

ZEN TECHNOLOGIES

RESULT UPDATE

KEY DATA

Rating	HOLD
Sector relative	Neutral
Price (INR)	1,340
12 month price target (INR)	1,400
52 Week High/Low	2,628/945
Market cap (INR bn/USD bn)	121/1.4
Free float (%)	49.8
Avg. daily value traded (INR mn)	700.2

SHAREHOLDING PATTERN

	Sep-25	Jun-25	Mar-25
Promoter	48.51%	49.05%	49.05%
FII	5.94%	6.04%	5.95%
DII	7.93%	8.75%	9.47%
Pledge	0.00%	0.00%	0.00%

FINANCIALS

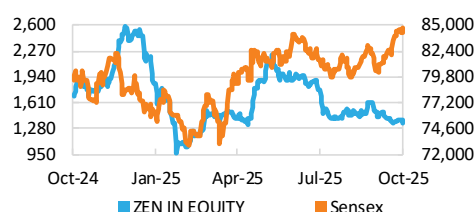
(INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	9,307	8,000	12,000	16,000
EBITDA	3,137	2,640	3,900	5,120
Adjusted profit	2,630	2,259	3,281	4,193
Diluted EPS (INR)	29.1	25.0	36.3	46.4
EPS growth (%)	93.0	(14.1)	45.3	27.8
RoAE (%)	24.6	12.6	16.0	17.4
P/E (x)	46.2	53.8	37.0	29.0
EV/EBITDA (x)	36.2	42.2	28.3	21.2
Dividend yield (%)	0.1	0.1	0.2	0.2

CHANGE IN ESTIMATES

	Revised estimates		% Revision	
Year to March	FY26E	FY27E	FY26E	FY27E
Revenue	8,000	12,000	(20.0%)	(7.7%)
EBITDA	2,640	3,900	(20.0%)	(7.7%)
Adjusted profit	2,259	3,281	(19.3%)	(5.6%)
Diluted EPS (INR)	25.0	36.3	(19.3%)	(5.6%)

PRICE PERFORMANCE



Bidding time: Waiting for tide to rise

Zen Technologies (ZTL) reported subdued inflows in Q2FY26 as government prioritised emergency procurements following Operation Sindoor, leading to deferment of simulator/training equipment orders (~73% of ZTL's FY25 OB) worth ~INR6.5bn. Consequently, consolidated OB fell ~10% QoQ to INR6.75bn (0.7x FY25 sales). Management remains confident of securing the deferred orders by end-FY26E, and reaffirmed its cumulative revenue target of INR60bn over FY26E–28E.

Maintain 'HOLD' as near-term headwinds persist, with turnaround hinging on a pickup in OI momentum in 2HFY26E. We are revising FY26E/27E/28E EPS by (19%)/(6%)/(10%) and target PE to 30x (earlier 40x) with a rollover to Mar-28E for a TP of INR1,400 (earlier INR1,800).

Weak trends persist; inflow traction remains vital trigger

Q2FY26 revenue shrunk 48.4% YoY to INR1.25bn, dragging H1FY26 revenue down 52.4% YoY to INR2.36bn. Gross margin improved to 52.1% in Q2FY26 (versus 45.7% YoY; 53.6% QoQ), lifting H1FY26 GM to 52.8% (versus 48.7% YoY). EBITDA margin inched up to 33.5% (32.9% YoY), but trailed Street's expectation of 34.4% while H1FY26 OPM softened to 33.9% (versus 36.8% YoY). Q2FY26 PAT fell 29% YoY to INR462mn, though PAT margin expanded to 37% (versus 27% YoY) on the back of a 173% YoY surge in other income.

Cash & equivalents stood at INR7.2bn as of H1FY26-end (down 14.4% YoY) reflecting utilisation of QIP proceeds. CFO improved significantly to INR1.35bn (versus -INR1.46bn in H1FY25). Standalone OB on 30th September stood at INR4.84bn. During the quarter, Zen acquired the remaining 24% stake to take full ownership of Applied Research International, expanding into naval and marine simulation.

Management expects ~INR6.5bn of Army simulator orders by end-H2FY26E, supplemented by possible emergency procurements. While FY26 is likely to remain subdued, these anticipated inflows in H2FY26 will be critical for FY27E–28E growth, with the company reiterating its INR60bn cumulative revenue target for FY26E–28E.

[Click here](#) to read conference call KTAs.

Key variables to watch out for over next 12–18 months

Timely awarding of simulator orders by MoD and possible emergency procurements remain key near-term inflow drivers, while progress on exports, new products and ARIPL integration would be crucial for diversifying growth.

We believe any delays or deferments could impact FY26 inflows and push revenue realisation further out to FY27E–29E.

Financials

Year to March	Q2FY26	Q2FY25	% Change	Q1FY26	% Change
Net Revenue	1,247	2,417	(48.4)	1,111	12.2
EBITDA	418	794	(47.4)	380	9.9
Adjusted Profit	462	652	(29.2)	371	24.4
Diluted EPS (INR)	5.1	7.6	(32.4)	4.1	24.4

Financial Statements

Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	9,307	8,000	12,000	16,000
Gross profit	4,765	4,080	5,880	7,680
Employee costs	570	560	720	960
Other expenses	1,057	880	1,260	1,600
EBITDA	3,137	2,640	3,900	5,120
Depreciation	101	148	166	174
Less: Interest expense	94	77	7	7
Add: Other income	578	597	647	651
Profit before tax	3,520	3,011	4,375	5,590
Prov for tax	890	753	1,094	1,398
Less: Other adj	0	0	0	0
Reported profit	2,630	2,259	3,281	4,193
Less: Excp.item (net)	0	0	0	0
Adjusted profit	2,630	2,259	3,281	4,193
Diluted shares o/s	90	90	90	90
Adjusted diluted EPS	29.1	25.0	36.3	46.4
DPS (INR)	2.0	1.6	2.4	3.0
Tax rate (%)	25.3	25.0	25.0	25.0

Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
COGS (% of rev)	48.8	49.0	51.0	52.0
Employee cost (% of rev)	6.1	7.0	6.0	6.0
Other exp (% of rev)	11.4	11.0	10.5	10.0
EBITDA margin (%)	33.7	33.0	32.5	32.0
Net profit margin (%)	28.3	28.2	27.3	26.2
Revenue growth (% YoY)	116.3	(14.0)	50.0	33.3
EBITDA growth (% YoY)	77.0	(15.8)	47.7	31.3
Adj. profit growth (%)	107.3	(14.1)	45.3	27.8

Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.0	6.2	7.0	7.0
Repo rate (%)	6.0	5.0	5.0	5.0
USD/INR (average)	84.0	82.0	81.0	81.0
Products rev gwth (%)	124.7	(72.2)	87.8	55.0
Exports rev gwth (%)	(83.8)	194.6	60.0	44.2
Gross margin (%)	51.2	51.0	49.0	48.0
EBITDA margin (%)	33.7	33.0	32.5	32.0
Tax rate (%)	25.3	25.0	25.0	25.0
Capex (INR mn)	(298.0)	(800.0)	(500.0)	(500.0)

Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	46.2	53.8	37.0	29.0
Price/BV (x)	7.2	6.4	5.5	4.7
EV/EBITDA (x)	36.2	42.2	28.3	21.2
Dividend yield (%)	0.1	0.1	0.2	0.2

Source: Company and Nuvama estimates

Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	90	90	90	90
Reserves	16,800	18,911	21,979	25,899
Shareholders funds	16,890	19,002	22,070	25,990
Minority interest	0	0	0	0
Borrowings	402	0	0	0
Trade payables	118	164	256	348
Other liabs & prov	48	48	48	48
Total liabilities	18,755	20,510	23,670	27,682
Net block	1,023	1,674	2,009	2,335
Intangible assets	59	59	59	59
Capital WIP	36	36	36	36
Total fixed assets	1,117	1,769	2,103	2,430
Non current inv	2,185	2,185	2,185	2,185
Cash/cash equivalent	8,392	10,193	11,329	13,218
Sundry debtors	3,784	2,630	3,945	5,260
Loans & advances	256	256	256	256
Other assets	3,020	3,477	3,852	4,334
Total assets	18,755	20,510	23,670	27,682

Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	2,536	2,259	3,281	4,193
Add: Depreciation	101	148	166	174
Interest (net of tax)	59	77	7	7
Others	0	0	0	0
Less: Changes in WC	(3,778)	743	(1,598)	(1,705)
Operating cash flow	(1,082)	3,227	1,856	2,668
Less: Capex	298	800	500	500
Free cash flow	(1,380)	2,427	1,356	2,168

Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	24.6	12.6	16.0	17.4
RoCE (%)	33.1	17.0	21.3	23.3
Inventory days	74	69	69	69
Receivable days	107	146	100	105
Payable days	15	13	13	13
Working cap (% sales)	74.1	76.9	64.6	59.1
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.5)	(0.5)	(0.5)	(0.5)
Interest coverage (x)	32.2	32.4	560.5	742.4

Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	93.0	(14.1)	45.3	27.8
RoE (%)	24.6	12.6	16.0	17.4
EBITDA growth (%)	77.0	(15.8)	47.7	31.3
Payout ratio (%)	6.9	6.5	6.5	6.5

Q2FY26 conference call highlights

Opening remarks

- Delay in orders due to government focus on emergency procurement post Operation Sindoor.
- Anti-drone is part of the emergency procurement; however, procurement of simulators has been delayed.
- Net cash position as on 30th September 2025 was INR11.03bn and Zen continues to hold a debt-free status.

Questions & answers

Q. Order book, execution and outlook.

- FY26 will be a muted year owing to order delays, but FY27–28 expected to be very strong, offsetting the shortfall.
- Guidance reaffirmed INR60bn revenue target by FY28 (may spill slightly into FY29).
- Order inflow breakdown (subsidiaries): UTS – INR0.98bn, ARIPL – INR0.9bn and Vector – INR10mn
- Total subsidiary contribution: INR1.89bn out of INR0.94bn consolidated OI in Q2.
- Order book (OB): INR6.75bn (INR3.75bn equipment, rest AMC).
- Capacity: Can scale up to INR5bn/quarter; INR7.5bn/quarter possible with expansion.
- Emergency procurement orders: Typically <INR3bn each; must be concluded by March 2026.

Q. As per media reports Iranian drones (low priced and highly effective) are seen as a game changer. Are these drones soft kill or hard kill? Impact on long-term story of Zen due to a soft quarter?

A. We are not doing drones, we are focusing on anti-drone systems, and there are no cheaper versions; our product is cost-competitive, even compared to China. Most of the drones work in both the categories. At some point in time they can become autonomous. If it is ground-controlled, soft kill works, but if it is autonomous—we might have to shoot them down. No impact—fundamentals and long-term story remains intact.

Q. Revenue guidance for FY28 spilling over to FY29.

A. Guidance for FY28 will be met; FY27 and FY28 will be great years, and we will cover up shortage of FY26 in FY27 and FY28. We are adding all the incremental solutions of all the acquisitions we are making.

Q. Competitive edge in anti-drone system space.

A. Software, hardware, IP is completely owned by Zen. Very hard to qualify for IDDM. White band drones is our speciality since in actual war, enemies will fly at higher frequencies. In terms of quality and comprehensiveness of the solution, Zen is ahead.

Q. Government procurement and order intake delay.

A. INR6.5bn of OI guidance is for simulators, which have been delayed due to emergency procurement by the government procurement. OI for anti-drone is subdued since tenders have just been floated. We expect order intake to pick up in next two months as government ordering picks up pace.

Q. Long-term growth prospects.

A. Next four–five years' growth will continue, simulators have lifecycle of ten years, after which replacement demand will kick in. Customer requirements change and we adapt with them – Zen first started with a soft kill drone, then shifted to Autonomous drone, then to GPS spoofing, then to hard kill. Upgradation is required in every three years or so.

Q. Proprietary AI models for core products (anti-drone etc).

A. AI has become an obsession within the company, we are implementing AI across processes (procurement, after-sales service, etc); we are also implementing product-based AI. We are integrating AI within the products, and are looking to give one on one coaching through AI.

Q. Execution of product order book.

A. We will execute the order book; however, we expect a muted H2 and a muted FY26. FY27E/28E will make up the deficit though.

Q. Product mix. Pivoting to new products. Margin profile change.

A. We are thinking a 40-60 mix to a 50-50 mix; it is an evolving situation. However anti-drone system pipeline has become very strong—and may lead the way. We are trying to consolidate, we are not trying to 'make us thinly spread' since we have a large market, and we want to go deep. We do not want to pivot. We do not see any risk to margins.

Q. Geographical mix.

A. Africa, Middle East, CIS countries, South East Asia (strong presence of acquired entity ARI). Simulators is seeing good export demand; however, we are seeing inquiries on the anti-drone side as well.

Q. Driver for order inflows in simulator segment.

A. There were no wars five years ago; hence no one is preparing for it. However, the scenario has now changed with wars being waged and hence countries are going for preparation.

Q. INR1.9bn of order-wins are from subsidiary; which subsidiaries have contributed?

A. UTS – INR0.98bn; ARIPL – INR0.9bn; and Vector – INR10mn.

Q. Colour on hard kill order recently won.

A. System consists of radar, jammer, remote control weapon system, actual weapon required, etc. We have integrated system with L70, ability to integrate with air-defence guns are proven.

Q. Simulator orders.

A. Orders for simulators will come through in H2. No chance of spillage to FY27.

Q. Emergency order procurement.

A. Size of INR3bn per emergency procurement; orders have to be concluded by Mar-26E.

Q. Zen getting orders only where time is critical while orders go to BEL wherein time is not a factor.

A. BEL has an edge since it is a public entity; however, we think we are by far the best solution available.

Q. Can order book scale up to meet revenue guidance?

A. Order pipeline is robust; we are scaling up for larger orders.

Q. Anti-drone capability, which defines the competitive landscape.

A. In the anti-drone segment, we look at distance, and how we can disable the incoming drone, and how it is done—is it jamming, spoofing or shooting them down? You will have to buy from an Indian company since we will provide upgrades while a foreign company might ask to buy a new system or refuse to upgrade amidst war.

Q. Are you looking to partner with global companies?

A. We do not need technology. We are working on technologies that are more futuristic. If there is some technology that we do not have, and the country needs the solution, we will be willing to collaborate to indigenise it. We will collaborate on doing R&D together.

Exhibit 1: Financial snapshot (INR mn)

Year to March	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	FY25A	FY26E	FY27E
Total revenues (net)	1,247	2,417	(48.4)	1,111	12.2	9,307	10,000	13,000
Direct cost	597	1,313	(54.6)	515	15.8	4,542	5,000	6,695
Staff cost	108	141	(23.5)	133	(19.1)	570	600	715
Other operating expenses	124	169	(26.3)	82	52.2	1,057	1,100	1,365
Total expenditure	829	1,623	(48.9)	730	13.5	6,169	6,700	8,775
EBITDA	418	794	(47.4)	380	9.9	3,137	3,300	4,225
Depreciation	33	23	43.4	31	8.2	101	118	154
EBIT	385	771	(50.1)	350	10.0	3,036	3,182	4,071
Interest	4	21	(79.3)	14	(69.1)	94	126	147
Other income	230	84	172.9	199	15.6	578	677	710
Exceptional items	0	0		0		0	0	0
PBT	610	835	(26.9)	535	14.1	3,520	3,733	4,634
Tax	149	182	(18.4)	164	(9.1)	890	933	1,158
Non-controlling interests	0	0		0		0	0	0
Reported Profit	462	652	(29.2)	371	24.4	2,630	2,800	3,475
Adjusted Profit	462	652	(29.2)	371	24.4	2,630	2,800	3,475
Equity capital(FV:INR 1)	90	84		84		90	90	90
No. of Diluted shares outstanding (mn)	90	86		90		90	90	90
Adjusted Dil. EPS	5.1	7.6		4.1		29.1	31.0	38.5
as % of net revenues								
Direct cost	47.9	54.3		46.4		48.8	50.0	51.5
Staff cost	8.7	5.8		12.0		6.1	6.0	5.5
Other operating expenses	10.0	7.0		7.3		11.4	11.0	10.5
EBITDA	33.5	32.9		34.3		33.7	33.0	32.5
Adjusted profit	37.0	27.0		33.4		28.3	28.0	26.7
Tax rate	24.4	21.8		30.6		25.3	25.0	25.0

Source: Company, Nuvama Research

Exhibit 2: Order pipeline of ~INR40bn

Equipment pipeline	INR bn
Integrated Air Defence Combat Simulator	1.4
Infantry Weapons Training Simulator (2 nos.)	11
T72 Driving Simulator	1.1
T72 Crew Gunnery Simulator	1.3
ADFCR Simulator	8.5
GPS/GIS based minefield recording system	0.8
Containerised Small Arms Firing Range	2.5
Armour Combat Training System	1.7
Tactical Engagement Simulator	5.9
Anti-drone system for IAF (2 nos.)	3.4
CTN (2 nos.)	2.1
Total	39.8

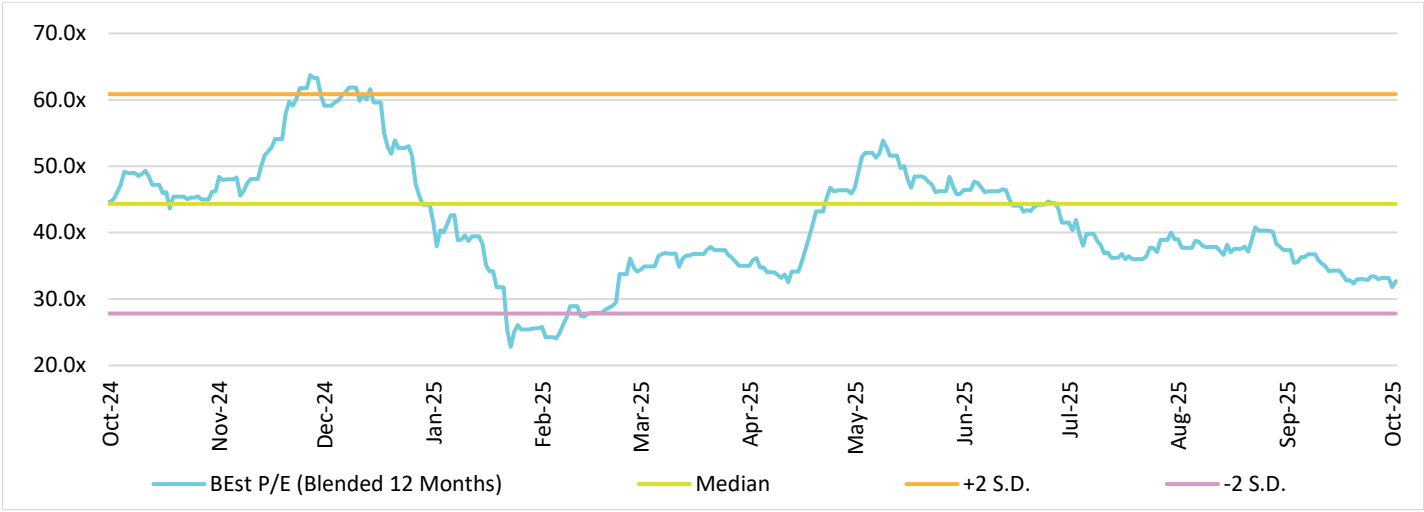
Source: Company, Nuvama Research

Exhibit 3: ZTL's acquisitions over past few years

Announced Date	Target	Stake bought (%)	Value (INR mn)	Business Description
22-06-2025	TISA Aerospace Private Limited	76.0%	65.6	TISA is engaged in the design and development of UAVs for the defence industry. The acquisition significantly expands Zen's defence portfolio by enabling it to offer advanced loitering munitions and a range of UAV solutions to the Armed Forces.
14-02-2025	Bhairav Robotics Pvt Ltd	45.3%	40	It has product offerings, which include robotic products like quadrupedal robots and autonomous weapon systems.
14-02-2025	Vector Technics Pvt Ltd	51.0%	250	Vector specializes in propulsion and power distribution solutions for drones and UAVs. Existing product offerings include BLDC motors, electronic speed controllers (ESC), propellers and starter generators that are major components for drones, UAVs & robotic products. All the products are "Made in India".
14-02-2025	Applied Research International Pvt Ltd	100.0%	1,275	providing simulation and assessment tools for the marine, offshore, naval, ports & terminals, construction and mining industries; (ii) providing services relating to maintenance, certification, assessment solutions with respect to (i) above; (iii) fleet-view monitoring of ships; and (iv) maintenance and module development for e-governance of DG Shipping of India
14-02-2025	ARI Labs Pvt Ltd	100.0%	25	Engaged in the business of providing simulation and assessment tools for the marine and naval industries.
13-01-2025	Zen Technologies USA Inc	100.0%	NA	Fully owned subsidiary established on 9th March 2018 focuses on developing advanced combat training simulators and systems for military and security forces.
24-02-2024	AI Turing Technologies Pvt Ltd	51.0%	39	Provides solutions for robotics and electronic optics.
16-11-2022	Zen Defence Technologies LLC	100.0%	NA	wholly owned subsidiary in UAE
01-08-2022	Paladin AI Inc	5.0%	26	Mainly involved in the aviation industry deploying AT-powered aviation training analytics. The company's platform accelerates training, and assures pilot qualification for greater safety
29-09-2020	Zen Medical Technologies Pvt Ltd	100.0%	NA	Designs, develops and manufactures state-of-the-art combat training solutions for the training of defence and security forces worldwide.
14-08-2018	Unistring Tech Solutions Pvt Ltd	51.0%	70	UTS is in the business of development of electronic warfare (EW) solutions, advanced communication systems for defence, telemetry systems and Simulators for radar and EW system evaluation

Source: Company, Nuvama Research

Exhibit 4: One-year forward PE (median ~44x)



Source: Bloomberg, Nuvama Research

Company Description

Zen Technologies (ZTL) was incorporated in 1993 by three co-founders, who set it up as a low value integration solutions company. Now, the company designs, manufactures and develops land-based military training simulators, driving simulators, live-range equipment and anti-drone systems. ZTL has its own training platform to provide a simulated battle experience by integrating its entire range of products offerings. It also provides counter-drone solutions for safeguarding borders and critical infrastructures. ZTL is headquartered in Hyderabad (India) and has offices in India, the UAE and the US.

The company has applied for 150-plus patents (75-plus granted), and has shipped more than 1,000 training systems around the world. Its demonstration centre at Abu Dhabi is progressing as per plans and shall soon be operational. Going forward, the company would also focus on products that use Artificial Intelligence (AI) to scale up its product portfolio. The company's employee strength was 360 at end-Jun'24.

In 2014, Zen signed an MoU with Rockwell Collins for design and development of full-mission level D simulators for fixed and rotary wing helicopters wherein ZTL was to provide structure and design and Rockwell to deliver the display and graphics.

Investment Rationale

India Defence and Security: A multi-decadal structural story playing out (FY29 defence production/export targets of INR 3tn/INR 500bn) from currently being the world's largest importer of defence equipment.

'Fight as you train – train as you fight': Defence simulators play an important role in enhancing armed forces' readiness in a cost-effective and realistic way before they hit the battlefield. *Key catalysts:* Framework for simulators in armed forces (2021), Agnipath scheme (2022) and preference for BUY-IDDM category etc.

IP-driven defence pure play: ZTL is an IP-focused defence proxy play (owning 75-plus patents) working on an asset-light model with 80–90% of its products in-house designed/developed having spent INR 1.5bn-plus on R&D over the last ten years. Strategic initiatives via organic/inorganic moves are underway, which would expand the serviceable addressable market significantly over the coming years.

We believe that muted ordering momentum (*across both anti-drone systems and simulators segments*) from past few quarters has dampened earnings visibility over next few years. Given it's a niche IP/patents play, execution is not a challenge while timely ordering remains the only key catalyst.

Key Risks

- High competitive intensity
- Delay in fresh order inflows; slower execution rate
- Stable geopolitical landscape; decline in Govt's defence budget
- Highly working capital-intensive business

Additional Data

Management

CMD	Ashok Atluri
Joint MD/Founder	Kishore Dutt Atluri
CFO	Afzal Harunbhai Malkani
Senior Manager: R&D Electronics	M Vijaya Rama
Auditor	Ramasamy Koteswara Rao and Co LLP

Holdings – Top 10*

	% Holding		% Holding
Motilal Oswal A	4.24	Dimensional Fun	0.23
Vanguard Group	1.98	Aditya Birla Su	0.13
Blackrock Inc	0.86	WBC Holdings	0.12
Kotak Mahindra	0.43	Nippon Life Ind	0.10
Norges bank	0.43	State Street Co	0.10

*Latest public data

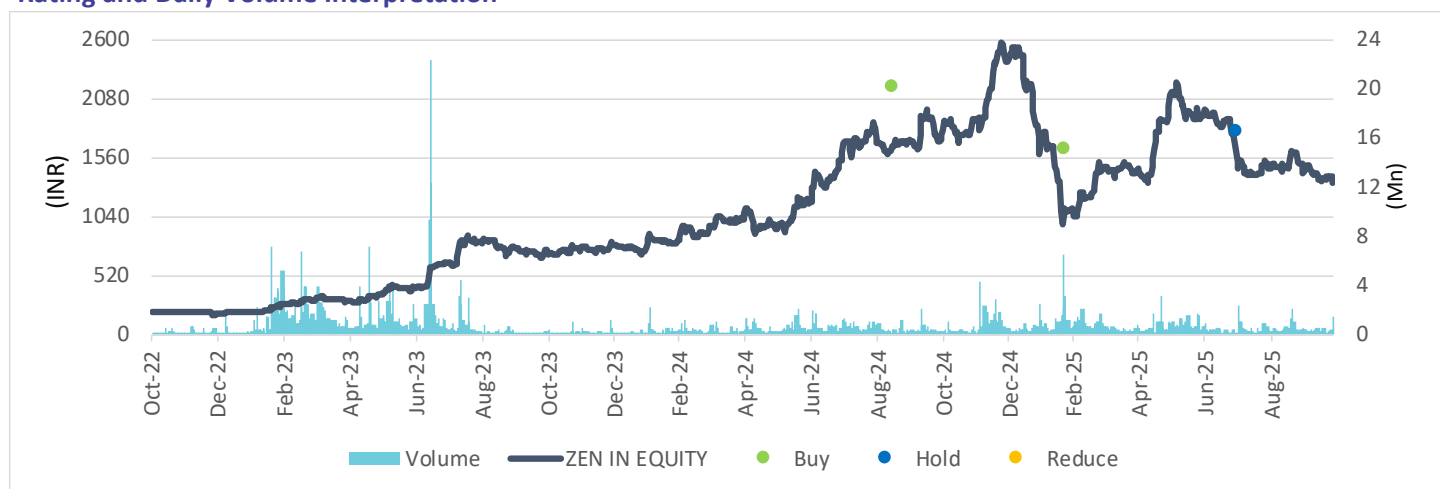
Recent Company Research

Date	Title	Price	Reco
28-Jul-25	Expensive with hazy visibility; <i>Result Update</i>	1,779	Hold
19-May-25	Solid showing; now counting on OI; <i>Result Update</i>	1,884	Buy
18-Feb-25	Muted results; OI ramp-up remains key as; <i>Result Update</i>	1,080	Buy

Recent Sector Research

Date	Name of Co./Sector	Title
10-Oct-25	Defence	Selective momentum amid seasonality; <i>Sector Update</i>
12-Aug-25	Bharat Dynamics	Hockey stick growth in sight; <i>Result Update</i>
12-Aug-25	HNAL	Promising start; strong pipeline for gro; <i>Result Update</i>

Rating and Daily Volume Interpretation



Source: Bloomberg, Nuvama research

Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	205
Hold	<15% and >-5%	68
Reduce	<-5%	37

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