

**Zen Technologies Limited**

March 26, 2018

**Rating**

Facilities/Instruments	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating action
Long-term Bank Facilities	40 (Enhanced from 15)	<b>CARE BBB; Stable (Triple B; Outlook-Stable)</b>	Reaffirmed
Short-term Bank Facilities	10	<b>CARE A3+ (A Three Plus)</b>	Reaffirmed
Long-term/Short-term Bank Facilities	57	<b>CARE BBB; Stable/CARE A3+ (Triple B; Outlook-Stable / A Three Plus)</b>	Reaffirmed
<b>Total Facilities</b>	<b>107 (Rupees one hundred seven crore only)</b>		

*Details of facilities in Annexure-1*
**Detailed Rationale & Key Rating Drivers**

The ratings assigned to the bank facilities of Zen Technologies Limited (ZTL) 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, medium term revenue visibility in the form of annual maintenance contracts (AMC), comfortable capital structure and satisfactory debt coverage indicators. The rating strengths are however, constrained by high volatility in the revenue profile with high dependence on Defence orders resulting in client concentration, 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 ratings also factors in deterioration in financial performance during 9MFY18 (FY refers to the period April 1 to March 31).

The ability of the company to manage revenue volatility and maintain comfortable capital structure while efficiently managing the capex requirement of R&D division are the key rating sensitivities.

**Detailed description of the key rating drivers**
**Key Rating Strengths**

**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 company has a strong product portfolio, the products of the company are divided into 3 major categories viz. Land-based Military Simulators, Driving Simulators, and Mining and Special Equipment Simulators. The company manufactures simulators that are used by the defence as well as civilian institutions.

**Comfortable capital structure:** The capital structure of the company marked by overall gearing has stood comfortable at 0.08x as on March 31, 2017 (Mar.31, 2016 0.10x), on account of insignificant debt relative to net worth. The company majorly utilizes OD (backed by Fixed Deposits) and term debt obligation is minimal. Further, the debt coverage indicators viz. interest coverage and Total debt/GCA have improved further during FY17.

**Key Rating Weaknesses**

**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 FY17, the R&D cost comprised about 27% of the total cost of sales.

**Highly volatile revenue profile:** The revenue is concentrated on supplies to the National Defence Academy (NDA) and the high dependence has resulted in volatile revenue profile with extreme fluctuation witnessed in the revenue and profit

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

across the four quarters of the financial year. The scale of operation moderated in 9MFY18 with total operating income, profit level and margins reducing during the year with lower order execution for defence segment.

**Extended working capital cycle:** ZTL operates in a working capital intensive industry and consequently the operating cycle has been high. Nevertheless, ZTL has been able to manage its working capital requirement efficiently indicated by relatively low utilization of fund based working capital limits.

**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 manufacturing facilities located at Maheswaram (Telangana) and Nalagarh (Himachal Pradesh).

Brief Financials (Rs. crore)	FY16 (Audited)	FY17 (Audited)
Total operating income	57.99	65.24
PBILDT	9.47	14.95
PAT	2.32	7.17
Overall gearing (times)	0.10	0.08
Interest coverage (times)	4.00	6.41

Based on provisional results for 9MFY18, ZTL reported loss at net level of Rs.3.84 crore on total operating income of Rs.27.38 crore.

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

**Any other information:** Not Applicable.

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

**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.

#### Analyst Contact:

Name: Ms Nivedita Ghayal

Tel: 040-40102030

Mobile: +91-9908090944

Email: [nivedita.ghayal@careratings.com](mailto:nivedita.ghayal@careratings.com)

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#### About CARE Ratings:

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

**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	-	-	-	20.00	CARE BBB; Stable
Non-fund-based - ST-Letter of credit	-	-	-	10.00	CARE A3+
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	57.00	CARE BBB; Stable / CARE A3+
Fund-based - LT-Term Loan	-	-	March 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB; Stable	-	1)CARE BBB; Stable (23-Feb-17) 2)CARE BBB (05-Apr-16)	-	-
2.	Non-fund-based - ST-Letter of credit	ST	10.00	CARE A3+	-	1)CARE A3+ (23-Feb-17) 2)CARE A3+ (05-Apr-16)	-	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	57.00	CARE BBB; Stable / CARE A3+	-	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	-	-	-	-

**CONTACT****Head Office Mumbai**

**Ms. Meenal Sikchi**  
Cell: + 91 98190 09839  
E-mail: [meenal.sikchi@careratings.com](mailto:meenal.sikchi@careratings.com)

**Mr. Ankur Sachdeva**  
Cell: + 91 98196 98985  
E-mail: [ankur.sachdeva@careratings.com](mailto:ankur.sachdeva@careratings.com)

**Ms. Rashmi Narvankar**  
Cell: + 91 99675 70636  
E-mail: [rashmi.narvankar@careratings.com](mailto:rashmi.narvankar@careratings.com)

**Mr. Saikat Roy**  
Cell: + 91 98209 98779  
E-mail: [saikat.roy@careratings.com](mailto:saikat.roy@careratings.com)

**CARE Ratings Limited**

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaia Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022  
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: [care@careratings.com](mailto:care@careratings.com)

**AHMEDABAD**

**Mr. Deepak Prajapati**  
32, Titanium, Prahaladnagar Corporate Road,  
Satellite, Ahmedabad - 380 015  
Cell: +91-9099028864  
Tel: +91-79-4026 5656  
E-mail: [deepak.prajapati@careratings.com](mailto:deepak.prajapati@careratings.com)

**BENGALURU**

**Mr. V Pradeep Kumar**  
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,  
No. 30, M.G. Road, Bangalore - 560 001.  
Cell: +91 98407 54521  
Tel: +91-80-4115 0445, 4165 4529  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**CHANDIGARH**

**Mr. Anand Jha**  
SCF No. 54-55,  
First Floor, Phase 11,  
Sector 65, Mohali - 160062  
Chandigarh  
Cell: +91 85111-53511/99251-42264  
Tel: +91- 0172-490-4000/01  
Email: [anand.jha@careratings.com](mailto:anand.jha@careratings.com)

**CHENNAI**

**Mr. V Pradeep Kumar**  
Unit No. O-509/C, Spencer Plaza, 5th Floor,  
No. 769, Anna Salai, Chennai - 600 002.  
Cell: +91 98407 54521  
Tel: +91-44-2849 7812 / 0811  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**COIMBATORE**

**Mr. V Pradeep Kumar**  
T-3, 3rd Floor, Manchester Square  
Puliakulam Road, Coimbatore - 641 037.  
Tel: +91-422-4332399 / 4502399  
Email: [pradeep.kumar@careratings.com](mailto:pradeep.kumar@careratings.com)

**HYDERABAD**

**Mr. Ramesh Bob**  
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,  
Hyderabad - 500 029.  
Cell : + 91 90520 00521  
Tel: +91-40-4010 2030  
E-mail: [ramesh.bob@careratings.com](mailto:ramesh.bob@careratings.com)

**JAIPUR**

**Mr. Nikhil Soni**  
304, Pashupati Akshat Heights, Plot No. D-91,  
Madho Singh Road, Near Collectorate Circle,  
Bani Park, Jaipur - 302 016.  
Cell: +91 – 95490 33222  
Tel: +91-141-402 0213 / 14  
E-mail: [nikhil.soni@careratings.com](mailto:nikhil.soni@careratings.com)

**KOLKATA**

**Ms. Priti Agarwal**  
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)  
10A, Shakespeare Sarani, Kolkata - 700 071.  
Cell: +91-98319 67110  
Tel: +91-33- 4018 1600  
E-mail: [priti.agarwal@careratings.com](mailto:priti.agarwal@careratings.com)

**NEW DELHI**

**Ms. Swati Agrawal**  
13th Floor, E-1 Block, Videocon Tower,  
Jhandewalan Extension, New Delhi - 110 055.  
Cell: +91-98117 45677  
Tel: +91-11-4533 3200  
E-mail: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

**PUNE**

**Mr. Pratim Banerjee**  
9th Floor, Pride Kumar Senate,  
Plot No. 970, Bhamburda, Senapati Bapat Road,  
Shivaji Nagar, Pune - 411 015.  
Cell: +91-98361 07331  
Tel: +91-20- 4000 9000  
E-mail: [pratim.banerjee@careratings.com](mailto:pratim.banerjee@careratings.com)

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