An Analysis of the Startup Ecosystem in Tier-2 Cities in India

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Abstract

The Indian startup ecosystem has undergone a remarkable transformation, moving beyond metropolitan dominance into Tier-2 cities such as Jaipur, Kochi, Coimbatore, Lucknow, Chandigarh, Bhubaneswar, and Mysuru. This article examines the trajectory of growth, sectoral spread, funding dynamics, and ecosystem enablers shaping entrepreneurship in smaller cities. Drawing upon national databases, industry reports, and global ecosystem rankings, the study highlights both the opportunities and challenges that Tier-2 hubs face. Findings reveal that while Tier-2 cities contribute nearly one-third of India's recognized startups in 2025, challenges in scaling, funding access, and global exposure remain critical. The paper concludes that with focused policies and investments, Tier-2 ecosystems could account for 40–45% of India's startups by 2030, making innovation more regionally inclusive.

Keywords: Tier-2 cities, Indian startup ecosystem, regional entrepreneurship, funding dynamics, ecosystem enablers, innovation hubs, inclusive growth, policy support**.**

1. Introduction

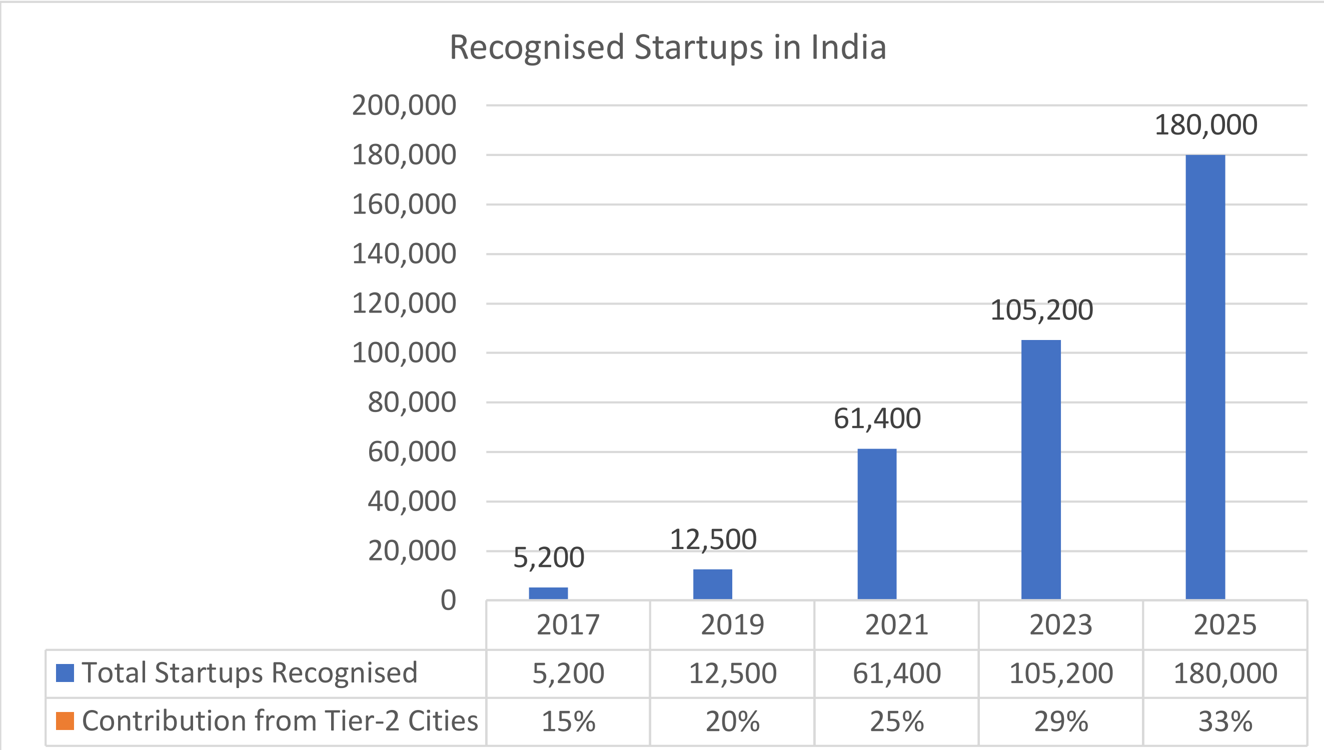
India has emerged as one of the world's largest and fastest-growing startup ecosystems, ranking third globally after the United States and China in terms of the number of startups and entrepreneurial activity (Startup Genome, 2023). According to the Department for Promotion of Industry and Internal Trade (DPIIT), India had more than 1,80,000 recognized startups by 2025, reflecting a remarkable transformation in the country's innovation and business landscape. Traditionally, India's startup ecosystem was concentrated in metropolitan cities such as Bengaluru, Mumbai, Delhi-NCR, Hyderabad, and Chennai due to stronger infrastructure, better access to capital, skilled talent pools, and established corporate networks. However, over the last decade, the startup movement has increasingly expanded beyond metropolitan regions into Tier-2 and Tier-3 cities, signaling a shift toward more regionally inclusive entrepreneurship.

Tier-2 cities such as Jaipur, Kochi, Coimbatore, Chandigarh, Bhubaneswar, Indore, Lucknow, and Mysuru are emerging as important startup and innovation hubs. These cities are witnessing rapid entrepreneurial growth because of improving digital infrastructure, rising internet penetration, government policy support, lower operational costs, and access to educated youth populations. The emergence of affordable technology, cloud computing, digital payments, and mobile internet has significantly reduced geographical barriers for entrepreneurs operating outside metropolitan ecosystems (NASSCOM, 2024).

The rise of startups in Tier-2 cities is particularly significant in the Indian context, where nearly 65% of the population resides in smaller towns and semi-urban regions (Economic Survey of India, 2025). These regions represent vast untapped consumer markets and offer substantial opportunities for innovation in sectors such as HealthTech, AgriTech, EdTech, FinTech, SaaS, logistics, and digital commerce. Startups in smaller cities often focus on solving localized social and economic problems through affordable and scalable digital solutions.

Consequently, Tier-2 ecosystems are increasingly contributing to employment generation, digital inclusion, regional development, and economic decentralization.

Figure 1: Recognized Startups in India (2017–2025)



Source: DPIIT, 2025

Government initiatives have played a major role in accelerating entrepreneurial growth in non-metro regions. Programs such as Startup India, Digital India, Atal Innovation Mission, Smart Cities Mission, and the expansion of Software Technology Parks of India (STPI) have strengthened innovation ecosystems across emerging cities (MeitY, 2024; Startup India, 2025). State-level initiatives such as Kerala Startup Mission (KSUM), Telangana's T-Hub, Rajasthan's iStart Program, and various incubation centers established by universities and private institutions have further encouraged startup formation and innovation in regional ecosystems.

The COVID-19 pandemic also accelerated digital transformation and contributed to the decentralization of entrepreneurial activity. Remote work culture, increased digital adoption, online education, telemedicine, e-commerce growth, and digital financial services created new opportunities for startups operating from smaller cities. Investors and businesses increasingly recognized the advantages of Tier-2 ecosystems, including lower operational expenses, reduced employee attrition, and access to emerging regional markets.

Despite rapid growth, Tier-2 startup ecosystems continue to face several structural challenges. Access to growth-stage funding remains limited compared to metro-based startups. Infrastructure gaps, talent migration to metropolitan cities, weaker global investor networks, and lower international visibility continue to constrain scalability and long-term competitiveness. According to Organisation for Economic Co-operation and Development (2023), regional startup ecosystems in developing economies often struggle with global integration despite strong domestic growth potential.

At the same time, international experiences demonstrate that mid-sized innovation ecosystems can become globally competitive when supported by strong university-industry linkages, specialized clusters, policy incentives, and investor connectivity. Examples such as Krakow in Poland and Da Nang in Vietnam illustrate how regional innovation ecosystems can evolve into global technology and service hubs (World Bank, 2024).

In this context, studying the growth and transformation of Tier-2 startup ecosystems in India becomes highly relevant. Understanding the regional distribution, sectoral composition, funding dynamics, ecosystem enablers, and growth challenges of startups in smaller cities is essential for policymakers, investors, researchers, and entrepreneurs. This study therefore examines the evolution of India's Tier-2 startup ecosystems, analyzes the major sectors driving growth, evaluates investment patterns and policy interventions, and explores the opportunities and challenges shaping the future of regional entrepreneurship in India.

2. Objectives of the Study

1. To analyze the growth trajectory of startups in Tier-2 cities in India.
2. To compare investment and funding dynamics between Tier-1 and Tier-2 hubs.
3. To identify regional clusters and sectors driving entrepreneurship in smaller cities.
4. To evaluate government, institutional, and private ecosystem enablers supporting growth.
5. To examine challenges and potential strategies for global competitiveness.

3. Methodology

This study is based on secondary data analysis and adopts a descriptive as well as analytical research design to examine the growth and development of startup ecosystems in India's Tier-2 cities. Secondary data was selected as the primary source of information because the study focuses on analyzing large-scale national trends, policy developments, funding patterns, sectoral growth, and regional entrepreneurial dynamics over a period of time.

These sources provide comprehensive insights into the evolution of entrepreneurship and innovation across emerging startup hubs in India.

3.1 Sources of Data

The major sources used for the study include:

- Department for Promotion of Industry and Internal Trade Startup India Database (2017–2025)
- NASSCOM Startup Reports (2020–2024)
- Inc42 Research Reports
- YourStory Startup Studies
- Economic Survey of India (2024–25)
- World Bank Entrepreneurship and Innovation Studies
- Organisation for Economic Co-operation and Development Entrepreneurship Outlook Reports
- Industry case studies, peer-reviewed journal articles, business magazines, and policy documents

The DPIIT Startup India database was used to examine the growth trajectory and regional distribution of recognized startups across India. NASSCOM reports provided insights into technology-driven startup trends, digital innovation, and sectoral performance. Reports from Inc42 and YourStory were used to understand investment flows, venture capital trends, startup success stories, and emerging entrepreneurial clusters in Tier-2 cities.

The Economic Survey of India and international reports from the World Bank and OECD offered macroeconomic perspectives on entrepreneurship, innovation ecosystems, digital transformation, employment generation, and policy interventions. Journal articles and industry case studies helped in understanding regional specialization, ecosystem enablers, and operational challenges faced by startups in smaller cities.

3.2 Data Analysis Techniques

The collected secondary data was analyzed using:

- Comparative analysis
- Trend analysis
- Sectoral analysis
- Regional evaluation
- Interpretative analysis

Comparative analysis was conducted to compare startup growth, funding patterns, and ecosystem development between metropolitan and non-metropolitan regions. Trend analysis was used to study the growth trajectory of startups, investment flows, and sectoral expansion between 2017 and 2025.

Sectoral analysis helped identify the dominant industries driving entrepreneurship in Tier-2 cities, including HealthTech, AgriTech, SaaS, EdTech, and FinTech. Regional evaluation was undertaken to examine the performance of major startup hubs such as Jaipur, Kochi, Coimbatore, Indore, Chandigarh, Bhubaneswar, and Mysuru.

The study also incorporates interpretative analysis to understand the broader economic and policy implications of startup growth in smaller cities. Statistical tables, charts, and graphical representations were used to present trends and findings in a clear and systematic manner.

4. Scope of the Study

The study primarily focuses on startup ecosystems in Indian Tier-2 cities between 2017 and 2025. It examines:

- Startup growth trends
- Sectoral specialization
- Funding dynamics
- Government policy interventions
- Ecosystem support structures
- Employment generation
- Regional innovation patterns

The research emphasizes technology-driven and innovation-oriented startups operating in emerging urban ecosystems outside major metropolitan regions.

5. Findings and Discussion

5.1 Regional Distribution of Startups

Tier-2 cities are no longer peripheral players in India's startup economy. As of 2024, more than 48% of recognized startups under Startup India were located outside the top seven metro hubs (NASSCOM, 2024; DPIIT, 2025). Cities such as Jaipur, Kochi, Bhubaneswar, Chandigarh, Indore, and Mysuru have demonstrated steady growth, fueled by state-specific policies, incubators, and academic linkages.

Table 1: Tier-2 Startup Hubs and Specializations

City	Dominant Sector(s)	Examples
Jaipur	HealthTech, FinTech	MedCords, CarDekho
Coimbatore	Manufacturing, SaaS	Kovai.co
Kochi	SaaS, Logistics	Entri, Agrima Infotech
Chandigarh	EdTech, D2C	Jugnoo, Pumpkart
Indore	AgriTech, FoodTech	Gramophone
Mysore	SaaS, TourismTech	ArisGlobal
Bhubaneswar	AgriTech, GovTech	Milk Mantra

Rajasthan's iStart program has made Jaipur a fintech and mobility hub. Kerala's Kochi Startup Mission has positioned the city as a digital health and agritech leader. Bhubaneswar and Indore are leveraging state incentives and lower operational costs to attract early-stage ventures.

5.2 Sectoral Distribution

Table 2: Sectoral Spread of Tier-2 Startups (2024)

Sector	Share (%)	Key Growth Drivers
HealthTech	20%	Telemedicine and healthcare access
AgriTech	17%	Farmer digitization and supply chain innovation
SaaS	16%	B2B software exports
EdTech	14%	Regional learning platforms
FinTech	13%	Digital payments and financial inclusion
D2C & Retail	10%	E-commerce expansion
Others	10%	Mobility, clean energy, tourism

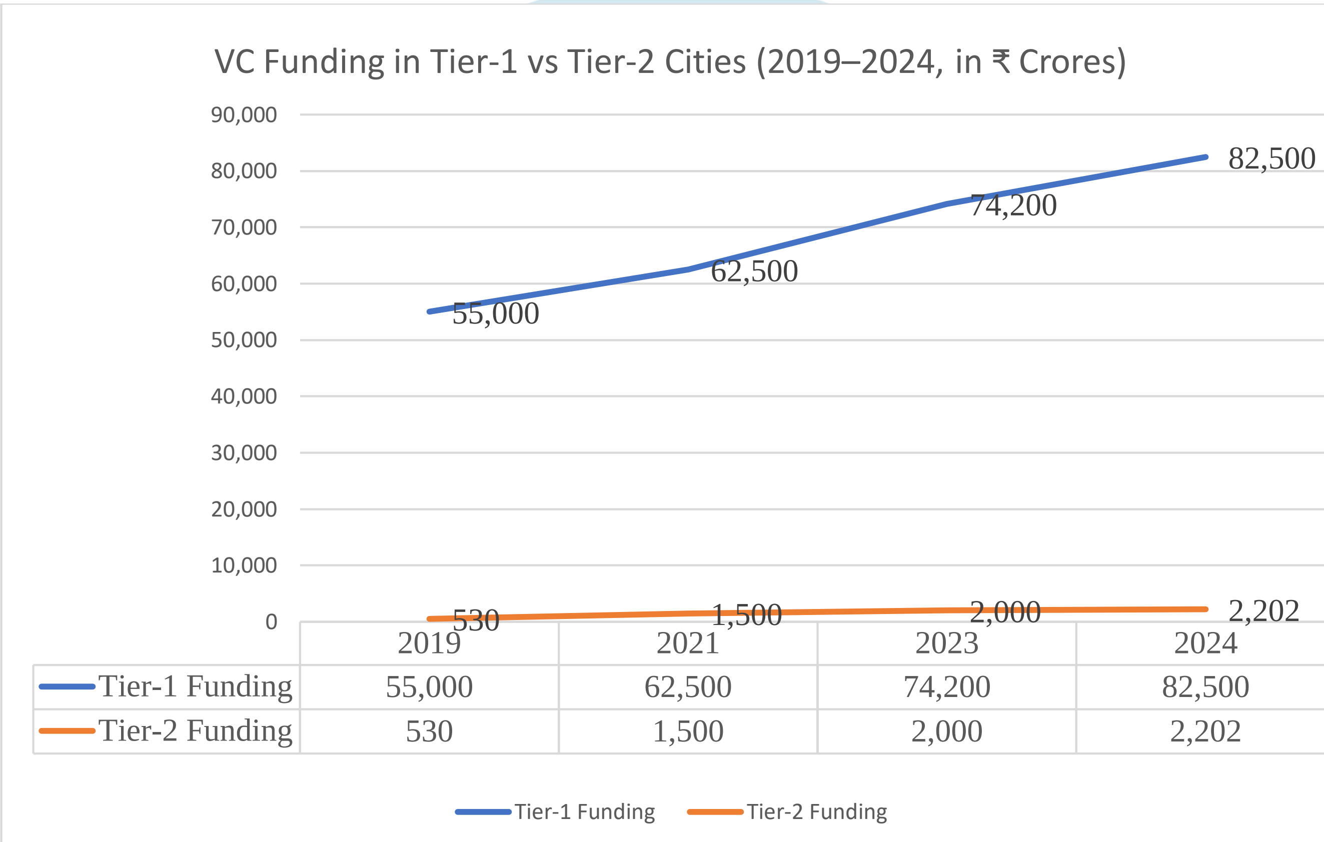
The data reveals that **HealthTech (20%)** leads the Tier-2 startup ecosystem, driven by growing demand for accessible healthcare and the rapid adoption of telemedicine. **AgriTech (17%)** and **SaaS (16%)** follow closely, reflecting strong rural digitization and B2B innovation trends. **EdTech (14%)** continues to thrive on regional and affordable learning platforms, while **FinTech (13%)** is expanding financial inclusion through digital payments and lending solutions. Emerging sectors like **D2C & Retail (10%)** and **Others (10%)** covering mobility, clean energy, and tourism highlight the growing diversification of Tier-2 entrepreneurial activity.

Overall, this spread indicates that Tier-2 cities are no longer peripheral innovation zones but **dynamic startup hubs**, contributing significantly to India's next wave of inclusive digital growth.

5.3 Funding Dynamics and Investment Trends

Between 2020 and 2024, venture capital investments in Tier-2 ecosystems witnessed substantial growth. Investors increasingly view smaller cities as high-potential markets due to lower operational costs and expanding digital infrastructure.

Figure 3: VC Funding Trends in Tier 1 and Tier-2 Cities (₹ Crores)



	2019	2021	2023	2024
Tier-1 Funding	55,000	62,500	74,200	82,500
Tier-2 Funding	530	1,500	2,000	2,202

Source: CRISIL (2024), KPMG India (2023)

Interpretation

The above figure indicates steady growth in Tier-2 funding ecosystems. While Tier-1 cities still dominate overall funding, smaller cities are increasingly attracting venture capital investments.

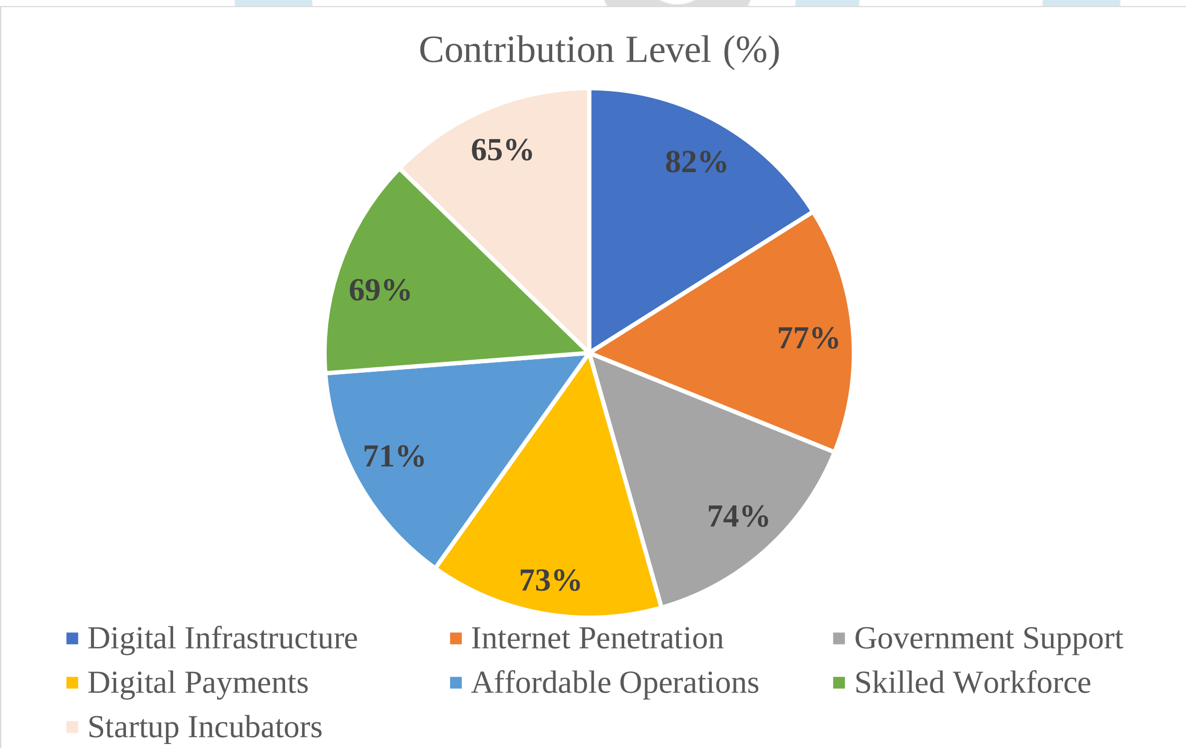
5.4 Role of Digital Infrastructure and Technology Adoption

Digital transformation has emerged as one of the strongest drivers behind Tier-2 startup growth. Programs such as Digital India, BharatNet, Startup India, and Smart Cities Mission have accelerated internet penetration and digital connectivity.

Table 4: Key Drivers Supporting Tier-2 Startup Growth

Growth Drivers	Contribution Level (%)
Digital Infrastructure	82%
Internet Penetration	77%
Government Support	74%
Digital Payments	73%
Affordable Operations	71%
Skilled Workforce	69%
Startup Incubators	65%

Chart 2: Major Drivers of Tier-2 Startup Ecosystems



Interpretation

Digital infrastructure and internet penetration are among the strongest contributors to startup ecosystem growth in smaller cities.

5.5 Challenges in Scaling

Despite progress, several structural barriers persist:

- Funding asymmetry
- Talent drain to metropolitan cities
- Infrastructure gaps

- Limited global visibility
- Weak international investor connectivity

These challenges continue to affect the scalability and long-term competitiveness of Tier-2 startups.

5.6 Comparative Insights with Global Ecosystems

International examples suggest that regional ecosystems thrive when supported by:

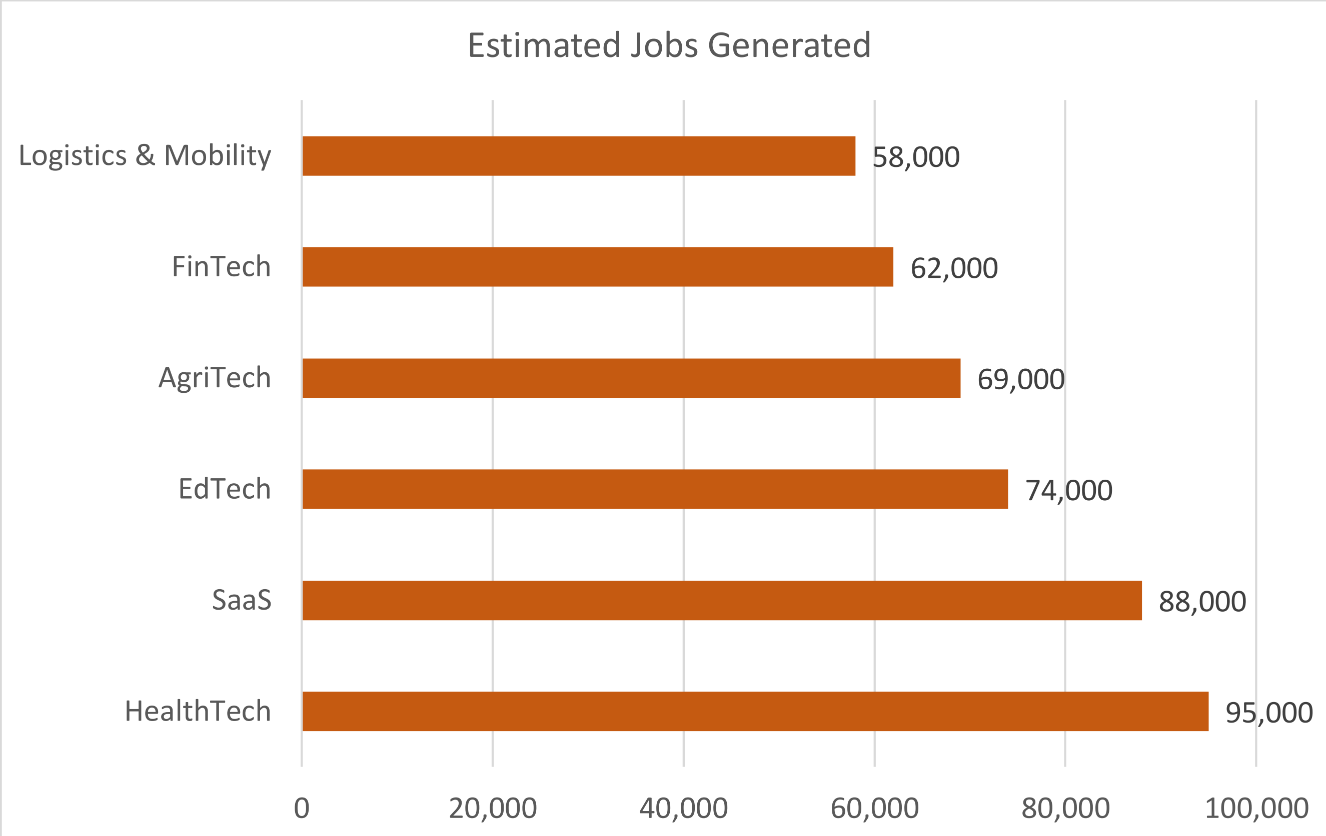
- Strong university-industry collaboration
- Specialized startup clusters
- Policy incentives
- Global investor integration

Examples include Krakow in Poland and Da Nang in Vietnam, which evolved into successful regional innovation hubs.

5.7 Employment Generation and Economic Contribution

Table 5: Estimated Employment Contribution of Tier-2 Startups (2024)

Sector	Estimated Jobs Generated
HealthTech	95,000
SaaS	88,000
EdTech	74,000
AgriTech	69,000
FinTech	62,000
Logistics & Mobility	58,000



Interpretation

HealthTech and SaaS contribute significantly to employment generation due to increasing digital service demand and startup expansion.

6. Conclusion

The growth of India's startup ecosystem in Tier-2 cities represents a significant transformation in the country's entrepreneurial and economic landscape. Cities such as Jaipur, Kochi, Coimbatore, Indore, Chandigarh, Bhubaneswar, and Mysuru are emerging as dynamic innovation hubs supported by digital infrastructure, government initiatives, affordable operational environments, and skilled talent pools. The study highlights that Tier-2 cities are no longer peripheral participants in India's startup journey but are becoming independent engines of innovation and regional economic development.

The findings reveal that sectors such as HealthTech, AgriTech, SaaS, EdTech, and FinTech are driving entrepreneurial expansion in smaller cities by addressing local challenges while simultaneously contributing to national digital transformation. The increasing adoption of digital technologies, mobile internet, cloud computing, and digital payment systems has enabled startups in non-metro regions to access broader markets and operate competitively.

The research further indicates that government initiatives such as Startup India, Digital India, STPI expansion, and state-level startup missions have played a vital role in strengthening regional startup ecosystems. Incubators, accelerator programs, university-industry collaborations, and public-private partnerships have significantly contributed to entrepreneurial growth and innovation capacity in Tier-2 cities.

Despite the positive growth trajectory, several structural challenges continue to affect the scalability and global competitiveness of Tier-2 startups. Limited access to growth-stage funding, infrastructure gaps, talent migration to metropolitan cities, and weaker global investor connectivity remain important barriers.

The study concludes that Tier-2 cities possess immense potential to become globally competitive innovation corridors if supported by sustained policy interventions, stronger investment ecosystems, improved digital infrastructure, and enhanced global integration. As India moves toward a more decentralized and inclusive model of economic growth, Tier-2 startup ecosystems are expected to contribute significantly to employment generation, regional development, technological innovation, and national competitiveness.

Overall, the rise of Tier-2 startup ecosystems reflects a broader shift toward democratized entrepreneurship in India, where innovation is no longer restricted to metropolitan centers but is increasingly distributed across emerging regional hubs.

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