

Zen Technologies

BSE SENSEX 81,510 S&P CNX 24,610

CMP: INR2,064 TP: INR2,400 (+16%) Buy



Bloomberg	ZEN IN
Equity Shares (m)	90
M.Cap.(INRb)/(USD\$b)	186.4 / 2.2
52-Week Range (INR)	2097 / 688
1, 6, 12 Rel. Per (%)	11/101/160
12M Avg Val (INR M)	625

Financials & Valuations (INR b)

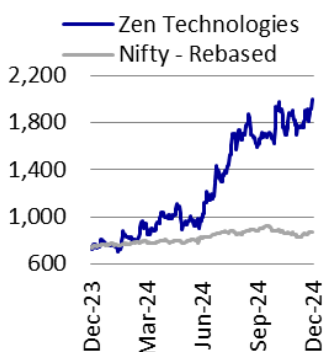
Y/E MARCH	FY25E	FY26E	FY27E
Sales	10.0	14.2	20.1
EBITDA	3.8	5.4	7.6
EBITDA Margin (%)	38.0	38.0	38.0
PAT	2.7	4.1	5.7
EPS (INR)	29.7	45.8	63.6
EPS Growth (%)	111.4	54.3	38.7
BV/Share (INR)	190.6	236.5	300.1
Ratios			
Net D/E	-0.7	-0.6	-0.6
RoE (%)	24.7	21.5	23.7
RoCE (%)	25.1	21.7	23.9
Valuations			
P/E (x)	69.5	45.0	32.5
P/BV (x)	10.8	8.7	6.9
EV/EBITDA (x)	45.8	31.9	22.3

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	51.3	55.1	57.5
DII	8.1	3.4	0.2
FII	6.2	3.6	5.6
Others	34.5	37.9	36.8

FII Includes depository receipts

Stock Performance (1-year)



Growth plans intact

Acquisition plans and ordering to firm up from 4QFY25

Our recent interactions with Zen management indicate that ordering in key areas of Zen will start ramping up in the coming months. The company is also close to finalizing the plans for an inorganic acquisition for simulator or anti-drone business and is looking at the US as one of the key markets in the future. Recently, Zen has signed an MoU with AVT Simulation, which is into air simulation systems, and Zen intends to complement its ground simulation system portfolio through this MoU. Zen also expects improved traction in its recently launched products on remote-controlled weapon and battle surveillance systems. We maintain our estimates and roll forward to Dec, 26 earnings and arrive at a revised TP of INR2,400 based on 40x two-year forward earnings. Retain BUY.

Prospect pipeline is healthy, awarding to be back-ended in this fiscal

Zen has an order prospect pipeline of INR35b where AoNs have already been accorded. Out of these, Zen expects inflows of nearly INR12b from the domestic market, followed by few orders from export markets. For large prospect orders, such as weapon training simulators and air defense fire control radars, Zen is already in the process of giving prototypes to the MoD and expects to get these tenders after the trial period. Further, since the majority of its manufacturing is outsourced, Zen is constantly looking to expand its vendor base in order to be able to smoothly cater to future inflows. In one of the interactions, Union minister has highlighted the need for increasing usage of anti-drones for preventing the attack from drones. Government wants to establish a comprehensive anti-drone unit, covering nearly 1,800 km in the near term. This results in a near term addressable market of INR18b. Overall, in order to protect the borderline of 12,000km over next years, an addressable market of INR120b opens up for players for developing anti-drones, resulting in an yearly TAM of INR24b. We have currently factored in inflows of INR17.8b/INR25.0b/INR35.0b for FY25/FY26/FY27 and expect a CAGR of 67% in revenues over FY24-27.

Working capital moved up in 1HFY25 in line with other defense players

Working capital was higher in 1HFY25 compared to FY24 for the majority of defense players (Exhibit 3). Zen's NWC days have increased to 200 in 1HFY25 from 173 in FY24, on account of higher receivables and lower payables. Similar to Zen, NWC days of BEL/BDL/Data Pattern have also increased, moving from 2/-240/332 days to 66/-129/394, driven by higher inventory and receivables and lower payables. Though inventory shot up for HAL in 1HFY25, it was more or less offset by increased payables and lower receivables compared to FY24. We believe the increased working capital is a result of delayed payments from the MOD, which are expected to come to normal levels by FY25 end.

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Orders for remote-controlled- weapon- systems expected from in FY26 onwards

As of Sep'24 end, Zen, in partnership with its subsidiary AI Turing Technologies, launched four state-of-the-art remote-controlled weapon systems, namely Parashu, Fanish, Sharur and Durgam. The TAM for these products is more than USD1b, including both domestic and export orders.

As per the management, Zen's remote-controlled weapon systems are the lightest in the market (at 42kg) followed by a Turkish competitor, whose systems weigh around 70-75kg. Further, management stated that these systems have already been tested, but few large OEMs (potential customers) want to integrate their own system with Zen's products. Zen is in talks with these OEMs and expects orders to start coming in from FY26 onwards.

Plans to capitalize on US opportunities along with domestic acquisitions

For the US market, the company can target an addressable market of USD500m and is in the process of responding to few RFPs. Zen is planning to target orders worth USD25-50m and is looking to develop the similar ecosystem of vendors in the US market to scale up. The company is setting up an office in Orlando and identifying the supply chains. Recently, Zen signed an MOU with AVT Simulation, under which AVT Simulation will help Zen penetrate the US defense market and Zen will help AVT expand its international business. Zen is known for its **ground simulation** technology, while AVT Simulation is known for its **air simulation systems**. Together, the collaboration aims to provide next-generation solutions by developing advanced training and simulation solutions for defense, emergency response, and commercial applications. We expect benefits of these initiatives to reflect from FY27 onwards. The management is also looking for opportunities to cater to the Navy and Air Force segments organically, as well as through acquisitions. From QIP proceeds earlier this year, the company is targeting two acquisitions, of which one is expected to be finalized in 4QFY25 and another one in FY26.

Financial outlook

We expect a CAGR of 67%/63%/65% in revenue/EBITDA/PAT during FY24-27. This growth will be led by: 1) order inflow growth of 31%, due to a strong pipeline across simulators and anti-drones, 2) EBITDA margin of 38% for FY25, FY26 and FY27, and 3) enhanced control over working capital due to improved collections.

Valuation and view

The stock currently trades at 45.0x/32.5x P/E on FY26E/FY27E earnings. We maintain our estimates and reiterate BUY rating on ZEN with a revised TP of INR2,400, based on 40x Dec'26E EPS. ZEN has the advantage of a faster CAGR in revenue and PAT, stronger margins and reasonable NWC.

Key risks and concerns

Any slowdown in procurement from the defense industry, especially for simulators, can expose the company to the risk of reduced order inflows and hinder its growth. ZEN is also exposed to foreign currency risks for its export revenue. High working capital can also pose risks to cash flows, as historically, ZEN's working capital has remained high due to issues related to high debtors and high inventories. This is likely to come down due to improved collections and lower inventory, as per the management. However, any delays in the same can affect cash flows for FY25/26.

Key exhibits

Exhibit 1: Positioning of key players in the simulation-based training market

Value chain positioning for companies in military simulation

Company	R&D	Manufacturing	System integration	Marketing & Sales	After-sales support	Product upgrade	Simulator training as service
ZEN	✓	✓	✓	✓	✓	✓	✓
BAE	✓	✓	✓	✓	✓	✓	✓
BEL	✓	✓	✓	✓	✓		
Tecknotrove Systems			✓	✓	✓	✓	
Thales	✓	✓	✓	✓	✓	✓	✓
Bohemia Interactive	✓		✓	✓	✓	✓	✓
CAE	✓	✓	✓	✓	✓	✓	✓
Cubic	✓	✓	✓	✓	✓	✓	✓
Lockheed Martin	✓	✓	✓	✓	✓	✓	✓
Northrop Grumman	✓		✓	✓	✓	✓	✓
Rheinmettal	✓	✓	✓	✓	✓	✓	☐
SAAB	✓	✓	✓	✓	✓	✓	✓

Source: Industry, Company, MOFSL

Exhibit 2: Positioning of key players in the anti-drone market

Company	R&D	Manufacturing	System integration	Marketing & Sales	After-sales support	Product upgrade
ZEN	✓	✓	✓	✓	✓	✓
Astra microwave		✓	✓			
Adani A&D			✓	✓	✓	✓
BEL		✓	✓	✓	✓	✓
Gurutvaa Systems	✓		✓	✓	✓	
M2K				✓	✓	
Thales	✓	✓	✓	✓	✓	✓

Source: Industry, Company, MOFSL

Exhibit 3: AVT Simulation's products and their application

Product	Application
Apache Gunnery Trainer (AGT)	❖ An "all-in-one" part-task procedural apache simulator trainer that prepares front seaters by managing the complexities of the various buttons, switches, and knobs, along with the endless multi-purpose display (MPD) pages.
Close Combat Tactical Trainer (CCTT)	❖ A ground simulator designed to provide Infantry, Armor, Mechanized Infantry, Cavalry, and Armored Reconnaissance crews, units, and staff with a virtual, collective training capability that will increase and sustain readiness.
Construction Equipment Virtual Trainer (CEVT)	❖ CEVT allows Warfighters to perform construction tasks that vary from leveling earth to excavating a trench and from constructing a stockpile to loading a hauling unit.
Receiver Aerial Refueling (RAR) Trainer	❖ Make virtual air-to-air refueling realistic, effective, and acceptable for training pilots and boom operators.
Targeted Fidelity Aircraft Trainer (TFAT)	❖ AVT can configure this system with a range of options that allow customers to match fidelity to their training needs and budget. This flexible trainer adapts to the changing aircraft operational capabilities and evolving Mission Essential Tasks to support Aircrews and their missions.
USMC Deployable Virtual Training Environment (DVTE)	❖ DVTE is a deployable, laptop-based simulation system capable of emulating virtual organic and supporting infantry battalion weapons systems and training scenarios to facilitate T&R based training.

Source: Company, MOFSL

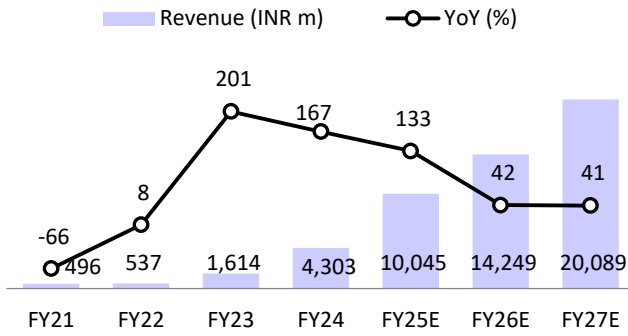
Exhibit 4: WC shot up in 1HFY25 for majority of defense companies

Peer comparison	Zen Tech		BEL		HAL		BDL		Data Pattern	
	FY24	1HFY25	FY24	1HFY25	FY24	1HFY25	FY24	1HFY25	FY24	1HFY25
Inventory	111	48	134	159	159	203	305	376	187	234
Trade receivables	140	206	133	139	198	187	48	116	280	243
Loans	0	0	0	0	0	0	1	1	0	0
Other current assets	131	48	152	143	116	135	439	510	122	164
Trade payables	208	97	388	348	478	543	971	1,067	246	234
Provisions	3	2	30	26	110	105	62	65	10	12
Net W/C days	171	203	2	66	-115	-122	-240	-129	332	394

Source: Company

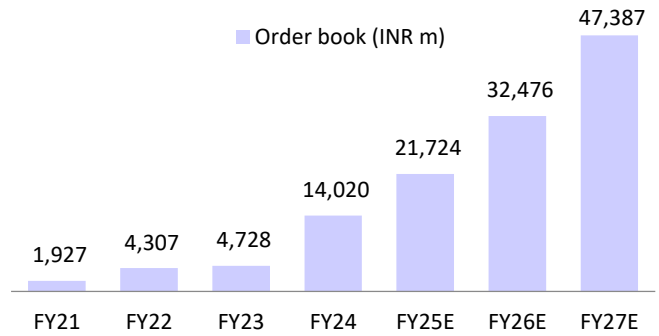
Financial outlook

Exhibit 5: We expect Zen’s revenue to clock a 67% CAGR over FY24-27



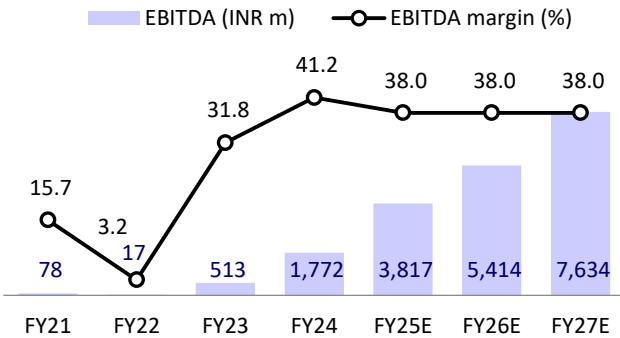
Source: Company, MOFSL

Exhibit 6: Order book to get a boost from acquisitions and increased exports



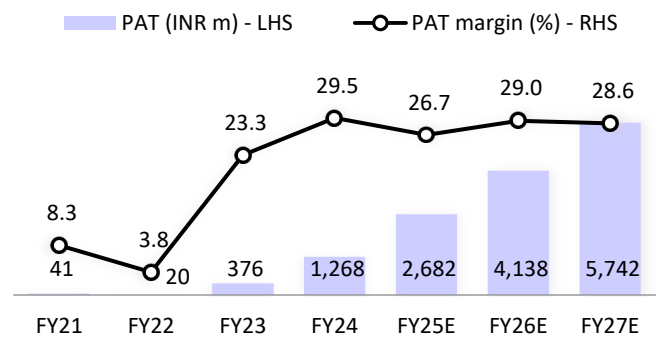
Source: Company, MOFSL

Exhibit 7: EBITDA margin to remain around 38%



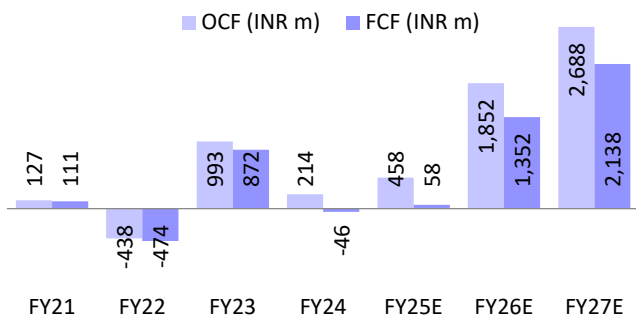
Source: Company, MOFSL

Exhibit 8: We expect 65% PAT CAGR over FY24-27



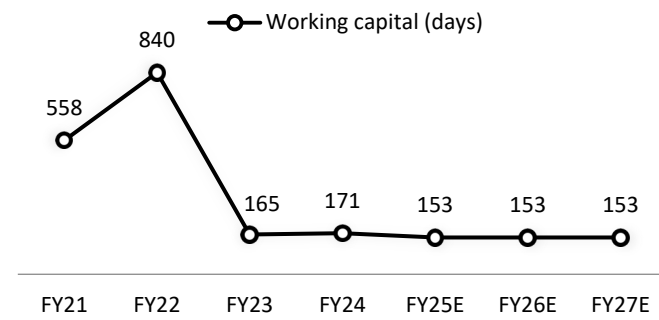
Source: Company, MOFSL

Exhibit 9: We expect OCF and FCF to increase from FY26, led by higher operating profit



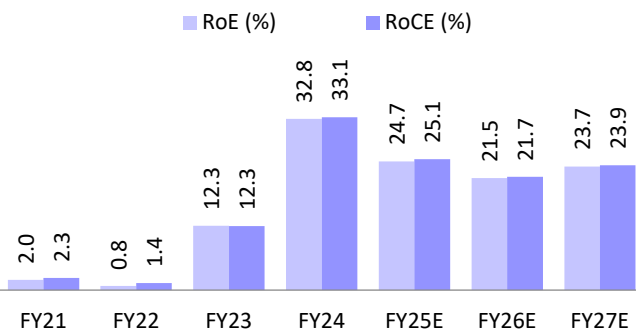
Source: Company, MOFSL

Exhibit 10: We expect NWC to stabilize on improved collections



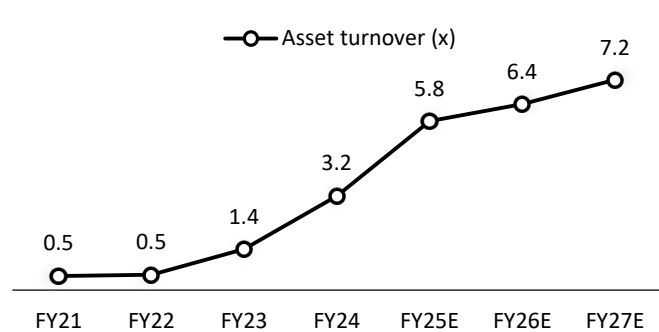
Source: Company, MOFSL

Exhibit 11: We expect ROE and ROCE to stay above 20% levels



Source: Company, MOFSL

Exhibit 12: With an improved product mix, we expect the asset turnover ratio to improve



Source: Company, MOFSL

Financials and valuations

Standalone - Income Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	1,470	496	537	1,614	4,303	10,045	14,249	20,089
Change (%)	59.4	-66.3	8.4	200.6	166.5	133.5	41.8	41.0
Raw Materials	390	80	83	408	1,373	4,219	5,984	8,437
Gross Profit	1,080	416	454	1,206	2,930	5,826	8,264	11,651
Employee Cost	167	127	148	228	432	703	997	1,406
Other Expenses	278	211	289	465	726	1,306	1,852	2,612
Total Expenditure	834	418	520	1,102	2,530	6,228	8,834	12,455
% of Sales	56.7	84.3	96.8	68.2	58.8	62.0	62.0	62.0
EBITDA	636	78	17	513	1,772	3,817	5,414	7,634
Margin (%)	43.3	15.7	3.2	31.8	41.2	38.0	38.0	38.0
Depreciation	38	40	37	44	73	90	117	148
EBIT	599	38	-20	469	1,699	3,727	5,298	7,486
Int. and Finance Charges	32	10	14	20	18	64	71	78
Other Income	19	29	53	91	139	185	712	831
PBT bef. EO Exp.	586	57	19	539	1,820	3,848	5,939	8,240
EO Items	-1	0	-2	14	-24	0	0	0
PBT after EO Exp.	587	57	20	525	1,844	3,848	5,939	8,240
Total Tax	-20	16	-2	163	552	1,167	1,800	2,498
Tax Rate (%)	-3.3	27.8	-7.9	31.0	29.9	30.3	30.3	30.3
Reported PAT	606	41	22	362	1,292	2,682	4,138	5,742
Adjusted PAT	605	41	20	376	1,268	2,682	4,138	5,742
Change (%)	214.4	-93.2	-50.5	1,753.7	237.0	111.4	54.3	38.7
Margin (%)	41.2	8.3	3.8	23.3	29.5	26.7	29.0	28.6

Standalone - Balance Sheet

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	77	80	80	80	84	90	90	90
Total Reserves	1,910	2,052	2,837	3,112	4,447	17,122	21,261	27,003
Net Worth	1,988	2,132	2,917	3,192	4,531	17,213	21,351	27,093
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	9	9	123	59	0	0	0	0
Deferred Tax Liabilities	-203	-206	-201	-134	63	63	63	63
Capital Employed	1,794	1,935	2,839	3,117	4,595	17,276	21,415	27,156
Gross Block	995	1,012	1,016	1,142	1,326	1,726	2,226	2,776
Less: Accum. Deprn.	351	391	425	468	541	631	748	895
Net Fixed Assets	644	621	591	674	785	1,095	1,479	1,881
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	0	0	25	19	107	107	107	107
Total Investments	159	241	243	243	263	263	263	263
Curr. Assets, Loans & Adv.	1,128	1,169	2,517	3,394	6,029	21,856	28,140	36,994
Inventory	104	86	142	411	1,334	2,615	3,709	5,229
Account Receivables	444	174	196	662	1,691	3,949	5,601	7,897
Cash and Bank Balance	185	333	761	1,472	1,422	11,601	13,594	16,486
Loans and Advances	299	563	1,404	812	1,564	3,652	5,180	7,302
Other Current Asset	96	13	15	36	17	40	56	80
Curr. Liability & Prov.	138	95	538	1,213	2,589	6,045	8,574	12,089
Account Payables	111	78	520	1,190	2,559	5,974	8,473	11,946
Other Current Liabilities	16	17	18	23	0	0	0	0
Provisions	10	1	0	0	31	71	101	142
Net Current Assets	990	1,074	1,979	2,181	3,440	15,811	19,566	24,905
Appl. of Funds	1,793	1,935	2,839	3,117	4,595	17,276	21,414	27,156

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
EPS	6.7	0.5	0.2	4.2	14.0	29.7	45.8	63.6
Cash EPS	7.1	0.9	0.6	4.7	14.9	30.7	47.1	65.2
BV/Share	22.0	23.6	32.3	35.4	50.2	190.6	236.5	300.1
DPS	0.4	0.1	0.1	0.2	1.0	0.0	0.0	0.0
Payout (%)	5.1	19.4	39.2	4.2	6.6	0.0	0.0	0.0
Valuation (x)								
P/E	307.9	4,545.3	9,180.2	495.2	146.9	69.5	45.0	32.5
Cash P/E	289.9	2,303.6	3,235.4	443.6	138.9	67.2	43.8	31.6
P/BV	93.8	87.4	63.9	58.4	41.1	10.8	8.7	6.9
EV/Sales	126.7	375.3	345.8	114.6	43.0	17.4	12.1	8.5
EV/EBITDA	292.7	2,397.4	10,797.7	360.7	104.3	45.8	31.9	22.3
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	6.9	1.3	-5.2	9.7	-0.5	0.6	15.0	23.7
Return Ratios (%)								
RoE	35.6	2.0	0.8	12.3	32.8	24.7	21.5	23.7
RoCE	33.4	2.3	1.4	12.3	33.1	25.1	21.7	23.9
RoIC	42.2	1.9	-1.4	20.3	56.9	64.1	57.9	58.8
Working Capital Ratios								
Fixed Asset Turnover (x)	1.5	0.5	0.5	1.4	3.2	5.8	6.4	7.2
Asset Turnover (x)	0.8	0.3	0.2	0.5	0.9	0.6	0.7	0.7
Inventory (Days)	26	64	96	93	113	95	95	95
Debtor (Days)	110	128	133	150	143	143	143	143
Creditor (Days)	28	57	353	269	217	217	217	217
Leverage Ratio (x)								
Current Ratio	8.2	12.3	4.7	2.8	2.3	3.6	3.3	3.1
Interest Cover Ratio	18.8	3.8	-1.4	23.1	92.3	57.9	74.8	96.0
Net Debt/Equity	-0.2	-0.3	-0.3	-0.5	-0.4	-0.7	-0.6	-0.6

Standalone – Cashflow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
(INR m)								
OP/(Loss) before Tax	586	57	19	539	1,844	3,848	5,939	8,240
Depreciation	38	40	37	44	73	90	117	148
Interest & Finance Charges	23	-15	-30	-48	12	64	71	78
Direct Taxes Paid	-114	-28	-12	-87	-321	-1,167	-1,800	-2,498
(Inc)/Dec in WC	111	74	-452	537	-1,405	-2,192	-1,762	-2,447
CF from Operations	643	127	-439	985	204	644	2,564	3,520
Others	1	0	1	8	10	-185	-712	-831
CF from Operating incl EO	644	127	-438	993	214	458	1,852	2,688
(Inc)/Dec in FA	-23	-10	-36	-121	-260	-400	-500	-550
Free Cash Flow	622	117	-474	872	-46	58	1,352	2,138
(Pur)/Sale of Investments	-26	-82	-3	-25	-42	0	0	0
Others	-62	-84	-393	119	-518	185	712	831
CF from Investments	-110	-176	-432	-27	-820	-215	212	281
Issue of Shares	0	0	0	0	0	10,000	0	0
Inc/(Dec) in Debt	-154	-1	865	-64	-58	0	0	0
Interest Paid	-32	-5	-9	-16	-12	-64	-71	-78
Dividend Paid	-23	-32	-8	-8	-17	0	0	0
Others	-5	134	25	-97	26	0	0	0
CF from Fin. Activity	-214	97	873	-184	-62	9,936	-71	-78
Inc/Dec of Cash	321	47	3	782	-668	10,179	1,993	2,892
Opening Balance	-225	96	144	147	929	1,422	11,601	13,594
Other Bank Balances	89	189	614	543	1,161	0	0	0
Closing Balance	185	333	761	1,472	1,422	11,601	13,594	16,486

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NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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