

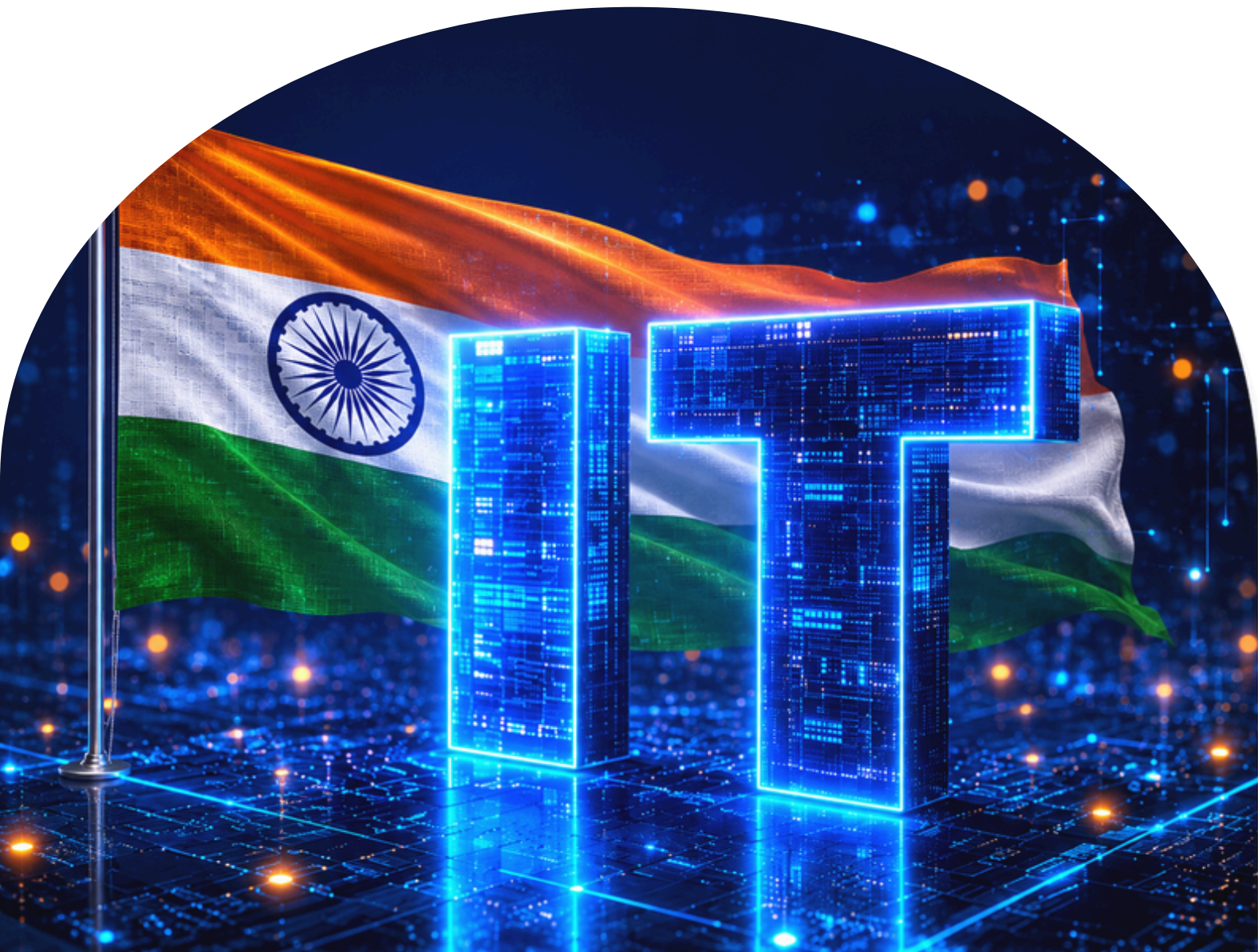


ACHINTYA

Achintya Securities Limited

Navigating the Great Reset

The Evolution and Future of India's
IT Sector



July 04, 2026

Introduction

For decades, India's Information Technology (IT) sector has stood as a monumental pillar of the nation's economic rise, acting as a relentless growth engine that drove exports, generated millions of white-collar jobs, and created massive wealth in the stock market. Historically, top-tier Indian IT firms thrived on the globalization of software development, digital transformation, and legacy outsourcing, consistently delivering double-digit or high single-digit growth.

However, as we move through 2026, the industry is navigating a profound paradigm shift. A potent combination of generational technological disruption primarily driven by Artificial Intelligence (AI) and persistent global macroeconomic uncertainty is entirely rewriting the sector's playbook. Based on recent market intelligence, including a pivotal report by JPMorgan, this is not merely a temporary blip but a structural transition. Let us deeply explore the mechanics of this slowdown, the hidden catalysts reshaping the landscape, and the nuanced opportunities it presents for resilient investors.



The Growth Deceleration: By the Numbers

To understand the magnitude of this shift, we must first look at the financial baseline. According to JPMorgan's comprehensive analysis, India's IT services industry has been trapped in a subdued revenue growth band of approximately 2-3% over the past three years (FY24 to FY26). The brokerage projects that this sluggish pace is likely to persist for at least the next two years.

Historically, large-cap Indian IT companies comfortably compounded revenues at 7-8% annually. JPMorgan has now revised its medium- to long-term structural growth expectations down to a modest 3-4%.

To illustrate the mathematical impact of this deceleration over a five-year horizon, consider a hypothetical IT firm with initial annual revenue of \$10 billion:

- **Scenario A (Historical 8% Growth):**

Future Revenue = $10 \times (1 + 0.08)^5 = \14.69 billion (approx.)

- **Scenario B (Revised 4% Growth):**

Future Revenue = $10 \times (1 + 0.04)^5 = \12.16 billion (approx.)

This represents a massive cumulative revenue loss of over \$2.5 billion for a single large-cap firm over five years, highlighting why market valuations are undergoing a rigorous reassessment.

The AI Conundrum: Navigating the 'Deflation' Phase

The most fascinating aspect of this transition is the role of Artificial Intelligence, specifically Generative AI (GenAI). While AI is hailed as the future, its immediate impact on traditional IT services is surprisingly restrictive. JPMorgan astutely categorizes this current era as the 'Deflation' phase of AI adoption.

- **Scenario A (Historical 8% Growth):**

Historically, Indian IT firms operated on a "Time and Materials" billing model, leveraging a massive pyramid of engineering talent. Today, GenAI coding assistants (like GitHub Copilot) and automated IT operations (AIOps) are dramatically increasing developer productivity. Routine tasks such as code generation, software testing, bug fixing, and legacy system maintenance can now be executed with significantly fewer human resources.

While this productivity boom reduces operational costs for the end client, it directly cannibalizes the billable hours and headcount-driven revenue that Indian IT firms have traditionally relied upon.

- **The Budget Squeeze**

Furthermore, global enterprises are heavily reallocating their technology budgets. Chief Information Officers (CIOs) are prioritizing massive investments in AI infrastructure, LLM (Large Language Model) training, and cloud computing architectures. To fund these expensive AI initiatives, they are aggressively cutting budgets for traditional legacy IT outsourcing—a dynamic often referred to as cutting "Run the Business" costs to fund "Change the Business" initiatives. The revenue generated by new AI-consulting projects for Indian IT is not yet large enough to offset the deflationary loss of legacy contracts.

Macro Headwinds and the Rise of GCCs

Beyond technology, the sector is battling severe macroeconomic and geopolitical headwinds. The largest vertical for Indian IT is the BFSI (Banking, Financial Services, and Insurance) sector, which accounts for nearly 30-40% of revenues for top players. Elevated interest rates, inflationary pressures, and geopolitical friction in the Middle East and Eastern Europe have forced global banks to adopt a highly cautious "wait-and-watch" approach.

This caution translates directly into:

- Elongated deal-signing cycles.
- Slower ramp-ups of previously won projects.
- A severe reduction in discretionary tech spending.

The Global Capability Centre (GCC) Threat

Adding to the competitive landscape is the explosive growth of Global Capability Centres (GCCs) in India. Rather than outsourcing to third-party Indian IT firms, multinational corporations (like JPMorgan, Target, and Goldman Sachs) are rapidly establishing their own massive in-house tech hubs in cities like Bengaluru, Hyderabad, and Pune. These GCCs are insourcing high-value digital transformation and AI work, intensifying the war for premium engineering talent and bypassing traditional IT vendors.

Margin Mechanics: Defending the Bottom Line

Faced with top-line growth pressure, Indian IT management teams are aggressively defending their profit margins (EBIT). The industry is shifting from a "pyramid" workforce model (hiring tens of thousands of fresh graduates annually) to an "hourglass" model, focusing on senior domain experts and automated lower-tier tasks.

This is evident in the recent net headcount numbers of top-tier firms, which have seen historic declines or flat growth over recent quarters. By increasing employee utilization rates, optimizing subcontracting costs, and delaying aggressive wage hikes, companies are attempting to protect their earnings per share (EPS) even as revenue growth stalls.



What Does This Mean for Investors? A Strategic Playbook

For investors, the days of buying Indian IT stocks purely for secular, unchecked growth are pausing. The JPMorgan report clearly signals that expectations must be moderated. Slower revenue growth directly compresses valuation multiples (P/E ratios) that the market is willing to pay.

However, this does not spell the end of the Indian IT structural story; it merely requires a shift in investment strategy:

- **Focus on Business Quality over Absolute Growth:** Investors should prioritize companies with impeccable execution, strong balance sheets, high free cash flow generation, and robust dividend yields.
- **Evaluate AI Readiness:** The winners of the next decade will be companies that successfully pivot from selling "effort" (billable hours) to selling "outcomes" (AI-driven solutions and intellectual property).
- **The ER&D Bright Spot:** While traditional IT services slow down, Engineering Research & Development (ER&D) remains a high-growth pocket. Companies specializing in automotive tech, aerospace engineering, and medical device software are experiencing stronger demand as physical industries rapidly digitize.

What's Next? The Road to FY30

The timeline for a robust recovery has been significantly pushed back. According to JPMorgan, the much-anticipated rebound may extend beyond FY29 and well into FY30. The sector will remain in the trenches of the AI 'Deflation' phase until enterprise AI use cases mature from internal productivity experiments to external, revenue-generating commercial products.

Going forward, the trajectory of India's IT sector will be dictated by how quickly these firms can climb the value chain. While the near-term outlook requires patience and calibrated expectations, the sheer scale, adaptability, and deep-rooted global client relationships of Indian IT firms ensure they will remain indispensable partners in the world's digital future. The growth may be slower, but it is evolving into a more resilient, outcome-focused model.





Achintya Securities Limited

Member: NSE, BSE, MCX, NCDEX, MSEI | DP: NSDL,CDSL

