being there...

ZEN TECHNOLOGIES LIMITED

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Date: May 9, 2024

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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 May 6, 2024, on the Q4FY24 performance of the Company.

Kindly take the same on record and acknowledge the receipt.

Thanking you.
Yours faithfully,
For Zen Technologies Limited

ZEN TECHNOLOGIES LTD. HYD.

MOVVA RAGHAVENDRA PRASAD

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Encl: as above

"Zen Technologies Limited

Q4 & FY'24 Earnings Conference Call"

May 06, 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

Moderator: Ladies and gentlemen, good day and welcome to Zen Technologies Limited Q4 and 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 Mehra. Thank you and over to you.

Abhishek Mehra: Thank you. I would like to welcome everyone and thank you for joining this Q4 FY24 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 will be happy to send it over to you.

Today, we will 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 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 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. On behalf of Motilal Oswal Financial Services we welcome you to Q4 FY24 Earnings Call of Zen Technologies. We are pleased to have with us the management team represented by Mr. Ashok Atluri, Chairman and Managing Director; Mr. Afzal Malkani, CFO; and Mrs. Shilpa Choudari, Whole-Time Director. We will have opening remarks from the management followed by a Q&A session. Thank you and over to you sir.

Ashok Atluri: Good afternoon, everybody. Dear fellow shareholders and potential shareholders, Ladies and gentlemen, good day and thank you for joining us for this Q4 FY24 Earnings Call. I am delighted to share that this has been a year of strong performance for us at Zen Technologies. We have set a new record in sales and profitability. The order wins have been also extraordinary this year, about ₹ 1,350 crores. This achievement confirms that our business model focus on developing indigenously designed and developed different equipment with IP ownership, which are the world's leading in the category was appropriate for current times and looking ahead, our order book position is surpassing ₹ 1,400 crores as on 31st March and this positioning as far as sustained growth for FY25. We are not just optimistic but confident in our ability to accelerate our growth trajectory and aiming to exceed a turnover ₹ 900 crores in the current financial year.

Again, before I proceed further, I would like to say that, for the current year we had made a projection of ₹ 450 crores, in fact that was also toned down initially we had said between ₹ 450 crores to ₹ 500 crores but later we said it would be ₹ 450 crores. But we achieved only ₹ 430 crores on standalone basis. It's about 5% and for that, I have nothing to say but I may offer an unqualified apology. We shouldn't have fallen short but we made our best attempt but we couldn't reach. But the fact is that, we did not achieve the target that we gave and apologies for that and another point was that, we have been saying on many occasions that 35% will be the EBITDA margin that we are expecting and 25% is the PAT margin that we are expecting, but somehow some shareholders have expectation that it will be much, much more than that.

But, I really want to temper those expectations. Especially, given the vast product mix that we have and especially for highly commercial, dual use commercial simulators, we have the cost of production as a little higher than the regular ones. So we do again assure you that 35%, EBITDA and 25% PAT is something we will be able to achieve even in the current financial year. We also expect some more order wins during the year to further accelerate our growth. We are very optimistic about not only the domestic but also the export market and we are actively exploring new opportunities in this area. As we move forward, we are confident that our strategic investments especially in R&D and existing acquisition and future acquisition will be very good for the growth of the company and we will continue to get positive outcome for Zen Technologies.

So with this, I will pass it on to Teena for the Q&A, moderation.

Moderator: We will now open the floor for Q&A. We will take our first question from the line of Dipen Vakil from InCred Equities. Please go ahead.

Dipen Vakil: Sir, my first question is on the lines of our inventory days have risen significantly and so as our net working capital days, so sir I just wanted to understand, if this is going to be like a sustainable one going ahead or how do we expect our receivables?

Ashok Atluri: I will let Afzal answer this question.

Afzal Malkani: Sure sir. So, if you see our working capital cycle, total number of days on the basis of 31st, March 2024 is 148 days, as in earlier guidance also, in earlier call also we have given a guidance of around 130 to 150 days. So, our working capital cycle is 148 days, just for example, our receivable days are 143 days, our inventory days are 113 days and advance to supplier of raw material is around 60 days. So, total of all these three items is 316 days, less payables are around 22 days and one important thing which you are missing is advance receive from the customers, is around 146 days. So, if we reduce this two things payables and advance received from the customers, then total number of working capital days is coming at 148 days. That we would say this is sustainable going forward also our working capital cycle will be in the range of 140 to 160 days, this is number one. And number two, why this number of days have increased that our receivable is 143 days is on the higher side because of the higher sales in Q4 24. In absolute terms our receivable are ₹ 169 crores and our turnover for the last quarter if you see then it is ₹ 136 crores and again our receivables are increased by 156%, but simultaneously our turnover have also increased by 167%. Number two regarding this inventory, the inventory have increased from ₹ 41 crores to ₹ 133 crores, but also in percentage terms inventory have increased by 224% but again, our turnover have increased by 167%. So in terms of the number of days it has increased, but again, we need to execute our orders in the current year budgeted target numbers so, we have built up the inventory. If we don't invent the, build the inventory then we would not be able to achieve our target number with the current financial year. So but in nutshell, to answer your questions yes, our working capital cycle is 148 days and going forward also it will be in the range of 140 to 160 days.

Dipen Vakil: Got it sir. Thank you so much for the detailed explanation. Sir second on the strategic investment side. So, I have two parts one is what do you expect to spend on R&D for FY25 and also any inorganic acquisition planned. So you had already sought some approvals, for shareholder approvals in the form of a QIP so any update on that as to if we are still exploring any inorganic acquisition and in which area we would be looking at?

Ashok Atluri: So FY25 R&D we are expecting to be in the tune of around 30 crores but again, you should not hold me to it because we are a very opportunistically our investment R&D company. If we get a good product idea, and the customer suggests that you invest in this, we will not hesitate to invest in that little more than what we have budgeted. So that is one, the second with respect to inorganic acquisition we have taken permission to raise up to, place up to the ₹ 1,000 crores. But, we have not yet identified any target and when and if the things become clear we may raise the bid of the, we may go for the QIP, but as of now, we have to adjust the enabling provision, which will allow us to go and raise.

Dipen Vakil: Okay, got it sir. Sir, last question. How do we see, exports shaping up for say in the near future say in FY25 and 26. So, right now, and where do you see the most traction coming in for our products, mainly anti-drone systems?

Ashok Atluri: So out of the ₹ 1,400 crore that we have almost ₹ 400+ crores are for exports. And that so, probably out of the ₹ 900 crores, maybe at least 33%, 30% maybe export in that is one thing what was the second question sorry, I missed that?

Dipen Vakil: Sir, second question was on the line of, as to how do we expect exports shaping up in anti-drone system?

Ashok Atluri: So for Anti-drone systems, there is huge demand both domestically and internationally we expect that to scale up significantly. Again, remember the two things every country in the world is worried about, one there may be a war knocking on my door and for that I need to be prepared, it doesn't matter how much advanced equipment you have, because they have seen in Ukraine, the worlds they have gifted with them the latest equipment, but they are losing the war simply because they are not trained. So training has become an area of focus and the second is, the war has moved there is a tectonic shift, or almost as much as from sword fighting to gun fighting. The drones have taken over the warfare completely. Now you need anti-drones protect against these drones, and Zen is offering those drone systems. So keeping these two things, the preparedness and the emerging threat. Both the solutions are available with Zen Technologies, so we are at a very, very sweet spot and we expect a lot of inquiries as we are dealing, a lot of inquiries coming in, we can feel it and we think that there will be tremendous growth in the export area from both these fronts.

Moderator: Thank you. We will take the next question from the line of Abhishek Shah from Ambit. Please go ahead.

Abhishek Shah: Just continuing on the export question, I have seen in Q4, actually we had at least what was reported on a standalone basis, nothing on the exports. So any particular reason for that, and how do we see that shaping going forward?

Ashok Atluri: We didn't do any exports in the Q4 actually, that's why we did not report anything. There were no exports in Q4, all the sales were domestic sales. But, in the forthcoming quarters you will see a significant export figures coming.

Abhishek Shah: Okay. And so does that have any impact, I know that you have always guided for 35% margins, and that's what we have come in. But does the share of exports have any bearing on the margins?

Ashok Atluri: It does, you are right, you actually hit the right spot. Actually, we have better margins in exports than in domestic. So that has definitely impacted the margin mix.

Abhishek Shah: Okay. And one last question. Just in terms of, we have always stated that we are going to remain focused on simulation and anti-drone. Anything in terms of what we are planning for product, new pipeline or anything that is in the works, that you could share with us?

Ashok Atluri: So, we are going to announce in the next, few months, weeks and months some new product, very interesting range of products and that should the end users not only in India, but worldwide will find them very interesting. We personally think that they are quite path breaking. So let us just hope, so there are some formalities to be completed with them before we can actually reveal them. So we are just hoping to complete them and then come back to the customers and show them what we have.

Moderator: Thank you. We will take our next question from the line of Parikshit Kabra from PKT Advisors LLP. Please go ahead.

Parikshit Kabra: I wanted to understand, of course you have guided in the past that the orders come in when they do right, they come in lump sums, and so you cannot look at it quarter-on-quarter and for FY25 we are quite comfortable with the order books to hit our ₹ 900 crore target. But now this subsequent year started and we need to start thinking about FY26. So, within this year, when do you think we should start being able to see the order inflows actually materializing?

Ashok Atluri: So, our impression is that, majority of the order will start, will come in the fourth quarter, but they will start in the third quarter coming in the third quarter. But even, I would not be surprised that a smaller order start coming in the second quarter itself. But we again, what we are thinking is, even if we execute ₹ 900 crores worth of orders, we expect it to be replenished between ₹ 1200 to 1300 crores so that next year we have set an internal target. So we will be able to achieve that target is what our expectation is.

Parikshit Kabra: So, just to be clear, the order inflows you are expecting the bulk of them to start coming in Q3, Q4 of this year and you are hoping for a target of what ₹ 1,200 to 1,300 crores of order inflow?

Ashok Atluri: That is right. I mean to say, so we will be executing ₹ 900+ crores and the rest we expect to ₹ 1200 to 1300 crores worth of orders coming in. Replenishing by more than 33%.

Parikshit Kabra: Got it. And this guidance of, not guidance but this target of 50% or ₹ 1,200, ₹ 1,300 crores, does this include the new product lines that you are hoping to launch or is this only for the existing two lines?

Ashok Atluri: This is only for the existing products, anything else happens it will be icing on the cake.

Parikshit Kabra: Got it. And these new products, are they sub products of your existing lines, for example are the new simulators or is it a completely different line altogether?

Ashok Atluri: They are not really completely different line, they are actually they will enhance the attractiveness of existing products or they may be for adjacent markets. So, these are the two things that may happen. That for example, we are already selling anti-drone systems, there may be something that we may add to that which will make it very attractive the product itself. It may be like that, or it may be a product for adjacent market.

Parikshit Kabra: Got it. So the revenue would be part of one of these two product lines itself?

Ashok Atluri: Yes, it will be enhanced, the revenues will be enhanced. We may get more orders on that equipment because of that.

Moderator: Thank you. We will take our next question from Hiral Nandu from Kalpvruksh Capital. Please go ahead.

Hiral Nandu: Just couple of questions. One is that, we see some material cost has increased compared to the previous quarters in Q4. So can you put some light on that, that any particular raw material cost has increased or it was one of the quarter where we see a material cost increase or it will stabilize near this range only?

Ashok Atluri: Yes, so this is a product mix as I was saying that when we have a dual use simulator for example track simulators, etc. they are easier to make very frankly, we don’t need much R&D to make those kind of products and they have both military and civilian use, there the competition is more and typically our raw material cost is also. So depending on the product mix, the material cost will vary. That’s answer to your question. I hope that satisfies.

Hiral Nandu: Okay, thank you. And the second question is, that I see some other current liability of ₹ 205 crore odd, if you can just put some light what is it about the ₹ 205 crore, last year it was ₹ 100 crore odd.

Ashok Atluri: I will let Afzal answer that.

Afzal Malkani: Yes, sure. So, out of this ₹ 205 crores, ₹ 173 crores is the advance received from the customers and ₹ 28 crores GST payable for the month of March for which the due date is 28 April. So, 173 plus 28 so, it’s almost at ₹ 201 crores and ₹ 3 to ₹ 4 crores is miscellaneous. So, total is around ₹ 205 crores.

Hiral Nandu: Okay. And the last question, this insurance claim we received around ₹ 4.4 crores against ₹ 6.57 crores or something. So, that is the full and final settlement what we understand, so there is a loss or we have received ₹ 2.15 crores less for the insurance claim and we have already booked that loss in the March 24?

Afzal Malkani: Yes sir. So, this was the claim we raised in November 2021, for ₹ 6.56 crores. At that time itself we book entire loss actually, ₹ 6.56 crores after that now, we received ₹ 4.4 crores. So, remaining ₹ 2.16

crores was due to the reason that we put up the claim on the basis of the market value of the product and insurance company agreed with the cost price of the product. And second is, as per rule so, 5% salvage value we have to bear and 2% is another things, is adjustment. So, considering all these things, we received whatever was our expenditure we incurred actually. Only the difference, this insurance company has deducted is this difference between this market value and cost price. But entire things was debited in 2021 itself.

Hiral Nandu: Perfect. So, this entire ₹ 4.4 crores is a current year's other income or is a part of current years other income right?

Afzal Malkani: Yes.

Moderator: Thank you. We will take our next question from Anurag Agrawal from Agarwal Analytical Investments. Please go ahead.

Anurag Agrawal: Sir my question is pertaining to we recently participated in an exhibition in Middle East how are our products received, what kind of reaction did you get, do we see an increased demand from that country, like would you just throw in some light about that?

Ashok Atluri: Exhibition we received very positive response and very robust demand was seen there and that is one of the reasons after visiting there, we had lot of request for collaboration and developing the product in, we went for this world differential in Saudi Arabia. So, yes we think that it has really validated our belief that there is a lot of demand for both the training equipment and the anti-drone systems. And we do expect a lot of demand forthcoming from that Middle East region as we speak we are actually talking to a lot of customers there. Thank you Anurag for asking that question.

Anurag Agrawal: Okay. The second question pertaining to the new product that we are developing. You mentioned that it is an add on feature or something related to which will add value to our current existing product lines. Could you throw in some light relating to what could be the market size for that particular product, like how big that could be?

Ashok Atluri: So, I would just say that it will make our existing products more attractive, which are the add on products. There are some new products also, but in this case we will have an unbeatable combination in anti-drone systems and the simulator. So, I will not be able to attribute how much, by itself there is nothing but there will be generating cumulative demand for the products that we already have.

Anurag Agrawal: Got it. Apart from that last question sir. How do you see the competition faring up in anti-drone system, globally also like me recently went to the exhibition we must have seen other competitors as well?

Ashok Atluri: So, globally we do see we have good competition there are other countries also that are doing a good job but customers are liking our system and so they are, we are in talks with a lot of countries that are wanting our systems. And there are some people who have different requirements, they are going to different products. Domestically also we think that we stand a good chance again simulators, we know not much investment have gone from our competition so there is not real tough competition there. But anti-drone systems of course, DRDO has the technology, so they have been transferring to other companies. So there is some competition there especially because DRDO is a formidable organization with good R&D capability. Only thing, we are more nimble, we are adding more features, we are evolving much faster and we think that we have the, by product to product if we compare, Zen is a little advance than the competition. So, we hope that in domestically also we will be winning with a good number of orders and exports also there will be good orders coming in, in the future.

Anurag Agrawal: Good. Sir last small two follow up question on the DRDO part. In one of the previous calls you had mentioned that any sale that DRDO also does would somehow benefit you, there was some commercial agreement to that angle. So could you throw some light on that?

Ashok Atluri: So, DRDO, the product developed by DRDO which is sold by BEL and other DRDO partners. So, we supply a couple of components through our subsidiary. So subsidiary has developed those components and they supply to, whoever is the DRDO partner. So every time somebody sells something we do get, our subsidiary group does get some revenue out of that.

Moderator: Thank you. We will take our next question from Gautam Rathi from CWC. Please go ahead.

Nishit: Hello Mr. Atluri, this is Nishit from CWC. On your slide no.10 of your presentation there is this mention of evaluating tie ups with OEMs. Has there been any kind of development on that part and any kind of color that you can provide?

Ashok Atluri: We have been tying up with some OEMs, and only thing is officially we would like to announce with their consent at the right time. But yes, with the Made in India coming up in a big way, in the next five to 10 years, most of the system will be bought from Indian OEMs. And so we are partnering with them to develop their simulators also. And you are absolutely right, that tie ups are, some tie ups have been done but officially we will be announcing once we sign on the dotted page, together we will announce that to the stakeholders.

Nishit: So, is my understanding correct that you have made certain tie ups but, you are awaiting clarifications or you are awaiting final consent?

Ashok Atluri: That’s right, so there is some understanding but we haven’t signed the documents to make it public. So once we sign it we will make it public.

Moderator: Thank you. We will take the next question from Tej Patel from Niveshaay. Please go ahead.

Tej Patel: So, you said that we are expecting inflow of around ₹ 1,200 to ₹ 1,300 odd crores and we have a target of achieving revenue of ₹ 900 odd crores in the next financial year. So, what are the key areas of growth that we are expecting and is there a major government policy you see coming in?

Ashok Atluri: So, this year we are saying ₹ 900 crores Tej and out of this ₹ 900 crores, we are saying that this is based on the existing order book position that we have. And we have some internal growth targets to achieve that we would need in the third or the fourth quarter, new order inflows of about ₹ 1,200 crores that’s what I said and we seem reasonably confident. It is again in the two areas that we are talking about anti-drone systems and training simulators, accumulatively for both the exports and domestic. So, that is what I meant when I said that we will need ₹ 1,200 crores to maintain growth rate.

Moderator: Thank you. We will take the next question from Palak Bhanushali from MIV. Please go ahead.

Palak Bhanushali: Sir, I have just one question that during the quarter our gross margins were impacted due to, as mentioned on the call, due to the spike in the raw material of some of our products. So, I just want to understand that all our order book, is a fixed price contract, or do they have a pass through mechanism clause in our contract so that with the commodity price rise we can actually adjust a final price of the products. And another thing that between the simulators and the anti-drone is there marginal difference and can you please quantify the difference left that is there?

Ashok Atluri: So, to your first question that it’s a fixed price contracts, we don’t have any pass through mechanism for that, because again our raw material cost are especially the metal those costs that vary are not that significant. So, typically the government and all the army contracts are typically fixed price contracts. So, that is the first question and with respect to anti-drone systems and simulators, we have lesser margins in anti-drone system compared to simulators, simulators have larger markets and when you look at the domestic versus exports, exports have larger margins than domestic margin.

Palak Bhanushali: Can you quantify the difference and the margins, if it is possible for you?

Ashok Atluri: Again, as I said simulator varies very, very widely in worst case the bill of material can go as high as 50% but typically most of the raw material cost are between 15% to 35% and in the case of anti-drone systems they are typically around 35% and, so that's the approximate ballpark for you.

Palak Bhanushali: Okay, understood. Another question I have is that during the year we guided for ₹ 450 crores of revenue, we delivered slight below that. So, what were the challenges that we faced during the quarter of further year that we were not able to achieve the guidance?

Ashok Atluri: So, we had some issue in Chennai, there floods were there because of which some of our supply chain got impacted. And that was one of the causes, but there are some supply chain related issue, but now they have been resolved and this year is going to be much, much better than the last year challenges that we faced.

Moderator: Thank you. The next question is from Prathamesh Dhiwar from Tiger Assets. Please go ahead.

Prathamesh Dhiwar: Sir just wanted to know on the revenue side, you have given some target of ₹ 2,000 crores by FY27 is it right sir?

Ashok Atluri: So, we have said that there will be a CAGR of 50% from next year, FY27 will be ₹ 2,000 crores that's right.

Prathamesh Dhiwar: Okay and the export contribution will be around 33%, 35% right?

Ashok Atluri: Yes, about 35%.

Moderator: Thank you. The next question is from Ayush Didwani an Individual Investor. Please go ahead.

Ayush Didwani: I had a question regarding the order book that you seem to be exhausting at least 70% of your order book at the start of the fiscal, even the last fiscal you executed more than 100% that you reported in April 23 the order book, so my question was that when will we as investors see it one, two years stability that you won't face order issue. Because half the questions are coming on orders?

Ashok Atluri: So, I get your point, the thing is we are able to extraordinary supply chain reconfiguration, people typically take three years to execute the order, we have been executing them in 12 months to 18 months. So, that's a plus point about it and the second so, we will be for you to see a three year visibility of orders is actually a challenging so that means we say, we will have to actually slow the order execution which we don't want to do. So, we want the money, today's money is better than tomorrow's money so we will be.

Ayush Didwani: Sure. But then what the growth you guided for you will have to seriously like take orders at a higher pace in the next say two, three?

Ashok Atluri: So, it's more than we taking, Ayush the orders will come, the demand is increasing exponentially for these products. So we are almost passing this.

Ayush Didwani: Because if I see this year also like two third your order book will be executed?

Ashok Atluri: That's right, yes absolutely.

Ayush Didwani: So, the orders you don't foresee a problem, they will keep coming?

Ashok Atluri: Based on what we have, what we based on discussion and our pipeline at this point in time. It should not be very difficult, it's going to be pretty easy.

Moderator: Thank you. The next question is from Rudresh Kalyani from Kalyani Private Business. Please go ahead.

Rudresh Kalyani: I got to know about you were on the shop floor program of Bharatshakti, the forecast was very insightful. So coming to the questions, I have got a few of them, most of the defense work on the secrecy and confidentiality, how will you maintain it when we outsource the manufacturing to third party?

Ashok Atluri: So, by the way all the defense companies including the very, very big name BEL, VDL they all outsource it to their supply chain. But your question is valid in the sense, how all these defense company maintain the confidentiality. So, typically, one thing Rudresh is that the products that we make, we have 80 vendors, so, what would we give to them for manufacturing, the hardware part for example the mechanical, the electronics but the software, the heart of any system is actually retained with us, which we pour in the last time when we are assembling it, till then nobody knows about the software. So, what is going is anyone some fraction part of the product, some component or some subsystem that is finally integrated at our place, and then it becomes a meaningful product. So, people who are actually making a component just cannot design the whole product by themselves. So, that is what, so it's pretty safe and it is pretty proven we have been in this field for 30 years, and even the vendors with whom we are there, we have a good relationship. So, that risk is almost nonexistent.

Rudresh Kalyani: Coming to my second question. So can we leverage our skill in the simulators to build them for any other domain, just like we did for the healthcare, can we do the same thing for, let's say sports or something like that?

Ashok Atluri: So actually, we have done this one was a medical care and earlier we had also done for a game development, we spent almost a million dollars and our experience is, has been very bad, very poor, and we have not made any progress in both the cases, what insight that has come to us is, this is the value chain that we have created, is created specifically to cater to the needs simulation and anti-drone needs of the armed forces, both in India and overseas. And the moment we try to shift our focus, it's very, very difficult, we don't have, so we see but in this area, it's very, very difficult to compete with Zen because we have extraordinary strengths. But to get into sports, or into medical devices or into games, it's something that we would be very, very cautious about. I'm not saying you will never say never as they say, I'm not saying that we will never do that. But, we will be very, very cautious about going in that, diversifying into those fields.

Rudresh Kalyani: Okay. My third question is, what is the end goal, leaving behind the number, let's say 5 or 10 years down the line?

Ashok Atluri: So, we are, as somebody said FY27 is going to be ₹ 2,000 Crores. Let us see, that's a very, very aggressive goal they have already given us so, but overall Rudresh the thing is, we are even though we are talking as financial stakeholders we are talking about numbers, what Zen wants to do is leave a legacy, Zen was contributed in a meaningful way to the country's self-reliance goals, that we have developed not only products to which serve the Indian armed forces, but we are exported from us and created net export capability within the country. So that is the goal that we have in the long term. That inspirational goal will actually, probably take again, when you look at Elon Musk, what does Elon Musk say, so he is the inspiration for me at least personally. Elon Musk says that there is a possibility that earth can be destroyed by nuclear war or meteor hitting, and he says listen, if it is destroyed we want to preserve the human consciousness, how do I preserve human consciousness, I have to colonize some new planet, and which is the planet, that is Mars, and the only planet that's colonizeable is Mars. But if you want to colonize Mars, I have to build rockets and he is building rockets from that. So, our vision should be over arcing, over extraordinary and exciting. So that way our Zen's goal is, how do we make India completely self-reliant in defense field. So we are doing our bit in contributing, and we are helping other companies which are into IP, I'm not much into this production, and TOT kind of a thing, unless the company can absorb it, many times people just get the technology and they don't care whether it's absorbed or not, they just manufacture and push it to, almost box pusher kind of thing. So we really need to focus on creating great companies within India, for self-reliance. Zen is such a great, such a kind of a company and we hope that in the next 5 to 10 years we can make a reasonable impact on self-reliance goals in the country.

Rudresh Kalyani: Okay. My final question is, can our anti-drone system neutralize the stealth drones?

Ashok Atluri: So, there is a set of drones that we have tested including the so called drone that cannot be detected, but we have been able to detect them through various methods and been able to neutralize them. But this is an evolving field Rudresh, by the time I'm saying listen, we can detect these drones, somebody else manufacture some new drone with new technology and we are trying to improve the technology to detect those drones. So this cat and mouse game keeps going on, one upmanship keeps going on this. And that is the precise reason the government of India is saying listen, this technology has to be developed in India, because tomorrow new threat comes, I don't want to go running to a foreign country and say boss, the new threat has come help me now. So they can actually dictate us guys, this is a threat please give a solution to this. So that is the precise reason that IDDM is a category that is the most sacred and most important, and it should be the most encouraged category so that we have these capabilities within the country. And not only that, we will be able to help other friendly countries with this technology.

Moderator: Thank you. The next question is from Rohit Ohri from Progressive Shares. Please go ahead.

Rohit Ohri: Sir two questions, I was asking about the investments made in AI Turing Technologies?

Ashok Atluri: Mr. Ohri, so I will answer your question to the extent that I have understood, AI Turing the thing is, we were looking for completing the anti-drone product because the product has typically the detector, the radar, the camera, the jammer and the command and control center. Of course, it also requires interface with the hard skill thing but in this the camera was something that we thought would be available easily off the shelf. And then we start and we actually ordered to couple of guys but the order did not come and there was a lot of pressure from the customer that where is our anti-drone system, and that's when AI Turing came up to us and they offered a solution which was much better, easily integrated for the camera solution, electronic optics and, it worked very well with our system and others were struggling to deliver a system that we wanted. So when we looked at them and they had offered at a fantabulous price. So, we basically wanted to get the camera that they are supplying and integrate with our system, and they were giving it a price that was very reasonable and we thought we have to protect their bandwidth, because they were doing too many things and they were little stressed for money so invested in them, so that we can preserve this anti-drone system as a complete product, in terms of the electronic optics also, we become a one point source for that. So that was the reason we invested in that company. But, that company doing some other stuff also exciting stuff that, we will take a call on that as and when the products are ready, we will definitely share with you.

Rohit Ohri: Sir do you think that this will become a substantial proportion of your revenue going forward. So, that was the question, can mitigate the issues of lumpiness of the business?

Ashok Atluri: No. So, the thing is, very frankly we have always said that, the quarters will tend to be lumpy while years may not be lumpy, yearly we would be almost assured, but lumpiness in the quarters maybe there. So all the long term shareholders in Zen are prepared for the lumpiness in the quarter as long as the year-on-year growth is at least predictable and we can hope. So, to your question is lumpiness completely eliminated, No, the answer is no. There may be some lumpiness but even though I don't foresee in the near future, but definitely given the nature of our business, some quarters in the future will be lumpy.

Moderator: Thank you. We will take the next question from P Krishna an Individual Investor. Please go ahead.

P Krishna: Sir, my first question is regarding the anti-drone market of ship, airport, refineries, steel is our anti-drone capable to be deployed in the ship, airport, refineries?

Ashok Atluri: Yes, we can deploy them on the ship, airport, refineries, monuments, VIP protection, assemblies and installations. But the point here is Krishna, we should be aware that again my value chain is fully tailor made for armed forces. Where do I get a guy to go and market to the refineries, where do I get the ability to go and refinery will buy one of the anti-drone systems, so, what I'm saying is, I am not averse to selling number one to your first question. Yes, our product will suffice for their needs. To your second question, what are we doing about it, if somebody comes and buys from us, here is the cheque, take the money and give you the system, we are willing to do that. But this is a new market, we really don't want to push into that. Again, it's a very, very fragmented market, it's not as big as the different market. So we are focusing on the armed forces market. But if these orders come to us, we will definitely supply to them against payment. So we don't have any resistance to them. But do you have a marketing team, are you creating a value chain to support this. No, we are not creating a value chain to support this, because we are not into that market.

P Krishna: How much our current anti-drone range capability sir in terms of distance our capability?

Ashok Atluri: It's about 10 kilometers.

P Krishna: Some lights on Zen Medical Technologies Private Limited subsidiary sir, because as I have read lot of conference call. You have not said about that, what is any future plan something like this?

Ashok Atluri: I mean to say that, actually there is no activity happened in the last year in anti-medical devices. I don't foresee anything happening in that medical devices in the near future, but if there is some development in the medical simulation field or something like that, we will update you but very frankly, the medical devices business doesn't look very promising at this point in time.

Moderator: Thank you. We will take a text question from Ish Mohit Arora from SOIC Research. What is the order pipeline that we have. When are we expecting new orders to come in. for FY26 guidance to be met we need minimum ₹ 900 crores to +1,000 crores of order wins. How confident are we, which new products are we launching?

Ashok Atluri: So, with respect to the order book, we know we have given the figure that ₹ 1,400 crores and with regards to the existing the order pipeline that we have which we think the high probability that we will win is about ₹ 900 crores, already we are working on 900 crore worth of orders. There are very, very large projects that we are not talking about which will significantly improve the revenue for us. And the probability of those orders also coming up very, very good, but they are very, very drawing board stage. But we eventually think that they will come. So, yes to your question, we feel confident that we will be able to replenish ₹ 900 crore, another ₹ 300 crores worth of thing our target is be around ₹ 1,200 crores of replenishment, we expect that to happen by the fourth quarter.

Moderator: Thank you. We have one more text question from Deepak Sharma an Individual Investor. My question is, there is a dip in Q-o-Q operating profit margin and Y-o-Y basis too. Also there is 33.3% material cost versus 20% to 26% trend in last some quarter. Why the such rise in the material cost and what you are expecting the operating cost in the next one or two quarters?

Ashok Atluri: Mr. Malkani will answer that.

Afzal Malkani: Yes, sure sir. So, there are two things, one is that the margin depends on the product mix as we discussed in one of the earlier questions that. And second is, when we achieve the scale of operations, then we cannot maintain the same kind of raw material cost of 25% to 27%. Last year, our total revenue was around ₹ 160 crores and we achieved the scale of operations and with a growth of 167% it is ₹ 430 crore revenue. Number three, the proportion of AMC business is not increasing simultaneously in the same proportion of the equipment cost. So, considering these three factors that we understand that this raw material cost will be around in the range of 35% to 40% we need to consider on that.

Moderator: Thank you. We will take one more question from Sanjeev Panda an Individual Investor. Sir as your guiding for 35% EBITDA margin, in terms of margin would you be able to give us a sense of margin for training simulation equipment and what range for counter drone solutions. And second question is on acquisition we are looking at is it to expand market or gain technology?

Ashok Atluri: Afzal you may answer this.

Afzal Malkani: Yes, so the first question is regarding the margin, we can consider that on an average we are saying 35% as a EBITDA margin. Here, if we want to differentiate then as we mentioned in simulators it is a little bit on the higher side in that case you can consider 40% from the simulators average and 30% from the anti-drone. So, overall average is coming at 35%. And what is your second question, can you repeat?

Moderator: I will repeat sir. On acquisition we are looking at, is it to expand market or gain technology?

Ashok Atluri: I will answer that. So we are looking to gain market and acquire technology both will happen in this case.

Moderator: Thank you, sir. We will take one more question from Panay Khata from Pink Wealth Advisory. Hi sir, wanted to know out of ₹ 1400 crores how much of the order book is from the government?

Ashok Atluri: It is completely from the government, either Indian government or foreign government. Almost everything is from the government, so no private orders in this, almost no private orders in this. Thank you so much.

Moderator: Thank you, sir. Ladies and gentlemen, we will take that as last question for today. I now handover the conference to Mr. Ashok Atluri for closing comments. Over to you sir.

Ashok Atluri: Thank you so much. In conclusion, I want to say that, we have never felt so confident about the company ever before. And we think the path to growth is very visible to us, even though we are not able to show how FY26 will do, how FY27. But internally, we know what kind of things are happening at the ground level and we thank you for all this 23 years you have been with us, we really appreciate especially the old time and existing shoulders. We think the inflection point has come, I keep giving example of the Chinese bamboo tree that five years it goes underground and in the fifth or sixth year it grows 80 feet. That time, the hyper growth time has come to us and we want you to continue this journey with us and look forward to a very, very exciting time. Thank you so much everyone.

Moderator: Thank you, sir. Ladies and gentlemen, thank you for your participation. You may now click on exit to disconnect.