

# PGS & Associates

## Chartered Accountants

301, Laxmi Krupa, 3rd Lokmanya Tilak Colony Road, Near Yogi Sabhagruh, Dadar (East),  
Mumbai 400014

✉E-mail: premal@pgsca.in

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### STATEMENT OF TAX BENEFITS

Date: 21/12/2023

To,

**The Board of Directors**  
**Diffusion Engineers Limited**  
T-5/6 MIDC, Hingna Industrial Area

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")**

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We report that the enclosed statement in **Annexure A**, states the possible special tax benefits available to the Company and to its shareholders under the applicable tax laws presently in force in India including the Income Act, 1961 ('Act'), as amended by the Finance Act, 2023 i.e., applicable for FY 2023-24 and AY 2024-25, and other direct tax laws presently in force in India. Several of these benefits are dependent on the Company or its shareholders fulfilling the conditions prescribed under the relevant provisions of the statute. Hence, the Diffusion Engineers Limited or its shareholders to derive the stated special tax benefits is dependent upon their fulfilling such conditions, which based on business imperatives the Company faces in the future, the Company may or may not choose to fulfill.

The benefits discussed in the enclosed annexure are not exhaustive. 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 Issue. We are neither suggesting nor advising the investor to invest money based on this statement.

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

- i) the Company or its shareholders will continue to obtain these benefits in future; or
- ii) the conditions prescribed for availing the benefits have been/would be met with.

The contents of the enclosed statement are based on information, explanations and representations obtained from the Company and on the basis of our understanding of the business activities and operations of the Company.

The benefits discussed in the enclosed statement are not exhaustive nor are they conclusive. The contents stated in the annexure are based on the information, explanations and representations obtained from the Company.

We hereby give consent to include this statement of tax benefits in the Draft Red Herring Prospectus, Red Herring Prospectus, the Prospectus and submission of this certificate as may be necessary, to the Stock Exchange(s)/ SEBI/ any regulatory authority and/or for the records to be maintained by the 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 Draft Red Herring Prospectus.

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

*PH Gandhi* ::

**Premal H Gandhi**  
**Partner**

Membership No: 111592

Place: Mumbai

Date: 21.12.2023

UDIN: **23111592BGXFJB3791**



CC:

**Unistone Capital Private Limited**  
A/305, Dynasty Business Park,  
Andheri - Kurla Road, Andheri (East),  
Mumbai - 400 059, India

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Annexure-A

### ANNEXURE TO THE 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 the Company and the Equity Shareholder under the Income Tax Act 1961 (read with the rules, circulars and notifications issued in connection thereto), as amended by the Finance Act, 2021 presently in force in India. It is not exhaustive or comprehensive and is not intended to be a substitute for professional advice. Investors are advised to consult their own tax consultant with respect to the tax implications of an investment in the Equity Shares 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.

#### A. SPECIAL TAX BENEFITS TO THE COMPANY UNDER THE INCOME TAX ACT, 1961 (THE "ACT")

##### 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)(iii): Additional depreciation;
- Section 32AD: Investment allowance.
- Section 33AB/33ABA: 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

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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 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 TAX BENEFITS TO THE SHAREHOLDERS UNDER THE INCOME TAX ACT, 1961 (THE "ACT")**

- 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 10% (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 15% (plus applicable surcharge and cess).
- Non-resident shareholders including foreign portfolio investors may choose to be governed by the

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provisions of Double Taxation Avoidance Agreement, to the extent they are more beneficial.

### 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.

### C. SPECIAL INDIRECT TAX BENEFITS 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.

### D. SPECIAL INDIRECT TAX BENEFITS 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

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Act, 2017 respective State Goods and Services Tax Act, 2017, including the relevant rules, notifications and circulars issued there under.

### Notes:

- This Statement covers only certain relevant indirect tax law benefits and does not cover any other benefit under any other law.
- 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.

**We do not assume responsibility to update the views consequent to such changes.**

**For**

**For P G S & ASSOCIATES**

**Chartered Accountants**

ICAI Firm Registration No.: 122384W

*Premal H Gandhi*

**Premal H Gandhi**

**Partner**

Membership No: 111592

Place: Mumbai

Date: 21.12.2023

