



Hindware_{San}

reducing risk, enhancing value

Hindustan Sanitaryware & Industries Limited Annual Report 2004-05

FORWARD-LOOKING STATEMENT

In this Annual Report we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements - written and oral - that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify

such statements by using words such as 'anticipate', 'estimate', 'expects', 'projects', 'intends', 'plans', 'believes', and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward looking statements will be realized, although we believe we have been prudent in assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or

unknown risks or uncertainties materialize, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. Readers should bear this in mind.

We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.



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*Knowledge is of no value unless
you put it into practice.*

-Anton Chekov

A number of observers have debated what it takes to enhance value
in a sustainable way for the widest number of stakeholders.

This is our response.

Value-creation goes beyond products and processes;
it extends to values, mindset and philosophy.

It is not limited to select processes, but an organisation-wide culture.

It is not a one-off initiative, but an unceasing obsession.

It is not focusing on just the last mile,
but the extra mile.



KERAMAG

Hindware





Our identity

Hindustan Sanitaryware & Industries Limited

is one of the two largest sanitaryware manufacturers and one of the larger container glass manufacturers in India.

Business:

HSIL enjoys a visible presence in two businesses – building products and container glass. The company's building products are retailed under the brand names of 'Hindware' and 'Raasi' and container glass products are sold directly to institutional customers under the 'AGI' brand.

Presence:

HSIL enjoys a 36% market share of India's organised sanitaryware business and a 13% share of India's container glass business.

Operations:

HSIL's operations are spread across three manufacturing facilities — Bahadurgarh (Haryana) and Bibinagar (Andhra Pradesh) for its building products and Hyderabad (Andhra Pradesh) for container glass products – which provide operational flexibility and a proximate access to its

principal markets. The company is supported by four regional offices, four area offices and a distribution network comprising 925 dealers and approximately 12,000 retail outlets.

Track record:

HSIL stands for product quality and innovation. It has been a profitable business entity since 1962, and has paid dividends every year in its existence (except one). Its revenues and profits have improved consistently – at a CAGR of about 13% and 10% respectively in the five years leading to 2004-05.

Listing:

HSIL's shares are listed on the Mumbai and the National stock exchanges. The company's market capitalisation was Rs 221 cr on 31st March, 2005 (BSE). The promoters hold approximately 65% of the company's equity.

In our numbers

- 8.54% growth in revenue
- 18.25% increase in EBIDTA
- 152 basis point growth in EBIDTA margin
- 19.23% rise in cash flow
- 24.09% growth in profit after current year tax (excluding exceptional income and tax thereon)

Inside our operations

- 112% capacity utilisation at the Bibinagar plant
- Rs 73 cr container glass unit modernisation successfully commercialised
- 19 new products introduced in the sanitaryware segment of the building products division
- 28 new products launched by the container glass division
- 8% reduction in power consumption per unit of output in the container glass division

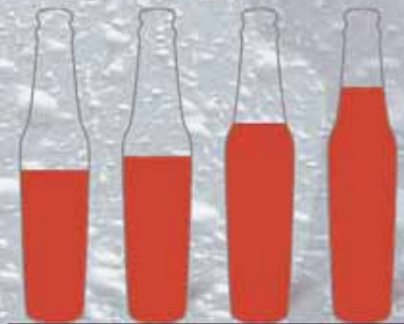
Our performance

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Revenue (Rs/cr)



EBIDTA (Rs/cr)



PAT (Rs/cr)



**Excluding exceptional income and tax thereon*

In the domestic markets

- 24% increase in the offtake of building products (by value)
- Introduced its range of stainless steel kitchen sinks in India
- Introduced its own range of faucets under the 'Hindware' brand to complement its international products
- First year of launch of the internationally renowned Keramag brand

In the international business space

- 27% growth in exports
- Seven new markets addressed

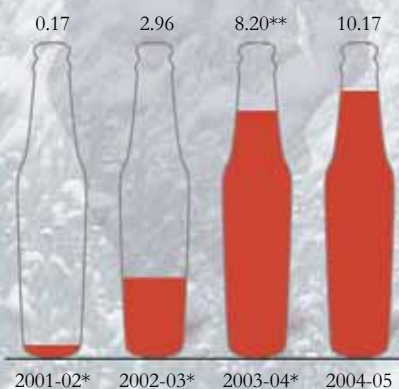
In the Boardroom

- Rs 18 cr repayment of debt
- 154 basis point reduction in the average debt cost
- 55% proposed dividend to equity shareholders
- A bonus issue in the ratio of 2:3 in October 2004

in 2004-05

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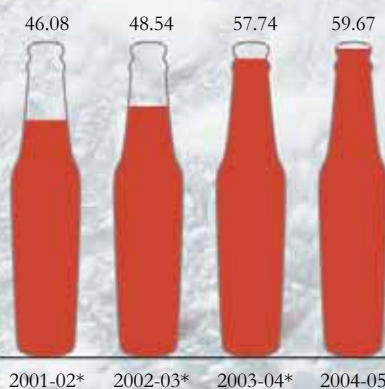
Adjusted EPS (Rs)



*Adjusted for split (Rs.10 each to Rs.5 each in 2003-04) and bonus issue (2:3 in 2004-05)

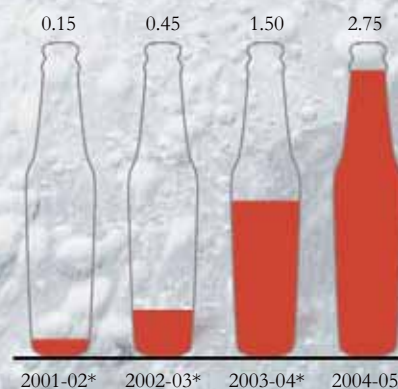
** Excluding exceptional income and tax thereon

Adjusted book value (Rs)



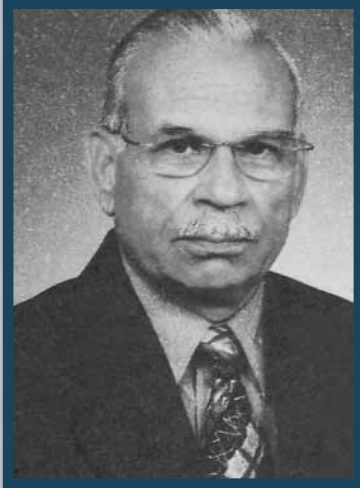
* Adjusted for split (Rs.10 each to Rs.5 each in 2003-04) and bonus issue (2:3 in 2004-05)

Adjusted DPS*** (Rs)



*Adjusted for split (Rs.10 each to Rs.5 each in 2003-04) and bonus issue (2:3 in 2004-05)

***Dividend per share



Chairman's statement

How does Hindustan Sanitaryware & Industries Limited reconcile the existence of two diverse businesses in a world that is beginning to swear by core competence?

THIS IS A QUESTION THAT I AM OFTEN ASKED THESE DAYS BY ANALYSTS AND SHAREHOLDERS.

I think the answer lies in the fact that we have run both these businesses with an unmistakable perspective to enhance value.

The result is that even though we were not the biggest when we entered each of these businesses, we are today one of the two largest sanitaryware manufacturers and one of the largest container glass manufacturers in India. Our Building Products Division is not only the most profitable in India, but also had the biggest growth rate in comparison to our competitors.

The result is evident: during the year under review, we reported record numbers for the company:

- Revenue at Rs. 331.56 cr
- EBIDTA at Rs. 60.68 cr
- Gross profit at Rs. 49.79 cr
- Profit before tax at Rs. 28.97 cr

Significance of value creation

It might be simplistic to ascribe the scale and quality of this performance simply to a rebound in the Indian economy. It would be realistic to trace their origin to India's accelerating liberalisation and the integration into global economy, because these two developments changed a number of business realities in India. Primarily they:

- increased disposable incomes
- created a new generation of consumers
- created an aspiration for better lifestyles
- increased competition among product manufacturers
- evolved businesses from the cost-plus to the revenue-minus model

Achievements

In response to these paradigm-changing developments, HSIL enlarged its production scale, widened its product range, introduced value-added varieties and reduced costs.

In addition to this,

- We leveraged the value of our quality by marketing products in the international markets, thereby helping us enhance the utilisation of our assets. Today, exports account for 14.27% of our company's revenue
- We leveraged the strength in our distribution network by bringing the best international products into India, thereby providing a wider choice. Today, outsourced products account for 30.17% of our building products division's revenue
- We extended the range of our products from the value-for-money to the value-

added, thereby providing a product to suit every pocket. Today, our building products' range extends from Rs. 125 to Rs. 100,000 per unit

- We enhanced the proportion of our high value-added products, thereby enhancing our return on invested capital. Today, the proportion of value-added products accounts for nearly 12% of our building products division's revenue compared to 5% three years ago
- We acquired complementary plants and brands at modest costs, thereby strengthening the value of our business. Today, our capital cost across both businesses is one of the lowest in India
- We entered a complementary high margin and high growth sector of kitchen products, making it convenient for the consumer to buy both products from a single retail outlet. Over the coming years, revenue from these outsourced products is expected to account for about 10% of our building products division's revenue
- We did all this at progressively lower cost of capital. Even though our debt-equity ratio increased from 1.08x to 1.53x (2004-05), our interest cover strengthened from 4.36x to 5.57x (2004-05) and our weighted average cost of debt reduced by 154 basis points to 7.59%

Shareholder value creation

During the year under review, HSIL shareholders experienced a significant increase in their value of shareholdings. HSIL stock price increased from Rs. 63.30 (adjusted for 2:3 bonus) as on 31st March, 2004 to Rs. 118.05 as on 31st March, 2005,

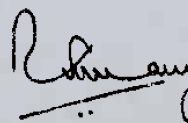
resulting in an appreciation of 86.49% (excluding Rs. 2.50 dividend per pre-bonus share). This compares extremely favourably to a 16.14% increase in Sensex during the same period.

Outlook

We are optimistic about our prospects for a number of reasons:

- India's GDP growth at 7% over the next two years is expected to make it the fastest growing economy, second only to China
- India's existing housing shortage of over 22.5 million dwelling units is expected to be addressed more now than ever before
- An increase in the construction of malls and shopping complexes – an estimated 600 such malls, covering an estimated area of 100 mn sq ft over the next five years – will trigger a bigger demand for building products
- A booming tourism will increase the availability of hotel rooms, driving the demand for building products
- Closure of international sanitaryware capacity of around 5-6 million units is expected to be sourced from low-cost developing economies

HSIL expects to capitalise on these opportunities and grow its turnover and bottomline significantly over the coming years.



R.K. Somany
Chairman

Product range

‘Value creation’

is not just about increasing realisations...

