



# Zen Technologies Limited

**Buy Range** ₹390 – 400

**Target** ₹485 – 495

**Recommendation** **BUY**

## Highlights

- **Zen Technologies (ZTL)** is a leader in manufacturing land based military training simulators, driving simulators, Live range equipment, Drones and Anti-Drone Systems. The company has a rich experience of almost three decades, the company specialises in developing state-of-the art simulation solutions that cater to the armed forces, security forces and paramilitary forces. The company has 95% market share in tank simulators along with +40 product offerings. The company has applied for over 112 patents and shipped more than 1000 training systems across the globe.
- ZTL enjoys the privilege of serving the Ministry of Defense and the Government of India with a dedicated R&D (recognized by the Ministry of Science and Technology, Government of India) and production facility in Hyderabad, India. Its demonstration center at Abu Dhabi is progressing as per plans and will be operational soon.
- The market position is strengthened by the continuous research and development which the company undertakes for its new products, which has aided the company to secure an order of ₹1.55bn for the supply of anti-drone systems to the Indian Air Force in Sep'21. R&D investment in last 5 yrs was worth ₹693mn with cumulative sales invested in R&D in last 5 yrs at ~12%.
- The total order book stands strong at Rs4.73bn as on 31 March 2023. Also in Jun'23, the company further won an order from Ministry of Defense, India (MoD) worth Rs2.02bn which includes Training equipment of ~Rs1.71bn to be supplied within 12 months along with a warranty for 4 years. Post-warranty, Comprehensive Maintenance Contract (CMC) of ~Rs310mn spread over 4 years. Order inflow is expected at Rs3.6-4bn for the next two years.
- The Indian Defense simulation and training related market is expected to reach \$14-18bn in next 15 yrs. Additionally, for modernization of armed forces under the Capital Acquisition Schemes, Ministry of Defense, India (MoD) is seriously pushing for indigenous design, development and manufacture of defense Equipment under 'MAKE in INDIA' and the list of such products are ever-growing.
- MoD has put over 4666 items defense items under import embargo in four lists released in last 2 yrs. It implies that these items can no longer be procured from a foreign OEM in a fully finished state. MoD greater impetus on new age simulator training solutions which will significantly cut down the cost incurred by the armed forces presently. This will imply that the armed forces will have to buy simulators for all their legacy equipment and all future acquisitions of weapons, platforms, equipment and systems will be done along with the simulators which will further improve the company's prospects.
- New Drone Policy, 2021 & Drone (Amendment) Rules, 2022 simplification along with ban on drone imports in India could bring ample opportunity to ZTL. The number of approval forms is reduced from 25 to 5 and the types of fees reduced from 72 to 4. The number of forms and amount of fees has been whittled down too – people now need to identify one of five forms and have to pay one of four categories of fees. The quantum of fees has been reduced to nominal levels and delinked with the size of the drone. Also the government has simplified and liberalised the policy for export of drones and Unmanned Aerial Vehicles (UAVs) meant for civilian end uses from India. India is looking at making its drone sector into a \$20 bn industry by 2030 and has already brought the sector under the Production Linked Incentive (PLI) scheme. The company's focus in future is production of combat drones.

**ZEN TECHNOLOGIES LTD.**
**COMPANY BACKGROUND**

**Zen Technologies Limited (ZTL)** is a pioneer and leader in providing world class state of the art Defence Training Solutions, Drones and Anti-Drones solutions. It manufactures land based military training simulators, driving simulators, Live range equipment, Drones and Anti-Drone Systems. It is engaged in indigenous design, development and manufacture of sensors and simulators technology based defense training systems and has relentlessly been providing Defence Training Solutions and seamless services to Ministry of Defence (Armed Forces), Security Forces Police, Para-military forces and has served the nation for over 2.5 decades. The company has a proven and impeccable track record in building training systems for imparting defense training and measuring combat readiness of security forces. With a dedicated R&D (recognized by the Ministry of Science and Technology, Government of India) and production facility in Hyderabad, the company has applied for over 112 patents (27 granted) and shipped more than 1000 training systems around the world. Business Model involves sales of Defence Training, Drones & Anti- Drones solutions and AMC contract for servicing it with +40 product portfolio which includes **DRONES & ANTI-DRONE SOLUTIONS, COMBAT TRAINING CENTER, LIVE RANGES, LIVE & VIRTUAL SOLUTIONS.** Its demonstration center at Abu Dhabi is progressing as per plans and will be operational soon. Company's investments in R&D in last 5 Yrs was at ₹693mn with cumulative sales invested in R&D in last 5 yrs at ~12%. **Revenue Mix (%) FY23 – Sale of Equipment: AMC contracts- 57.4%:42.6%; Q4FY23 – Sale of Equipment: AMC contracts – 89.4%:10.6%.** Also entered into medical simulators and developed ventilators in FY21 under Zen Medical technologies Ltd. FY22 Revenue at ₹58,000 with loss of ₹927,000. Current Orderbook as on 31 March 2023 at ₹4,728mn with Equip. orders worth ₹3272mn inclu. Exports and AMC orders worth ₹1,456mn. ~91-92% of the order book is on nomination basis from the government and the rest is through bidding process.

**Investment Rationale**
**1. An established player in design, manufacturing and development of training simulators**

Zen Technologies is a pioneer and leader in developing defense training, drones and anti-Drones solutions. With a rich experience of almost three decades, the company specialises in developing state-of-the art simulation solutions that cater to the armed forces, security forces and paramilitary forces. ZTL enjoys the privilege of serving the Ministry of Defence and the Government of India. With a dedicated R&D (recognized by the Ministry of Science and Technology, Government of India) and production facility in Hyderabad, the company has applied for over 112 patents and shipped more than 1000 training systems across the globe. Further the market position is strengthened by the continuous research and development which the company undertakes for its new products, which has aided the company to secure an order of ₹1.55bn for the supply of anti-drone systems to the Indian Air Force in Sep'21. Along with other orders, the total order book stand strong at ₹4.73bn as on 31 March 2023. Also in Jun'23 the company further won an order from Ministry of Defense, India (MoD) worth ₹2.02bn which includes Training equipment of ~ ₹1.71bn to be supplied within 12 months along with a warranty for 4 years. Post-warranty, Comprehensive Maintenance Contract (CMC) of ~₹310mn spread over 4 years. Order inflow is expected at ₹3.6-4bn for the next two years. Its robust outlook depends on the potential opportunities owing to government's thrust on indigenization and the company expects to be a prime beneficiary of the same given its level of expertise, technical abilities and successful track record of execution.

**2. Asset-light business model to support profitability based on innovative and scalable sale of equipment offered**

The company has a Asset Light business operations with bill of materials being 10-30% of final product price enabling to become a leader in manufacturing defense training solutions with over 95% market share in tank simulators along with +40 product offering namely,

**Important Data**

Nifty	18.955
Sensex	63,855
CMP	₹418.7
Market Cap (₹)	₹33.3bn
52W High/Low	₹453/167
Shares o/s (mn)	79.51
Daily Vol. (3M NSE Avg.)	3,874,578
BSE Code	533339
NSE Code	ZENTEC
Bloomberg Code	ZEN:IN

**Shareholding Pattern (%) 24 May 2023**

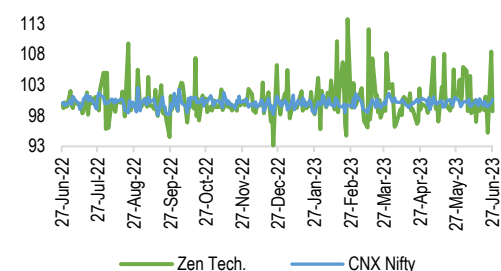
Promoter	57.5
DII	0.23
FII	4.1
Public	37.7

**Financials & Valuations**

Particulars (₹ mn)	FY20	FY21	FY22
<b>Operating Revenue</b>	<b>1,493</b>	<b>546</b>	<b>698</b>
<b>EBITDA</b>	<b>627</b>	<b>74</b>	<b>46</b>
<b>EBITDA Margin (%)</b>	<b>42.0</b>	<b>13.5</b>	<b>6.5</b>
<b>Net Profit</b>	<b>590</b>	<b>31</b>	<b>20</b>
EPS (₹)	7.4	0.4	0.2
DPS (₹)	0.4	0.1	0.1
RoE (%)	30.7	1.1	0.7
RoCE (%)	29.9	2.6	(0.1)
P/E (x)	56.4	1,069.8	1,676.8
EV/EBITDA (x)	52.7	445.7	714.6
P/BV (x)	16.3	15.8	11.5

Particulars (₹mn)	FY23P	FY24E	FY25E
<b>Operating Revenue</b>	<b>2,188</b>	<b>3,833</b>	<b>4,773</b>
<b>EBITDA</b>	<b>726</b>	<b>1,248</b>	<b>1,509</b>
<b>EBITDA Margin (%)</b>	<b>33.2</b>	<b>32.6</b>	<b>31.6</b>
<b>Net Profit</b>	<b>427</b>	<b>709</b>	<b>946</b>
EPS (₹)	5.4	8.9	11.9
DPS (₹)	0.2	0.8	1.0
RoE (%)	12.9	19.8	22.1
RoCE (%)	14.1	18.7	20.7
P/E (x)	77.9	47.0	35.2
EV/EBITDA (x)	43.8	25.7	20.8
P/BV (x)	10.1	8.9	7.3

Source: Company, Way2Wealth

**Relative performance**


Source: Company Data, Way2Wealth

**Analyst**

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- **DRONE SOLUTIONS – Anti Drone System (ZADS)** – Works on drone detection, classification and tracking on passive surveillance, camera sensors and neutralization of threat by jamming drone communication. Heavy Lift Logistics Drones (HLLD) to lift weight upto 50 kgs along with Hybrid Heavy Lift Long Endurance drones.
- **COMBAT TRAINING CENTER** – An expansive portfolio of live, virtual, constructive and mixed reality combat training systems to develop and maintain combat-ready soldiers. **War Gaming Solutions (WGS)** is a gen-next constructive simulation supporting conventional and non-conventional operations. It provides doctrine-neutral solutions for joint-services/combined and standalone operations. The models consist of Air, Land, Naval exercises along with **Military Operations Other Than War (MOOTW)** and **Nuclear, Biological & Chemical (NBC)** operations in limited capacity.
- **LIVE RANGES – CONTAINERISED INDOOR SHOOTING RANGE (CISR)** – A self-contained, transportable, live-fire shooting facility which is designed and built to include the target retrieval system/firearm judgmental training video simulator or to serve as a forensic ballistic test facility; **CONTAINERISED TUBULAR SHOOTING RANGE (CTSR)**– An secure indoor substitute for live firing. It is self contained, transportable and reduces the area required for a range considerably; **HAND GRENADE SIMULATOR (HE36S)**; **SMART TARGET SYSTEM (ZEN STS)**– An electro-mechanical, software-driven, acoustical projectile detection and reporting system designed to be used at outdoor ranges for live small arms firing; **SHOOT HOUSE for LIVE** and **SIMULATED INDOOR TACTICAL TRAINING**; **MASTER CONTROL STATION FOR LIVE-FIRING RANGES (MCS)**; **AIR-TO-GROUND FIRING RANGE SCORING SYSTEM** designed to provide training for air-to-ground weapons delivery ; **TANK ZEROING SYSTEM (TZS)** ; **SHOOTEDGE (CSWS)** ; **MULTI-FUNCTIONAL TARGET SYSTEM (MFTS)**
- **LIVE SIMULATIONS – ARMOUR COMBAT TRAINING SYSTEM (ZEN ACTS); (TACSIM) INDOOR TRACKING SYSTEM ; (TACSIM) TACTICAL ENGAGEMENT SIMULATOR**
- **VIRTUAL SIMULATIONS – 81MM MORTAR INTEGRATED SIMULATOR (81MM MIS); ANTI-AIRCRAFT AIR DEFENCE SIMULATOR (3ADS) ANTI-TANK GUIDED MISSILE SIMULATOR (ATGM SIM); INTEGRATED AIR DEFENCE COMBAT SIMULATOR (ZEN IADCS); UAV MISSION SIMULATOR (UAV SIM); BMP II INTEGRATED MISSILE SIMULATOR (BMP II IMS); DRIVING SIMULATOR (DS); BUS DRIVING SIMULATOR (BUSSIM); AUTOMATED DRIVING SIMULATOR (ZEN ADS).**

The company has developed the mentioned products on the bedrock of strong R&D investment in last 5 yrs **worth ₹693mn with cumulative sales invested in R&D in last 5 yrs at ~12%.**

₹ mn	FY19	FY20	FY21	FY22	FY23
R&D Expenses	123.3	148.2	92.89	138	190.9

Source- Company, Way2Wealth

### 3. The Indian Defense simulation and training related market is expected to reach \$14-18bn in next 15 yrs

The Defense simulation and training related market depends on acquisition of defense weaponries like aircraft/helicopters/UAVs/Ships/ Submarines/tanks and so on. **The Global market is likely to grow to \$38bn by 2024 with North America accounting for 61% market share with Asia, Europe and Others at 17%,14% and 8% respectively.** Among Asian countries India, Russia and China are likely to spend more on simulators. Simulations help in improving training abilities and reducing cost, it is estimated that out of the total defense revenue expenditure the Indian Armed forces spend 4-5% on training and related activities. Also currently in India 17% of Aerospace

Offset segment is for the Simulation & Training facilities. **Example** – Rotary wing simulator by Zen Technologies and Rockwell Collins. The Indian Defence simulation and training related market is expected to reach \$14-18bn in next 15 yrs. **Major Players** – DRDO, Zen Technologies, CAE India, BEL, HAL, BDL, Alpha Design Technologies.

Additionally, for modernization of armed forces under the Capital Acquisition Schemes, MoD favours procurement under the categorisation of 'Buy Indian (IDDM)', 'Buy Indian', 'Buy & Make Indian' and discourages procurement from foreign sources under 'Buy and Make' and 'Buy Global' categories, which are relegated to least preferred options. MoD is seriously pushing for indigenous design, development and manufacture of defense Equipment under 'MAKE Categorisation' and the list of such products are ever-growing. Only Indian Defence Industry can participate in these developmental projects and orders for such products will be given to them.

**MoD has put over 4666 items defense items under import embargo in four lists released in last 2 yrs. It implies that these items can no longer be procured from a foreign OEM in a fully finished state. They would either be designed, developed and manufactured by Indian Defence Industry or they will be manufactured in India by the foreign OEM in collaboration with an Indian Company. This applies to many simulators as well, which are in the Import Embargo list now. As per MoD, total import substitution value of the 2,736 items indigenised so far was ₹25.7bn.**

MoD is encouraging innovation and any innovation by the industry can now be shared with them through suo moto proposals. These proposals will be holistically analysed by MoD and user directorates in a time bound manner. If found useful, procurement action for such products will be initiated by the Government. MoD has also allocated funds to DRDO and Service HQs to support such innovations.

MoD is encouraging export of defense equipment and is supporting export through suitable strategy for the same, simpler procedures particularly for issue of NOC, defense diplomacy, export financing and other incentives and also through the Defence Offset Policy. **MoD greater impetus on new age simulator training solutions which will significantly cut down the cost incurred by the armed forces presently. This will imply that the armed forces will have to buy simulators for all their legacy equipment and all future acquisitions of weapons, platforms, equipment and systems will be done along with the simulators which will further improve the company's prospects.**

#### 4. New Drone Policy, 2021 & Drone (Amendment) Rules, 2022 simplification along with ban on drone imports in India could bring ample opportunity to ZTL

Drone usage in areas like mining, construction, film making, commercial delivery, mapping and search & rescue, could potentially alter entire industries ranging from agriculture to logistics. The Drone Rules, 2021 (Drone Rules) was issued by the Ministry of Civil Aviation on 26 August 2021 and do not apply to drones used by the naval, military or air forces of India. The Drone Rules have been issued in supersession of the earlier Unmanned Aircraft System Rules, 2021 (UAS Rules), which came into force on 12 March 2021. As of Feb'22, India has banned the import of all drones and components to encourage the domestic drone manufacturing industry to become a global drone hub by 2030.

The Drone Rules 2021 has also done away with the requirement of possessing a certificate of airworthiness, a unique identification number, prior permission and remote pilot licence for entities engaged in research and development (R&D) on drones. **The number of approval forms is reduced from 25 to 5 and the types of fees reduced from 72 to 4. The number of forms and amount of fees have been whittled down too – people now need to identify one of five forms and have to pay one of four categories of fees. The quantum of fees has been reduced to nominal levels and delinked with the size of the drone. The fee for a remote pilot license fee has been reduced from ₹3000 (for large drones) to ₹100 for all categories of drones and is valid for 10 years.**

The Drone Rules were issued with the aim to be at par with global regulations and replace the UAS Rules that were believed to be rather restrictive owing to its labyrinthine processes and compliances. The rules are based on the premise of trust and self-certification. Approvals, compliance requirements and entry barriers have been significantly reduced

**The coverage of drones under Drone Rules has been increased from 300kg to 500kg and will cover drone taxis. Drones under the Drone Rules have been categorised into 5 categories – Nano (less than 250 gms), Micro (250gms-2kgs), Small (2kg-25kg), Medium (25kg to 150kg) and Large (above 150kgs).**

One of the most significant changes that the Drone Rules has brought about is the way people can now gain authorisation to fly drones for recreational purposes. With recreational drone use on the rise, the most popular devices in this segment due to their affordability and practicality are likely to be classified as Micro and Nano drones.

The government also passed Drone (Amendment) Rules, 2022 which states that remote pilot certificate (earlier it was called license) will not be required for flying small to medium size drones of up to 2kg for non-commercial purposes. **Nano drones are exempted from obtaining Unique Identification Numbers and Unmanned Aircraft Operator Permit (UAOP). Also, no remote pilot licence is required for Micro drones (for non-commercial use).**

**Additionally Government's PLI scheme notification for Drone manufacturer – a big boost for ZTL.** The government of India issued a notification regarding ₹1.2bn production-linked incentive scheme for drone manufacturers. It is expected that the drone companies are likely to invest around ₹50bn on the back of this scheme. ZTL is only listed company in both Drone & Anti-Drone solutions. The total PLI per manufacturer is capped at ₹300mn which is 25% of the total financial outlay of ₹1200mn. For Indian non-MSMEs that are into making drones, the annual sales turnover requirement will be ₹40mn for claiming the PLIs. The minimum level will be ₹10mn in the case of non-MSME drone component makers. Subject to the norms, developers of software for drones and drone components, inertial measurement unit, navigation system, detect and avoid system will also be eligible for PLI. Being a leader in the industry for Anti Drone technology, ZTL could get more opportunity and benefits, supported by PLI scheme going forward.

Companies exploring the Indian Drone market are **Info Edge (India)** has made investments in **Bengaluru-based Skylark Drones**. **Swiggy has partnered with Skylark to test out its drone delivery system.** **DCM Shriram Industries Ltd** announced an arrangement with **Zyrone Dynamics, a Turkish UAV and drone manufacturer**. Under this arrangement, 30% of the firm's shares were bought by DCM Shriram Industries for US\$1 m, giving it a total valuation of US\$3.5mn. Zyrone Dynamics specialises in manufacturing small rotary-wing drones. Zyrone Dynamics has been promoting small drones that it calls 'variable volume' UAVs. **RattanIndia Enterprises** made a strategic investment in **US-based, Matternet**, the world's most extensive urban drone logistics platform.

## 5. Government of India Liberalises Drone Export Policy to make India Global Manufacturing Hub

The government has simplified and liberalised the policy for export of drones and Unmanned Aerial Vehicles (UAVs) meant for civilian end uses from India. India is looking at making its drone sector into a US\$20 bn industry by 2030 and has already brought the sector under the Production Linked Incentive (PLI) scheme. This decision aligns with the objectives outlined in India's Foreign Trade Policy 2023, which focuses on facilitating the export of high-tech items and promoting the export of domestically manufactured drones for civilian applications, while considering international non-proliferation obligations. The move will enable the global sale of drones that were previously restricted for export under the Special Chemicals Organisms Material Equipments and Technology (SCOMET) list. The SCOMET list deals with items that are subject to specific regulations due to their potential dual-use applications in terms of

both civilian as well as military uses and are governed by international obligations on non-proliferation.

The SCOMET license was required for the export of such items leading the country's fledgling drone industry to face obstacles when it came to exporting drones only meant for civilian use. Based on the wider consultations held with stakeholders the SCOMET policy for drones has been revised. Under the amended policy, civilian drones and UAVs with a range equal to or less than 25 km and delivering a payload of not more than 25 kg – excluding the software and technology of these items – have been brought under the General Authorisation for Export of Drones (GAED). The one-time GAED license will be valid for a three-year period. Following the announcement, drone manufacturers were already eyeing a huge growth potential for the goods and services. The liberalisation of export controls on drones may also encourage innovation and technological advancements in the upcoming industry.

### Key Risks

- **Uncertain quarterly earnings** – ZTL is into the simulators business where most of the customers are government bodies (Indian army, paramilitary forces, and state police). The lengthy order procurement policy can take long time to translate orders into revenue. The company is planning to diversify the business through exports, which will help them to reduce uncertainty on earnings.
- **High competition** – ZTL is the largest simulator manufacturer in India. With the increasing demand from India, company may face tuff competition from foreign companies. However, with the offset clause, the Government of India has secured companies like ZTL which are indigenous and R&D rich company. Defence sector has been opened up to the private sector, and the ZTL has a competition threat from big private players like Adani Defence and Aerospace, L&T, Bharat Forge, Data Patterns etc and PSU players like BEL.
- **High working capital risk** – ZTL has high working capital cycle of ~142 days as most of the customers are Government bodies. Such a high working capital cycle may deteriorate cash flow. However, the company expansion in overseas markets is likely to enable reduction in high working capital.
- **Government policy** – Any changes in the procurement policy of the defense forces or a significant reduction in defense spending could impact its revenue and order book position. Besides, any adverse change in government policy/terms for Defense units could impact ZTL's operation over the longer term.

### View

Zen Technologies continuous investments in R&D ensure that the products are technologically advanced and suited for the customer requirements. This coupled with more than 2 decades of track record of delivering value to our customers has not only made the company the preferred partner of choice but has also ensured enhanced share of their wallet. The governments keen focus on Make in India and Atmanirbhar Bharat campaign has created a conducive environment to make in India for the defense industry. This should act as a strong tailwind going forward. With the current usage of Drones by various Terrorist groups usage of the company's Anti-Drone technology and the simulators used for training. Once the equipment is sold the AMC contract begins at the 3-5th year which is more of an recurring business. Export opportunities with Indian government push of defense products to friendly countries in South East Asia, Middle-east and African countries auger well for the company going forward with government policy favouring it. The company has a asset Light business operations with bill of materials being 10-30% of final product price which has enabled focus on cost-control measures and extensive indigenisation efforts to improve profitability. ZTL has met its entire working capital requirement through internal accruals over the last 5 years. The company has also sufficient liquidity with healthy cash and bank balance of about ₹1674mn on consolidated basis, as on 31 March 2023. The company's focus in future is production of combat drones. **Hence, we view it as a BUY with Target range of ₹485-495.**

## Q4FY23 &amp; FY23 FINANCIAL PERFORMANCE

(₹ mn)

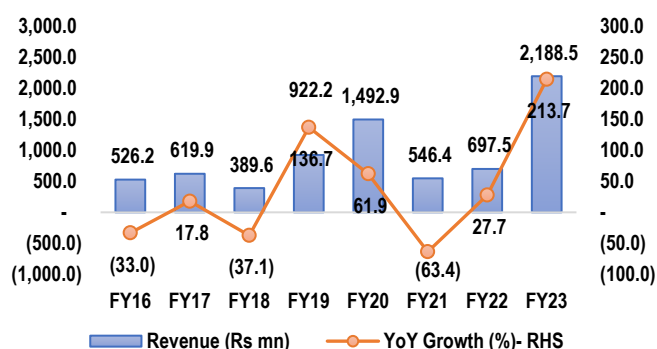
Particulars	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	FY23	FY22	YoY (%)
Revenue	958.8	277.8	245.2	524.9	82.7	2,188.5	697.5	213.7
Matl Cost	255.3	112.5	126.9	298.2	(14.4)	785.3	245.9	219.4
Inventory Changes	12.2	(64.1)	(119.0)	(133.6)	(109.1)	(199.0)	(114.5)	73.8
Manufacturing Exps	30.2	12.1	150.0	18.0	68.4	76.0	40.5	87.7
Employees Exps	134.9	64.7	108.4	80.7	67.1	359.2	210.1	71.0
Other Exps	174.3	104.3	67.1	94.4	84.6	440.8	269.9	63.3
EBITDA	351.8	48.2	629.6	167.1	110.6	726.1	45.7	1,489.4
EBITDA Margin (%)	36.7	17.4	1,934	31.8	486	33.2	6.5	2,663
Other Income	(0.2)	26.4	(100.6)	19.5	(100.8)	72.5	53.8	34.8
Finance Cost	6.3	6.6	(5.4)	21.0	(70.2)	40.8	15.3	166.3
Depreciation	15.2	12.1	26.0	15.4	(1.4)	60.6	48.3	25.3
PBT	330.2	53.1	522.0	170.1	(94.1)	717.3	33.0	2,071.4
Tax	96.5	1.6	5,983.1	50.8	(90.1)	217.6	6.9	3,037.5
Minority Interest	31.8	18.3	73.1	25.0	(27.0)	72.3	6.2	1,057.7
Net Profit	202.0	33.2	509.1	94.4	114.1	427.4	19.9	2,052.8
Net Profit Margin (%)	21.1	11.9	913	18.0	309	19.5	2.8	1,668
EPS (₹)	2.5	0.4	509.1	1.2	114.1	5.4	0.2	2,052.8
Adjus Net Profit	202.0	36.0	461.7	74.4	171.6	407.4	22.6	1,698.8
Adjus EPS (₹)	2.5	0.5	461.7	0.9	171.6	5.1	0.3	1,698.8

As % of Sales	Q4FY23	Q4FY22	BPS	Q3FY23	BPS	FY23	FY22	BPS
Cost of Matl.	27.9	17.4	1,048	31.4	(347)	26.8	18.8	796
Gross Profit	72.1	82.6	(1,048)	68.6	347	73.2	81.2	(796)
Manufacturing costs	3.2	4.4	(120)	3.4	(27)	3.5	5.8	(233)
Employee Cost	14.1	23.3	(923)	15.4	(131)	16.4	30.1	(1,370)
Other Exps	18.2	37.6	(1,938)	18.0	19	20.1	38.7	(1,855)

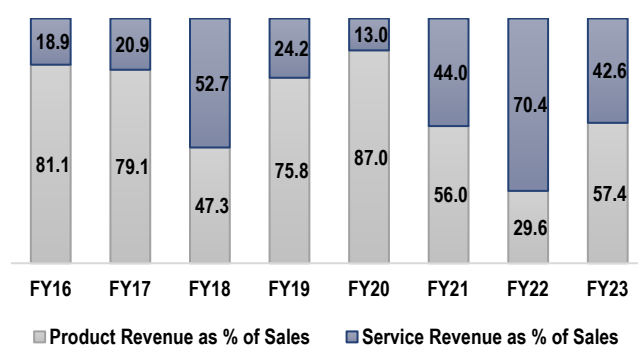
Source – Company, Way2Wealth

**Past Performance**

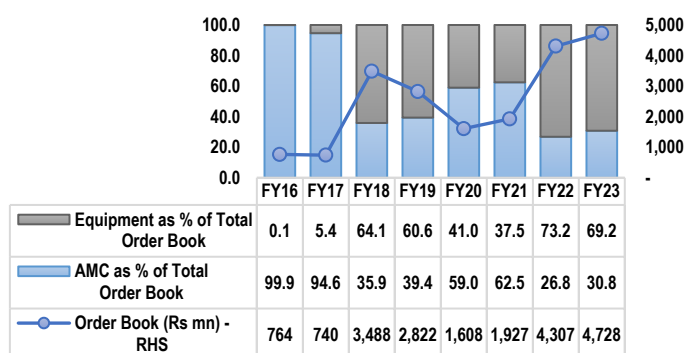
Revenue ~23% CAGR over FY16-23



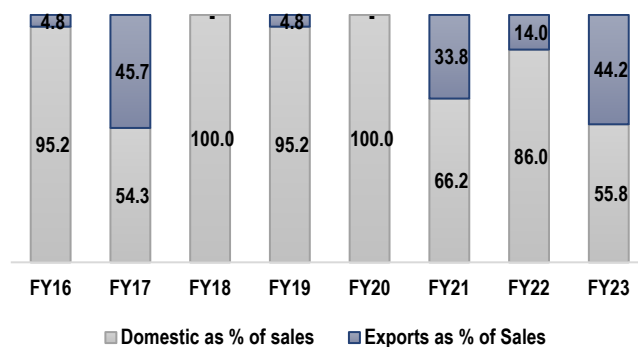
Revenue mix skewed towards services as products sales increases



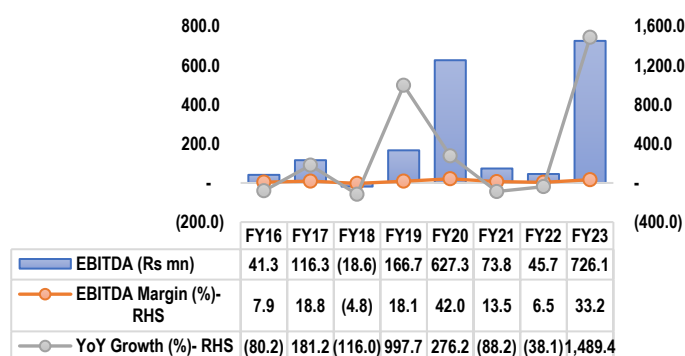
AMC order book showing upward trend



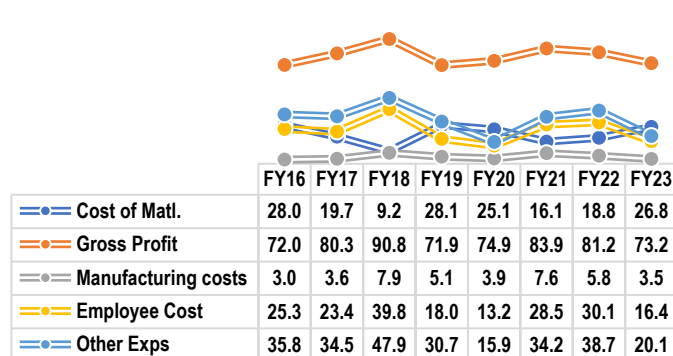
Export opportunities offer a good potential



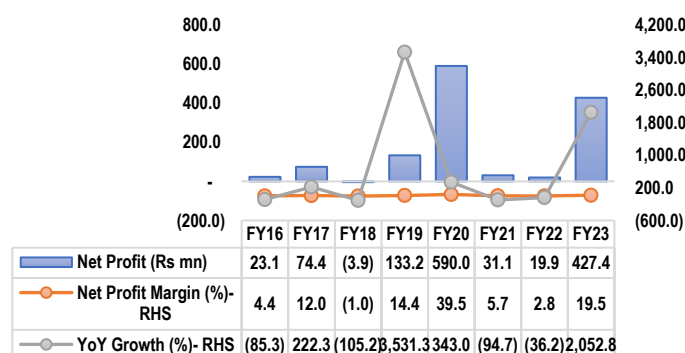
EBITDA ~51% CAGR over FY16-23



Cost as % to sales has stabilised

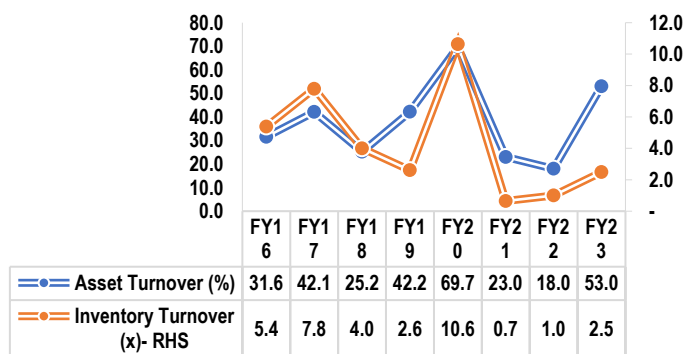
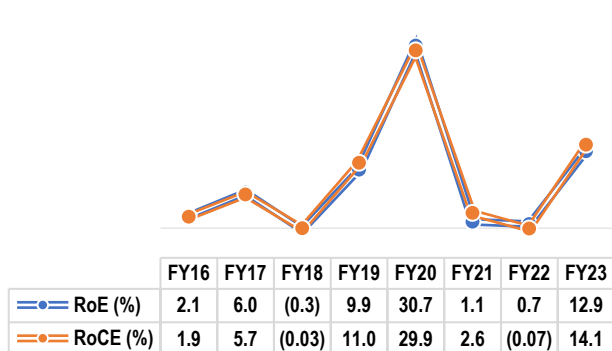
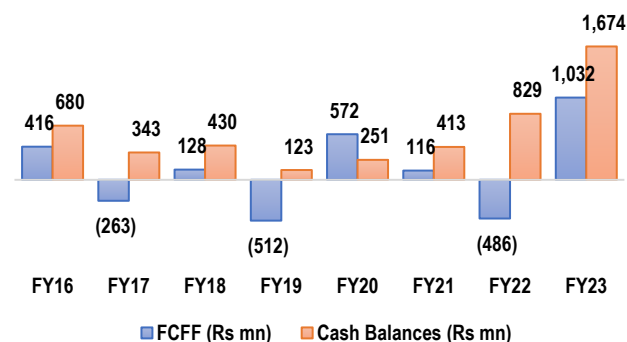
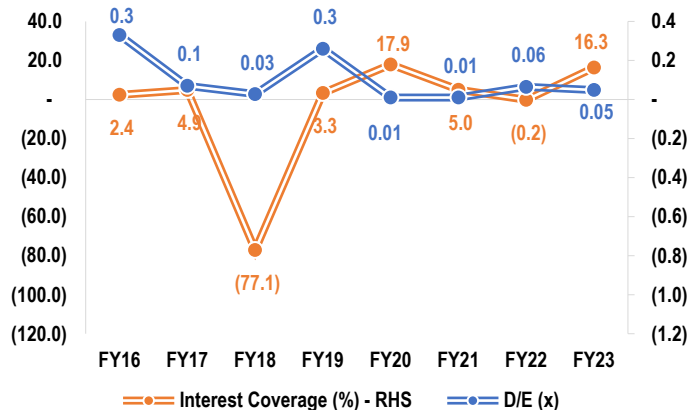
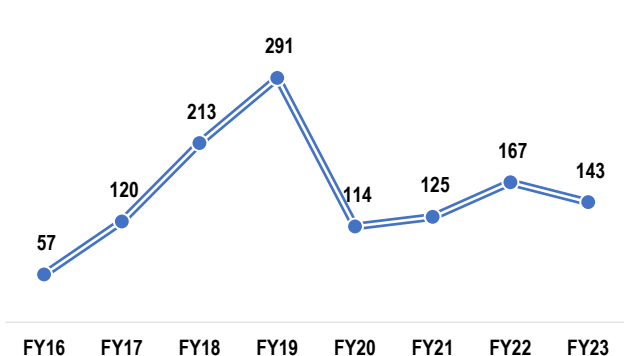


PAT ~52% CAGR over FY16-23



Source: Company, Way2Wealth

**Strong improvement in NWC days enabling negligible debt, Strong FCF and cash flows with enhancement in return ratios**



Source: Company, Way2Wealth

## FINANCIALS &amp; VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Product Revenue	184.3	698.9	1,298.3	306.2	206.2	1,255.4	2,146.7	2,720.7
Service Revenue	205.3	223.3	194.6	189.5	491.3	933.1	1,686.7	2,052.4
Revenue (₹ mn)	389.6	922.2	1,492.9	546.4	697.5	2,188.5	3,833.4	4,773.1
EBITDA (₹ mn)	(18.6)	166.7	627.3	73.8	45.7	726.1	1,248.3	1,508.6
EBITDA Margin (%)	(4.8)	18.1	42.0	13.5	6.5	33.2	32.6	31.6
Net Profit (₹ mn)	(3.9)	133.2	590.0	31.1	19.9	427.4	708.9	946.3
EPS (₹)	(0.0)	1.7	7.4	0.4	0.2	5.4	8.9	11.9
DPS (₹)	0.1	0.3	0.4	0.1	0.1	0.2	0.8	1.0
RoE (%)	(0.3)	9.9	30.7	1.1	0.7	12.9	19.8	22.1
RoCE (%)	(0.0)	11.0	29.9	2.6	(0.1)	14.1	18.7	20.7
Cash Balances	430	123	251	413	829	1,674	1,283	1,974
FCF	128	(512)	572	116	(486)	1,032	361	743
Receivables Days	212	290	114	124	166	142	150	142
Inventory Days	2	1	1	1	1	1	1	1
Payables Days	1	0	0	0	0	0	0	0
D/E (x)	0.03	0.26	0.01	0.01	0.06	0.05	0.04	0.04
P/E (x)	(8,576.9)	250.0	56.4	1,069.8	1,676.8	77.9	47.0	35.2
EV/ EBITDA (x)	(1,770.8)	201.5	52.7	445.7	714.6	43.8	25.7	20.8
P/BV (x)	28.1	23.9	16.3	15.8	11.5	10.1	8.9	7.3

Source: Company, Way2Wealth

**TECHNICAL VIEW**

ZENTEC has been moving in the upward slopping channel since January 2023 and gave a close above its short-term moving averages suggesting positive momentum. Based on observation of positive crossover in RSI on the weekly chart, the stock is likely to continue its uptrend in the short term. The stock has given a clear bullish break out from the symmetrical triangle pattern in second week of February 2023 on weekly chart signals bullish sign for short to medium term investors. The weekly momentum suggests that the stock has strong resistance at 453 and 460. If the stock sustains above 460 levels with good volumes, it can move towards 480/490. On the downside, the stock has found the support at 357 and 342 levels. **Going forward, technically, the weekly chart structure looks short term upside momentum and we advocate to Buy ZENTEC around 400-420 for the short to medium term target of 460/480 levels. On the downside 357/342 would act as strong support and slip below that would negate the short-term positive view.**



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## Disclosure of Interest Statement ZEN TECHNOLOGIES LTD. as on 28<sup>th</sup> June 2023

Name of the Security	ZEN TECHNOLOGIES LTD.
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL

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