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Why public capital isn't enough to save India's deeptech

The most powerful derisker is not a fund at all. It is a customer. A Rs 200 crore procurement commitment from the defence, space or railways sectors does more for a series B round than a Rs 200 crore grant, because it validates revenue rather than science.


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Can government funds derisk deeptech enough to make private capital comfortable in India? Partly. The state is well placed to absorb technology risk. It is far less able to remove the two risks that actually keep fund managers awake: time and exit. Unless policy addresses those, India will get plenty of capital without much conviction behind it.

Start with the momentum, which is real. India's AI and deep tech investment reached $2.1 bn across 289 deals in 2025, and deep tech share of total VC – PE activity has climbed to roughly 15%, up from 4% in 2016. The 2026 numbers look even better at first glance through August, Indian deeptech companies raised $2.22 billion across 179 rounds against $861 million across 287 rounds in the same period last year.

Look closer, though. Funding rose about 2.6 times while the number of rounds fell by nearly 40%. The average cheque went from roughly $3 million to over $12 million, a four-fold jump. Private capital is getting comfortable with deeptech companies that are already derisked. It is not getting comfortable with the derisking itself. Money is crowding into proven AI and hardware winners, and fewer new bets are being placed. That gap is exactly what public funds should fill.

The state's toolkit is now large. The Research, Development and Innovation (RDI) Scheme, envisages a Rs. 1 lakh crore corpus over 6 years with Rs. 20,000 crore allocated in FY 2025-26 Union budget. Alongside it sits the Startup India Fund of Funds 2.0. SIDBI is mandated to deploy Rs 10,000 crores through SEBI registered AIFs, with the government's stake alongside private investors, who comprise a majority of the Fund corpus. The first version worked as a multiplier in 145 AIFs, which together invested more than Rs. 25,500 crores in over 1,370 startups. That is a leverage ratio of about 2.5x.

Now the maths is what matters. Spread evenly, the RDI corpus works out to about Rs. 16700 crores a year, or roughly $1.7 bn. That is very close to the size of India's entire annual deeptech VC haul. The state is no longer a marginal anchor. It is an almost co-equal capital provider, and that scale can crowd private money in or crowd it out. But this will depend on which risk the money absorbs.

Technology risk means asking whether the product will work. Grants and lab-to-market funding (debt / equity) handle this well, and then RDI design targets it directly. Time risk is the mismatch between 8–12 year development cycles and 10 year fund lives, and patient fund-of-funds capital helps only partly. Exit risk is the weakest link.

The IVCA Bharat Deeptech Report 2026 notes that gaps persist in growth-stage funding and exits. Tracxn counts 104 acquisitions and 46 IPOs in the sector, set against 1,821 funded companies. That's about one exit for every twelve funded startups over a decade. No LP will underwrite a fund on those odds, however much first loss cushion the government provides.

The most powerful derisker is not a fund at all. It is a customer. A Rs 200 crore procurement commitment from the defence, space or railways sectors does more for a series B round than a Rs 200 crore grant, because it validates revenue rather than science. Advance market commitments, outcome-based public purchase contracts and faster IDEX-style procurement would turn government from a financier into an anchor buyer. That is what private capital actually prices.

Corporate India is also ready to co-invest. Private industry's share of total R&D spending passed the government's, reaching 51.8% in 2023-24, as GERD rose to 0.84% of GDP. Yet peers such as the US (3.45%), China (2.58%), and South Korea (4.94%) invest far more. Some government funding through corporate venture arms and strategic acquirers would create the exit buyers the ecosystem lacks.

Sceptics raise fair concerns. State capital at this scale may inflate valuations. It may encourage "policy-shaped" startups that chase allocations rather than markets. It may also displace the private investors it is meant to attract. Israel's Yozma programme worked partly because the government exited quickly. India's design, through second-level managers and stake caps, gestures in that direction but has yet to be tested.

So the answer is a qualified yes. Government funds can make private capital comfortable, but only if the state thinks like a first customer and an early exit buyer, not just a generous LP.

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