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Digital shift helps IT firms improve revenue per employee, profitability

MAKING A MARK. High-margin projects, investments in upskilling aid transformation

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Over the past eight years, most Indian IT companies have reported a compound annual growth rate (CAGR) of revenue per employee (RPE) in the range of 3 per cent to 5 per cent between 2016 and 2024, analysts observed.

In the last decade, tier-I Indian IT companies have gradually increased their profit and RPE due to a shift in how they operate, Dev-roop Dhar, the co-founder & Managing Director at Primus Partners noted. Earlier in the decade, these service-oriented IT giants relied heavily on large workforces for outsourcing projects, which kept RPE on the lower side.

However, with the shift toward digital transformation, cloud services and AI-driven solutions, they are focusing on high-margin digital offerings. For example, for tier-I IT companies, RPE in FY23 averaged between ₹3.66 million and ₹4.4 million, marking an approximate growth of 10-15 per cent compared to previous years. This increase reflects the industry's shift toward higher-

margin digital services and more efficient resource use, he said.

Maya Nair, Executive Director of Elixir Consulting (GI Group Company), said, "Larger software product firms have seen decent RPE growth even with a rapid increase in the workforce. Mid-sized firms have had more increase in RPE even with the workforce increase. With the evolution of technology, in the early 2000s, RPE and profit per employee (PPE) were moderate, with the move from hardware to software and the shifting of focus to adopting offshore models. The following decade, till about 2010, saw a huge spike in RPE as cost of labour was optimised; due to economies of scale, large IT firms could drive high margins, keeping operational costs low."

DEVELOPING SKILLS

She attributed this to factors like rapid hiring where, in FY22, the top five IT firms in India added 2,73,000 employees.

This rapid expansion often outpaced revenue growth, impacting per-employee metrics. The shift towards digital services required much investment in



EYE ON FUTURE. Implementing automation and AI tools also improved operational efficiency

upskilling employees and developing new capabilities, thereby affecting short-term profitability.

Implementing automation and AI tools also improved operational efficiency, contributing to recent increases in RPE and PPE. Alongside, economic slowdowns in key markets like the US and Europe influenced client spending on IT services, affecting revenue streams and profitability.

GLOBAL COMPARISON

However, she explained that Indian IT firms generally exhibit a lower RPE compared to global counterparts. This

ally can be around \$1 million, underscoring the difference a product-based revenue model can make. The RPE of large global tech and consulting firms is estimated around \$80,000, largely due to the premium client base in developed markets."

Indian service companies are still evolving to match these figures. He noted that the service model inherently limits RPE compared to firms prioritising proprietary software and consulting. However, Indian firms are expected to close this gap with the shift towards digital and higher-margin projects, helped by investments in upskilling and digital innovation.

"In the product sector, Indian companies are beginning to make a mark globally. Their RPE, boosted by subscription models and product sales, brings them closer to global software companies," Dhar said.

Sarbojit Mallick, Co-founder of Instahyre, pointed out that a high RPE means the company achieves more revenue with fewer employees. As most top Indian IT companies have benefited from layoffs, this metric has risen.

discrepancy mostly stems from the high-value consulting services and diverse, specialised portfolios offered by many global firms, which tend to generate higher RPE. Indian IT companies, by contrast, have traditionally emphasised cost-effective solutions and largescale outsourcing. While this model is profitable and scalable, it results in relatively lower RPE compared to high-margin consulting services.

Dhar added that global giants benefit from established markets, high-value consulting and intellectual property-driven services. "For many large product-based giants, the RPE glob-