ZEN TECHNOLOGIES

nuvama institutional equities

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	1,780
12 month price target (INR)	1,800
52 Week High/Low	2,628/945
Market cap (INR bn/USD bn)	161/1.9
Free float (%)	49.1
Avg. daily value traded (INR mn)	1,186.4

SHAREHOLDING PATTERN

	Jun-25	Mar-25	Dec-24
Promoter	49.05%	49.05%	49.05%
FII	6.04%	5.95%	8.29%
DII	8.75%	9.47%	8.97%
Pledge	0.00%	0.00%	0.00%

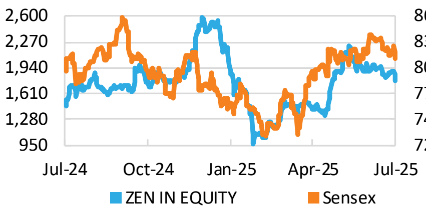
FINANCIALS (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	9,307	10,000	13,000	18,000
EBITDA	3,137	3,300	4,225	5,760
Adjusted profit	2,630	2,800	3,475	4,656
Diluted EPS (INR)	29.1	31.0	38.5	51.6
EPS growth (%)	93.0	6.5	24.1	34.0
RoAE (%)	24.6	15.4	16.4	18.7
P/E (x)	60.9	57.2	46.1	34.4
EV/EBITDA (x)	48.5	45.7	35.2	25.4
Dividend yield (%)	0.1	0.1	0.1	0.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	10,000	18,000	(9.2%)	(18.7%)
EBITDA	4,225	5,760	(9.2%)	(20.0%)
Adjusted profit	3,475	4,656	(8.1%)	(19.4%)
Diluted EPS (INR)	38.5	51.6	(8.1%)	(19.4%)

PRICE PERFORMANCE



Expensive with hazy visibility

Zen Technologies (ZTL) reported an overall muted set of Q1FY26 numbers given a slowdown in OI momentum persists for a fifth quarter in a row. Consolidated order backlog is now at INR7.54bn (0.7x FY25 sales, down from INR11.6bn in Jun-24)—remaining a key concern for future growth visibility. However, management stays hopeful of INR6.5bn OI in Q2FY26 coupled with US/NATO exports optionality and India's defence emergency procurement orders throughout FY26.

Downgrade to 'HOLD' as we find an approaching earnings trough with a recovery likely only from H2FY27E (if and when ordering picks up). We are cutting FY26E/27E EPS by 8%/19% and target PE to 40x (earlier 45x) with rollover to Sep-27E for a TP of INR1,800 (earlier INR2,170).

Weak showing; lack of OI a worry/recovery in inflow key catalyst

Revenue for Q1FY26 plunged 56.3% YoY to INR1.1bn. GM for the quarter improved to 53.6% (led by inventory de-stocking) versus 51.6% in Q1FY25 and 58% in Q4FY25. EBITDA margin for the quarter dipped YoY to 34.3% versus 40.6% in Q1FY25 (versus Street's expectations of 35.5%). PAT halved YoY to INR371mn. PAT margin for the quarter came in at 33.4% versus 29.2% in Q1FY25 on the back of higher other income (up 553% YoY) led by QIP proceeds. Order inflows for the quarter were ~INR251mn taking the consolidated order backlog to ~INR7.54bn (0.7x FY25 sales).

During the quarter, Zen acquired 76% of shares in TISA Aerospace Private Limited (TISA) for a consideration of INR65.6mn, a move that expands its presence into the loitering munitions and unmanned aerial vehicle (UAV) segment of the defence industry. Execution of ~INR600–700mn was hurt by design modifications for a customer order in Q1FY26, resulting in delivery delays and a spillover into Q2FY26.

After the past few quarters of muted OIs, management expects INR6.5bn orders for simulators (Army) by Q2FY26, with added potential from emergency procurement orders. Management expects FY26 to stay muted, but remains hopeful of large OIs in Q2FY26 to accelerate FY27E/28E sales as they retain revenue guidance of cumulative INR60bn over FY26–28. *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, anti-drone systems, etc. *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	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	1,111	2,540	(56.3)	2,935	(62.2)
EBITDA	380	1,032	(63.1)	944	(59.7)
Adjusted Profit	371	742	(50.0)	849	(56.3)
Diluted EPS (INR)	4.1	8.8	(53.4)	9.4	(56.3)

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Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	9,307	10,000	13,000	18,000
Gross profit	4,765	5,000	6,305	8,460
Employee costs	570	600	715	900
Other expenses	1,057	1,100	1,365	1,800
EBITDA	3,137	3,300	4,225	5,760
Depreciation	101	118	154	161
Less: Interest expense	94	126	147	147
Add: Other income	578	677	710	756
Profit before tax	3,520	3,733	4,634	6,208
Prov for tax	890	933	1,158	1,552
Less: Other adj	0	0	0	0
Reported profit	2,630	2,800	3,475	4,656
Less: Excp.item (net)	0	0	0	0
Adjusted profit	2,630	2,800	3,475	4,656
Diluted shares o/s	90	90	90	90
Adjusted diluted EPS	29.1	31.0	38.5	51.6
DPS (INR)	2.0	2.0	2.5	3.4
Tax rate (%)	25.3	25.0	25.0	25.0

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	90	90	90	90
Reserves	16,800	19,417	22,667	27,020
Shareholders funds	16,890	19,508	22,757	27,110
Minority interest	0	0	0	0
Borrowings	402	402	402	402
Trade payables	118	205	275	392
Other liabs & prov	48	48	48	48
Total liabilities	18,755	21,460	24,779	29,249
Net block	1,023	2,905	3,251	3,190
Intangible assets	59	59	59	59
Capital WIP	36	36	36	36
Total fixed assets	1,117	3,000	3,346	3,285
Non current inv	2,185	2,185	2,185	2,185
Cash/cash equivalent	8,392	9,811	11,637	14,252
Sundry debtors	3,784	2,740	3,562	4,932
Loans & advances	256	256	256	256
Other assets	3,020	3,469	3,794	4,340
Total assets	18,755	21,460	24,779	29,249

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
COGS (% of rev)	48.8	50.0	51.5	53.0
Employee cost (% of rev)	6.1	6.0	5.5	5.0
Other exp (% of rev)	11.4	11.0	10.5	10.0
EBITDA margin (%)	33.7	33.0	32.5	32.0
Net profit margin (%)	28.3	28.0	26.7	25.9
Revenue growth (% YoY)	116.3	7.4	30.0	38.5
EBITDA growth (% YoY)	77.0	5.2	28.0	36.3
Adj. profit growth (%)	107.3	6.5	24.1	34.0

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	2,536	2,800	3,475	4,656
Add: Depreciation	101	118	154	161
Interest (net of tax)	59	126	147	147
Others	0	0	0	0
Less: Changes in WC	(3,778)	683	(1,077)	(1,799)
Operating cash flow	(1,082)	3,727	2,699	3,166
Less: Capex	298	2,000	500	100
Free cash flow	(1,380)	1,727	2,199	3,066

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	7.0	7.0
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.0	82.0	81.0	81.0
Products rev gwth (%)	124.7	(70.8)	100.3	73.4
Exports rev gwth (%)	(83.8)	217.3	71.4	66.7
Gross margin (%)	51.2	50.0	48.5	47.0
EBITDA margin (%)	33.7	33.0	32.5	32.0
Tax rate (%)	25.3	25.0	25.0	25.0
Capex (INR mn)	(298.0)	(2,000.0)	(500.0)	(100.0)

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	24.6	15.4	16.4	18.7
RoCE (%)	33.1	20.7	22.2	25.1
Inventory days	74	54	61	60
Receivable days	107	119	88	86
Payable days	15	12	13	13
Working cap (% sales)	74.1	62.1	56.1	50.5
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.5)	(0.5)	(0.5)	(0.5)
Interest coverage (x)	32.2	25.2	27.6	38.0

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	60.9	57.2	46.1	34.4
Price/BV (x)	9.5	8.2	7.0	5.9
EV/EBITDA (x)	48.5	45.7	35.2	25.4
Dividend yield (%)	0.1	0.1	0.1	0.2

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	93.0	6.5	24.1	34.0
RoE (%)	24.6	15.4	16.4	18.7
EBITDA growth (%)	77.0	5.2	28.0	36.3
Payout ratio (%)	6.9	6.5	6.5	6.5

Source: Company and Nuvama estimates

Q1FY26 conference call: Key highlights

Opening remarks

- Total INR600mn execution affected – design changes accommodated towards a particular order from one customer in Q1FY26 causing delivery delays, which is a spillover to next quarter.

- Simulator orders have taken a step back despite EP post-Operation Sindoor. Orders of INR6.5bn for simulators (Army) are likely in the next quarter, excluding emergency procurement orders.

- AMC revenue mix was 8.8% in Q1FY26. Consolidated backlog at INR7.54bn (exports mix is INR1.17bn).

- ARIPL (subsidiary) has been performing well – expect addition of ~INR1.7bn from it to overall top line. UTSPL (subsidiary)–INR800mn of revenue (net of cross transactions).

Questions & answers

Q. Zen's competitive moat in anti-drone system.

A. Won orders from IDDM tenders and from Indian Army and are single vendor at that point in time. Zen is able to cater to the wide band requirements of Indian Armed Forces. Indigenously designed and developed these wide bands, which are not available with competition. Expect more tenders to come up very soon. For patents – tech, which can be easily copied, are patented by the company.

Q. Execution. Deferral of contracts. RM challenges.

A. The performance depends on order book by end-Q2FY26. Confident of achieving INR60bn-plus cumulative turnover over the next three years. Orders, which will be received by Q2FY26, will be executed during the same year. No problems are there in procuring raw materials and rare earth metals has not affected Zen while Vector (subsidiary) may have some exposure.

Q. Order book breakdown. Order inflows. Lead-time.

A. Total INR640mn of Anti-Drone System, INR2.82bn training simulators and AMC at INR2bn. INR6bn of simulator order likely to flow in by Q2FY26 with nearly no competition. Lead-time for anti-drones is six months and for simulators it is four months.

Q. Order inflow delays. Order inflows from US.

A. Ordering has been very slow given cycle has slowed down a bit. Government is focusing on emergency procurement hence normal course of ordering is slightly delayed. Expect orders for Anti-Drone System. Developments are happening in the US (both North as well as South American regions) with network expansion in the region because of ARI acquisition and expect FY27 to be flooded with orders from these regions.

Q. Emergency procurement opportunity and timeline. Exports.

A. Procurement has to be completed by March-end. Zen has been able to deliver both soft kill (jammers, etc) as well as hard kill anti-drone systems (remote control weapon station). Exports is ~INR1.17bn in the consolidated backlog i.e. 16% mix. Exports enquiries are strong for all products, H2FY26 and FY27 will be significant for exports – both for simulators and anti-drone systems (Regions – Africa, ME, South-east Asia, CIS countries). Expect orders from US, South America, NATO countries in FY27. Expect EP orders in anti-drone system with hard-kill capability specifically in unmanned domain.

Q. Simulators in Air and Navy.

A. Expect positive trajectory in these domains. A 7–8% simulation market is only been done by Zen yet and hence there is a huge market to be tapped.

Q. UAV commercialisation via TISA Aerospace acquisition.

A. TISA has a good track record and has also executed orders with DRDO. Investing money in R&D and expect loitering munitions to be ready in the next one-and-a-half year for trails.

Q. Opex.

A. In percentage terms, it has not reduced. They are semi-variable in nature. Last quarter, it was substantial in terms of variable expenses (professional charges, consumption of spares and impairment of investments) and multiple additional provisions were made.

Q. Order inflow expectations.

A. FY27–28 order inflows will be much higher versus FY26.

Q. Revenue deferral in Q1FY26.

A. INR600–700mn deferment. Orders have been executed, but delays were there due to last minute changes by the customer.

Q. Zen's hard-kill capability in ADS.

A. Had demonstrated hard-kill capability to end-users. Key focus in this domain and it will be a significant area for investment.

Q. Modern wars. Anti-drone system mix going ahead.

A. Hard kill anti-drone systems is something that Zen is focusing on and want to dominate globally. Anti-drone systems mix or rather ex-simulator segment mix could be 40–50% mix going ahead or could be even more if we include robotics, electronics/optics etc.

Q. NATO opportunity.

A. Simulator market is strong there. ADS will be pushed a lot along with drones (Vector is planning to export to both Europe and the US).

Q. Margins.

A. Guidance at 35%. Simulators margins are on a higher side and are slightly lower for ADS.

Q. Execution timeline of current order book. Subsidiaries OB and financials.

A. INR7.54bn consolidated backlog (INR1.48bn subsidiaries and INR2.6bn AMC). Equipment orders will be executed by Q3FY26. A INR2.5bn-plus in top line from subsidiaries, OPMs will be in line with 35%, PAT at 25%.

Q. Capex.

A. Not significant. INR450–500mn.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)	FY25A	FY26E	FY27E
Total revenues (net)	1,111	2,540	(56.3)	2,935	(62.2)	9,307	10,000	13,000
Direct cost	515	1,229	(58.1)	1,234	(58.2)	4,542	5,000	6,695
Staff cost	133	137	(3.0)	171	(21.9)	570	600	715
Other operating expenses	82	141	(42.2)	586	(86.1)	1,057	1,100	1,365
Total expenditure	730	1,508	(51.6)	1,991	(63.3)	6,169	6,700	8,775
EBITDA	380	1,032	(63.1)	944	(59.7)	3,137	3,300	4,225
Depreciation	31	22	37.0	29	4.5	101	118	154
EBIT	350	1,010	(65.4)	914	(61.8)	3,036	3,182	4,071
Interest	14	10	36.1	36	(61.7)	94	126	147
Other income	199	30	553.0	244	(18.3)	578	677	710
Exceptional items	0	0		0		0	0	0
PBT	535	1,030	(48.1)	1,122	(52.3)	3,520	3,733	4,634
Tax	164	288	(43.2)	273	(40.0)	890	933	1,158
Non-controlling interests	0	0	NA	0	NA	0	0	0
Reported Profit	371	742	(50.0)	849	(56.3)	2,630	2,800	3,475
Adjusted Profit	371	742	(50.0)	849	(56.3)	2,630	2,800	3,475
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	4.1	8.8		9.4		29.1	31.0	38.5
as % of net revenues								
Direct cost	46.4	48.4		42.0		48.8	50.0	51.5
Staff cost	12.0	5.4		5.8		6.1	6.0	5.5
Other operating expenses	7.3	5.6		20.0		11.4	11.0	10.5
EBITDA	34.3	40.6		32.2		33.7	33.0	32.5
Adjusted profit	33.4	29.2		28.9		28.3	28.0	26.7
Tax rate	30.6	28.0		24.3		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**

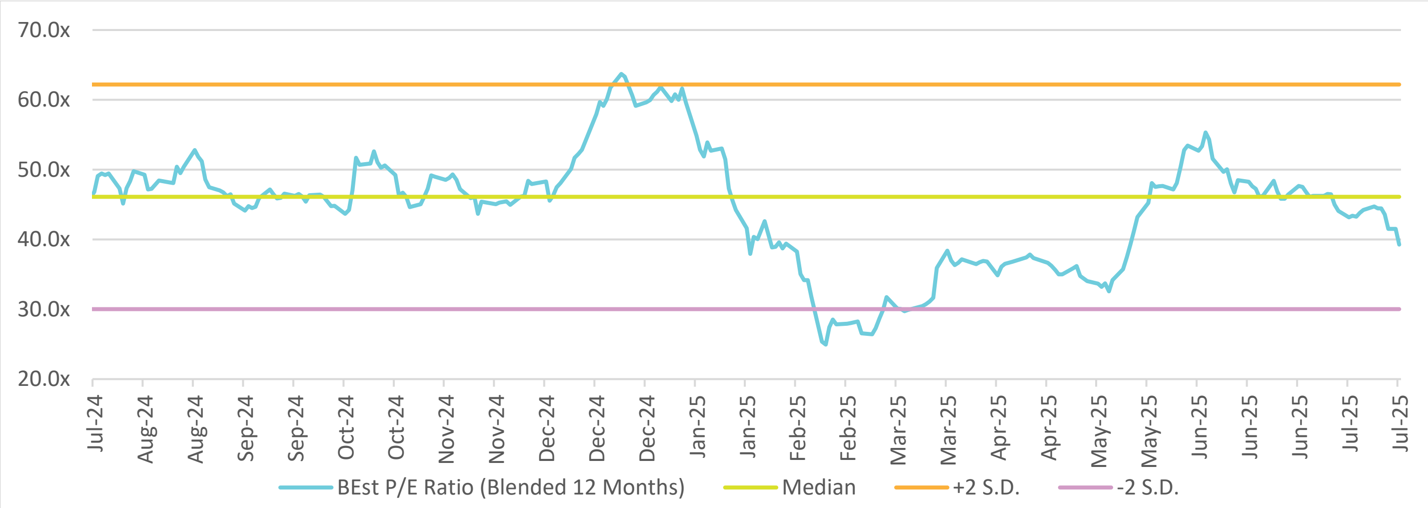
Source: Company, Nuvama Research

Exhibit 3: ZTL's acquisitions over past few years

Announced Date	Target	Stake bought (%)	Value (INR mn)	Business Description
22-06-2025	TISA Aerospace Private Limited	76.0%	65.6	TISA is engaged in the design and development of UAVs for the defence industry. The acquisition significantly expands Zen's defence portfolio by enabling it to offer advanced loitering munitions and a range of UAV solutions to the Armed Forces.
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	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; (ii) fleet-view monitoring of ships; and (iii) 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 March 9, 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

Exhibit 4: One-year forward PE (median ~46x)



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.

We believe that muted ordering momentum (*across both anti-drone systems and simulators segments*) from past few quarters has dampened earnings visibility over next few years. Given it's a niche IP/patents play, execution is not a challenge while timely ordering remains the only key catalyst.

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	4.16	Dimensional Fun	0.27
Kotak Mahindra	2.12	WBC Holdings	0.19
Vanguard Group	1.93	Aditya Birla Su	0.14
BlackRock Inc	0.71	Nippon Life Ind	0.10
Norges bank	0.54	State Street Co	0.90

**Latest public data*

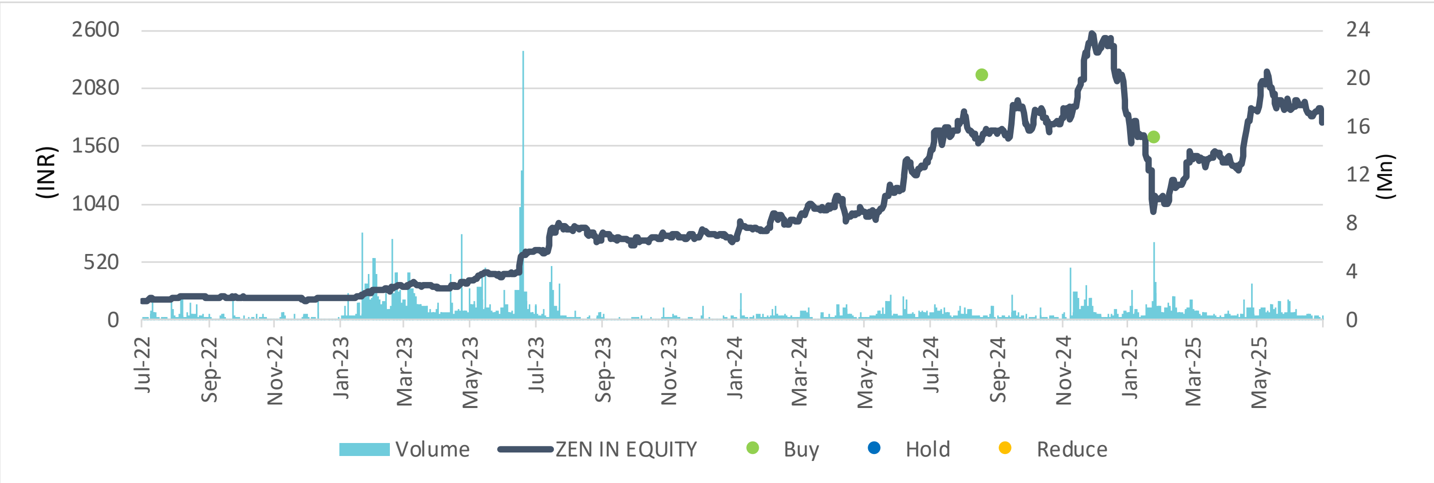
Recent Company Research

Date	Title	Price	Reco
19-May-25	Solid showing; now counting on OI; *Result Update*	1,884	Buy
18-Feb-25	Muted results; OI ramp-up remains key as; *Result Update*	1,080	Buy
05-Dec-24	Gearing up for the right markets; *Nuvama Flash*	1,887	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
10-Jul-25	Defence	Improving outlook vindicates rich valuat; *Sector Update*
27-May-25	Bharat Dynamics	Counting on execution momentum ; *Result Update*
21-May-25	Solar Industries	Catalysts skewed towards upside; *Result 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%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36

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