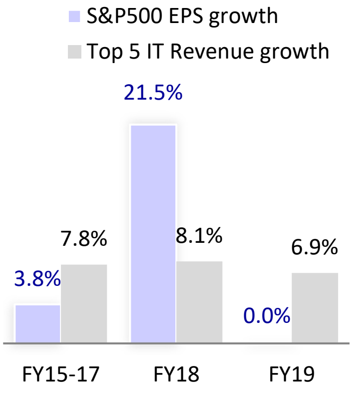
Technology

Trump 2.0: What's in store for IT services?

Now that the dust has settled following the US elections, we analyze the potential impact of the incoming Trump administration on major client industries in the US, their technology spending behaviors, and the subsequent effects on IT services' revenue growth rates. Our analysis focuses on three key vectors: 1) immigration policies; 2) corporate tax rates; and 3) trade war. Our findings indicate that IT services vendors are now largely immune to immigration shocks. While there could be a definite gross positive push from corporate tax cuts, a more intense trade war could offset some of these benefits, in our opinion. We also analyze how IT services companies fared in the earlier term. While the quantifiable impact of these initiatives may be debatable, we expect technology spending to trend upwards for CY26/CY27, led by a business-friendly administration and declining interest rates.

S&P 500 Index profitability was nil sequentially in 2019, but Indian IT services reported revenue growth



Impact of Visa and immigration

- The first term of the Trump presidency did lead to an outsized increase in rejection rates, as depicted in Exhibit 2. The rejection rates for H1B visas surged from an average of 4.6% prior to 2016 to 15.4% during the presidency.
- This was a blessing in disguise for the IT services sector; however, the companies fundamentally altered their hiring strategies and increased localized on-shore hiring.
- Exhibit 1 shows that IT services' hiring plans are now decoupled from the H1B regime; the number of applications has dipped by 51% from the peak of FY17.
- While the new administration may be incrementally positive about skilled immigration, we expect the impact to be neutral to marginally positive.

Corporate tax cuts: good in isolation, marred by tariffs

- Trump's Tax Cuts and Jobs Act (TCJA, Dec'17) reduced the federal corporate tax rate to 21% from 35%, along with a few other tax sops for the US corporates.
- As portrayed in our exhibits, this correlated with a bump in earnings growth across major industries.
- The key industries that benefitted were BFSI, IT and software, Energy, and Industrials.
- What is interesting, however, is that the ensuing trade war and tariff regime offset the gains from tax cuts for key industries.
- Our analysis suggests that semiconductors, automotive, steel, manufacturing, and retail companies experienced elevated manufacturing costs and significantly stressed supply chains, nullifying some of the impact from these tax cuts.

Indian IT services: Correlation with tax cuts only tangential

- The top 5 Indian IT services companies posted an average revenue growth of 7.5% during 2016-20 when Trump was in the helm of the White House, while the growth was 7.9% during the first three years of the presidency.
- While the fine print on immigration, tax cuts, or trade wars will matter, news reports suggest Trump's administration will be far more business-friendly as compared to the outgoing regime.

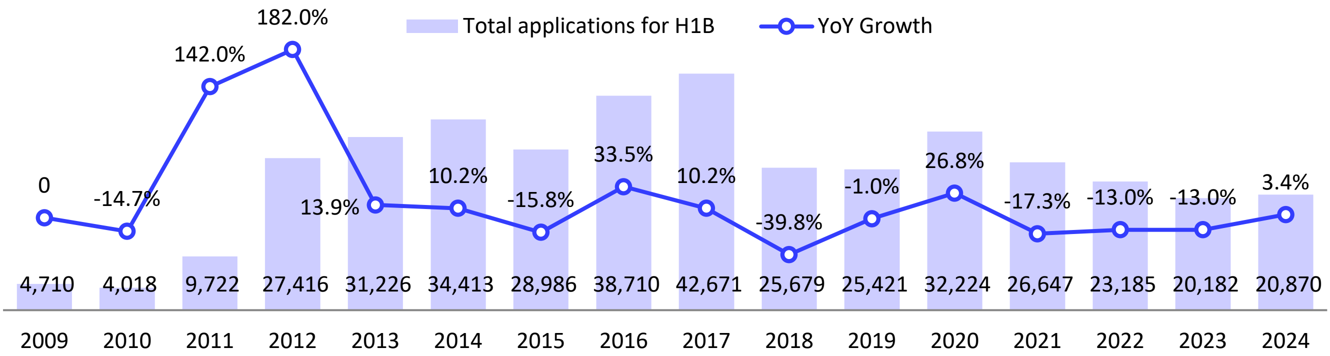
Abhishek Pathak - Research analyst (Abhishek.Pathak@MotilalOswal.com)
Research analyst: Keval Bhagat (Keval.Bhagat@MotilalOswal.com) | **Tushar Dhonde** (Tushar.Dhonde@MotilalOswal.com)

- The technology spending has been depressed over the past two years, and we believe a new regime along with continued rate cuts augur well for the tech spending cycle.
- Healthcare and the US banks will continue to lead growth; manufacturing (especially aero and automotive) may face short-term headwinds.
- We are especially enthused by hi-tech's resurgence, which we believe is ahead of schedule.
- **Our top picks are HCL Technologies (TP: INR2,300), LTIMindtree (TP: INR7,400), Coforge (TP: INR10,000), and Persistent Systems (TP: INR6,300).** We estimate HCL to lead revenue growth among large caps over the next three years, driven by its resilient portfolio and engineering services. Our positive outlook on LTIMindtree is based on its best-in-class offerings in data and ERP modernization, with a recovery in US banks' discretionary spending expected to further support its growth. We believe Coforge’s healthy executable order book and a rebound in BFS client spending bode well for its organic business. Cigniti could prove to be an effective long-term asset. Persistent Systems, with its strong product engineering background, remains the fastest-growing IT services company in our coverage and is well-positioned to benefit from the long-term GenAI investments.

Impact of Visa and immigration

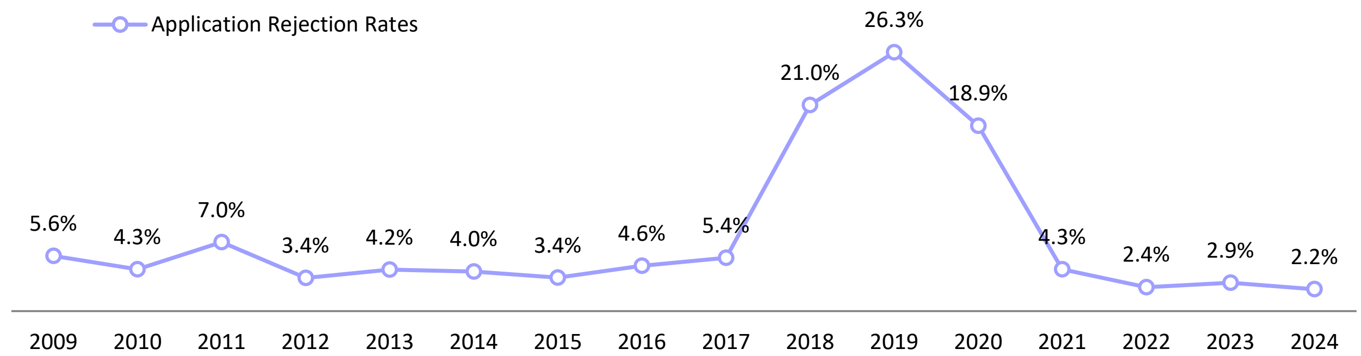
- We analyzed the H1B applications for the top four Indian IT companies, viz., TCS, Infosys, Wipro, and HCL, over 2009-24. The 2009-16 period experienced a significant jump in visa applications, marked by the immigration-friendly policies of the then administration. The applications posted a 35.1% CAGR over 2009-16.
- However, during Mr. Trump's tenure, the tighter norms around immigration guidelines saw a fall in H1B visa applications. The applications dropped 24.5% during the Trump administration (2016-20) from the highs of 2017. As of 2024, the applications have declined 51% from the peak of 2017.
- The application rejection rate jumped to ~27% in 2017, which was averaging ~5% in the pre-Trump period.
- We believe immigration and H1B norms will have minimal impact on Indian IT services hiring strategy, as a large part is now decoupled.

Exhibit 1: Applications for H1B visas saw a decline from the highs of 2017…



Source: USCIS, MOFSL

Exhibit 2: Application rejection rates peaked to ~27% during the Trump regime in 2019



Source: USCIS, MOFSL

Corporate tax cuts: Good in isolation, marred by tariffs

- Trump's Tax Cuts and Jobs Act (TCJA, Dec'17) reduced the federal corporate tax rate to 21% from 35%, along with a few other tax sops for the US corporates.
- This led to the fueling of earnings across major industries, as shown in Exhibits 3 to 6. Sectors such as BFSI, IT, Energy, and Industrials witnessed an EPS growth in almost double digits, which was averaging in single-to-low-middle digits during FY15-FY17.
- What is interesting, however, is that the ensuing trade war and the tariff regime offset the gains from tax cuts for key industries. This led to key sectors posting flat growth in the year, followed by FY18.
- That said, FY19 saw a normalization of earnings, and one might argue the trade war and tariffs imposed actually hurt earnings for industrials.

Exhibit 3: S&P 500 Financials Index saw a 26.6% EPS growth

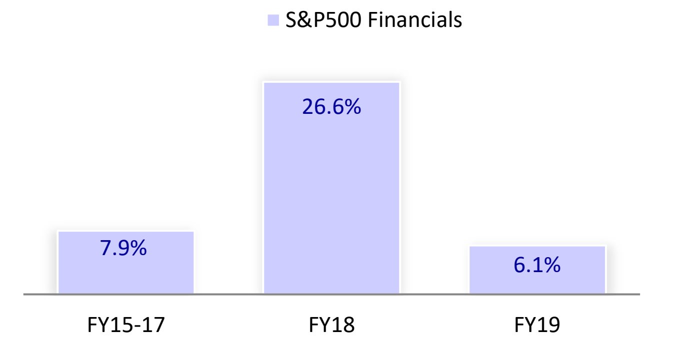


Exhibit 4: S&P 500 IT index saw ~30% EPS growth vs. the average growth of ~10% prior to tax cuts

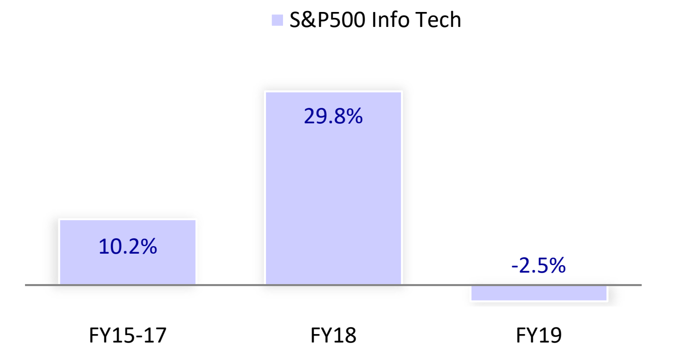


Exhibit 5: S&P Energy Index saw a three-digit EPS growth...

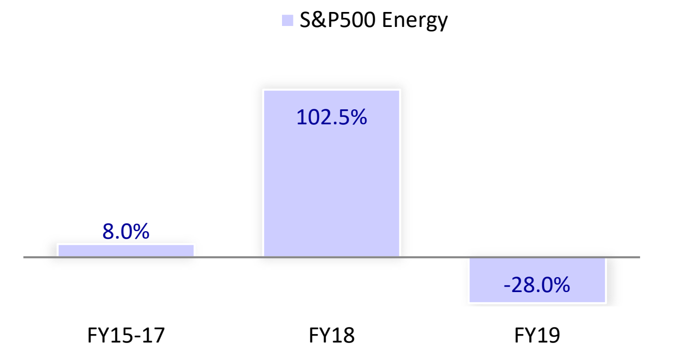


Exhibit 6: ..while industrials also clocked a double-digit EPS growth

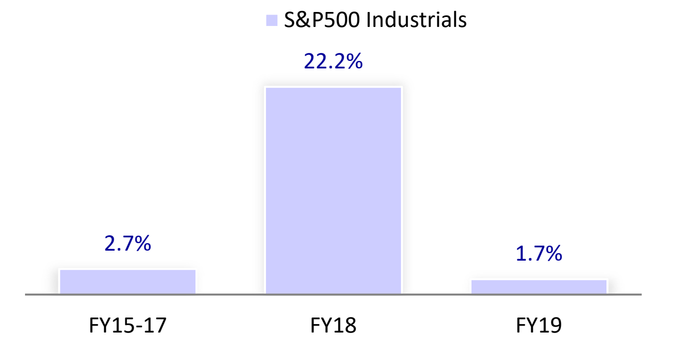


Exhibit 7: S&P Healthcare marked mid-teens growth

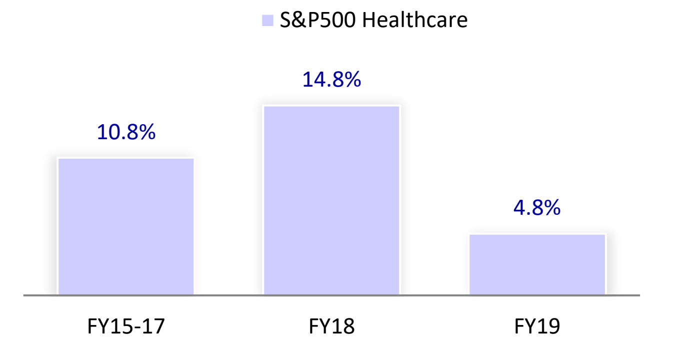
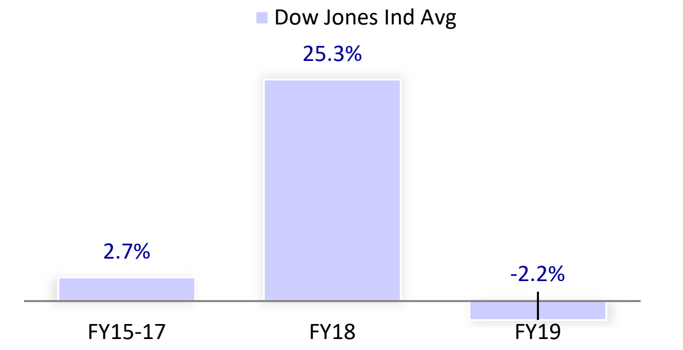


Exhibit 8: The DJIA exhibited EPS growth but reported an EPS decline on high base due to tariff wars

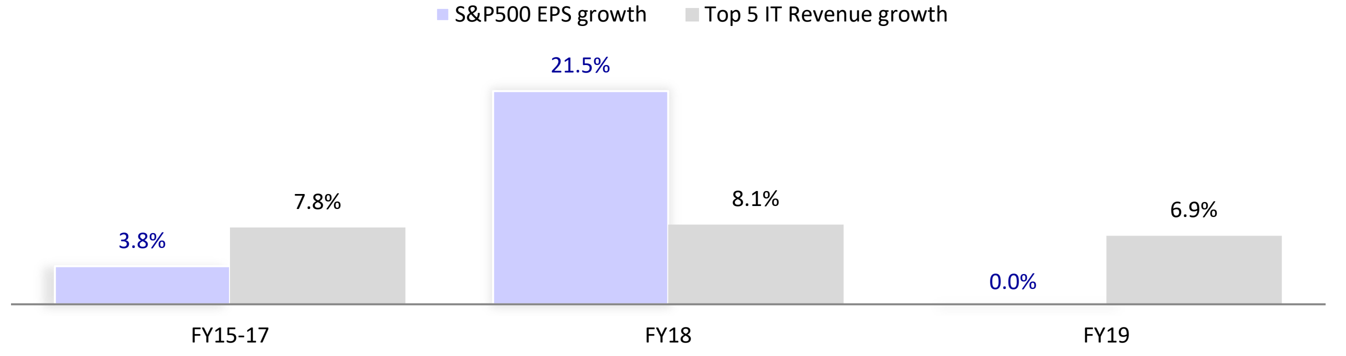


Source: Bloomberg, MOFSL

Indian IT: Correlation with tax cuts only tangential

- As depicted in Exhibit 9, Indian IT services revenue accelerated in FY18 with higher EPS growth for S&P500 firms, but the correlation isn't as strong. Although tax cuts have influenced IT spending, potential offsets from trade tensions and the resultant pressure on the firms' P&L must be monitored.
- FY19 was different, with S&P 500 EPS growth stagnating while IT services revenue grew ~7%, suggesting that the companies prioritized high-importance IT spending even amid flat earnings.
- Further, major sectoral indices—such as Healthcare, BFSI, Manufacturing, and Consumer—exhibited a strong correlation with revenue growth of top IT firms.
- Admittedly, this comparison is not watertight: vertical revenue numbers include revenues from other geographies as well, despite the US contributing a lion's share of these revenues.
- The correlation exercise aside, we believe the technology spending environment is turning favorable after two years of depressed tech spending.
- Anticipated rate cuts could revitalize investments, particularly in healthcare and banking, while manufacturing may face short-term challenges.

Exhibit 9: S&P 500 Index profitability was nil sequentially in 2019, but Indian IT services reported revenue growth



Top 5 IT companies include TCS, Infosys, Wipro, HCL &TechM; Source: Bloomberg, MOFSL

Exhibit 10: S&P Consumer and Indian IT delivered parallel growth

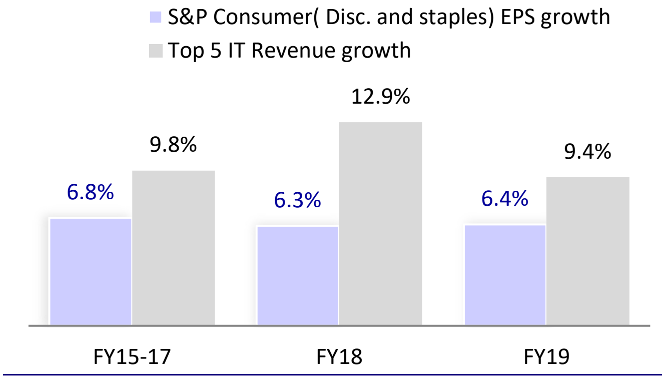
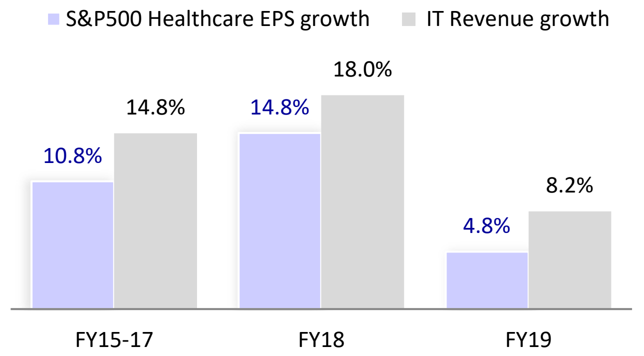
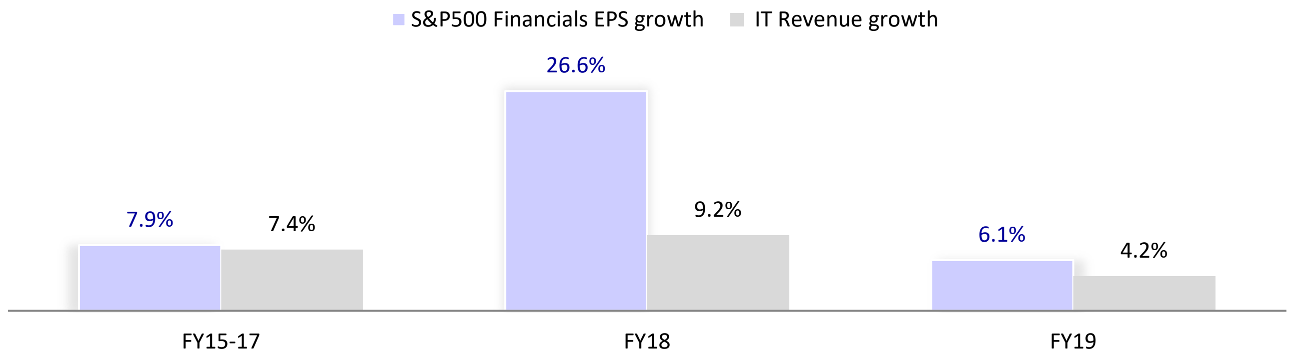


Exhibit 11: Healthcare rose to mid-teens during FY15-18



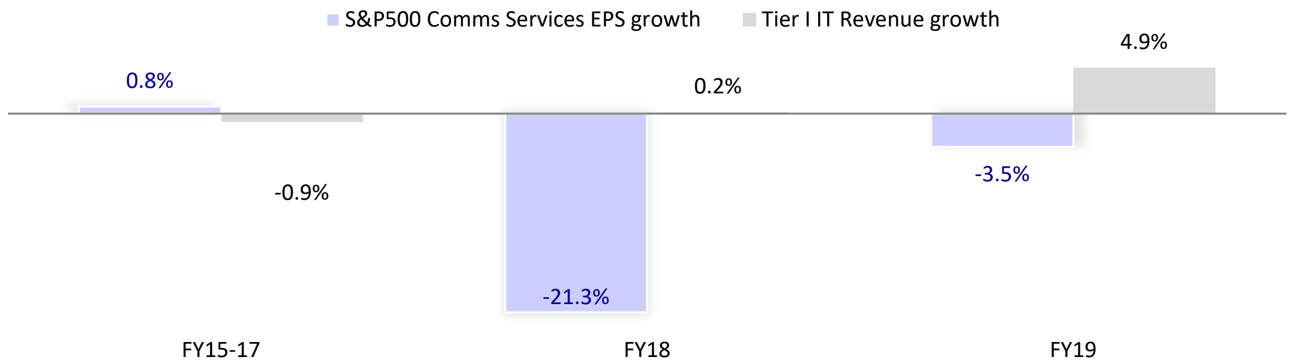
Top 5 IT companies include TCS, Infosys, Wipro, HCL &TechM; Source: Bloomberg, MOFSL

Exhibit 12: IT BFSI mix on par with S&P EPS growth



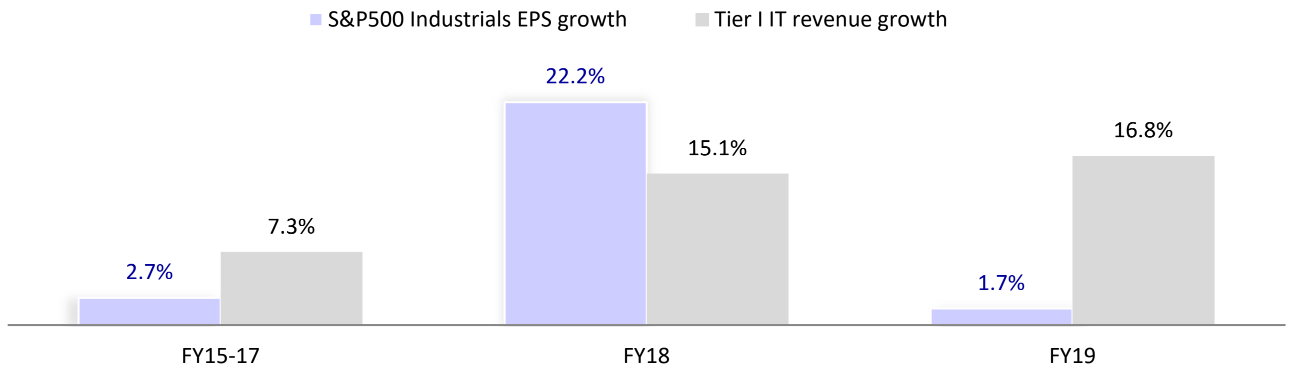
IT companies include TCS, Wipro, Infosys, TechM, HCL, Accenture & Cognizant, Source: Bloomberg, MOFSL

Exhibit 13: Indian IT performed better in Communications…



Tier I IT includes TCS, Wipro, HCL & TechM; Infosys excluded due to restatement; Source: Bloomberg, MOFSL

Exhibit 14: ...while Manufacturing also added a double-digit growth to tier I Indian IT



Tier I IT includes TCS, HCL & TechM; Wipro & Infosys excluded due to restatement; Source: Bloomberg, MOFSL

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

Disclosures

The following Disclosures are being made in compliance with the SEBI Research Analyst Regulations 2014 (herein after referred to as the Regulations).

Motilal Oswal Financial Services Ltd. (MOFSL) is a SEBI Registered Research Analyst having registration no. INH000000412. MOFSL, the Research Entity (RE) as defined in the Regulations, is engaged in the business of providing Stock broking services, Depository participant services & distribution of various financial products. MOFSL is a listed public company, the details in respect of which are available on www.motilaloswal.com. MOFSL (erstwhile Motilal Oswal Securities Limited - MOSL) is registered with the Securities & Exchange Board of India (SEBI) and is a registered Trading Member with National Stock Exchange of India Ltd. (NSE) and Bombay Stock Exchange Limited (BSE), Multi Commodity Exchange of India Limited (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) for its stock broking activities & is Depository participant with Central Depository Services Limited (CDSL) National Securities Depository Limited (NSDL),NERL, COMRIS and CCRL and is member of Association of Mutual Funds of India (AMFI) for distribution of financial products and Insurance Regulatory & Development Authority of India (IRDA) as Corporate Agent for insurance products. Details of associate entities of Motilal Oswal Financial Services Limited are available on the website at http://onlinereports.motilaloswal.com/Dormant/documents/List%20of%20Associate%20companies.pdf

MOFSL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.

MOFSL and / or its affiliates do and seek to do business including investment banking with companies covered in its research reports. As a result, the recipients of this report should be aware that MOFSL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. Details of pending Enquiry Proceedings of Motilal Oswal Financial Services Limited are available on the website at https://galaxy.motilaloswal.com/ResearchAnalyst/PublishViewLitigation.aspx

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com. Research Analyst views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of MOFSL or its associates maintains arm's length distance with Research Team as all the activities are segregated from MOFSL research activity and therefore it can have an independent view with regards to Subject Company for which Research Team have expressed their views.

Regional Disclosures (outside India)

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL & its group companies to registration or licensing requirements within such jurisdictions.

For Hong Kong:

This report is distributed in Hong Kong by Motilal Oswal capital Markets (Hong Kong) Private Limited, a licensed corporation (CE AYY-301) licensed and regulated by the Hong Kong Securities and Futures Commission (SFC) pursuant to the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) "SFO". As per SEBI (Research Analyst Regulations) 2014 Motilal Oswal Securities (SEBI Reg. No. INH000000412) has an agreement with Motilal Oswal capital Markets (Hong Kong) Private Limited for distribution of research report in Hong Kong. This report is intended for distribution only to "Professional Investors" as defined in Part I of Schedule 1 to SFO. Any investment or investment activity to which this document relates is only available to professional investor and will be engaged only with professional investors." Nothing here is an offer or solicitation of these securities, products and services in any jurisdiction where their offer or sale is not qualified or exempt from registration. The Indian Analyst(s) who compile this report is/are not located in Hong Kong & are not conducting Research Analysis in Hong Kong.

For U.S.

Motilal Oswal Financial Services Limited (MOFSL) is not a registered broker - dealer under the U.S. Securities Exchange Act of 1934, as amended (the"1934 act") and under applicable state laws in the United States. In addition MOFSL is not a registered investment adviser under the U.S. Investment Advisers Act of 1940, as amended (the "Advisers Act" and together with the 1934 Act, the "Acts), and under applicable state laws in the United States. Accordingly, in the absence of specific exemption under the Acts, any brokerage and investment services provided by MOFSL, including the products and services described herein are not available to or intended for U.S. persons. This report is intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the Exchange Act and interpretations thereof by SEC (henceforth referred to as "major institutional investors"). This document must not be acted on or relied on by persons who are not major institutional investors. Any investment or investment activity to which this document relates is only available to major institutional investors and will be engaged in only with major institutional investors. In reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act") and interpretations thereof by the U.S. Securities and Exchange Commission ("SEC") in order to conduct business with Institutional Investors based in the U.S., MOFSL has entered into a chaperoning agreement with a U.S. registered broker-dealer, Motilal Oswal Securities International Private Limited. ("MOSIPL"). Any business interaction pursuant to this report will have to be executed within the provisions of this chaperoning agreement.

The Research Analysts contributing to the report may not be registered /qualified as research analyst with FINRA. Such research analyst may not be associated persons of the U.S. registered broker-dealer, MOSIPL, and therefore, may not be subject to NASD rule 2711 and NYSE Rule 472 restrictions on communication with a subject company, public appearances and trading securities held by a research analyst account.

For Singapore

In Singapore, this report is being distributed by Motilal Oswal Capital Markets (Singapore) Pte. Ltd. ("MOCMSPL") (UEN 201129401Z), which is a holder of a capital markets services license and an exempt financial adviser in Singapore.This report is distributed solely to persons who (a) qualify as "institutional investors" as defined in section 4A(1)(c) of the Securities and Futures Act of Singapore ("SFA") or (b) are considered "accredited investors" as defined in section 2(1) of the Financial Advisers Regulations of Singapore read with section 4A(1)(a) of the SFA. Accordingly, if a recipient is neither an "institutional investor" nor an "accredited investor", they must immediately discontinue any use of this Report and inform MOCMSPL .

In respect of any matter arising from or in connection with the research you could contact the following representatives of MOCMSPL. In case of grievances for any of the services rendered by MOCMSPL write to grievances@motilaloswal.com.

Nainesh Rajani
Email: nainesh.rajani@motilaloswal.com
Contact: (+65) 8328 0276

Specific Disclosures

1 MOFSL, Research Analyst and/or his relatives does not have financial interest in the subject company, as they do not have equity holdings in the subject company.
2 MOFSL, Research Analyst and/or his relatives do not have actual/beneficial ownership of 1% or more securities in the subject company
3 MOFSL, Research Analyst and/or his relatives have not received compensation/other benefits from the subject company in the past 12 months
4 MOFSL, Research Analyst and/or his relatives do not have material conflict of interest in the subject company at the time of publication of research report
5 Research Analyst has not served as director/officer/employee in the subject company
6 MOFSL has not acted as a manager or co-manager of public offering of securities of the subject company in past 12 months
7 MOFSL has not received compensation for investment banking/ merchant banking/brokerage services from the subject company in the past 12 months
8 MOFSL has not received compensation for other than investment banking/merchant banking/brokerage services from the subject company in the past 12 months
9 MOFSL has not received any compensation or other benefits from third party in connection with the research report
10 MOFSL has not engaged in market making activity for the subject company

The associates of MOFSL may have:

- financial interest in the subject company
- actual/beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report or date of the public appearance.
- received compensation/other benefits from the subject company in the past 12 months
- any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of MOFSL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report.
- acted as a manager or co-manager of public offering of securities of the subject company in past 12 months

- be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies)
- received compensation from the subject company in the past 12 months for investment banking / merchant banking / brokerage services or from other than said services.
- Served subject company as its clients during twelve months preceding the date of distribution of the research report.
- The associates of MOFSL has not received any compensation or other benefits from third party in connection with the research report

Above disclosures include beneficial holdings lying in demat account of MOFSL which are opened for proprietary investments only. While calculating beneficial holdings, It does not consider demat accounts which are opened in name of MOFSL for other purposes (i.e holding client securities, collaterals, error trades etc.). MOFSL also earns DP income from clients which are not considered in above disclosures.

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Terms & Conditions:

This report has been prepared by MOFSL and is meant for sole use by the recipient and not for circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of MOFSL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. MOFSL will not treat recipients as customers by virtue of their receiving this report.

Disclaimer:

The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. No representation or warranty, express or implied, is made as to the accuracy, completeness or fairness of the information and opinions contained in this document. The Disclosures of Interest Statement incorporated in this document is provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report. This information is subject to change without any prior notice. The Company reserves the right to make modifications and alternations to this statement as may be required from time to time without any prior approval. MOFSL, its associates, their directors and the employees may from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. Each of these entities functions as a separate, distinct and independent of each other. The recipient should take this into account before interpreting the document. This report has been prepared on the basis of information that is already available in publicly accessible media or developed through analysis of MOFSL. The views expressed are those of the analyst, and the Company may or may not subscribe to all the views expressed therein. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject MOFSL to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction. Neither the Firm, not its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information. The person accessing this information specifically agrees to exempt MOFSL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold MOFSL or any of its affiliates or employees responsible for any such misuse and further agrees to hold MOFSL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is meant for the clients of Motilal Oswal only.

Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 - 71934200 / 71934263; www.motilaloswal.com. Correspondence Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad (West), Mumbai- 400 064. Tel No: 022 71881000. Details of Compliance Officer: Neeraj Agarwal, Email Id: na@motilaloswal.com, Contact No.:022-40548085.

Grievance Redressal Cell:

Contact Person	Contact No.	Email ID
Ms. Hemangi Date	022 40548000 / 022 67490600	query@motilaloswal.com
Ms. Kumud Upadhyay	022 40548082	servicehead@motilaloswal.com
Mr. Ajay Menon	022 40548083	am@motilaloswal.com

Registration details of group entities.: Motilal Oswal Financial Services Ltd. (MOFSL): INZ000158836 (BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412 . AMFI: ARN .: 146822. IRDA Corporate Agent – CA0579. Motilal Oswal Financial Services Ltd. is a distributor of Mutual Funds, PMS, Fixed Deposit, Insurance, Bond, NCDs and IPO products.

Customer having any query/feedback/ clarification may write to query@motilaloswal.com. In case of grievances for any of the services rendered by Motilal Oswal Financial Services Limited (MOFSL) write to grievances@motilaloswal.com, for DP to dpgrievances@motilaloswal.com.

.