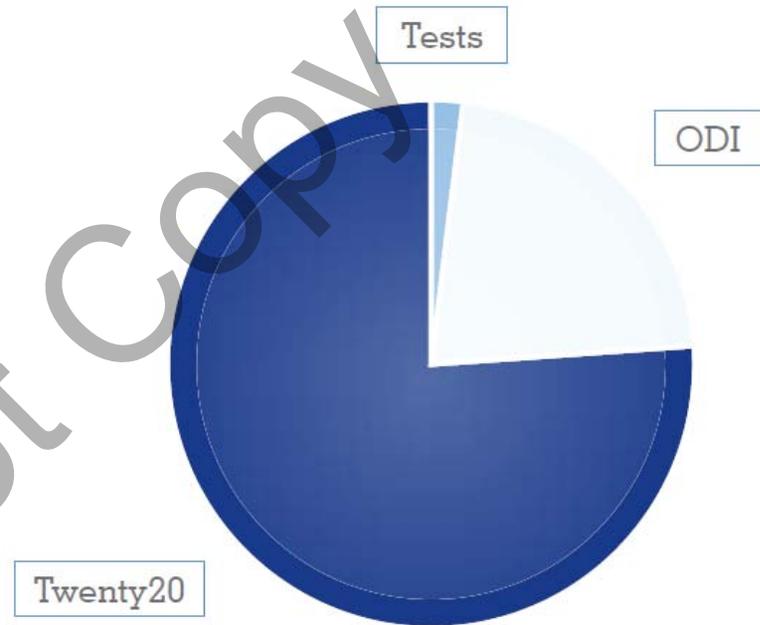
Source: Cricinfo

### Exhibit 3

### Indians' Preferred Format for Cricket



Source: Cricket Australia "Product Insights," Sweeney Sports Research March 2007



Source: Mindshare Survey on Indian cricket fans October 2007

## Exhibit 4

### Snapshot of International Cricket Players' Salaries

#### a. Annual salaries (USD) of players from different countries

Country	2007 salary range
New Zealand	\$100,000-150,000
Pakistan, Sri Lanka	\$150,000-200,000
South Africa	\$200,000-250,000
Australia, England	\$300,000-500,000
India	\$250,000-1,000,000

#### b. Player classification and minimum salary

Player level	Minimum IPL salary (2008)
1	\$ 400,000
2	\$ 300,000
3	\$ 200,000
4	\$ 100,000

Source: IPL Prospectus

## Exhibit 5

### Estimated Value of Leading Sports Franchises

#### a. Top 5 Major League Baseball Franchises

Franchise	Owner	Year Bought	Value when bought	2007 Revenue	Value in 2007
New York Yankees	George Steinbrenner	1973	\$10m	\$302m	\$1.2bn
New York Mets	Fred Wilpon	2002	\$391m	\$217m	\$736m
Boston Red Sox	John Henry & Tom Werner	2002	\$380m	\$234m	\$724m
Los Angeles Dodgers	Frank McCourt	2004	\$355m	\$211m	\$632m
Chicago	Cubs Tribune Corporation	1981	\$21m	\$197m	\$592m

#### b. Top 5 Major League Football Franchises

Franchise	Owner	Year Bought	Value when bought	2007 Revenue	Value in 2007
Dallas Cowboys	Jerry Jones	1989	\$150m	\$242m	\$1.5bn
Washington Redskins	Daniel Snyder	1999	\$750m	\$313m	\$1.467bn
New England Patriots	Robert Kraft	1994	\$172m	\$255m	\$1.199bn
Houston Texans	Robert McNair	1999	\$700m	\$225m	\$1.056bn
Philadelphia Eagles	Jeffrey Lurie	1994	\$185m	\$224m	\$1.052bn

Source: IPL Prospectus

## Exhibit 6

### Revenue Opportunities for Franchise Owners

The revenue opportunity is divided into two distinct areas

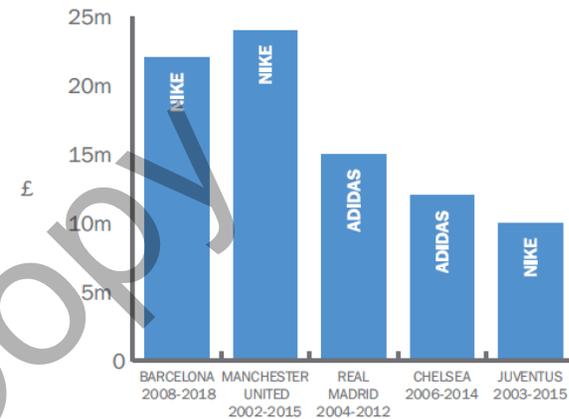
#### 1. Central: (Aggregates rights sold collectively from the center)

- Media
- Sponsorship
- Official Suppliers

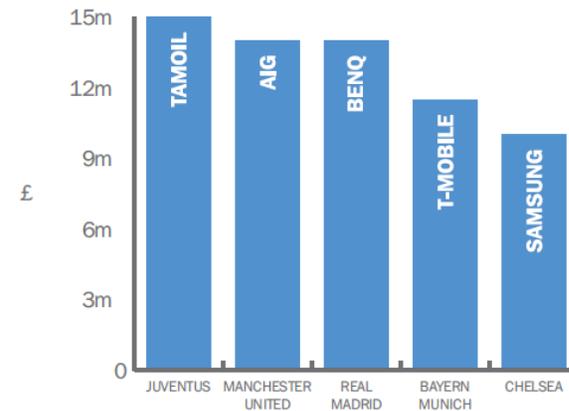
#### 2. Local: (Commercial rights sold by the Franchise)

- “Gate”
- Franchise title sponsorship
- Franchise shirt sponsorship
- Local sponsorships
- Licensing program
- Uniform merchandising
- Hospitality and premium seating
- Matchday concessions
- Matchday promotions
- Franchise media platforms, e.g., Franchise channels and Web sites

Top 5 football uniform supplier agreements (per season)



Most valuable European football shirt sponsorship agreements (per season)



Source: IPL Prospectus

## Exhibit 7

### Snapshot of Growth in Cricket Revenues

	<u>Previous</u>	<u>New</u>
Rights Owner	ICC	ICC
Winning Bid	Global Cricket Corporation	ESPN Star Sports
Length (yrs)	7 (2000 - Late 2007)	8 (Late 2007 - Feb 2015)
Value	\$550m	\$1.1bn
Competitions	2 World Cups	2 World Cups 2 Twenty20 World Cups Minimum 3 Champions Trophies
Rights Included	TV, Radio, New Media & Sponsorship (\$150m)	TV, Radio, New Media
Sponsorship	4 Global Partners: Hero Honda (\$25-30m) Hutch (\$25-30m) Pepsi (\$25-30m) LG Electronics (\$25-30m)	Currently 2 Global Partners: Reliance (\$100m) Pepsi (\$60m)

Source: IPL Prospectus

## Exhibit 8 Indian Television Industry Trends 2004-2012E

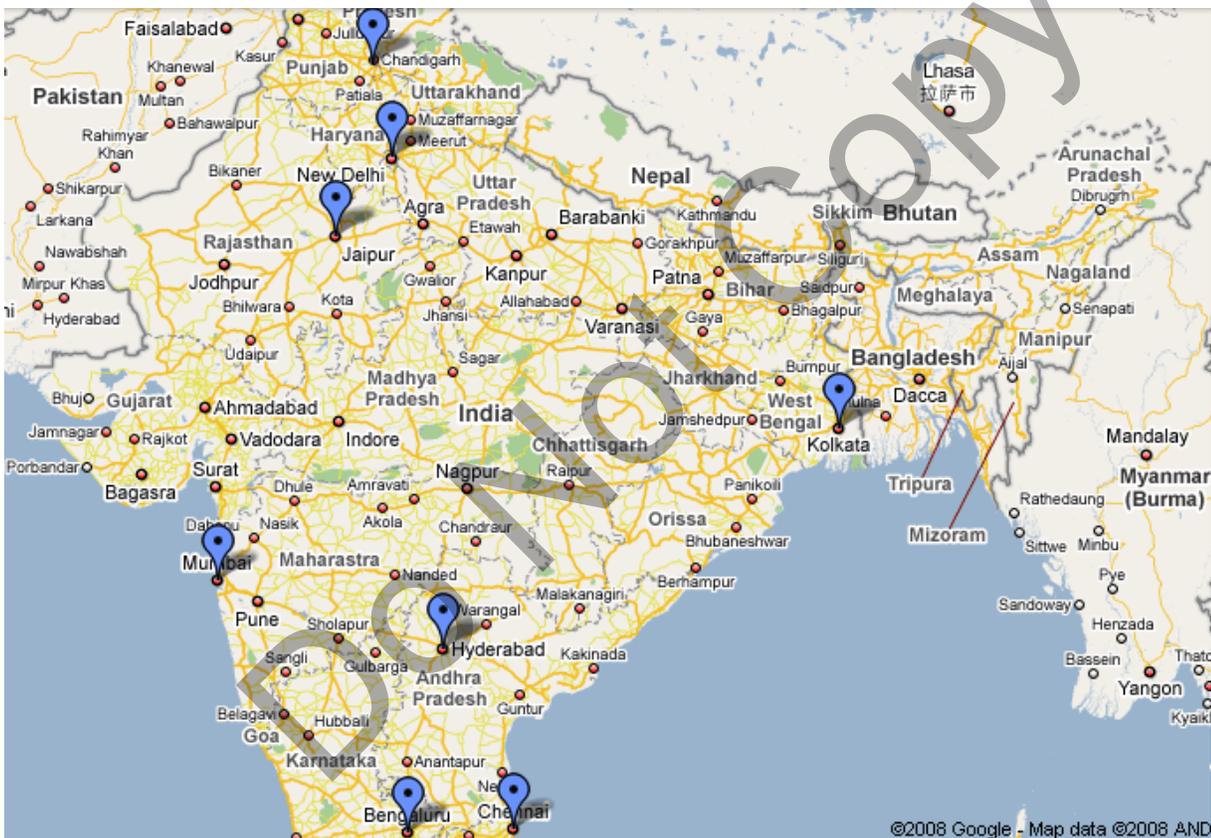
Rs billion	2004	2005	2006	2007e	2008f	2009f	2010f	2011f	2012f	CAGR 2008-12
<b>Television Distribution</b>	<b>75</b>	<b>97</b>	<b>117</b>	<b>136.5</b>	<b>167</b>	<b>104</b>	<b>253</b>	<b>310</b>	<b>380</b>	
% Change		29%	21%	17%	22%	22%	24%	23%	23%	23%
<b>Television Advertising</b>	<b>48</b>	<b>54.5</b>	<b>66.2</b>	<b>80</b>	<b>100</b>	<b>120</b>	<b>150</b>	<b>175</b>	<b>200</b>	
% Change		14%	21%	21%	25%	20%	25%	17%	14%	20%
<b>Television Content</b>	<b>5.7</b>	<b>7</b>	<b>8</b>	<b>9.4</b>	<b>11</b>	<b>12.8</b>	<b>16</b>	<b>18</b>	<b>20</b>	
% Change		23%	14%	18%	17%	16%	25%	13%	11%	16%
<b>Total</b>	<b>128.7</b>	<b>158.5</b>	<b>191.2</b>	<b>225.9</b>	<b>278</b>	<b>336.8</b>	<b>419</b>	<b>503</b>	<b>600</b>	
% Change		23%	21%	18%	23%	21%	24%	20%	19%	22%
million	2004	2005	2006	2007e	2008f	2009f	2010f	2011f	2012f	CAGR 2008-12
<b>TV households</b>	<b>102</b>	<b>109</b>	<b>112</b>	<b>115</b>	<b>119</b>	<b>123</b>	<b>128</b>	<b>130</b>	<b>132</b>	
% Change		7%	3%	3%	3%	3%	4%	2%	2%	3%
<b>Pay TV households</b>	<b>50</b>	<b>62</b>	<b>70</b>	<b>74</b>	<b>79</b>	<b>85</b>	<b>91</b>	<b>103</b>	<b>115</b>	
% Change		24%	13%	5%	7%	8%	7%	13%	12%	9%
<b>Cable TV households</b>	<b>50</b>	<b>61</b>	<b>68</b>	<b>70</b>	<b>71</b>	<b>73</b>	<b>76</b>	<b>83</b>	<b>90</b>	
% Change		22%	11%	3%	1%	3%	4%	9%	8%	5%
<b>DTH households</b>	<b>0.1</b>	<b>1</b>	<b>2</b>	<b>3.5</b>	<b>8</b>	<b>12</b>	<b>15</b>	<b>20</b>	<b>25</b>	
% Change		900%	100%	75%	129%	50%	25%	33%	25%	48%
Penetration (%)	2004	2005	2006	2007e	2008f	2009f	2010f	2011f	2012f	CAGR 2008-12
<b>TV households</b>	<b>57</b>	<b>59</b>	<b>59</b>	<b>59</b>	<b>60</b>	<b>60</b>	<b>61</b>	<b>61</b>	<b>62</b>	
% Change		4%	0%	0%	1%	1%	2%	1%	1%	1%
<b>Pay TV households</b>	<b>49</b>	<b>57</b>	<b>63</b>	<b>64</b>	<b>66</b>	<b>69</b>	<b>71</b>	<b>79</b>	<b>87</b>	
% Change		16%	10%	2%	4%	4%	3%	11%	10%	6%
<b>Cable TV households</b>	<b>49</b>	<b>56</b>	<b>61</b>	<b>61</b>	<b>60</b>	<b>59</b>	<b>59</b>	<b>64</b>	<b>68</b>	
% Change		14%	8%	0%	-2%	-1%	0%	8%	7%	2%
<b>DTH households</b>	<b>0</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>7</b>	<b>10</b>	<b>12</b>	<b>15</b>	<b>19</b>	
% Change		836%	95%	70%	121%	45%	20%	31%	23%	44%

Source: PriceWaterhouseCooper

## Exhibit 9

### Stadium Capacity in Major Indian Markets

City	Population (Millions)	Cricket stadium	Stadium capacity
Mumbai	13	Wankhede Stadium	40,000
Kolkata	7.8	Eden Gardens	90,000
New Delhi	12	Firoz Shah Kotla	40,000
Jaipur	3.3	Sawai Mansingh Stadium	30,000
Chandigarh	1	Punjab Cricket Association Stadium	40,000
Chennai	4.3	M. A. Chidambaram Stadium	50,000
Hyderabad	8.9	Rajiv Gandhi Cricket Stadium	55,000
Bangalore	6.2	M. Chinnaswamy Stadium	55,000

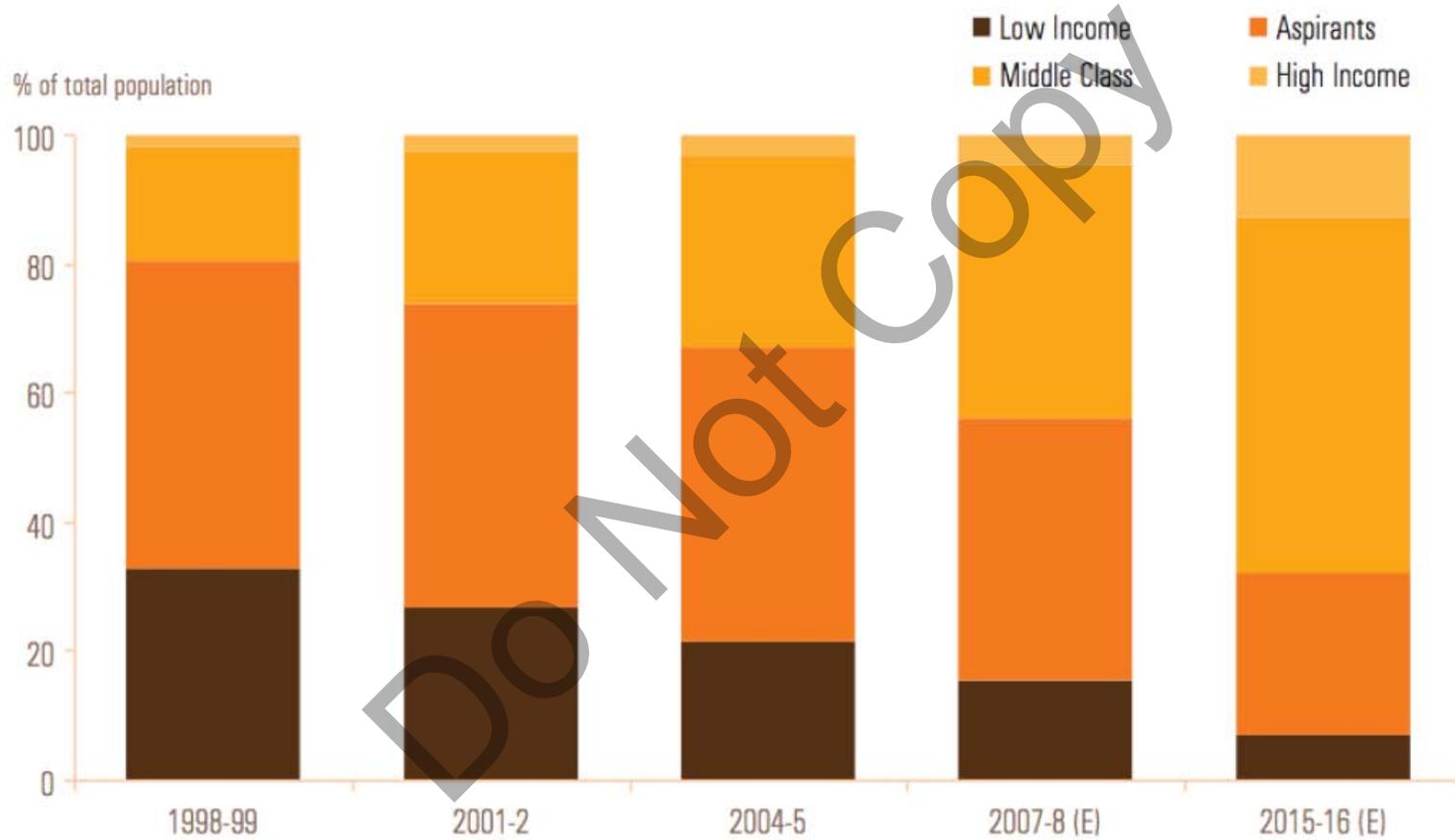


Source: IPL Prospectus

## Exhibit 10

### Growth of the Indian Middle Class

More than a half of households will be middle class by 2016



Source: NCAER/FC