HDFC MUTUAL FUND
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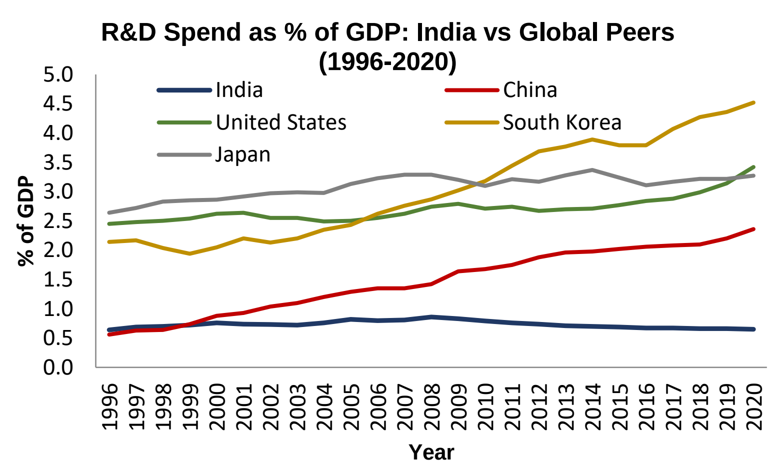
This Independence Day, India Doubled Down on Its Innovation Intent

What's the Point?

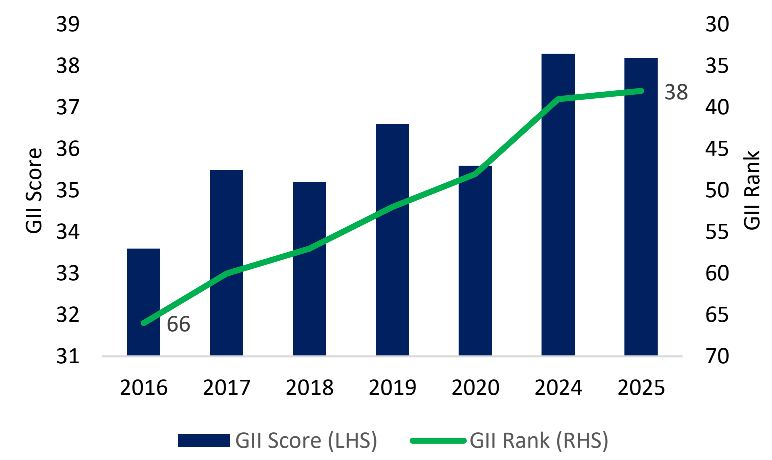
- On India's 80th Independence Day, PM Modi's address pledged to AI-skill 1 crore youth, layering talent onto a financing push already underway in the form of the Rs 1 lakh crore Research Development and Innovation (RDI) Fund.
- The RDI Fund lends via unsecured loans at 3-4% interest, priced well below what a private lender would charge for high-risk Research & Development, a deliberate subsidy for the risk premium that has kept Indian capital out of deep tech.
- While India's innovation intensity is lower than major global economies, India has climbed up steadily from 81th rank in 2015 to 38th in 2025 in Global Innovation Index

On India's 80th Independence Day, PM Modi renewed the government's pitch to young entrepreneurs around the Rs 1 lakh crore Research Development and Innovation (RDI) Fund, alongside a pledge to AI-skill 1 crore youth. This follows earlier measures like the Production Linked Incentive scheme, the semiconductor mission and the Anusandhan National Research Foundation, meant to spur innovation. These are steps in the right direction, as India's innovation intensity has remained lower than peer economies for years.

Long Runway Ahead for India's Innovation Push



India's Ranking has been improving steadily in the Global Innovation Index (GII)



Where India Stands

- **R&D Intensity:** As per World Bank**,** India spent 0.65% of GDP on R&D in 2020, a fraction of China's 2.36%, the US's 3.42%, South Korea's 4.52% and Israel's 5.83% (As of 2020). While the number has steadily increased thereafter to 0.84%(FY24), it is still low.
- **2%Target:** NITI Aayog has recommended raising R&D spending to at least 2% of GDP within four to five years, tying the goal to Viksit Bharat 2047. This would need sustained effort from both, Government and Private Sector in the years to come.
- **Innovation Output:** India has climbed from 81st on the Global Innovation Index in 2015 to 38th in 2025. Patent filings too have crossed one lakh for the first time in FY25, up nearly 20% annually, with domestic filers now ~60% of the total.

HDFC Mutual Fund: SEBI Registration Number: MF/044/00/6

What the Government Has Been Doing

- **RDI Fund:** Rs 1 lakh crore over six years in unsecured, collateral-free loans at 3-4% interest, with 12-15 year repayment and up to 50% of project cost, targeting AI, quantum, defence, clean energy and semiconductors. The Cabinet approved the fund in July 2025, and it launched that November. It runs as a Special Purpose Fund under the Anusandhan National Research Foundation, administered by the Department of Science and Technology. Startups can also opt for equity financing instead of debt.
- **Beyond RDI:** RDI Fund sits alongside other missions launched since 2023 viz. the National Quantum Mission (Rs 6,000 crore through 2030-31), the IndiaAI Mission (over Rs 10,000 crore, approved March 2024), and ANRF's own research funding target of Rs 50,000 crore over five years, on top of the Rs 76,000 crore semiconductor mission already under way.

Early Signs of Execution

- **RDI Fund:** It has moved from launch to execution quickly, with the first tranche of loans going out to private companies in May 2026, about six months after launch.
- **Semiconductor Mission:** Launched on a similar basis, it already has three plants in commercial production.
- **Production Linked Incentive (PLI) Scheme:** Smartphone, absent from India's top 100 exported commodities in 2014, is now India's top exported individual commodity in FY26, ahead of petroleum and gems and jewellery, with 99.2% of the phones used in India now made domestically.

Key Takeaway

- **Policy Intent:** The August 15 speech added policy intent to the ongoing push on innovation
- **What to Watch:** Whether RDI Fund lending keeps pace with its six-year timeline, and whether private R&D spending shows signs of rising needs to be seen in the years ahead
- **Beneficiaries of Innovation:** Segments like autos, energy transition, data centres, electronics manufacturing, healthcare, defence etc present investment opportunities owing to India's innovation push

Conclusion

While India remains behind on R&D intensity vis-à-vis most peer economies, it has shown signs of improving steadily over the past few years. India has over 130 unicorns and more than 2.4 lakh DPIIT-recognised start-ups, the world's third-largest start-up base. Rs 1 lakh crore fund built to widen private-sector participation has already moved from announcement to active lending. Reiteration of policy intent on innovation indicates the policy makers' continued focus in this area presenting investment opportunities in this space.

Sources: World Bank, PIB, WIPO, IP India, DPIIT, NITI Aayog, and other publicly available information.