Treelife

SaaS Blueprint: Unlocking India's Potential with Industry Insights and Regulatory Guide

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Index

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Foreword

The Software as a Service (SaaS) model has revolutionized how businesses deploy and consume technology, enabling rapid scalability, cost efficiency, and seamless accessibility. By eliminating the need for traditional software installation and maintenance, SaaS has democratized access to powerful tools and solutions, empowering businesses of all sizes to compete in an increasingly dynamic marketplace. With the increased adoption of cloud storage software across the world, SaaS has become a cornerstone of the digital economy, with the market witnessing exponential growth, projected to surpass **$300 billion by 2026**. The model's success lies in its ability to **adapt to diverse needs**—offering everything from customer relationship management (CRM) to enterprise resource planning (ERP), collaboration tools, and industry-specific applications.

India's SaaS story is particularly compelling: once a nascent segment, the Indian SaaS market is now projected to reach **$50 billion by 2030**, contributing significantly to the global market valued at over **$200 billion in 2024**.[1] The country is home to over 1,500 SaaS companies, several of which have achieved unicorn status, contributing to a market valued at approximately **$13 billion in 2023**. Indian SaaS companies are not only addressing domestic demands but are also competing globally, with nearly **70%** of their revenues coming from international markets.

This meteoric rise has been driven by key enablers such as affordable cloud infrastructure, a skilled workforce, and a burgeoning startup ecosystem. Additionally, the pandemic-induced digital shift has further underscored the relevance of SaaS, with businesses across sectors—from fintech to healthcare—adopting these solutions to navigate disruption and build resilience. Consequently, the Indian SaaS sector stands at the confluence of global opportunity and local ingenuity. By leveraging cutting-edge technologies like artificial intelligence, machine learning, and blockchain, Indian SaaS companies are poised to redefine industries and set new benchmarks for innovation.

This report offers a comprehensive exploration of the Indian SaaS landscape, delving into industry growth trends, regulatory frameworks, investment landscape, risk mitigation strategies, and key government initiatives driving the sector. Whether you're an entrepreneur, investor, or an industry observer, this handbook provides actionable insights and a clear roadmap to navigate the opportunities in this vibrant and fast growing ecosystem.

If you have any questions or need further clarity, please don't hesitate to reach out to us at **garima@treelife.in**

[1] https://www.business-standard.com/industry/news/indian-saas-sector-likely-to-reach-a-market-size-of-50-billion-by-2030-124080501302_1.html

1. What is SaaS?

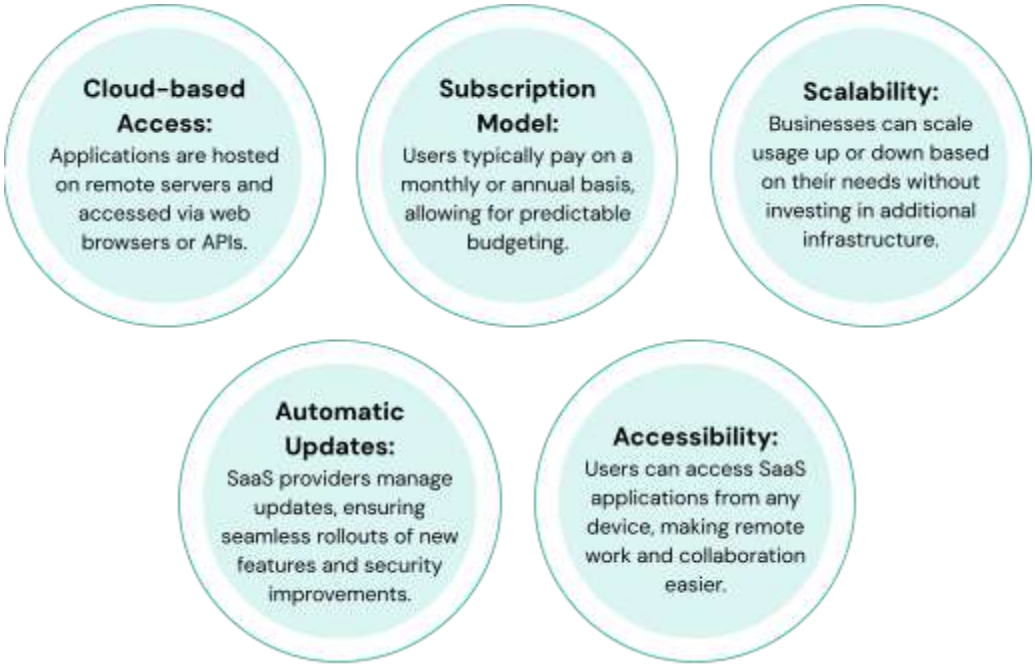
Shortform for "Software as a Service", SaaS is a cloud-based software delivery model that allows users to access applications over the internet without requiring **installation, maintenance, or extensive hardware**. Unlike traditional software models that involve licensing and physical installation on devices, SaaS operates on a **subscription-based model**, offering businesses and individuals flexibility, scalability, and cost efficiency.

At its core, SaaS leverages cloud computing to host applications centrally on servers, making them accessible from anywhere with an internet connection. This eliminates the need for infrastructure setup, complex configurations, or periodic updates on user devices. SaaS providers handle software maintenance, security, and updates, ensuring users benefit from the latest features and patches without additional effort.

Global Platforms

Indian Platforms

1.1. Key Features of SaaS:



1.2. Types of SaaS

Demonstrating the scalability and adaptability of the SaaS model, the Indian SaaS industry is no exception to being well-rooted and well-diversified, offering a wide range of products and services to an increasingly large number of domestic and international customers. That being said, businesses based on developing technologies need to be able to change and adapt as the market grows. Here are a few notable trends which may shape the future of the Indian SaaS industry[2]:

S. No.	Trends	What does it Means?	Who's in the Race?
1	Vertical SaaS	SaaS companies are increasingly focusing on developing solutions for specific industries or verticals.[3] This is because businesses in each industry have their own unique needs, and vertical SaaS solutions can be better tailored to meet those needs.[4]	● Freshworks (customer support software), ● Chargebee (subscription billing software), and ● BrowserStack (web and mobile testing software)
2	Horizontal SaaS	Horizontal SaaS solutions are designed to address specific business needs that apply across various industries and domains. They provide tools for general functions such as communication, productivity, marketing, or customer relationship management (CRM).	● CRM: Salesforce, HubSpot ● Marketing Tools: Mailchimp, Marketo ● Collaboration Tools: Slack, Microsoft Teams ● Accounting: QuickBooks Online, Xero
3	Business-to-Business (B2B) SaaS	B2B SaaS products are developed for businesses to use in their operations. These platforms improve efficiency, streamline workflows, and enhance collaboration for enterprises.	● Atlassian (Jira, Confluence) ● Workday ● Zoho Suite

[2] https://aloa.co/blog/saas-trends-to-look-out-for-in-2023-an-in-depth-guide
[3] https://inc42.com/resources/3-saas-trends-that-will-revolutionise-the-indian-heathtech-industry/
[4]https://www.prnewswire.com/news-releases/managed-services-market-worth-354-8-billion-by-2026---exclusive-report-by-marketsandmarkets-301592478.html

S. No.	Trends	What does it Means?	Who's in the Race?
4.	Business-to-Consumer (B2C) SaaS	B2C SaaS solutions target individual consumers and focus on user-friendly experiences. These are often subscription-based tools for entertainment, fitness, or productivity.	• Netflix • Spotify • Duolingo • Grammarly
5.	Enterprise SaaS	Enterprise SaaS platforms are specifically designed for large organizations with complex operations and multiple departments. These solutions focus on scalability, advanced security, and extensive support.	• SAP • Oracle Cloud Applications • Adobe Creative Cloud for Teams
2	Micro SaaS	Micro SaaS is a new trend in which SaaS companies are developing small, specialized solutions that solve specific problems for businesses. Micro SaaS solutions are often less expensive and easier to implement than traditional SaaS solutions.[5]	• Zapier (automation tool), • Notion (note-taking and productivity software), and • Gusto (HR and payroll software)
3	AI and machine learning	AI and machine learning are being used to develop new and innovative SaaS solutions. For example, AI-powered SaaS solutions can be used to automate tasks, improve customer service, and make better business decisions.[6] For example, AI-powered chatbots can be used to answer customer questions 24/7, and ML-powered	• Fractal (AI-powered customer service platform), • Darwinbox (AI-powered HR software), and • Zenoti (AI-powered salon management software)

[5] https://inc42.com/resources/6-industry-trends-that-will-drive-the-saas-industry-in-2023/

[6] https://www.gartner.com/en/podcasts/thinkcast/generative-ai-understanding-the-business-implications-and-cutting-through-the-hype

S. No.	Trends	What does it Means?	Who's in the Race?
		analytics tools can be used to identify trends and patterns in data.	
4	Low-code / no-code development	Low-code/no-code development platforms are making it easier for businesses to build and deploy their own SaaS solutions. This is opening up the SaaS market to a wider range of businesses, including small and medium-sized enterprises.[7]	• Appsmith (low-code platform for building SaaS applications), • Zoho Creator (no-code platform for building business applications), and • Webaroo (low-code platform for building educational applications)
5	Global expansion	Indian SaaS companies are increasingly expanding into global markets. This is being driven by the increasing demand for SaaS solutions from businesses around the world.[8]	• Freshworks (customer support software), • Druva (data protection software), and • BrowserStack (web and mobile testing software)
	Infrastructure as a Service (IaaS) and Platform as a Service (PaaS)	While not purely SaaS, these cloud services are closely related and sometimes overlap with SaaS. They provide the backend infrastructure (IaaS) or development platforms (PaaS) that support SaaS applications.	• Amazon Web Services (AWS) • Google Cloud Platform • Microsoft Azure

1.3. Pricing Models SaaS

01. Subscription-Based Pricing:

- Most common; customers pay a recurring fee (monthly, quarterly, or annually) for continued access to the software.
- It provides predictable, recurring revenue for SaaS businesses.

02. Flat Pricing:

- Customers pay a fixed price for unlimited access to the software.
- Pricing is not based on usage or the number of users.
- Simplicity and predictability can appeal to customers.

[7] https://www.outsystems.com/1/low-code-development-platforms-wave-/

[8] https://www.bvp.com/atlas/rise-of-saas-in-india-2023#:~:text=India's%20software%2Das%2Da%2D,nearly%20quadrupling%20its%20size%20today

03. Tiered Pricing:

- Most common; customers pay a recurring fee (monthly, quarterly, or annually) for continued access to the software.
- It provides predictable, recurring revenue for SaaS businesses.

04. Usage-Based Pricing (Pay-as-You-Go):

- Charges customers based on their actual usage of the software.
- Customers pay for what they use, providing flexibility.
- Attractive to users who prefer a "pay for what you use" approach.

05. Per-User Pricing:

- Charges customers based on the number of users accessing the software.
- Often used in situations where multiple employees need access.
- Suited for scenarios where each user may require different features.

06. Per-Feature Pricing:

- Per-feature pricing charges customers based on the specific features they use or need.
- This model allows customers to pay only for the features they require, making it flexible and customizable.

07. Value-Based Pricing:

- Value-based pricing charges customers based on the perceived value of the product or service, rather than the cost to deliver it.
- This model requires a deep understanding of customer needs and how much they are willing to pay for the value delivered by the product.

08. Freemium:

- Offers a basic version of the software for free.
- Users can access advanced features by paying a subscription fee.
- Used to rapidly expand the customer base by offering free access initially.

09. Hybrid Pricing:

- Combines two or more of the above pricing models.
- Provides flexibility to tailor pricing to customer needs.
- Allows businesses to experiment with different pricing strategies.

2. Industry Overview

The SaaS industry has grown significantly over the past decade, revolutionizing how businesses access and utilize software. By delivering applications over the internet, SaaS eliminates the need for on-premise software installations, maintenance, and hardware infrastructure. Instead, users subscribe to cloud-based software that is accessed through a web browser, making it highly scalable, flexible, and cost-efficient. The 'subscription economy' has provided a sort of culture medium for innovative and high-impact SaaS models. Innovations in areas such as **artificial intelligence**, **cloud computing**, **5G**, **robotics**, and **sensors** are being rapidly adopted across the global economy at an unprecedented rate. Below is an overview of the key aspects of the SaaS industry:

2.1. Market Growth and Size

The SaaS industry has experienced remarkable growth due to the increasing adoption of cloud computing, digital transformation initiatives, and the need for scalable, cost-effective solutions.

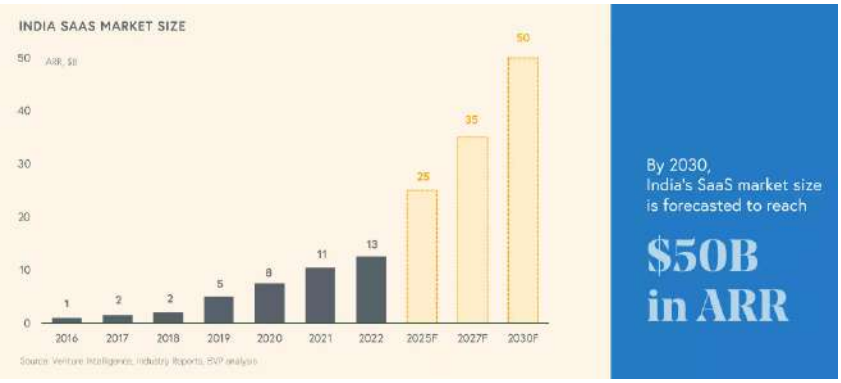
Market Size	Enterprise Adoption	Shift to Cloud
In 2024, the global SaaS market is expected to reach approximately **$285 billion** and is forecasted to continue growing at a **CAGR of 18-20%** over the next several years.	Large enterprises, small and medium-sized businesses (SMBs), and startups alike are all adopting SaaS solutions, particularly for functions such as **CRM, marketing, collaboration, and accounting.**	The shift from traditional on-premise software to cloud-based models is one of the primary drivers of growth, as businesses seek **to improve efficiency, scalability, and data security.**

2.2. SaaS Industry Segments

The SaaS industry spans a wide variety of application categories, catering to multiple verticals and functional areas. Some of the key SaaS segments include:

2.3. Industry Landscape

India's SaaS market is projected to reach **$50 billion of annual recurring revenue (ARR) by 2030**, nearly quadrupling in size.[9]



The rise of SaaS in India has been a significant trend over the past decade, with the sector experiencing rapid growth and attracting both local and global attention. The growth of the Indian SaaS industry is being driven by a number of factors, including: (i) an increase in the number of **skilled workers**; (ii) **government support** for the IT and ITeS sector; (iii) interest from **domestic and global venture capital** investors; and (iv) increasing **capabilities and adoption of AI and cloud computing** across a range of businesses.

While the increasing capabilities of India's labor pool and global progress in technologies cannot be understated, the financial incentive for investors to consider Indian SaaS companies are demonstrable. This includes noticeably **better efficiency** in utilization of capital, with **8 out of 10 Indian B2B SaaS companies having a burn multiple[10] of < 1.5x**, facing a lower impact of recessionary trends, and (due to a combination of factors) being more capable of pivoting from '**growth at all costs**' to '**profitable growth**'.[11]

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This trend is consistent with other findings which suggest that the industry can surpass **$26 billion in revenue by 2026** with a compound annual growth rate (CAGR) of up to **28% from $10.2 billion in 2022**, despite general decreases in IT spending.

[9] https://www.b upling%20its%20size%20today

[10] Burn Multiple is a capital efficiency metric. It defines the amount that the startup is burning for generating one dollar of incremental annual recurring revenue (ARR).

[11] https://www.ey.com/en_in/news/2023/02/indian-b2-b-saas-outlook-bullish-for-2023-8-out-of-10-cxo-s-target-above-50-percent-arr-growth#:~:text=Commenting%20on%20the%20findings%20of,to%20'profitable%20growth'.%E2%80%9D

[12] https://zinnov.com/macro-trends/india-saas-2023-report/

2.4. SaaS Industry in India: Key Numbers and Insights

India has emerged as one of the **fastest-growing markets** for SaaS solutions globally. With a large and rapidly digitizing economy, the Indian SaaS industry is experiencing significant growth driven by both domestic and international demand.

01. Market Size and Growth

- India's SaaS industry is estimated to be worth $4.8 billion in 2023 and is expected to reach $12 billion by 2026, growing at a CAGR of around 25-30%.
- India accounts for about 15-20% of the global SaaS market, positioning itself as one of the leading countries in SaaS development and innovation.
- A significant portion of SaaS revenue in India comes from exports, with SaaS products developed in India being sold globally, particularly in North America, Europe, and Southeast Asia.

02. India as a SaaS Hub

- Home to more than 1,000 SaaS companies, with a strong pipeline of early-stage startups. India is seen as a hotbed for innovation in SaaS, with companies focusing on both global markets and local problems.
- India has produced several SaaS unicorns, i.e., privately-held companies valued at over $1 billion. Examples include:
  - ZOHO : A leader in CRM, HR, and marketing automation tools, Zoho has grown into a global SaaS powerhouse.
  - freshworks: Known for its customer support and engagement software, Freshworks went public in 2021 and continues to expand internationally.
  - chargebee : Specializes in subscription billing and revenue operations, Chargebee raised significant funding rounds in recent years.

03. SaaS Investment Exit Landscape

- Freshworks went public on the Nasdaq in 2021, marking one of the most significant SaaS IPOs from India.
- Chargebee, BrowserStack, and Postman have all attracted significant funding and have been recognized as some of the most successful SaaS startups in India.

04. Key SaaS Segments in India

- **CRM and Sales:** With a rapidly growing digital ecosystem, Indian businesses are increasingly adopting CRM tools, with Zoho CRM and Freshworks being market leaders.
- **Enterprise Resource Planning (ERP):** The ERP SaaS market in India is expanding, driven by the needs of SMEs for automation and business process optimization. Companies like Tally Solutions (for accounting) and Marg ERP have strong customer bases.
- **Cloud Security and Compliance:** With India becoming a significant IT hub, the demand for cloud security solutions is growing. Companies like Paladion (acquired by Atos) focus on providing AI-powered security solutions.
- **FinTech and Payments:** SaaS products in the FinTech and payments domain are expanding rapidly, driven by India's push towards digital payments and financial inclusion. Companies like Razorpay and Paytm offer SaaS-based solutions for payment processing.

05. Funding and Investment

- **Funding:** Indian SaaS startups have attracted substantial investment from both domestic and international venture capitalists. In 2023, Indian SaaS companies raised over $2 billion in venture funding, which is expected to increase in the coming years.
- **Notable Investors:** Leading investors in the Indian SaaS space include Accel, Sequoia India, Tiger Global, and Insight Partners, among others.
- **Government Initiatives:** The Indian government is promoting the growth of SaaS through initiatives like Digital India and Startup India, which provide incentives and support for SaaS businesses.

06. Cloud Adoption and Internet Penetration

- **Cloud Growth:** The cloud computing market in India is expected to reach $11 billion by 2025, growing at a CAGR of 30-35%. SaaS plays a crucial role in this growth, as it remains the most widely adopted model within cloud services.
- **Internet Penetration:** As of 2024, India has more than 700 million internet users, which is driving the adoption of SaaS, particularly among consumers and small businesses.
- **Mobile-First:** India is increasingly a mobile-first country, with mobile internet penetration continuing to rise. This is influencing SaaS developers to create mobile-friendly solutions that cater to the Indian user base.

2.5. Investment Landscape in SaaS

The importance of equity and debt fundraising for startups in the SaaS industry cannot be understated - the influx of capital from domestic and international venture capitalists and private equity funds has been a key factor in the ability of seed-stage and growth-stage businesses to accelerate growth, attract top talent, and develop and scale new products at a breakneck pace. **The SaaS opportunity in India is estimated to surpass the $70 Bn mark by 2030, up from the current $14 billion at a CAGR of 31%**[13].

Since the advent of the Indian SaaS industry nearly two decades ago, the sector has been spurred by two distinct pillars: (i) horizontal SaaS; and (ii) vertical SaaS:

Horizontal SaaS	Vertical SaaS
• Providers offer software solutions that can be utilised in multiple industries, with some prominent names in this pillar being Zoho and Freshworks (for CRM solutions) and Aasana and Slack (for efficient workflow and seamless communication). Of the $20 billion raised by the sector between 2014 and H1 (January-June) 2024, $14.6 billion, or about 72.9%, has flowed into the horizontal SaaS segment. Further, 20 out of the 27 SaaS unicorns belong to this category, including prominent names like Amagi, Capillary Technologies, and BrowserStack.[17] • This dominance has also been reflected in the deal count, with horizontal SaaS businesses securing 61.1% of the total number of deals during the period of 2014-H1 2024.	• These entities bank on deep domain expertise to provide industry specific solutions. • Including prominent names such as Chargebee and Perfios, vertical SaaS has bagged 27% of the capital raised during 2014-H1 2024. • Though this pillar has a highly specialised nature of business, vertical SaaS is seeing tremendous growth, seeing a CAGR of 18% in funding during 2018-2023, which outpaced the growth of horizontal SaaS (at 10%).[18]

The growth of SaaS as an industry is also fueled by the adoption of Artificial Intelligence, which creates new categories within the industry, including code and software testing automation, LLM (Large Language Model) operations, and enhanced cybersecurity. This has benefited vertical SaaS models in particular, as the adoption of AI can enable smart workflows and advanced predictive analytics, which in turn ensures greater efficiency, tailored insights and better decision-making for niche businesses. Vertical SaaS platforms - especially in agritech and climate tech are seeing an increased interest from ESG and impact conscious investors, highlighting the potential to drive

[13] https://inc42.com/features/india-saas-startups-market-opportunity-2030-trends/
[14] https://inc42.com/features/india-saas-startups-market-opportunity-2030-trends/
[15] https://inc42.com/features/india-saas-startups-market-opportunity-2030-trends/

innovation and sustainability at a grassroots level[16]. It is to be noted that in 2023, tech-focused industries such as consumer tech, fintech, and software & software-as-a-service (SaaS) remained the leaders, securing nearly 60% of the total funding[17]. This shows continued investor confidence and interest in these sectors, which are central to innovation and digital growth.

The combination of predictable revenue, high profit margins, strong growth potential, attractive exit opportunities, and operational efficiency makes SaaS businesses an appealing investment proposition for private equity and venture capital firms. However, while the influx of investments into SaaS businesses has resulted in a growth explosion for the industry, it is not without its downsides or side effects, which can include loss of founder control, pressure for short-term returns, operational interference, and inflated valuations, ultimately harming product quality, company culture, and long-term vision.

#TreelifeInsights: GIFT City Opportunity for SaaS

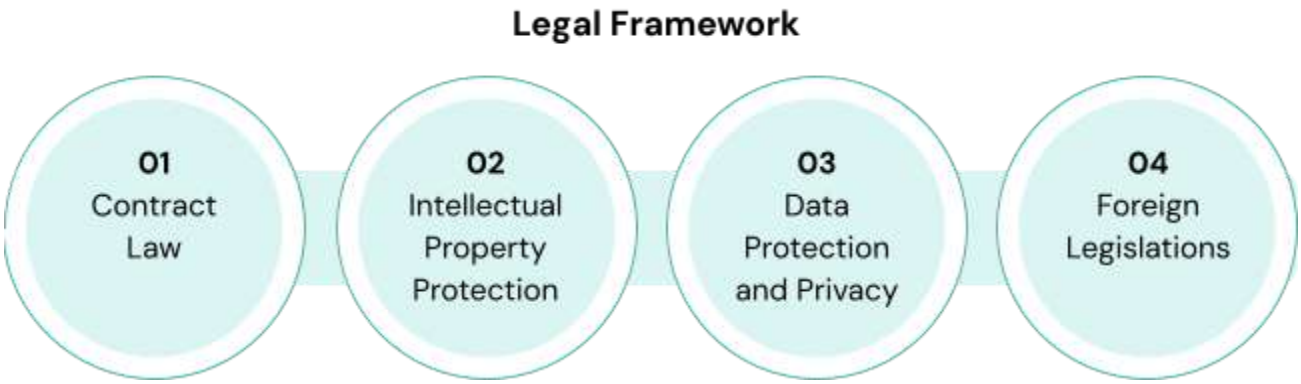
- The FinTech Entity (FE) Framework, introduced by the International Financial Services Centres Authority (IFSCA) in April 2022, is a significant step towards establishing GIFT IFSC as a leading global FinTech and TechFin hub.
- SaaS providers can be considered TechFin entities, leveraging advanced technology to support financial products, services, and institutions. These entities offer solutions such as digital banking technology, trade finance solutions, and various services for the BFSI sector.
- To delve deeper into the potential opportunities for FinTech and TechFin entities in GIFT IFSC, we recommend exploring our report - *Navigating GIFT City*

[16] https://inc42.com/features/india-saas-startups-market-opportunity-2030-trends/
[17] https://www.bain.com/insights/india-venture-capital-report-2024/

3. Regulatory & Legal Framework:

Unlike traditional software models where software is installed locally on a user's machine, SaaS hosts software and data on centralized servers, accessible online. This cloud-based approach allows users to access the software from any location with an internet connection. Consequently, SaaS enables and supports a diverse set of products, offerings, and services in other industries, with a role to play in almost every emerging and developed market, from banking, gaming, corporate compliance, human resources, marketing, software development, and much more. Further, the adaptable nature of the industry makes foreign markets easily accessible, with 63% of India's 27 SaaS unicorns based abroad, including notable players like Zoho and Freshworks[18].

As a result, the regulatory concerns that can arise for SaaS businesses may not only include domestic legal considerations (for example, secretarial compliances, good governance, registration as start-ups and/or MSMEs, compliance with labor laws, etc.) but can also trigger on an international scale, extensive technical, legal, regulatory and industry-level compliances (for example, adherence to RBI and SEBI regulations, GDPR and other data privacy regulations, HIPAA compliances, sustainability and environmental requirements, etc.).



[18] https://inc42.com/features/india-saas-startups-market-opportunity-2030-trends/

3.1. Contract Law

SaaS agreements are fundamentally governed by the Indian Contract Act, 1872, deriving from this law, the rules of construction, interpretation and enforceability. In this background, it is recommended that SaaS agreements adopt a comprehensive structure that includes aspects governing the use of the service, ownership and security of data, limitation of liability, the duration of the contractual arrangement and provisions regarding termination, dispute resolution, consequences for breach and renewal.

Some common agreements executed in the SaaS ecosystem are highlighted below, with some key features:

Type of Agreement	Features
SaaS Subscription Agreements	Terms and conditions under which customers can subscribe to the SaaS service or platform, to avail services over the internet
Master Service Agreements	General terms and conditions for ongoing business and service delivery. Used typically where a long-term customer relationship is contemplated, this agreement may cover payment schedules, responsibilities, and any special provisions tailored to the client's needs.
Service Level Agreements	Define the levels of services and specific services to be provided, such as the performance metrics to measure uptime & delivery, remedies or credits in case of downtime, consequences of data incidents or other breaches, and other expectations that the SaaS business intends to set for its customers;
SaaS Licensing Agreements	These agreements are needed when a software is provided for installation on a customer's computer, rather than accessed online. The licensing agreement defines the type of license (e.g., single or multi-user), licensor's intellectual property rights, and restricts the customer from transferring or modifying the software
Referral or Channel Partner Agreements	These are commonly used to establish cross-sales, lead-generation and similar business relationships, to outline the terms for referring or generating sales channels and new customers (including criteria for referrals, consideration / commissions, marketing, etc.)

Type of Agreement	Features
Development Agreements	These can be for the initial development of the SaaS service or platform, or for cross-development to create linkages between platforms through APIs or SDKs, whereby the software developer will design, develop, deliver, and/or implement a part of or the entire product or application for the SaaS business, its partners, or customers
Terms of Services	SaaS businesses need to set out the terms on which their service or platform will be accessed and used by the end-user or the employees/representatives of the customer
Terms of Use & Privacy Policies	Many businesses in India offering their services or products online are required to define clear terms and conditions for usage of their website and applications, as well as policies defining how the personal information of end-users will be stored, collected, processed, and transferred. In addition, the recently notified Digital Personal Data Protection Act, 2023 requires all businesses operating in India to procure specific consent from individuals for collecting and processing any digital personal data.

3.2. Intellectual Property Protection

SaaS fundamentally involves that a proprietary software product is provided as a service. Consequently, any SaaS business must take into account prompt and complete registration and monitoring of intellectual property (IP) such as trademarks, copyrights, patents and/or designs. Registration of such IP rights critically ensures that the exclusive ownership of such IP is protected, with legal recourse available under the relevant legislation to claim recourse against any infringement by a third party. Basis the nature of the SaaS product forming the basis of the service or subscription or related agreement, the product itself may be categorised per the following subsets of IP:

Sr. No.	Types of IP	Description
1.	Patents	**Function:** Protection of novel software features or processes **Registration:** Registration granted for 20 years.
2.	Designs	**Function:** Protection of the graphical user interface (GUI) if it is original and ornamental **Registration:** registered design is valid for a period of 10 years (extendable by 5 years)
3	Trademark	**Function:** Safeguarding brand elements like names, logos, slogans, taglines, sound marks, etc. that differentiate one service from another. **Registration:** Trademarks registration is optional but advisable, and once granted will be valid for 10 years, renewable every decade.
4.	Copyright	**Function:** Secure the expression of software code, though they only prevent exact copying **Registration:** The creator owns the copyright 60 years from creation before the work becomes public.
5.	Trade secrets	Proprietary algorithms can be kept confidential to maintain protection. Can be protected by the rightful owner through reasonable measures, typically including confidentiality agreements.

It is critical to note that any agreement covering SaaS would need to expressly take into account: (i) the protection of the IP owner's rights; and (ii) set clear limitations on how such IP rights can be licensed or assigned to the user availing the service. This can also typically include provisions for breach of any contractual terms, particularly where infringement of IP rights are involved and commensurate damages/compensation payable.

3.3. Data Protection and Privacy

With the convenience of cloud storage and increased global collaboration online, data protection and privacy has become a cornerstone of SaaS agreements worldwide. A 2021 survey conducted by the United Nations Conference on Trade and Development shows that 71% of countries around the world have adopted some form of data protection and privacy legislation[19]. However, though economic activities have become globalised, data protection and privacy legislations have yet to become standardised across countries, leading to differing requirements around the world.

This is of particular relevance to SaaS businesses as the nature of the industry is such that the resultant transactions are easily made cross-border. In fact, popular SaaS platform **Freshworks** was originally incorporated in India as "Freshdesk" in 2010, and subsequently moved its headquarters to California, becoming the **first Indian company** to be listed on the NASDAQ in September 2021[20]. Consequently, where business is globalised, the regulatory and legal compliances also correspondingly become globalised.

In India, SaaS businesses are subject to a variety of legal and regulatory compliances, primarily focused on data protection, taxation, cybersecurity, intellectual property, and industry-specific regulations. However, India's data protection and privacy legislation is still at a nascent stage, and ensuring compliance with only the Indian laws would likely not be sufficient for SaaS companies operating in foreign jurisdictions. The compliance framework in India can be briefly categorised as below:

1. **Digital Personal Data Protection Act (DPDPA) 2023:**

   SaaS companies must adhere to the provisions of the DPDPA, which governs the collection, processing, storage, and transfer of personal data. Key compliance requirements include: (i) obtaining explicit consent from users for data processing; (ii) ensuring data protection through appropriate security measures; (iii) providing users with the right to access, correct, and delete their data; and (iv) appointing a Data Protection Officer (DPO). The law also mandates data localization for sensitive personal data and imposes penalties for non-compliance.

2. **Data Security:**

   - Data Security in India evolves primarily from the Information Technology Act, 2000 (IT Act), including the Information Technology (Reasonable Security Practices and Procedures and Sensitive Personal Data or Information) Rules, 2011 (SPDI Rules)

[19] https://unctad.org/page/data-protection-and-privacy-legislation-worldwide

[20] https://www.forbesindia.com/article/take-one-big-story-of-the-day/girish-mathruboothams-billiondollar-dream-for-freshworks/66911/1?

formulated under the IT Act. However, SaaS entities can also voluntarily obtain compliance with other data security standards like the System and Organization Controls 2, which can help a SaaS company to market their products and services with an internationally recognised security standard.

- **IT Act and SPDI Rules:** Under the IT Act, SaaS companies are required to implement measures to secure electronic records and digital transactions. The IT Act also mandates the establishment of procedures for addressing cybersecurity breaches, including the reporting of data theft, hacking, or unauthorized access to personal data. Companies must comply with the reasonable security practices and procedures outlined in the Act to ensure the confidentiality, integrity, and availability of user data. These framework legislations are bolstered further by the SPDI Rules which seek to protect information of sensitive and/or personal nature that can be used to identify an individual. This can include biometric, medical, or even financial information and is subject to strict protection and security requirements under the law, such as adoption of IS/ISO/IEC 27001, and requires strict controls on storing data on servers located outside India. Breaches of the SPDI Rules and/or the IT Act are penalised through the IT Act, typically corresponding to the gravity of the breach and resulting loss.

- **SOC 2:** This compliance is a key metric that helps Indian SaaS companies demonstrate their commitment to securing customer data. It ensures that companies meet standards related to security, availability, processing integrity, confidentiality, and privacy. Achieving SOC 2 compliance requires implementing strong controls and policies to protect data and maintain system integrity, with regular third-party audits to verify ongoing adherence to these standards. This helps build trust with clients and ensures compliance with data protection regulations.

3. Financial Legislations:

- **Payment Card Industry Data Security Standard (PCI DSS):** If the SaaS company processes or handles payment card data, compliance with PCI DSS is mandatory in India. This includes ensuring the protection of cardholder data during and after transactions, encrypting sensitive information, maintaining secure systems and networks, regularly monitoring and testing security systems, and implementing strong access control measures. Indian SaaS companies must also ensure that third-party vendors processing cardholder data comply with PCI DSS standards to avoid potential breaches and penalties.

- **Indian Computer Emergency Response Team (CERT-In):** CERT-In mandates that SaaS companies must report cyber security incidents or data breaches to the government body. Under the guidelines set by CERT-In, companies must establish robust cybersecurity measures to protect against data breaches, cyberattacks, and other security threats. SaaS providers are required to implement incident reporting

protocols, maintain secure systems, and regularly update software to address vulnerabilities. Compliance with CERT-In regulations helps SaaS companies mitigate cyber threats and align with national cybersecurity standards.

3.4. Foreign Legislations

As more and more Indian SaaS businesses offer their services in regions with highly developed legislation on data protection and privacy, such as the European Union, the United States of America and Canada, these companies need to undertake a compliance exercise to ensure adherence with such laws based on the jurisdictions of their international clients. Some common compliances applicable to Indian SaaS companies offering services abroad include:

- **General Data Protection Regulation (GDPR):** GDPR is a data privacy protection law that organizations in and outside the EU must abide by while collecting and processing the personal data of EU residents. SaaS businesses that collect, receive, store, process or use personal information of any EU residents must need to be GDPR compliant, regardless of where the SaaS business is registered or based. This includes providing consumers with clear rights to access, delete, and opt-out of the sale of their personal data, implementing robust data security measures, being transparent about data collection practices through updated privacy policies, and more.

- **California Consumer Privacy Act (CCPA):** SaaS companies in India may also need to comply with the California Consumer Privacy Act (CCPA), based on the revenue and data thresholds set out in the CCPA. The company must also ensure that third-party vendors and service providers are compliant with CCPA if they process personal data on behalf of the business.

- **Health Insurance Portability and Accountability Act (HIPAA):** SaaS companies in India handling personal health information of US citizens or residents are required to comply with HIPAA (usually as a business associate of a 'covered entity' under HIPAA). This involves implementing strong data security measures, such as encryption, access controls, and breach notification procedures. SaaS providers are required to enter into Business Associate Agreements (BAAs) with their customers who are 'covered entities'.

- **Personal Information Protection and Electronic Documents Act (PIPEDA):** This is Canada's federal privacy law, enacted in 2000, to regulate how private-sector organizations handle personal information. It applies to businesses in Canada and foreign entities dealing with Canadian customers. PIPEDA requires companies to obtain consent before collecting personal data, use it for clear purposes, and ensure its accuracy and security. It also mandates transparency, accountability, and the right for individuals to access and correct their data.

3.5. Taxation

In India, SaaS businesses are subject to goods and service tax (GST), value-added tax (VAT), income tax, and other applicable local tax laws. However this can vary with industries; for example, taxation for e-commerce operators and subscription-based services will vary depending on the nature of their services, and will further vary basis the jurisdiction in which they operate and due to the digital nature of the product.

1. **Goods and Service Tax ('GST'):**
    - The provision of Software as a Service (SaaS) in India is categorized under Online Information Database Access and Retrieval (OIDAR) services, which are subject to Goods and Services Tax (GST). OIDAR services encompass a wide range of digitally delivered services, including downloadable digital content (books, music, software), the provision of cloud services, online gaming, and data storage.
    - When both the service provider and the recipient are located within India, the standard GST rules apply. The service provider is required to charge GST @ 18% and remit it to the government under a forward charge mechanism.
    - **Effective from October 1, 2023**, the scope of OIDAR services has been amended to include a wider range of digitally delivered services. Any service that relies on information technology or an electronic network for its delivery, and cannot be provided without the use of such technology, may now be considered an OIDAR service.
2. **Income tax:**
    - SaaS is often categorized as a cloud computing service and does not have a specific provision under the Income Tax Act. Consequently, the taxability of SaaS income is determined by the general provisions of Sections 4 and 5 of the Income Tax Act.
    - In case of Domestic SaaS Transactions, (i.e., both service provider and recipient are Indian residents), standard income tax rules apply. The income earned by the service provider is treated as business income and is taxable at the applicable tax rate of 30% *(plus applicable surcharge and cess)*.
    - In case of cross border transactions of Indian SaaS Companies with their associated enterprises, a thorough analysis of transfer pricing implications is crucial.
3. **Equalisation Levy:**
    - Prior to the Finance Act 2024, non-resident entities providing specified digital services had to factor in a 2% Equilisation Levy. This has been eliminated effective August 1, 2024, and non-resident SaaS providers will no longer be burdened with this additional tax.

4. Mitigating Risks And Ensuring Resilience

SaaS companies in India, like those globally, face a range of risks that can impact their security, operations, and reputation. Mitigating these risks while ensuring resilience is essential to maintain trust with customers and regulatory compliance. Here's how SaaS companies in India can mitigate risks and ensure operational continuity:

4.1. Data Security & Privacy

- **Encryption & Access Control:** Protect sensitive customer data using robust encryption both in transit and at rest. Implement strong access controls such as Multi-Factor Authentication (MFA) and Role-Based Access Control (RBAC) to prevent unauthorized access to critical systems.
- **Compliance with Local and Global Laws:** Ensure compliance with the Personal Data Protection Bill (PDPB) 2023 in India, as well as global regulations like GDPR (General Data Protection Regulation), CCPA (California Consumer Privacy Act), and HIPAA, if applicable. Adhere to the provisions of the IT Act 2000 and CERT-In cybersecurity guidelines.
- Ensuring data security, encryption, and privacy compliance becomes complex in external cloud environments where control and oversight are limited. Moreover, as data moves between various SaaS applications, the risk of security lapses increases, demanding stringent measures to prevent unauthorized access and data breaches. Managing these risks demands stringent security measures, continuous monitoring, and robust data governance strategies to balance accessibility and safeguarding data integrity.

4.2. Operational Resilience

- **Disaster Recovery and Business Continuity Plans:** Establishing disaster recovery (DR) and business continuity (BCP) strategies. This includes regular backups, cloud-based failover systems, and having a clear action plan in the event of a breach or system failure.
- **Redundancy & Fault Tolerance:** Using geographically distributed cloud infrastructure for redundancy, ensuring that services remain operational even in case of localized failures. This is particularly important for high-availability requirements in SaaS platforms.

4.3. Incident Response & Monitoring

- **Proactive Monitoring:** Implementing 24/7 monitoring and intrusion detection systems (IDS) to quickly detect and respond to security breaches. Automated alerts can help SaaS providers act quickly before any major damage occurs.
- **Incident Response Plan:** Establishing a well-defined incident response (IR) plan that includes processes for breach identification, containment, investigation, and recovery. This

plan should also include steps for notifying customers and regulatory bodies as required by law.

- Established in 2004, the Computer Emergency Response Team of India (CERT-In) is India's national agency for cybersecurity incident response, providing guidance and support to bolster the nation's digital security. To strengthen cybersecurity across government organizations, CERT-In issued a directive that emphasizes the need for all government bodies to create a robust cybersecurity policy, assign clear roles and responsibilities to the CISO, and establish dedicated, skilled cybersecurity teams. This move highlights the growing focus on cybersecurity preparedness and the need for swift action in India.

4.4. Third-Party Risks

- Third-party risks within SaaS environments emerge from the **integration of external services or APIs** beyond the primary SaaS provider, introducing additional security vulnerabilities. Verifying the security protocols of these third parties becomes imperative to mitigate potential risks.
- **Assess Third-party Vendors:** Ensuring that third-party vendors and service providers comply with the same security and data protection standards. This is particularly important for SaaS companies that rely on cloud services, payment gateways, and other external integrations.
- **Contractual Security Clauses:** Including data protection and breach notification clauses in contracts with third-party vendors, and ensuring that third-party vendors follow appropriate security practices such as SOC 2 compliance or ISO/IEC 27001 certification.

4.5. Regular Security Audits and Compliance

- Frequent security audits and assessments enable companies to find weaknesses in their IT systems before hackers can exploit them. These assessments provide organizations with a complete understanding of **possible security threats** and help them formulate effective strategies to address and reduce those risks.Implementation of the cybersecurity guidelines set by **CERT-In** for SaaS businesses is crucial. This includes requirements for securing networks, systems, and applications, as well as incident reporting and cybersecurity measures to combat evolving threats.

5. Indian Initiatives and Programs Supporting SaaS Industry

Like many countries, governments offer grants, tax breaks, or incentives for tech startups, including SaaS businesses, to promote innovation and to foster. The Government of India (GOI) has also recognized this potential and initiated multiple programs aimed at leveraging cloud services and fostering the growth of the Software as a Service (SaaS) sector in India. Some key government initiatives and programs that have been implemented to promote cloud services and software products, particularly in the context of service delivery in the public sector are outlined below[21]:

5.1. MeghRaj Initiative:

- **Objective:** MeghRaj is a Government of India initiative which was launched in 2014 and designed to accelerate the adoption of cloud computing in the public sector.
- **Impact:** It aims to streamline government services, improve e- service delivery, and reduce operational costs by migrating government applications to cloud platforms.
- **Outcome:** This initiative has enhanced the efficiency and scalability of public services, making them more accessible to citizens in their day to day life.

5.2. National Policy on Software Products (NPSP) – 2019:

- **Objective:** Launched in 2019, the NPSP aims to create a sustainable Indian software product industry driven by intellectual property, with a goal of increasing India's share in the global software market tenfold by 2025. Additionally, it plans to develop 20 software product development clusters and establish the National Software Products Mission to oversee the policy's implementation with the collaboration of the government, academia, and industry.
- **Impact:** It seeks to foster 10,000 technology startups, including 1,000 in Tier-II and Tier-III cities, generating employment for 3.5 million people. The policy also focuses on up-skilling 1 million IT professionals, inspiring 100,000 students, and creating 10,000 specialized professionals for leadership roles.[22]
- **Outcome:** The policy has contributed to the growth of Indian SaaS companies, leading to innovation and global competitiveness.

5.3. Indian Software Product Registry (ISPR) under NPSP:

- **Objective:** The ISPR was created to bring together Indian software products on a single platform, enhancing visibility and providing easier access to markets and government services. It serves as the gateway for Indian Software Product Company (ISPC(s)) with exposure to millions of global players and facilitates access to potential fiscal incentives.

[21] https://www.investindia.gov.in/team-india-blogs/saas-ecosystem-india
[22] https://www.drishtiias.com/daily-news-analysis/national-policy-on-software-products-2019

The registry maintains a comprehensive database of Indian software products, categorizing them by industry, technology, target audience (B2B, B2C, B2G), and product stage, while also providing updates on relevant news and events.[23]

- **Impact:** It has simplified the process for SaaS companies to register their products and has facilitated their access to the Government eMarketplace (GeM).
- **Outcome:** SaaS companies are now able to showcase their products more effectively, enabling easier procurement by government agencies.

5.4. Government eMarketplace (GeM):

- **Objective:** GeM is an online platform launched by the Government of India to enable the procurement of goods and services by various government departments/ organizations / PSUs.[24]
- **Impact:** Through the ISPR, SaaS companies can now register their products on GeM, making it easier for them to tap into government procurement opportunities.
- **Outcome:** The platform has created a more streamlined and transparent process for software companies to engage with the public sector.

5.5. CHUNAUTI 2.0 Challenge:

- **Objective**: The central government had called for applications from women entrepreneurs for CHUNAUTI 2.0 by August 31, 2021. The NextGen Startup Challenge contest (CHUNAUTI - Challenge Hunt Under NGIS for Advanced Uninhibited Technology Intervention) is a series of online challenges under the Next Generation Incubation Scheme (NGIS). This challenge is designed to support startups, with a particular focus on women-led startups, by fostering innovation in sectors such as Education, SaaS, Finance, and Wellness.
- **Impact:** The challenge aims to provide a platform for startups to showcase innovative solutions to socio-economic challenges, with a focus on technology and product development.
- **Outcome:** The initiative has resulted in the development of impactful software products that address key social and economic issues in India.

5.6. SAMRIDH – Start-up Accelerator Programme:

- **Objective:** The SAMRIDH program was launched by MeitY (Ministry of Electronics and Information Technology) to support product innovation, development, and growth in Indian startups.

[23] https://www.nlcindia.in/new_website/legacy-software.htm

[24] https://egovernance.vikaspedia.in/viewcontent/e-governance/online-citizen-services/government-to-business-services-g2b/government-emarketplace?lgn=en

- **Impact:** The program connects startups with Centers of Excellence, Technological Incubation and Development of Entrepreneurs (TIDE) program, Next Generation Incubation Scheme (NGIS), and other support schemes.
- **Outcome:** SAMRIDH has provided crucial support for the growth and scaling of innovative tech-based startups, particularly in the SaaS sector.

In addition to the initiatives and programs mentioned earlier, the Government of India implemented several regulatory frameworks that supported the growth of startups in India by offering incentives and benefits such as:

1. **Micro, Small & Medium Enterprises (MSME)** - This registration provides various benefits to sectors including but not limited to SaaS, such as:
   - collateral-free bank loans,
   - reduced rate of interest from banks,
   - protection against delayed payments, and
   - technology upgradation support to MSME.

2. **DPIIT start-up recognition** - This entails incentives and benefits which include:
   - tax exemptions (including under Section 80IAC which entails a 3-year tax holiday on income tax for 3 consecutive financial years out of the first ten years since incorporation, and under Section 56 which entails an exemption for tax on the premium received by the startup for investment in its securities above the fair market value),
   - subsidized regulatory fees (including registration fees for trademarks, patents and designs),
   - relaxation for certain labor & environmental compliances,
   - an easier and faster winding-up process, and
   - relaxed norms for startups to participate in the public procurement process, wherein governments and state-owned enterprises purchase goods and services from the private sector (making the government a market for startups in itself).

6. Concluding Thoughts

The Indian SaaS industry is on the cusp of a transformative era, fueled by rapid technological advancements and a burgeoning digital economy. The integration of LLM and AI technologies has opened up new avenues for innovation, enabling SaaS businesses to deliver more intelligent, personalized, and efficient solutions. This, coupled with the increasing adoption of cloud computing and the growing demand for digital transformation, positions India as a global SaaS powerhouse.

However, as the industry continues to evolve, it is imperative to acknowledge the potential legal and regulatory challenges. The complex interplay of data protection laws, cybersecurity regulations, and intellectual property rights can significantly impact the operations of SaaS businesses. To navigate this intricate landscape, businesses must prioritize compliance and invest in robust legal frameworks.

Furthermore, the rapid pace of technological change can lead to unforeseen legal issues. As AI and LLM technologies continue to mature, questions surrounding liability, algorithmic bias, and ethical considerations will require careful attention. By staying abreast of emerging legal trends and proactively addressing potential risks, SaaS businesses can mitigate legal liabilities and foster a sustainable growth trajectory.

In conclusion, the future of the Indian SaaS industry is bright, but it is essential to strike a balance between innovation and compliance. By embracing the opportunities presented by LLM and AI technologies, while adhering to stringent legal and ethical standards, Indian SaaS businesses can solidify their position as global leaders and drive the next wave of digital transformation.

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