

HDFC MF

Weekend Bytes

A weekly series from HDFC Mutual Fund

What factors are driving the Innovation Ecosystem in India?



Aditya and Samaksh meet over lunch. Both have differing views about the state of innovation ecosystem in India and are discussing about the same over lunch:



I believe that India has not brought any innovative solutions all these years. Samaksh, what do you think?

While people might have different notions about India's pace of innovation, I beg to differ. Our nation has seen a rise in the adoption of multiple innovative strategies – be it in **financial services** where innovation has increased access through the advent of broking platforms, insurance tech, UPI and others, or in **automotives** where design innovation has led to the launch of state-of-art-cars at competitive prices. If you have a close look, there have historically been multiple such examples in the Indian context that suggest that India has been trying to push the envelope.



Oh yes! These are some of the innovative solutions that I might have overlooked. Is there something that is supporting the innovation ecosystem in the recent times?

Yes, there are a few key pillars.



Key Pillars supporting the Innovation Ecosystem in India

India has started to gradually gain momentum with companies and the Government focusing on carving out India's innovation-led growth path. India's fertile innovation environment is stemming from the following key pillars supporting the ecosystem:

01. Strong Entrepreneurial Culture improving India's Global Innovation Rankings

- ▶ Rise in India's rank in Global Innovation Index from 81 in 2015 to 39 in 2024
- ▶ India - Ranks 3rd in number of unicorns globally with focus on evolving drivers of growth like GenAI

02. High Talent Availability and Lower Salary Gaps

- ▶ India has a large and skilled talent pool
- ▶ Geopolitical challenges creating uncertainty, India's rising global economic standing helping to create and lower salary gaps vs major economies like United States making a case for retaining talent in India

03. Improved Funding Environment

- ▶ Improvement in VC Investments
- ▶ Seed Funding with > US\$3 million rounds accounting for 50.4% of the funding in 2024, vs 9.4% in 2017
- ▶ ~2x rise in number & market cap of VC-funded IPOs since 2021

04. Strong Digital Public Infrastructure key for Growth of Startups

- ▶ Digital KYC through Aadhar
- ▶ ~9x Increase in UPI Transaction Volume since the Pandemic
- ▶ ~2x Increase in Open Network for Digital Commerce (ONDC) Network Orders across All Domains between January 2024 and January 2025

05. Supportive Government Initiatives

- ▶ Scheme for promoting innovation, rural industries and entrepreneurship
- ▶ Production-Liked Incentive Scheme providing companies the platform for innovation and manufacture in India
- ▶ Supporting startups, creating incubation centres and innovation centres through the Atal Innovation Mission

Source: Global Innovation Index Database, WIPO (2024), World Population Review (2024), EY, India Salary Guide (2024) by Uplers, Tracxn, Indus Valley - Funding Trends (2024), National Payments Corporation of India, ONDC Website, Indian Brand Equity Foundation, PwC Reports

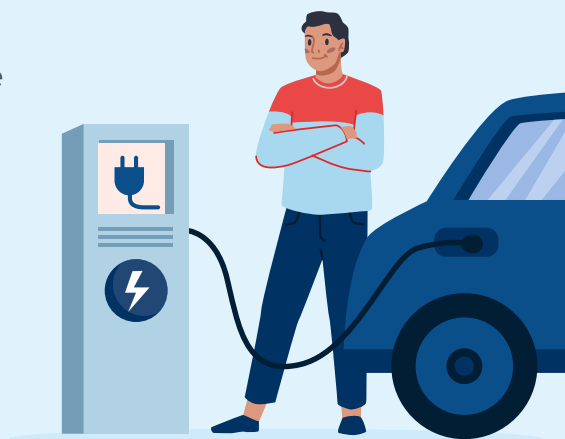
Adoption of Innovative Strategies in Different Sectors

In addition to the above key pillars, India has witnessed the adoption of innovative themes and strategies in different sectors. For example:

1. Autos

EV penetration has been supported by the rise in share of 2-wheeler EVs from 0.1% in FY19 to 5.8% in FY25

Development of domestic battery manufacturing ecosystem is expected to lead a further increase in adoption of Battery EVs in the near future



2. Pharma and Healthcare



Indian firms are in different stages of development and commercialization of New Chemical Entities and drugs

A prime example of indigenous innovation - Covaxin - one of the major vaccines used in India's fight against COVID-19 developed by Bharat Biotech

3. Defence

Budgetary allocation for R&D has witnessed a step-up – rising 3x since 2010 – with indigenization efforts maturing from early missile and submarine projects to advanced combat aircrafts



Source: Vaahan data, PIB, CLSA, Budget documents

How can one participate in India's innovation-led growth?

One can consider investing in HDFC Innovation Fund. The Fund aims to invest at least 80% of its net assets in equity and equity related instruments, which focuses on companies that are adopting innovative themes and strategies. The Fund has well defined methodology for selecting innovative companies. For more understanding on the scoring methodology, please refer to our presentation:

HDFC Innovation Fund

Based on the methodology, some of the sectors that would form part of the eligible universe would be as follows:



Consumer discretionary

which includes E-commerce and Auto & Ancillaries



Industrials

including Capital Goods, Manufacturing and Defence



Pharma and Healthcare



Information Technology and Chemicals

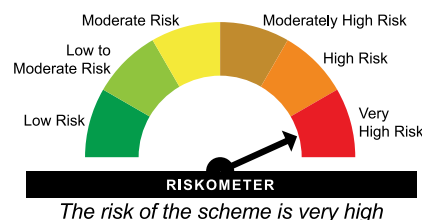


HDFC Innovation Fund (An open-ended equity-oriented scheme following the innovation theme) is suitable for investors who are seeking*:

- Capital appreciation over long term
- to invest in equity and equity related instruments of companies that are adopting innovative themes and strategies

*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

Scheme Riskometer#



The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and theme specific risks.

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

Mission: To be the wealth creator for every Indian

Vision: To be the most respected asset manager in the world