

## Higher H-1B visa fee: A knock, not a knockout

US President Donald Trump passed an executive order on Friday, September 19, to institute a USD100k fee for new H-1B visa applications. This increase in visa fee (from the current ~USD1500) is likely to affect the operations/financials of Indian IT companies though the impact shall be limited, in our opinion.

We believe Indian IT companies shall mitigate this impact by higher nearshoring/offshoring and/or hiring local talent. Over the last eight years, the industry has anyway reduced its reliance on H-1B visas significantly. However, some near-term impact on operations and financials shall have to be borne by the companies. In the long-term, higher offshoring is likely to mitigate a large part of the impact.

### US government imposes USD100k fee on H-1B visa

- Post-clarification from the White House, it is now understood that higher fees are only applicable to new visa applications. Typical cycle of an H-1B visa (3+3 years) means companies will have to shell out USD100k only once in six years.
- We believe most IT Services companies will choose **not** to pay this higher fee. The current median H-1B salary for Indian IT firms ranges between USD80k and USD120k. The higher fee makes the H1B visa economically unviable.
- We reckon companies shall renegotiate their contracts with clients with a combination of the following three mitigation options:
  - Sharing the higher cost with client or hiring more local talent in the US.
  - Higher near-shoring (e.g. Canada/Latin America to be in same time zone).
  - Higher offshoring (to India or other offshoring destinations).
- **Near-term impact: Theoretical math**—If we were to assume that firms decide to continue to use their current H1B visa dependent workforce by paying a higher fee, the impact on margins is likely to be around 50–150bp—depending on the size of H1B visa-dependent workforce. This of course is only theoretical and we forecast companies shall use H1B visa only for absolutely critical and irreplaceable job profiles. Practically, the impact would be much lower.
- **Second order impact:** The uncertainty around the new fee may affect the near-term pipeline, as deals currently in progress may be delayed or put on hold. IT companies may also struggle to finalise pricing and cost estimates due to the added uncertainty caused by the fee.
- **Medium to long-term impact:** Over the medium to long term, the situation is likely to stabilise as the sector companies discover more ways to do business efficiently. This includes increasing offshore staffing and hiring more local talent.

Overall, we expect the sector to remain volatile in the near term, as uncertainty looms large. The impact on margins/earnings, though completely theoretical, is likely to be limited, as companies shall explore cost efficient ways of doing business.

## Impact of higher H1B visa fee

- Post-clarification from the White House, it is now understood the higher fees is applicable only to new visa applications. The typical cycle of an H1B visa (3+3 years) means companies will have to shell out USD100k only once in six years.
- **Theoretical math:** If we were to assume that companies decide to continue using their current H1B visa dependent workforce, by paying higher fees, the impact on margins is likely to be between 50bp and 150bp—depending on the size of H1B visa dependent workforce. This of course is only theoretical and we forecast companies shall use H1B visa only for critical and irreplaceable job profiles. Practically, the impact is likely to be much lower.
- Different companies have varying levels of exposure to the US market: Top five Indian IT firms derive roughly 55% of their revenue from the US. Coforge also has about 55% US revenue exposure while the other mid caps (LTIM, Mphasis, Hexaware and Persistent) have higher exposure at 75–80%.

**Exhibit 1: Workforce breakdown of sector companies**

FY25	Rev (USD mn)	US share of rev	Total employees	H-1B visa approvals (latest cycle, FY25)	H-1B visa workforce*	% of emp base H-1B dependent
TCS	30,179	50.1%	6,07,979	5,512	10,000-12,000	1.6%
Infosys	19,277	57.9%	3,23,578	2,028	12,000-15,000	4.3%
HCL Tech	13,840	65.1%	2,23,420	1,959	3,500-4,200	1.8%
Wipro	10,512	62.3%	2,23,420	1,531	2,800-3,000	1.3%
Tech Mahindra	6,264	50.7%	1,48,731	957	1,200-1,500	1.0%
LTIMindtree	4,493	74.8%	84,307	1,807	2,800-3,000	3.6%
Coforge	1,445	53.9%	33,497	234	300-500	1.2%
Persistent	1,409	80.7%	24,594	404	400-500	1.6%
Mphasis	1,681	81.3%	31,442	663	1,200-1,300	4.0%
Hexaware	1,429	74.0%	32,309	471	1,200-1,300	3.7%

Source: USCIS, Media, Company, Nuvama Research (\*Note: H1B visa workforce is our estimate, using various company and media sources)

- **Lower dependence on H1B visas:** Indian IT firms have significantly reduced their reliance on H-1B visas over the last eight years, particularly since the start of Trump's first term. Currently, the majority of their US workforce consists of local hires, with less than half of the US workforce dependent on H-1B visas. This shift has helped mitigate the overall effect of the new fee on these companies.
- **Affects entire IT industry, not just Indian IT:** Since this fee affects all major global IT firms—including Accenture and Capgemini—there is a greater chance that clients will be open to renegotiating contract terms. Some clients may agree to share the higher costs while others might agree to move more work offshore, which could help ease the margin pressure for companies in the medium term.
- **Global versus Indian IT companies:** We note that global/European IT companies would face greater challenges compared with Indian IT firms over the long term as they operate on much lower margins, a significant portion of their workforce is based in high-cost European regions and they need more time to restructure their models to increase hiring in India and other offshore areas.

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request.

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