IT sector hit by tariffs, visas, AI, geopolitics: Can it weather the storm?

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Shelley Singh September 22, 2025

US tariffs, visa issues, geopolitical tensions, and AI disruption have plunged the IT services industry into an uncertain period

In the 2023-24 financial year (FY24), Indians accounted for the largest share of H-1B visa holders, making up 71 per cent of all beneficiaries. The astonishing fee hike could increase remote sourcing of work. | File Image

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India’s $283 billion information technology (IT) services industry, which employs 5.8 million people, is used to absorbing shocks — whether it is currency swings, visa issues, even the occasional see-saw in discretionary spending among its client base. But this year feels different.

Data points to stress across the business. Bengaluru-based consultancy UnearthInsight estimates that in the past 18 months, $350-400 billion of global technology procurement — 8-10 per cent of the total — has shifted regionally or has been restructured due to geopolitics. Roughly $100 billion worth of deals have been impacted by the United States/European Union tariff risks. Several clients have delayed or scaled back digital transformation, and deal-conversion rates (making a pitch and bagging the contract/business), which are typically at 75-90 per cent in good times, have slipped to 50-60 per cent.

And now a big shocker came last week. US President Donald Trump signed an executive order to increase the fee that companies pay to sponsor H-1B visa applicants to a whopping $100,000. The new H-1B visa fee rule will be applicable for each fresh applicant and not existing visa holders. It’s a one-time fee and not an annual payment, a White House spokesperson has clarified.

“It’s not going to be a great year for the industry,” said R Srikrishna, CEO of Hexaware Technologies, a $1.5 billion IT services company. He is quick to add: “Bad years come, and good years make up for them.” For now, though, the sector is navigating a tighter, more hesitant market shaped by tariffs and caution in boardrooms.

On visas, a spokesperson of an IT services company said, “We are still evaluating, but are unlikely to pay $100,000.”

In the 2023-24 financial year (FY24), Indians accounted for the largest share of H-1B visa holders, making up 71 per cent of all beneficiaries. The astonishing fee hike could increase remote sourcing of work.

“With the H-1B disruption, companies might move their critical employees to the India global capability centres (GCCs), or even to destinations like Canada to continue staying in a mature market, and close to the US time zone,” said Arnab Basu, clients and industries leader, PwC, India.

While new business spending is consolidating around cloud, artificial intelligence (AI), and cybersecurity, enterprises are cutting back on discretionary initiatives and prioritising digital infrastructure that supports AI adoption. “Clients are focusing on essential capabilities that deliver clear return on investment (RoI), efficiency, and low execution risk,” said Nitin Rakesh, CEO and managing director, Mphasis, a Bengaluru-based IT services firm. Budgets are being re-allocated from existing tech to AI initiatives. Deals now get approved only when they show both efficiency and measurable returns.

Atul Soneja, chief operating officer, Tech Mahindra, one of India’s top six services providers, sees a similar pattern. “Enterprises are prioritising AI adoption, cloud modernisation, cybersecurity, and automation to strengthen operational resilience and improve efficiency,” he said. While discretionary spending has slowed in some areas, “strategic investments continue. Overall structural change reflects a sharper focus on cost optimisation, sustainability, and innovation,” Soneja added.

Caution ahead

In tariff-impacted sectors such as manufacturing, consumer, retail, and travel, Srikrishna said, clients had slowed decisions down to a crawl, and this is impacting work.

Nitin Bhatt, technology sector leader at EY India, noted the indirect nature of much of the hit from US tariffs. While services are exempt, sectors like banking, financial services and insurance (BFSI), telecom, and manufacturing — which together account for 70-75 per cent of US IT-services exports — are indirectly exposed to US tariffs. This exposure shows up as a cautious spending cycle, vendor consolidation, and delays in non-critical projects.

Over the past 12-18 months, the number of new deals has decreased even as average deal values have risen, particularly for cloud and AI-related tasks. Contract durations have also shortened. Infrastructure and security contracts now run three to four years, down from 8-10-year deals earlier, as buyers seek flexibility in a changing technology landscape.

Tech Mahindra has seen deal dynamics become more diverse over the last one year. “We are seeing significant traction in mid-sized, outcome-based deals with shorter ramp-up cycles,” said Soneja.

“Clients prefer modular contracts with a focus on delivering targeted digital capabilities that can be scaled.” He sees an appetite for multi-year partnerships in cloud, AI, and cybersecurity, where sustained engagement drives long-term value, but each module must prove itself before the next tranche is unlocked.

Srikrishna expects outsourcing to continue, but as AI takes on some of the workloads, the overall ‘human’ effort needed to deliver services will shrink. This will, in turn, result in smaller deal sizes. Core IT expenditure may flatten — or fall even — as new categories of spending emerge around data readiness for AI, embedding intelligence into applications and building many more applications, with far fewer human hours.

So the paradox this year is: Healthy deal wins but modest revenue.

“In FY25, the top five Indian IT firms secured over 40 large digital transformation deals and 300-plus smaller contracts,” said Gaurav Vasu, CEO, UnearthInsight. “The top four firms (TCS, Infosys, Wipro, and HCL) alone accounted for 18 major transformation deals.” Despite this strong deal activity, the industry’s revenue growth was a modest 3-5 per cent since the conversion of new deals to revenue lagged, he added.

In some cases, Mphasis’ Rakesh said: “Decision cycles have become longer, influenced by factors such as tariffs, interest rates, and geopolitics”. Enterprises, he added, are prioritising programmes that demonstrate clear returns, often reallocating budgets from existing technology investments to AI initiatives.

Services providers are winning deals, but “these are expected to balance efficiency and cost benefits with innovation, reflecting a more RoI driven approach across the industry”.

Can AI be the deal accelerator?

If tariffs and visa fees are the brakes, AI could be the growth accelerator.

“Structurally, every business is experimenting with AI,” said Srikrishna. Hexaware wants AI to impact every single customer every single day, embedding capabilities into its platforms, upskilling its workforce, and launching services that are possible because of AI.

Bhatt at EY India estimates that AI-driven task transformation can deliver up to a 40 per cent value uplift in IT services and up to 80 per cent in business process management. Some IT companies now report that AI is writing 30-50 per cent of code, and AI-led automation is compressing marketing cycle times. Workflows redesigned with AI at the core, combined with automation and advanced analytics, could generate 30-50 per cent savings over the next few years.

Across IT majors, AI is moving from pilots to platforms. For example, Infosys’s AI platform, Topaz, now offers hundreds of enterprise AI agents on Google Cloud’s Vertex AI. Infosys has trained around 300,000 employees in AI skills.

Wipro AI360 is helping accelerate automation and digital transformation; TCS has created a dedicated AI and services transformation unit to embed intelligence across its portfolio; Tech Mahindra’s “AI Delivered Right” includes governance via VerifAI and an agentic platform, TechM Orion, for autonomous execution of complex tasks; and Mphasis’s Neo platforms stitch automation and applied AI into large-scale engagements.

According to UnearthInsight, among the top 1,000 enterprises, 90 per cent piloted GenAI or automation in the past year, and 65 per cent are pushing projects into production.

While clients remain cautious in spending, some sectors like BFSI and healthcare — data-intensive, regulated, and always on — remain resilient, as does energy where operational technology and risk management demand steady investment. Telecom is uneven but mission-critical.

By contrast, manufacturing and retail, the most exposed to tariffs and supply-chain stress, are showing a 20-25 per cent slowdown in both deal volumes and project sizes.

Geopolitics is also changing where and how work gets done.

However, everything may not be disrupted. Srikrishna does not see a scenario where, say, jeans and shoes will be made in the US at scale or where thousands of engineers will be shifted from low-cost to high-cost locations.

Rather than impacting demand outright, Tech Mahindra’s Soneja is of the view that geopolitical factors are altering priorities. He sees rising opportunities in advisory, governance, and digital risk management alongside the core build-and-run work.

Pricing, too, is evolving. As buyers ask for more value at lower cost, providers are leaning on non-linear (delinking revenue and manpower growth) models: Platforms, reusable IP, and GenAI-driven delivery. Rakesh of Mphasis said clients increasingly expect solutions that combine people, AI, and platforms in a single model, reshaping contracts and creating opportunities for firms that can offer integrated tech-and-services propositions.

Global clients want IT services partners to help cut costs to both run the business cheaper and change it faster with AI. That is forcing vendors to prove AI’s impact in, say, automated code-generation, IT support, or faster reconciliations in finance operations. The result: Fewer people on the same work, with capacity redirected into new projects. So deals can shrink even as new spending opens up in AI-related applications.

The outlook over the next 12-24 months is low-single-digit growth.

UnearthInsight pegs global IT-services to grow at 4-5 per cent and Indian IT services at 3-5 per cent. GenAI and automation services, cloud modernisation, cybersecurity, and industry-specific AI are the bright spots where incremental growth will come from. Buyers want proof that AI can deliver, and they want it cheaper. Rakesh is pragmatic: In an uncertain macro, focus on the micro — client by client, deal by deal — bundling transformation and savings to convert intent into outcome-driven contracts.

As things stand today, discretionary spending is under evaluation, decision cycles are longer, and visas are uncertain. But then the IT services industry has seen bad years in the past as well. Remember the global financial crisis of 2008, and the initial phase of Covid? The good years that followed those periods more than made up for the slowdown. For now, though, IT companies will have to live with uncertainty.

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