Exploring India's dynamic Start-up Ecosystem

December 2024

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Executive summary

India's startup ecosystem, ranking third globally with over 100 unicorns, offers rich investment opportunities for foreign investors. The country's large consumer base and growing digital adoption create significant market potential. Government initiatives such as Make in India, Startup India and the creation of digital public infrastructure have fostered a supportive environment for entrepreneurship. As the ecosystem matures, increased collaboration between startups and corporations, innovative business models, a pool of talent with specialised skills, advancements in technology and increased internet and smartphone penetration have created the potential for high returns and contribute to India's innovation-driven growth.

USD140 billion

Infused by startups into the Indian economy in FY23

USD1 trillion

Expected addition to the economy by 2030

1,40,803

DPIIT recognised startups
(As on 30 June 2024)

15 lakh+

Jobs created since 2016

Factors driving the Indian startup ecosystem

Robust support system of incubators and accelerators to mentor startups for networking opportunities

Surge in venture capital funding accelerating the growth of existing startups and promoting overall ecosystem growth

Startup20 engagement group institutionalised under India’s G20 presidency is stimulating innovation among stakeholders

India's diverse market and growing middle class create a favourable ground for startups and innovative business models

Vast pool of tech talent, advancements in technology, increased internet and smartphone penetration has created a large, connected audience

Leading hubs

Bengaluru | Delhi NCR | Mumbai

Emerging hubs

Ahmedabad | Chennai | Hyderabad | Jaipur | Kochi | Pune

GDP growth contribution

- The startup ecosystem has contributed 10 per cent to 15 per cent to India's GDP growth between FY16 and FY23

Increasing foreign investment

- Venture capital (VC) funding in India has grown steadily since 2015, with a steady influx of foreign investment

Deeptech ecosystem

- Deeptech startups in India have increasingly attracted investor interest over last five years

USD850 Million funding in deeptech startups in 2023

450+ new deeptech startups added in 2023

Dominant Technologies

Artificial intelligence | IoT | Big data | Blockchain | AR/VR

Diversification and innovation

- Beyond IT, sectors such as healthtech, edtech, cleantech and spacetech are attracting significant investments, showcasing diversification in the Indian startup landscape

Cleantech

118 Early stage startups (2023)

Edtech

USD48.9 billion Estimated K-12 segment value in 2023

Healthtech

10,221 DPIIT recognised startups (2023)

Spacetech

189 DPIIT recognised spacetech startups (2023)

Source of funding and managing different aspects of risks

- Pooling of funds
- Foreign investments
- External Commercial Borrowing
- Angel investors
- Grants and subsidies
- Liquidity risks
- Information and operational risks
- Regulatory and political risks
- Startup-specific risks
- Tax-related risks

Exit strategies maximising returns from investments

- IPOs and M&As
- Secondary transactions
- Alternative Investment Fund (AIF)
- Management buyouts

Snapshot of M&A and IPO Activities

76	Number of IPOs in FY24
USD7.4 billion	Funding raised in FY24
123	M&A deals by startups in 2023
1,286	Cumulative M&A deals by startups (2015-23)

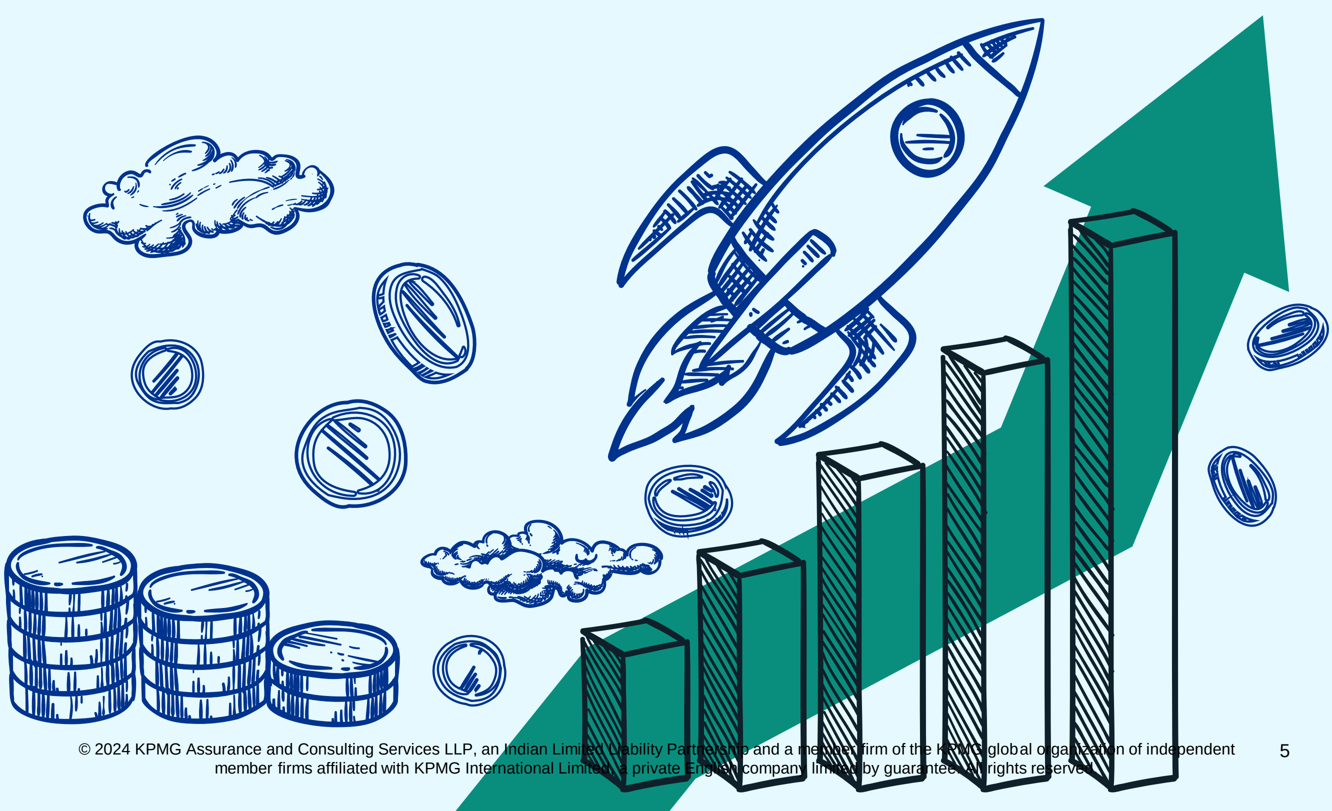


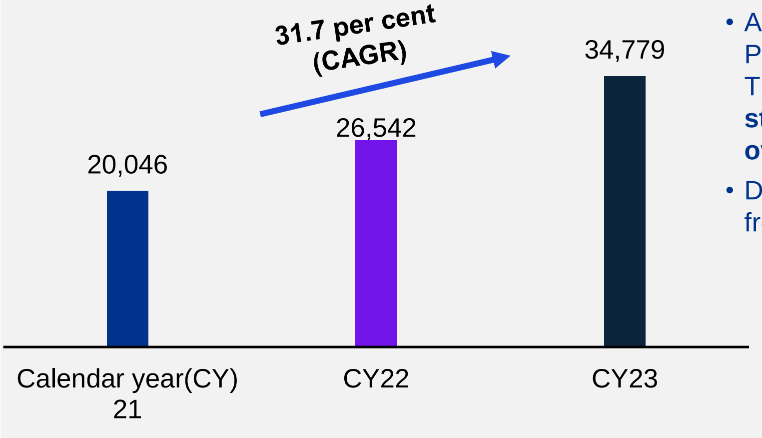
Table of contents

01

The rise of India's startup ecosystem

India’s startup ecosystem has grown significantly over the past decade due to a vast consumer market, supportive government policies, a surge in venture capital (VC) funding, talent availability and the younger generation's entrepreneurial spirit. A strong network of incubators and accelerators further supports startups growth. In FY23, startups contributed about USD140 billion to the economy, which is projected to reach USD1 trillion by 2030. From FY16 to FY23, they contributed 10 to 15 per cent to India's GDP growth[1].

Number of startups recognised by DPIIT in the last three years[3]



- As of June 2024, the Department for Promotion of Industry and Internal Trade (DPIIT) has **recognised 1,40,803 startups**, leading to the **creation of over 15.5 lakh direct jobs**[2]
- DPIIT has also recognised startups from **56 different diversified sectors[3]**
  — As of **October 03, 2023**, **IT services** has the highest number of startups, with a **share of 13 per cent**, followed by **healthcare and life sciences** with **9 per cent** and **education with 7 per cent**

Growing significance of tier II and III cities

The increasing significance of tier II and III cities as startup hubs in India is a noteworthy trend, backed by the need to solve local problems, diverse funding options, improved infrastructure, robust digital payments systems and digital-first business models, all of which have attracted investors.

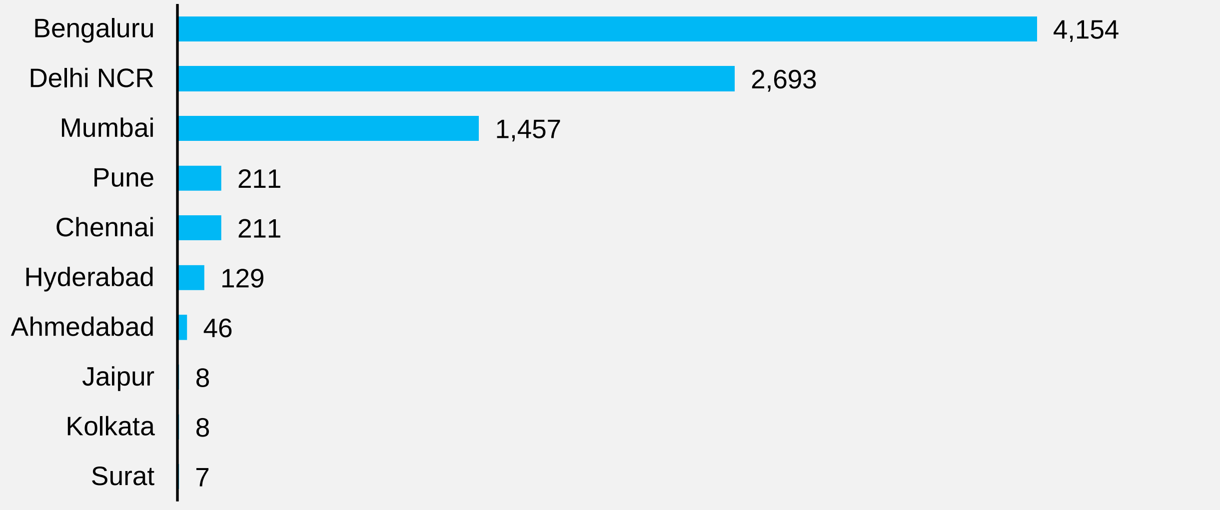
While Bengaluru, Delhi and Mumbai have been the traditional unicorn hubs, securing over USD8.1 billion in funding in CY23, other cities including Pune, Chennai and Hyderabad are carving out their own space in the startup ecosystem[4]. This is largely due to prestigious educational institutions, a rich talent pool, strategic locations and supportive government initiatives.

The startup growth rate in tier II cities has seen a 15 per cent upsurge[6]. Further, the FY24 economic survey revealed that over 45 per cent of new startups are now arising from these tier II and tier III cities[7]. The main drivers of startup growth in these cities include lower operational costs, access to untapped markets, evolving consumer preferences and a less saturated competitive landscape. Funding within tier II and III cities has also surged, reflecting investor confidence in these emerging hubs.

The Indian startup ecosystem with a value of **USD349+ Billion** ranks **third globally** in unicorn count. (as of May 2024)[5]

1. Unicorn 2.0: Adding the next billion, CII, 14 March 2024
2. Government initiatives to promote startups across the country, PIB, 29 July 2024
3. Startup industry report, EMIS, April 2024
4. Leading cities for start-up funding in India in 2023 by value, Statista, 15 January 2024
5. Unicorns in India: List of startup companies with unicorn status in 2024, Forbes, 22 August 2024
6. Beyond metro hubs: India's new startup frontiers, Forbes India, 25 July 2024
7. Economic survey 2023-24, Government of India, accessed on 04 October 2024

Funding in top 10 startup hubs, 2023 (USD million)[8]



Despite Delhi, Gujarat, Maharashtra and Karnataka accounting for half of India's startups, significant growth in frontier industries, including green technology, renewable energy and IT services has been observed in Bihar, Assam and other states from 2021 to 2023.

Bihar's startups boom

- From 2022 to 2023, Bihar's startup sector expanded by **54.6 per cent**, fueled by young entrepreneurs and the Bihar Startup Policy, which funded **324 startups**[9]
- As a leading maize producer, Bihar's focus on **ethanol production and electric vehicles**, along with its **2024 climate strategy**, spurred the growth of Green Tech startups, making it the state's quickest growing sector from **2021-2023**

Surge in northeastern construction startups

- The northeastern region has seen considerable growth in **construction startups since 2020**, averaging **102.6 per cent**[9] **year on year**, driven by a focus on enhancing **logistics infrastructure** for better connectivity
- The region’s strategic location adjacent to numerous Asian countries offers significant trade potential. The **North East Venture Fund (NEVF)**, which has supported **37 startups since 2017**, further bolsters this growth[9]

The Government of India (GoI) has been crucial in supporting businesses in these lower-tier cities and rural areas by offering incentives such as lower land rates, subsidised offices and tax rebates. This coupled with setting up innovation hubs, startup incubators, streamlined business procedures and improved transport links, creates a vibrant ecosystem for business initiation.

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8. Leading cities for start-up funding in India in 2023 by value, Statista, 15 January 2024
9. Beyond metro hubs: India's new startup frontiers, Forbes India, 25 July 2024

- Asia Competitiveness Institute highlighted that startup-friendly policies in **Madhya Pradesh (MP)** resulted in a 41 per cent startup growth in 2022-2023. Key incentives, such as stamp duty concessions and government-owned venture capital funds transformed **Indore, Bhopal and Jabalpur** into startup hubs under the **Startup MP initiative**[10]
- **Rentals and utilities in tier II cities** are about half the price compared to tier I cities. The availability of specialised skill sets also adds to these cities' advantages: Lucknow and Mangalore were among India's top three cities for employable skills specialised in niche areas, while **Coimbatore** became a prominent hub for engineering services.

Furthermore, startups are playing a key role in bridging the rural-urban divide by offering solutions tailored to rural needs. This includes digital tools for agriculture, healthcare services, microfinance for the unbanked and growth in rural tourism and ed-tech. This is fostering rural development and addressing economic disparities.

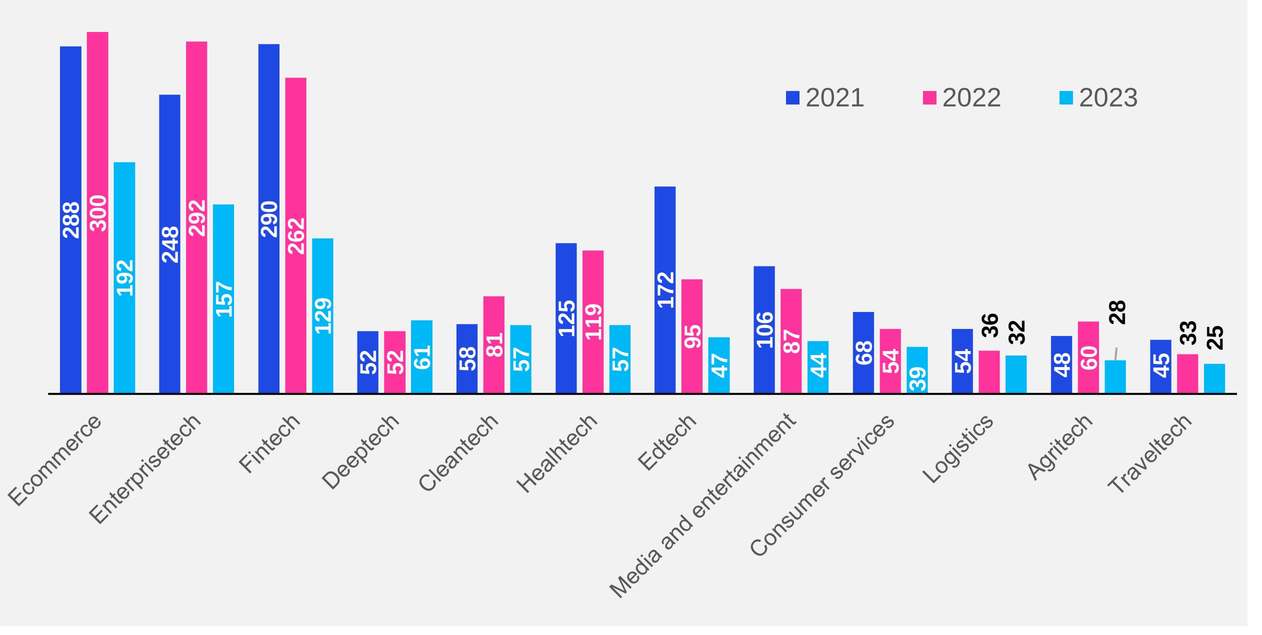
- As of **09 February 2024**, **1,554 agritech start-ups**, including **387 women-led start-ups**, are working in the agriculture and allied sector[11]
- The **Innovation and Agri-Entrepreneurship Development programme** offers up to ~**USD6,000 for idea/pre-seed stage** and ~**USD30,000 for seed stage** to agriculture-related startups[12]

Exploring the funding landscape of Indian startups

The Indian startup landscape is dominated by technology startups, with ecommerce startups leading the funding race in 2023, maintaining their top position from the previous year with over 192 funding deals. The enterprisetech and fintech sectors followed with 157 and 129 deals respectively[13]. Moreover, consumer service startups are also gaining momentum, offering innovative solutions that are revolutionising people's daily life activities.

10. Beyond metro hubs: India's new startup frontiers, Forbes India, 25 July 2024
11. Promotion of startups in agriculture sector, PiB, 9 February 2024
12. Government initiatives to promote startups across the country, PIB, 29 July 2024
13. Leading startup sector in India from 2021 to 2023, by number of funding deals, Statista, 29 December 2024

The startup sector in India that tops in the number of funding deals[14]



VC funding, being instrumental in the growth story of Indian startups in India, witnessed a 43 per cent year-on-year increase from January to July 2024, representing 7 per cent of the total count of globally announced VC funding during that time[15].

The Indian startup ecosystem is rapidly expanding across various sectors such as fintech, automotive and healthtech, indicating a broadening scope for investment opportunities. By 2029 the Indian electric vehicle (EV) market is expected to be worth about USD113 billion. This will require the creation of at least 1.3 million charging stations in India to support the fast-paced growth of EVs. This situation presents a vast opportunity for startups to delve into the sector[16].

The fintech sector, with more than 6,386 startups over the past decade, has an adoption rate of 87 per cent, surpassing the global average of 67 per cent[17]. These startups cater to diverse financial needs, including those in tier II and tier III cities and rural areas.

Healthtech startups offering services such as telemedicine, robotic surgeries and artificial intelligence (AI) based disease detection have also seen a surge in total investments, further demonstrating the robust growth of the Indian startup ecosystem.

1.1 The surge of foreign interest in Indian companies

India has emerged as the third-largest global startup hub[18] and is maintaining this upward trend through the growth of startups. Foreign investors significantly contribute to growth and innovation in the sectors. For instance, foreign investments contribute a significant amount of the total deeptech startup funding[19]. Their investments fuel rapid startup growth and bring valuable expertise, best practices and global market access. This partnership could enhance competitiveness and ensure Indian startups thrive globally.

India attracts foreign investments from many countries including, the U.S., Singapore, the EU, Mauritius and others, due to the huge domestic market, infrastructural development, digitalisation and strong economic growth. This trend is seen in fintech, ecommerce, stockbroking, healthcare and edtech sectors. Between FY23 and FY24, Singapore, the U.S., Mauritius, the Netherlands and Japan contributed 70-75 per cent of foreign direct investment (FDI) equity inflows due to relaxed FDI rules[20].

14. Leading startup sector in India from 2021 to 2023, by number of funding deals, Statista, 29 December 2024
15. VC funding for Indian startups up 42% to US$ 6.3 billion in January-July: GlobalData, IBEF, 29 August 2024
16. Electric Vehicle, IBEF as accessed on 30 October 2024
17. Fintech sector-catalyst to growth, NPCI, 18 July 2024
18. How India became the world's third largest startup hub in 15 years, Forbes India, 23 May 2024
19. National Deeptech startup policy 2023, Principal Scientific Adviser, 01 July 2023
20. FDI statistics, DPIIT, accessed on 26 July 2024

In FY24, India received the highest FDI equity inflow from Singapore (USD11.8 billion), followed by Mauritius (USD8.0 billion), the U.S. (USD5.0 billion), the Netherlands (USD4.9 billion), Japan (USD3.2 billion) and the UK (USD1.2 billion)[21]. This rise in FDI inflow is due to India's appealing economic growth and vibrant startup ecosystem.

1.2 Collaborative initiatives to boost the Indian startup ecosystem

India and several countries have launched several collaborative initiatives aimed at boosting the Indian startup ecosystem. One notable programme is the 'Innovation Handshake' agenda, part of the India- U.S. Commercial Dialogue. This initiative brings together startups, VC firms, corporate investors and government officials from both countries to foster connections between their innovation ecosystems. The programme includes anchor events scheduled for the fall, featuring investment forums and hackathons in both India and the U.S.

Additionally, Indian universities and American universities are expected to advance collaborative research in fields such as sustainable energy, agriculture, health and advanced technologies. Both countries have also pledged to promote policies facilitating technology sharing and co-development between Indian and U.S. entities. These collaborative efforts aim to drive technological advancements, create a thriving startup ecosystem in India and strengthen bilateral ties between the two nations.

November 2023

- The U.S. and India signed a memorandum of understanding (MoU) on augmenting innovation ecosystems via an **Innovation Handshake** to connect the startup ecosystems of both sides, tackle regulatory obstacles and share fundraising information
  - — It also aims to strategise job growth and stimulate innovation, especially in critical and emerging technologies (CET) as outlined in the **India-U.S. iCET initiative**[22]

June 2023

- The U.S. and Indian defence departments launched **INDUS-X**, an innovative bridge for defence technology, to boost defence tech collaboration among companies, investors and universities
  - — Under INDUS – X, in **September 2024**, the U.S. and India announced seed funding of **USD1.2 million to ten firms**, planned further joint challenges and started the INDUSWERX testing consortium
- The U.S. Department of Defence's Space Force signed an **International Cooperative Research and Development Agreement (ICRDA)** with two Indian startups
  - — These startups collaborated to **co-develop components** by utilising advanced artificial intelligence (AI) and semiconductor technologies[23]

Moreover, the removal of the angel tax and proposed reduction of tax rates for foreign companies are notable reforms, which are seen as beneficial for startups and are expected to encourage more foreign direct investment. These efforts contribute to India's growing reputation as a hub for technological advancement and economic growth.

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21. FDI statistics, DPIIT, accessed on 26 July 2024
22. Secretary Raimondo and Minister Goyal Lead "Innovation Handshake" Event to Deepen U.S.-India Tech Ties, US Department of Commerce, 14 November 2023
23. Fact Sheet: India-U.S. Defense Acceleration Ecosystem (INDUS-X), US Department of Defense, 21 February 2024

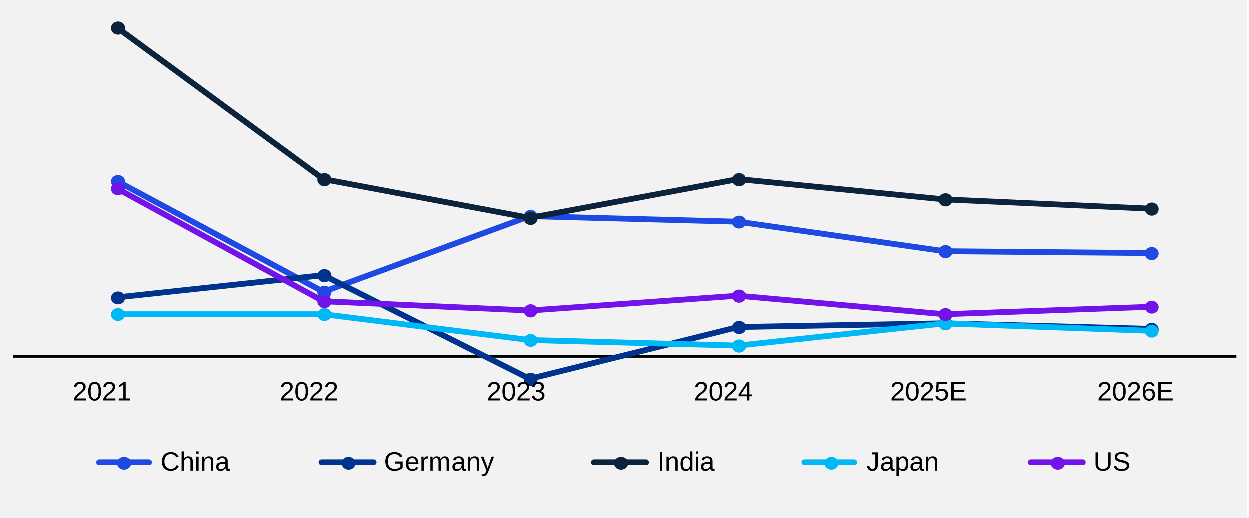
1.3 Exploring the potential of the growing consumer market in India: Opportunities and challenges for global entrepreneurs

Global entrepreneurs have enormous opportunities in the Indian startup ecosystem, however, while aiming to tap into India's burgeoning landscape must navigate certain challenges, including diverse consumer behaviours and regulatory requirements. Understanding these local nuances is crucial for harnessing the vast potential of this rapidly growing economy.

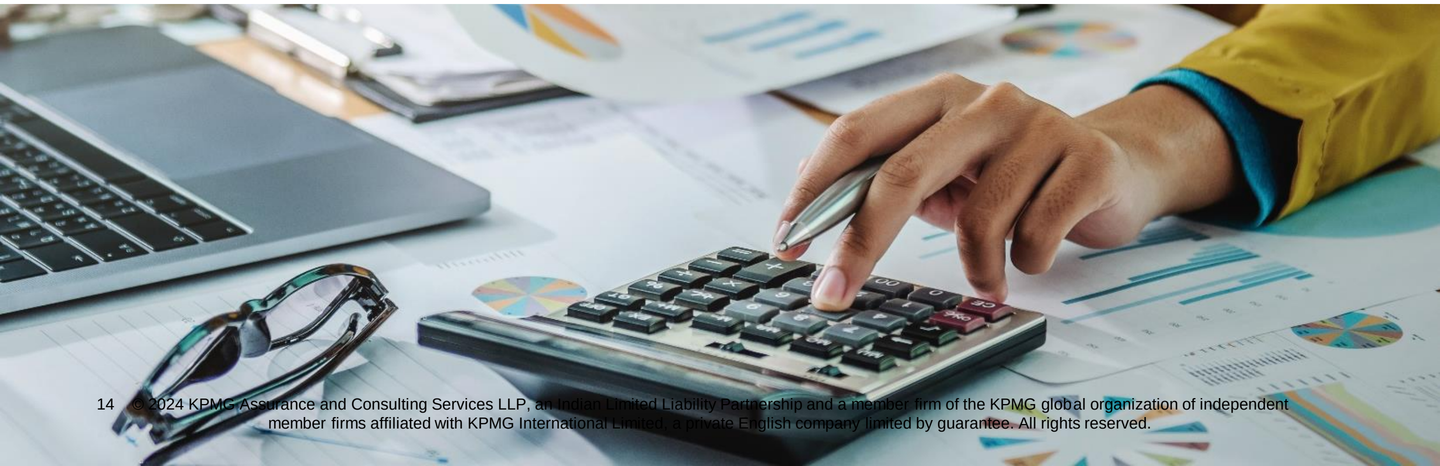
Despite these challenges, India's transformation into an emerging global force is remarkable. Further due to strategic reforms, robust domestic consumption and favourable demographics, India's gross domestic product (GDP) reached USD3.9 trillion as of 1 July 2024, making it the world's 5th largest economy, with significant contributions from the service sector[24]. Projected growth positions India to become the 3rd largest economy by 2027[25], potentially surpassing the U.S. to be the 2nd largest by 2075[26], behind only China.

The Indian consumer market, with its vast and expanding middle class of over 1.4 billion people[28], presents a significant opportunity for global entrepreneurs. Consumer spending is expected to reach about USD6 trillion, making India the world's third-largest consumer market by 2030[29].

Real GDP (% change)[27]



24. The top 10 largest economies in the world in 2024, Forbes India, 17 July 2024
25. India to become the third largest economy by 2027, PIB, 19 October 2023
26. How India could rise to the world’s second-biggest economy, Goldman Sachs, 06 July 2023
27. EIU data, accessed on 09 September 2024
28. Population, total – India, World Bank Group, accessed on 23 October 2024
29. India poised to become third-largest consumer market: WEF, IBEF as accessed on 30 October 2024



Further, Ecommerce is a major driver for increased consumer spending, with the market expected to touch USD325 billion by 2030[30]. Increased smartphone adoption and digital commerce are propelling this growth, offering businesses new avenues to engage consumers.

The burgeoning middle-class fuels demand for diverse consumer products, from medical devices and cosmetics to food, beverages, electronics and automobiles. This demographic shift creates a compelling case for global entrepreneurs to invest in and cater to India's dynamic market. By navigating these challenges and leveraging the opportunities presented by India's economic trajectory and digital transformation, global entrepreneurs can tap into a market brimming with potential.

Indian consumer behaviour showcases a growing appetite for innovative products and digital solutions. Preferences are increasingly influenced by value for money, convenience and social media trends, making the market ripe for disruptive startups. Thus, high-growth sectors such as information technology (IT), retail and manufacturing hold significant potential.

Furthermore, the exponential growth of India's manufacturing sector, driven by a skilled workforce and government initiatives has significantly attracted foreign investment, boosted exports and improved living standards. The dynamic startup ecosystem further strengthens this sector, enhancing India's self-reliance and global competitiveness.

Subsequently, numerous startups that previously adopted the flip strategy (incorporating overseas) due to favourable tax and regulatory regimes and easy access to global investors are relocating or reverse-flipping to India (in sectors such as fintech, e-commerce, healthcare and edtech) due to the country’s streamlined compliance rules, tax benefits, expanding local market and stock market listing opportunity.

Initiatives such as the Design Linked Incentive (DLI) scheme have sparked interest among international companies to set up manufacturing units in India. This trend transcends mere cost-efficiency; it represents an opportunity to leverage India's expansive talent pool and burgeoning consumer market.

As entrepreneurs navigate the business landscape in India, they realise that success in India requires an understanding of the country's unique cultural nuances. Trust and relationships hold paramount importance in India's structured business landscape. Building these connections takes time but pays dividends in the long run. While Indian consumers may be price-sensitive, they are increasingly investing in quality and convenience. This shift presents opportunities for businesses with new business models catering to this change. From e-commerce platforms offering doorstep delivery to fintech solutions simplifying financial transactions, innovation is thriving. The Indian market, with its large consumer base, scalability, supportive policies, local supplier networks and technology-friendly youth, presents promising opportunities for global entrepreneurs.

Stimulants for manufacturing innovation in Indian startups

Supportive government initiatives including the PLI scheme and Make in India

DPIIT’s dedicated corridors for incubators and startups in B2B manufacturing

Startup20 engagement group established under India’s G20 presidency

Adopting advanced technology to enhance efficiency, cut costs and create innovative products

Strong R&D infrastructure facilitates the growth of startups

Synergy between established companies and startups

Strong collaborations between industry and academic institutions are fostering innovation

The above list is non-exhaustive

30. E-commerce Industry in India, IBEF, as accessed on 30 October 2024

Moreover, GoI is undertaking numerous initiatives to boost startup growth and job creation, some of these initiatives are detailed below:

Schemes/Initiatives	Benefits
ASPIRE (A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship)	• Promotes entrepreneurship and innovation in rural and agriculture-based industries by establishing technology and incubation centres
Atal Innovation Mission (AIM)	• Fosters a culture of innovation and entrepreneurship by creating innovation hubs, providing mentorship and supporting startups through incubation centres • Created 10,000 Atal Tinkering Labs, 72 Atal incubation centres and supported 3,500+ startups[31]
Credit Guarantee Scheme for Startups (CGSS)	• Aimed at offering credit guarantee up to a pre-determined threshold for loans provided by Member Institutions (MIs) to qualified borrowers
Fund of Funds for Startups (FFS) Scheme	• GoI has set up a Fund of Funds for Startups (FFS) with a USD1.2 billion corpus to cater to the financial requirements of startups[32]
International market access to Indian startups	• To link the Indian startup ecosystem with its global counterparts through international governmental partnerships, participation in global forums and hosting international events • Startup India has established ties with about 20 countries, offering a supportive platform for startups from these nations and fostering cross-collaboration
Initiatives under the Ministry of Electronics and Information Technology (MeitY)[33]	• Launched Technology Incubation and Development of Entrepreneurs (TIDE) 2.0 Scheme and GENESIS (Gen-Next Support for Innovative Startups) to strengthen overall tech startup infrastructure • TIDE 2.0: 1,235 startups have been supported (As of 29 July 2024) • GENESIS: MeitY approved this scheme with USD58.3 million outlay for five years, starting from July 2022, to accelerate the fast-rising tech startup ecosystem
Prime Minister's Employment Generation Programme (PMEGP) through the Ministry of MSME[33]	• Aiding entrepreneurs in establishing new ventures within the non-farm sector • Aims to establish 0.2 million new enterprises with the potential to generate 1.3 million jobs during FY25 to FY26
Production Linked Incentive (PLI) Scheme[34]	• Benefitted 176 MSMEs with ~0.7 million employment generation (as of November 2023)

31. Overview, AIM, as accessed on 23 October 2024
32. The Fund of Funds Scheme (FFS) for startups commits Rs. 7,980 crores, PIB, 03 February 2023
33. Government initiatives to promote startups across the country, PIB, 29 July 2024
34. Production Linked Incentive Schemes witness over Rs. 1.03 lakh crore of investment till Nov 2023, PIB, 17 January 2024

Schemes/Initiatives	Benefits
Startup India Action Plan[35]	• Comprises 19 action items spanning various areas, such as simplification, support, funding and incentives to cultivate a vibrant startup ecosystem
Startup India Seed Fund Scheme (SISFS)[35]	• USD112.5 million sanctioned under the scheme from FY22 to FY26 for easy capital availability for early-stage entrepreneurs
Support for International Patent Protection in Electronics and Information Technology (SIP-EIT)	• Encourages innovation by providing financial support for international patent filing to MSMEs and technology startups
The Startup India Investor Connect Portal[35]	• To provide the platform for early-stage startups across the country to present themselves to notable investors and VC funds

*The information in the above table has been arranged in an alphabetical order

35. Government initiatives to promote startups across the country, PIB, 29 July 2024

02

Emerging sectors in the startup ecosystem

The Indian startup landscape is currently making a substantial impact[1] wherein tech startups are emerging as a pivotal investment opportunity, propelled by a burgeoning digital economy, a rising middle class and robust government support. Despite the stiff competition, high customer acquisition costs and modest loyalty levels, these startups continue to allure promising investment opportunities. Their swift innovation, customised to local needs, is garnering attention from both domestic and international investors.

In recent times, startups are seen relocating or reverse-flipping to India, particularly in sectors including fintech, healthtech and edtech. The conducive business environment in India is encouraging these investors to explore and tap into the potential of the Indian market, thereby contributing to its growth and development. The following select sectors outline major trends in India's emerging sectors/industries:

2.1 Cleantech

India's cleantech sector is poised for significant growth driven by government initiatives and investment opportunities. GoI aims to achieve 500 GW of renewable energy capacity by 2030[2] and has increased renewable energy subsidies to USD1.8 billion for FY23, marking an 8 per cent rise from the previous year[3]. India plans to issue sovereign green bonds to finance these initiatives and aims to produce 5 million metric tons of green hydrogen annually through the National Hydrogen Mission by 2030[4]. The cleantech market, including renewables, electric vehicles and green hydrogen, is expected to unlock over USD500 billion in investment opportunities by 2030[5]. The rapid urbanisation and increasing energy needs of India, along with international support for clean energy, are leading to the growth of the cleantech market.

Key facts

118
Number of early-stage startups (2023)[6]

USD502 million
Early-stage funding (2023)[6]

Fastest growing sub segments

- Renewable energy
- Energy efficiency
- Water and waste management
- Green transportation

Innovative solutions/Impactful use cases*

- **Biomethanation technology** for **organic waste management**
- **Machine learning** for predictive maintenance of **wind turbines** and efficient **waste segregation**
- **High-voltage powertrains technology** for **commercial electric vehicle**
- **Lithium Titanate Oxide (LTO)** and **Lithium Iron Phosphate (LFP) cell technologies**
- **Rooftop solar energy**

Growth drivers

- Government regulations and incentives fostering cleantech resources growth
- Large scale foreign investments
- National Green Hydrogen Mission (NGHM)

The above list is non-exhaustive

1. The Indian tech start-up landscape report 2023, Nasscom-Zinnov, accessed on 27 September 2024
2. Government declares plan to add 50 GW of renewable energy capacity annually for next 5 years to achieve the target of 500 GW by 2030, PIB, 05 April 2023
3. Mapping India's Energy Policy 2023, The International Institute for Sustainable Development, Accessed on 04 October 2024
4. National Green Hydrogen Mission, Department of New & Renewable Energy Government of Haryana, accessed on 04 October 2024
5. India offers $500 bn investment opportunities in clean energy and other sectors by 2030, IBEF, 07 June 2024
6. Energy start-up data explorer, IEA, 16 July 2024

Share of startups in key sub-sectors

- In 2023, across clean energy technology startups in India, electric mobility accounted for 30 per cent of startups, followed by solar (25.4 per cent), other renewables (21.2 per cent), energy efficiency (17.5 per cent), other energy (3.7 per cent) and energy storage and batteries (2.1 per cent), representing an advantage of investing in India[7]

Government support: A boost for development

- Renewable energy research and technology development programme provides up to 100 per cent financial support to government / non-profit research organisations and up to 70 per cent to industry, startups, private institutes, entrepreneurs and manufacturing units[8]
- National Green Hydrogen Mission (NGHM) with a preliminary budget of USD2.4 billion[9]
- Incubation support to startups and companies through the Bioincubators Nurturing Entrepreneurship for Scaling Technologies (BioNEST) scheme among others.

India's cleantech industry, propelled by its commitment to renewable energy objectives and sustainability, presents significant growth opportunities. The robust growth potential and a vast energy market transitioning towards greener sources enhance India's appeal as an attractive investment destination.

Leveraging growth potentials in cleantech

Early-stage investments

- India's cleantech sector, still in its early stages, offers investors a chance to enter at lower valuations and gain high returns as it expands.
  — It is predominantly supported by rising energy demand, the push for energy security, government support for sustainable solutions and the focus on delivering solutions particularly for rural areas

Diversification

- U.S. investors can diversify their portfolios geographically and across various sub-sectors by investing in Indian cleantech startups.

2.2 Deeptech

Deeptech focusing on AI, robotics, biotech and quantum computing in transforming India's startup ecosystem. Startups involved in this space make up about 12 per cent of India's startup landscape, with over 3,600 companies[10]. In 2023, they secured around USD850 million in funding[10], showing strong investor interest despite economic challenges. Government initiatives, such as the National Deep Tech Startup policy, support this growth, alongside venture capital funding.

India, with its strong Science, Technology, Engineering and Mathematics (STEM) foundation, with 34 per cent of all graduates opting for STEM[11], is well-positioned to lead deeptech innovation. The generative AI market alone could generate economic benefits between USD2.6 trillion and USD4.4 trillion annually[12].

7. Energy start-up data explorer, IEA, 16 July 2024
8. Renewable Energy Research and Technology Development Programme being implemented to develop widespread applications of New & Renewable Energy, PIB, 12 December 2023
9. National Green Hydrogen Mission (NGHM), PIB, 24 July 2024
10. Indian deeptech startup landscape report 2023, Nasscom-Zinnov, June 2024
11. Where Students Choose STEM Degrees, Statista, 16 March 2023
12. Harnessing the Power of Generative AI – Opportunities for Technology Services, NASSCOM, accessed on 04 October 2024

Indian deeptech startup ecosystem 2023[13]

950+ New tech startups added → **450+** New deeptech startups added → **100+** Inventive* deeptech startups | **USD850 million+** Deeptech startup funding → **USD40 million+** Inventive* deeptech funding

*Startups in this category use foundational research and science to innovate, create intellectual property and introduce new industry processes in fields, such as computing, engineering and manufacturing

Over 2,600 deeptech startups exist in established hubs, with 250+ new deeptech startups incepted in 2023[13].

Established hubs[13]

Hub	Startups	Startups added in 2023
Bengaluru	950+	100+
Hyderabad	280+	20+
Delhi NCR	650+	80+
Chennai	200+	20+
Mumbai	370+	30+
Pune	180+	10+

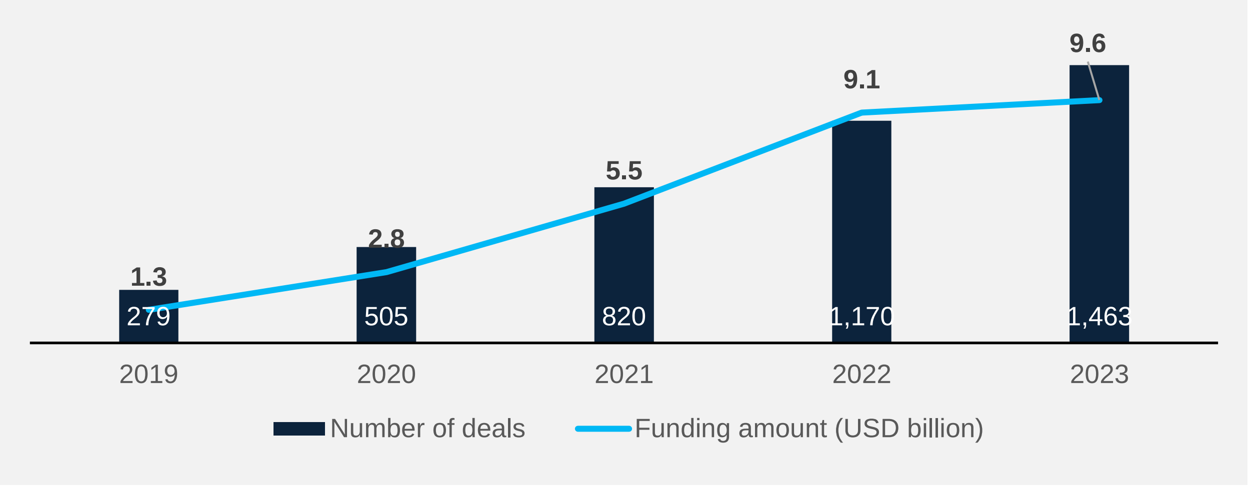
Rising hubs[13],

Hub	Startups
Ahmedabad	75+
Trivandrum	30+
Jaipur	50+
Kochi	25+
Kolkata	35+

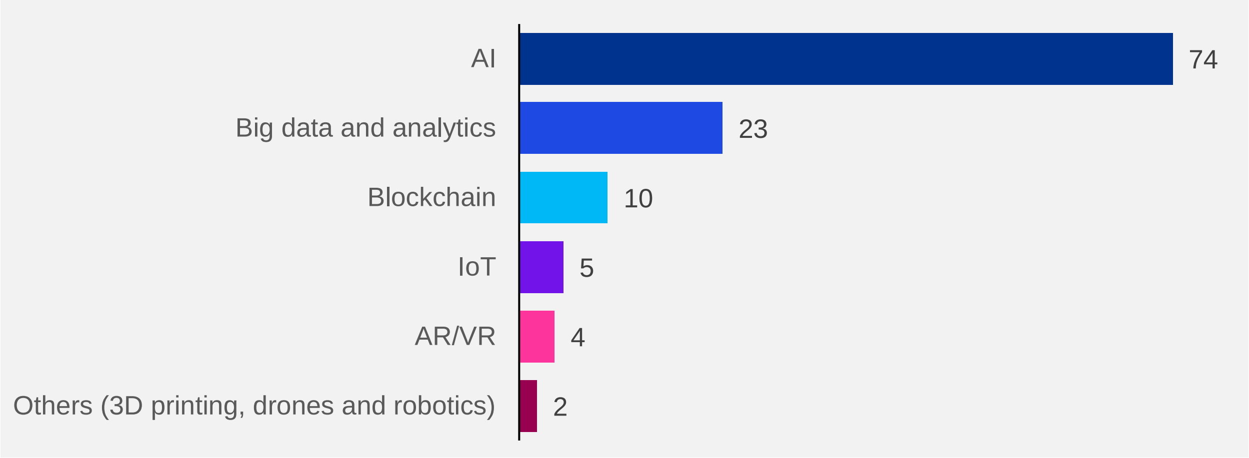
- In 2023, the inception of new deeptech startups in rising hubs doubled to over 110, marking the highest growth in five years[13]
- Factors accelerating innovation include:
  - Expanding talent pool
  - Cost advantages over tier I cities
  - Supportive incubators and accelerators
  - Government initiatives such as Accelerate Bharat and K-Accelerator among others

13. Indian deeptech startup landscape report 2023, Nasscom-Zinnov, June 2024

Cumulative funding in deeptech start-ups (2019-2023)[14]

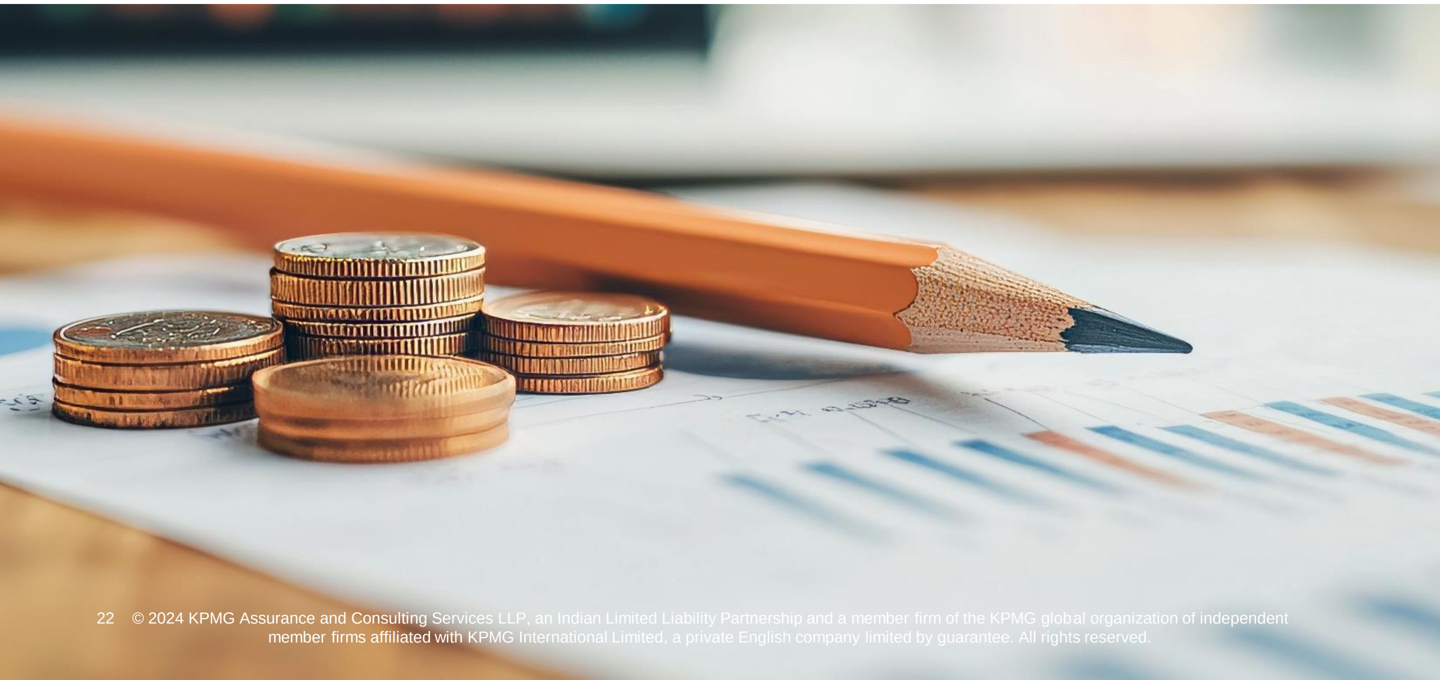


Per cent distribution of deeptech startups, by technology (2023)[15]



14. The Indian tech start-up landscape report 2023, Nasscom-Zinnov, 2023

15. Indian deeptech startup landscape report 2023, Nasscom-Zinnov, June 2024



Innovative solutions and impactful use cases*

Agritech

- AI-enabled disease and pest detection
- Farm input E-Commerce
- Drone-based smart farming
- Food quality monitoring
- IoT based agri supply chain management
- Farm bots

Cleantech

- Air quality monitoring
- Water waste management solutions
- AI-powered smart building solutions
- Energy consumption solutions
- Climate monitoring solutions
- Recycling solutions

Enterprisetech

- Video analytics
- Deepfake detection
- Customer experience management
- Drone services
- Edge data processing

Fintech

- AI-enabled infrastructure for banking products
- Lending platforms
- Credit assessment and management
- Verification and KYC
- Crypto exchange solutions
- Investment advisory

Healthtech

- AI/ML disease diagnostics
- Bionic prosthetics using robotics
- VR based medical equipment
- Remote patient monitoring
- Predictive health risk analysis

Supply chain management (SCM) and logistics

- Warehouse automation robots
- Last mile logistics
- IoT-enabled transportation marketplace
- Demand forecasting

***The above list is non-exhaustive**

2.3 Edtech

India's edtech sector is rapidly growing due to increasing demand for online learning solutions, particularly in K-12 education, skill development and test preparation. The country has 580+ million people between 5 to 24 years of age, presenting a huge opportunity in the sector[17]. Government policies, such as the National Education Policy 2020, support this growth by promoting digital education and enhancing accessibility. As digital literacy and internet penetration increase in India, edtech companies are using advanced technologies such as AI and machine learning to personalise the learning experiences and enhance student engagement. The use of generative AI in creating educational content is set to revolutionise learning by making it more interactive and personalised.

Furthermore, the hybrid model of education, combining online and offline learning, is gaining traction, particularly in tier II and tier III cities where access to quality education remains a challenge. This shift not only enhances inclusivity but also opens new avenues for investment as startups can focus on regional language content and affordable course offerings. With these trends indicating robust growth potential, India's edtech sector is set to play a crucial role in shaping the future of education in the country.

Leveraging growth potential in edtech

Key facts

- **51 per cent startups established (from CY19 to CY23)[16]**
- **USD48.9 billion** Estimated K-12 segment value in 2023[17]

Fastest growing sub segments

- Skill development
- Test preparation
- K12 education
- Online certification

Innovative solutions/Impactful use cases*

- Usage of generative AI models to augment content creation
- Advanced XR technologies and virtual labs for interactive learnings
- Personalised learning and course design
- Assessing learning patterns
- Gamified learning
- Teaching assistance

Growth drivers

- Changing educational approaches and demand for quality education
- Technological advancements
- Increasing internet and smartphone penetration

**The above list is non-exhaustive*

16. The Indian tech start-up landscape report 2023, Nasscom-Zinnov, 2023
17. Education & Training Industry in India, IBEF, as accessed on 29 October 2024

Growing market value

- The market value of the sector is projected to reach USD30 billion by 2031[18]

Lower operational costs

- Operating costs in India are generally lower compared to the U.S., including labour, office space and technology infrastructure
- This cost advantage allows Indian edtech startups to maintain profitability and **reinvest in growth and innovation**

Addressing affordability and upskilling demand

- Edtech platforms are offering **cost-effective solutions** and catering to the needs of upskilling professionals and job seekers

Government initiatives and policy relaxations

- GoI’s efforts to promote edtech, including relaxing the FDI policy to allow 100 per cent foreign investment under the automatic route for education technology and institutions[18]

18. Education & Training Industry in India, IBEF, as accessed on 29 October 2024

2.4 Healthtech

The healthtech sector in India is witnessing remarkable growth, driven by a confluence of technological advancements and increasing consumer demand for accessible healthcare solutions. The sector's growth is also fueled by the increasing prevalence of chronic diseases, an expanding digital population and government efforts towards the digitalisation of healthcare. Healthtech startups are introducing innovations such as telehealth services, remote patient monitoring and AI-based personalised healthcare, which present a profitable investment opportunity.

These innovations are improving patient outcomes and streamlining healthcare operations. The focus on patient-centric care and preventive health measures, along with government initiatives including Health IDs and electronic medical records, are facilitating the integration of digital technologies in healthcare. As these startups continue to innovate, they are set to fill critical gaps in India's healthcare landscape, improving patient outcomes and operational efficiencies.

Key facts

10,221
Number of DPIIT recognised healthtech startups (2023)[19]

USD60 billion
Healthcare innovation opportunity by FY28[20]

Fastest growing sub segments

- Healthcare platform and wellness analytics
- Pharmaceutical services
- MedTech and biotech
- Telemedicine platforms

Innovative solutions/Impactful use cases*

- Artificial intelligence (AI)-driven diagnostics
- Point-of-care testing systems
- Home healthcare solutions
- Tele-ICU services
- Tele-radiology
- Bionic health-Care

Growth drivers

- PE investments in Indian hospitals to improve the bottom line and increased investor focus on positive unit economics in healthtech
- Technological investments in medtech and biotech
- Greater health insurance penetration

**The above list is non-exhaustive*

19. The rise of healthcare startups: Bridging the gap in Indian healthcare, IBEF, 19 March 2024
20. Innovation-led Indian healthcare market, Fortune India, 06 March 2024

Leveraging growth potential in healthtech

Ayushman Bharat Digital Mission[21]

- 49 per cent of the 34.7 crore Ayushman Bharat beneficiaries are women
- 10,000 Jan Aushadhi Kendras inaugurated
- 64.9 crore Ayushman Bharat Health Accounts created under Ayushman Bharat Digital Mission
- Cumulative footfall of 20.66 crore in 25.25 lakh health melas (as of 31 March 2024)

National Digital Health Mission (NDHM)

- The National Digital Health Mission (NDHM) unveils a wealth of opportunities for foreign startups. The objective of NDHM is to standardise health data that could deliver significant insights to startups, aiding them in the development or enhancement of their offerings.
- The initiative's emphasis on interoperability could pave the way for foreign startups to collaborate and integrate with local health systems or other healthtech companies.

Comprehensive investments in the Indian healthcare sector[22]

- The Indian government intends to launch a USD6.8 billion credit incentive scheme aimed at enhancing the nation's healthcare infrastructure
- In 2024, the Indian medical tourism market was valued at USD7.7 billion in 2024 and is estimated to reach USD14.3 billion by 2029

21. Health sector vital for resilient economy, PIB, 22 July 2024

22. Healthcare Industry in India, IBEF, accessed on 29 October 2024

2.5 Spacetech

The Indian space technology sector is valued at USD8.4 billion, accounting for 2 per cent of the global space economy. The sector is rapidly growing and is expected to capture a larger share of the global market, projected to reach USD44 billion by 2033[23], driven by technological advancements, government support and rising demand for space solutions. Growth drivers include expanding satellite communication, increased space data applications and policies such as the Indian National Space Promotion and Authorization Center (IN-SPACe), which promotes private sector participation. These factors have created fertile ground for innovation and investment.

Key trends include the development of small satellites, cost-effective launch solutions and the use of AI and machine learning for complex missions. Startups are leveraging these trends to introduce affordable and efficient space technologies. The segments propelling the growth are satellite manufacturing, launch services and space-based applications such as earth observation and communication.

There exists immense potential for investors in the sector, with opportunities to develop new satellite technologies, improve launch capabilities and expand space-based services. As startups continue to innovate, they are likely to play a crucial role in advancing global space infrastructure, making India a significant player in the global space economy. The future looks bright for Indian spacetech, promising substantial returns for forward-thinking investors.

Key facts

189
DPIIT recognised space technology startups (2023)[23]

USD124.7 million
Investment in Indian space Startups (2023)[23]

Fastest growing sub segments

- Climate monitoring
- Disaster management
- Agriculture
- Urban planning

Innovative solutions/Impactful use cases*

- AI and Machine learning to analyse satellite data for applications across sectors
- Small satellite development
- Satellite data supports navigation
- Advanced propulsion systems for satellites, enhancing their maneuverability and lifespan
- Multisensory imaging satellites

Growth drivers

- Increased space data applications
- Expanding satellite communication
- Favourable government policies

**The above list is non-exhaustive*

23. Indian Space Economy expected to grow from around $8.4 billion to $44 billion Indian by 2033, PIB, 20 December 2023

Leveraging growth potentials in spacetech

Assistance to private companies

- Indian Space Research Organisations (ISRO) assist private companies in expanding their launch capabilities, coupled with the rise in startups developing advanced analytics in the sensing sector, which are key factors in stimulating stakeholder interest in the ecosystem

Government support

- India's standing as a significant player in the global space race can be enhanced through increased involvement of private enterprises
- The government's proactive policies, such as the establishment of IN-SPACe and the Make in India initiative, coupled with the innovative approaches of startups, are contributing to India's firm footing in the global space race.

2.6 Co-investment opportunities

India's diverse economic sectors offer abundant co-investment opportunities for foreign investors, from the rapidly emerging semiconductor manufacturing industry to the fintech, telemedicine, renewable energy and e-commerce logistics sectors. These collaborations, supported by government initiatives and tailored to address unique market challenges, can drive innovation, mitigate supply chain risks and contribute to substantial growth.

Opportunities in diversifying semiconductor supply chains

India is rapidly emerging as a global hub for semiconductor manufacturing, driven by government initiatives such as the Semicon India programme, which allocated USD9.1 billion[24] to support the industry. With the Indian semiconductor market projected to reach USD109 billion by 2030[25], foreign investors can partner with Indian startups focused on chip design and manufacturing to diversify their supply chains. Additionally, GOI launched the Programme for Development of Semiconductors and Display Manufacturing Ecosystem, with a budget allocation of about USD9.1 billion in December 2021.[26]

Several startups specialising in Gallium Nitride technology are positioned to play a crucial role in this ecosystem. Co-investing in these ventures can help investors mitigate risks associated with supply chain disruptions while tapping into India's skilled workforce and cost advantages.

The U.S. Department of State has collaborated with India's Semiconductor Mission, a part of the Ministry of electronics and IT, to explore opportunities for expanding and diversifying the global semiconductor ecosystem

The initial phase involves a thorough evaluation of India's current semiconductor ecosystem and regulatory structure, along with the requirements for workforce and infrastructure

Fintech sector to leverage digitalisation

The fintech landscape in India is experiencing unprecedented growth, with technology spending by financial institutions projected to increase by 11.4 per cent in 2024[27]. The rise of mobile payments, digital lending and blockchain solutions presents a fertile ground for co-investment. Foreign firms with expertise in fintech innovation can collaborate with Indian startups which simplifies bookkeeping for small businesses, to enhance financial inclusion for the unbanked population. This partnership can leverage advanced technologies and regulatory frameworks to create scalable solutions that cater to India’s diverse market.

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24. India's High-Tech Revolution: Driving Global Leadership in Advanced Technology & Manufacturing, PIB, 11 September 2024
25. Government of India taking steps to encourage domestic manufacturing, PIB, 31 July 2024
26. Cabinet approves one more semiconductor unit under India Semiconductor Mission, PIB, 2 September 2024
27. India Financial Services Summit, IDC, 13 June 2024

Telemedicine and digital health sector

The Indian healthcare sector is on the brink of transformation. Telemedicine and digital health startups are at the forefront, addressing unique challenges in accessibility and affordability. Several startups in the ecosystem are revolutionising healthcare delivery through integrated telehealth services, including remote consultations and AI-driven diagnostics. Co-investing with foreign healthcare technology firms can help Indian startups scale their solutions, improve healthcare access and address the unique challenges faced by the Indian healthcare system.

Renewable energy and green technologies

With India’s commitment to achieving net-zero emissions by 2070, the renewable energy sector is ripe for co-investment. The government has set ambitious targets, including generating 500 GW of non-fossil fuel energy by 2030[28]. Indian startups in this space are at the forefront of this transition, focusing on solar and hybrid power solutions. Co-investments in these startups can facilitate knowledge transfer and access to advanced technologies from foreign firms, driving innovation in renewable energy and energy efficiency. Collaborating in this sector not only addresses environmental challenges but also positions investors to benefit from the growing demand for sustainable energy solutions.

E-commerce logistics, delivery solutions and retail technology

With rising income and changing consumer tastes and preferences, co-investments in startups specialising in e-commerce logistics, delivery solutions and retail technology are instrumental in driving innovation and efficiency in online shopping. They provide an opportunity for investors to capitalise on the growing demand for more streamlined and advanced retail experiences.

Networking and building relationships

Networking and building relationships are crucial for investors as it provides access to valuable information, potential investment opportunities and strategic partnerships. Local networks play a vital role in navigating cultural nuances and understanding market dynamics. Incubators and accelerators offer access to mentorship, funding and networking opportunities tailored to startups and early-stage companies.

Building long-term partnerships is essential for substantial growth in India. Collaborating with local businesses, universities and government institutions can provide insights into emerging trends and regulatory environments. Such partnerships can also facilitate knowledge transfer, talent acquisition and market expansion strategies.

28. 500GW Non fossil Fuel Target, Ministry of Power, as accessed on 30 October 2024

03

Investing in India: Understanding sector-specific regulations and investment routes

Investing in India's startup ecosystem requires an understanding of the dos and don'ts for foreign investors. It is crucial to comprehend the local market, leverage local expertise and adapt to changing conditions. Avoiding networking, underestimating risks and ignoring local regulations can lead to failure. A balanced approach embracing the dos while steering clear of the don'ts can significantly enhance the likelihood of investment success.

- **Focus on understanding** the local market, seeking expertise and adapting to changing conditions
- **Familiarise with sectors** open to foreign investment and restrictions associated with those sectors
- **Conduct thorough due diligence** on market potential, team expertise and financial projections
- **Build strong relationships** with founders through trust, mentorship and networking
- **Stay informed** about market trends and technological advancements
- **Leverage tax incentives** while managing risks

- **Avoid overlooking** local nuances that can significantly impact the success of an investment
- **Underestimating the regulatory complexities** could result in significant legal repercussions and potential damage to business reputation
- **Refrain from rushing into deals** without market research due diligence
- **Non-compliant to local laws and regulations** could result in penalties and inability to sustain in potential market fluctuations.
- **Refrain from allocating** all financial resources into a single investment

Investing in India involves understanding its legal and compliance environment. The GoI has enacted various reforms, including liberalising the FDI policy and establishing laws for investor rights protection. Foreign investors, however, must consider crucial elements, such as the Income Tax Act 1961, Indian Patent Act 1970, Environment Protection Act 1986 and Digital Personal Data Protection Act 2023 among others for legal and compliance matters related to investment in India.

Sector-specific regulations

India's FDI policy imposes sector-specific investment limits, which are crucial for investors to navigate. Different sectors have varying percentages of foreign ownership allowed, ranging from 100 per cent in most sectors to 49 per cent in others. For example, the defence sector allows 74 per cent foreign ownership, while many other sectors permit 100 per cent[1]. Understanding these limits assists investors in selecting the appropriate sectors for their investments.

Digital reforms and data privacy

India's push towards digitalisation, exemplified by initiatives such as the India Stack, has created new opportunities for investors. The Personal Data Protection Bill aims to regulate how personal data is processed and stored. Investors must stay informed about these evolving regulations to ensure compliance and protect their investments.

Competition law reforms

Recent amendments to Indian competition law have expanded the powers of the Competition Commission of India (CCI). Transactions exceeding about USD240 million now require prior CCI approval[2]. This affects not just mergers and acquisitions but also joint ventures and collaborations. Investors must factor these changes into their investment strategies and due diligence processes.

1. FDI in the defence sector, PIB, 09 February 2024

2. Ministry of Corporate Affairs Year Ender 2023, PIB, 28 December 2023

Tax considerations

The Indian government has implemented several measures to attract investors to its ecosystem. These include simplifying the tax structure through the introduction of the Goods and Services Tax, eliminating the angel tax to allow startups to secure funding at valuations above their market value and lowering the long-term capital gains tax on unlisted shares to 12.5 per cent. These actions have been taken to encourage more investments in startups[3].

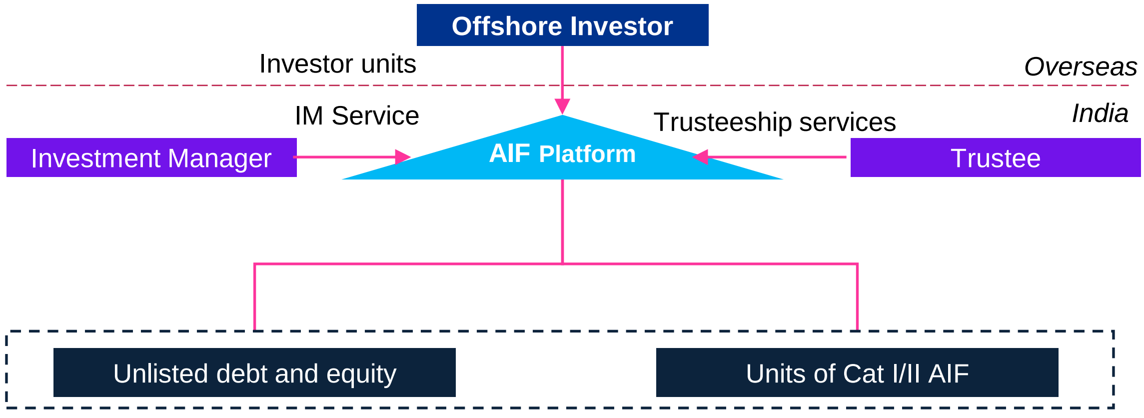
3. Startup related regulations and notifications, Startup India, accessed on 12 September 2024

3.1 Fund pooling vehicle options

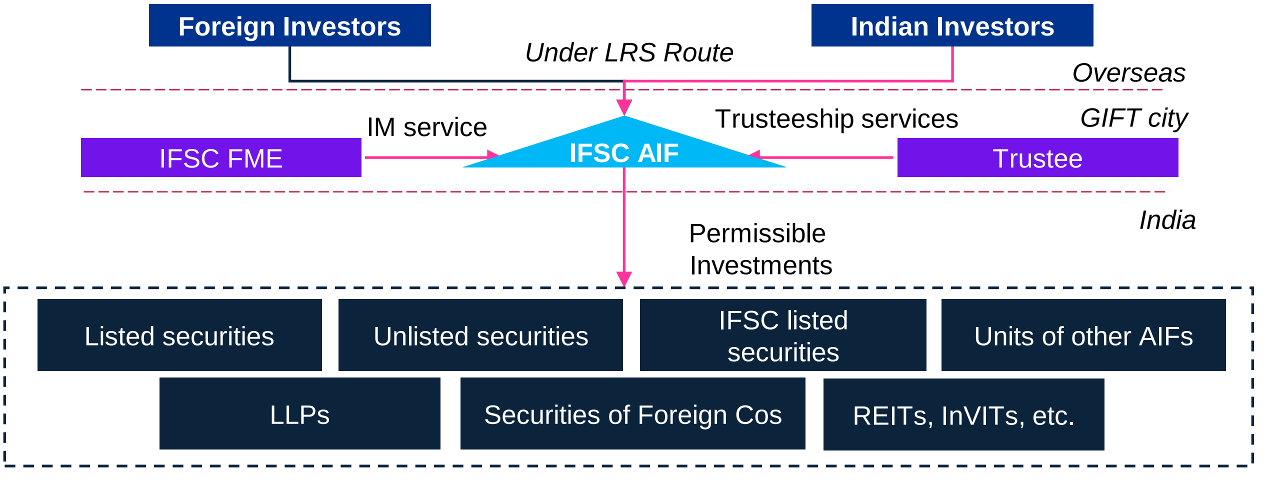
In the Indian startup ecosystem, pooling vehicles play a crucial role in attracting diverse investments, both domestic and international. Typical options include domestic Alternative Investment Funds (AIFs), pooling of funds through the International Financial Services Centre (IFSC) in Gift City and overseas pooling vehicles in jurisdictions including Singapore, Mauritius and Luxembourg. These structures enable startups to access capital through unlisted debt, equity and other investment categories while offering investors various routes including FDI, ECB and other instruments, supporting robust growth and innovation[4].

4. KPMG in India Insights

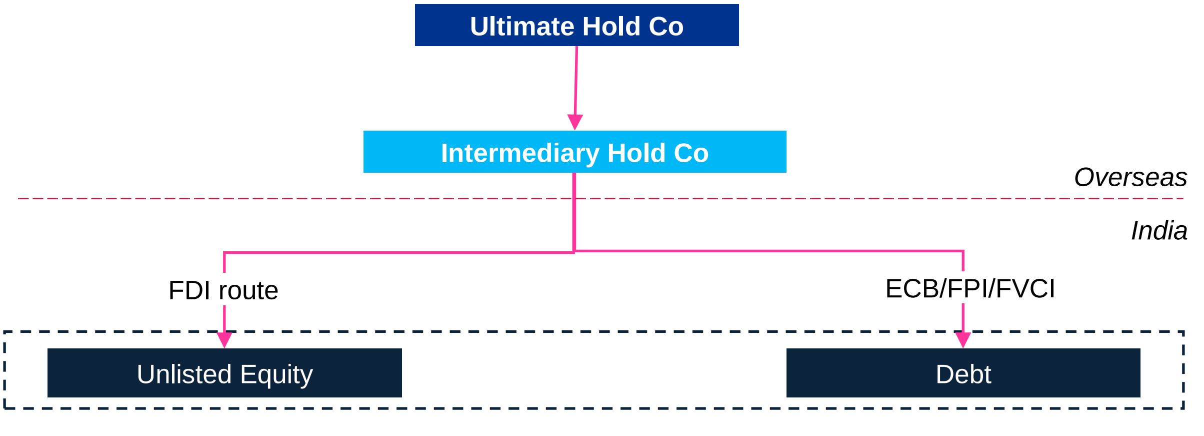
Pooling of funds in India – Domestic AIF



Pooling of funds in Gift City/IFSC

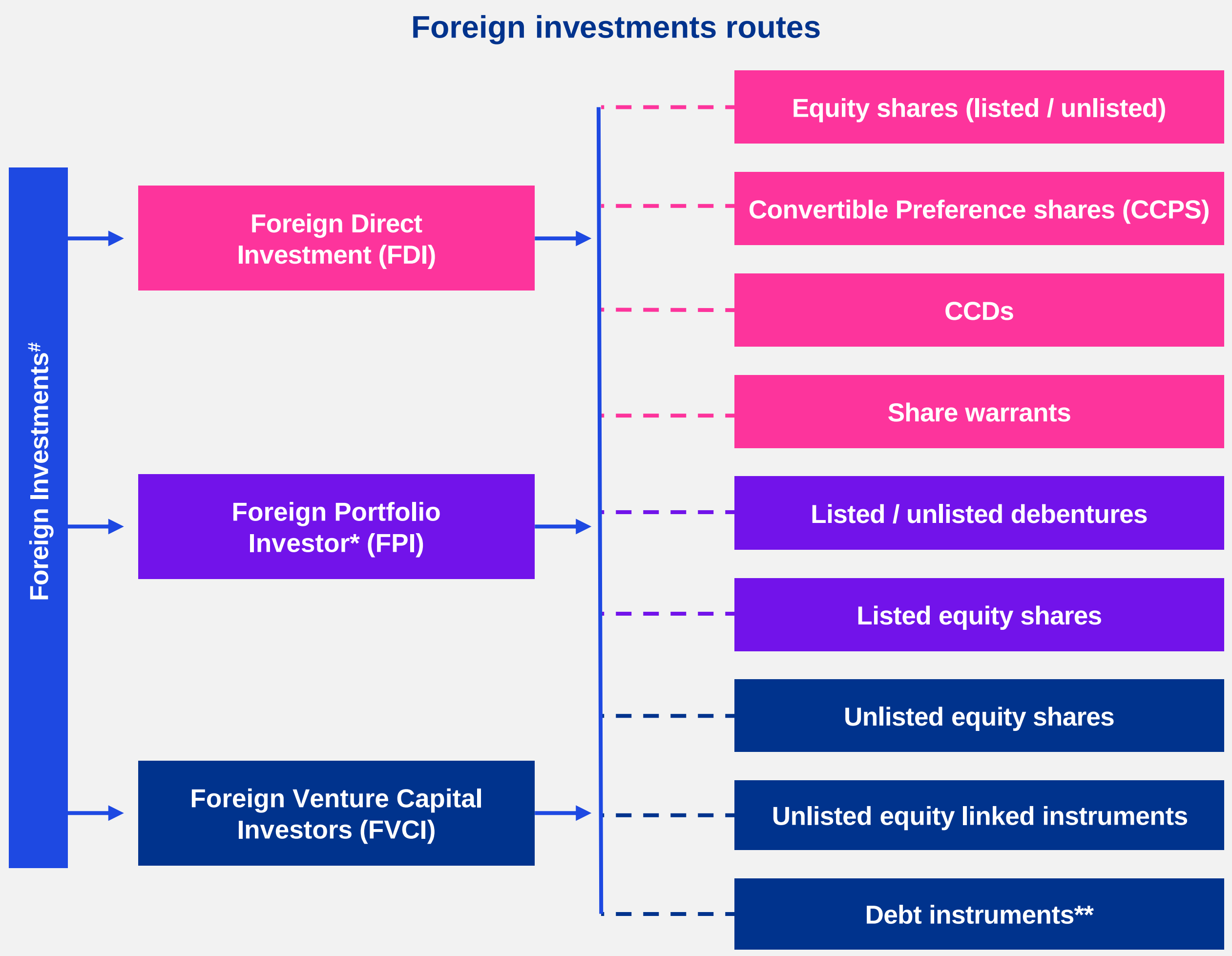


Overseas pooling of Funds (Singapore, Mauritius or Luxembourg)



3.2 Types of entry routes for foreign investments

The following infographic provides a comprehensive breakdown of the various categories of foreign investments, including FDI, Foreign Portfolio Investor (FPI) and Foreign Venture Capital Investors (FVCI). Each category is further divided based on the types of financial instruments involved, such as equity shares, convertible preference shares, debentures and debt instruments, highlighting the diversity of options available for foreign capital participation[5].



Note:

Foreign investments through alternative structures for the poling of funds could be considered. They have been covered under ‘Typical structures for pooling of funds’

* FPI Route may be opted for under the Non-debt and Debt regulations or the Voluntary Retention Route

** Investment under the debt instruments is subject to conditions, outlined in subsequent slides

5. KPMG in India Insights

The following table further compares different entry routes across various parameters[6]

Particulars	FDI route	FPI route	FVCI route
Eligible Instruments	Equity, convertible debentures, preference shares and share warrants issued by an Indian company	Listed Equity shares, Listed / Unlisted Non convertible debentures (NCDs), Securitised Debt Instruments, government securities / T-bills, purchase of units of REIT / InVIT and units of domestic mutual funds or Cat III AIF	Equity or equity linked instruments or Debt Instruments (including Optionally convertible debentures (OCDs)) of unlisted companies *(can invest in only 10 prescribed sectors which include infrastructure and IT)*, Units of Venture Capital Fund, Cat-I AIF, units of a Scheme or of a fund set up by a VCF or by a Cat-I AIF
Eligible Investor	Any non-resident entity / individual, Non-Resident Indian (NRIs), Overseas Citizenship of India (OCI), company, trusts, firms incorporated outside India, Securities and Exchange Board of India (SEBI) registered Foreign Venture Capital Investors (FVCIs), Endowment Funds, Insurance Funds and Pension Funds	NRIs, OCIs, Foreign Central Banks, Multilateral Development Bank, Sovereign wealth fund (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds and Pension Funds	Investment Trust, Investment Company, Investment Partnership, AMC, Endowment Fund, Mutual Fund, University Fund, Pension Funds and Charitable Institution or any other entity incorporated outside India
Type of Investment	Strategic investment	Portfolio investment	Strategic investment
Registration requirement	No registration with SEBI is required to participate through this route	FPI registration with SEBI is required to participate through this route	FVCI registration with SEBI is required to participate through this route
Investment in unlisted securities	Permissible	Investment in unlisted non-convertible debt securities permissible. Other unlisted securities not permissible	Permissible
Optionality clause in instruments	Permissible without any assured return	Not permissible	Arguably permissible, with assured return
Pricing guidelines	Pricing guidelines apply to issue or transfer of instruments under this route	Pricing guidelines are not applicable for NCDs	Pricing guidelines are not applicable to issue or transfer of instruments under this route

6. KPMG in India Insights

Particulars	FDI route	FPI route	FVCI route
Restriction on debt investments	Can invest only in compulsorily convertible debt instrument	Can invest in Non-convertible debentures subject to availability of debt limits and other conditions	No restriction on convertible debt instruments FVCIs can invest up to one-third of their investible in pure debt instruments in specified companies in which FVCI has already invested its equity Given that OCDs are optionally convertible, hence regarded as equity linked instruments, thus not subject to the aforesaid restriction
Lock – in period/ Maturity period	No specific lock-in condition in general. Any sector specific lock-in conditions prescribed under the FDI policy to be complied with	The instruments should have a minimum maturity/retention period of one year. In case of investment under VRR route, investment would need to be retained for 3 years	No specific lock-in condition
Maximum interest pay-outs	No regulatory restrictions, subject to transfer-pricing provisions	No regulatory restrictions, subject to transfer-pricing provisions	Arguably, no cap on interest pay-outs, subject to transfer-pricing provisions
End use/investment restriction	No end use restrictions except investment cannot be made in prohibited sector and within the sectoral cap in other sector, subject to conditions	No end-use restriction, in the case of listed NCDs. In the case of unlisted NCDs, investment in real estate business, capital market and purchase of land Investment by any FPI, including investments by related FPIs, should not exceed 50 per cent of any issue of a corporate bond/NCDs. Effectively, any issue by an Indian entity would need to have at least two subscribers who are not related to a group. Given condition is not applicable under the VRR scheme	• At least two-thirds of investible funds shall be invested in equity or equity linked instruments • Further, FVCIs can invest up to one-third of its investible in pure debt instruments in specified companies in which FVCI has already invested in its equity

3.3 Leveraging External Commercial Borrowing for foreign or Indian currency investments

External Commercial Borrowing (ECB) is a pivotal funding mechanism for Indian startups, providing access to foreign capital through commercial loans. These loans, governed by certain parameters such as minimum maturity, permitted and non-permitted end uses and maximum all-in-cost ceiling, offer a wider pool of resources for startups to fuel their growth and expansion strategies[7].

ECB routes

Automatic route
(Upto USD750 million per FY subject to max ECB Liability - Equity ratio of 7:1):

- No approval required
- Obtain LRN from RBI by filing Form ECB through AD Bank
- Monthly filings with RBI through AD Bank in Form ECB-2
- Includes entities under Investigation under FEMA on without prejudiced basis

Approval route
(Over and above USD750 million):

- Prior application to the RBI through AD Bank (in Form ECB)
- Recommendation of RBI Empowered Committee (Internal RBI & External Members) for final decision by RBI
- Factors: merits, macroeconomic situations and overall guidelines
- Post approval, obtain LRN, monthly filings as Automatic Route

7. KPMG in India Insights

With two routes available for ECB funding, the following are their key features[8].

Eligible borrowers	All entities are eligible to receive FDI, while PortTrusts, Units in SEZ, Small Industries Development Bank of India (SIDBI), Export-Import Bank of India (EXIM Bank) and registered entities in micro-finance activities including Not for Profit companies, societies, trusts, cooperatives and Non-Government Organisations are also eligible to raise ECB.
Recognised lenders	Recognised lenders must be from the Financial **Action** Task Force (FATF) or the International Organisation of Securities Commissions (IOSCO) compliant countries. Additionally, multilateral/regional financial institutions, qualifying individuals and foreign branches/subsidiaries of Indian banks can participate under specific conditions.
Salient features	• **Individual borrowing limit**: ECB up to USD750 million per financial year via the Automatic Route, with a liability-equity ratio not exceeding 7:1, unless total ECBs are under USD5 million • **Restricted uses for ECB proceeds**: Include real estate activities, capital market investments, general corporate purposes, working capital, Rupee loan repayment and on-lending for restricted activities, except as prescribed for NBFCs.
Minimum average	• The Minimum Average Maturity Period (MAMP) for External Commercial Borrowings (ECB) is generally three years but varies depending on the category of borrowing. Specific MAMPs range from 1 to 10 years based on the loan's purpose, such as capital expenditure, repayment of loans, or general corporate purposes.

8. KPMG in India Insights

3.4 Various funding sources and investor types in the Indian startup ecosystem

India's dynamic startup ecosystem provides diverse funding options. Understanding these can help startups navigate complex funding processes. Each funding and investor type impacts startup control, the support offered and the funding size. Therefore, startups must meticulously examine their objectives, situations and potential risks to decide on the optimal mix of funding sources.

Bootstrapping

Startups often start with bootstrapping, using personal savings or debt, which offers full control but may restrict growth due to resource limitations

Crowdfunding

Raises funds from individuals via online platforms, allowing startups to generate fund without surrendering equity

Angel investors

Offer capital and mentorship to startups for equity

Government grants and subsidies

GoI provides startups with various forms of support, such as grants, loans and tax benefits.

Venture Capitalist (VC)

Provides funding to high-potential startups in exchange for equity and often manage the company

Corporate VC

Established firms provides funding to high-potential startups in exchange for equity and often manage the company

Note:
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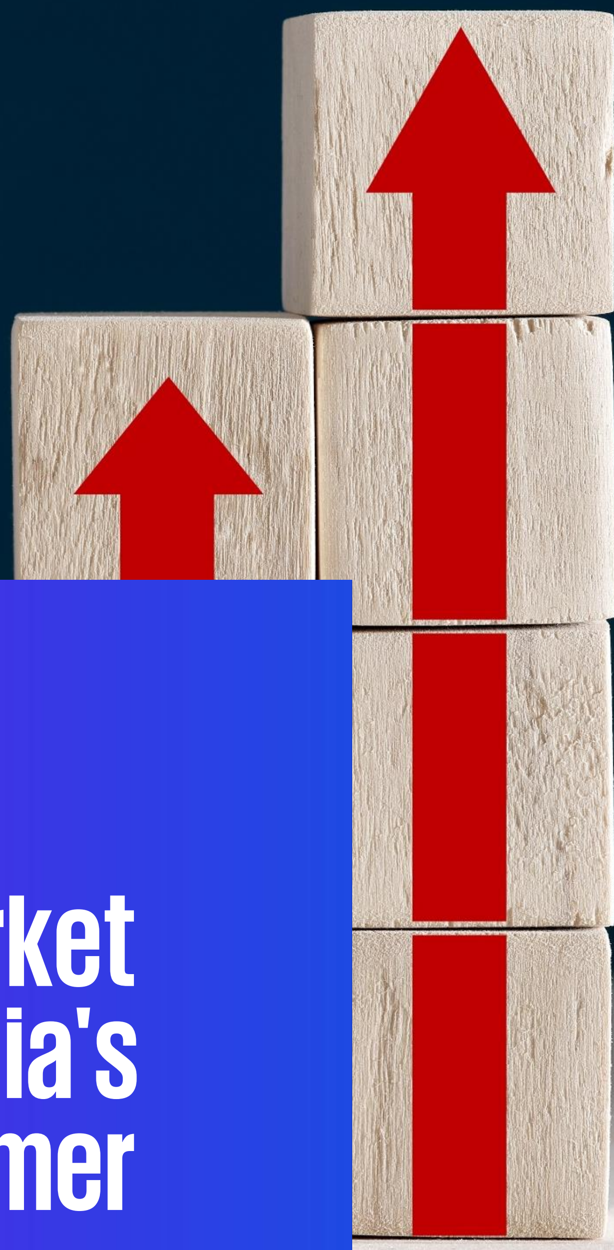


04

Assessing market potential in India's diverse consumer landscape

Investing in Indian startups necessitates a tailored approach, considering the unique dynamics of the Indian market. Investors seeking high-value Indian startups for investment can employ a multiparty staging approach, mirroring the U.S. venture ecosystem. This strategy involves engaging with local networks and experts and focusing on high-growth sectors such as technology, e-commerce and consumer tech, including hyperlocal and quick commerce, SaaS, FinTech, healthcare and clean energy.

Investors should analyse the market size and competitive advantages, while also assessing founder quality and regulatory framework. Monitoring funding rounds and valuations provides crucial insights while leveraging data analytics tools offers objective metrics beyond qualitative assessments. Partnering with Indian venture capital firms grants access to deal pipelines and local expertise. By combining these targeted strategies including analysing financial performance, conducting social media sentiment analysis and participating in networking events, investors can effectively identify promising startups worthy of consideration. This comprehensive approach balances quantitative analysis with qualitative assessment, allowing for informed investment decisions in India's startup landscape.

Investors should also evaluate a startup's resilience by assessing its ability to adapt to changing market conditions, diversify revenue streams and maintain growth momentum. Startups that have demonstrated the ability to navigate turbulent times and emerge stronger are more likely to attract investor confidence.

a. Assessing startup viability in India's diverse consumer landscape

Understanding the market potential in India involves recognising the diverse consumer base and regional nuances. Investors should evaluate the startup's ability to address specific local needs, such as language preferences and payment methods, which can vary significantly across regions.

b. Assessing startup technology infrastructure

Evaluating adaptability to local digital ecosystems is crucial. Investors should evaluate the startup's technological capabilities in meeting diverse regional requirements and user behaviours.

c. Monetisation strategies: Aligning with consumer behaviour

A robust revenue model is essential for long-term sustainability. Understanding customer acquisition costs (CAC) and lifetime value (LTV) metrics is vital. Startups with a clear, scalable revenue model that can adapt to market demands are more likely to attract investor confidence and achieve profitability.

d. Adapting to diverse markets: Achieving product/market fit

This involves ensuring that the product resonates with the target audience and meets their needs effectively. Startups that have iterated their offerings based on customer insights are more likely to succeed, which also requires a deep understanding of customer preferences and behaviours that vary by region.

e. Assessing long-term viability and profitability: The role of scalability in startup success

Scalability and profitability are critical factors for investors, as they indicate the startup's ability to grow rapidly without a corresponding increase in costs. Investors should scrutinise operational efficiency, market growth tactics and the opportunities for geographic or product diversification, all of which could enhance profitability as the startup scales.

f. Commitment to social impact and sustainability

As the startup ecosystem matures, investors are increasingly prioritising startups that prioritise social impact and sustainability. Startups that address pressing societal challenges, such as healthcare, education and financial inclusion and demonstrate a commitment to ethical practices and environmental stewardship, are more likely to attract investor interest and support.

Due diligence process

The due diligence process is a critical component for investors assessing the viability of startups in India. Given the unique challenges and opportunities in the Indian market, a comprehensive due diligence approach can significantly mitigate risks and enhance investment decisions.

a. Financial due diligence
Financial due diligence focuses on evaluating a startup's financial hygiene, health and sustainability of revenue streams, unit economics, burn rate and KPIs such as growth in customer/user base, retention rates, LTV/CAC ratios and working capital days, among others. For example, assessing the unit economics or burn rate (how quickly a startup is spending its capital) helps investors gauge business models. Startups with high burn rates may require additional funding sooner than expected, which can raise concerns.

b. Legal and regulatory compliance
India's regulatory landscape is complex, necessitating rigorous legal due diligence. Startups must comply with various laws, including tax filings, intellectual property rights and industry-specific regulations such as GST regulations and the Consumer Protection Act.

c. Operational due diligence
Operational due diligence is a crucial component of the investment process for startups, particularly in the Indian startup ecosystem. Quality assurance processes must be robust to prevent defects and maintain customer satisfaction.

d. Other due diligence elements
While financial, legal and operational due diligence covers a broad spectrum to ensure well-rounded examination, Environmental, Social and Governance (ESG), integrity and commercial due diligence are also gradually gaining importance.

- **ESG due diligence:** ESG due diligence provides a detailed evaluation of key ESG risks and opportunities for a target, which may be a portfolio company or transactional target. Some of the advantages of ESG due diligence for both investor and the company include price negotiation, premium for favourable ESG factors and value enhancement opportunities among others
- **Integrity due diligence**: Integrity due diligence helps in assessing and mitigating risks associated with third-party relationships, mergers and acquisitions and other business partnerships. It broadly includes pre-transactional integrity due diligence, leadership due diligence and customer due diligence
- **Commercial due diligence**: Commercial due diligence helps interested parties understand a target company's competitiveness, positioning in the market, industry dynamics, market strengths, commercial performance, potential risks and opportunities to support the decision-making process
- **HR and cultural due diligence**: Examines HR policies, organisational culture and workplace inclusivity. This type ensures compliance with employment laws and evaluates the startup's ability to foster growth through effective human resources
- **Intellectual property due diligence:** Focuses on IP protection, especially for technology startups, given India's evolving digital ecosystem
- **Technology due diligence**: Evaluates the technological infrastructure, security measures and data protection protocols, especially important for startups dealing with sensitive data
- **Supply chain due diligence**: Assess supplier reliability, inventory management systems and logistics infrastructure
- **Scalability due diligence:** Assess the startup's ability to scale operations, manage growth and adapt to changing market conditions
- **Cybersecurity due diligence:** Examine the startup's cybersecurity measures, especially important for startups dealing with sensitive data or operating in regulated industries
- **Foreign investment compliance due diligence:** Assess compliance with India's foreign investment regulations, including obtaining necessary approvals and adhering to sector-specific limitations.

05

Managing risks and harnessing growth potential for foreign investors

In a globalised economy, U.S. investors are eyeing emerging markets, such as India due to its robust economy, young workforce and expansive market. However, investing in India entails unique challenges and risks. Therefore, it is imperative for global investors expanding their portfolios to India to understand these risks and devise effective mitigation strategies.

5.1 Liquidity risks

Risk	Mitigation strategy
Higher transaction costs due to elevated brokerage fees, duties, taxes and other local market charges in India	• Leverage investment funds or professional managers who can navigate the complex fee structures, though this may incur higher overall fees
Currency volatility and exchange rate fluctuations between the dollar and Indian rupee	• Hedge currency risk through tools, such as currency futures, options and forwards • Utilise currency exchange-traded funds (ETFs) for a more straightforward hedging approach
Liquidity challenges, particularly in emerging Indian markets, where selling investments quickly without significant losses during a crisis can be difficult	• Adopt a dollar-cost averaging strategy to spread out investments over time

5.2 Regulatory and political risks

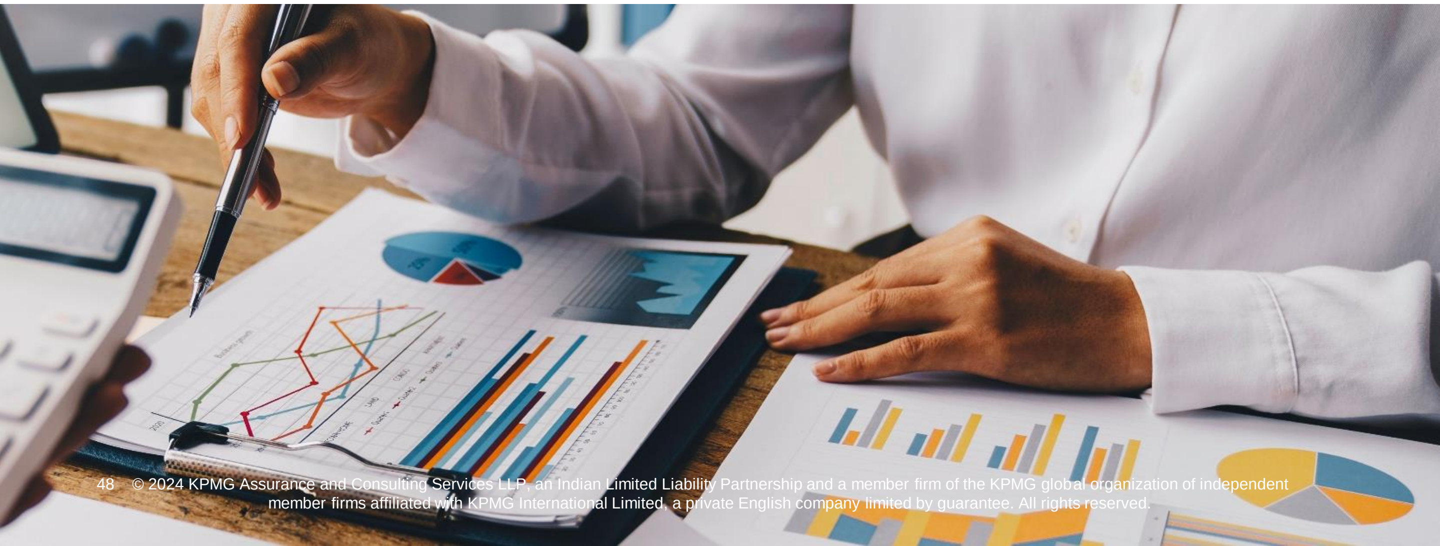
Risk	Mitigation strategy
Unpredictable government intervention and policy changes that can impact foreign investments	• Closely monitor the regulatory environment and political landscape in India • Engage with local legal and advisory firms to stay informed on policy updates and their potential implication • Structure investments to leverage available investment protection mechanisms, such as bilateral investment treaties and multilateral investment agreements
Equity, screening and personnel restrictions on foreign investors in certain sectors	• Prioritise investments in sectors with more favourable foreign investment policies, such as manufacturing, communication services and e-commerce • Collaborate with local partners or establish joint ventures to navigate regulatory hurdles and leverage their expertise
Closure of some sectors, such as legal and accounting services, to FDI	• Explore alternative investment avenues, such as portfolio investments or indirect exposure through investment funds, to gain exposure to restricted sectors • Monitor for any regulatory changes that may open previously closed sectors to foreign investment

5.3 Information and operational risks

Risk	Mitigation strategy
Limited access to information on Indian companies and markets, making due diligence and informed decision-making challenging	• Engage with reputable local research firms, consultancies and industry experts to gather comprehensive market intelligence • Leverage the expertise of local partners or establish a presence in India to gain deeper insights into the operating environment
Operational complexities, such as navigating processes, managing talent and addressing infrastructure developments	• Collaborate with experienced local partners or establish a dedicated on-the-ground presence to handle day-to-day operations and navigate the business environment • Invest in robust risk management and compliance frameworks to mitigate operational risks

5.4 Startup-specific risks

Risk	Mitigation strategy
Lack of exit opportunities and liquidity for startup investment	• Explore alternative exit strategies, such as secondary markets or strategic acquisitions, in addition to traditional Initial Public Offerings (IPOs) • Maintain a long-term investment horizon and focus on startups with clear paths to profitability and potential for sustainable growth
Intellectual property (IP) protection challenges in the Indian market	• Work closely with the startup to ensure they have robust IP protection measures in place, such as proper registration of patents, trademarks and copyrights and a plan for enforcing these rights • Collaborate with local legal experts to navigate the IP landscape and mitigate risks of IP infringement



5.5 Tax-related risks

Risk	Mitigation strategy
Stringent tax inspections and penalties for alleged tax evasion	• Consult a local tax specialist or legal expert to effectively handle tax responsibilities and the formation of local business alliances • Periodically assess tax strategies, making necessary modifications to identify and offset potential tax liabilities
Uncertainty in tax laws	• Investors should keep themselves informed about the most recent changes in tax legislation and Indian court rulings and seek professional tax consultation
Double taxation	• The Double Taxation Avoidance Agreements (DTAAs) that India holds with certain nations can be accessed for beneficial treatment, where applicable
Transfer pricing risk	• Maintaining robust documentation demonstrating that intercompany transactions are at arm's length can help manage this risk
General Anti-Avoidance Rule (GAAR)	• Ensuring transactions possess significant commercial purposes and are not purely targeted at tax evasion can help to decrease this risk.
Permanent establishment risk	• Strategic planning of business operations can assist in avoiding the inadvertent creation of a permanent establishment, thereby reducing tax liabilities.
Compliance risk	• To avoid penalties for non-compliance, ensure regular and precise tax filing
Changes in international tax agreements	• Periodic review of updates to DTAAs and other international tax agreements and comprehending their effects is vital for risk management
Impact of Multilateral Instruments (MLI)	• The application of a Multilateral Instrument (MLI) to existing tax treaties may change the tax implications. It's essential for investors to actively track and understand these alterations

06

Exit strategies: Maximising returns from investments in Indian startups

An investor's strategic plan fundamentally includes an exit strategy, which outlines their intended approach to recover their investment in a startup. For Indian startups, investors often opt for secondary sales as their favoured exit strategies. These two strategies have proven successful, however, the choice between them hinges on various factors, including the startup's growth phase, prevailing market conditions and expected returns on investment.

a. **IPOs**: A privately owned firm first sells its shares to the public, offering investors an opportunity to offload their stake in the startup while potentially augmenting the value of their holdings. This strategy necessitates meticulous planning and adherence to specific financial and regulatory prerequisites.

- **June 2023**: The Securities and Exchange Board of India (SEBI) expedited the IPO listing timeline from T+6 to T+3, implementing this reform optionally from September 2023 and mandatorily from December 2023[1].
  - It signifies India's progress towards global IPO standards, illustrating the maturing efficiency of its financial systems and infrastructure robustness.

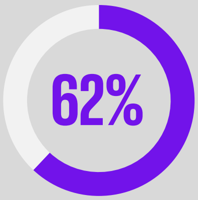
Indian IPO market[1]	FY22	FY23	FY24
No. of IPOs	47	36	76
Funding raised (USD billion)	13	6.8	7.4

b. **Secondary transactions:** After IPOs, exits through secondary transactions are the most favoured exit strategy deployed by Indian VCs. In recent years, particularly as the global interest rates have increased, Indian venture capitalists have offered liquidity to their limited partners (LPs). The preferred method has been a combination of secondary transactions and IPOs. However, many of the exits through this route are completed at a discount (sometimes a significant discount to the peak valuation). In the last few years, many dedicated secondary funds have been set up to exploit such opportunities. Additionally, with the advent of Micro VCs (investors largely focused on seed capital infusion in early-stage companies with amounts that are smaller than a typical VC investment) in the Indian start-up investment landscape, the number of secondary deals is likely to increase as these funds look to exit through secondary deals in 2-3 years or through smaller IPOs on the Bombay Stock Exchange (BSE)'s for Small and Medium Enterprises (SME) exchange. The availability of liquidity through such transactions and the development of a secondary fund ecosystem in India has given the required comfort to the limited partners (LPs) which was lacking earlier.

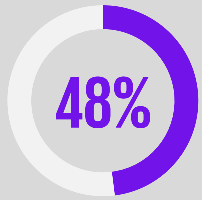
c. **Mergers and acquisitions (M&As):** M&As facilitate product diversification and cost efficiency, thereby enhancing stakeholder value and economic vitality. M&As are potent catalysts for economic growth and market competitiveness, fostering job creation and business expansion.

1. IPOs in India, KPMG in India, July 2024

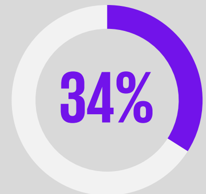
CEOs in the U.S. are waiting for the opportune moment to initiate M&A activity, potentially later this year or in 2025. They believe that market conditions, including fluctuating business values, presidential elections, inflationary macroeconomics and the geopolitical environment could impact their current business acquisition and sales plans[2]



CEOs plan to delay major investments and M&A actions until after the 2024 U.S. election



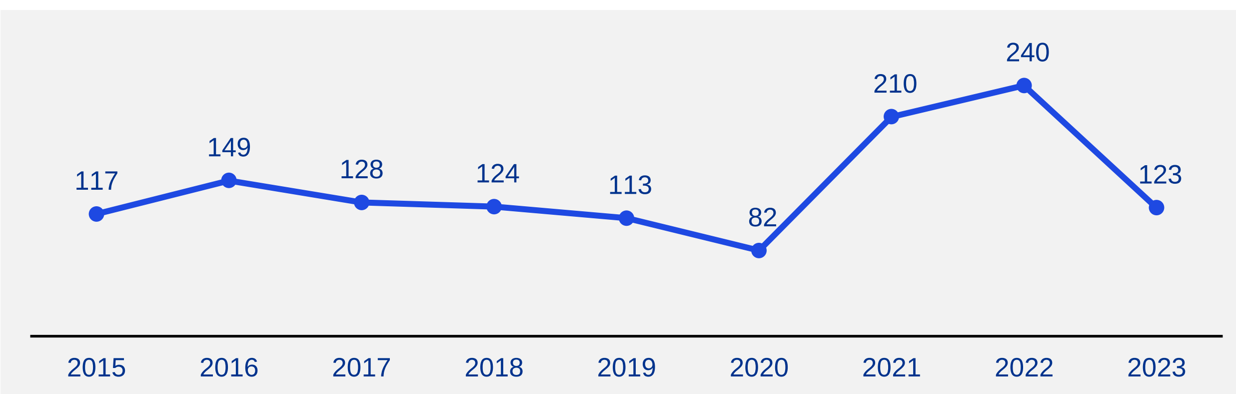
CEOs will seriously pursue new deals in 2025



CEOs will pursue new deals in the second half of 2024

One of the key factors contributing to India's vibrant startup ecosystem is the number of M&As that have taken place. About 1,300 cumulative M&As have been reported in the Indian startup sphere cumulatively from 2015 to 2023[3], highlighting the fierce competition and strategic moves by startups to bolster their positions and diversify or access new markets and technology.

Count of M&A deal by Indian startups[3]



d. Management buyouts: The leadership group of a startup acquires a company, essentially converting it into a private entity. This approach can be effective if the administrative team possesses the required capital and is confident about the startup's long-term prospects.

e. Transfer of Interest in Alternative Investment Fund (AIF): An investor can exit whenever they choose by shifting their stake in an AIF and settling the tax on the profit made from the sale, provided any applicable tax treaty relief is considered.

- AIF Category I encompasses funds that allocate investments to startups SMEs, social projects, infrastructure ventures and other sectors identified as advantageous by regulators. This category includes a variety of AIFs such as VC, angel funds and special situation funds.

The number of AIFs registered with SEBI grew **27 times**, from **42 (as of 31 March 2013)** to **1,148 (as of 13 July 2023)[4].**

2. 2024 KPMG U.S. CEO outlook pulse survey, KPMG U.S., April 2024
3. Number of mergers and acquisition deals by Indian startups from 2015 to 2023, Statista, 25 December 2023
4. Beyond the basics: Navigating the world of alternative investment funds, Nifty indices, March 2024

f. **Exit strategy in private equity:** This approach is vital for investors as, with careful planning and effective execution, it boosts the likelihood of achieving a more substantial profit.

In H1 2024, PE industry in India documented **106 exit transactions**, with a total value of **USD7.1 billion**, an increase of ~**39 per cent**, from 76 **transactions** in H1 2023[5].

g. **Liquidation:** A startup can opt for liquidation if other approaches do not work. This process entails selling all the company's assets and using the revenue generated to settle debts. The remaining funds are then shared among the shareholders.

Rate of return: While a VC fund’s operating model is similar to a private equity model wherein GPs launch a fund and LPs contribute most of the capital to a fund, it's vastly different as VCs typically invest in start-ups which have a longer horizon than compared to a PE investment. The lack of data on returns from VC investments in India is one of the biggest problems while evaluating different funds. There are multiple companies which track various facets of VC investments (number of deals, the value of investments, valuation, exits, among others.) but the rate of return is not publicly available for funds active in India, Other ways to evaluate VC funds would be to compare performance with synthetic benchmarks (such as benchmark created by adding a liquidity premium over the stock market index or currency premium over the U.S. VC returns where abundant data is available)[6].

5. VCCEdge 2024 H1 Deal Report, VCCedge, July 2024

6. KPMG in India Insights

07

Staying ahead: Future prospects in India's startup ecosystem

India's startup ecosystem is poised for exponential growth in the next five to seven years, fueled by a confluence of favourable conditions that are uniquely positioned to foster innovation and entrepreneurship. Key to this growth is India's large, young and tech-savvy populace that is swiftly joining the formal workforce. India is likely to have a 535 million labour force by 2030[1]; this demographic asset is pivotal for the growth of the startup ecosystem, offering a ready pool of talent and consumers for innovative solutions.

GoI is proactively fostering entrepreneurship and innovation through strategic initiatives, such as the Startup India Action Plan, SISF and PLI schemes among others. The focus on emerging technologies and regulatory facilitation presents a compelling opportunity for foreign investors. The streamlined startup process, tax incentives and enhanced legal and digital infrastructure are catalysing startup innovation and growth. This, coupled with robust policies, establishes India as a promising and future-ready investment destination.

GoI's forthcoming initiatives to boost the startup ecosystem

- In FY25 budget, the Mudra loan limit has been raised to **USD0.02 million** and **USD12 billion** allocated to the Anusandhan National Research Foundation[2]
- About **USD120 million** venture capital fund proposed to improve early-stage funding across space startups[3]
- Introduction of **Startup20** under India's G20 presidency to boost startup ecosystem

AI is taking the lead in startups space

- AI implementation in startups presents opportunities for angel investors to broaden portfolios, reduce risks and boost returns
  - India and Germany's partnership on AI startups and research in sectors, including healthcare and green energy to boost **scientific collaboration in new tech areas**
- Developments, such as GoI's collaboration with private entities are further strengthening **India's digital leadership**

Focus on tier II and tier III market

- With **GoI's SISF Scheme** minimising risks for investors, startups are poised to revolutionise India's rural market with innovative solutions for sectors, including agriculture, ecommerce and finance among others in tier II and III markets.

In conclusion, the Indian startup ecosystem holds significant potential as an investment opportunity for angel investors, having the power to significantly influence the future of startups.

Note: The currency across the document has been converted as per the currency conversion rate of INR1=USD0.012 as of November 2024

1. Projected labour force population of India and China, IEA, accessed on 03 August 2023
2. Budget 2024–25 will boost Startups and the StartUp ecosystem through bold and innovative proposals, PIB, 23 July 2024
3. INR1000 crore VC fund to boost India's space economy, Fortune India, 23 July 2024

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