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Hindware  
»» > making better products.  
making products better.

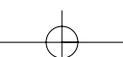
Hindware and Raasi are logos that you will find on one out of every 2.5 branded sanitaryware products made in India.

AGI is a preferred supplier to most MNCs in food, soft drinks, liquor and pharmaceuticals segments in the country.

Interestingly, Hindustan Sanitaryware & Industries Limited, the Company behind these brands, is more than just a sanitaryware or a glass container manufacturing company.

It is a building products and packaging products company.

Enhancing the quality of life.

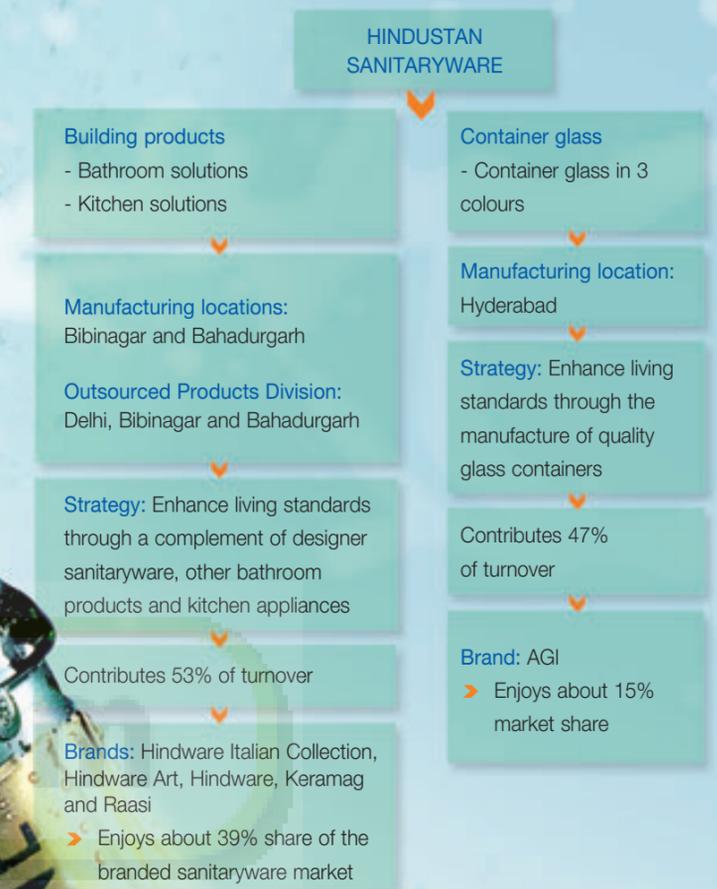


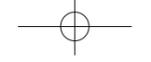
## corporate identity

- Promoted by the Somany Enterprise in collaboration with Twyfords Ltd., UK
- Established as Hindustan Twyfords Ltd. in 1960 with the objective to introduce vitreous china ceramic sanitaryware in India
- Diversified into the manufacture of glass containers through the acquisition of The Associated Glass Industries Limited in 1981
- Widened the product portfolio with a significant market share across each business
- Headquartered in New Delhi, supported by eight regional and area offices and 2,218 employees
- Created the country's largest distribution network - 995 dealers and approximately 11,000 retail outlets - in the building products industry
- Invested in the container glass division to service the growing needs of institutional buyers in the FMCG, liquor, beverage and pharmaceutical industries
- Addressed the varied needs of customers in the residential, commercial, retail and hospitality sectors through the building products division
- Enjoyed visibility through shares listed on the Bombay Stock Exchange and National Stock Exchange (market capitalisation was Rs. 6.94 bn as on 31st March 2006)

Business segment	Location	Capacity
Building products division	Bahadurgarh (Haryana)	14,000 tpa
Building products division	Bibinagar (Andhra Pradesh)	18,000*tpa
Container glass division	Sanathnagar (Hyderabad)	953 (pcs in mn)

\* including 6,000 tpa commissioned from February 2006





» » corporate highlights

2005-6 was one of the most exciting years in the history of Indian business and our Company...



## ...our numbers tell you why



### From the shopfloor

- Following the commissioning of the expansion plan in Bibinagar in sanitaryware manufacturing capacity increased by 6,000 tpa
- Highest ever employee productivity achieved in the Bibinagar plant
- Rationalisation of energy consumption by 19%, owing to the installation of an imported fuel efficient furnace in the container glass plant in 2004-5
- Increased production by 31% (capacity utilisation of 109%) in the sanitaryware plants through internal de-bottlenecking and enhanced efficiency

### From the customer's perspective

- Increased market share for sanitaryware products from 36% to 39%
- Expanded distribution network, enhancing the retail network in India
- Increased market share for container glass products from 13% to 15%
- Introduced 54 new designs in our container glass line accounting for 8% of the turnover
- Entered the Rs. 2 bn kitchen appliances industry through the introduction of a new line of kitchen products
- Rating of Hindware as the most recognised brand by AC Nielsen
- Increased display area by around 0.1 mn sq feet, coupled with the launch of successful promotional campaigns

### From the investor's perspective

- 214% increase in market capitalisation in 2005-6
- Introduction of HPC (Mauritius) Limited as an investor with a place on the Board following an issue of 3.3 mn Fully Convertible Debentures aggregating Rs. 529 mn.

### From the annual accounts

- 32% increase in topline from Rs. 3,315.6 mn in 2004-5 to Rs. 4,383.2 mn
- 35% increase in post tax profit from Rs. 191.2 mn in 2004-5 to Rs. 258.1 mn
- 28% increase in cash profit from Rs. 399.4 mn in 2004-5 to Rs. 509.5 mn
- 26% increase in turnover of the container glass division from Rs. 1,621.7 mn in 2004-5 to Rs. 2,047.1 mn in 2005-6, the highest ever in the history of the division
- 89% growth in turnover from the outsourced products segment of the building products division

## chairman's statement

Mr. R K Somany, outlines the strategic forward path for the Company over the coming years.

"We are reinventing our presence from manufacturing to marketing and from sanitaryware to kitchen and household solutions"

### Where is the Company today? What will it do now? Where is it going?

A number of people ask me such questions these days.

My answer to them is: the Company is placed in a time of exciting change, what it will do will be influenced by customers' tastes and preferences and where it will go ... well, that is something I am going to dwell on at greater length.

One of the things that I had emphasised in my communication to you last year was that we would run Hindustan Sanitaryware with respect for values, which is to say that we will manage the Company's interests with respect for ethics and drive the Company's strategy with a goal for enhanced shareholder value.

### What shareholder value? How do we influence it? To what extent can we enhance it?

The more one thinks about these issues,

the more one is convinced that the blueprint for success in a competitive marketplace will not be written in the Board room; it will be defined by the customers in ... well, the marketplace.

**Just consider:** for decades, the customers went to shops in a congested pocket of the city, selected sanitaryware from whatever was available and that too not properly displayed, packed the material and brought it home to be installed painstakingly by a team of workmen.

**Times have changed:** the shop of the past has now been replaced by a boutique, the customer does not go alone but is accompanied by her interior designer, she does not need to only see the few colours on offer but a wide range of Indian and imported brands, she does not end up buying the cheapest but something that could well be the most expensive, she does not buy a shade at random but matches it with a broad colour theme in sync with the rest of the

house, she never take a random chance but prefers to check it on the computer on how the entire bathroom would look when simulated, she does not want to trust her imagination alone but actually sees a couple of bathrooms on physical display and the range on offer comprises not just bathroom but kitchen and interior solutions as well.

At Hindustan Sanitaryware, we can either see this change in the face, blink and shrug it off saying that we are, well, only a manufacturer of ceramic sanitaryware. Or we can reinvent the nature of our Company to suit what the consumer wants and in the process transform our focus from manufacturing to marketing and from sanitaryware to kitchen and household solutions.

At Hindustan Sanitaryware, we have made our decision. We will provide all that the customer requires. From sanitaryware to kitchen products to residential solutions. Either manufactured by us or selectively outsourced .

This decision is already translating into an interesting revenue evolution at our Company: outsourced products' sales increased from 27% of building products' sales in 2004-5 to 37% of building products' sales in 2005-6 and will continue to rise further at an aggressive pace as we focus on stocking wider ranges, displaying better, accelerating despatches and absorbing customer feedback.

Our glassware division has grown at a healthy pace with sales increasing at a CAGR of 20% over 2002-06. During 2005-6, it outperformed the industry growth for the following reasons:

- Increase in the production of flint bottles used in the FMCG and liquor segments
- Versatility in being able to change the product mix according to evolving market conditions
- Introduction of 54 new designs
- Enlistment of new customers in the

domestic and international markets I would like to state that our business direction has already started translating into enhanced shareholders' value: we inducted HPC (Mauritius) Limited as an investor with an issue of 3.3 mn FCDs and reported a 214% increase in our market capitalisation in 2005-6.

We are very excited about the prospect of transitioning from providing solutions for bathrooms and kitchens to providing complete home solutions on the path to becoming a Rs. 10 bn Company by 2010.



R K Somany  
Chairman

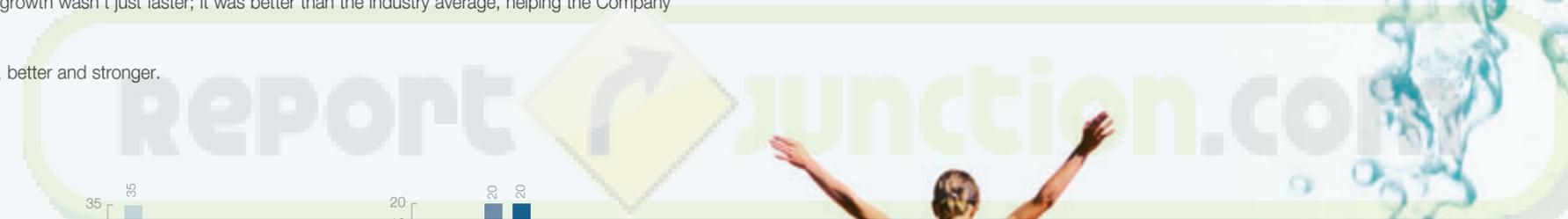
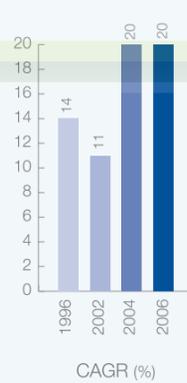
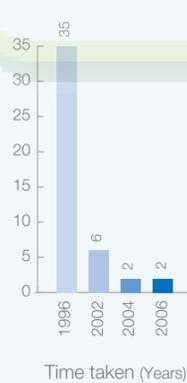
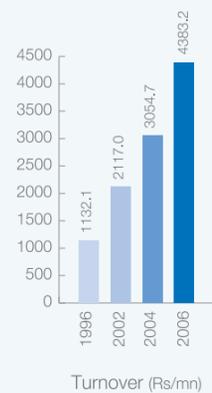


It took Hindustan Sanitaryware 35 years from inception to grow its turnover to touch Rs. 1 bn milestone until 1996; it took the Company a mere two years from 2004 to add an incremental Rs. 1 bn-plus to its topline.

In the financial year 2005-6, the Company reported a topline growth of 32% as against an approximate 12% sanitaryware industry growth and container glass industry de-growth. The bottomline growth of 35% was among the highest across both industry segments in India during the year under review.

Emphasising that at Hindustan Sanitaryware, growth wasn't just faster; it was better than the industry average, helping the Company emerge stronger.

Converging to its essential attributes of faster, better and stronger.



»» fasterbetterstronger

## »» > growingfaster

AT HINDUSTAN SANITARYWARE, WE ARE PRINCIPALLY OBSESSED WITH BUSINESS ACCELERATION THAT IS FASTER THAN THAT OF OUR COMPETITORS.

With good reason. At the Company, we believe that industry out-performance offers us advantages in scale, presence and visibility that in some ways serve as a platform to grow the business even quicker in the coming years.

At the Company, this higher-than-the-industry average was derived from a number of proactive but painstaking initiatives.

### Building products division

- Capacity expansion of sanitaryware products from 26,000 tpa to 32,000 tpa
- Introduction of one new product every 3 days (on an average) and the launch of 31 premium sanitaryware products
- Widening dealer and sub-dealer network, making the Company's distribution network the largest in the industry
- Evolution from the manufacture of sanitaryware products to the delivery of solutions for bathrooms and kitchens

**Result:** The building products division recorded one of the highest sales growth rate amongst its peers.

### Container glass division

- Increased focus on FMCG products and the liquor and beer segment
- Expanded exports through new customer developments and new product developments
- Enhanced service through the in-house printing facility
- Strengthened ability to provide complex engineered designs

**Result:** A division growth of 26% as against an industry de-growth in India.

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»» > **growingbetter**

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AT HINDUSTAN SANITARYWARE, WE BELIEVE THAT BUSINESS GROWTH IS NOT A FACTOR OF THE MARKETPLACE; IT IS A RESULT OF DIVERSE INITIATIVES DIRECTED AT ENHANCING OUR COMPETITIVE EDGE.

With good reason. At the Company, we believe that all the improvements that we make within the Company help us make better products at a lower cost, widening our market share. Some of the initiatives that we embarked upon during the year under review comprised:

**Manufacturing efficiency**

- Sanitaryware capacity at the Bibinagar plant increased 50% from 12,000 tpa in 2004-5 to 18,000 tpa in 2005-6; casting capacity increased 30%
- The installation of a 'refire kiln' improved yields in a substantial way
- De-bottlenecking enabled the Bahadurgarh plant to expand production by 58% without any underlying increase in operational capacity

- Better operational control, increased the coloured container glass production by 26%

**Result:** Production of sanitaryware products increased 31% while the production of glass container (in numbers) increased 41% in 2005-6, enabling the Company to maximise sales.

**Operational efficiency**

- The sanitaryware manufacturing plants had a total capacity utilisation of 109% in 2005-6 vs. 85% in 2004-5.
- The sanitaryware plant at Bibinagar enhanced productivity per person by 28%
- The commissioning of the country's most efficient furnace in the container glass division reduced fuel consumption by 19%

**Result:** In spite of fuel costs increasing, sanitaryware segment decreased its cost of production while the container glass division saw a marginal increase.

»» > **growingstronger**

AT HINDUSTAN SANITARYWARE, WE BELIEVE THAT IN AN INCREASINGLY COMPETITIVE INDUSTRY SCENARIO, IT IS NOT ONLY IMPORTANT TO STRENGTHEN EXISTING AREAS OF COMPETENCE BUT ALSO BUILD NEW ONES.

With good reason. A stronger exposure in the existing areas helped the Company drive growth; the creation of new competence helped replenish the Company's topline with complementary revenue streams. The latter was emphasised through the following initiatives:

- The container glass division introduced 54 new designs in widening its repertoire to 433
- The introduction of 31 premium product lines in its Art and Italian collection reinforced the Company's sanitaryware portfolio as the widest in the country; retail display space

increased by 50% during 2005-6; a new promotional campaign contemporised the 'Hindware' brand

- The outsourced products segment added kitchen appliances to its portfolio; the division added 105 new product categories to its existing portfolio

**Result:** Hindustan Sanitaryware was rated as a 'Superbrand' in the bathroom category and its brand recall in customers' mind was highest as per AC Nielsen survey.





»» > **joint md's interview**

Mr. Sandip Somany, explains how the organisation will evolve its DNA.

**“We were principally a sanitaryware products manufacturer for four decades. We now expect to emerge as a complete home solutions organisation in just the next three years.”**

**How would you assess the performance of the Company in 2005-6?**

Let me be honest: it was an easy year and it was a difficult year.

While on the one hand, demand for building products increased, so did competition. In this scenario, I would say our principal achievement was that our building products division grew by 38%, almost three times the industry's growth rate.

Besides, even as the market for soft drink beverages declined I was particularly pleased that our container glass division grew by 26%.

So if there is a message arising out of our performance in 2005-6, it is that we did our best in exercising a stronger control on factors within our control to progressively mitigate the influence of factors outside our control.

The rest was not just a record increase in our topline but, more hearteningly, an increase in plant efficiency, better product mix and higher capacity utilisation leading to a 35% increase in our bottomline during the year under review.

**How did the Company's building products division perform?**

Our building products division reported an EBIT of Rs. 452.3 mn in 2005-6, which was 68% higher than that in the previous year. Also, the EBIT margin

improved by 352 basis points from 18% in 2004-5 to 21% in 2005-6.

**What strategy led to the growth of the building products division?**

Let me identify for you some of the challenges that we faced to appreciate our differential strategy:

- Making me-too products with mere cosmetic changes and a small price differential enabled the unorganised sector to tempt some customers away from branded and superior products
- In the organised sector, we always carried the threat of larger international brands coming in and encashing a market that we helped create over our four-decade plus history

So if the sanitaryware products grew their market share from 36% in 2004-5 to 39% in 2005-6, it was due to the following cumulative departures that we made from established practice:

- We launched a new product at an average of every 3 days
- We extended from products that addressed functional utility to products that enhanced lifestyle, living standards and convenience
- We evolved our 'Hindware' campaign from promoting what we did in the past to marketing new concepts in bathroom solutions
- We migrated our organisational priority from only manufacture to a

holistic customer service

- We extended our retail exposure from product display to experiential purchase

**What strengths provide you with the optimism that growth from this division will continue to be attractive and sustainable?**

We have embarked on a number of initiatives to grow revenues from this segment in the range of 20-25% a year across the medium-term. These comprise:

- An expansion at the Bibinagar plant will enhance sanitaryware throughput
- We intend to explore increasing export opportunities
- We possess a diversified customer portfolio, catering to retail and institutional sales
- We introduced an outsourced products segment some time ago to offer one-stop solutions but now this is providing more than just support; it is helping us capture a wider shelf space, enhancing visibility and strengthening topline growth
- We moved from bathroom to kitchen products and intend to extend to other home products as well

**What were the highlights of the Company's container glass division during the year under review?**

In an energy-intensive business, we were