28 July 2025
1QFY26 Results update| Sector: Capital Goods

Zen Technologies

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	ZEN IN
Equity Shares (m)	90
M.Cap.(INRb)/(USDb)	152.7 / 1.8
52-Week Range (INR)	2628 / 945
1, 6, 12 Rel. Per (%)	-8/-1/11
12M Avg Val (INR M)	1182

Financials Snapshot (INR b)

Y/E MARCH	FY26E	FY27E	FY28E
Sales	8.1	13.1	18.2
EBITDA	3.0	4.9	6.7
EBITDA Margin (%)	37.0	37.0	37.0
PAT	2.7	4.2	5.5
EPS (INR)	29.8	46.7	61.2
EPS Growth (%)	2.3	56.7	31.1
BV/Share (INR)	216.8	263.5	324.7
Ratios			
Net D/E	-0.7	-0.6	-0.5
RoE (%)	14.7	19.4	20.8
RoCE (%)	14.7	19.4	20.8
Valuations			
P/E (x)	56.7	36.2	27.6
P/BV (x)	7.8	6.4	5.2
EV/EBITDA (x)	47.1	29.0	20.6

Shareholding pattern (%)

As On	Jun-25	Mar-25	Jun-24
Promoter	49.1	49.1	55.1
DII	8.8	9.5	3.4
FII	6.5	6.4	3.6
Others	35.7	35.1	37.9

FII Includes depository receipts

CMP: INR1,691 TP: INR1,650 (-2%) Neutral

Soft start to the year

ZEN posted weak numbers in 1QFY26, with a miss on revenue and PAT. ZEN's execution was impacted by design changes in an existing project and lower-than-expected order inflows so far in FY26. The company expects inflows to start ramping up from 2QFY26, thereby supporting execution. To bake in lower inflows and execution in 1QFY26, we cut our estimates by 22%/18% for FY26/FY27 and revise the TP to INR1,650 (from INR1,850), based on 30x Sep'27E EPS. The stock is currently trading at a P/E of 56.7x/36.2x/27.6x on FY26/27/28E EPS. Our estimates bake in a CAGR of 25%/28% in revenue/PAT over FY25-28 with strong EBITDA margin of 37%. We maintain our Neutral stance on the stock and would look for order inflow announcements for further sustainability of revenues going forward.

Weak set of results

ZEN reported weak results in 1QFY26, with a miss on revenue and PAT. Revenue declined 56% YoY to INR1.1b, due to design modifications in a major equipment order, resulting in deferment of INR500-700m in revenue. Gross margins were 90bp below our expectation at 55.1% vs. our estimate of 56%. Absolute EBITDA fell by 63% YoY to INR380m, resulting in PAT of INR371m, which was aided by higher other income. PAT margin expanded 420bp YoY to 33.4% vs. our est. of 31.4%. As of Jun'25, the standalone order book stood at ~INR6.1b. During the quarter, ZEN acquired shares representing 76% of the total paid-up share capital of TISA Aerospace for a consideration of INR65.6m.

Awaiting procurement normalization

The standalone order book stood at INR6.1b, while subsidiaries contributed INR1.5b to the consolidated order book. Within the standalone segment, INR2.6b was attributed to AMC and the remaining INR3.5b represented equipment orders, which included both simulators and anti-drone systems. Specifically, simulator orders were valued at ~INR2.8b and anti-drone systems at ~INR640m. Management highlighted the possibility of a simulator order worth INR6.5b in 2QFY26, which could materially enhance execution visibility in 2HFY26. However, the current moderation in order inflows reflects a temporary delay in standard procurement activity, as the government remains focused on emergency purchases after Operation Sindoor. While we remain constructive on ZEN's long-term positioning in high-impact defense domains, the near-term softness in order momentum and execution warrants a cautious stance. We await order inflow announcements over the next couple of quarters for greater visibility on earnings.

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Strengthening indigenous IP play with strategic acquisitions

In Jun'25, ZEN acquired a 76% stake in TISA Aerospace for INR65.6m, marking its entry into the high-growth loitering munitions (kamikaze drones) segment. TISA has previously delivered systems to DRDO and is currently developing multiple variants for the Indian Army. This acquisition complements ZEN's expertise in anti-drone systems and propulsion, enabling the company to accelerate the development of next-generation loitering munitions. ZEN is also actively investing in product upgrades, targeting commercialization within 12-18 months. The move aligns with ZEN's strategy of owning indigenous IP in critical defense technologies, enhancing its relevance in modern warfare and broadening its portfolio.

Guidance and other updates

Despite a slow start to FY26, management maintains its previous guidance of 50% CAGR in revenue, achieving cumulative revenue of INR60b over FY26-28, with EBITDA margin/PAT margin of 35%/25% across the years. Management expects this to be supported by 1) pick-up of regular procurement cycle; 2) finalization of emergency procurement orders; 3) increased exports across Africa, the Middle East, the US & Latin America, CIS countries, Southeast Asia, and NATO-aligned countries; and 4) inorganic growth led by execution ramp-up of its subsidiaries (revenue of INR1.7b expected from US-based ARI and INR800m from other subsidiaries such as UTS).

Financial outlook

We trim our estimates by 22%/18% for FY26/27 to factor in the impact of the current temporary slowdown on near-term execution. We expect a CAGR of 25%/29%/28% in revenue/EBITDA/PAT during FY25-28. This will be supported by 1) finalization of orders across simulators and anti-drones; 2) EBITDA margin of ~37% for FY26-FY28, and 3) control over working capital due to improved collections.

Valuation and view

The stock currently trades at 56.7x/36.2x/27.6x P/E on FY26/27/28E earnings. While we remain positive about the company and its ability to capitalize on upcoming demand for simulators and anti-drones, our estimates and current valuations capture the positives related to upcoming orders and correspondingly a 28% PAT CAGR over FY25-28. We factor in 1Q performance and arrive at a **revised TP of INR1,650** (from INR1,850 earlier), **based on 30x Sep'27E earnings**. **Reiterate Neutral**.

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, its 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 management. However, any delays in the same can affect cash flows for FY26-28.

Standalone - Quarterly Earning Model **(INR m)**

Y/E March	FY25				FY26E				FY25	FY26	FY26E	Est
	1Q	2Q	3Q	4Q	1QE	2QE	3QE	4QE			1QE	Var (%)
Net Sales	**2,540**	**2,417**	**1,415**	**2,935**	**1,111**	**1,460**	**1,866**	**3,675**	**9,307**	**8,112**	**2,589**	**(57)**
YoY Change (%)	91.7	277.4	44.3	116.3	(56.3)	(39.6)	31.8	25.2	116.3	(12.8)	(39.8)	
Total Expenditure	1,508	1,623	1,048	1,991	730	942	1,166	2,272	6,169	5,110	1,657	(56)
EBITDA	**1,032**	**794**	**367**	**944**	**380**	**518**	**700**	**1,403**	**3,137**	**3,001**	**932**	**(59)**
Margins (%)	40.6	32.9	26.0	32.2	34.3	35.5	37.5	38.2	33.7	37.0	36.0	
Depreciation	22	23	26	29	31	32	32	35	101	130	31	(1)
Interest	10	21	27	36	14	25	26	39	94	104	25	(44)
Other Income	30	84	220	244	199	212	212	224	578	846	217	(8)
PBT	**1,030**	**835**	**534**	**1,122**	**535**	**673**	**853**	**1,553**	**3,520**	**3,614**	**1,094**	**(51)**
Tax	288	182	147	273	164	172	218	371	890	925	280	(42)
Rate (%)	28.0	21.8	27.6	24.3	30.6	25.6	25.6	23.9	25.3	25.6	25.6	
Reported PAT	**742**	**652**	**386**	**849**	**371**	**501**	**634**	**1,182**	**2,630**	**2,689**	**814**	**(54)**
Adj PAT	**742**	**652**	**386**	**849**	**371**	**501**	**634**	**1,182**	**2,630**	**2,689**	**814**	**(54)**
YoY Change (%)	57.4	276.1	21.9	177.3	(50.0)	(23.3)	64.3	39.2	107.3	2.3	(35.8)	
Margins (%)	29.2	27.0	27.3	28.9	33.4	34.3	34.0	32.2	28.3	33.1	31.4	

CONFERENCE CALL

Conference call highlights

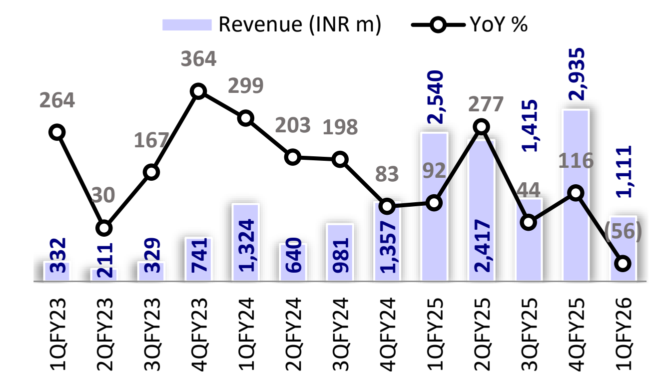
- **Revenue disappointment in 1QFY26:** Revenues dropped significantly due to design modifications in a major equipment order by end-user. A deferred revenue of ~INR500m-700m is expected to be recognized in 2QFY26.
- **Order book split:** The standalone order book stood at INR6.05b, while subsidiaries contributed INR1.48b to the consolidated order book. Within the standalone segment, INR2.6b was attributed to AMC, and the remaining INR3.5b represented equipment orders, which included both simulators and anti-drone systems. Specifically, simulator orders were valued at ~INR2.8b, and anti-drone systems at ~INR640m. Management also highlighted an imminent simulator order worth INR6.5b, expected in 2QFY26, which would significantly augment the order book and provide execution visibility for 2HFY26 and beyond.
- **Export opportunities:** The company is actively targeting export markets, including Africa, the Middle East, CIS countries, Southeast Asia, and NATO-aligned countries. In particular, the US and Latin America are being approached through ZEN's US-based subsidiary, ARI, which has a robust dealer network in multiple regions including Japan. While some export orders are expected to materialize in 2HFY26, the company considers FY27 a potentially breakthrough year for exports.
- **Demand outlook:** While the demand environment remains strong, the company acknowledged that the procurement cycle has slowed due to the government's focus on emergency purchases following Operation Sindoor. However, these delays are seen as temporary, and management expects regular procurement cycles to pick up from 3QFY26.
- **Future inflows timeline and size:** Management expects a substantial increase in its order inflows over the next few months. A simulator order worth INR6.5b is anticipated by Sep'25, where ZEN is currently the sole qualified vendor. In

addition, the company expects significant orders under the emergency procurement window for anti-drone systems, particularly those with hard-kill capabilities, to be finalized during 2HFY26.

- **Guidance maintained:** Despite the slow start to FY26, management reaffirmed its long-term revenue guidance and strategic roadmap. While FY26 is likely to be flat or only modestly positive due to 1H delays, management expects to deliver significant growth in FY27 and FY28, driven by strong inflows and execution. Additionally, ZEN is investing heavily in becoming an AI-native organization, integrating AI across its products, operations, and financial systems to drive innovation and efficiency.
- **Subsidiary guidance:** ARI, the US-based subsidiary, is expected to contribute INR1.7b in revenue in FY26, while other subsidiaries like Vector Technics and UTS are expected to contribute INR800m. After accounting for intercompany eliminations, the total consolidated contribution from subsidiaries is projected to be around INR2.5b. These businesses are also expected to maintain EBITDA margins of ~35% and PAT margins of ~25%, consistent with ZEN's margin benchmarks. The company also announced its plan to increase ownership in ARI from 76% to 100% by year-end, reflecting its long-term confidence in the international business.

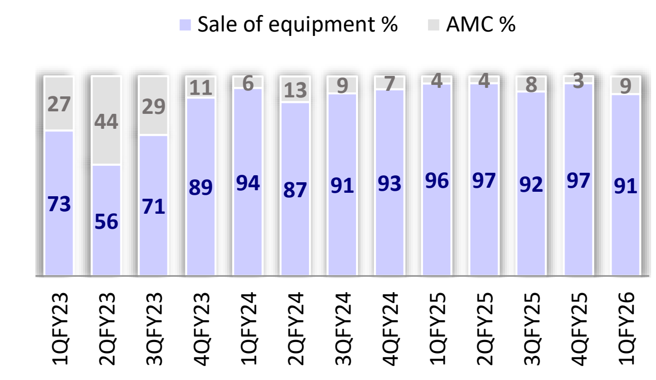
Key Exhibits

Exhibit 1: Total revenue declined 56% YoY on slower-than-expected execution



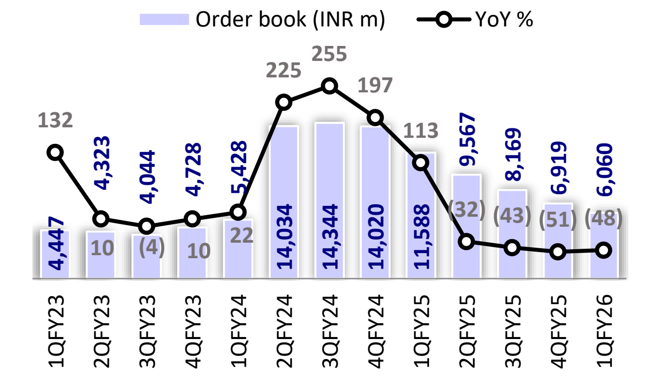
Source: Company, MOFSL

Exhibit 2: Share of revenue from equipment sales remains a major contributor



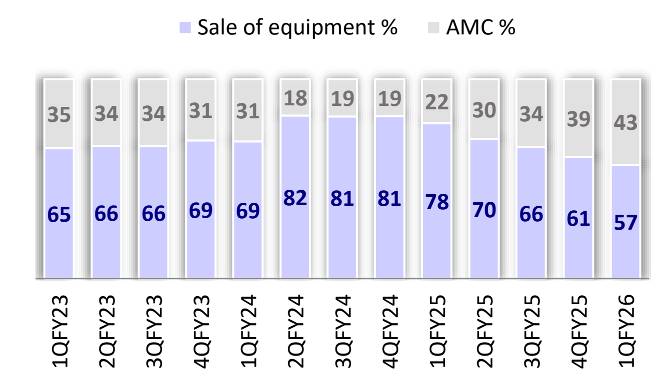
Source: Company, MOFSL

Exhibit 3: Order book decreased by 48% YoY mainly due to delayed ordering from the government



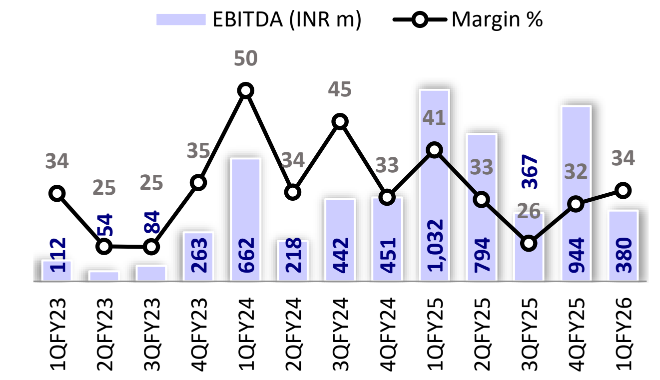
Source: Company, MOFSL

Exhibit 4: Share of AMC has been on a rise since 1QFY25 on faster execution of equipment orders



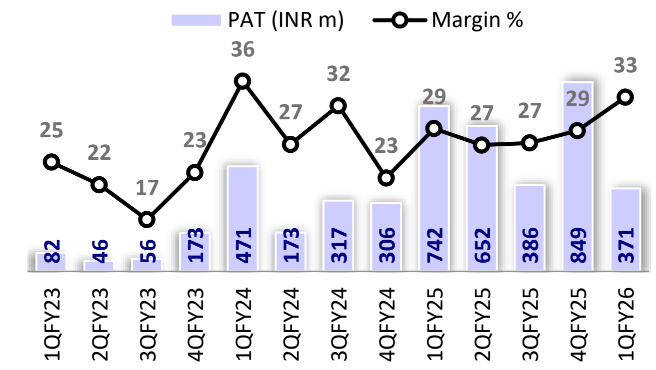
Source: Company, MOFSL

Exhibit 5: EBITDA declined 63% YoY on a high-based, while margin contracted 630bp YoY to 34.3%



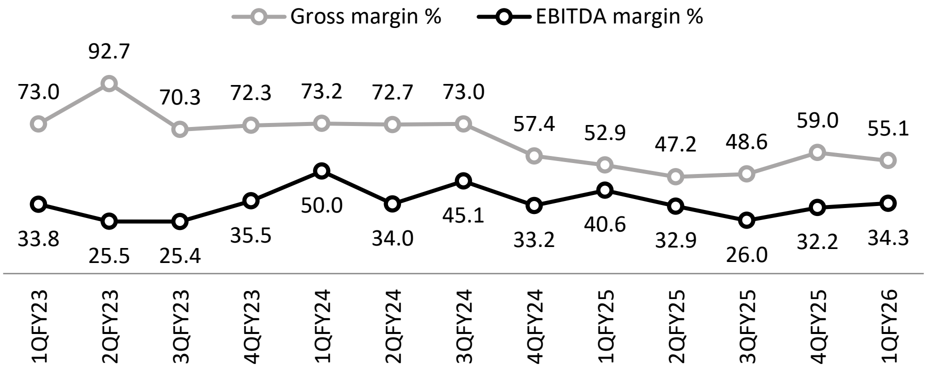
Source: Company, MOFSL

Exhibit 6: PAT decreased 50% YoY, while PAT margin expanded 420bp YoY to 33.4%



Source: Company, MOFSL

Exhibit 7: Gross margin expanded 320bp YoY, while EBITDA margin contracted but was broadly in line with management guidance for full-year



Source: Company, MOFSL

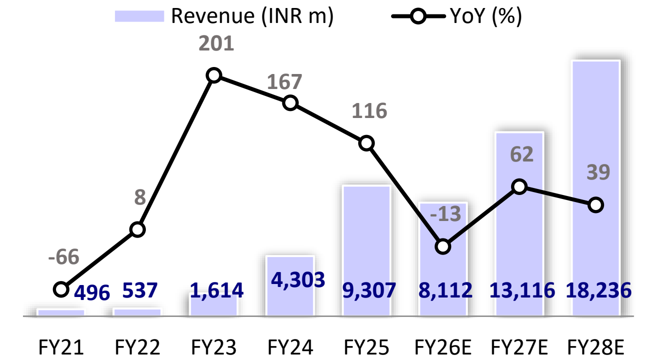
Exhibit 8: We lower our estimates to factor in 1Q performance and slower-than-expected pace of execution

(INR m)	FY26E			FY27E			FY28E
	Rev	Old	Chg (%)	Rev	Old	Chg (%)	New
Net Sales	8,112	10,789	(24.8)	13,116	16,734	(21.6)	18,236
EBITDA	3,001	3,992	(24.8)	4,853	6,192	(21.6)	6,747
EBITDA (%)	37.0	37.0	0 bp	37.0	37.0	0 bp	37.0
Adj. PAT	2,689	3,426	(21.5)	4,214	5,156	(18.3)	5,526
EPS (INR)	29.8	37.9	(21.5)	46.7	57.1	(18.3)	61

Source: MOFSL

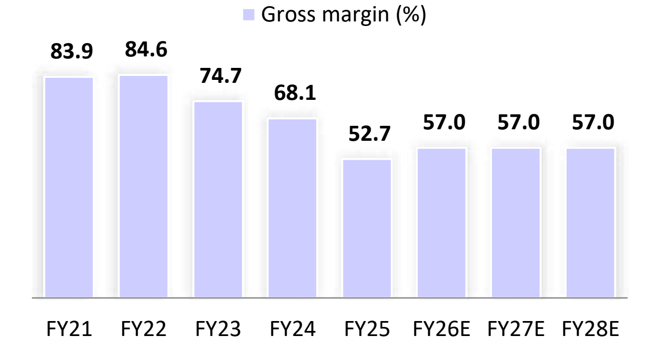
Financial outlook

Exhibit 9: We expect ZEN to clock 25% revenue CAGR over FY25-FY28



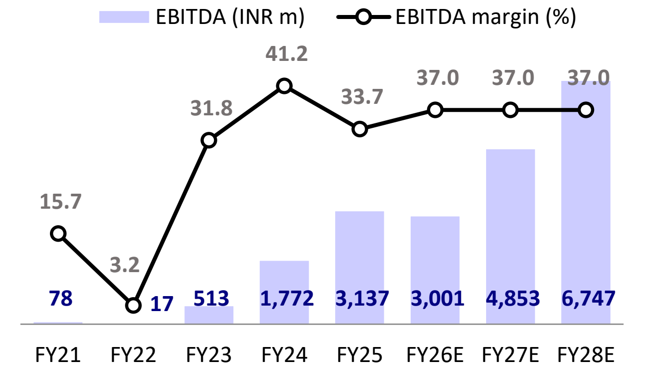
Source: Company, MOFSL

Exhibit 10: Gross margin to normalize and remain at comfortable levels beyond FY25



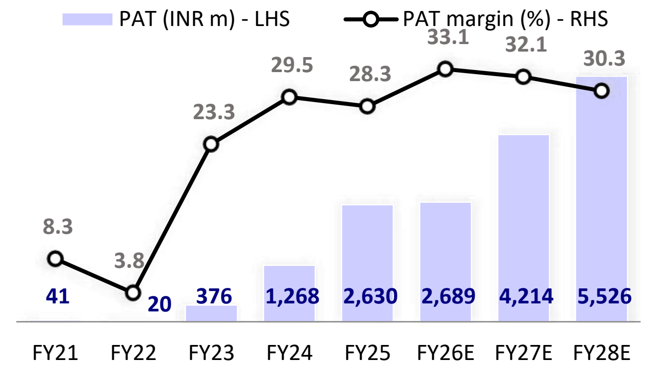
Source: Company, MOFSL

Exhibit 11: EBITDA margin to remain above 35%



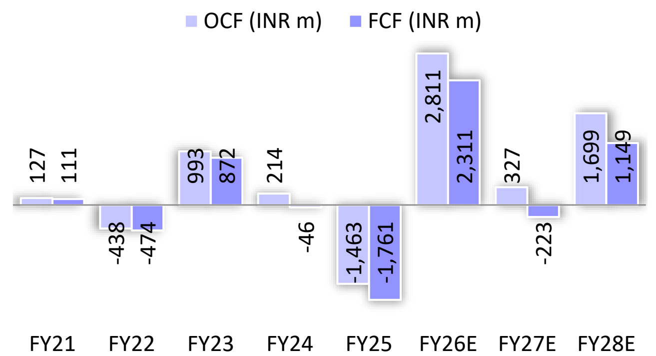
Source: Company, MOFSL

Exhibit 12: We expect 28% PAT CAGR over FY25-FY28



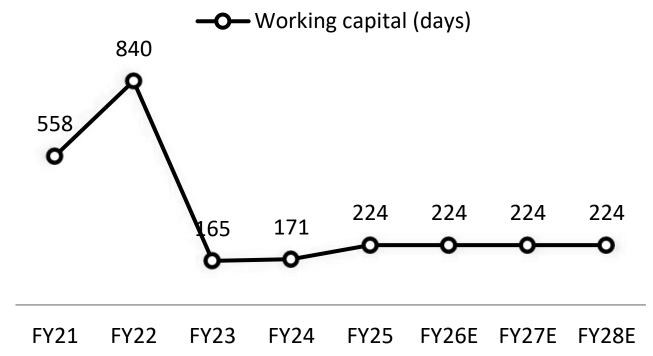
Source: Company, MOFSL

Exhibit 13: OCF and FCF to be lumpy over the years



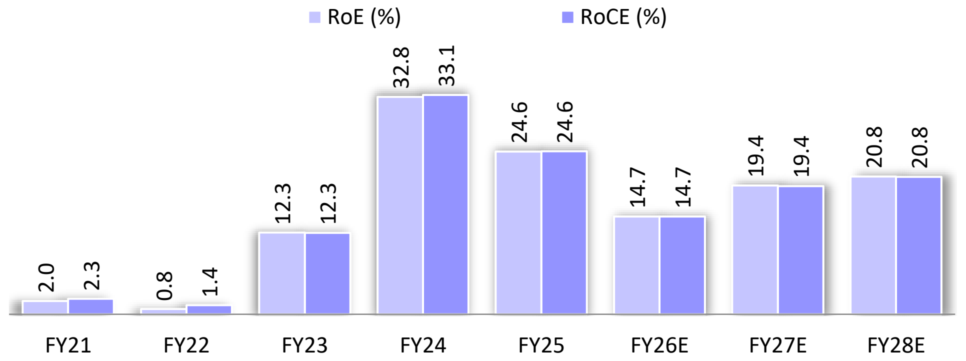
Source: Company, MOFSL

Exhibit 14: NWC to stabilize on improved collections



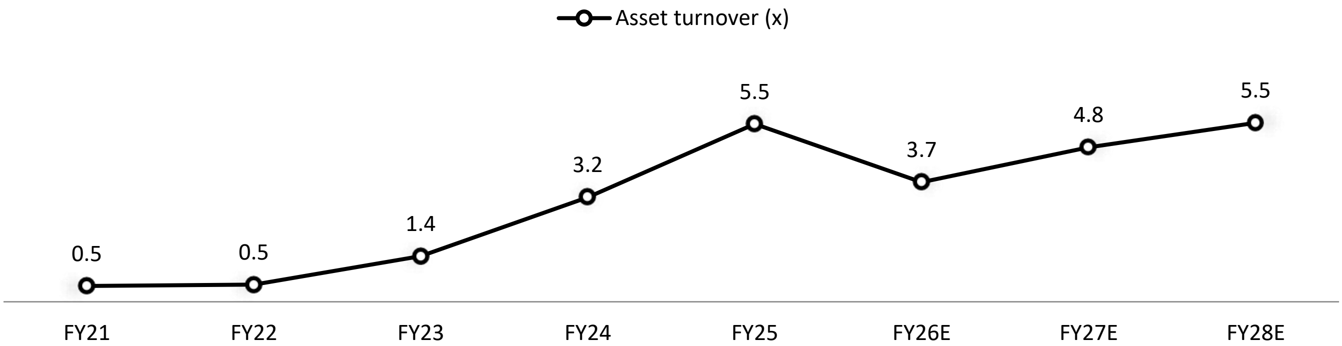
Source: Company, MOFSL

Exhibit 15: ROE and ROCE expected to reach above 20% levels



Source: Company, MOFSL

Exhibit 16: 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 Mar	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Total Income from Operations	**1,470**	**496**	**537**	**1,614**	**4,303**	**9,307**	**8,112**	**13,116**	**18,236**
Change (%)	59.4	-66.3	8.4	200.6	166.5	116.3	-12.8	61.7	39.0
Raw Materials	390	80	83	408	1,373	4,402	3,488	5,640	7,841
Gross Profit	**1,080**	**416**	**454**	**1,206**	**2,930**	**4,904**	**4,624**	**7,476**	**10,394**
Employee Cost	167	127	148	228	432	570	568	918	1,277
Other Expenses	278	211	289	465	726	1,197	1,055	1,705	2,371
Total Expenditure	**834**	**418**	**520**	**1,102**	**2,530**	**6,169**	**5,110**	**8,263**	**11,489**
% of Sales	56.7	84.3	96.8	68.2	58.8	66.3	63.0	63.0	63.0
EBITDA	**636**	**78**	**17**	**513**	**1,772**	**3,137**	**3,001**	**4,853**	**6,747**
Margin (%)	43.3	15.7	3.2	31.8	41.2	33.7	37.0	37.0	37.0
Depreciation	38	40	37	44	73	101	130	165	202
EBIT	**599**	**38**	**-20**	**469**	**1,699**	**3,036**	**2,871**	**4,688**	**6,546**
Int. and Finance Charges	32	10	14	20	18	94	104	114	125
Other Income	19	29	53	91	139	578	846	1,090	1,007
PBT bef. EO Exp.	**586**	**57**	**19**	**539**	**1,820**	**3,520**	**3,614**	**5,664**	**7,427**
EO Items	-1	0	-2	14	-24	0	0	0	0
PBT after EO Exp.	**587**	**57**	**20**	**525**	**1,844**	**3,520**	**3,614**	**5,664**	**7,427**
Total Tax	-20	16	-2	163	552	890	925	1,450	1,901
Tax Rate (%)	-3.3	27.8	-7.9	31.0	29.9	25.3	25.6	25.6	25.6
Reported PAT	**606**	**41**	**22**	**362**	**1,292**	**2,630**	**2,689**	**4,214**	**5,526**
Adjusted PAT	**605**	**41**	**20**	**376**	**1,268**	**2,630**	**2,689**	**4,214**	**5,526**
Change (%)	214.4	-93.2	-50.5	1,753.7	237.0	107.3	2.3	56.7	31.1
Margin (%)	41.2	8.3	3.8	23.3	29.5	28.3	33.1	32.1	30.3

Standalone - Balance Sheet (INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Equity Share Capital	77	80	80	80	84	90	90	90	90
Total Reserves	1,910	2,052	2,837	3,112	4,447	16,800	19,488	23,703	29,228
Net Worth	**1,988**	**2,132**	**2,917**	**3,192**	**4,531**	**16,890**	**19,579**	**23,793**	**29,319**
Minority Interest	0	0	0	0	0	0	0	0	0
Total Loans	9	9	123	59	0	522	522	522	522
Deferred Tax Liabilities	-203	-206	-201	-134	63	2	2	2	2
Capital Employed	**1,794**	**1,935**	**2,839**	**3,117**	**4,595**	**17,414**	**20,103**	**24,317**	**29,843**
Gross Block	995	1,012	1,016	1,142	1,326	1,689	2,189	2,739	3,289
Less: Accum. Deprn.	351	391	425	468	541	642	772	937	1,139
Net Fixed Assets	**644**	**621**	**591**	**674**	**785**	**1,047**	**1,417**	**1,802**	**2,151**
Goodwill on Consolidation	0	0	0	0	0	0	0	0	0
Capital WIP	0	0	25	19	107	70	70	70	70
Total Investments	**159**	**241**	**243**	**243**	**263**	**2,185**	**2,185**	**2,185**	**2,185**
Curr. Assets, Loans & Adv.	**1,128**	**1,169**	**2,517**	**3,394**	**6,029**	**15,452**	**17,599**	**22,149**	**28,064**
Inventory	104	86	142	411	1,334	510	445	719	1,000
Account Receivables	444	174	196	662	1,691	3,784	3,298	5,333	7,414
Cash and Bank Balance	185	333	761	1,472	1,422	8,392	11,445	12,199	14,229
Loans and Advances	299	563	1,404	812	1,564	2,753	2,399	3,880	5,394
Other Current Asset	96	13	15	36	17	13	12	19	26
Curr. Liability & Prov.	**138**	**95**	**538**	**1,213**	**2,589**	**1,340**	**1,168**	**1,889**	**2,627**
Account Payables	111	78	520	1,190	2,559	1,309	1,141	1,845	2,565
Other Current Liabilities	16	17	18	23	0	0	0	0	0
Provisions	10	1	0	0	31	31	27	44	61
Net Current Assets	**990**	**1,074**	**1,979**	**2,181**	**3,440**	**14,112**	**16,431**	**20,260**	**25,437**
Appl. of Funds	**1,793**	**1,935**	**2,839**	**3,117**	**4,595**	**17,414**	**20,103**	**24,317**	**29,843**

Financials and valuations

Ratios

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
Basic (INR)									
EPS	**6.7**	**0.5**	**0.2**	**4.2**	**14.0**	**29.1**	**29.8**	**46.7**	**61.2**
Cash EPS	7.1	0.9	0.6	4.7	14.9	30.2	31.2	48.5	63.4
BV/Share	22.0	23.6	32.3	35.4	50.2	187.1	216.8	263.5	324.7
DPS	0.4	0.1	0.1	0.2	1.0	2.0	0.0	0.0	0.0
Payout (%)	5.1	19.4	39.2	4.2	6.6	6.9	0.0	0.0	0.0
Valuation (x)									
P/E	251.8	3,717.5	7,508.3	405.0	120.2	58.0	56.7	36.2	27.6
Cash P/E	237.1	1,884.0	2,646.2	362.8	113.6	55.8	54.1	34.8	26.6
P/BV	76.7	71.5	52.3	47.8	33.6	9.0	7.8	6.4	5.2
EV/Sales	103.6	306.8	282.6	93.5	35.1	15.5	17.4	10.7	7.6
EV/EBITDA	239.4	1,960.0	8,824.5	294.5	85.2	46.1	47.1	29.0	20.6
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.1	0.1	0.0	0.0	0.0
FCF per share	6.9	1.3	-5.2	9.7	-0.5	-19.5	25.6	-2.5	12.7
Return Ratios (%)									
RoE	35.6	2.0	0.8	12.3	32.8	24.6	14.7	19.4	20.8
RoCE	33.4	2.3	1.4	12.3	33.1	24.6	14.7	19.4	20.8
RoIC	42.2	1.9	-1.4	20.3	56.9	47.4	32.4	42.9	41.9
Working Capital Ratios									
Fixed Asset Turnover (x)	1.5	0.5	0.5	1.4	3.2	5.5	3.7	4.8	5.5
Asset Turnover (x)	0.8	0.3	0.2	0.5	0.9	0.5	0.4	0.5	0.6
Inventory (Days)	26	64	96	93	113	20	20	20	20
Debtor (Days)	110	128	133	150	143	148	148	148	148
Creditor (Days)	28	57	353	269	217	51	51	51	51
Leverage Ratio (x)									
Current Ratio	8.2	12.3	4.7	2.8	2.3	11.5	15.1	11.7	10.7
Interest Cover Ratio	18.8	3.8	-1.4	23.1	92.3	32.2	27.7	41.1	52.2
Net Debt/Equity	-0.2	-0.3	-0.3	-0.5	-0.4	-0.6	-0.7	-0.6	-0.5

Standalone - Cashflow Statement

(INR m)

Y/E Mar	FY20	FY21	FY22	FY23	FY24	FY25	FY26E	FY27E	FY28E
OP/(Loss) before Tax	586	57	19	539	1,844	3,520	3,614	5,664	7,427
Depreciation	38	40	37	44	73	101	130	165	202
Interest & Finance Charges	23	-15	-30	-48	12	59	104	114	125
Direct Taxes Paid	-114	-28	-12	-87	-321	-984	-925	-1,450	-1,901
(Inc)/Dec in WC	111	74	-452	537	-1,405	-3,778	734	-3,076	-3,147
CF from Operations	**643**	**127**	**-439**	**985**	**204**	**-1,082**	**3,657**	**1,418**	**2,706**
Others	1	0	1	8	10	-381	-846	-1,090	-1,007
CF from Operating incl EO	**644**	**127**	**-438**	**993**	**214**	**-1,463**	**2,811**	**327**	**1,699**
(Inc)/Dec in FA	-23	-10	-36	-121	-260	-298	-500	-550	-550
Free Cash Flow	**622**	**117**	**-474**	**872**	**-46**	**-1,761**	**2,311**	**-223**	**1,149**
(Pur)/Sale of Investments	-26	-82	-3	-25	-42	-1,922	0	0	0
Others	-62	-84	-393	119	-518	-6,404	846	1,090	1,007
CF from Investments	**-110**	**-176**	**-432**	**-27**	**-820**	**-8,624**	**346**	**540**	**457**
Issue of Shares	0	0	0	0	0	9,802	0	0	0
Inc/(Dec) in Debt	-154	-1	865	-64	-58	507	0	0	0
Interest Paid	-32	-5	-9	-16	-12	-44	-104	-114	-125
Dividend Paid	-23	-32	-8	-8	-17	-90	0	0	0
Others	-5	134	25	-97	26	-7	0	0	0
CF from Fin. Activity	**-214**	**97**	**873**	**-184**	**-62**	**10,169**	**-104**	**-114**	**-125**
Inc/Dec of Cash	**321**	**47**	**3**	**782**	**-668**	**82**	**3,053**	**754**	**2,031**
Opening Balance	-225	96	144	147	929	261	8,392	11,445	12,199
Other Bank Balances	89	189	614	543	1,161	8,050	0	0	0
Closing Balance	**185**	**333**	**761**	**1,472**	**1,422**	**8,392**	**11,445**	**12,199**	**14,229**

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

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