

Zen Technologies

Estimate changes



TP change

Rating change



Bloomberg	ZEN IN
Equity Shares (m)	84
M.Cap.(INRb)/(USD\$b)	135.2 / 1.6
52-Week Range (INR)	1609 / 578
1, 6, 12 Rel. Per (%)	33/97/130
12M Avg Val (INR M)	402

Financials Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Net Sales	9.1	13.2	18.6
EBITDA	3.4	4.9	6.9
PAT	2.4	3.4	4.9
EPS (INR)	28.4	40.7	57.9
GR. (%)	88.4	43.0	42.4
BV/Sh (INR)	82.4	123.0	180.9

Ratios

ROE (%)	41.7	39.6	38.1
RoCE (%)	42.1	39.8	38.3

Valuations

P/E (X)	56.5	39.5	27.8
P/BV (X)	19.5	13.1	8.9
EV/EBITDA (X)	39.1	27.0	18.8
Div Yield (%)	-	-	-

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter	55.1	55.1	57.5
DII	3.4	3.3	0.2
FII	3.6	4.5	4.2
Others	37.9	37.2	38.1

FII Includes depository receipts

CMP: INR1,609
TP: INR1,820 (+13%)
Buy

Strong execution

ZEN reported 92%/56%/57% YoY increase in revenue/EBITDA/PAT in 1QFY25, driven by an order book of INR11.6b. EBITDA margin remained strong at 40% as the company continued to benefit from backward integration and control over supply chain. As a result, PAT margin came in at 29.2%. Order inflows will start ramping up from 2HFY25 onward. We marginally revise our estimates to factor in the 1Q performance and maintain BUY rating ZEN with a TP of INR1,820, based on 40x Jun'26E EPS (vs. INR1,775 earlier). The current valuation of ZEN is still cheaper than that of other comparable companies in the private defense sector and ZEN has the advantage of a faster CAGR, stronger margins and reasonable NWC. Maintain BUY.

Robust 1Q results

Revenue grew 92% YoY/87% QoQ to INR2.5b, led by robust execution of the opening order book of INR14b. EBITDA came in at INR1b, up 56% YoY/129% QoQ. EBITDA margin contracted ~960bp YoY to 40%; however, it was down only 60bp vs. the FY24 level and well within the management's guidance. PAT grew 57% YoY to INR742m, with margin at 29.2%. The order book stood at INR11.6b (+113% YoY). 1Q saw nil order inflow as decision-making was delayed due to elections. Order inflows will start ramping up from 3QFY25 onward.

Order inflow visibility will emerge in coming months

1Q saw nil order inflow owing to elections. However, inflows are likely to ramp up in the coming quarters from both domestic and international geographies. ZEN is already working on various products like Hawkeye anti-drone system, Barbarik URCWS, Prahasta automated quadruped, and Sthir Stab 640 stabilized sight and platforms like tactical simulator, weapon-training simulators, advanced counter drone systems, which will see improved inflows and revenue traction ahead. We expect the new products for anti-drone system to boost revenue and order inflows from FY26 onward. We currently estimate order inflows of INR18b/INR25b/INR35b for FY25/FY26/FY27.

Export inflow and revenue were nil during the quarter

Export inflow and revenues were also nil during the quarter, as the existing order book in exports has not reached the revenue recognition stage. Currently, ZEN has a presence in markets such as Nigeria, Qatar, Malaysia, UAE, Kenya and Egypt. Its export order book stands at INR4.4b diversified across simulators (INR1.6b) and anti-drone systems (INR2.8b). With an increased focus on exports, the company intends to increase the revenue share of exports to 35% by FY28.

Zen is ideally positioned to capture a healthy market share

In the simulator market, ZEN competes with 4-5 players and managed a market share of more than 80% during FY24. In the anti-drone market, ZEN competes with 5-6 players, but it has an edge over others in terms of backward integration. ZEN has a portfolio of over 40 products designed and developed indigenously, ranging from live fire, live instrumented, virtual, and constructive training systems for individual and collective training, as well as counter-drone solutions. Its extensive product portfolio is also complemented by a services division that provides after-sales service, warranty, and AMC, et al. ZEN also

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boasts 150+ filed patents, with nearly 70 already granted. We thus expect it to be ideally positioned to capture a decent share in the upcoming orders on simulators and anti-drone segment.

Financial outlook

We expect a CAGR of 63%/57%/57% in revenue/EBITDA/PAT during FY24-27. This growth will be led by: 1) order inflow growth of 37%, due to a strong pipeline across simulators and anti-drones, 2) EBITDA margin of 37.5%/37%/37% for FY25/FY26/FY27, and 3) enhanced control over working capital due to improved collections. With a substantial revenue growth, healthy margins, and stable working capital, we expect ZEN's RoE and RoCE to improve to 38% and 38% by FY27, respectively.

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 ZEN's working capital has remained high historically 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 in FY25/FY26.

Valuation and view

We value the stock at 40x Jun'26E EPS. We marginally revise our estimates to factor in the 1Q performance and maintain a BUY rating on the stock with a revised TP of INR1,820 (vs. INR1,775 earlier). We expect the company to: 1) grow at a much faster pace than the industry, 2) have a very strong margin, and 3) expand its capabilities across other defense segments. The current valuation of ZEN is still cheaper than that of other comparable companies in the private defense sector and ZEN has the advantage of a faster CAGR, stronger margins and reasonable NWC. Maintain BUY.

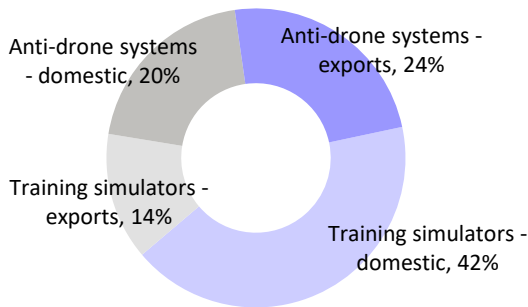
Zen Technologies

Quarterly Earning Model - Standalone

Y/E March	FY23				FY24				FY25	FY24	FY25E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	1Q		
Net sales	332	211	329	741	1,324	640	981	1,357	2,540	4,303	9,094
YoY Change (%)	263.9	30.0	166.5	364.4	298.5	203.1	197.8	83.0	91.7	166.5	111.4
Total Expenditure	220	157	246	478	663	423	539	906	1,508	2,530	5,684
EBITDA	112	54	84	263	662	218	442	451	1,032	1,772	3,410
Margins (%)	33.8	25.5	25.4	35.5	50.0	34.0	45.1	33.2	40.6	41.2	37.5
Depreciation	9	10	11	14	15	18	19	22	22	73	90
Interest	6	6	5	3	4	4	4	6	10	18	28
Other Income	21	28	19	2	26	48	42	23	30	139	137
PBT before EO expense	119	66	87	248	670	243	461	446	1,030	1,820	3,430
Extra-Ord expense	0	0	20	0	0	0	0	24	0	24	0
PBT	119	66	67	248	670	243	461	422	1,030	1,796	3,430
Tax	37	20	31	75	199	70	144	140	288	552	1,040
Rate (%)	30.8	30.4	46.5	30.3	29.6	28.7	31.2	33.2	28.0	30.7	30.3
Reported PAT	82	46	36	173	471	173	317	282	742	1,244	2,390
Adj PAT	82	46	56	173	471	173	317	306	742	1,268	2,390
YoY Change (%)	-2,501.7	440.1	4,614.9	928.2	474.2	279.1	467.2	77.3	57.4	237.0	88.4
Margins (%)	24.7	21.7	17.0	23.3	35.6	27.1	32.3	22.6	29.2	29.5	26.3

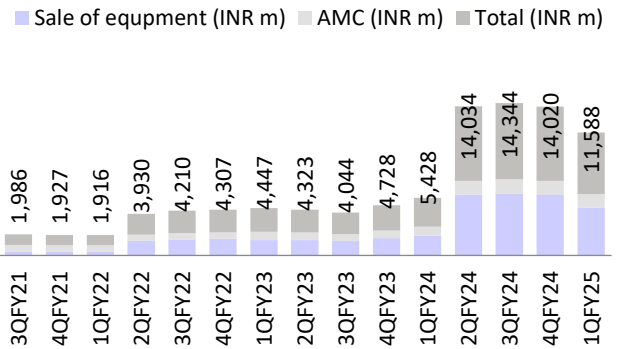
Key Exhibits

Exhibit 1: Segmental order book breakup of INR11.6b



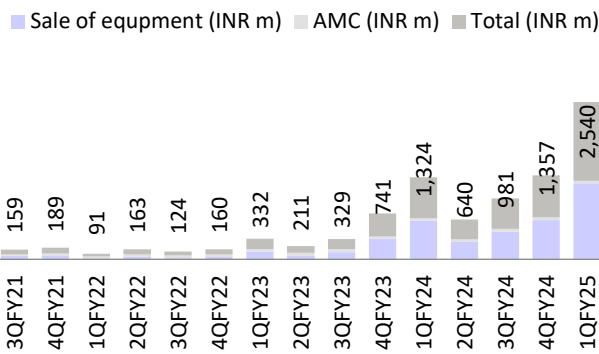
Source: MOFSL, Company

Exhibit 2: Order book trend (INR m)



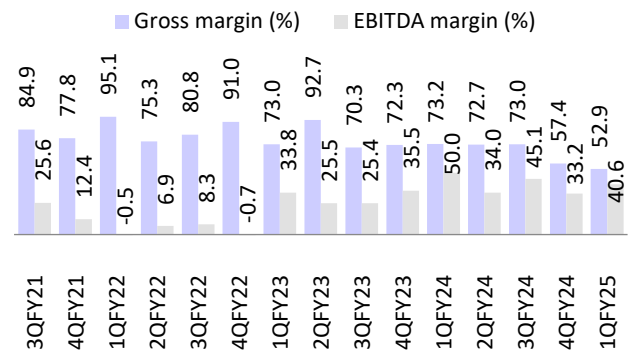
Source: MOFSL, Company

Exhibit 3: Revenue grew 92% YoY (INR m)



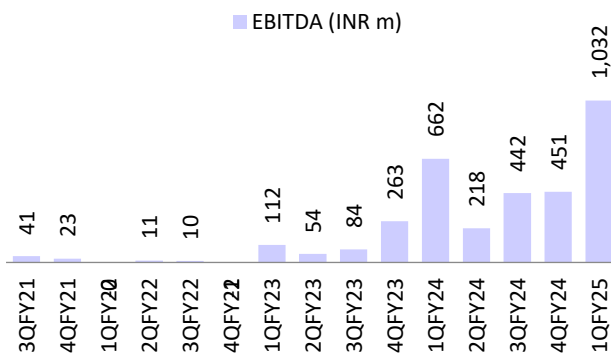
Source: MOFSL, Company

Exhibit 4: Margin performance is robust (%)



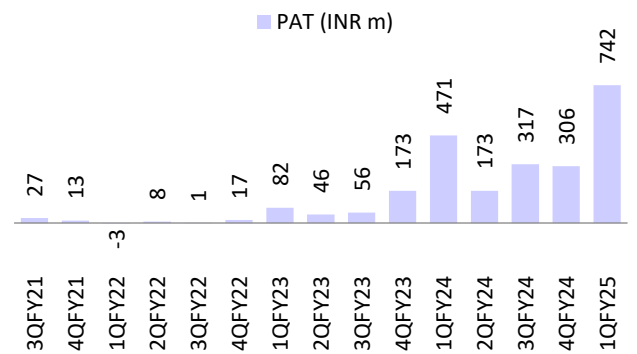
Source: MOFSL, Company

Exhibit 5: EBITDA grew 56% YoY (INR m)



Source: MOFSL, Company

Exhibit 6: PAT grew by 57% YoY (INR m)



Source: MOFSL, Company

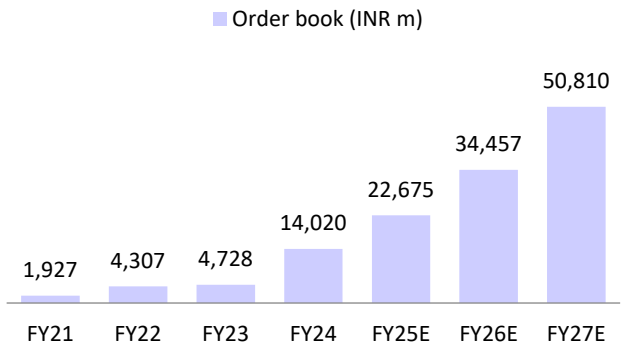
Exhibit 7: We slightly tweak our estimates to factor in 1QFY25 performance

(INR M)	FY25E			FY26E			FY27E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	9,094	9,094	-	13,219	13,219	-	18,646	18,646	-
EBITDA	3,410	3,365	1.4	4,891	4,825	1.4	6,899	6,806	1.4
EBITDA (%)	37.5	37.0	50 bps	37.0	36.5	50 bps	37.0	36.5	50 bps
Adj. PAT	2,390	2,358	1.4	3,417	3,369	1.4	4,867	4,797	1.5
EPS (INR)	28.4	28.1	1.2	40.7	40.1	1.4	57.9	57.1	1.4

Source: MOFSL

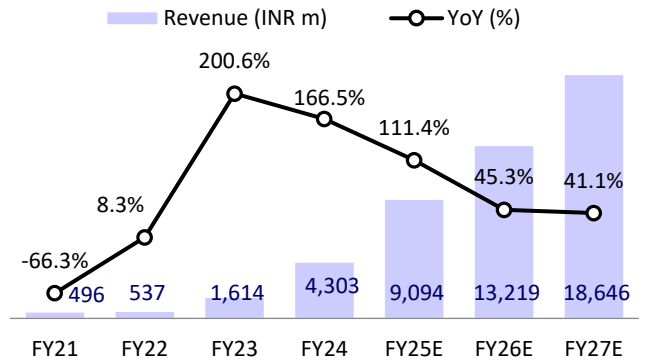
Financial outlook

Exhibit 8: Order book to be buoyant over FY24-27E



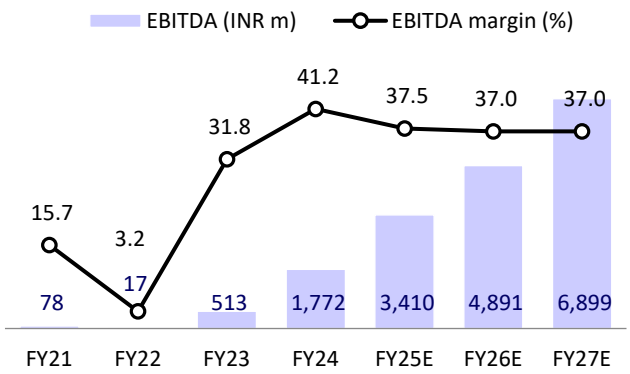
Source: Company, MOFSL

Exhibit 9: Revenue to clock in 63% CAGR over FY24-27E



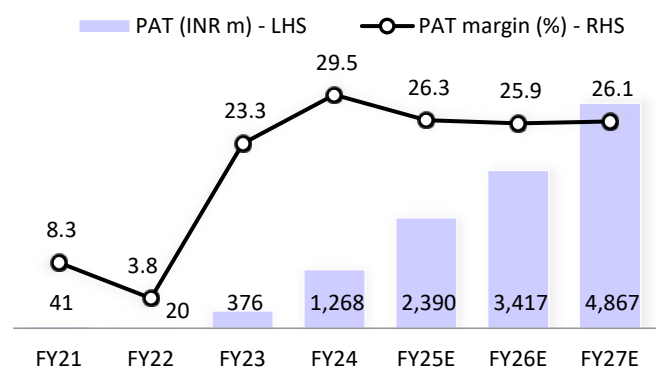
Source: Company, MOFSL

Exhibit 10: EBITDA margin to remain at healthy levels



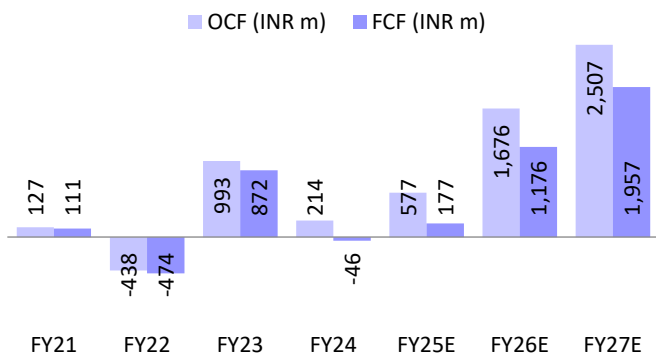
Source: Company, MOFSL

Exhibit 11: We expect PAT CAGR of 57% over FY24-27E



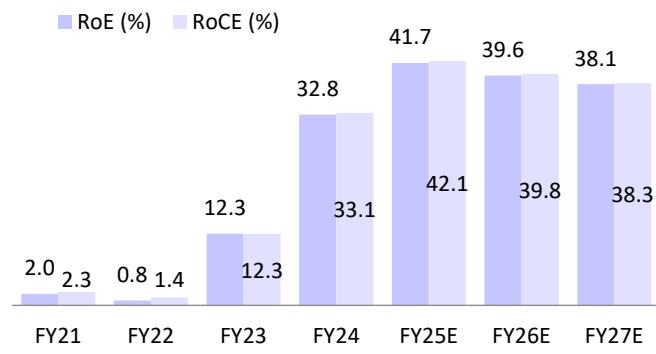
Source: Company, MOFSL

Exhibit 12: OCF & FCF to be higher led by improving Exhibit 13: operating performance (INR m)



Source: Company, MOFSL

Exhibit 14: We expect return ratios to improve on better profitability (%)



Source: Company, MOFSL

Financials and valuation

Income Statement - Standalone							(INR m)
Y/E Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Total Income from Operations	496	537	1,614	4,303	9,094	13,219	18,646
Change (%)	-66.3	8.4	200.6	166.5	111.4	45.3	41.1
Raw Materials	80	83	408	1,373	3,820	5,552	7,831
Gross Profit	416	454	1,206	2,930	5,275	7,667	10,815
Employee Cost	127	148	228	432	637	925	1,305
Other Expenses	211	289	465	726	1,228	1,851	2,610
Total Expenditure	418	520	1,102	2,530	5,684	8,328	11,747
% of Sales	84.3	96.8	68.2	58.8	62.5	63.0	63.0
EBITDA	78	17	513	1,772	3,410	4,891	6,899
Margin (%)	15.7	3.2	31.8	41.2	37.5	37.0	37.0
Depreciation	40	37	44	73	90	117	148
EBIT	38	-20	469	1,699	3,320	4,774	6,752
Int. and Finance Charges	10	14	20	18	28	30	33
Other Income	29	53	91	139	137	160	266
PBT bef. EO Exp.	57	19	539	1,820	3,430	4,904	6,984
EO Items	0	-2	14	-24	0	0	0
PBT after EO Exp.	57	20	525	1,844	3,430	4,904	6,984
Total Tax	16	-2	163	552	1,040	1,487	2,117
Tax Rate (%)	27.8	-7.9	31.0	29.9	30.3	30.3	30.3
Minority Interest	0	0	0	0	0	0	0
Reported PAT	41	22	362	1,292	2,390	3,417	4,867
Adjusted PAT	41	20	376	1,268	2,390	3,417	4,867
Change (%)	-93.2	-50.5	1,753.7	237.0	88.4	43.0	42.4
Margin (%)	8.3	3.8	23.3	29.5	26.3	25.9	26.1

Balance Sheet - Standalone							(INR m)
Y/E Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	80	80	80	84	84	84	84
Total Reserves	2,052	2,837	3,112	4,447	6,837	10,254	15,121
Net Worth	2,132	2,917	3,192	4,531	6,921	10,338	15,205
Minority Interest	0	0	0	0	0	0	0
Total Loans	9	123	59	0	0	0	0
Deferred Tax Liabilities	-206	-201	-134	63	63	63	63
Capital Employed	1,935	2,839	3,117	4,595	6,985	10,402	15,269
Gross Block	1,012	1,016	1,142	1,326	1,726	2,226	2,776
Less: Accum. Deprn.	391	425	468	541	631	748	895
Net Fixed Assets	621	591	674	785	1,095	1,479	1,881
Goodwill on Consolidation	0	0	0	0	0	0	0
Capital WIP	0	25	19	107	107	107	107
Total Investments	241	243	243	263	263	263	263
Curr. Assets, Loans & Adv.	1,169	2,517	3,394	6,029	10,992	16,506	24,230
Inventory	86	142	411	1,334	2,367	3,440	4,853
Account Receivables	174	196	662	1,691	3,575	5,196	7,330
Cash and Bank Balance	333	761	1,472	1,422	1,708	3,011	5,194
Loans and Advances	563	1,404	812	1,564	3,306	4,805	6,778
Other Current Asset	13	15	36	17	36	52	74
Curr. Liability & Prov.	95	538	1,213	2,589	5,473	7,955	11,221
Account Payables	78	520	1,190	2,559	5,408	7,861	11,089
Other Current Liabilities	17	18	23	0	0	0	0
Provisions	1	0	0	31	65	94	132
Net Current Assets	1,074	1,979	2,181	3,440	5,519	8,551	13,009
Appl. of Funds	1,935	2,839	3,117	4,595	6,984	10,400	15,259

Financials and valuation

Ratios							
Y/E Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)							
EPS	0.5	0.3	4.7	15.1	28.4	40.7	57.9
Cash EPS	1.0	0.7	5.3	16.0	29.5	42.0	59.7
BV/Share	26.8	36.7	40.1	53.9	82.4	123.0	180.9
DPS	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payout (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Valuation (x)							
P/E	3,117.7	6,296.8	339.7	106.5	56.5	39.5	27.8
Cash P/E	1,580.0	2,219.2	304.3	100.7	54.5	38.2	26.9
P/BV	60.0	43.8	40.0	29.8	19.5	13.1	8.9
EV/Sales	257.2	236.8	78.3	31.1	14.7	10.0	7.0
EV/EBITDA	1,643.0	7,394.6	246.5	75.4	39.1	27.0	18.8
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0	0.0
FCF per share	1.5	-6.0	11.0	-0.6	2.1	14.0	23.3
Return Ratios (%)							
RoE	2.0	0.8	12.3	32.8	41.7	39.6	38.1
RoCE	2.3	1.4	12.3	33.1	42.1	39.8	38.3
RoIC	1.9	-1.4	20.3	56.9	60.0	55.8	56.3
Working Capital Ratios							
Fixed Asset Turnover (x)	0.5	0.5	1.4	3.2	5.3	5.9	6.7
Asset Turnover (x)	0.3	0.2	0.5	0.9	1.3	1.3	1.2
Inventory (Days)	64	96	93	113	95	95	95
Debtor (Days)	128	133	150	143	143	143	143
Creditor (Days)	57	353	269	217	217	217	217
Leverage Ratio (x)							
Current Ratio	12.3	4.7	2.8	2.3	2.0	2.1	2.2
Interest Cover Ratio	3.8	-1.4	23.1	92.3	120.3	157.2	202.1
Net Debt/Equity	-0.3	-0.3	-0.5	-0.4	-0.3	-0.3	-0.4

Cash Flow Statement - Standalone								(INR m)
Y/E Mar	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E	
OP/(Loss) before Tax	57	19	539	1,844	3,430	4,904	6,984	
Depreciation	40	37	44	73	90	117	148	
Interest & Finance Charges	-15	-30	-48	12	28	30	33	
Direct Taxes Paid	-28	-12	-87	-321	-1,040	-1,487	-2,117	
(Inc)/Dec in WC	74	-452	537	-1,405	-1,794	-1,728	-2,275	
CF from Operations	127	-439	985	204	714	1,836	2,773	
Others	0	1	8	10	-137	-160	-266	
CF from Operating incl EO	127	-438	993	214	577	1,676	2,507	
(Inc)/Dec in FA	-10	-36	-121	-260	-400	-500	-550	
Free Cash Flow	117	-474	872	-46	177	1,176	1,957	
(Pur)/Sale of Investments	-82	-3	-25	-42	0	0	0	
Others	-84	-393	119	-518	0	0	0	
CF from Investments	-176	-432	-27	-820	-400	-500	-550	
Issue of Shares	0	0	0	0	0	0	0	
Inc/(Dec) in Debt	-1	865	-64	-58	0	0	0	
Interest Paid	-5	-9	-16	-12	-28	-30	-33	
Dividend Paid	-32	-8	-8	-17	0	0	0	
Others	134	25	-97	26	0	0	0	
CF from Fin. Activity	97	873	-184	-62	-28	-30	-33	
Inc/Dec of Cash	47	3	782	-668	149	1,145	1,924	
Opening Balance	96	144	147	929	1,422	1,708	3,011	
Other Bank Balances	189	614	543	1,161	137	158	259	
Closing Balance	333	761	1,472	1,422	1,708	3,011	5,194	

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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

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