

## IT SERVICES

24 June 2020

## New H1B visa restrictions – anticipated election rhetoric

In a move seen as US election year rhetoric, new H1B visas have been suspended till Dec'20. Existing visa holders are unaffected. In our view, visa suspension will not have significant implications for Indian IT services players as (1) the restrictions are in place only till December, and (2) new or initial H1B applications form less than 3% of the onsite employee base for tier-I players. Over the medium-to-long term, we stay optimistic about the sector's resilience in managing onsite workforce supply.

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**Freeze to hit new visa applications:** President Trump has signed a proclamation to suspend new H1B visas (and L1 visas) in the US till Dec'20. These curbs will not apply to visa holders already in the US or those with valid visas outside the country. The suspension takes effect today and will largely affect new or initial H1B applications typically issued in October. We see limited headwinds for Indian IT players as new/initial applications form <3% of total onsite employee base (Fig 3).

**Higher local US workforce to blunt impact:** Indian IT companies have reduced visa dependence for their onsite talent pool over the last three years as administrative tightening led to higher visa denials. Focused localisation has seen Wipro, HCL Tech, Infosys and TCS build up their local workforce to >50% in the US. Players have also replicated offshore fresh talent management practices at onsite locations via setup of delivery centres and training programmes.

**More tightening on the cards:** US government officials have hinted at plans to enact permanent changes to immigration policy by: (1) offering H1B visas based on merit not lottery (the 85,000 available slots will be offered to applicants with the highest salaries and best skills), (2) tightening rules around H1B workers assigned to third-party employers as contractors, (3) recalculating the wage scale to coerce companies to pay visa holders higher salaries. We believe pressure of this nature will continue till the US elections in November.

**US polls and IT services growth adversely correlated:** Our analysis of growth trends over the last 12 years indicates a risk of protracted near-term softness for India's IT services industry in the runup to US presidential elections in Nov'20. Besides inherent anti-immigration rhetoric, we find that slow, delayed decision-making by clients in election years (FY09, FY13, FY17) has translated into cyclical growth moderation for the IT services industry (ranging from 270bps to >10ppt versus the respective prior financial year – see Fig 5).

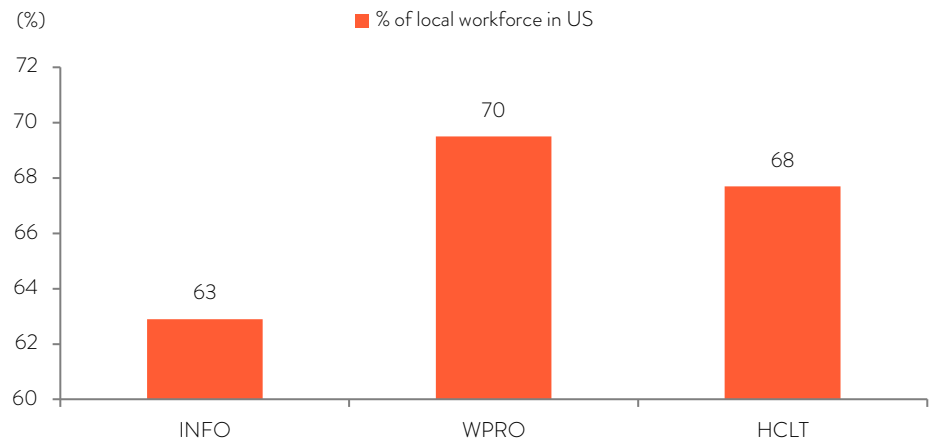
## RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
TCS IN	2,042	2,160	ADD
INFO IN	714	760	ADD
WPRO IN	218	170	SELL
HCLT IN	560	680	BUY
TECHM IN	560	690	BUY
LTI IN	1,926	2,230	BUY
MPHL IN	863	780	SELL
MTCL IN	924	880	REDUCE
HEXW IN	321	350	ADD
NITEC IN	1,388	1,430	ADD
ECLX IN	451	420	REDUCE
PSYS IN	612	590	REDUCE
INFOE IN	2,712	1,920	SELL

Price &amp; Target in Rupees

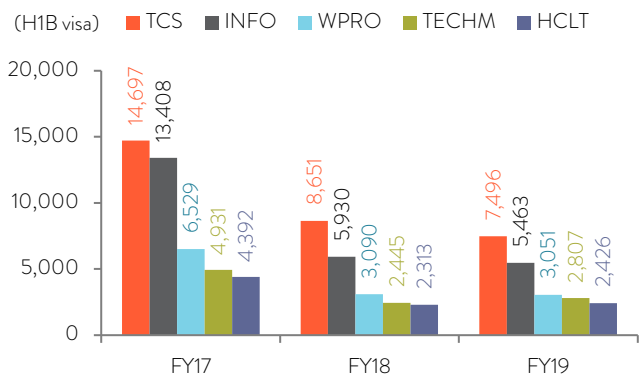


**FIG 1 – TIER-I INDIAN IT PLAYERS HAVE 50%+ LOCAL WORKFORCE IN THE US**



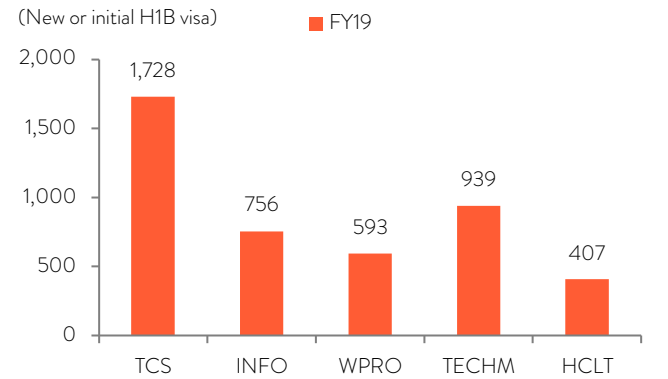
Source: Company, BOBCAPS Research | Note: Localisation of 50%+ for TCS; data for TECHM not available

**FIG 2 – INDIAN IT SECTOR HAS REDUCED H1B VISA DEPENDENCE OVER LAST 3 YEARS**



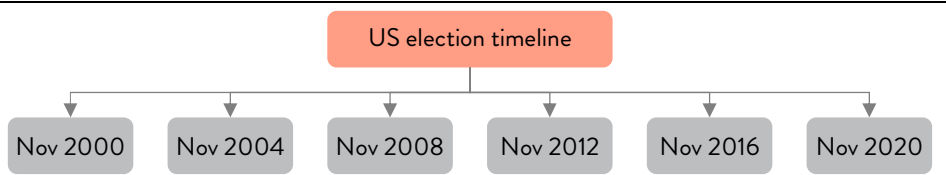
Source: USCIS, BOBCAPS Research | Note: September ending financial year

**FIG 3 – INITIAL/NEW H1B VISAS ACCOUNT FOR LESS THAN 3% OF ONSITE WORKFORCE**



Source: USCIS, BOBCAPS Research | Note: September ending financial year

**FIG 4 – US PRESIDENTIAL ELECTION TIMELINE**

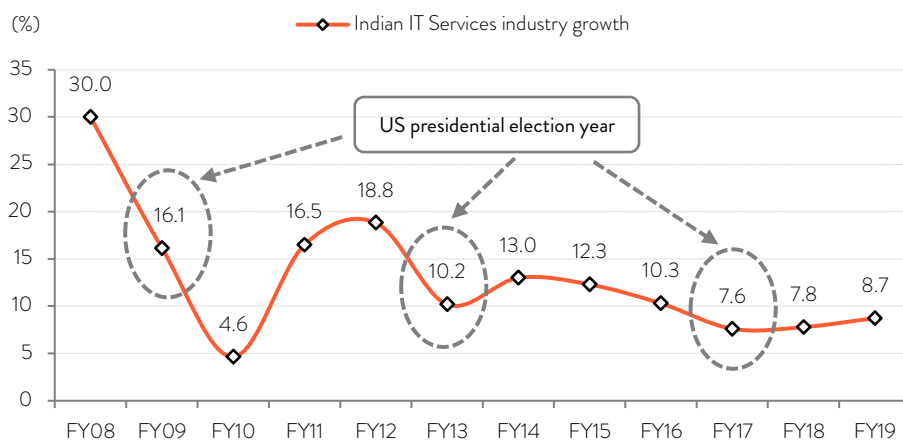


Source: BOBCAPS Research

**FIG 5 – INDIAN IT SERVICES SECTOR GROWTH HAS MODERATED IN EACH OF THE LAST 3 ELECTION YEARS**

Poll-related cyclical risk seldom flagged in advance by Indian IT companies nor have managements alluded to potential implications of this event for IT services players

Post elections, however, several company leaders have acknowledged the event as being one of the causes behind slower discretionary spending by clients



Source: NASSCOM, BOBCAPS Research

**FIG 6 – BACK-ENDED ACKNOWLEDGMENT OF POLL-LED GROWTH HEADWINDS BY IT SERVICES COMPANIES**

Company	Timeline		Management commentary	
TCS	Q3FY16	Jan-16	<b>Before elections</b>	“Don’t think noise around immigration will impact customer’s vendor choice.”
	Q1FY17	Jul-16	<b>Before elections</b>	“We need to watch how Brexit and elections will play out going into subsequent quarters of the year.”
	Q2FY17	Oct-19	<b>Before elections</b>	“I am not accounting for any macro situations because I can’t link a situation like a US election or a Brexit directly to revenue impact or margin impact.”
	Q2FY17	Oct-19	<b>Before elections</b>	“On a secular basis, we see demand for our services only rising and I have no doubt in my mind that we will be back on the upward growth trajectory once we overcome the current cyclical headwinds.”
	FY17 Annual Report	May-17	<b>After elections</b>	“Uncertainties arising from key political events such as Brexit and US elections led to holding back of discretionary spending – especially by large global banks – on account of which revenue growth in FY17 was lower than that in FY16.”
	FY17 Annual Report	May-17	<b>After elections</b>	Elections mentioned as a risk factor.
INFO	Citi Conference	Jun-16	<b>Before elections</b>	“We don’t anticipate any impact irrespective of who the President is. As in the past, in the runup to election, we have seen a lot of noise, but at the end of the day we have not seen any dramatic impact.”
	Citi Conference	Jun-16	<b>Before elections</b>	“We are not seeing any signs or any influence of this (US elections) on client behaviour. Whereas in some of the previous elections, we have seen that much closer to the election; but here so far, we have not seen anything.”
	Wells Fargo Tech Conference	Nov-16	<b>After elections</b>	“We have to see how, in light of the elections, things change from a banking point of view, from a regulatory point of view, and so forth. Over the next few months, we have to wait and watch to see what happens to the overall climate.”

Company		Timeline		Management commentary
	CLSA India Forum	Nov-16	<b>After elections</b>	Answer in response to question on impact of political events such as US elections and Brexit: "At the beginning of the year, we were extremely optimistic on the back of our performance in the last year.... We had an industry-leading performance last year. Quarter four was extremely good for us after a few years of a poor Q4. Our growth in top 10 and top 20 accounts was pretty good. So, on the back of this, we were very optimistic getting into this year. But unfortunately, as the year played out, we've started seeing some softness, some cautiousness from a client spending perspective."
<b>WPRO</b>	Q2FY17	Oct-16	<b>Close to elections</b>	"The US elections have led to uncertainties on spend, especially for Wipro."
	Q2FY17	Oct-16	<b>Close to elections</b>	"HPS has had a little bit of uncertainty currently, again, given the US elections."
<b>TECHM</b>	Q1FY17	Aug-16	<b>Close to elections</b>	"A new uncertainty pertaining to the US election is there, but we'll work out the impact of that depending upon the results we see in November. And as far as we are concerned, overall, the deal pipeline and the outlook remain promising, but we'll have to strive harder to keep the growth momentum."

Source: Company, BOBCAPS Research

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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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