Providing a one-stop material transportation solution...

International Conveyors Limited • Annual Report 2006-07

Credentials

International Conveyors Limited (established in 1973) is a leading manufacturer of PVC conveyor belt solutions, promoted and managed by Mr. R. K. Dabriwala and Mr. A. Hussain.

Core products and services

These comprise solid woven fabric-reinforced PVC impregnated and PVC-coated fire retardant, anti static conveyor belting. The Company is also engaged in renewable power generation.

Customers

These comprise companies engaged in the business of coal, mining, extraction, steel, potash mining, material handling, ports and commodity supplies based in India and abroad.

Capacities

- 4,75,000 metres per annum (manufacturing unit) in Aurangabad, Maharashtra.
- 3.85 MW wind turbine generator (approximately 9.3 mn KWH a year).

PVC conveyor belt manufacturing unit	Chikalthana, Aurangabad, Maharashtra
Windmill 1 (0.6 MW)	Chitradurga district, Karnataka
Windmill 2 (0.8 MW)	Tumkur, Karnataka
Windmill 3 (0.8 MW)	Ahmednagar, Maharashtra
Windmill 4 (1.65 MW)	Kutch, Gujarat

Certifications

- ISO 9002 certification from manufacturing to marketing.
- A Dun & Bradstreet-registered Company with D-U-N-S number 86-225-1696.
- US Mine Safety and Health Administration - Part 18, Title 30 (CFR).
- Council of South African Bureau of Standards- SABS 971/1980.
- Bureau of Indian Standards- IS 3181:1992 (second revision).
- Canadian Standards Association-CAN/CSA M422-M87 (reaffirmed 2000), Category A1.
- MSHA and OHSAS compliances.

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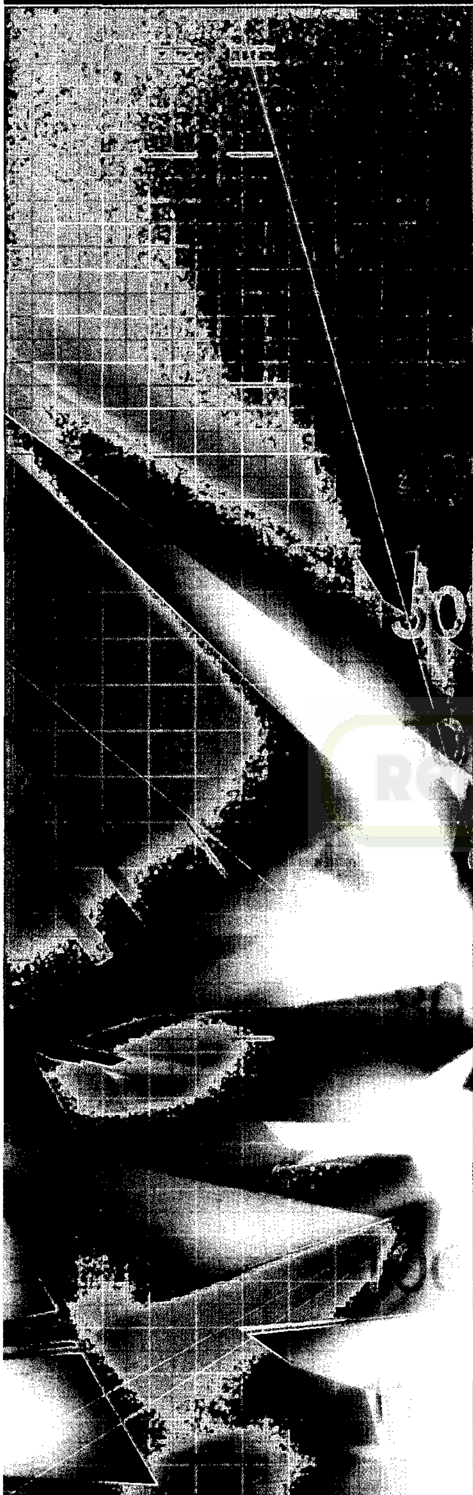
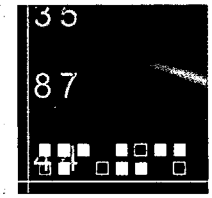


...across all drives.

This has resulted in a coverage across industry verticals like material transportation, coal, ports, potash extraction, steel (especially iron ore extraction) and aluminium.

India possesses the world's fifth largest deposit of iron ore, the world's fourth largest reserve of bauxite and the world's second largest deposit of manganese.

International Conveyors is India's largest public Company engaged in the efficient transfer of these deposits from their respective mines to downstream processing locations.



39.89% growth in revenues from Rs. 3453 lacs in 2005-06 to Rs. 4830 lacs in 2006-07.

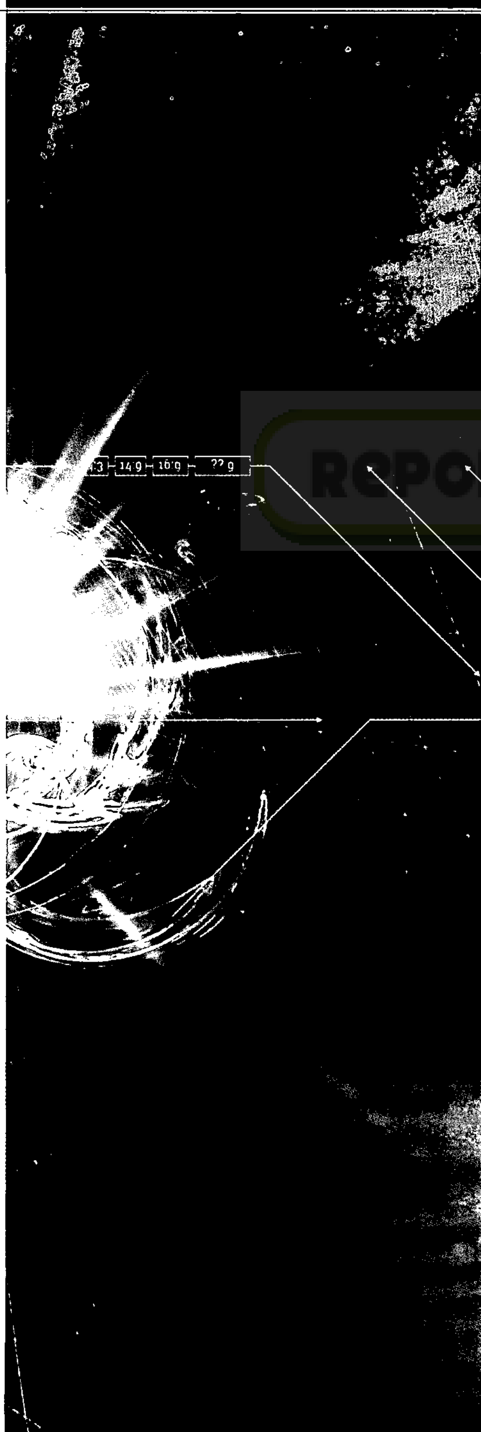
International Conveyors is a preferred vendor on account of a mix of innovation, customised solutions and responsive service. What you see below is the result.

- 39.89% growth in revenues from Rs. 3453 lacs in 2005-06 to Rs. 4830 lacs in 2006-07.
- 137% growth in post tax profit from Rs. 274 lacs in 2005-06 to Rs. 651 lacs in 2006-07.
- 74.51% increase in exports from Rs. 1406 lacs in 2005-06 to Rs. 2453 lacs in 2006-07.
- 791 basis point increase in ROCE from 12.61% in 2005-06 to 20.52% in 2006-07.
- 270 basis point increase in EBIDTA margin from 19.05% in 2005-06 to 21.75% in 2006-07.
- 60% increase in cash profit from Rs. 579 lacs in 2005-06 to Rs. 928 lacs in 2006-07.

10 minutes with the Managing Director

"We are reinventing our presence from manufacturing to marketing and from mining to industrial process solutions."

Mr. R. K. Dabriwala analyses the Company's positioning, performance and prospects



Were you satisfied with the performance of the Company in 2006-07?

I would say 'absolutely' on account of three reasons - perspective, policy and performance. I will answer them separately for reader clarity.

Perspective: The Company evolved its presence in the mining and industrial segments from mere manufacture to one-stop belting solutions.

Policy: The Company extended from an India presence to a global footprint servicing varied industries.

Performance: The Company reported a 39.89 per cent increase in revenues, 137 per cent jump in its post-tax profit and an increase in its order book to Rs. 2100 lacs (as on March 31, 2007) that was equivalent to almost 40% of the Company's turnover in 2006-07.

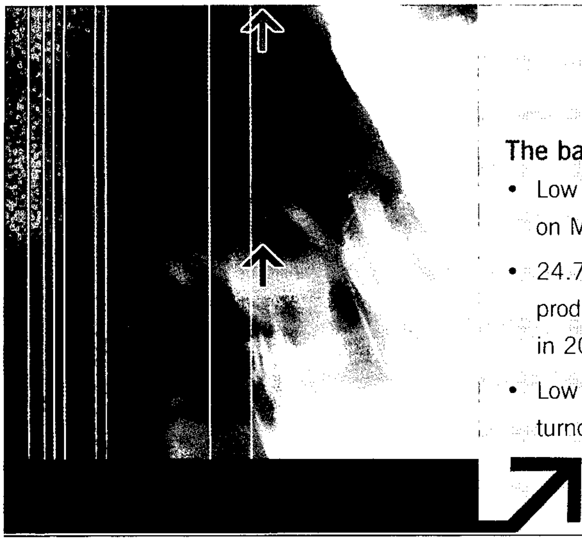
What were the highlights of the year under review?

I would consider the following developments to be noteworthy:

- We entered the 8000 lb./sq. inch and 10000 lb./sq. inch product segments, expanding our product portfolio.
- We increased volumes from 1,89,186 metres in 2005-06 to 2,51,689 metres in 2006-07, servicing the growing needs of our customers.
- We strengthened our average realizations from Rs. 1816 a meter in 2005-06 to Rs. 1881 a meter in 2006-07, reflecting our enriched product mix.
- We introduced value-added PVC beltings with a mirror finish, emerging as the only producer in India to offer this product.
- We grew our Canada and American turnover from Rs. 1406 lacs in 2005-06 to Rs. 2453 lacs in 2006-07, emphasising our global viability.

Why was this progressive increase in global revenues important?

Until 2001, our revenues were completely dependent on nationalised coal mining companies within India. Following nationalization from 2002 onwards, the government increased its investments in open cast mines compared to the erstwhile policy of investing in the exploitation of underground mines, requiring comparatively lower PVC belting transportation requirement. The



The basis of our optimism

- Low equity capital of Rs. 240 lacs (as on March 31, 2007)
- 24.76 per cent increase in per person productivity to 2131 metres per person in 2006-07
- Low working capital cycle of 56 days of turnover equivalent
- Attractive tax savings derived from wind power generation
- Widening global footprint, correcting an excessive dependence on India
- Growing volumes following capacity de-bottlenecking, increasing realizations
- 50% Indian market share

Company recognised the possibility of sectoral de-growth and began to explore alternative global markets. The gradual correction of an exclusive India-centric presence represents one of our biggest successes in recent years: we increased exports near-35 fold from Rs. 70 lacs in 2001-02 to Rs. 2453 lacs in 2006-07!

What was the other change in the business model?

Gradually, it began to become evident that the character of our business would need to evolve from plain manufacture, where the business was getting increasingly competitive, to complex logistics and service management, where the competition intensity was relatively low and where we could aspire for higher realizations. This was not just an internal desire; it was also how the market was evolving. For instance, most customers – existing and potential – with aggressive growth required a one-stop belting solution as opposed to putting the various solution components together.

I am pleased to say that we responded with speed to this change in the market requirement. We strengthened our service division and trained our people towards a service mindset. The result is that we are a progressively service-weighted organisation today. The proportion of revenues from export services increased from 1.10 per cent in 2001-02 to 52.34 per cent in 2006-07, strengthening our EBIDTA margins from 19.05 per cent in 2005-06 to 21.75 per cent in 2006-07.

There is a significant growth coming up in India's resource and mineral sectors like coal and iron ore. How is the Company equipped to capitalise on it?

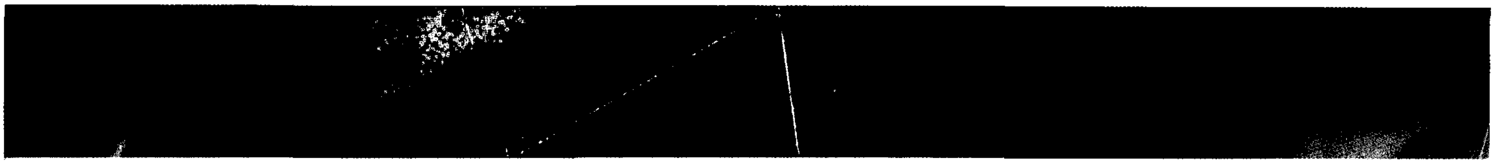
The Company embarked on an expansion in scale and scope. In PVC belting, we commissioned an electronically controlled integrated coating plant (ICP2) in 2006-07, which doubled our installed capacity to 4,75,000 metres per annum. We commissioned a six-storey vacuum impregnation tower to reduce moisture in the final product, enhancing product durability and realizations.

How will these initiatives strengthen the Company's competitive edge?

These initiatives will help us achieve the following: A number of our existing customers required larger quantities which we could not service due to a restricted production capacity at our end. A number of favourable referrals by our existing customers are now driving the prospect of increased offtake. Our competitors are also engaged in capacity expansion, making it imperative for us to expand quicker and at a lower cost. So going ahead, our expansion will result in a larger quantity and wider range, leading to a one-stop customer convenience.

How does the Company expect to enhance shareholder value in 2007-08?

We expect the full impact of the doubled capacity to be available in 2007-08. Going ahead, we expect to report two years of straight growth: a 40 per cent revenue increase in 2007-08 followed by 40 per cent in 2008-09. While we expect some negative fallout of a strong rupee, we expect to counter this with higher export revenues, economies of scale and an enriched product mix.



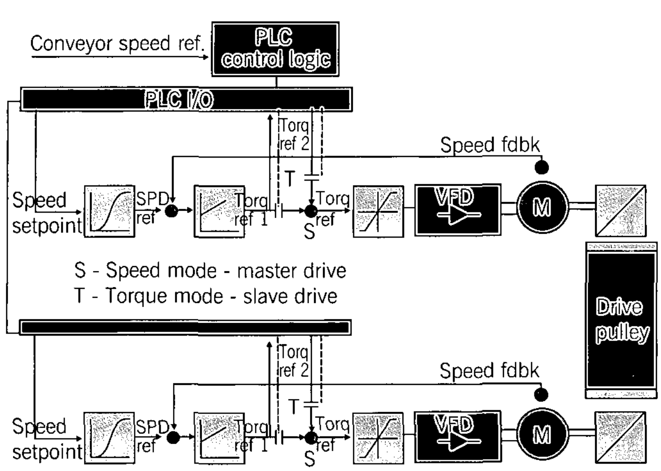
How International Conveyors enhances value for its customers

Most mining operations – in India and abroad - are conducted within proximity of the downstream processing facility. In such cases, it is imperative that material be transferred continuously, safely and quickly.

Traditionally, trucks were used across short hauls to transport mineral resources with the following attending disadvantages: the requirement of numerous trips between the mineral site and the processing facility, transshipment from earth to truck to factory as well as high fuel cost.

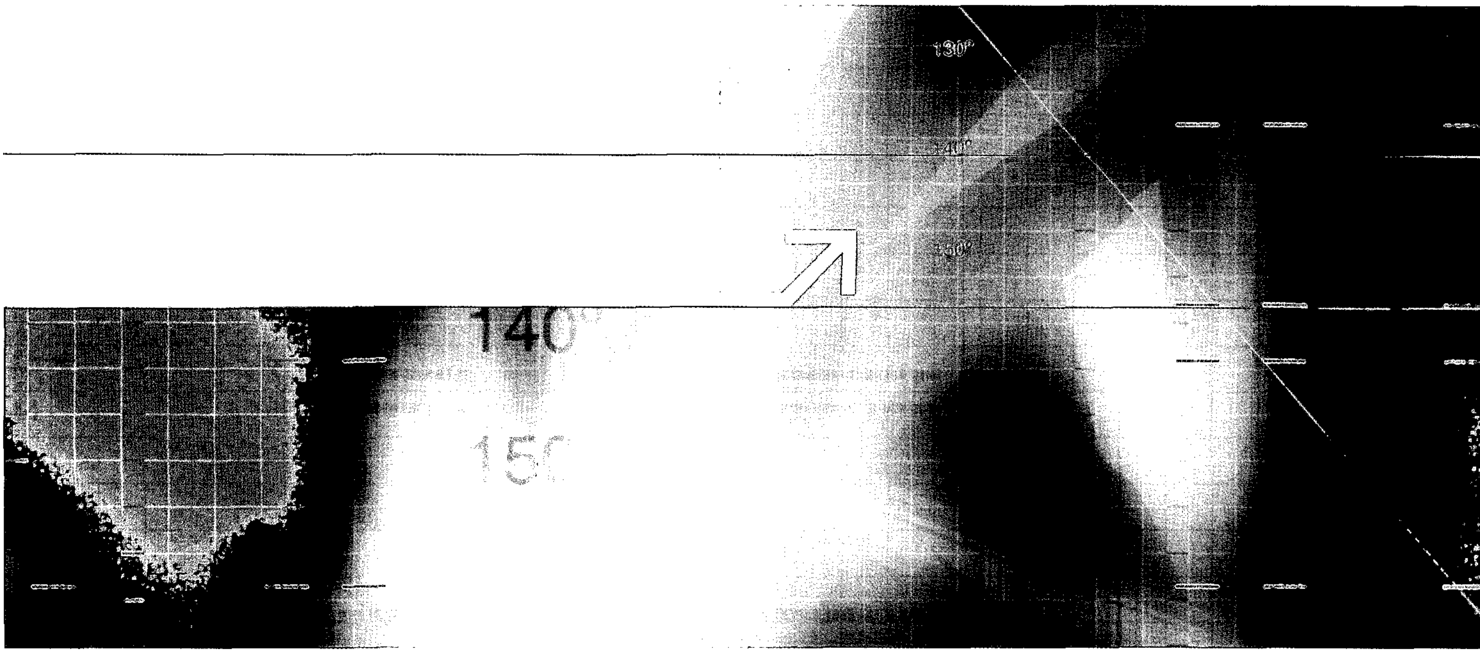
Over the years, the conveyor has emerged as the preferred transportation option with a suitability across varied kinds of material, large volume, continuous supply and low cost.

Conveyor drive control scheme



ICL enhances customer value through the following provisions:

- A wide product portfolio covering the needs of diverse industries
- A range of material transportation solutions within each industry
- A progressive customization of solutions around specific industry needs
- A use of superior material from the best vendors
- A responsive turnaround to emerging customer needs
- A superior price-value



At International Conveyors, a more durable product means slower replenishment but a wider market and stronger customer loyalty

Conveyors are susceptible to damage arising from improper alignment of belt tension, vibration, overloading and friction.

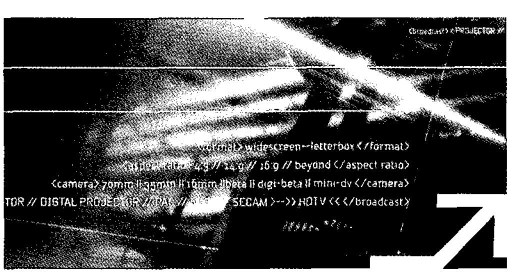
• The Company's conveyor belting solution is designed to suit Indian underground mine safety norms and international MSHA and OHSAS certifications

• The Company is ISO 9002-certified across its entire operations (manufacturing to marketing); it possesses confidence-enhancing mine certifications given by US, South African and other Indian regulatory agencies

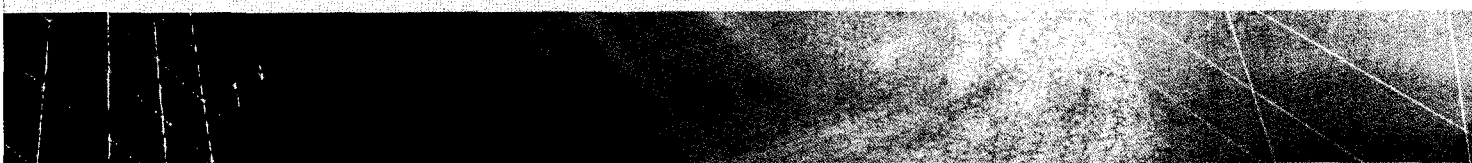
• The Company is engaged in extensive in-house manufacture: from yarn preparation to fabric weaving to compound mixing to belt finishing, protecting quality control and enhancing value-addition.

• The Company's belting rolls are individually tested – a rare industry practice - across physical, fire-retardant and anti-static properties

• The Company's testing laboratory conducts quality checks on all inputs (yarns and chemicals) and finished product; these tests include tests for flame, static conductivity, drum-friction, limited oxygen index, tensile strength, elongation, tear, adhesion, fastener holding, troughability and other routine tests



The average life of conveyor belts is two years; the conveyor belts manufactured by the Company possess a 50 per cent higher durability, resulting in a superior price-value and stronger customer loyalty.

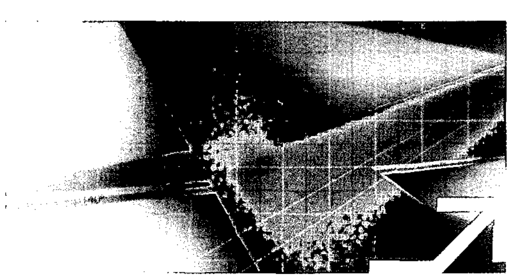


Customised features = enhanced convenience = good business

Conveyors represent the most economical mode of mineral or resource transportation from a mine to processing facility. Their profitable use requires adequate process control and reduced component friction leading to an enhanced product life.

Over the years, the Company's brand has been strengthened through the following policies, inputs and processes:

- Active product management by the Company's R&D division comprising continuous evaluation, testing and feedback analysis.
- All-synthetic high tenacity centre wrap yarns for strength and minimum elongation; the use of solid woven PVC eliminates ply separation.
- All-synthetic pile wrap yarns to protect damage from impact, enhance adhesion and superior fastener holding
- Composite weft yarn that provides optimum transverse rigidity and superior fastener holding.
- Woven selvedge to reduce peripheral damage and improve belt longevity.
- Complete vacuum impregnation and consolidation of PVC compounds through the solid woven fabric, improving tear strength and reducing moisture ingress.
- Special PVC coatings on the belts reduce abrasion and enhance carrying capacity throughout product life.



The Company's products maintain consistent belt tension across the entire operation. This has translated into a presence across several industry verticals like material transportation, coal, ports and potash extraction