

## Zen Technologies

₹50

Pioneer In Training Simulators...!!!

Buy



Aug 11, 2017

## Company Background

Zen Technologies Ltd is a pioneer in the design, development and manufacture of world class, state-of-the-art training simulators. It was incorporated in the year 1993. The company came to public in the year 2000. It develops simulators for weapons and defense equipments. It operate in the simulation segment and it had supplied over 450 simulators to over 100 customers. Customers are located across the length and breadth of the country. The main customers are, Defense Services, State Police forces, Para Military forces and the Navy of a South East Asian country. Company's products are Small Arms Training Simulator, Hand Grenade Simulator, Advanced Weapons Simulator, Tactical Engagement Simulator, 81mm Mortar Simulator, Driving Training Simulator, Zen Bus Simulator, BMP II Driving Simulator and Anti-Tank Guided Missile Simulator. The company also has developed two new products, Anti-tank Guided Missile Simulator and Tactical Engagement Simulator. The Company also has a tie up with SAAB Training Systems, Sweden for their highly evolved version of TacSim that is being used by many security forces across Europe. The company has also launched the Cabin Crew Simulator. which is used by CMTES Secunderabad.

## Key Highlights

- ➔ For FY 2015-16 company earned a operating revenue ₹ 526.2 mn out of 63.34% from sales of Simulations and 19.16% from Annual Maintenance.
- ➔ For the year 2016 company's major product is simulators, sold for ₹ 426.9 mn and company earned from annual manintanance charges its ₹ 100.8 mn.
- ➔ Company develops simulators for weapons & defense equipments, supplied over 450 simulators to over 100 customers across the country.
- ➔ The global market for simulators presents enormous opportunities for the Company. And it intend to focus on exports in a big way in the coming years.
- ➔ The global flight simulator market is projected to grow from \$ 6.18 bn in 2016 to & 7.54 bn by 2021, at a CAGR of 4.1% during the forecast period.
- ➔ Areas where simulators are being used extensively include weapons training, aviation, medicine, power plant, bridges, ships, entertainment, robotics, satellite navigation and maintenance.

## Key Financials

Year Ended 31 <sup>st</sup>	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	501.6	822.6	582.4
Rev. growth (%)	18.02	64.00	(29.20)
EBITDA (INR mn)	92.3	41.6	242.0
Net profit (INR mn)	0.9	157.4	23.2
Shares outstanding (mn)	77.2	77.2	77.2
EPS (INR)	0.0	2.0	0.3
EPS growth (%)	(100.00)	0.00	(85.79)
P/E (x)	0.00	28.65	262.86
RONW (%)	0.09	15.02	2.08
ROCE (%)	2.18	16.34	3.28

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## Info Codes

Reuters	: ZETE.BO
Bloomberg	: ZEN IN
NSE	: ZENTEC
BSE	: 533339

## Market Data

52 Wk Range (₹)	: 48/51
Shares in Issue (mn)	: 77.2
Market. Cap ( bn)	: 4.45
BSE 2 Wk Avg Vol	: 21000

## Share Holding Pattern (%)

Promoters Holding	: 59.44
Public & Others	: 33.37
Corporate Holding	: 06.18
Foreign Institution	: 00.88
Institutions	: 00.13

## Investment Theme

Zen Technologies Ltd is a pioneer in the design, development and manufacture of world class, training simulators. It develops simulators for weapons and defense equipments. It's customers are located across the India, customers are, Defense Services, State Police forces, Para Military forces and the Navy of a South East Asian country. Company started a new Production Unit at Nalagarh, Himachal Pradesh. During the year 2009-10, it completed the Phase I construction of production facilities on the land allotted to them near Hyderabad's new international airport. It proposes to venture into European market for driving simulators, it expect Europe to be a big market for driving simulators due to a European directive which requires all load and passenger carrying vehicle drivers to undergo compulsory 35 hours of driver training.

**Forefront Of Applying New Technologies...!!!**

## Financial Statements

## Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	463.5	785.5	69.5	526.2	(33.0)
Other Income	35.4	33.2	(6.2)	54.7	64.8
Change in Stocks	3.7	82.2	2,121.6	(66.8)	(181.3)
Raw Material Con.	125.7	325.6	159.0	80.7	(75.2)
Employee Exp.	60.1	72.0	19.8	62.1	(13.8)
Indirect Taxes	2.7	3.9	44.4	1.5	(61.5)
Other Exp.	272.5	257.3	(5.6)	298.7	16.1
Operating Exp.	461.0	658.8	42.9	443.0	(32.8)
Operating Profit	41.6	242.1	482.0	71.1	(70.6)
Total Interest	24.8	21.3	(14.1)	20.9	(1.9)
Gross Profit	16.8	220.8	1,214.3	50.2	(77.3)
Net Dep.	15.7	22.5	43.3	20.9	(7.1)
Total Taxation	0.2	40.9	20,350.0	6.1	(85.1)
Net Profit/Loss	0.9	157.4	17,388.9	23.2	(85.3)

## 4 Years Balance Sheet

(₹ mn)

Balance Sheet as on 31 <sup>st</sup>	Mar 13	Mar 14	Mar 15	Mar 16
<b>SOURCES OF FUNDS</b>	<b>1,208.4</b>	<b>1,170.0</b>	<b>1,516.9</b>	<b>1,538.7</b>
Equity Share capital	88.9	77.2	77.2	77.2
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	984.3	908.5	1,033.3	1,047.2
Secured Loans	131.1	179.1	397.5	405.2
Unsecured Loans	4.1	5.2	8.9	9.1
<b>USES OF FUNDS</b>	<b>1,208.4</b>	<b>1,170.0</b>	<b>1,516.9</b>	<b>1,538.7</b>
Gross Block	382.3	628.2	655.7	669.0
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	90.3	140.2	182.3	225.5
Net Block	292.0	488.0	473.4	443.5
Capital Work in Progress	29.0	10.4	3.1	147.2
Investments	0.5	0.5	0.5	0.5
Current Assets	764.4	724.9	1,251.2	1,041.2
Less : Current Liabilities	48.8	112.9	258.2	129.4
Total Net Current Assets	715.6	612.0	993.0	911.8
Misc. Expenses not writtenoff	171.3	59.1	46.9	35.7
<b>NOTE</b>				
Book Value of Unquoted Investments	0.0	0.0	0.0	0.0
Market Value of Quoted Investments	117.0	91.5	129.8	183.0
Contingent Liabilities	0.0	0.0	0.0	0.0
Dividend (%)	10.0	10.0	3.5	1.0

**Quarterly Income Sheets**

(₹ mn)

Quarter Ended	Jun 16	Sep 16	Dec 16	Mar 17
Net Sales	26.6	77.6	336.4	176.0
Cost Of Sales	86.4	93.5	178.8	157.1
Operating Profit	(59.8)	(15.9)	157.6	18.9
Other Income	12.9	9.4	9.5	4.3
Adjusted PBDIT	(46.9)	(6.5)	167.1	23.2
Financial Expenses	8.7	4.4	5.1	2.8
Depreciation	5.5	5.9	8.0	6.5
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	(61.1)	(16.8)	154.0	13.9
Tax Charges	0.0	0.0	16.0	2.4
Reported Profit	(61.1)	(16.8)	138.1	11.5
Extra Ordinary Items	0.0	0.0	0.0	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	(61.1)	(16.8)	138.1	11.5

**52 Week Index Relative Percentage Appreciation**

**Zen Technologies vs SENSEX**
**Risks Associated**

- Company dependence on Government for huge chunk of business, high R&D costs with no certainty that the product will be accepted by the customer, stricter user acceptance and marketing costs, long receivables and unpredictability of earnings.
- The government's policy of buying the system from the lowest bidder, leads to dumps the simulators at a cost far below what they have charged overseas.
- The Government does not have any explicit policy to encourage indigenous technology in such a situation but the recent changes in defence procurement procedures seem to be moving in the right direction.

**Scope of Growth**

- The military simulation and training market is estimated to be \$ 10.31 bn in 2016 and is projected to reach \$12.67 bn by 2021, at a CAGR of 4.20% during the forecast period.
- More players are entering the field of simulation and expect competition to be stiff and margins to drop for products that have huge market demand as this represents the segment that can be commercialized.
- North America is expected to account for the largest share of the total global military simulation and training market with more than 60% share followed by Asia & Europe accounting for 17% & 14% respectively of the total global defence simulators market over the next ten years. Amongst the Asian countries India, Russia and China are the ones who are likely to invest more on simulators.

### In a Nutshell

The global market for simulators presents enormous opportunities for the company. And it intend to focus on exports in a big way in the coming years. At Defexpo 2016 in Goa, the theme they focused on was “India – Training Partner to the World”. The military simulation and training market is estimated to be \$ 10.31 bn in 2016 and is projected to reach \$ 12.67 bn by 2021, at a CAGR of 4.20% during the forecast period. Company started a new Production Unit at Nalagarh, Himachal Pradesh. The company proposes to venture into European market for driving simulators. Company expect Europe to be a big market for driving simulators due to a European directive which requires all load carrying and passenger carrying vehicle drivers to undergo compulsory 35 hours of driver training within a span of 5 years. Europe accounting for 14% of the total global defence simulators market over the next ten years. North America is expected to account for the largest share of the total global military simulation and training market with more than 60% share followed by Asia and Europe. Amongst the Asian countries India, Russia and China are the ones who are likely to spend more on simulators. Considering the on-going modernization programs of the Indian Armed Forces that are most likely to continue for over a decade, the defence training and simulation market of the country presents vast growth potential over the next decade. Zen Technologies Ltd is a pioneer in the design, development and manufacture of world class, state-of-the-art training simulators, it was incorporated in the year 1993. The company develops simulators for weapons and defense equipments.

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### Rating Interpretation

**Buy** : Expected to appreciate 20% or more over 12-months

**Accumulate** : Expected to appreciate 10% to 20% over 12-months

**Trade Buy** : Expected to appreciate more than 10% over 45-days

**Reduce** : Expected to depreciate up to 10% over 12-months

**Sell** : Expected to depreciate 10% or more over 12-months

**Trade Sell** : Expected to depreciate more than 10% over 45-days

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