India’s Startup Ecosystem

Posted at: 12/04/2025

India’s Startup Ecosystem: Building a Deep-Tech Future for India

Context

India’s Commerce and Industry Minister recently criticized the country’s startup ecosystem for being too focused on **consumer-oriented sectors** such as food delivery and e-commerce. He emphasized the urgent need for Indian startups to **transition towards deep-tech innovations**, which are crucial for long-term strategic goals, national security, and technological sovereignty.

Overview of India’s Startup Ecosystem

- **Third-Largest Startup Ecosystem Globally**
  India is home to **over 100 unicorns**, making it the **third-largest startup ecosystem** after the US and China.
  In **2023**, India added **more than 20 unicorns**, predominantly in **logistics**, **fintech**, and **ed-tech** sectors.

- **Strong Government Support**
  Policy initiatives like **Startup India**, **Digital India**, and the **IndiaAI Mission** have been instrumental in fostering startup growth.
  Recent efforts include:
  - A **₹10,000 crore Deep-Tech Fund**
  - The **India Semiconductor Mission**

- **Young and Talented Workforce**
  With **over 65% of the population below 35**, India has a strong base of **young, tech-savvy professionals**.
  The country produces **more than 1.5 million engineers annually**, contributing significantly to the tech sector.

- **Global Recognition of Indian Talent**
  Prominent Indian-origin tech leaders like **Sundar Pichai** (Google) and **Satya Nadella** (Microsoft) exemplify India's global tech leadership.
  Indian entrepreneurs are leading startups in **AI**, **cybersecurity**, and **fintech** across the world.

- **Improving Digital Infrastructure**
  India's digital public infrastructure, including **UPI**, **Aadhaar**, and **BharatNet**, has laid the foundation for digital innovation.
  In **2023**, India processed **over 100 billion UPI transactions**, showing widespread adoption.

Challenges in India's Startup Ecosystem

- **Excessive Focus on Consumer-Tech**
  Most unicorns cater to short-cycle, **B2C models** such as food delivery and quick commerce, which lack deep technological innovation.

- **Limited Investment in Deep-Tech**
  Although deep-tech funding rose **78% year-on-year in 2024**, total investment remained at just **$1.6 billion**, significantly lower than the funding in China and the US.

- **Risk-Averse Venture Capital Environment**
  Indian venture capitalists often prioritize **quick returns**, avoiding long-gestation projects.
  In contrast, US investors back **long-term ventures** like **SpaceX** and **OpenAI**.

- **Weak Academia-Startup Collaboration**
  There is inadequate integration between **universities and startups**, leading to limited R&D output.
  Indian universities rarely feature in global innovation or patent rankings.

- **Regulatory Bottlenecks**
  Despite the removal of the **Angel Tax**, startups still face:
  - **High compliance burdens**
  - **Exit challenges** for investors
  - **Delays in IP registration and funding clearance**

Way Forward

- **Increase R&D Expenditure**
  India currently spends **less than 1% of GDP** on R&D. This needs to be raised to at least **2%** to compete globally.
  By comparison:
  - **China spends 2.6%**
  - **US and Germany spend over 3%**

- **Strengthen Academia-Industry Linkages**
  Create **Centres of Excellence** in AI, quantum computing, and semiconductor research.
  Link premier institutions like **IITs** with startups in **defence-tech**, **biotech**, and **space-tech**.

- **Revamp STEM Education and Upskilling**
  Introduce early training in emerging fields through the **National Deep Tech Startup Policy (NDTSP) 2023**, focusing on **AI**, **robotics**, and **semiconductor design**.

- **Facilitate Long-Term Capital Access**
  Encourage **patient capital** from sovereign wealth funds and long-horizon VC funds.
  The **₹10,000 crore Deep-Tech Fund** should be **scaled and deployed strategically**.

- **Simplify Regulatory Framework**
  Introduce fast-track processes for **IP rights**, **patent approvals**, and **FDI clearances**.
  Adopt a **mission-mode approach** inspired by models like **NASA–DARPA** to support breakthrough innovations.

Conclusion

India’s startup ecosystem has achieved remarkable growth in consumer-centric innovation, but it must now transition to deep-tech to secure its **strategic interests** and **technological leadership**. With a combination of **policy reforms**, **R&D investment**, **educational overhaul**, and **supportive capital structures**, India has the potential to lead in **next-generation technologies** and emerge as a global innovation powerhouse.