



Proposed protectionist measures, likely to result into greater oversight and imposition - Partly negative for India IT players

The Facts:

Senators Chuck Grassley and Dick Durbin recently introduced a bill to reform the H-1B and L-1 visa programs. The bill is titled as "A bill to amend the Immigration and Nationality Act to reform and reduce fraud and abuse in certain visa programs for aliens working temporarily in the United States and for other purposes." The said bill (S.887) was referred to senate committee on April 23, 2009. The key provisions of Durbin-Grassley bill:

- ✓ Require all employers who want to hire an H-1B guest-worker to first make a good-faith attempt to recruit a qualified American worker. Employers would be prohibited from using H-1B visa holders to displace qualified American workers.
- ✓ Prohibit the blatantly discriminatory practice of "H-1B only" ads and prohibit employers from hiring additional H-1B and L-1 guest-workers if more than 50% of their employees are H-1B and L-1 visa holders.

Under the existing law, the Department of Labor (DOL) is only authorized to review applications for "completeness and obvious inaccuracies." DOL does not have the authority to open an investigation of an employer suspected of abusing the H-1B program unless it receives a formal complaint - even if the employer's application is clearly fraudulent. Even if there is a complaint, the Labor Secretary must personally authorize the opening of an investigation.

To address potential fraud, the Durbin-Grassley bill would give the government more authority to conduct employer investigations and streamline the investigative process. For example, the bill would:

- ✓ Permit DOL to initiate investigations without a complaint and without the Labor Secretary's personal authorization;
- ✓ Authorize DOL to review H-1B applications for fraud;
- ✓ Allow DOL to conduct random audits of any company that uses the H-1B program;
- ✓ Require DOL to conduct annual audits of companies who employ large numbers of H-1B workers.

Our View:

A similar bill failed in 2007, however, this time environment is significantly different. In tough time, pro-employment policies get higher political support. These measures, if implemented, could increase cost structure and reduce operational flexibility for Indian offshore players. Albeit, in medium to long term, we believe economic pragmatism to prevail which is still in favor of Indian IT vendors for cost-effective quality services. India offers skilled cost effective manpower where the US, EU lacks in terms of number of skilled personnel (likely to continue even after skill enhancement due to demographics) and return on spending. The buyers' decisions for choosing outsourcing are looking beyond-cost benefits with maturity of Indian vendors' service offering and capability of handling complex assignments.

Industry View:

Opponents argue that H-1 B visas are actually used to provide technically qualified talent that is in short supply, to open new markets, and to accelerate innovation and increase competitiveness for US companies. H1-B visas are not used to displace American workers.

NASSCOM contends that the Durbin-Grassley H-1B bill as written unfairly targets Indian and

For private circulation only. Please read the Important Disclosure at the end of the report.

KSL Intelligent Research Reports can be accessed on: www.bloomberg.net (KHDS<GO>), www.thomsonreuters.com, www.capitaliq.com, www.themarkets.com, www.kslindia.com, www.moneycontrol.com, www.securities.com, www.valuenotes.com

This report is a part of intellectual property of Khandwala Securities Limited; any query on this report may be directed to Head of Research at research@kslindia.com



other foreign businesses operating in the US through the so-called 50% provision. This provision prohibits companies having more than 50% of their workforce using H-1B and L-1 visas. This provision unfairly stacks the deck against foreign companies operating in the US because US companies are highly likely to have a high percentage of American employees. The bill is also seemingly in contrast to President Obama's

stand against US protectionism at the G20 summit earlier this month.

According to a US Department of Labor study on FY '08 visa programs, H-1B visas issued to the top 30 Indian IT companies have decreased 27% since 2006. Another study by the National Foundation for American Policy found that Indian companies secured only 13% of all H-1B visas in 2008.



INDIA

EQUITY RESEARCH

TEL. NO. +91 22 4076 7373

FAX +91 22 4076 7378

Name	Designation	Sectors	E-mail
Ashok Jainani	VP, Head Research	Market Strategy	ashokjainani@kslindia.com
Dipesh Mehta	Research Analyst	IT, Telecom	dipesh@kslindia.com
Hatim K Broachwala	Research Analyst	BFSI	hatim@kslindia.com
Vinay Nair	Research Analyst	Energy	vinay.nair@kslindia.com
Giriraj Daga	Research Analyst	Metals & Minings	giriraj@kslindia.com
Kruti Shah	Research Associate	Economics	kruti.shah@kslindia.com
Sandeep Shrimali	Research Associate	Cement	sandeep.shrimali@kslindia.com
Dinesh Bhatia	Research Associate	Technical Analysis	dinesh.bhatia@kslindia.com
Sandeep Bhatkhande	Research Associate	Publishing	sandeep@kslindia.com
Lydia Rodrigues	Research Executive	Data Mining	lydia@kslindia.com

INSTITUTIONAL DEALING

TEL NO. +91 22 4076 7342-47/56

FAX NO. +91 22 4076 73 77-78

Biranchi Sahu	Head	Institutional Equity	bsahu@kslindia.com
Gopi Doshi	Senior Dealer	Institutional Equity	gopi.doshi@kslindia.com
Mayank Patwardhan	Dealer	Institutional Equity	mayank.patwardhan@kslindia.com

PRIVATE CLIENT GROUP

TEL No. +91 22 4076 7317-21

FAX NO. +91 22 4076 73 77

Sanjay K Thakur	President	Sales & Marketing	thakursk@kslindia.com
Subroto Duttaroy	General Manager	Equity & Portfolio Mgmt. Service	subroto@kslindia.com
Jagdish R Modi	Manager	Equity & Portfolio Mgmt. Service	jrmodi@kslindia.com

BRANCH OFFICE (PUNE)

TEL NO. +91 20 2567 1404/06

FAX NO. +91 20 2567 1405

Ajay G Laddha	Vice President		ajay@kslindia.com
---------------	----------------	--	-------------------

Corporate Office:

Vikas Building, Ground Floor,
Green Street, Fort,
MUMBAI 400 023.
Tel. No. (91) (22) 4076 7373
Fax No. (91) (22) 4076 7377/78
E-mail: research@kslindia.com

Web site: www.kslindia.com

Branch Office:

C8/9, Dr. Herekar Park,
Off. Bhandarkar Road,
PUNE 411 004
Tel. No. (91) (20) 2567 1404/06
Fax. No. (91) (20) 2567 1405
Email: pune@kslindia.com

Important Disclosure

The Research team of Khandwala Securities Limited (KSL) on behalf of itself has prepared the information given and opinions expressed in this report. The information contained has been obtained from sources believed to be reliable and in good faith, but which may not be verified independently. While utmost care has been taken in preparing the above report, KSL or its group companies make no guarantee, representation or warranty, whether express or implied and accepts no responsibility or liability as to its accuracy or completeness of the data being provided. All investment information and opinion are subject to change without notice. Also, not all customers may receive the material at the same time.

This document is for private circulation and information purposes only. It does not and should not be construed as an offer to buy or sell securities mentioned herein. KSL shall not be liable for any direct or indirect losses arising from the use thereof and the investors are expected to use the information contained herein at their own risk. KSL and its affiliates and / or their officers, directors and employees may own or have positions in any investment mentioned herein or any investment related thereto and from time to time add to or dispose of any such investment. KSL and its affiliates may act as market maker or have assumed an underwriting position in the securities of companies discussed herein (or investments related thereto) and may sell them to or buy them from customers on a principal basis and may also perform or seek to perform investment banking or underwriting services for or relating to those companies.

The investments discussed or recommended in this report may not be suitable for all investors. Investors must make their own investment decisions based on their specific investment objectives and financial position and using such independent advisors, as they believe necessary. Income from investments may fluctuate. The price or value of the investments, to which this report relates, either directly or indirectly, may fall or rise against the interest of investors. The value of or income from any investment may be adversely affected by changes in the rates of currency exchange.

This document is strictly meant for use by the recipient only. None of the material in this report shall be reproduced, resold or re-distributed in any manner whatsoever without the prior explicit written permission from KSL.