27 Emerging Tier-2 and Tier-3 Cities in India For Engineering Services

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The Indian IT industry has shown amazing resilience by adopting the work from home (WFH) operating model on a huge scale amid the COVID-19 pandemic. The success of this remote operating model, without a dip in productivity, has proved that employees are no longer required to be in metro cities to execute projects. So, Indian IT services and engineering services companies have a reinvigorated interest in tier-2 and tier-3 centers. Although domestic engineering services players have been setting up centers in tier-2 and tier-3 cities for quite some time now, certain factors during the pandemic make these facilities distinct from their counterparts in metro cities.

Firstly, the level of disruption in second-rung centers of IT firms has been much lower as compared to facilities in metro cities. Secondly, staffers are returning to offices at a brisker pace in tier-2 and tier-3 centers than in metro units. Given these advantages, companies are likely to aggressively open new centers or expand existing facilities in the coming years.
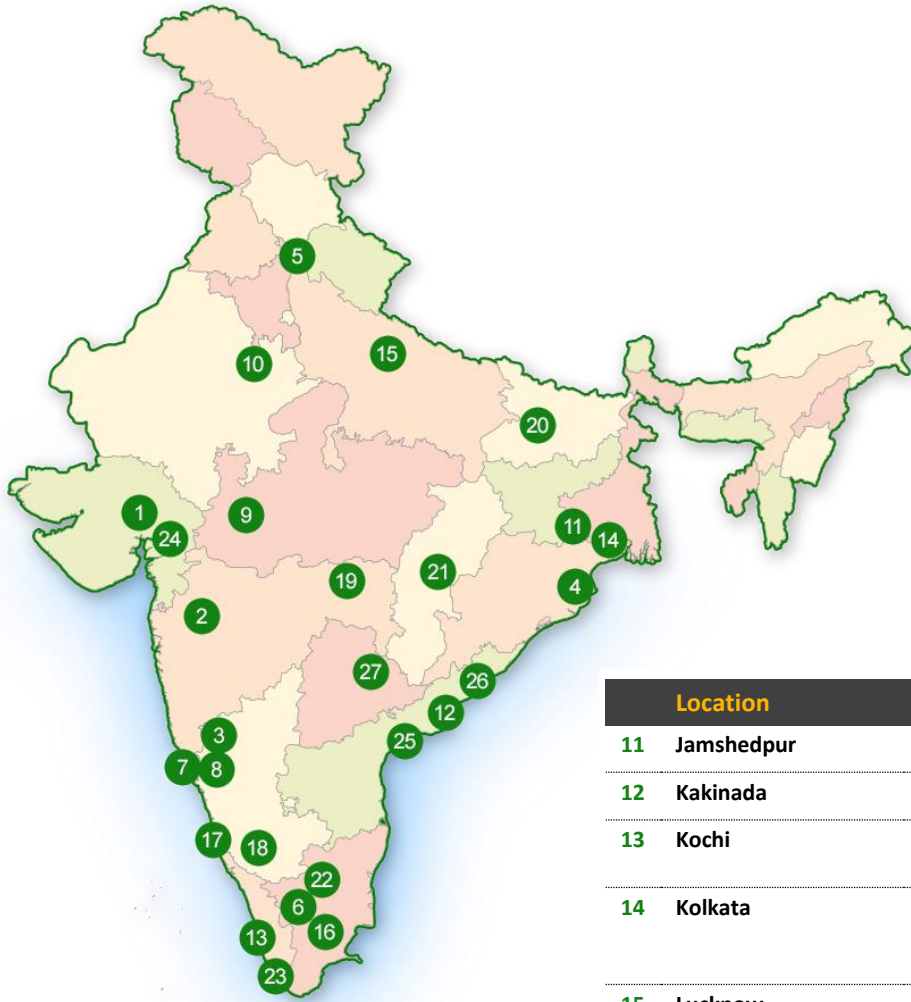
Currently, more than three lakh staffers work with service providers in the engineering services space. Around 90 per cent of them operate out of tier-1

cities such as Bengaluru, Pune, Hyderabad, Chennai, Mumbai, and the National Capital Region (NCR). The remaining 10 percent (about 30,000 employees) work in tier-2 and tier-3 cities. In the engineering services space, companies have units in 27 tier-2 and tier-3 cities with more than 50 centers.

Interestingly, many of these second-rung centers have entered the portfolio of some companies through the inorganic route. Capgemini's Gandhinagar center came under its fold after the acquisition of iGATE in 2015. Similarly, QuEST Global's acquisitions of Exilant Technologies enabled it to get a hold of the latter's Bhubaneswar center, while its Thiruvananthapuram center came under its fold after the acquisition of NeST Software. Apart from the inorganic route, most tier-2 and tier-3 centers have come up by leveraging the local manufacturing ecosystem especially in Mysore, Kolkata, and the cities of Gujarat. A good talent base is another factor for setting up units in tier-2 and tier-3 cities. Against this backdrop, it is pertinent to delve into the strength of these individual centers that makes them attractive for future investments.

The details of engineering services centers in tier-2 and tier-3 cities are shown in exhibit 1.

Exhibit 1: Map Showing Engineering Centers in 27 Tier-2 and Tier-3 Cities in India

	Location	Engineering Service Providers
11	Jamshedpur	TCS
12	Kakinada	Cyient
13	Kochi	Wipro, TCS, Cognizant, UST Global, HCL
14	Kolkata	ITC Infotech, Wipro, TCS, Tech Mahindra, Xoriant, HCL, Cognizant
15	Lucknow	HCL, TCS
16	Madurai	HCL
17	Mangalore	Infosys
18	Mysore	LTTS, Infosys, Cyient, Wipro, Tech Mahindra
19	Nagpur	Persistent, Tech Mahindra, GlobalLogic, HCL
20	Patna	TCS
21	Raipur	TCS
22	Salem	Vee Technologies
23	Thiruvananthapuram	QuEST, Infosys, Tata Elxsi, UST Global, TCS, Tech Mahindra
24	Vadodara	LTTS, TCS, Wipro
25	Vijayawada	Wipro, HCL
26	Vizag	Cyient, Wipro, Tech Mahindra
27	Warangal	Cyient, Tech Mahindra

	Location	Engineering Service Providers
1	Ahmedabad - Gandhinagar Region	eInfochips, Neilsoft, Eximus, Capemini, Cybage, TCS, Wipro Tech Mahindra
2	Aurangabad	Expert Global
3	Belgavi	QuEST
4	Bhubaneswar	Mindtree, QuEST, Wipro, Tech Mahindra, TCS
5	Chandigarh - Mohali Region	Infosys, Tech Mahindra
6	Coimbatore	Harman, Wipro, Cognizant, UST Global, TCS
7	Goa	TCS, Persistent, Neilsoft
8	Hubli	Prolim HCL
9	Indore	Infosys
10	Jaipur	Infosys, Wipro

Source: EIIRTrend, News Reports

Ahmedabad-Gandhinagar Region

- The largest city of Gujarat, Ahmedabad, is known for its business-friendly environment. With good air connectivity to the major IT hubs of the country including Bengaluru, Pune, Hyderabad, Mumbai, and Chennai and international locations such as New York and London, the city has emerged as a major tier-2 center for many IT services and engineering services companies. It is no wonder that TCS, Wipro, Tech Mahindra, eInfochips, and Eximius have their centers in Ahmedabad.

- In addition to Ahmedabad, the capital city of Gujarat—Gandhinagar—is also home to companies like TCS, Capgemini, Cybage, and Neilsoft. Its proximity to Ahmedabad, supporting infrastructure, good connectivity, and the presence of major industrial establishments make it perfect for IT firms to set up units in the city. The establishment of Gujarat International Finance-Tec City (GIFT City) between these twin cities has added to the attractiveness of this region. A proposal to set up an IT hub in the GIFT City campus in Gandhinagar is expected to give further momentum to this trend.

Aurangabad

- Known as the auto manufacturing hub of Western India, Aurangabad is an ideal tier-3 center for engineering services and IT services companies. As a vibrant automotive hub with two-wheeler manufacturers, car manufacturers, and OEMs (original equipment manufacturers) such as Skoda Auto Volkswagen India, Bajaj Auto, Varroc Engineering, and Endurance Technologies, the city is attractive as a center for engineering services providers that are especially focused on the automotive and related space. Persistent Systems and Expert Global have their centers in the city. The presence of STPI (Software Technology Parks of India) Aurangabad works as a catalyst for the growth of the IT industry in this region.

Belgavi

- Equipped with a 300-acre long aerospace SEZ (special economic zone), Belgavi has been the center of attraction for engineering services players. This northern city of Karnataka is well-connected through rail, road, and air to the major IT hubs of the country including Bengaluru, Chennai, Pune, and Mumbai.

- With the presence of many manufacturing units in the aerospace and the oil and gas segments, companies like Quest Global have set up a facility in the city. Other engineering services and IT services firms can look at setting up centers in the city as an ideal tier-3 location.

Bhubaneswar

- The capital city of Odisha, Bhubaneswar, has emerged as a major tier-2 center for many IT services companies and has attracted sound investments in the IT and ITes sector. Good connectivity, low cost of living, and supportive infrastructure are seen as key factors supporting the growth of tier-2 centers.

- The presence of the Special Economic Zone (SEZ) has attracted many IT biggies including Tata Consultancy Services (TCS), Infosys, Wipro, Tech Mahindra, Mindtree, and QuEST to set up centers here. With the expansion of the SEZ in the city, many other companies are likely to consider setting up units that focus on software and telecom segments.

Chandigarh-Mohali Region

- Strategically located near the National Capital Region (NCR), the Chandigarh-Mohali region is slowly emerging as an important tier-2 center for the IT industry in the entire northern part of the country. Endowed with good connectivity to all the IT hubs of the country, the tri-city (Chandigarh, Mohali, and Panchkula) has a supportive business environment, well-developed infrastructure, and healthy living conditions.

- The presence of STPI in Mohali is another catalyst to the growth of the IT industry in this region. Infosys, Tech Mahindra, and other small and mid-tier IT services companies have set up their offices in this region with projects related to software services, telecom, and product lifecycle management (PLM) among others.

Coimbatore

- Proximity to both IT hubs, Bangalore and Chennai, makes the southern city of Coimbatore an attractive destination for IT companies. The availability of a huge talent pool is another reason for Coimbatore to grow as a tier-3 center for many IT services firms.

- Companies like TCS, Cognizant, Wipro, UST Global, Harman and many more have centers in the city want to cash in on this talent base. Projects related to software services, telecom, and automotive are being implemented in this location.

- The presence of a sub-center of the Chennai STPI in the city provides the necessary incentive for future growth.

Goa

- Goa is on a progressive path to emerge as the next IT hub in the country. With its rich tourism industry, the state has started attracting IT companies to set up facilities on the back of a favorable business environment, tax incentives, and healthy living conditions.
- The presence of STPI Goa is another catalyst to the growth of this industry. Companies like TCS, Persistent, and Neilsoft among others have set up centers here.
- As more technology startups operate from the state, it is expected to give a fillip to the overall IT and ITes industry.

Hubli

- Apart from the IT capital Bengaluru, many small cities in the state of Karnataka have emerged as attractive tier-3 centers for IT companies. The northern city of Hubli is one such center.
- A low cost of living, low attrition, healthy living conditions, and good connectivity with Bengaluru are factors that support the growth of Hubli as an emerging tier-3 center. STPI Hubli is another catalyst for the growth of the IT industry in the city.
- HCL Technologies and Prolim Infosystems have centers in Hubli where engineering services work related to product lifecycle management (PLM) and semiconductor is being executed.

Indore

- Known as the commercial capital of Madhya Pradesh, Indore has enjoyed a business-friendly environment since ages. Its proximity to Mumbai, a vibrant startup ecosystem, the presence of both IIT (Indian Institute of Technology) and IIM (Indian Institute of Management), and an STPI center make Indore a favorite destination for IT companies as a tier-3 center.
- The city is also being developed under the "Smart City" mission, which is expected to make its infrastructure robust and attract more investments in the IT sector.
- No wonder that IT biggies such as TCS and Infosys have opened centers in the city and many small companies are operating in the city.

Jaipur

- The capital city of Rajasthan is fast emerging as a favorite destination for IT companies as a tier-2 center. Good connectivity to all major IT hubs, a supportive business environment, and sound infrastructure are seen as the reasons for this attractiveness.

- The presence of Mahindra World City, a multiproduct SEZ, has acted as a catalyst for the growth of the IT industry. The city is also home to the largest startup incubation hub that creates the right ecosystem for the rise of the IT sector.

- With such a supportive environment, IT biggies such as TCS, Infosys, and Tech Mahindra have opened up centers in Jaipur with major projects being executed in the software services space.

Jamshedpur

- The industrial capital of Jharkhand, Jamshedpur, is known as the hub of metal-based industries, especially steel. Of late, the city is seeing interest from the IT sector due to its developed industrial base, good connectivity, and friendly business environment among others. Tata Group companies have a large presence in the city with Tata Steel, Tata Motors, and Tata Power's facilities. No wonder, Tata Group's flagship IT services firm TCS has set up its tier-3 center in the eastern city.

Kakinada

- Kakinada, the port city of Andhra Pradesh, is known for its beautiful beaches and healthy living conditions. The sixth-largest city of the state is also home to many fertilizer, natural gas, and edible oil refineries.

- Given its business-friendly environment and good connectivity, the city has attracted investments in the IT sector. The engineering services firm Cyient has set up its center in the city to cash in on the talent base available in this region. Engineering services work related to telecom and GIS is being executed by the firm. As STPI Hyderabad starts operating in tier-3 cities like Kakinada, the software services industry is likely to get a further boost.

Kochi

- Kochi has emerged as one of the leading tier-3 centers for IT companies in the last two decades. This port city of Kerala is a bustling industrial center for the whole of south India. Given its healthy living

conditions and good connectivity with all the major IT centers of South India including Chennai, Bengaluru, and Hyderabad, Kochi has attracted a major share of IT investments.

- Most major companies such as TCS, HCL Technologies, Cognizant, Wipro, and UST global among others have set up centers in the city. Kochi Infopark is one of the major catalysts for the growth of the IT sector. Engineering services projects related to industry 4.0, IoT (The Internet of Things), medical, telecom, and automotive are being implemented in this location.

Kolkata

- The gateway to eastern India, Kolkata, is one of the leading tier-2 centers for the Indian IT industry. The capital city of West Bengal has always been known for its industrial base cutting across industries. As a metropolitan city, Kolkata is well-connected with all the important domestic locations and many international places. IT companies have opted to set up centers because of the low cost of living along with the low attrition level.

- The city is home to many IT parks spreading across areas like New town, Rajarhat, and Salt Lake with companies like TCS, HCL Technologies, Wipro, Cognizant, Tech Mahindra, Xoriant, and ITC Infotech among others operating in the centers. Engineering services jobs related to manufacturing, IoT (The Internet of Things), software services, industry 4.0, and medical technology are being implemented in the city.

Lucknow

- The capital city of Uttar Pradesh is fast growing as an important tier-2 center for the Indian IT industry after Noida. The availability of a sound talent base, good connectivity with NCR (National Capital Region), and a well-developed infrastructure are attracting investments from various companies including TCS and HCL Technologies. Engineering services work related to software and manufacturing is implemented in this center.

- The UP government's plan to set up India's largest startup incubation hub in Lucknow is expected to provide further fillip to the IT industry in this region.

- The presence of premier institutes like the Indian Institute of Management (IIM) Lucknow, the Indian Institute of Technology (IIT) Kanpur, and Banaras Hindu University (BHU) work as catalysts for the rise of the IT sector in this region.

Madurai

- The temple city of Madurai enjoys healthy living conditions with a low cost of living, which augurs well for its development as a tier-3 center for Indian IT firms. Its proximity to IT hubs like Chennai, good air

connectivity, and availability of talent are some of the other factors that make this city in Tamil Nadu attractive for IT investments. The presence of STPI Madurai works as another catalyst.

- Companies like HCL Technologies have set up their centers in Madurai where projects related to medical technology and software services are being implemented.

Mangalore

- The port city of Mangalore is a prominent trade center of Karnataka with the presence of an oil refinery, LPG plant, fertilizer plant, educational institutions, the headquarters of Karnataka Bank, and a large presence of Canara Bank. The city is home to the second international airport of the state with good connectivity to the Middle East nations. The city has a vibrant entrepreneurial culture and a supportive business environment.

- As the city is strategically located with good connectivity to India's Silicon Valley, Bengaluru, Mangalore (or Mangaluru) has attracted a fair amount of investment from the IT sector. Companies like Infosys and Cognizant have opened units in the city. TCS has also committed to invest Rs 500 crore to open its center in Mangalore.

Mysore

- The proximity to Bengaluru, a high quality of life, a low cost of living, and favorable weather conditions make Mysore an ideal location to set up a tier-2 center in the city. The city has many prestigious educational and research institutions including the National Institute of Engineering (NIE), which provides a talent base for IT companies. STPI Mysore has played a major role in developing the city as a major second-rung IT center in India. Of late, Mysore also has a vibrant startup ecosystem.

- Given these advantages, companies like Infosys, Wipro, Tech Mahindra, L&T Technology Services, and Cyient among others have set up centers in Mysore. The city is also home to the largest training center of Infosys. It is no wonder that around Rs 6,000 crore worth of IT services are exported from this region. Engineering services projects related to embedded and medical technologies along with telecom, manufacturing, automotive, and aerospace sectors are being implemented in this location.

Nagpur

- The winter capital of Maharashtra, Nagpur, is slowly attracting IT companies to set up facilities in the city on the back of its healthy living conditions, low cost of living, and reputed educational institutions including the Indian Institute of Technology and the Indian Institute of Information Technology (IIIT). Nagpur SEZ is another point of attraction for IT companies to look at the city as a tier-3 center.

- IT firms such as HCL Technologies, Tech Mahindra, GlobalLogic, and Persistent Systems are operating their units in Nagpur with projects related to software product engineering and telecom being the major ones.

Patna

- The capital city of Bihar is slowly developing as a tier-2 center for IT services companies due to its low cost of living and good connectivity with prominent IT hubs of the country. The presence of STPI Patna is a major catalyst supplementing this trend. Educational institutions such as IIT provide a much-needed talent base to IT firms.

- Given the favorable policy push, TCS has set up a center in the city. The city is likely to gain prominence in the coming years as the expansion of STPI work gathers pace. STPI Patna has also been selected to set up an incubation center in the coming days.

Raipur

- The capital city of Chhattisgarh is another important second-rung center for IT companies in Eastern India. A well-developed infrastructure, a supportive business environment, and the presence of reputed educational institutions such as NIT (the National Institute of Technology), IIM (the Indian Institute of Management), and IIIT (the Indian Institute of Information Technology) put the city in good stead to attract investments.

- TCS has a center in the city with projects related to software services being executed here.

Salem

- The strategic location of Salem makes it attractive for IT firms to set up centers in the city. The city has proximity to important IT hubs such as Bengaluru, Chennai, and Coimbatore with well-developed connectivity and a supportive infrastructure.

- The city is also an important node to STPI Chennai and is home to IT biggies such as TCS. The presence of steel manufacturing units and related downstream industries makes it attractive for engineering services companies to set up units in the city. Among mid-tier engineering service providers, Vee technology has a center in Salem.

Thiruvananthapuram

- The capital city of Kerala, Thiruvananthapuram, has all the ingredients to be an ideal tier-2 center for IT companies. A good quality of life, low cost of living, and sound connectivity with major IT hubs and international locations such as the Middle East and Singapore make the city attractive for IT investments. Apart from being a famous tourist spot, the city also has many reputed educational institutions. The state's high literacy rate and a number of engineering colleges work as the talent pool for IT firms. Low attrition among employees is another factor for IT firms to set up centers here.

- STPI Thiruvananthapuram works as the node for IT investments in the state. Companies like TCS, Infosys, Tech Mahindra, Tata Elxsi, UST Global, and QuEST Global have set up centers in the southern city. Engineering services projects related to embedded, telecom, and medical devices are being executed here.

Vadodara

- Vadodara is an industrially developed city of Gujarat with many large-scale industries in the oil and gas space. Indian Oil Corporation, Reliance Industries, Gujarat State Fertilizer and Chemicals, L&T, Oil & Natural Gas Corporation, Gas Authority of India Ltd, and many other large corporations have facilities in the city. Vadodara is also home to many manufacturers of equipment for power manufacturers and distributors. As the city has an existing industrial base with a supportive business environment, it is an ideal tier-3 center for IT companies.

- Also, proximity to the state capital and sound connectivity with major IT hubs makes it attractive for setting up a second-rung center in the city. Currently, TCS, Wipro, and L&T Technology Services have their centers in Vadodara with projects relating to industrial design and industry 4.0 being implemented.

Vijayawada

- The city is the new capital of Andhra Pradesh and is known as the commercial hub of the state. With many reputed educational institutions in the city, Vijayawada is slowly emerging as an important tier-3 center for Indian IT services players. Good connectivity by air with all the major IT hubs of the country and the presence of STPI are the other factors for its attractiveness as a second-rung center.

- Given the rapid development of the city and the aggressive push of the state government to promote IT investments, companies such as HCL Technologies and Wipro have set up centers in Vijayawada.

Vizag

- The port city of Vizag and the executive capital of Andhra Pradesh has developed as an important tier-3 center for the Indian IT industry over the last decade. The city has the potential to compete with the major IT hubs of the country to attract investment in the IT sector.

- The city has a well-developed industrial and educational base. In the metal and power sectors, Vizag Steel (Rashtriya Ispat Nigam Ltd), Jindal Aluminium, and NTPC plant are some of the big industries to operate their plants in Vizag, many big pharma companies including Reddy's Lab, Aurobindo Pharma, Torrent Pharma have facilities in the city. Vizag is also home to many prestigious educational institutions such as the Indian Institute of Management (IIM), the Indian Institute of Petroleum & Energy, the Indian Maritime University, the National Institute of Oceanography, and many more.

- With such a business-friendly environment, low cost of living, and availability of talent pool, the city has attracted a fair amount of investment in the IT sector. Wipro, Tech Mahindra, and Cyient have centers in the city.

Warangal

- Warangal has joined the race to emerge as a tier-3 center for Indian IT firms in recent years. This heritage city has good connectivity with Hyderabad and other IT hubs in the state. The National Institute of Technology, Warangal provides an attractive incentive for IT firms to set up centers in the city. The low cost of living, a good quality of life, and the state government's aggressive push to develop tier-3 centers are the factors behind the development of Warangal as an emerging second-rung center for IT companies.

- Currently, Tech Mahindra and Cyient have centers in the city with Mindtree developing a facility. Engineering services work related to telecom and GIS is being executed in this location.

Bottom line: A Rosy future ahead for tier-2 and tier-3 cities. 25 percent of engineering service delivery capability might be in tier-2 and tier-3 cities in the next five years.

Traditionally, small centers enjoy some distinct advantages. Low attrition, low cost of operations, and the availability of real estate properties at the right price to set up large campuses prompts engineering services firms to set up new units in tier-2 and tier-3 cities. From an employee perspective, the low cost of living, better quality of life, and less commuting time to offices makes small centers attractive. Even the

respective state governments are aggressively doling out incentives to engineering service providers to set up centers in tier-2 and tier-3 cities due to employment generation potential, which improves their support base.

However, tier-2 and tier-3 centers also face challenges in terms of scaling up. A lack of talent is the key obstacle in this process as some staffers are keen to move to big cities for better opportunities. However, a vibrant startup ecosystem, the presence of a sound manufacturing base, global inhouse centers and nearby educational institutions such as engineering colleges can address the challenge of talent availability in the future.

In this perspective, the delivery mix of engineering services providers is likely to shift to tier-2 and tier-3 cities. Currently, 10 percent of the delivery is being executed from small centers. This is likely to go up to 25 percent in the next five years. The current pandemic is supportive of this trend. As many of the staffers have moved back to their hometowns, they are likely to prefer these small centers for work rather than returning to metro cities.

Engineering service providers should not ignore this trend and aggressively plan to include tier-2 and tier-3 cities in their delivery mix.

About the Author

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EIIRTrend.com is a neutral platform to discover emerging engineering, IoT, Industry 4.0 and R&D (EIIR) trends across 12 industry verticals. Pareekh Consulting is a focused analyst and advisory firm for EIIR.

A seasoned EIIR professional, Pareekh has seen the EIIR industry from four perspectives: service provider, sourcing advisor, enterprise buyer, and industry analyst.

He is regularly quoted in the media on engineering services, IoT, and outsourcing trends, including Harvard Business Review (HBR), NDTV, Times of India, Economic Times, Business Standard, Hindu, Business Line, Livemint, Financial Express, Rediff, Voice of America, and Business Insider.

Pareekh is a thought leader, having authored various publications on topics related to EIIR outsourcing. He loves business fiction writing in his free time, and has authored a novel, Who Is That Lady?

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