being there...

ZEN TECHNOLOGIES LIMITED

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Date: February 1, 2024

To
Listing Department
National Stock Exchange of India Limited
Exchange Plaza, C-1, Block G,
Bandra Kurla Complex,
Bandra (E), Mumbai – 400 051
Through: NEAPS
Symbol/Security ID: ZENTEC

To
Dept. of Corp. Services
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
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 January 29, 2024, on the Q3FY24 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: 2024.02.01 16:52:56 +05'30'
M. Raghavendra Prasad
Company Secretary and Compliance Officer
M.no.: A41798

Encl: as above

"Zen Technologies Limited

Q3 & 9M FY'24 Earnings Conference Call"
January 29, 2024

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

Zen Technologies Limited
Q3 & 9M FY'24 Earnings Conference Call"
January 29, 2024

Moderator: Ladies and gentlemen, good day and welcome to Zen Technologies Limited Q3 and Nine Months FY24 Earnings Conference Call. 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 conference is being recorded. I now hand the conference over to Mr. Abhishek Bhatt. Thank you and over to you.

Abhishek Bhatt: Thank you. I would like to welcome everyone and thank you for joining this Q3 FY'24 Earnings Call of Zen Technologies Limited. The "Results" and "Investor Updates" have been e-mailed to you and are also available on 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.

Today, we'll start the call with a "Brief Overview of the Performance" which would be followed by "Q&A Session."

As a disclaimer, I would like to remind you that everything said in the call reflecting any outlook for the future, which can be construed as forward-looking statements 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 have mentioned in our annual reports, which you will find on our company's website.

With that, I will now hand over the call to Teena Virmani from Motilal Oswal. Over to you, Teena.

Teena Virmani: Good afternoon, everyone. We welcome Mr. Ashok Atluri, Chairman and Managing Director of Zen Technologies; Mr. Afzal Malkani, CFO, and Ms. Shilpa Choudari, Whole-Time Director of Zen Technologies for Q3 FY'24 Concall. Over to you sir, for your initial remarks. And once your remarks are done, we will open the floor for questions and answers.

Ashok Atluri: Good afternoon, fellow shareholders and prospective co-owners. Thank you for joining us for this Q3 FY'24 Earnings Call. Our performance in Q3 and the nine months leading up to the FY'24 have been unprecedented, setting new benchmarks for our Company. We are witnessing what is shaping to be the most successful year in Zen's history both in financial terms and also in terms of the number of orders that we have got in the order book position.

In the current year, our innovation-driven focus, I always have been saying that look at Zen as an IP play because there is so much hidden asset in the IP because what happens is whenever there is a register, when we ever do R&D, we write-off those costs, but in those costs there is a hidden asset there, IP being created and we assert that through IP patents, and in this year we have a staggering 15 patents that were awarded to us, underscoring our unwavering dedication to technological excellence and innovation. This is the main thing that Zen does from creating IP, is absolutely cutting edge for the country which is not only meant for India, but we make in India for the world, that's the objective. So, this achievement also aligns perfectly with our strategic goals and reaffirms our position at the forefront of our defense industry, especially in the design and development.

During Q3 FY'24, we secured orders worth of Rs. 129 crores, increasing our order position to Rs. 1,434 crores by 31st December 2023, out of which equipment orders are about Rs. 1,150 crores and we expect these orders to be executed by the financial year '25.

We are still anticipating a few orders in the next few quarters to ensure that the order book position by the end of FY'25 is stronger than the order book position in FY'24. This order book position will help us to grow on the trajectory at which we have launched the inflection point which we continue the trajectory growth for FY'26 and beyond.

We are also optimistic about the promising prospect of the export market. Our long-term focus has been on achieving leadership in several key areas, including development, both live and virtual wave simulators, leadership position in anti-drone market and expanding our services especially through AMC revenues. We look to expand our global presence with a particular focus on Middle East, Africa and CIS countries.

So, overall given the situation, we feel that we aim to grow at a CAGR growth of 50% at least for the financial year '26 to '28. We hope that if this is achieved, we would have hit the minimum goal post that we have set for ourselves. To support our growth, we have also initiated a lot of changes in the HR policies, technical and manpower to attract them. We started the ESOPs plan where dedicated Zen's have been rewarded with ESOPs and we want to continue doing that. We expect a lot of talent to be attracted especially who want to make a difference in the world and who want to create something durable which they can really relish when they grow old. So, this is what Zen is all about, making absolutely great inventions and innovations in the defense field.

By the way, we are also looking at opportunities to expand inorganically through acquisitions outside. I have been saying for 1.5 year, 2 years. Normally, the time to raise money is once we acquire, we look at the target typically from 90 to 120 days. So to ensure that we don't have to go starting with the board resolution, etc., we passed enabling resolution at the board to raise up to 1,000 crores and the same will be commended to you.

So, these potential opportunities would definitely mean that again, I'm very, very worry about acquisition because I know that almost 80% to 90% of the acquisitions go bad. So, I'm very, very conservative about it and we'll ensure that we will really retest, we will be very, very careful with the shareholders money, we will retest our assumptions and ensure that these are coming at a reasonable price, and with our joining hands with these acquisitions if they happen, they may not happen, very frankly I'm not very sure at this point in time, but if they happen we will guarantee that it will be a blockbuster position.

Again, we are taking steps because of this expanding that's happening, one of the questions a lot of people ask is “Operationally, how are you?” Operationally, as you can see that we are delivering what we promised, but we are looking at constantly in making it more robust, the supply chain, the procurement, the production planning, we are really on top of the situation and we continue to work very hard to ensure that there are no operational challenges and the promises that we make.

So, again, we are on target to meet at least 450 crores during this year and that's what we promised, and next year we think that based on the order book position, we should be able to achieve at least 900 crores. And again, a year after that we are expecting a CAGR growth of 50% for the next three years.

So, as we move forward, we are very confident that our strategic investments and relentless focus on our core competencies will continue to drive positive outcomes for the company and thank you so much, I'm really, really grateful to the shareholders who have stood with us through thick and thin and we'll try our best to reward them better. Afzal, you can take over from here.

Afzal Malkani: Thank you, sir. Good evening, everyone. As you just heard from our CMD, Mr. Ashok Atluri, we are thrilled to report that we have delivered an excellent quarter.

I'm pleased to provide you an update on the impressive performance of our Company in Q3 FY'24 and nine months FY'24. Additionally, we are well positioned to continue our growth momentum going forward.

Let me begin with our standalone financials highlights for Q3'24:

Our total revenue for Q3'24 was Rs. 102.26 crores compared to Rs. 34.84 crores in Q3'23. The growth in percentage terms is 194%. Our EBITDA for the Q3'24 increased to Rs. 48.41 crores compared to Rs. 10.27 crores in Q3'23. In percentage terms, EBITDA is 47% of the revenue compared to 29% in Q3'23. The growth in percentage terms is 370%. Our profit after tax has increased to Rs. 31.67 crores compared to Rs. 7.58 crores in the same period last year. Profit after tax in percentage terms is 32% compared to 23% in Q3'23. The growth in percentage terms is 318%. Out of our total revenue from operations of Rs. 98.08 crores, Rs. 89.65 crores were contributed by the sale of equipment, while Rs.8.43 crores came from our AMC business.

Moving on to the nine months FY'24 performance:

Our revenue from operations was Rs. 294.56 crores compared to Rs. 87.29 crores in nine months FY'23. The growth in percentage terms is 237%. Our EBITDA for the nine months FY'24 increased to Rs. 143.76 crores compared to Rs. 31.83 crores in nine months FY'23. In percentage terms, EBITDA is 47% of the revenue compared to 34% in nine months FY'23. The growth in percentage terms is 352%. Our profit after tax has increased to Rs. 96.20 crores compared to Rs. 20.37 crores in the same period last year. Profit after tax in percentage terms is 33% compared to 23% in nine months FY'23. The growth in percentage terms is 372%.

Now, coming onto the revenue breakup:

Out of the total revenue for the nine months of Rs. 294.56 crores, Rs. 270 crores from the equipments and Rs. 24.38 crores was from the AMC business. If we give the breakup of the total revenue of Rs. 270 crores in export and domestic, then our revenue of Rs. 80 crores was from export and Rs. 214 crores was from the domestic. In percentage terms, 30% was from export and 70% was on the domestic side.

If we go to the segment wise revenue, then our revenue from Simulators business is Rs. 195 crores, Anti Drone system was Rs. 75 crores and AMC business as I mentioned Rs. 24.38 crores. In percentage terms 73% revenue comes from the simulators business and 27% from the Anti Drone Systems.

Moving on to the balance sheet part:

Zen Technologies remains focused on maintaining strong liquidity and leveraging its asset light business model to ensure sustained growth and value creation for our stakeholders. We continue to maintain our debt-free balance sheet. We were able to manage our additional working capital requirement from our internal accruals though we have achieved exponential growth in revenue in Q3'24 as well as in nine months FY'24. Apart from this, we have a strong liquidity position and we have cash in hand of about Rs. 192 crores. Additionally, our return on equity has increased to 31%, and our return on capital employed has increased to 45%.

On the working capital front:

There is a significant improvement in working capital cycle and our working capital cycle has improved to 93-days. This is due to the efficient working capital management, particularly inventory and receivables and higher amount of advance received from the customers.

With that, we conclude our opening remarks and we would now like to open the floor for questions and answers.

Moderator: We will now begin the question-and-answer session. We have a first question from Girish Gupta, a chartered accountant. Please go ahead.

Girish Gupta: I am a very long-time shareholder for the company. If you remember every time you are saying that we will change our orbit and I always ask you when we change our orbit and last time when I talked to you, you told me we have changed our orbit and we are now moving to the next orbit. There are three question to you, sir, if you don't mind. Why you sold your 2% stake to the Tata AIG. Are you thinking that you get from Tata Advanced? This is a little worry. Why is the promoter sold his stake to the Tata AIG? Second question is why you come with the QIP? Why you did not come with the rights issue? It will be rewarding to the minority shareholders also. And last question is that there is a news that DRDO also established their anti drone system and they delegated to the private players like Tata Advanced and L&T. So, any competition from this side you are acknowledging or not?

Ashok Atluri: What was your first question?

Girish Gupta: Sir, why you sold your 2% stake to Tata AIG?

Ashok Atluri: Those are the two questions. What was the third question?

Girish Gupta: Why we are not coming with the QIP? Why not rights issue? Are you looking at any big investments from the Tata side?

Ashok Atluri: First thing is why not rights issue versus QIP is, I don't think it will be counted as insider trading or what, but very frankly if we go for a QIP to be at much higher price. So if you want to do something, you should do it now, the rights or whatever you want to do you exercise it now only in the secondary market. Second is why did the promoters sell the shares? Very frankly, we have this company 23 years listed and once or twice the sale has happened only to buy the company shares but we haven't sold the shares to take some money for us. Especially this was not done by the core promoters except for Mr. Kishore, who sold a very small segment, it was done by the non-core promoters in this. I think out of the 57%, we sold only 2% of the equity and I think you should give us that much of levy in the sense that we are taking some money off the table and that too not the core promoters but from the other promoters who have been holding for 23 years. Actually, we should congratulate their patience in this regard. So we'll give that much of a levy and by the way, we also got a very, very strong institutional investors, lot of our shareholders always say that we don't have institutional investors. So we got a Bahubali kind of as an investor into our portfolio. We expect looking at them, maybe other institutional investors will follow them. The third question was DRDO. DRDO thing, if you actually Google and see, it's almost two- year old story where DRDO actually published and invited people to be given the transfer of technology. We compete with each other. DRDO technology is given to BHEL. We have competed, we have one in some places, but our evolution, thanks to the advantage we have as a private company is much, much faster and we expect that the focus DRDO is doing and with Zen doing a little different and they don't pose a threat to us, and the technology that they have transferred. In a way whatever sales happen on DRDO technology, Zen also benefits because we are also a partner in that indirectly. So, that is the overall thing. Nothing to worry on the DRDO front. Again, that's also IDDM thing. But we have different markets and I think Zen anti drone system will be doing extraordinarily well as we go ahead.

Girish Gupta: When do we change our next orbit?

Ashok Atluri: The thing is, whenever I have predicted, I have gone wrong, so I will not predict. I think the Company with other people are doing a lot of work. You may think this is Ashok Atluri, but there are other people who actually do the work. I may be standing in front and taking all the thank yous from you, but yes.

Moderator: We have a next question from Ajinkya Pawar, an individual investor. Mr. Pawar, please go ahead.

Ajinkya Pawar: I have two, three questions. First one is that in last concall you said that we have bidded for nearly about 500 to 600 crores of order, but in H2 we won only a couple of orders worth Rs.130 crores. So, what was the reason behind it? It will be same like that in last year we won lot of order in Q2. So, what will be the order pipeline in Q4 and next year? My second question is related to the Goa R&D plant. Sir, is it due to that customer from export that you said in one of the interviews that they want us to derisk ourselves, but currently we are concentrated in existing plant in Hyderabad? And my last question was related to the Indian government announcement that they want to plan anti drone system on the India-Pakistan border. So, any enquiries related to that sir?

Ashok Atluri: Appreciate your questions. The first question was the order book during the quarter has not been as strong as the previous order book that we gained. We expect that the pace of order book will vary, it will not be very consistent quarter-to-quarter. Again, I'm saying that FY'24, we are almost at the end of it and we have about 1,400 crores worth of order. I think the orders for the current year are almost through, we may get a couple of orders, but FY'25 we expect it to be extraordinarily better than FY'24 based on what we are bidding currently based on the pipeline. So, don't focus on how much orders we got in a quarter, but overall year-on-year we should be having growth and with respect to Goa R&D plant, again, you also gave the answer that when we are building the facility, that is mostly to geographically de-risk all our risk in Hyderabad now. What happens if there is something Hyderabad rendered nonfunctional, so we have a Plan-B in that regard. So, that is where the Goa plant comes in and third was regarding the border. We are in talks with various government agencies for deploying Zen solutions, counter-drone solutions on the border. But again it's a competitive bid and there may be other players coming in for this. Who gets the orders, let us wait and see. But we are definitely one of the core runners in that.

Moderator: We have a next question from Anurag Agrawal from Agarwal Analytical Investments. Please go ahead.

Anurag Agrawal: In the previous concalls, I heard that you mentioned the market size for simulators business could be upward of 10,000 crores and right now what I could see is that our order book is around 800 crores in that part of the business, and we had also mentioned that we are world #1 in simulators in our field. So, could you just give me some views as to why do we have such low market share despite being world #1 and in what terms are we world #1 -- is it in terms of cost or capability or capacity, what is your view on that?

Ashok Atluri: The thing is that we started 30 years back, Anurag and we have been in this field for 30 years and in the initial 20 years, there was hardly any support from the Indian government in the sense they didn't have any preference for made in India or Indian made goods or anything like that. We were competing against the world's best and India is world's largest defense market and everybody wanted to come here, every, company that was worth it is all set, listen, we will go and conquer India as the market, and we were competing with those guys all throughout these 20 years and we won against each and every one of them and I can name them, SA, Palace, Cubic, all these big, big companies, we competed against them and then they actually withdrew from the market because our products were technically superior. That's what my belief is and they have not come to this market. Again, we are not playing a game of getting the technology somewhere from XYZ, even DRDO or imported and trying to push that product. No, this is completely indigenously ground up from scratch developed by Zen. To assert our rights, we have filed patents not only in India but globally, US, in Europe we have filed this patent. So what do I call myself? #1 is in terms of technical capabilities. Definitely, in terms of the market what we have till now achieved is much lower in the scale and that is what the next couple of years, somebody was talking about how do I go to the next orbit, that growth will be fueled by our foray into the foreign market in a very, very serious manner which is happening at this point in time. To your question, the answer is, we are technically the #1 company in the world in land forces simulators.

Anurag Agrawal: Recently, I saw that a few other companies like Adani, Defense and DCM Shriram Industries were also venturing into anti drone system and you said our aim was to be at least world #1 or #3 in anti-drone. How do we see us sparing in that space, how do we see as compared to our competitors in terms of cost and technology?

Ashok Atluri: I think we will have competition coming up internally from the Indian companies that are collaborating or they are doing their own research. But till the last tender published by the Government of India, the Indian Armed Forces there are two tenders published and we were the only resultant single vendor in that. I really don't know, but I always tell the investors, don't look at my PR releases don't look at my statements that I make but look at the tender that the government is publishing and who has won those tenders. That is the proof of the people who are actually players in this segment. But as of now, we were the resultant single vendor for both large tenders published by the government and that orders are already with us. So, in future, what could they come up and beat us? I really don't know about it, I don't know how strongly they are working on this. But the guarantee from Zen is this, that we will leave no stone unturned to be absolute world leader, because it is in the interest of the country that we invest a lot of R&D in becoming the #1 or now #2 in the world in the anti-drone systems. So that investment we will carry and this is what I tell you, regardless of winning or losing a couple of tenders, that long term objective of three to five years are deeply embedded into the innovative mindset of the company and we will achieve that in the leadership position in the anti-drone systems in the next three to five years.

Anurag Agrawal: Could you throw some light on the order pipeline for the next year if you have any idea about that?

Ashok Atluri: Order pipeline I will not say, but orders, we have already indicated that we'll have at least 900 crores worth of orders that will execute in the next year. So, we feel confident that we will be able to achieve that. But again, I told you the order book position will be better than what FY'24 offered, FY'25 should have a stronger order book position is what my personal view is.

Moderator: The next question is from Abhishek Shah from Ambit Limited. Please go ahead.

Abhishek Shah: Just wanted to confirm a couple of points and I had a question. Sir, you mentioned that in FY'25 we are targeting about 900 crores of revenue versus I would say about 300-odd crores that we'll end up doing in FY'24, is that correct?

Ashok Atluri: No, FY'24 is 450 crores, FY'25 will be 900 crores. We almost touched 300 crores already.

Abhishek Shah: And on that, in '26 to '28, we are estimating 50% CAGR on the top line?

Ashok Atluri: CAGR on an average. I think it will be a little high, little low kind of thing.

Abhishek Shah: Then sir, related to that, just a question we had, margins jumped up significantly in this year; if I compare Q3'24 to '23, they are at 47% versus about 27%, 28%. So, can we assume that we would sustain those margins going forward during this growth phase or any kind of color on that?

Ashok Atluri: One thing is we are very, very cost conscious, we have a cost mindset which will put even the most miser to shine. So, we have a really, really strong. But we do spend where it is required like for R&D we will spend, for doing heavy equipment we will spend where it is required, otherwise we are very conservative. So the percentage of the EBITDA target internally set is about 35%, but this quarter we have exceeded that. But what we aim is that in a whole of the year at least 35% EBITDA should be there. That is what we are aiming for the year, but I think this year may be better than that.

Abhishek Shah: You did talk a little bit about the QIP. Any color on use of these funds would be, you mentioned acquisition, but anything else that you all are thinking of?

Ashok Atluri: As of now, our mind is that basically for the operations that we are doing for our order execution, we don't need any funds, we have enough sufficient funds internally and if this raise is activated, that means to say that we have probably identified in the past at least in the process of identifying or identified some acquisition that is very, very synergistic with the Company's operations. Only then we will be doing it. Otherwise, we may not do this raise at all.

Moderator: The next question is from Sanjaya Satapathy from Ampersand Capital. Please go ahead.

Sanjaya Satapathy: Sir, now on the results, we are seeing that your profit margin of the company is jumping up and down quite a lot though it is extremely healthy, and even in the past, you had said that you are comfortable at 25% margin. So, how do we look at your profit margin going forward?

Ashok Atluri: The 25% has always been about that profit after taxes and 35% EBITDA. The thing is that this is what we have said that it's a conservative target. Very frankly, one thing about the Zen's accounting department is they report what is there, there is no creativity involved, that's not a profit-making division, but a reporting division. So you will get that fluctuation. Why the fluctuation is because of the combination of different products, for example if I done simulators more, simulators have a better margin, so it may be having more than that. But on an average, we expect it to even out to 35% EBITDA and 25% PAT as we go ahead.

Sanjaya Satapathy: Sir, you have given a guidance of 450 to 500 crores. Right now, you have removed that 500 crores. Is it some kind of a guidance cut or you just want to be more specific?

Ashok Atluri: We have said 450-plus crores. We have like you watching us. So we have to be very careful, but thank you, absolutely you told the right thing. We did say 450 to 500 crores, but now we are saying 450-plus crores but let us hope that we achieve the target that you have in mind.

Sanjaya Satapathy: Coming back to your guidance, sir, your QIP plan and also, this is the first time possibly as far as I know that you have given a guidance all the way to FY'28 almost. So, have you done any due diligence in terms of acquisition or this is just a matter of treatment of intent and your Company, which is asset light and also not too many employees to that extent, so are you aware of the complexities that will be required to do such a large ticket acquisition, because 1,000 crores is not really a small number?

Ashok Atluri: I'm very aware of that, Sanjay. I am like you, owner of the business. I know that anything you raise, that's a pre-met and especially if you're raising the equity, it's very, very expensive. I actually have bored in raising equity but except where really necessary. So, to your question, yes, again, as I have said that we are exploring multiple companies at this point in time, and we are not sure whether it will really convert it into actual acquisition or it is the discussions may fall through. But whenever they happen, we will intimate, we will raise the QIP and we will be very careful in deploying this QIP fund. But we will raise only if there is a target inside, otherwise, we will not be going for the QIP at all.

Sanjaya Satapathy: Or rather, to be very clear that you will sign the acquisition deal and then do the QIP, is that how it is?

Ashok Atluri: That's right. The time to raise the money when we talk about this thing, there will be exclusivity clause. The time is usually maybe 90 to 120 days. So, we want to finish everything by then. We don't want to go back and say, we cannot raise it. So, we are preparing the ground for that. It's a very low cost operation that we are doing, taking that and keeping ready, as they said, keep the dry powder ready if you want to shoot a flying bird. So, that's how we are trying to keep it.

Sanjaya Satapathy: When you are talking about FY'28 targets, those are of course not linked to these acquisitions and -

Ashok Atluri: No, no, no, no, to give you the comfort, no, they are not linked to acquisitions happening and then the targets coming. These are based on the current interaction that we have based on land forces and counter drone systems. Yes, that's right.

Sanjaya Satapathy: The big picture target that you have given, you will reach almost 3,000 crores kind of turnover by fiscal '28, will there be a dramatic shift in terms of your mix, both in terms of drones and training as well as India and exports?

Ashok Atluri: So I think the percentages may be maintained, but this is a very far-fetched I think very difficult to predict at this point in time, which products will actually take over. But I would typically go both say 50:50 for anti-drone systems and simulators and at least 50:50 for exports and domestic, but I expect the exports will overtake the domestic sales by that time.

Moderator: We have a next question from Manan Shah from Moneybee Investment Advisors. Please go ahead.

Manan Shah: So again, my question was on the acquisition side. When we are talking that the existing business can we scaled to 10x of what it is currently, why even look at acquisitions and when have our plate full and diversify into something which we have not built ground up and rather concentrate on our existing core competencies or do you see any gap in our portfolio that you're looking to build through these acquisitions?

Ashok Atluri: That's a brilliant question, Manan. Basically, I'm like that, less is more, do less and try to leverage it more, that's the Zen philosophy also. To your question why are we trying to diversify so much when what we have in hand is so good. Peter Lynch famously said, "For investment in stocks, don't pull out your flowers and water the weeds kind of a thing." But here in this case, we are very, very focused and what we think is the opportunities that we have, already way in auto mode and we need to protect this thing, there's no doubt about that. So, while protecting, can we add products that makes sense and almost 70% of the effort is covered by the current effort and only 30% is incremental effort. So, this is the proper definition of synergy events, most abused word in management. But only when we see that there is a synergy and we can actually push the products without compromising on the focus on the existing range of products will we go with them. Otherwise, it's not that just for the sake of showing, we will acquire some company that has no synergy with us, we have no value addition in that, we will actively avoid those kind of acquisitions. Only acquisition that make sense and will help us multiply the targets that we are giving the acquisitions will only happen.

Manan Shah: My next question was on the R&D side. So going forward, the incremental R&D spend that we'll be doing, towards which side of business are these going to be and whether these will be to develop new products or to keep updating the current products and improving the existing?

Ashok Atluri: Both will be there. For example, anti-drone system improvement if there is a requirement we want to have, we said that we want to excel it to leadership position in that. So, that's the existing product which R&D will be happening and we will be adding various weapon systems, etc., to enable for the hard kill and in the case of simulators, we will keep adding new simulators as you know the world-friendly armies ask us we will add new product, do new R&D also. But even in the case of simulators also, there may be some more R&D required for existing products for a customization for some other forces. So yes, it will be combination of both new product R&D and existing products maintenance and improve that. And this we do expect R&D as a percentage of the sales to at least reach the old percentage, we are now at about 5% is what I think, we need to improve that bit.

Moderator: We have a next question from Dipen Vakil from InCred Equities. Please go ahead.

Dipen Vakil: Sir, we operate in the three segments, namely, simulators, anti-drone and AMC. Sir, can you help us with the blended execution timelines for each three like how are they different from one another?

Ashok Atluri: So, simulators and anti-drone systems are actually the equipment, annual maintenance contracts are the services that we render post-warranty. So, it's a derivative of the primary equipment sale. So, our typical timeline to execute this order may be anywhere between six months to 18 months depending on the quantity and the complexity of the equipment. But that is what the typical timeline has been that we execute most of the orders within 18 months.

Dipen Vakil: My next question is on your export order book. What would be the proportion of exports in the current order book and you mentioned that export will be garnering more and more traction going ahead, so what is the kind of pipeline that you are looking at considering the competition intensity is rising especially in the domestic front?

Ashok Atluri: The export order book position is around 35%, maybe a little higher or plus or minus a bit. So, we expect that slowly the requirement from the export market is going to increase. We see the kind of turmoil that's there in Middle East, Russia, Ukraine and other countries. So, everybody at this point in time is worried about war happening and they are worried that they're not prepared enough for the war. So, training simulation equipment comes there and the second thing is the wars that are happening are extensively using drones as the counter. It's almost a change between swords to gun fighting, I keep saying that. So, with this happening, how do you protect yourself? Again, counter drone solutions from Zen are the things. So this increase in wars requiring combat readiness, and the second increase in drone using counter drone system in the two major factors in every country's armed forces today. So, we have the sweet spot where we are able to use both of them for preparing India-friendly nations and India itself is to counter the threats that will emerge in case of a war.

Moderator: We have a next question from Narayan Singh from Navanand Securities. Please go ahead.

Narayan Singh: In the beginning, I wanted to ask a question about the QIP, but after so many participants asked the similar questions, I got a little bit of clarity and the purpose of QIP and let's say this is just enabler. So still I want to raise this question to you. So when I first look at your past history, you bought the shares from the market to have it for ESOP. So that clearly showed me how much you value the capital of the company and you are not really willing to let go the equity so easily of your Company. So, I still think that if you're talking about so much prospects for the company in the next three years, I just wish that whatever acquisition we make is really, really adding big value to the company and shareholders. That's all I have. I don't have any other question actually.

Ashok Atluri: Thank you. But a very good point, Narayan. Actually, I'm allergic to issuing shares and the earlier question was, if you are so confident, why are you selling the shares, somebody may be going in the mind that why did the promoter sell, why couldn't they wait kind of a thing which is connected to your question. But the fact is as a promoter, I have this thing, we should leave something on the table for the next investor who is coming. So, this is my attitude, but a very good question. Basically, if we issue shares at a low price, it's actually short changing the existing shareholders. We are actually kind of cheating them. So, the only way I could think was just let us buy back from the market whichever is coming naturally and then give to the employees rather than issuing fresh which looks actually very cheap, issuing new shares looks cost less, but there is huge cost involved in that. A lot of people don't appreciate it, but a very good question. Thank you, Narayan.

Moderator: The next question is from Rohit Singh from Invest Analytics Advisory LLP. Please go ahead.

Rohit Singh: Sir, my question is what is the purpose of raising 1,000 crores and how will it benefit the Company?

Ashok Atluri: I briefly explained to other team members. Again, we are not raising 1,000 crores. This is an enabling provision. If we are able to find a target, that will benefit the shareholders and the company, we will definitely be looking at acquiring. So this was just to reduce the time to raise the funds because exclusivity period is given for a very small window. So, we wanted to be ready to raise the funds at a short notice. Again, we don't have any target in hand or in front of our eyes. But the moment we get it, we'll start moving it and we'll ensure and only after ensuring that this is very, very beneficial to the Company.

Moderator: We have a next question from Harsh M from KRIIS Portfolio. Please go ahead.

Harsh M: I just have a small question for the QIP. Most of it has been answered. What is the typical size of the target companies which you're looking at? and I understand that this is an enabling provision from your end. So, would you be open to even take some debt to fund a small acquisition or how is it which is on your mind?

Ashok Atluri: We have an enabling provision for debt also. So it probably would be a combination of debt and equity. If it's a very small acquisition probably we'll just go with debt, we will not go to raise equity. And the second thing is that what is the size of the target? I don't think they will exceed 500 crores in any case, but maybe in that region is what we are thinking, but depending on the exact target, we can actually come to a conclusion at that point in time. But I would say that 500 crores would be the kind of maximum size, but again, the reality when the actual opportunity comes, we will respond to that opportunity based on the merits of the opportunity and don't hold me to the maximum size then.

Harsh M: How many companies are you evaluating? I'm assuming these would be across the globe, right, not just domestic?

Ashok Atluri: Across the globe. There's no point in telling the number of the companies, but even if we acquire one, it should be great, but yes, we are evaluating some companies at this point in time. But, I think we should know in the next year or so what are those companies. If come to some kind of fruition, then we should we will be able to disclose the names at that point in time. I'm sorry, we don't want to give the numbers on that.

Moderator: The next question is from Gautam Bahal from Morgan Capital. Please go ahead.

Gautam Bahal: Sir, it's very good to hear you quote Peter Lynch. I'll ask you a Peter Lynch type question about basic arithmetic on your guidance. Sir, you've effectively guided for almost a 10x revenue growth in the next few years, but you're still saying that your EBITDA margin will be the same as it is today. Now, that's only possible if your gross margin compresses a lot or your OPEX balloons a lot. I mean, so, tell me which one is it right or are you just being super conservative?

Ashok Atluri: I am being super conservative, but very frankly when we get into bigger size things I do expect some unexpected competition to come in where we have to compete against them and then we have seen hell between '20 and '23 when COVID came and all our calculation went haywire. So, these uncertainties added to the fact that we are growing, we're going to new export markets. You are right, it's a combination of the three that we have the OPEX may increase because of unsourced factors, competition may come in and the third point you said even that may happen in the sense that pressure may come in from other competitors also and we have been super conservative.

Gautam Bahal: No, sir, whatever your answers have been so far in this conference call and most of my questions have already been answered, but your clear preference to sort of protect the equity capital of the business is very appreciated by the shareholders. So thank you very much and best of luck.

Moderator: We have a next question from Thir Gosar from Swan Investments. Please go ahead.

Thir Gosar: The first thing I'd like to understand is what is driving this kind of growth that you are targeting for the next five years?

Ashok Atluri: So, very frankly, I think these are the macro conditions that are helping us. Of course, the current government has really, really focused on IDDM, saying that, it should be indigenously designed and developed. You will not believe that for almost 20 years from the initial conception of the Company, we have been begging people that manufacturing is not the key area that Make in India is, indeed it doesn't matter. Even if it is made in China, it is all done. But create, own the design, own the IP of the company is what we have been saying. It doesn't matter whether Apple gives to Foxconn in China or Foxconn in India. The most value capture is done by Apple because they have designed and developed. So, we have been telling the government, please change it to a category where IP development is given lot of preference. It fell on deaf ears for 20 years but in 2015 Mr. Parrikar came and he understood just like that. He said "Okay, IP is the place where we should play the game and he introduced the category called IDDM." And that is where everything is structured and the second category was Make-II, both initiated by us and both the categories. Parrikar himself has been a small businessman and has gone through all the rigmarole of this fortuous three vendor situation, etc., he was able to get it like that and that is when everything changed for us. Of course, this government is very, very pro. One thing we understand is they are willing to implement it. So, we think that is where the benefit has come from us. This is what has changed the outlook from the government. And the second thing is the worldwide picture. The worldwide is this war was not expected, everywhere you see, it started with Armenia, Azerbaijan, first Armenian-Azerbaijan war took six years, the current one with drones took 44 days. Ukraine and Russia the war is going on and on and on, and the most used tool there is drones. Again, you see in Israel, same thing is happening. So, because of these global factors also and this domestic wonderful support from the government, we have accelerated growth currently and we expect that this is going to continue. And people are just waking up to these dangers of unpreparedness and drones. So, we think the growth is going to be significant in the next five years and hockey stick growth is just starting with what we feel. By the way also a third-party like if you see Bharatshakti Conclave, the chief of army has said in many occasions that simulator training is absolutely important for us and it has just started. So, the 1,000 crores order that we have is just a starting tip of the iceberg. We think there's lot of this proliferation of simulators across the armed forces to be done, and we will be getting that business as we go ahead. So, that's the basis for my confidence for the growth in the next five years.

Thir Gosar: All this growth that you're guiding will be organic, that will be from your existing business, right?

Ashok Atluri: Yes.

Thir Gosar: What kind of investments would you need to achieve this growth?

Ashok Atluri: Again, what we say is as far as the plant and machinery and the core production activities are there, we outsourced the supply chain, we have a very, very robust supply chain, we outsourced to them and we have a team that is just loop monitoring the supply chain, expanding the supply chain and ensuring that the supply chain is seamlessly integrated with Zen's delivery system. So the growth will be taken care of that. But what kind of investments could be, one thing is R&D investment maybe accelerated. We will be requiring that for ensuring that the equipment meet the requirement of the foreign government. Secondly, the anti-drone system, we want to take it to the global level leadership position, we will be investing there and the third is when finally everything is manufactured and we get into our system, we need some place to integrate and test the system. So, there may be some kind of a physical infrastructure. Again, we don't need land for that, we need mostly buildings for that on the land that we already own. So, this will be the expenditure that we may have to incur to ensure this growth.

Thir Gosar: So, majority of your manufacturing will be outsourced?

Ashok Atluri: Yes, that's right, as we are doing now, 85% or more is outsourced at this point in time, we'll continue to do that.

Moderator: We have a next question from Ashish Soni from Family Office. Please go ahead.

Ashish Soni: One is from a strategic road map perspective, you are saying you will export to 50%, but what's our right to win against the global competition, because India, I think your positioning is like you own the IP, your policies are favoring, but what's our thought process regarding that?

Ashok Atluri: So, this is what I said in the earlier question, somebody said how far. For the first 20 years of our life, any preference from the Indian government actually, say two statements that were made, I want the best for my boys, and the second was, there is no runner-up in war. And these two sentences were used to buy the best equipment that was available. And they said, this is the only way to go. And there is one country in the world that used to say that even if my country's company is 60% good, we will buy from them because that will allow me to reinvest and make me a better system. And India has been following this policy forever, we want the best, no runners-up policy. And this country-B, which was following this 60% is enough, some kind of functionalities and I'll buy only from my country's company was Israel. You see where Israel is today in terms of products and in terms of technology and where India was some eight years back. Today, we are playing a catch up game. We are trying to becoming number one in many categories. For a land for the simulators, India is number one and of course, Zen is the major reason for that. But there are other things also where we are emerging as number one. So, the export, when we go, the thing is that we are absolutely the number one, only thing is there will be more political reasons. For example, you cannot sell to any of the NATO countries if you are outside NATO. But these guys will come and preach us, you should have open policy for importing defense equipment into India. But now what is happening is that what about the other countries like Africa, Middle East, CIS countries, Southeast Asia, they would love to buy from a country like India once you are able to prove the quality and say, listen, our quality is better, we are competed with them, and these are our products, they would love to buy from us. Because India is not only in terms of quality and technology better than those companies but also we are a more reliable partner to them. So we think that export is a very, very major growth and if we then play cards, the growth projection that I'm giving will look like a joke after some time, they will be much, much higher than what we are projecting.

Ashish Soni: And in terms of acquisitions, I think any particular potential area you are looking for acquisitions in terms of your value add when you say like

Ashok Atluri: One thing is you know the customer value is the armed forces. So, it should be armed forces focused complete and something related to the product that we are already doing. These are the two things.

Ashish Soni: Is it like drone sort of a system or any particular area, just give us an idea of the area where you're thinking?

Ashok Atluri: I am not able to tell more than this at this point in time.

Moderator: We have a next question from Lavneesh Mohan from SAR Capital. Please go ahead.

Lavneesh Mohan: Congratulations for the best set of numbers and very hearty to listen to you about how carefully you're looking at the entire QIP process and the fact that this is currently at this point an enabling provision. The minute we saw this announcement, we were slightly taken aback as to such a large number, are we sort of chewing more than what we can gulp down our throats. But I think you have given enough clarity. Thank you for that. My question is on the Goa investment that the company is signing into. The 50 crores number, where will it be spent, what kind of products are we going to make, is it going to be for the domestic or the export market?

Ashok Atluri: The approximate investment that we have suggested, but we will be creating the facility to supplement what we have in Hyderabad and this is also a place where we are derisking the geographical, everything is in Hyderabad at this point in time for the R&D, production, everything. So in one of the export customers, what happens is, there is a shutdown in Hyderabad. Where do I go? Forget about another part of the country in the world. But can you be on another part of the country? So they wanted to be geographical but I believe this is the question lot of big countries ask what is plan-B if something happens there. So this is just a backup kind of thing that we are looking at in Goa and this will be complementing the Zen whenever it is finished, whenever we start the operations, start building the facility there, it will be with a clear picture that this is the purpose, derisking the geography and playing a complementary role with the Hyderabad facility.

Moderator: We have a next question from Abhishek Shah from Ambit. Please go ahead.

Abhishek Shah: I was going through the numbers. On the tax rate, we're currently paying at about 30%-odd tax. I was just wondering; shouldn't that actually technically be lower at around 25%-odd. Any particular reason for that?

Afzal Malkani: So, this is due to this higher utilization of the MAT credit in the first nine months. Otherwise, we are in a tax bracket of about 29.12% including all the surcharge and all. But yes, you are right it is a little bit on lower side due to the higher utilization of MAT credit.

Moderator: Ladies and gentlemen, we'll take that as a last question for today. I now hand the conference over to management for closing comments. Over to you, sir.

Ashok Atluri: Thank you so much for the opportunity to interact with the shareholders. I love interacting with my shareholders and in-person meeting was one of the most looked events was the annual general meeting. But now we are becoming online, it's very exciting even still now. We are again confident that we will be able to achieve the target for this year and we have already given the target for the next year also and we expect that the macro factors that are ongoing will ensure that we get the CAGR growth rate of 50% at least from FY'26 to '28. So I hope I have answered and some of the questions that could be answered and I look forward to your continued support and we have a lovely number of shareholders, I want them to continue to be with Zen in the foreseeable future. We think the party has just started and there's a huge growth prospect for Zen from here on. Thank you so much for the call.

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