June 24, 2025

India's Pace of Innovation expected to increase hereon

What's the Point?

- Recently, the Ministry of Heavy Industries (MHI) has issued a notification regarding detailed guidelines for the "Scheme to Promote Manufacturing of Electric Passenger Cars in India" to attract investments from global electric vehicle (EV) manufacturers and promote India as a manufacturing destination for EVs.
- While this initiative pushes India further towards its national goal of achieving "Net Zero" by 2070 and its establishment as the premier global destination for automotive manufacturing, it is also designed to firmly make India as the hub of innovation.
- This initiative falls under Production Linked Incentive (PLI) scheme – a key scheme introduced by the Government for **supporting the innovation ecosystem in India**. By providing incentives for attracting investments in key sectors and cutting-edge technologies for the development of manufacturing capabilities, the Government is enabling increased production and sales, encouraging companies to adopt new technologies, achieve economies of scale, and ultimately enhance their competitiveness on a global level.

Numbers in Perspective

Chart 1: India has consistently risen up the Global Innovation Index

Year	GII* Rank	Ranking on Innovation Inputs	Ranking on Innovation Outputs
2020	48th	57th	45th
2021	46th	57th	45th
2022	40th	42nd	39th
2023	40th	46th	35th
2024	**39th**	**44th**	**33rd**

Chart 2: Focus on Innovation could positively impact India's GDP per capita

Countries	GII Score	GDP per capita**
Switzerland	67.5	104,523
US	62.4	85,812
Korea	60.9	36,129
China	56.3	13,313
Japan	54.1	32,498
India	**38.3**	**2,711**
Brazil	32.7	10,214
Indonesia	30.6	4,958

Source: Global Innovation Index by WIPO, International Monetary Fund (World Economic Outlook – April 2025); *GII: Global Innovation Index, **in US$, Current Prices

What is currently supporting India's Innovation Ecosystem?

Although innovation has seen a higher rate of adoption across various geographies, India has started to gain momentum with different stakeholders focusing on carving out India's innovation-led growth path. Currently, the rise of innovation in India has been supported by the following key pillars: (1) Strong entrepreneurial culture improving India's Global Innovation rankings, (2) High talent availability and lower salary gaps, (3) Improved funding environment indicating confidence in upcoming innovation, and (4) Government initiatives supporting innovation ecosystem with strong digital public infrastructure in place

India rising up the ladder in the Global Innovation Index

India's ranking on parameters like Knowledge and Technology and Market Sophistication (Funding Environment) has led India's rise in the Global Innovation Index from 81 in 2015 to 39 in 2024. With 3rd largest number of unicorns (>100) globally, India has a vibrant ecosystem of companies that are focusing on evolving drivers of growth, which is expected to propel India higher up the ranking. India's ranking in innovation inputs and outputs has also seen step-up with time (Refer to Chart 1), as our nation sits at rank 6 globally in patent filings, with 56% of those patents coming from resident Indians (as per Union Minister of State (Independent Charge) for Science and Technology – Dr. Jitendra Singh).

Tall Journey ahead: Despite the rise in India's ranking in GII and India's emergence as the 4th largest economy in 2025, our GDP per capita remains low – at US$2,711 (Refer to Chart 2), which is generally classified as lower-middle income country. As per International Monetary Fund estimates, India would reach US$4,469 in 2030, growing at a rate of 9.2%. This however, still is in the lower-middle income range. To break out of this group, and avoid the "*middle income trap*" India will need to continue to grow at a rapid pace while it still has the advantage of demographic dividend. Therefore, sustained investment in education, infrastructure, productivity, and ***innovation*** will be critical.

Time to Rise Up the Value Chain

It is believed that India's incremental economic growth could primarily be powered by sunrise sectors like semiconductors, electronics manufacturing services, EV ecosystem, renewable energy and defence, which is expected to contribute 32% to the incremental Gross Value-Added that India adds by 2030. While India's current value addition in these segments remain low, rising up the value chain would help India foster innovation by developing new capabilities, which could reduce import dependency and could increase manufacturing and exports capabilities.

Particulars	Semiconductors	Electric Vehicle Battery	Electronics Manufacturing Services
Current / Historical Scenario	Import of 100% of its semiconductors with only Electronics Manufacturing Services being done in India	Decent presence in subsystem and vehicle integration, charging management, and assembly of cells into modules ensuring safety and thermal management	India's value addition remains low in Components Manufacturing and Design
Way Forward	India is expected to move up the value chain, considering US$18 billion of investment approved for Outsourced Semiconductor Assembly and Test (OSAT) and Foundry to be commissioned in phases over CY25-28	To reduce import dependency, India has the opportunity to higher R&D stages like development of novel chemistries and cell components to maximize energy safety	India can focus on creating high value-add "nucleus" of building equipment / capital goods for manufacturers along with design and IP-led manufacturing for components, Printed Circuit Board and others

Source: Boston Consulting Group (BCG) Report (Digitizing Make in India Report 2024), JM Financial

Conclusion

It is well understood that companies and the Government realize the potential impact of innovation on India's economic growth. With the pace of innovation expected to increase, India stands at an exciting juncture, providing multiple investment opportunities across different sectors. Keeping that in mind, an investor could consider investing in our NFO – HDFC Innovation Fund. The Fund aims to invest at least 80% of its net assets in equity and equity-related instruments of companies that are adopting innovative themes and strategies through the introduction of new products / services, processes and business models. By investing in this Fund, an investor could participate India's next leg of economic growth led by good quality companies with medium to long-term growth drivers across multiple market caps.

Sources: IMF, WIPO, BCG and other publicly available information

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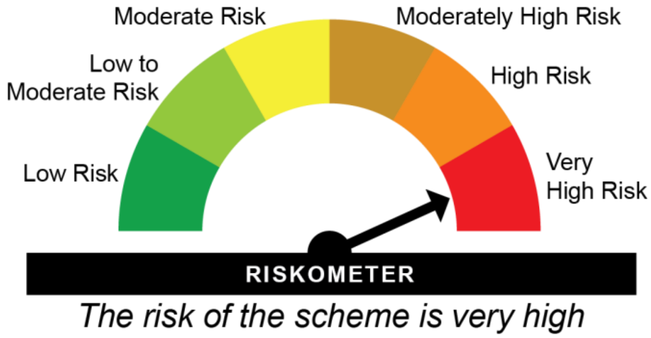
About Tuesday's Talking Points (TTP)*: TTP is an effort by HDFC AMC to guide key conversations in the Indian financial markets and investing ecosystem. We aspire to do this by providing relevant facts, along with our perspective on the issue at hand. Please provide your feedback at this link: https://forms.office.com/r/Cr8JNjMGWk* or any other security. The Fund/ HDFC AMC is not indicating or guaranteeing returns on any investments. Past performance may or may not be sustained in the future and is not a guarantee of any future returns. The recipient(s), before taking any decision, should make their own investigation and seek appropriate professional advice.

MUTUAL FUND INVESTMENTS ARE SUBJECT TO MARKET RISKS, READ ALL SCHEME RELATED DOCUMENTS CAREFULLY.

Product Labelling and Riskometer of HDFC Innovation Fund

<table>
<tr><td>HDFC Innovation Fund (An open-ended equity scheme following innovation theme) is suitable for investors who are seeking*:</td><td rowspan="3">Riskometer#

</td></tr>
<tr><td>• To generate long-term capital appreciation
• Investment in equity and equity related instruments of companies that are adopting innovative themes and strategies</td></tr>
<tr><td>*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

The product labeling assigned during the NFO is based on internal assessment of the scheme characteristics or model portfolio and the same may vary post NFO when the actual investments are made. For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com</td></tr>
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The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.