

PGS & Associates

Chartered Accountants

103, Vatsalya Building, 3rd Lane, Hindu Colony, L N Road, Dadar (East), Mumbai-400014

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Date: 16/09/2024

To,
The Board of Directors
Diffusion Engineers Limited
T-5 & T-6, Nagpur Industrial Area, MIDC,
Hingna, Nagpur -440016 Maharashtra

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,

Re: Projections for Requirement of Cash Credit from IPO Proceeds

This certificate is provided in connection with projections for requirement of Cash Credit from IPO Proceeds of **Diffusion Engineers Limited** (“the Company”) as at 31st July, 2024.

For the purpose of making the Objects of the Issue to be filed with SEBI or other regulatory authorities wherever required, there will be shortfall in our Working Capital requirements for which we will need short term funds which will be met from the Objects of our Issue. We are enclosing herewith our working for the requirement as **Annexure A**.

This certificate may be relied on by the Book Running Lead Manager and the legal counsel in relation to the Issue and to assist the Book Running Lead Manager and the legal counsel in conducting and documenting their investigation of the affairs of the Company in connection with the Issue and for the purpose of any defence the Book Running Lead Manager may wish to advance in any claim or proceeding in connection with the Issue.



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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 that are brought to our attention by the Company 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.

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

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

PHG Gandhi ..

Premal H Gandhi
Partner

Membership No: 111592

Place: Mumbai

Date: 16.09.2024

UDIN: 24111592BKBIRI6262



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ANNEXURE A

(All Figures are in Rs

millions)

| Particulars | As at March 31, 2025 | As at March 31, 2024 | As at March 31, 2023 | As at March 31, 2022 |
|---------------------------------------|----------------------|----------------------|----------------------|----------------------|
| Net Sales | 3,265.49 | 2,571.26 | 2,440.74 | 1,957.58 |
| Average Inventory | 604.72 | 473.26 | 443.93 | 342.05 |
| Inventory turnover ratio | 5.40 | 5.43 | 5.50 | 5.72 |
| Inventory days | 67.59 | 67.18 | 66.39 | 63.78 |
| Net Sales | 3,265.49 | 2,571.26 | 2,440.74 | 1,957.58 |
| Average Trade Receivables | 849.92 | 688.49 | 604.07 | 444.29 |
| Trade Receivable Ratio | 3.84 | 3.73 | 4.04 | 4.41 |
| Trade receivable days | 95.00 | 97.73 | 90.34 | 82.84 |
| Purchases (Average % of last 3 Years) | 1,910.11 | 1,502.93 | 1,399.54 | 1,168.47 |
| Average Trade Payable | 347.29 | 278.17 | 262.42 | 230.07 |
| Trade Payable Ratio | 5.50 | 5.40 | 5.33 | 5.08 |
| Trade Payable days | 66.36 | 67.56 | 68.44 | 71.87 |
| Revenue from operations | 3,265.49 | 2,571.26 | 2,440.74 | 1,957.58 |
| Purchases | | | | |



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| | | | | |
|-------------------------|----------|----------|----------|----------|
| | 1,910.11 | 1,259.66 | 1,399.54 | 1,168.47 |
| Profit before tax | 340.00 | 316.58 | 225.48 | 206.23 |
| Finance Cost | 17.00 | 16.94 | 22.18 | 13.40 |
| Deprecation | 42.41 | 38.55 | 33.76 | 38.35 |
| EBITDA | 399.41 | 372.07 | 281.43 | 257.98 |
| Net profit for the year | 255.00 | 233.95 | 168.16 | 157.56 |

Cash Balance Assumption

| | |
|------------------------------|--------|
| Additional Revenue | 694.24 |
| Additional Heavy Engineering | 197.86 |
| BG Margin in Bank FD | 19.79 |
| Cash balance | 0.50 |
| Total Cash and Bank | 20.29 |

| Particulars | As at March 31, 2025 | As at March 31, 2024 | As at March 31, 2023 | As at March 31, 2022 |
|---|----------------------|----------------------|----------------------|----------------------|
| Current Assets | | | | |
| Inventories | 604.72 | 474.02 | 472.49 | 415.36 |
| Trade receivables | 849.92 | 646.80 | 730.16 | 477.98 |
| Cash and bank balances | 20.29 | 25.53 | 18.65 | 19.88 |
| Other financial assets and current assets | 240.16 | 200.13 | 114.96 | 60.40 |
| Total Current Assets (A) | 1,715.09 | 1,346.48 | 1,336.26 | 973.62 |
| Current Liabilities | | | | |
| Trade payables | 347.29 | 308.84 | 247.50 | 277.34 |
| Other financial | | | | |



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|---|-----------------|---------------|---------------|---------------|
| liabilities | 13.42 | 18.64 | 11.38 | 15.10 |
| Other current liabilities | 89.72 | 91.15 | 96.46 | 77.32 |
| Total Current Liabilities (B) | 450.43 | 418.63 | 355.34 | 369.76 |
| Net Working Capital Requirements (A-B) | 1,264.66 | 927.85 | 980.92 | 603.86 |
| Source of funds | | | | |
| Long Term Borrowing | - | - | 16.69 | 27.99 |
| Short Term Borrowing | 340.00 | 337.08 | 459.29 | 213.06 |
| Internal accruals / Net worth | 704.66 | 590.77 | 521.63 | 390.80 |
| Proceeds from the issue | 220.00 | | | |
| Total | 1,264.66 | 927.85 | 980.92 | 603.86 |
| | | | | |
| | | | | |
| Current Ratio | 1.36 | 1.45 | 1.36 | 1.61 |
| WC Growth | 36.30% | -5% | 62.44% | 17.99% |



Key justification for holding levels:

| | |
|--------------------------|---|
| Inventories | <p>Our inventory days, which represent the number of days our inventory is held, was 85 days in Fiscal 2021 due to impact of Covid-19 pandemic. However, from Fiscal 2022 onwards, our inventory days have shown a gradual increase i.e. 64 days, 66 days and 67 days for Fiscal 2022, Fiscal 2023 and for the period ended March 31, 2024, respectively. We expect our inventory days to be 68 days for Fiscal 2025. The reason behind this increase can be attributed to the nature of one of our business, specializing in manufacturing and fabrication of heavy engineering equipment, wear plates and wear parts. The production of such equipment inherently involves longer lead times. The higher lead times associated with the manufacturing of these equipment necessitates a larger inventory holding to meet customer demand promptly. Therefore, the growth in inventory days is a strategic response to the increased production requirements and the longer lead times associated with manufacturing of these equipment.</p> |
| Trade Receivables | <p>Over the past three fiscal years, we have observed variations in our trade receivables days. In Fiscal 2021, our trade receivables days were 92 days, which decreased to 83 days in Fiscal 2022 and then further increased to 90 days in Fiscal 2023. Our trade receivables days were 98 days for the Fiscal 2024. We expect our trade receivables days to be 95 days for Fiscal 2025. This trend is primarily driven by the characteristics of our customer base, predominantly comprising industries requiring heavy equipment. Customers in these sectors typically follow a payment practice where payments are made post-delivery and inspection, and the general payment terms extend to around 90 days. The prolonged credit period is a result of the trust and long-term relationships we maintain with our clients. As a result, our trade receivable days are in alignment with industry norms and the necessity to accommodate the payment practices prevalent in our customer base.</p> |
| Trade Payables | <p>The Covid-19 pandemic had also impacted our trade payables days which was 130 days in Fiscal 2021. Subsequently, our trade payables days observed a reduction in days, decreasing from 72 days in Fiscal 2022 to 68 Days in Fiscal 2023 to 68 days for the Fiscal 2024. We expect our trade payables days to increase to 66 days in Fiscal 2025. The reduction in days from Fiscal 2021 onwards to the Fiscal 2024, is indicative of our efficient management of payables and underscores our commitment to optimizing cash flows. However, the slight decrease in the estimated days in Fiscal 2025 is on account of our strategic decision to maintain better cash flows</p> |

