

## Zen Technologies Ltd

June 25, 2019

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	72.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable / A Three Plus)	Revised from CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three )
Long Term Bank Facilities	50.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Revised from CARE BBB-; Stable(Triple B Minus; Outlook: Stable)
Short Term Bank Facilities	15.00	CARE A3+ (A Three Plus)	Revised from CARE A3 (A Three)
<b>Total facilities</b>	<b>137.00</b> <b>(Rs. One Hundred Thirty-Seven Crore Only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Zen Technologies Ltd (ZTL) is on account of significant improvement in the company's operational performance, liquidity profile and other key financial indicators during FY19 (refers to the period from April 01 to March 31) backed by execution of a portion of the relatively large order received from Ministry of Defence (MOD). Further, the ratings continue to draw comfort from long industry experience of the promoters and management team, strong product portfolio, approved vendors for procurement of parts, renowned clientele with established relationships, steady revenue from annual maintenance contracts (AMC) and comfortable capital structure. The rating strengths are however, partially offset by, volatility in the revenue profile with high dependence on defence orders also resulting in client concentration risk, extended operating cycle, high capital outlay on research and development activity with long gestation period involved and inherent risk associated with tender based business.

The ability of the company to further strengthen its order book and timely execution of the same without leveraging its capital structure will be the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Improved operating income and profitability during FY19:** Backed by the execution of a relatively large order from Ministry of Defence, company's Total operating income increased from Rs.42.82 crore during FY18 to Rs.93.94 crore during FY19. Further with better absorption of the overheads, profitability margins have witnessed a significant improvement; PBILDT margin improved from 4.67% during FY18 to 25.83% during FY19 with a healthy PAT margin of 20.48% against a net loss of Rs.0.39 crore during FY18.

**Comfortable coverage metrics:** With significantly high cash accruals in relative to its debt obligations, the debt coverage metrics of the company has improved significantly in FY19. Interest coverage ratio of the company improved from 0.83x during FY18 to 5.07x during FY19. Also, Total debt to coverage ratio improved from 57.54x during FY18 to 2.22x during FY19.

**Experienced promoters:** The promoters of ZTL have been in the defence training simulators industry since 1993. The company has benefited from the established track record and vast industry network of the promoters in training simulator segment.

**Strong product portfolio:** The group 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 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.).

**Comfortable capital structure:** The capital structure of the company marked by overall gearing remains comfortable at 0.27x as on March 31, 2019 (March 31, 2018 0.07x), backed by strong network in vis-a-vis debt outstanding.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Satisfactory order book position with revenue visibility:** ZTL has an outstanding order book of around Rs.267crore as on May 31, 2019, pertaining to equipment orders of Rs. 155.47 crore and AMC order book of Rs. 110.89 crore indicating revenue visibility in the medium term.

**Liquidity analysis: Adequate:** The company has a satisfactory liquidity position despite presence in a working capital intensive business associated with high collection period. The company has been generating sufficient cash accruals vis-à-vis the debt repayment obligations. Cash balance as on June 17, 2019 stood at around Rs.4.00 crore. Also, with majority of the raw material required to process the balance order of supplying tank simulators in place and with comfortable average unutilized working capital limits for past 12 months ending May 2019 standing at 44%, the liquidity position stands comfortable.

#### Key Rating Weaknesses

**Highly volatile revenue profile:** The revenue of the company is concentrated on supplies to the National Security Forces resulting in client concentration risk along with highly volatile revenue profile. Further, given the high R&D overheads, the profitability of the company is highly susceptible to fluctuating profitability.

**Relatively high capital outlay on Research and Development (R&D):** 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 clients. R&D is associated with huge capital outlay, long gestation period and product acceptance uncertainty. During FY19, the R&D cost comprised about 17.68% of the total cost of sales.

**Industry Outlook:** The global military simulation and virtual training market is expected to increase to USD 15.12 bn by 2026 from USD 10.2 bn in 2018 representing a CAGR of 4.00% during the forecasted period. The 'Make in India' initiative by the Government is expected to provide support to domestic manufacturing companies in the form of policies, which encourage procurement of indigenously designed developed and manufactured (IDDM) defence weapons and systems.

**Analytical approach: Standalone**

#### Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[CARE's methodology for Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

#### About the company

Zen Technologies Limited (ZTL), incorporated in 1993, is one of the key players in developing weapons training simulators in the country. The company, promoted by Mr Ashok Atluri (CMD), got listed on BSE in the year 2000 and is currently engaged in designing, developing and manufacturing of training simulators for Indian Defense Services, Paramilitary Forces, Indian Navy, State and Central Police Forces and the State Transport Authorities. ZTL has AS9100C (QMS), ISO 14001:2004 (EMS) and ISO 27001:2013 (ISMS) Certifications and is a CMMI Level 5 Company with a dedicated R&D and production facility in India and Business development office in USA.

Brief Financials (Rs. crore)	FY18 (Audited)	FY19 (Audited)
Total operating income	42.82	93.94
PBILDT	2.00	24.27
PAT/ (Net Loss)	(0.39)	19.24
Overall gearing (times)	0.07	0.27
Interest coverage (times)	0.83	5.07

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

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	30.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	72.00	CARE BBB; Stable / CARE A3+
Fund-based - LT-Term Loan	-	-	Sep 2022	20.00	CARE BBB; Stable

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (26-Dec-18) 2)CARE BBB-; Stable (24-Aug-18)	1)CARE BBB; Stable (26-Mar-18)	1)CARE BBB; Stable (23-Feb-17) 2)CARE BBB (05-Apr-16)
2.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A3+	-	1)CARE A3 (26-Dec-18) 2)CARE A3; Stable (24-Aug-18)	1)CARE A3+ (26-Mar-18)	1)CARE A3+ (23-Feb-17) 2)CARE A3+ (05-Apr-16)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	72.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB-; Stable / CARE A3 (26-Dec-18) 2)CARE BBB-; Stable / CARE A3 (24-Aug-18)	1)CARE BBB; Stable / CARE A3+ (26-Mar-18)	1)CARE BBB; Stable / CARE A3+ (23-Feb-17) 2)CARE BBB / CARE A3+ (05-Apr-16)
4.	Fund-based - LT-Term Loan	LT	20.00	CARE BBB; Stable	-	1)CARE BBB-; Stable (26-Dec-18) 2)CARE BBB-; Stable (24-Aug-18)	1)CARE BBB; Stable (26-Mar-18)	-

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

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