

India's tech evolution is speeding up

Gaurav Dalmia Markets Insight



For foreign investors, India's IT service giants have often been the first port of call for investing in the country. But it has been a difficult year with the sector hit by trade tensions, US visa restrictions and worries over the impact of AI on its services.

The Nifty IT index for the sector is down around 15 per cent this year. That trend, however, masks a much more positive evolution in Indian technology.

There have been four main phases of India's tech development each with its distinctive characteristics — the transformational rise of IT services, the development of software-as-a-service companies, the consumer internet and e-commerce boom, and the emergence of "deep tech" companies focused on complex technologies or hardware.

IT services still dominate with exports set to reach \$210bn this financial year, India Ratings and Research forecasts. It has been a powerhouse industry for India but as there was so much low-lying fruit in IT services, the sector sucked up tech talent and capital from elsewhere.

India's SaaS sector in particular punched below its potential as a result. Software majors treated their services businesses as cash cows, deploying a small share to intellectual property assets. The 10 largest IT services companies had consolidated profits of \$114bn in the last decade; 75 per cent of this was paid out via dividends and buybacks.

Still, the software-as-a-service sector is growing rapidly. The Chennai-based Zoho has more than 100mn users worldwide and the private firm was valued at around \$12bn earlier this year by local bank Axis.

Freshworks raised \$1bn on Nasdaq in 2021 and despite a steep price fall is still

valued at more than \$3.3bn. More industry growth is expected — India is in early stages of this game.

More prominent have been India's consumer internet companies. Mirroring the dotcom frenzy, a land grab saw many investors lose money but the winners had big pay-offs.

Flipkart, the "Amazon of India", was valued at \$20.8bn when Walmart bought a 77 per cent stake in 2018. It was valued at \$35bn in its recent employee share repurchase programme and is considering an IPO next year.

Info Edge, the parent of employment website Naukri.com, had the genius to

The latest phase is the emergence of 'deep tech' groups focused on complex innovations or hardware

deploy its free cash flow to back other start-ups. It invested about \$450mn in 100-odd companies.

Just two of these investments — in insurance broker Policy Bazaar and food delivery leader Zomato — were valued by the company at around \$3.7bn in March this year. The parent itself has a market capitalisation of about \$10bn.

As such companies matured, newer business models emerged such as "quick commerce", which taps India's cheap labour costs to deliver goods to consumers super quickly. The parent company of Zomato, now known as Eternal, bought the now market leader Blinkit for \$600mn in 2022.

Goldman Sachs was reported to have valued Blinkit alone this year at about \$13bn. The subsidiary's revenues grew

155 per cent year-on-year in the June quarter as it rolls out a network of "dark store" delivery bases. Swiggy, the owner of rival Instamart, has a market capitalisation of about \$10bn while another competitor, Zepto, was valued at \$7bn in a fundraising last month.

Less remarked on globally has been the progress of India's deep tech sector. Venture capital funding here rose at a compound growth of some 90 per cent over 2019-2024, according to Inc42.

One example of the progress is that the country built a completely indigenous 4G telecom network. This is not a minor achievement. Indian companies also have made their mark elsewhere — QNU Labs in quantum cryptography, Digantara in space tech, Ideaforge in surveillance drones. Perhaps the most celebrated among these is the now-listed Waaree Energies, valued at around \$11bn, which is a making waves in solar cells and modules, though it is facing patent disputes in some markets.

There have been questions over India's level of innovation but the country has created more than 120 unicorns, start-ups valued at more than \$1bn, according to Tracxn — the third-largest after the US and China.

Indian and international venture capital firms have invested \$96bn over the past five years, according to consultants Bain, in 8,000-odd funding rounds. Most of this has come from foreign investors but the domestic capital base is developing fast, from family offices to insurance companies to pension funds.

That should help spur the new generations of hungry Indian entrepreneurs, inspired by the Silicon Valley playbook.

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