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HSBC India Services PMI™

Rate of growth in business activity eases to a three-month low

Key findings:

- · Solid rise in new orders
- Input and output price inflation accelerate
- Business confidence remains high

February data pointed to a further expansion of Indian service sector activity, largely in response to higher intakes of new business. Moreover, companies increased their staffing levels, but only slightly. On the price front, service providers continued to raise their selling prices, mainly reflecting efforts to pass on to clients the burden of cost inflation. Looking ahead, business confidence remained strong, although unchanged from January.

After adjusting for seasonal factors, the Business Activity Index posted 54.2 in February, down from 57.5 in January, indicating a continued, albeit slower, expansion of service sector activity in India. Despite posting above the no-change threshold for the sixteenth successive month, the latest index reading was three points below the long-run series average. Anecdotal evidence suggested that output growth reflected higher levels of new orders

Incoming new business placed at Indian service providers increased during February, extending the current period of expansion to 46 months. The rate of growth was solid, but eased to a three-month low. Monitored firms mentioned that stronger demand, increased marketing and maintained quality of services all fed through to the latest rise in new orders.

In line with new order growth, services companies in India registered an accumulation in their levels of outstanding business, the third consecutive monthly rise registered. The volume of work-in-hand (but not yet completed) increased solidly, and at

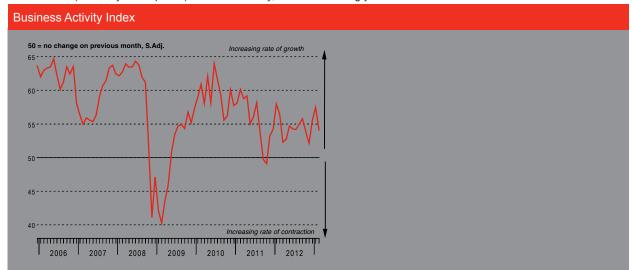
the quickest pace in over two-and-a-half years.

Meanwhile, staff numbers rose for the twelfth successive month in February. However, with only 4% of panellists reporting higher employee headcounts and the vast majority (95%) indicating no change, the overall pace of job creation was slight.

Average prices paid by service providers in India increased sharply in February, with the rate of inflation the fastest since June last year. Panel members that mentioned a rise in input costs linked this to increased raw materials and fuel prices. Higher tax and unfavourable exchange rates were also mentioned. Cost inflation has now persisted for almost four years.

Companies operating in the Indian service sector continued to pass on higher costs to clients through increased output prices. The rate of charge inflation was robust, and the quickest in seven months. Output prices have increased in each month since November 2010.

Service providers again signalled optimism regarding the 12-month outlook. Around 42% of survey respondents anticipate activity levels to be higher in the upcoming year. This compared with only 3% that expect a reduction. Subsequently, the degree of positive sentiment was strong, although unchanged from that seen in the previous survey period. Panellists reported that better economic conditions, increased marketing and maintained quality of services all should lead to higher activity over 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.

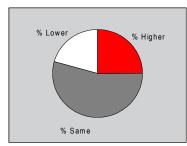




Business Activity Index

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.



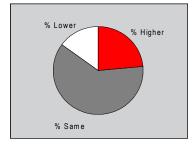


Indian service sector firms raised activity for the sixteenth straight month in February, which panellists linked to another inflow of new business. However, the rate of growth slowed to a pace that was the weakest since November 2012. In contrast to almost one-quarter of monitored companies that indicated higher business activity, 21% noted a decline.

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.



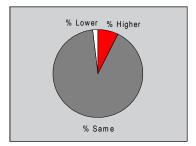


The volume of incoming new work at services companies in India rose during February, marking a 46-month sequence of growth. Despite increasing solidly, total new business rose at the slowest pace in three months. Almost 24% of the survey panel indicated higher levels of new business, citing stronger demand, increased marketing and maintained quality of services. Conversely, 15% of respondents noted a decline.

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.



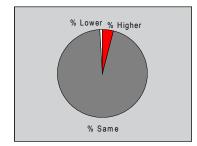


Extending the current sequence of accumulation to three months, outstanding business levels at firms operating in the Indian service sector increased during February, amid reports of delayed payments from clients. Whereas approximately 7% of panel members reported higher volumes of work-in-hand (but not yet completed), only 2% noted a decline. Consequently, the overall rate of accumulation was solid and the quickest in over two-and-a-half years.

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).





Employment at services firms in India increased slightly during February, with the rate of job creation broadly unchanged from January. Exactly 4% of surveyed firms indicated hiring additional staff, and largely commented this was in tandem with new business growth. Employee headcounts have increased in each month since March 2012, and at a broadly steady pace.

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.

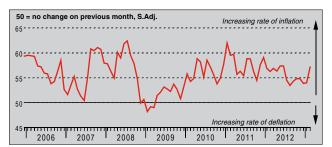


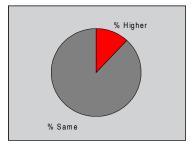


In line with rising input costs, prices charged by service providers in India rose during February. In contrast to 11% of panellists that reported higher output prices, only 1% noted a decrease. Subsequently, the overall rate of inflation was robust and accelerated to the quickest in seven months. Moreover, the Prices Charged Index adjusted for seasonal factors posted above the series long-run trend. Average selling prices have increased throughout the past 28 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.



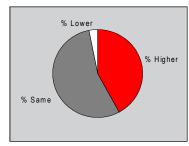


As has been the case for almost four years, prices paid by companies operating in the Indian service sector increased during February. The seasonally adjusted Input Prices Index signalled that the latest rise was sharp, with the rate of inflation quickening to an eight-month high. Anecdotal evidence suggested that raw materials and fuel have increased in price. There were also reports of higher tax and unfavourable exchange rates.

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?





In February, Indian service providers were optimistic regarding activity over the coming year. Approximately 42% of monitored companies anticipate higher activity over the next 12 months, whereas 3% expect a decline. Panellists suggested that economic growth, increased marketing and maintained quality of services will be the main contributors to a hoped for rise in business activity. Confidence towards activity growth remained strong, albeit unchanged from the previous 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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