

Zen Technologies Limited

December 26, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	72.00 (enhanced from 57)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed
Long Term Bank Facilities	50.00 (enhanced from 40)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	15.00 (enhanced from 10)	CARE A3 (A Three)	Reaffirmed
Total facilities	137.00 (Rs. One Hundred Thirty-Seven Crore Only)		

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 from annual maintenance contracts (AMC) and comfortable capital structure. The ratings also factor in commencement of dispatch of simulators pertaining to the MOD order from October, 2018. 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 ratings also take the cognizance of subdued financial performance of ZTL in H1FY19 (refers to period from April 01 to September 30) due to lower order execution coupled with higher overheads resulting in negative cash accruals which further resulted in weak coverage metrics and stretched liquidity position.

The ability of the company to improve its liquidity profile, strengthen its order book and efficiently manage 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 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, tank targets 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 stood comfortable at 0.07x as on March 31, 2018 (Mar.31, 2017 0.08x), on account of insignificant debt relative to net worth. However, with higher reliance on working capital borrowings during H1FY19, the overall gearing moderated to 0.30x as on September 30, 2018; nevertheless, it continues to remain at comfortable.

Commencement of MOD order execution: ZTL has an outstanding order book of Rs.341.99 crore as on November 30, 2018, pertaining to equipment orders of Rs. 227.00 crore and AMC order book of Rs. 114.98 crore. Major portion of the order value pertains to order amounting to Rs. 224.00 crore from MOD to supply 104 tank simulators. Company started dispatching the tank simulators from October, 2018 and is expected to dispatch around 30 simulators per quarter going forward.

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

Key Rating Weaknesses

Highly volatile revenue profile with significant deterioration in financial performance during FY18 and H1FY19: 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. The scale of operations deteriorated significantly during FY18 to Rs.42.82 crore from Rs.66.10 crore during FY17, on account lower orders executed during the period. Further with relatively higher overheads incurred during FY18, company has reported net loss of Rs.0.39 crore. The scenario continued and ZTL reported losses both at operating and net level during H1FY19.

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 FY18, the R&D cost comprised about 39% of the total cost of sales.

Weak coverage metrics: With significantly low cash accruals, the debt coverage metrics of the company has deteriorated significantly in FY18. Interest coverage ratio of the company deteriorated to 0.83x during FY18 compared to 5.51x during FY17. Also, Total debt to coverage ratio also deteriorated to 57.53x during FY18 as against 0.83x during FY17. Coverage metrics have further deteriorated during H1FY19 due to the negative cash accruals during the period.

Liquidity analysis: With negative cash accruals, increased reliance on working capital borrowings and stretched receivable period the liquidity position of the company remained weak. However, with the expected realisations of receivables for the already dispatched tank simulators, liquidity profile is expected to improve going ahead.

Industry Outlook: The global military simulation and virtual training market is expected to increase to USD 13.87 bn by 2028 from USD 10.2 bn in 2018 representing a CAGR of 3.12% 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)	FY17 (Audited)	FY18 (Audited)
Total operating income	65.24	43.36
PBILDT	14.95	2.54
PAT	7.17	(0.39)
Overall gearing (times)	0.08	0.07
Interest coverage (times)	6.41	1.05

ZTL has reported losses of Rs. 5.26 crore and Rs. 1.58 crore at net level and operating level respectively on total operating income of Rs.17.20 crore during H1FY19.

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.

Analyst Contact

Name: Ms Nivedita Ghayal

Tel: 040-69000211

Mob: 9908090944

Email: nivedita.ghayal@careratings.com

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

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	-	-	-	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	-	-	March 22	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	30.00	CARE BBB-; Stable	1)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 (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 (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 (24-Aug-18)	1)CARE BBB; Stable (26-Mar-18)	-	-

CONTACT**Head Office Mumbai**

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya 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

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

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

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

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

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

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

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

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

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

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

CIN - L67190MH1993PLC071691