



What it takes to emerge
as a market leader in two
different businesses.

Hindustan Sanitaryware & Industries Ltd.
Annual Report 2003-04

FORWARD-LOOKING STATEMENTS

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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World-class product.

Strong brands.

Ongoing innovation.

Strong balance sheet.

De-risked approach.

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"A good name is better than riches."

- Don Quixote



KERAMAG Hindware



business

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THE TEST OF ANY BUSINESS MODEL IS
ITS ABILITY TO GENERATE MORE CASH
THAN IT CONSUMES.

At Hindustan Sanitaryware, we can make a fair claim to
possess one.

This is clearly reflected in the company's financials.

- An increase in the return on capital employed from 9.47 per cent in 2002-3 to 14.32 per cent in 2003-4.
- A significant increase in the average cash flow *per month* of Rs 25.90 cr over the average total monthly expense (pre-depreciation and tax) of Rs 20.92 cr, the highest differential in the company's history.
- A shorter receivables cycle than before – an average outstanding of 86 days of turnover in 2002-3 declined to 62 days in 2003-4 - reflecting the fact that HSIL products delivered a far superior customer value over competing alternatives.

As a result, the company's business model achieved the management's objective: protecting its downside in difficult markets and maximising it in favourable ones.

model

with foresight

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A sensitive customer

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understanding

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A
COMPANY
REMAINS IN
BUSINESS ONLY IF
IT LEVERAGES ITS
CUSTOMER
UNDERSTANDING WITH VARIED
CHOICE AND A SINGLE-STOP SHOPPING
FACILITY.

At Hindustan Sanitaryware, we possess just such a track record.

Over the years, our growing product portfolio has made it possible for prospective buyers to migrate their choice to the next highest price point without incrementally paying too much in return for an excellent price-value proposition.

This was amply reflected in HSIL's two business divisions in 2003-4.

- The company's container glass customers increased from 489 in 2002-3 to 546 in 2003-4. Its AGI brand provided customers with a 450-wide product range, amongst the largest in India, comprising the entire range of flint, amber and green glass containers.
- The increase in realisation per MT of sanitaryware reflects a move towards more premium products, towards the apex of the brand pyramid. These products comprise a mind-boggling assortment of SKUs: from Rs. 12,000 per metric tonne, to more than Rs. 200,000 per metric tonne. All these products are positioned at attractive price points that ensnare buyers away from the competition. Over time, a bigger concentration of value-added products at the higher end of the global spectrum have translated into a big business advance: an increase in the weighted average realisations per tonne.

Continuous
relevant



A CONTINUOUS INTRODUCTION
OF INNOVATIVE PRODUCTS IS THE
SIGN OF A COMPANY FOREVER
YOUNG, IRRESPECTIVE OF THE
NUMBER OF YEARS IT HAS
SPENT IN THE BUSINESS.

innovation



Hindustan
Art

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Simply because innovation replenishes income from legacy products with newer alternatives. Because it incentivises the stocking of the company's products across a larger number of dealers. And because it reverses the standard dealer push with a consumer pull. Leading to a wider reach, enhanced margins and quicker offtake.

At Hindustan Sanitaryware, we are proud to have done just this in 2003-4 through the launch of a number of innovative products:

- Dual flushing system, introduced in 2002: Conserves water. Helps households conserve 35,000 litres annually per bathroom. Enhanced performance translates into a superior brand.

- Green soft drink bottles, introduced in 2002-3: Following the cola pesticide-contamination controversy in 2003, HSIL commercialised green bottles with lightening speed in response to consumer perception that clear soft drinks were safer than colas. This helped customers make up the downtrend in cola consumption immediately.

Result: revenue from products launched in the three years leading to the last financial year comprised 20 and 40 per cent of revenue in 2003-4 in sanitaryware and glass containers respectively.

A comprehensive
strength

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