

Zen Technologies Limited

August 24, 2018

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating action
Long-term Bank Facilities	40	CARE BBB-; Stable (Triple B Minus; Outlook-Stable)	Revised from CARE BBB; Stable (Triple B; Outlook-Stable)
Short-term Bank Facilities	10	CARE A3 (A Three)	Revised from CARE A3+ (A Three Plus)
Long-term/Short-term Bank Facilities	57	CARE BBB-; Stable/CARE A3 (Triple B Minus; Outlook-Stable / A Three)	Revised from CARE BBB; Stable/CARE A3+ (Triple B; Outlook-Stable / A Three Plus)
Total Facilities	107 (Rupee one hundred seven crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Zen Technologies Limited (ZTL) is on account subdued financial performance of ZTL in Q1FY19 (refers to period from April 01 to June 30) due to lower order execution coupled with higher overheads resulting in losses reported by the company both at operating and net level. The ratings, however, 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, partially offset 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 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

Highly volatile revenue profile with significant deterioration in financial performance during Q1FY19: 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 across the four quarters of the financial year. The scale of operation deteriorated significantly during Q1FY19 on account lower orders executed during the period. Further with relatively higher overheads incurred during Q1FY19, company has reported net loss of Rs.4.12 crore. During Q1FY19, ZTL has received a large order worth of Rs.224 crore from MOD, for the same company has incurred

¹Complete definition of the ratings assigned is available at www.careratings.com and in other CARE publications.

significant expenditure towards purchases which resulted in operational and cash losses during the period. Nevertheless, the company is expected to start generating revenue from Q2FY19 onwards.

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.

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)	FY17 (Audited)	FY18 (Audited)	Q1FY19(UA)
Total operating income	65.24	43.36	6.33
PBILDT	14.95	2.54	(3.06)
PAT	7.17	(0.39)	(4.12)
Overall gearing (times)	0.08	0.07	NA
Interest coverage (times)	6.41	1.05	NM

UA-Un Audited, NA-Not available, NM-Non Meaningful

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. 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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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; Stable
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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	20.00	CARE BBB-; Stable	-	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	10.00	CARE A3; Stable	-	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	57.00	CARE BBB-; Stable / CARE A3	-	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-Mar-18)	-	-

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