

ZEN TECHNOLOGIES

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	1,885
12 month price target (INR)	2,170
52 Week High/Low	2,628/894
Market cap (INR bn/USD bn)	170/2.0
Free float (%)	47.0
Avg. daily value traded (INR mn)	1,104.4

SHAREHOLDING PATTERN

	Mar-25	Dec-24	Mar-24
Promoter	51.14%	51.14%	51.14%
FII	17.55%	17.34%	17.56%
DII	20.87%	20.94%	22.63%
Pledge	0.00%	0.00%	0.00%

FINANCIALS

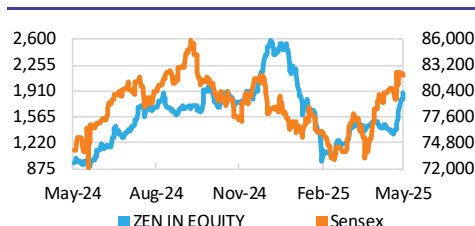
(INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Revenue	4,303	9,307	11,014	16,000
EBITDA	1,772	3,137	3,635	5,280
Adjusted profit	1,268	2,630	3,048	4,311
Diluted EPS (INR)	15.1	29.1	33.8	47.7
EPS growth (%)	236.7	93.0	15.9	41.4
RoAE (%)	33.5	24.6	16.6	19.8
P/E (x)	124.9	64.7	55.8	39.5
EV/EBITDA (x)	95.2	51.7	44.3	30.1
Dividend yield (%)	0.1	0.1	0.1	0.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	11,104	16,000	(6.0%)	(3.6%)
EBITDA	3,635	5,280	(6.0%)	(3.6%)
Adjusted profit	3,048	4,311	(1.1%)	3.3%
Diluted EPS (INR)	33.8	47.7	(1.1%)	3.3%

PRICE PERFORMANCE



Solid showing; now counting on OI

Zen Technologies (ZTL) posted a strong quarter, beating Street's Q4FY25 revenue/EBITDA estimate by 22%/8% (*exceeding FY25 revenue guidance of INR9bn*). OI momentum picked up (INR1.7bn in Q4FY25) after a muted 9MFY25 as backlog is now INR6.9bn. Key highlights: i) FY26 to be muted and report spillover to FY27; ii) INR60bn cumulative turnover guided over FY26–28E along with 35% OPM and 25% PAT margin; iii) INR700mn R&D capex, INR50mn equipment capex going ahead; and iv) INR6.5bn simulator orders likely during H1FY26.

Retain 'BUY' as we are building in conservative estimates than guided factoring in higher OI/execution spillover to FY27E. We are revising FY26E/27E EPS by (1%)/3%, giving 45x (earlier 40x) to a TP of INR2,170.

Good end to the year; order inflows remain key catalyst

Revenue for Q4FY25 surged 116% YoY to INR2.9bn. FY25 revenue at INR9.3bn more than doubled YoY (*surpassing full-year guidance of INR9bn*). Q4FY25 GM improved to 58%, up from 54.9% in Q4FY24. However, FY25 GM fell to 51.2% versus 68.1% in FY24 (*due to rising anti-drone systems mix*). OPM for Q4FY25 was 32.2% versus 33.2% in Q4FY24 (*missing Street's estimate of 36.3%*). OPM for FY25 was 33.7% versus 41.2% in FY24 and slightly below management guidance of ~35%. PAT for Q4FY25 surged ~177% YoY to INR849mn. PAT margin improved to 28.9% in Q4FY25 versus 22.6% in Q4FY24. FY25 PAT margin moderated to 28.3% versus 29.5% in FY24.

Others: In Q4FY25, Zen invested USD10mn in its wholly-owned subsidiary, Zen Technologies USA, Inc to expand its North American presence. CFO during the year decreased to negative INR479bn (versus INR534bn in FY24) led by WC management (receivables and investments). CCE for the year came in at INR8.4bn (versus INR1.4bn in FY24) due to QIP proceeds of INR10bn not fully utilised as of now.

Guidance: FY26 execution likely to be muted, with a spillover into FY27E. Zen is targeting INR60bn cumulative turnover over FY26–28E, 35% OPM and 25% PAT margin. Drones and anti-drone systems shall contribute ~70% of total revenue in 3–5Y. **Planned investments:** INR700mn R&D capex, INR50mn equipment capex. INR6.5bn simulator orders likely in H1FY26. [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 (FY26BE at ~INR1.8tn) with focus on in-house design/development of simulators and growing into new-age segments such as drones and anti-drone systems. *We believe timely ordering by MoD is one of the key asks along with meeting its 50% revenue CAGR, 35% OPM and 25% PAT margin guidance over the next two–three years.*

Financials

Year to March	Q4FY25	Q4FY24	% Change	Q3FY25	% Change
Net Revenue	2,935	1,357	116.3	1,415	107.4
EBITDA	944	451	109.4	367	157.0
Adjusted Profit	849	306	177.3	386	119.9
Diluted EPS (INR)	9.4	3.6	158.1	4.3	119.9

Financial Statements

Income Statement (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Total operating income	4,303	9,307	11,014	16,000
Gross profit	2,930	4,765	5,507	7,680
Employee costs	432	570	661	800
Other expenses	726	1,057	1,212	1,600
EBITDA	1,772	3,137	3,635	5,280
Depreciation	73	101	118	154
Less: Interest expense	18	94	126	147
Add: Other income	139	578	674	769
Profit before tax	1,820	3,520	4,064	5,748
Prov for tax	552	890	1,016	1,437
Less: Other adj	24	0	0	0
Reported profit	1,292	2,630	3,048	4,311
Less: Excp.item (net)	(24)	0	0	0
Adjusted profit	1,268	2,630	3,048	4,311
Diluted shares o/s	84	90	90	90
Adjusted diluted EPS	15.1	29.1	33.8	47.7
DPS (INR)	1.0	2.0	2.2	3.1
Tax rate (%)	30.3	25.3	25.0	25.0

Important Ratios (%)

Year to March	FY24A	FY25A	FY26E	FY27E
COGS (% of rev)	31.9	48.8	50.0	52.0
Employee cost (% of rev)	10.0	6.1	6.0	5.0
Other exp (% of rev)	16.9	11.4	11.0	10.0
EBITDA margin (%)	41.2	33.7	33.0	33.0
Net profit margin (%)	29.5	28.3	27.7	26.9
Revenue growth (% YoY)	166.5	116.3	18.3	45.3
EBITDA growth (% YoY)	245.6	77.0	15.9	45.3
Adj. profit growth (%)	255.9	107.3	15.9	41.4

Assumptions (%)

Year to March	FY24A	FY25A	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	124.7	(66.5)	173.6
Exports rev gwth (%)	567.9	(83.8)	285.3	149.3
Gross margin (%)	68.1	51.2	50.0	48.0
EBITDA margin (%)	41.2	33.7	33.0	33.0
Tax rate (%)	30.3	25.3	25.0	25.0
Capex (INR mn)	(272.0)	(298.0)	(2,000.0)	(500.0)

Valuation Metrics

Year to March	FY24A	FY25A	FY26E	FY27E
Diluted P/E (x)	124.9	64.7	55.8	39.5
Price/BV (x)	35.0	10.1	8.6	7.2
EV/EBITDA (x)	95.2	51.7	44.3	30.1
Dividend yield (%)	0.1	0.1	0.1	0.2

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Share capital	84	90	90	90
Reserves	4,447	16,800	19,649	23,680
Shareholders funds	4,531	16,890	19,740	23,770
Minority interest	0	0	0	0
Borrowings	0	402	402	402
Trade payables	262	118	226	342
Other liabs & prov	94	48	48	48
Total liabilities	7,184	18,755	21,713	25,859
Net block	783	1,023	2,905	3,251
Intangible assets	8	59	59	59
Capital WIP	101	36	36	36
Total fixed assets	892	1,117	3,000	3,346
Non current inv	263	2,185	2,185	2,185
Cash/cash equivalent	1,422	8,392	9,688	11,583
Sundry debtors	1,691	3,784	3,017	4,384
Loans & advances	100	256	256	256
Other assets	2,815	3,020	3,566	4,106
Total assets	7,184	18,755	21,713	25,859

Free Cash Flow (INR mn)

Year to March	FY24A	FY25A	FY26E	FY27E
Reported profit	1,292	2,536	3,048	4,311
Add: Depreciation	73	101	118	154
Interest (net of tax)	18	59	126	147
Others	0	0	0	0
Less: Changes in WC	(1,122)	(3,778)	329	(1,790)
Operating cash flow	262	(1,082)	3,621	2,822
Less: Capex	272	298	2,000	500
Free cash flow	(10)	(1,380)	1,621	2,322

Key Ratios

Year to March	FY24A	FY25A	FY26E	FY27E
RoE (%)	33.5	24.6	16.6	19.8
RoCE (%)	47.3	33.1	22.4	26.6
Inventory days	232	74	52	58
Receivable days	100	107	113	84
Payable days	40	15	11	12
Working cap (% sales)	100.3	74.1	59.6	52.2
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.3)	(0.5)	(0.5)	(0.5)
Interest coverage (x)	92.3	32.2	27.8	34.8

Valuation Drivers

Year to March	FY24A	FY25A	FY26E	FY27E
EPS growth (%)	236.7	93.0	15.9	41.4
RoE (%)	33.5	24.6	16.6	19.8
EBITDA growth (%)	245.6	77.0	15.9	45.3
Payout ratio (%)	6.5	6.9	6.5	6.5

Q4FY25 conference call: Key highlights

Opening remarks

- INR8bn order inflows likely in H1FY26 (all simulators). R&D for anti-drone segment started in 2018.
- INR30bn top line in one year over the next three years (as the company continues to grow at a 50% CAGR).

Questions and answers

Q. Order getting delayed. INR400bn emergency procurement.

A. A sense of urgency to acquire new-age war equipment (drones, anti-drones, etc). Zen shall benefit from this.

Q. Anti-drone segment. Bhairav Robotics.

A. Zen's subsidiary has collaborated with the DRDO for supply of jammers and detectors. Our dependency is not on one particular chip-set. Bhairav has applied for some patents, awaiting approvals.

Q. Guidance.

A. FY26 shall be muted in terms of execution and hence will see a spillover to FY27. INR60bn cumulative turnover over FY26–28E. 35% OPM and 25% PAT margin.

Q. Anti-drone systems. US business.

A. We are expecting anti-drone system orders too in H1FY26. IDMM category—we are the only player in the private sector doing detectors, jammers, radars and EO. We are far ahead in terms of technology for anti-drone systems in India. We have four people working for us in the US. FY27 onwards, we can expect OI from there to flow in. An INR6.92bn backlog is standalone (INR1bn-plus backlog of all subsidiaries combined).

Q. Products used in recent retaliation. Naval simulation.

A. Our systems were used in Operation Sindoor. Will be unable to comment, which ones due to restrictions. Lot of demand is there for naval simulators.

Q. Outlook

A. Initially, we were only focusing on training simulators but now we are also looking at drones and robotics aggressively.

Q. Exports. Outlook.

A. INR3bn exports execution in FY25. Africa, CIS and Middle East are our overseas markets. Drones and anti-drone systems combined shall become a significant segment for us, maybe 70% over the next three–five years.

Q. Cash. ARIPL mix.

A. INR10.37bn cash at hand. ARIPL revenue contribution is INR1.37bn in FY25.

Q. Cash conversion cycle. R&D.

A. Q3 was 237 days and Q4 was 160 days. 135–140 cash conversion days for FY26. INR700mn R&D capex and INR50mn capex for equipment going ahead. INR500mn as regular R&D spends going forward. Lot of demand exists for naval simulators. We do not have export orders at hand but will now start getting them.

Q. OI guidance.

A. By H1FY26, we should have another INR6.5bn orders (all simulators as of now). Our market size has increased substantially versus two–three years ago and we should win a good chunk of it.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)	FY25A	FY26E	FY27E
Total revenues (net)	2,935	1,357	116.3	1,415	107.4	9,307	11,014	16,000
Direct cost	1,234	612	101.8	766	61.2	4,542	5,507	8,320
Staff cost	171	128	33.7	121	40.8	570	661	800
Other operating expenses	586	167	250.7	161	264.2	1,057	1,212	1,600
Total expenditure	1,991	906	119.7	1,048	90.0	6,169	7,379	10,720
EBITDA	944	451	109.4	367	157.0	3,137	3,635	5,280
Depreciation	29	22	36.5	26	13.2	101	118	154
EBIT	914	429	113.0	341	167.9	3,036	3,517	5,126
Interest	36	6	469.5	27	32.2	94	126	147
Other income	244	23	944.5	220	10.9	578	674	769
Exceptional items	0	24		0		0	0	0
PBT	1,122	470	138.6	534	110.2	3,520	4,064	5,748
Tax	273	140	94.9	147	84.9	890	1,016	1,437
Non-controlling interests	0	0		0		0	0	0
Reported Profit	849	330	157.1	386	119.9	2,630	3,048	4,311
Adjusted Profit	849	306	177.3	386	119.9	2,630	3,048	4,311
Equity capital(FV:INR1)	90	84		84		90	90	90
No. of Diluted shares outstanding (mn)	90	84		90		90	90	90
Adjusted Dil. EPS	9.4	3.6		4.3		29.1	33.8	47.7
as % of net revenues								
Direct cost	42.0	45.1		54.1		48.8	50.0	52.0
Staff cost	5.8	9.4		8.6		6.1	6.0	5.0
Other operating expenses	20.0	12.3		11.4		11.4	11.0	10.0
EBITDA	32.2	33.2		26.0		33.7	33.0	33.0
Adjusted profit	28.9	22.6		27.3		28.3	27.7	26.9
Tax rate	24.3	29.8		27.6		25.3	25.0	25.0

Source: Company, Nuvama Research

Exhibit 2: Order pipeline of ~INR40bn

Equipment pipeline	INR bn
Integrated Air Defence Combat Simulator	1.4
Infantry Weapons Training Simulator (2 nos.)	11
T72 Driving Simulator	1.1
T72 Crew Gunnery Simulator	1.3
ADFCR Simulator	8.5
GPS/GIS based minefield recording system	0.8
Containerised Small Arms Firing Range	2.5
Armour Combat Training System	1.7
Tactical Engagement Simulator	5.9
Anti-drone system for IAF (2 nos.)	3.4
CTN (2 nos.)	2.1
Total	39.8

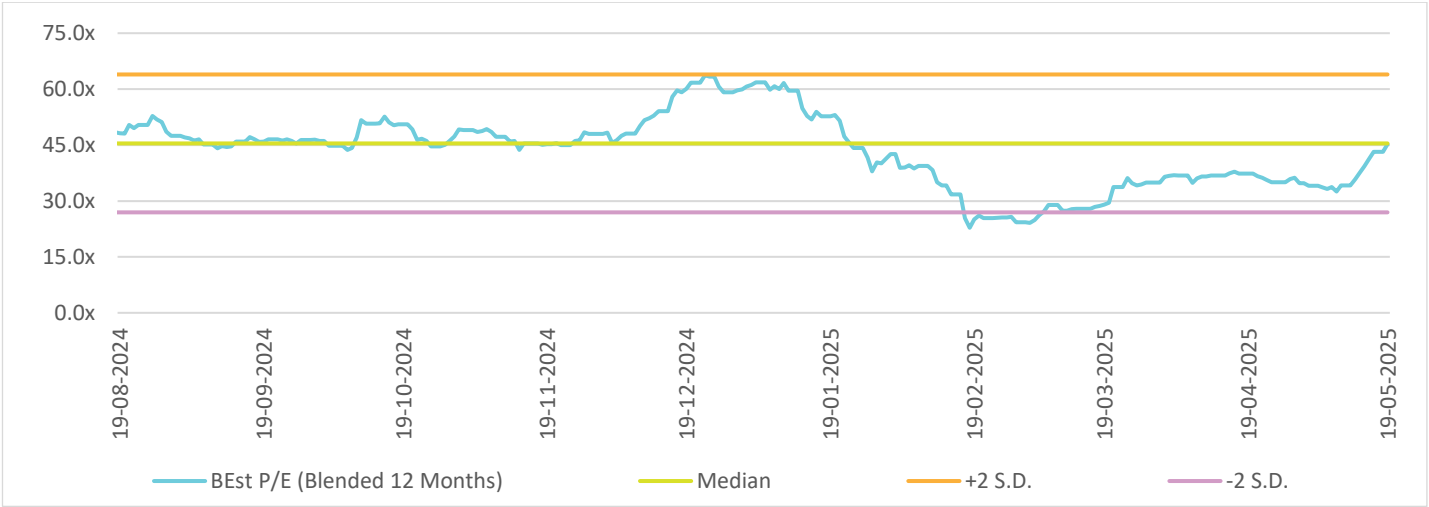
Source: Company, Nuvama Research

Exhibit 3: ZTL's acquisitions over past few years

Announced Date	Target	Stake bought (%)	Value (INR mn)	Business Description
14-02-2025	Bhairav Robotics Private Limited	45.3%	40	It has product offerings, which include robotic products such as quadrupedal robots and autonomous weapon systems.
14-02-2025	Vector Technics Private Limited	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 products are "Made in India".
14-02-2025	Applied Research International Private Limited	100.0%	1,275	i) Providing simulation and assessment tools for the marine, offshore, naval, ports & terminals, construction and mining industries; ii) providing services relating to maintenance, certification, assessment solutions with respect to (i) above; (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 Private Limited	100.0%	25	Engaged in the business of providing simulation and assessment tools for marine and naval industries.
13-01-2025	Zen Technologies USA Inc.	100.0%	NA	Fully owned subsidiary established on March 9, 2018 focuses on developing advanced combat training simulators and systems for military and security forces.
24-02-2024	AiTuring Technologies Private Limited	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 Private Limited	100.0%	NA	Designs, develops and manufactures state-of-the-art combat training solutions for training defence and security forces worldwide.
14-08-2018	Unistring Tech Solutions Private Limited	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

Exhibit 4: One-year forward PE (median ~45x)



Source: Bloomberg, 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 and critical infrastructures. ZTL is headquartered in Hyderabad (India) and has offices in India, the UAE and the US.

The company has applied for 150-plus patents (75-plus 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-Jun'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) and preference for BUY-IDDM category etc.

IP-driven defence pure play: ZTL is an IP-focused defence proxy play (owning 75-plus patents) working on an asset-light model with 80–90% of its products in-house designed/developed having spent INR1.5bn-plus on R&D over the last ten 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 Govt'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	3.80	WBC Holdings	0.24
Kotak Mahindra	3.63	Dimensional Fun	0.13
Vanguard Group	1.89	Samsung Life In	0.12
BlackRock Inc	0.74	Aditya Birla Su	0.11
Capital Securit	0.39	State Street Co	0.09

*Latest public data

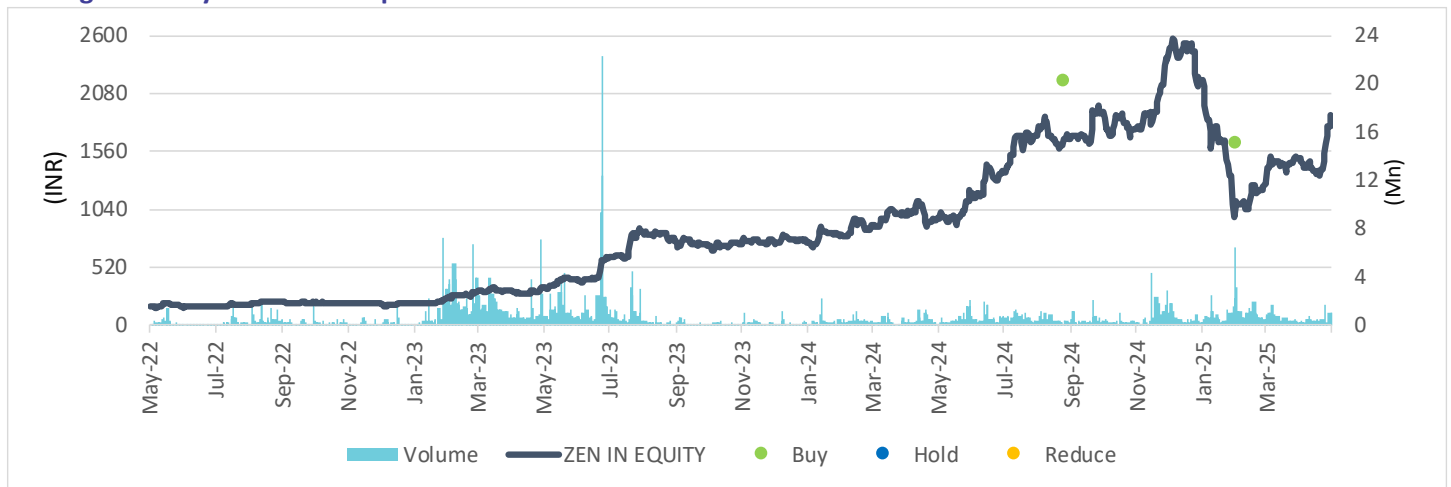
Recent Company Research

Date	Title	Price	Reco
18-Feb-25	Muted results; OI ramp-up remains key as; <i>Result Update</i>	1,080	Buy
05-Dec-24	Gearing up for the right markets; <i>Nuvama Flash</i>	1,887	Buy
08-Nov-24	Solid H1; positive outlook reinforced;; <i>Result Update</i>	1,824	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
16-May-25	HNAL	This giant is still growing ; <i>Result Update</i>
07-Feb-25	Solar Industries	Positioning for future growth; <i>Result Update</i>
30-Jan-25	Bharat Electronics	Befitting optimism on a growing giant; <i>Result Update</i>

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%	205
Hold	<15% and >-5%	63
Reduce	<-5%	34

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