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HSBC India Manufacturing PMI™

Manufacturing production increases as both domestic and international demand strengthens

Key findings:

- Output rises for forty-seventh consecutive month
- Solid growth in new orders
- Strongest rise in average selling prices since August 2012

Output in the Indian manufacturing sector expanded for the forty-seventh consecutive month during February. Total new orders and export business both rose at solid rates. Subsequently, firms increased their staffing levels. Meanwhile, input prices rose and part of the burden of cost inflation was passed on to clients as average selling prices were increased again.

The headline *HSBC Purchasing Managers' Index™ (PMI™)* is a composite indicator designed to give a single-figure snapshot of operating conditions in the manufacturing economy. Readings above 50.0 indicate improvement and readings below 50.0 signal deterioration. After adjusting for seasonal factors, the PMI posted 54.2 in February (up from 53.2 in January), to signal a further improvement in business conditions. Nevertheless, the index was below the long-run series average.

Reflective of higher levels of total new business, production in the Indian manufacturing sector rose during February. The pace of growth was solid, and faster than that seen in January. Almost 35% of monitored companies signalled increased output at their units, while 17% registered a fall.

As has been the case for almost four years, the volume of incoming new work at manufacturing firms in India rose during February. With approximately 29% of monitored companies reporting higher levels of new orders and 14% noting a decrease, the pace of expansion was solid. Anecdotal evidence suggested that new orders increased in line with stronger demand,

maintained product quality and the launch of new products.

A further rise in export orders was recorded, amid evidence of stronger demand from international clients. Despite posting a solid increase, total export business grew at the slowest pace in the current six-month sequence of expansion.

Employment in the Indian manufacturing sector expanded slightly during February. Firms stated that payroll numbers were increased in tandem with higher production requirements. Nonetheless, backlogs of work rose during the month. However, the overall rate of accumulation was only moderate. According to panellists, higher levels of new orders and power shortages both fed through to the latest rise in unfinished business.

Continuing the trend that has been observed since April 2009, input prices increased in February, with the pace of inflation robust. Respondents indicated that raw materials including plastics and fuel all rose in price. Concurrently, output prices also increased. The rate of charge inflation was strong and the quickest in six months.

Pre- and post-production inventories at manufacturers in India both increased during February. The rate of accumulation for purchasing stock was solid, but only slight for finished goods.

Manufacturers increased their input buying during February, marking a 47-month sequence of expansion. Purchasing activity expanded solidly and at the quickest rate in nine months.



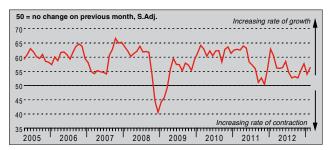
The HSBC India Purchasing Managers' Index™ (PMI™) is a composite indicator designed to provide an overall view of activity in the manufacturing sector and acts as a leading indicator for the whole economy. The indicator is derived from individual diffusion indices which measure changes in output, new orders, employment, suppliers' delivery times and stocks of goods purchased. A reading of the PMI below 50.0 indicates that the manufacturing economy is generally declining; above 50.0, that it is generally expanding. A reading of 50.0 signals no change. The greater the divergence from 50.0, the greater the rate of change signalled by the index. 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.

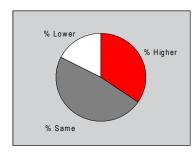




Output Index

Q. Please compare your production/output this month with the situation one month ago.



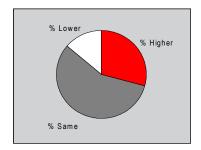


A further increase in output was registered at manufacturing companies in India during February, amid evidence of rising new orders. With almost 35% of monitored companies indicating higher production and only 17% noting a fall, the overall pace of expansion was solid and faster than in January. Output growth has now been sustained for 47 months.

New Orders Index

Q. Please compare the level of new orders received (India and export) this month with the situation one month ago.





New work intakes in the Indian goods-producing sector increased for the forty-seventh successive month during February. Despite indicating a solid rise, the seasonally adjusted New Orders Index posted below the series average. Approximately 29% of panellists reported higher levels of incoming new work, citing stronger demand, maintained product quality and the launch of new products.

New Export Orders Index

Q. Please compare the level of new export orders received this month with the situation of one month ago.



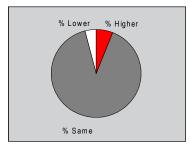


As has been the case since September last year, export orders in the Indian manufacturing sector rose further during February. The rate of expansion was solid, but the slowest in the current sequence of growth. In contrast to 11% of firms that reported higher levels of export business, almost 7% indicated a fall. Data implied that demand from export clients had strengthened.

Backlogs of Work Index

Q. Please compare the level of outstanding business in your company this month with the situation one month ago.

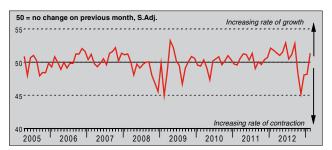


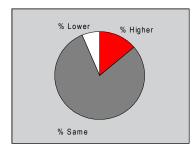


Firms operating in the Indian manufacturing sector signalled higher levels of unfinished business in February, amid reports of increased new orders and (to a lesser extent than in previous months) power outages. The pace of accumulation was only moderate and the slowest since August 2012. Exactly 6% of panellists indicated rising volumes of work-in-hand (but not yet completed), while 4% reported a fall.

Stocks of Finished Goods Index

Q. Please compare your stocks of finished goods (in units) this month with the situation one month ago.



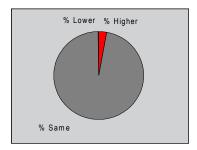


Ending a four-month sequence of depletion, stocks of finished goods in the Indian manufacturing sector increased slightly in February. More than twice as many monitored companies signalled higher post-production inventories as those that noted a fall. Panel members stated that stock holdings were accumulated to fulfil production requirements.

Employment Index

Q. Please compare the level of employment at your unit with the situation one month ago.





Reflective of higher production, manufacturers in India increased their staffing levels during February. However, with 3% of the survey panel indicating rising payroll numbers and the vast majority (97%) signalling no change, the overall rate of expansion was only slight. Job creation has been signalled in each month since March 2012.

Output Prices Index

Q. Please compare the average price that you charge per unit of output (volume weighted) this month with the situation one month ago.

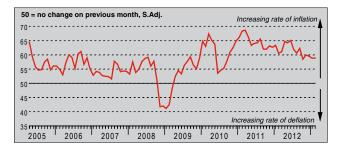


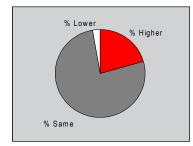


Continuing the trend that has been observed throughout the past three-and-a-half years, prices charged by manufacturing companies in India increased during February. Almost one-fifth of panellists indicated higher output prices, whereas less than 4% posted a decrease. Subsequently, the rate of inflation was strong and the fastest registered since August 2012. Anecdotal evidence suggested that average selling prices rose in line with higher input costs.

Input Prices Index

Q. Please compare the average price of your purchases (volume weighted) this month with the situation one month ago.

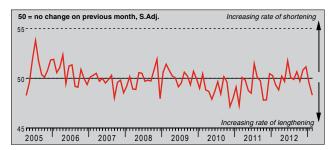


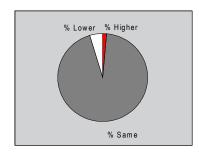


Marking a 47-month sequence of inflation, input prices in the Indian goods-producing sector rose during February. The overall rate of inflation was robust, but unchanged from January. Almost 21% of survey participants indicated higher purchase costs, while 3% reported a fall. According to panel members, increased plastic, fuel, labour and raw material costs all fed through to the latest rise in average prices paid.

Suppliers' Delivery Times Index

Q. Please compare your suppliers' delivery times (volume weighted) this month with the situation one month ago.



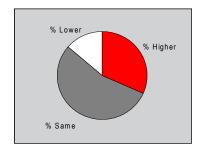


Average lead times in the Indian manufacturing sector lengthened for the second consecutive month in February. Although moderate, the latest lengthening of suppliers' delivery times was to the greatest extent in 15 months. Almost 5% of respondents indicated a deterioration in vendor performance, mentioning delayed payments to suppliers and powercuts.

Quantity of Purchases Index

Q. Please compare the quantity of items purchased (in units) this month with the situation one month ago.

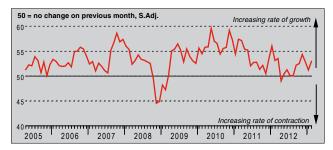


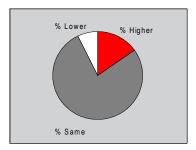


In line with higher volumes of incoming new work, manufacturing companies in India increased their input buying during February. Moreover, the rate of expansion was solid, with the seasonally adjusted Quantity of Purchases Index rising to a nine-month high. In contrast to 32% of firms that indicated rising purchasing activity in the latest survey period, 14% noted a fall.

Stocks of Purchases Index

Q. Please compare your stocks of purchases (in units) with the situation one month ago.





Pre-production inventories at manufacturing firms in India were accumulated during February, amid reports of increasing levels of new orders. With 15% of surveyed firms signalling higher stocks of purchases and 7% reporting a depletion, the rate of accumulation was solid and the fastest in three months. Manufacturers have increased their holdings of raw materials and semi-manufactured goods throughout the past ten months.

Notes on the Data and Method of Presentation

The Purchasing Managers' Index is based on data compiled from monthly replies to questionnaires sent to purchasing executives in around 500 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Indian GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The Purchasing Managers' Index™ (PMI™) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

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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