Manufacturing, retail growth for IT companies may take a hit

Could lead to slower decision making, less discretionary spending on new-age technology

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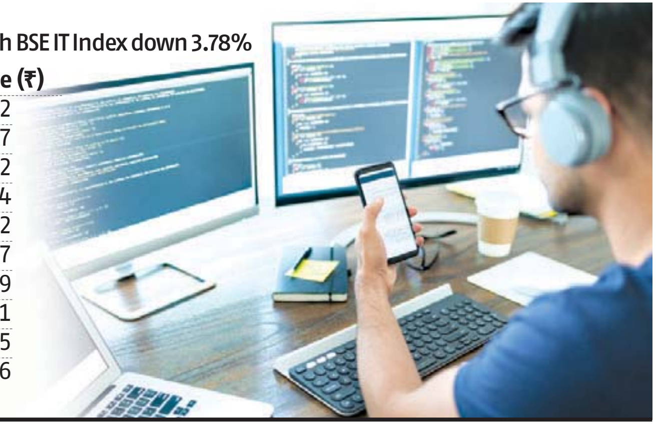
Bengaluru, 3 April

IN THE RED

IT stocks witnessed fall on BSE, with BSE IT Index down 3.78%

Company	1-day drop (in %)	Closing price (₹)
Persistent	-9.6	4,802
Coforge	-7.7	7,157
KPIT	-7.6	1,212
Mphasis	-4.0	2,374
TCS	-4.0	3,402
HCL	-4.0	1,467
Tech Mahindra	-3.8	1,369
LTIMindtree	-3.5	4,341
Infosys	-3.5	1,495
Wipro	-2.75	256

Source: Exchanges



The imposition of US tariffs is expected to significantly dampen growth prospects for Indian information technology (IT) companies in key sectors such as manufacturing, retail, and consumer packaged goods (CPG) in the US, at least in the short term, according to industry experts and analysts.

The three verticals are the largest contributors to the topline after banking, financial services, and insurance (BFSI) for a majority of the large and midcap companies. Uncertainty in the sectors will translate into slower decision making and less discretionary spending on new-age technologies, experts say.

Macquarie analyst Ravi Menon said that he expects "very low" to "zero" growth but not a decline in manufacturing and retail.

"The impact is indirect as uncertainty increases and manufacturing, specifically in the US, might see issues that will impact IT spending. And of course people worry about the US slipping into a recession," added Menon.

For TCS, India's largest IT services company by revenue, consumer business and manufacturing contributed 15.7 per cent and 8.7 per cent respectively to the revenue for the third quarter ended December 31.

For Infosys, manufacturing and retail contributed about 29.3 per cent during the same time period while for Wipro, consumer business was about 19 per cent and energy, manufacturing and resources 16.9 per cent. HCL has about 20 per cent of its revenue coming from manufacturing.

Shares of most IT companies on the BSE were in the red and so was the BSE Information Technology Index, which was down 3.78 per cent. Shares of mid-tier companies such as KPIT, Coforge, and Persistent suffered the most.

For BFSI and business services, the impact of the tariffs is likely to be secondary, with a greater impact on IT services demand. While banks may not be directly hit by tariffs, they are exposed to the financing risk of their manufacturing and CPG and retail clients.

BNP Paribas said that some of the US macroeconomic data has started showing signs of a slowdown, raising the risk of a stagflation at best and a recession at worst.

"IT services demand, especially discretionary, is unlikely to be left untouched from this slowdown. Investors have accordingly slashed growth expectations sharply and now expect FY26 revenue growth to be weaker than in FY25," BNP Paribas securities analyst Kumar Rakesh wrote in a note ahead of the tariffs being announced.

However, while discretionary spending and smaller IT contracts are likely to be impacted, analysts say that such macroeconomic headwinds will also mean greater focus on larger cost optimisation deals as clients try to boost efficiency.

"Smaller deals – especially ones in the $5-9 million range – bounced back in Q4FY24. It was one of several signs that discretionary spending was starting to open back up. The recent policy announcements could slow down that growth again, not just in the industries directly impacted by tariffs, but also in those that provide services to the industries most impacted," Stanton Jones, distinguished analyst at ISG, said.