being there...

ZEN TECHNOLOGIES LIMITED

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Through: NEAPS
Symbol/Security ID: ZENTEC

To
Dept. of Corp. Services
BSE Limited
Phiroze Jeejeebhoy Towers
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Mumbai- 400001
Through: BSE Listing Centre
Security Code: 533339

Dear Sir/Madam,

Sub: Transcript of the Conference call with Investors / Analysts pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

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With reference to the subject cited above, please find enclosed the transcript of the Conference Call with Investors / Analysts held on October 30, 2023, on the Q2FY24 performance of the Company.

Kindly take the same on record and acknowledge the receipt.

Thanking you.
Yours faithfully,
For Zen Technologies Limited

Movva Raghavendra Prasad
Digitally signed by Movva Raghavendra Prasad
Date: 2023.11.02 21:33:51 +05'30'

ZEN TECHNOLOGIES LTD. ★ HYD ★

M. Raghavendra Prasad
Company Secretary and Compliance Officer
M.no.: A41798

“Zen Technologies Limited

Q2 FY’24 Earnings Conference Call” October 30, 2023

MANAGEMENT: MR. ASHOK ATLURI – CHAIRMAN AND MANAGING DIRECTOR- ZEN TECHNOLOGIES LIMITED

MR. AFZAL MALKANI – CHIEF FINANCIAL OFFICER ZEN TECHNOLOGIES LIMITED

MRS. SHILPA CHOUDARI – WHOLE TIME DIRECTOR – ZEN TECHNOLOGIES LIMITED

Moderator: Ladies and gentlemen, good day and welcome to the Q2 FY24 Earnings Conference Call of Zen Technologies Limited.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Please note that this call is being recorded.

I now hand the conference over to Mr. Abhishek Mehra from TIL Advisors. Thank you and over to you.

Abhishek Mehra: Thank you, Yashashree. Welcome everyone and thank you for joining this Q2 FY24 Earnings Conference Call of Zen Technologies Limited.

The Results and Investor Updates have been emailed to you and are also available on the stock exchanges. In case anyone does not have a copy of the same, please do write to us and we'll be happy to send it over to you.

We'll be starting the call with a brief overview of the performance, which will be followed by the Q&A session. As a disclaimer, I'd like to remind you that everything said in this call, reflecting any outlook for the future, which can be construed as a forward-looking statement must be viewed in conjunction with the risks and uncertainty that the company faces.

These risks and uncertainties are included, but not limited to what we've mentioned in our annual reports, which you will find on our company website. With that said, I will now hand over the call to Tina Virmani from Motilal Oswal. Over to you, Tina.

Tina Virmani: Thank you, Abhishek. A very good evening, everyone. Today we have with us the Management of Zen Technologies to discuss their 2nd Quarter performance.

From the management we have with us today, Mr. Ashok Atluri – Chairman and Managing Director, Mr. Afzal Malkani – CFO and Mrs. Shilpa Choudari – Whole Time Director.

Without taking much time, I would now like to hand over the call to the Management for their opening remarks, after which we can start the session for Q&A. Thank you and over to you, sir.

Ashok Atluri: Thank you, Tina. I appreciate the introduction and thank you so much all the shareholders and team members who are there on this call. The 2nd Quarter Results are out and we think we are on target to hit our target during this year and that's between 450 to 500 crores and the rest of the order book position we expect to be executed the equipment order book to be executed in the next financial year.

So, we think it's very positive outlook from what we see and if even in terms of exports also the kind of environment that's outside of India it’s making everybody rethink the training that they have done the world's most successful country, more secure country is not able to protect its border. Where are we standing? So, that's the kind of worry that other countries are having and so getting trained is becoming top priority for the other countries also.

So, both domestically we see the focus on defense and internationally there's a lot of focus on defense. So, given these two things, we think we are poised to get more orders and the order book position will further improve dramatically in the next quarters. So, with that, I mean, I'm ready to take the question and answers. And Afzal would you like to add something or shall we go to the question and answers.

Afzal Malkani: Yes. We can move to question and answer directly.

Ashok Atluri: Yes, that's fine. Let's go ahead.

Moderator: Thank you very much. We will now begin the question and answer. We have a question from Bala Murali Krishna from Oman Investment Advisors. Please go ahead.

Bala Murali Krishna: Good evening sir, Congratulation on Great set of Numbers and we are on the target and regarding this margin profile, I would like to know which one is better margin profile, which product like simulators or anti-drone system?

Ashok Atluri: So, in terms of simulators, simulators have definitely a better margin profile as of now. And the anti-drone systems have a little lesser, but again on an average depending on the kind of sales that we do, we expect that 35% EBITDA margins will be maintained and sustained over a long period of time and so that that will continue. There may be some variations quarter-on-quarter, but on an average we plan to do at least 35% EBITDA.

Bala Murali Krishna: And regarding this anti-drone systems, I'm aware of that we are outsourcing that and final integration is happening in our unit and we are supplying the customer and what about the simulators that is those are manufactured in house or that is also outsourced from the vendors?

Ashok Atluri: The whole of value chain we're starting from R&D engineering all after sales service is completely owned by us, but only thing in the manufacturing is deliberately outsourced. Because we have a lot of capable manufacturers around in Hyderabad and they have been different for more than three or four decades also in some cases.

So, we use that capability to actually execute the orders using their capability. So, we are very strong in R&D, we're strong in engineering and, of course, we are very strong in after sales, marketing, annual maintenance contracts and all that. So, we would like to focus on what we need.

Moderator: Thank you. We have our next question from Ajinkya Pawar an Individual Investor. Please go ahead.

Ajinkya Pawar: I have a very simple question that in the last quarter we saw a sales figure of nearly about 130 crores. Now we are seeing a 50% drop in that thing. So, I just want to know what are the different reasons that we are seeing a dip on a quarter-on-quarter basis?

Ashok Atluri: So, Pawar ji, what we have here is we have predicted a sale of about for 450 crores to500 crores over the whole year and normally thing would be let us divide 500 by 4 and 125, 125, 125, 125 is expected. But our thing is not that what happens is typically it is heavily loaded on the fourth quarter number one. Number two, what has happened is the orders that we have started executing, were supposed to start executing in the third quarter end actually. The execution has started a little early and we think that the execution will happen also very quickly, but again we expect the fourth quarter to be very heavy like all other government companies. So, this division by 4 will not work in the case of the company like Zen.

Moderator: Thank you. We have a next question from Jatin Jadhav from Sahasrar Capital. Please go ahead.

Jatin Jadhav: My first question is what is the total order book size currently?

Ashok Atluri: That's about 1,400 crores that we've given in the meeting that we stand by which was given.

Jatin Jadhav: And the second question is what is the executable timeframe for this entire order book?

Ashok Atluri: As indicated in the Press Release the total order book, if you remove the annual maintenance contract that is spread over the five years post warranty period, you take only the equipment order which is around 1,200 crores. We have to execute all of them before March of 2025.

So, whatever we executed in the current year out of the 1,200 crores including whatever we execute in the next two quarters has to be deducted and the rest will be expected to be executed in the year 24-25 in FY25.

Jatin Jadhav: Just a final question, I wanted to understand the export potential, for example, let's say there are many conflicts going on right now currently in the world for example, Russia, Ukraine, new and newer soldiers have to be trained. So, my question is, will the countries over there. Do we need that the transfer of technology for you to build a particular simulator for any kind of equipment or it's not necessary per se or is there a potential interest also coming towards you for manufacturing simulators in different theaters of war all across the world?

Ashok Atluri: So, to your question, one is that there is a tremendous demand for training now. We are rather unfortunate in the Middle East which has the Hamas attack on Israel and Israel's response has very strong, but the point was how did they miss such a big attack coming and response. So, the people all over are wondering the country like such a strong company cannot defend its border. What will we do where the training levels are much lower than that. So, the sense of preparedness, lack of preparedness is now pervasive and that will definitely we are getting inquiries based on that where they are saying that can you build combat training centers for our so that is one way.

To your second point those people may have equipment that is different from what Zen has already developed. Can we make simulator for that? Our underlying libraries are very, very generic and any new simulator while others may take as much as three years to develop, we feel very confident that within 6 months to 12 months, which a very, very complex system may take 12 months otherwise majority of the simulators can be developed within 6months, and we can offer it to the end user of the simulators that they require.

Jatin Jadhav: Sorry, just a follow up question, for example, you recently manufacturer a simulator for our MiGs in India, they wanted you to build a simulator, they'll have to transfer the entire knowhow of that tank or just a certain aspect of it?

Ashok Atluri: You know typically the cost of the tank may run into 10s of crores between 30 crores to 40 crores. The simulator cost is not anywhere near that. So, one thing is the original components are not used yet because they don't want ruggedness, etc., and typically a simulator may be as low as 2.5 crores. So, the technology transfer that we require is basically going and you know seeing, absorbing. So, there is no actual OEM technology that we need. For the training point of view whatever is required to be simulated we capture the information just by looking at the equipment, we don't need the in-arts of the thing because those libraries have been developed over a period of decades with us, they are there with us. So, we don't need the OEM TOT as such, but we definitely need access to the equipment that they have.

Moderator: Thank you. We have a next question from Manan Shah from Moneybee. Please go ahead.

Manan Shah: My question was for the contracts orders that we won in terms of the anti-drone order of 160 crore that we won in July and the export order which was a mix of training equipment as well as anti-drone system for 340 crores. These contracts don't include any AMC contract, so any particular reason why we have not been able to build the AMC part of the business for these contracts or they don't include AMC business?

Ashok Atluri: Typically, because sometimes people feel that the order level will be very high. So, in both cases the intention to place AMC post warranty is there with us. So, they want to see the system installed and after two years of warranty they want to place the AMC. So, these both the models are available where they place upfront the AMC with us, which just looks good on the order book position, but the execution happens at the same time whether they give the AMC after the warranty is expired or before.

So, in terms of its revenue recognition is the same in both the cases. So, there is nothing to be, you know, why they didn't give? There's no other reason than just normally they would give it after the warranty is expired normally, but some of them have been giving it for a long time along with the purchase order to us. So, there is nothing of concern in this actually.

Manan Shah: And generally, the AMCs are for what duration, I mean, what is the size typical size of these contracts in terms of duration?

Ashok Atluri: The AMC duration may vary. They may be as little as maybe one year to all the way up to five years, five years is the maximum we have got till now. So, that is the variation they are depending on the customers commitment, I mean, if they cannot commit five year timeframe, there are especially police and paramilitary forces they go for a year. But army and the armed forces, they go for five years or even more, we expect them to go for more as time passes.

Manan Shah: My second question was on the cash that we hold. So, these are largely the advances that we must have received against these orders?

Ashok Atluri: Yes, it includes advances that we have received, but also our internal accruals also.

Manan Shah: So, what will be the CAPEX outlay going forward?

Ashok Atluri: The CAPEX outlay we think mostly be in terms of the anti-drone systems and simulator, R&D that we will be doing. And the second thing would be about the physical infrastructure that we may have to create for mostly the post manufacturing integration activity. So, this is what we are expecting and the figures we will be sharing soon with the shareholders as we develop. But the CAPEX just in terms of plant and machinery is very negligible again because we have a huge supply chain that's very reliable and able to execute the order. So, plant and machinery CAPEX is going to be very minimal.

Moderator: Thank you. We have a next question from Deepen Vakil from Incred Equities. Please go ahead.

Deepen Vakil: So, I was looking at your Slide 7 of your presentation. So, you have mentioned that 540 crores worth of orders were there as on 1st July and this quarter you won new orders of around 924 crores. So, how much would be executable this year out of these 900 crores?

Ashok Atluri: The total order book for the equipment is around 1,200 crores out of that we will be executing around 300 crore less than 300 during the year and the rest of about 950 crores or 900 crores is expected to be executed by the next FY25.

Deepen Vakil: Sir, my second question is in the line of our export. So, how do you see exports panning out? So, do you think the split will continue to remain in a similar trajectory or do you think the export orders to improve in FY24 or 25?

Ashok Atluri: Based on the situation outside and the sealer that we are getting, we think that while Indian orders are going to really explode in a positive sense for us, also we expect the export market to really, it’s actually getting primed for a huge influx of training equipment. And we think we'll benefit from exports also. I think the 50-50 break may be there, but if there is any skewness, it may be towards exports only exports may be much higher than domestic.

Deepen Vakil: Sir, one last question, sir you're looking for inorganic acquisition going ahead. So, is it in the same anti-drone systems or do you want to expand your product portfolios?

Ashok Atluri: So, typically this whole thing is called electronic warfare. So, we want to be restricted to electronic warfare and simulators, but simulation also maybe in Air Force and Navy and all that. Again, the targets we are looking at are both domestic and international.

So, inorganic acquisition will happen in these areas, but again we have always said unless we can absorb the technology and build the next generation of product, we don't want to get anything just for the sake of getting transfer and manufacturing it for somebody. So, this absorption is very important for us. So, in these fields, in the field of simulation and electronic warfare our capability to absorb is extraordinary. So, we will try to stick to those areas only.

Moderator: Thank you. We have our next question from Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: Basically so the question I had is you mentioned that you're expecting about 250 to 300 crores of execution in the remaining part of this year and 900 crores to 950 crores in FY25. This is just equipment. So, if we add some AMC sales to that as well, are we expecting around 1,000 crores topline in FY25, is that right?

Ashok Atluri: Yes, it could touch 1,000 crores. It could touch, yes.

Shirom Kapur: Can we expect this kind of momentum to continue in FY26-27 or are we going to see ballpark as it could happen…

Ashok Atluri: Yes, based on the pipeline that is being built up, we expect growth rate to be sustained for FY26 for sure.

Shirom Kapur: So, regularly given guidance of at least 35% of EBITDA margin, but in H1 we had about 44% EBITDA margin and we're expecting revenue to scale up in H2 versus H1 given that Q4 is where most of the revenues loaded, does that mean we expect much lower EBITDA margins in the second half of the year. We know it because at 44% at H1, but guidance is about 35?

Ashok Atluri: The thing is what we are saying is that we guarantee a minimum of 35% EBITDA, but given the uncertainty of the supply chain, all that there is a possibility that the cost of materials may go up with it. But I mean we are very proved friendly company if there is something more than 35% we would be very, very happy about it and so will the shareholders here.

Shirom Kapur: So, what kind of gross margin can we expect on average earlier because you had a higher share of AMC, so about 80%, but now it's coming down to the low 70s. So, what is like a sort of steady state gross margin that we can expect and also in addition partly this question is what kind of steady state employee cost can we expect going forward? Is that going to be a standard percentage of revenue or more of a standard growth rate that we can see, 10%, 15% odd each year in employee cost if you can color on that please?

Ashok Atluri: The employee cost we expect them to go up, but in terms of percentage they will be much lower than what we have now, but the employee cost will go up and we are actually adapting the structure of the company to serve the market that we are in and some changes are happening.

But again, we think that it's completely under control though, but we are actually looking to the talent at this point in time and Zen is a good brand name and a lot of people are joining us at this point in time.

Shirom Kapur: And sir just on the gross margin side of it as well?

Ashok Atluri: So, yes, gross margin we expect them to, I mean we have been having gross margin of around 65% in most of the cases. So, we think those gross margins will continue as we go ahead also. So, gross margins, I don't think there'll be much pressure on that 65% to 70% kind of gross margin.

Moderator: Thank you. We have our next question from Harsh M from Kriss PMS. Please go ahead.

Harsh M: I just wanted to understand what's in the previous quarter we were projecting that we would end over 500 crores of revenue and now we are guiding for 450 plus. So, are we expecting some delays which have come up in last three months because of which we are expecting lower top line because even if I add through, I think we would cross 450 already. This is the H1 we have and if you're doing more 300 in H2. So, just wanted to get some sense that you're being conservative in giving that guidance of 450 or you're expecting that some delays could be there?

Ashok Atluri: Yes, the range still happens to be 450 to 500 crores, but we just gave the lower range or lower conservative figure on that. So, with the bit of favorable circumstances we may be crossing 454 crores. It's just conservative guidance you're right about that.

Harsh M: Any risk do we foresee apart from new wars which might if it turns up any other…..

Ashok Atluri: No, wars don't happen. We don't see any risks, there are no risks at all. As of now we see things are available. Most of the things are easily available. So, no stress on the supply chain as of now.

Moderator: Thank you. We have our next question from Sanjay K, an Individual Investor. Please go ahead.

Sanjay K: So, my question is, in today's presentation or it's mentioned there is H2 started a good note with the order for training simulators worth 84 crores. So, is this something a new order or which was already announced earlier, or this is the new order which is not announced earlier?

Ashok Atluri: No, we announced it at around 100 crores we announced it is a stock exchange and this is without taxes it comes to around this size. So, therefore including taxes, because we have we somehow there was some issue where the customer said that whatever order we signed that is including taxes and you have to give the total number. So, we give including taxes when they give the press release so that it is the customer knows that we are giving the right figure. But when we actually account for in our order book, we remove the taxes, and we take the net of the taxes.

So, the 84 crores were already told that again this was for a tank live simulation and that's a huge, huge market and this is the first of the orders in that segment. We expect a lot of orders to come up with this because the actual training on force and force training in live environment has become very, very important these days.

So, this is the first product that we got in that. We expect the market is very huge, not only domestically, but internationally. So, this is a big deal for us Zen Technologies and shareholders.

Sanjay K: My second question is about in Q1 company has purchased I think around 1,39,000 shares through ESOP for ESOP perspective I think in Q1, and I think Q2 there was no such transaction. So, are you are we expecting in remaining H2 will the company going to purchase any such shares for the ESOP perspective from the market?

Ashok Atluri: So, we have around 6.4 lakh shares I think we already purchased, and we have catered around I think 3 lakh shares till now. So, we still have a lot of shares in the company and the budget allocated by the board is almost exhausted. There are couple of lakhs left in that. So, there will be no additional purchase I think, as of now, because we have enough ESOPs in place because we didn't want to issue fresh shares. So, we bought it from the market, and we are giving them as ESOPs to the thing. So, we still have about 3 lakh shares and that's a lot of shares. As of now we will not be buying because we don't have any need to buy shares.

Sanjay K: My last question is about I mean it you mentioned that a lot of orders are expected in the remaining H2. I mean are you saying that the more orders are going to come only in Q4 or it will be distributed from Q3 and Q4?

Ashok Atluri: No, I think it will be towards Q4 and Q1 we expected in the next last quarter and the first quarter of the next year the orders to come through, yes.

Moderator: Thank you. We have our next question from Ajinkya Pawar, an Individual Investor. Please go ahead.

Ajinkya Pawar: I have couple of questions. First one, you may call it a stupid question that we are seeing the restraint here in Middle East. So, as we know, China may take Taiwan in couple of years I guess. So, can't we import all the chips that are required for the order book that we have?

Ashok Atluri: Yes we are that’s a one risk that we perceive and whenever we are getting a chance we are pre ordering them and that's the reason I think there will be some load on the inventory. So, we want to eliminate that risk of product not being available, but anyway so first we need to actually finalize the bomb. Once we finalize the bomb we do buy long lead at critical items, this is what we have been doing now for a long time, but if it comes as soon as we get the order before we can buy the thing that may create a problem. But otherwise in a few months the risk is completely mitigated. So, we get the component much ahead of which can be impacted by such wars and something.

Ajinkya Pawar: I just want the clarification that with regard to H2, can you tell me the rough figure that how much for orders we are quoting what order size can expect?

Ashok Atluri: I don’t want a hazard a guess at this point in time, but we are bidding for something like about 500 to 600 crores of worth of orders. How much will we get we really don't know. We'll have to wait and see.

Moderator: Thank you. We have our next question from Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Sir, my first question is that we shared slightly earlier in the call that we have an aspiration to reach 1,000 crores of revenue by next year based on the order book that we already have, is that any CAPEX that we will need to achieve this revenue?

Ashok Atluri: No, for the manufacturing part of it, it will be very minimal maybe about 10 to 20 crores kind of thing, that too for building the physical infrastructure and maybe building some kind of jigs and fixtures to monitor the faulty that's getting from the supply chain. But the CAPEX requirement will be very minimal in this. There is hardly anything worth writing about.

Alisha Mahawla: And we were also mentioning that we are evaluating inorganic opportunities, are we looking at freezing on anything this year?

Ashok Atluri: No may not happen this year, but if something happens this is the very good news for all of us. We will be very careful about spending the money very, very sense of trustiness is there, but it may happen may not happen we're not very sure about it, but at this point in time we are evaluating various options.

Alisha Mahawla: Are we looking only at domestic opportunities or we will be comfortable evaluating something that maybe…

Ashok Atluri: No, we are looking at International, mostly international we are looking at international also, but domestic also.

Alisha Mahawla: And my last question is, is there any scope to improve our working capital cycle what is it currently and is there scope to improve it?

Ashok Atluri: I mean the scope to improve is always there Alisha I completely agree, but I would ask CFO to put in some word about this improvement of the cycle what can we do.

Afzal Malkani: So, on the working capital front we can say that there is a significant improvement in our working capital cycle. If you see our working capital cycle has improved from 225 days in March 2022 to 128 days in September 2023. So, it has improved from 225 days to 128 days.

And particularly our inventory days have reduced from 91 days in March 22 to 42 days in September 2023 and our receivable have also reduced from 150 days to 96 days significant improvement.

Alisha Mahawla: So, we're expecting that working capital tenacity at this 120 day, 130 day?

Afzal Malkani: Yes, it will be in the range of 120 to 140 days.

Alisha Mahawla: And now that we have a very large export order where there will be slightly longer lead times and payment times, are we still comfortable maintaining our working capital cycle in this band?

Afzal Malkani: Yes, because generally we are getting also 30% advance for the export orders also. So, we are very comfortable, no issue.

Moderator: Thank you. We have a next question from Lavneesh Mohan from Czar Capital. Please go ahead. Since there is no response, we'll go on to the next question from Maruti Nandan Sarda, an Individual Investor. Please go ahead.

Maruti Nandan Sarda: My first question is around the competition, so do you see any competition in India or abroad who are doing the similar work on simulators as well as anti-drone?

Ashok Atluri: I mean there are companies that work on simulators, and we have been competing with them for the past three decades. But only thing we feel is that very few companies are actually getting their own technology and coming here because it requires a lot of investment, lot of R&D and so they're trying to join forces with some foreign company and I mean, but given the countries MoD new policy of IDDM, the IP proving is becoming a big challenge for people who are trying to push some boxes here.

So, whether it is an anti-drone system or simulators. So, I think that we have good in terms of because the IDDM policy in which we played a big role, but we do expect competition to keep coming even though in most of the cases in this case we were the resultant single vendor, there was nobody else who could satisfy the requirements of the government and again that is because largely due to the extensive R&D that we've done in the last three decades.

So, yes, we expect competition to come up, but as of now, we have not seen anything which is bringing up actually competition ups our game also. So, we look forward to that in a way that even though we keep pushing as of now we are our own competition, and we keep seeing that we are better than yesterday all the time.

Maruti Nandan Sarda: My second question is around long-term vision, how do you see five year down the line in terms of top line, can we can we make this a maybe 5,000 - 8,000 crore company in terms of top line?

Ashok Atluri: I think if we do only 5,000 crores, I would be disappointed five years from now should be much higher than that, I can say that.

Moderator: Thank you. We have our next question from Neha Jain from Bajaj Finserv AMC. Please go ahead.

Neha Jain: There's one thing which I wanted to understand from you. We noticed that the earlier presentations mentioned Zen Technology as a leading global defense training and anti-drone solution provider to the current presentation which says alliance in India's leading anti-drone technologies and defense training solutions. So, is this to be read as a change in probably the company's focus and if so, how would it affect our margin?

Ashok Atluri: I wish I was writing all those things then I would be correcting it, but nice catch, but the reality is that globally in terms of simulators we're absolutely on the top. And I think we maybe in one or two positions for all the 42 simulator that we have. There's no doubt about that and most of the places we won and in some cases there may not be any competitor for the solution that we are offering.

So, the global leader in simulator solution there is no doubt, but as far as ADS is concerned, we are actually playing. We have just started in 2018 and we are just about the first product came in 2021 and we're just trying to become a globally relevant player in there.

As of now, the product that we are offering to the Indian Government is very good and that's why based on that we are getting a lot of export enquiries, and we think that there will be tremendous amount of still anti-drone systems also.

But are we globally number one in there? No, we are not globally number 1 or even 2 perhaps, but we are definitely aiming to become a globally dominant player or important player.

Neha Jain: So, my follow up question on that would be, when we say India's leading anti-drone technology, have we done any market size opportunity study recently which helps us understand like what would be the potential size or because I understand I mean even when we happen to do a demo version of the products which are offered by Zen.

We saw that a lot of it is very much which is catered as per the need basis. So, when we say leading anti-drone solution is this like a particular niche sector product or it talks about the entire market in which we are the leading suppliers right now?

Ashok Atluri: So, we have a specific segment niche in which we play don't do that, there are some people who just create a handle and point at the thing and get it down. So, they are very, very low in solutions. We go a little higher our range would start around 5 crores to 10 crores kind of thing and it would be 10 kilometers plus or minus 10 kilometers ability to detect mini drone, nano drone.

So, these are the kind of things that we are looking at and, in this segment, definitely Zen is the leading player at this point in time. Again, with caveats in place, we do expect competition to come in, but again will they be able to prove that is indigenously designed and develop product will be a challenge for anybody.

So, we think that we are in a very good space, but we expect competition to come, but how will they really get it even if we developed because it has taken us hell lot of time to develop this product hell lot of expertise. So, we think we are in a very good position as longer government is focused on encouraging the indigenous products and again we have also bid against the world's top products, but in terms of price I think they'll be much, much expensive than what we are offering.

Neha Jain: Sir in terms of export opportunities specifically we understand that would be something which is going to be a major factor going ahead. So, any countries where we have specific priorities in terms of these are the countries which we would be targeting and if so whom do you think would be, I mean, how does this if you can just help us understand little background or like how does the tendering, whether it is on tender based or how do we exactly go on to target these particular orders like would it be against applying to governments of different countries or any anything if you could share on those, but to have some clarity on export segment?

Ashok Atluri: So, export segment typically we go for export, we take support from Indian Government a lot in the sense the local embassy etc.. And we also depend on some kind of a local strong partner. So, this and of course they should be friendly nations for India. So, these are the three criteria that we have and now we are getting tremendous amount of support from Government of India where we say please find out whether the requirement is there or not. So, the Indian Government is actually helping us find customer at this point in time in line with the Mr. Modi's ambitious target of $5 billion exports we are getting. So, at the ground level it is happening and so we think that because and again stature of India in the in the world today, the different stature.

Earlier when you used to went they used to laugh in India the largest importer what are you saying that you will sell something to us, but now that's no longer the case we are respected. We are taking with seriously and we are running, and we are winning.

So, I think this is the way it's going to be, and India will become a major player, it is already there on the way to becoming a major export hub for defense.

Moderator: Thank you. We have a next question from Saksham Shrimal from Kriss Portfolio. Please go ahead.

Saksham Shrimal: Sir, wanted to understand the revenue recognition that happens pardon me if this is very basic because I understand we have grown year-on-year basis, but Q-o-Q there is a dip, so wanted to understand like was there any execution delays or something like that or how do we read that?

Ashok Atluri: These are the orders that we got as late as March end and June kind of the orders. So, they started the execution in 2nd Quarter onwards, but yes, there was no actually a delay even though production gives aggressive target. We do the buffering and come with the realistic target, and this is happening as per the internal projection that we are.

So, there is no cause of worry and this is again please don't expect that when we say 500 crore all the quarter will be 125 crores, 130 crores kind of thing. And typically in government oriented companies like Zen the fourth quarter is typically very heavy. So, we think that may happen this year also.

Saksham Shrimal: So, probably it is more of an annual thing that we should be focusing on and not quarter by quarter because quarter-on-quarter can be lumpy in this?

Ashok Atluri: I would say I would very strongly recommend for most of the defense companies, the quarter- on-quarter can be pretty uneven. Just focusing on year-on-year I think that is where the key thing is.

Moderator: Thank you. We have our next question from Rajesh Gupta from SBI Securities. Please go ahead. Since there is no response, we will move on to the next question from Mayur Patwa an Individual Investor. Please go ahead.

Mayur Patwa: So, my question is once the product is sold, what is the lifespan of that product and how much AMC revenue do we generate on that?

Ashok Atluri: So, Mayur typically the product life cycle is 10 years and in very rare cases it has been 15 years also and a typical warranty period is given for two years, it may go to three years also. After three years for the rest of the 8 years we get the AMC. So, that is what the AMC count is like.

Mayur Patwa: And how much is your AMC revenue?

Ashok Atluri: It may be between 8% to 10% kind of thing. So, let us take an average of 9% also 9*8 years = 72% of the equipment cost.

Mayur Patwa: And is it same for both the products like for anti-drone as well as for the simulators or they are different?

Ashok Atluri: Yes, it is almost like that around 10% anti-drone system maybe a little higher because of the complexity, but we because we haven't started the AMC for them, we have indicated that it was going to be at least 10% to most of our customers.

Mayur Patwa: And going forward maybe two or three years down the line once we stabilize our anti-drone system products and everything, what type of revenue mix we are looking at, will it be 50-50 or we are more focused on anti-drone or how exactly it will be?

Ashok Atluri: We would love to have any combination as long as it is higher at the higher rate a 50% of ADS is let us say 1,000 crores and we're not really focusing on the percentage. We are going after orders in any form the simulator order we take simulator order.

So, we don't have a vision as it should be 50-50 or not. Our thing will be more responding to the customer requirement. If they want 70% simulator 30% ADS that is also okay, but very frankly both of them to explode and the simulator and the way the government has introduced in 2021 September, they introduced the framework the way they're implementing now and the recent statement by Chief of Army staff where he clearly said that we all started simulator and this has just started, which is the big thing for us. This is ultimate confirmation from the Government of India. So, now that is there. So, they are accelerating procurement of simulators. So, we think that both of them will be growing but very, very hard and again we are very responding to the customer needs. So, we expect both to explode, but the higher in absolute term, they may go very, very high.

Mayur Patwa: And the last question is now is there any capacity constraint? No, I understand these are all software, so ideally we should not have any capacity constraints, right or do we have any capacity limitation on how much we can reach?

Ashok Atluri: So, the thing is that there is hardware involved in this, the simulators if you look at it, there is hardware involved in it. So, hardware is maybe depending on the kind of thing it may go up to 30% of the total order cost maybe sometimes even 10%, 15% also there are cases.

But the point here is that yes, there is hardware, but I don't feel that that will be a constant when we actually try to scale up. Again the majority part the 70%, 75%, is software as you very rightly observed. So, the constraint, we don't feel any hardware constraint will actually punish us for not taking more orders or it will restrain us from taking more orders.

Mayur Patwa: And this hardware then we manufacture in house, or it is procured from outside?

Ashok Atluri: So, we actually what we do is we do the prototyping R&D and engineering in the company. Once the product is engineered for manufacturing, then we outsource it for manufacturing to our supply chain.

Mayur Patwa: And the last one now, the profit margins are more or less same for both these divisions, right?

Ashok Atluri: No, actually the simulators are little higher profits are there, and anti-drone systems are a little lower than simulators.

Mayur Patwa: How much it can be the EBITDA?

Ashok Atluri: So, EBITDA, I would say that perhaps the simulator maybe about 40% plus and this may be around 30% or little around that. ADS will be around 30%.

Moderator: Thank you. We have our next question from Mudit Kabra from Elara Capital. Please go ahead.

Mudit Kabra: Can you give us the order book split between the simulator and ADS?

Afzal Malkani: Yes, if we give the breakup of the simulators and anti-drone system total order book position is 1,403 crores, out of which anti-drone system order is around 597 crores, simulators order book is 546 crores and remaining 259 crores for the AMC.

Mudit Kabra: Thank you. And also can we have order books split like in different applications for example arms and ammunition is how much and for tank it is how much for simulators?

Ashok Atluri: That we cannot share, but overall we can share it.

Mudit Kabra: And lastly, just I wanted to get some sense on export orders like wouldn't a simulator or export orders be restricted to countries which are using only Indian made products or is it also fair to assume that these our simulators can be procured by countries which are using their own tech and own products, and they're okay with sharing those kind of tech with us?

Ashok Atluri: Most of the platforms that we currently have are basically more foreign countries like from Russian or American or other countries. So, the platforms are not completely Indian in that sense. So, the ones we make are they have a lot of market overseas also, lot of countries Russian erstwhile US are equipment with them so they are ready made customers. But even for other customers who have different kind of training equipment, we have the libraries, we have the capability to do redesign to design and in fact the replica of other weapons also, but the underlying software requires very little tweaking. So, which is the difficult part is already developed and can be readily absorbed in the software in the new simulator that we need.

To your question, it's much the current India equipment is worldover. They have procured from France, from Russia erstwhile so that there's a huge base for that. Second is yes we can for new customers we can develop it very fast.

Moderator: Thank you. We have our next question from Dipen Vakil from Incred equities. Please go ahead.

Dipen Vakil: Sir, just one question. So, you mentioned that there are no supply chain issues going on right now, but I wanted to understand for the things that we manufacture, what would be the import and export sorry import and domestic procurement split between the two and what components do we procure as imports and from which geographies?

Ashok Atluri: Typically the import content I think is depending on the kind of product it may go as high as 10% that is the maximum we would be doing it. But typically 5% would be in simulators it would be between 3% to 5%. So, that is the thing and this is spread across. We take it from Europe, we take it from America, we take it from even from Taiwan, etcetera. So, these are the places where we take it.

Dipen Vakil: So, majorly any particular component that we recurrently import?

Ashok Atluri: So, we do import recurrently, but very well-known brands the tech instruments those kinds of things we do import on a regular basis.

Moderator: Thank you. We have a few text questions. I'll read it out to you. We have a question from Rajesh Gupta from SBI Securities, is there any reason behind spike and other expenses? What is overall execution time for Rs. 1,400 crores in hand?

Ashok Atluri: For the spike I'll let Afzal speak, but overall, the execution we have said that if we take out the annual maintenance contracts, the rest of the equipment we expect to be executed by FY25, Afzal over to you. I don't know which expenses you are thinking about but there is a spike.

Afzal Malkani: So, there are only employee benefit expenses that we discussed and other than this, I think there is only other expense in the balance sheet, right. So, if I assume that there are only major expenses, other expenses, and there is a spike in this other expense. So, I understand that Rajesh Gupta would like to know about the increase in other expense. Here in this other expense the major expense is related to marketing expense which is variable in nature.

So, compared to September 2022, there is an increase of around 300% in the revenue. So, in line with the increase in the revenue, our other expenses, particularly marketing expense have increased by 300%. So, this is the main reason for that.

Moderator: Thank you. I'll read out the next text question from Lavneesh Mohan from Czar Capital. One, what is the logic for opening an office in Armenia? For export opportunities, I would have expected to open an office in Dubai which is a business hub in Middle East?

Ashok Atluri: So, the reason we are opening in Armenia is that we expect lot of business in the CIS. So, three regions we focus on one is Middle East, Africa and CIS countries. So, we needed CIS support is mostly for supporting the marketing and after sales activities. So, that is the reason we are focusing on Armenia also as a hub for all the CIS countries. So, that is the reason and probably we'll have one in Dubai, of course. We are very active in Dubai at this point in time. You're absolutely right for Africa and Middle East with the real business hub that way. We are active in Dubai, but in the long term we think Saudi is a very good bet for Middle East operations and of course, Africa, we are very active as of now.

Moderator: Thank you. We have a question from Kripashankar Maurya from Choice Broking. One question on order book just wanted to understand the orders in pipeline and by when we can expect those order and on anti-drone what is current order book inquiry momentum and in terms of technology how we are scaling up the anti-drone technology?

Ashok Atluri: One is that there are about 500 crores to 600 crores worth of pipeline is there till FY25. So, those things will be resolved then, but for FY 26 and 27 it's a very huge piping that's developing as of now, it's not yet completely crystallized and with respect to ADS, we are absolutely aiming at becoming a globally important player in that segment. So, the R&D is being spent like we're not sparing any effort in any expense become a globally important player in that segment. So, yes, as you keep moving ahead, we'll hear more and more about the new features that we're adding on a regular basis on the products.

Moderator: Thank you. We have a live question from Alisha Mahawla from Envision Capital. Please go ahead.

Alisha Mahawla: Just one bookkeeping question, what is our tax rate because for H1 it is being closer to 30%. Last year it was 25%, just wanted to know what it will be?

Afzal Malkani: Tax rate is effectively 29.12%.

Moderator: Thank you. We have our next question from Rajat Agarwal, an individual investor. Please go ahead.

Rajat Agarwal: Just a couple of questions. One is related to the agreements or the contracts, sorry, the orders that you received, specifically the export orders what kind of agreements do you sign when those contracts are these orders cancellable? Is there a penalty clause in these orders? Just want to understand the surety of these orders spanning out over the next 12 to 18 months?

Ashok Atluri: The thing is in the particular order case we have got 30% advance, and we are in continues touch with them. They're coming and giving us feedback we have started making products models also they are seeing and we expect the execution to happen before FY25 all the export order will be executed and I mean, there is no frivolous clause like where they can just cancel the order or anything like that, there's no clause like that. So, if we execute if we make the product we can deliver and take the money, rest of the money.

Rajat Agarwal: Is there a currency protection clause also as in are these in USD is the currency, are we protected on the currency front?

Ashok Atluri: They are in USD. Incoming we don't hedge them, or we don't do any foreign currency operations on our thing. When the money comes, we get the money, but no aggressive profit taking on this or something like that.

Rajat Agarwal: No, what I meant is if let's say two quarters down the line, the dollar rupee goes down to 40 that is the rate that we will receive our incoming?

Ashok Atluri: Yes, that is right.

Rajat Agarwal: And just the last question, since we are at the end of October, would it be possible for you to share the approximate sales that might be booked in the month of October?

Ashok Atluri: No, I can't.

Moderator: Thank you. We have a text question from Sanika Khemani from Sapphire Capital. Sir, we have said that the growth rate for FY24, FY25 is sustainable for FY26. The top line for FY25 comes out to be 1,000 crore and FY24 is 450 crore, which means the revenue is doubling. So, am I correct when I assume this growth rate for FY26?

Ashok Atluri: I would say that in absolute, not in percentage terms, but in terms of 500 to 1,000, 1,000 to 1,500 crores be possible that looks reasonably estimate that we could be easily talking 1,500 crores in FY26, based on the strength of the thing that we are getting now, but till we actually get the orders in hand, we're not able to tell that but 1,500 crores looks like a safe prediction, very safe prediction I feel.

Moderator: Thank you. We have a text question again from Vignesh Iyer from Sequent Investments. Lot of companies who have high marketing expenses or R&D show it as a new line under other expenses category. This gives clarity to investors, where the major spending has been under other expense. Would request the management to consider the same and show line item under marketing expense under other expense?

Ashok Atluri: So, if I understood the question, what they're saying is that new product development needs to be highlighted. This can be done I think it's not very challenging, but just to go back to the very basis of R&D expenditure that we do, in terms of treating that we write it off in the period it has occurred. So, there is no capitalizing that is happening and it's a very conservative way of doing things, say almost saying that we are not sure of any some any R&D effect coming to commercial position for certain. So, the IndAS standard says that if you are doubtful you have to write it off in the same year.

So, we follow the principle that any technology that we are developing may or may not succeed even though the percentage is there, but they say if doubt write off in the same quarter so that's what we do. We write it off from the same quarter, but to your suggestion that we should actually maybe show it as separately that we are doing it for the new product, for new market etcetera I think we'll consider this. It's a nice suggestion, actually. Probably we'll consider that that also shows how much we are spending on the future probably we'll see that separately also.

Moderator: Thank you. We have a text question from CA Girish Gupta. Sir, this is Girish Gupta I think we change our orbit please explain or confirm?

Ashok Atluri: I mean we are in our orbit already and we expect another orbital shift in maybe a year from now, so yes. It's been again frankly this is more external environment that has changed. Zen is just adapting to what is happening externally, but Zen as already been R&D always been focusing on IDDM. These were never honored or treated well, or you're really appreciated.

Now in this environment, they're being appreciated. They say people who do R&D are special. We have a special category from IDDM versus people who just come and resell pimping other foreign vendors, they are showing the difference. So, I think this is a good environment to be in.

So, this is because of this environment, we have definitely shifted and as you said probably orbit also and we expect one more shift to happen maybe sometime from now.

Moderator: I now hand the conference over to Ms. Tina Virmani for closing comments. Over to you, ma'am.

Tina Virmani: Thank you, sir, for giving us an opportunity to host you and for your detailed responses for all the questions that came through, would you like to make any closing remarks?

Ashok Atluri: So, again the caveats that Abhishek gave those caveats forward-looking statement. We think that we are extremely well placed. The government is really in the direction of encouraging IDDM company to company that own IP and suddenly after the recent events in Ukraine where Ukraine has the world's most advanced equipment, Still, they are not winning the war, because they're not trained on the equipment, they have the equipment, but they're not trained and again the training has become very, very important. So, which needs to demand for our first vertical training and simulator and second the extensive use of drones in the current wars that are going on.

Also, Board well for anti-drone solutions. So, I think that plays at a very good location and we expect the growth to continue in the next three to four years. We will be in a different league altogether and thank you so much for joining this call. Thank you so much guys.

Moderator: Thank you, sir. Thank you, participants. On behalf of Zen Technologies Limited, that concludes this conference. Thank you for joining us and you may now exit the meeting.