



being there...

## ZEN TECHNOLOGIES LIMITED

Certified ISO 9001:2015, ISO 27001:2013, ISO 14001:2015, CMMI ML5

Regd. Office : B-42, Industrial Estate, Sanathnagar

Hyderabad – 500 018, Telangana, India

Phone: +91 40 23813281, Fax No: +91 40 23813694

Email: info@zentechnologies.com Website: www.zen.in

Corporate Identity Number : L72200TG1993PLC015939

Date: 11 December 2019

To  
BSE Limited  
Phiroze Jeejeebhoy Towers  
Dalal Street  
Mumbai- 400001  
Scrip Code: 533339

To  
National Stock Exchange of India Ltd.,  
Exchange Plaza, C-1, Block G,  
Bandra Kurla Complex,  
Bandra (E), Mumbai – 400 051  
Symbol: ZENTEC

Dear Sir/Madam,

**Sub: Intimation of revision in Credit Rating for bank facilities**

**Ref: Disclosure under Regulation 30 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

Pursuant to Regulation 30 read with Schedule III of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended, we hereby inform that Infomerics Valuation and Rating Private Limited (IVR) has reviewed and assigned the following ratings for the bank facilities of the Company vide their letter dated 10 December 2019 as follows:

Facilities	Amount (Rs. Crore)	IVR Ratings	CARE Ratings
Long-term / Short Term Bank Facilities – Bank Guarantee	72.00	IVR BBB+ /Stable Outlook (IVR Triple B plus with Stable Outlook); IVR A2 (IVR A Two)	Revised from CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable /A Three Plus)
Long Term Bank Facilities – Term Loans / Cash Credit	40.26	IVR BBB+ /Stable Outlook (IVR Triple B plus with Stable Outlook)	Revised from CARE BBB; Stable (Triple B; Outlook: Stable)
Short Term Bank Facilities – Letter of Credit	15.00	IVR A2 (IVR A Two)	Revised from CARE A3+ (A Three Plus)
<b>Total Facilities</b>	<b>127.26</b>		

The Copy of the press release is enclosed herewith for your reference. We request you to take the aforesaid revision in Credit Ratings on record.

Thanking you.

Yours faithfully,  
For Zen Technologies Limited

Hansraj Singh Rajput  
Company Secretary & Compliance Officer  
M. No. A38213



Works : Plot 36, Hardware Park, Near Shamshabad International Airport, Hyderabad - 501 510, Telangana, India



**CMMIDEV / 5<sup>SM</sup>**  
Exp. 2022-01-30 / Appraisal #2306

**Press Release**

**Zen Technologies Limited (ZTL)**

**December 10, 2019**

**Ratings**

<b>Sl. No</b>	<b>Instrument/ Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Ratings</b>	<b>Rating Action</b>
1	Long Term Bank Facilities – Term Loans	10.26	IVR BBB+ /Stable Outlook (IVR Triple B plus with Stable Outlook)	Assigned
2	Long Term Bank Facilities – Cash Credit	30.00	IVR BBB+ /Stable Outlook (IVR Triple B plus with Stable Outlook)	Assigned
3	Long Term Bank Facilities / Short Term Bank Facilities – Bank Guarantee	72.00	IVR BBB+ /Stable Outlook (IVR Triple B plus with Stable Outlook); IVR A2 (IVR A Two)	Assigned
4	Short Term Bank Facilities – Letter of Credit	15.00	IVR A2 (IVR A Two)	Assigned
	Total	127.26		

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The aforesaid rating assigned to the bank facilities of Zen Technologies Limited (ZTL) derives comfort from its Strong promoter group with experienced management team, Strong product portfolio, Asset light business model, Regular revenue visibility in the form of Annual Maintenance Contract (AMC), Strong Technical Base, Comfortable capital structure with healthy debt protection metrics. However, the rating strengths are partially offset by Medium Scale of revenue with volatility; Moderate order book, Volatile profitability, Industry Risk:

## Key Rating Sensitivities

### Upward revision factors:

Procurement of new orders providing medium term revenue visibility along with a substantial and sustained improvement in the revenue while maintaining the debt protection metrics.

### Downward revision factors:

Any decline in the revenue & profitability leading to deterioration of the debt protection metrics.

## Key Rating Drivers with detailed description

### Key Rating Strengths

#### Strong promoter group with experienced management team

The promoters of the Zen group have been in the defence training simulators industry since 1993. The group is headed by Mr. Ashok Atluri, who is the Chairman and Managing Director. The company has benefited from his long established track record in the training simulators segment and the vast industry network developed over the years. The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience with technological background and having worked in training simulators space.

#### Strong product portfolio

The company manufactures simulators used by the defence as well as civilian institutions. The company has a strong product portfolio and the products of the company are divided into 3 major categories viz. Live Ranges (Smart target system, Containerised tubular shooting range, tank targets etc.), Live Simulation (Indoor tracking system and armor combat training system) and Virtual Simulation (Anti-tank guided missile simulator, Anti-aircraft air defence simulator, UAV Mission Simulator etc.). The company is a prime contractor to Indian Defence and has supplied over 1000 training systems around the world. The industry is relatively concentrated as there are entry barriers in the form of technology involved, long gestation period from conceptualization to implementation and stiff qualification norms for defence tenders. These act as deterrents for new players looking to enter this market. However, ZTL has established its market position and is one of the leading players in the segment.

## **Asset light business model**

Over the years, the Company has strengthened its business around asset-lightness. This approach makes it possible to ramp up its production with reasonable flexibility without a corresponding increase in the capex. The Company's business growth has been facilitated by a robust eco-system of component and sub-system vendors in and around Hyderabad. More than 85 per cent of the Company's manufacturing functions can be outsourced, transforming a fixed cost into a variable expense. Besides, this dependable eco-system possesses adequate spare capacity, making it possible for the Company to accept large orders while adhering to customer schedules.

## **Regular revenue visibility in the form of Annual Maintenance Contract (AMC)**

The after-sales support constitutes a major part of the company's business as the products are highly specialized and tailor made based on the requirements of the customers. A training simulator has a warranty of 1-2 years on an average, after which the company provides regular annual maintenance to the products sold. AMCs typically become operational after 2 years from the date of installation. The life cycle of the product can range from 10-15 years. AMCs potentially generate revenues equivalent to 120% of the initial product sales value generally extended across a 15-year horizon. Thus, the AMCs are expected to last for a long time period providing a long term revenue visibility.

## **Strong Technical Base**

Research & Development (R&D) is the backbone of the company and it has to continuously invest in R&D activities to cater to the varied demands of the clientele which includes coming out with new simulators or modify the existing ones. The company has filed or received over 90 patents. It has invested around Rs.65 crore in the last 5 years ended FY19 in R&D (Around 20% of the last 5 years revenue). The company has been mainly financing R&D activities through profits generated in the normal course of business and some time, if required by taking term loans. Company has been able to achieve this high technical competence due to constant investment in R&D and man power, which has made ZTL one of the leading players in their field. Further with management being healthy mix of technocrats and ex-military officials they understand the importance of being ahead of times and always make investments keeping in mind not only the immediate but even the future needs of its customers, this has helped the company is getting repeat orders.

## **Comfortable capital structure with healthy debt protection metrics**

Zen's capital structure remained comfortable in the last four years ended FY19 except FY18. The overall performance deteriorated in FY18 due fall in sales resulted from spillover of one major order to FY19 & FY20. The overall gearing ratio was 0.31 as on March 31,2019 driven by scheduled repayment of term loans and retention of profit to reserves. Moreover, the interest coverage ratio & Long term debt/GCA remained healthy at 4.71x & 0.68 years respectively in FY19.

## **Key Rating Weakness**

### **Medium Scale of revenue with volatility; Moderate order book**

Zen revenue remains quite volatile in the past four years ended FY19. The volatility was attributed mainly to volatile orders flows. However, even with the volatility revenue grew at a CAGR of 20.5% 7 in the last four years ended FY19. ZTL has an outstanding order book of around Rs.222crore as on July 31, 2019, pertaining to equipment orders of Rs.115 crore and AMC order book of Rs.107 crore (for next 5 years) indicating moderated revenue visibility for short to medium term. Company is trying to diversify its client profile by bidding for tenders globally. Further with increased focus of Make in India company expects good revenue visibility in the coming years.

### **Volatile profitability**

Profitability remains high, however volatile. The lower EBITDA margin in FY18 resulted from decline in sales leading to lower absorption of fixed cost and at the same time continuous R&D expenditure. Infomerics expects profitability to remain comfortable in short to medium term due to economies of scale.

### **Industry Risk**

Some of the other risks that industry faces are dependence on Government for substantial portion of business, high R&D costs with no certainty that the product will be accepted by the customer, stricter user acceptance, high marketing costs & competition from other foreign players.

## Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

## Liquidity

The current ratio & quick ratio of the company remains strong as on March 31, 2019. The liquidity of the company is expected to remain adequate in the near to medium term in absence of any significant term debt repayment coupled with absence of any major debt led capex. Furthermore, average working capital utilisation in the last twelve months ended August 2019 was comfortable at around 60%.

The company had cash & cash equivalents of Rs.3.69 crore (FY18: Rs.11.80 crores) as on 31 March 2019. It also had other bank balances of Rs.8.59 crore (Rs.31.21 crore) which includes unclaimed dividend, deposit against BG & OD and other fixed deposits.

## About the Company

Incorporated in 1993, Zen Technologies Limited designs, develops and manufactures combat training simulator/solutions for the training of defence and security forces. Zen Technologies is headquartered in Hyderabad, India with offices in India and USA. Zen Technologies Limited is an ISO 9001:2015 (QMS), ISO 14001:2015 (EMS), ISO/IEC 27001:2013 (ISMS) and CMMI Maturity Level 5 company.

Zen Technologies is publicly listed on Bombay Stock Exchange and the National Stock exchange.

## Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	38.96	92.22
EBITDA	-1.86	22.55
PAT	-0.39	19.24
Total Debt	10.10	41.80
Tangible Net-worth	116.12	132.89
EBITDA Margin (%)	-4.77	24.45
PAT Margin (%)	-0.90	20.18
Overall Gearing Ratio (x)	0.09	0.31

\* Classification as per Infomerics' standards

# Infomerics Valuation and Rating Pvt. Ltd.



**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** N.A

## Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Bank Facilities – Term Loan	Long Term	10.26	IVR BBB+ /Stable Outlook	--	--	--
2.	Long Term Bank Facilities – Cash Credit	Long Term	30.00	IVR BBB+ /Stable Outlook			
3.	Long Term/Short Term Bank Facilities – Bank Guarantee	Long Term/Short term	72.00	IVR BBB+ /Stable Outlook/ IVR A2	--	--	--
4.	Short Term Bank Facilities – Letter of Credit	Short Term	15.00	IVR A2 (IVR A Two)			

**Note on complexity levels of the rated instrument:** Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at [www.infomerics.com](http://www.infomerics.com).

## Name and Contact Details of the Rating Team:

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## About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

**Annexure 1: Details of Facilities**

<b>Name of Facility</b>	<b>Date of Issuance</b>	<b>Coupon Rate/ IRR</b>	<b>Maturity Date</b>	<b>Size of Facility (Rs. Crore)</b>	<b>Rating Assigned/ Outlook</b>
Long Term Bank Facilities – Term Loans	NA	NA	March 2022	10.26	IVR BBB+ /Stable Outlook
Long Term Bank Facilities – Cash Credit				30.00	IVR BBB+ /Stable Outlook
Long Term Bank Facilities / Short Term Bank Facilities – Bank Guarantee	NA	NA	NA	72.00	IVR BBB+ /Stable Outlook/ IVR A2
Short Term Bank Facilities – Letter of Credit				15.00	IVR A2 (IVR A Two)