

# PGS & Associates

Chartered Accountants

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CERTIFICATE ON KEY PERFORMANCE INDICATOR

Date:16/09/2024

To,

**The Board of Directors**

**Diffusion Engineers Limited**

T-5/6 MIDC, Hingna Industrial Area  
Nagpur-440016

**Unistone Capital Private Limited**

A/ 305, Dynasty Business Park,  
Andheri-Kurla Road, Andheri East,  
Mumbai – 400 059, India.

(Unistone Capital Private Limited referred to as the “Book Running Lead Manager”)

Dear Sir(s):

Sub: Proposed initial public offering of equity shares of ₹10 each (the “Equity Shares”) of Diffusion Engineers Limited (the “Company” and such offering, the “Issue”)

We, PGS & Associates, the statutory auditors of the Company, have carried out a statutory audit, in accordance with the requirements of the Companies Act, 2013 (Companies Act), the Companies (Indian Accounting Standards) Rules, 2015 (IND AS) and Standards on Auditing specified under Section 143(10) of the Companies Act, of the financial statements of the Company for the financial year ended March 31, 2023 which is prepared as per IND AS (IND AS Financial Statements).

We have carried out a special purpose audit, in accordance with the requirements of IND AS, the Companies Act, Standards on Auditing specified under Section 143(10) of the Companies Act and the Guidance Note on Reports or Certificates for Special Purposes (Revised 2016) issued by the Institute of Chartered Accountants of India (ICAI) (Special Purposes Guidance Note), of the financial statements of the Company for the Quarter ended December 31, 2023 which have been approved by the Board of Directors dated at their meeting 30<sup>th</sup> March, 2024 (Special Purpose Audited Financial Statements).

Subsequently, we have restated the (i) IND AS Financial Statements; and (ii) Special Purpose Audited Financial Statements in accordance with the Companies Act, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended (SEBI ICDR Regulations) and the Guidance Note on Reports in Company Prospectuses (Revised 2019) issued by the ICAI (Restated Financial Statements).

We have been requested by the Company to verify and certify the key performance indicators of the Company as mentioned in Annexure A.



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### Management's Responsibility Statement

The preparation of the accompanying Annexure is the responsibility of the Management of the Company. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the Annexure, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances

The management of the Company is responsible for preparation of financial information and preparation of the accompanying annexures based on such financial statements or other financial or non-financial information. This responsibility includes collecting, collating and validating data and presentation thereof and ensure compliance with applicable accounting standards. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and presentation of the annexures, and applying an appropriate basis of preparation; and making estimates that are reasonable in the circumstances.

Management is also responsible for ensuring:

- a. Identification, calculation and computation of the key performance indicators (KPI's) as mentioned in the Annexure A.
- b. Ensuring the figures mentioned in Annexure A is correct and computation is accurate.
- c. Disclosing all material information including of all material disclosure and facts, preparation of financial statements on going concern basis.
- d. Compliance with the requirements of the SEBI ICDR Regulations.

### Auditor's Responsibility Statement

Pursuant to the requirements of Schedule VI, Part A(9) (K) (3) of the ICDR Regulations, it is our responsibility to obtain reasonable assurance and conclude as to whether (i) the financial details provided in the Annexure are in agreement with the restated financial statements of the Company for the financial years ended March 31, 2024, March 31, 2023 and March 31, 2022 proposed to be included in the Offer Documents ("Restated Financial Statements"), and/or underlying books of accounts maintained by the Company used for the preparation of the Restated Financial Statements, (ii) non-financial measures provided in the Annexure are in agreement with the books of accounts and other relevant records maintained by the Company; and (iii) the KPIs (including their definitions) included in the Annexure are mathematically accurate.

We have reviewed and verified relevant records, correspondence with regulatory/statutory authority and registers of the Company, including but not limited to, statutory records, minutes of the meetings of the board of directors and committees of the Company, minutes of annual general meeting and extra-ordinary general meetings of the Company, relevant statutory registers, documents, records maintained by the Company, information and explanations presented to us, other records and documents, including invoices, management reports, internal documents, reports used for periodic MIS reporting, reports from digital /





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computerized systems, and similar records maintained by the Company, information and explanations presented to us by the Company's Management, and any other documents necessary or required for verification of the items mentioned below.

The procedures were performed to assist in evaluating the operational KPIs of the Company, as approved by Board of Directors of the Company, and accordingly, the procedures undertaken with respect to the aforesaid are summarized below:

- a. Obtained list of KPIs from the management and compared the specific components of KPIs as mentioned in the Annexure to source of KPIs as maintained by the management which includes books of accounts and Restated Financial Statements maintained by the Company as described in the paragraph above.
- b. Recomputed the mathematical accuracy of the KPIs included in the Annexure, including verifying the definitions; and
- c. Conducted relevant management inquiries and obtained necessary representation.

We conducted our examination of the Schedule of Key Performance Indicator (Annexure A) in accordance with the Guidance Note on Reports or Certificates for Special Purposes issued by the ICAI. The Guidance Note requires that we comply with the ethical requirements of the Code of Ethics issued by the ICAI. We hereby confirm that while providing this certificate we have complied with the Code of Ethics issued by the ICAI.

We have complied with the relevant applicable requirements of the Standard on Quality Control (SQC) 1, Quality Control for Firms that Perform Audits and Reviews of Historical Financial Information, and other Assurance and Related Services Engagements. issued by the Institute of Chartered Accountants of India.

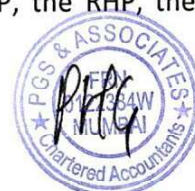
### Opinion:

Based on our review of documents and procedures as mentioned above and records that we deemed necessary, we hereby certify that the key performance indicators of the Company, details of which are provided in Annexure A, have been calculated based on Restated Financial Statements and the acceptable practices which have been appropriately disclosed in the Annexure A where relevant, derived and extracted from the Restated Financial Statements, are correct and complete in all respects.

Based on our review of such documents and records of the Company as we deemed necessary, we confirm that the financial, operational and other details circled/highlighted/provided in Annexure A hereto are correct, true and accurate and nothing to our attention that caused us to believe that the information contained in Annexure A was not accurate, valid and complete.

We hereby confirm that while providing this certificate we have complied with the Code of Ethics issued by the Institute of Chartered Accountants of India.

We hereby consent to the extracts of this certificate being used in DRHP, the RHP, the



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Prospectus and for clarifications/ submissions issued to any regulatory authority in relation to the Issue, including (but not limited to) RoC, the Stock Exchanges and SEBI in connection with the Offer, and submission of this certificate as may be necessary, to any regulatory authority statutory, judicial or governmental authorities, and in any other material used in connection with the Offer and for the disclosure on the website of the Company in connection with the Offer and/or for the records to be maintained by the Book Running Lead Managers in connection with the Offer and in accordance with applicable law.

We confirm that we will immediately inform the Company and the Book Running Lead Manager appointed as such for the purpose of the Issue, of any changes to the information stated in this letter till the date the Equity Shares of the Company commence trading on the Stock Exchanges. In the absence of any such communication, the information stated in this letter should be taken as updated information until the date of commencement of listing and trading of the Equity Shares of the Company on the Stock Exchange, pursuant to the Issue.

We represent that our execution, delivery and performance of this consent has been duly authorised by all necessary actions (corporate or otherwise).

We agree to keep the information regarding the Issue strictly confidential.

Terms capitalised and not defined herein shall have the same meaning as ascribed to them in the Draft Red Herring Prospectus.

We hereby consent to the extracts of this certificate being used in Red Herring Prospectus (RHP) and the Prospectus (Prospectus, together with the RHP, the Offer Documents) to be filed with the Registrar of Companies, Mumbai, Maharashtra and submitted to the Securities and Exchange Board of India (SEBI), the BSE Limited (BSE) and the National Stock Exchange of India Limited (NSE and together with the BSE, the Stock Exchanges) in connection with the Offer, and submission of this certificate as may be necessary, to any regulatory authority statutory, judicial or governmental authorities, and in any other material used in connection with the Offer and for the disclosure on the website of the Company in connection with the Offer and/or for the records to be maintained by the Company, Book Running Lead Managers in connection with the Offer and in accordance with applicable law.

At your request, we have also read and verified the items identified by you on the attached copy of the red herring prospectus and prospectus, received by us on [●] and have compared the amounts to the corresponding amounts set out in the Annexures and found them to be in agreement.

This certificate is issued for the purpose of the Issue, and can be used, in full or part, for inclusion in the draft red herring prospectus, updated draft red herring prospectus, presentations, red herring prospectus, prospectus and any other material used in connection with the Issue (together, the "Offer Documents") which may be filed by the Company with Securities and Exchange Board of India ("SEBI"), BSE Limited and National Stock Exchange of India Limited (collectively, the "Stock Exchanges"), Registrar of Companies, Maharashtra at Mumbai (the "RoC") and / or any other regulatory or statutory authority.





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We hereby consent to the submission and disclosure of this certificate as may be necessary to the SEBI, the ROC, the Stock Exchanges and any other regulatory or judicial authorities and, or, for any other litigation purposes and, or, for the records to be maintained by the Book Running Lead Managers, in accordance with applicable law.

We undertake to update you, in writing, of any change in the above-mentioned disclosures which we are aware of until the Equity Shares allotted, pursuant to the Offer, are listed and commence trading on the Stock Exchanges. In the absence of any such communication from us, the above information should be considered as updated information until the Equity Shares commence trading on the Stock Exchanges, pursuant to the Offer.

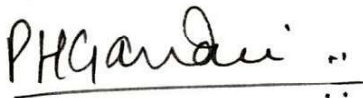
This certificate is for information and inclusion (in part or full) in the Offer Documents to be filed in relation to the Offer or any other Offer related material, and may be relied on by the Company, the Book Running Lead Managers, their affiliates and the legal counsel in relation to the Offer and to assist the Book Running Lead Managers in the context of due diligence procedures that the Book Running Lead Managers has to conduct and the documents in relation of their investigation of the affairs of the Company in connection with the Offer. We hereby consent to this certificate letter being disclosed by the BRLM, if required (i) by reason of any law, regulation, order or request of a court or by any governmental or competent regulatory authority, or (ii) in seeking to establish a defence in connection with, or to avoid, any actual, potential or threatened legal, arbitral or regulatory proceeding or investigation.

We also consent the inclusion of this certificate (including the annexures hereto) as a part of "Material Contracts and Documents for Inspection" in connection with the Issue, which will be available for public inspection from date of the filing of the RHP until the Bid/ Issue Closing Date.

All capitalized terms not defined herein bear the meaning ascribed to them in the Offer Documents.

Sincerely,

**For P G S & ASSOCIATES**  
**Chartered Accountants**  
**Firm Registration No.: 122384W**





**Premal H Gandhi**  
**Partner**  
**Membership No: 111592**  
**Place: Mumbai**  
**Date: 16.09.2024**  
**UDIN: 24111592BKBIQF7504**

## Annexure A

The KPIs disclosed below have been used historically by our Company to understand and analyse the business performance, which in result, help us in analysing the growth of various verticals.

Our Company confirms that it shall continue to disclose all the KPIs included in this section on a periodic basis, at least once in a year (or any lesser period as determined by the Board of our Company), for a duration of one year after the date of listing of the Equity Shares on the Stock Exchange or till the complete utilisation of the proceeds of the Fresh Issue as per the disclosure made in the Objects of the Issue Section, whichever is later or for such other duration as may be required under the SEBI ICDR Regulations.

KPI	Explanations
Revenue from Operations (₹ million)	Revenue from Operations is used by our management to track the revenue profile of the business and in turn helps assess the overall financial performance of our Company and size of our business.
Total Revenue	Total Revenue is used to track the total revenue generated by the business including other income.
EBITDA (₹ million)	EBITDA provides information regarding the operational efficiency of the business.
EBITDA Margin (%)	EBITDA Margin is an indicator of the operational profitability and financial performance of our business.
Restated profit for the year (₹ million)	Restated profit for the year provides information regarding the overall profitability of the business.
Restated profit for the year as % of Total Revenue (PAT margin)	PAT Margin is an indicator of the overall profitability and financial performance of our business.
Average Capital Employed	Average Capital Employed (ACE) is a key financial metric used to assess how efficiently a company utilizes its invested capital, providing insights into profitability and guiding decision-making for optimal resource allocation and performance improvement
Return on Capital Employed	ROCE provides how efficiently our Company generates earnings from the capital employed in the business.
RoE (%)	RoE provides how efficiently our Company generates profits from shareholders' funds.
Debt To Equity Ratio	Debt-to-equity (D/E) ratio is used to evaluate a company's financial leverage.
Interest Coverage Ratio	The interest coverage ratio is a debt and profitability ratio used to determine how easily a company can pay interest on its outstanding debt.
Current Ratio	It tells management how business can maximize the current assets on its balance sheet to satisfy its current debt and other payables.
Net Capital Turnover Ratio	This metric enables us to track how effectively company is utilizing its working capital to generate revenue.
Revenue per sales person	This metric calculates the average revenue generated by each salesperson, providing insights into individual sales performance and overall sales team efficiency.
Revenue per order of Wear Parts and Job Work	This metric assesses the average revenue generated per order specifically for wear parts and job work, offering valuable insights into the product/service segment's contribution to overall revenue.
Revenue per order of Heavy Engineering Division	This metric measures the average revenue generated per order for the Heavy Engineering Division, helping evaluate the division's financial performance and contribution to the company's overall revenue.





### Financial KPI of our Company

Sr No.	Metric	As of and For the fiscal		
		2024	2023	2022
1	Revenue From operations (₹ in Millions)	2,781.44	2548.76	2045.89
2	Other Income (₹ in Millions)	74.17	37.95	41.58
3	EBITDA (₹ in Millions)	473.88	347.97	275.22
4	EBITDA Margin (%)	17.04%	13.65%	13.45%
5	Profit/(loss) after tax for the year/ period (₹ in Millions)	308.04	221.45	170.46
6	Restated net profit Ratio/ Margin (%) as % of total revenue (PAT Margin)	10.79 %	8.56%	8.17%
7	Return on Equity (ROE) (%)	18.52%	16.86%	15.10%
8	Debt To Equity Ratio	0.18	0.34	0.20
9	Interest Coverage Ratio	26.99	15.16	19.90
10	ROCE (%)	20.63%	18.46%	17.30%
11	Current Ratio	1.89	1.70	1.69
12	Average capital employed	2,076.14	1,676.66	1,350.27
13	Net Capital Turnover Ratio	4.50	5.18	4.99

**Notes:**

- a) . The Audit committee in its resolution dated **31 July, 2024** has confirmed that the Company has not disclosed any KPIs to any investors at any point of time during the three years preceding the date of this Red Herring Prospectus other than as disclosed in this section.
- b) Revenue from Operations means the Revenue from Operations as appearing in the Restated Consolidated Financial Statements.
- c) EBITDA refers to earnings before interest, taxes, depreciation, amortization, gain or loss from discontinued operations and exceptional items. EBITDA . EBITDA Margin refers to EBITDA during a given period as a percentage of revenue from operations during that period.
- d) Restated Profit Ratio/Margin quantifies our efficiency in generating profits from our revenue and is calculated by dividing our net profit after taxes by our total revenue.
- e) Average Capital employed is calculated as the average of opening and closing Net worth and total debt during the period.
- f) RoCE (Return on Capital Employed) (%) is calculated as EBIT divided by average capital employed. Average Capital employed is calculated as the average of opening and closing Net worth and total debt during the period.
- g) Return on equity (RoE) is equal to profit for the year divided by the average total equity and is expressed as a percentage.
- h) Debt to equity ratio is calculated by dividing the debt (i.e., borrowings (current and non-current) and current maturities of long-term borrowings) by total equity (which includes issued capital and all other equity reserves).
- i) Interest Coverage Ratio measures our ability to make interest payments from available earnings and is calculated by dividing EBIT by finance cost.
- j) Current Ratio is a liquidity ratio that measures our ability to pay short-term obligations (those which are due within one year) and is calculated by dividing the current assets by current liabilities.



- k) *Net Capital Turnover Ratio* quantifies our effectiveness in utilizing our working capital and is calculated by dividing our total income by our average working capital (i.e., current assets less current liabilities).

#### Operational KPIs for the Company

Sr No.	Metric	As of and for the Fiscal		
		2024	2023	2022
1	Revenue per sales person	17.72	17.10	13.82
2	Revenue per order of Wear Plates and Job Work	0.59	0.59	0.44
3	Revenue per order of Heavy Engineering Division	1.80	2.99	3.37

**Note:**

- a) Revenue per Sales person is total revenue from operation for the fiscals 2024, 2023 and 2022 is ₹2,781.44 million, ₹2,548.76 million and ₹2,045.89 million (on consolidated basis) divided by total strength employees for sales department as of the last day of the relevant period, for the fiscals 2024, 2023 and 2022 is 157 employees, 149 employees and 148 employees respectively, (including employees of subsidiaries) i.e. average sale by an individual.
- b) Revenue per order of Wear Plates and Job Work is total revenue from operation of Fabrication and Job Work for the fiscals 2024, 2023 and 2022 is ₹ 469.11 million, ₹467.90 million and ₹ 333.50 million respectively of Unit divided by total orders executed for the fiscals 2024, 2023 and 2022 is 790 projects, 794 projects and 760 projects, respectively. This shows the average size per order.
- c) Revenue per order of Heavy Engineering Division is total revenue from operation of Heavy Engineering Division work for the fiscals 2024, 2023 and 2022 is ₹ 722.73 million, ₹531.34 million and ₹550.11 million, respectively divided by total orders executed for the fiscals 2024, 2023 and 2022 is 401 projects, 178 projects and 163 projects, respectively. This shows the average size per order.

