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HSBC India Services PMI™

Marked slowdown in growth of Indian service sector business activity in March

Key findings:

- Weaker rise in new business contributes to slower expansion of output
- Backlogs of work unchanged since February, while employment increases marginally
- Input cost and output price inflation largely consistent with rates in February

March data pointed to a further rise in Indian service sector output. However, the rate of expansion eased since February and was the weakest in the current five-month sequence of growth. A slower increase in new business was the main driver of the moderated rise in activity. Backlogs of work were unchanged in March, while the rate of job creation was marginal. Meanwhile, both input costs and output prices continued to rise.

The headline HSBC Business Activity Index posted 52.3 in March, down from 56.5 in February. Posting above the 50.0 nochange threshold, the latest reading signalled modest growth of output in the Indian service sector, but the rate of expansion eased for a second successive month. Nonetheless, increases in business activity have now been recorded for five consecutive survey periods.

Indian service providers registered a rise in new business received during March, extending the sequence of sustained expansion to 35 months. A general improvement in demand and new client wins were reported to have boosted new work intakes. While the rate of growth was marked, it slowed to a four-month low. Panellists commented that rising prices had restricted the latest increase in new business.

Reflective of slowdowns in both output and new work intakes, outstanding business was reported to be unchanged during March. This suggested that Indian service sector companies were largely able to accommodate the latest expansion in new business, alongside work on existing contracts. This was broadly in line with the trend of the last six months, where backlog

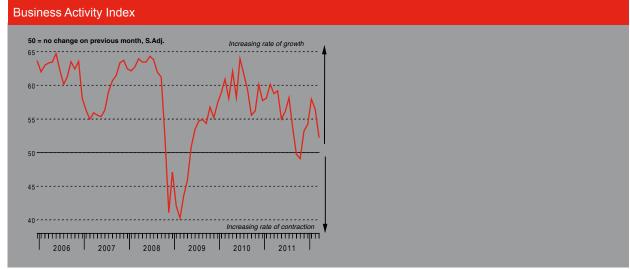
volumes have been largely flat.

March data signalled a marginal increase in employment in the Indian service sector. Job creation has been recorded in three of the last four survey periods, although the gains in staffing have been marginal in each instance. Highlighting this, the vast majority of respondents indicated that employment at their companies was unchanged in March. Where an increase in staffing levels was registered, this was attributed to higher workloads.

Input prices faced by service providers in India rose again in March, with cost inflation now recorded in each month over the last three years. Higher wage bills and increased prices for food and fuel were cited as the main drivers of inflation. The extent of the latest rise in costs was marked, and broadly consistent with that seen in February.

Indian service providers increased their prices charged during March. This largely reflected attempts to protect margins after a further increase in input costs. The rate of charge inflation was marked, having remained broadly unchanged since February, and above the historical series average.

Indian service companies were optimistic in March that activity would rise over the next year. Expected gains in new business due to the high quality of services provided and anticipated improvements in markets conditions are forecast to support growth. However, confidence sunk sharply since February, largely as concerns over the latest budget announcement weighed on sentiment



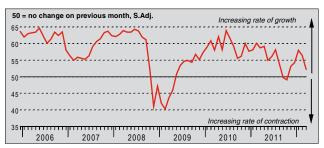
The survey uses a methodology identical to the HSBC India Manufacturing PMI™. The survey uses a panel of regularly participating companies to monitor trends in business conditions in the private sector services economy. The panel has been carefully selected to accurately replicate the true structure of the Indian services economy. Purchasing Managers' Index™ and PMI™ are trade marks of Markit Economics Limited, HSBC use the above marks under licence. Markit and the Markit logo are registered trade marks of Markit Group Limited.

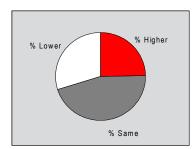




Business Activity Index

Q. Please compare the level of business activity (i.e. gross income, chargeable hours worked, etc) in your company this month with the situation one month ago.

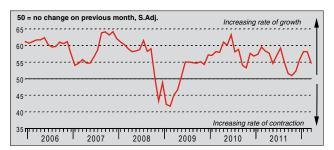


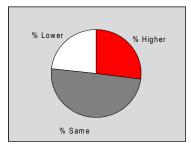


The seasonally adjusted Business Activity Index posted above the 50.0 no-change threshold in March, signalling a rise in Indian service sector output. This extended the current sequence of growth to five months, with approximately one-quarter of panellists noted a higher level of activity in the latest month. However, the overall rate of growth eased to the weakest in the current period of expansion, and was weak in the context of historical data. Anecdotal evidence suggested that this was due to a slower rise in new business. At the sub-sector level, Financial Intermediation saw the fastest increase in output.

New Business Index

Q. Please compare the level of new orders/business placed at your company (whether already fulfilled or not) this month with the situation one month ago.

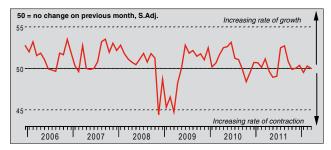


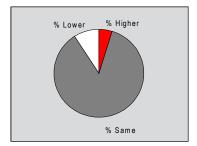


March data signalled an increase in new business received by service providers in India. Panellists commented that a general improvement in demand, new client wins and good quality of services provided had been the main contributors to the rise in new work intakes. However, with approximately 27% of respondents registering an increase in new business, the rate of expansion slowed to the weakest in four months. Anecdotal evidence suggested rising prices had acted to restrict the rise in new work intakes. Nonetheless, growth of new business has now been sustained for 35 successive survey periods.

Outstanding Business Index

Q. Compare the level of outstanding business (i.e. work in hand but not yet completed) in your company this month with the situation one month ago.



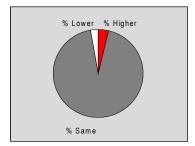


Backlogs of work at Indian service companies were unchanged during March, as indicated by the seasonally adjusted Outstanding Business Index posting in line with the 50.0 no-change threshold. Highlighting this, the majority of respondents (approximately 86%) indicated that levels of work-in-hand (but not yet completed) were consistent with those in February. Where an increase in backlogs was recorded, this was predominantly attributed to growth of new business. The Renting & Business Services sub-sector saw the steepest increase in work-in-hand, while Other Services saw the fastest depletion.

Employment Index

Q. Compare the number of people employed this month with the situation a month ago (treat two part as one full-time and ignore temporary labour).



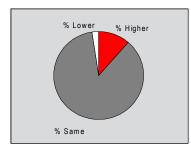


March data signalled an increase in employment in the Indian service sector, with job creation renewed following the broad stagnation in February. Staffing levels have now risen in three of the last four survey periods, although the rate of increase has been marginal in each instance. Highlighting this, in the latest survey period, the vast majority of panellists (approximately 94%) indicated that employment at their companies was unchanged on the month. Where job creation was reported, this largely reflected the need to boost workforces in line with higher workloads.

Prices Charged Index

Q. Compare the average prices charged by your company (e.g. prices charged per item or unit of time) this month with the situation one month ago

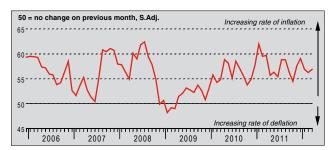


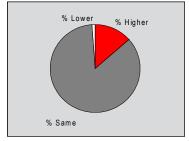


Indian service providers reported a rise in their prices charged during March, extending the sequence of sustained output price inflation to 17 consecutive months. Panellists noted that charges had been increased due to higher input costs, and the subsequent need to protect margins. Renting & Business Services was the sub-sector registering the fastest rise in charges. The rate of output price inflation was marked, and broadly consistent with that registered in February. Despite remaining above the long-run trend, the latest rise in charges was weaker than recent highs registered in the latter half of 2011. Slower growth of new business was reported to have constrained the latest increase in output prices.

Input Prices Index

Q. Please compare the average prices paid by your company for all purchases, wages and salaries, etc. this month with the situation one month ago.



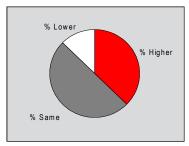


Input prices faced by service companies in India rose markedly during March, with higher cost burdens now recorded in each month over the last three years. Panellists cited higher prices for food and fuel alongside increased wage bills as the main drivers of inflation. At the sub-sector level, all six monitored reported an increase in input costs, the sharpest of which was in Hotels & Restaurants. March's overall rate of inflation accelerated slightly from the previous survey period, and was marginally stronger than the long-run trend.

Business Expectations Index

Q. In twelve months' time, do you expect overall activity at your business unit to be higher, the same or lower than now?





Indian service providers were optimistic in March that activity would increase over the next year. Approximately 37% of panellists expect growth of output, with improved market conditions and new business expansion supported by the high quality of services provided anticipated to be the main contributors to the increase. However, the Business Expectations Index fell by roughly nine points during March – the third-sharpest monthly deterioration in confidence in the series history. Anecdotal evidence suggested that concerns related to the latest budget announcement had dampened sentiment regarding growth prospects in the latest survey period.

Notes on the Data and Method of Presentation

The India Services PMI™covers transport & communication, financial intermediation, business services, personal services, computing & IT and hotels & restaurants

Each response received is weighted each month according to the size of the company to which the questionnaire refers and the contribution to total service sector output accounted for by the sub-sector to which that company belongs. This therefore ensures that replies from larger companies have a greater impact on the final index numbers than replies from small companies.

The results are presented by question asked, showing the percentage of respondents reporting an improvement, deterioration or no change on the previous month. From these percentages an index is derived such that a level of 50.0 signals no change on the previous month. Above 50.0 signals an increase (or improvement), below 50.0 a decrease (or deterioration). The greater the divergence from 50.0, the greater the rate of change signalled.

The indexes are calculated by assigning weights to the percentages: the percentage of respondents reporting an "improvement/increase" are given a weight of 1.0, the percentage reporting "no change" are given a weight of 0.5 and the percentage reporting a "deterioration/decrease" are given a weight of 0.0. Thus, if 100% of the survey panel report an "increase", the index would read 100. If 100% reported "no change" the index would read $50(100 \times 0.5)$, and so on. Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series.

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