# Indian SaaS companies– The story so far

The funding winter has well and truly set in. Investors remain circumspect about valuation multiples, but founders are digging themselves in, investing in sales and prioritising revenue growth, according to the Zinnov-Chiratae India SaaS Report 2023

By **HARICHANDAN ARAKALI**

Global SaaS Revenues (USD Billion)

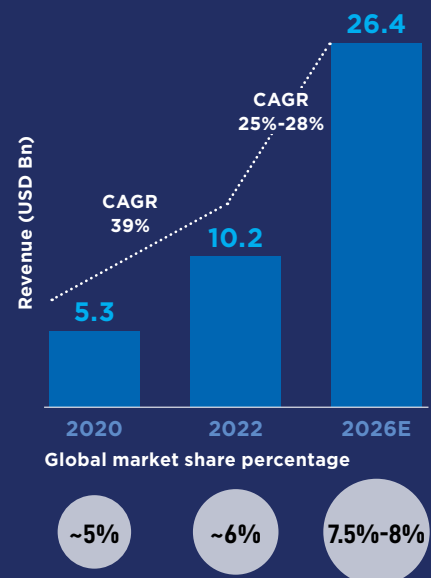| 2019	2020	2021	2022	2023E
94	103	146	167	195
	8%	42%	14%	17%
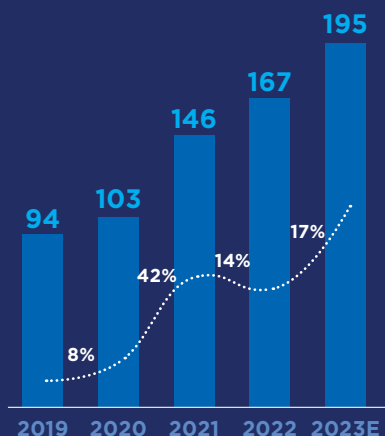
SOURCE Zinnov-Chiratae India SaaS Report 2023

While growth rates have declined owing to Cloud spend optimisation, the increased need for SMBs and large enterprises to digitise their operations continue to drive demand for SaaS:

1.8X growth in global SaaS revenues since 2019

8X growth in the average number of SaaS apps used globally per organisation in the last 5 years

Indian SaaS market is expected to grow ~2.5X in the next 4 years; to cross USD 26 bln by 2026

Revenue (USD Bn)

2020	2022	2026E
5.3	10.2	26.4

CAGR 39% · CAGR 25%-28%

Global market share percentage

~5%	~6%	7.5%-8%

The number of funded SaaS startups in India has grown by 2X in the last 4 years

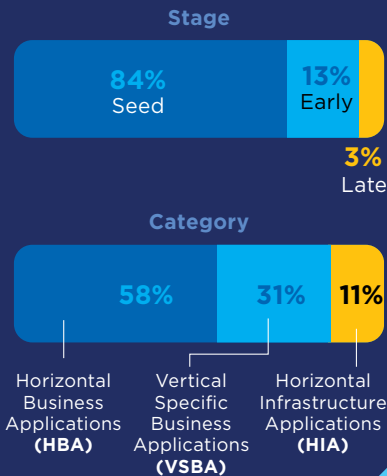### NUMBER OF ACTIVE INDIAN FUNDED SaaS STARTUPS
(Y-o-Y)

Total SaaS startups
1650-1750

- 250-350 **2022**
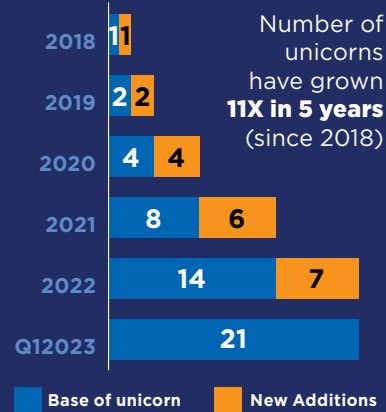- ~400 **2021**
- ~200 **2020**
- ~800 **2019**

ACTIVE INDIAN FUNDED SaaS STARTUPS
(BY STAGE & CATEGORY, AS OF 2022)

Stage

- 84% Seed
- 13% Early
- 3% Late

Category

- 58% Horizontal Business Applications (HBA)
- 31% Vertical Specific Business Applications (VSBA)
- 11% Horizontal Infrastructure Applications (HIA)

India ranks third globally, in terms of SaaS unicorns and has a significant pipeline of potential unicorns

SaaS UNICORNS IN INDIA (Y-o-Y)

Year	Base of unicorn	New Additions
2018	1	1
2019	2	2
2020	4	4
2021	8	6
2022	14	7
Q1 2023	21	

Number of unicorns have grown **11X in 5 years** (since 2018)

■ Base of unicorn   ■ New Additions

GLOBAL RANKINGS (#UNICORNS)

1. USA (~300)
2. CHINA (28)
3. INDIA (21)
4. ISRAEL (19)
5. UK (17)
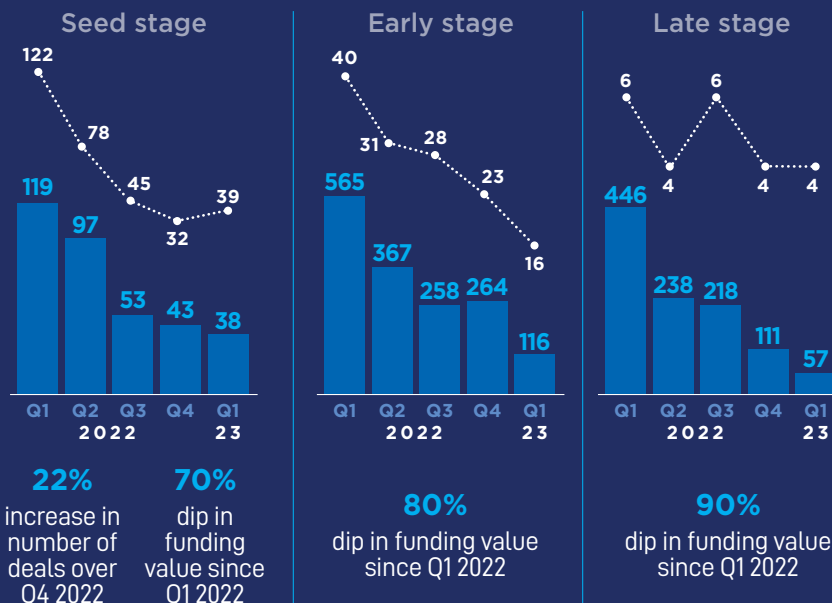6. FRANCE (8)
7. GERMANY (5)

80% SaaS unicorns have been created in the last 3 years

3 SaaS unicorns valued at >USD 5 Bn

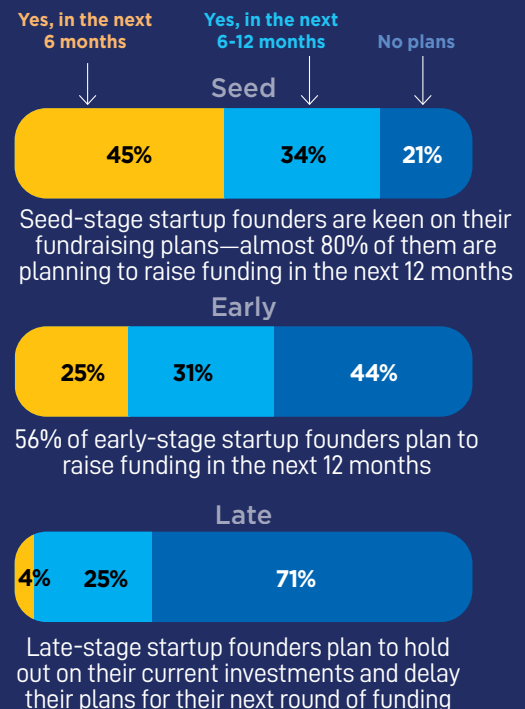**~USD 58 Bn** Combined valuation of SaaS unicorns as of March 2023

29 Number of SaaS potential unicorns

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Seed-stage deals have started picking up in Q1 2023, despite a drop in investment value across stages

Seed stage

Total no. of deals: 122, 78, 45, 32, 39
Total funding (USD Mn): 119, 97, 53, 43, 38

Q1 Q2 Q3 Q4 (2022) Q1 (23)

22% increase in number of deals over Q4 2022

70% dip in funding value since Q1 2022

Early stage

Total no. of deals: 40, 31, 28, 23, 16
Total funding (USD Mn): 565, 367, 258, 264, 116

Q1 Q2 Q3 Q4 (2022) Q1 (23)

80% dip in funding value since Q1 2022

Late stage

Total no. of deals: 6, 4, 6, 4, 4
Total funding (USD Mn): 446, 238, 218, 111, 57

Q1 Q2 Q3 Q4 (2022) Q1 (23)

90% dip in funding value since Q1 2022

■ Total funding (in USD Mn)   ···· Total no. of deals

Over two-thirds of the founders are preparing to raise funding in the next 12 months

Yes, in the next 6 months | Yes, in the next 6-12 months | No plans

Seed

| 45% | 34% | 21% |

Seed-stage startup founders are keen on their fundraising plans—almost 80% of them are planning to raise funding in the next 12 months

Early

| 25% | 31% | 44% |

56% of early-stage startup founders plan to raise funding in the next 12 months

Late

| 4% | 25% | 71% |

Late-stage startup founders plan to hold out on their current investments and delay their plans for their next round of funding
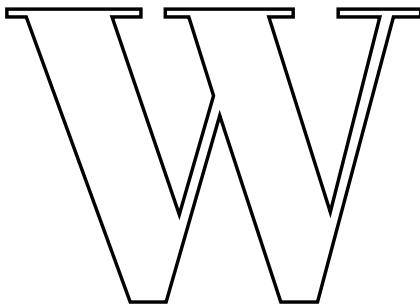
ATIT DANAK

The writer is partner, Zinnov

A Winning Generative AI Product Has Humans at its Foundation

Generative AI will become the foundation on which individuals and enterprises will build transformational products and services. And startups are uniquely positioned to capitalise on this opportunity

What if each of us had our very own Jarvis, Tony Stark's trusted AI companion from Iron Man? From analysing data, making predictions to performing complex tasks—all on command, in real time. Far from being a work of fiction, generative AI tools have made this a reality. The rise of generative AI has eclipsed every technology trend in the last decade, wielding its remarkable power to 'understand' context.

With the global generative AI market valued at $110 billion by 2030, this paradigm-shifting technology is revolutionising the fabric of startups, large enterprises and tech giants alike.

THE PROMISE OF GENERATIVE AI

Generative AI may have captured the world's collective imagination, but is the value real? Undeniably so. What makes generative AI tools so attractive for businesses are the ease of use and ability to seamlessly integrate into existing workflows. They not only optimise and automate workflows, but also reduce costs and augment revenues. And as for non-billionaire Jarvis users like most of us, they enable us to accelerate creativity, provide enhanced personalisation, offer efficiency and convenience, and also democratise learning.

Generative AI will become the foundation on which individuals and enterprises alike will build transformational products and services. It brings with it the promise of autonomy—with human-led ingenuity and decision-making, augmented by AI-guided insights and automated workflows. While enterprises transition into autonomous entities, individuals will hold their own learning and upskilling power in their hands.

Generative AI is leaving its indelible mark across industries and use cases—Nasa's use of generative AI in spacecraft development, and the partnership between Amazon Music and Endel to create sleep playlists merely underscore the vast potential of this technology. Zinnov's analysis of the generative AI landscape evidences that health care and media & entertainment will lead the adoption of generative AI, followed by banking, financial services & insurance (BFSI), and manufacturing.

BATTLEGROUND— GENERATIVE AI

From optimising search and product discovery, customising education and learning, creating art, music, design,

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ILLUSTRATION: CHAITANYA DINESH SURPUR
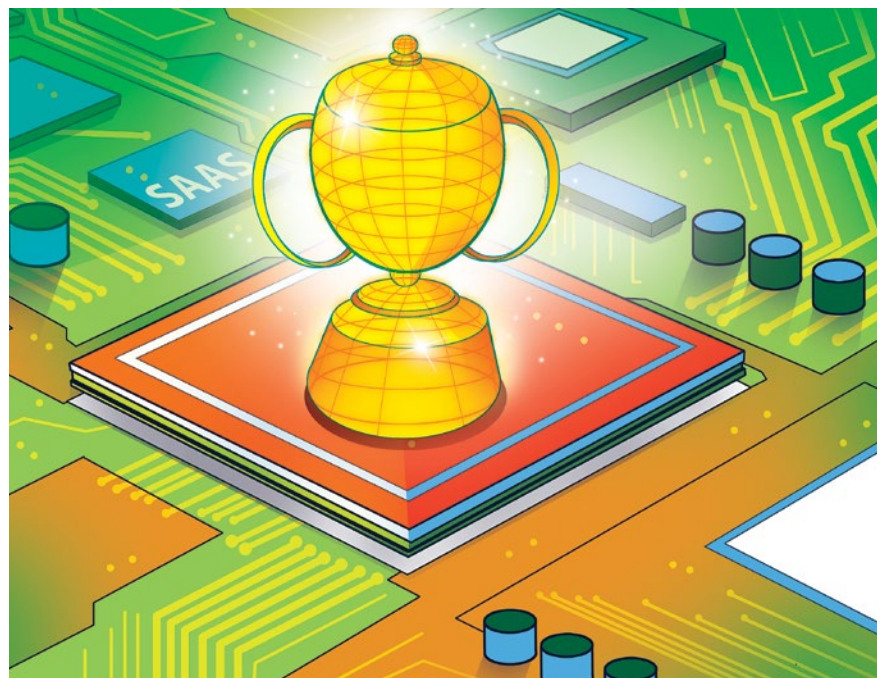
video and much more, generative AI is spawning category-building products and services. The question then becomes: Who will capitalise faster on this massive opportunity—incumbent large enterprises or startups?

With a staggering 37x surge in generative AI-based investments over the past five years alone, it is evident that everyone is jumping on board. Simultaneously, as more enterprises and individuals embrace generative AI, a need-based and usage-driven nature for these products and services emerges. SaaS companies, having already cracked this successful business model, are highly likely to invest in, evolve and scale using generative AI as their foundation. The trajectory is set, and the potential for transformative growth is immense.

Generative AI will be a unique battleground for startups and enterprises, unlike the previous two seminal events—shift to cloud as a technology foundation and shift to SaaS as a business model. With the transition to cloud, enterprises grappled with migrating complex legacy systems, addressing security concerns, managing budget constraints and ensuring infrastructure compatibility. Similarly, the transition to SaaS brought with it change management concerns, challenges around integration of SaaS solutions into existing IT infrastructure, and the need for customised pricing models.

Large enterprises have inherent advantages when integrating Large Language Models (LLMs) into their products.
• Thanks to their vast existing user base, they can introduce new AI features, reducing the need for users to seek alternative solutions. For instance, Microsoft, Adobe, Google, Salesforce and others have swiftly integrated generative AI features into their core products.
• Besides a large user base, large enterprises have massive amounts of proprietary data that can help

"From optimising search, customising education to creating art, music, design etc, generative AI is spawning category-building products."

finetune their LLMs, giving them a headstart over startups. Microsoft's use of customer data in their Copilot product is a prime example.
• Large enterprises typically have access to more resources, which allows them to forge strategic partnerships, hire top-notch talent, and/or subsidise costs. Like, Microsoft's partnership with OpenAI.
• Large enterprises already boast a large pool of talented engineers, designers and AI researchers, which adds to the allure for potential tech talent. With a newer set of tools at their disposal thanks to generative AI, the existing talent base will provide a multiplier effect to capitalise on opportunities faster than ever before.
• Large organisations, however, may be more conversative with their adoption of generative AI because the risks are still far from understood. Additionally, concerns around liability and regulatory aspects contribute to their cautious approach.

DAVID VS GOLIATH
Startups are uniquely positioned to capitalise on the generative AI opportunity, primarily thanks to their ability to pivot and inherent agility. A verticalised SaaS approach gives the startups a leg-up to home in on specific industries and create AI solutions that are more personalised. This hinges on a customer-first strategy, quality data, and seamless integration with existing tools. While enterprises face challenges in monitoring AI models, ensuring privacy and managing data, they also represent an opportunity for startups to create solutions that simplify these processes. For example, if Google used an LLM for its search functionality, it could cost them $10 billion per year. Hence, the focus should be on finding the

most cost-effective solutions.

Generative AI models require significant storage and computational power. This, in turn, has necessitated the development of AI-optimised hardware. This also leaves room for innovation in business models. For instance, could crypto rigs be used for distributed computing? Or could we optimise storage and compute for different environments like Edge, On-prem and Public Cloud? These are open questions that startups can explore and find solutions for.

Though there are pockets of innovation that startups can capitalise on, a winning generative AI product or solution has humans at its foundation. Customer-centricity, data integration, cost-effectiveness, scalability, ethical considerations, and a human + AI feedback loop will form the next foundational layer of this winning generative AI product/solution. This is largely thanks to access to foundational models like GPT-3, DALL-E, StableML, Claude and Command as well as the ability to swiftly construct custom models by leveraging open and collaborative platforms such as HuggingFace. These have transformed the competitive landscape. In fact, this has created a level-playing field, with an untapped market opportunity up for grabs.

THE WAY FORWARD
What is undeniable is that we are in 'Generation AI'. There will be companies that will be swept away in its potential, along with those that will thrive. Who will win or lag behind hinges on their ability to weed out hype from reality, and identify the best way forward. As we move one step closer to general intelligence, the defensible moat will be an organisation's ability to adopt, adapt and pivot at the right time. ⓕ

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