



By: *Tomorrow's Affairs Staff*

India's IT sector faces its greatest challenge in the AI era



Tata Consultancy Services (TCS) is more than a major technology company; it is a symbol of India's success in the global services economy.

That is why [Tata Sons Chairman N. Chandrasekaran's](#) statement at the 9 June annual shareholder meeting – that TCS could have roughly equal numbers of AI agents and employees in the future – carries significance beyond a firm's corporate strategy.

Two days later, TCS announced a partnership with Anthropic, one of America's leading AI companies.

The plan is to train 50,000 TCS employees to work with the Claude platform, while the partnership will focus on developing AI solutions for large corporations.

Special importance is given to the financial sector, insurance, and healthcare, areas where the introduction of new technologies requires a high degree of control, process auditing, and compliance with regulatory requirements.

These two announcements together indicate the direction of change. India's IT sector is no longer merely attempting to use AI as a tool; it is beginning to adapt its business model to a world where human labour is no longer the sole basis for growth.

The issue extends beyond a single partnership: this is among the first significant indications that generative artificial intelligence is becoming integral to global outsourcing.

The model that built a new India

India's IT sector emerged from a simple and highly efficient economic logic. Western companies required software development, system maintenance, customer support, testing, administration, and business processes.

India's companies offered large numbers of educated employees, English language skills,

lower costs, and the capacity to work for global clients on a large scale.

IT services have become one of India's most important exports

That model transformed India. TCS, Infosys, Wipro, HCLTech, and Tech Mahindra have become global companies. Millions of young people gained access to well-paid jobs in a country where industrial production never absorbed the labour force at the rate required by demographics.

IT services have become one of India's most important exports and one of the most visible proofs that the country can compete in the global knowledge economy. [Nasscom](#) estimates that the sector's exports will reach \$246 billion in the fiscal year 2026, with total revenue of about \$315 billion.

Its basic formula was clear: more contracts meant more projects; more projects meant more employees; more employees meant more income. AI is seriously questioning that relationship for the first time.

When growth no longer means employment

Chandrasekaran's message does not signal the end of TCS. On the contrary, his statement at the meeting was clear: if a company has half a million employees, it will soon also have half a million AI agents.

According to him, TCS does not plan [layoffs](#) but will slow hiring. The numbers already support this: the company cut more than 12,000 jobs last July, and its total workforce fell by over 23,000 in the fiscal year ending March 2026.

This message aims to keep the company relevant in the new cycle of technological competition. That is precisely why it matters.

If India's largest IT company publicly states

that AI agents will become part of the workforce on a scale comparable to the number of employees, the logic of the entire sector changes.

Income growth will no longer require a corresponding increase in the number of employees

The most likely change will not be a sudden collapse in **employment**. Such forecasts are often exaggerated. Large corporate systems do not transition to fully automated operations overnight.

Banks, insurance companies, industrial firms, healthcare systems, and public institutions have complex procedures, regulatory obligations, legacy IT systems, and a high risk of errors.

For these organisations, AI is not a replacement for all humans, but a new infrastructure that must be introduced, controlled, maintained, and adapted.

However, one thing is already changing: income growth will no longer require a corresponding increase in the number of employees.

This marks a decisive turning point for India's IT sector. For decades, company growth meant employment growth. In the era of AI, that connection is beginning to weaken. Higher incomes will no longer necessarily mean employing more staff.

What AI agents actually change

For decades, the main advantage of India's IT companies has been their ability to quickly hire large numbers of experts to meet the needs of global clients.

AI does not eliminate the need for these companies, but it does reduce the need for the large workforce on which their business model depends.

This is why TCS's partnership with **Anthropic** is far more significant than a simple technology agreement.

The greatest pressure falls on the middle tier of jobs, where work can be standardised, measured, and partially automated

These are precisely the areas in which India's IT sector has built its advantage for decades – not at the highest levels of strategic decision-making, but in the large volume of technical and operational work that Western companies have outsourced to India.

The most vulnerable are not the best engineers, system architects, or experts in complex enterprise platforms. The greatest pressure falls on the middle tier of jobs, where work can be standardised, measured, and partially automated.

This is a serious problem for a sector that has depended on a constant influx of new graduates and the mass training of young employees.

Why TCS chooses Anthropic

The partnership with Anthropic should be viewed as both a defensive and offensive strategy.

TCS cannot allow large American and European companies to integrate AI tools independently and reduce demand for traditional outsourcing services.

If this happens, India's firms will lose part of their traditional role.

The market has already reacted: India's IT companies lost more than \$62 billion in market capitalisation in February, partly after Anthropic unveiled its own AI agent tool, and TCS shares have fallen by more than 30 per cent since the start of the year.

That is why TCS is positioning itself as an intermediary between major AI platforms and corporate clients.



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This is a rational strategy. Large companies do not simply want access to an AI model; they require secure integration with existing processes, data control, regulatory compliance, employee training, risk auditing, and implementation within complex systems.

That is where TCS still has an advantage. It knows clients, their systems, industries, and internal processes.

Traditional outsourcing relied on hiring large numbers of people to meet client needs. The larger the project, the more employees were required, and IT companies' income grew with the number of experts hired. AI changes this logic.

Clients are increasingly less concerned with the number of people working on a project and more focused on how quickly and at what cost they can achieve the desired result.

TCS is not forging a new path but is following an established trend. **Accenture** formed a joint business group with Anthropic in December and is training about 30,000 consultants to work with Claude; **Deloitte** has made the same model available to more than 470,000 people in its network; and **Infosys** formed a partnership with the same company in February.

The battle for the intermediary position between AI labs and corporate clients has

already begun, and TCS is entering as one of the last major players.

India's advantage remains

It would be a mistake to conclude that AI is automatically undermining India's IT sector. India still has a vast pool of engineers, extensive experience with global clients, a developed management structure, strong ties to Western corporations, and the ability to deliver complex projects at a lower cost than most Western markets.

AI can further strengthen India's leading companies if they integrate it quickly enough. They can offer clients cheaper, faster, and more complex services than before, increase margins, reduce routine work, and move towards consulting, implementation, AI systems management, and regulatory-sensitive solutions.

The challenge is that such a model does not require as many new employees. For companies, this may be positive news. For India's job market, it is much more complex.

Political risk for New Delhi

India aspires to become one of the world's leading economies. Achieving this goal depends not only on GDP growth, but also on the ability to create quality jobs for its vast young population.

The IT sector is one of the few industries that has provided globally competitive wages to millions of educated people. If AI slows hiring in this sector, the consequences will extend beyond corporate balance sheets.

The scale of the problem is already clear: the sector directly employs about six million people but added only around 135,000 net jobs in fiscal 2026, even as revenues continue to rise.

If AI weakens the sector's capacity to absorb new workers, the economic challenge could quickly become a social and political problem

The decoupling of growth and employment, which **Chandrasekaran** describes as the future, is already evident in the statistics.

Universities will need to revise their programmes. Cities that developed around the IT sector – primarily Bengaluru, Hyderabad, Pune, and Chennai – will have to adapt to the new demand structure.

For India's authorities, this is not merely a matter of technological adaptation. For decades, the IT sector has been one of the main channels for educated young people to enter the middle class.

If AI weakens the sector's capacity to absorb new workers, the economic challenge could quickly become a social and political problem.

Globalisation is entering a new phase

India's IT sector is one of the most successful examples of the global division of labour in the service economy. Western companies have retained strategic functions while entrusting operational and technical tasks to partners in India.

This model enabled cost reduction, accelerated the digital transformation of large corporations, and created a new middle class in one of the world's most populous societies.

The advantage will belong to those who can offer the greatest expertise in managing complex technological systems

Artificial intelligence does not undermine the

need for international cooperation, but it alters its structure. Companies will continue to seek external partners, but the nature of these partnerships will change.

The advantage will no longer belong to those who can hire the most people, but to those who can offer the greatest expertise in managing complex technological systems.

This is why the current transformation of India's IT sector extends beyond the boundaries of a single industry or country. It demonstrates what the next phase of globalisation could entail, where international competition will focus not primarily on labour costs, but on the ability to apply technology more quickly, safely, and efficiently than competitors.

The next phase of global outsourcing

TCS and Anthropic have not announced the end of India's IT model; they have announced the beginning of its transformation.

Companies that have built an advantage for decades through their ability to manage large teams must now demonstrate that they can manage complex AI systems.



The question is no longer whether AI will become an integral part of India's IT sector. The question is who will most successfully define the new role of that sector in the global economy

This will not be an easy process. India's largest firms possess the experience, clients and capital that give them a significant advantage. At the same time, they face a market that, for the first time, is demanding something

different from what has underpinned their success.

Therefore, the question is no longer whether AI will become an integral part of India's IT sector – this is already happening. The question is who will most successfully define the new role of that sector in the global economy.

The first reliable test will arrive soon. If, over the next two fiscal years, the revenues of India's leading IT companies continue to grow while graduate employment continues to decline, the model that has linked growth and jobs for more than three decades will be formally ended.

If, on the other hand, the introduction of AI systems into regulated industries requires more human supervision than is currently assumed, India's companies will gain a new source of mass demand for labour, although at a higher level of qualification.

India has become a technology powerhouse due to its ability to offer scale, speed, and reliability to the world. In the era of artificial intelligence, it may need to demonstrate that its greatest asset is not the number of people it can employ, but its capacity to lead one of the most significant transformations of the modern economy.