

RECOMMENDATION SNAPSHOT				
*CMP	MCap (Rsbn)	Recommendation	Target	Potential Upside
Rs1902	177.1	Neutral	Rs1900	-

*as on 20th May, 2025

About the Company:

Incorporated in 1993, Zen Technologies Limited (Zentec) is involved in designing, developing and manufacturing world-class, state-of-the-art training simulators. These training equipment's and simulators are basically used for defense and military applications. The company is chaired by Mr. Ashok Atluri who is a post-graduate diploma holder in Applied Computer Science from CMC. The company has AS9100C from DQS Inc., ISO 9001:2008 (QMS), ISO 14001:2015 (EMS), ISO/IEC 27001:2013 (ISMS) certifications.

Results: Quick Glance:

- The company has reported net sales of Rs3250mn as compared to Rs1414mn in the same quarter last year
- The Ebitda margins for the quarter under review stood at 42.5% as compared to 35.7% in the corresponding quarter last year
- The net profit came in at Rs1138mn as against Rs376mn in the corresponding quarter of last year
- EPS for the quarter under reference stood at Rs11.24
- For the full year, the revenues and PAT grew by 121% and 131% respectively while the Ebitda margins stood at 38.4%
- The Board has recommended a final dividend of Rs2 per equity share of FV of Rs1 each for FY25

Conference Call Highlights:

- The company has outperformed its FY25 guidance, recording a revenue of Rs9,736mn, with Ebitda and PAT margins surpassing the guided thresholds of 35% and 25%, respectively, marking its strongest quarterly and annual performance to date. All the reported numbers have far exceeded the guidance by the Management
- On the **domestic front**, revenue in Q4FY25 stood at ~Rs555mn, a decline from Rs1,268.8mn in Q4FY24. In contrast, **export revenue saw a significant surge**, reaching ~Rs2,277.3mn compared to a negligible contribution in the same quarter last year. As of 31st March, 2025, the total order book stood at ~Rs6.91bn, with Rs1.68bn worth of **new orders** secured during Q4FY25. Of the **total order book**, Rs2.69bn pertains to AMC, while Rs4.22bn is related to equipment sales. The **domestic order book** includes Rs4.28bn for training simulators and Rs1.88bn for anti-drone systems. On the export side, the training simulator order book stood at ~Rs755.7mn, with minimal contribution from anti-drone systems. The company recorded order inflows of ~Rs1.5bn during the quarter and witnessed strong traction in the export market, which contributed nearly 70% of total revenue, along with continued support from the domestic industry. Revenue contribution in terms of sale of equipment & AMC in Q4FY25 stood at ~Rs2833.3mn and ~Rs102.7mn respectively. The Management also indicated that a portion of **future order inflows** is likely to spill over into FY27E, reflecting the company's strong and growing order pipeline
- During the quarter under review, the company has **secured a significant order** from the Ministry of Defence for Integrated Air Defence Combat Simulators (IADCS) for L70 gun, with execution expected in FY26. Additionally, it was **granted its third patent** for the T-90 Tank Simulator, the containerized Driving Simulator System (T-90 DS). This development reinforces the company's leadership in military training simulation by offering advanced solutions for combat vehicle operator training. Filed on 24th March 2022 and valid until 24th March 2042, the patent adds to an expanding IP portfolio, which now includes four patents in 2025 and 14 in FY24-25. Furthermore, the company holds three patents for T-72 and BMP-II tank simulator variants, underscoring its continued focus on developing cutting edge training systems for armoured vehicle operations
- In FY25, the company made several **strategic acquisitions** to strengthen its position in next-generation defence technologies. In February 2025, it acquired a 76% stake in ARIPL, with plans to acquire the remaining 24% during the current financial year. **ARIPL** brings strong capabilities in marine and naval simulation, offering significant synergy potential. The company also acquired a 51% stake in **Vector Technics**, one of the few indigenous manufacturers of critical drone components, thereby entering the core of the drone ecosystem. Additionally, it acquired a 45.33% stake in **Bhairav Robotics**, a defence robotics start-up focused on AI-powered combat robots and autonomous weapon systems. These acquisitions mark a major step forward in advancing future-ready national security solutions and expanding the company's footprint across land, air, and sea defence domains. They also create meaningful cross-sell and up-sell opportunities within the existing client base while opening access to new domestic and international markets

Conference Call Highlights (contd.):

- The company has invested ~Rs 868.6mn in its wholly owned subsidiary, Zen Technologies USA, Inc., to strengthen its presence in North America and tap into emerging growth opportunities in the region. Additionally, the company is actively focusing on **expanding its footprint** in the Middle East, Africa, and CIS countries, while also laying the groundwork for entry into the US and EU markets as part of its broader international growth strategy
- The company maintains a **strong liquidity** position of ~Rs10.37bn, it continues to actively evaluate inorganic growth opportunities to further strengthen its portfolio. The total receivables are higher which are directly proportional to the increase in the order book for FY25; this is anticipated to normalise in the next 3-5 months
- The company has significantly ramped up its **R&D investments** not only to enhance existing offerings but also to develop a robust pipeline of innovative products aimed at addressing evolving defence requirements. R&D expenditure for FY25 stood at ~Rs330.1mn. Aligned with its focus on innovation, the company is planning to **expand its existing R&D centre** with an investment of ~Rs700mn, aimed at accelerating product development and unlocking new avenues for long-term growth. The evolving landscape of **modern warfare** has underscored the critical need for advanced counter-drone systems and comprehensive training solutions. In response, the company has successfully delivered India's first **band independent counter-drone systems**
- The company continues to **maintain its revenue growth guidance** of a 50% CAGR growth rate over the next 12-16 quarters. It has set a revised cumulative revenue target of ~Rs60bn over FY26-FY28E. Ebitda and PAT margins are expected to be maintained at ~35% and ~25%, respectively

Financials:

Performance (Q4&FY25)									
Q4&FY25 Result (Rs mn)	Mar-25	Mar-24	y-o-y	Dec-24	q-o-q	FY25	FY24	y-o-y	FY26E
Total Revenue	3250	1414	-	1522	-	9736	4399	-	8958
EBITDA	1380	504	-	442	-	3735	1808	-	3046
Other Income	248	27	-	220	12.4%	584	149	-	601
Interest	40	8	-	30	33.5%	104	23	-	137
Depreciation	47	29	62.4%	38	24.6%	154	97	59.2%	183
Share of profit/loss of associates	(0.5)	0	-	0	-	0	0	-	0
Exceptional Items	0	24	-	0	-	0	24	-	0
Tax	402	142	-	168	-	1067	566	-	958
Net Profit	1138	376	-	427	-	2994	1295	-	2369

Outlook and Recommendations:

The company has posted a strong set of numbers for the quarter under review, while beating its own revenue and PAT guidance for FY25. With increasing traction in exports, now contributing nearly 70% of the revenues, and a growing domestic pipeline particularly in simulators and counter-drone systems, the company is set to capitalize on rising defence modernization and geopolitical priorities as and when they convert into orderbook. The company as a whole keeps evolving and doing R&D while launching newer products. Zentech continues to ramp-up its R&D while contemplating a planned expansion of its R&D centre. The company is well-positioned to sustain robust growth driven by a strong and expanding order book, strategic acquisitions, and focused investments in next-generation defence technologies across land, air, and sea domains. Its healthy liquidity position supports ongoing investments and global market expansion, especially in North America, the Middle East, Africa, and CIS regions, while future order inflows are expected to extend into FY27E due to tender finalization timelines. The company's diversified portfolio, deepening IP assets, and strategic positioning in emerging defence technologies provide a solid foundation to deliver long-term value and reinforce its leadership in defence simulation and security solutions. The drone ecosystem in India is also bound to grow going forward and the country is trying to move towards the global calibre with the support of GOI. The targeted cumulative revenue of ~Rs60bn over FY26-FY28E, alongside stable Ebitda and PAT margins of around 35% and 25%, reflects strong confidence in both organic and inorganic growth avenues. No doubt the execution capability of Zentech is excellent, however, the only issue is the bleak visibility of the order book. The company is hopeful of fetching more orders which are 100% government orders.

Outlook and Recommendations (contd.):

Zentech will get clarity of order book by H1FY26; these orders which come in future will be spilled over to FY27E. The quantum and the time is unknown, this adds to the uncertainty, and we are currently cautious as the order book of the company is not as robust as FY25; which indicates the upcoming year is likely to be a muted year (projection for FY26E) on the topline. Once the orders are in hand, the Management will be in a position to give guidance/projections for the upcoming 6-8 quarters. The ambiguity around order inflows in the near term makes us slightly watchful. We had highlighted this concern earlier in Q3FY25 as well and had recommended booking ~25% as a part of regular profit booking. Considering all the factors above, we recommend booking another 25% as a part of profit booking.

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