

Quote by Nilaya Varma, Co-Founder and CEO, Primus Partners

Published in Forbes India
Feb 21, 2025

Strengthening Startups

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Finance minister gives major boost to startups, deeptech and AI innovation in India



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FINANCE MINISTER NIRMALA

Sitharaman unveiled a series of initiatives to push India's startup ecosystem forward. These measures aim to address challenges faced by startups, including access to funding, tax regulations and infrastructure development.

The announcements include a fresh infusion of ₹10,000 crore into the Fund of Funds Scheme (FFS), which provides capital to Sebi-registered Alternative Investment Funds (AIFs) that invest in startups. The move is expected to catalyse innovation across sectors like deeptech, AI, fintech, health tech and clean energy.

"AIFs for startups have received commitments of more than ₹91,000 crore. These are supported by a fund of funds set up by the Government of India with a contribution of ₹10,000 crore. Now a New Fund of Funds scheme with an expanded scope and a fresh contribution of another ₹10,000 crore will be set up," Sitharaman said.

The Fund of Funds for Startups

Scheme was approved and established in June 2016 with a corpus of ₹10,000 crore to lift the Indian startups and enable access to domestic capital. The scheme is operationalised by the Small Industries Development Bank of India (SIDBI).

Under FFS, the scheme does not directly invest in startups; instead, it provides capital to Sebi-registered AIFs, known as daughter funds, which, in turn, invest money in growing Indian startups through equity and equity-linked instruments. SIDBI has been given the mandate to operate this fund through a selection of suitable daughter funds and overseeing the disbursement of committed capital. AIFs supported under FFS are required to invest at least twice the amount committed under FFS in startups.

The finance minister also announced a ₹20,000 crore investment to drive private sector-led research, development and innovation, which could be a game changer for India's sunrise deeptech

sector. The initiative to establish a dedicated Fund of Funds for deeptech startups is a pivotal move to boost innovation in sectors requiring substantial R&D and long-term investment, explains Nilaya Varma, co-founder of Primus Partners. This approach aligns India with global leaders like the US and Europe, where deeptech funding has seen significant growth, nearly double in some cases, driven by advancements in AI and other emerging technologies, he adds.

India aims to provide patient capital essential for deeptech ventures, which often face challenges in securing traditional funding due to longer gestation periods and higher technical risks. "Taking this as a good sign, the additional allocation is a blueprint to place India at the forefront of quantum computing, AI, biotech and advanced manufacturing, making it a significant contributor to global technological advancements," says Varma.

The Budget also includes the extension of the period of incorporation by five years for startups, providing them with more time to establish and grow their businesses. The Centre also plans to increase the credit guarantee for startups from ₹10 crore to ₹20 crore.

Additionally, the government plans to establish three Centres of Excellence in AI for the education sector, with a total allocation of ₹500 crore. "This allocation is a transformative step towards integrating AI-driven solutions into learning frameworks and equipping the workforce of tomorrow with future-ready capabilities," says Sindhu Gangadharan, MD of SAP Labs India.

• NAANDIKA TRIPATHI