

Date: 01/10/2025

To,
Sobhagya Capital Options Private Limited
C-7 and 7A, Gate No. 01, Hosiery Complex ,
Phase-II Extension
Noida - 201 305, Uttar Pradesh, India

(the "Lead Manager")

SUB: Certificate regarding Working Capital requirements

Ref: Proposed Initial Public Offering of Upto 16,00,000 Equity Shares of face value of Rs. 10 each ("Equity Shares") of Sihora Industries Limited for cash at a price of Rs. 66 per Equity Share (including a Share Premium of Rs. 56 per Equity Share) aggregating upto Rs. 1056.00 lakhs

The undersigned, in the capacity of the Statutory Auditors of **Sihora Industries Limited**, a Company incorporated under the provisions of the Companies Act, 2013 and presently having its registered office at **PL 34/D/1 Laxminarayan, BRC Compound, Udhna, Surat, Mangrol, Gujarat, India, 394210**, India and bearing CIN **U13999GJ2023PLC143747** ("Company"), hereby certify the current and future working capital requirements of the Company as under:

The below details of our Company's working capital as at August 31, 2025, March 31, 2025, March 31, 2024, October 17, 2023 and March 31, 2023, derived from and the source of funding, on the basis of Audited Financial Statements and Special Purpose Audit as certified by us in the capacity of the Statutory Auditors of the Company, through our audit reports, details of which are as follows;

Sr. No.	Period	Type	Audit Report Date	UDIN
1.	For the period from April 01, 2025 to August 31, 2025	Independent Auditors' Report on Financial Statement of Company	September 25, 2025	25147112BMIVQW5077
2.	For the year ended on March 31, 2025	Independent Auditors' Report on Financial Statement of Company	July 01, 2025	25147112BMIVKF3277
3.	For the period from August 10, 2023 to March 31, 2024	Independent Auditors' Report on Financial Statement of Company	August 10, 2024	24147112BKC�FX4121
4.	For the period from April 01, 2023 to October 17, 2023	Special Purpose Audit of Books of Accounts of Sihora Narrow Fabrics	June 23, 2025	25147112BMIVKU3597
5.	For the year ended on March 31, 2023	Special Purpose Audit of Books of Accounts of Sihora Narrow Fabrics	June 23, 2025	25147112BMIVLR5344



Amount in Rs. Lakhs

Particulars	Audited				
	31-Aug-25	31-Mar-25	31-Mar-24	17-Oct-23	31-Mar-23
Inventories					
Raw Material	305.05	184.99	25.30	18.00	25.20
WIP	103.87	46.25	37.99	12.35	37.95
Finished Goods	196.43	77.08	63.31	33.00	63.20
Trade receivables	291.30	244.70	60.48	349.03	297.52
Short Term Loan and Advance	40.65	35.60	26.54	85.25	261.60
Other Current Assets	147.88	139.65	127.67	0.00	0.00
Total Current Assets	1,085.18	728.27	341.29	497.64	685.47
Current Liabilities					
Trade payables	329.00	124.12	120.28	347.62	454.36
Other Current liabilities	1.04	2.49	1.28	0.00	0.10
Short Term Provisions	103.51	84.60	15.36	0.30	27.12
Total Current Liabilities	433.55	211.21	136.91	347.92	481.58
Net Working Capital	651.63	517.06	204.38	149.72	203.91
Sources of Funds					
Short Term Borrowing	278.03	270.47	74.22	149.72	203.90
Unsecured Loan	-	-	-	-	-
Internal Accruals/Existing Net worth	373.60	246.59	130.16	0.00	0.00
Proceeds from Offer	0.00	0.00	0.00	0.00	0.00
Total	651.63	517.06	204.37	149.72	203.90



Future Working Capital

The estimation of working capital is based on our historical levels and future operational plans including anticipated growth in production, receivables, and inventory cycles. On the basis of the existing working capital requirements, management estimates and estimated working capital requirements, the proposed funding of such working capital requirements is set forth below:

Amount in Rs. Lakhs

Particulars	Projected Financials for the year ended on March 31,	
	31-Mar-27	31-Mar-26
Inventories		
Raw Material	409.00	282.76
WIP	93.22	65.95
Finished Goods	179.65	128.39
Trade receivables	442.32	327.65
Short Term Loan and Advance	53.24	49.18
Other Current Assets	280.02	195.66
Total Current Assets	1,457.46	1,049.58
Current Liabilities		
Trade payables	281.57	200.42
Other Current liabilities	3.88	3.11
Short Term Provisions	113.07	107.02
Total Current Liabilities	398.52	310.54
Net Working Capital	1,058.93	739.04
Sources of Funds		
Short Term Borrowing	174.05	180.03
Unsecured Loan	-	-
Internal Accruals/Existing Net worth	584.88	509.01
Proceeds from Offer	300.00	50.00
Total	1,058.93	739.04

The details of Company's expected working capital requirements for the Financial Years ended on March 31, 2026 and March 31, 2027 as presented above, have been approved by the Board of Directors of the Company, in its meeting held on 08/08/2025 and have been reviewed by us.

Assumptions for working capital requirement as have been considered by us

We have applied the following assumptions for the working capital requirement

Particulars	Justification
Receivables	Our receivable days are projected to remain stable at 60 days for FY 2024-25 to FY 2026-27, consistent with the standard credit terms extended to our customers in both domestic and export markets, although there is intermediate increase in receivable days to 75 days for the period ended on August 31, 2025. This reflects our policy of balancing competitive credit offerings with strict collection discipline. The receivable days were significantly higher at 117 days as of October 17, 2023, primarily due to high billing towards the end of the period coupled with delayed payments from a few customers, particularly in export markets where transit time and documentation processing extend the realisation cycle. Subsequently, receivable days reduced sharply to 18 days as on March 31, 2024, demonstrating effective credit control measures, improved follow-up, and settlement of pending dues. The projected stability in future periods is premised on our continued focus on customer credit evaluation, periodic reconciliations, and dedicated collection efforts.
Trade Payable	Payable days are projected to remain stable at 45 days for FY 2024-25 to FY 2026-27, aligned with our existing credit arrangements with suppliers, although there is intermediate increase in Payable days to 74 days for the period ended on August 31, 2025. The increase to 157 days as on October 17, 2023, was a result of strategic bulk procurement of key raw materials at favourable pricing, where extended credit terms were negotiated to optimise cash flows during a period of elevated input cost volatility. This position reverted to 41 days as on March 31, 2024, as we settled outstanding obligations in line with our practice of maintaining healthy supplier relationships and timely payments. We expect to maintain payable days in the projected range, ensuring liquidity management without adversely impacting supplier goodwill.
Other Current Asset	Other current assets, comprising advances to suppliers, GST input credits, and prepaid expenses, are projected to be in the range of ₹139.65 Lakh to ₹ 280.02 Lakh for FY 2024-25 to FY 2026-27. This is consistent with the anticipated procurement cycles, tax positions, and scale of operations. The absence of such balances in FY 2022-23 and as of October 17, 2023, reflects lower advance procurement and minimal pending tax credits during those periods. Going forward, we expect a moderate build-up in these assets due to planned scaling of operations and advance bookings with suppliers to secure competitive terms.
Inventory	The raw material holding period is projected to be in the range of 75-76 days for FY 2024-25 to FY 2026-27, although there is intermediate increase in raw material holding period to 82 days for the period ended on August 31, 2025. This level is maintained to ensure uninterrupted production schedules, particularly considering the lead time for procurement from certain suppliers, including imports where transit periods are longer. The significantly lower levels of 11-15 days in FY 2023-24 and as of October 17, 2023, were due to the utilisation of earlier stockpiles following bulk purchases in preceding months and higher sales volumes, resulting in faster turnover. The projected increase represents a normalised stocking strategy to safeguard against supply chain disruptions and price volatility. WIP holding is projected at 15 days for FY 2024-25 to FY 2026-27, aligning with our standard manufacturing cycle and processing timelines, although there is intermediate increase in WIP holding period to 23 days for the period ended on August 31, 2025. Lower WIP levels in earlier periods (6-13 days) were driven by process optimisation, improved scheduling, and the completion of several large orders on a just-in-time basis.

	projected figures account for anticipated product mix and operational load, which require slightly higher intermediate holding to maintain efficiency and timely delivery.
	The finished goods holding period is projected in the range of 25–30 days for FY 2024-25 to FY 2026-27, representing our policy of maintaining adequate ready stock to promptly fulfil customer orders and meet seasonal demand surges, especially in the export market, although there is intermediate increase in finished goods holding period to 44 days for the period ended on August 31, 2025. The lower figures in FY 2023-24 and as of October 17, 2023 (15–22 days), reflect synchronisation between production and dispatch schedules, where customer deliveries were timed closely with production completion. The projected holding ensures a balance between customer service levels and inventory carrying costs.

The basis of making the assumptions based on the historical trend and future projections:

Assumptions for calculation of working capital (in Number of days):

Particulars	Projected Financials for the year ended on March 31,		Audited				
	31-Mar-27	31-Mar-26	31-Aug-25	31-Mar-25	31-Mar-24	17-Oct-23	31-Mar-23
Receivables	60	60	75	60	18	117	89
Trade Payable	45	45	74	41	41	157	153
Other Current Assets	45	45	33	46	44	0	0
Number of days for Inventory							
Number of months for Raw Material	75	75	82	76	11	15	14
Number of months for Work in Progress	15	15	23	15	13	6	13
Number of months for Finished Goods	30	30	44	25	22	15	21

RATIONALE FOR INCREASE IN WORKING CAPITAL REQUIREMENTS:

1. Expansion of Business Operations

Our Company expects a significant scale-up of its operations over the next two financial years, driven by higher market penetration, improved capacity utilization, and increased customer acquisition. As we aim to cater to growing demand and larger order volumes, the operational cycle comprising procurement, production, and order fulfilment will naturally lengthen. This will require a higher quantum of raw material purchases, workforce deployment, and logistics handling. Consequently, our working capital requirement will increase to ensure uninterrupted business continuity. Moreover, as we penetrate new geographic and sectoral markets, our execution timelines may lengthen, increasing the need for sustained liquidity support. Working capital will also be required to service higher volumes of vendor contracts, utility consumption, and supply chain coordination. Without adequate working capital funding, the Company may face strain in maintaining timely deliveries and customer satisfaction.

2. Increase in Inventory Levels

The inventory holding is projected to increase significantly from ₹ 308.32 lakhs in FY 2024–25 to ₹ 605.35 lakhs as on August 31, 2025 and further to ₹ 681.87 lakhs in FY 2026–27. This growth is driven by the need to maintain a higher stock of raw materials, consumables, work-in-progress, and finished goods in order to support expanded production schedules. In our line of business, delays in raw material procurement can disrupt the entire production flow. Therefore, to mitigate such risks, we plan to maintain a safety stock or buffer inventory at various production stages. Additionally, with planned expansion into new markets or SKUs, lead times in both inward procurement and dispatch to customers are likely to rise. Holding higher inventory levels helps the Company mitigate potential delays arising from logistics bottlenecks, supplier-side shortages, or seasonal availability of inputs. Therefore, increased inventory will form a critical part of the elevated working capital cycle.

3. Rise in Trade Receivables

Trade receivables are projected to rise from ₹ 244.70 lakhs in FY 2024–25 to ₹ 291.30 lakhs as on August 31, 2025 and further to ₹ 442.32 lakhs in FY 2026–27, in line with the growth in sales revenue. This increase is primarily on account of higher volumes sold and the credit terms we extend to customers to maintain competitiveness and customer retention. To capture high-volume institutional or B2B clients, we may need to offer extended credit periods, ranging from 30 to 90 days or more, depending on industry practices. Consequently, outstanding receivables at any given time will increase, requiring larger working capital reserves to bridge the cash flow gap. Furthermore, as we onboard new clients, initial credit cycles may be longer due to onboarding time, account validation, and internal clearance at the client's end. Despite this, our Company continues to maintain rigorous credit assessment, regular follow-ups, and provisioning policies to manage bad debt risk. However, the upfront liquidity requirement still grows materially.

4. Increase in Other Current Assets and Advances

Other current assets—including short-term loans and advances, input GST credits, and prepaid expenses—are projected to increase from ₹ 139.65 lakhs in FY 2024–25 to ₹ 147.88 lakhs as on August 31, 2025 and further to ₹ 280.02 lakhs by FY 2026–27. These operational items are often linked to advance vendor payments, insurance premiums, annual service contracts, and utility deposits. As the volume of business expands, the magnitude of such advances and prepayments naturally rises. For instance, larger contracts may require higher security deposits or advance supply bookings. Similarly, GST credits may accumulate over multiple months, awaiting utilization against outward liabilities, especially when purchases are front-loaded. While these components are recoverable or adjustable over time, they remain locked-in during the interim, necessitating working capital coverage. Thus, to support the growth in our operational scale, timely infusion of funds for these items is necessary to avoid constraints on cash flow.

5. Moderate Growth in Current Liabilities

While current liabilities including trade payables and other obligations are projected to increase from ₹ 211.21 lakhs in FY 2024–25 to ₹ 398.52 lakhs in FY 2026–27, the pace of increase is modest compared to that of current assets. Our Company maintains a policy of prompt payments to vendors and suppliers, typically within agreed payment cycles, to preserve our relationships and ensure continuity in raw material supply. As a result, we avoid over-reliance on creditor funding and reduce the risk of supply disruptions. Moreover, early or timely payments often help us secure favorable terms, discounts, and preferred supplier status. Given this conservative and ethical financial approach, we do not expect to significantly defer current liabilities to offset working capital needs. Hence, the net working capital computed as current assets minus current liabilities shows a notable upward trend that needs to be financed.

6. Increase in Net Working Capital Requirement

Our Company's net working capital requirement is expected to rise from ₹ 517.06 lakhs in FY 2024–25 to ₹ 651.63 lakhs as on August 31, 2025 and further to ₹ 1,058.93 lakhs in FY 2026–27. This increase reflects the cumulative impact of higher inventory, trade receivables, and other current assets, partially offset by a smaller increase in current liabilities. As our operations grow in complexity and volume, the working capital cycle comprising procurement, production, delivery, invoicing, and collection—gets elongated. This directly translates into greater capital lock-in across each stage of the operating cycle. If not adequately funded, these requirements may lead to delayed production schedules, longer receivable cycles, or loss of order opportunities. Timely infusion of funds is therefore critical to prevent strain on operations and to ensure liquidity stability. This increase in net working capital forms the foundation for sustaining our future growth.

7. Operational Risk Management and Buffer Planning

In addition to routine working capital requirements, a portion of the total projected working capital will be allocated towards contingency buffers. These buffers are essential for absorbing unforeseen business disruptions such as delays in collections, raw material price volatility, supply chain interruptions, or unexpected surges in order volumes. In today's dynamic business environment, maintaining just-in-time liquidity is not always feasible, especially when external shocks can strain supply and delivery timelines. A prudent buffer allows us to meet fixed obligations even during cash-flow fluctuations. For example, in the event of a delayed payment from a major customer or a spike in commodity prices, buffer funding ensures our operations are not adversely affected. This strategic planning approach safeguards operational stability and upholds our reputation for timely delivery and financial discipline.

8. GST Input Accumulation and Utilization Gap

As we expand our procurement and input purchases, our input GST credits are expected to accumulate at a higher rate. However, the utilization of these credits is contingent on the timing and type of outward supplies. In certain cases, especially when there is a mismatch between input and output tax rates or tax periods, credits may remain unutilized over several months. During such periods, a portion of capital remains blocked in the form of statutory credits, contributing to the working capital requirement. This is further compounded by delays in input credit reconciliation or restrictions under evolving GST laws. Our accounting and finance teams will continue to optimize GST utilization cycles, but a growing volume of transactions naturally increases temporary capital lock-in. Adequate working capital is essential to bridge this gap until credits are fully absorbed.

9. Increase in Employee and Administrative Overheads

With business growth, there is a proportionate increase in manpower costs, administrative overheads, and contractual services, which are largely prepaid or recurring in nature. For example, as we set up additional units, expand our teams, and increase operational coverage, we will incur higher costs on salaries, travel, insurance, compliance, software, and other support functions. Many of these costs need to be paid upfront or on fixed cycles irrespective of revenue realization. These recurring expenses form part of the operational cost base and thus need to be funded through working capital. Additionally, employee advances, performance bonuses, and contract mobilization payments further increase short-term fund needs. Since these outflows are essential to sustain efficient and skilled manpower, they are included in our overall working capital planning.

The above submissions are made based upon an independent verification of facts, figures and explanations received by us from the Company for the purpose of and in connection with the proposed Initial Public Offering by the Company.

We hereby give consent to include the contents of this certificate or to make reference thereof in the Draft Prospectus and the Prospectus in connection with the proposed Initial Public Offering by the Company Or to file/submit this certificate with any relevant Statutory/Regulatory Authority including but not limited to the National Stock Exchange of India Limited/BSE



Limited, Securities and Exchange Board of India, Jurisdictional Registrar of Companies.

For M/s. Lakhankiya & Dosi LLP
Chartered Accountants
Firm's Registration No: 154114W/W100873



CA Shaileshkumar H Lakhankiya
Partner
Membership No. 147112
UDIN: 25147112BMIVRQ2738



Date: 01/10/2025