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COVER STORY

20TH ANNIVERSARY

Indian IT: Dead or poised to thrive?

We asked. India's top IT fund managers answered.

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
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Twenty years ago, when this magazine published its first issue, Indian IT was writing one of the greatest wealth-creation stories in Indian investing history. Today, the market is betting that the story is over. The professionals who manage the country's largest technology funds are betting that it is not. One side is right. The answer will define how millions of portfolios perform for years to come.

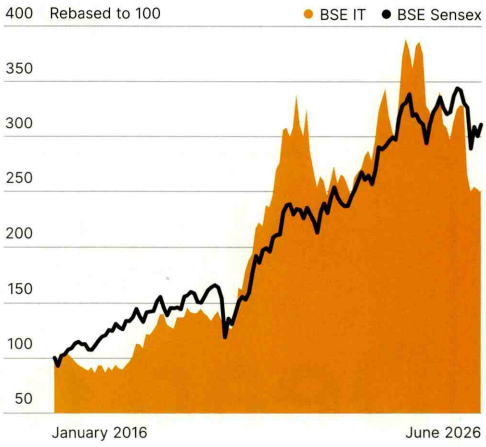
The numbers driving the market's pessimism are stark. In the last 12 months, the BSE IT index has fallen around 27 per cent, making it one of the worst-performing mainstream indices in the country over the last five and 10 years, erasing the majority of the gains the sector made. Stock prices imply the sector will grow at 0-2 per cent for years ahead, a dramatic step down from the 6-7 per cent it delivered before the pandemic and the high-teens growth it managed during the Covid years. The market is not pricing in a slowdown. It is pricing in near-stagnation. And the trigger is AI.

Indian IT built its business on a model that ran for 30 years: take complex technology work from global enterprises, staff it with skilled engineers at a fraction of West's costs and bill clients by the number of people deployed. AI automates exactly this work. When a contract that required 500 engineers now requires just 300, the revenue falls by 40 per cent. The work does not disappear. The billing does. Sector revenue growth has already collapsed from the high teens during the Covid years to roughly 2 per cent today.

The question "Will Indian IT even exist in the coming decade?" is now being asked seriously. It is no longer a fringe view. But some of the most informed investors in the country are answering it differently. Domestic mutual fund managers running dedicated technology funds have been steadily increasing their stakes in IT stocks even as prices have fallen. These are not passive observers. They spend every working day analysing these companies, meeting their managements and reading signals in deal pipelines long before they appear in earnings reports. Their view directly contradicts what the market is saying.

The rise and fall of Indian IT

How the AI narrative flipped IT from sector star to sector laggard



This is not the first time Indian IT has faced an existential question. The sector was written off when digital transformation took hold in 2013. Cloud computing raised the same fears in 2017. Both times, it adapted, found new revenue pools and rewarded investors who stayed invested. The question today is whether AI is a third such moment, or something categorically different.

To find out, Ashish Menon, Senior Equity Analyst at **Value Research Stock Advisor**, sat down with four of the top IT fund managers in the country: Vaibhav Dusad of ICICI Prudential Mutual Fund, Meeta Shetty of Tata Mutual Fund, Shibani Sircar Kurian of Kotak Mutual Fund and Sumanta Khan of Edelweiss Mutual Fund. Here is what they said.

In the last 12 months, the BSE IT Index fell around 27 per cent, making it among the worst-performing indices over the last five and 10 years. The market isn't pricing in a slowdown. It is pricing in near-stagnation. And the trigger is AI.

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	59
Circulation:	83,000		

Let's start with you, Vaibhav. You have a telecom company as your second-largest holding at a little over 12 per cent, with telecom and platforms now rivalling pure IT services. Do you think Indian IT is dead, or poised to thrive? And does this move towards a telecom stock in your top holding answer the question on its own?

Vaibhav Dusad: Thanks for having me here. If you look at my portfolio and compare it with the benchmark, the benchmark itself has a 30-35 per cent weightage in telecom. Because telecom outperformed IT, this reflects that I'm actually underweight telecom and overweight ex-telecom and other stocks. So that is a technical correction on your question.

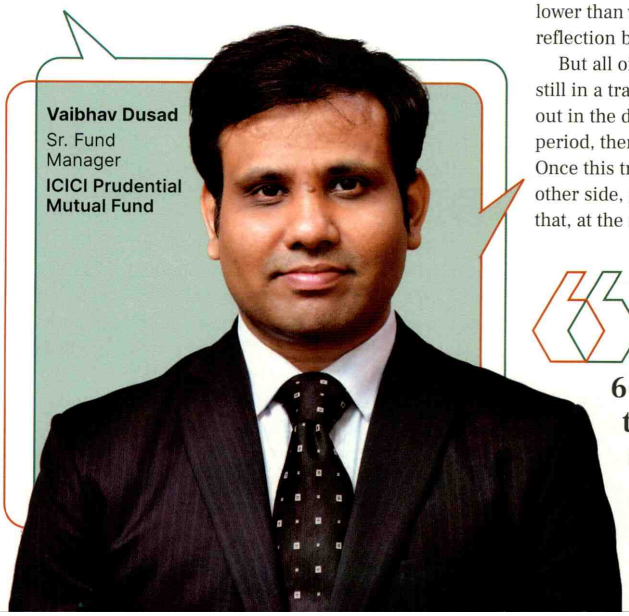
Secondly, in my view, things have evolved much faster than we anticipated. There are multiple things that are happening at this point.

Before the start of the AI journey, I was expecting a durable growth rate of, let's say, 6-8 per cent, maybe 7-8 per cent from the sector, both large caps and mid caps put together. The expectation, because of AI, at least in the medium term, has gone from that to, let's say, 5 to 7 per cent, 5 to 6 per cent and in some cases, 4 to 7 per cent. And what the stock prices reflect is a growth rate anywhere between negative territory and 2 or 3 per cent. So, as we have seen multiple times, whenever there is a sea of bad news, there is always an extrapolation in the market. To that extent, many of these names are clearly in oversold territory.

On top of that, all of this is coming in a relatively tougher macro backdrop, and when the macro backdrop is tougher, clients are more focused on cutting existing deals coming up for renewal. That is part one. The second part, which is now very clear in many of the interviews I see in the US, is that clients were earlier spending heavily on discretionary budgets with IT services companies, and that trend started post-Covid; there was a wave of digitisation. Now that the discretionary budget has gradually come off, and the allocation of it has moved to spending with, let's say, the likes of Anthropic, OpenAI, GitHub, all of these companies. Hence, a large part of that discretionary spend has shifted towards them because many enterprises in the US are still figuring it out. They are still in the experimental stage; they have not yet increased their overall tech budget, and this part has moved to these companies.

At the same time, for the deals coming up for renewal, of course, there is some reduction in effort in many of them. In my estimate, earlier in a particular deal, the deflation was 10 per cent; it has increased by maybe another 10-15 per cent. Overall, that is why I said the expectation for the growth rate is now maybe 2 per cent lower than what I believed before AI, and that is a reflection becoming visible in these deal renewals.

But all of these things put together, right now, we are still in a transition mode. We have seen these waves play out in the digital transition phase, let's say in the 2013 period, then in the cloud phase, the 2017-18 period. Once this transition phase is over, as you move to the other side, growth tends to normalise as well. So I feel that, at the moment, we are in that kind of phase.



Vaibhav Dusad
Sr. Fund Manager
ICICI Prudential Mutual Fund

Before the start of the AI journey, I was expecting a durable growth rate of 6-8 per cent. Because of AI, that has gone to 5-7 per cent, 5-6 per cent and in some cases, even 4-7 per cent.

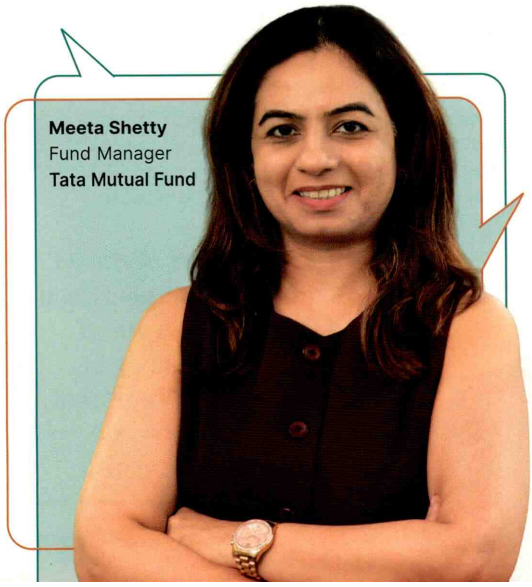
Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	60
Circulation:	83,000		

Meeta, more than half of it is in your classic, conventional IT services business, with the top three names clearly in that bucket. Do you think Indian IT is dead or poised to thrive? And on the recent performance of your fund, would you call it a bad timing on a sound strategy, or is it a sign that AI has put a major dent in that strategy?

Meeta Shetty: One is the bad performance in comparison. As you mentioned, the sector itself is down by about 25-odd per cent, and we are at a significantly lower number; we have actually fallen far less than the benchmark. But being a sector fund, of course, it will show what it shows. It has to be linked to the sector because it's a sector fund, but we are far better than the sector's actual performance. So, just a correction over there.

Regarding your question about the holdings, our fund is a very pure-play IT fund. Our benchmark is Nifty IT, which comprises only IT stocks. If you look at the top three names in the benchmark, they account for nearly 60 per cent of the benchmark, whereas ours is nearly half that. So, we are significantly underweight in the larger names. Even at the sector level, if you look at my IT services exposure today, it sits at roughly about 60-odd per cent in the fund, and then we have the platform names, the telecom names and some other hardware-led names. We also sit on roughly about 7-odd per cent cash. So that's the mix of the fund.

The mix is so because of what we are seeing, or what we are going through, in terms of where the sector is and what it is envisaging as of now. To give you some backdrop before I give you a more forward-looking version of what I'm thinking: if you look at the sector, IT services were growing at roughly 6-7 per cent range in the pre-Covid years. Obviously, the Covid years were significantly higher, as the growth rate jumped to nearly a high-teens level. In the last three years, the growth rate has collapsed to just about 2 per cent. And I'm talking about the constant-currency growth rate; of course, in rupee terms it will look slightly different, but this is a constant-currency growth rate chart. Six went to double digits, and now we are at about 2 per cent. Clearly, we are in a phase of disruption.



Meeta Shetty
Fund Manager
Tata Mutual Fund

Every time a new technology comes in, the services companies, or, for that matter, the entire IT landscape, go through disruption. The only change this time is that, usually, all disruptions led to a more outsourcing-oriented scenario from the very start, whereas this time around it's more about fewer employees or less work coming to the services, at least in the initial phase. That's what all the noise is about. So, clearly, the sector is undergoing disruption. I would say it's not a bad time, but it's a cycle. Every sector would go through it, so why only IT? Every sector goes through its own cycles, and this is where we are. We've seen some very great years in the past; we are seeing this disruption coming in. As you go ahead, usually every tech cycle plays out in a very similar way: there is some disruption, the legacy work erodes and shrinks, and then the newer workload starts emerging, and that becomes the larger pie of the overall revenue.

To give you a sense, if you look at the last six, seven, or 10 years, one of the large Indian IT companies, during the last disruption cycle around 2015, started calling out their legacy revenue and their non-legacy revenue, and they termed it 'digital'. Basically, it was led by cloud, because everything was moving onto the cloud: your mainframe servers, your infra management, all of that work was going to shrink, and there was a lot of fear then. This company started calling out their digital and non-digital pieces. The first few years after they started calling this out, in fiscal 2017, you saw digital growing by

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	62
Circulation:	83,000		

I am not siding with the narrative that the IT services industry will go out of business. Yes, we are in a disruption phase; growth rates will be suppressed in the near term, but in the medium to long term, I think Gen AI adoption will lead to a much larger revenue pie.

leaps and bounds, whereas the non-digital piece was actually shrinking every year. Fiscal 2023 is when they stopped giving this breakdown, and by then, the digital piece itself had become a significantly large revenue pie.

To give you the numbers, in FY17, revenue was $10 billion for this company; in FY23, it was $20 billion. Digital, which was just $2 billion, became $13 billion in the next six years. So the scare that was there, that digital, the cloud migration, the cloud transformation, would make the revenue shrink, eventually itself became a very large pie of the overall revenue. I believe that this time as well, although this is a disruption phase, in the next few years, you will see something similar playing out. But yes, as a caveat: this time, the outsourcing element, from the very start, is not as great as one might have thought, or at least not as it has been in the past. But I'm not worried about the narrative going on, that the IT services industry will completely go out of business. I'm not siding with that. That's a very negative narrative; that's not what we should think about. Yes, we are in a disruption phase; growth rates will remain suppressed at least in the near term, but in the medium to long term, I think Gen AI adoption itself will lead to a much larger revenue pie.

Shibani, you hold almost all the large-cap IT services names, and these are the companies being termed as 'they sell time, not outcome' kind of companies. Your top two holdings are about 17 per cent each. In this IT sell-off, which has intensified in the past few months, what are your views on these companies? Are you holding through, or have you trimmed your position? Have you gotten more aggressive with it?

Shibani Kurian: If you look at the portfolio, it can typically be split into three parts. Our benchmark, being a sector fund, is the BSE Teck Index. The way the portfolio is composed, it's a slightly concentrated portfolio consisting of bottom-up stock picks and, of course, keeping the benchmark in mind. Still, we are benchmark-aware, and therefore we are not benchmark-hugging.

There are three parts to the portfolio, as I said. First is the IT services pack, which comprises both large-cap and mid-cap IT plays. But vis-à-vis the benchmark, we are underweight in IT services, with 40-45 per cent of the portfolio allocated to IT services, compared with a benchmark close to 60 per cent. The place where we are significantly overweight in terms of composition is the platform companies, which comprise quick commerce, e-commerce, fintech and the like. And then there is the telecom, where we have exposure, but there again, vis-à-vis the benchmark, we are underweight.



Shibani Kurian
Sr. Fund Manager
Kotak Mutual Fund

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	63
Circulation:	83,000		

As things evolve, there'll be companies that adapt, re-skill workforces and offer differentiated solutions. The sector, thus, becomes more heterogeneous, making stockpicking more and more important.

The way we are approaching this entire portfolio composition, and, as Meeta was correctly pointing out, from the IT services landscape, we are in a phase of transformation. Whenever we see a huge transformation, the sector usually sees a lot of volatility. We've seen that happening in the past: 2007-08, when digital adoption started, then cloud migration and, of course, who can forget the entire Y2K story? So every time the sector sees digital transformation or any new technology, it does go through volatility, and AI is a huge transformation for the segment, and in fact for every one of us.

Now, there is one camp that believes that, because of AI, IT services are dead. We are not in that camp. We do believe that the sector will evolve over time. Currently, there is a shift taking place as far as the business models are concerned. As you rightly pointed out, most IT companies initially worked on a time-and-materials billing model, largely effort-led. However, that is changing at the margin. Even today, when you look at many IT companies, the composition of revenue is now only about 50 per cent time-and-materials, with the rest outcome-based or fixed-price contracts. So even before the entire journey has started, the overall texture of revenue, in terms of the way the model works for existing IT services players, has changed considerably.

As things progress, at this point in time, there is a tussle between the volume of work and deflation, and this is evident in how margins and the revenue profile of the companies are evolving. But as time progresses, IT services companies will also adopt and adapt to this entirely new model. Typically, in the past, when you looked at the sector, it was very homogeneous; all the companies would move in tandem. Our view is that, as things evolve, there will be companies that can adapt and also re-skill their workforces differently and offer solutions to clients that are possibly different from the others. The sector, therefore, becomes a little bit more heterogeneous in terms of outcomes, and hence stock-picking will become more and more important.

The final point I wanted to make, in terms of the composition of the portfolio: our belief is that some of the larger players, given their various sizes and the sheer presence they currently have, are facing competition from some of the smaller and more agile players at this point, and therefore, you are seeing differences in terms of growth rates as well. At this point, if you look at the portfolio composition, the mid caps and some of the smaller players we are overweight on, and the large caps, we are slightly underweight as compared to the benchmark. That's more of a bottom-up approach we have adopted at this point in time.

A third of your portfolio sits in two stocks. When the entire sector is being repriced for AI risk, what gives you the conviction to have a third of your portfolio in two stocks?

Shibani Kurian: As I mentioned, this is a slightly concentrated portfolio, and the benchmark is even more concentrated. The top two stocks in the portfolio are from the IT Services and Telecom sectors. And if you look vis-à-vis the benchmark, we are actually underweight in both of these companies. So some part of the portfolio composition is an outcome of the benchmark.

As I told you, given the way IT services are evolving, it is important to understand the dynamics of the entire sector, which is undergoing transition at this point in time. There are two key factors at play. One is the entire debate around AI — what it brings in terms of productivity and pricing, and therefore the impact on revenue and margins. The second is the headwind you're seeing from the macro construct, which is also resulting in the sector's growth rate coming down, given that most clients today, in this current uncertain environment, are either pulling back on discretionary spending or allocating more budget towards AI. Therefore, the revenue pool, in terms of the sector's

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	64
Circulation:	83,000		

growth opportunity, is undergoing a transition.

Given this kind of construct, as I mentioned, vis-à-vis the overall IT services presence in the index, we are actually slightly underweight. We have been more specific about the stocks we own, so the overweights are more mid-cap names, where we believe the runway for revenue growth is faster and higher. Remember, the sector is also seeing vendor consolidation because many clients today don't want to work with a large tail of vendors. They want to consolidate the work with a few vendors, and therefore, those vendors who can bring both capability and pricing, and it has to be a mix of both, are winning in terms of deal-flow momentum. There is a clear contrast that you're seeing across players. So it's becoming more of a bottom-up stock-picking sector. Usually, and I've been tracking the sector for a long time, the sector used to be extremely homogeneous, but today we are seeing that it is not so homogeneous. There are different outcomes that you're seeing from the point of price movement across stocks, and therefore, it's important to be more stock-specific rather than just take a holistic view at a sector level.

Kotak Technology Fund

526
AUM (₹ crore)

Top 10 holdings of the fund (%)

airtel	17.4
Infosys	17.1
Tech Mahindra	7.0
eternal	6.4
TCS	6.2
Persistent	4.7
Mphasis	3.9
bharti	3.6
indus TOWERS	3.4
HCLTech	3.2

Data as of May 31, 2026

Sumanta, you have close to 30 per cent directly invested in some US technology stocks and the entire AI infrastructure chain. With that in mind, what is your view on Indian IT? Is it dead, is it poised to thrive, or do you have an entirely different thesis on your technology fund?

Sumanta Khan: We had a different approach to the fund from the start. We named it the Technology Fund because we believe we are playing with technology that impacts and changes our lives. If you look at the last 20 or 30-odd years, this phenomenon has only accelerated. Right now, if you look at global tech spending and Indian IT-focused funds, we are a very small part of the overall scheme because we are not present in multiple key broad sub-segments, such as semiconductors, technology hardware, storage, system software and application software. So, if you were to come out with a technology fund without that exposure, we felt we were missing out. From day one, we had the information that roughly 30 per cent of the fund would have US exposure, and those names came up.

Having said that, we have maintained roughly



Sumanta Khan
Fund Manager
Edelweiss Mutual Fund

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	66
Circulation:	83,000		

Indian IT will be a bottom-up, heterogeneous market. The negatives have come out, the opportunities and benefits will follow. The negativity we have seen will be reflected in the valuations and stock prices. And someday, you would start seeing things improve.

35-40 per cent of our exposure in IT services. It's a big amount, and no way I am of the belief that it's going to be gone. It's easy to say. If you look at the Bloomberg consensus on many of these stocks, they have moved up to 2027 or 2028 numbers. Basically, what's happening is that the terminal growth rate of these entities has been taken aback. People believe that even if you do well over the next three to four years, your market size will eventually shrink and your business will go down.

The simplest way to answer, as a few of the participants have alluded to, is that this has happened many times: the digital movement, Y2K; it keeps on happening. This time, obviously, is different, as has been pointed out earlier, too. The big difference is that this time it impacts even IT services companies, because with their work, you can do it now in a much shorter period of time – you don't need that many resources – and hence the productivity-deflation term has crept up. But if you look at the entire software development lifecycle, and if you look at coding, yes, the productivity benefits will be enormous. Even if someone comes out and finds flaws in these AI tools, I can say that the next generation of AI tools will be better. But that's not the only activity linked to it. Activities such as testing and validation, designing of the architecture for speed, scale and resilience, cybersecurity and data protection, these things continue to need large effort. When I say large effort, I mean human effort. Yes, pricing strategies will shift from people-based to product-based, so those transitions will happen. Eventually, these kinds of opportunities will also come up.

Secondly, just very simply put, if I want to automate something using AI cost-benefit, the first step you could see is to ensure that the data is presented correctly. Then you train the model, and once it's up to speed, it's in use. So the data itself has a lot of opportunity. When digital came in, the mainframe was supposed to be out of the market, but has it gone? No, because many people know that, yes, digital offers a lot of benefits, but it's better to stick to the old system. We are small, we are nimble, we get low-cost technology, tech partners who can solve our problems. So they don't shift. There's an inertia.

And so many regulatory requirements, right? Today, let's say you have a certain limit that is calculated, and it's calculated by the system. If something goes wrong, there's an audit and an audit trail. You find out what the problem is in the process, the technology and the human beings. Tomorrow, it's not deterministic; it's a probabilistic model. So, if a problem happens tomorrow, who is to be known? How does the audit trail move? You have to rewrite the entire process document, then, and these things again require a lot of work.

So what's happening is that the first impact is working through deflation, as seen in the numbers. The first impact is because of these macro uncertainties: interest rates going up and a war coming up. Who is going to come out with a $2 billion transformation? Even the board will say, "Let's wait for some time before we do it." But eventually these things will pick up, and if they do, data has to be ready; it has to work properly and again, your dependency on service companies will go up.

The terminal-growth part is still a challenge. I also don't have an answer for it at this point in time. But the most common example, which we have all given and learned, is that of the plumbers; it doesn't matter whether we are using a steel or plastic pipe, eventually, you'll need a plumber.

And, yes, I completely agree with Shibani here that it's going to be bottom-up; it's not going to be a homogeneous market, it's not going to be a heterogeneous market, there will be a few select winners and a few select losers. So, long story short: no, there is a transition, but not a long-term impact. The negatives have come out first; the benefits and opportunities probably will follow. It's very difficult, at this point, even to say when it will start. To that point, the negativity we have seen will be reflected in valuations and stock prices. And someday or the other, you would start seeing things improve.

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	67
Circulation:	83,000		

Inside your top holdings, there are a couple of large-cap and a couple of mid-cap IT names. What are your views on some of them being on the wrong side of that line? Have you trimmed any of your positions in these companies in recent months? And, lastly, what is your broad view on the 'selling time versus outcome' argument that's going on?

Vaibhav Dusad: I think what you see is that in most of these companies, there is a good amount of fixed-price projects; these are like 45 to 55 per cent. In these fixed-price project deals, there has always been some or other kind of automation that happens at the back end, and that's how, over a period of time, these deals become profitable. Now, in this current AI environment, my view is that the line between software and services is getting a bit blurred. Many point-solution-based software products can be replaced by in-house customised products, which these IT services companies would eventually develop.

The way I see the model evolving is that there will be more structured deals going forward. IT services companies, eventually, five years down the line, would convert a large part of their business into more of a platform business, which would be a combination of everything, and there would definitely be more that is outcome-based. But eventually, what they would offer the customer is a broad platform where, based on the customer's requirements, they can do extensive customisation of applications, create new applications and so on.

The advantage of using IT services for many enterprise customers is that they would not be dependent on any particular model provider. IT services companies would perhaps develop a platform, hypothetically, where they can incorporate different vendors providing different kinds of models, and you can pick and choose depending on the kind of queries you would have. Many of these companies would also offer SLMs (short language models) and so on. So a lot of work still needs to be done, and it hasn't even started yet. That's how the model would evolve. It may not remain purely on a time-and-material basis. That's what it looks like,

In my view, broadly, I feel the sector would still be homogeneous, because most companies, with some period of lag, would follow each other, whatever business and pricing models are working. That is part one. The second is that, due to the existing mix of the business at the moment, mid caps, in terms of growth, would grow faster than large caps. The growth differential would have increased in FY27, I think. Going forward, there is a possibility, let's see how it works out, how fast this renewal cycle pans out, that the growth differential would get normalised; mid caps would continue to grow faster than large caps, but right now the growth differential has expanded a little bit. Therefore, this year we feel that, because most mid-cap businesses do not have a legacy line of business, they can comfortably grow faster than large caps, and this is also reflected in the portfolio.

ICICI Prudential Technology Fund

13,358
AUM (₹ crore)

Top 10 holdings of the fund (%)

Infosys	13.4
airtel	12.2
Tech Mahindra	8.5
Mphasis	4.3
Coforge	3.9
cognizant	3.1
LTIMindtree	3.0
sagility	2.2
Persistent	2.0
bharti	2.0

Data as of May 31, 2026

In my view, the IT sector would still be homogeneous, because most companies, with some lag, would follow each other, based on whatever business and pricing models are working

Published Date:	31 Jul 2026	Publication:	Wealth Insight [National]
Journalist:	Bureau	Page No:	68
Circulation:	83,000		

Meeta, when I look at your fund's 10-year record, the returns are close to 16 per cent, which is a pretty decent number, considering what has happened to the IT industry in the last year or so. But that has been built on many large-cap names, which have now been de-rated. So, how do you view the next decade? Where would the returns come from?

Meeta Shetty: Right. So, yes, the last 10 years' journey has been phenomenal, clearly, and the sector was also growing much better, as I gave the numbers. But it's not true that we were always very large-cap-ish. The fund has gone through its own cycles. Pre-Covid, this fund used to be roughly 80 per cent large cap; then there was a time during the Covid phase, when we were just about 50 per cent large cap; and now we are at about 65 per cent large cap. So it has gone through its own cycle.

Having said that, to give you a sense of how I see things going ahead, we can't comment on returns, of course, but to give you some broader sense of how the fund might look, I think we've been very agile in many ways. There have been three instances in the last five years when we've taken cash calls; we've gone as high as 10, 11, 12-odd per cent cash. Right now, as I pointed out, we are sitting on 7 per cent cash. So we keep taking these cash calls, even in a sectoral fund, and that really helps us, especially in volatile times. Obviously, every time you have to be right, and that may not be possible, but so far we've really benefited from the views we have taken.

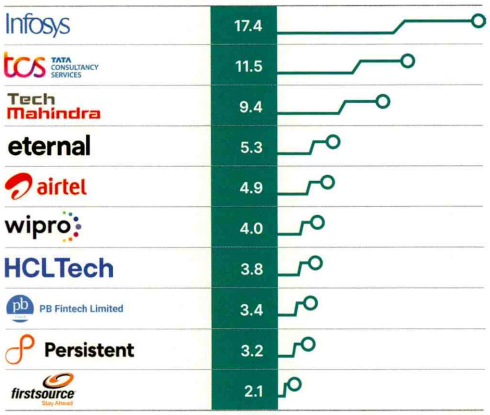
I believe that, as time goes by, we will look at this mix more or less remaining in the same band of large caps versus mid and small caps. You also have to remember the fact that we are closer to about ₹10,000-odd crore in size now. When we used to take these heavy calls to go to only 50 per cent large cap, we were much smaller in size, so obviously, the liquidity aspect also has to be kept in mind.

But one thing I'd like to highlight is that today, when I say we are 60-odd per cent large-cap, the IT services large-cap is actually just 45-odd per cent. It's the platform companies and the telecom companies that make up the rest, the 15-odd per cent. So it's not that being large cap means we are only large-cap IT services today. Today, thankfully, because of the huge wave of IPOs we have seen in the Indian markets, many platform companies have come to market, and they are sizable enough that we need not worry about liquidity concerns. Quite a few of them are growing well, so we also see opportunities in that bucket, and hence they form a large part of our portfolio. So, while it will remain large-cap-skewed relatively versus the past, it need not be IT services. That's how I would put it.

Tata Digital India Fund

9,660
AUM (₹ crore)

Top 10 holdings of the fund (%)



Data as of May 31, 2026

There have been three instances in the last five years when we've taken cash calls. Right now, we're sitting on 7 per cent cash. We keep taking these cash calls, even in a sectoral fund, and that really helps us, especially in volatile times.

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Sumanta, one thing that I have noticed is that you hold both sides of the argument that's going on. You have some US tech AI winners in your portfolio, as well as some IT services names. So within your fund, would you say you're betting that AI would help or hurt Indian IT services?

Sumanta Khan: I believe it's just a phase. Both have their ways to go ahead. As I explained earlier, there are many other names in the portfolio. If you look at the data-centre space, these are all infrastructure companies.

If you look at the different classifications, hardware, storage and so on, globally, if you want to play technology, we don't have those players in India. That's the reason we went there. If you look at it, between these two segments, we have roughly 70 per cent of our portfolio. We believe both sectors have potential to grow. Their cycles might come together or not move together; they might have different cycles, but ultimately, I think there is value for investors in these two sectors, and hence we are invested in both.

There is a third part of our portfolio: platform companies and other technologies that impact us, whether it's EVs, renewable energy or fintech. We are also taking exposure there because that is a core part of technology and how it impacts our lives.

Sumanta, the flip side of owning US tech stocks is that if the AI tirade turns out to be a bubble of some sort, you remain the most exposed of the lot here. How are you thinking about that asymmetry, considering the valuations we have right now?

Sumanta Khan: Yes, I agree, if it's a bubble, then there's a challenge. I completely agree that if there is indeed a big bubble, my fund is exposed, but I have the leeway of bringing it down. It's not there's a hard stop somewhere.

Secondly, as I said, the portfolio is positioned so that there's enough diversification that the cycles are not that deep. You have the other three buckets; each bucket, at any point in time, can help you at least remain afloat. And if you remain afloat in a tough time, you can deliver better returns in good times, if my belief really comes through that this is just a passing phase, and things should improve for IT services companies. We also have some IT services companies based out of the US, so it is not purely AI-led investments that we do out there. Overall, I'm confident we should be able to handle it.

We believe both US tech AI stocks and IT services have growth potential. There's value for investors in the two sectors, so we have invested in both.

Edelweiss Technology Fund

727
AUM (₹ crore)

Top 10 holdings of the fund (%)

airtel	9.5
Infosys	6.7
NVIDIA	6.1
Tech Mahindra	5.8
Apple	5.5
Mphasis	4.3
ATHER	4.3
Microsoft	4.1
HCLTech	3.7
LTIMindtree	3.3

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Journalist:	Bureau	Page No:	71
Circulation:	83,000		

Vaibhav, your portfolio has about a good 5-odd per cent weight in US stocks. What are your views on it? In the recent sell-off, how did they perform? Was it able to cushion you to some extent? Or would you be of the view that this is the right time to add more to those stocks?

Vaibhav Dusad: I would divide the entire US tech space into two parts. One is stocks like the 'Magnificent Seven', which are more directly exposed to AI; the other is software companies. There are many software companies where the valuations have become very attractive. They may not be part of my portfolio at the moment, but overall, if you ask my view, many of the software companies in the US have become very attractive. Yes, there can be some potential disruption because of AI, but it is still growing. If you look at the numbers for ServiceNow and Workday, their order books, and the amount of AI-led sales they have done, they are still growing at a very healthy rate of anywhere between 15 and 20 per cent. And their valuations have also come off a lot. To that extent, much of the downside has already been priced into those kinds of stocks.

But there is absolutely not any kind of negative built into any of the other stocks like Microsoft, Meta, Oracle, Nvidia and so on. In fact, many of these companies are now coming to the market to do fundraising; they want to do so in the equity markets. Many of them have already used off-balance-sheets to fund their capex. If you look at the amount of capex that has gone just into AI in the last 2-3 years, it would be anywhere between $500 to $600 billion, and cumulatively, they are expecting to invest roughly between $2-4 trillion by FY30, all of these hyperscalers and the top companies put together, just on AI. And if I tell you the amount of capex these guys did from 2010 to 2023 on cloud, it is only $1 trillion, all four companies put together; that's a rough number. So they are investing so much money in AI. And remember, the replacement cycle in the case of AI is far shorter, because Nvidia gives you new chips every 18-24 months. Therefore, the implied depreciation is much higher than it used to be for non-AI data-centre clouds.

If you want AI adoption to be as big as internet adoption, the prices of AI need to come down. And if the prices don't come down significantly, the adoption would be lower, and there would be more work for IT services. But the reality would be somewhere in between.

Hence, the amount of money that enterprises need to spend for hyperscalers to justify any return on capital, and for Anthropic and OpenAI to justify a trillion-dollar private valuation, is huge. A lot of people do not appreciate that a trillion-dollar private valuation is huge. The amount of revenue they need to extract from enterprises globally in the coming years would be a multiple of the current global IT services and software budget. The global IT services and software budget would be around $2 trillion, excluding hardware and other components. And on top of that, you have Chinese models, which are at almost a 70-90 per cent discount to the American companies, so where would the pricing power come in?

There are a lot of ifs and buts. This story is not as straightforward as what share prices or stock prices reflect. Therefore, I come back to the same point: the hard part is that if you want AI adoption to be as big as internet adoption, then the prices of AI need to come down. As the prices come down, you know what would happen. And if the prices do not come down significantly, that adoption would be lower, and there would be more work for IT services. But reality would be somewhere in between. I think enterprises and the stakeholders in the entire ecosystem would, over the next few years, figure out a way so that everybody shares the pie of work.

And the last part is that every company is now becoming a tech-first company, or will eventually become one. First, the quantum of tech spend within the existing organisation would increase, and second, more tech adoption would occur in industries with little to no technology penetration, such as

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Journalist:	Bureau	Page No:	72
Circulation:	83,000		

manufacturing or other sectors.

A lot of the incremental IT budget would be funded through whatever these enterprises are spending on operations, marketing, and so on; all of those things would eventually become part of the technology layer: digital marketing, operations and so on. So there would be an element of technology in everything.

What a lot of people are not realising is that, overall, the addressable market for the technology sector is expanding, and AI is helping expand it. So it's not like the enterprise would all of a sudden start spending more and their margins would go down; it's just that much of this other spending would be converted into technology over time.

Now I'll pose one final question to all of you: Three years from now, what is the one thing the market is most wrong about Indian IT today? Meeta, let's start with you.

Meeta Shetty: I think it's the comment you made at the very start, "Is Indian IT dead?" That's where I clearly believe the market is wrong. I'm not saying it will not have any impact; it will have an impact. Every new tech wave will shrink the existing revenue pie, and I'm absolutely not saying there's not going to be an impact. This is a disruption phase; it will have its own trajectory and it will take some time for us to move ahead and come out of this disruption and be on the other side of it, whenever the last and mass-scale adoption starts. But yes, I think that in the long run, say, three or five years, when we look back, we will realise that this commentary, this narrative, was clearly wrong.

Vaibhav Dusad: No, I think, apart from what Meeta mentioned, three years out, the growth outlook from here would definitely look better. I would say margins can be slightly lower than what we are seeing today.

In terms of capital allocation, one of my complaints about Indian IT services is that they invest very little in innovation and R&D. I think that will change. There will be more proprietary work they would be doing; they will be forced to invest more in R&D and deeper technology. There will be entirely new kinds of training programmes. You would still need a good number of people, but they would perhaps be doing a different kind of work: working alongside agents and monitoring them; there would be a lot of workforce required on the governance side and so on.

So the nature of the work would also change, requiring a different kind of training proposition. And, of course, as we have seen over the last decade, they would become increasingly dependent on headcount, as you have also mentioned. But I would be more optimistic; I feel they would actually come out with more innovations, with higher R&D budgets and with more capital allocated to investing in newer technology.

Sumanta Khan: I think, and I hope, that the narrative is that Indian tech companies use this as an opportunity to invest more and become much more respectable on a global scale. AI is an opportunity where everybody is starting afresh, so not only services but also engineering.

I agree with what Vaibhav said about more innovation. This is an opportunity, and they should look into it. They have very strong cash flows. So, yes, we have the understanding, the intelligence, the know-how; why not? There is a lot of government focus, with many schemes. Thus, we should definitely take it as an opportunity to upscale. ☑