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Research

M&A In The Indian Technology Sector

Key Trends 2025

February 2025

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Introduction

The landscape of mergers and acquisitions ("**M&A**") within the Indian technology industry is growing at an unprecedented pace. As artificial intelligence reshapes industries, computing becomes the backbone of enterprises, newer technologies are developed and fintech expands across larger segments of the Indian population. Organic growth of technology and technology-oriented companies is now being increasingly supplemented with frequent inorganic activity, occurring in the form of strategic consolidation, acquisitions and industry partnership arrangements by foreign investors. In other words, M&A activity in the technology sector continues to show promise in 2025 and is likely to dominate deal-making activity in India.

In 2024, India's M&A landscape experienced a significant resurgence, particularly within the technology sector. The total deal value for announced M&A deals involving India reached USD 37.3 billion in the first half of 2024, of which deals within the technology, media, and telecommunications ("**TMT**") sector amounted to nearly USD 14 billion of this total, more than doubling the deal value from the same period in the previous year[1]. In the third quarter of 2024, TMT deals accounted for 17.2% of the global M&A value and 14.5% of the deal count. The average deal size in TMT increased significantly, bolstered by the growth of AI-driven companies and strategic investments in business software[2].

As we settle into the new year, the M&A landscape within the technology sector is expected to continue growing at a fast pace. Certain trends that we have identified with respect to M&A activity including key drivers, emerging patterns, and future prospects that are likely to influence deal activity in 2025 are as follows.

1 https://www.business-standard.com/finance/personal-finance/tech-drives-india-s-m-market-in-first-half-of-2024-top-10-deals-de-coded-124071000464_1.html.

2 https://kpmg.com/kpmg-us/content/dam/kpmg/pdf/2024/q3-2024-ma-trends-tmt.pdf.

Key Trends

I. Sectors attracting increased Investment activity

A. Fintech and Cryptocurrency

In 2024, the fintech sector continued expanding owing to legislative and commercial innovations alike, which have continued to grasp the attention of dealmakers. The reasons for increased interest in this space can largely be bifurcated into the following two factors: (i) regulatory environment and reforms by Indian regulators; and (ii) development of diversified fintech products and corresponding growth of the customer segment in India for such offerings. The attractiveness of this sector is likely to continue attracting private equity and M&A alike, with larger players acquiring smaller startups to create synergetic offerings being a dominant trend in 2025.

In 2025, India's fintech sector is anticipated to experience significant growth, with projections estimating a market valuation of approximately USD 1.5 trillion[1]. For instance, Dutch technology investor Prosus plans to list Indian digital payments and lending firm PayU by 2025, which reflects the growing prominence of Indian fintech firms on the global stage[2].

On a separate note, and particularly considering the aftermath of Trump's election as President of the United States of America, we expect a large number of investors / large players to follow the MicroStrategy model by investing in virtual digital asset backed technologies. This will translate to increased foreign capital flowing into Indian companies involved in this sector – by way of strategic consolidation and acquisitions alike. Further, there is likely to be growth in finance related services such as exchange traded funds. Lastly, we anticipate release of new regulations governing cryptocurrency in India which may increase M&A activity over the course of the year[3].

B. Space

India's space sector is undergoing a transformative phase, marked by significant policy reforms and increased private sector participation. Notably, in 2024, the Indian government liberalized its Foreign Direct Investment ("FDI") policy, permitting up to 100% FDI in satellite manufacturing and operations, satellite data products, and ground segment and user segment activities. Specifically, up to 74% FDI is allowed under the automatic route, with investments beyond this threshold requiring government approval[4].

This policy shift has catalyzed a surge in private sector involvement and M&A activity alike. Companies like Larsen & Toubro (L&T) are expanding their aerospace divisions to capitalize on this sector, which is projected to reach USD 44 billion within the next decade.

1 https://karnatakadigital.in/the-fintech-revolution-in-india-success-opportunities-challenges/#:~:text=with%20Exponential%20Growth:-,India's%20fintech%20market%20is%20a%20giant%2C%20currently%20valued%20at%20$584,cities%20emerge%20as%20new%20hubs.

2 https://www.reuters.com/technology/prosus-looks-list-indian-payments-firm-payu-2025-2024-11-13.

3 https://www.nishithdesai.com/NewsDetails/15230.

4 https://pib.gov.in/PressReleasePage.aspx?PRID=2007876; https://www.nishithdesai.com/NewsDetails/14953.

L&T, in collaboration with Hindustan Aeronautics Limited, is set to launch the first privately built Polar Satellite Launch Vehicle (PSLV) in early 2025[5]. These developments align with India's strategic vision to capture 8% of the global space market by 2033, expanding its space economy to USD 44 billion[6].

We expect significant activity in this sector, particularly focused on niche areas such as satellite insurance, satellite data / remote sensing, data analytics etc. 2025 may also potentially witness consolidation between service providers that will create positive vertical integration in the market and strengthen the supply chain, manufacturing and production capabilities.

C. Generative Artificial Intelligence ("AI")

India's generative AI sector is experiencing rapid growth. In 2024, the Indian government approved approximately USD 1.24 billion for the IndiaAI Mission, aiming to build AI infrastructure and foster innovation across sectors such as healthcare and agriculture[7]. Further, estimates suggest that this sector shall have a compounded annual growth rate of 42.6% from 2025 to 2030, reaching a revenue of USD 8.3 billion by 2030[8]. The growth of the generative AI sector is expected to be driven in 2025 due to the following four reasons: (i) similar to the case for fintech, increased digitalization across India prompts a greater consumer pool; (ii) generative AI has disrupted activity across corporate spaces by redefining efficiency, which has led to increased adoption and corresponding development through the establishment of startups; (iii) governmental efforts to boost innovation in this sector; and (iv) the potential of generative AI to create digital infrastructure and empower nations.

Within this backdrop, M&A activity will only rise. The growth applied AI over the years coupled with advancements in large language models will lead to startups in this space particularly attracting increased interest from early-stage venture capital investors. Investments and M&A activity in applied AI and vertical integration are also expected to rise.

Furthermore, deal-making related to AI in pharmaceuticals and life sciences will continue to gain momentum, given the booming nature of these sectors, which will also drive heightened M&A activity[9].

D. Deep Tech

India's deep tech sector has continued to remain the subject of investment deliberations, majorly due to the growth of technology sub-sectors. This has been supplemented with major boosts by the government, such as the Finance Minister Ms. Nirmala Sitharaman's announcement in the Union Budget 2025 about the potential establishment of a Deep Tech Fund of Funds. This initiative aims to foster innovation and support the growth of next-generation startups specializing in areas such as artificial intelligence, machine learning, cybersecurity, advanced robotics, and more.[10] Such measures arguably also indicate the government's commitment to attracting funding in this space.

While the number of deep tech startups has grown in India over the years, the funding received has been comparatively limited due to scalability issues faced by startups in this space. Further, academic institutions conducting research in this space have not been able to attract long-term capital given their profitability restraints.

5 https://www.reuters.com/world/india/lt-eyes-aerospace-expansion-ride-indias-44-bln-private-space-market-push-2024-10-31.

6 https://www.weforum.org/stories/2025/01/strategic-vision-innovation-boosting-india-space-economy.

7 https://coingeek.com/india-leads-ai-adoption-in-2024-despite-concerns.

8 https://www.grandviewresearch.com/horizon/outlook/generative-ai-market/india.

9 https://www.nishithdesai.com/fileadmin/user_upload/pdfs/Research_Papers/Evolution-of-Generative-AI.pdf.

10 https://www.outlookbusiness.com/budget/govt-to-explore-deep-tech-fund-of-funds-says-nirmala-sitharaman.

That being said, we have noticed significant penetration of deep tech startups in the Indian ecosystem despite these challenges and foresee killer acquisitions by larger players / early-stage venture debt and capital funding activity in this sector beyond Series A rounds. Further, we anticipate alternative funding arrangements for academic institutions being explored in the form of project finance and corporate debt. In all, investment activity geared towards advancement of deep tech research will likely remain a prominent theme in 2025.

II. Developments in Indian Competition Law: Heightened regulatory scrutiny of large-value deals

India has recently introduced significant regulatory measures to enhance scrutiny of M&A deals, with changes that are particularly intended to impact such deals in the technology sector, and to promote fair competition in digital markets generally. These are likely to impact the manner in which M&A in the technology sector are intended to be structured and negotiated, given also the corresponding impact on timelines.

a. **Amendments to Indian merger control regime – Introduction of the Deal Value Threshold ("DVT")**

In September 2024, the Ministry of Corporate Affairs **("MCA")** notified the implementation of DVT for M&A transactions. Under this new requirement, any "combination" (as defined under the Competition Act, 2002 **("Competition Act")** with a deal value exceeding INR 2,000 crore (approximately USD 267 million[11]) requires prior approval from the Competition Commission of India **("CCI")**, provided the target enterprise has "substantial business operations in India"[12]. The requirements for each of these are set out in the Competition Commission of India (Combinations) Regulations, 2024 and have been analysed in detail in our article here.

Prior to the introduction of the DVT, M&A and private equity activity specifically in the technology sector escaped the scrutiny of CCI because the target companies were often below the asset and turnover thresholds prescribed under the merger control regime **("De Minimis Exemption")**. This was more common for companies in the technology sector given that their valuation is often ascribed to non-monetary factors (such as the number of users). The introduction of the DVT has now led to "combinations" having to assess the deal value, particularly since the De Minimis Exemption is not available to deals that are notifiable on account of the DVT.

The introduction of DVT is likely to lead to more deal activity in the technology sector being subject to the CCI's approval prior to consummation, which may impact the structuring and timelines for these deals alike.

Particularly, due to introduction of this criteria, the CCI's approval may also be required in case the DVT is met in India for global-level technology M&A activity as well.

b. **Proposed enactment of the draft Digital Competition Bill, 2024**

In parallel, the Indian government is considering the enactment of the draft Digital Competition Bill, 2024, following recommendations from a parliamentary committee which released a report on March 12, 2024[13]. The proposed legislation seeks to establish an ex-ante regulatory framework, enabling the CCI to proactively regulate large digital enterprises, referred to as "Systemically Significant Digital

11 The conversion rate of January 23, 2025, published by the Reserve Bank of India has been taken.

12 https://www.cci.gov.in/legal-framwork/rules/76/0.

13 https://prsindia.org/files/policy/policy_committee_reports/Report_Summary-Digital_Competition_Law.pdf.

Enterprises" (SSDEs) which may also impact the M&A landscape to the extent that such SSDEs will be governed by the compliances of the Digital Competition Act, enabling the sector to be monitored further by CCI from an "abuse of dominance" perspective.

III. Evolution of the Indian Data Protection Regime: a shift towards compliance with responsibility

The Digital Personal Data Protection Act, 2023 which was passed on August 9, 2023, and draft DPDPA rules published on January 3, 2025 **("DPDPA")**, are set to come into force later in 2025. This marks a pivotal moment in India's approach to data privacy. The DPDPA is a culmination of years of deliberations and builds on the recommendations of the Justice Srikrishna Committee, which emphasized the need for a comprehensive framework to protect personal data in the digital age. As the digital ecosystem in India grows rapidly, the DPDPA is designed to ensure that personal data is safeguarded while enabling responsible data usage by businesses.

The DPDPA mandates that organizations handling personal data must obtain explicit consent from individuals for data processing. With the enactment of DPDPA, we anticipate data protection compliances to be applicable on tech companies processing personal data including when foreign companies offer services to Indian users. The DPDPA once enacted, would also bolster investor confidence, particularly providing comfort on general privacy standards in India.

IV. Rising "Reverse Flips" by technology companies into India

Reverse flips - a phenomenon where Indian companies re-domicile their parent entities back to India from foreign jurisdictions[14] have been in the news.

A few notable examples of Indian companies involved in the e-commerce and / or the technology sector, which have explored reverse flipping in 2024 (after the likes of companies like PhonePe) include:

a. **Zepto:** In October 2024, Zepto initiated its reverse flipping process from Singapore to India. Following this move, the company raised USD 350 million from Indian family offices to restructure its capital table, increasing domestic and foreign investor representation alike[15].

b. **Razorpay:** The company is in advanced stages of relocating its domicile back to India[16].

Reverse flipping is particularly beneficial to Indian-headquartered, foreign-domiciled companies given the increased potential for facilitating an exit, changes to business models requiring closer connect with the country where their operations / human capital is deployed, and reduction in administrative costs associated with operations.

Considering that the process of reverse flipping involves an inbound M&A into India (which is subject to the approval of Indian courts), 2025 may witness significant inbound M&A activity in the Indian technology sector.

14 https://www.nishithdesai.com/NewsDetails/9600.

15 https://www.outlookbusiness.com/start-up/zeptos-homecoming-gets-nclt-nod-how-indian-start-ups-reverse-flipping-concept-work.

16 https://www.reuters.com/world/india/india-regulatory-reform-could-hasten-homecoming-ipo-bound-startups-2024-10-10.

In the long run, we also anticipate this trend to continue and cause increased technological consolidation in India, which will correspondingly attract foreign investment into these growing companies.

V. Scrutiny of "Significant Beneficial Owners" of multiple technology companies

A recent regulatory focus has been on enhancing transparency in corporate ownership structures to prevent illicit activities such as money laundering and tax evasion. Central to this initiative is the enforcement of disclosure requirements for Significant Beneficial Owners **("SBOs")** under the Companies Act, 2013.

A recent order by the Registrar of Companies **("ROC")** concerning LinkedIn India case served as a landmark moment in SBO regulation enforcement. The ROC penalized LinkedIn India for failing to disclose its SBOs, identifying managing officials Ryan Roslansky (LinkedIn CEO) and Satya Nadella (Microsoft CEO) from its ultimate foreign parent as an SBO, on grounds that these individuals exercise "significant influence" on the operations of LinkedIn India. This case signaled a stricter interpretation of "control" and "influence", reinforcing the need for compliance in M&A transactions[17].

While this will not itself impact deal making activity directly, it will serve as an important consideration for foreign investors (with group structures spanning across multiple jurisdictions) when structuring investments into India.

17 https://www.nishithdesai.com/fileadmin/user_upload/Html/Hotline/Yes_Governance_Matters_June1224-M.html.

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We are a trust based, non-hierarchical, democratic organization that leverages research and knowledge to deliver extraordinary value to our clients. Datum, our unique employer proposition has been developed into a global case study, aptly titled 'Management by Trust in a Democratic Enterprise,' published by John Wiley & Sons, USA.

Research@NDA

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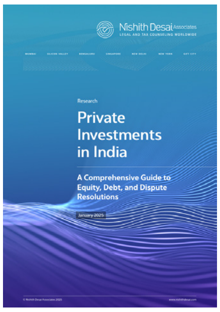

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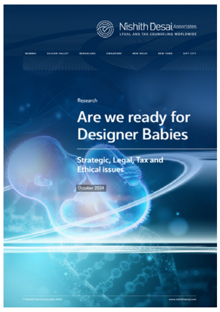

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