

29 July 2025

India | Equity Research | Result Update

Zen Technologies

Defence

EBITDA below estimates; management guidance intact

Zen Technologies' Q1FY26 numbers undershot consensus estimates. Key points 1) Revenue/EBITDA declined 37.9%/41.9% due to a spillover of INR 600–700mn revenue to the next quarter owing to a change in product specifications; this shall be booked in Q2FY26. 2) Management expects order inflow (OI) of INR 6.5bn by H1FY26-end. 3) Anti-drone system (ADS) order is likely to be part of emergency procurement. 4) Zen is working on the loitering munition; this should be ready for trials in the next 1.5 years. Ahead, management guides for: 1) cumulative revenue of INR 60bn over FY26–28; and 2) EBITDA/PAT margins of ~35%/25%. Given the delays in ordering, we reduce our FY26/FY27 EPS estimates by 30%/22%. We downgrade the stock to **HOLD**, from *Buy*, with a revised target price of INR 1,700, based on 35x FY27E EPS.

Numbers below expectation; management confident on guidance

Zen's Q1FY26 numbers were slightly weaker, mainly due to execution delays on account of change in customer's specifications. Key points: 1) Revenue and EBITDA declined by 37.9% and 41.9%, respectively due to a spillover of INR 600–700mn revenue into Q2FY26 on account of change in specifications. 2) The O/s (consol.) order book (OB) was INR 7.5bn, which includes – i) AMC OB of INR 2.6bn (to be executed over next 3–4 years); ii) equipment orders of INR 3.4bn (to be executed in FY26); and iii) subsidiary OB of 1.6bn (to be executed in FY26). 3) Zen expects simulators OI of INR 8bn in H1FY26 (out of which INR 1.5bn has already been received). 4) It has O/s liquidity of INR 9.2bn, as of Q1FY26-end. Management remains optimistic of achieving INR 60bn in revenue through to FY28 and EBITDA/PAT margins of 35%/25%.

Growing inorganically and expanding product offering

Over the past 2–3 quarters, Zen has cumulatively invested ~INR 1.6bn into various acquisitions, namely: 1) Vector Technics (equity stake 51% for INR 210mn); 2) Applied Research International (ARIPL) and ARI Labs (ALPL) (100% for INR 1.3bn). 3) Bhairav Robotics (45.33% stake for INR 40mn). 4) TISA Aerospace (76% stake for INR 65.6mn). The investments are envisaged to be margin-accretive and likely to lead new areas of growth for the company. This apart, Zen's continuous R&D investments are likely to improve and expand its product offering.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	4,399	9,736	9,358	15,844
EBITDA	1,808	3,735	3,244	5,852
EBITDA Margin (%)	41.1	38.4	34.7	36.9
Net Profit	1,231	2,804	2,493	4,246
EPS (INR)	14.9	32.1	28.5	48.6
EPS % Chg YoY	157.1	115.8	(11.1)	70.3
P/E (x)	113.7	52.7	59.3	34.8
EV/EBITDA (x)	80.9	37.1	42.0	23.2
RoCE (%)	29.5	23.4	11.4	17.7
RoE (%)	30.9	25.5	13.3	19.1

Mohit Lohia

mohit.lohia@icicisecurities.com
22 6807 7289

Prithish Urumkar

Pritish.urumkar@icicisecurities.com

Market Data

Market Cap (INR)	153bn
Market Cap (USD)	1,761mn
Bloomberg Code	ZEN IN
Reuters Code	ZETE.BO
52-week Range (INR)	2,628 /945
Free Float (%)	50.0
ADTV-3M (mn) (USD)	13.7

Price Performance (%)	3m	6m	12m
Absolute	16.2	6.2	10.3
Relative to Sensex	15.3	(0.4)	10.9

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY26E	FY27E
Revenue	(30.5)	(21.9)
EBITDA	(35.4)	(23.1)
EPS	(30.1)	(22.1)

Previous Reports

20-05-2025: [Q4FY25 results review](#)

18-02-2025: [Q3FY25 results review](#)

Outlook: Awaiting orders; management guidance intact

OI has slowed over the past 15 months – Zen received cumulative orders worth INR 2.8bn during this period. However, this is likely to improve and the company expects OI of INR 6.5bn over the next two months, which takes care of growth in FY26 and FY27. This apart, Zen expects some orders of ADS as a part of emergency procurement. Besides, the recent geopolitical tensions imply that ADS and drones are going to find significant traction in the domestic defence systems.

Further, Zen's recent acquisitions are likely to remain margin accretive and improve its products offering. That said, we believe, order accretion shall be closely monitored by Street. Taking cognizance of the Q1FY26 performance and management guidance, we reduce our FY26/FY27 estimates by 30%/22%. We downgrade the stock to **HOLD**, from *Buy*, with a revised target price of INR 1,700/share, based on 35x FY27E EPS.

Key risks

Upside risk

- Better-than-expected OI and improved execution.

Downside risk

- Increasing competitive intensity in ADS and AI-products.
- Delay in ordering or change in product specifications.
- Lower spending on training by the armed forces.

Exhibit 1: Earnings revisions

(INR mn)	FY26E			FY27E		
	New	Old	% Chg	New	Old	% Chg
Sales	9,358	13,457	(30.5)	15,844	20,283	(21.9)
EBITDA	3,244	5,021	(35.4)	5,852	7,609	(23.1)
PAT	2,493	3,566	(30.1)	4,246	5,454	(22.1)

Source: I-Sec research

Q1FY26 conference call takeaways

- **Guidance**
 - Revenue: Cumulative revenue of INR 60bn over FY26–28.
 - EBITDA margins: Expected to be ~35%
 - Capex: Cumulative capex of INR 400–500mn over FY26–27.
- **OB** – Consol. OB: INR 7.5bn; standalone OB: INR 6.05bn (including AMC over of INR 2.6bn). The major portion of the equipment order should be executed by Q3FY26, while the AMC shall be executed over the next 3.5years.
- **OB breakup** – 1) INR 2.6bn AMCs; 2) INR 640mn in ADS; 3) INR 2.8bn in training simulator; and 4) subsidiary OB of INR 1.6bn.
- **OI**: Simulation OI of INR 6.5bn is expected by Sep'25-end; ADS should be part of emergency procurement and management is confident of getting some orders in ADS. The OI got delayed due to prioritising of emergency procurement by MoD.
- **Revenue spill-over to Q2FY26**: Revenue of INR 600–700mn would spillover to next quarter, mainly due to change in specification; this shall be booked in Q2FY26.

- **Performance of subsidiaries:** They are performing well. ARIPL is expected to book revenue of INR 1.7bn and UTI would book revenue of INR 800mn (adjusted for cross transactions).
- **Lead time for RM procurement:** Lead time is ~4 months in simulators and ~6 months in ADS. It does not keep inventory of RM in anticipation of order.
- **Performance of ARIPL:** The company has a good presence in North America and South America markets through dealers and they already have engagement with the armed forces. This is likely to be a positive for Zen's other businesses too. ARIPL is expected to book revenue of INR 1.7bn and order is expected to be ~INR 2–3bn in FY26. Zen is expecting significant ordering in FY27.
- Zen does not have major Chinese dependence for its raw materials. One of its subsidiaries does have some dependence on China for its RM requirement (rare earth minerals).

Exhibit 2: Zen Tech's Q1FY26 performance review

(INR mn)	Q1FY26	Q1FY25	% Chg YoY	Q4FY25	% Chg QoQ
Net sales	1,582	2,546	(37.9)	3,250	(51.3)
Gross Margin	1,128	1,483	(23.9)	2,337	(51.7)
Gross Margin (%)	71.3%	58.3%		71.9%	
Employee cost	318	196	61.9	293	8.3
Other expenditure	163	174	(5.9)	663	(75.3)
EBITDA	647	1,113	(41.9)	1,381	(53.1)
Margin (%)	40.9%	43.7%		42.5%	
Other Income	218	31	600.7	248	(12.0)
Depreciation	63	30	110.7	47	33.5
EBIT	802	1,114	(28.1)	1,581	(49.3)
Interest	35	12	188.9	40	(12.3)
PBT	767	1,102		1,541	
Tax expense	231	308	(24.8)	402	(42.5)
PAT	478	768	(37.8)	1,012	(52.8)

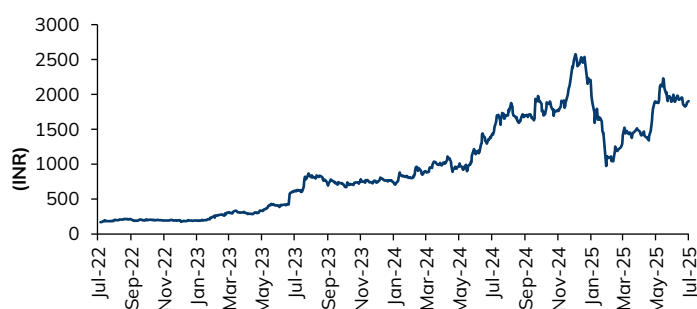
Source: I-Sec research, Company data

Exhibit 3: Shareholding pattern

%	Dec'24	Mar'25	Jun'25
Promoters	49.1	49.1	49.1
Institutional investors	17.3	15.5	14.8
MFs and others	7.1	7.7	6.8
FIs/Banks	0.0	0.0	1.8
Insurance	0.3	0.0	0.2
FIIIs	9.9	7.8	6.0
Others	33.6	35.4	36.1

Source: Bloomberg, I-Sec research

Exhibit 4: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 5: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	4,399	9,736	9,358	15,844
Operating Expenses	1,304	2,154	2,103	3,203
EBITDA	1,808	3,735	3,244	5,852
EBITDA Margin (%)	41.1	38.4	34.7	36.9
Depreciation & Amortization	97	154	139	155
EBIT	1,711	3,581	3,105	5,697
Interest expenditure	23	104	119	137
Other Non-operating Income	149	584	800	700
Recurring PBT	1,837	4,061	3,786	6,260
Profit / (Loss) from Associates	-	0	-	-
Less: Taxes	566	1,067	1,102	1,823
PAT	1,271	2,994	2,683	4,437
Less: Minority Interest	(16)	(190)	(190)	(190)
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,247	2,994	2,683	4,437
Net Income (Adjusted)	1,231	2,804	2,493	4,246

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	6,183	16,040	19,265	24,677
of which cash & cash eqv.	1,582	9,658	11,983	12,348
Total Current Liabilities & Provisions	2,623	2,272	2,876	3,927
Net Current Assets	3,560	13,768	16,389	20,750
Investments	-	40	40	40
Net Fixed Assets	807	1,064	1,125	1,220
ROU Assets	59	245	245	245
Capital Work-in-Progress	101	36	36	36
Total Intangible Assets	76	809	809	809
Other assets	279	2,256	2,256	2,256
Deferred Tax Assets	-	-	-	-
Total Assets	4,882	18,218	20,900	25,356
Liabilities				
Borrowings	6	542	542	542
Deferred Tax Liability	132	28	27	46
provisions	38	112	112	112
other Liabilities	43	178	178	178
Equity Share Capital	84	90	90	90
Reserves & Surplus	4,402	16,917	19,600	24,037
Total Net Worth	4,486	17,007	19,690	24,127
Minority Interest	177	352	352	352
Total Liabilities	4,882	18,218	20,901	25,356

Source Company data, I-Sec research

Exhibit 7: Quarterly trend

(INR mn, year ending March)

	Sep-24	Dec-24	Mar-25	Jun-25
Net Sales	2,418	1,522	3,250	1,582
% growth (YOY)	(45.0)	(40.2)	34.4	(51.3)
EBITDA	800	442	1,381	647
Margin %	33.1	29.0	42.5	40.9
Other Income	85	220	248	218
Extraordinaries	-	-	-	-
Adjusted Net Profit	627	397	1,012	478

Source Company data, I-Sec research

Exhibit 8: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	176	(1,595)	2,645	752
Working Capital Changes	(1,476)	(4,330)	(296)	(3,977)
Capital Commitments	(944)	(8,716)	(200)	(250)
Free Cashflow	(767)	(10,311)	2,445	502
Other investing cashflow	91	485	-	-
Cashflow from Investing Activities	(852)	(8,231)	(200)	(250)
Issue of Share Capital	39	9,814	-	-
Interest Cost	(23)	(51)	(119)	(137)
Inc (Dec) in Borrowings	(57)	443	-	-
Dividend paid	(17)	(90)	-	-
Others	-	-	-	-
Cash flow from Financing Activities	(33)	10,068	(119)	(137)
Chg. in Cash & Bank balance	(709)	242	2,326	365
Closing cash & balance	409	610	3,067	3,432

Source Company data, I-Sec research

Exhibit 9: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	14.9	32.1	28.5	48.6
Adjusted EPS (Diluted)	14.9	32.1	28.5	48.6
Cash EPS	16.0	33.8	30.1	50.4
Dividend per share (DPS)	-	-	-	-
Book Value per share (BV)	54.2	194.6	225.3	276.1
Dividend Payout (%)	-	-	-	-
Growth (%)				
Net Sales	101.0	121.4	(3.9)	69.3
EBITDA	149.0	106.6	(13.2)	80.4
EPS (INR)	157.1	115.8	(11.1)	70.3
Valuation Ratios (x)				
P/E	113.7	52.7	59.3	34.8
P/CEPS	105.4	50.0	56.1	33.6
P/BV	31.2	8.7	7.5	6.1
EV / EBITDA	80.9	37.1	42.0	23.2
P / Sales	33.6	15.2	15.8	9.3
Dividend Yield (%)	-	-	-	-
Operating Ratios				
Gross Profit Margins (%)	70.7	60.5	57.1	57.2
EBITDA Margins (%)	41.1	38.4	34.7	36.9
Effective Tax Rate (%)	30.8	26.3	29.1	29.1
Net Profit Margins (%)	28.9	30.7	28.7	28.0
NWC / Total Assets (%)	-	-	-	-
Net Debt / Equity (x)	(0.3)	(0.5)	(0.6)	(0.5)
Net Debt / EBITDA (x)	(0.9)	(2.5)	(3.5)	(2.0)
Profitability Ratios				
RoCE (%)	29.5	23.4	11.4	17.7
RoE (%)	30.9	25.5	13.3	19.1
RoIC (%)	49.8	46.8	26.3	38.1
Fixed Asset Turnover (x)	3.7	6.3	5.0	7.6
Inventory Turnover Days	187	62	89	115
Receivables Days	204	212	149	191
Payables Days	36	13	34	43

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, **E-mail Address** : complianceofficer@icicisecurities.com

For any queries or grievances: [Mr. Bhavesh Soni](#) Email address: headservicequality@icicidirect.com Contact Number: 18601231122
