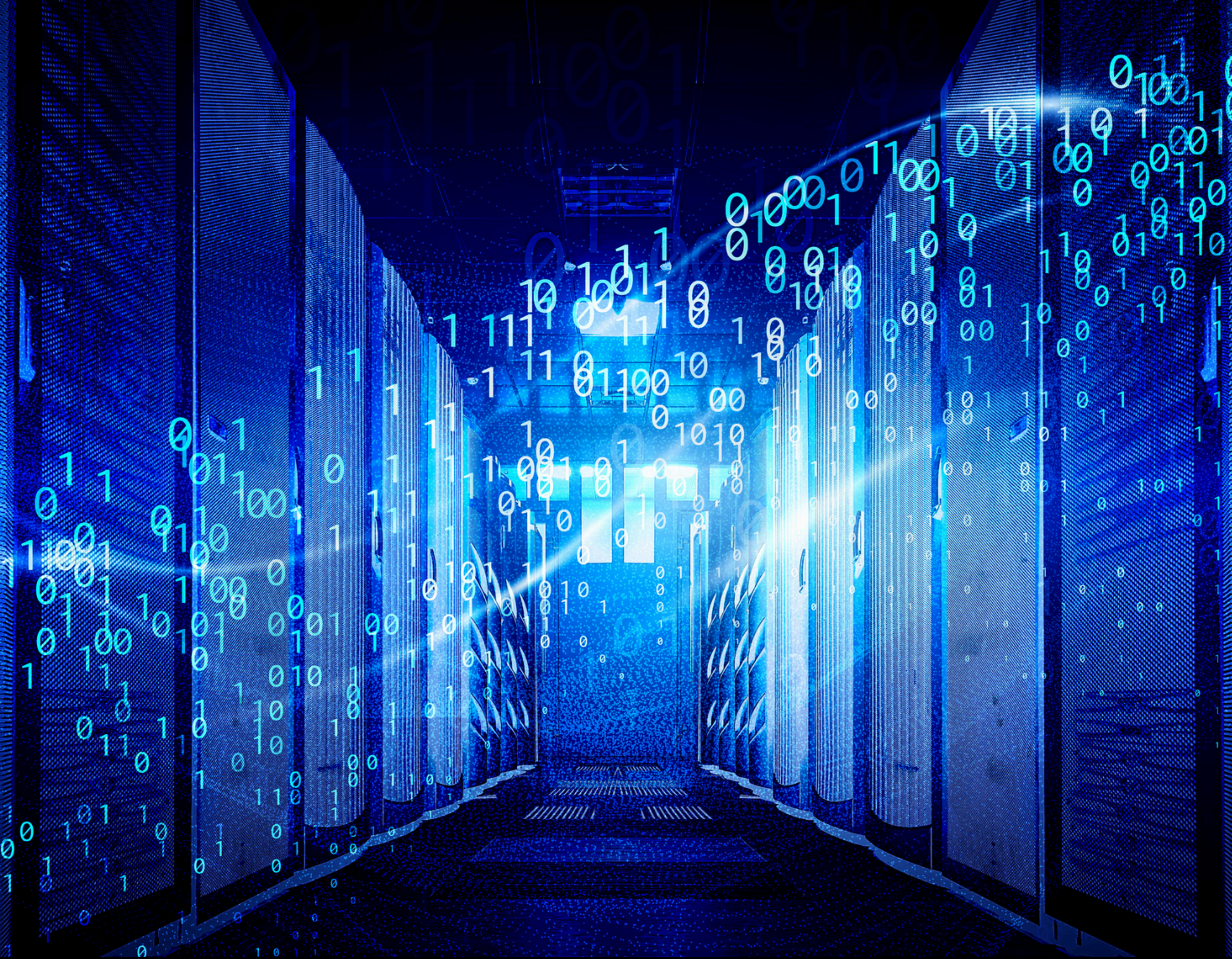

FEBRUARY 2026

Tracxn

INDIA AND THE SOVEREIGN AI SHIFT

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India at a Sovereign AI Inflection Point

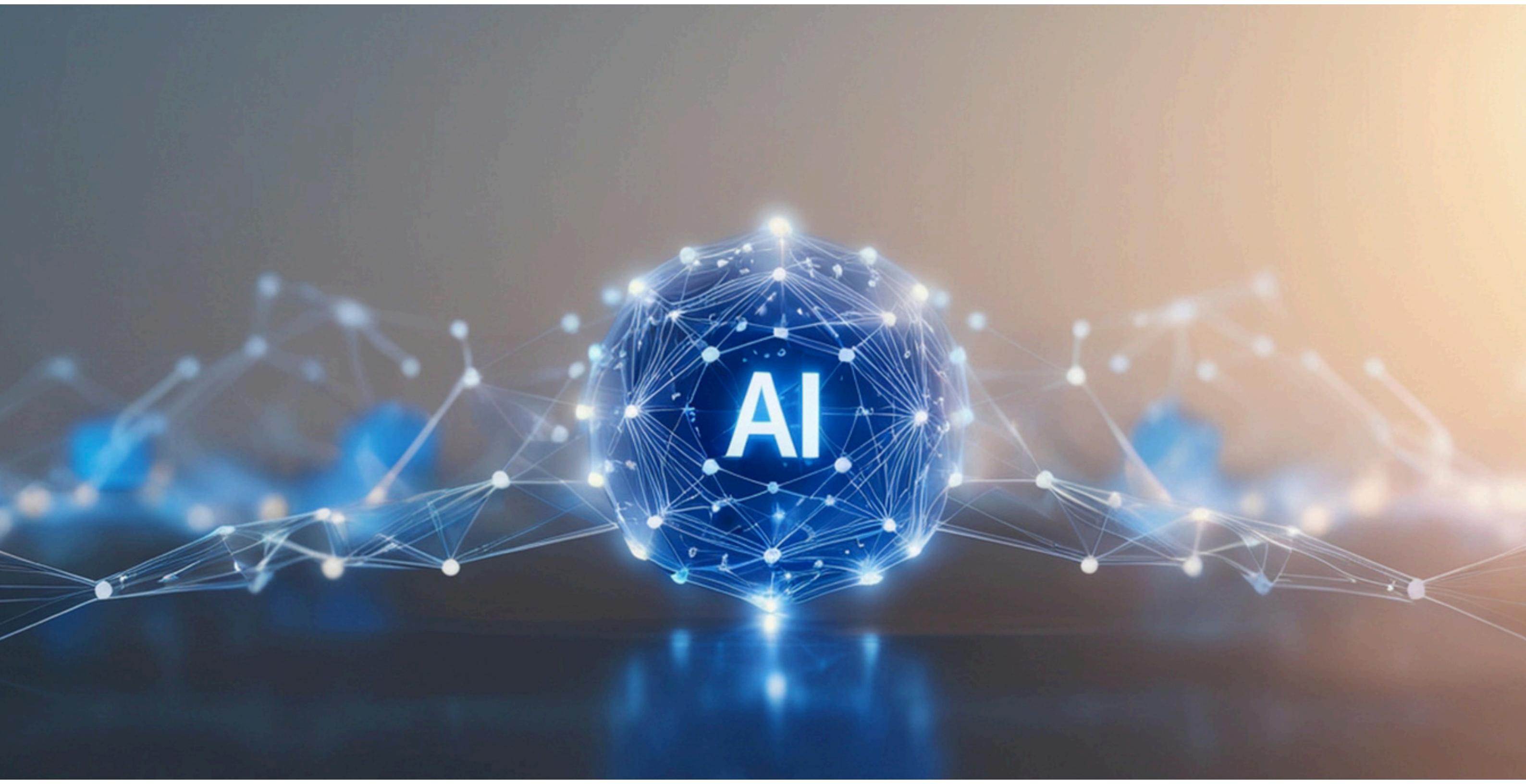
In an increasingly multipolar world marked by rising geopolitical tensions, control over advanced technologies has become central to economic resilience and national security. Artificial Intelligence sits at the core of this shift, intersecting compute infrastructure, semiconductor supply chains, data governance, and cloud ecosystems. As technology ecosystems align along geopolitical blocs and access to critical inputs becomes strategically sensitive, dependence on externally controlled AI systems carries growing economic and political risk. In this environment, technological sovereignty — including sovereign AI capability — has shifted from a policy preference to a strategic imperative. At its core, sovereign AI refers to a state's ability to develop, govern, and deploy AI systems within its own regulatory and economic framework, thereby mitigating geopolitical dependency while remaining globally integrated.

As of 2026, India hosts over 1,700 AI-native companies, which have collectively raised approximately $5.5B in equity funding. The ecosystem spans enterprise AI, vertical industry applications, consumer platforms, and infrastructure layers. This breadth reflects sustained entrepreneurial activity rather than a short-term generative AI surge.

India's digital public infrastructure provides a foundational layer that supports AI deployment at scale. Platforms such as Aadhaar, UPI, DigiLocker, and ONDC operate nationally and generate large volumes of structured, governed digital transactions. Beyond enabling digital services broadly, these systems create standardized, identity-linked data flows and interoperable APIs. For AI systems that rely on structured data and scalable integration environments, this infrastructure offers real-world deployment depth across sectors including finance, commerce, and public service delivery.

What distinguishes the current moment is not the emergence of AI activity, but its structural rebalancing. Earlier phases of India's AI growth were characterized by application-layer innovation built on globally available models and foreign-controlled infrastructure. Today, policy initiatives such as the IndiaAI Mission, domestic GPU provisioning, semiconductor incentives, and expanding data centre capacity signal deeper participation across upstream layers of the AI stack.

The inflection point lies in this convergence: expanding domestic compute capacity, identifiable foundational model development, globally competitive AI talent density, and population-scale digital deployment. India is moving from consumption of AI capabilities toward incremental internalization of critical layers — compute, model training, and governance architecture. Sovereign AI in this context does not imply isolation, but increasing domestic depth within an interconnected global system.



Building Sovereign Capacity: Where Opportunity Is Emerging

In 2025, India expanded its domestic foundational model development efforts under the INR 10,372 Cr IndiaAI Mission[1]. A structured selection process identified companies building large language models (LLMs) and domain-specific models, and allocated GPU compute resources to support training[2].

Twelve companies building foundational or specialised models have received compute support under the Mission. The first cohort included Sarvam AI, Soket AI, Gnani.ai, and Gan.AI[3]. A second group included BharatGen (a consortium led by IIT Bombay), Fractal Analytics, Tech Mahindra, Avataar AI, Zeinteiq Aitech Innovations, Genloop Intelligence, NeuroDX, and Shodh AI[4].

In addition to public compute provisioning, several companies participating in India's foundational model ecosystem have secured sustained private capital over multiple equity funding cycles. Between 2016 and year-to-date 2026, Fractal Analytics has raised approximately $300M across three rounds, Avataar has secured $55M across five rounds, Gnani.ai has completed four rounds totaling approximately $8M and Sarvam AI has raised $54M over three rounds. Sarvam AI has articulated plans to develop a full generative AI stack — spanning foundational model research, training custom large language models, and building enterprise-grade deployment platforms[5].

These funding trajectories indicate that domestic model-building capacity is supported by a combination of venture capital, enterprise backing, and state-enabled compute access. Sovereign AI development in India is therefore emerging through a hybrid capital structure rather than through subsidy alone.

Several of these firms have publicly disclosed model milestones. BharatGen released a 2.9B parameter model in 2025[6] and is currently developing a 14–20B parameter model trained from scratch, incorporating Indian-language datasets[7]. Sarvam AI launched Sarvam-M, a 24B parameter open-weight hybrid language model adapted for enterprise use cases[8].In February 2026, the company announced two additional models trained from scratch — a 30B-parameter mixture-of-experts (MoE) model and a 105B-parameter MoE model. The 30B system activates approximately 1B parameters per token during inference, while the 105B model activates roughly 9B parameters, reflecting an efficiency-oriented architecture designed to manage inference costs at scale. Sarvam has received allocation of 4,096 NVIDIA H100 GPUs under the IndiaAI Mission framework, supported by approximately ₹99 crore in compute subsidies[9].

Fractal Analytics introduced a 14B parameter open-source model built using DeepSeek architecture[10]. Soket AI, allocated approximately 1,500 GPUs under the IndiaAI framework, has stated its intention to release a 120B parameter open-source text model within the next 12 months[11]. Gnani.ai is developing a 14B parameter speech-to-speech model with Mission-supported compute[12].

The IndiaAI Mission's GPU allocation model directly addresses one of the largest cost components in training large-scale models: access to high-performance compute. By provisioning GPU capacity through public-private coordination, the framework enables domestic model training without requiring individual startups to independently finance large compute clusters.

These efforts represent measurable expansion of India's foundational model layer. The ecosystem includes open-weight experiments, hybrid architectures, multilingual training pipelines, and domain-specific models aligned with enterprise and public-sector applications.

India's foundational model development remains in active build phase. However, allocated compute infrastructure, identifiable model builders, and disclosed parameter benchmarks indicate that early domestic training capacity is beginning to scale.

Capital Formation and Talent Depth: India's AI Scaling Curve

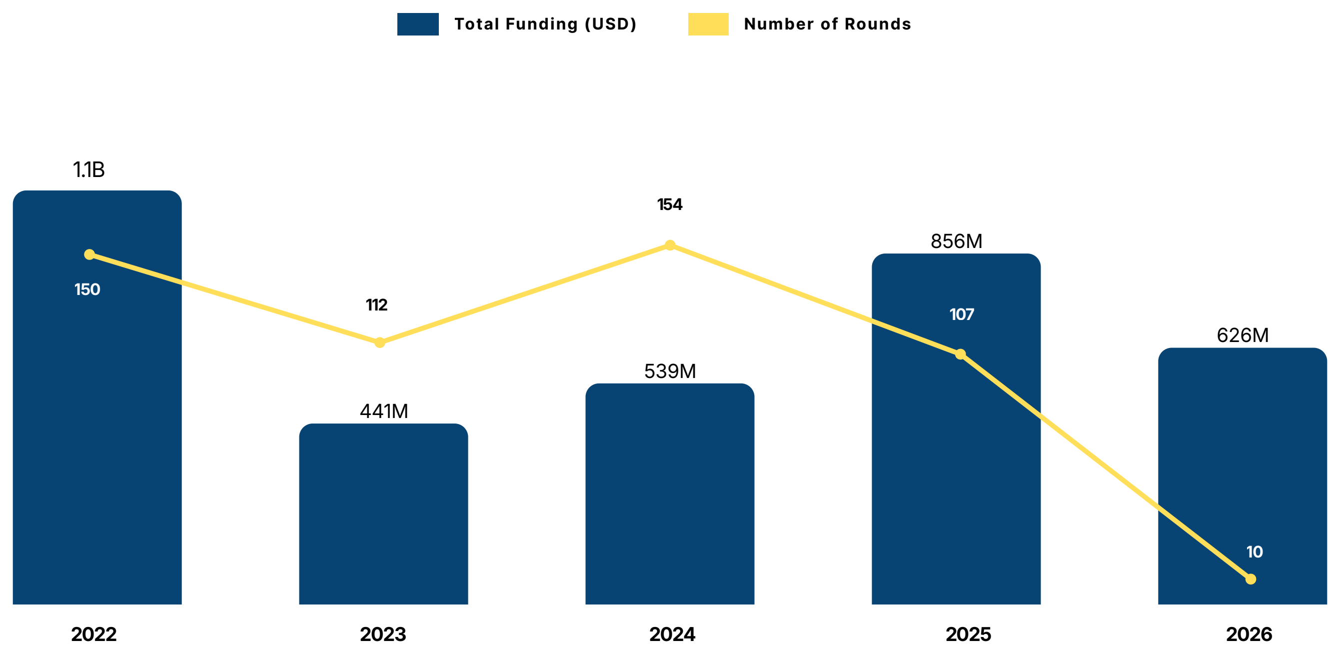
India's AI ecosystem has entered a new phase of capital formation, extending beyond application-layer venture funding into infrastructure-scale investment. In early 2026, Neysa AI, a Mumbai-based AI-focused cloud infrastructure provider, announced a $600M capital raise led by Blackstone, valuing the company at approximately $1.4B in enterprise value. Neysa operates GPU-backed cloud infrastructure tailored for AI training and inference workloads. The raise reflects growing institutional confidence in domestic AI cloud and compute infrastructure as a scalable asset class.

Neysa's positioning highlights the alignment between model development, enterprise adoption, and domestic compute demand. As large language models become more compute-intensive and data governance frameworks evolve, AI cloud capacity within India is increasingly treated as core infrastructure rather than auxiliary support. Capital deployment at this scale indicates that sovereign AI ambitions are being backed by long-duration infrastructure financing alongside venture-led innovation.

This infrastructure financing builds upon a decade-long venture funding curve in India's AI ecosystem. Annual AI funding increased from approximately $43M in 2016 to nearly $1.1B in 2021 and 2022, with deal activity rising materially during the same period. While 2023 and 2024 reflected broader global venture normalization, funding levels remained significantly above pre-2020 baselines. In 2025, funding rebounded to approximately $856M. Early 2026 data indicates continued capital deployment — including infrastructure-oriented rounds — suggesting that momentum is carrying forward into the current cycle.

Exhibit 1

Funding and Investment Scale in Native AI in India - 2026 YTD



Source: Tracxn

This trajectory indicates that India's AI expansion has not been episodic. Rather, it reflects a multi-year capital formation cycle aligned with increasing enterprise adoption, infrastructure investment, and foundational model development.

Cumulative global AI funding as of February 18, 2026 exceeds approximately $473B, with the United States accounting for over $383B. Funding remains structurally concentrated: OpenAI, Anthropic, and xAI collectively account for an estimated ~$170B — approximately 36% of total global AI capital. This concentration reflects the capital intensity of frontier model development and large-scale compute infrastructure. India's cumulative funding remains smaller in absolute terms, but its capital formation has been more distributed across firms rather than concentrated within a limited set of hyperscale model developers.

Infrastructure distribution reflects a similar pattern of concentration. Data centre capacity remains significantly deeper in the United States and major advanced economies, with China also maintaining substantial domestic infrastructure scale. India's data centre footprint is expanding, but it operates within a global environment where compute infrastructure remains unevenly distributed. This context underscores that India's sovereign AI strategy is not centered on immediate infrastructure parity, but on phased capacity expansion aligned with domestic demand and strategic priorities.

However, talent distribution presents a different picture. According to the 2025 AI Index Report by Stanford HAI, India ranks second globally in relative AI skill penetration, with a score of 2.51, closely behind the United States at 2.63. This places India ahead of the United Kingdom (1.40), Germany (1.32), Canada (1.30), and France (1.23)[13]. India's engineering workforce remains one of the largest globally, and AI development activity continues to expand across startups, large enterprises, and academic institutions.

The sovereign AI opportunity for India rests less on absolute capital scale and more on structural optimisation. High talent density, expanding digital adoption, growing GPU provisioning under national programmes, and deepening public–private coordination create enabling conditions for sustained model development and deployment cycles. Emerging partnerships — including Sarvam AI's collaboration with the Governments of Odisha and Tamil Nadu to advance sovereign compute and research infrastructure — demonstrate how institutional alignment is beginning to convert policy frameworks into tangible infrastructure expansion[14].

India's position in the global AI landscape can thus be characterised by differentiated inputs: cost efficiency, multilingual demand complexity, and phased infrastructure expansion. The current scale gap defines competitive boundaries, but it also delineates deployable runway for capacity build-out.

India's sovereign AI trajectory is therefore being shaped not by replication of superpower models, but by alignment between domestic demand and incremental infrastructure depth.

Data, Digital Rails, and User Scale: India's Structural Leverage

India's sovereign AI positioning is anchored in two measurable structural advantages: a large and digitally active user base, and population-scale digital public infrastructure.

India has one of the world's largest internet user populations[15] and has become a major market for global AI platforms. Usage of generative AI systems has expanded rapidly, with India emerging as one of the largest user markets outside the United States[16]. For global AI labs, India now ranks among the top three to five markets by active user metrics. Scale in this context extends beyond raw user numbers to include linguistic diversity, sectoral use cases, and deployment complexity.

This user gravity has translated into visible global engagement. In 2025 alone:

- Anthropic's leadership engaged with India's Prime Minister and subsequently confirmed its expansion strategy in Bengaluru[17].
- OpenAI announced plans for an India office and launched localized offerings, including subsidised access programs[18].
- Google partnered with Adani Enterprises on a $15B AI data centre investment[19].
- Amazon Web Services committed $8.4B toward cloud and AI infrastructure in India[20].
- Perplexity partnered with Bharti Airtel to offer AI subscription access to Airtel's telecom user base of over 360 million customers[21].

These developments reflect not only market access, but infrastructure alignment. AI deployment at scale requires local compute capacity, data handling, and enterprise integration. As AI systems become more compute-intensive, serving India's user base increasingly necessitates domestic infrastructure investment rather than remote provisioning alone.

India's digital public infrastructure further reinforces this deployment depth. Platforms such as Aadhaar, UPI, DigiLocker, ONDC, and Bhashini operate at national scale and generate structured digital interactions across identity, payments, commerce, language, and governance. These platforms provide programmable rails upon which AI-enabled services can be built and tested in real-world environments.

Data sovereignty policy intersects with this infrastructure. The Digital Personal Data Protection Act (DPDPA)[22], along with draft rules for Significant Data Fiduciaries[23], establishes governance mechanisms for managing personal data flows while retaining flexibility for cross-border collaboration. Rather than imposing blanket isolation, the framework provides regulatory tools that can be applied selectively based on sectoral sensitivity.

India's leverage in the AI economy therefore extends beyond model building. It lies in the interaction between user scale, multilingual diversity, digital public infrastructure, and increasing domestic compute availability.

Sovereign AI in the Indian context is not framed solely as technological self-sufficiency. It is structured around ensuring that AI systems deployed at national scale operate within domestic governance frameworks, align with local language and sectoral needs, and are supported by progressively expanding infrastructure.

In this configuration, demand density becomes a strategic asset. Global AI labs invest where deployment scale justifies infrastructure build-out. India's digital user base provides that justification.

India’s Hybrid Sovereign AI Model: Scaled Deployment and Incremental Capacity

India’s sovereign AI trajectory is not defined by immediate frontier-scale dominance, nor by technological isolation. Instead, it reflects a hybrid model built around three reinforcing pillars: scaled digital deployment, incremental infrastructure deepening, and coordinated public–private capacity formation.

The foundational model build-out supported under the IndiaAI Mission demonstrates that domestic training cycles are underway. GPU allocation to selected model builders has reduced the cost barrier for indigenous development. Publicly disclosed model sizes ranging from 3 billion to 24 billion parameters — with some companies targeting larger systems — indicate that domestic large-model training activity is underway within Mission-supported compute environments.

At the same time, global AI laboratories and hyperscale providers are expanding operations in India. Commitments from Google–Adani ($15B), AWS ($8.4B), OpenAI’s India expansion, and Anthropic’s local presence illustrate how India’s user base and digital scale are driving infrastructure localization. As AI systems become more compute-intensive, serving one of the world’s largest and most diverse digital populations increasingly requires domestic data centre and GPU deployment.

At the workforce level, India’s positioning is equally consequential. According to the 2025 AI Index Report by Stanford HAI, India ranks second globally in relative AI skill penetration between 2015 and 2024, closely behind the United States. This reflects sustained expansion in AI talent density over the past decade. As compute capacity expands domestically, this workforce depth becomes a multiplier rather than a constraint.

India’s digital ecosystem further reinforces this trajectory. A large and active user base, multilingual complexity, and digital public infrastructure platforms — spanning identity, payments, commerce, and language services — provide real-world deployment environments for AI systems at scale. Global AI laboratories and hyperscale providers have increased local investment, aligning infrastructure expansion with domestic demand.

India’s AI infrastructure strategy appears to blend market participation with selective government support. Public measures focus on easing structural bottlenecks, including access to compute, while private and global players expand capacity based on commercial demand signals.

This hybrid configuration has several structural implications.

First, AI deployment at population scale creates sustained demand for localized infrastructure and governance frameworks. India’s digital public rails — spanning payments, identity, commerce, and language — provide real-world testing environments for AI systems.

Second, incremental compute expansion reduces systemic dependence without severing global integration. Sovereign AI in the Indian context is framed less as isolation and more as controlled participation.

Third, capital formation is broadening toward infrastructure-adjacent layers. While application-layer companies continue to attract significant investment and drive user adoption, durable value creation is increasingly supported by compute providers, foundation model developers, data center operators, and orchestration platforms embedded within enterprise and public-sector workflows.

India’s sovereign AI path remains in active construction. Infrastructure depth continues expanding. Model ecosystems remain early-stage. However, user scale, digital adoption, cost structure, and coordinated policy support create structural runway.

The question is not whether India can participate in the global AI economy, but how deeply and strategically it integrates into it over the coming cycle. The strategic inflection lies in the extent to which India internalizes key layers of the intelligence stack. Current signals suggest that India’s sovereign AI transition is likely to be evolutionary rather than abrupt — integrated rather than insulated — and increasingly infrastructure-backed.

References

All startup data-related information including company numbers and funding that have been referenced in this report has been sourced from the Tracxn platform.

All figures represent equity-based funding only; debt-related instruments, loans, and credit facilities are excluded from these totals.

All company, funding, and ecosystem data considered in this report is based on information available up to February 18, 2026, unless otherwise specified.

Certain financial figures, percentages, and aggregates presented in this report have been rounded for analytical clarity and presentation consistency. As a result, individual line items may not sum precisely to reported totals, and percentage distributions may not equal exactly 100%.

Native AI denotes companies built AI-first, where artificial intelligence models and data systems form the foundation of the product architecture, rather than being layered onto existing software platforms.

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