



ZEN TECHNOLOGIES LIMITED

Certified ISO 9001:2015, ISO 27001:2013, CMMI ML5
Regd. Office : B-42, Industrial Estate, Sanathnagar,
Hyderabad - 500 018, Telangana, India.
Phone: +91 40 23813281/3294/2894/4894
Fax No: +91 40 23813694
Email: info@zentechnologies.com Website: www.zen.in
Corporate Identity Number : L72200TG1993PLC015939

Date: May 12, 2023

To
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001
Through: BSE Listing Centre
Security Code: 533339

To
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
Through: NEAPS
Symbol: ZENITEC

Dear Sir,

Sub: Transcript of the Conference call with Investors / Analysts pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

--000--

Please find enclosed the transcript of the Conference Call with Investors / Analysts held on May 8, 2023, on the financial performance of the Company for the quarter and year ended March 31, 2023.

Kindly take the same on record and acknowledge the receipt.

Thanking you.
Yours faithfully,
For Zen Technologies Limited

M. Raghavendra Prasad
Company Secretary & Compliance Officer
M. No. A41798

Encl: as above

Zen Technologies Limited
Earnings Conference Call
May 08, 2023

Moderator: Ladies and gentlemen, good day and welcome to Zen Technologies Limited Q4 and FY23 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only-mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Abhishek Mehra from TIL advisors. Thank you and over to you, Sir.

Abhishek Mehra: Thank you Michelle. Welcome everyone and thank you for joining this Q4 and FY23 Earnings Conference Call of Zen Technologies Limited. The results and investor updates have been emailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us and we will be happy to send it over to you. To take us through the results of this quarter and answer your questions, we have with us today Mr. Ashok Atluri – Chairman and Managing Director, Mr. Afzal Malkani – Chief Financial Officer and Mrs. Shilpa Choudari – Whole Time Director.

We will be starting the call with a brief overview of our performance which will be followed by the Q&A session. I would like to remind you that everything said in this call reflecting any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction with the uncertainties and risks that the company faces. These uncertainties and risks are included, but not limited to what we have mentioned in our annual reports which you will find on our company website. With that said, I will now hand over the call to Mr. Atluri. Over to you, Sir.

Ashok Atluri: Thank you Abhishek. Good evening all fellow potential owners of the Company. Welcome to the last quarter FY23 results and the full year earnings conference call of the Company. It has been quite a gratifying year and we have recorded the highest ever revenue in the history of the Company and we see that the momentum has just started, and it will continue to the future. During the quarter the fourth quarter we secured new orders worth about 141 crores and orders in hands improved to 473 crores. We have also participated in large bids, and we think that we have a possibility of winning some of them, but everything will become clear during the first half of this financial year.

These are significant if these orders come through and in anticipation we are taking some look at the key functions like the supply chain, procurement, production planning to ensure operationally we are able to execute the orders when we get them and also we have started recruiting very high-end technical manpower and non-technical manpower. So, as owners of the company if you have some good resources to be recommended, please do recommend them that will be very helpful to us.

Again, we do feel that Zen’s employees were underappreciated and to correct that we started giving ESOPs to them this year and we expect more ESOPs to be given to them and this is again without charging the shareholders in the sense that they we not issuing

new shares we are actually buying from the cash that we have from the market and giving it to them. So, that was the existing shareholders proportion of ownership does not get diluted and having said that coming to the liquidity position we have a very, very strong liquidity position and we will be able to allow not only execute these orders, but also plan our future growth plans like export market, more R&D and severe investment into Anti Drone Systems.

One of the questions that I am being asked is will you be raising further money, but again the answer to that is no we will not raise any money for these things unless a large acquisition comes which makes sense to us. Again, I am really very antithetical to any kind of acquisition just for the sake of acquisition. If it would makes sense or it is synergistic and in the real sense that the whole is greater than the part which they will make us better we will definitely look after looking to them.

Again, in the current scenario there was a simulation framework we have been talking about. In September 2021, the Government of India ensured that saying that the conventional training should be moved to simulator training for various reasons and we think that in addition not only efficiency, it is not only better soldiers, but it makes sustainable sense also in the sense that you have to be more environment friendly you save a lot of money and also armies is also talking about becoming sustainable army.

So, this is the way for the army to become sustainable, no pollution, no travelling to the ranges and the saving of the ammunition. So, it is all win-win and the people use them and the simulation framework has exactly given that push and we can see is it happening. In addition to that, the Government of India is also looking at emergency procurement plan which is also helping us. So, again our immediate plan is that how do we really exploit the leadership position in the simulators that we already have for the simulators and there are many simulators for which there is still no demand created. So, we are interacting with the armed forces and saying which of the simulators they would like to do.

So, that would be the second part and the third is of course we really want to invest a lot of money into anti-drone development. As of today we feel we are the number one in India and we will grow our efforts. We do not want to supply to the Indian Army with number one in India. We want to supply them the anti-drone system that is number one in the world in a worst-case number two. So, we will need to invest a lot of resources to be globally a dominant player in anti-drone system that is the third area of focus and of course we are also looking of exports market which are including Middle East, Africa and CIS country and we do expect that our annual maintenance turnover revenue will grow significantly after two years especially given the flow of orders that are coming they will be significant for us.

On R&D, we have spent the highest ever this year, but we expect to catch pace given the fact that anti-drone and export areas, export customization will be area of focus for us. Very frankly the results are very gratifying. We were expecting the results to be much more than this and the reason is that there is a spillover of the execution into the Q1. So, I think a significant part of the unexpected order will be executed in Q1.

So, Q1 definitely is expected to be a little strong quarter for us, but overall, we are very, very hopeful about the whole year and we said that 470 crores of orders are pending as on date and we expect that about 350 to 400 crores of that may be executed during the year.

So, this was the order book position and these development sets the stage for a robust start for the next financial year, and we are extremely thrilled to build on this momentum.

In conclusion, I would like to say that Zen is working with great financial position, fantastic innovations happening as we speak including getting into augmented reality, extended reality, mixed reality and very, very focused R&D in the area of anti-drone systems. We have never been so excited in our 30 years of our existence. Even though two decades of our listing since 2000 we got listed at as par, we had gone at par now after 10:1 split we are still doing well. So, with this, I would like to hand it over to Afzal to just go through the highlights of the year and the quarter and then we will open for question and answer. Afzal could you take over from here.

Afzal Malkani:

Thank you, Sir. So, good evening, everyone. As you just heard from our CMD, we are thrilled to report that we have delivered an excellent quarter on multiple fronts be it quarterly or year-over-year growth during Q4 FY23 and the fiscal 2023 with our highest ever revenue achieved. I am pleased to provide you with a financial update of our performance on both a standalone and consolidated basis. Let me begin with our standalone financials highlights for the fiscal 2023. We witnessed a revenue growth of 200% on a YoY basis reaching Rs. 161.44 crores. Our EBITDA grew by 701% on a YoY basis to Rs. 58.33 crores and we saw a remarkable PAT growth of 1,763% on YoY basis which was Rs. 37.64 crores. Out of our revenue Rs. 125.54 crores were contributed by the sale of equipment while Rs. 35.90 crores came from over AMC business. In terms of equipment sales, we witnessed a split of Rs. 55.5 crores and Rs. 70 crores between export and domestic respectively.

Moving on to the stand-alone financial highlights for Q4 FY23 we achieved our revenue growth of 364% YoY reaching Rs. 74.14 crores. Our EBITDA grew by 960% on a YoY basis reaching to Rs. 26.5 crores and we recorded a PAT growth of 1,133% on YoY which was Rs. 17.27 crore out of our revenues for Q4 Rs. 66.28 crores were contributed by the sale of equipment was. Rs. 7.86 crores came from our AMC business.

In terms of equipment sales, we witnessed a split of Rs. 31.22 crores and Rs. 35 crores between export and domestic respectively. Moving on to our consolidated financial highlights for the fiscal year 2023 we achieved a revenue growth of 213% compared to FY22 and achieved our revenue of Rs. 218.85 crores. Our EBITDA grew by 100% on YoY reaching Rs. 79.86 crores and we saw a PAT growth of 2,047% and achieved a pat of Rs. 42.74 crores after adjusting for non-controlling interests.

Now, in conclusion we are pleased with our financial performance and remain optimistic about our growth prospects for the coming year. With that, we conclude our opening remarks, and we would now like to open the floor for questions and answers.

Moderator:

Thank you very much Sir. We will now begin the question-and-answer session. The first question is from the line of Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur:

Just a few questions from my side to start with could you give us any kind of guidance on revenue growth and margins for the next two to three fiscals and if possible if you could split that you know either growth projections by equipment sales and by AMC that is my first question?

Ashok Atluri: As I gave the overall projection that you know number one the first quarter is going to be strong because there will be a spillover and then we expect 350 to 400 crore kind of turnover this year and let us see how it turns out, but that is the pending order size now currently with us. So, that is a very broad guidance that we are giving. In terms of AMC, we expect the AMC to grow to, I think they are about 40 crores now they may grow to about around 50 crores or so, but as and when these current orders get executed the ones which have been executed and they get executed typically after two or three years depending on the warranty of the period they start generating revenues anywhere between 8% to 11% depending on what the AMC is. So, we think that additional AMC may be generated third year onwards from this. So, that will be a very good thing in the sense that not only our overhead will be taken care of, but we will also probably make a profit just out of the services that we are entering.

Shirom Kapur: My next question is regarding so just to get an understanding so in your revenue split on the presentation you give AMC versus equipment for your standalone at consolidated level where we have the subsidiary revenue, is there a split of equipment and AMC within that or what kind of revenue is generated through the subsidiaries? Is it comparable to what the standalone business generates?

Ashok Atluri: This is I think a completely equipment, but I will check with Afzal whether there is anything that Afzal can you clarify?

Shirom Kapur: My question is within the subsidiaries is there a split between equipment sales and AMC or is in all under equipment, if you could provide that breakup?

Afzal Malkani: Yeah 100% equipment.

Shirom Kapur: You know compared to FY21 and FY22 where we saw 80% plus gross margins in FY23 we are seeing gross margin come down to about 73%, is there any reason for this sharp decline, is it maybe because equipment sales have gone up versus what the share of AMC was earlier or could you please give some color on that?

Ashok Atluri: You are in fact very right. I think because that was only AMC there is not much equipment cost, but mainly mostly of the manpower costs which are there. So, you are right absolutely that because of the AMC revenues as the percentage was very high in at 21-22, but subsequently this equipment that has taken over and so the gross margins have come down.

Shirom Kapur: And my last question is this increase in bandwidth and manpower that you are planning to do to deal with the additional business, how is it going to affect your cost profile and margins, are we going to see higher employee costs and higher other expenses as a percentage of sales going forward?

Ashok Atluri: No, it will definitely not be negative. I think we will be able to maintain the same margins, but you are right that margins are under pressure because all the input costs have gone up, but our thinking is that we should be able to manage this up to 35% of margins operating margins.

Shirom Kapur: Is it 35 or 40%.

Ashok Atluri: 35.

Moderator: Thank you. The next question is from the line of Manan Shah from Moneybee Advisors. Please go ahead.

Manan Shah: You mentioned that there was some spillover of the order from current quarter to the next quarter, can you quantify that number?

Ashok Atluri: So, I think they would be about 140 crores or so

Manan Shah: This order we are expecting to execute during the Q1?

Ashok Atluri: During H1 definitely, but mostly much in Q1.

Manan Shah: Also, we were executing a large order for the anti-drone so I believe around 90 odd crores remains unexecuted, is this the same order or is it a different order that we are referring to?

Ashok Atluri: It is the same order we are referring to.

Manan Shah: My next question was only R&D so we spent roughly 19 odd crores last year and going forward also, so just wanted to understand whether this R&D is primarily towards these simulators or towards the anti-drone and I mean what are we thinking over there?

Ashok Atluri: It is a mix of both anti-drone and simulator expenditure, but we expect anti-drone systems to really pump up in the next few months and years. R&D expenditure will also increase because the Government of India is moving towards the new equipment mostly made India kind of equipment. So, we will have to make newer simulators for the new equipment that that are coming in and the third thing is we are participating in international trade where export equipment will require customization of our simulators to match the their tank or their artillery or their weapons. So, yes R&D we expect it is going to go up.

Manan Shah: So, primarily the R&D spent is happening on the anti-drone side where in the hard kill we try and integrate our system with their hard kill equipment.

Ashok Atluri: So, hard kill investment is also there. So, the expenditure is happening in two fronts. One is Zen is making some expenditure and our subsidiaries is also doing some expenditures. So, the part of the work what we are doing is reflected in there and yes of course the one major area is integration of hard kill partially the hard kill integration for couple of weapons, but we want to expand it to other hard kill options also.

Manan Shah: Next question was, so I mean in our history we have not executed such large order. So, wanted to understand how are we gearing our manufacturing partners in our supply chain to execute these large orders that we're anticipating going forward?

Ashok Atluri: So, the thing is very frankly last year we did about 60 crore this year we did about 160 crores and we have almost executed the other part also. So, from 160 to 200 crores to another 300 or 400 crores, we do not think it will be a big challenge, but what we are doing is we are actually ramping up the supply chain very much so that even if extraordinary amount of order instead of something even of 2x what we are expecting and we should be able to handle it. Everything is being looking deeply where are the bottlenecks moving the bottleneck, this is our dream situation. You know dream situation

is sales should not be a bottleneck and some supply chain should be the bottleneck if that situation comes we would be very happy about it, but secondly because we are preparing because its operation challenges should be smooth. So, we will do a lot of exercises of what are the possible operational bottlenecks, and we are trying to ease them and we feel confident that when the orders come we should be able to do this.

Manan Shah: And lastly we have seen very good cash flows, but I understand that based on the increase in the other liability items these are some large cash advances that we have received, is that understanding correct?

Ashok Atluri: One thing is there is a cash advance that we have received, but the fact is that we have not recognized the revenue because there are certain clauses in the contract that needs to trigger to recognize the revenue. So, our part of the liability is over, but it is not recognized. I would say that that is the difference, but there is no much expenditure to be incurred in that regard.

Manan Shah: So, can you quantify what sort of numbers of this advances that we have received?

Ashok Atluri: It is about 70 crores you have received so 70 crores has to be recognized.

Moderator: Thank you. The next question is from the line Harsh M. Please go ahead.

Harsh M: I just have one question are we seeing any traction on the Agnipath scheme and have we received any orders under that scheme?

Ashok Atluri: There is a huge demand because the government wants to efficiently reduce the thing and we are expecting some orders in that regard also. So, it may happen in the next few months, but just a big plus for us because the government wants to give better training in a shorter frame and the only way to shorter frame of time can be training on simulators. So, we have lot of enquiries for asking for the simulators. So, it is giving us a big kind of advantage as we go further.

Harsh M: Can you quantify the enquiries which you are getting as of now like in few crores, what would be that quantum if it translates?

Ashok Atluri: Maybe a couple of 100 crores yeah.

Moderator: Thank you. The next question is from the line of Darshil Jhaveri from Crown Capital. Please go ahead.

Darshil Jhaveri: So, I am a bit new to company so I just want to know as our revenue increases, how do we have to see capacity in terms of our industry, so would there be a proportional increase in expenses we will be able to benefit from leverage or could you just help me get a bit about our capacity and how much is it capable of handling right now and what additional cost would we need to incur?

Ashok Atluri: So, again when we look at a company like Zen we are actually our bill of materials goes somewhere between 20% to 35% on an average of the contract cost and the remaining 65% to 80% on an average they reflect the IP content of the form which is basically software product. So, again we always believe that we should be with the most value driven company in the world as far as training simulators and anti-drone systems are

concerned. So, because our competition is from foreign overseas companies mostly we get a good margin on this. So, to your question will these kinds of margins sustain into the future. We do think that these margins are sustainable into the future, do we get any fixed expenses because fixed expenses are limited we will get some leverage, we may get some leverage. We do think that there will be leverage, but again we are being extra cautious and conservative and saying that we will sustain these operating margins, but in all probability they may improve.

Darshil Jhaveri: And our R&D would also be on the similar lines like as a percentage of revenue or that might increase right on a couple of years because we want to go a bit more on research?

Ashok Atluri: So, one thing is I should potentially warn the people who want smooth earnings and predictable revenues and all that. So, that is why we do not have any institutional investors in our company. Know that Zen management is very opportunistic if they find a good opportunity, they will invest a lot of R&D. If there is no opportunity, they will relax and they will not hurry up on the same. So, we will never work as a percentage which lot of large companies do if sales grow. I must do 8% whether there is opportunity or not we spend the 8%, not in Zen. In Zen we will be very careful that if there is a huge opportunity we will spend a lot, but if there is no opportunity we will not spend, but as indicated now to you we are looking at areas of exports, anti-drone systems and more products from India emerging simulator for those few things and we should see R&D go up, but again it will never be as a percentage because we have something where 8% has to be spent to show to some presentation to someone no, but yes we will be spending we expect the R&D expense to go up, but it will never as a percentage of thing.

Darshil Jhaveri: And if I may just one more question so we are talking about a lot of orders that we have applied for, so any value you know how much we have applied for and what could be our win rate, something along those lines would help a lot?

Ashok Atluri: It is a few hundred crores, but I would just wait for the things to work out and you have to just wait for a couple of months. The result will start trickling down and we feel that our fellow owners will be gratified with the results.

Darshil Jhaveri: One more question like in terms of order, so how much time do we really think we could complete whatever we have in orders in terms of equipment in a year like on an average what would be the time period?

Ashok Atluri: I think on an average between 1 year to 18 months should be enough for us only in very rare case we have gone beyond 18 months.

Moderator: Thank you. The next question is from the line of Divya Raj from RD Investment. Please go ahead.

Divya Raj: Any deadline for exiting order book?

Ashok Atluri: Yeah, so this 470 cores that we are saying out of that 350 to 400 crores will be executed during the current financial year. We are expecting it to execute during the current financial year.

Divya Raj: And any upcoming order in our hand or pending order?

Ashok Atluri: So, we have bid for a few 100 crores worth of bids from the government and there are some exports also in this. We expect the result to come in the first half of the financial year, they may come earlier than we expect or maybe, but anyway not beyond September 30th is what our calculation says. Again the moment we will get it before we realize, it is in the Stock Exchange. So, please keep an alert on Stock Exchange and you will be the first to know.

Moderator: Thank you. The next question is from the line of Akshay from Envision Capital. Please go ahead.

Akshay: Sir, wanted to know what would be our revenue from Indian government and entities currently as a percentage of total revenue?

Ashok Atluri: Indian Government I would leave it to Afzal to answer it, but I will add Afzal can you say how much is the Indian government revenue out of this 160 crores?

Afzal Malkani: Yeah, out of the Rs. 160 crore if we see our domestic revenue is about Rs. 70 crore so almost 50% revenue is coming from the domestic market out of this 70 crores we can say that 85% to 90% is from the government.

Akshay: But even the AMC revenues are from the government of India that 35 crores whatever it is?

Afzal Malkani: Apart from that, apart from the equipment yes AMC revenue is also from the government. So, we can say that from 70 crore for the equipment and Rs. 35 crore for the AMC. So, total approximately out of Rs. 105 crore I think approximately 85 to 90% we can say.

Akshay: Sir, on the AMC side we are planning to scale up to 40 to 50 crores of revenue currently the order book stands at around 146 and if I am not wrong these are executable over a period of five years, right?

Ashok Atluri: It is like this. I would say it is not exactly divided by 5. Because out of five years I might have executed two years. So, they may be having only three years of runway. So, I think towards the fifth years if you taper down a bit, but all together it is executable over five hours, but not divided by five. It will be little higher in the beginning and as we go down it will be lower.

Akshay: And what would be the order anti-drone order value which we are going to execute total order value?

Ashok Atluri: So, total order value is around 150. So, another 90 crores is unexecuted which we expected to execute.

Akshay: So, lastly we had been talking a lot on R&D and likes so as per my understanding in defense generally the companies, other companies, private companies actually are incurring development costs and they are generally getting reimbursed by DRDO though they would not have an exclusive IP for that, but still they have these sort of models, so in your since you are an industry veteran, so in your perspective which is a better model and why have we adopted to go for a upfront R&D model views on it?

Ashok Atluri: Very quickly you touched upon the subject, which is little deeper, but I will try to run it down in maybe two, three minutes. When we look at a lot of people talk about Make in

India and all that and we always talk about Make in India as a big thing, but when you look at products like Apple and you know what the cost of material where \$1000 Apple Phone the bill of material is \$245 and you know how much does Foxconn charge the for \$1000 how much does it charge Apple are you aware of that?

Akshay: No, I am not aware.

Ashok Atluri: So, it charges about \$5. So, Make in China content of \$5 of Apple is only 0.5% not even 1%. So, to make the manufacturing aspect is very less part of this, the \$750 that Apple gets of course there are other costs, but the \$750 that Apple gets is because it owns the IP of the product. So, the IP content is very, very important. So, very early we had decided that we do not want to be the manufacturer or just the manufacture of the product. In fact, we will outsource the manufacturing. During the whole supply chain when you look at R&D, engineering, manufacturing, procurement, delivery installation after sales maintenance all the sectors are owned by us except manufacturing which we outsourced to Hyderabad and other vendors who are much more capable than us. So, R&D has been a way to capture more value and again when you own the IP, your ability to capture more values is there and second thing is when you collaborate with like DRDO it will be a great organization, but they are designing the product and they are giving you the design and they are asking you to manufacture it sometimes the desired ownership is with them, but this is a very good model. They have called DCPD where they will earlier we could designate anybody as manufacturer, but now they find this DCPD we will make you the production partner, but again the point is the past everything is maintained, but next time you want to upgrade yourself, how will you upgrade. So, our thinking is this that when we own the IP, when we do the design, we are evolving at a an insane rate every three months the product is being improved, but for an organization like DRDO that rate of improvement is not possible and again we never ever are we under the delusion that we are competing with Indian partner for Indian order, we always think we have to deliver world class product to our Indian government, so what do we do that? So, that is the reason we compete with the best in the world and we have been doing similar to that but again in anti-drone we are still not there. We will be there in three to five years, but I hope I have answered your question.

Moderator: Thank you. The next question is from the line of Gautam Rathi from CWC. Please go ahead.

Gautam Rathi: Actually, I just wanted to understand couple of things better for a quarter result, so one was the employee expenses what we see now, what we used to do 7 crore, 8 crores a quarter has moved up substantially to 13.5 crore, is there something which is onetime in this expense or is this the new run rate which should continue into the future, how should we think about this?

Ashok Atluri: Sorry Gautam what is that which was 7 crore became 13 crore I missed that part?
Gautam Rathi: Quarterly employee cost which was 7 to 8 crore?

Ashok Atluri: It has gone up because we are expecting larger order. We need more manpower and this we expect will go substantially up into the next year because we will be executing larger orders and we will be requiring not only more manpower, but better manpower. Not only at the middle level, but also at the top level. We expect these costs to go up, but even if they go up substantially then still, we will not have a great impact from the bottom line of the company.

Gautam Rathi: So, 13 and a half crore what I understand is a stable expense now you will add on to this as the quarters goes by right, as you get larger orders you believe this, this could move up to say 15 crore to 20 crores a quarter kind of number am I understanding it right?

Ashok Atluri: Yeah, let us assume that we will go to 25 crores.

Gautam Rathi: If you see our roughly generating 100 crores a year employee expenses that is these are I am assuming all permanent employees and you are getting and where are we adding, are we adding it for sales, are we adding it for?

Ashok Atluri: Lot of temporary employees. I think as on today the temporary employees are almost 35% to 40% of our employees are contract employees. So, there will be few substantial amount which will be recruited just for the order of execution and we have a incentive for these guys who perform very well. We take them into the permanent role, so they have a huge incentive to work very hard so that is what we do, but these are not like a permanent fixed cost. They will go to 25 crores only if we are getting order from those sides.

Gautam Rathi: So, you are basically saying that 13 crores is primarily because you executed a large amount of order and which is why you had temporary employees, you expect their revenue to continue which is why the employee cost will go up and if the orders do not come through the employee cost still normalized, right? Is that understanding correct?

Ashok Atluri: Yeah, exactly you are absolutely right, you are 100% right.

Gautam Rathi: And just to understand better because you said there is also some amount that you are investing in permanent employees for R&D and other opportunities, so can you just bifurcate that how much of this 13 and a half crores would be investment in structural investment in increasing your capacity versus how much would be for temporary employees?

Ashok Atluri: I would say about 60% would be almost permanent and 40% would be temporary, but I am just making a wild guess at this point in time. I could probably give you better figures, but again the point here is we are very, very conservative and you should pray, you should actually go to Tirupati walk up and give up your hair if we incur 25 crore expenditure.

Gautam Rathi: We are very happy we have been waiting for you to do this?

Ashok Atluri: You should actually deliberate that.

Gautam Rathi: And just one request Mr Atluri which will be very helpful on behalf of the entire investor community if you could also whenever you think it is right also you know give out a probabilistic framework for your funnel wherein you could just give us that the large orders that you see in the funnel and what is the probability that you assign for it going forward, so it could be it could be very helpful for us investors maybe you could do it every 6 months or whatever way you see it, it will be very helpful for us to track the company well?

Ashok Atluri: Number one there is this 80-20 rule is very applicable that you know 80% of your revenue comes from 20% of the order. When you do a probabilistic model this does not work on these things, at least in our case it is very difficult to do, but you know what I want you to

do is I will lay down on the table Zen is at intersection of technology, manufacturing and defense. We have hit the sweet spot of that. If you believe in the India story, if you believe in this government then Zen is playing out that story at this point in time and we are actually we are the biggest beneficiary of all the initiatives that this government is doing. So, don't think that microscopically what will happen to this, what will happen to that. The big picture is that that Zen has been working for 30 years and now time has come. We have been developing IP and nobody used to give a damn about IP in the Indian government, but in only in 2015, 2016 the new initiative called indigenously designed product to be given preference was introduced by late Manohar Parrikar ,may God bless his soul. We are now talking about Aatmanirbharta, what is Aatmanirbharta? Aatmanirbharta is self-reliance and IP play. So, government is completely changed. They know that if the companies like Hyundai and Honda are there. They may make in India, but billions of dollars of revenue royalties are going out of India. So, now as Nitin Gadkari said we need to own the designs of the engines and all that. So, we can go into all these models and satisfy you probabilistic I mean there are many packages like that that will give you a tremendous feeling of Oh my God this is good, but anyway I get you point Gautam we will try to work out, but get the big picture that this is what kind of in fact is Zen and I think that will be a better thing, but again we may need these kind of projections to convince some investors. Let me discuss internally with my team and get back to work.

Gautam Rathi: No, we fully understand what you are trying to say and we fully understand the excitement that you are seeing in terms of the change that is happening out there and we also understand the risk of putting these things out because it may not play out lot of things can go not good as per what the models say. We fully understand that, but just think of it from our point of view we are completely in the dark dark. We may become slightly lesser dark is what we are saying it will give us some sense of what is to happen. Whatever you think is the best way possible is we can definitely work with that. We are not asking for anything, but whatever you think is the best possible way to see this we understand that. The big picture story we fully understand.

Ashok Atluri: No, Gautam really I am putting myself into your shoes and I appreciate your question, but I am just trying to give my angle of the thing, but now that we have raised it, let me discuss with my internal team and try to see what kind of model can we create so that you know it can resonate with you.

Moderator: Thank you. The next question is from the line of Rajiv Kumar Gupta from Prudent Invest Mart. Please go ahead.

Rajiv Gupta: I want to ask one question lately ZEN participated in tender for anti-drone system I think portable anti-drone system and some Indian startup won that tender, so is the competition bringing up in our anti-drone system and did our company also took part in that tender or not, If that is possible so in future is our company going to facing some margin pressure on that or why we lost that tender please?

Ashok Atluri: So, Rajiv let me try to understand this, let me try to rephrase your question what you are saying is did we participate in any tender in which the startup took the order from us, you have the name of the startup with you?

Rajiv Gupta: I think it was in the name of Colonel some Colonel I forgot the name individual Colonel who won the tender 180 portable anti-drone system tender was there?

Ashok Atluri: So, we do not make portable that it was a handgun thing. It is a very small basic thing. So, we did lose that time and so we do not make that thing. See, our price was priced around the larger ones that we make. So, in our segment which cost between 5 to 7 crore, we do not have any competition in India and we are very focused on that segment only. So, this segment is very, very big segment. So, the startup segment is a different segment. As you are right about it, but this is about two years back you are talking about not in the recent past. So, the fact that we are making in our area there is nobody in the indigenously designed capability who is able to compete with us, number one. Number two the problem with the startup market is this that we are playing an infinite game. All the startups are playing a finite game, so what is the difference between infinite and finite is they want to do development in one year, one and a half years they want to get orders, two years they want to raise money, three years they want to become a unicorn. So, by the way we are 30 years into the thing we are still we are about \$300 million now and that in the last two years the growth has been there. So, people know this product requires 15 years of maintenance. Now you want to be with a long term player. The government now and armed force are becoming very careful that who do they give the order and are these guys able to sustain for the next 10 or 15 years. So, this is not really a startup kind of thing I would say a new software package or something is different from this where commitment of 20, 30 years is required from the player. To your question yes this was something we did not want to focus on, so we quoted very high we did not get that two years back, but now we have one segment very clearly defined in which we are absolutely and again our IP is almost 100% IP, we do not do any foreign software at all in this. It is complete the safest way to do to counter drone activity. So, I hope I have answered your question.

Rajiv Gupta: The market size of the anti-drone system in India?

Ashok Atluri: It should be couple of billion dollars.

Rajiv Gupta: Couple of billion dollars in India because I read the market size of the total 2029 report that it would be around 12 billion dollars of the world over?

Ashok Atluri: So, when we talk about this thing when we multiply this typically the size of the protection that they gave you is around 10 kilometers. When you do around the whole border and the sea land of the country and all the nuclear installations, refineries with all these things when you start adding that up and you can see what are we talking about. Couple of billion dollar is 2000 of these system, do we require 2,000 system? My bet is more than 2000 systems, much more than that.

Rajiv Gupta: Are we also going to set up our office in Dubai, so we are just looking for that anti-drone system there also, is there any probability that we could find some ordering that on anti-drone system from Dubai market?

Ashok Atluri: No, Abu Dhabi we have an office so we got an order, we are executing the order currently. So, that is one thing. The second thing is we are putting in export effort, we are trying to export also from UAE, but it will be basically orders will be from India only. So, yes we are trying for both the simulator and the anti-drone systems from that that we are using that as a marketing place for our Indian products both simulators and anti-drone systems not only just anti-drone but both of them we are trying to promote into it globally into the market. Three markets that we have talked about Africa, Middle East, and CIF countries.

Moderator: Thank you. The next question is from the line of Abhijit Mitra. Please go ahead.

Abhijit Mitra: I have a couple of questions firstly regarding AMC and the percentage of AMC of your topline, how do you see that number moving as over the next three to five years?

Ashok Atluri: So, the next one thing is typically when we execute the order in the current year we give a warranty of typically two years maybe very rarely three years. So, after three years the warranty kicks in and if we have seen that most mostly the armed forces etcetera, they usually take the AMC because they are very keen to keep the equipment operational. So, whatever we are executing in the current year and the next year let us say 160 plus 300, 350 or whatever. So, these 500 crores let us say we just see from now this is 24 year and we are talking about by 26-27 these were all kicking into as AMC revenue. So, now we are at let us say 45 crores by that time we will be around 95-100 crore.

Abhijit Mitra: As a percentage it may not necessarily increase because the revenue is there?

Ashok Atluri: You should actually say that 90 crores become insignificant percentage that is what you should pray as a shareholder, but it should become 1% because the other 99% will be 9,000 crores.

Abhijit Mitra: And in terms of anti-drones, I mean anti-drone system as a percentage or as a pie I mean would it be sort of majority of your top line I mean that is how you are sort of placing out or you feel that simulators can also contribute significant?

Ashok Atluri: So, one thing is worldwide, two things happened. One is the Indian government moving towards this simulation framework and making it compulsory in September 21 and then the Ukraine War broke out between Russia and Ukraine after the war broke out they were furiously procuring the operational equipment only a much deeper into the war. We should not actually be trained for operating this expenditure then they accelerated procuring the simulator for the weapons because did not know how to operate them. So, it requires a lot of thinking, a lot of forethought that trained manpower is the key to winning a war and the conventional training methodologies are not enough given the situation and given the urgency to train people efficiently and cost effectively and in the environmentally friendly way in a short period of time.

So, yes simulators are growing not only in India, but worldwide they are catching up at this point in time number one. Number two anti-drone system will become significant contributors to our revenues especially in India. We think we will become, but globally also we want to become a dominant player and really see that there are a lot of anti-drone systems are exported from India, but there is a question mark on that because we are we are doing R&D and the other people are also doing R&D. How will we come up against them? It is almost like a game whether they are betting on something, we are betting on something, how will it work out is a little bit of unknown, but we think we will be a significant player in anti-drone system. So, with that, I would like to conclude on this.

Abhijit Mitra: In terms of total addressable market which one gives a higher pie does anti-drone gives a higher pie or simulator gives a higher pie?

Ashok Atluri: So, probabilistically in the sense that certainty if I see IP simulators where we are going to be a big market for us, but probabilistically if we get little lucky anti-drone would be absolute categorical and it would be dominant.

Abhijit Mitra: And annually what would be the spent of simulators by the armed forces put together army air force?

Ashok Atluri: I think air force and navy would be very, very huge, but an army our addressable market I think would be about 8,000 crores Zen's addressable market.

Abhijit Mitra: Does the annual spend on simulators that they execute?

Ashok Atluri: No, I am talking about the addressable market over the next five to seven years so approximately 1,000 crores is what they are spending right now and out of that majority would be imports.

Abhijit Mitra: In the past they were not spending, but after the introduction of this simulator framework they will start spending from this year onwards if you feel?

Ashok Atluri: So, we will see how much they will buy from us, how much they will have to import we will have to see all that.

Abhijit Mitra: Sorry to extend it by one last point. So, how much have they actually spent over the years on a per annum basis, what has been the spend?

Ashok Atluri: So, you can say that whatever Zen's turnover has been their spent approximately.

Abhijit Mitra: But there would be also an import component I guess?

Ashok Atluri: So, there is import component not in the army simulators because army simulators are available in India, but for example flight simulators, naval simulator that are not made in India, they have been importing it from abroad like flight simulators etcetera.

Moderator: Thank you. The next question is from the line of Ajay Surya from Niveshaay. Please go ahead.

Ajay Surya: My only question is like what is the order book for our subsidiary and is it towards equipment or AMC and how much do we expect our subsidiaries to contribute for this current year?

Ashok Atluri: So, I do not think they have executed all the orders they have in hand Afzal do you have any figure on that.

Afzal Malkani: Yeah, approximately Rs. 40 to 45 crore.

Ashok Atluri: They have order book position 45 crores.

Afzal Malkani: Yes.

Ashok Atluri: So, Ajay they have 40 to 45 crores I think they will definitely conclude it during the year they will finish it off during the year.

Ajay Surya: And how much do we further expect the subsidiary to contribute for this financial year?

Ashok Atluri: One thing is the anti-drone system that we order, we get there is typically partly executed by the subsidiary. So, because R&D was funded by them, but it was developed by them

they have the capability. So, whatever anti-drone system we are talking about, part of that will be executed by them. So, the more anti-drone we get, the more they will be executing as part of that.

Moderator: Thank you. The next question is from the line of Ashish Goti an individual Investor. Please go ahead.

Ashish Goti: Couple of things which I wanted to ask one was with regards to when we are talking about on an average 15 to 18 months of order execution timeline, should we expect a bigger order pipeline of more than 500 crores or it would always be that all order pipeline would be to the tune of 500 to 600 crores that was question number one then we have something on anti-drone system. Now this anti-drone system since you said that subsidiary is contributing to it and our numbers profit after tax also wherein consolidated where you have mentioned adjusted for non controlling interest, so controlling interest is with whom and how much it is taking away from us?

Ashok Atluri: So, let me start with your last question basically we have 51% of the company controlling interest in the company. So, non-controlling interest is 49%. So, whatever was the profit we reduce the profit by 49% and we just took whatever was attributable to us in the profits. I did not get the question you are saying do you have the order pipeline of 500 to 600 crores and you have 18-month order execution?

Ashish Goti: We have we have 473 crores of pipeline orders on your hand. Now if I am not wrong you had mentioned that normal execution timeline is approximately anywhere between 12 to 18 months, so, if I assume that this 473 crores should get over by in next 18 months maximum, so keeping this in mind if we want to have bigger order pipeline then what kind of manpower strength we need to have or else we would maintain the same order pipeline of 500 crores or 600 crores?

Ashok Atluri: So, I was saying that 18 months is maximum timeline, but in this case as I have indicated earlier that you know out of this if you take out the AMC we should be able to execute the equipment order, most of the equipment order in the current year itself that was what I am saying and again regarding manpower we are trying to scale up again we are making an estimate on where are the orders coming, where do we require the strengthening to be done, which manpower to hire, whom to hire on our role. So, all these exercises are being taken so that when the orders do come through we will be ready for execution of the order as fast as possible. Have I answered your question.

Moderator: We move on to the next question which is from the line of Girish Gupta. Please go ahead.

Girish Gupta: In 2021 in the AGM you are saying that please wait for two to three years then we will change the orbit, so can we assume that we have changed our orbit?

Ashok Atluri: Yeah we are doing a different orbit, but this is the inner orbit I would say, the real orbital a little different. So, yes we are moving it to a different orbit and the way the things are going I think it is only intermediate stock the actual orbital actual orbit where we settle is little far away is what my feeling is.

Girish Gupta: So, how much time we have to wait?

- Ashok Atluri:** You have to wait for let us say I think you should get a feeler about it in the few months time.
- Girish Gupta:** We are feeling this is the second repeat question that I am asking that how much time we can expect one year, two year or six months?
- Ashok Atluri:** Yeah, you should start getting the feel I mean as I said that we will come to in six months H1 we will come to know about some orders I think you will get a feel by the end of the H1.
- Moderator:** Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. Ashok Atluri for closing comments. Over to you Sir.
- Ashok Atluri:** Thank you, guys. Thank you so much for the fantastic questions. I love interacting with investors and as you can see in all Zen's AGM and earnings call we have really smart people asking smart questions and I hope I have answered to you intelligently and intelligibly and if you have any further questions, do get in touch with our Investor Relations advisor – Abhishek Mehra, Diwakar Pingle or our CFO Afzal Malkani. We thank to the investors, to my current owners and to my future owners of the company for their complete support and faith in us. Thank you for your time.
- Moderator:** Thank you very much sir. On behalf of Zen Technologies Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.