

# Tough immigration rules in US may hit Cognizant hardest

Visa-related restrictions and costs to affect profitability of all major offshore-centric IT firms

**BIBHU RANJAN MISHRA**  
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The proposed comprehensive immigration reforms Bill in the US would affect all major offshore-centric information services (IT) services companies. But it is expected Nasdaq-listed Cognizant would be hit the hardest, considering the company's low margin bandwidth high exposure to the US market. According to a recent report by global equity analyst firm JP Morgan, Cognizant's earning per share (EPS) — used to gauge a company's profitability — could be hit by as much as 25 per cent, after the reforms are implemented. This is primarily because the company operates on a thin operating margin and its exposure to the US is higher, compared to the rest of the pack.

The JP Morgan report is based on a presentation TCS, Cognizant, Infosys and Wipro made at its annual global technology, media and telecom conference in Boston last month. "Cognizant may be the most vulnerable to the Bill, as its (estimated) CY14 EPS has been hit as much as 25 per cent...Cognizant is the most vulnerable, primarily because of its lower margins and its higher percentage of revenues from the US," the report said. "In any case, we see FY15/CY14 EPS of all the four firms being impacted by double-digit percentages," it added. The Bill, mooted by bipartisan senators, known as the 'gang of eight', cleared its first major hurdle yesterday, with the Senate clearing it for a debate. The Senate offered about 100 amendments to the original legislation.

Historically, Cognizant's operating margin has been 19-20 per cent, something the company considers a necessity to stay healthy by investing profits back into the business. For the quarter ended March, the company's operating margin stood at 19.9 per cent. The company's exposure

## Immigration Bill clears early test vote

By a vote of 82-15, the US Senate voted on Tuesday to begin consideration of a White House-backed bill to overhaul the American immigration system. The legalisation and ultimate citizenship for the 11 million is a central component of the Bill. The Senate bill, among other things, would create new visa programmes for high- and low-skilled workers.

REUTERS

## Wipro to expand in Germany

Wipro on Wednesday announced the expansion of its operations in Germany. The company plans to triple its employee strength in Germany over the next three years, by hiring over 1,000 professionals. Wipro's customers in Germany include a global automotive company, an European utilities major and one of the largest telecom companies in the country.

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to the US is the highest compared to its peers, with close to 80 per cent of its revenues coming from there. TCS, India's second-largest IT services company, might be hit the second-hardest, with its EPS expected to be impacted by about 18 per cent, followed by Infosys (15 per cent). Wipro and HCL Technologies were relatively better placed, the report said.

It added most companies expected the Senate's version of the Bill to go through essentially unchanged, though they remained optimistic the House's version would be less onerous. However, companies feel the 'outplacement' clause in the Bill is

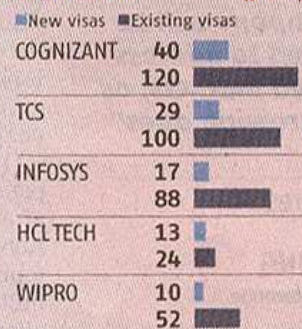
## ENTRY RESTRICTED

Visa provisions impact on EPS\* for CY14/FY15



### Kinds of impact

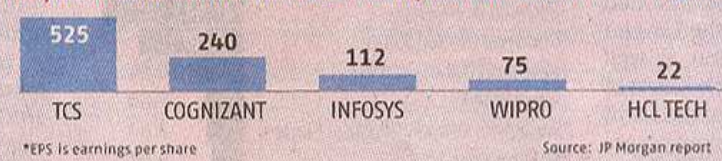
#### Impact due to HIGHER VISA COSTS (\$ mn)



#### COMPANIES' ABILITY TO OFFSET some of the impact (in %)

Offsetting factors	Passing on costs to clients	Increasing offshore component
Cognizant	10	25
TCS	10	25
Infosys	10	15
HCL Tech	10	10
Wipro	10	15

#### Impact due to WAGE REALIGNMENT, LOCALISATION (\$ mn)



\*EPS is earnings per share

Source: JP Morgan report

likely to be intensely negotiated with stakeholders, including lawmakers. The clause debar sending H1B sponsored employees of H1B-dependent firms (those with more than 15 per cent of US employees as H1B ones) to client sites in the US. This affected the business model of the IT services industry and could be partly offset through greater localisation and near-shore centres, which were added costs for these companies, it said.

"We continue to think the net impact of the immigration Bill is a net negative for the offshore IT services industry. It seems that at the

least, the net impact would be higher costs (increased visa costs and realignment of non-immigrant visa wages), which is something various players have reconciled with and are agreeable to," the report said.

Rahul Kanodia, vice-chairman and chief executive of Datamatics Global Services, a Mumbai-based IT services company, said since the 'outplacement' clause wouldn't allow vendors to send their employees to client premises, they would be forced to hire locally. But since most client engagements are short-term, local employees could demand a high premium.