

September 30, 2025

Indian IT – An Opportunity amidst Difficulties?

What's the Point?

- On September 19, 2025, the United States (US) Government passed an Executive Order to institute a US\$100,000 fee for new H-1B Visa applications with effect from September 21, 2025 (Valid for 1 year).
- This move could have a limited impact because this is applicable for new visa applications. In addition to this, the estimated share of employment in IT companies from H-1B Visas has decreased from 8.5% in 2015 to 2.4% 2024.
- The valuations of the NIFTY IT Index have de-rated in this Calendar Year, and currently trades at below its 5-year average and nearly at par with its 10-year average. More importantly, the premium of NIFTY IT Index to NIFTY 50 Index has compressed to 10% vis-à-vis the 5 / 10-year average premium of 30% / 15%.

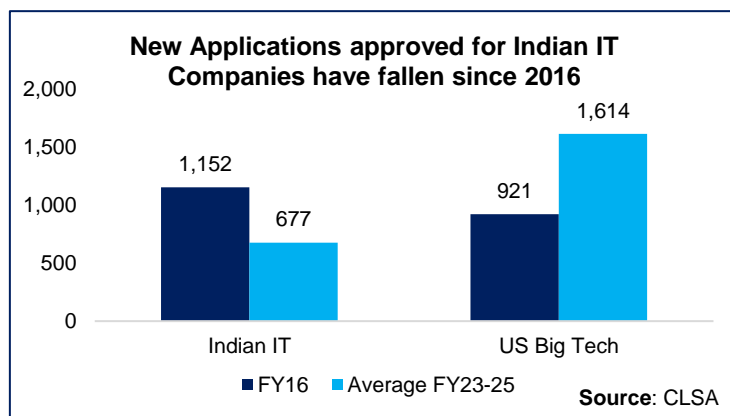
What is a H-1B Visa?

H-1B Visa (Non-Immigrant Visa) allows employers to petition for highly educated foreign professionals to temporarily work in "specialty occupations". These jobs require at least a bachelor's degree or the equivalent and include positions like civil engineers, software developers and researchers. Generally, the initial duration of an H-1B Visa is 3 years, but can be extended up to 6 years.

How reliant are Indian IT Companies on H-1B Visa?

The restriction on the H-1B Visa is not a new phenomenon. During the first term of the current US President, an executive order was signed around "*Buy American, Hire American*", thereby restricting the approval of H-1B Visa. Since 2017, the Indian IT companies had started undertaking multiple risk mitigation strategies around H-1B Visa restrictions. Through strong campus relationships, these companies had increased local hiring, resulting in over 60% of their employees now being hired locally vs less than a third in 2016.

Between FY16 and FY25, the Indian Global IT companies have witnessed a ~41% (absolute) drop in the approval of new applications. This shift contrasts with large US technology companies, which have increased their reliance on H-1B Visas. Between FY16 and FY25, the new applications approved for these companies grew by ~75% (absolute) during the period.



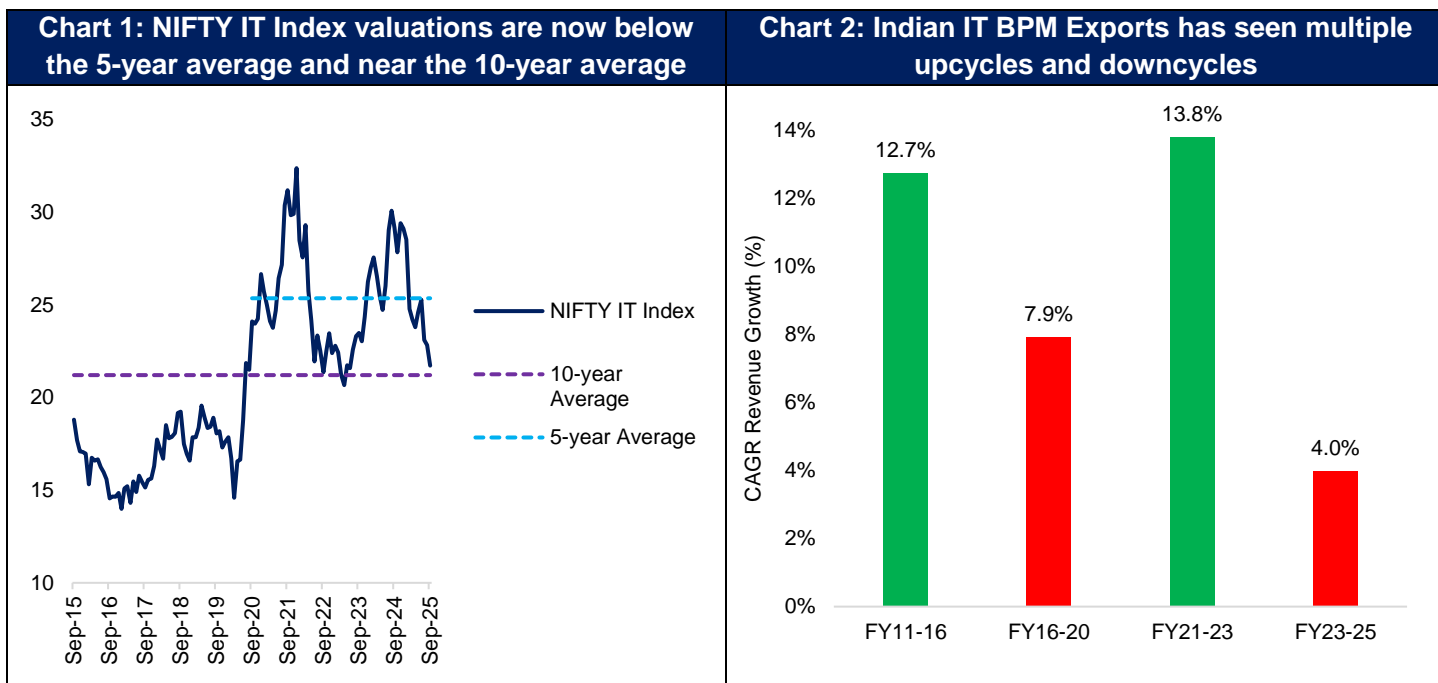
Impact of the New H-1B Visa Fee

- 1) Uncertainty around Decision Making in Deals:** In the near-term, there can be a challenge for IT companies to finalise pricing and cost estimates due to the added uncertainty caused by the new fee.
- 2) Newer Avenues to bring Stability:** Over the medium to long term, reliance on H-1B Visas could decrease, as the companies in this sector discover more ways to do business efficiently. One of the ways to create higher efficiency could be renegotiation of contracts by companies with clients through: a) sharing the higher cost with client / hiring more local talent in the US, or b) higher offshoring to India or other offshoring destinations.

What do Fundamental Indicators state about the IT Sector?

- **Valuations:** Indian IT Sector had commanded a valuation premium to its long-term average and the broader market for the last 5 years. However, the premium have reduced with the 1-year Forward P/E Ratio of NIFTY IT Index standing below the 5-year average for the last 8 months and close to the 10-year average.

- **Indian IT Business Process Management (BPM) Exports:** Over the last 14 years, Indian IT BPM Exports has witnessed multiple phases of upcycles and downcycles. The sector witnessed high growth in exports between FY21 and FY23, due to higher technology spends during the pandemic. Since FY24, the growth in exports has remained subdued due to normalization of spends, concerns about slowdown of global economy.



Source: Kotak Institutional Equities, National Association of Software and Service Companies (NASSCOM)

Key Takeaway: Between December 13, 2024 (peak of NIFTY IT TRI) and September 26, 2025, NIFTY IT TRI has seen a higher drawdown compared to NIFTY 50 TRI and NIFTY 500 TRI – **standing at -25.5% vs 0.6% and -1.9% respectively**. While the hike in H-1B Visa Fees could create short-term challenges, the sector's fundamentals are placed at a level for investors to consider investing against the tide in HDFC Technology Fund, while keeping the above challenges in mind. This Fund aims to invest in industry leaders and disruptors with competitive moats across different market cap segments, market share gainers with potential for re-rating and higher compounding and reasonable valuations.

Sources: Nuvama Institutional Equities, CLSA, KIE, NASSCOM and other publicly available information

About Tuesday's Talking Point (TTP): TTP is an effort by HDFC AMC to guide key conversations in the Indian financial markets and investing ecosystem. We aspire to do this by providing relevant facts, along with our perspective on the issue at hand. Please provide your feedback at this link: <https://forms.office.com/r/Cr8JNjMGWk>

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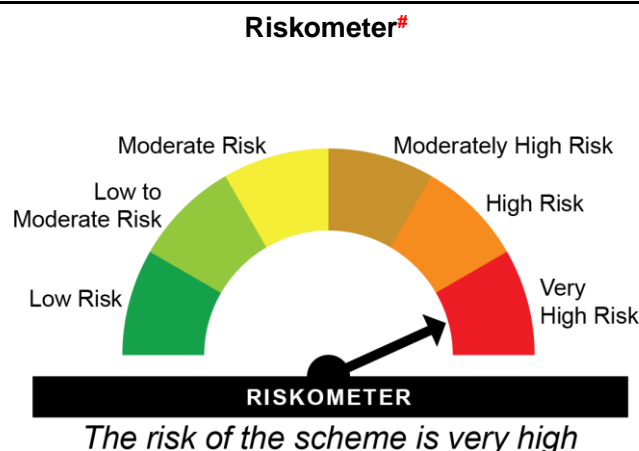
Product Labelling and Riskometer of HDFC Technology Fund

HDFC Technology Fund (An open-ended equity scheme investing in Technology & Technology related companies) is suitable for investors who are seeking*:

- To generate long-term capital appreciation
- Investment predominantly in equity & equity related instruments of investing in Technology & technology related companies

*Investors should consult their financial advisers, if in doubt about whether the product is suitable for them.

#For latest riskometer, investors may refer to the Monthly Portfolios disclosed on the website of the Fund viz. www.hdfcfund.com.



The Scheme being thematic in nature carries higher risks versus diversified equity mutual funds on account of concentration and sector specific risks.