



CERTIFICATE ON WORKING CAPITAL

To,
The Board of Directors
Royal Arc Electrodes Limited
72 B, Bombay Talkies Compound, S.V. Road,
Malad West, Mumbai, Maharashtra-400064.

Dear Sir / Madam,

Subject: Working Capital Requirements

Re: Proposed initial public Issue ("IPO") of equity shares of face value Rs. 10 each ("Equity Shares") by Royal Arc Electrodes Limited ("Company") ("Issue") in accordance with the provisions of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018 ("SEBI ICDR Regulations"), and other applicable laws, as amended

We, J.H.Gandhi & Co, Chartered Accountants, Expert of the Company, have based on the information and explanation and on review of the Restated Financial Information of the Company, comprising of the Restated Statement of Assets and Liabilities as at September 30, 2024 and Financial Years ended on March 31, 2024, 2023 and 2022, and, the Restated Statements of Profit and Loss and the Restated Cash Flow Statement for the half year ended September 30, 2024 and Financial Years ended on March 31, 2024, 2023 and 2022 and, the Summary Statement of Significant Accounting Policies and other explanatory information (collectively, the "**Restated Financial Information**"), prepared in accordance with the Companies Act, 2013, as amended (the "**Companies Act**") and Accounting Standards ("**AS**") issued by the Institute of Chartered Accountants of India ("**ICAI**") prescribed under the Companies Act and restated in accordance with the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, as amended ("**ICDR Regulations**") and the reports issued thereon and based on records maintained by the Company, minutes of the meetings of the Board of Directors of the Company

At the request of the Company, the working capital requirement figures proposed to be disclosed as part of the objects of the issue from the Restated Financial Statements for the half year ended September 30, 2024 and for the year ended March 31, 2024, for the Financial Year ended March 31, 2023 and for the Financial Year ended March 31, 2022 respectively.

The following financial information of Restated Financial Statements is to be included in the Draft Red Herring Prospectus/Red Herring Prospectus /Prospectus as one of the objects of the issue:

The Company has historically funded a majority of the working capital requirements in the ordinary course of business from internal accruals or borrowing. The Company requires additional working capital to meet the future demand for its products, for funding future growth requirements of the Company and for other business purposes and the Net Proceeds deployed towards funding the working capital requirements are proposed to be utilized for the purposes.

The Company's existing working capital requirements for the period half yearly ended September 30, 2024 and for the Financial Year ended March 31, 2024 and for the Financial Year ended March 31, 2023 and for the Financial Year ended March 31, 2022 respectively which have been derived from the Restated Financial Statement and funding of the same are as set out in the table below:

Sr. No.	Particulars	(₹ in lakhs)			
		As at September 30, 2024 (Restated)	As at March 31, 2024 (Restated)	As at March 31, 2023 (Restated)	As at March 31, 2022 (Restated)
I	Current assets				
	Inventories	1030.24	904.22	606.69	
	Trade receivables	2059.18	2,067.72	1,643.72	1,083.92
	Short Term Loans & Advances	191.65	122.83	202.20	1,308.69
	Other Current Assets	14.18	15.98	44.10	137.48
	Total Current Assets(A)	3295.25	3,110.74	2,496.71	144.94
II	Current liabilities				
	Trade payables	457.83	538.27	778.89	1,022.39
	Other Current Liabilities	130.79	157.90	110.03	77.20
	Short term provisions	86.48	134.49	126.09	66.14
	Total current liabilities (B)	675.10	830.65	1,015.01	1,165.73
	Net working capital (A - B)	2620.15	2,280.09	1,481.70	1,509.30
III	Sources of funds				
	Short-term borrowings	202.47	19.71	98.68	629.18
	Internal Accruals	2417.67	2260.38	1383.02	880.12
	Total Means of Finance	2620.14	2280.09	1481.70	1509.30

Expected working capital requirements

The estimates of the working capital requirements for the Financial Year ended March 31, 2025 and March 31, 2026 have been prepared based on the management estimates of current and future financial performance. The projection has been prepared using set of assumptions that include assumptions about future events and management's actions that are not necessarily expected to occur.

On the basis of existing working capital requirements and estimated working capital requirements, the Board pursuant to its resolution dated December 9, 2024, 2025 has approved the projected working capital requirements for the Financial Year March 31, 2025 and March 31, 2026 with the assumptions and justifications for holding levels, and the proposed funding of such working capital requirements, as set forth below:

(₹ in lakhs)

Sr. No.	Particulars	As at March 31, 2026 (Projected)	As at March 31, 2025 (Estimated)
I	Current assets		
	Inventories	1,320.00	1,010.00
	Trade receivables	2,470.00	2,150.00
	Short Term Loans & Advances	130.00	120.00
	Other Current Assets	35.00	20.00
	Total Current Assets (A)	3,955.00	3,300.00
II	Current liabilities		
	Trade payables	650.00	580.00
	Other Current Liabilities	170.00	145.00
	Short term provisions	170.00	150.00
	Total current liabilities (B)	990.00	875.00
	Net working capital (A – B)	2,965.00	2,425.00
III	Sources of funds		
	Short term borrowings from banks	20.00	20.00
	Internal accruals	1700.00	2250.00
	IPO proceeds	1,245.00	155.00
	Total Means of Finance	2965.00	2425.00

Assumptions for our estimated working capital requirement:

Particulars	(in days)*					
	Holding Levels (March 31, 2026)	Holding Levels (March 31, 2025)	Holding Levels (September 30, 2024)	Holding Levels (March 31, 2024)	Holding Levels (March 31, 2023)	Holding Levels (March 31, 2022)
	Projected	Estimated	Restated*	Restated*	Restated*	Restated*
Inventories	61	53	56	50	33	84
Trade receivables	75	75	81	76	62	76
Short Term Loans & Advances	4	4	8	4	8	8
Other Current Assets	1	1	1	1	2	8
Total Current Assets (A)	140	133	146	131	104	177
Current Liabilities (excluding borrowings and income tax liabilities)						
Trade payables	29	29	24	29	46	76
Other Current Liabilities	5	5	5	6	4	4
Short term provisions	5	5	3	5	5	4
Total current liabilities (B)	39	39	33	40	55	84
Working Capital Cycle (A-B)	101	94	113	91	49	93

*The number of days is rounded off to the nearest days.

The table below sets forth the key assumptions for working capital projections:

Particular	Assumption
Inventory	Our Company had maintained Inventory days of 84 days for Fiscal 2022, 33 days for Fiscal 2023, and 50 days for Fiscal 2024 and 56 days for the six months period ended September 30, 2024. Going forward, our Company will maintain the inventory cycle of 53 days for Fiscal 2025 and 61 days for Fiscal year 2026 due to the expansion of our manufacturing facility getting commenced in Fiscal 2026.

Trade Receivable	Our Company gives credit facility to its customers in the normal course of business. Our Company had maintained trade receivable days of 76 days for Fiscal 2022, 62 days for Fiscal 2023, and 76 days for Fiscal 2024 and 81 days for the six months period ended September 30, 2024. Going forward, to build a long-term sustainable business relationship with customers and to add new customers, we are envisaging that the credit terms of 75 days would be maintained in the Fiscal 2025 and in the Fiscal 2026.
Short term Loans and advances	Short-term loans and advances comprise GST receivable/ITC credit and advances to suppliers and employees. Short-term loans and advances days are maintained at 8 days in Fiscal 2022, 8 days in Fiscal 2023, and 4 days in Fiscal 2024 and 86 days for the six months period ended September 30, 2024. Going forward, it is estimated that short-term loans and advances will be maintained at 4 days for Fiscal 2025 and Fiscal 2026.
Other current assets	Other current assets include export incentives, accrued interest, prepaid expenses, etc. Other current assets are maintained at 8 days in Fiscal 2022, 2 days in Fiscal 2023, and 1 day in Fiscal 2024 and 1 day for the six months period ended September 30, 2024. Going forward, it is estimated that other current assets days will be maintained at 1 day for Fiscal 2025 and Fiscal 2026.
Trade payables	Our Company receives credit from suppliers/vendors in the normal course of business. The Company had maintained trade payable days of 76 days for Fiscal 2022, 46 days for Fiscal 2023, and 29 days for fiscal 2024 and 24 days for the six months period ended September 30, 2024. It has always been an endeavour of our Company to reduce the trade payable days and accordingly, going forward the trade payable days projected will be maintained at 29 days for Fiscal 2025 and for Fiscal 2026.
Other current liabilities	Other current liabilities comprise advances from customers, salary and wages payables, and statutory payments. Other current liabilities were maintained at 4 days for Fiscal 2022 and Fiscal 2023 and 6 days for Fiscal 2024 and 54 days for the six months period ended September 30, 2024. Going forward other current liabilities days will be maintained at 5 days for Fiscal 2025 and Fiscal 2026.
Short-term Provisions	Short-term provisions comprise provisions for employee benefits and provisions for taxes and expenses. Short-term provisions were maintained at 4 days for Fiscal 2022, 5 days for Fiscal 2023, and Fiscal 2024 and 3 days for the six months period ended September 30, 2024. Going forward short-term provisions will be maintained at 5 days for Fiscal 2025 and Fiscal 2026.

For the purpose of the above working, we have performed the following procedures:

1. Traced the details of the Company's working capital requirement and funding of the same from the borrowing and internal accrual which is derived from the Restated Standalone Financial Statement.

This letter is being delivered to the addressees in connection with the Red Herring Prospectus/ Prospectus of Royal Arc Electrodes Limited (the "Company") in relation to the initial offering of equity shares of the Company in a public offering in India.

We confirm that the information in this certificate is true, fair, and correct, and is in accordance with the requirements of the Companies Act, 2013, the Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2018, and other applicable law, and there is no untrue statement or omission which would render the contents of this certificate misleading in its form or context. We confirm that the information in this certificate is adequate to enable investors to make a well-informed decision, to the extent that such information with respect to us is relevant to the prospective investor to make a well-informed decision.

This certificate is for information and for inclusion (in part or full) in the Issue Document filed in relation to the Issue or any other Issue-related material, and may be relied upon by the Company, the Book Running Lead Manager and the legal advisors appointed by the Company and the Book Running Lead Manager in relation to the Issue. We hereby consent to the submission of this certificate as may be necessary to the Securities and Exchange Board of India (SEBI), the Registrar of Companies, Mumbai ("RoC"), the relevant stock exchanges, any other regulatory authority and/ or for the records to be maintained by the Book Running Lead Manager and in accordance with applicable law. We hereby consent to this certificate being disclosed by the Book Running Lead Manager, if required (i) by reason of any law, regulation, or order 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 confirm that we will immediately communicate any changes in writing in the above information to the Book Running Lead Manager until the date when the Equity Shares commence trading on the relevant stock exchanges where the Equity Shares are proposed to be listed. In the absence of any such communication from us, the Book Running Lead Manager and the legal advisors, each to the Company and the Book Running Lead Manager, can assume that there is no change to the above information until the Equity Shares commence trading on the relevant stock exchanges pursuant to the Issue.

On the basis of information and explanation provided to us by the company under the assurance, we hereby indemnify the book running lead manager, from losses arising as a result of the aforementioned representations made by me/us in order to disclose details of the same in the issue documents to the extent of fees received by us in agreement with the Company

We confirm that the information stated above provides true and fair view, on the basis of information provided to us.

This certificate is issued for the sole purpose of the Offer, and can be used, in full or part, for inclusion in the red herring prospectus, prospectus and any other material used in connection with the Offer, and for the submission of this certificate as may be necessary, to any regulatory/ statutory authority, stock exchanges, any other authority as may be required and/ or for the records to be maintained by the BRLM in connection with the Offer and in accordance with applicable law, and for the purpose of any defense the BRLMs may wish to advance in any claim or proceeding in connection with the contents of the offer documents.

All capitalized terms used herein and not specifically defined shall have the same meaning as described to them in the Issue Documents.

Yours sincerely,

For J.H Gandhi & Co,
Chartered Accountants
FRN: 0116513W



Jasmit Gandhi
(Proprietor)
M. No.044844
UDIN:
Date:14/01/2025
Place: Mumbai



Encl: As above

Cc: Fedex Securities Private Limited (the "Book Running Lead Manager")
3rd Floor, B Wing, Jay Chambers, Dayaldas Road,
Vile Parle East, Mumbai – 400057