TRU Primer

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AI Shaking IT Sector Share Prices - A Global Phenomenon

The launch of Anthropic's Claude Cowork in early 2026 triggered a "SaaSpocalypse" that wiped out approximately $300 billion in global tech market value virtually overnight. The Nifty IT Index suffered its worst single-day plunge since the 2020 pandemic, dropping over 6% on February 4, 2026. This marked a critical inflection point for the industry, as the historical reliance on human-intensive delivery faces unprecedented pressure. In this note, we assess the shifting economic reality for tech stocks and provide a breakdown of the sectors most vulnerable to autonomous AI.

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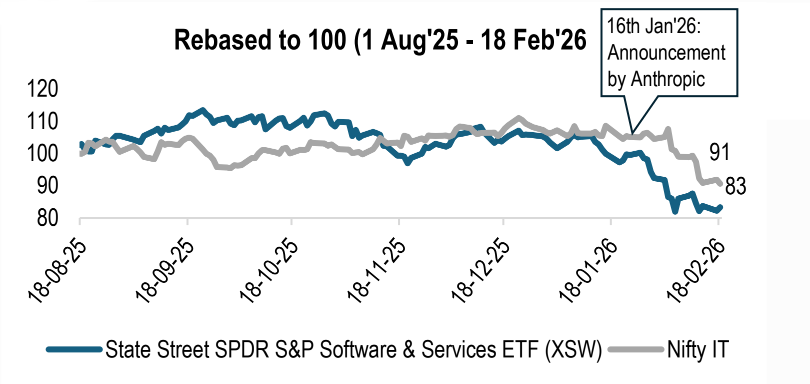
Executive Summary

Artificial Intelligence is no longer a future threat - it is a present-day disruptor reshaping the global IT services industry at unprecedented speed. The convergence of agentic AI platforms, large language models, and autonomous coding tools has ignited a structural crisis across technology stocks, labour markets, and national economies. This note synthesises the key dimensions of this disruption and quantifies its impact across global and Indian contexts.

- The Nifty IT Index shed approximately 16% since the announcement of Claude Cowork on January 16, 2026, with these effects also felt globally as the S&P Software & Services Select Industry Index* declined by roughly 17% during the same period.



Source: Investing.com, ssga.com

- This market rout was triggered by the launch of Anthropic's Claude Cowork, a desktop-native agentic AI designed to autonomously manage complex enterprise workflows and local files.
- Low-contract-value clients are most immediately at risk; big-ticket managed services may hold up better in the near term.
- T&M (Time & Material) contracts - the backbone of IT revenue - face structural erosion as AI reduces billable hours.
- IT sector accounts for 7.3% of India's GDP and employs 5.8 million professionals - a sector now at an inflection point. (Link)

Footnote:

*The S&P Software & Services Select Industry Index is a benchmark designed to track the software and services segment of the S&P Total Market Index (TMI). The index primarily covers Application Software (approx. 69%), Systems Software (21%), IT Consulting & Other Services (7.6%), and Interactive Home Entertainment (2.3%) It consists of 139 stocks with $6 tn market cap.

What Happened to Global Software Stocks?

For nearly two decades, software was Wall Street's golden child. Subscription-based SaaS models, recurring revenue streams, and high margins made software stocks among the most prized assets in investment portfolios worldwide. That narrative began unravelling in 2023 with the rise of ChatGPT and accelerated dramatically in early 2026.

The trigger event was the January 2026 launch of Anthropic's Claude Cowork - a desktop-native agentic AI that could autonomously manage enterprise workflows, replace entire teams of entry-level analysts, and operate parallel sub-agents for massive data and analysis tasks. The reaction was immediate and brutal.

The Role of Anthropic's Claude Cowork in the Market Crash

- Anthropic's Claude Cowork, launched in January 2026, served as the single most impactful catalyst for the stock market rout in global software and IT services stocks. What made it different from previous AI tools was its combination of capabilities:
- Unlike earlier chatbots, this tool functions as an autonomous agent capable of managing local files, navigating complex enterprise interfaces, and deploying sub-agents to handle massive data tasks simultaneously. Its ability to do the work of several human analysts with just one AI instance has fundamentally broken the traditional "per-seat" software licensing model.
- Because of its specialized open-source plugins, enterprises have begun using Claude Cowork for specific, high-impact use cases:
  - **Legal Discovery:** Autonomously scanning and organizing vast quantities of legal documents for litigation.
  - **Tax Accounting:** Managing complex financial data and filing requirements without manual entry.
  - **Sales Prospecting:** Automating the identification and outreach process for potential new business.
  - **Workflow Automation:** Replacing entry-level analyst teams by managing entire enterprise workflows and internal data analysis.

Why Are Investors Selling Software?

The logic is straightforward, even if the speed of reaction has surprised many. AI agents do not need software 'seats' in the traditional sense. A single AI instance can perform the work of dozens of licensed software users. This destroys the per-seat SaaS business model at its foundation.

Investors are not just selling individual stocks; they are rotating entire portfolios away from legacy software into energy, utilities, and real assets. Private equity firms including Arcmont Asset Management and Hayfin Capital Management have brought in consultants to audit portfolio companies for AI vulnerability.

Companies whose core value proposition is information retrieval, content generation, workflow automation, or repetitive cognitive work are in the crosshairs. The "AI Crosshairs" - a term coined by Wall Street analysts - describe a dividing line between companies that are weaponising AI and those being consumed by it.

Services Being Disrupted - What Gets Hit and How Bad?

How Do IT Companies Earn Revenue?

Understanding the revenue model of IT service companies is essential to understanding where AI disruption will hit hardest. IT services companies earn money through three broad contract models:

Contract Type	How It Works	Typical Client Size	AI Risk Level
Time & Material (T&M)	Client pays per hour/day of resource deployed	Small to mid	VERY HIGH
Fixed Price (FP)	Agreed scope, fixed total cost, milestone-based	Small to mid	HIGH
Managed Services / Retainer	Long-term, outcome-based, fixed monthly fee	Large, multi-year	MEDIUM

Historically, the IT industry has been described as a 'people business'. Revenue growth meant hiring more people.

Is that era structurally over?

T&M Contracts: The Immediate Casualty

T&M contracts are the most vulnerable segment. In a T&M model, revenue = number of deployed resources × hourly rate × hours billed. When AI can do the same task in a fraction of the time - or replace the resource entirely - the billable hours collapse. This is the fundamental economic equation that AI may destroy IT services firms.

Contract Value & Client Segment Analysis - Who Gets Hit First?

Not all clients will be impacted equally. The disruption follows a clear logic based on contract value and complexity:

Client Segment	Contract Value (Annual)	Type of Work	AI Disruption Risk
Small / SME clients	<$1M per year	Bug fixes, testing, basic apps, documentation	Critical ~80%+ work automatable
Mid-market clients	$1M-$10M per year	Custom dev, ERP support, QA, maintenance	High ~40-60% at risk
Large enterprise clients	$10M-$100M per year	Digital transformation, cloud migration, consulting	Medium ~20-35% at risk
Mega/strategic accounts	>$100M per year	Multi-year infrastructure, compliance, AI strategy	Low-Medium - sticky, complex

Contract Breakdown Over Time - India & Global Context

The historical shift in contract composition tells the story of the industry's structural transformation. As recently as 2014, T&M contracts dominated the Indian IT landscape, accounting for roughly 45-50% of total contract value. Fixed-price grew as clients pushed for certainty. Managed services (long-term retainers) grew as large banks and insurers outsourced infrastructure. Now AI is reshinking the pie.

Year	T&M Revenue Contribution (%)	Notes
2014	48%	T&M dominant; India hiring boom
2024	36%	T&M softens

Source: Moneycontrol

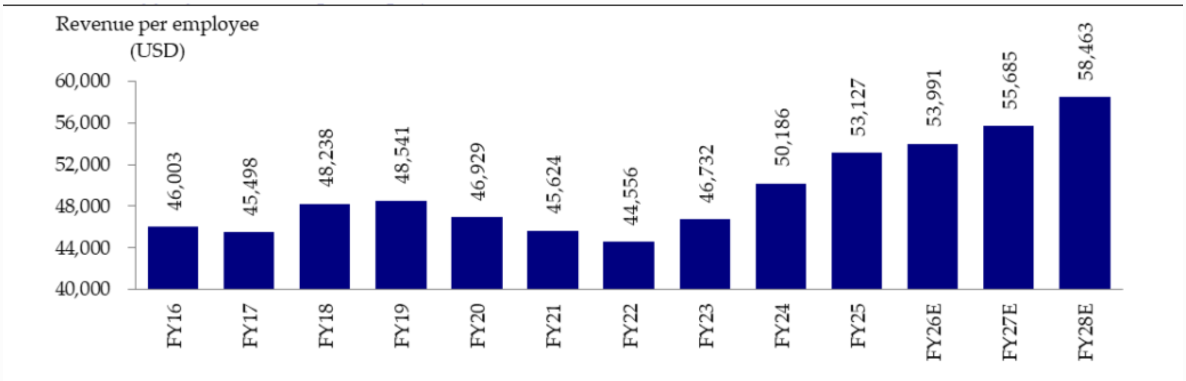
IT is a People Business - or Was

India's IT industry was built on one fundamental equation: more revenue requires more people. This 'linear dependency' on manpower meant that as companies won bigger deals, they hired more engineers, testers, and analysts. The ratio of revenue to headcount was the key metric investors tracked.

Revenue per employee (USD) trend (annual)

Companies	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
TCS	46,756	45,387	48,327	49,290	49,128	45,378	43,410	45,425	48,342	49,638
INFY	48,963	50,947	53,594	51,722	52,733	52,238	51,940	53,060	58,511	59,575
WPRO	42,486	46,558	49,369	47,369	45,144	41,158	41,970	43,111	46,166	45,047
HCLT	59,444	60,145	65,270	62,567	66,053	60,221	55,235	55,703	58,333	61,947
TECHM	38,295	36,971	42,287	41,052	41,377	42,222	39,675	43,348	43,155	42,116
LTIM	NA	NA	NA	NA	NA	NA	43,995	48,561	52,508	53,287
MPHL	41,483	40,629	44,471	45,692	46,958	44,413	43,598	50,456	49,274	53,457
LTTS	49,791	46,299	47,157	47,758	46,573	44,773	42,194	44,515	48,879	51,896
TELX	36,856	35,382	40,663	37,782	34,493	33,527	35,352	32,886	31,996	35,500
PSYS	37,959	45,349	52,423	48,280	47,179	41,380	41,162	45,261	49,730	57,294
CYL	NA	48,882	43,023	45,757	47,181	48,993	45,293	49,196	55,818	61,915
ZENT	54,851	53,649	54,138	57,711	59,882	54,222	48,095	57,204	56,073	58,344
SSOF	34,651	37,784	43,444	41,482	44,466	40,521	40,616	39,785	53,443	55,425
MAST	62,073	52,977	61,615	71,416	44,354	61,155	58,866	56,577	66,510	80,743
BSOFT	NA	NA	NA	47,172	45,189	43,399	45,485	48,790	50,584	53,261
HAPPSTMN	NA	NA	31,589	34,667	34,748	32,209	35,172	36,154	37,942	36,726
Aggregate	**46,134**	**46,228**	**48,384**	**48,648**	**47,031**	**45,721**	**44,504**	**46,877**	**50,454**	**53,511**

Source: HSIE Report (Link)



Source: HSIE Report (Link)

Notice that India's top IT companies each employ hundreds of thousands of people. This is not just a business model - it is a national employment engine. When AI compresses the headcount needed to deliver the same revenue, the consequences extend far beyond P&L statements.

Knockdown Effects on the Indian Economy

The IT Sector's Weight in India's Economy

India's IT and BPM (Business Process Management) sector is not merely a corporate success story - it is a structural pillar of the national economy. No other emerging market has an IT sector of comparable scale and global integration.

Economic Indicator	Figure	Source & Year
Total IT-BPM Industry Revenue	$283 Billion (FY2025E)	NASSCOM Strategic Review 2025
IT Services Exports	$224 Billion (FY2025E)	NASSCOM / IBEF 2025
Share of India's GDP	~7.3-7.4%	Economic times
Share of Total Services Exports	43-45%	Business Standard
Total IT Workforce	5.8 million professionals	Economic times

GCC Workforce (in India) - over and above total it workforce	1.9 million+ (FY2024)	TOI

When IT Contracts Shrink, India Feels It

The Multiplier Effect

Every dollar earned in IT exports has a multiplier effect on the Indian economy. IT professionals spend on real estate (especially in Bengaluru, Hyderabad, Pune, Chennai), domestic consumption, education, and services. A structural compression in IT employment would ripple through multiple sectors.

- IT Sector Employment → Real estate, auto, consumer appliances demand in tech cities (Bengaluru, Hyderabad, Pune, Noida) softens.
- Reduced fresher hiring → Graduate unemployment rises; engineering colleges face declining placement rates.
- Fewer IT expat remittances → Foreign exchange inflows moderate.
- Tax revenues at risk → IT employees are significant contributors to direct tax and GST.
- Startup ecosystem impact → Many startups sell into IT firms; fewer contracts = less B2B revenue.

IMF Numbers

- The IMF (2024 World Economic Outlook) found that about 40% of jobs across sectors globally are exposed to AI, with advanced economies facing a 60% exposure rate.

What does IT Sector Analyst of HDFC Securities Institutional Equities feel?

Two key reports were published recently by the HSL IE Team - the IT Sector Report (8th Dec 2025) and the Infosys Report (18th Feb 2026). The December report reflected a relatively balanced outlook on AI's impact, presenting both bull and bear case scenarios as shown below.

Indian IT sector projections and growth scenarios:

Indian IT sector Projections and Growth Scenarios	Bull Case			Bear Case		
Year	**2025**	**2030E**	**CAGR %**	**2025**	**2030E**	**CAGR %**
Global GDP (USD trn)	114	132	3%	114	126	2%
Global IT Spend (USD trn)	**1.5**	**2.1**	**7%**	**1.5**	**2.0**	**6%**
% of Total global GDP	1.3%	1.6%		1.3%	1.6%	
Indian IT Sector (USD bn)	**300**	**470**	**9%**	**300**	**350**	**3%**
% of total global spend	20%	22%		20%	17%	
Indian IT Work Force (mn)	7.5	8.5	3%	7.5	7.0	-1%
USD/Year (Productivity)	40,000	55,000	7%	40,000	50,000	5%

Source: HSIE Report, 8th December'2025 (link)

How has analysts reacted?

In the latest Infosys update, HSL IE IT Analyst has revised the target price downward from INR 2,100 to INR 1,870, reflecting higher uncertainty around legacy compression. Similarly, the FY27-28 earnings projections (EPS) have been reduced by ~2%, with FY27E revised from INR 81.7 to INR 80.1 and FY28E from INR 91.2 to INR 89.3.

Source: *HSIE report dt. 18th Feb'2026*

Food for Thought…

AI is still evolving, and the path ahead is filled with more questions than certainties. As this transformation accelerates, these are the key questions worth wondering about as we navigate what comes next.

What Happens Next - Adaptation or Attrition?

Will ERP and SaaS companies systematically integrate AI into their platforms?

Will the "human seat" be a liability?

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