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# IT stocks fall as Moody's downgrades US sovereign credit rating to 'AA1'

*IT stocks slipped after Moody's downgraded the US credit rating to 'AA1', with analysts calling the fall a knee-jerk reaction due to US market reliance*

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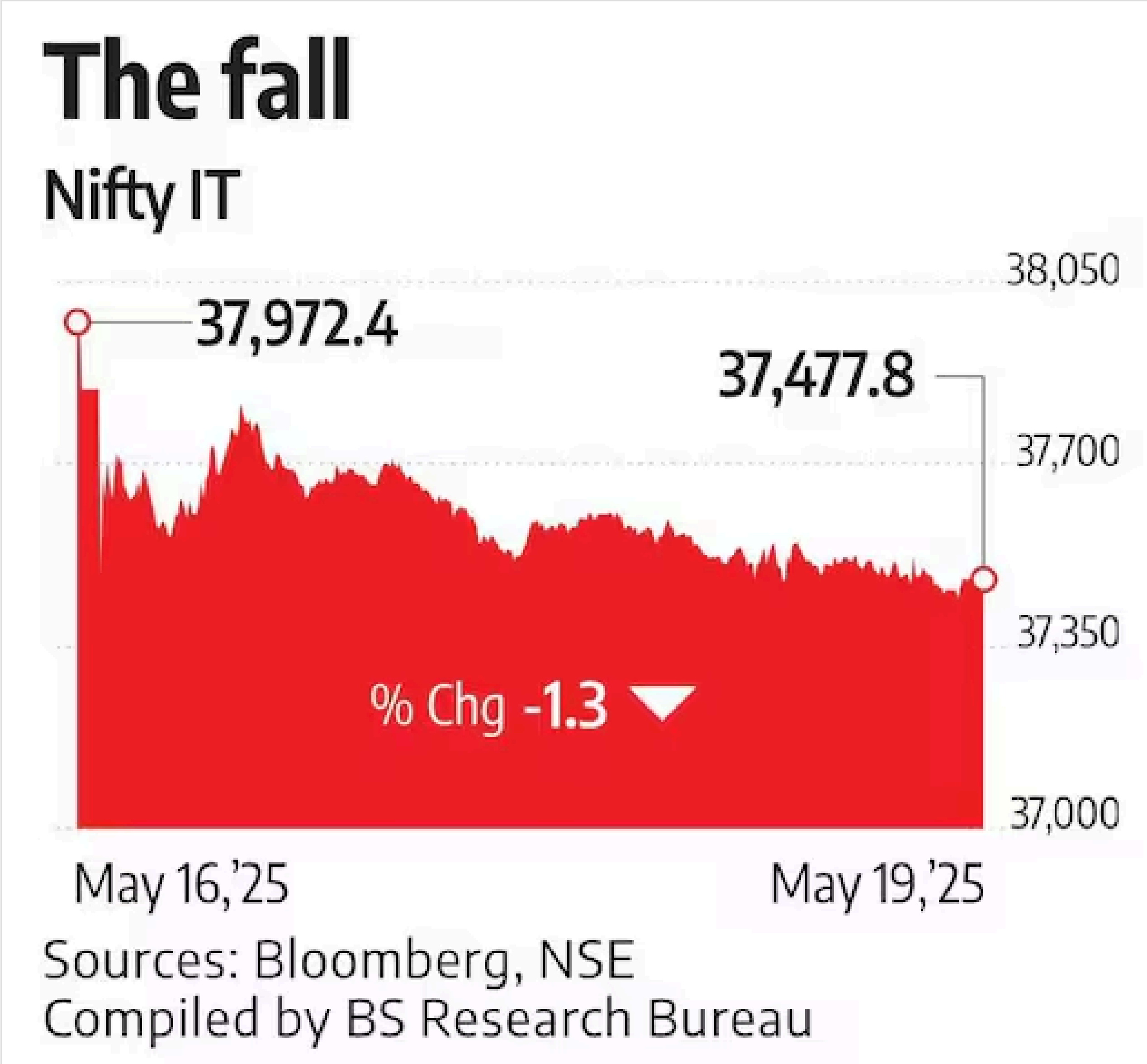
IT stocks declined as Indian tech firms earn a significant portion of their revenue from the US

Indian IT stocks declined and the Nifty IT fell by 1.3 per cent on Monday after Moody's downgraded the US sovereign credit rating last week to "AA1" from "AAA". All the constituents of the IT index traded with losses. Mphasis, which fell by 2.5 per cent, declined the most, followed by Infosys, which fell 1.9 per cent, and Coforge, which dropped 1.8 per cent.
Moody's said its downgrade reflects the increase over more than a decade in US government debt and interest payment ratios to significantly higher levels than similarly rated sovereigns.

"Successive US administrations and Congress have failed to agree on measures to reverse the trend of large annual fiscal deficits and growing interest costs," Moody's said on Friday.
The downgrade comes as the US economy is staring at a slowdown, and President Donald Trump is restructuring trade deals with the US's trading partners.




IT stocks fell as Indian tech firms earn a major portion of their revenue from the US.

Analysts, however, termed the decline in IT stocks as a knee-jerk reaction and said the downgrade will not have much impact on the prospects of IT firms.

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"The US markets have gone up even after similar downgrades in the past. The impact on IT stocks will be temporary. But IT stocks have their problems. The IT firms are posting poor single-digit revenue growth in dollar terms, which will not change much because of the rating action," said Chokkalingam G, founder of Equinomics.

Chokkalingam added that big IT firms are sitting on cash and have few expansion opportunities.
"Large IT firms have been returning the cash they generate to shareholders through either buybacks or dividends instead of diversifying. The only option left for them to grow is acquisitions. Going forward, we could see mid-sized IT firms getting acquired. Otherwise, revenue growth in dollar terms will further shrink," said Chokkalingam.

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In the future, the pain in IT stocks is likely to continue.
"The outlook for the IT sector is slightly negative. Large corporations in the US will try to cut costs from the new contracts they are signing with IT firms. The slump in their earnings growth is not getting reflected in their valuations. Moreover, there is a lack of clarity on how the trade agreement will shape up and if there will be any impact on the IT sector. Investors should ideally be underweight till there is clarity on US trade policy and one sees the next leg of new contracts the IT firms bag," said UR Bhat, cofounder of Alphaniti Fintech.

So far in 2025, the Nifty IT index declined 13.5 per cent.

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