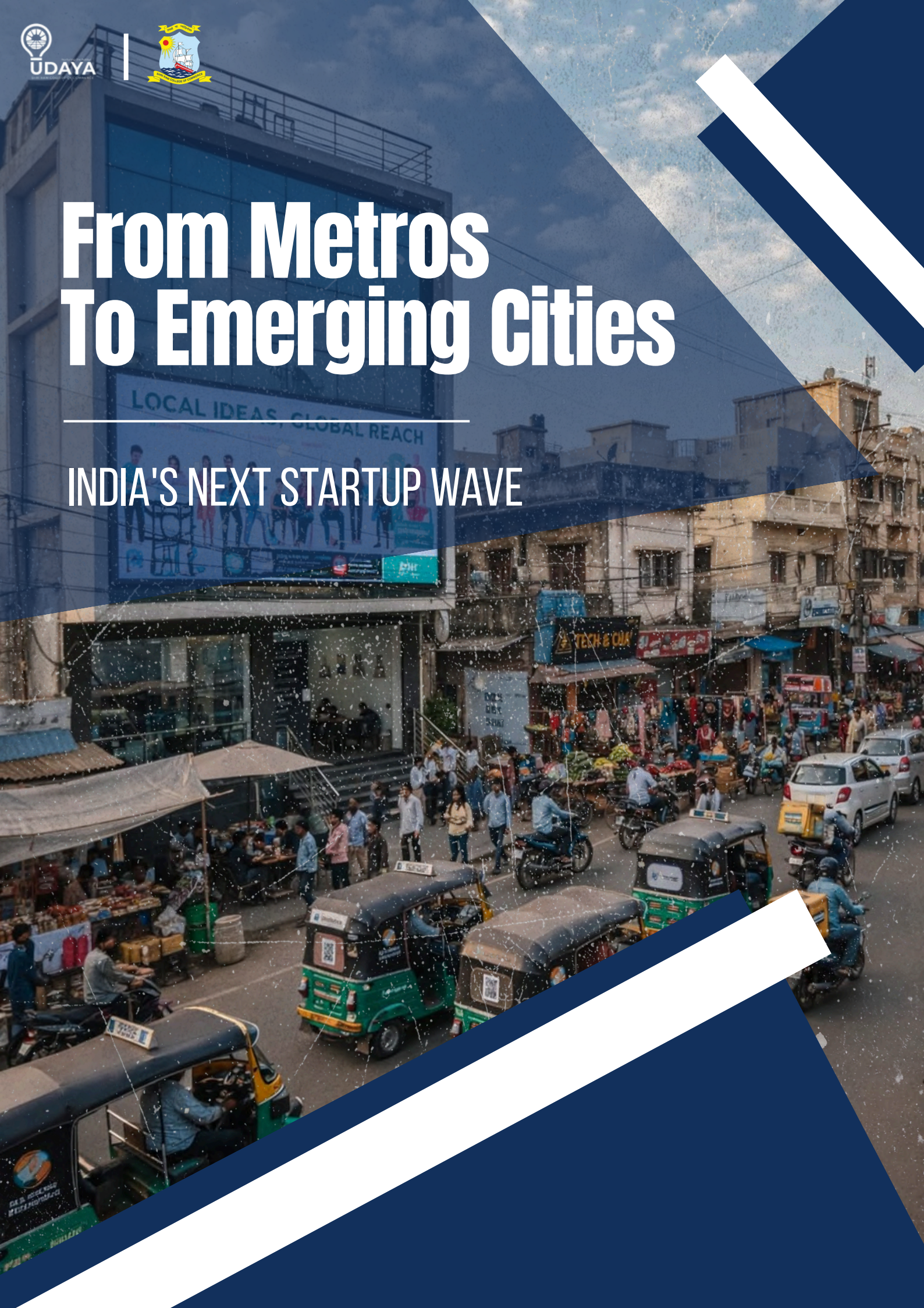
UDAYA

# From Metros To Emerging Cities

## INDIA'S NEXT STARTUP WAVE



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# Introduction

The startup ecosystem in India has also witnessed a major structural shift over the past decade. What was previously a phenomenon largely restricted to major cities such as Bengaluru, Delhi NCR, and Mumbai is now gradually shifting to Tier-2 and Tier-3 cities. This is not a mere geographical shift but also a result of some fundamental changes taking place in the economy and society that are redefining the startup ecosystem in India. Tier-2 and Tier-3 cities are now emerging as major innovation and employment hubs, thereby debunking the conventional wisdom that successful startups can only thrive in Tier-1 cities.

**Digital Insfrastructure**

One of the main factors that have contributed to this shift is the growing digital infrastructure in the non-metro regions of India. The availability of affordable smartphones, reduced data costs, and increased connectivity of high-speed internet have completely changed the way businesses are started and scaled. Entrepreneurs in Tier-2 and Tier-3 cities have access to digital platforms, cloud services, online marketplaces, and fintech solutions that were otherwise accessible only to businesses in metro cities. This has diminished the importance of geographical proximity to markets, investors, and institutions, and startups can now function effectively from smaller cities.

**Government Policies**

Government programs have also further enhanced this digital infrastructure. Initiatives such as Digital India, MSME technology support initiatives, and the promotion of digital payments have brought small businesses into the mainstream much faster. These programs have made it easier for new entrepreneurs to start their ventures by making them less dependent on physical infrastructure, allowing paperless financial transactions, and increasing access to credit and training.

**MarketTrends**

Demand Level: The consumer behavior in Tier-2 and Tier-3 cities has also undergone a dramatic shift at the demand level. The growing disposable income, awareness about technology, and changing aspirations have resulted in a growing demand for cost-effective and technology-driven products and services. These areas are no longer consumption markets but are now driving the business models that focus on value, accessibility, and relevance. Startups that originate from smaller cities are often more attuned to the needs of these areas, enabling them to create solutions that are more context-specific than those created in metro-centric ecosystems.

**Women led Entrepreneurship**

Women entrepreneurs are increasingly coming up as important players in the startup ecosystem in Tier-2 and Tier-3 cities, thanks to the availability of technology and government support. Technology-driven models such as e-commerce, digital payments, and social media marketing have reduced barriers for women to start and run businesses with minimal physical mobility and investment. Government programs, digital MSME initiatives, and vernacular-first platforms have made it easier for women-owned businesses to formalize, access capital, and scale up beyond the regional geography, making women the important drivers of inclusive regional development.

**Building Future Unicorns**

Tier-2 and Tier-3 cities in India are emerging as powerful startup hubs. With lower operating costs, untapped markets, and proximity to real consumer problems, startups here can build strong, scalable business models. Access to the internet, cloud infrastructure, and digital platforms allows them to grow rapidly without relying on metros.

# Overview

This study delves into the ever-unfolding role of technology in facilitating the development of startups in Tier-2 and Tier-3 cities in India, in an attempt to understand the role of non-metro regions in becoming an essential part of the innovation ecosystem of the country. This study shifts its perspective from the metro-centric view and analyzes smaller cities as self-contained but interlinked economic systems.

### Technology

This sub-section introduces technology as the key enabler that bridges non-metro areas to national and international markets. This provides the context for how digital platforms, fintech, e-commerce, and cloud-based solutions have diminished the conventional barriers to entry for entrepreneurs in non-metro areas.

### Sectoral Analysis

This section introduces the sector-wise approach of the study, focusing on technology-enabled sectors such as education, agriculture, healthcare, and financial services, where the Tier-2 and Tier-3 cities have immense innovation potential being close to real-world applications.

### Government Policy and Support

This section examines the importance of policy intervention and institutional factors in influencing entrepreneurial outcomes. Digital MSME initiatives, technology centers, and financial inclusion programs are analyzed to determine their efficacy in facilitating the adoption of new technologies and formal business practices. Instead of considering policy as a contextual element, the study examines the intersection of state-driven digital initiatives and innovation in the private sector to shape favorable environments for startups

### Women led Entrepreneurship

This section introduces the analysis of women-led start-ups as catalysts of local innovation and economic inclusion. It positions women entrepreneurs not only as actors but as makers of sustainable and socially embedded business models.

### Potential for Future unicorns

This sub-section describes how the research assesses the indicators of scalability, market depth, and innovation strength for non-metro startups. The concept of “next-generation unicorns” is introduced without revealing the results.

### Funds and Cost Advantage

Startups in Tier-2 and Tier-3 cities receive more support in terms of early-stage funding and have significantly lower operational expenses. This makes them more financially sustainable and increases their growth runway, which helps boost the confidence of investors in non-metro startup ecosystems.

# Technology As A Catalyst For Startups


Technology is the backbone of India's small-town startup revolution. With the Digital India push, affordable internet, and fintech innovations, entrepreneurs beyond metros now compete on a national and global stage. A small-town founder can market globally through social media and sell nationwide via platforms like Amazon and Flipkart.

With over 820 million internet users in India (2024) a large share from non-metro regions technology is unlocking massive untapped potential. Digital tools enable startups to scale at low cost, reach wider markets, and access learning, funding, and mentorship virtually.

High-speed internet and digital platforms are no longer just connecting rural India they're integrating small-town startups into India's innovation ecosystem.

**Digital MSME Schemes**

Several digital MSME schemes have been launched to assist small businesses in adopting digital technologies, improving productivity, and enhancing competitiveness. Some of the most significant schemes include:

**Digital MSME Scheme:**
This scheme promotes the adoption of information and communication technology (ICT) tools among MSMEs. It offers financial assistance for implementing cloud computing services to reduce IT infrastructure costs and improve business efficiency.

**Prime Minister's Employment Generation Programme (PMEGP):**
While not solely digital, PMEGP provides financial assistance for setting up new enterprises in both rural and urban areas. It supports digital adoption indirectly by enabling enterprises to invest in modern technology.

PMEGP
Prime Minister's Employment Generation Programme

**Credit Linked Capital Subsidy Scheme (CLCSS):**
The CLCSS provides financial support to MSMEs to upgrade their technology. Under this scheme, businesses can receive subsidies for purchasing modern machinery and digital tools that enhance productivity.

**MSME Technology Centers:**
The government has established MSME Technology Centers across the country to provide technical support and training to small businesses.


**Key Areas**

**1. Access to Digital Infrastructure**

Digital MSME schemes provide subsidies and financial support for adopting cloud computing and digital tools. This helps MSMEs reduce IT costs, improve data security, streamline operations, and scale efficiently to compete with larger enterprises.

**2. Enhancing Financial Inclusion**

These schemes improve access to finance for MSMEs with limited collateral or credit history. Programs like CLCSS and PMEGP offer financial support, while digital payments and online banking enable easier transactions, reduce cash dependency, and integrate MSMEs into the formal financial system.

**3. Improving Market Access**

Through government-backed e-commerce initiatives and partnerships with platforms like Amazon and Flipkart, MSMEs can access national and international markets, gain visibility, and expand their customer base.

**ROLE OF DIGITAL MARKETING**

**1.Reach More Targeted Audience**

Digital marketing helps businesses reach the right customers efficiently by targeting users most likely to convert.

**2.High Conversion Rate**

By focusing on genuinely interested users, digital strategies significantly improve conversion rates.

**3.Increased ROI at Lower Costs**

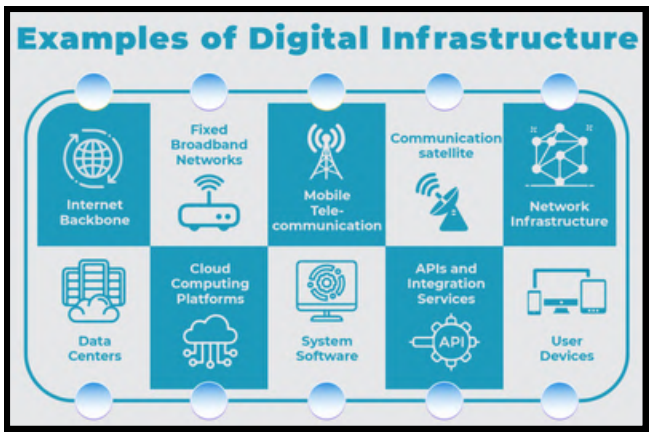
Businesses can achieve higher returns with minimal spending, making digital marketing cost-effective for startups and small firms.

**4.Online Advertising & PPC Campaigns**

PPC, SEO, and social media marketing drive visibility and performance. PPC offers instant reach, flexible budgets, and measurable results through detailed analytics.

**5.SEO & Organic Reach**

SEO supports long-term growth by driving consistent organic traffic without ongoing ad costs through keyword optimization and modern search strategies.





## NEW-AGE TECHNOLOGY ADOPTION

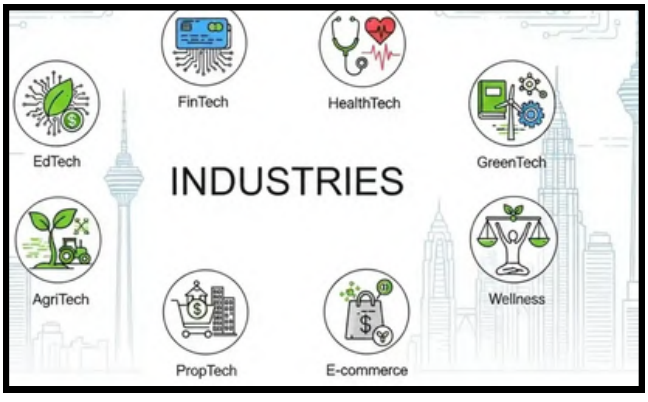
New-age technology adoptionis transforming sectoral growth:

**Agritech:** AI-powered drones and IoT devices optimize farming practices, improve yields, and reduce labor costs.

**Fintech:** AI algorithms improve credit scoring and risk assessment, while real-time fraud detection enhances security.

**EdTech:** AI, AR/VR, and gamification enhance personalized learning and upskilling.

**HealthTech:** Telemedicine and AI/ML provide real-time insights for improved healthcare delivery and efficiency.


## STATISTICS

India had over 820 million internet users in 2024, with a large share from non-metro regions, highlighting untapped market potential.

Digital tools empower entrepreneurs to build and scale businesses at low cost, reach new customers, and access funding and mentorship virtually.

Technology driven access ensures startups beyond metros are integral to India's innovation ecosystem.

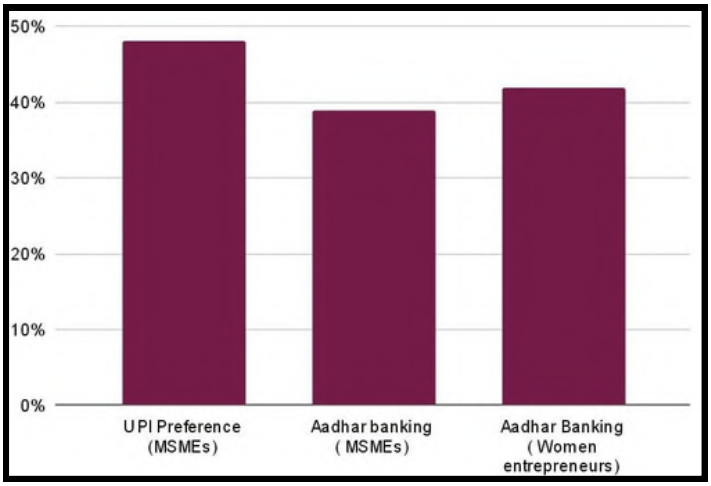
## DIGITAL PAYMENTS

Digital payments are widely accepted among MSMEs.

UPI is the preferred transaction mode at 48%, followed by Aadhaar enabled banking at 39%.

Among women entrepreneurs, Aadhaar banking preference rises to 42%.

Digital payments improve efficiency, convenience, and digital credibility, helping MSMEs access formal credit.




## MICRO-ENTREPRENEURS

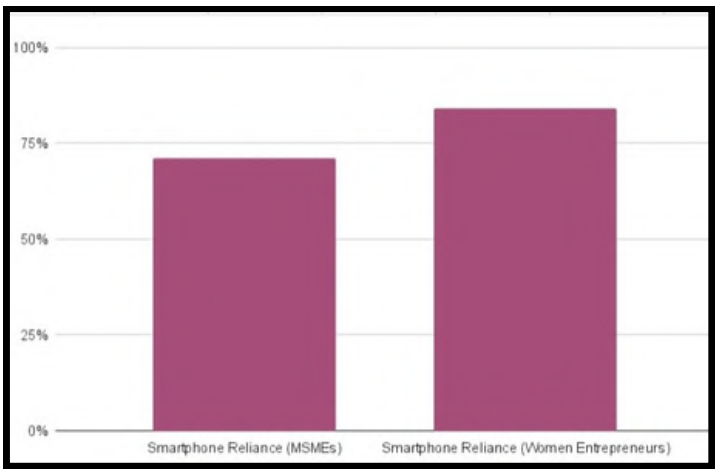
The MSME Digital Index 2025 highlights digital adoption among micro-entrepreneurs.

Insights are based on a nationwide survey of 10,000 MSMEs across sectors such as kirana stores, medical shops, mobile recharge outlets, CSPs, and travel agencies.

Smartphone usage is central to business operations, with 71% using it as their primary device.

Among women entrepreneurs, smartphone reliance rises to 84%.

33% of MSMEs reported improved operational efficiency due to digital adoption.

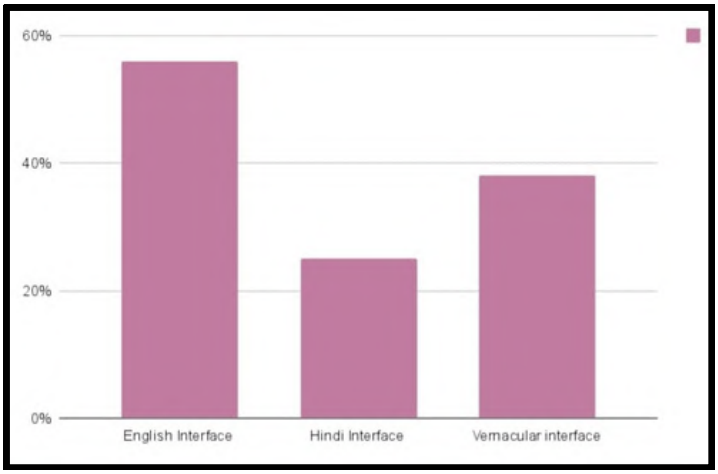



**LANGUAGE**

Language and ease of use are critical as digital tools become embedded in business operations.

56% of respondents prefer English, followed by Hindi at 25%.

Among women entrepreneurs, 38% prefer vernacular interfaces, emphasizing the need for localized, intuitive platforms that reflect how Bharat operates.




**Growth Drivers**

**1. Expanding Digital Access**

- India's internet user base and smartphone penetration are rapidly growing.
- Affordable data and digital tools make online business easier for entrepreneurs nationwide.

**2. Supportive Ecosystem**

- Government initiatives like Digital India and Start-Up India boost digital infrastructure, funding, and market access.
- Policy support helps startups launch and scale faster.

**3. Tier-II & Tier-III Opportunities**

- Digital platforms empower entrepreneurs outside big cities to start online ventures in e-commerce, edtech, and content creation.
- Local innovators are addressing regional needs while reaching wider audiences.

**Key Sectors Shaping the Future**

**E-Commerce**

- Continued growth with projections into hundreds of billions by the late 2020s.
- Niche D2C brands, social commerce, and platforms like ONDC broaden seller access.

**Artificial Intelligence & Automation**

- AI tools help startups improve efficiency, marketing, analytics, and customer experiences.
- Integration of AI is becoming essential for scalable business models.

**EdTech & Upskilling**

- Online learning platforms are expanding with personalized, mobile friendly content.
- Rising demand for digital and professional skills fuels this sector's growth.

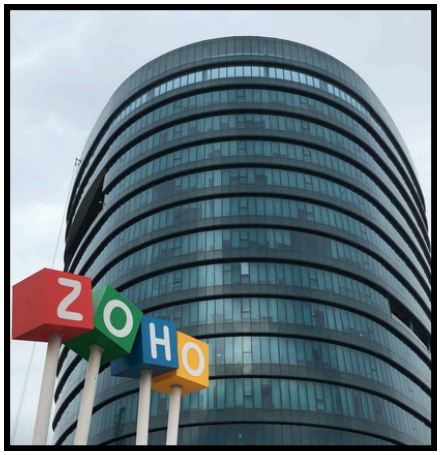
**FinTech & Inclusion**

- Digital financial services (UPI, mobile banking, micro loans) drive financial inclusion and new business models.
- Fintech innovations empower underserved segments including SMEs and first time investors.

**CASE STUDY: ZOHO – Bringing Technology to Rural India**

**The Vision: Decentralizing Technology**

Founded by Sridhar Vembu, Zoho Corporation introduced a huband spoke model that challenges the idea that innovation must be centered in big cities. Beginning in 2011 from a small shed in Mathalamparai, Tamil Nadu, Zoho's rural initiative has expanded into a 1,200 employee campus. Vembu's core belief is that talent is universal, but opportunities are not therefore, technology must be taken to people rather than people to cities.




**Empowering Local Talent**

Zoho recruits from rural schools and second-tier colleges, not elite institutions.

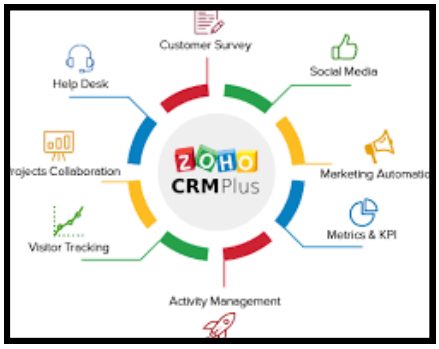
- **Ananthan Arunachalam:** From a farmer's family to senior coding analyst near his village.
- **C. Preethika:** Daughter of a beedi worker, now training in AI and analytics through Zoho School.
- Zoho University trains students in coding and QA, focusing on logic and skills over exam scores.


**The Socioeconomic Ripple Effect**

The presence of Zoho has transformed Tenkasi from a sleepy agricultural town into a thriving district: Reverse Migration: Professionals are returning from cities like Chennai to start businesses or work locally, keeping families together.

**Local Economy:** Local vendors, like farmer Ganesamoorthy Subramaniam, earn significant daily income by supplying produce to the campus.

**Infrastructure:** Real estate values have surged, and employees are building modern homes in their native villages.





**A Blueprint for Rural India**

Today, Zoho operates 15 rural centers across India. By integrating modern AI development(like their assistant, Zia) with rural landscapes, Zoho has proven that high-tech innovation can thrive outside of metros.This model not only creates jobs but also boosts the local economy and fosters social cohesion in India's hinterland.

# How India Built Unicorns on Broken Roads

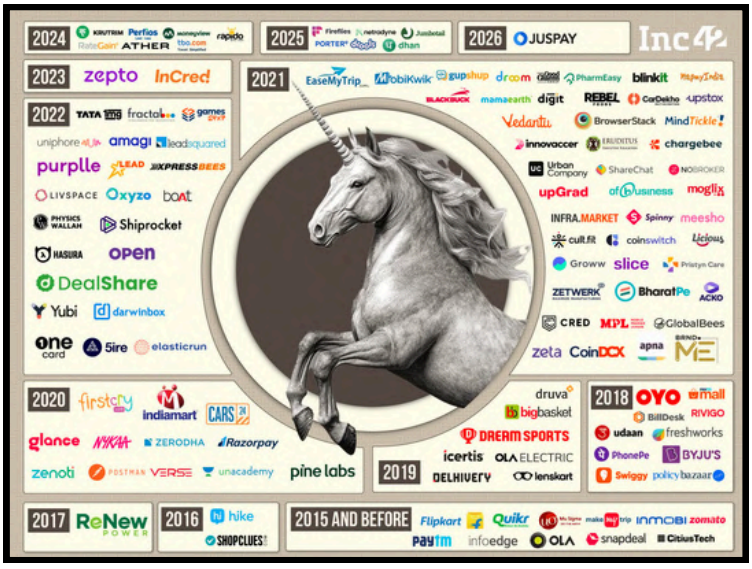

**Abstract**

India's emergence as the third largest startup ecosystem globally, with over 125 unicorns, represents a remarkable paradox of entrepreneurial success amid persistent infrastructure challenges. This paper examines how Indian startups achieved billion dollar valuations despite operating in an environment characterized by inadequate physical infrastructure, including poor road networks, unreliable power supply, and limited connectivity in many regions. The research explores the strategic adaptations, ecosystem enablers, and unique market advantages that allowed Indian entrepreneurs to build globally competitive companies while navigating systemic constraints. Through analysis of growth patterns, policy interventions, and entrepreneurial strategies, this study reveals how India transformed infrastructure deficits into opportunities for innovation and competitive differentiation.

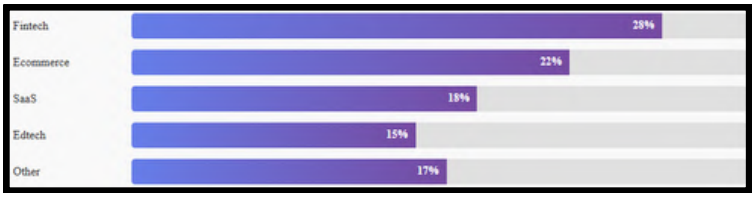

**Introduction**

The journey from Bangalore International Airport into the city center offers visitors a jarring introduction to India's technology capital. Potholed roads and severe traffic congestion provide a stark contrast to the gleaming global headquarters of billion dollar startups located within.

This contrast encapsulates a fundamental puzzle: how did India build one of the world's most vibrant startup ecosystems while struggling with basic infrastructure that Silicon Valley, London, and Singapore take for granted? In 2013, when venture capitalist Aileen Lee coined the term unicorn to describe startups valued over one billion dollars, India had none.




A decade later, the country boasts over 125 unicorns across diverse sectors including fintech, ecommerce, edtech, and software as a service.




## Literature Review

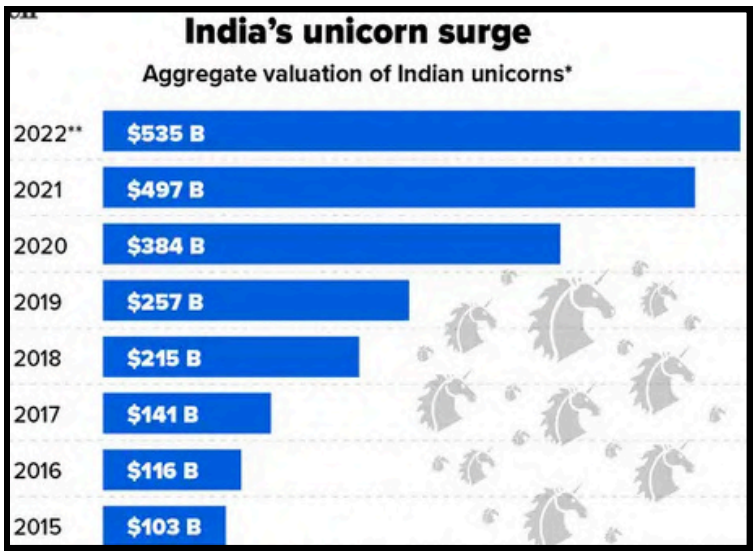
Research on startup ecosystems consistently emphasizes the importance of supportive infrastructure for entrepreneurial success. Studies examining Silicon Valley, Tel Aviv, and Singapore highlight how sophisticated physical infrastructure, robust digital connectivity, and streamlined regulatory frameworks enable rapid scaling.

Traditional literature suggests that inadequate infrastructure represents a fundamental barrier to startup development, constraining growth and limiting competitiveness.
However, emerging research on developing economy entrepreneurship challenges these assumptions.

Work examining the Indian startup ecosystem reveals how entrepreneurs adapted to infrastructure constraints through creative problem solving and strategic resource allocation. Research demonstrates that India's vast consumer market, comprising over 1.4 billion people with rapidly increasing digital adoption, provided startups with enormous domestic growth opportunities that partially compensated for infrastructure limitations.

The expanding middle class, projected to reach 580 million by 2030, created unprecedented demand for digital services across sectors.

Academic analysis of government initiatives highlights the Startup India program launched in 2016 as a watershed moment for ecosystem development. The initiative provided tax benefits, simplified compliance processes, funding support through the Fund of Funds mechanism, and intellectual property protection.




Literature on infrastructure and economic development in India documents the persistent gap between infrastructure supply and demand.

Research reveals that while India has made substantial progress in certain areas, particularly digital infrastructure and telecommunications, physical infrastructure including roads, power, and logistics continues facing significant deficits. This creates a paradoxical environment where digital infrastructure advances rapidly while physical infrastructure improvement remains gradual.

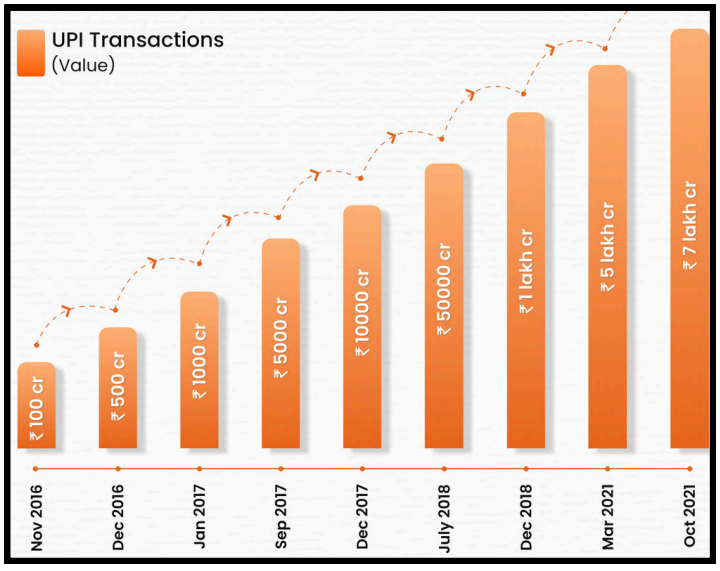
**Figure 1: Growth of Indian Unicorns (2011-2025)**

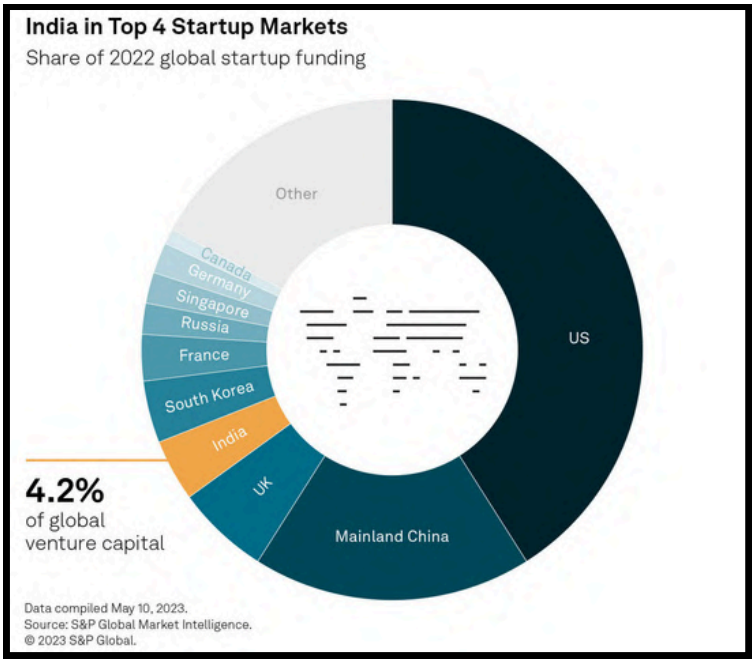
| | |
|---|---|
| 2011-2015 | First wave: 4 unicorns led by InMobi and Flipkart during nascent ecosystem development |
| 2016-2019 | Acceleration phase: Rapid increase to 30+ unicorns following Startup India launch and digital infrastructure improvements |
| 2020-2021 | Pandemic surge: 44 new unicorns emerge as digital adoption accelerates across sectors |
| 2022-2025 | Maturation: Ecosystem expands to 125+ unicorns with increasing focus on profitability and sustainable growth |

## Concept of Building Unicorns Despite Infrastructure Constraints

The phenomenon of Indian unicorn growth amid infrastructure challenges reflects several interconnected dynamics. First, digital infrastructure development outpaced physical infrastructure improvement, creating opportunities for technology enabled businesses to scale efficiently despite physical constraints. The launch of Reliance Jio in 2016 transformed internet accessibility by providing affordable mobile data, expanding the addressable market for digital services dramatically. Within four years, India's internet user base grew from approximately 300 million to over 750 million users, creating unprecedented opportunities for startups serving digital consumers.

Second, infrastructure constraints themselves created entrepreneurial opportunities. Poor physical infrastructure in areas like transportation and logistics motivated startups to develop innovative solutions addressing these gaps. Companies like Porter emerged specifically to solve intracity logistics inefficiencies caused by inadequate transportation infrastructure. Similarly, unreliable traditional retail distribution networks created opportunities for ecommerce platforms to build direct to consumer models bypassing physical infrastructure limitations.




## Role of Ecosystem Enablers in Unicorn Development

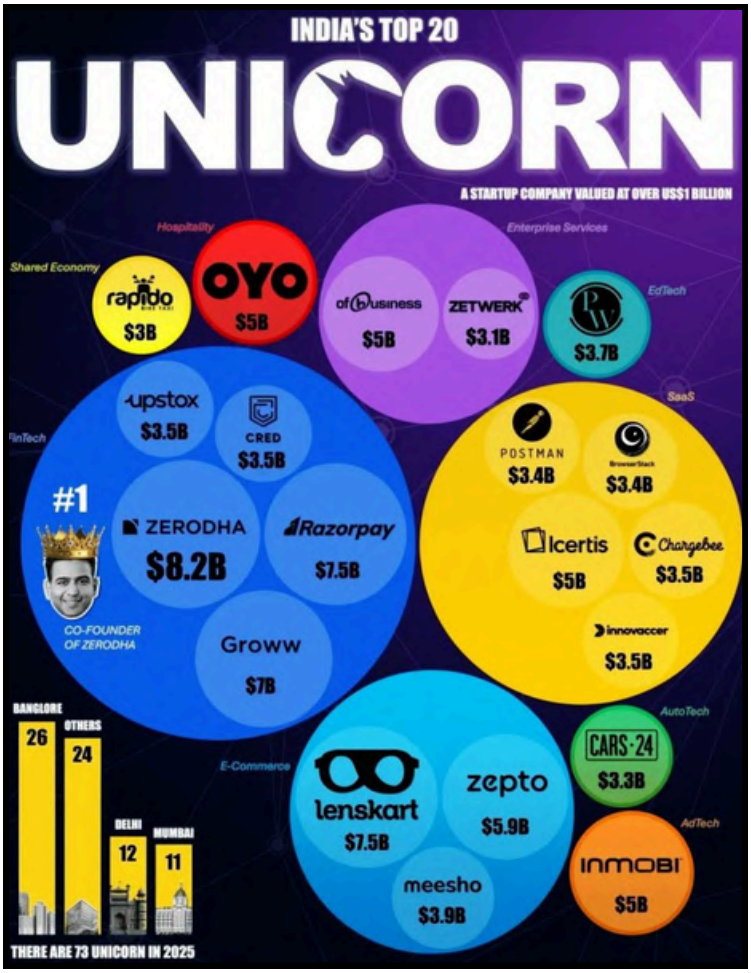
Several ecosystem enablers proved crucial in compensating for infrastructure limitations. Government policy interventions, particularly the Startup India initiative, created supportive frameworks reducing entrepreneurial barriers. Tax exemptions for qualifying startups, simplified incorporation processes, intellectual property fee reductions, and dedicated funding mechanisms lowered entry costs substantially. The elimination of angel tax in 2024 removed a significant constraint on early stage funding, encouraging more investor participation.

Digital public infrastructure development represented perhaps the most transformative enabler. The Unified Payments Interface revolutionized digital payments, enabling fintech startups to build innovative financial services reaching hundreds of millions of users. Aadhaar, India's digital identity system, facilitated customer verification and reduced onboarding friction across sectors. These digital infrastructure layers provided startup friendly foundations that physical infrastructure lacked.

Access to capital expanded dramatically during the 2010s and 2020s. Domestic venture capital firms matured alongside increasing international investor interest in Indian opportunities.

Family offices and corporate venture arms entered the ecosystem, diversifying funding sources. The presence of successful exits, particularly Walmart's 16 billion dollar Flipkart acquisition in 2018, demonstrated substantial value creation potential and attracted additional capital. By 2021, Indian startups were raising funding rounds comparable to developed market peers, with multiple companies securing valuations exceeding one billion dollars within years of founding. Talent availability provided another crucial advantage. India's large engineering talent pool, produced by numerous technical universities and colleges, supplied startups with skilled employees at costs substantially below developed market rates.

While talent retention challenges emerged as startups competed with multinational corporations and each other, the overall availability of technical talent enabled rapid team building and product development. The growing cultural acceptance of entrepreneurship as a legitimate career path, replacing earlier preferences for established corporate employment, expanded the talent pool willing to join risky ventures.




## Methodology

This research employs a qualitative analytical approach examining secondary data sources including government reports, industry analyses, academic publications, and startup ecosystem databases. The methodology focuses on identifying patterns in unicorn development, ecosystem evolution, and infrastructure adaptation strategies rather than statistical modeling.

Data collection involved compiling information on Indian unicorns from recognized databases tracking valuations, funding rounds, and company profiles. Government publications documenting infrastructure development, policy initiatives, and startup ecosystem metrics provided contextual data about operating conditions.

## Findings and Discussion

Analysis reveals that Indian unicorns concentrated heavily in sectors requiring minimal physical infrastructure. Fintech, software as a service, and digital services companies dominated the unicorn landscape, accounting for over 60 percent of billion dollar valuations. These sectors leveraged digital infrastructure advances while sidestepping physical infrastructure dependencies. Paytm, PhonePe, and Razorpay built massive payment platforms serving hundreds of millions of users with relatively modest physical footprints.

The pandemic period paradoxically accelerated unicorn creation despite economic disruption. Between 2020 and 2021, India added 44 new unicorns as digital adoption surged across demographics.

Geographic diversification emerged as a notable trend, with nearly 50 percent of new startups originating from tier two and tier three cities by 2025. This expansion occurred despite weaker infrastructure in smaller cities compared to major metros. Entrepreneurs in these regions built businesses serving local markets and leveraging lower operational costs.

The spread of digital infrastructure and remote work capabilities enabled talent to remain in smaller cities rather than migrating to major hubs, supporting distributed ecosystem development.
Infrastructure constraints themselves created differentiated business models. Indian startups developed unique approaches adapted to local conditions that sometimes proved advantageous globally.

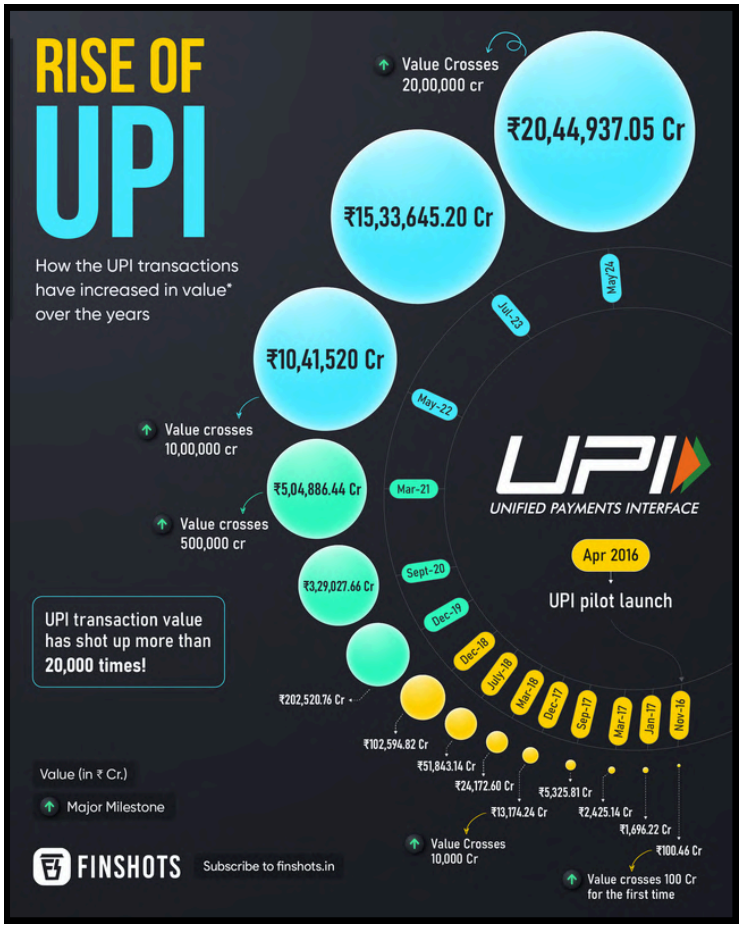
Jugaad innovation, the practice of creating frugal solutions to complex problems, became embedded in startup DNA. Companies learned to operate efficiently with limited resources, building lean operations and capital efficient growth models.

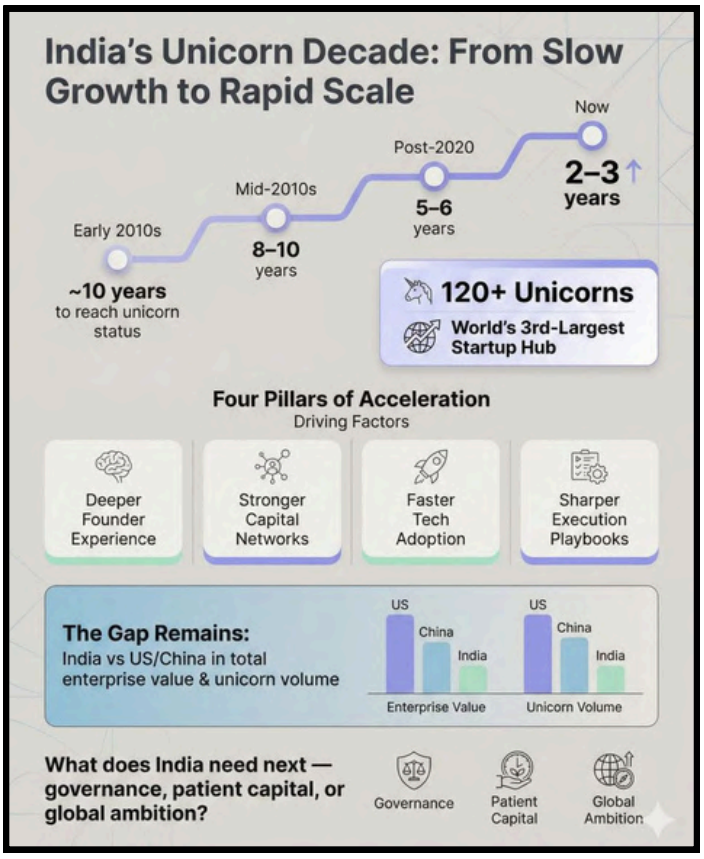
These capabilities sometimes translated into competitive advantages when expanding to other emerging markets facing similar constraints. However, infrastructure limitations also created significant challenges. High operational costs from unreliable power supplies, expensive logistics, and regulatory complexity reduced profitability for many unicorns.

Several high profile companies including Byju's faced severe financial distress despite achieving billion dollar valuations, partly due to unsustainable cost structures. The gap between valuation and profitability emerged as a persistent concern, with many unicorns prioritizing growth over unit economics.

**Limitations**

This analysis faces several limitations requiring acknowledgment. The reliance on secondary data sources limits ability to examine internal company strategies and decision making processes directly. Unicorn valuations, particularly for private companies, may not accurately reflect underlying business fundamentals or sustainable value creation. The rapid pace of ecosystem change means that patterns observed during the study period may not persist as conditions evolve.
The focus on successful unicorns introduces survivorship bias, potentially overlooking numerous startups that failed precisely because infrastructure constraints proved insurmountable. Understanding failure patterns would provide more complete insights but data on failed startups remains limited and difficult to access systematically.
Infrastructure quality varies dramatically across regions and sectors, making generalizations challenging.




## Conclusion

India's development of 125 plus unicorns despite persistent infrastructure challenges demonstrates that entrepreneurial ecosystems can thrive under imperfect conditions when compensating factors provide sufficient support. The combination of massive addressable markets, improving digital infrastructure, supportive government policies, abundant technical talent, and increasing capital access created conditions enabling rapid unicorn creation even as physical infrastructure lagged global standards.

The experience offers important lessons for other emerging economies facing similar infrastructure constraints. First, strategic investment in digital infrastructure can generate substantial entrepreneurial returns even when physical infrastructure improvements proceed slowly. Second, large domestic markets provide crucial advantages allowing startups to achieve scale before international expansion.

Third, policy frameworks reducing regulatory friction and supporting entrepreneurship prove valuable even absent world class physical infrastructure. Fourth, infrastructure constraints themselves can inspire innovative business models addressing unmet needs.

However, the sustainability of growth built on inadequate infrastructure remains questionable. As Indian unicorns mature and face profitability pressures, infrastructure limitations may increasingly constrain performance. Continued ecosystem development requires addressing physical infrastructure gaps alongside digital advancement.

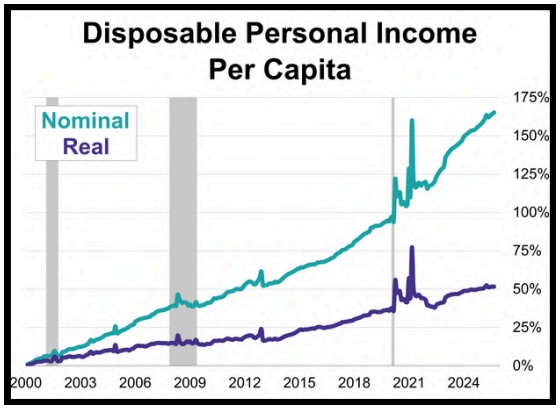
# Change In Market Trend

India's startup landscape is rapidly moving beyond big metros and a key engine driving this transformation is the evolution of consumer markets in Tier 2 and Tier 3 cities.

Rather than being passive buyers, these consumers are actively shaping product choices, growth strategies, and business models of new startups. This is affected by various factors as:

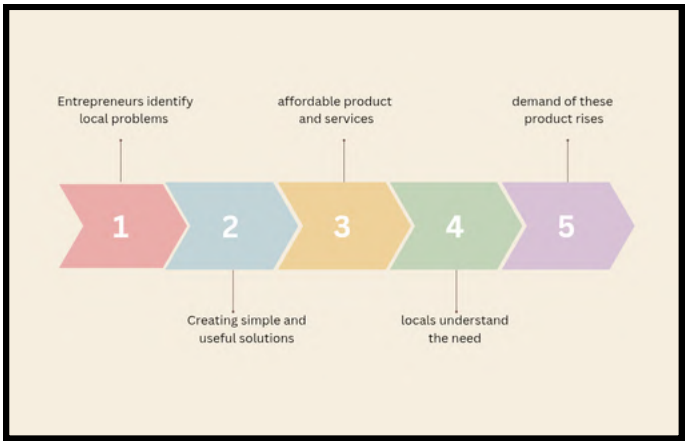
**1. Higher Disposable Income:**

- Earlier, the consumers of metro cities had high disposable income. But this situation is changing.
- People in smaller cities are now getting better job opportunities and higher pay, especially after the rise of remote work. This has made it possible for them to work for good companies without moving to big cities.
- At the same time, the cost of living in these cities is still lower than in big cities. This means people can save money and also spend more on things they like.
- Today, families in Tier 2 and Tier 3 cities are spending more on clothes, eating out, personal care, mobile phones, entertainment, and online services. These things were once seen as luxury items, but now they are becoming part of daily life. This shows that the rise in spending is not temporary, but a regular habit.




2. Local Entrepreneurs Are Solving Everyday Problems:

- Another important change is the way new business owners are working. Many entrepreneurs now come from smaller cities and understand the daily problems faced by local people.
- Instead of copying ideas from big cities, they are creating businesses that solve real problems around them.
- These startups focus on issues like:
  - Easy access to doctors and medicines
  - Better education options in local languages
  - Faster delivery of goods
  - Products made for local tastes and needs
- When startups solve these problems, people are more willing to spend their money because the services are useful and affordable. In many cases, people are buying such services for the first time, which increases demand even more.




3. Startups Are Creating New Demand, Not Just Fulfilling Old Needs:

Earlier, people in smaller cities had needs but no good options to meet those needs. But now, startups are filling that gap. As people start using those services, they slowly start spending more and trying new products.

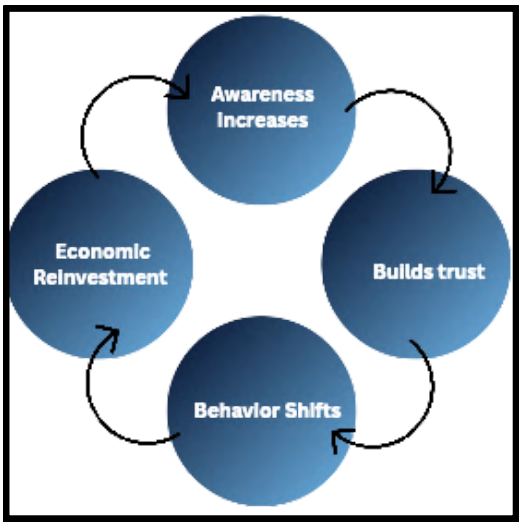
This leads to a cycle where:

Awareness Increases: As startups market specifically to Tier 2 and Tier 3 cities, people become aware of global trends and modern conveniences that they thought they could never afford.

Trust is Built: As startups provide localized customer service and apps in vernacular (local language), first-time digital users feel comfortable spending money online.

Behavior Shifts: What starts as a "trial" of a new service (such as ordering groceries online or taking an online course) quickly becomes a permanent lifestyle change.

Economic Reinvestment: As these startups grow, they start hiring local talent, further increasing the "Higher Disposable Income" referred to in point one.

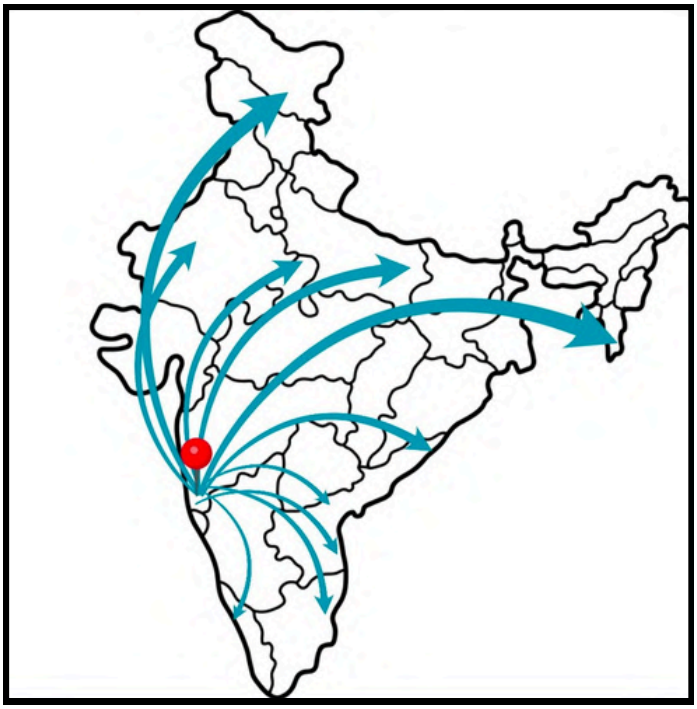



The "Aspiration" Factor
Whereas metro consumers may purchase as a convenience, consumers in smaller cities purchase out of aspiration. Startups are capitalizing on this by providing aspirational experiences such as high-end skincare, investment services for fintech, and fitness apps that were only available in Tier 1 cities.

By doing away with the "geographic barrier" to quality, startups are not only competing for a piece of the existing market, but are essentially creating a whole new market from scratch.

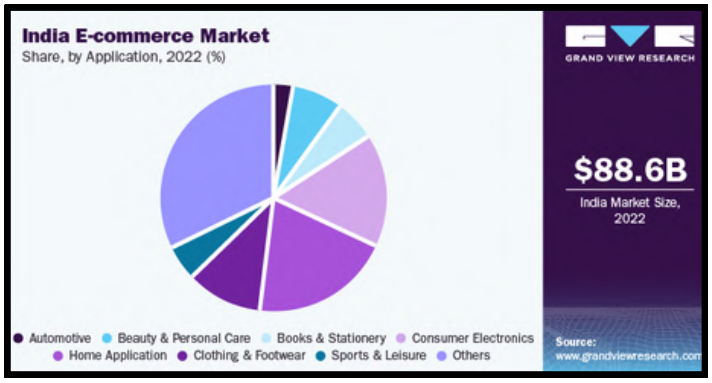
4. Big Brands Are Opening Their Stores In Smaller Cities: Another clear sign of rising demand is that many well-known brands are now opening their outlets in Tier-2 and Tier-3 cities. Earlier, such brands were mostly found in metro cities, but today they see strong demand and spending power in smaller cities as well.

For example, McDonald's is planning a major expansion aiming to nearly double its store count from around 245 outlets today to about 500-600 outlets by 2030, with many new restaurants in smaller cities such as Gangtok, Siliguri, and Guwahati. Similarly, Starbucks operates in India through a 50:50 joint venture with Tata Consumer Products. The company has been actively expanding beyond just metros; it currently runs several stores in cities like Jalandhar, Kolhapur, and Siliguri and has announced an ambitious plan to grow to around 1,000 stores nationwide by 2028 with much of that growth targeted at Tier-2 and Tier-3 markets.
Shopping malls, branded clothing stores, food outlets, and electronics shops are becoming common in these cities. Brands would not invest in opening stores here if people did not have the money and interest to spend. Their presence further increases choices for consumers and encourages people to spend more, which supports both big brands and local startups.



## E-Commerce

E-commerce has thus become a strong force that has linked non-metro cities with national and international markets. The development of digital infrastructure, the use of smartphones, the availability of cheap internet, and the development of digital payment systems have decreased the economic and geographical distance between metro and non-metro cities. For Tier 2 and Tier 3 cities, this has resulted in bridging the limitations of restricted market access, lack of consumer choice, and reliance on local markets. E-commerce platforms have thus enabled businesses and consumers in non-metro cities to access the same marketplaces as their metro counterparts, thus facilitating the movement of goods, services, and information across markets.




1. Lower Entry Barriers for Business Formation

- E-commerce has significantly reduced the cost and risk associated with starting a business.
- Traditional retail models required physical shops, high rental expenses, inventory storage, and local distribution networks, which often acted as barriers in smaller cities.
- Online commerce removes many of these fixed costs, allowing entrepreneurs to start businesses with limited capital.
- This has made entrepreneurship more accessible to first-time business owners, home-based sellers, and small producers in Tier 2 and Tier 3 cities.

2. Expansion of Market Reach Beyond Local Demand

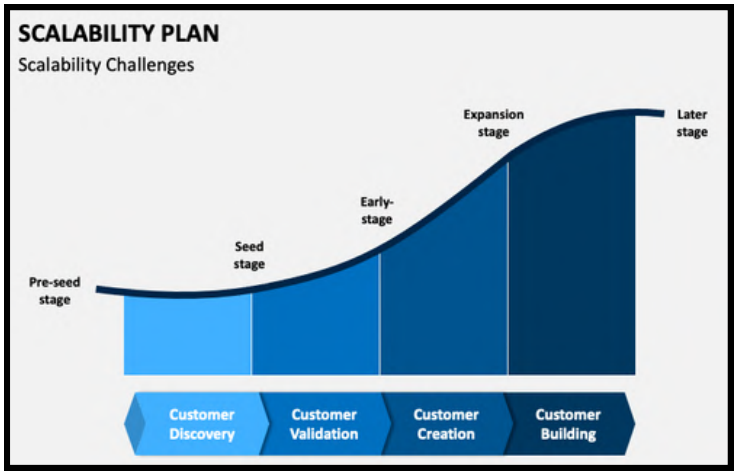
- One of the most transformative impacts of e-commerce is the removal of geographical limitations.
- Earlier, businesses in smaller cities were largely dependent on local or nearby demand.
- E-commerce enables sellers to access customers across regions and states, significantly increasing their potential market size.
- This shift allows businesses in Tier 2 and Tier 3 cities to scale beyond local consumption patterns and operate at a national, and in some cases international, level.

3. Integration into Organised and Formal Markets

- Participation in e-commerce platforms requires adherence to standardised systems related to pricing transparency, digital payments, logistics coordination, and customer service.
- This encourages businesses in smaller cities to adopt more formal operational practices.
- Over time, such integration supports the transition of local enterprises from informal activity to more organised and structured business models, improving efficiency, accountability, and long-term growth prospects.

4. Improved Business Scalability and Growth Potential

- E-commerce provides ready-made infrastructure for logistics, payments, and customer interaction, which enables businesses to focus on product development and expansion.



- Access to larger markets allows firms to increase volumes and achieve scale economies that were previously difficult to attain in smaller cities.
- This improves revenue stability and enhances the capacity of businesses to grow sustainably over time.

5. Encouragement of Innovation and Product Differentiation

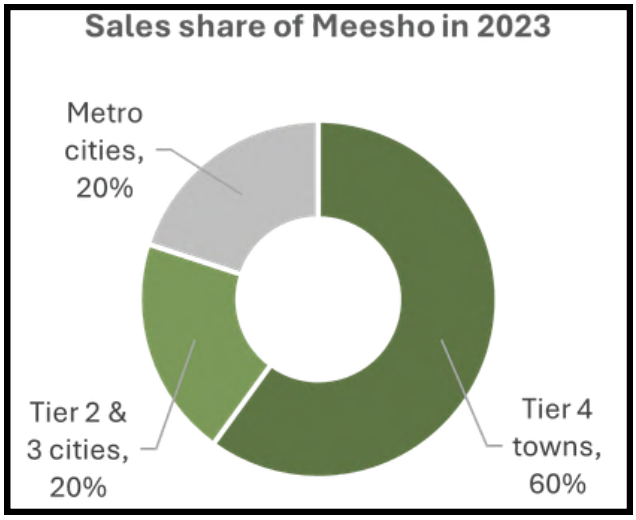
- As businesses comipete in larger and more diverse markets, e-commerce encourages entrepreneurs to innovate and differentiate their offerings.
- Exposure to wider consumer preferences pushes sellers in Tier 2 and Tier 3 cities to improve product quality, design, packaging, and pricing.
- This competitive environment fosters innovation at the grassroots level and enables local enterprises to align with evolving consumer expectations.

## Case Study - MEESHO

Meesho represents a significant shift in India's startup ecosystem by enabling entrepreneurship beyond metropolitan cities. Founded in 2015, the platform operates as a social commerce and e-commerce model that allows individuals and small businesses to sell products online without requiring large capital investment or physical retail infrastructure. This model is particularly relevant for Tier 2 and Tier 3 cities, where access to formal markets, funding, and traditional retail channels has been limited.

### Key Observations from the Platform's Growth

- A large proportion of Meesho's seller base comes from non-metro regions, with approximately 60-70% of registered sellers located in Tier 2 and Tier 3 cities.
- These sellers include small traders, manufacturers, home-based entrepreneurs, and first-time business owners who often rely on smartphones as their primary business tool.
- On the consumer side, nearly 80% of Meesho's total orders originate from smaller cities.
- In 2023, the platform facilitated transactions for around 14 crore customers, reflecting rising disposable incomes and increasing digital adoption in non-metro India.
- Festive sales data further indicates that close to three-fourths of demand is generated from Tier 2 and Tier 3 markets.



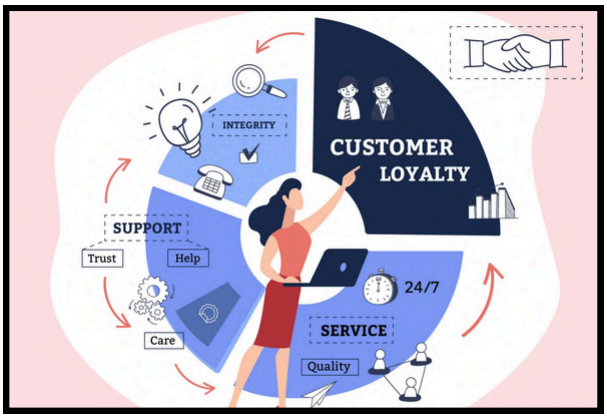

### Outcomes for Small Businesses and Sellers

- Meesho has played a crucial role in lowering entry barriers for entrepreneurs by eliminating the need for physical retail spaces, reducing inventory risk, and simplifying digital onboarding processes.
- This has enabled a large number of individuals from smaller cities to enter the formal digital economy.

Beyond entry, the platform has also supported business scaling. Over 75,000 sellers have recorded double-digit sales growth, around 10,000 sellers have crossed ₹1 crore in annual sales.

### Implications for the Startup Ecosystem

- The growth of Meesho highlights the dual role of e-commerce platforms in driving the new startup wave—supporting both the creation of new enterprises and their ability to scale across regions.
- Entrepreneurs from Tier 2 and Tier 3 cities are no longer restricted by local demand and can access nationwide markets through integrated logistics and digital payment systems.
- This has encouraged wider participation in entrepreneurship and contributed to the decentralisation of startup activity beyond major urban centres.




### Concluding Insights

- Overall, Meesho demonstrates how e-commerce can transform Tier 2 and Tier 3 cities into active hubs of entrepreneurial activity.
- The case underscores the increasing economic importance of non-metro India, not only as emerging consumer markets but also as significant contributors to India's startup-driven growth trajectory.

# Case Study : PREMIUM HOUSING DEMAND EXPANDS BEYOND METROS

In recent years, the real estate market in India has witnessed a notable shift—luxury and premium housing demand is no longer confined to major metropolitan cities like Mumbai, Delhi-NCR, or Bengaluru. Emerging evidence points to a growing interest in high-end residential properties in smaller urban centres, such as Panchkula, Mohali, Raipur, and Bilaspur. This shift represents a structural change in how housing demand is spreading across the urban landscape, driven by rising incomes, improved infrastructure, and evolving lifestyle aspirations.

Traditionally, premium and luxury home purchases were concentrated in Tier 1 cities where high-income populations, international investment appetite, and established lifestyle infrastructure attracted affluent buyers.

However, recent industry reports indicate that non-metro markets are becoming key players in the next phase of India's residential growth. According to projections by Magicbricks India, the luxury housing market is expected to grow rapidly from approximately USD 17 billion in 2024 to over USD 103 billion by 2030.

This growth is part of a broader real estate trend where housing demand and investment are expanding geographically, not just vertically in metro hubs. Analyst and developer insights highlight that the premium segment's rise is linked to rising household prosperity and emerging urban lifestyles in smaller cities.

**Key Results:**

**1. Spread of Demand Beyond Metros**

Data from industry sources like ANAROCK show increasing buyer interest in premium homes outside metro cities. Places such as Panchkula, Mohali, Raipur, and Bilaspur have seen higher demand due to their improved infrastructure, more affordable land, and lower density compared to large cities.

**2. Drivers of Growth**

- **Higher Disposable Incomes:** Households in emerging cities now have more purchasing power, allowing them to consider premium housing options.
- **Lifestyle Aspirations:** Buyers increasingly prioritise space, comfort, privacy, and lifestyle-oriented living environments, such as gated communities with modern features.
- **Infrastructure Development:** Better connectivity, road networks, and urban planning improvements have made smaller cities more attractive for homebuyers.
- **NRI Investment**: Non-resident Indians (NRIs) have shown strong interest in buying residential properties in these markets, viewing them as favourable long-term investments.

3**. Developer Confidence**

Real estate developers have responded to this shift by launching more premium projects in Tier 2 and Tier 3 cities. Companies such as DLF Homes and Rama Group are actively promoting luxury residences in these emerging markets, signalling industry confidence in sustained demand beyond traditional real estate hubs.

**Relation with Startup and Consumer Market Trends**

While this case study focuses on housing rather than direct startup activity, it strongly aligns with the broader trend of rising consumer demand outside metro cities—the same demand forces driving the new startup wave:

- **Increase in Disposable Incomes**: As households in smaller cities earn more, they are willing to invest in long-term assets like premium homes — indicating higher consumer purchasing power that startups can target.
- **Changing Lifestyle Preferences:** Just as premium housing demand reflects changing lifestyle aspirations, many startups are now building products and services that align with more sophisticated consumer tastes in non-metro regions.
- **Geographic Expansion of Markets**: The shift of housing demand beyond Tier 1 cities mirrors how e-commerce and digital platforms allow consumer products and services to reach smaller cities — expanding markets for startups.

Thus, the premium housing trend signals a broader rise in aspirational consumption, affirming that smaller urban markets are no longer secondary consumption zones but active contributors to economic growth and new market formation.

# How Entrepreneurship brings social impact with economical impact.

Since the 1980s, small business owners and entrepreneurs have been receiving greater recognition as drivers of economic growth. Over the last two decades, extensive literature on the importance of small businesses in the economy has consistently shown that the creation of new businesses drives economic prosperity. As well as playing a crucial role in increasing the competition of emerging sectors, new small businesses are critical for economic growth and innovative capacity in many regions. Job creation, economic growth and poverty reduction are usually the main political interests in entrepreneurship.

Small businesses transform and develop communities. Entrepreneurs create ways to connect resources and growth across cultures, policy contexts, economic conditions and political situations that differ from a region to another.

Social Entrepreneurship is the process of recognizing and resourcefully pursuing the opportunities to create a social value for society. Entrepreneurs do not forcefully create a social opportunity; instead, they are innovative enough to recognize the problems in society then they align the business strategies and mindset along with social impact.

## Basic components of social entrepreneurship:

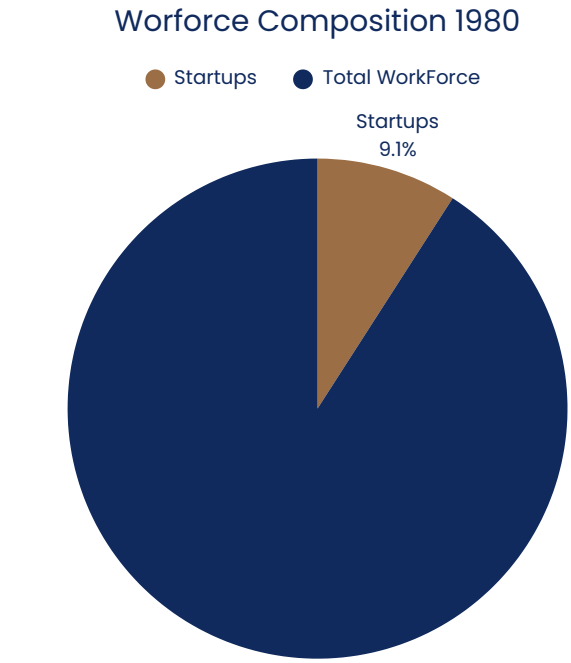
- It is undertaken by a special group of people referred to as social entrepreneurs.
- It is a situation where social problems are identified and solved using entrepreneurial principles.
- The main purpose stands at bringing social changes, rather than making individual profits.
- Social entrepreneurship is successful in terms of not the big profits, but the unquantifiable social impacts.
- The venture established by social entrepreneurs is called a social enterprise and prime focus is on social innovations for prevailing social problems.

# How entrepreneurship changed the demographics of tier 2 and tier 3 cities

These are no. of people working in small enterprises (in millions) or startups in tier 2 and tier 3 cities (it is a guesstimate based on proper resources).

This data **300 million** is the total workforce of our country in 1980, among them only **30 million** people are working in small enterprises; however, the no. of small enterprises were also around 1.3-1.5 million only.

There are many reasons of less no. of small enterprises and startups in that time, some of the reasons are mentioned below:




- **License Raj**
- **Resource Mobilisation**
- **Historical Barriers**
- **Government Behaviour**

**License Raj** - Before LPG (Liberalisation, globalisation and privatisation) the process of owning an enterprise and expanding it was very tough. The government policies are not as liberal as they are today. Even for expanding the production capacity of existing units, multiple licenses were required.

**Resource Mobilisation** - Resources can not easily be provided to rural plants as the basic infrastructure was not as developed as it is today. The network of roads, internet, technology—these factors were far away from the rural sector and even tier 2.

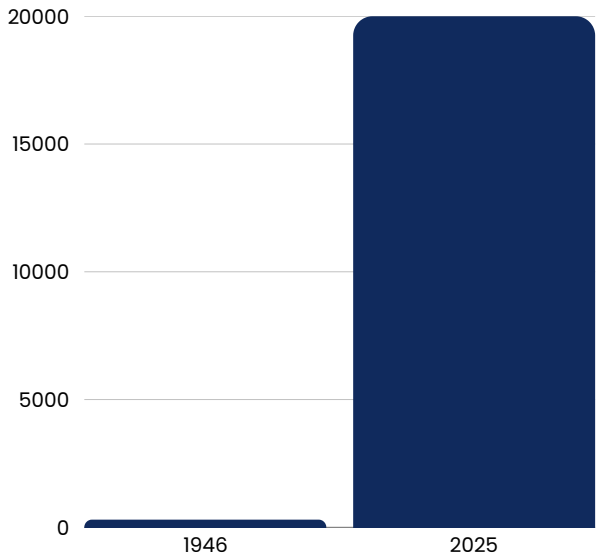
**Infrastructure Barriers -**
Even if someone wanted to take the initiative of opening a startup, the infrastructure discouraged an entrepreneur to the bottom of his heart.

**No government support** - The government did not support the startups by providing them any subsidies or designing liberal policies. Policies such as Monopolies and Restrictive Trade Practices (MRTP) Act, 1969 and Foreign Exchange Regulation Act (FERA), 1973

# How Amul changed the face of Gujarat

Amul was established in 1946 under the aegis of the Kaira District Co-operative Milk Producers Ltd. which eventually led to the formation of Gujarat Cooperative Milk Marketing Federation (GCMMF) in 1973.

In beginning Amul only employed around 250-300 people(by workers it is referred to milk sellers), with time and constant support of people it grew and now in 2025 it is connected with over 25000-30000 milk sellers, However some people debate to not refer it as startup as it is an cooperative society, well one can say it's not the form we are arguing about it's the vision and transformation it brought into Gujarat.




## How Amul changed face of Gujarat

1. Empowered rural milk producers
2. Institutionalised cooperative governance
3. Boosted village-level incomes
4. Created decentralized industrialization
5. Catalysed Gujarat's rural development

# Issues and Challenges

1. Competitive paradox: While Amul (GCMMF) has emerged as a dominant national brand competing with MNCs like Nestlé, it faces structural stress in retaining its primary stakeholders—dairy farmers, especially rural youth shifting away from dairy livelihoods.
2. Farmer distress drivers: Low farm incomes, driven by rising cattle feed costs, lack of state support or subsidies during droughts, and erosion of common grazing land due to industrialization, have weakened dairy farming viability in Gujarat (Pandey, 2019).
3. Institutional and political constraints: Political control over district milk unions, stagnant procurement prices, and inadequate support for gaushalas have constrained farmer welfare despite symbolic pro-dairy rhetoric (Pandey, 2019).
4. Productivity bottlenecks: Chronic feed and fodder shortages, poor forage quality, mineral deficiencies, low adoption of improved feeding and breeding practices, and limited purchasing capacity of smallholders have depressed animal productivity and profitability (Santra, 2018; Bahadur, 2020).
5. Policy-induced market distortion: Low import tariffs (~15%) on subsidized foreign dairy products disadvantage Indian dairy farmers who lack equivalent support, creating an uneven competitive environment; nevertheless, GCMMF sustains market leadership, with significant unrealized potential under a level policy regime.

# Challenges And Barriers


### Finding talent

Experts say that the challenges these startups face is mainly access to the right talent. Even though things have changed to a great extent, access is less as compared to metros. The reason talent has been available widely in Tier 1 cities is the migration of students to these cities for a better quality of education. Further, for many years, cities like Bengaluru, Mumbai, Pune, Chennai and Hyderabad have been the tech capitals of India where large Indian service companies such as Infosys, Wipro, TCS and Cognizant have set up shop. "Also, you have global tech firms namely Amazon, Google, Facebook and Microsoft that have set up large teams in these cities. This bedrock of talent is what comes out and starts companies. Hence, there is a concentration of unicorns in a few places," said Rajiv Raghunandan, founding partner, Arali Ventures.

### Lack of ecosystem

Also, metros have a vast network of startup founders, investors and mentors, who often have many meetings and get-togethers during weekends. Budding startup founders in these cities use these events as an opportunity to learn and build their businesses, something that small towns and cities still lack. For some entrepreneurs, this also means often traveling to cities to have meetings with investors, government agencies and other stakeholders.

### Lack of access to funds

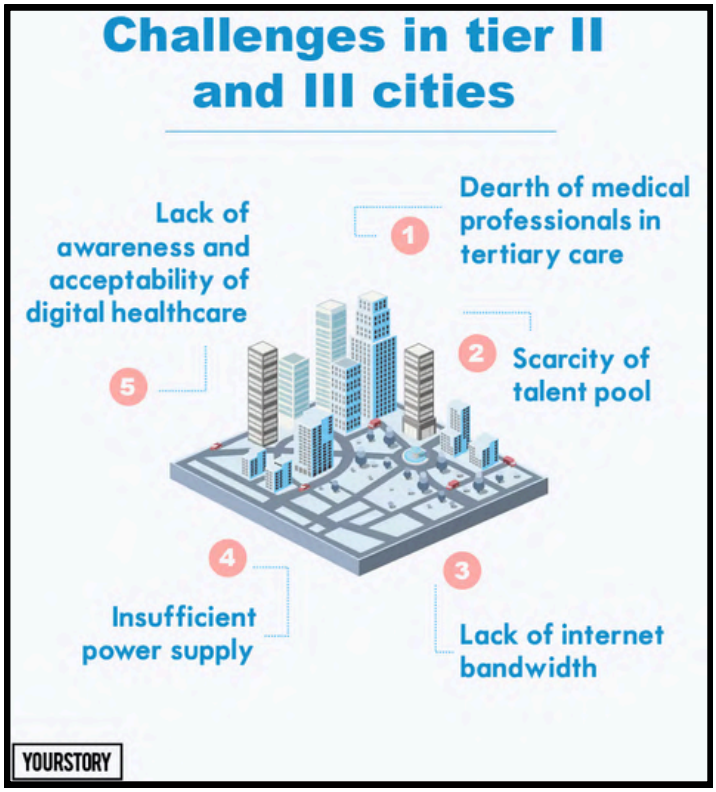
Most investors are today based out of urban cities. It thus makes it easy for startups based out of these places to raise funding. "The total funding raised by Tier 2 cities startups in the last six years accounted for approximately 2 per cent of the total funding raised by Indian startups.

### Weak communication skills

Lack of communication skills has been observed to be one of the challenges being faced by the founders from Tier 2 and beyond. "This can be overcome with a lot more interaction and mock sessions on the art of pitching. To an extent, the Indian edition of Shark Tank, is reducing the gap and making the founders believe in their product and themselves, which is the key factor," said Brijesh Damodaran.

### High logistics costs

Further, they also face operating challenges such as high logistics costs, lack of warehousing facilities, power shortages, and the like. "These challenges at the initial stages, sometimes become a roadblock to attracting institutional investors in later rounds, where growth capital is essential for the business to thrive," said Aparna Pittie, Principal, Artha India Ventures.



**Sustainability challenges**

Funding issues – Business dreams are invariably fuelled by money, and at the startup level, entrepreneurs need to burn cash until their growth engine starts firing. With almost no venture capital firms in the Tier II and III cities, startups located there find it difficult to get going despite no dearth of path-breaking ideas and innovations. Many entrepreneurs end up selling their IPs to large enterprises in the metros, and giving up on their vision even when they know they could do it with the right support.

**Language Barrier**

Another major India-specific barrier is the diversity of language and social practices. A startup established in Karnataka is likely to struggle appealing to audiences in Maharashtra, Punjab, or northeast India due to a lack of ability to communicate in languages of those regions. Similarly, talent hired from other regions might find it difficult to work with local workers or customers in a different region.

**Lack of information about startup initiatives and opportunities**

In this era of digitization, lack of information comes as a surprising yet daunting obstacle for entrepreneurs outside metro cities. The Government of India as well as various state governments have launched a number of schemes under initiatives like Startup India and Aatmanirbhar Bharat etc. However, detailed information and assistance on how to avail benefits and support under these initiatives is not available to most rural entrepreneurs. Dedicated facilities such as IT parks, and governmental incubation centres are often located in or at the periphery of metro cities which makes small town entrepreneurs struggle to benefit from them. For instance, Hubbali is a town with incredible potential, but the smaller size of the town deprives local entrepreneurs of the opportunities that startup founders in Bangalore get.

# Government Policy and Support

With **over 2 lakh DPIIT-recognised startups** as of December 2025, India stands firmly as one of the world's **largest** startup ecosystems.
A **decade of Startup India** has built a full-lifecycle support system spanning ideation, funding, mentorship, and scale-up.
Around **50%** of DPIIT-recognised startups originate from **Tier-II and Tier-III** cities, signalling the democratisation of entrepreneurship.
**AIM 2.0 centred on piloting new initiatives to address ecosystem gaps and scaling proven models** in collaboration with Governments, industry, academia, and communities
**Rural and grassroots programmes** such as **SVEP, ASPIRE, and PMEGP** are enabling micro-enterprises, women-led ventures, and local jobs.

**Startups: An Inspiration for Economic Growth**

- Drive technological innovation and productivity
- Create large-scale employment opportunities
- Enhance financial inclusion and digital access
- Promote regional and grassroots entrepreneurship

**Startup India Initiative: A Decade of Building India's Innovation Backbone**

The Startup India Initiative, led by the Department for Promotion of Industry and Internal Trade (DPIIT) under the Ministry of Commerce and Industry, has emerged as the cornerstone of India's innovation and entrepreneurial ecosystem.

**Startups: Pivotal Role in Economic Transformation**

**National Startup Day on 16 January 2026** marks a landmark **decade of the Startup India** Initiative. What began in 2016 as a policy push to energise entrepreneurship has evolved into one of the world's largest and most diverse startup ecosystems. Anchored by **"Startup India"** this movement has had a transformative impact on India's entrepreneurial and innovation ecosystem. It is firmly aligned with India's march toward achievement of Viksit Bharat 2047, combining economic modernization with inclusive regional uplift. reflecting its.

Startups have emerged as a vital pillar of India's **economic transformation, driving innovation, job creation, and inclusive development.** Over the past decade, India has rapidly evolved into one of the **world's largest startup ecosystems,** with more than **2 lakh startups as of December 2025 .** Major hubs like Bengaluru, Hyderabad, Mumbai, and Delhi-NCR have been at the forefront of this transformation. At the same time, **smaller cities are also steadily contributing to the momentum with around 50% of the startups emerging from Tier II/ III cities.** , reflecting the democratization of entrepreneurship.

This progress is reflected in India's high-value startup ecosystem, which has expanded from just four **privately held companies valued above $1 billion in 2014 to over 120 such firms today, with a combined valuation exceeding $350 billion** underscoring both the scale and growing global relevance of India's startup landscape.

Startups are leveraging India's **young demographic dividend**, generating employment across technology, services, an

manufacturing sectors, while also creating **indirect job opportunities** through gig work and supply chains. Beyond employment, startups are increasingly collaborating with **large corporates and multinational companies**, facilitating **technology transfer, scalability, and global market integration**.

In traditional sectors, innovation is driving economy-wide impact: **agri-tech platforms** like Hesa are improving farmers' market access by bridging the rural-urban divide, while **clean mobility startups** such as Zypp are delivering scalable EV-based last-mile solutions. These innovations are producing **multiplier effects across finance, supply chains, sustainability, and digital infrastructure**, underscoring the broader ecosystem benefits of a thriving startup sector.

To accelerate innovation-led entrepreneurship, **DPIIT, through the Startup India initiative, has rolled out the following flagship schemes and digital platforms to support funding, mentorship, and the scaling of startups nationwide.**


- **Fund of Funds for Startups (FFS)**

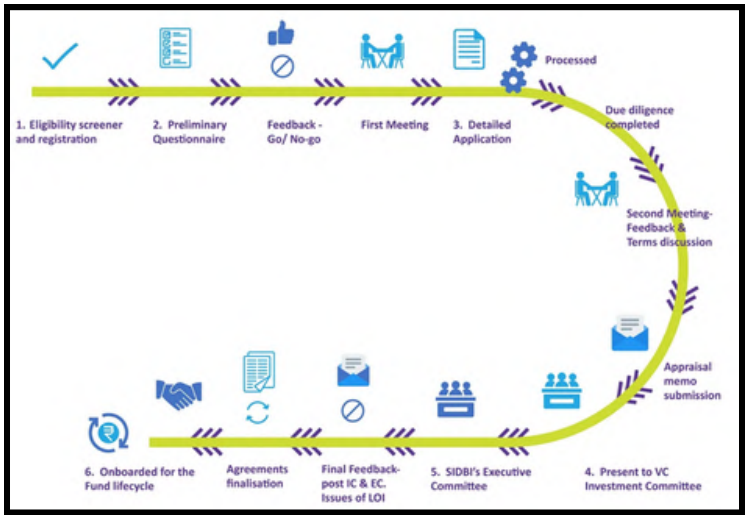
The Fund of Funds for Startups (FFS) is a flagship initiative of the **DPIIT** under the Startup India Action Plan and is managed by the **Small Industries Development Bank of India (SIDBI**)

- **Credit Guarantee Scheme for Startups**

The Credit Guarantee Scheme for Startups is implemented for enabling collateral free loans to startups through eligible financial institutions. CGSS is operationalized by the **National Credit**

- . With a corpus of ₹10,000 crore, the scheme supports SEBI-registered **Alternative Investment Funds (AIFs)**, which in turn invest in startups, with the objective of expanding access to domestic risk capital and strengthening the entrepreneurial ecosystem.

The corpus of Rs. 10,000 crore has been committed **to over 140 AIFs**, which have collectively invested **₹25,500+ crore in 1,370+ startups**.




- **Guarantee Trustee Company (NCGTC) Limited**.

Under CGSS, **330+ loans** worth **over ₹800 crore** have been guaranteed for startup borrowers.

- **Startup India Hub**

The Startup India Online Hub is a one-of-a-kind digital platform for all stakeholders of the entrepreneurial ecosystem in India to discover, connect and engage with each other.The Startup Hub operationalizes this by connecting investors, mentors, and incubators with India's aspiring entrepreneur. It brings together funds, academic institutions, corporates, and government bodies.

- **States' Startup Ranking Framework (SRF)**

The States' Startup Ranking Framework (SRF) **assesses** states and Union Territories based on their **startup-friendly policies and implementation**, fostering competitive federalism to strengthen India's entrepreneurial ecosystem. Under the framework, states and UTs are classified into categories such as **Best Performers, Top Performers, Leaders, Aspiring Leaders**, and **Emerging Startup Ecosystems**, encouraging healthy competition and continuous improvement in startup governance.

- **National Mentorship Portal (MAARG)**

The Mentorship, Advisory, Assistance, Resilience, and Growth (**MAARG**) program has been developed to provide startups across the country with easy **access to mentorship**. By connecting **entrepreneurs** with **experienced mentors**, the portal aims to support startup growth, offer strategic guidance, and strengthen the overall entrepreneurial ecosystem nationwide.

- **Startup India Investor Connect Portal**

Developed in collaboration with **SIDBI**, the Startup India Investor Connect Portal is a digital platform that connects **startups with venture capital funds and investors**, with a particular focus on early-stage ventures. The platform enables entrepreneurs to reach **multiple investors** through **a single application** and pitch their ideas efficiently.

- **Startup India Seed Fund Scheme (SISFS)**

With a **corpus of ₹945 crore**, the Startup India Seed Fund Scheme (SISFS) provides financial assistance to startups for activities such as proof of concept, prototyping, product trials, market entry, and commercialisation. The scheme is overseen by an **Expert Advisory Committee (EAC),** which is responsible for its implementation, execution, and monitoring.

The corpus of **₹945 crore** have been approved to **215+ incubators to support early-stage startups** under the scheme.


**Schemes Strengthening India's Startup Ecosystem**

In addition to Startup India, a range of sector-specific and ministry-led initiatives have reinforced India's startup ecosystem by addressing technology development, rural entrepreneurship, academic innovation, and regional inclusion. These schemes ensure that startup support is broad-based, decentralised, and aligned with national development priorities.

| Scheme | Ministry | Objective |
|---|---|---|
| Atal Innovation Mission (AIM) (2016) | NITI Aayog | Foster nationwide innovation culture |
| GENESIS (Gen-Next Support for Innovative Startups) (2022) | Ministry of Electronics & IT (Meity) | Deep-tech startups in Tier II/III cities |
| Technology Incubation and Development of Entrepreneurs (TIDE) 2.0 (2019) | Ministry of Electronics & IT (Meity) | ICT startup incubation & scale-up |
| MeitY Startup Hub (MSH) (2016) | Ministry of Electronics & IT (Meity) | Integrate tech startup ecosystem |
| NIDHI (National Initiative for Developing and Harnessing Innovations) (2016) | Department of Science & Technology (DST) | Support S&T startups from idea to market |
| Startup Village Entrepreneurship Programme (SVEP) (2015) | Ministry of Rural Development (DAY- NRLM) | Promote rural entrepreneurship |
| ASPIRE (Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship) (2015) | Ministry of MSME | Strengthen rural enterprise incubators |
| Prime Minister's Employment Generation Programme (PMEGP) (2008) | Ministry of MSME (KVIC) | Subsidised credit for self-employment |

**Atal Innovation Mission (AIM)**

Launched in **2016** by **NITI Aayog**, the Atal Innovation Mission (AIM) is the Government's flagship initiative that aims to foster a nationwide culture of innovation and entrepreneurship across schools, universities, research institutions, startups, and industry. With an **outlay of ₹2,750 croreup to March 2028**, AIM provides an integrated framework to design innovation programmes, enable partnerships, and strengthen India's startup ecosystem.

**Technology Incubation and Development of Entrepreneurs (TIDE) 2.0 Scheme**

Anchored within the **Ministry of Electronics and Information Technology (MeitY)**, the TIDE 2.0 Scheme was introduced in **2019** to catalyse technology-driven entrepreneurship by strengthening incubators that support Information and Communication Technology (ICT) startups **using emerging technologies such as IoT, AI, blockchain and robotics.** The supported thematic **include Healthcare, Education, Agriculture, Financial Inclusion (including digital payments), Infrastructure and Transportation and Environment and Clean Tech.**

**AIM 1.0: Flagship Programs**

While closely working with various central and state ministries, incubators, and global partners, the flagship programmes under AIM promote the Indian startup ecosystem.

Atal Tinkering Labs (ATLs)

- The Atal Tinkering Lab (ATL) programme is focussed to reshape India's education landscape by moving students away from rote learning towards creativity, problem-solving, and innovation.
- With more than 10,000 ATLs spread across 733 districts, AIM is enabling millions of students to explore 21st-century skills such as AI, robotics, IoT, 3D printing, and beyond. While engaging over 1.1 crore students, it has enabled 16 lakh+ innovation projects.

**Community Innovator Fellowship (CIF)**

- Implemented in partnership with UNDP India, the programme equips aspiring community innovators with the knowledge, mentorship, and infrastructure support needed to drive **grassroots entrepreneurship and social impact.**
- In one-year intensive fellowship, each fellow is placed at an Atal Community Innovation Centre, where they gain SDG awareness, entrepreneurial and life skills, and hands-on experience in developing and refining their own innovation ideas.

**Youth Co:Lab program**

- Youth Co:Lab aims at empowering and investing in young people across Asia-Pacific to drive the SDGs through leadership, social innovation, and entrepreneurship.
- The programme highlighted **theme-based national dialogues**, through panels, workshops, and webinars, while also supporting youth-led ventures via long-term incubation and representation at regional summits.
- The **Youth Co:Lab National Innovation Challenge 2024–25**, in partnership with AssisTech Foundation, focused on enabling young entrepreneurs, including innovators with disabilities, to develop solutions that enhanced access and well-being for Persons with Disabilities across assistive technology and inclusive ed-tech, and care service models.

While AIM 1.0 built India's innovation foundation and early ecosystem, AIM 2.0 (2024) focuses on piloting gap-filling initiatives, scaling proven models with government-industry-academia-community partnerships, and expanding Atal Tinkering Labs to strengthen school-level problem-solving and entrepreneurial skills.

**Programs under AIM 2.0**

- **The Language Inclusive Program of Innovation (LIPI)**focuses on reducing barriers for innovators, entrepreneurs, and investors who do not speak English through **India's 22 scheduled languages by establishing 30 Vernacular Innovation Centres**
- **The Frontier Program** seeks to design **tailored innovation and entrepreneurship models** for Jammu & Kashmir, Ladakh, the North Eastern states, and Aspirational Districts and Blocks through Atal Tinkering Labs.
- **The Human Capital Development Program** aims to build a pipeline of professionals, managers, teachers, and trainers, equipped to develop, operate and maintain India's innovation and entrepreneurship ecosystem.
- **The Deeptech Reactor** serves as a research sandbox to explore effective pathways for commercializing deep tech innovations, particularly those requiring long gestation periods and significant investment.
- **The International Innovation Collaborations program** takes India's innovation and entrepreneurship ecosystem international.
- Other programs that target at improving the quality of output (jobs, products, and services) include **the Industrial Accelerator program** to increase industry involvement in scaling-up advanced startups and; **The Atal Sectoral Innovation Launchpads (ASIL) program** to build iDEX-like platforms in central ministries for procuring from startups in key industry sectors.

**GENESIS (Gen-Next Support for Innovative Startups)**

The GENESIS initiative, a National Deep-tech Startup Platform by **Ministry of Electronics and Information Technology (MeitY)**, was launched in **July 2022**, with an aim to scale up about 1600 technology startups through implementing agencies in Tier-II and Tier-III cities across India, providing significant funding and support for deep-tech innovation.

With a budgetary outlay of **₹490 crore spread over five years**, the scheme is positioned to accelerate and strengthen India's rapidly expanding technology startup ecosystem through **collaborative engagement** among various stakeholders- startups, government institutions, academia, and corporates.

**MeitY Startup Hub (MSH)**

Established in **2016**, the **MeitY Startup Hub (MSH)** under the **Ministry of Electronics and Information Technology (MeitY)** promotes technology-led innovation and strengthen India's startup ecosystem. The Hub drives technology-led economic growth and innovation and acts as a central platform connecting incubation centres, Centres of Excellence on Emerging Technologies, and other platforms supported by the **MeitY**.

As of December 2025, the MeitY Startup Hub (MSH) supports a thriving ecosystem comprising of over **6,148+ startups, more than 517 incubators and over 329 labs across the country**

**NIDHI (National Initiative for Developing and Harnessing Innovations)**

The **National Initiative for Developing and Harnessing Innovations (NIDHI)**, launched in **2016** by the **Department of Science and Technology (DST), Ministry of Science and Technology**, acts as an umbrella programme for nurturing ideas and innovations (knowledge-based and technology-driven) into successful startups. The programme focuses on building an innovation-driven entrepreneurial ecosystem with the objective of socio-economic development through wealth and job creation.

**Technology Incubation and Development of Entrepreneurs (TIDE) 2.0 Scheme**

Anchored within the **Ministry of Electronics and Information Technology (MeitY)**, the TIDE 2.0 Scheme was introduced in **2019** to catalyse technology-driven entrepreneurship by strengthening incubators that support Information and Communication Technology (ICT) startups **using emerging technologies such as IoT, AI, blockchain and robotics.** The supported thematic **include Healthcare, Education, Agriculture, Financial Inclusion (including digital payments), Infrastructure and Transportation and Environment and Clean Tech.** It further seeks to offer holistic support across seven thematic areas aligned with national priorities.Support is channelled through **51 incubators** situated in top academic institutions and national research organisations across the country.

It has contributed to the economy by generating **1,30,000+ jobs, supported 12,000+ startups, backed 175+ Technology Business Incubator (TBI) and generated 1100+ IP (Intellectual Property**).

**Startup Village Entrepreneurship Program (SVEP)**

Implemented in May 2015 as a **sub-scheme under the Deendayal Antyodaya Yojana–National Rural Livelihood Mission (DAY-NRLM)**, the SVEP aims to promote **rural entrepreneurship** by enabling households to set up and scale local enterprises.

- It aims to reduce poverty through **self-employment and skilled wage employment** resulting in **sustainable and diversified livelihood** options for the poor.
- SVEP bridges gaps in **capital access** and **technical support** for rural enterprises.
- Through these targeted interventions, the programme has supported **3.74 lakh enterprises** as of 30 June 2025, strengthening local economies and enhancing income-generating opportunities at the grassroots level.

**Components**

- **NIDHI-PRAYAS** (Promotion and Acceleration of Young and Aspiring technology entrepreneurs), **Supports from Idea to Prototype by providing a maximum funding support to an innovator/ Startup of ₹10 lakhs.**
- **NIDHI-EIR** (Entrepreneur in Residence), **Support system to reduce risk for budding entrepreneurs, and encourage graduate students and provides financial support of up to ₹30,000/- monthly.**
- **NIDHI-TBI** (Technology Business Incubator), T**o tap innovations and technologies for venture creation by utilising expertise and infrastructure available with the host institution.**
- **NIDHI-iTBI** (Inclusive- Technology Business Incubator), **A new variant of the NIDHI-TBI where it focuses on promoting entrepreneurship and supporting i-TBIs largely in Tier-2 and Tier-3 cities, with a focus on inclusiveness in terms of geographies, gender, persons with special abilities, etc.**
- **NIDHI-Accelerator** (Startup Acceleration Programme), **Fast tracking a start-up through focused intervention.**
- **NIDHI-SSS** (Seed Support System), **Provide early-stage investment through a maximum financial support of ₹1000 lakh** (made available to an incubator) and ₹**100 lakh** per start-up as Seed Support
- **NIDHI-COE**(Centres of Excellence), **provide globally competitive facilities to help startups go global.**

**ASPIRE (A Scheme for Promotion of Innovation, Rural Industries and Entrepreneurship)**
Launched by the **Ministry of MSME** in 2015, the scheme aims to promote **innovation** and **entrepreneurship** in **rural** and **underserved areas**. It focuses on setting up Livelihood Business Incubators (LBIs) for micro-enterprise creation, skilling and re-skilling opportunities, and workforce supply to industrial clusters.

**Financial Incentives**

- **For procurement of plant and machinery:**
- A maximum of ₹ 1 crore to Government agencies
- ₹ 75 lakh to Private agencies
- **For Operational Expenditures** on manpower cost, running incubation and skill development programmers, etc.
- Maximum of ₹1 crore to Government and Private agencies as operational expenditure support towards manpower cost, running incubation and skill development programmers, etc.

**Prime Minister's Employment Generation Programme (PMEGP)**

Conceived as India's flagship intervention to promote self-employment and grassroots enterprise creation, the **Prime Minister's Employment Generation Programme (PMEGP)** was brought into effect in 2008 by integrating the earlier **Prime Minister's Rojgar Yojana (PMRY)** and **Rural Employment Generation Programme (REGP)** into a single, streamlined framework. **The scheme is implemented through the Khadi and Village Industries Commission (KVIC)** under the **Ministry of MSME**, ensuring wide outreach and effective last-mile delivery.

- As a Central Sector Scheme, it extends **Margin Money (MM)** support to General Category beneficiaries, covering **25% of the project cost in rural locations and 15% in urban areas**.
- **Special Category beneficiaries**, comprising SC, ST, OBC, Minority, Women, Ex-servicemen, Persons with Disabilities, Transgender applicants, and individuals from the Northeastern Region, Hill and Border areas, and Aspirational Districts, are eligible for an **enhanced Margin Money subsidy of 35% in rural areas and 25% in urban areas.**
- The scheme also supports **projects up to ₹50 lakh in the manufacturing sector and ₹20 lakh in the service sector.**

**Looking Ahead: A Future Built on Innovation & Execution**

As India marks a decade of the Startup India Initiative, the country's startup ecosystem stands at an inflection point- moving decisively from rapid expansion to **sustainable scale and deeper integration with the real economy**.

A decade on, India's startup ecosystem represents not merely scale, but **structural transformation** built on demographic advantage, digital public infrastructure, and a sustained reform agenda. Startups are now embedded across priority sectors, driving innovation, employment generation, and global market integration. As India advances towards a **$7.3 trillion economy by 2030** and the broader vision of **Viksit Bharat 2047**, startups are poised to remain central to the country's development trajectory serving both as catalysts of growth and as enduring symbols of India's future-ready, innovation-led economic model.

**It aims to provide employment opportunities to traditional artisans/ rural and urban unemployed youth at their doorstep.The target and achievements under the scheme during last five years and current year is given below:**

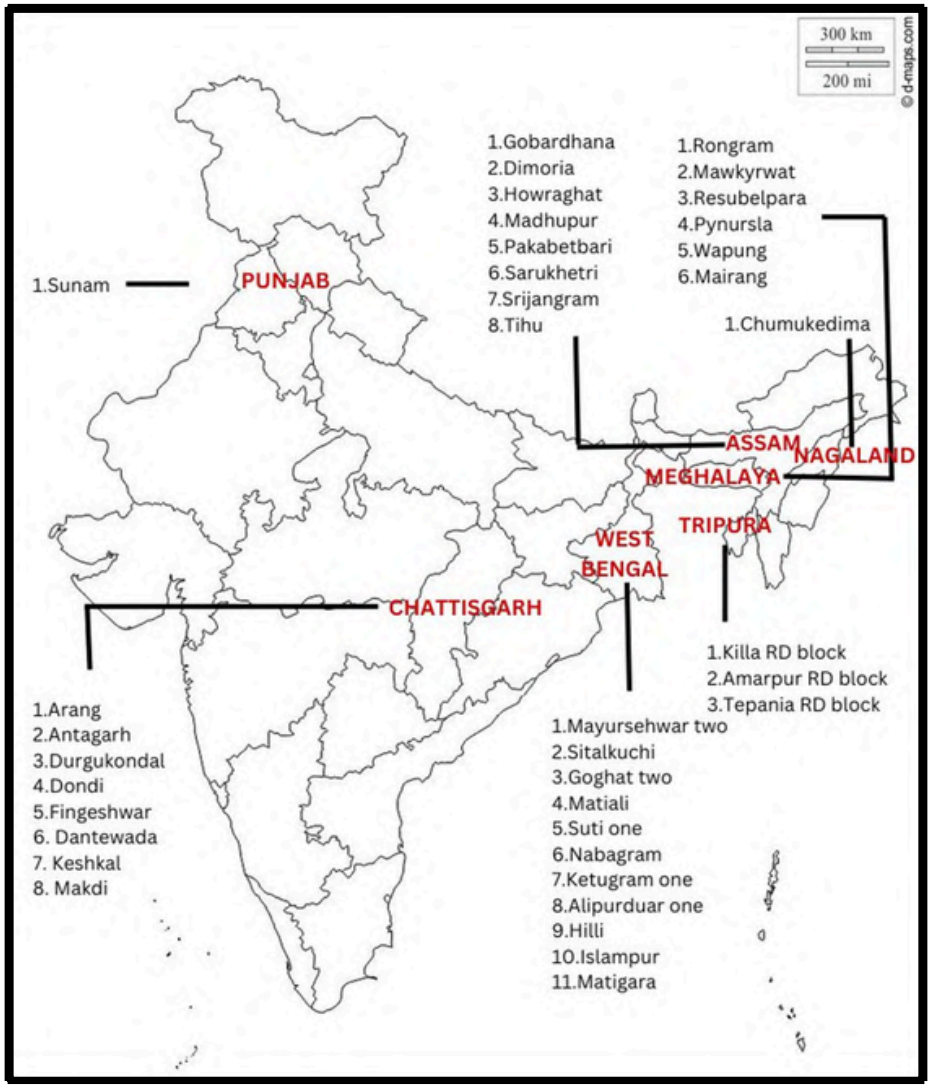
| FINANCIAL YEAR | TARGET | ACHIEVEMENT |
|---|---|---|

| | Margin Money to be utilized. (Rs. Cr.) | No. of Units to be assisted | Margin money subsidy utilized (Rs Cr.) | No. of units assisted |
|---|---|---|---|---|
| **2019-20** | **2,396.44** | **79,236** | 1,950.82 | **66,653** |
| **2020-21** | 2,289.69 | 78,625 | 2,188.80 | 74,415 |
| **2021-22** | 2,850.00 | 92,666 | 2,977.66 | 1,03,219 |
| **2022-23** | 2,434.01 | 83,210 | 2,722.17 | 85,167 |
| **2023-24** | 2,650.01 | 80,120 | 3,093.88 | 89,118 |
| **2024-25** | 2,250.00 | 79,478 | 299.25 | 7,444 |

# List of Ongoing & Completed Activities under Start-up Village Entrepreneurship Programme

| Sl | State | Type of Work | No. of Blocks | Name of Blocks |
|---|---|---|---|---|
| 1 | Assam | Preparation of DPR for Assam State Rural Livelihood Mission | 8 | Dimoria, Gobardhana, Howraghat, Madhupur, Pakabatbari, Sarukhetri, Srijangram, Tihu |
| 2 | Chhattisgarh | Preparation of DPR for Chhattisgarh State Rural Livelihoods Mission | 8 | Arang, Antagarh, Durgkondal, Fingeshwar, Dondi, Dantewada, Makdi, Keshkal |
| 3 | Meghalaya | Implementation of Artisanal Cluster | 1 | Resubelpara C&RD Block |
| 4 | Meghalaya | Implementation of Sectoral Cluster | 2 | Pynursla C&RD Block &Wapung C&RD Block |
| 5 | Meghalaya | Implementation of SVEP | 2 | Rongram C & RD and Mawkyrwat C & RD Block |
| 6 | Meghalaya | End Term Evaluation | 1 | Mairang C & RD Block, West Khasi Hills District |
| 7 | Nagaland | End Term Evaluation Study of Phase-1 SVEP | 2 | Chumukedima&Jakhama |
| 8 | Punjab | Impact Evaluation Study | 1 | Sunam |
| 9 | Tripura | Implementation of Micro Enterprise Development (MED) Programme | 3 | Killa RD Block, Tepania RD Block and Amarpur RD Block |
| 10 | West Bengal | Mentor & Block Support | 4 | Alipurduar- I, Hilli, Islampur, Matigara |

| | | | | |
|---|---|---|---|---|
| 11 | West Bengal | Mentor & Block Support | 7 | Mayureswar II, Sitalkuchi, Goghat II, Matiali, Suti I, Nabagram, Ketugram I |
| 12 | West Bengal | DPR Preparation | 2 | Sitalkuchi, Matiali |
| 13 | West Bengal | CRP-EP Selection Process | 3 | Mayureswar-II, Sitalkuchi, Matiali |
| 14 | West Bengal | BRC-EP Coordinator Identification | 2 | Simlapal, PatharPratima |
| 15 | West Bengal | End Term Evaluation Study | 4 | Bolpur-Sriniketan, Simlapal, Patharpratima, Nandigram I |



# Funding Trend in Non-Metro Cities

**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 USD 8.1 billion in funding in CY23, other cities including Pune, Chennai and Hyderabad are carving out their own space in the startup ecosystem. 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. 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. 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.

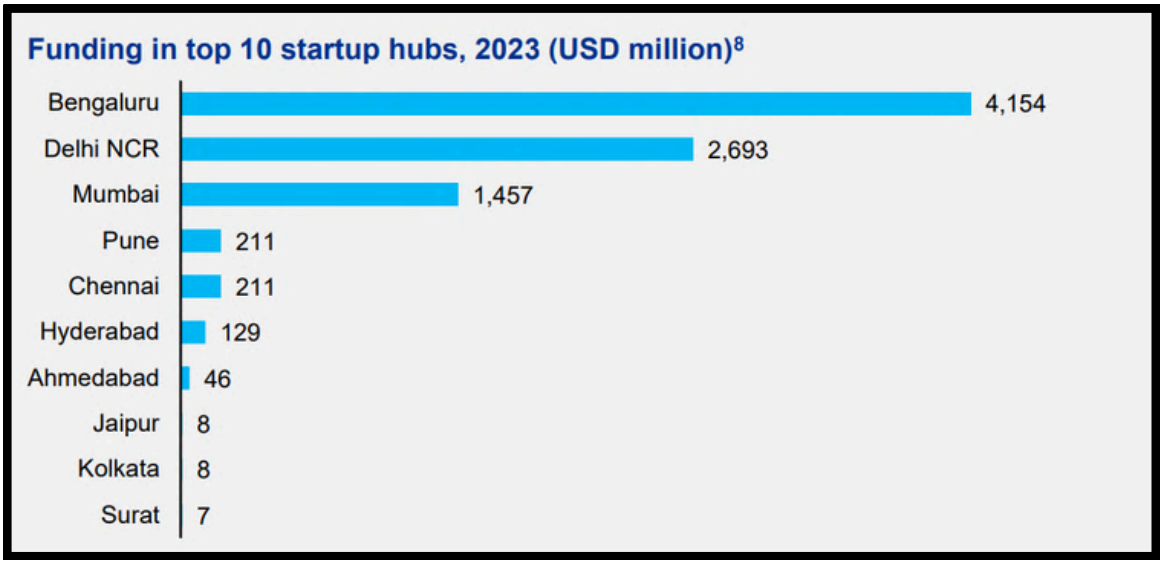
Despite Delhi, Gujarat, Maharashtra and Karnataka accounting for half of India's startups, significant growth in frontier industries, including green technology, renewable energy and IT services has been observed in Bihar, Assam and other states from 2021 to 2023.

**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.
- 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 cent9 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.

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.

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.

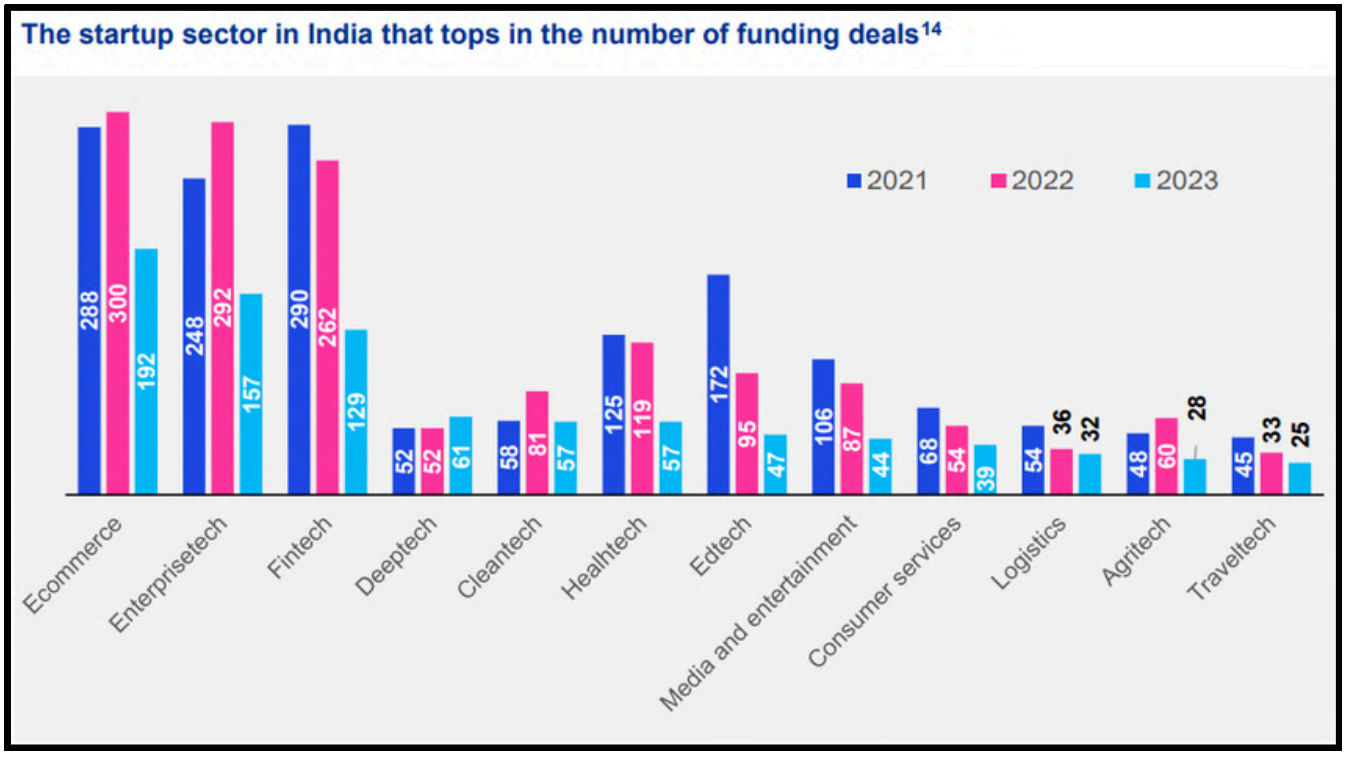
**Exploring the funding landscape of Indian startups**

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 respectively13 . Moreover, consumer service startups are also gaining momentum, offering innovative solutions that are revolutionising people's daily life activities.

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 time15 .

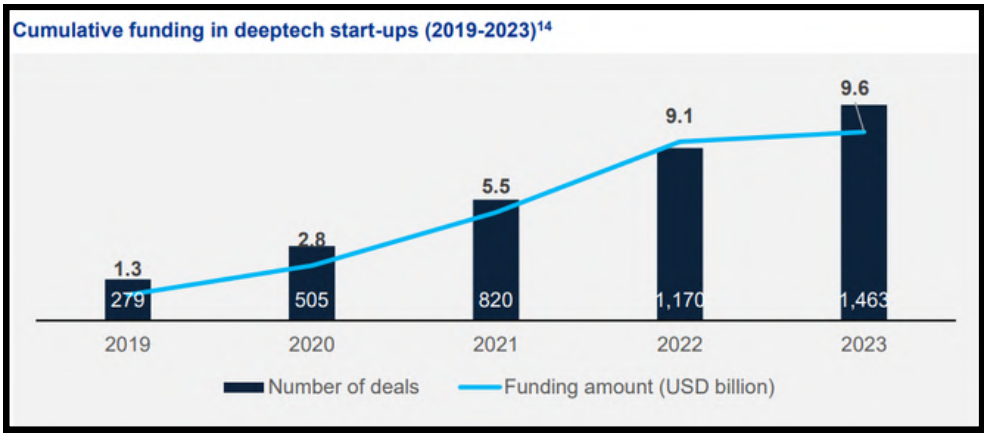
The Indian startup ecosystem is rapidly expanding across various sectors such as fintech, automotive and healthtech, indicating a broadening scope for investment opportunities. By 2029 the Indian electric vehicle (EV) market is expected to be worth about USD113 billion. This will require the creation of at least 1.3 million charging stations in India to support the fastpaced growth of EVs.

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



This situation presents a vast opportunity for startups to delve into the sector.

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. 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.

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

Investing in India's startup ecosystem requires an understanding of the do's 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.

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.

- **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

### 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. Understanding these limits assists investors in selecting the appropriate sectors for their investments.

### Digital reforms and data privacy

India's push towards digitalization, 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 approval2 . 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.

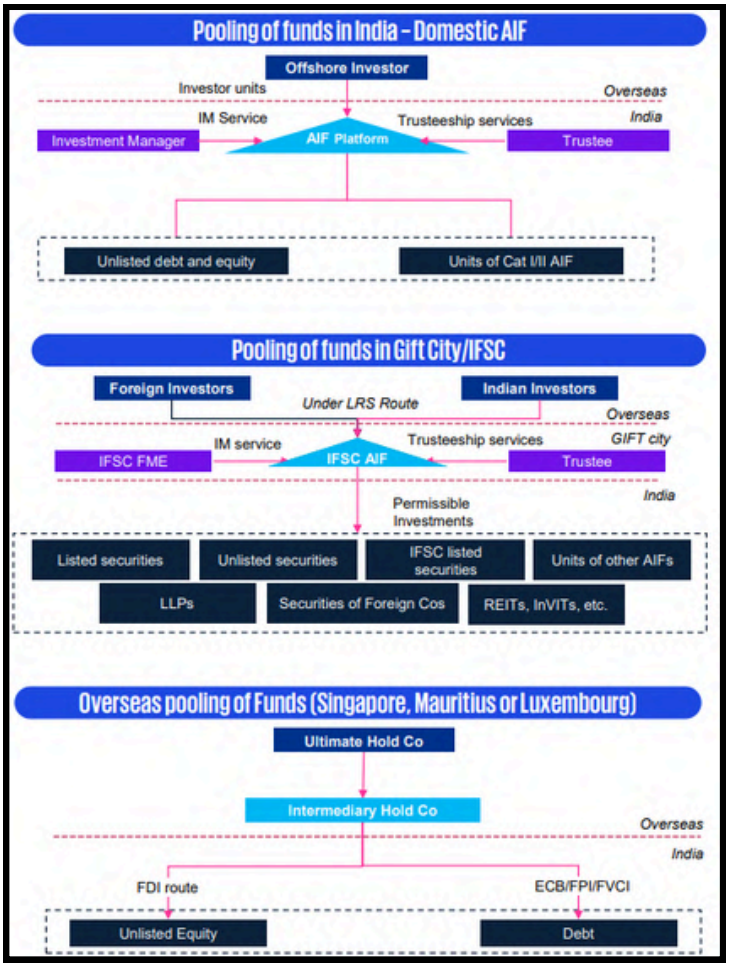
### Tax considerations

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.

### Fund pooling vehicle options

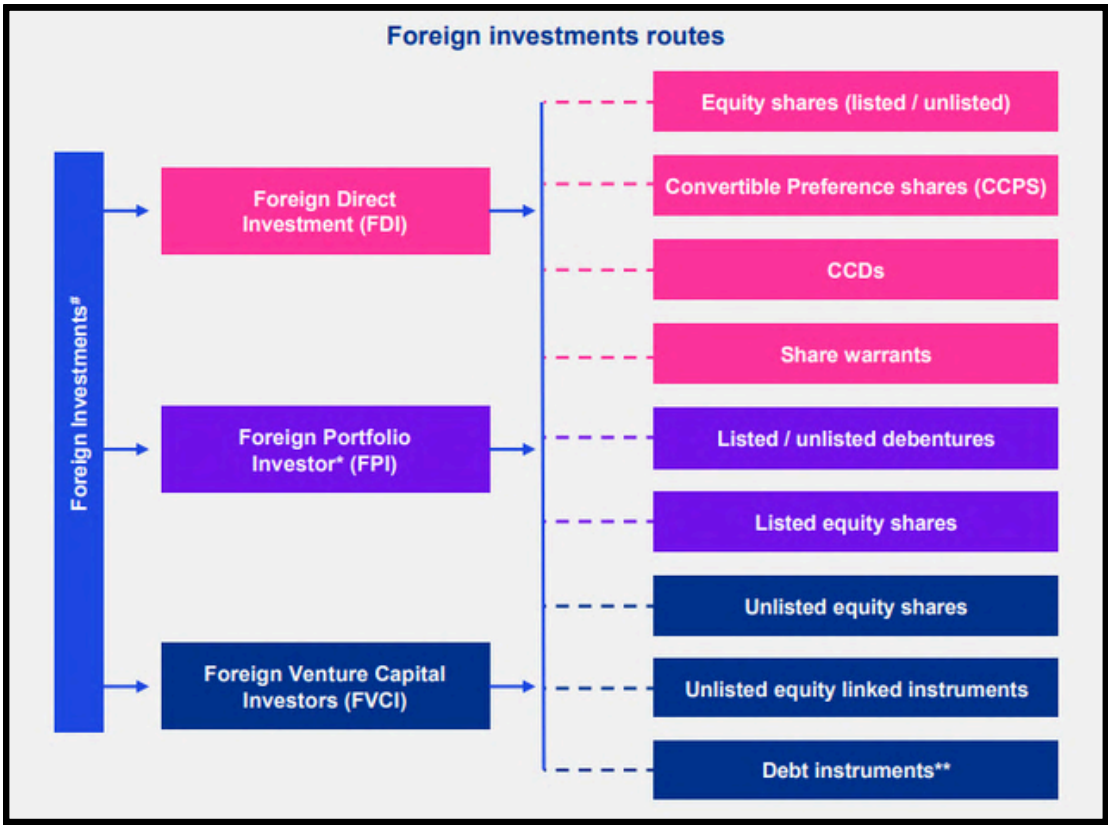
In the Indian startup ecosystem, pooling vehicles play a crucial role in attracting diverse investments, both domestic and international. Typical options include domestic Alternative Investment Funds (AIFs), pooling of funds through the International Financial Services Centre (IFSC) in Gift City and 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.



**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.



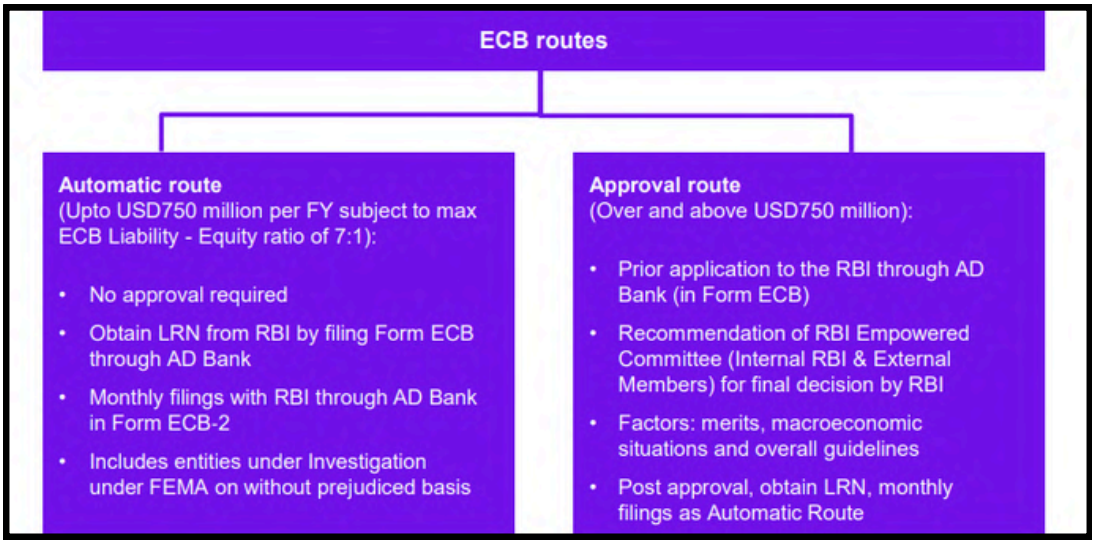

The following table further compares different entry routes across various parameters[6]

| 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 |
| **debt investments** | compulsorily convertible debt instrument | convertible debentures subject to availability of debt limits and other conditions | convertible debt instruments<br>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<br>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<br>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<br>• 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 |

**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.

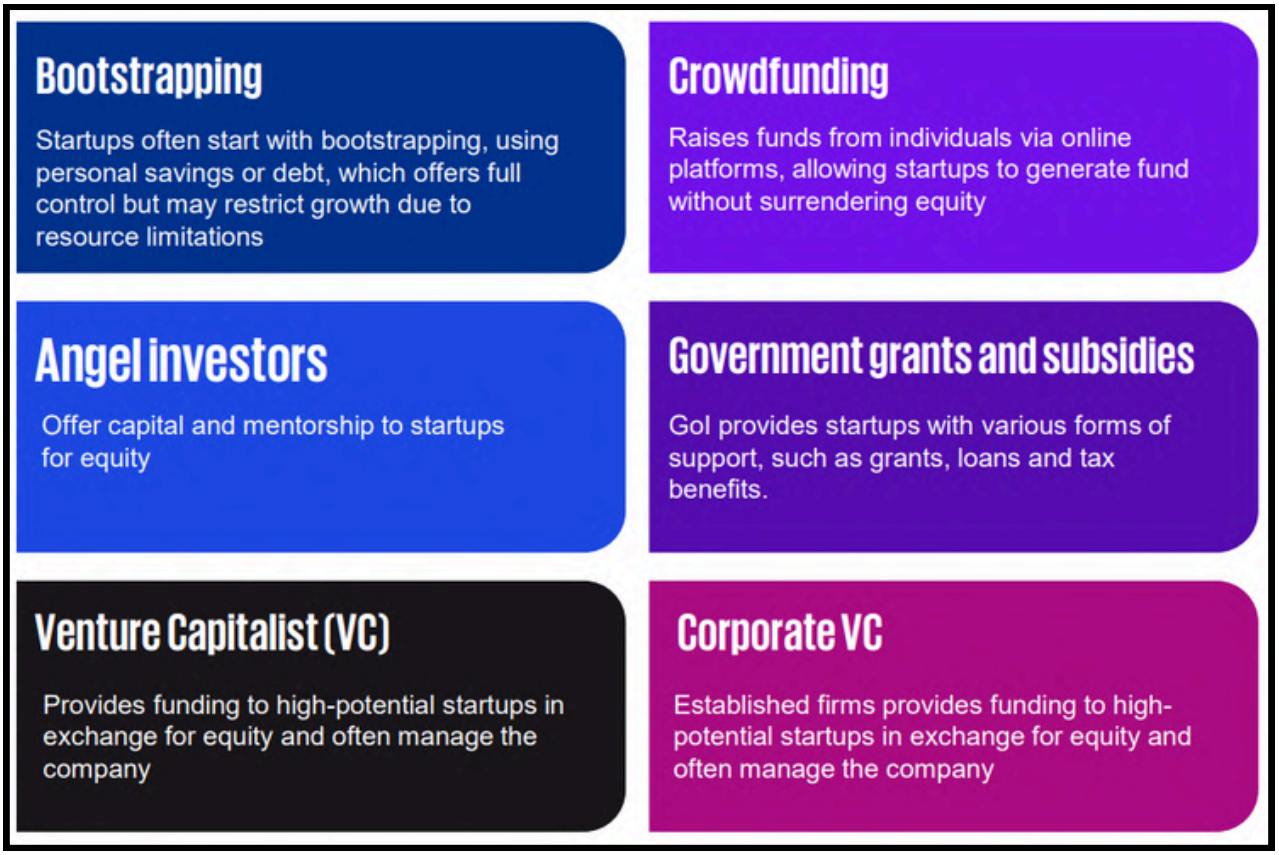



With two routes available for ECB funding, the following are their key features[8].

| | |
|---|---|
| **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<br>• **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. |

**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.



# Role of Women Entrepreneurs in Tier 2 and Tier 3 Startup Growth

## 1. Economic Significance

Sustainable Economic Development and Employment Generation
Women entrepreneurship plays a pivotal role in achieving inclusive and sustainable economic development in middle India. According to NITI Aayog, accelerating women-led enterprises could result in the establishment of over 30 million women-owned businesses, generating nearly 150–170 million employment opportunities.

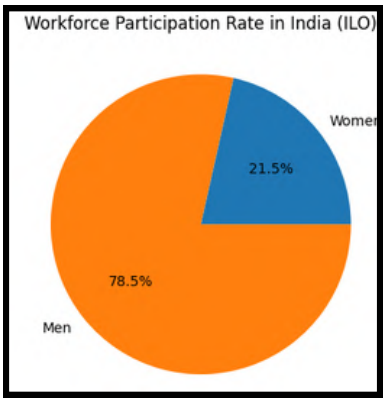
This employment generation is particularly significant for semi-urban and rural regions, where women-led micro and small enterprises absorb local labor, reduce migration, and strengthen regional economies. Women entrepreneurs often operate in labor-intensive sectors such as handicrafts, food processing, education, and services, thereby contributing directly to grassroots economic resilience.

Poverty Alleviation and Income Augmentation
Increased participation of women in entrepreneurial activities has a multiplier effect on poverty reduction. The World Bank estimates that India could increase its GDP growth rate by 1.5 percentage points if 50% of women are actively engaged in the workforce.Social and Economic Impact of Women's Income

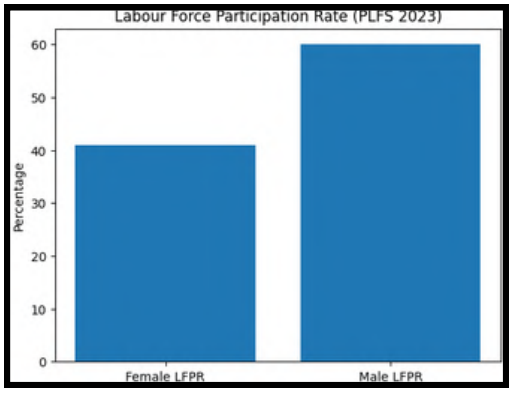
Women's income is more likely to be reinvested in family welfare, including education, healthcare, and nutrition, leading to sustainable intergenerational poverty alleviation. In middle India, where household incomes remain vulnerable to economic shocks, women entrepreneurship acts as a stabilizing force.

## 2. Social Significance

Bridging the Gender Gap in Employment
Women entrepreneurship is instrumental in addressing India's pronounced gender disparity in employment. Data from the International Labour Organization reveals that only 19.2% of women participate in the workforce compared to 70.1% of men, highlighting an employability gap of 50.9%.




Fuller Utilization of Human Capital despite rising educational attainment among women, their economic potential remains underutilized. According to the Periodic Labour Force Survey (PLFS 2023), the female labor force participation rate stands at 41%, significantly lower than the 60% participation rate of men. Women entrepreneurship can act as a channel for integrating skilled and educated women into productive economic roles.



### 3. Role Models and Agents of Social Change

Women entrepreneurs often function as catalysts for broader social transformation.
Maa Bimalleshwari Janhit Karya Samiti: Established by Phool Basan Yadav, this prominent Self-Help Group initiative has empowered over 200,000 underprivileged women by providing financial independence, skill development, and collective bargaining power.

### Challenges Faced by Women Entrepreneurs in Middle India

Capital Gap: Merely 3% of the women surveyed had accessed external funding, such as bank loans or equity investments, to start or expand their businesses.
Data Gap: Lack of gender-disaggregated data hampers the ability to present compelling business cases to investors or lenders.
Visibility Gap: Women entrepreneurs frequently confront societal undervaluation of their work, often stereotyped by their roles within the family.
Safety Gap: Cities deemed safer for women usually have more entrepreneurs.
Network Gap: Women face the challenge of rebuilding social networks after migration due to marriage. Marriage is the primary factor behind women's migration, with 87% of women's migration being due to marriage.
Care Gap: Women entrepreneurs are more likely to experience pauses in their careers due to caregiving responsibilities, including maternity leave.

### 4. Women Empowerment and Leadership

Entrepreneurship enhances women's autonomy, confidence, and decision-making power within households and society.
Usha Jha: Popularly known as "Usha Aunty" in Patna, she has mentored and supported numerous women entrepreneurs at the grassroots level.

### Way Forward and Policy Recommended by White Paper

Gender-disaggregated data: It is needed at a granular level to counter stereotypes, create interest in this segment, and make effective policy interventions based on data.
Local role models: The use of role models who have crossed these milestones plays an important role in developing an enabling environment. New urban infrastructure in Tier 2 India, such as airports or convention centers, can be used to showcase success stories of local entrepreneurs.
Access to capital: Provide grants to women entrepreneurs and female-focused Venture Capital funds to break the vicious cycle of women-owned businesses not scaling because of lack of funding.
Fiscal incentives: Fiscal incentives to female-owned businesses for childcare leave and expenses are a potential solution.
Providing co-working and co-building space: Many women are not able to expand their enterprises because they operate from home and often limit their operations for as long as possible.
More responsive financial system: Going beyond PSL (Priority Sector Lending) targets and setting KPIs for more inclusive investing and credit can be an effective policy approach.

# Initiatives Taken to Promote Women Entrepreneurship in Tier-2 and Tier-3 India

The Government of India has launched several targeted schemes to address key challenges such as lack of finance, limited access to markets, and social barriers.

### 1. Mudra Yojana for Women / Mahila Udyami Yojana (Ministry of Finance)

The Mudra Yojana has emerged as one of the most impactful financial inclusion schemes for women entrepreneurs in smaller towns and semi-urban regions.

The scheme provides collateral-free loans up to ₹10 lakh, categorized under Shishu, Kishore, and Tarun segments, enabling women to start or scale micro and small enterprises.Women borrowers receive preferential interest rates and flexible repayment schedules, making credit more accessible and sustainable.

### 2. Pradhan Mantri Virasat Ka Samvardhan Scheme (Ministry of Minority Affairs)

Focuses on improving livelihoods of minority communities, with special emphasis on women, youth, and persons with disabilities.

Supports skill development and capacity building to convert traditional skills (embroidery, artisanal work) into viable business opportunities.

### 3. Mahila Samridhi Yojana (Ministry of Social Justice and Empowerment)

Mahila Samridhi Yojana is designed to empower women from disadvantaged and marginalized communities through targeted financial support.

It operates as a micro-finance scheme, providing financial assistance of up to ₹1,40,000 per beneficiary. The scheme offers interest rate concessions, reducing the cost of borrowing for women entrepreneurs.

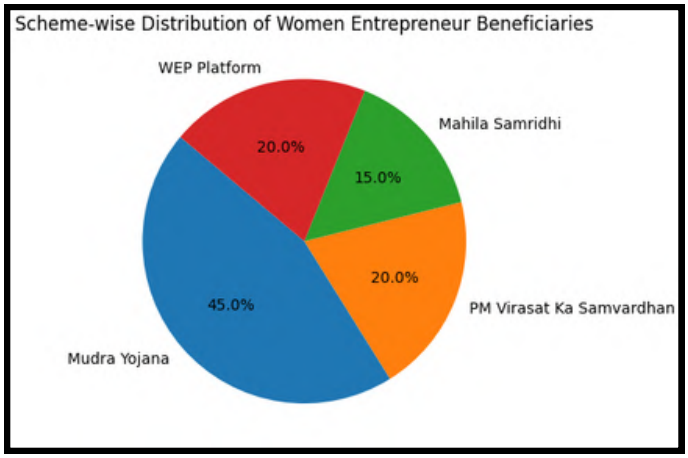
### 4. Women Entrepreneurship Platform (WEP) (NITI Aayog)

The Women Entrepreneurship Platform (WEP) serves as a national-level digital ecosystem that supports women entrepreneurs across different stages of their entrepreneurial journey.

It functions as a one-stop aggregator platform, bringing together government schemes, private sector partners, NGOs, and mentors. The platform also encourages digital adoption, helping women entrepreneurs integrate technology into their business operations.

### Overall Impact

Collectively, these initiatives have strengthened women's participation by:
Reducing financial barriers.
Encouraging self-employment and innovation.
Supporting inclusive and region-balanced growth.
As a result, women entrepreneurs are increasingly emerging as key contributors to startup growth in Tier-2 and Tier-3 India, driving employment generation and local economic development.



# Sectoral Analysis of Startups in Tier 2 and Tier 3 Cities

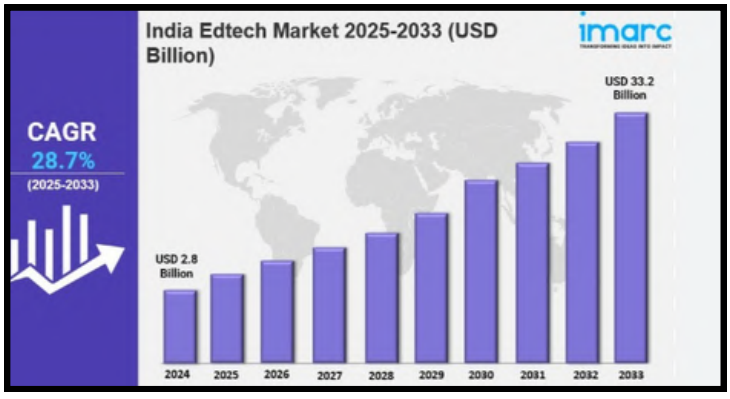
India's startup ecosystem is growing beyond big metro cities, with Tier-2 and Tier-3 cities becoming important centers for new businesses. Startups in these cities are focusing on specific sectors where being close to the end user helps them understand real local problems. This local focus allows startups to create solutions that fit regional needs instead of copying metro-based models. This report studies different sectors of startups in Tier-2 and Tier-3 cities in India and includes case studies to show how these startups work and grow in their local environments.

## EdTech

The Indian EdTech sector was valued at around USD 7.5 billion in 2024 and is projected to grow to nearly USD 29 billion by 2030. In Tier-2 and Tier-3 cities, the market is estimated at USD 1.8 billion, with emerging innovation hubs such as Jaipur and Surat. This expansion is largely driven by the rising educational aspirations of middle-class families in non-metro regions, who seek high-quality, globally relevant, affordable education through digital platforms.

Government support has further accelerated this growth. The National Education Policy (NEP) 2020 promotes the use of technology, online education, and blended learning models. A key trend in regional markets is the rise of regional-language content, as over 60% of Tier-2 city populations primarily speak local languages, pushing EdTech platforms beyond English-only offerings.

This localization is often paired with micro-learning models, which provide short, low-cost courses that lower entry barriers, help platforms gauge learners' willingness to pay, and gradually transition users to advanced courses, certifications, and degree programs.




## Case Study :Physics Wallah

**Overview**

Physics Wallah (PW), founded by Alakh Pandey in Prayagraj, demonstrates how a Tier-2 startup can disrupt a metro-dominated education sector. By early 2025, PW reached a valuation of $3.7 billion.

**Founding and Model**

Alakh Pandey, an engineering dropout, began teaching on YouTube in 2016 after recognizing that JEE/NEET coaching costs (₹50,000–₹1.5 lakh) excluded non-metro students. His simple teaching style built a large community, enabling the PW app launch in 2020, which saw 300,000 downloads in seven days. PW's model combines ultra-affordable pricing (₹1,000–₹6,000), organic YouTube-led acquisition, and a hybrid "Vidyapeeth" network of 303 offline centers across 152 cities, mainly in Tier-2/3 regions.

**Financial Performance**

Physics Wallah (PW) recorded 288% revenue growth, rising from ₹744 crore in FY23 to ₹2,887 crore in FY25, alongside a sharp improvement in profitability. The company turned around from an EBITDA loss of ₹829 crore in FY24 to a positive EBITDA of ₹193 crore in FY25, with a 6.7% margin, driven by cost optimization and the expansion of its 300+ offline centers.

This momentum continued in the current year, with Q2 net profit up 62% to ₹72.3 crore and revenue rising 26% to ₹1,051 crore. Despite a successful ₹3,480 crore IPO to fund infrastructure expansion, the stock trades only marginally above its issue price of ₹109.

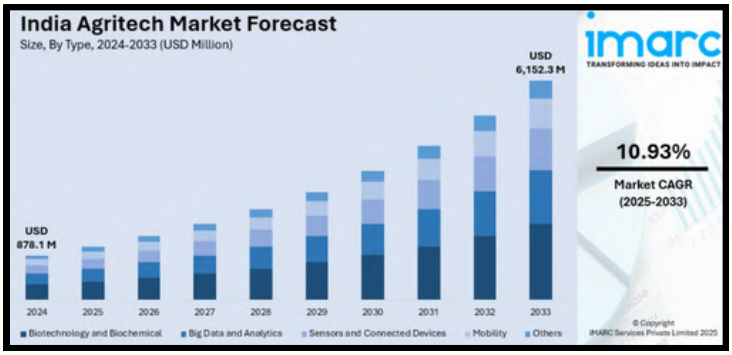
# AgriTech

The Indian agritech sector has evolved from isolated digital experiments into a mature ecosystem supporting the rural economy. While early innovation was centered in metro hubs like Bengaluru, the industry's core has shifted to Tier-2 and Tier-3 cities such as Indore, Coimbatore, Jaipur, and Kochi, which now function as specialized innovation clusters.

This shift is driven by a ground-up model, with startups located close to farming belts, enabling faster collaboration between engineers and farmers. Combined with lower operating costs and strong regional university talent, these cities have become the primary growth engines of agritech.

Innovation in these regions focuses on "decision-grade" technologies that deliver actionable intelligence rather than raw data. Startups are moving beyond marketplaces toward solutions such as Agentic AI for autonomous irrigation management and Namo Drone networks offering precision spraying as a service.

The sector is also investing in phygital infrastructure, integrating digital platforms with physical centers for cold-chain logistics and blockchain-enabled traceability for high-value exports. This decentralized growth model is bridging the digital divide and positioning regional hubs as global manufacturing and R&D centers for sustainable, climate-resilient agriculture.




## DeHaat – Redefining the Agrarian Value Chain

### Overview

DeHaat, headquartered in Patna, Bihar, is one of India's most successful agritech startups. Founded in 2012 by Shashank Kumar and a team of IIT Delhi and IIM Ahmedabad alumni, the company provides end-to-end solutions for farmers, serving over 1.8 million farmers by 2025.

### Decentralization as a Core Strategy

DeHaat's mission is to make farming profitable and sustainable by addressing fragmentation in rural supply chains. The company recognized that scale is only possible through decentralization. It has built a network of over 11,000 DeHaat Centers across 12 states, operated by local micro-entrepreneurs who act as community nodes.

### Operational Model: Hub-and-Spoke System

DeHaat follows a hub-and-spoke model in which centrally managed warehouses and cold storage facilities aggregate agricultural inputs from manufacturers. These inputs are supplied through entrepreneur-led DeHaat Centers that serve farmers by delivering inputs and collecting produce at harvest. The aggregated produce is then sold directly to institutional buyers such as Grofers, Amazon, and Cargill, ensuring better price realization for farmers and reducing intermediaries.

### Technological Integration and Impact

Technology is integrated across DeHaat's operations. The platform provides AI-enabled crop advisory for over 30 crops in regional languages, along with weather updates and real-time mandi rates. The 2025 acquisition of Agri Central has enhanced these capabilities, adding satellite imagery and machine learning for advanced crop diagnostics.

### Socio-Economic Impact

DeHaat's "Farmer First" philosophy has led to measurable socio-economic benefits, demonstrating that a scalable and profitable business model is an effective way to drive rural transformation. By combining decentralized operations with technology, DeHaat has improved farmer incomes, reduced inefficiencies in the supply chain, and strengthened rural market access

# D2C and Retail Tech

India's Direct-to-Consumer (D2C) and retail technology landscape is undergoing a pronounced structural shift toward Tier 2 and Tier 3 cities, which now account for over 60% of total e-commerce transactions in the country. The D2C market, valued at approximately USD 12 billion in FY22, is projected to expand to USD 60–61 billion by FY27 and is expected to surpass USD 100 billion by 2030.

This growth is being propelled by a young, digitally native consumer base comprising Millennials and Gen Z in smaller cities, who increasingly prioritize brand identity, aesthetics, and value alignment over price sensitivity alone. The rapid rise of the creator economy has played a pivotal role in accelerating this transition, with social media platforms such as Instagram and YouTube acting as primary channels for brand discovery, consumer engagement, and demand generation.

This influence is particularly pronounced in Tier 2 and Tier 3 markets, where the widespread adoption of digital payments has evolved from a mere convenience into a daily habit, underpinned by enhanced merchant security, improved payment infrastructure, and growing consumer confidence in repeat online purchases.

## Minimalist: A Transparency First D2C Skincare Disruptor

**Overview**

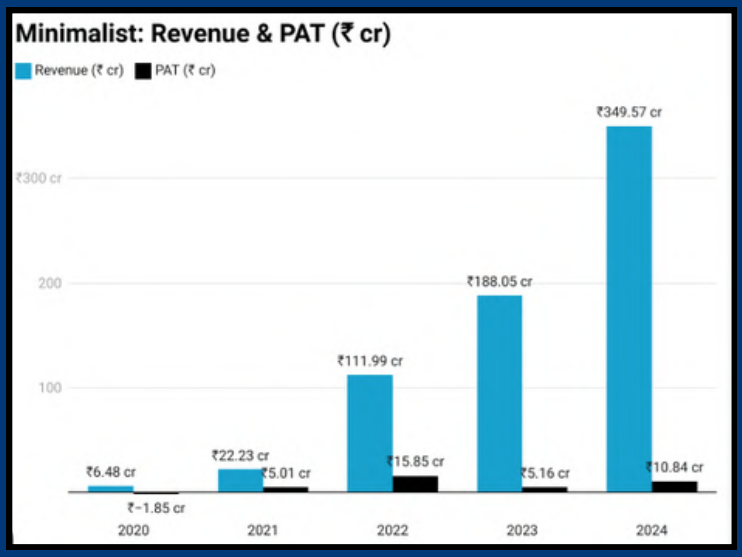
Founded in October 2020 by Mohit Yadav and Rahul Yadav in Jaipur, Minimalist emerged after the failure of Freewill, which faced high costs and scalability issues. The brand addressed a gap in India's beauty market dominated by vague "natural" claims, positioning itself as a science-backed, transparency-led skincare brand inspired by The Ordinary, with clear disclosure of active ingredients such as 10% Niacinamide and 2% Salicylic Acid.

**Business Model and Regional Advantage**

Minimalist followed a lean, vertically integrated model, leveraging Jaipur's cost advantage to operate at 25%–50% lower expenses than metro peers and achieve 20%–30% manufacturing cost savings through in-house production. Its capital-efficient launch involved just 1,000 bottles, a single Instagram post, and marketing spend of 5% of revenue, versus an industry average of 40%–50%.

**Growth and Financial Outcome**

The brand scaled rapidly, reaching ₹100 crore in revenue within eight months, compared to nearly three years for peers like Mamaearth, and achieved a 65% repeat purchase rate. Profitable from the first month, Minimalist reported ₹349 crore revenue and ₹10.84 crore profit in FY24. In early 2025, HUL acquired 90.5% of the company for ₹2,955 crore, marking one of India's largest D2C exits and underscoring the value of transparency-driven branding and regional operational efficiency.

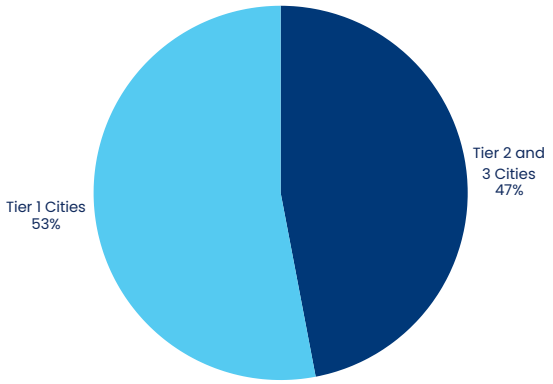


# Healthtech

India's healthtech sector has evolved into a rapidly growing ecosystem of **4,000+ startups** using telemedicine, health analytics, and digital therapeutics to address the urban–rural healthcare gap. **Nearly 47% of these startups originate from Tier-2 and Tier-3 cities,** driven by demand for affordable, quality healthcare in regions where the doctor-to-patient ratio can be as low as 1:25,000.

The rollout of the **Ayushman Bharat Digital Mission (ABDM)** and interoperable health records via the **Ayushman Bharat Health Account (ABHA)** has created a standardized digital backbone, enabling scalable diagnostic and consultation platforms. These reforms have delivered measurable impact, including a **30% reduction in healthcare costs**, **40% fewer hospital readmissions** through remote monitoring, and a **50% decrease in consultation expenses.**

Sectoral innovation is increasingly focused on **preventive care and chronic disease management,** with wearables acting as the sensor layer of the digital health ecosystem. Real-time vitals feed into AI-driven models for early detection of infections and cardiovascular risks, enabling continuous monitoring and remote supervision for chronic conditions such as diabetes and hypertension, and shifting care from reactive treatment to proactive, wellness-oriented healthcare.




**Organisation of Healthtech by cities in India**

## Molbio Diagnostics :Scalable Innovation in Point-of-Care Testing

**Company Overview and Unicorn Milestone**

Molbio Diagnostics is a molecular diagnostics company headquartered in Verna, Goa. In 2022, it became Goa's first startup to attain unicorn status after raising USD 85 million from Temasek, valuing the company at approximately USD 1.6 billion. The company has positioned itself as a key player in point-of-care molecular diagnostics, with a strong focus on accessibility, scalability, and public health impact, particularly in resource-constrained settings.

**Technological Innovation and Product Differentiation**

Molbio is best known for its flagship platform, Truenat, the world's first commercial Point-of-Care (PoC) molecular diagnostic system based on real-time PCR technology. Unlike conventional PCR testing, which requires centralized, temperature-controlled laboratories and highly trained personnel, Truenat is designed as a compact, portable, battery-operated device suitable for decentralized and low-resource environments. This technological breakthrough enabled molecular-level diagnostics to move closer to patients, significantly reducing dependency on centralized lab infrastructure.

**Business Model, Financial Performance, and Expansion Strategy**

Molbio's revenue model is driven by the sale of micro PCR workstations, reagent kits, and disease-specific cartridges. The Truenat platform enables multi-disease testing and can detect 30+ infectious diseases, including HIV, Hepatitis, Dengue, and Malaria. To expand its diagnostic capabilities, Molbio acquired Prognosys Medical Systems in February 2023, adding AI-powered portable X-ray machines to its portfolio.

The company experienced a pandemic-led surge, recording a 25× revenue increase to ₹1,272 crore in FY21.

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