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HSBC India Services PMI™

Growth of business activity the strongest in three months

Key findings:

- · Services output rises markedly
- Job creation remains marginal
- Business confidence the highest in 15 months

Growth of business activity in the India service sector economy accelerated to a three-month high in May, largely reflective of a marked increase in new order volumes. Looking ahead, service sector business optimism was the strongest in 15 months. Despite this, Indian service sector firms added to their staff numbers at only a marginal rate. On the price front, companies continued to pass on higher input costs to clients through increased selling prices.

After adjusting for seasonal factors, the headline HSBC Business Activity Index posted 54.7 in May, up from 52.8 in April, signalling a further month-on-month expansion of services output. The latest increase in business activity was marked, and the sharpest in three months. However, the latest index reading remained below the long-run series average (57.5). Behind the latest expansion of business activity was a sustained increase in new work placed at service providers. The pace of new business growth was marked, albeit slower than the long-run trend. Where a rise in new orders was signalled, companies often linked growth to better demand conditions. There were also reports of the success of promotional activities and new product developments.

May data pointed to a rise in the volume of work-in-hand (but not yet completed) held at Indian service providers' units. Companies that mentioned a rise in work outstanding generally attributed this to greater inflows of new business. Although the strongest in eight months, the rate of backlog accumulation was only marginal.

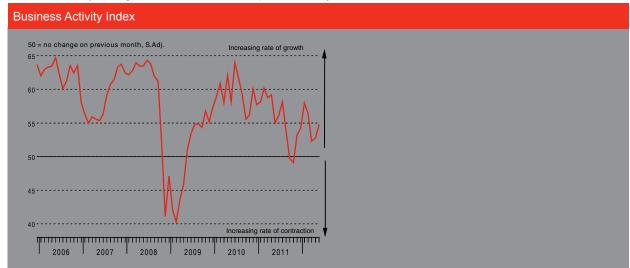
The latest survey findings showed a continued expansion of

India's service sector workforce. However, the rate of jobs growth remained marginal. Service providers reportedly added to their staff numbers in response to higher workloads.

Input price inflation in the Indian service sector accelerated to a strong rate amid reports of higher prices paid for energy, fuel and raw materials. A number of survey participants also mentioned increased labour-related costs. Additionally, the latest rise in average costs was the most pronounced in 2012 so far. Higher input prices have now been recorded in each of the past 38 months.

Indian service sector firms continued to pass on higher average costs to clients in May, as highlighted by a strong increase in output prices. The rate of output charge inflation was the strongest in four months, and sharper than the long-run trend for the survey. The latest increase in average tariffs was the nineteenth in as many months.

In line with the trend observed throughout the series history, Indian service providers were optimistic regarding the one-year business outlook in May. The degree of confidence was strong, and the most marked in 15 months. Additionally, the Business Expectations Index has now risen more than 14 points since posting a near-record low in March. Service sector firms linked positive sentiment to expectations of new business wins and better economic conditions. A number of companies also expect business expansion plans to support activity growth in the coming year.



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.

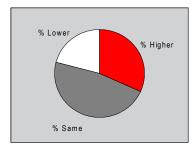




Business Activity Index

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.



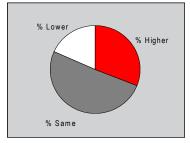


Business activity in the Indian service sector increased further during May, with approximately 32% of panellists signalling a rise since the preceding month. This compared to 21% that noted a reduction. The rate of expansion in services output was marked, and the sharpest in three months. The latest seasonally adjusted Business Activity Index was nonetheless below the long-run series average (57.5). Companies generally attributed growth of business activity to greater inflows of new work.

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.

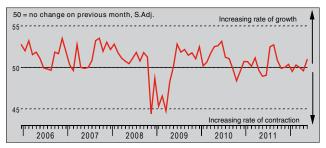


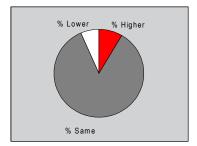


The volume of incoming new work placed at Indian service providers continued to rise during May, with the seasonally adjusted New Business Index posting above the neutral level of 50.0 for the thirty-seventh month in succession. Growth of new order intakes was marked, and the sharpest in three months. Anecdotal evidence provided by survey respondents suggested that the latest expansion of new business reflected improving demand conditions.

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.



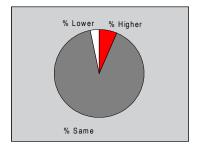


After adjusting for seasonal variation, the Outstanding Business Index posted above the neutral 50.0 threshold in May, signalling a month-on-month expansion of volumes of work-in-hand (but not yet completed). Despite posting an eight-month high, the latest index reading was consistent with only a marginal rate of backlog accumulation. Where a rise in unfinished business was signalled, service providers often linked this to higher intakes of new work.

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).



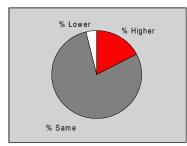


May data pointed to another month of job creation in the Indian service sector. Behind the latest increase in staffing levels was a sustained rise in new business, according to survey participants. The rate at which firms added to their employee numbers was only marginal, however, and slower than the long-run average for the series. Highlighting this, the vast majority of panellists (around 90%) reported no change in employment since the preceding month.

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



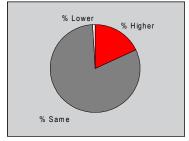


The seasonally adjusted Prices Charged Index signalled another increase in output prices set by Indian service providers during May. The rate of output charge inflation was strong, and the sharpest in four months. Moreover, the latest index reading was above the long-run trend (53.2). Of the 17% of companies that signalled a rise in selling prices since April, many linked this to the need to pass on higher costs to clients. The latest increase in average tariffs was the nineteenth in as many months.

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.



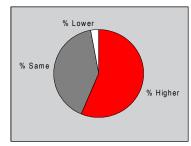


The pace of input cost inflation in India's service sector economy accelerated in May, with the latest seasonally adjusted Input Prices Index reading the highest in five months. Exactly 18% of survey participants recorded a rise in average costs since April, compared with just 1% that noted a decrease. Moreover, the latest increase in input prices was strong, and the thirty-eighth in as many months. Higher energy, fuel and raw material prices were cited by panellists as the main drivers of inflation. There were also reports of increased labour-related costs.

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 expressed a strong degree of optimism regarding the short-term business outlook in May. Around 56% of panellists expect business activity to be higher in 12 months' time, compared with just 3% that anticipate a reduction. Consequently, the degree of confidence was the strongest in 15 months. Additionally, the Business Expectations Index has now risen more than 14 points since posting a near-record low in March. Positive sentiment mainly reflected expectations of strong client demand, according to the latest anecdotal evidence.

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 an '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 x 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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