

FPIs sold IT stocks heavily despite positive net inflows in February

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Foreign portfolio investors (FPIs) pulled out ₹5,993 crore from information technology (IT) stocks in the second half of February, taking total outflows from the sector to ₹16,949 crore — the highest since July 2025. The selling comes amid growing concern that artificial intelligence (AI)-led disruption could upend the business models of Indian IT services firms and weigh on their profitability.

“We bake in 3-3.5 per cent revenue deflation for the IT services industry in FY27-28E (E stands for estimates). The faster pace of innovation, focus on automating software development by key AI labs, high adoption by the developer community, and an AI-first mindset among enterprises make the upper end of the deflation range more likely,” said a note by Kotak Institutional Equities.

The foreign investor selling sent IT stocks sharply lower. The Nifty IT index declined 19.5 per cent in February, marking its steepest monthly fall since September 2008 during the global financial crisis, when the gauge had dropped 21 per cent.

The market capitalisation of Nifty IT constituents declined 18.7 per cent during the month, falling from ₹31.4 trillion to ₹25.53 trillion.

The fears of AI disruption have surfaced at a time when Indian IT firms were already grappling with slowing earnings growth.

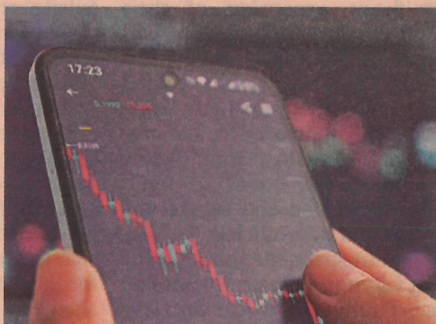
“AI is a major structural shakeup. Even before this AI threat, Indian IT firms were posting single-digit revenue growth. Global capability centres (GCCs) had already started taking away some of their revenues. If the industry was growing at 12-13 per cent, there would have been no reason to panic,” said Chokkalingam G, founder of Equinomix Research.

Investors, he said, are increasingly rotating towards sectors benefiting from stronger domestic demand.

“Investors would prefer sectors linked to domestic demand, especially after the goods and services tax (GST) cuts. It makes sense to reduce exposure to IT stocks,” Chokkalingam said, adding that the sector is likely to underperform the broader indices.

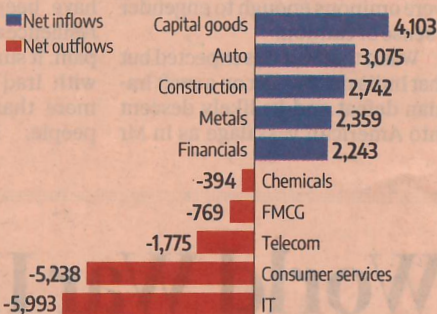
He further said that the traditional billing model based on the number of employees deployed on projects could weaken as AI adoption rises.

“The traditional billing model based on the number of people involved in a project will gradually fade. This could lead to pressure on revenues and profits. Investors will wait for the AI



Wax and wane

Sectors that saw highest inflows and outflows during the second half of February (₹ cr)



Note: Data for the period Feb 16-28

Source: primeinfobase.com

disruption to play out and see which companies can leverage AI to their advantage and avoid de-growth. That process could take another two to four quarters,” he said.

The heavy selling in IT stocks came even as FPIs turned strong net buyers in Indian equities. FPIs bought shares worth ₹22,615 crore in February 2026 — the highest monthly inflow in 17 months, and the most since September 2024.

During the month, FPIs bought capital goods stocks worth ₹12,135 crore, financial services worth ₹8,418 crore, and metals and mining stocks worth ₹5,638 crore.

Apart from IT, FPIs were also significant sellers in consumer services (₹4,172 crore) and fast-moving consumer goods, or FMCG (₹1,951 crore). Foreign investors turned net buyers after India’s trade agreement with the European Union (EU) and the United States’ decision to lower tariffs on Indian goods to 18 per cent from 50 per cent. However, rising tensions between Iran and the US have since pushed investors into a riskoff mode. So far this month, FPIs have sold Indian equities worth around ₹21,000 crore.