

Press Release

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US visa ban not much of a snag for Indian IT firms

Profitability impact not more than ~ 25-30 bps as firms have increased local hiring in the US

The US government's decision to suspend issuance of new H1-B and L1 visas till December 2020 will have only a marginal impact of 25-30 basis points (bps) on the operating profitability of Indian information technology (IT) firms this fiscal.

However, this will be over and above a 200-250 bps decline expected because of the Covid-19 pandemic¹ and will beat down operating profitability from an average ~23% seen last fiscal, a CRISIL Ratings analysis of 15 large IT firms, which account for almost 70% of the IT service sector revenue, shows.

Credit profiles of IT firms will continue to be strong supported by healthy balance sheets and liquidity.

The US move will have only a marginal impact because it pertains to just new H1-B and L1 visas issued till December 2020. Applications for renewal of visas, which on average are 3-4x new H1-B requests, remain unaffected.

Over the past three years, Indian IT firms have gradually reduced dependence on the H1-B route because of increasing denial rates – from about 6% in fiscal 2016 to 39% in the first half of fiscal 2020 (see table in below).

Trend in H1-B visa approvals for CRISIL sample set of Top 15 Indian IT firms

	2016	2017	2018	2019	H1 2020
Number of new visa approvals	9,649	8,885	2,459	6,137	3,898
Denial rates for new visa approvals (%)	6%	8%	28%	32%	39%
Number of renewal visa approvals	36,949	42,935	25,660	22,455	22,455
Denial rates for renewal visa approvals (%)	4%	5%	19%	20%	18%

Source: USCIS

Says Anuj Sethi, Senior Director, CRISIL Ratings, “New H1-B visa issuances contribute less than 5% of the US onshore workforce of the top 5 listed Indian IT firms, which account for 60% of the industry revenue. On the other hand, the share of local hires in their US onshore employee mix has steadily increased from 30-35% in fiscal 2017 to about 55-60% in fiscal 2020. And with firms aiming to increase the share of local talent, especially with digital skills, the transition impact is expected to be marginal for them.”

The US has proposed a transition of the existing H1-B visa issuance to a merit-based programme (criteria for capping new visas at 85,000 to be decided on quantum of salary rather than the lottery system currently) or a potential increase in minimum salary floor.

Assuming employee requirements through new visa approvals (6,137 units in fiscal 2019) are completely met via local hiring and considering a 25% premium for local hiring over the H1-B route, the additional cost burden on IT firms may not exceed Rs 1,200 crore. Thus the incremental cost impact on the ~\$97 billion IT service industry remains marginal at about 25-30 bps, though a few mid-sized IT firms with higher reliance on H1-B visas and lower onsite presence could face some challenges.

Says Sameer Charania, Director, CRISIL Ratings, “Additionally, with higher share of employees working from home and with continued restrictions on mobility due to the pandemic, the onshore requirements of IT firms are likely to be lower. Further, IT firms are expected to re-negotiate the onsite requirements with clients until the industry witnesses a recovery in discretionary IT spending.”

Having said that, any larger adverse change in US visa regulations especially on the existing visa H1-B visa renewals or continued suspension of new H1-B visa issuances over the long run will remain a monitorable, given the industry derives ~60% of revenues from North America.

CRISIL Ratings does not expect any material impact on the credit quality of most IT firms as their financial risk profile is healthy, supported by low debt levels and large liquid surplus. The sample set of 15 IT firms has an average gearing of ~0.12 time and cash balances adequate to cover 4-5 months of employee costs.

¹ Refer to our press release dated April 24, 2020 titled, [IT firms stare at revenue, margin blows of the decade](#)

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