ARTHA GLOBAL

A Report Summary on

Scaling AI Startups in India

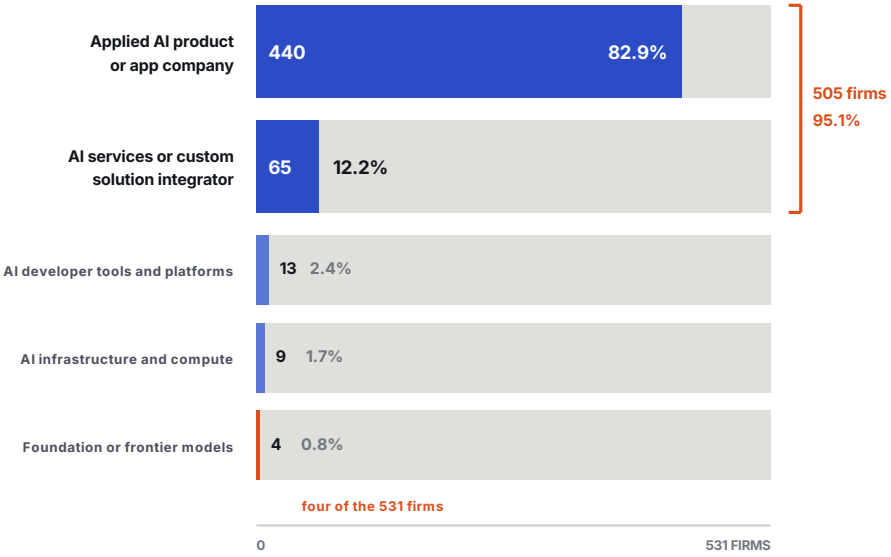
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Scaling AI Startups in India

India's AI challenge has shifted from creating startups to scaling them. The layers that the startups are built on are owned elsewhere.

Artha Global analysed 531 AI startups, ran a founder survey to scope the issues, then interviewed around 20 founders, investors, government stakeholders and domain experts in depth.



Where the firms are. Every AI ecosystem concentrates firms in the application layer. What matters for India is who meets the demand for models and infrastructure those firms run on. Less than 3% of our sample builds AI infrastructure or foundational models, so most of that demand is met by providers outside India.

INSIDE

01 Location, layer and size, set against India's global investment position

02 Five levers: Infrastructure · Financing · Policy · Market Maturity · Talent and R&D

03 Recommendations: Near term and administratively feasible · Medium term and structural reform

531
AI startups analysed, from Crunchbase, Inc42 and our survey

20
Key informant interviews

5
Interconnected levers that decide whether firms scale

Plenty of firms. Very few at scale.

A Eighth over the decade, sixth in 2025

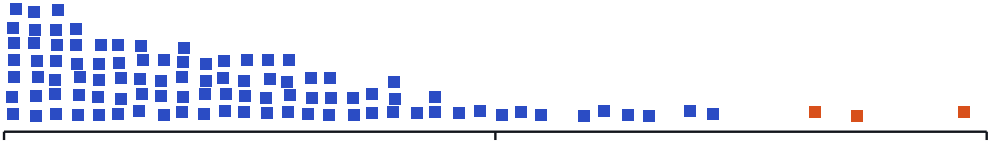
India is climbing. It ranks 8th globally for private AI investment across 2013–2025 and 6th in 2025 alone, at $4.09 bn.

COUNTRY	CUMULATIVE 2013–2025		2025	
United States	$757.27 bn	#1	$285.88 bn	#1
China	$131.83 bn	#2	$12.41 bn	#2
United Kingdom	$34.07 bn	#3	$5.90 bn	#3
Canada	$19.59 bn	#4	$4.28 bn	#5
Israel	$18.54 bn	#5	$3.58 bn	#8
Germany	$17.16 bn	#6	$3.89 bn	#7
France	$15.57 bn	#7	$4.36 bn	#4
India	$15.39 bn	#8	$4.09 bn	#6

Private investment only, in US dollars: venture and private equity financing into AI companies. Excludes public offerings and government funding. Ranks are global on each measure. Source: Stanford HAI AI Index 2026, figures 4.2.8 and 4.2.12 (data: Quid).

B Many firms, small teams, thin late-stage capital

Most firms in the sample employ fewer than 50 people. Formation is not the constraint. Far fewer find the capital to carry them from early traction to real scale.

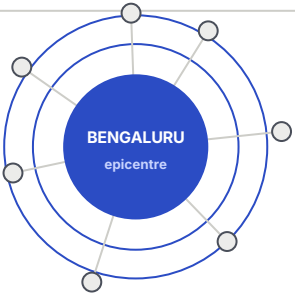


* Illustrative, not to scale

C One city holds the centre

Bengaluru has been the preferred headquarters location throughout 2008–2025, with dominant clustering of AI startup activity. Roughly 5% of the sample is headquartered outside India.

n = 488 firms with a recorded headquarters.



$1.7 trn
AI's potential addition to India's economy by 2035. **Government of India estimate.**

$126 bn
Projected size of India's AI market by 2030. **Google × Inc42, up from $24 bn in 2025.**

$1.7 trn: Government of India, PIB, Transforming India with AI, 30 Dec 2025. $126 bn: Google × Inc42, Bharat AI Startups Report 2026. Sample: Crunchbase, Inc42, primary survey; n varies by variable.

Five levers decide whether firms scale.

They work together. Compute without patient capital produces nothing, patient capital without demand produces pilots, and demand without frontier talent gets met from abroad.

A Digital and Physical Infrastructure

Adequate, reliable compute?

CONSTRAINT Compute capacity has grown but **predictability, price and provisioning speed** have not kept up. Data needed for AI largely remains inaccessible, fragmented and poorly labelled.

WHAT MOVES IT Compute has to behave like a utility: available on a known timeline, at a price a founder can plan against. Data is the other half of the same lever, since well-labelled sectoral datasets decide whether the compute produces anything.

38,000+ GPUs · up to 40% cost cut for eligible users · AI Kosh: 7,540 datasets

B Financing

Capital across all stages?

CONSTRAINT Pre-commercial research is particularly difficult to finance, while **short investment horizons** can discourage capital-intensive bets on foundational models, hardware and research-intensive AI.

WHAT MOVES IT Match the instrument to the risk: grants for pre-commercial research, equity for ventures that can scale, debt or hybrid once revenue exists. The gap sits at the front, where no instrument currently fits.

IndiaAI Startup Financing (IndiaAI mission): ₹10,000 cr ($1.08 bn) outlay, ~₹2,000 cr for startups

C Policy and Regulation

Enable or constrain?

CONSTRAINT Import and export clearances for technology remain **slow and unpredictable**, and IP protection and enforcement are uneven.

WHAT MOVES IT Faster import and export clearance for GPUs, accelerators and semiconductor materials. On IP: quicker patent examination, more predictable enforcement, and tender rules that protect what a bidder discloses.

India AI Governance Guidelines 2025 · IndiaAI Safety Institute 2026

D Market Maturity

Is demand sustained?

CONSTRAINT The state already buys technology at scale. **Lowest-bidder (L1) norms** and turnover requirements screen out many young firms before capability is assessed.

WHAT MOVES IT Reward lifecycle value over lowest upfront price, and set turnover and prior-deployment stops at levels young firms can meet. Ministries will need in-house capacity to evaluate AI bids. Multi-year contracts crowd private capital in without new spending.

2024 Amendment to the General Financial Rules 2017 raised the LTE ceiling ₹25 L → ₹50 L · The MSME mandate, with sub-quotas for women and SC/ST entrepreneurs, gives startups a formal demand pathway

E Talent and R&D

Frontier capability?

CONSTRAINT The shortage is at the frontier, not across the board: **principal investigators, hardware specialists and model builders**.



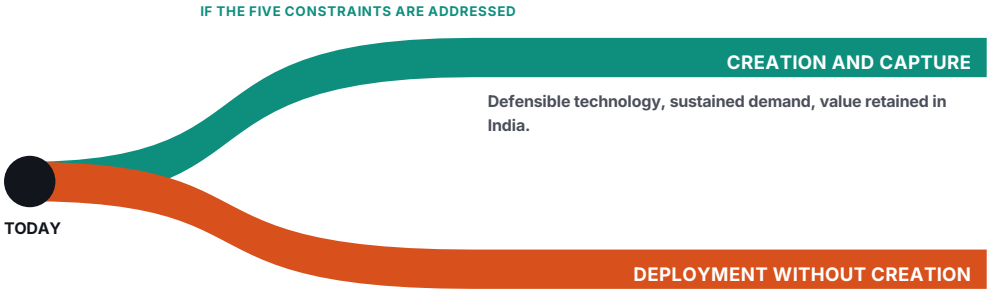
WHAT MOVES IT The shortage sits at the top, so the answer is research platforms: funded labs with their own compute, doctoral and postdoctoral pipelines, and terms that bring senior researchers back. Sustained provision of training compute and inference credits.

Talent projection to 2027: Bain & Company · R&D at ~0.6–0.7% of GDP

TRL = Technology Readiness Level. LTE = Limited Tender Enquiry. RDI = Research, Development and Innovation. FFS = Fund of Funds for Startups.

Where value accrues with scale.

If these constraints hold, the risk is bigger than individual startups growing slowly. India could become a large market for AI without becoming a major creator or owner of it.



Recommendations

ACT NOW

Near term and administratively feasible

Startup university residency pipelines

Structured, multi-semester industry placements inside AI startups for final-year and postgraduate students.

Government as strategic anchor buyer

Use India's scale across Digital Health, Smart Cities, AgriStack and Defence Modernisation to create predictable multi-year deployment pipelines, and institutionalise the step from pilot to long-term contract.

Faster capital deployment

Speed up IndiaAI and Fund-of-Funds disbursements to protect early-stage startup runway and simplify related compliance.

Predictable compute access

Publish uptime, queue times, pricing stability and allocation transparency metrics for the IndiaAI Compute Portal.

Operationalise AI Governance Guidelines

Translate the 2025 India AI Governance Guidelines from principles into enforceable, sector-specific standards, starting with health, finance and public services.

BUILD TOWARDS

Medium term and structural reform

Dedicated AI energy corridors

Priority energy access zones for AI and data-centre parks, co-located with renewables. Align with National Electricity Plan 2023–2032 targets for 458 GW peak demand by 2032.

Modernise the copyright regime

Clarify the legal treatment of AI training data, text-and-data mining and agentic outputs within the Copyright Act 1957.

Expand the RDI architecture

The ₹1 lakh crore RDI Scheme supports TRL 4+. Add an explicit pre-commercial window for TRL 0–3 foundational AI research.

Open long-duration capital to deep tech

Enable pension and insurance pools to take calibrated exposure to AI and deep-tech funds, reward 10–15 year horizons over the current 7-year norm, and allow lending against intangible assets such as IP.

Build a national frontier talent track

Competitive doctoral and postdoctoral AI fellowships, and the PM Research Chair scaled from individual chairs into multi-year funded labs with their own compute.

The aim is an ecosystem where firms can build defensible technology, find sustained demand, raise capital suited to the work, and scale while keeping the technological and economic value at home.

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