Zen Technologies Limited

July 27, 2020

Ratings

Facilities	**Amount (Rs. crore)**	**Rating[1]**	**Rating Action**
Long term Bank Facilities	50.00	**CARE BBB-; Stable; ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable; ISSUER NOT COOPERATING*)**	Issuer Not Cooperating; Revised from CARE BBB; Stable (Triple B; Outlook: Stable) on the basis of best available information
Short term Bank Facilities	15.00	**CARE A3; ISSUER NOT COOPERATING* (A Three; ISSUER NOT COOPERATING*)**	Issuer Not Cooperating; Revised from CARE A3+ (A Three Plus) on the basis of best available information
Long-term/Short-term Bank Facilities	72.00	**CARE BBB-; Stable/CARE A3; ISSUER NOT COOPERATING* (Triple B Minus; Outlook: Stable /A Three); ISSUER NOT COOPERATING*)**	Issuer Not Cooperating; Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook: Stable/A Three Plus) on the basis of best available information
Total	**137.00 (Rs. One Hundred and Thirty Seven crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information (No Default Statement) from Zen Technologies Limited to monitor the rating(s) vide e-mail communications dated between April 30, 2020 and July 07, 2020 and numerous phone calls. However, despite our repeated requests, the company has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on Zen Technologies Limited's bank facilities will now be denoted as **CARE BBB-; Stable/CARE A3; ISSUER NOT COOPERATING***.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

The ratings have been revised as CARE was unable to undertake appropriate due diligence with all lenders. The ratings factor in company's satisfactory 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 also factor in 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 also take into account 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.

Detailed description of the key rating drivers

At the time of last rating on June 25, 2019; the following were the rating strengths and weaknesses (updated for the information available from stock exchange):

Key Rating Strengths

Satisfactory operating income and profitability: 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.

During FY20 (Published), the total operating income of the company further improved to Rs.148.82 crore with PBILDT margin of 44.01% and PAT margin of 40.65%.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

**Issuer did not cooperate; Based on best available information*

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.
The PBILDT coverage indicator of the company improved to 20.59x during FY20 (Published) while the other debt coverage indicator, total debt to GCA improved to 0.11x during the same period.

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 networth in vis-a-vis debt outstanding.
The overall gearing of the company stood comfortable at 0.03x as on March 31, 2020 (Published).

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.
As on June 06, 2020, the order book of the company stood at Rs.160.79 crore.

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.

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.

Analytical approach: Standalone

Applicable Criteria
Policy in respect on Non-cooperation by issuer
Criteria on assigning 'outlook' and 'credit watch' 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
Liquidity analysis of Non-financial sector entities

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)	FY19 (A)	FY20 (Published)
Total operating income	93.94	148.82
PBILDT	24.27	65.49
PAT	19.24	60.5
Overall gearing (times)	0.30	0.03
Interest coverage (times)	5.07	20.59

A: Audited

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; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information
Non-fund-based - ST-Letter of credit	-	-	-	15.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+ on the basis of best available information
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	72.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable / CARE A3+ on the basis of best available information
Fund-based - LT-Term Loan	-	-	Sep 2022	20.00	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information	-	1)CARE BBB; Stable (25-Jun-19)	1)CARE BBB-; Stable (26-Dec-18) 2)CARE BBB-; Stable (24-Aug-18)	1)CARE BBB; Stable (26-Mar-18)
2.	Non-fund-based - ST-Letter of credit	ST	15.00	CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE A3+ on the basis of best available information	-	1)CARE A3+ (25-Jun-19)	1)CARE A3 (26-Dec-18) 2)CARE A3; Stable (24-Aug-18)	1)CARE A3+ (26-Mar-18)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	72.00	CARE BBB-; Stable / CARE A3; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable / CARE A3+ on the basis of best available information	-	1)CARE BBB; Stable / CARE A3+ (25-Jun-19)	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)
4.	Fund-based - LT-Term Loan	LT	20.00	CARE BBB-; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE BBB; Stable on the basis of best available information	-	1)CARE BBB; Stable (25-Jun-19)	1)CARE BBB-; Stable (26-Dec-18) 2)CARE BBB-; Stable (24-Aug-18)	1)CARE BBB; Stable (26-Mar-18)

Annexure-3: Detailed explanation of covenants of the rated facilities: Not Applicable

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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