

Focus on India

FINNFUND INSIGHTS

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Foreword

India is one of the fastest-growing economies in the world and is poised to continue on this path. With aspirations to achieve high middle-income status by 2047, the country is building on strong foundations of economic growth and social progress. Since 2000, India has seen the size of its economy quadruple in real terms, while per capita incomes have risen three-fold. This has placed India as the fifth-largest economy in the world (from 16th prior to 2000) and has it poised to overtake Japan's economy by 2027 (Figure 1).

Despite this progress, India still faces several development challenges. Some of the key bottlenecks which are limiting the country's potential include high levels of informality in the labor market, regional disparities in development and regulatory outcomes, and increasing vulnerability to climate change for businesses and households. In order to fully address these challenges and fully unlock India's potential, large investments (and bold reforms to enable them) are needed.

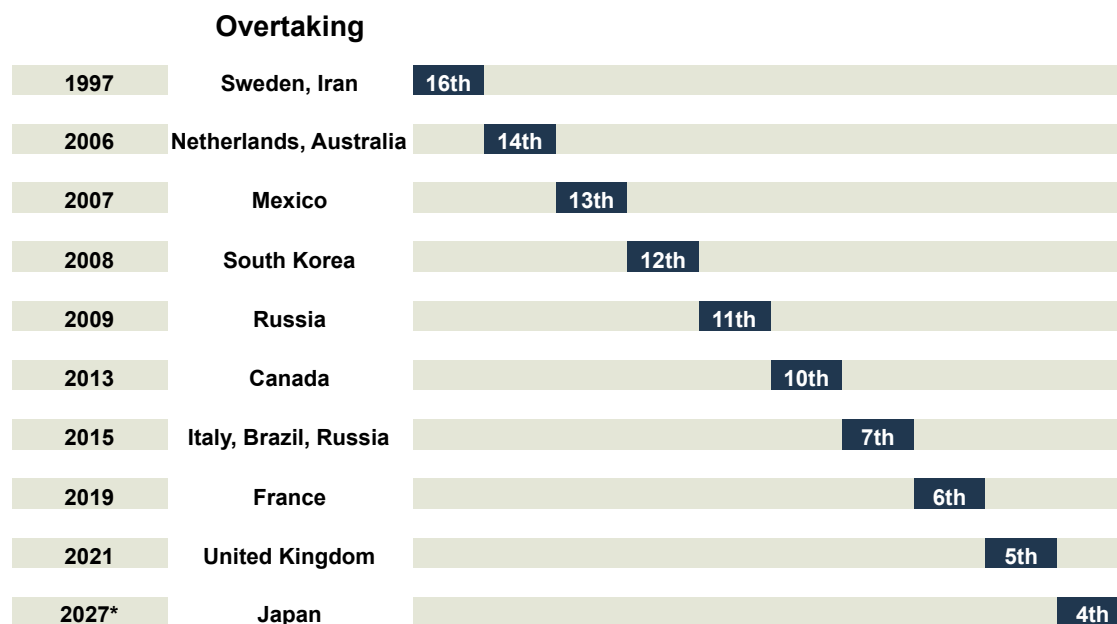
At Finnfund, India is a market of huge importance because it brings together scale, development need and strong momentum in sectors which are closely aligned with our investment mandate. Our investments in areas such as electric mobility, sustainable finance and the digital sector underscore the role that we can play in supporting sustainable and inclusive growth in the Indian market. This report provides a broad overview on the investment climate, sector opportunities and what we have done to support development in India over the years.



"At Finnfund, India is a market of huge importance because it brings together scale, development need and strong momentum in sectors which are closely aligned with our investment mandate."

Tangeni Shatiwa
Economist, Finnfund
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Figure 1: India's exponential rise over the past two decades
 India's economy ranked by size in the world (measured by current GDP)



*Denotes projected, source IMF (2026)



Photo: Finnfund

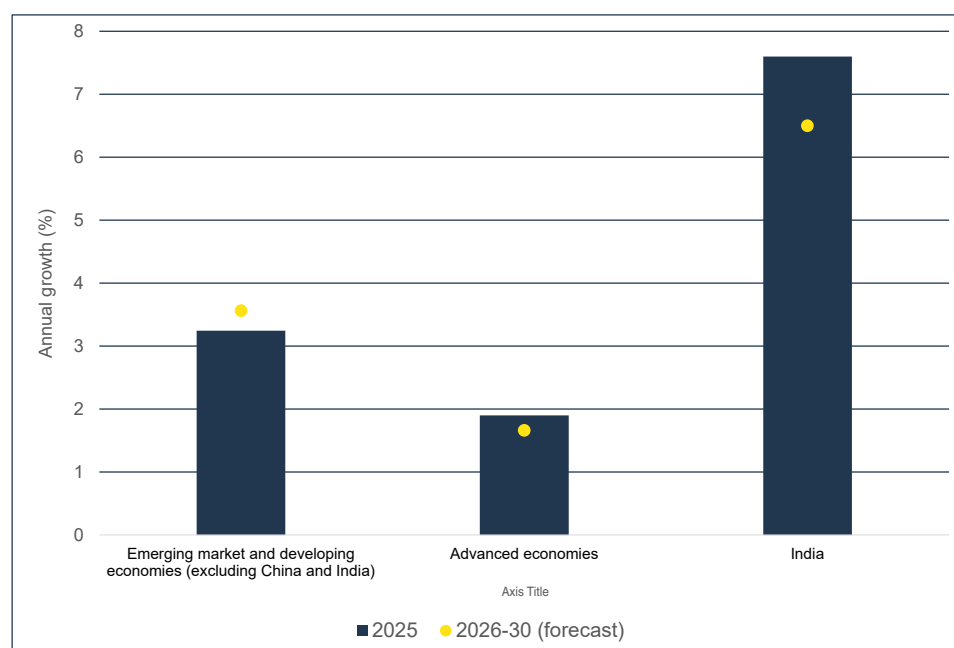
Macroeconomic and political outlook

India's growth will moderate, but remain solid

In recent years, India has been the standout growth performer among major economies globally. Despite heightened global trade tensions and tariff uncertainty, the economy grew by 7.6 percent last year, up from 7.1 percent in 2024. This was mainly driven by strong domestic consumption, which was supported by stable inflation and tax reforms on both incomes as well as goods and services.

Moreover, the supply side of the economy has also been strong. The manufacturing sector also recorded strong growth last year, especially in production of vehicles and fast-moving consumer goods. Because of increased demand in urban areas, the tourism and real estate sectors have also been huge beneficiaries and are performing strongly.

Figure 2: India expected to remain as one of the fastest growing major economies globally
GDP growth outlook in India vs. rest of the world



Source: IMF WEO (2026). *EMDE ex China and India growth estimate is calculated using PPP weights.

Coming into this year, growth was set to moderate as the boost from tax reductions in 2025 faded. Now, disruptions caused by the conflict in the Middle East are further exacerbating the slowdown. This is because India relies heavily on energy and fertiliser imports, much of which are produced in and transit through the Middle East, which have been halted this year. The risk of a super El-Nino event in the upcoming months may now also have large implications for the upcoming harvest season and could add more pressure on Indian consumers.

A source of encouragement has been that India's government are actively minimising the impact from the Middle East conflict on Indian industry. Earlier this year, they created a USD 10 billion Economic Stabilisation Fund, which will be used to provide subsidies for energy and fertiliser products - both of which are critical inputs for India's agriculture sector. In India's context, the agriculture sector holds particular importance as it employs nearly half of the workforce. Supporting the sector is critical to maintaining livelihoods in Indian society.

India's exposure to the disruptions from the Middle East is clear, but we still believe that the long-term outlook for the economy is still highly

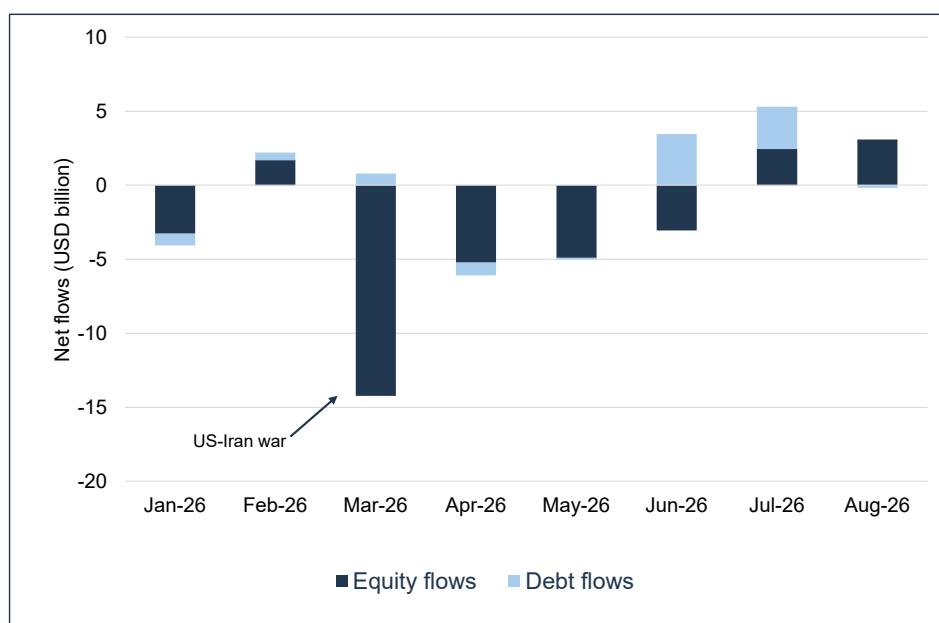
positive. Our view is mainly supported by the structural tailwinds in India's economy, such as its large and growing working-age population, rapid digital adoption and large investments in infrastructure, which all remain intact. As a result, India will be able to add millions of new consumers with increased spending power over the next few years, creating new opportunities for growth in the country.

RBI have been active in addressing recent capital volatility

In addition to the impact on households and businesses, geopolitical uncertainty has also fueled heightened volatility in financial flows from India. This has added pressure on domestic financing conditions and the rupee, compounding the impact on households and businesses already being squeezed by higher energy prices.

In response, the RBI have rolled out several measures to stabilise the rupee and attract a return of capital flows to India. Alongside keeping its policy interest rate steady throughout this year, the RBI and government have eliminated capital gains tax and reduced caps on government bond purchases for foreign investors. These measures have already

Figure 3: RBI measures have helped to stem outflows from earlier in year
Monthly net capital flows into India, USD billion



Source: IIF (2026)

had a positive impact in boosting investor confidence, with foreign investors returning as net buyers of Indian financial assets in recent months (Figure 3). Moreover, the reforms could facilitate India's inclusion in the Bloomberg Global Aggregate Index later this year, unlocking an additional USD 20-30 billion in inflows based on India's anticipated index weighting.

While volatility in these portfolio flows may resume if the conflict persists, it is also important to note that India's other sources of external financing provide some cushion to absorb this. Two key sources of additional inflows for India come from its remittances base (which is the largest in the world) and its services trade surplus. Also, India have continued to attract strong levels of foreign direct investment, which represents a more stable and consistent source of financing than portfolio flows. According to the latest UNCTAD World Investment Report, India attracted USD 39 billion in net FDI inflows in 2025 – up 44 percent from the previous year.

India is experiencing a revival in private investment

Another encouraging sign in the Indian economy has been the revival in its private investment cycle, which appears to now be entering its best phase in over a decade. During the second quarter of this

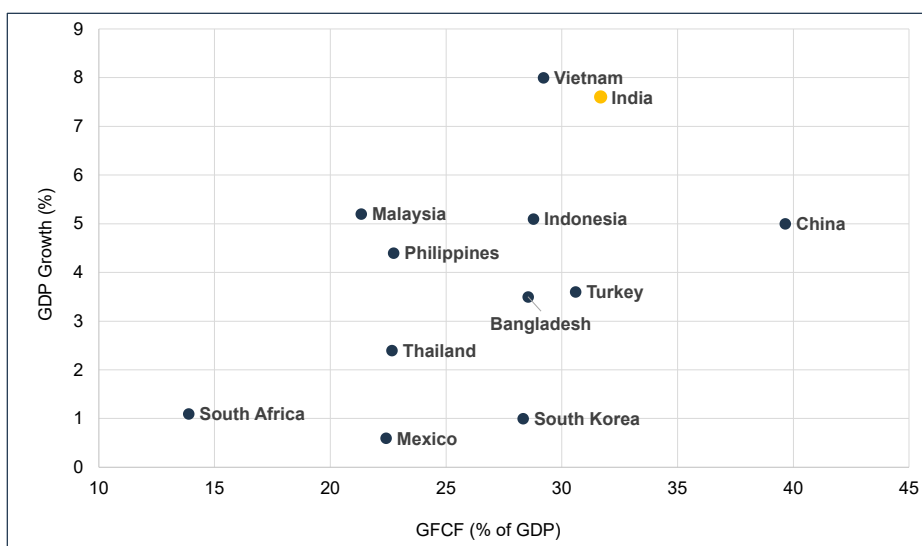
year, gross fixed capital formation (a measure for investment in the economy) rose by 11.9 percent from a year prior. Investment in India now makes up 34 percent of GDP – its highest level since 2011.

From our perspective, this shows that the private sector is showing increasing confidence in India's business environment. In past years, government did most of the heavy lifting with large investments on infrastructure. Now, many projects have been "de-risked" because of these investments, which is opening up opportunities for the private sector to access. According to the RBI, growth in private sector investment is mostly being driven in sectors such as autos, renewable energy and defense. The tech sector and advanced manufacturing are also expected to invest heavily in India in upcoming years. For example, tech giants including Google and Amazon have announced plans to invest more than USD 40 billion on data centers between now and 2031.

Comparatively, India's investment relative to the size of the economy stacks up well against peer countries. The more interesting theme however is the return which India achieves on this investment. Despite investing a much smaller share of GDP than China, and only moderately more than other emerging markets, India annual economic growth is only second to Vietnam (Figure 4).

Figure 4: India generates one of the highest growth rates from its investments globally.

Economic growth vs. gross fixed capital formation in major emerging markets, 2025



Source: IMF (data from 2025)

Policy environment becoming more favourable

In recent years, India's political environment has been somewhat a source of stability for investors. Even though the ruling BJP party has ruled without a single party majority since 2024, the broader ruling coalition's dependence on regional allies has become less of a constraint because of how fragmented the opposition is.

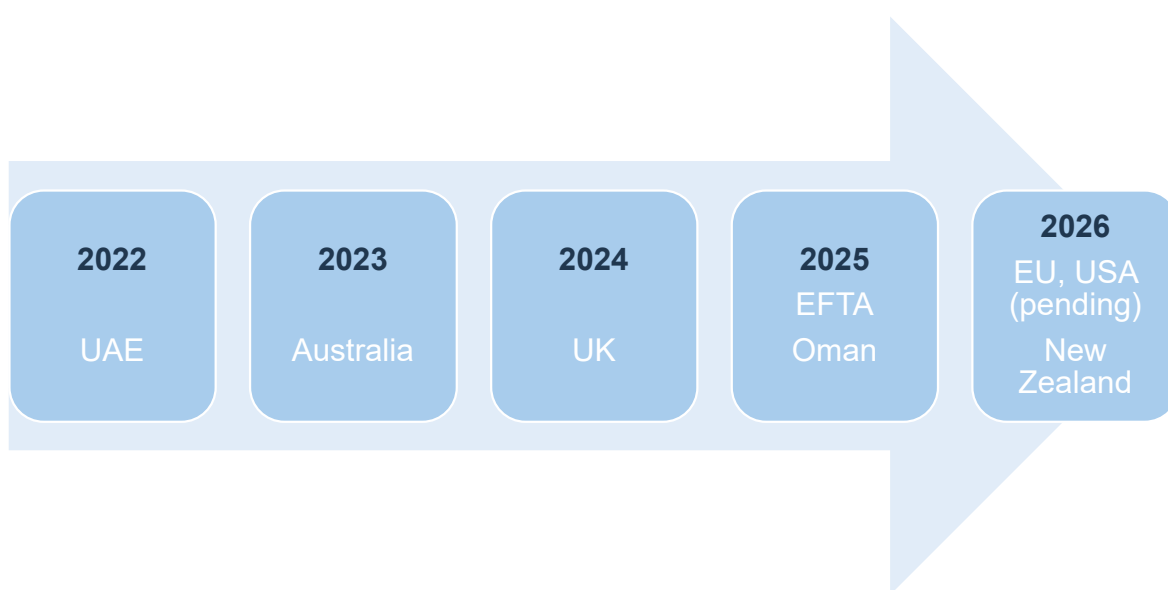
The ruling coalition were able to make strong gains in recent state-level elections held earlier this year and now govern 22 of India's 36 states. This matters for investors because much of the policy agenda which is relevant for businesses (such as incentives in manufacturing, energy transition support and export-linked schemes) are able to be rolled out more easily in states that are politically aligned with the center. However, legislative reforms around more contentious issues (such as land and labour) have continued to move more gradually.

The biggest positive for the policy environment has come from the trade deals which India has managed to reach in recent years. Free trade agreements with the UK, Oman, EFTA and New Zealand have already taken effect or are pending ratification.

Also, India reached a trade deal with the EU earlier this year which will create the world's largest free trade zone (covering 2 billion people and 25 percent of the global economy) once it is ratified. India have also moved to stabilize its contentious trade relationship with the US under Trump 2.0 by reaching an interim agreement earlier this year. This has allowed for lowering of tariffs on Indian exports to the US, and are now even more favorably positioned than peer countries such as Vietnam, Bangladesh and China relatively. All in all, these developments are strengthening India's position as a global business hub.

Figure 5: India has reached several free trade agreements in recent years.

India's free trade agreements 2022-2026



Sector focus

Electric mobility

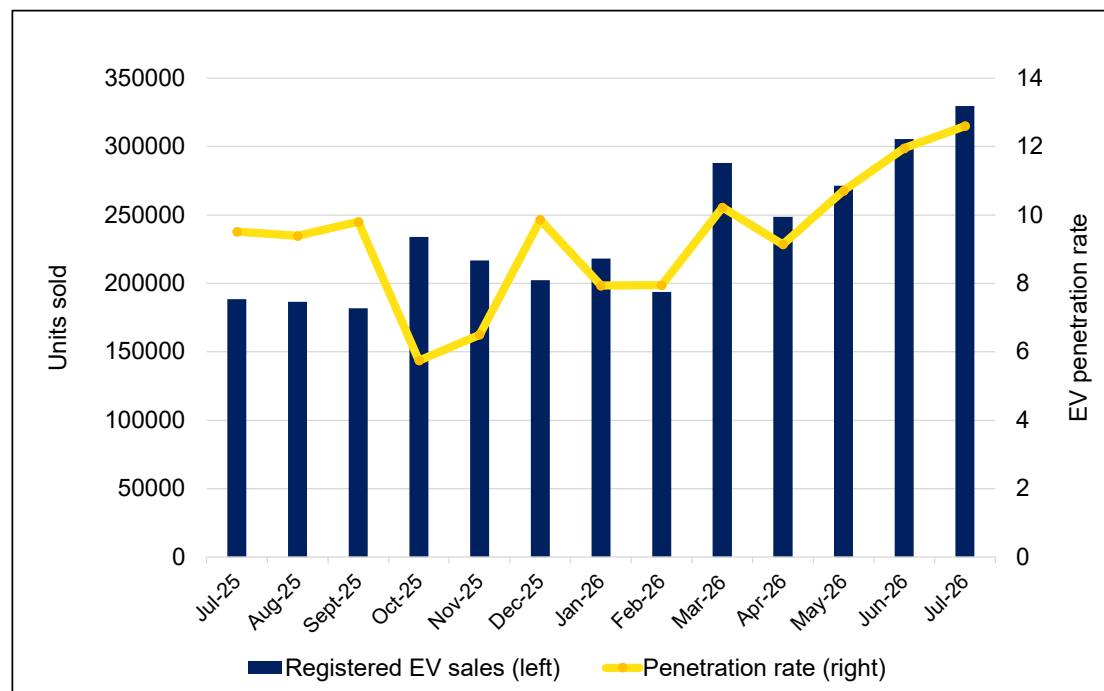
India's electric mobility sector is undergoing rapid transformation and is emerging as one of the most dynamic EV markets globally. This momentum is being driven by a combination of strong policy support, increasingly competitive total cost of ownership and rising environmental concerns. In particular, Indian central and local governments have introduced several incentives including subsidies, tax exemptions and industrial policies aimed at boosting local manufacturing and adoption.

In July 2026, monthly sales were up 76 percent from a year prior (Figure 6). With that said, market penetration remains relatively low at just above 12 percent – which indicates that there is still significant potential for further growth in the market. In some segments of the market, such as e-buses and e-trucks, the level of market penetration is even much lower than this at the moment.

Finnfund have been highly active in supporting India's EV ecosystem over the years. Earlier this year, we completed an investment into **Transvolt Mobility**, which owns and operates electric buses, which are used in intra-city transport and employee transportation, as well as heavy commercial vehicles used for haulage solutions for mines and ports. Our investment will help the company to scale its EV fleet portfolio toward 3,500 heavy commercial vehicles over the next 2-3 years, with a longer-term ambition of deploying 8,000 heavy commercial EVs across India. All in all, we expect this to contribute positively to climate mitigation and public health by reducing tailpipe emissions at scale, while also supporting job creation – especially for female drivers.



Transvolt Mobility owns and operates electric buses used in intra-city transport and employee transportation, as well as heavy commercial vehicles used for haulage solutions for mines and ports. Photo: Transvolt Mobility

Figure 6: EV sales are growing strongly in India**Monthly units of EV sales in India**

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Helena Teppana
Associate Director, Finnfund



Our partnership with Fortum is another example of Finnfund's involvement in the Indian EV market. **Fortum Charge & Drive India** has been a forerunner and first mover of expanding EV charging network for public charging, fleet charging, as well as captive e-bus and e-truck charging. Through this, we have helped to address one of the key enabling constraints for wider EV adoption in the country.

Fortum's prior experience in Nordic countries has supported the Indian business. The prospect of investing in a charging network is huge because of how quickly the share of EVs is rising in personal use as well as those for transport of people and goods. Recent developments in the Middle East are only incentivising the central and local governments in India to accelerate this adoption.

With that said, the sector still faces several challenges. Charging infrastructure, while expanding, still remains underdeveloped relative to projected future demand. Moreover, electricity supply challenges and grid limitations continue to pose risks for widespread EV adoption in India, especially outside urban areas. Lastly, given the sector's reliance on consumer and commercial credit to finance vehicle purchases and infrastructure buildout, a downturn in macroeconomic conditions may also affect its growth. Taken together, these dynamics suggest that the market has meaningful upside for investors but requires the ability to navigate near-term execution risks.



Fortum Charge & Drive India has been a forerunner and first mover in expanding the EV charging network for public charging, fleet charging, and captive e-bus and e-truck charging. Photo: Fortum Charge & Drive India

Digital infrastructure and solutions

India's digital sector is expanding rapidly and capital is returning, although investors are more disciplined than during the last boom in 2021-2022. Bain & Company estimates that India's venture capital and growth equity market reached approximately USD 16 billion in 2025, marking the second consecutive year of growth. Larger funding rounds returned, particularly in fintech and software. At the same time, investors are placing more emphasis on profitability, governance, unit economics and credible exit routes.

For us at the **Finnfund Digital Access Impact Fund (DAIF)**, this more selective market is relevant. India is not short of commercial capital for scalable technology companies. We invest on commercial terms, but put special emphasis on impact that we can create with our capital. We focus on digital businesses and infrastructure that can expand access to essential services. This includes technology-enabled services such as digital finance, as well as the physical networks that support them.

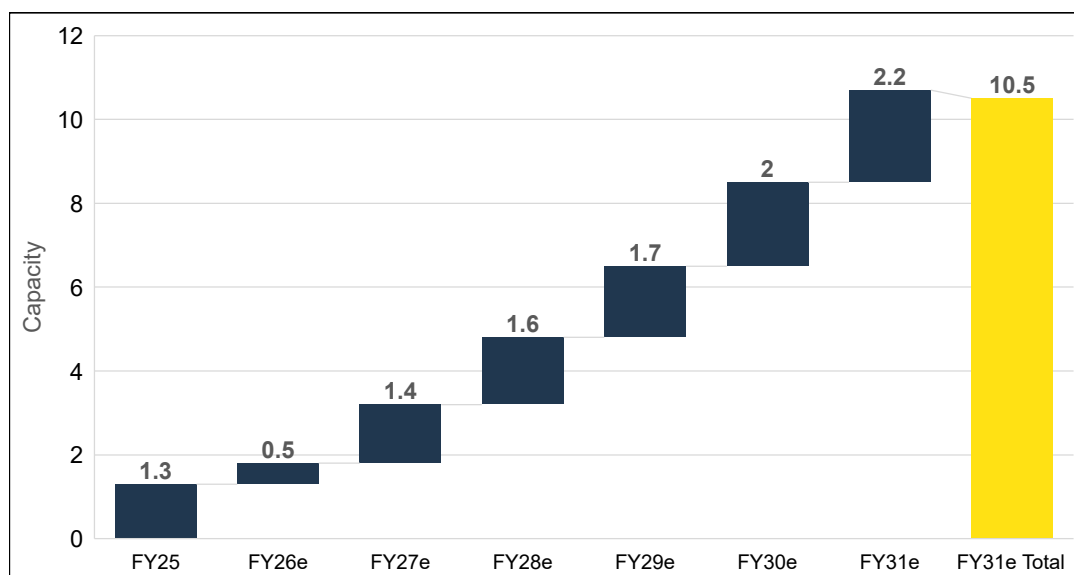
India's connectivity base is already vast. At the end of December 2025, the country had more than 1.0 billion internet subscribers, including more than

1.0 billion broadband subscriptions. The market remains overwhelmingly mobile-first. There were 983 million wireless internet subscriptions compared with 45 million wired subscriptions. This leaves room for investment in higher-capacity and more reliable networks, including fibre, fixed wireless access and upgrades to mobile infrastructure, particularly outside the largest cities. It also shows that coverage alone does not close the digital divide. Affordability, skills and trust determine whether people and businesses can make meaningful use of digital services.

Another major theme is the growth of data centers, cloud services and artificial intelligence workloads. Morgan Stanley estimates that data center capacity in India will rise nearly 8 fold to 10.5 GW by 2031, driven by data localisation requirements, 5G adoption and accelerating AI demand (Figure 7). New capacity requires fibre connectivity, reliable power, efficient cooling and cyber resilience in addition to buildings and servers. Over USD 30 billion of investment will be needed to build this ecosystem out – which indicates how capital intensive (but a compelling investment opportunity) that this trend presents.

Figure 7: An eight-fold rise expected in India's datacenter capacity over the next five years.

India datacenter capacity (GW), 2025-31



Source: Morgan Stanley

We see carrier neutral fibre networks connecting India's main digital hubs as an important part of this infrastructure. They may not reach consumers directly, but they strengthen the capacity and reliability of digital services across finance, commerce, education and public services.

There is also a lot of overlap between technology and electric mobility, which is one of our core focus areas. In 2025, India registered more than 2.3 million electric vehicles – equal to approximated 8 percent of all new vehicle registrations in the country. Two and three wheelers accounted for most of



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Investment Manager, Finnfund

this growth. Further adoption will depend partly on financing that keeps monthly costs manageable for households and small businesses.

Digital financing platforms can address this need through digital onboarding, data driven credit assessment and integration with manufacturers and dealer networks. This can reduce customer acquisition and operating costs while lowering the upfront barrier to acquiring productive assets.

To tap into this theme, we recently made our first investment through DAIF in **Ecofy**, a digital financing company based in Mumbai. Ecofy uses a fully digital lending model to finance electric two-wheelers and three-wheelers, residential rooftop solar systems and productive assets for micro, small and medium-sized enterprises. Its model combines digital onboarding and credit assessment with partnerships across manufacturer and dealer networks.

We see potential in Ecofy’s ability to expand access to credit for income-generating assets, including electric vehicles and investments by small businesses. This supports financial inclusion while also contributing to climate objectives. We expect the company to broaden its products and distribution and establish itself as a leading digital financing platform in its chosen green asset segments. Over time, we expect Ecofy to demonstrate that portfolio growth



Ecofy’s digital platform expands access to finance for green and income-generating assets. Photo: Ecofy

can translate into sustainable profitability without weakening asset quality or customer outcomes.

Finnfund has a broader investment track record in India across several sectors. Within the digital infrastructure and solutions sector, a particularly relevant example is **Indifi**, a digital financial services company backed through the **OP Finnfund Global Impact Fund I**. Indifi uses technology and partnerships with digital platforms and financial institutions to provide business loans to micro, small and medium-sized enterprises that are often underserved by traditional lenders. Together with our recent investment in Ecofy, Indifi illustrates how digital solutions can improve access to finance and support the

growth of small businesses. Finnfund's wider India portfolio also includes investments in areas such as electric mobility and charging infrastructure.

From our perspective, digitalisation is playing a central role in improving financial inclusion and enabling access to credit amongst underserved consumers and small businesses. A key feature of the sector is the rise of digital financial platforms that leverage data-driven underwriting, automated decision-making, and fully digital customer journeys. These platforms enable scalable, efficient delivery of financial services to market segments that have traditionally been underserved by banks.



Photo: Shutterstock

How Finnish companies can partner with Indian businesses

India offers a large and increasingly strategic growth opportunity for Finnish companies. Its appeal rests on more than market size: rapid urbanisation, rising industrial investment, accelerated electrification, expanding digital infrastructure, and a policy agenda focused on clean growth, domestic manufacturing and resilient value chains. Finnfund can be an important partner in this context by providing investment to Finnish companies expanding in India, financing their Indian customers or partners, and opening new commercial routes by introducing Finnish companies to relevant Finnfund investees.

The strongest opportunities for Finnish companies are in sectors where India's demand is scaling quickly and where Finnish technology has a clear edge. As outlined earlier, India's EV market is expanding fast while charging infrastructure, fleet management, power electronics, grid integration and vehicle financing still need to mature. The digital section points to similar openings in fibre networks, data centres, cyber resilience, energy-efficient cooling, industrial digitalisation, and data-driven service platforms. India's broader green transition also creates demand for renewable energy, storage, circular economy solutions, water and wastewater technologies, sustainable construction and industrial efficiency.

The policy environment strengthens the case for a more active Finnish approach. India and Finland have deepened cooperation around digitalization and sustainability, and Team Finland can help companies identify partners, understand regulation and build market-entry pathways. The India–Finland Joint Innovation Call 2026 focuses on sustainable energy, advanced digital technologies, microelec-



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Patrik Bredbacka
Head of EU & Finnish Partnerships,
Finnfund

tronics and power electronics, which map closely onto several of the opportunity areas discussed in this report. Deeper EU–India economic ties should further improve the context for European companies.

Finnfund's recent investments show where these opportunities are becoming concrete. Transvolt Mobility and Fortum Charge & Drive India are linked to the enabling infrastructure behind India's EV transition, from electric buses and heavy commercial vehicles to charging networks for public, fleet and captive use. Ecofy and Indifi illustrate the role of digital financial platforms in expanding access to credit for households, micro, small and medium-sized enterprises, and green productive assets. These examples are relevant to Finnish companies because they indicate where Indian demand is shifting, which business models are scaling, and where Finnish solutions could add value as technology providers, suppliers, industrial partners, or co-investors.

Finnfund can support Finnish companies in several practical ways. We can provide long-term financing for Finnish companies' joint ventures, subsidiaries or expansion projects in India when the investment meets our mandate and impact

criteria. We can also finance Indian companies that are customers, suppliers or strategic partners of Finnish firms, helping turn commercial interest into bankable investment. Alongside capital, Finnfund can use its portfolio and networks to connect Finnish companies with Indian investees with concrete operational needs and credible growth plans. The best prospects are likely to emerge where Indian demand, Finnish capabilities and Finnfund's impact mandate overlap: electric mobility and charging infrastructure; renewable energy, storage and grid solutions; digital infrastructure and cyber-resilient services; green finance and technology-enabled financial inclusion; circular economy and resource efficiency; water and wastewater; and specialised technologies linked to advanced manufacturing and power electronics.



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