

PGS & Associates

Chartered Accountants

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

• Telephone No: 86577 41103 / 87790 57086 • Email ID: info@pgsca.in

STATEMENT OF SPECIAL TAX BENEFITS

STATEMENT OF SPECIAL TAX BENEFITS AVAILABLE TO DIFFUSION ENGINEERS LIMITED ("THE COMPANY") AND THE SHAREHOLDERS OF THE COMPANY UNDER THE DIRECT AND INDIRECT TAX LAWS IN INDIA

Date: 16/09/2024

To,

The Board of Directors

Diffusion Engineers Limited

T-5/6 MIDC, Hingna Industrial Area

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: Statement of possible Special Tax Benefits available to the Company and its equity shareholders under the direct and indirect tax laws

We refer to the proposed initial public offering of the equity shares (the "Issue") of Diffusion Engineers Limited (the "Company"). We enclose herewith the statement in **Annexure A** showing the current position of possible special tax benefits available to the Company and to its shareholders under the applicable direct and indirect tax laws presently in force in India including the Income Act, 1961 and Income tax Rules, 1962, as amended by the Finance Act, 2024 (hereinafter referred to as "Income Tax Laws") the Central Goods and Services Tax Act, 2017, the Integrated Goods and Services Tax Act, 2017, respective State Goods and Services Tax Act, 2017, respective Union Territory Goods and Services Tax Act, 2017, Customs Act, 1962, Customs Tariff Act, 1975 as amended, the rules and regulations there under, Foreign Trade Policy including the rules, regulations, circulars and notifications issued there under and other tax laws (collectively the "Tax laws") relevant to the financial year 2024-25 and relevant to the assessment year 2025-26 presently in force in India for inclusion in the Red Herring Prospectus ("RHP") and Prospectus ("Prospectus") for the proposed initial public offering of equity shares of the Company, as required under SEBI ICDR Regulations.

Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant provisions of the Tax Laws. Hence, the ability of the Company or its shareholders to derive the stated possible special direct and indirect tax benefits is dependent upon their fulfilling such conditions, which is based on business imperatives that



PGS & Associates

Chartered Accountants

the Company or its shareholders may face in the future and accordingly, the Company and its shareholders may or may not choose to fulfill.

The possible special tax benefits discussed in the enclosed annexure are neither exhaustive nor conclusive. The contents stated in the Annexure are based on the information and explanations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company. This Statement is only intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the proposed Issue. We are neither suggesting nor advising the investor to invest money based on this statement. Further, any benefits available under any other laws within or outside India have not been examined and covered by this Statement.

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 ICAI. We have conducted our examination in accordance with the 'Guidance Note on Reports or Certificates for Special Purposes' issued by the ICAI which requires that we comply with ethical requirements of the Code of Ethics issued by the ICAI and in accordance with 'Guidance Note on Reports in Company Prospectuses' (Revised 2019). We hereby confirm that while providing this certificate we have complied with the above guidance notes.

We do not express any opinion or provide any assurance as to whether:

- i) the Company or its shareholders will continue to obtain these possible special tax benefits in future; or
- ii) the conditions prescribed for availing the benefits have been/would be met with; and
- iii) the revenue authorities / courts will concur with the views expressed herein.

We hereby give consent to include this report and the statement of possible special tax benefits regarding the possible special tax benefits available to the Company and its shareholders enclosed in Annexure A in the Draft Red Herring Prospectus, Red Herring Prospectus, the Prospectus which the Company intends to file in relation to the Issue and submission of this report, as may be necessary, to the Registrar of Companies, Maharashtra at Mumbai, Stock Exchange(s), SEBI, or any other regulatory authority and for the records to be maintained by the Company, Book Running Lead Manager in connection with the Issue and in accordance with applicable law.

Terms capitalized and not defined herein shall have the same meaning as ascribed to them in the Offer Documents.



PGS & Associates

Chartered Accountants

Sincerely,

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

PH Gandhi ..

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



PGS & Associates

Chartered Accountants

Annexure-A

STATEMENT OF POSSIBLE SPECIAL TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS

The information provided below sets out the possible special tax benefits available to Diffusion engineers Limited (“the Company”) and its Equity Shareholders in a summary manner and is not a complete analysis or listing of all potential tax consequences of the subscription, ownership, and disposal of Equity Shares of the Company, under the current Tax Laws presently in force in India. Several of these benefits are dependent on the shareholders fulfilling the conditions prescribed under the relevant Tax Laws. Hence, the ability of the shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which, based on business / commercial imperatives a shareholder faces, may or may not choose to fulfil. We do not express any opinion or provide any assurance as to whether the Company and its shareholders will continue to obtain these benefits in future. The following overview is not exhaustive or comprehensive and is not intended to be a substitute for professional advice. In view of the individual nature of the tax consequences and the changing tax laws, each investors is advised to consult his own tax consultant with respect to the tax implications arising out of their participation in the Issue of particularly in view of the fact that certain recently enacted legislation may not have a direct legal precedent or may have a different interpretation on the benefits, which an investor can avail. We are neither suggesting nor are we advising the investor to invest money or not to invest money based on this statement.

STATEMENT OF POSSIBLE SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS

A. SPECIAL TAX BENEFITS AVAILABLE TO THE COMPANY

1. Lower corporate tax rate on income of domestic companies – Section 115BAA of the Income-tax Act, 1961 (‘the IT Act’)

The Taxation Laws (Amendment) Act, 2019 introduced section 115BAA wherein domestic companies are entitled to avail a concessional tax rate of 22% (plus applicable surcharge and cess) on fulfillment of certain conditions. The option to apply this tax rate is available from Financial Year (‘FY’) 2019-20 relevant to Assessment Year (‘AY’) 2020-21 and the option once exercised through filing of Form 10IC on the Income tax portal shall apply to subsequent assessment years. The concessional tax rate of 22% is subject to the company not availing any of the following deductions under the provisions of the IT Act:

- Section 10AA: Tax holiday available to units in a Special Economic Zone
- Section 32(1)(iia): Additional depreciation;
- Section 32AD: Investment allowance.



PGS & Associates

Chartered Accountants

- Section 33AB/3ABA: Tea coffee rubber development expenses/site restoration expenses
- Section 35(1)/35(2AA)/ 35(2AB): Expenditure on scientific research.
- Section 35AD: Deduction for capital expenditure incurred on specified businesses.
- Section 35CCC/35CCD: expenditure on agricultural extension /skill development
- Chapter VI-A except for the provisions of section 80JJAA and section 80M.

The total income of a company availing the concessional rate of 25.168% (i.e., 22% along with surcharge of 10% and health and education cess of 4%) is required to be computed without set-off of any carried forward loss and depreciation attributable to any of the aforesaid deductions/incentives. A company can exercise the option to apply for the concessional tax rate in its return of income filed under section 139(1) of the IT Act. Further, provisions of Minimum Alternate Tax ('MAT') under section 115JB of the IT Act shall not be applicable to companies availing this reduced tax rate, thus, any carried forward MAT credit also cannot be claimed.

The provisions do not specify any limitation/condition on account of turnover, nature of business or date of incorporation for opting for the concessional tax rate. Accordingly, all existing as well as new domestic companies are eligible to avail this concessional rate of tax.

Note: The Company has opted the lower rate under section 115BAA of the IT Act in the FY 2019-20 relevant to the AY 2020-21 as mentioned in the Section 115BAA for which declaration (Form 10IC) has already been filed with the tax authorities.

2. Deductions in respect of employment of new employees – Section 80JJAA of the IT Act

As per section 80JJAA of the IT Act, where a company is subject to tax audit under section 44AB of the IT Act and derives income from business, it shall be allowed to claim a deduction of an amount equal to 30% of additional employee cost incurred in the course of such business in a previous year, for 3 consecutive assessment years including the assessment year relevant to the previous year in which such additional employment cost is incurred.

The eligibility to claim the deduction is subject to fulfilment of prescribed conditions specified in sub-section (2) of section 80JJAA of the IT Act.

The company is presently not claiming deduction under section 80JJAA of the IT Act. However, this 134 deduction could be claimed in the future subject to fulfillment of the conditions discussed above.

3. Deduction with respect to inter-corporate dividends – Section 80M of the IT Act

As per the provisions of section 80M of the IT Act, inserted with effect from 01 April 2020, a domestic company shall be allowed to claim a deduction of dividend income earned from any



PGS & Associates

Chartered Accountants

other domestic company or a foreign company or a business trust. The amount of deduction so claimed should not exceed the amount of dividend distributed by it on or before the due date. In this case, due date means one month prior to the due date of furnishing return of income under sub section (1) of section 139 of the IT Act.

The company has a wholly owned subsidiary viz. ASK Automobiles Private Limited and thus, the company should be eligible to claim deduction u/s 80M of the IT Act in respect of dividends received (if any) from its subsidiary and further distributed to its shareholders subject to fulfillment of other conditions.

4. Deductions in respect of specified expenditure

In accordance with and subject to the fulfillment of conditions as laid out under section 35D of the IT Act, the company may be entitled to amortize preliminary expenditure, being specified expenditure incurred in connection with the issue for public subscription or such other expenditure as prescribed under section 35D of the IT Act, subject to the limit specified therein (viz maximum 5% of the cost of the project or 5% of the capital employed in the business of the company).

The deduction is allowable for an amount equal to one-fifth of such expenditure for each of five successive previous years beginning with the previous year in which the business commences or as the case may be, the previous year in which the extension of the undertaking is completed, or the new unit commences production or operation.

With effect from AY 2024-25, the company shall be required to furnish a statement in Form 3AF containing the particulars of expenditures specified u/s 35D of the IT Act to such income tax authority prior to one month before the due date of filing Income tax return as per section 139(1) of the IT Act.

B. SPECIAL DIRECT TAX BENEFITS AVAILABLE TO THE SHAREHOLDERS

- Long term capital gains on transfer on shares on which Securities Transactions Tax has been paid will be subject to tax in the hands of shareholders as per the provisions of Section 112A of the Act at 12.5% (plus applicable surcharge and cess).
- Short term capital gains arising on transfer of shares on which Securities Transactions Tax has been paid will be subject to tax in the hands of shareholders as per the provisions of Section 111A of the Act at 20% (plus applicable surcharge and cess).
- Non-resident shareholders including foreign portfolio investors may choose to be governed by the provisions of Double Taxation Avoidance Agreement, to the extent they are more beneficial.



PGS & Associates

Chartered Accountants

Notes:

- These tax benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant provisions of the Act. Hence, the ability of the Company or its shareholders to derive the tax benefits is dependent upon fulfilling such conditions, which based on the business imperatives, the Company or its shareholders may or may not choose to fulfil.
- This statement does not discuss any tax consequences in the country outside India of an investment in the shares. The shareholders / investors in the country outside India are advised to consult their own professional advisors regarding possible Income tax consequences that apply to them.
- The above statement of possible direct tax benefits sets out the provisions of law in a summary manner only. The benefits listed above may not be exhaustive or comprehensive and is not a complete analysis or listing of all potential tax consequences of the purchase, ownership and disposal of shares.
- This statement is intended to provide general information to the investors and is neither designed nor intended to be a substitute for professional tax advice. The list of benefits contains certain recently enacted legislation that may not have a direct legal precedent or may have different interpretation on the benefits. In view of the individual nature of tax consequences, each investor is advised to consult his/her own tax advisor with respect to specific tax consequences of his/her investment in the shares of the Company.

STATEMENT OF POSSIBLE SPECIAL INDIRECT TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS

C. SPECIAL INDIRECT TAX BENEFITS AVAILABLE TO THE COMPANY AND ITS SHAREHOLDERS:

Outlined below are the possible tax benefits available to the Company and its shareholders under the indirect tax laws in force in India. This Statement is as per the Central Goods and Services Tax Act, 2017 / the Integrated Goods and Services Tax Act, 2017 and applicable State Goods and Services Tax Act, 2017 ("GST Acts"), the Customs Act, 1962 ("Customs Act") and the Customs Tariff Act, 1975 ("Tariff Act"), as amended by the Finance Act 2023 including the relevant rules, notifications and circulars issued there under, applicable for the Financial Year 2023-24 and Foreign Trade Policy, 2023, presently in force in India. Special tax benefits available to the Company

- The Company has one active GSTIN operating in the state of Maharashtra.
- We understand that the Company has earnings in foreign exchange. For cross border transactions that entail inward remittance of foreign currency, there are specific benefits which have been provided under Indirect tax laws/regulations subject to fulfillment of prescribed conditions.
- The Company has availed certain benefits on import of goods, which are used for manufacture of exported goods, subject to fulfillment of conditions laid down under the Foreign Trade Policy, 2023 and Customs Law.



PGS & Associates

Chartered Accountants

D. SPECIAL INDIRECT TAX BENEFITS AVAILABLE TO THE SHAREHOLDERS OF THE COMPANY:

- The shareholders of the Company are not required to discharge any GST on transaction in securities of the Company. Securities are excluded from the definition of Goods as defined u/s 2(52) of the Central Goods and Services Tax Act, 2017 as well from the definition of Services as defined u/s 2(102) of the Central Goods and Services Tax Act, 2017.
- Apart from above, the shareholders of the Company are not eligible to special tax benefits under the provisions of the Customs Tariff Act, 1975 and / or Central Goods and Services Tax Act, 2017, Integrated Goods and Services Tax Act, 2017, respective Union Territory Goods and Services Tax Act, 2017 respective State Goods and Services Tax Act, 2017, including the relevant rules, notifications and circulars issued there under.



PGS & Associates

Chartered Accountants

Notes:

- This Statement covers only certain relevant indirect tax law benefits and does not cover any other benefit under any other law in force in India. This Statement also does not discuss any tax consequences, in the country outside India, of an investment in the shares of an Indian company.
- These tax benefits are dependent on the Company fulfilling the conditions prescribed under the relevant provisions of the Indian indirect tax regulation. Hence, the ability of the Company to derive the tax benefits is dependent upon fulfilling such conditions, which based on the business imperatives, the Company may or may not choose to fulfil.
- The tax benefits discussed in the Statement are not exhaustive and is only intended to provide general information to the investors and hence, is neither designed nor intended to be a substitute for professional tax advice. In view of the individual nature of the tax consequences and the changing tax laws, each investor is advised to consult his or her own tax consultant with respect to the specific tax implications arising out of their participation in the issue.
- The Statement is prepared on the basis of information available with the management of the Company and there is no assurance that:
 - i. the Company or its shareholders will continue to obtain these benefits in future;
 - ii. the conditions prescribed for availing the benefits have been/ would be met with; and
 - iii. the revenue authorities/courts will concur with the view expressed herein.
- The above views are based on the existing provisions of laws and its interpretation, which are subject to change from time to time.

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: 24111592BKBIQE8819

