Devina Mehra: The Indian IT services model has finally begun to falter… or has it?

Devina Mehra | 30 July 2025

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SUMMARY

Mass layoffs by IT major TCS have caused a stir, with many speculating that the sector is in a doom spiral. But we mustn't confuse layoffs with the health of the IT services business. These companies are adapting to an AI shift in a display of tech resilience.

Recently, there has been a tendency to classify the Indian information technology (IT) services sector as heading downhill. This is happening as artificial intelligence (AI) and automation reshape the global technological landscape. The data points cited are to do with lower employee intake, stagnating salaries and now, horror of horrors, layoffs.

The problem? Many conflate the outlook for the industry with the future of employment provided by these companies, whereas these are two completely different things.

For context, the Indian IT services sector, led by giants like Tata Consultancy Services (TCS), Infosys and Wipro, has been a prolific job creator since the 1990s. In the late 90s, I remember writing a First Global research report that mentioned that these companies would become the biggest employers in the country. People thought we were smoking something, as each of these had less than 10,000 employees at the time and India's largest private sector employer was Tata Steel, with more than 65,000 people.

But we know how that story panned out. The voracious appetite of the sector for recruits meant that not just computer science graduates, but even mechanical and civil engineers were absorbed by the hundreds of thousands into this giant machine. Besides its direct hiring, the IT industry fuelled employment and businesses around it, thanks to demand for nannies, drivers and guards all the way to a boom in ancillary sectors like real estate, retail, education and food delivery as IT hubs in cities like Bengaluru, Hyderabad and Pune flourished.

Cut to now: The rise of AI and automation is disrupting this employment engine, particularly at the entry level. Tasks like coding, testing and basic support—once the bread-and-butter of fresh graduates—are increasingly automated, leading to stagnation in entry-level salaries, reduced hiring and, in some cases, job terminations.

Recent data paints a sobering picture. As per the staffing firm Teamlease, hiring of fresh graduates by Indian IT companies is down 50% from pre-covid levels. Consequently, unemployment among Indian engineering graduates has zoomed. Plus, as social media reminds us, entry-level salaries have stagnated at around ₹3.5-5 lakh per annum, even as inflation has eroded purchasing power. And now even layoffs have begun.

However, this loss of employment dynamism is not the same as businesses being under threat; IT services companies may well be able to use more advanced tools to replace human beings, but that does not necessarily mean that their revenues and profits will decline or even stagnate. They have been able to pivot their business many times in the past when obituaries of the industry were read out.

In the late 1990s, the Y2K bug was both a boon and a perceived cliff, with fears that demand for Indian IT services would collapse post-2000. Instead, companies expanded into application development and maintenance. The 2008 global financial crisis threatened clients in banking and financial services, then the IT industry's mainstay. Yet, Indian firms diversified into new verticals like healthcare and retail, and also began to tap opportunities beyond the US in earnest.

The advent of cloud computing in the 2010s disrupted traditional outsourcing models, but companies like TCS and Infosys built robust cloud practices, partnering with AWS, Azure and Google Cloud. Now, the AI disruption is following a similar pattern.

This adaptability stems from strong management and a client-centric approach. Indian IT firms have mastered the art of aligning with the needs of global enterprises, offering cost-effective solutions without compromising quality. For example, Infosys's Nia platform and TCS's Ignio leverage AI to automate processes, while Wipro's Holmes enhances analytics capabilities. These tools allow firms to deliver more value with fewer resources.

While the industry's business prospects appear reasonably secure, its role as a job-generation engine is under strain, which can have wider macroeconomic implications for employment, consumption and upward mobility in India. Plus, urban centres that rely on IT-driven prosperity may see slower growth.

Despite the resilience of Indian IT majors, there has been a big gap between what they could have achieved and what they did. This was an industry that generated huge amounts of cash and still did not put even a small slice of it into some basic research in areas that have arisen in importance over the last two decades. To give only one example, TCS, which generates over ₹50,000 crore of cash flow every year, spends only around ₹2,500 crore on R&D. The R&D spend of Indian IT companies is of the order of 0.5-l.1% of their revenues. Compare this with Microsoft spending 12-13% of its much higher revenue on research.

This indifference to moving up the value chain shows up starkly in the revenue per employee of, say, TCS, Infosys or Wipro, which is around $45-55,000, compared to Meta, Alphabet, Microsoft, etc. For Microsoft, it is over $1 million. For Alphabet and Meta, it is in the $2 million range. Even Accenture, which is in the services business, earns 70% higher.

Yes, I know the tired old arguments that our companies are in the services business and can't be compared with product companies. But why was there no serious attempt made to move up the value chain in a cash rich industry? Look at manufacturing in China, which started with low-level assembly but always had the vision of turning innovative.

In contrast, our IT firms have fallen woefully short in the innovation area. In spite of the availability of technically trained personnel and plenty of cash, an opportunity was missed. Had Indian IT firms invested even a fraction of their cash reserves in R&D, they could have developed proprietary platforms or products, positioning themselves as peers to global tech giants, as China is doing in spite of being a late starter with software.

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