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India | Equity Research | Sector Update

Technology

H-1B fee hike – possible near-term margin headwind; medium-term offshoring boost

Event: US government hikes fee to USD 100K for applicants to the H-1B visa programme for skilled foreign workers.

View: The USD 100,000 levy on onsite employees on H-1B visas would imply ~100bps average headwind on margins and ~6% average impact on EPS, considering IT companies continue to employ new people on H-1B visas. Alternatively, if companies pivot towards hiring local US talent while maintaining a favourable employee pyramid (similar to their offshore model), the impact on margins is likely to remain negligible – consistent with the experience during the previous Trump regime. In our view, IT companies would further reduce dependence on the H-1B visa and increase localisation. In the medium term, we believe IT services companies should benefit from this move, as it would trigger higher offshoring to reduce costs.

Possible near-term margin headwind; trigger for more offshoring over medium term

The US government raising the fees for H-1B visa applications, to USD 100,000, reinforces its tighter stance towards outsourcing services. This new fee hike for onsite employees on H-1B visas would imply ~100bps average headwind on margins for IT companies, considering they continue to employ new people on H-1B visas. Average impact on EPS would be ~6%. Alternatively, if companies pivot towards hiring local US talent while maintaining a favourable employee pyramid (similar to their offshore model), the impact on margins is likely to remain negligible – consistent with the experience during previous Trump regime. Mid-cap companies are likely to see a greater impact vs. large-cap companies, based on our calculations (**Exhibit 1**). We note that BPO players such as Sagility and IKS Health may not see any impact, as they employ limited/nil H-1B visa holders for delivery.

The reliance of IT services companies on H-1B visas is reducing; currently, such companies employ less than ~1–5% of their total workforce on H-1B. Moreover, IT companies have ~70% of local workforce in US (either US citizens or Green Card holders). Average onsite annual wage in CY24 stood at USD 106,000 for IT companies, almost equivalent to the additional fee now being levied. Therefore, IT companies would further reduce dependence on the H-1B visa programme and increase localization. In the medium term, IT services companies are likely to benefit from this move as it would trigger higher offshoring to reduce costs. We also note that the H-1B visa is valid for a three-year period and may be extended for another three years. Therefore, the additional fee is applicable only at the time of new H-1B visa application [link](#).

Key changes to H-1B non-immigrant visa program

- Proclamation only applies prospectively to petitions that have not yet been filed i.e. applicable for new visas and not renewals, extensions and changes. The applicability of this bill is for all companies (Indian/US) that use the H-1B program. It is a one-time fee and not annual fee.
- The proclamation does not impact ability of any current visa holder to travel to or from the United States

Ruchi Mukhija

ruchi.mukhija@icicisecurities.com
+91 22 6807 7573

Aditi Patil

aditi.patil@icicisecurities.com

Seema Nayak

seema.nayak@icicisecurities.com

- The proclamation has certain exemption in case the Secretary of Homeland Security determines that the hiring of foreigners to be employed as H-1B specialty occupation workers is in the national interest and does not pose a threat to the security or welfare of the United States. **View:** This could create favourable situation for certain US corporates.
- The proclamation directs the US Secretary of Labor to initiate rulemaking to revise the prevailing wage levels for the H-1B program and directs the Secretary of Homeland Security to initiate rulemaking to prioritize high-skilled, high-paid H-1B workers. **View:** Average onsite wages paid by IT companies were around USD 106,000 in CY24 (source: UCIS LCA filing data), well above the USD 60,000 general guideline.

Exhibit 1: Estimated additional costs due to the USD 100,000 levy

Company	Number of LCA filings in CY24	FY25 revenue (INR mn)	FY25 PAT (INR mn)	Additional cost (INR mn)	Additional cost as % of FY25 revenue	Additional cost as % of FY25 PAT, adjusted for tax
IT services companies						
TCS	11,987	25,53,240	4,85,530	26,371	1.0%	4.1%
Infosys	4,593	16,29,900	2,67,250	10,105	0.6%	2.7%
HCL Tech	4,322	11,70,550	1,73,900	9,508	0.8%	4.1%
Wipro	1,919	8,90,884	1,31,354	4,222	0.5%	2.4%
Tech Mahindra	1,237	5,29,883	42,515	2,721	0.5%	4.8%
LTIMindtree	2,697	3,80,081	46,020	5,933	1.6%	9.5%
Mphasis	2,040	1,42,234	17,025	4,488	3.2%	19.7%
Hexaware	607	1,19,744	11,740	1,335	1.1%	2.6%
Coforge	300	1,20,507	8,121	660	0.5%	6.0%
Persistent	664	1,19,387	14,002	1,461	1.2%	8.0%
Happiestminds	38	20,608	1,910	84	0.4%	3.2%
ER&D companies						
LTTS	1,392	1,06,702	12,667	3,062	2.9%	17.5%
Cyient	124	73,604	6,217	273	0.4%	3.3%
Tata Elxsi	94	37,290	7,849	207	0.6%	2.0%
KPIT	121	58,423	8,396	266	0.5%	2.4%
Tata Technologies	61	51,686	6,771	134	0.3%	1.5%
Others						
LatentView	61	8,478	1,742	134	1.6%	5.8%

Source: I-Sec research, Company, USCIS website. Additional cost = No. of LCA filings x 88 x 100,000x25% as we assume 25% LCA filling for new entry and remaining for renewal, transfer and extensions.

Exhibit 2: Number of LCA filings every year for IT companies

Company	CY20	CY21	CY22	CY23	CY24	9MCY25
IT services companies						
TCS	10,137	10,029	9,951	8,657	11,987	4,566
Infosys	6,666	4,930	6,462	6,452	4,593	1,996
HCL Tech	4,795	3,627	4,095	4,480	4,322	1,575
Wipro	2,043	2,215	1,950	3,064	1,919	932
Tech Mahindra	2,260	1,481	1,080	1,338	1,237	442
LTIMindtree	5,883	5,325	6,448	2,985	2,697	1,057
Mphasis	1,916	1,762	2,098	2,274	2,040	1,030
Coforge	62	291	306	409	300	154
Hexaware	843	548	525	605	607	20
Persistent	327	203	310	530	664	238
Happiestminds	49	45	60	47	38	18
ER&D companies						
LTTS	2,205	1,361	1,552	1,794	1,392	565
Cyient	163	99	85	170	124	92
Tata Elxsi	44	100	169	143	94	44
KPIT	162	90	139	174	121	74
Tata Technologies	42	45	57	59	61	43
Others						
Sagility	-	-	-	-	-	-
IKS Health	1	2	-	4	1	-
Indegene	1	3	1	7	-	-
Newgen	-	-	-	-	-	-
LatentView	64	45	28	45	61	30

Source: I-Sec research, USCIS website

Exhibit 3: Reliance on H-1B visa filings is reducing

LCA filings as % of total workforce	CY20	CY21	CY22	CY23	CY24
IT services companies					
TCS	2.1%	1.7%	1.6%	1.4%	2.0%
Infosys	2.6%	1.6%	1.9%	2.0%	1.4%
HCL Tech	2.8%	1.7%	1.8%	2.0%	1.9%
Wipro	1.0%	0.9%	0.8%	1.3%	0.8%
Tech Mahindra	1.9%	1.0%	0.7%	0.9%	0.8%
LTIMindtree	9.8%	6.7%	7.6%	3.7%	3.2%
Mphasis	6.5%	4.8%	6.2%	7.0%	6.5%
Hexaware	NA	2.3%	1.8%	2.1%	1.9%
Coforge	0.5%	1.3%	1.3%	1.7%	0.9%
Persistent	2.4%	1.1%	1.4%	2.2%	2.7%
Happiestminds	1.5%	1.1%	1.2%	0.9%	0.6%
ER&D companies					
LTTS	13.4%	6.5%	6.7%	7.5%	5.7%
Cyient	1.4%	0.7%	0.6%	1.1%	0.9%
Tata Elxsi	0.6%	1.1%	1.4%	1.1%	0.8%
KPIT	2.5%	1.1%	1.3%	1.4%	0.9%
Tata Technologies	NA	NA	0.5%	0.5%	0.5%
Others					
LatentView	10.3%	5.2%	2.5%	3.5%	3.7%

Source: I-Sec research, USCIS website, Company data

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Bhavesh Soni](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
