ZEN TECHNOLOGIES

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	1,080
12 month price target (INR)	1,650
52 Week High/Low	2,628/800
Market cap (INR bn/USD bn)	98/1.1
Free float (%)	0.0
Avg. daily value traded (INR mn)	1,602.2

SHAREHOLDING PATTERN

	Dec-24	Sep-24	Mar-24
Promoter	51.26%	51.26%	55.07%
FII	5.72%	5.72%	3.84%
DII	8.05%	8.05%	3.32%
Pledge	0%	0%	0%

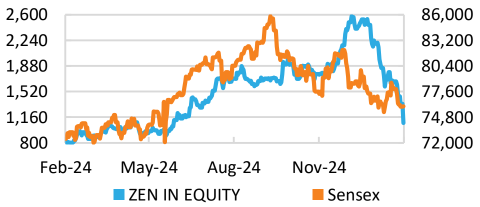
FINANCIALS (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Revenue	4,303	8,497	10,932	16,239
EBITDA	1,772	2,914	3,717	5,521
Adjusted profit	1,268	2,415	2,902	4,263
Diluted EPS (INR)	15.1	26.7	32.1	47.2
EPS growth (%)	236.7	77.3	20.1	46.9
RoAE (%)	33.5	22.6	15.9	19.7
P/E (x)	71.6	40.4	33.6	22.9
EV/EBITDA (x)	54.2	31.1	24.4	16.1
Dividend yield (%)	0.1	0.1	0.1	0.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY25E	FY26E	FY25E	FY26E
Revenue	8,497	10,932	(1.09%)	(14.7%)
EBITDA	2,914	3,717	(2.5%)	(14.7%)
Adjusted profit	2,415	2,902	3.4%	(14.1%)
Diluted EPS (INR)	26.7	32.1	3.4%	(14.1%)

PRICE PERFORMANCE



Muted results; OI ramp-up remains key ask

Zen Technologies (ZTL) reported a sluggish Q3FY25 OI for a third quarter in a row due to delay in order finalisations by MoD. An INR600mn delay in shipment led to weak execution (~41% dip QoQ), yielding lower OPM (~26%; Street estimate: ~35%). Management kept the FY25 revenue/OPM guidance of INR9bn/~35%; meanwhile, an INR8bn pipeline likely to fructify by Q2FY26E should improve visibility.

We are adjusting FY25E/26E/27E EPS by 3%/(14%)/(14%)—more conservatively than guidance factoring in a higher OI spill-over and protracted execution. Yet, we find a 38%/33% CAGR in revenue/EPS (FY25–27E) with ~20% RoE, assuming ~34% OPMs. Retain 'BUY' with a revised TP of INR1,650 (earlier INR2,200) based on 35x FY27E EPS.

Weak OI/execution, OPM dips; four strategic acquisitions announced

Revenue shot up 44.3% YoY, but plunged 41.4% QoQ to INR1.42bn in Q3FY25 due to an INR600mn shipment delay (it does not *derail the FY25 guidance of INR9bn)*. GM remained at 48.6% (versus 47.2% last quarter). EBITDA margin dipped to ~26% from ~32.9% in Q2FY25 and ~45.1% in Q3FY24 (versus Street's expectation of 35%), mainly due to higher other opex. PAT increased ~21.9% YoY to INR386mn. PAT margin for the quarter came in at 27.3% versus 32.3% in Q3FY24.

Order inflows for the quarter came in at INR17mn *(modest for third quarter in a row as we expect it to ramp up over coming quarters*), edging up the backlog to INR8.17bn. Management anticipates an INR8bn pipeline (a *few orders in finalisation stages*) to materialise over the next two–three quarters.

ZTL announced four *strategic acquisitions* during the quarter as it inorganically forays into naval simulation, equipment for drones, etc—all of which shall expand its addressable market over coming years. Management expects some deficiency in the FY26 guidance, but is hopeful of making up for it in FY27E/28E as they maintain revenue/OPM CAGR guidance of ~50%/35% over the next two–three years. *Click here* to read conference call KTAs.

Key variables to watch out for over next 12–18 months

ZTL is a prominent second/third-order beneficiary of India's defence capital outlay (total defence budget allocation for FY26BE is ~INR1.8tn) with focus on in-house design/development of simulators and expanding its footprint to new-age segments such as anti-drone systems. *We believe timely tendering/ordering by MoD is one of the key asks along with meeting its 50% revenue CAGR, 35% OPM and 25% PAT margin guidance over next the two–three years*.

Financials

Year to March	Q3FY25	Q3FY24	% Change	Q2FY25	% Change
Net Revenue	1,415	981	44.3	2,417	(41.4)
EBITDA	367	442	(17.0)	794	(53.7)
Adjusted Profit	386	317	21.9	652	(40.8)
Diluted EPS (INR)	4.5	3.8	18.8	7.6	(40.8)

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Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Total operating income	4,303	8,497	10,932	16,239
Gross profit	2,930	4,231	5,411	7,957
Employee costs	432	552	765	1,137
Other expenses	726	765	929	1,299
EBITDA	1,772	2,914	3,717	5,521
Depreciation	73	99	203	244
Less: Interest expense	18	85	102	102
Add: Other income	139	491	457	509
Profit before tax	1,820	3,220	3,869	5,684
Prov for tax	552	805	967	1,421
Less: Other adj	24	0	0	0
Reported profit	1,292	2,415	2,902	4,263
Less: Excp.item (net)	(24)	0	0	0
Adjusted profit	1,268	2,415	2,902	4,263
Diluted shares o/s	84	90	90	90
Adjusted diluted EPS	15.1	26.7	32.1	47.2
DPS (INR)	1.0	1.3	1.6	2.4
Tax rate (%)	30.3	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Share capital	84	90	90	90
Reserves	4,447	16,735	19,492	23,542
Shareholders funds	4,531	16,826	19,582	23,632
Minority interest	0	0	0	0
Borrowings	0	500	500	500
Trade payables	262	701	908	1,361
Other liabs & prov	164	164	164	164
Total liabilities	7,184	20,418	23,381	27,885
Net block	785	4,186	5,983	6,238
Intangible assets	6	6	6	6
Capital WIP	101	101	101	101
Total fixed assets	892	4,293	6,089	6,345
Non current inv	263	263	263	263
Cash/cash equivalent	1,422	7,398	7,316	9,129
Sundry debtors	1,691	2,793	3,594	4,894
Loans & advances	361	361	361	361
Other assets	2,554	5,310	5,758	6,893
Total assets	7,184	20,418	23,381	27,885

Important Ratios (%)

Year to March	FY24A	FY25E	FY26E	FY27E
COGS (% of rev)	31.9	50.2	50.5	51.0
Employee cost (% of rev)	10.0	6.5	7.0	7.0
Other exp (% of rev)	16.9	9.0	8.5	8.0
EBITDA margin (%)	41.2	34.3	34.0	34.0
Net profit margin (%)	29.5	28.4	26.5	26.3
Revenue growth (% YoY)	166.5	97.5	28.7	48.5
EBITDA growth (% YoY)	245.6	64.4	27.5	48.5
Adj. profit growth (%)	255.9	90.4	20.1	46.9

Free Cash Flow (INR mn)

Year to March	FY24A	FY25E	FY26E	FY27E
Reported profit	1,292	2,415	2,902	4,263
Add: Depreciation	73	99	203	244
Interest (net of tax)	18	85	102	102
Others	0	0	0	0
Less: Changes in WC	(1,122)	(3,418)	(1,042)	(1,981)
Operating cash flow	262	(818)	2,165	2,629
Less: Capex	272	3,500	2,000	500
Free cash flow	(10)	(4,318)	165	2,129

Assumptions (%)

Year to March	FY24A	FY25E	FY26E	FY27E
GDP (YoY %)	6.7	6.0	6.2	7.0
Repo rate (%)	6.5	6.0	5.0	5.0
USD/INR (average)	83.0	84.0	82.0	81.0
Products rev gwth (%)	216.3	(24.4)	50.2	89.9
Exports rev gwth (%)	567.9	(90.0)	600.0	90.0
Gross margin (%)	68.1	49.8	49.5	49.0
EBITDA margin (%)	41.2	34.3	34.0	34.0
Tax rate (%)	30.3	25.0	25.0	25.0
Capex (INR mn)	(272.0)	(3,500.0)	(2,000.0)	(500.0)

Key Ratios

Year to March	FY24A	FY25E	FY26E	FY27E
RoE (%)	33.5	22.6	15.9	19.7
RoCE (%)	47.3	30.2	21.2	26.2
Inventory days	232	232	285	225
Receivable days	100	96	107	95
Payable days	40	41	53	50
Working cap (% sales)	98.7	90.2	79.6	65.8
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.4)	(0.3)	(0.4)
Interest coverage (x)	92.3	32.9	34.5	51.8

Valuation Metrics

Year to March	FY24A	FY25E	FY26E	FY27E
Diluted P/E (x)	71.6	40.4	33.6	22.9
Price/BV (x)	20.0	5.8	5.0	4.1
EV/EBITDA (x)	54.2	31.1	24.4	16.1
Dividend yield (%)	0.1	0.1	0.1	0.2

Source: Company and Nuvama estimates

Valuation Drivers

Year to March	FY24A	FY25E	FY26E	FY27E
EPS growth (%)	236.7	77.3	20.1	46.9
RoE (%)	33.5	22.6	15.9	19.7
EBITDA growth (%)	245.6	64.4	27.5	48.5
Payout ratio (%)	6.5	5.0	5.0	5.0

Q3FY25 conference call highlights

Opening remarks

- INR9bn top-line guidance is achievable for FY25. Order inflows – have not materialised from Dec-24 onwards as much as we expected. Will start from this quarter and would spill over in H1FY26. INR8bn pipeline, excludes export orders. We're ramping up execution.
- Our addressable market has grown tremendously. We expect to make up for more than any deficiency that we may experience in FY26 as it will be covered up in FY27E/28E.
- Acquisitions – we identified some great companies and remain conscious that only 10–25% of acquisitions generally work, and believe we are in that exception. ARI is our largest acquisition to date worth INR1.3bn (close friend of Mr Ashok Atluri) who's there into naval simulation. Vector Technics – a drone company (motors for drones, UAV engines, counter rotating motor, etc), currently doing five product lines and will expand to 20+.
- INR107mn revenues from AMC in Q3FY25.

Questions & answers

Q. Order pipeline and conversion. Profitability post these strategic acquisitions.

A. INR12bn OI guidance at start of FY25. INR8bn in pipeline as of now (most of them will come by Q1 or Q2FY26). Margin profile will remain same or better in some cases.

Q. FY25 guidance. Ordering environment.

A. Confident of achieving INR9bn top line in FY25. INR8bn pipeline – some orders are at advanced stage.s

Q. ARI financials.

A. ARI shall roughly close FY25 with an INR1bn top line, EBITDA margin of 18–19% and PAT margin of 13–14%.

Q. Anti-drone to drones.

A. We are in a good space in anti-drones currently. We are getting into drones now (avoided for a long time) as we want to give the Army world-class products. We want to fill the gap that is there, since a lot of drone companies import components from China.

Q. Acquisitions.

A. Competition in drones since commoditized biz as most companies in India get parts from China, assemble here and sell. We are getting the whole technology and localisation together – will be exporting to North America and Europe. Margin profile will improve post this collaboration.

Q. 50% average top-line CAGR over next three years. ARI.

A. There will be some shortage in FY26 as per current situation; however, that will be covered up in FY27 and we stick to the 50%+ top line CAGR over the next three years. We will be revising FY26 top-line guidance next quarter or in Q1FY26. ARI – INR1bn addition, which will come without naval simulators, and we believe if we add that, it could become 2–3x. EBITDA margin and PAT margin guidance remain at 35% and 25%, respectively.

Q. FY26 guidance.

A. There will be growth in FY26 top line and won't be flat; whatever shortfall is there would be will be met in FY27 as we stick to our 50% revenue CAGR guidance over next three years.

Q. Goa R&D facility (Electronic Manufacturing Cluster).

A. Waiting for permission. Will operationalize before the end of this calendar year.

Q. Guidance.

A. When we say we'll grow at a 50% CAGR, we say that in a very conservative manner, Avantel, Solar, etc are doing something unique. Innovators, IP creators and deep R&D companies will be the focus going ahead—exactly where we are.

Q. Vyom Kavach.

A. All-round protection shield against aerial threats.

Q. Order book of target companies.

A. INR1bn is the current OB of the acquisition/target companies, but that shall grow going forward.

Q. Higher other income. Vector Technics.

A. 7.5% interest on INR1bn QIP money from Aug'24. Vector will only focus on drone ecosystem as a product/equipment supporter and not complete drone manufacturer. We are in talks with a drone company currently to acquire it.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	FY24A	FY25E	FY26E
Total revenues (net)	1,415	981	44.3	2,417	(41.4)	6,372	2,946	116.3	4,303	8,497	10,932
Direct cost	728	265	174.9	1,276	(43.0)	3,200	794	302.9	1,373	4,265	5,521
Staff cost	121	111	9.3	141	(14.1)	400	304	31.3	432	552	765
Other operating expenses	199	163	22.1	205	(3.1)	578	525	10.1	726	765	929
Total expenditure	1,048	539	94.6	1,623	(35.4)	4,178	1,624	157.3	2,530	5,582	7,215
EBITDA	367	442	(17.0)	794	(53.7)	2,193	1,322	66.0	1,772	2,914	3,717
Depreciation	26	19	33.6	23	12.0	72	52	38.4	73	99	203
EBIT	341	423	(19.3)	771	(55.7)	2,122	1,270	67.1	1,699	2,815	3,514
Interest	27	4	568.8	21	32.2	-58	-12	381.6	18	85	102
Other income	220	42	425.6	84	160.6	334	116	188.2	139	491	457
Exceptional items	0	0		0		0	0		24	0	0
PBT	534	461	15.9	835	(36.1)	2,514	1,398	79.9	1,844	3,220	3,869
Tax	147	144	2.5	182	(19.1)	618	412	49.8	552	805	967
Non-controlling interests	0	0	NA	0	NA	0	0		0	0	0
Reported Profit	386	317	21.9	652	(40.8)	1,897	986	92.4	1,292	2,415	2,902
Adjusted Profit	386	317	21.9	652	(40.8)	1,780	961	85.2	1,268	2,415	2,902
Equity capital(FV:INR1)	90	84		84		90	90		84	90	90
No. of Diluted shares outstanding (mn)	86	84		86		86	84		84	90	90
Adjusted Dil. EPS	4.5	3.8		7.6		20.6	11.4		15.1	26.7	32.1
as % of net revenues											
Direct cost	51.4	27.0		52.8		50.2	27.0		31.9	50.2	50.5
Staff cost	8.6	11.3		5.8		6.3	10.3		10.0	6.5	7.0
Other operating expenses	14.1	16.6		8.5		9.1	17.8		16.9	9.0	8.5
EBITDA	26.0	45.1		32.9		34.4	44.9		41.2	34.3	34.0
Adjusted profit	27.3	32.3		27.0		27.9	32.6		29.5	28.4	26.5
Tax rate	27.6	31.2		21.8		24.6	29.5		29.9	25.0	25.0

Source: Company, Nuvama Research

Exhibit 2: PE versus EPS CAGR versus RoE (FY24–27E)

Equities	FY27E PE	EPS CAGR (FY24-27E)	Median ROE (FY25-27E)
TRIL	10.6x	126.3%	24.0%
Hitachi Energy	39.5x	92.3%	37.6%
CG Power	39.7x	38.2%	36.0%
Kalpataru Projects	12.3x	32.0%	15.7%
BHEL	13.7x	166.2%	13.9%
Larsen & Toubro	18.1x	24.6%	20.7%
ABB India#	47.2x	15.5%	24.9%
Siemens	45.8x	11.6%	16.4%
Bharat Electronics	28.8x	14.8%	27.9%
Cummins India	32.2x	12.1%	25.1%
GE T&D	36.2x	78.1%	35.3%
Honeywell	37.6x	16.5%	16.0%
Thermax	34.7x	19.8%	14.9%
KEC International	12.9x	56.2%	18.7%
Suzlon	23.4x	61.2%	32.2%
Inox Wind*	20.1x	NA	32.2%
Zen technologies	22.9x	46.3%	19.7%
APAR Industries	19.1x	16.9%	22.0%
Skipper	15.7x	49.7%	15.0%

Source: Company, Nuvama Research
#FY26 estimates considered

Exhibit 3: ZTL's acquisitions over past few years

Announced Date	Target	Stake bought (%)	Value (INR mn)	Business Description
14-02-2025	Bhairav Robotics Pvt Ltd	45.3%	40	It has product offerings, which include robotic products such as quadrupedal robots and autonomous weapon systems.
14-02-2025	Vector Technics Pvt Ltd	51.0%	250	Vector specialises in propulsion and power distribution solutions for drones and UAVs. Existing product offerings include BLDC motors, electronic speed controllers (ESC), propellers and starter generators that are major components for drones, UAVs and robotic products. All the products are "Made in India".
14-02-2025	Applied Research International Pvt Ltd	100.0%	1,275	Provides: i) simulation and assessment tools for the marine, offshore, naval, ports & terminals, construction and mining industries; ii) services relating to maintenance, certification, assessment solutions; iii) fleet-view monitoring of ships; and iv) maintenance and module development for e-governance of DG Shipping of India
14-02-2025	ARI Labs Pvt Ltd	100.0%	25	Engaged in the business of providing simulation and assessment tools for the marine and naval industries.
13-01-2025	Zen Technologies USA Inc	100.0%	NA	Fully owned subsidiary established on 9th March 2018 focuses on developing advanced combat training simulators and systems for military and security forces.
24-02-2024	AiTuring Technologies Pvt Ltd	51.0%	39	Provides solutions for robotics and electronic optics.
16-11-2022	Zen Defence Technologies LLC	100.0%	NA	Wholly owned subsidiary in UAE
01-08-2022	Paladin AI Inc	5.0%	26	Mainly involved in the aviation industry deploying AT-powered aviation training analytics. The company's platform accelerates training, and assures pilot qualification for greater safety
29-09-2020	Zen Medical Technologies Pvt Ltd	100.0%	NA	Designs, develops and manufactures state-of-the-art combat training solutions for the training of defence and security forces worldwide.
14-08-2018	Unistring Tech Solutions Pvt Ltd	51.0%	70	UTS is in the business of development of electronic warfare (EW) solutions, advanced communication systems for defence, telemetry systems and Simulators for radar and EW system evaluation

Source: Company, Nuvama Research

Company Description

Zen Technologies (ZTL) was incorporated in 1993 by three co-founders, who set it up as a low value integration solutions company. Now, the company designs, manufactures and develops land-based military training simulators, driving simulators, live-range equipment and anti-drone systems. ZTL has its own training platform to provide a simulated battle experience by integrating its entire range of products offerings. It also provides counter-drone solutions for safeguarding borders, critical infrastructures, etc. ZTL is headquartered in Hyderabad (India) and has offices in India, the UAE and USA.

The company has applied for 150+ patents (75+ granted), and has shipped more than 1,000 training systems around the world. Its demonstration centre at Abu Dhabi is progressing as per plans and shall soon be operational. Going forward, the company would also focus on products that use Artificial Intelligence (AI) to scale up its product portfolio. The company's employee strength was 360 at end-June'24.

In 2014, Zen signed an MoU with Rockwell Collins for design and development of full-mission level D simulators for fixed and rotary wing helicopters, wherein ZTL was to provide structure and design and Rockwell to deliver the display and graphics.

Investment Rationale

India Defence and Security: A multi-decadal structural story playing out (FY29 defence production/export targets of INR3tn/INR500bn) from currently being the world's largest importer of defence equipment.

'Fight as you train – train as you fight': Defence simulators play an important role in enhancing armed forces' readiness in a cost-effective and realistic way before they hit the battlefield. *Key catalysts:* Framework for simulators in armed forces (2021), Agnipath scheme (2022), preference for BUY-IDDM category etc.

IP driven defence pure play: ZTL is an IP focused defence proxy play (owning 75-plus parents) working on an asset-light model with 80–90% of its products in-house designed/developed having spent INR1.5bn+ on R&D over the last 10 years. Strategic initiatives via organic/inorganic moves are underway, which would expand the serviceable addressable market significantly over the coming years.

Key Risks

High competitive intensity

Delay in fresh order inflows; slower execution rate

Stable geopolitical landscape; decline in GoI's defence budget

Highly working capital-intensive business

Additional Data

Management

CMD	Ashok Atluri
Joint MD/Founder	Kishore Dutt Atluri
CFO	Afzal Harunbhai Malkani
Senior Manager: R&D Electronics	M Vijaya Rama
Auditor	Ramasamy Koteswara Rao and Co LLP

Holdings – Top 10*

	% Holding		% Holding
Motilal Oswal A	3.82	Capital Securit	0.39
Kotak Mahindra	3.18	Samsung Life In	0.15
Tata AIA Life I	2.10	Dimensional Fun	0.12
Vanguard Group	1.81	Aditya Birla Su	0.11
BlackRock Inc	0.64	State Street Co	0.09

**Latest public data*

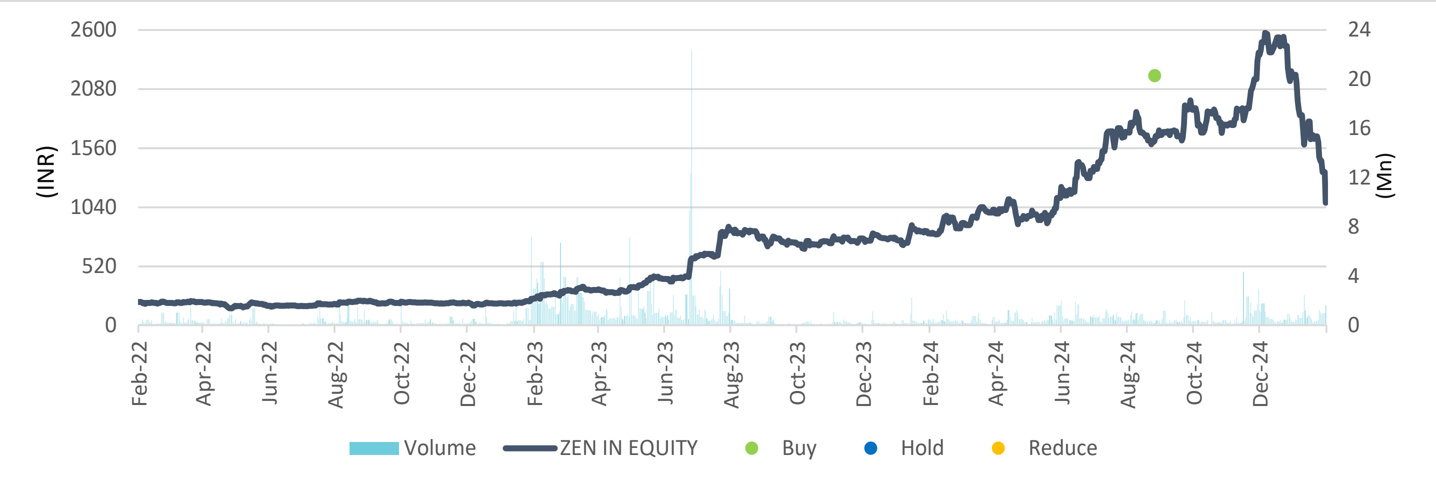
Recent Company Research

Date	Title	Price	Reco
05-Dec-24	Gearing up for the right markets; *Nuvama Flash*	1887	Buy
08-Nov-24	Zen Technologies (ZEN IN, INR 1,824, BUY; *Result Update*	1824	Buy
12-Sep-24	Defence new-gen: Catch them young; *Initiating Coverage*	1607	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
07-Feb-25	Solar Industries	Positioning for future growth; *Result Update*
30-Jan-25	Bharat Electronics	Befitting optimism on a growing giant; *Result Update*
23-Dec-24	Defence	Geopolitical chessboard calls for Defenc; *Sector Update*

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	228
Hold	<15% and >-5%	61
Reduce	<-5%	27

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