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Is India an Anti-AI Trade?

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Monthly Newsletter

In July, as the crowded global AI trade reversed, Nifty IT surged 16.5% - its strongest monthly performance in years - while foreign investors returned to India after four months of selling. That coincidence generated a narrative: India as the "anti-AI trade" - a place to hide from the AI correction. It is a compelling story. It is also an incomplete one.

This newsletter examines whether that narrative is true, useful, or dangerous - because the honest version is more interesting than the headline, and the answer matters for how you think about what comes next.

01 Two Charts From the Same Three Weeks

The contrast in the data below speaks for itself. Global chip and AI-infrastructure stocks suffered one of their sharpest corrections in years, while Indian IT services stocks recorded their best month in six years. Both tables capture the same three-week period.

GLOBAL AI / CHIP NAMES	JULY MOVE	TRIGGER
SK Hynix (South Korea, SK)	-30%	Fear of moderating AI memory demand
Samsung Electronics (SK)	-16%	Cautious capex signal read as demand warning
TSMC (Taiwan)	-1%+ despite beat	Raised FY26 capex guidance to \$60-64Bn from \$52-56Bn
AMD / Intel / Micron	-18% to -35%	Broad semiconductor de-rating
Sandisk	-46%	Memory chip demand concerns
VanEck Semiconductor ETF	-17%	Sector-wide repricing

Source: CNBC market reports, Bloomberg- 1 month total returns in USD as of 31st July 2026.

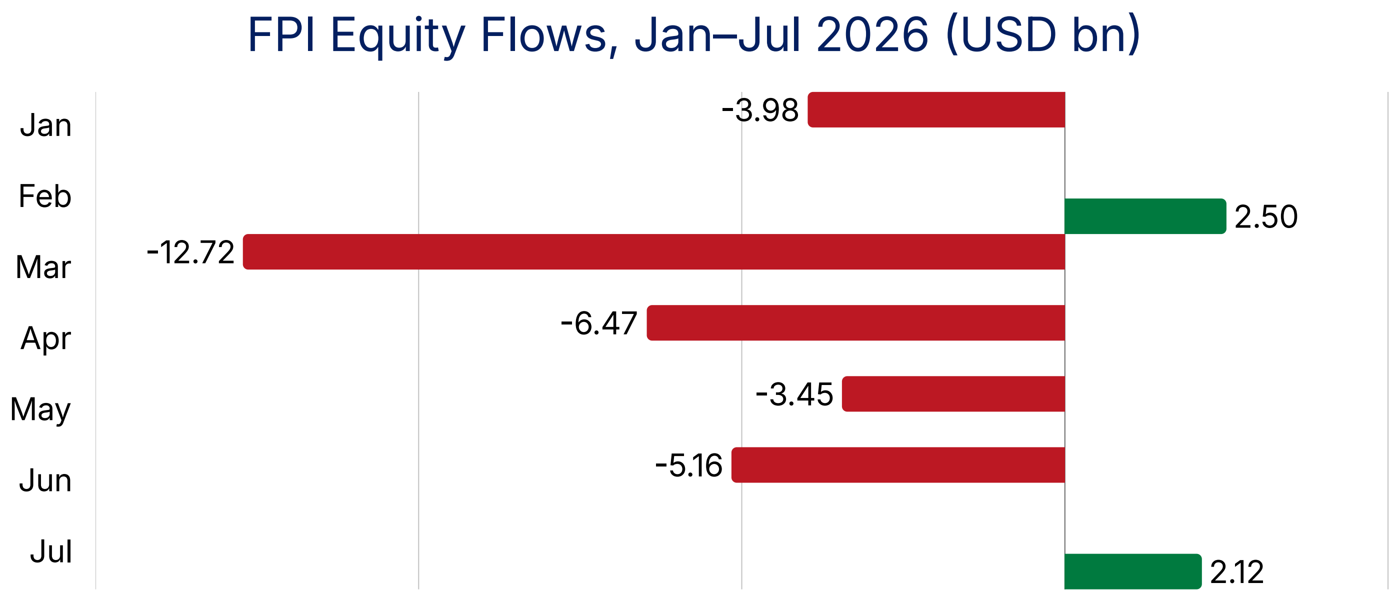
INDIAN IT SERVICES	JULY MOVE	CONTEXT
HCL Technologies	+25.7%	Top Nifty gainer for the month
Tech Mahindra	+19.4%	Broad-based IT services rally
TCS	+16.0%	Q1 FY27 results, AI revenue disclosure
Nifty IT Index	+16.5%	Best month in six years

Source: Bloomberg- 1 month total returns in USD as of 31st July 2026, Business Standard, Navia Monthly Wrap, July 2026.

02 Why India Specifically- *the actual mechanism*

Before going further, here is the single most important caveat in this newsletter: Indian IT is not un-AI. It is AI one layer down. That distinction is what makes the July rotation both logical and fragile - and it is covered fully in Section 05. Read the mechanism below with that in mind.

This is not decoupling, nor is it immunity. TSMC's rising capital intensity has sharpened a question facing the AI infrastructure buildout: how much investment will ultimately be required to sustain growth, and what returns will that investment generate? That risk is most direct for companies committing substantial capital to AI infrastructure. Indian IT services sit at a different layer of the value chain. Rather than funding the underlying hardware buildout, they can participate in AI through consulting, integration and enterprise adoption. That gives them a different risk profile - not immunity from AI disruption, but less direct balance-sheet exposure to the capital intensity of the infrastructure buildout.



Source: NSDL. July inflows end a four-month selling streak but do not offset it - FPIs remain net sellers of USD 27.16 bn for calendar year 2026 (YTD).

The sector breakdown matters as much as the headline. FPIs did not only buy IT in July - reporting shows renewed interest in Consumer Services, Metals, and Healthcare as well. This is worth noting because it argues against a narrow "AI-proxy trade" story and toward something broader: a general re-risking into India as global tech-sector volatility rose, of which IT was the largest but not the only beneficiary.

03 Before Crediting the AI Rotation Alone : *what else happened*

A single-cause story is usually a lazy one. July had at least three other things going on, and disentangling them from the AI narrative is necessary before drawing any conclusion.

Fed Policy	Q1 FY27 Earnings	Geopolitics	Market Cap
HELD	ENCOURAGING	LIVE	RECORD LEVEL
Fed held rates at on July 29, amid continued global policy uncertainty	*India's June-quarter results remained encouraging, beyond the AI narrative.*	*A sharp US-Iran escalation ran in parallel, pushing crude ~20% higher within the month*	*BSE-listed market cap rose to ₹487 lakh crore (USD 5.1 trn) in July*

Source: Business Standard, Navia Monthly Wrap, BSE as July 2026.

India rallied in July despite a live geopolitical shock running in parallel - not in the absence of one. That makes the AI-rotation effect more credible as a genuine contributor, not less; it had to work against a headwind rather than alongside a tailwind. But it also means the AI story is one of several forces in the same month, not the sole explanation.

04 The Uncomfortable Part: *Indian IT is not un-AI, it's AI one layer down*

Here is where the "anti-AI trade" framing breaks down under its own weight. Indian IT companies are not bystanders to the AI cycle - several have become substantial AI revenue businesses in their own right, just further down the value chain from the chips that sold off.

COMPANY	DISCLOSED AI METRIC	Q1 FY27 DETAIL
TCS	$2.6Bn annualised AI revenue run-rate	Up 13.6% QoQ. Total contract value (TCV) of $9.5Bn, including including an $800m AI-led transformation deal with SKF. Separately planning its own AI datacentre build-out.
Infosys	AI revenue = 8.2% of Q1 revenue	Equivalent to ~US$1.67bn annualised based on Q1 revenue. Large-deal TCV was $3.6bn, 61% net new; management said AI momentum was increasingly converting into revenue.
HCLTech	+62.1% YoY	Advanced AI revenue grows 62.1% to $171M. Q1 net-new bookings reached a record $2.4bn. Key AI wins included AI Factory, AI Engineering and Physical AI mandates, alongside a ~$370m AI data-centre investment plan.
Wipro	+12.9% QoQ deal bookings	Large-deal bookings reached $1.63bn across 13 deals, while IT Services revenue declined 1.4% QoQ in reported USD terms.

Source: Company Q1 FY27 filings and press releases (TCS, Infosys, HCLTech, Wipro), July 2026. AI revenue disclosures use different methodologies across companies and are not strictly comparable.

WHAT'S GROWING
AI-led transformation deals - Consulting, integration and enterprise AI adoption are scaling as clients move AI from pilots into real business processes
Banking, Financial Services and Insurance (BFSI) - The largest vertical for Indian IT remains relatively resilient, supported by spending on modernisation, cloud, data and AI
GCC (Global Capability Centres) sector - Global firms are increasingly building technology, engineering and AI capabilities in India, expanding the country’s role beyond traditional IT outsourcing

WHAT'S UNDER PRESSURE
Traditional outsourcing - Labour-intensive, headcount-linked delivery model is being challenged as AI automates repetitive work and shifts client demand toward higher-value, outcome-based services
Discretionary tech spend - Clients remain cautious on non-essential technology projects amid macro and geopolitical uncertainty
Decision-making pace - geopolitical uncertainty and cautious budgeting are extending decision cycles

What This Means for the "Anti-AI" Framing

The July rotation wasn't capital fleeing AI for India. It was capital moving from AI infrastructure risk toward AI monetisation - and Indian IT happened to be the largest liquid pool of the latter. That also means Indian IT is not insulated from a genuine AI slowdown. If enterprise AI transformation budgets follow hyperscaler capex sentiment down - which is a real possibility, not a hypothetical - that exposure arrives at TCS, Infosys and HCLTech with a lag, through deal pipelines rather than chip orders. Different beta to the same cycle is not the same as no beta.

05 The Number That Keeps This Honest: *one month does not change the scoreboard*

Before this reads as a victory lap, the year-to-date context matters more than the monthly one.

MSCI India	**Nikkei 225 (Japan)**	**S&P 500 (USA)**	**TSX (Canada)**
-8.83%	**+22.85%**	**+9.21%**	**+8.67%**
FTSE (UK)	**SSE (China)**	**Hang Seng (Hong Kong)**	**CAC 40 (France)**
10.66%	**+0.06%**	**-0.54%**	**+4.53%**

Source: Bloomberg. Year-to-date total returns in USD as of 31st July 2026.

July was a strong rotation month layered on top of a genuinely weak year. That is a meaningfully different claim than "India is winning 2026" - and it is the more accurate one. One month of outperformance, however sharp, does not erase seven months of underperformance. It changes the trajectory. It does not yet change the scoreboard.

Bottom Line

India benefited from where global capital de-risked to in July - not from being disconnected from what it de-risked away from. It was the destination for capital fleeing AI infrastructure risk, landing in a technology sector that is itself substantially an AI adoption story, just positioned differently on the value chain. That also means Indian IT is not insulated from a genuine AI slowdown - different beta to the same cycle is not the same as no beta.

The distinction between a rotation and a decoupling is the entire question - and July alone cannot answer it. What would make this more than a trade: FPI buying persisting into August, Nifty IT holding its relative strength if chip stocks stabilise, and Q2 FY27 deal pipelines still converting to revenue. Watch the pipelines, not the price.

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