



CERTIFICATE ON FREE CASH FLOW TO EQUITY

To,

The Board of Directors

Royal Arc Electrodes Limited

72 B, Bombay Talkies Compound, S.V. Road Malad West, Mumbai, Maharashtra- 400064.

Dear Sirs,

Re: Proposed initial public offering of equity shares of the face value of Rs. 10 each (the "Equity Shares") by the Company and such issuing (the "Issue").

We, **J.H. Gandhi & Co.**, Chartered Accountants, Statutory Auditors of the Company engaged by the Company, for the purpose of the Offer, have received a request from the Company to verify and the certify the Company should have positive, Free cash flow to Equity (FCFE) for at least 2 out of 3 financial years preceding the application of filing the RHP.

We have reviewed the restated financial statement of the Company as of and for the six months period ended September 30, 2024, and for the financial years ended on March 31, 2024, March 31, 2023 and March 31, 2022 and other relevant records of the Company as submitted to us.

Methodology for calculating FCFE as per NSE circular Ref No NSE/SME/ 63532/03/2024 dated August 22, 2024

FCFE = Cash flow from Operations – Purchase of Fixed Assets + Net Borrowings - Interest x (1-T)

Wherein

Cash flow from operations will be determined as

Cash Generated from Operating Activities – Income Tax paid (if any) i.e. Net Cash flow from Operating Activities

Purchase of Fixed Assets will be determined as

Purchase of Property, plant, and equipment (PPE) (including Capital Work in Progress (CWIP)) – Sale proceeds of PPE, CWIP (if any) + Capital Advances (if any)

Net Borrowings will be determined as

Proceeds from Long-Term Borrowings - Repayments of Long-Term Borrowings + Proceeds from Short-Term Borrowings - Repayments of Short-term Borrowings

Interest x (1-T) will be determined as

Interest Expense on Total (ie. Long term as well as short term) borrowings x (1 – T#)

T being Effective Tax Rate for the company

Effective Tax Rate calculated as [1-(PAT/PBT)]

Based on above procedures, we confirm that:

(i) The Company is having positive Free cash flow to Equity (FCFE) for at least 2 out of 3 financial years preceding the application of filing the DRHP with the Stock Exchanges is as set out in Annexure A

Based on our examination and as per information and explanation given to us, we confirm that the information in this certificate is true and correct, accurate and there is no untrue statement or omission which would render the contents of this certificate misleading in its form or context.

We have conducted our examination in accordance with the "Guidance Note on Reports in Company Prospectuses (Revised 2019)", issued by the Institute of Chartered Accountants of India, in so far it relates to Statutory Auditors issuing certificates on information included in the draft red herring prospectus, red herring prospectus and prospectus. We hereby confirm that while providing this certificate we have complied with the Code of Ethics and 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.

We further agree to this certificate (a) being designated as a material document in connection with the Offer and (b) made available for inspection by members of the public as a material document in connection with the Offer from the date of the RHP until the date of closure of the Offer, or such other period as may be prescribed by the SEBI or other regulatory authorities.

We confirm that the information in this certificate is true 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 Offer Document filed in relation to the Offer 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 Offer. 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. 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 Offer.

In no event shall our total liability; to Company or any other person relying on this; for any and all claims, losses, or damages arising out of or in connection with this professional assignment exceed the total amount of fees received by us under this agreement. This limitation of liability applies to all causes of action, including but not limited to breach of contract, negligence, and any other tort or statutory claims.

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 in this certificate is true and correct and there is no untrue statement or omission which would render the contents of this certificate misleading in its form or context.

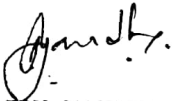
This certificate is issued for the sole purpose of the Offer, and can be used, in full or part, for inclusion in the red herring prospectus, prospectus and any other material used in connection with the Offer, and for the submission of this certificate as may be necessary, to any regulatory/ statutory authority, stock exchanges, any other authority as may be required and/ or for the records to be maintained by the BRLMs 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 Offer Documents.

Yours faithfully,

For J. H. Gandhi & Co,

Chartered Accountants



FRN: 0146513W

Jasmit H. Gandhi

(Proprietor)

M. No. 044844

UDIN: 25044844 BMLMJM1188

Date: 14/01/2025

Place: Mumbai.



Cc:

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

Annexure A

(₹ in Lakhs)

Particular	For the period ended on September 30, 2024	For the year ended March 31, 2024	For the year ended March 31, 2023	For the year ended March 31, 2022
Net Cash flow from operating	94.55	562.54	1258.59	240.43
Purchase of FA	(399.85)	(508.44)	(117.45)	(113.87)
Net Borrowings	182.76	(122.00)	(639.54)	(41.95)
Interest (1-t)	(2.40)	(3.67)	(38.65)	(69.72)
FCFE	(120.14)	(71.57)	462.95	14.89

Calculation of Cash flow from operating

(₹ in Lakhs)

Particular	For the period ended on September 30, 2024	For the year ended March 31, 2024	For the year ended March 31, 2023	For the year ended March 31, 2022
Cash Flow From Operations	260.88	968.10	1562.86	372.59
Less: Income Tax paid	(166.33)	(405.56)	(304.27)	(132.16)
Net Cash flow from operating	94.55	562.54	1258.59	240.43

Calculation of Purchase of fixed Asset

(₹ in Lakhs)

Particular	For the period ended on September 30, 2024	For the year ended March 31, 2024	For the year ended March 31, 2023	For the year ended March 31, 2022
Purchase of Property, plant, and equipment (PPE) (including Capital Work in Progress (CWIP))	399.92	511.73	236.85	128
Less: Sale proceeds of PPE, CWIP (if any)	(0.07)	(3.29)	(119.4)	(14.13)
Add: Capital Advances (if any)				
Purchase of FA	399.85	508.44	117.45	113.87

Calculation of Net Borrowings

(₹ in Lakhs)

Particular	For the period ended on September 30, 2024	For the year ended March 31, 2024	For the year ended March 31, 2023	For the year ended March 31, 2022
Proceeds from Long-Term Borrowings & Short Term borrowings				
Less: Repayments of Long-Term Borrowings		(43.03)	(109.04)	(54.31)
Add: Proceeds from Short Term borrowings	187.56			12.36
Less: Repayments of Short Term Borrowings	(4.8)	(78.97)	(530.50)	
Net Borrowings	182.76	(122)	(639.54)	(41.95)

Calculation of Interest

(₹ in Lakhs)

Particular	For the period ended on September 30, 2024	For the year ended March 31, 2024	For the year ended March 31, 2023	For the year ended March 31, 2022
Interest Expense on Total (ie. Long term as well as short term) borrowings	3.22	5.01	52.73	92.28
(1 - T#)	74.45%	73.35%	73.30%	75.56%
Effective Tax Rate calculated as [1-(PAT/PBT)]	25.55%	26.65%	26.70%	24.44%
Interest	(2.40)	(3.67)	(38.65)	(69.72)

T being Effective Tax Rate for the company