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India | Equity Research | Sector Update

Technology

SaaS companies factor in CY24 demand akin to CY23; swifter AI adoption could provide fillip to demand

We have analysed the just-concluded quarter results of global SaaS companies with whom Indian IT players have 'sell-to' and 'sell-with' partnerships. **We observe:** 1) CY24/FY25 revenue growth guidance issued by companies such as Salesforce, ServiceNow, Snowflake and Workday undershoots their growth rates recorded in CY23. While commentaries and guidance from these companies point to some improvement in client spending, partly triggered by AI adoption, they envisage the demand environment to remain akin to CY23 as clients focus on productivity improvement in CY24/FY25. 2) Clients are increasingly heeding to the necessity of architectural adjustments to their IT systems and data to actually take advantage of Gen AI. This is evident in strong growth in data and cloud products of SaaS companies.

Key read across for our coverage universe

- Basis guidance/commentaries from the SaaS companies, **CY24 demand from 'sell-to' and 'sell-with' partnerships' with these SaaS companies. could be analogous to CY23 for Indian IT services companies.**
- As mentioned in our previous SaaS update note ([link](#)), Persistent (Exhibit 4) has the highest proportion of employees certified in Salesforce (~11.4%) and therefore improvement in demand from either 'sell-to' (product engineering work related to Gen AI) and 'sell-with' partnership with Salesforce may have a positive knock-on effect on Persistent. Similarly, LTIMindtree has one of the strongest alliances with Snowflake (Exhibit 6). Among large cap IT companies in our coverage universe, Infosys ranks better than peers in Salesforce and ServiceNow expertise (Exhibits 4, 5).
- There could be further upside to SaaS companies' revenue growth if pace of **AI adoption** accelerates in CY24. **This is likely to have a positive follow-on effect on IT services** (driven by data preparation and system integration work), **albeit with a lag. But it could also have negative impact in initial phases for IT services in instances where there is shift of clients' technology spends towards SaaS companies and insourcing because of Gen AI.**

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Demand commentary by global SaaS companies

- Most SaaS companies (Exhibit 1) have delivered a strong Dec/Jan quarter, exceeding their CY23 guidance. However, companies like Salesforce, ServiceNow, Snowflake and Workday, have issued CY24/FY25 revenue guidance, which is less than the pace of growth they recorded in CY23. Commentaries of key SaaS companies suggest that though there is some improvement in client spending, partly triggered by AI adoption, these companies do not expect broad-based acceleration of demand in CY24/FY25.
- **Salesforce's** guidance of 8–9% YoY USD growth in FY25 (Jan-end) vs. 11% YoY USD in FY24 includes the **impact from a measured buying environment, clients' focus on improving productivity and slower conversion of bookings to revenue.** The company is seeing **green shoots** in terms of higher demand for data cloud and Mulesoft, as **clients prepare for AI transformation, and demand picking up in geos outside of US.**

- Salesforce expects demand from AI-led services to pick up over the course of the year, but majority of it is not factored in to the guidance because Gen AI is still an evolving technology
- **ServiceNow's** guidance of 21.5% YoY CC growth in CY24 vs. 25.5% in CY23 and management commentary also suggests that **demand environment continues to be challenging. However, management was upbeat on the back of the new wave of demand triggered by AI.** Servicenow's Gen AI products drove the largest net new ACV contribution for the Dec'23 quarter. Company's Pro Plus offerings (Gen AI infused), which it launched four months ago, are outperforming the pace of the Pro upgrade cycle.
- **Snowflake** saw an improvement in consumption trends vs. slowness in the beginning of FY24 (Jan-end) with **customer optimisations returning to normal. However, its guidance** of 22% YoY USD revenue growth in FY25 vs. 38% YoY USD in FY24 **assumes similar customer behaviour in FY25 vs. FY24 with revenue headwinds associated with product efficiency gains**, tiered storage pricing, and shift to low-cost Iceberg tables for storage.
- **Salesforce's professional services revenue (~7% of total revenue, declined 0.5% YoY)** continues to be bogged down by clients' unwillingness to take up substantive transformation projects, as per management. This can also be due to part of the transformation work getting shifted to system integrator partners.
- **Workday's** management expects the demand environment in FY25 (Jan-end) to be similar to FY24. **Intuit** has also not factored in tailwinds from the macro environment in the current year FY24 (July-end). Whereas **Atlassian's** top-end of the guidance factors in better demand in H2FY24 (June-end) led by shift to cloud and paid seat expansion.
- Most SaaS companies witnessed strong growth in RPO (Remaining Performance Obligation) in Dec'23 – growing 17%/27.5%/41% YoY for Salesforce, ServiceNow and Snowflake.

AI adoption picks up further, driving strong demand for data products

- SaaS companies have seen growing interest in AI among their clients right from CEO level. Clients realise that there have to be architectural adjustments to their IT systems and data to actually take advantage of Gen AI.
- Salesforce saw considerable average sales price uplift from existing customers who upgraded to the Einstein 1 edition (includes Gen AI based features). Salesforce's data cloud grew 90% YoY and is approaching USD 400mn ARR as clients prepare for the AI transformation. In Q4FY24 (Jan-end), 25% of its deals were greater than USD 1mn, included Data Cloud.
- ServiceNow's Pro Plus offerings (Gen AI infused) – launched four months ago – is outperforming the pace of the Pro upgrade cycle. In the Dec-quarter, it also released a Virtual Agent update that drives faster issue resolution through advanced conversational AI chat. ServiceNow's developers have been using text-to-code capability i.e. generating high-quality code using text to describe the type of code you want. This has increased ServiceNow's developer innovation speed by 52%. It also introduced text-to-workflow capability, which also dramatically enhances developer productivity.
- Snowflake's management highlighted that there is a lot of pent-up demand for its newly launched AI and data products – Document AI, Cortex and Container Services.

Examples of Gen AI use cases developed by SaaS companies

- Salesforce's client Schneider Electric, wanted to standardise and simplify customer care across their 3,000 support agents, speaking 15 different languages around the world. Service agents were spending more time searching for answers across different systems and summarising cases instead of talking to customers. Service agents dealt with 7mn cases per year, leading to time-consuming interactions for these agents. Salesforce used Einstein to automatically create email replies that Schneider's service agents can use to respond and summarise their cases.
- ServiceNow's Gen AI infused field service management offering enabled a home appliance company to transform its business model. The client can now offer higher priced same-day equipment repair to its customers. The client's field service agents now have all the information on their mobile and know exactly the part required for repair.
- Pharma companies spends billions of dollars a year in clinical trials, and 90% of these trials fail. ServiceNow is working with a pharma company to slash the cycle time of these trials and reduce costs using Gen AI infused ServiceNow platform.

Exhibit 1: SaaS companies expect CY24/FY25 revenue growth to be lower than CY23/FY24

Company	Year end	Recent Reporting Date	CY24/FY25 guidance (YoY USD/CC)	CY23/FY24 revenue growth (YoY USD/CC)	Guidance for March/April quarter	Revenue growth in Dec/Jan quarter	Comment
SaaS Companies							
Salesforce	Jan	28th Feb 2024	8 to 9% YoY USD	11% YoY USD in-line with the guidance	11% YoY USD	11% YoY USD higher than guidance of 10% YoY USD	FY25 revenue growth lower than FY24
ServiceNow	Dec	24th Jan 2024	21.5% YoY CC	25.5% YoY CC, 50bps above guidance	23.5-24% YoY CC	25.5% YoY CC higher than guidance of 23% to 23.5% YoY CC	CY24 revenue growth lower than CY23
Snowflake	Jan	28th Feb 2024	22% YoY USD	38% YoY USD, 100bps above guidance	26-27% YoY USD	33% YoY USD higher than guidance of 29-30%	FY25 revenue growth lower than FY24
Intuit	July	22nd Feb 2024	NA	11-12% YoY USD	10-11% YoY USD	11% YoY USD, near lower end of guidance of 11-12%	Intuit issued guidance for FY24 (July-end) in August 2023 earnings call and re-iterated the guidance in Nov 23 and Feb 24 earnings call.
Workday	Jan	26th Feb 2024	17-18% YoY USD	19% YoY USD in-line with the guidance	18% YoY USD	18% YoY, 100bps higher than guidance	FY25 revenue growth lower than FY24
Atlassian	June	1st Feb 2024	NA	28.5-30.5% YoY USD	30-32% YoY	27% YoY, near top end of guidance of 25.5% to 27.5%	Upgraded mid-point of guidance from 27.5% to 29.5%
Datadog	Dec	13th Feb 2024	20 to 21% YoY USD	27% YoY USD, 200bps above mid-point of guidance	22-23% YoY USD	26% YoY USD, much higher than guidance of 20% to 21% YoY	CY24 revenue growth lower than CY23
Hubspot	Dec	14th Feb 2024	18% YoY USD	25% YoY USD, 100bps higher than guidance of 24% YoY	19% YoY USD	24% YoY USD, higher than mid-point of guidance of 19%	CY24 revenue growth lower than CY23

Source: I-Sec research, Company data

Exhibit 2: Consensus assumes revenue growth in CY24 and CY25 to be similar to CY23 for SaaS companies

	Market Cap (USD mn)	Revenue in CY22/FY23 (USD mn)	Revenue growth YoY US\$					
			CY20/FY21	CY21/FY22	CY22/FY23	CY23E/FY24E	CY24E/FY25E	CY25E/FY26E
SaaS companies								
Salesforce	3,04,572	31,352	24%	25%	18%	11%	10%	10%
Adobe	2,56,709	17,606	15%	23%	12%	10%	11%	12%
Intuit	1,87,141	14,301	25%	32%	12%	12%	12%	13%
Servicenow	1,59,098	7,245	31%	31%	23%	23%	22%	21%
Workday	71,804	6,216	19%	19%	21%	17%	16%	17%
Snowflake	58,592	2,066	124%	106%	69%	35%	24%	26%
Atlassian	53,853	3,512	29%	34%	25%	21%	21%	23%
Datadog	43,366	1,675	66%	71%	63%	26%	22%	24%
Hubspot	31,860	1,731	31%	47%	33%	24%	19%	18%
MongoDB	31,686	1,284	40%	48%	47%	29%	23%	24%
Total			24%	28%	19%	14%	13%	14%

Source: I-Sec research, Bloomberg consensus estimates

Exhibit 3: Salesforce expertise

Salesforce expertise	TCS	Infosys	HCLT	Wipro	TechM	LTIM	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
B2C Commerce	Level 1		Level 1	Level 1		Level 1		Level 1		Level 1		Level 2
Customer 360 platform	Level 2	Expert	Expert	Expert	Expert	Level 2	Expert	Level 2	Expert	Level 2	Expert	Level 2
Education cloud	Level 1											
Einstein	Level 2	Level 2	Level 1	Level 1	Level 1	Level 1	Level 1		Level 1	Level 2	Level 2	Level 2
Experience Cloud	Level 2	Expert	Level 2	Expert	Level 2	Level 2	Level 2	Level 2	Level 1	Level 2	Level 2	Level 2
Industry Products	Level 1	Level 1	Level 1	Level 1		Level 1	Level 2	Level 1		Level 2	Level 2	Level 1
Integration												
Managed Services	Level 2	Level 2		Expert			Expert	Level 1			Level 2	
Marketing Cloud	Level 2	Level 2	Level 2	Expert	Level 1	Level 2	Level 2	Level 1	Level 2	Level 2	Expert	Level 2
Mulesoft	Level 2	Level 1	Level 2	Level 1	Level 1	Level 1	Level 1	Level 2	Level 1	Level 2	Level 2	Level 2
Multi-cloud Integration		Level 1	Level 1	Level 1		Level 1	Level 1		Level 1			Level 1
Non profit Cloud		Level 1								Level 2	Level 1	Level 2
Revenue Cloud	Level 2	Level 2	Level 2	Level 2		Level 1			Level 1	Level 2	Level 2	Level 2
Sales Cloud	Level 2	Expert	Level 2	Level 2	Level 2	Level 2	Level 2	Expert	Level 2	Level 2	Level 2	Level 2
Service Cloud	Level 2	Expert	Level 2	Level 2	Level 2	Level 2	Level 2	Level 2	Level 2	Expert	Level 2	Level 2
PDO/AppExchange	Level 1	Level 1	Level 2		Level 2	Level 1	Level 1	Expert	Level 1			
Salesforce commerce			Level 1			Level 1				Level 2	Level 1	Level 1
Slack										Level 1		
Total Expertise	21	26	22	23	14	18	20	18	15	25	24	23

Source: I-Sec research, Company data

Exhibit 4: Persistent has highest proportion of employees and certifications in Salesforce as % of total employees among our coverage universe

Salesforce Certified Experts	TCS	Infosys	HCLT	Wipro	TechM	LTIM	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
Salesforce certification categories	21	26	22	23	14	18	20	18	15	25	24	23
Certified Experts	7,726	6,731	1,862	4,730	1,822	1,755	623	394	2,471	23,763	11,009	8,491
As % of total employees	1.3%	2.1%	0.8%	2.0%	2.2%	2.1%	1.8%	1.7%	11.4%	3.2%	3.2%	2.4%
Total certifications	19,259	20,410	5,734	12,432	5,464	5,738	2,437	1,201	7,520	78,367	35,635	24,109
As % of total employees	3.2%	6.3%	2.6%	5.2%	6.7%	7.0%	7.2%	5.2%	34.6%	10.5%	10.2%	6.7%
Projects completed	306	2371	264	889	385	664	385	120	492	1539	861	770

Source: I-Sec research, Company data

Exhibit 5: Servicenow expertise

ServiceNow certifications	TCS	Infosys	HCLT	Wipro	TechM	LTIM	Coforge	Accenture	Cognizant	Capgemini
Customer Service Management										
Certified Implementation Specialist – Customer Service Management	39	97	32	48	27	19	15	255	108	104
Certified Implementation Specialist – Field Service Management	4	16	8	10	17	5		31	12	14
Suite Certification - CSM Professional	11	35	9	18	8	5	3	125	33	43
Governance, Risk and Compliance										
Certified Implementation Specialist – Risk and Compliance	8	23	13	30	0	10	1	131	21	40
Certified Implementation Specialist – Vendor Risk Management	4	7	5	15	2	3	1	57	13	9
HR Service Delivery										
Certified Implementation Specialist – Human Resources	68	228	63	80	18	39	3	482	206	129
Suite Certification - HR Professional	13	65	12	19	6	9	1	207	46	62
IT Asset Management										
Certified Implementation Specialist – Hardware Asset Management	36	56	17	3	1	12	1	74	30	19
Certified Implementation Specialist – Software Asset Management	35	57	12	10	6	16	2	112	58	32
IT Operations Management										
Certified Implementation Specialist – Cloud Provisioning and Governance	4	7	1	2	1	2	1	29	11	4
Certified Implementation Specialist – Discovery	111	126	77	57	48	63	8	337	258	75
Certified Implementation Specialist – Event Management	51	65	47	23	9	32	4	171	119	47
Certified Implementation Specialist – Service Mapping	13	29	33	11	10	14		70	39	23
IT Service Management										
Certified Implementation Specialist – IT Service Management	324	508	185	143	65	89	9	1382	706	266
Suite Certification - ITSM Professional	56	153	42	53	18	29	2	464	143	114
Now Platform App Engine										
Certified Implementation Specialist – Service Provider	4	4	7	4	1	2	1	28	11	6
ServiceNow Certified Application Developer	491	456	287	287	110	150	52	1818	937	259
Security Operations										
Certified Implementation Specialist – Security Incident Response	13	15	3	15	2	17		87	30	17
Certified Implementation Specialist – Vulnerability Response	16	15	8	18	1	13		92	36	20
Strategic Portfolio Management										
Certified Implementation Specialist – Application Portfolio Management	14	37	22	20	6	18	1	117	93	21
Certified Implementation Specialist – Project Portfolio Management	19	31	19	25	10	19		183	79	39
Certified Master Architect	0	6	1	0	0	2	0	29	5	6
Certified Technical Architect	7	11	7	10	4	1		94	10	14
Total certifications	1341	2047	910	901	370	569	105	6375	3004	1363
Type of Partner	Elite	Elite	Elite	Elite	Elite	Elite	Elite	Global Elite	Elite	Elite

Source: I-Sec research, Company data

Exhibit 6: Snowflake expertise: LTIM's alliance with Snowflake is one of the strongest among IT services industry

	TCS	Infosys	HCLT	Wipro	TechM	LTIM	Mphasis	Coforge	Persistent	Accenture	Cognizant	Capgemini
Global Certifications	181	117	207	214	56	207	3	9	74	277	245	NA
Program Tier	Elite	Elite	Elite	Premier	Select	Elite	Select	Select	Premier	Elite	Elite	NA

Source: I-Sec research, Company data, Note: Elite is highest level of partnership, followed by Premier, followed by Select

Exhibit 7: Brief description of SaaS companies

SaaS companies	Brief description of the company
Salesforce	Salesforce, Inc. is a US cloud-based software company that provides CRM services which help businesses find more prospects, close more deals and provide high level of customer service.
ServiceNow	ServiceNow is a software company that provides a cloud-based platform for automating IT management workflows. The company specializes in IT service management, IT operations management and IT business management.
Atlassian	Atlassian Corporation is an Australian software company that develops products for software developers, project managers and other software development teams.
Intuit	Intuit delivers financial management, compliance and marketing software products to consumers and small businesses. They also provide specialized tax products to accounting professionals who are key partners that help them serve small businesses.
Snowflake	Snowflake is a cloud data platform that provides a data warehouse-as-a-service designed for the cloud. It enables data storage, processing, and analytic solutions that are faster, easier to use, and far more flexible than traditional offerings.
Workday	Workday provides financial management, human capital management, and analytics applications designed for the world's largest companies, educational institutions, and government agencies. They offer technology focused on the consumer Internet experience and cloud delivery model.
Datadog	Datadog is an observability service for cloud-scale applications, providing monitoring of servers, databases, tools, and services, through a SaaS-based data analytics platform.
Hubspot	HubSpot is an inbound marketing and sales software that helps companies attract visitors, convert leads, and close customers.

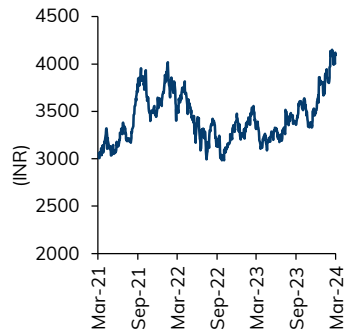
Source: I-Sec research, Company data

Price charts

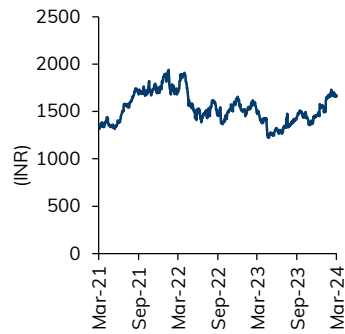
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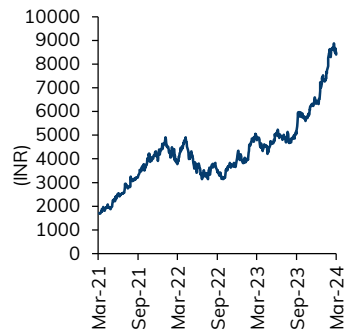
Tata Consultancy Services



Infosys



Persistent Systems



Source: Bloomberg

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