

Zen Tech: Guidance trimmed; EU optionality propels optimism

Feb 03, 2026 | CMP: INR 1,346 | Target Price: INR 2,150

BUY

Expected Share Price Return: 59.7% | Dividend Yield: 0% | Potential Upside: 59.7%

Sector View: Positive

Change in Estimates	✓
Change in Target Price	✗
Change in Recommendation	✗

Company Info

BB Code	ZEN IN EQUITY
Face Value (INR)	1.0
52-wk High/Low (INR)	2,268/945
Mkt Cap (Bn)	INR 121.4/ \$1.3
Shares o/s (Mn)	90.30
3M Avg. Daily Volume	4,82,738

Change in CIE Estimates

INR Mn	FY26E			FY27E		
	New	Old	Dev. (%)	New	Old	Dev. (%)
Revenue	10,029	10,515	(4.6)	14,040	16,825	(16.6)
EBITDA	3,566	3,691	(3.4)	4,711	5,982	(21.2)
EBITDAM%	35.6	35.1	50bps	33.6	35.6	(200)bps
PAT	2,945	2,975	(1.0)	3,995	4,633	(13.8)
EPS	32.6	32.9	(0.9)	44.2	51.3	(13.8)

Actual vs CIE Estimates

INR Mn	Q3FY26	CIE Estimates	Dev. %
Revenue	1,778	2,103	(15.4)
EBITDA	668	778	(14.2)
EBITDAM %	37.6	37.0	57Bps
PAT	557	708	(21.3)

Key Financials

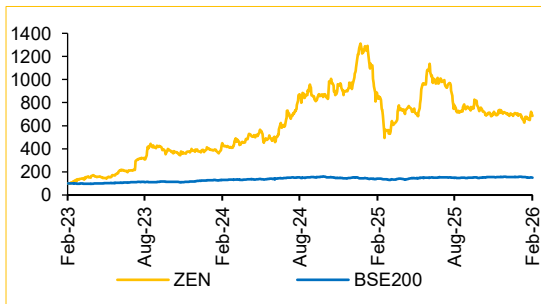
INR Mn	FY24	FY25	FY26E	FY27E	FY28E
Revenue	4,399	9,736	10,029	14,040	19,656
YoY (%)	101.0	121.4	3.0	40.0	40.0
EBITDA	1,808	3,735	3,566	4,711	6,399
EBITDAM %	41.1	38.4	35.6	33.6	32.6
Adj PAT	1,295	2,993	2,945	3,995	5,546
EPS (INR)	15.5	32.1	32.6	44.2	61.4
ROE %	33.9	27.9	15.9	18.2	20.8
ROCE %	26.9	17.0	14.7	16.6	18.6
PE(x)	87.1	42.0	41.3	30.4	21.9
EV/EBITDA	64.0	30.1	31.0	23.3	16.9

Shareholding Pattern (%)

	Dec-25	Sep-25	Jun-25
Promoters	48.51	48.51	49.05
FIIIs	5.54	5.94	6.04
DIIIs	7.86	7.93	8.75
Public	37.67	37.20	35.72
Others	0.41	0.42	0.43

Relative Performance (%)

YTD	3Y	2Y	1Y
BSE200	50.7	15.4	7.1
ZEN	585.4	57.2	(17.8)


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Guidance Trimmed; EU Optionality Propels Optimism

We interpret management's tone as **measured and pragmatic**, shifting decisively from **aspirational commentary to execution-focussed realism**. The proactive recalibration of **FY27–28E revenue guidance downwards to ~INR 4,000 Cr** reflects a purposeful effort to reset investor expectation rather than overpromise. This is driven by procurement timing and process reality rather than demand weakness. **Order momentum has re-accelerated meaningfully**, with ~INR 930 Cr secured over the past four months, lifting the order book to ~INR 1,427 Cr (1.5x FY25 revenue), of which **~INR 1,100 Cr is executable over the next 12–18 months**, positioning Zen for steady near-term growth.

Looking ahead, we believe Zen is strategically positioned for a step-change in its earnings quality. Anti-drone systems represent a durable growth engine, while we believe **EU-India trade agreement materially improves Zen's access to Europe defence markets**, supporting the management's **ambition to scale exports to 20–30% of revenue by FY28E**. Coupled with a net cash balance of ~INR 1,100 Cr to fund selective, IP-driven acquisitions, Zen is evolving into a diversified, resilient defence franchise with strong global growth potential.

Q3 revenue miss; margin remains resilient

- Revenue for Q3FY26 up by 16.8% YoY and up by 2.4% QoQ at INR 1,778 Mn (vs CIE est. of INR 2,103 Mn)
- EBITDA for Q3FY26 up by 51.1% YoY and up by 3.2% QoQ at INR 668 Mn (vs CIE est. INR 778 Mn). The EBITDA margin stood at 37.6%, improved by 853 bps YoY (vs CIE est. of 37.0%)
- PAT for Q3FY26 up by 30.6% YoY and down 10.0% QoQ at INR 557 Mn (vs CIE est. INR 708 Mn). PAT margin improved by 330 bps YoY, reaching 31.3% (vs CIE est. of 33.7%)

View & Valuation: We maintain our **BUY** rating on ZEN with a target price of **INR 2,150**, implying a valuation of **35x FY28E EPS**. We expect a meaningful acceleration in order inflows and execution over FY27–28E, supported by the **EU-India trade agreement**, which provides unrestricted access to Western markets, alongside strong interest from other international customers. This is likely to drive both, earnings recovery and a re-rating of the stock. Following the recent correction, we believe ZEN seems to be attractive in **India's defence technology sector**.

Particulars (INR Mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)
Net Sales (incl OOI)	1,778	1,522	16.8	1,736	2.4
Material Exp	389	628	(38.0)	485	(19.7)
Gross Profit	1,389	894	55.4	1,250	11.1
Manufacturing Exp	109	38	186.8	147	(25.9)
Employee Exp	348	191	81.8	218	59.3
Other Exp	264	223	18.7	238	10.9
EBITDA	668	442	51.1	647	3.2
Depreciation	65	38	70.4	57	13.7
EBIT	603	404	49.3	590	2.2
Other Income	156	220	(29.1)	253	(38.3)
Interest Cost	27	30	(7.2)	20	34.8
PBT	732	595	23.1	823	(11.1)
EO Items	-3	-	-	8	-
Tax	172	168	2.3	212	(19.1)
RPAT	557	427	30.6	619	(10.0)
APAT	557	427	30.6	619	(10.0)
Adj EPS (Rs)	6.2	4.4	40.2	6.6	(6.3)

Margin Analysis	Q3FY26	Q3FY25	YoY (Bps)	Q2FY26	QoQ (Bps)
Gross Margin (%)	78.1	58.7	1,937.9	72.0	605.2
Mfg Exp. % of Sales	6.1	2.5	362.1	8.4	(233.3)
Emp Exp. % of Sales	19.6	12.6	699.6	12.6	698.4
Other Exp. % of Sales	14.9	14.6	23.4	13.7	113.8
EBITDA Margin (%)	37.57	29.0	852.80	37.3	26.3
Tax Rate (%)	23.5	28.3	(477.3)	25.8	(231.6)
APAT Margin (%)	31.3	28.0	329.6	35.7	(433.8)

Management Call – Highlights

Management revised its execution guidance downwards to INR 4,000 Cr

With INR 1,188 Cr cash balance, Zen is aggressively pursuing acquisitions and export growth and looking to leverage the EU-India FTA

Export Goals: Targeting 20–30% of total turnover by FY28 (Middle East, Africa, SE Asia)

Order Book and Execution

- Total Order Book: INR 1,082 Cr as of Dec 31, 2025; INR 1,427 Cr as of Jan 31, 2026
- Segment Split: 50% Anti-Drone Systems (ADS), 50% Simulators
- Split, by geography: 93% Domestic, 7% Exports
- Composition: INR 1,089 Cr Equipment, INR 338 Cr AMC
- Revised Guidance: Scaled down to ~INR 4,000 Cr execution over FY27-FY28 (from the earlier guidance of INR 6,000 Cr)
- Timeline: Most equipment orders to be executed within 18 months
- Capacity: Supply chain ready for >INR 2,000 Cr annually; investing in additional machinery and plant capacity to handle potentially larger volumes in FY28

Product and Technology

- ADS Evolution: Expanded from soft-kill to spoofing and hard-kill
- Frequency Range: Band-agnostic coverage from 70 MHz to 18 GHz
- Key Wins: Breakthrough INR 100 Cr+ order for Combat Training Node
- Naval Tech: Advanced submarine simulators and tactical trainers via AnaWave acquisition, which are seeing high demand overseas
- R&D Strategy: Focus on IP ownership, not assembly

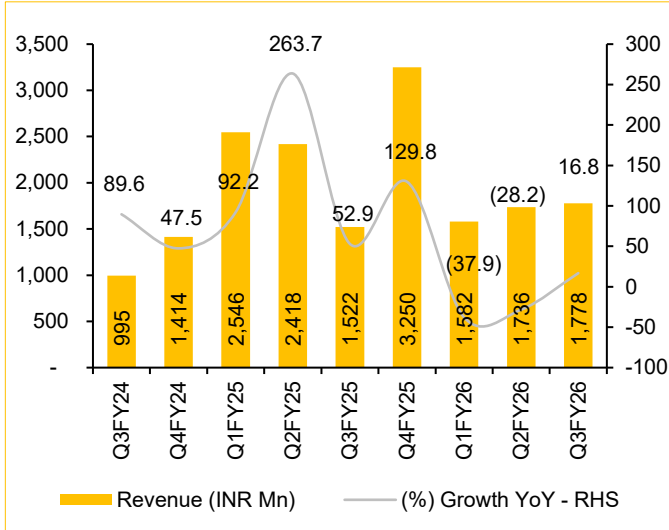
Strategic Initiatives

- Export Goals: Targeting 20–30% of total turnover by FY28 (Middle East, Africa, SE Asia)
- Europe Market: Leveraging EU FTA for potential NATO entry and open to acquiring companies there with deep technology
- Liquidity: INR 1,188 Cr cash available and zero net debt for investment opportunities and acquisitions in India and abroad
- IP Advantage: India-owned IP preferred globally over competitors with security risks (e.g., China)
- ESG Focus: Score improved to 67; simulators avert use of live ammo and fuel

Outlook & Management Commentary

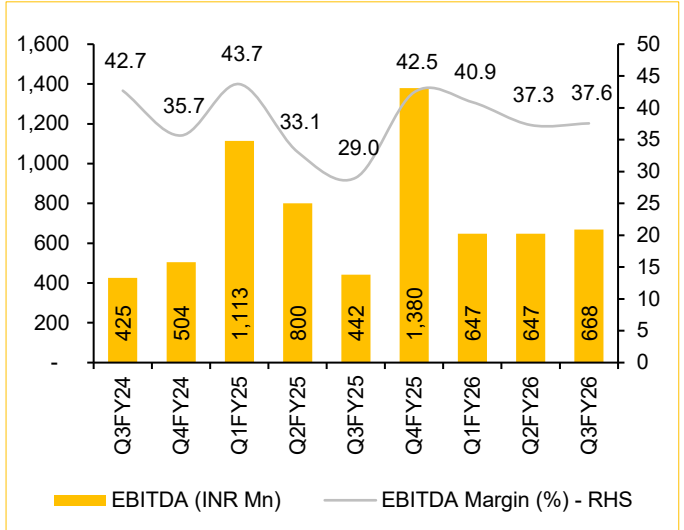
- Margin Guidance: Confident in maintaining consolidated PAT margin around 25%
- FY27 Projection: Expecting highest turnover in company history
- Demand Drivers: Global instability driving emergency procurement
- Subsidiaries: AI Turing expected to contribute meaningfully to revenue/profits in FY27

Revenue up 16.8% on YoY basis



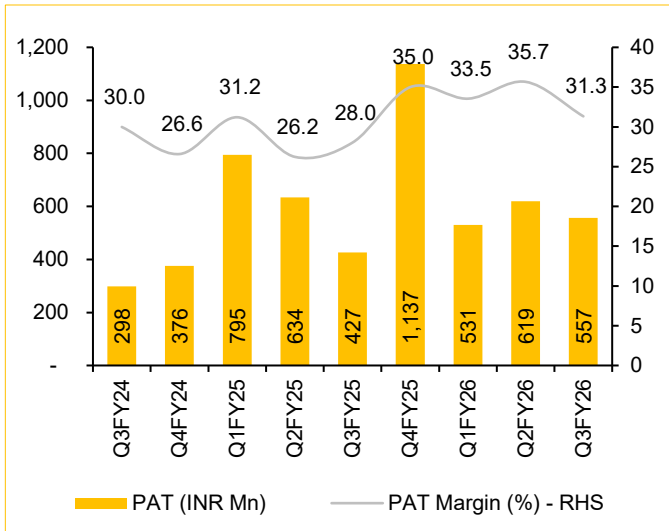
Source: ZEN, Choice Institutional Equities

EBITDA up 51.1% on YoY basis



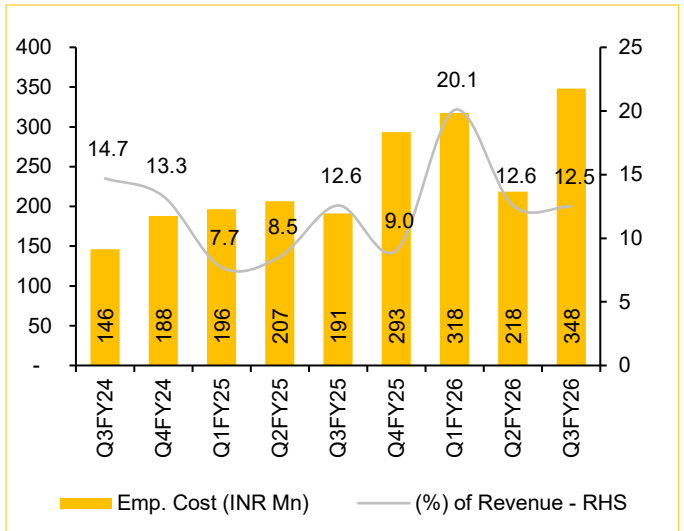
Source: ZEN, Choice Institutional Equities

PAT up 30.6% on YoY basis



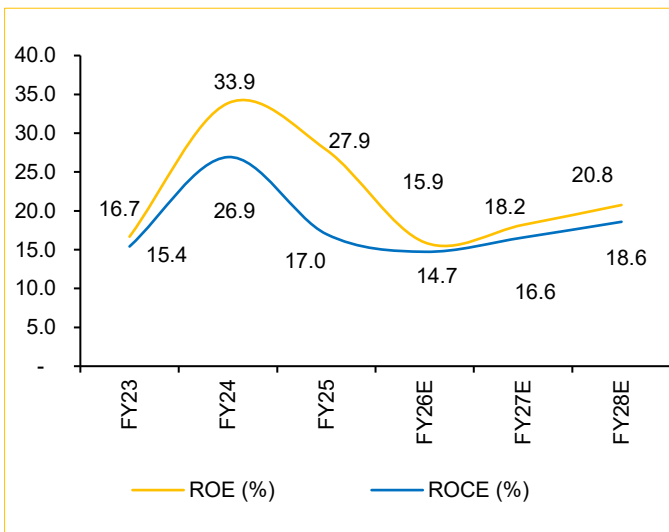
Source: ZEN, Choice Institutional Equities

Employee cost trend



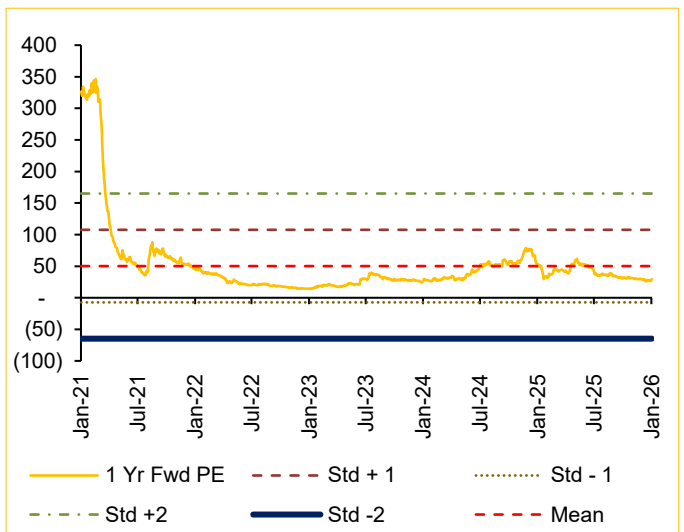
Source: ZEN, Choice Institutional Equities

ROE & ROCE trend



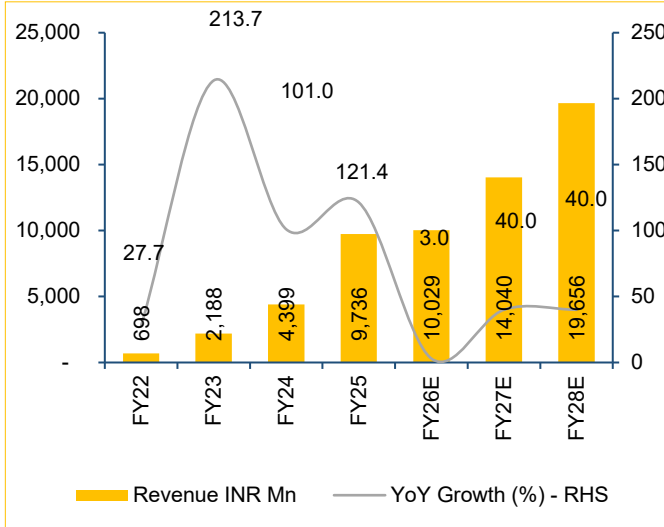
Source: ZEN, Choice Institutional Equities

1-yr forward PE band



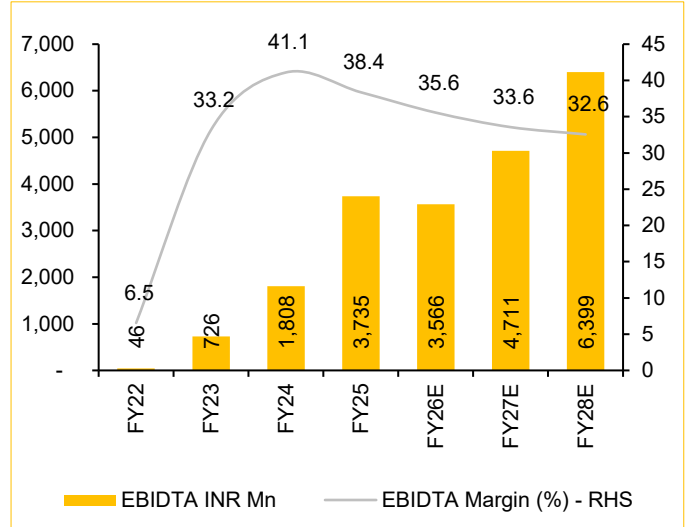
Source: ZEN, Choice Institutional Equities

Rev. expected to expand ~26.4% CAGR over FY25-28E



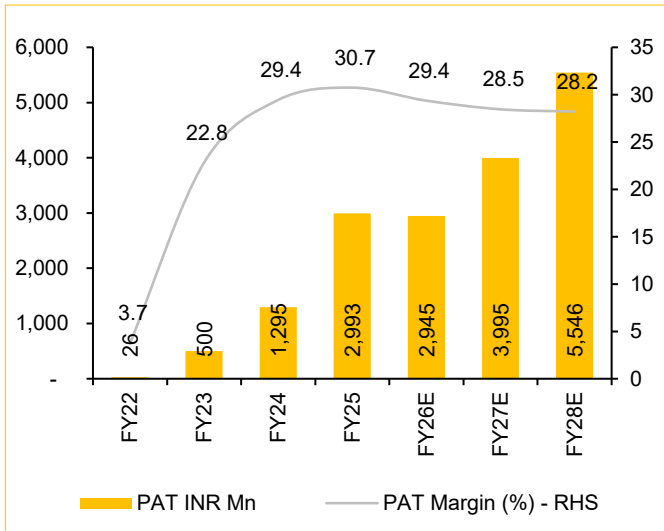
Source: ZEN, Choice Institutional Equities

EBITDA margin to dip marginally to 32-34% range



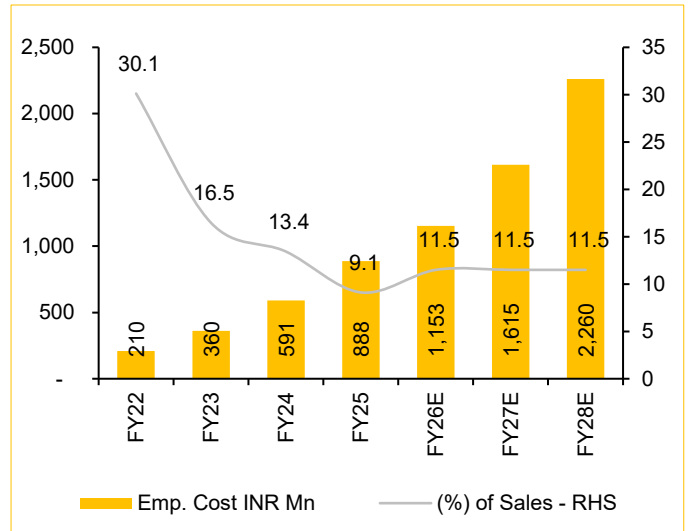
Source: ZEN, Choice Institutional Equities

PAT anticipated to expand ~22.8% CAGR over FY25-28E



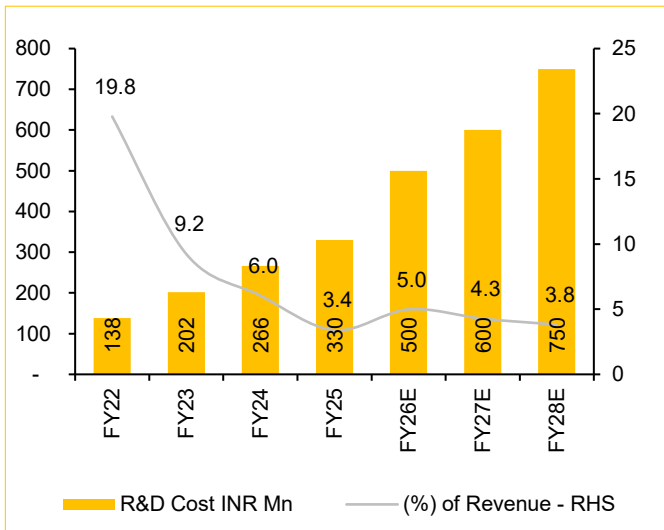
Source: ZEN, Choice Institutional Equities

Employee cost trend



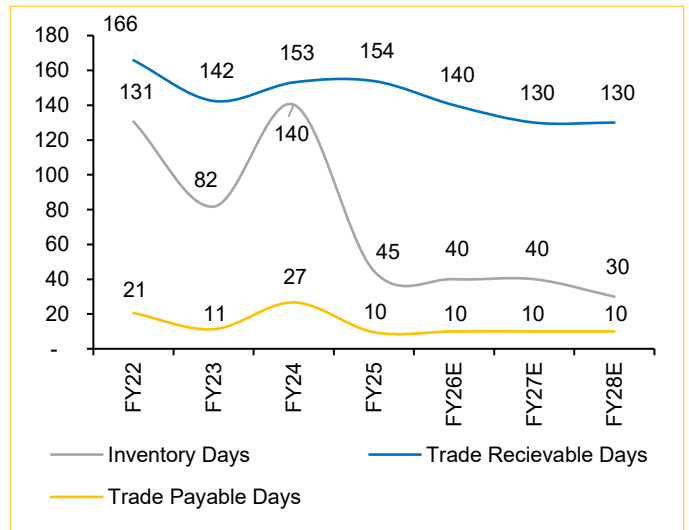
Source: ZEN, Choice Institutional Equities

Strong R&D for futuristic technologies



Source: ZEN, Choice Institutional Equities

Working capital cycle to improve



Source: ZEN, Choice Institutional Equities

Income Statement (INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Revenue	4,399	9,736	10,029	14,040	19,656
Gross Profit	3,218	6,046	6,574	8,923	12,296
Other Exp	2,591	6,001	6,463	9,329	13,257
EBITDA	1,808	3,735	3,566	4,711	6,399
Depreciation	97	154	258	297	336
EBIT	1,860	4,165	4,110	5,537	7,635
Interest Expense	23	104	114	123	131
Other Income	149	584	802	1,123	1,572
Reported PAT	1,295	2,993	2,945	3,995	5,546
EPS	15.5	32.1	32.6	44.2	61.4

Source: ZEN, Choice Institutional Equities

Ratio Analysis	FY24	FY25	FY26E	FY27E	FY28E
Growth Ratios (%)					
Revenue	101.0	121.4	3.0	40.0	40.0
EBITDA	149.0	106.6	(4.5)	32.1	35.8
PAT	159.2	131.1	(1.6)	35.7	38.8
Margins (%)					
Gross Margin	73.2	62.1	65.6	63.6	62.6
EBIDTA Margin	41.1	38.4	35.6	33.6	32.6
PAT Margin	29.4	30.7	29.4	28.5	28.2
Profitability (%)					
ROE	33.9	27.9	15.9	18.2	20.8
ROCE	26.9	17.0	14.7	16.6	18.6
Working Capital					
Inventory Days	140	45	40	40	30
Debtor Days	153	154	140	130	130
Payable Days	27	10	10	10	10
Cash Conversion Cycle	267	189	170	160	150
Valuation metrics					
PE (x)	87.1	42.0	41.3	30.4	21.9
EV/EBITDA (x)	64.0	30.1	31.0	23.3	16.9
Price to BV (x)	24.3	7.0	6.0	5.0	4.1
EV/CE (x)	24.1	6.2	5.4	4.4	3.6

Source: ZEN, Choice Institutional Equities

Balance Sheet (INR Mn)

Particular	FY24	FY25	FY26E	FY27E	FY28E
Net Worth	4,486	17,007	19,952	23,947	29,493
Non-controlling Interest	177	352	352	352	352
Long-term Borrowings	-	402	-	-	-
Lease Liabilities	41	172	150	211	295
Other Liabilities & Provisions	102	118	106	148	207
Short-term Borrowings	6	139	-	-	-
Other Current Liabilities	2,693	2,300	1,743	2,554	3,747
Total Liabilities	7,505	20,490	22,304	27,213	34,094
Net Fixed Assets	807	1,064	1,106	1,109	1,072
Capital Work in Progress	101	36	100	140	197
Other Non-current Assets	414	3,351	3,751	5,305	7,510
Inventories	1,691	1,193	1,099	1,539	1,616
Trade Receivable	1,845	4,104	3,847	5,001	7,001
Cash & Bank Balance	1,582	9,658	10,852	11,821	13,295
Other Current Assets	1,066	1,085	1,549	2,299	3,405
Total Assets	7,505	20,490	22,304	27,213	34,094

Source: ZEN, Choice Institutional Equities

Cash Flow Statement (Consolidated in INR Mn)

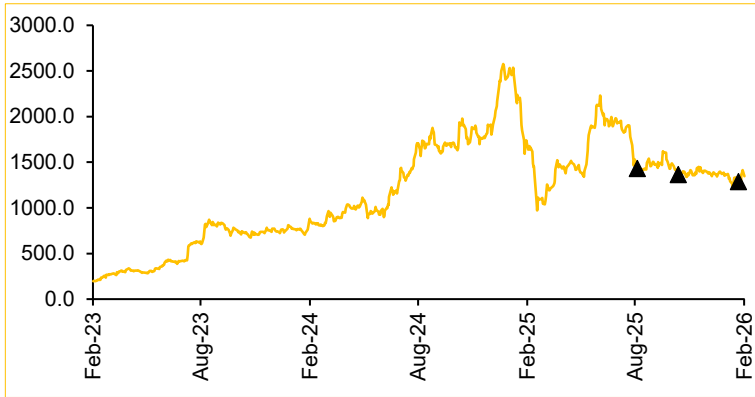
Cash Flows (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Cash Flows from Operations	134	(1,463)	2,538	7,698	4,303
Cash Flows from Investing	(852)	(8,231)	(765)	(1,895)	(2,560)
Cash Flows from Financing	(33)	10,068	(688)	(21)	12

Source: ZEN, Choice Institutional Equities

DuPont Analysis (INR Mn)	FY24	FY25	FY26E	FY27E	FY28E
Tax Burden	70%	74%	74%	74%	74%
Interest Burden	59%	48%	45%	52%	58%
EBIT Margin	2.0	1.9	1.2	1.2	1.3
Asset Turnover	1.0	1.1	1.1	1.1	1.2
Equity Multiplier	0.4	0.4	0.4	0.3	0.3
ROE	33.9%	27.9%	15.9%	18.2%	20.8%

Source: ZEN, Choice Institutional Equities

Historical Price Chart: Zen Technologies



Date	Rating	Target Price
August 21, 2025	BUY	2,150
October 28, 2025	BUY	2,150
February 03, 2026	BUY	2,150

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Large Cap*	
BUY	The security is expected to generate upside of 15% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 15% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -5% over the next 12 months
SELL	The security is expected to show downside of 5% or more over the next 12 months
Mid & Small Cap*	
BUY	The security is expected to generate upside of 20% or more over the next 12 months
ADD	The security is expected to show upside returns from 5% to less than 20% over the next 12 months
REDUCE	The security is expected to show upside or downside returns by 5% to -10% over the next 12 months
SELL	The security is expected to show downside of 10% or more over the next 12 months
Other Ratings	
NOT RATED (NR)	The stock has no recommendation from the Analyst
UNDER REVIEW (UR)	The stock is under review by the Analyst and rating may change
Sector View	
POSITIVE (P)	Fundamentals of the sector look attractive over the next 12 months
NEUTRAL (N)	Fundamentals of the sector are expected to be in stasis over the next 12 months
CAUTIOUS (C)	Fundamentals of the sector are expected to be challenging over the next 12 months

*Large Cap: More Than INR 20,000 Cr Market Cap
 *Mid & Small Cap: Less Than INR 20,000 Cr Market Cap

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