

India's Startup Evolution in Tier 2 and Tier 3 Cities: An Assessment of Government Schemes, Case Studies, and Future Directions

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Abstract

India's entrepreneurial ecosystem has expanded rapidly, positioning the country as a major global hub for start-up activity. As of 2023, over 90,000 start-ups have been registered under the Department for Promotion of Industry and Internal Trade (DPIIT). Government initiatives such as Start-up India, Digital India, MUDRA Yojana, and the Atal Innovation Mission have significantly contributed to this growth, particularly in Tier 1 cities like Bengaluru, Mumbai, Hyderabad, and Delhi-NCR. These metropolitan centers offer better access to venture capital, mentorship, digital infrastructure, and market linkages, resulting in a concentrated start-up ecosystem. In contrast, Tier 2 and Tier 3 cities—including Lucknow, Coimbatore, Surat, and Jaipur—are still developing their start-up ecosystems. Although these regions benefit from lower operational costs and a skilled labour pool, they face substantial challenges such as limited access to funding, weak incubation infrastructure, poor implementation of policy schemes, and low awareness among entrepreneurs. Socio-cultural factors such as risk aversion and fear of failure further constrain growth. This study adopts a qualitative, exploratory research design, analysing five case studies of start-ups in non-metro cities and reviewing key policy frameworks. The research aims to identify region-specific enablers and barriers and provide policy recommendations to promote inclusive and geographically balanced start-up development in India.

Keywords: Startup Ecosystem, Tier 2 and Tier 3 Cities, Government Initiatives, Entrepreneurship in India, Policy Frameworks

I. Introduction

In recent years, the emergence of start-ups as engines of innovation and economic growth has reshaped the entrepreneurial landscape in India. Start-ups not only contribute to job creation and technological advancement but also play a pivotal role in addressing region-specific socio-economic challenges through scalable solutions. While much attention has been given to start-up activity in metropolitan regions, there is a growing discourse around the potential of Tier 2 and Tier 3 cities as alternative hubs of entrepreneurship. These cities are gradually witnessing increased entrepreneurial interest, aided by rising digital penetration, improved educational institutions, and a growing pool of local talent. However, the development of supportive ecosystems in these regions remains inconsistent and understudied. Existing research has largely focused on urban-centric models, often overlooking the unique socio-economic and infrastructural dynamics that shape entrepreneurial outcomes in smaller cities. As India aspires to build a more inclusive and balanced innovation economy, it becomes essential to critically examine the start-up trajectories emerging outside the metro regions. This study aims to address this

gap by investigating the conditions under which start-ups in Tier 2 and Tier 3 cities evolve, the challenges they encounter, and the role of public policy in shaping their development pathways.

II. Research Problem

Despite the rapid rise in the number of start-ups across India, there exists a disproportionate concentration of growth in metropolitan cities. The absence of robust research on how start-ups perform in smaller cities, coupled with limited evaluation of government schemes in these regions, calls for a closer investigation into region-specific barriers and success factors. The lack of structured mentorship, uneven access to capital, and cultural constraints further complicates the expansion of entrepreneurial activity in Tier 2 and 3 cities.

III. Research Objectives

1. To assess the impact of key government schemes supporting early-stage start-ups in India.
2. To analyze case studies of start-ups that scaled from Tier 2 and Tier 3 cities.
3. To identify barriers to start-up growth in non-metro regions.
4. To propose policy and ecosystem recommendations for enhancing start-up activity in smaller cities.

IV. Research Methodology

This study adopts a qualitative, exploratory approach using case study methodology supported by secondary data analysis. Key sources include reports and publications from Start-up India, NITI Aayog, DPIIT, and industry associations. Five successful start-ups from Tier 2 and Tier 3 cities are critically examined, including two recognized under the Start-up India initiative. These case studies provide insights into region-specific challenges, success factors, and ecosystem dynamics., major government schemes such as Start-up India, MUDRA, TIDE 2.0, and the Atal Innovation Mission are reviewed to evaluate their design, implementation, and outreach in non-metropolitan regions.

V. Significance of the study

This study aims to fill a critical knowledge gap in understanding how regional start-ups are evolving outside India's metro centers. It will provide empirical insights on how government initiatives are received and implemented at the grassroots level. The findings can inform policymakers and stakeholders in designing tailored interventions to boost start-up activity in smaller cities., it highlights best practices and replicable models from successful ventures in non-metro areas, offering a roadmap for inclusive economic growth.

VI. Research Gap

A major research gap lies in the geography-based bias of existing studies that prioritize Tier 1 cities. The literature offers limited evaluations of how schemes perform in non-

metro regions or how start-ups outside tech-based industries (e.g., education, health, agriculture) access funding. Similarly, structured mentorship and start-up literacy are under-researched topics, particularly in Tier 2 and Tier 3 cities. Cultural attitudes towards entrepreneurship, including fear of failure and risk aversion, are often theorized but lack deep regional or demographic analysis.

VII. Limitations of the Study

This study relies primarily on qualitative data and case studies, which may limit the generalizability of findings. The selection of case studies may also introduce selection bias. Furthermore, the scope of analysis is restricted by the availability and reliability of secondary data, particularly on localized scheme performance and demographic penetration.

VIII. Literature Review

- a. **Dr. L. Jalaja (2022) – Start-Up Financing in India: Avenues and Challenges:** The paper presents a deep dive into the startup financing mechanisms in India. It identifies key funding avenues such as venture capital, angel investment, and support from government-led initiatives like Startup India. A major observation is the geographical concentration of startup growth in Tier 1 cities, especially in IT-intensive sectors like e-commerce and transport. Startups in Tier 2 and Tier 3 regions are largely excluded from policy benefits due to lack of awareness and outreach. The author highlights issues such as fragmented markets, unclear government initiatives, and insufficient infrastructure as barriers to financial access. It is recommended that outreach be expanded, infrastructure bolstered, and tax regimes simplified to promote more equitable growth.
- b. **Poonam Rajora (2022) – Resilience and Renewal: An Analysis of Survival Strategies for Sustaining Start-ups:** This study investigates the strategies startups employ to remain sustainable amidst fierce competition and limited resources. It outlines that Indian start-up often rely on tactical partnerships, agile decision-making, creative resource utilization, and adaptability to thrive. The research categorizes startup growth phases and discusses common operational weaknesses in early stages—such as lack of formal structure and scalability. The study emphasizes that survival is not just about funding but also about managing internal systems, securing reliable mentorship, and responding dynamically to market changes.
- c. **Sanjana Antalmarad & Dr. Kumar Mukul Mishra (2020) – A Study on Survival Strategies Adopted by Start-up Entrepreneurs:** This paper focuses on the challenges startups faced during the COVID-19 pandemic and how some adapted successfully. Using data from company reports, literature, and online surveys, the research analyzes strategies like rapid digital transformation, transparent communication with stakeholders, employee motivation, and business model pivots. It finds that startups that proactively assessed their business environment and incorporated flexible approaches were better positioned to survive. The study highlights how innovation, teamwork, and the ability to make quick operational changes play a central role in long-term resilience.

- d. **David, Gopalan, & Ramachandran (2020) – The Startup Environment and Funding Activity in India:** This Asian Development Bank Institute paper offers a comprehensive overview of India's startup funding trajectory. It documents over \$36 billion in startup inflows in three years, positioning India as the third-largest startup ecosystem globally. However, funding and development are heavily skewed toward Tier 1 cities and IT sectors. Challenges include low policy transparency, infrastructure deficits, and weak integration of Tier 2/3 cities. The authors emphasize that while programs like Startup India and Digital India have made strides, more effort is needed to improve ease of doing business in non-metro areas and to expand access to funding through policy simplification and targeted incentives.
- e. **CS Nilabjo Chakraborty (2025) – Start-Ups in Tier 2 Cities: Opportunities & Challenges:** The article discusses the surge in startup activity in Tier 2 cities such as Coimbatore and Lucknow. These areas are increasingly attractive due to low operational costs, a skilled but affordable talent pool, and improving digital connectivity. As of 2022, nearly half of India's startups originated from Tier 2 and 3 regions, with growing presence in agriculture, health tech, and education. However, challenges include limited access to venture capital, immature local ecosystems, and infrastructural bottlenecks. The paper argues that targeted government incentives and incubation support can unlock the full potential of smaller cities and decentralize start-up growth.
- f. **Pragati Gupta & Dr. Anvita Raghuvanshi (2024) – Emerging Trends in Start-ups in India:** This paper provides a longitudinal analysis of how India's startup ecosystem has evolved post the launch of the Startup India campaign in 2016. It notes that India now ranks as the third-largest startup ecosystem globally, with over 50,000 recognized startups as of 2021. The authors attribute this rise to a combination of government support, a young tech-savvy population, improved digital infrastructure, and investor confidence. The research explores new trends in startup formation in non-tech sectors such as education, legal services, and healthcare. However, the paper also notes persistent gaps such as inadequate mentorship, difficulty in scaling, and cultural aversion to failure. The authors recommend improving linkages between startups and investors and strengthening policy implementation, especially in semi-urban and rural areas.
- g. **Thippeswamy H & Kasukurthy Poojitha (2020) – Indian Startups: Issues, Challenges and Opportunities:** This study takes a comprehensive look at both the challenges and enablers for startups in India. It discusses how increasing competition and digital access have led to a surge in self-employment and entrepreneurship, especially among the youth. India's huge population and digital boom provide fertile ground for innovation, but barriers such as limited financial literacy, poor mentorship, regulatory red tape, and infrastructural bottlenecks persist. It highlights various government initiatives including MUDRA, SETU, Digital India, and Startup India. The paper emphasizes the need for better monitoring, mentoring programs, and increased rural outreach to truly unlock the potential of startups across all strata of society.
- h. **Nirali Tiwari & Dr. Payal Dubey (2023) – A Study on Indian Startup Ecosystem, Public Perception and Government Schemes:** This paper investigates the public perception surrounding startups in India and its influence on entrepreneurship. It finds

that despite significant funding (over \$70 billion between 2015–2020), societal attitudes toward risk, failure, and entrepreneurship still vary widely, especially outside metro cities. The paper also explores the impact of government policies like tax exemptions, seed funding, and IP protection under Startup India. However, there is a perception gap between policy intent and on-ground effectiveness. The authors call for improved awareness campaigns, reduced bureaucracy, and greater integration of startups into education and media narratives to promote a pro-entrepreneurial culture.

i. Fakih Amrin Kamaluddin & Kala Seetharam Sridhar (2021) – Indian Startup Ecosystem: Investment Concentration and Government Programme Performance:

This working paper critically evaluates the performance of government initiatives and the distribution of startup investments in India. The study finds that a disproportionate amount of venture capital is invested in platform-based business models and tech-heavy sectors (e.g., IT, fintech), while socially beneficial sectors like health and education remain underfunded. Spatially, most funding is concentrated in Bengaluru, Delhi-NCR, and Mumbai, only 5–7% of applicants are accepted under the Startup India recognition scheme. The paper reveals a lack of transparency and data regarding the actual beneficiaries of government schemes. It concludes that without increasing the scale and accessibility of such programs, startup development will remain inequitable.

1. Government schemes for startup support in India

India has launched several initiatives to nurture its growing startup ecosystem, particularly under the Startup India campaign. These schemes aim to provide financial aid, mentorship, and regulatory support to early-stage entrepreneurs.



Scheme Name	Launch Year	Focus Area	Funding (INR Cr.)	Target Beneficiaries
Startup India Initiative	2016	Policy, tax benefits, compliance simplification	N/A	50,000+ startups
Startup India Seed Fund Scheme	2021	Seed-stage funding, prototype development	₹ 945	Millions micro-buss.
Pradhan Mantri MUDRA Yojana	2015	Credit to micro enterprises, especially in	11000	1,000+ tinkering labs & incubators
Atal Innovation Mission (AIM)	2016	Digital connectivity, infrastructure for startups	N/A	
Digital India Programme	2015	Tech entrepreneurship (IoT, AI, ICT, women-led)	N/A	50 tech incubators across India
TIDE 2.0	2019	Tech incubators across	N/A	

Summary of major Indian government schemes introduced between 2015 and 2024 to support startups (Developed by author)

1.1 Scheme 1: The Startup India Initiative

Most notable of these initiatives is the Startup India Initiative. The Startup India Initiative, which was launched by Prime Minister Narendra Modi in 2016, this Government of India flagship program focuses on helping entrepreneurs by means of policy facilitation, tax breaks, simplified compliance, and access to funding. Startups certified by the Department for Promotion of Industry and Internal Trade (DPIIT) have access to a number of incentives including a 3-year tax holiday, fast tracking of patent application,



government program for promoting entrepreneurship in India, with a broad outreach that has impacted over 50,000 startups across the country.

self-certification under environmental and labor regulations, and entry to the Startup India Seed Fund of ₹945 crore. The initiative is eligible for those startups which are not more than ten years old, with a turnover of less than ₹100 crore, and engaged in the innovation, development, or upgrading of products or services. The Startup India Initiative has emerged as the flagship

1.2 Scheme 2: The Startup India Seed Fund Scheme (SISFS)



Another targeted funding initiative is the Startup India Seed Fund Scheme (SISFS), introduced in 2021. The scheme offers financial assistance to early-stage startups for proof-of-concept, prototype development, product trials, and market entry. The Startup India Seed Fund Scheme (SISFS) is a government initiative that provides financial support to early-stage startups in India. With a total budget of 945 crores, the scheme aims to assist startups in

their market entry, prototype development, product trials, commercialization, and proof of concept stages. It is expected to benefit around 3600 startups in the country. Under the scheme, grants of up to 20 lakh rupees are provided to startups for the development of trials or prototypes. Moreover, the startup must be recognized by the Department for Promotion of Industry and Internal Trade (DPIIT), which is the nodal agency for startup recognition in India.

Scalable, Innovative, and Tech-based: Scalable, innovative, technology-oriented, and implementable products or ideas must be proposed by the startup. The Indian promoters or the founder of the startup should have shares equal to or greater than 51% of the company. The company must file for the scheme within two years of its incorporation date.

One of the distinct selling points of the Startup India Seed Fund Scheme is that it is industry agnostic, i.e., it helps startups from different industries and does not insist on a physical incubation. This enables startups from all kinds of domains to avail themselves of the scheme and get the financial boost which they need to drive their development and expansion.

1.3 Scheme 3: Pradhan Mantri MUDRA Yojana (PMMY)



PMMY launched by the Government of India in 2015, is a key initiative aimed at promoting entrepreneurship and extending credit facilities to micro and small enterprises, particularly in non-corporate and non-farm sectors. The scheme primarily targets first-time entrepreneurs and micro-entrepreneurs in semi-urban and rural areas, addressing the credit gap faced by small businesses in Tier 2 and Tier 3 cities where access to formal financial

institutions is limited. Operated under the **MUDRA (Micro Units Development and Refinance Agency)** framework, the scheme offers loans through three categories—**Shishu** (up to ₹50,000), **Kishore** (₹50,001 to ₹5,00,000), and **Tarun** (₹5,00,001 to ₹10,00,000)—tailored to the growth stage and financial needs of the enterprise. Eligible borrowers include small manufacturers, vendors, artisans, shopkeepers, and service providers. Loans are disbursed through banks, NBFCs, and MFIs registered under PMMY, with a simplified process and no requirement for collateral up to ₹10 lakh. MUDRA provides refinancing support to financial institutions, thereby enhancing their capacity to lend to the micro and small enterprise sector.

1.4 Scheme 4: Atal Innovation Mission (AIM)



ATAL INNOVATION MISSION

The **Atal Innovation Mission (AIM)**, spearheaded by NITI Aayog, is another essential initiative aimed at promoting innovation and entrepreneurship at both school and institutional levels. Through the establishment of Atal Tinkering Labs in schools and Atal Incubation Centers (AICs) in colleges and institutions, AIM seeks to build an

innovation-friendly ecosystem. It provides a grant-in-aid of up to ₹10 crore to qualified incubators and supports tech-based ventures across the country. This initiative plays a vital role in building capacity and nurturing innovation in smaller cities, where access to structured incubation and mentorship is limited.

1.5 Scheme 5: Digital India Programme



The **Digital India Programme**, launched in 2015, underpins the digital infrastructure necessary for the growth of startups. This campaign aims to enhance internet connectivity, digital literacy, and public service delivery through technology. By rolling out initiatives such as BharatNet (rural broadband), DigiLocker, and Unified Payments

Interface (UPI), the government has enabled startups in even remote regions to connect with markets and resources. This digital backbone is especially vital for Tier 2 and Tier 3

cities, which lack traditional infrastructure but can leapfrog development using digital platforms.

1.6 Scheme 6: TIDE 2.0



TIDE

TIDE 2.0 (Technology Incubation and Development of Entrepreneurs) initiative by the Ministry of Electronics and Information Technology (MeitY) supports startups focused on information and communication technology (ICT), Internet of Things (IoT), artificial intelligence, and other emerging technologies. Through a network of over 50 incubation centers, the scheme offers financial and infrastructural











support to tech-based startups and places special emphasis on social entrepreneurship, women-led startups, and underrepresented geographies. Together, these schemes reflect a deliberate and structured effort by the Indian government to create a supportive environment for startups. However, a key challenge remains in the **effective implementation and outreach** of these policies in smaller cities.

In the context of this research, it is essential to examine the accessibility, effectiveness, and real-world impact of government initiatives on startups located beyond India's traditional metropolitan hubs. By analyzing not only the design but also the on-ground implementation of these policies in Tier 2 and Tier 3 cities, this study seeks to evaluate the true potential for fostering a decentralized and inclusive startup ecosystem. As of March 2024, India's startup landscape has grown significantly, boasting 114 unicorns with a collective valuation of \$350 billion. Notably, 45 of these emerged in 2021 and 22 in 2022, reflecting a rapid acceleration in innovation. Among them, 19 unicorns remain privately held or have been acquired by publicly listed companies. With strong momentum and proactive policy support, India is positioning itself as a global leader in entrepreneurship. While Caesar may have once wept for lack of worlds to conquer, Indian startups today view the global market as their domain—underscoring that the only way forward is up.

2. Startups Scaling Beyond Metros: Case Examples from Tier 2 and 3 India

While India's startup boom has been historically centered around metropolitan hubs like Bengaluru, Mumbai, Ahmedabad, and Delhi-NCR, a quiet revolution is now taking shape in Tier 2 and Tier 3 cities and even giving an excitement to the angel investors to invest in companies coming from such cities which gives them the potential to invest in these companies. These smaller cities—once considered peripheral to the startup economy—are becoming vibrant breeding grounds for innovation and entrepreneurship. With lower operational costs, an untapped customer base, and a growing pool of skilled professionals, many Indian startups are choosing to launch or expand in these regions. Moreover, the growing digital infrastructure, policy initiatives like Startup India and Digital India, and targeted schemes have contributed to the democratization of startup opportunities across the country. This section presents detailed case studies of successful startups that have either originated in or strategically expanded into Tier 2 and Tier 3

cities. Each case highlights the unique strategies employed by these ventures, the key problems they addressed, and how the local ecosystem and government support played a crucial role in their growth journey. These stories offer powerful insights into how regional entrepreneurship can fuel India's inclusive economic transformation.

Successful Tier 2 & 3 Companies Fueling India's Startup Ecosystem		Tier 2 & Tier 3 Startups and Their Growth Strategies				
Tier 2 Cities		Startup	Founded	Origin City (Tier)	Sector	Key Growth Strategy
 CarDekho Car marketplace Jaipur	 MedCords Health data infra Jaipur Ecoly adopter for auto tech	Rapido	2015	Vijayawada (Kochi)	Urban Mobility	Hyperlocal onboarding, UPI integration, traffic resilience
 RazorThink AI & data platform Technnppark Startups (e.g., CareStack) kachi	 Reelo Customer loyalty SaaS Bopal Empowers MSMEs go	OYO Rooms	2012	Bhubaneswar + Pan-India (T2/3)	Hospitality	Tech + franchise model, dynamic pricing, pan-India rollout
 MSME DUKAn Business advisory platform Bhopal Empowers MSMEs with mentoring & capital	 Knorish Online course platform Kurukshetra Monetizing expertise from any corner of India	Happilo	2016	Tumakuru (T3)	FMCG/Health Foods	E-commerce focus, hygienic packaging, brand storytelling
Tier 3 Cities		Suta	2016	Bhilai (T3)	Fashion & Handloom	D2C sales, artisan partnerships, social storytelling
 MedCords AgriTech Incubator Udaipur Supports early-stage rural innovators	 KMMaps HR assessment tech Hubli Simplifying hiring for rural job sectors	Earth Rhythm	2019	Gurugram (T2)	Clean Skincare	Zero-waste packaging, Instagram growth
 nStore Digital commerce for kiranas Sonipa Digitizing retail in Tier 3 India	 PMMaps HR assessment tech Jalgaon Simplifying hiring for rural job sectors					

Summary of notable startups that originated in Tier 2 and Tier 3 cities in India



Case study 2.1: Rapido, founded in 2015, is a mobility-tech startup that begins with bringing bike-taxi services to Indian cities, solving first- and last-mile connectivity issues at a fraction of the cost of traditional taxis, with overpassing the traffic quickly, it comes under the sector of **Urban Mobility / Transportation** sector. Though the company started in

Bengaluru, its strategic focus quickly shifted to Tier 2 cities such as Vijayawada, Indore, Surat, Kochi, and Jaipur, where public transport is limited and demand for affordable commutes is high, with travelling to long distances and need cheap options. Rapido used a hyperlocal strategy—onboarding riders from the community, ensuring low wait times, and integrating digital payments via UPI. It also benefited from the evolving regulatory landscape for ridesharing and received indirect support from initiatives like Digital India and Startup India, which enabled faster onboarding, digital KYC, and seamless integration with payment systems. Rapido's growth showcases the potential of mobility innovations in non-metropolitan settings when combined with tech-led convenience and ecosystem readiness, later to scale and with greater funding they were able to slowly divert from two-wheeler taxi to more diverse travel options.



Case study 2.2: OYO Rooms, founded in 2012 by Ritesh Agarwal, emerged from humble beginnings as "Oravel Stays" before transforming into a global hospitality brand headquartered in Gurgaon, Haryana. It comes under the **Hospitality sector**. Although initially bootstrapped in Delhi, its breakthrough came through aggressive expansion

into Tier 2 and Tier 3 cities, where there was a need for affordable stays, where unorganized lodging options were rife, and travelers faced inconsistent standards. By

standardizing facilities, leveraging data-driven pricing, and using an asset-light franchise model, OYO quickly onboarded thousands of small hotels, enhancing room quality and transparency while retaining affordability. Targeting Tier 2/3 markets allowed OYO to tap into a massive yet underserved traveler base. Its dynamic pricing and efficient housekeeping systems optimized occupancy and reduced costs, resulting in 15× year-on-year growth and millions of booked room-nights by 2016. Over the years, OYO expanded to over 43,000 properties worldwide, entering more than 800 cities across 80+ countries by 2020. Moreover, how OYO rooms were successful to be profitable last year.



Case study 2.3: Happilo, which was created in 2016 at Tumkur, Karnataka—a Tier 3 city—has emerged as a beaming example of a start-up which swelled into a national FMCG (Fast-Moving Consumer Goods) brand. It had a start by plugging gaps of unhygienic and not-so-neatly-packed dry fruits in the Indian market and got underway on a

modest note but relied on the ecommerce platforms of Amazon and Flipkart for distribution. Even being away from metropolitan startup hubs, Happilo expanded rapidly through digital marketing, strong branding, and quality-aware packaging. Today, it is an Amazon India bestseller being valued at more than ₹1,200 crore. Its emergence was supplemented by broader policy moves of the likes of Startup India and Digital India, which enabled the startup towns to equalize the playing field against their metropolitan counterparts. Happilo operates in the FMCG sector, which is more specifically in the healthy packed foods sector. Its products include dry fruits, nuts, trail mix, seeds, and healthy bites, thus placing itself in the emerging space of health and wellness foods.



Case study 2.4: Suta, set up in 2016 at Bhilai, Chhattisgarh (tier 3 city), was a homegrown fashion label which reinterpreted the beauty of old India sarees for modern buyers, in appraisal and fashion industry. Founded by two sisters who had a passion for handloom and sustainable fashion, Suta focused on empowering local weavers and craftsmen by combining old-age craftsmanship with modern sensibilities. Without a big-city launch, the company quickly became a

buzzword on the back of social media storytelling, direct-to-consumer ecommerce, and influencer collaborations. Today, Suta has a devoted customer base in India and abroad and is a good case of a slow-fashion label growing nationally but maintaining its sense of cultural heritage."



Case study 2.5: Earth Rhythm," founded in Gurugram, Haryana (a Tier 2 city), in 2019, is a rapidly growing D2C skincare startup committed to science-oriented, environmentally conscious beauty products. Starting out with a vision of clean, environmentally conscious replacements for chemicals-based cosmetics, Earth Rhythm was distinctive in its zero-waste packaging and cruelty-free formulations.

Though it had a modest start coming from a smaller city, Earth Rhythm made a name through content-led marketing, interaction on social media, and a website-first model. It

seized the rise of a consumer trend towards ethical and science-first skincare. Today, the startup is going offline and has attracted much investor attention too, carving out its spot amongst India's next-gen beauty disruptors.



3. Tracking Small Town Protagonists - Success Stories of Start-up India

Mr. Manish Saboo, Director at BigBloc Construction. BigBloc Construction Limited, one of the largest manufacturers of Aerated Autoclaved Concrete (AAC) Blocks, Bricks and ALC Panels in India has reported Revenue from Operations of Rs. 56.82 crore during Q3FY25 ended December 2024, rise of 10% as compared to operational revenue of Rs. 51.66 crore in Q2FY25 ended September 2024. EBITDA for Q3FY25 stood at Rs. 6.11 crore (EBITDA Margin 10.8%). Net Profit (Total Comprehensive Income) for Q3FY25 was reported at Rs. 2.05 crore. Manish Saboo drawing wisdom from his family's business, he forged his own path in 2010, turning a hefty profit before establishing a new hub in Gujarat. He afterwards co-founded climate detox, helping businesses take real climate action. From carbon asset monitoring to sustainable project consulting, providing solutions that reduce risks and build a greener future.



Girdhari Lal Kejriwal, Currently the Director of Kejriwal Silk Mills Pvt Ltd, Kejriwal Yarns Private Limited, Gee Yarns Private Limited, Kejriwal Yarn Industries Private Limited, Kejriwal Geotech Private Limited, Kejriwal Integrated Textile Park Private Limited, Kejriwal Intermediates Private Limited, Kejriwal Printing Mills Private Limited. Kejriwal Industries the leading Manufacturing Group for Polyester Chips, P.O.Y., F.D.Y., Polyester Yarn Dyed, Textured yarns (DTY), Nylon DTY, Nylon Yarn Dyed, Air Tex yarn, Sporter Yarn, High Bulk Yarn Dyed and Other Verity Polyester Yarns. They make available novel, global textile solutions and unique renowned yarns for consumers at every level of the trade in chain.

4. Opportunities for startups in tier 2 and 3 cities

Start-ups in Tier 2 and Tier 3 cities are gaining momentum due to rising digital penetration, cost-effective operations, and untapped local markets. These regions offer unique opportunities for innovation tailored to regional needs, backed by growing government and investor interest.

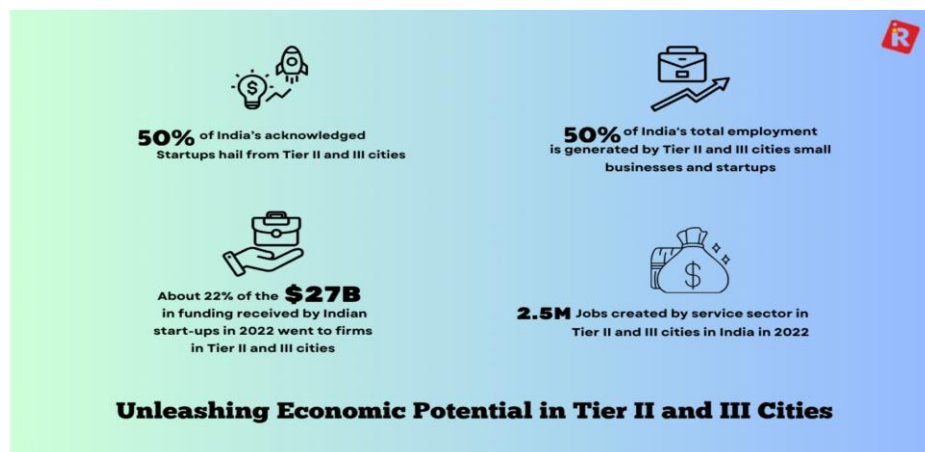


Image Source: Startup investment trends in India. Adapted from Boom in startup investments: 44% of investors targeting growth, by V. Gupta, 2024, Indian Retailer.

The table below outlines the key opportunity areas that make Tier 2 and Tier 3 cities increasingly attractive for startup ventures. It highlights the advantages, emphasizes the supportive role of government policies, the rise of D2C models, sector-specific local strengths, and the potential for startups to fill service and innovation gaps in traditional SMEs. These factors collectively position non-metro regions as fertile ground for decentralized and inclusive entrepreneurial growth.

Opportunity	Description
Low Operational Costs	India being a country with the highest population there are lower rentals, salaries, and utility costs allow startups to operate with lean budgets for tier 2 and 3 cities.
Untapped Consumer Markets	These cities are full of unmet needs and emerging middle-class populations. And now is the time to start giving more opportunity to the cities that's why there is a lot of potential for startups towards growth.
Digital Infrastructure Expansion	UPI has enabled seamless digital operations. Moreover, the tech expansion in these cities still lack and still a lot of potential for that bringing more startup ideas.
Skilled Youth and Graduates	High engineering graduate output with fewer job prospects in metros, leading to local innovation. There is an increasing rate of educated people who has a lot of potential to come up with something great.
Rising D2C Culture	E-commerce and digital marketing enable national reach without metro presence.
Government Support Schemes	Policies like SISFS, MUDRA, and TIDE 2.0 are designed to support startups outside metros and many more policies.
Sector-Specific Local Strengths	Cities have sectoral advantages like textiles (Surat), handlooms (Bhilai), Agri (Nagpur belt) and may more specific cities for specific ideas.
Corporate & SME Partnership Gaps	Startups can bridge gaps in tech, logistics, and services for traditional SMEs in these cities.
Social & Cultural Connect	Startups built around local culture or problems tend to scale better in similar geographies.

Smaller cities in India are rich with opportunity. They boast a growing population of digitally literate youth, an expanding middle class with disposable income, and a hunger for local solutions to local problems. More than 45% or around 56,000 Department for Promotion of Industry and Internal Trade (DPIIT)-recognized startups are emerging out of tier-2 and tier-3 cities, according to a press release from Press Information Bureau. This signals that a lot of founders are looking to these towns for a few reasons. Setting up a business in these regions means you're taking advantage of lower operational costs like more affordable land, lower utility costs and more. These regions have also exhibited a greater demand than those living in metro cities. For instance, rural consumption growth grew to twice of what urban consumption demands were and remained a key driver in 2024. Companies like Meesho for instance, have become large businesses today simply by servicing these underserved markets which have had a greater appetite for retail consumption.

5. Challenges faced by startups in tier 2 and 3 cities

Startups in Tier 2 and Tier 3 cities face several structural and ecosystem-related challenges despite growing opportunities. Limited funding access, inadequate infrastructure, and lower investor visibility often hinder their ability to scale and sustain operations.

Below table presents a comparative overview of major government initiatives aimed at promoting entrepreneurship in India, highlighting their beneficiary count, metro versus non-metro distribution, and key implementation challenges. While schemes like MUDRA and Digital India have a strong presence in non-metro regions, others like Startup India and TIDE 2.0 show a metro-centric tilt. Common challenges include low awareness, digital literacy gaps, inadequate local infrastructure, and uneven access to incubation and mentorship in Tier 2 and Tier 3 cities. The data underscores the need for region-specific strategies to ensure equitable and effective policy outcomes across India's diverse entrepreneurial landscape.

Scheme Name	Total Beneficiaries	Metro vs Non-Metro Share	Notable Challenges
Startup India Initiative	114,902 DPIIT-recognized startups (as of Mar 2024)	Metro: ~62% Non-Metro: ~38%	Awareness gap in smaller cities; complex application for non-English speakers
Startup India Seed Fund Scheme	~3,800 startups supported	Metro: 54% Non-Metro: 46%	Uneven fund distribution; lack of local incubation capacity in smaller towns

Pradhan Mantri MUDRA Yojana	40.82 crore loans sanctioned	Metro: 24% Non-Metro: 76%	Low repayment awareness; limited digital literacy among rural entrepreneurs
Atal Innovation Mission (AIM)	10,000+ Atal Tinkering Labs & 70+ AICs	Metro: 40% Non-Metro: 60%	Retention of mentors in Tier 2/3 cities; inconsistent evaluation metrics
Digital India Programme	Pan-India — ~2.7 lakh villages under BharatNet	Metro: ~25% Non-Metro: ~75%	Infrastructure delays; digital divide still prevalent in remote regions
TIDE 2.0	51 incubation centers + 200+ startups	Metro: ~60% Non-Metro: ~40%	Limited outreach to women & social entrepreneurs in Tier 3 areas

In current time one of the biggest challenge it to find talent from these cities as people in these cities due to lack of opportunity for them tend to migrate to tier 1 city and end up doing job. Even though things have changed to a great extent, access is less as compared to metros. The reason talent has been available widely in Tier 1 cities is the migration of students to these cities for a better quality of education. Further, for many years, cities like Bengaluru, Mumbai, Pune, Chennai and Hyderabad have been the tech capitals of India where large Indian service companies such as Infosys, Wipro, TCS and Cognizant have set up shop. "Also, you have global tech firms namely Amazon, Google, Facebook and Microsoft that have set up large teams in these cities.

Secondly, lack of ecosystem. Metro cities have a vast network of startup founders, investors and mentors, who often have many meetings and get-togethers during weekends. Budding startup founders in these cities use these events as an opportunity to learn and build their businesses, something that small towns and cities still lack. Moreover, Lack of access to funds. Most investors today are based out of urban cities. It thus makes it easy for startups based out of these places to raise funding. "The total funding raised by Tier 2 cities startups in the last six years accounted for approximately 2 percent of the total funding raised by Indian startups. If focused by the government and set proper priorities this could change and result in greater opportunities for startups coming from tier 2 and 3 cities.

IX. Findings

The demographic and economic profile of India's Tier 2 and Tier 3 cities underscores their growing relevance within the national startup ecosystem. As illustrated in the image below, these cities are home to approximately 171 million people, with 45% of India's

urban population residing in non-metro areas. Literacy rates stand at 85% in Tier 2 cities and 75% in Tier 3 cities, reflecting a sizable and increasingly educated workforce. Also, these regions contribute 37% to India's GDP and have produced 10 unicorn startups, demonstrating their emerging role in high-growth entrepreneurship.

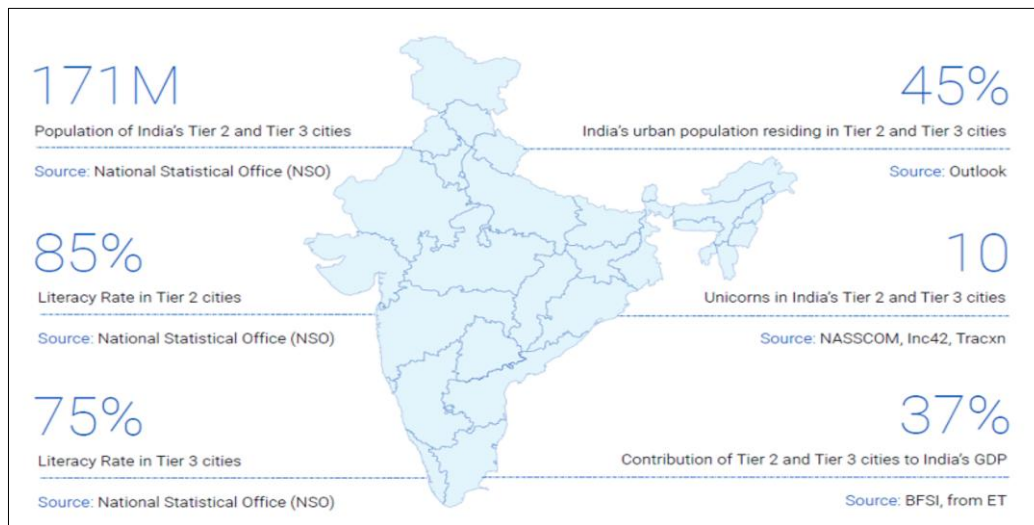


Image Source: Startup investment trends in India. Adapted from Boom in startup investments: 44% of investors targeting growth, by V. Gupta, 2024, Indian Retailer.

This study finds a notable, though gradual, decentralization in India's startup landscape. While metropolitan cities remain dominant, 38% of DPIIT-recognized startups now emerge from Tier 2 and Tier 3 locations. This shift is largely attributed to favorable factors such as lower operational costs, access to underpenetrated consumer markets, and the presence of a skilled youth population. Moreover, government-led interventions—such as the Pradhan Mantri MUDRA Yojana and the Startup India Seed Fund Scheme—have been instrumental in facilitating access to early-stage funding and support mechanisms for entrepreneurs in non-metro regions.

However, the study also identifies persistent structural barriers. These include limited awareness of government schemes, lack of incubation and mentorship infrastructure, language and digital literacy constraints, and uneven fund allocation—all of which restrict the full realization of startup potential in smaller cities. Despite these challenges, the contribution of Tier 2 and Tier 3 cities to economic activity and innovation highlights a promising shift toward a more geographically inclusive and scalable startup ecosystem in India.

X. Recommendations

India's development of startups in Tier 2 and Tier 3 cities marks a new page in entrepreneurial history that breaks away from metro-centric to distributed and inclusive innovations. Despite national initiatives in the name of Startup India, SISFS, Digital India, and Atal Innovation Mission that have set the ground, their success remains patchy due to weakness in localized mobilization, lesser-known infrastructural shortcomings, and minimal awareness. India is moving a step ahead for being the most successful startup country. In order to tap maximum potential for startups in non-metropolitan India, policy

implementation has to become progressively decentralized. Through establishing state-level startup missions and district innovation cells, it will be feasible to have support structures customized to the unique socio-economic circumstances of small cities.

While that happens, there should also be expansion of the incubation ecosystem. Most incubators continue to cluster in Tier 1 cities while entrepreneurs in small towns are not receiving adequate mentorship and infrastructural support. Public-private partnerships will have to be promoted to establish accelerators in underrepresented states while regional universities and technical institutes must be encouraged to become hubs of innovation. In addition to that, local informational campaigns via local languages and through local channels like WhatsApp and regional dailies could help address this information gap regarding government schemes and funding access. Government schemes should be promoted more as still more than 95% of the Indian citizens don't know about any of the schemes.

Another policy direction is to introduce tier-based incentives. Startups that have their origins in Tier 3 regions or have women and underprivileged groups as their leaders may get larger grants, tax breaks, or longer compliance deadlines. These differential interventions would allow for equity in opportunity and not in form. Again, filling digital and physical infrastructure gaps is also vital. There are still many places that do not have regular internet, electricity supply, or co-working spaces even with initiatives under Digital India. Investments in smart startup hubs with continuous infrastructure can have a direct impact on startups in semi-urban belts. Moreover, policy evaluation must become substantially more transparent. Government schemes must publish regular dashboards of metro versus non-metro outreach and impact, and independent analyses must inform policy recalibrations. Entrepreneurs in Tier 3 and 2 cities usually focus on sectoral imperatives e.g., agritech, handlooms, rural fintech, or decentralized learning and so policy must accommodate these verticals in specialized grants, special tracks in incubators, and innovation zones. Adding on, If the government wants any sector to grow, they should tend to support that specific sector with an additional scheme to introduced and fulfill the vision of India to be the 3rd largest economy with 5 trillion dollars GDP as soon as possible with the contribution from tier 2,3 and even 4 cities.

As can be witnessed in the success of an enterprise like Rapido (Vijayawada), Happilo (Tumakuru), Suta (Bhilai), and Earth Rhythm (Gurugram), India's engine of innovation now runs through its non-metro cities as well. But to truly decentralize the startup ecosystem, policy must move out of a one-size-fits-all approach to a nuanced application of policy in provisioning small cities with what it takes to scale: networks, tools, and enabling infrastructure. India's next 100 unicorns won't come out of Bengaluru or out of Mumbai out of the energetic, aspiring corridors of Tier 2 and 3 India unless we maintain this bottom-up entrepreneurial momentum with vision and with inclusion.

XI. Conclusion

India's next wave of startup growth is no longer confined to established metropolitan hubs such as Bengaluru, Mumbai, or Delhi. Increasingly, cities like Bhilai, Tumakuru, Surat, Lucknow, Jaipur, Jodhpur, Bhopal, Agra, Ajmer, and Kochi are emerging as dynamic

centers of entrepreneurial activity, producing innovative and high-potential ventures. This shift signals the rise of a more distributed and inclusive startup ecosystem. However, for this momentum to be sustained and scaled, policy frameworks must evolve from a centralized, one-size-fits-all model to a more localized approach that reflects the unique socio-economic conditions, cultural contexts, and resource availabilities of these regions. Tailored support systems—encompassing region-specific funding access, incubation infrastructure, mentorship networks, and regulatory ease—will be essential to unlock the full potential of Tier 2 and Tier 3 cities and ensure long-term, balanced startup growth across India.

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