



ZEN TECHNOLOGIES LIMITED

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To
Listing Department
BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street
Mumbai- 400001
Through: BSE Listing Centre
Security Code: 533339

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: ZENTEC

Dear Sir,

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 August 7, 2023, on the Q1FY24 performance of the Company.

Kindly take the same on record and acknowledge the receipt.

Thanking you.
Yours faithfully,
For Zen Technologies Limited



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

Encl: as above



Zen Technologies Limited
Q1 FY '24 Earnings Conference Call
August 7, 2023

Moderator: Ladies and gentlemen, good day and welcome to the Zen Technologies Limited Q1 FY '24 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. Should you need assistance during the conference call, please signal an operator by pressing “*” then “0” on your touchtone phone. Please note that this conference is being recorded.

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

Abhishek Mehra: Thank you, Seema. Welcome everyone and thank you for joining this Q1 FY '24 Earnings Conference Call of Zen Technologies Limited.

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

To take us through the Results of this quarter and answer your questions, we have with us today Mr. Ashok Atluri – Chairman and Managing Director; Mr. Afzal Malkani – Chief Financial Officer; and Mrs. Shilpa Choudari – Whole Time Director.

We will be starting the call with a brief overview of our performance which will be followed by the Q&A session.

I’d like to remind you that everything said in this call reflecting any outlook for the future which can be construed as a forward-looking statement must be viewed in conjunction and uncertainties that the Company faces. These uncertainties and risks are included, but not limited to what we’ve mentioned in our Annual Reports which you will find on our Company website.

With that said, I’ll now hand over the call to Mr. Atluri. Over to you, Sir.

Ashok Atluri: Hi, good evening everybody. Really pleased with this quarter’s performance. We have absolutely a new record for the Company and as very keenly observed by one of our team members we have done in the order book position it also improved significantly and the order book today what we have is actually more than all the last decades execution done till now. So, that’s a very big plus and then we think that the story has just started. It’s the beginning of a new phase of the Company’s life. And this is caused by many factors and I would like to say that the internally the Company has been always focused on R&D has been developing lot of IP has been saying that we have to build technologies just to replace imported technologies. And we has also been saying one thing that Indian Armed Forces should not buy something because it’s Made in India or it is IP ownership, they should buy because that’s world’s best product they are buying.

And in terms of simulators, we are absolutely there. We think that we are the world’s best in many categories. And that’s also evident from the fact that foreign vendors don’t come to India and that’s especially in the area where we are there. And I think they also pray that we don’t go abroad into their market and compete with them, which we will eventually but we have started in a small way and we are getting good returns. With respect to Anti Drone Systems also we think that there has been a significant progress. We have got good orders in that segment and we expect that the demand for anti-drone systems is going to increase. And based on that of that intuitive field that we had in 2018 when we started heavily investing in R&D, our dream was at four to five years we’ll get a product but Government of India pushed us for the unique thing that they pushed us and they said you have delivered it earlier. And we



were able to make the product to their requirements very, very tough requirements and we were able to deliver.

So, now we are investing a lot of money in that field and we expect that again our objective is the same what we have been doing in simulators and that's just to become a dominant force. We don't want anybody to buy because of Made in India or I think Indian owned Company. But we want them to buy it because we are the world's best. So, in that direction, we will be investing our resources and our management bandwidth to ensure that we reach that position. Now to even this was internally that these companies has been doing but externally there have been huge changes in outcome whether it was Make in India few years back to Atmanirbharta. Atmanirbharta is more about intellectual properties like federal lands. Typically, when you buy a car like Mercedes or something, even though they say Make in India, there is a lot of royalty that flows back to Germany or any other country like it could be South Korea for Hyundai. So, IP is the soul of the product.

So, when Atmanirbharta came they started focusing from just manufacturing to IP ownership, which was a big boost for companies like us because they started talking about Buy Indian-IDD. Buy Indian IDD was little earlier than Atmanirbharta but the whole thing was they cracked the code and they said, listen we want IP on us. And then the government announced this defense positive list. Basically, they were saying that these are the lists in which we want Indian companies to make. They had looked at the capabilities which the companies had and we have almost more than 10 simulators in that in which they said we will never import this product from abroad. That was a big boost to us and they were saying that we will buy only from indigenous Company and indigenously Zen was making most of those simulators. And in almost kind of God sent blessing, government in '21 September they announced something called as a simulation framework from Ministry of Defense.

The simulation framework said that we have to move mandatorily to induct simulators into the armed forces over a given period of time and there were lot of benefits which we have been espousing for the last 30 years. With the simulation framework also was saying that these are the benefits of simulation. And obviously, one of the biggest advantages of simulation we see is the amount of sustainability ingredient in that in the sense that there was a study done by TERI. In Delhi there is a NGO, very, very famous NGO, there head got one. They are also related to the Nobel Prize winner. And what they said was issue by simulators for the tank simulator, the savings over the period of 30 years is around INR 130 crores. So, investment of a few crores can result in a savings of INR 130 crores over 30 years. So, this is not just the analysis but also the financial sense of very powerful case made. So, we think that with that report there is going to be a huge acceleration in the procurement of the simulators by the Government of India. And also we've been escalating geopolitical risk. What happened in Ukraine is today they have the world's most advanced weaponry systems ever but they're still losing wars evidently.

The reason is that they don't know how to operate. They have them but they are not being trained. So, this realization that in a high-level latest equipment without getting trained no use of something that has sunk into them and the cumulative demand is going across ballooning across all over the world that we need to get our guys trained otherwise just buying the equipment is not enough, something stands the same stand that Zen has been taking for decades now. So, given this, there are increasing geopolitical risks and especially India's improved stature, international stature, we are being approached by many foreign countries and they are very, very keen to buy both the anti-drone systems and simulators. And again, Zen has never been such a strong liquidity position and as long as end of July we were having about INR 275 crores of cash in the Company. So, that's a huge whether in terms of the FDs, lien FDs, now pre-FDs etcetera. So, we have a very, very strong financial position in a liquidity position. And I think this will really help us in executing our orders and whatever R&D plans we have.

So, I hope that there was a presentation uploaded on the stock exchange, you have gone through that. I really don't want to repeat what is there.



I would like to you know, one thing about Zen shareholders and investors is they're extremely smart guys and they really, really ask great questions. In our AGMs one other thing, I'll always look forward to, I hope that quality will be sustained here and I look forward to the interaction with you.

And with this, I would like to start the conference with the Q&A. Please go ahead.

Moderator: Thank you very much. We will now begin with the question-and-answer session. Anyone who wishes to ask a question may press * and 1 on the attached on telephone. If you wish to withdraw yourself from question que you may press * and 2. Participants are requested to you handsets while asking a question. Ladies and gentlemen we will wait for a movement while the question que assembles. We take the first question from the line of Sagar Tanna from Alchemie Ventures. Please go ahead, Sir.

Sagar Tanna: Hi sir, Congratulations on great set of numbers, Sir, in our presentation you mentioned that we also have export orders. Can you give us the breakup of how much is it from simulators and how much from anti-drone systems?

Ashok Atluri: So, they are about I would say one-fourth and three-fourth cost. Three-fourth will be heavy on anti-drone systems actually and little the recent order and the others are as simulators.

Sagar Tanna: And to which geographies do we predominantly export, Sir?

Ashok Atluri: So, we are focusing on the Middle East, Africa and CIS countries.

Sagar Tanna: Got it. And Sir, is the margin profile different from what we would get in domestic versus exports?

Ashok Atluri: Yes, I think initially what we will be getting will be very high because of the cost we're building for the future maintenance and all that. But as we go into the further years, our maintenance requirement may be a little higher than here. And the AMC that we get from them may not have as many margins. But the initial margins in the equipment sales are much, much higher than domestic.

Sagar Tanna: Got it. And Sir, my second question is on the order pipeline. You've mentioned that you already have INR 1000 crore order book including orders one in July. But what does the future pipeline look like?

Ashok Atluri: So, I think that by before the end of this quarter we are going to get few more orders. By before September, we're going to get few more orders and this order book position is going to build up further and most of these orders are going to be domestic orders. So, that is one thing. And the second thing is that overall we see the environment that there will be a huge sense of urgency that in both the sectors where they're saying training has to be done, there is some kind of an unease that something may happen. So, preparedness is predominant in their mind and we expect lot of simulators to be sold. And especially given the fact that you know and buttressed by the fact that simulators are mandated by a simulation framework issued by the Modi. And the second thing is that it's actually saving money, training people better and it can be done in shorter time even factors like Agniveer, etc., are also pushing the same.

So, given these two and the third thing is the sustainability angle that TERI said is the only way as armed forces can be sustainable. Usually, armed forces and sustainability are look like almost oxymoronic rate. But the fact is that they have found the way to actually save not only money but also the environment. So, given these factors, we expect the simulator thing to explode in the coming years. And anti-drone systems are in absolutely and given now though everybody is talking about them. It's almost a shift like you're fighting with swords. Now, if you don't have drones, it's like you're not having -- people are coming with guns and fighting with people who are with really swords. So, guns will have tremendous advantage.

Now, how do you have the bulletproof jackets and etcetera for the guns is that is anti-drone systems. The anti-drone systems are going to be very, very huge, not only on the borders but



also in the key locations, even in refineries, factories. So, we expect this also to really, really and we were just lucky that we're at that point in time we started investing. We never imagined scaling up so fast. But again, we always believe that unless the Company owns the IP in India that there is no game. The game will be played by someone else. Fortunately, we were able to make it at the right time and we think that this is going to be very huge in the next few years. Anti-drone system is also going to play very, very big part both domestically and internationally. Sagar, I hope I answer your question.

Sagar Tanna: Yes, Sir, just one piece here. So, this order book is to be executed over what time frame? The existing order book.

Ashok Atluri: Over the next 18 months, I think most of the order will be executed, yes.

Sagar Tanna: Thank you.

Moderator: Thank you, Sir. The next question is from the line of Hiral Nandu from Kalpvruksh Capital. Please go ahead.

Hiral Nandu: Congratulation for the great set of number and completely turnaround situation, Sir. A couple of questions are already asked by my previous participants, but still two or three more clarification I would like to understand. Will the EBITDA margin sustain what currently are over the next couple of years? I understand you mentioned some margin decline for the AMC business in the future. But broadly on the simulator and anti-drone systems, whether the margin will sustain.

Ashok Atluri: So, I do think that the EBITDA margins are sustainable. Two things will happen. I think one thing is because of the operating leverage when we expand the turnover, the increase the turnover is more there are some benefits we get. We get more profits. And even if you were to assume that then there will be some pressure or some competition coming up. Or even if the pressure is there I think we should be able to maintain the EBITDA into current margins. So, they may compensate each other but in a very good scenario the margins may actually increase.

Hiral Nandu: Secondly, on the simulator side, especially with this Agnipath Pravesh Yojana on, what do the market size we see -- our opportunity size we see for next two to three years for this simulator side business?

Ashok Atluri: Internally we have done some estimation. It's about INR 15,000 crores.

Hiral Nandu: Great. Thanks. That is my couple of questions. Some got already answered. Thank you.

Ashok Atluri: Thank you Hiral. Thank you so much.

Moderator: Thank you. The next question is from the line of Girish Gupta, CA. Please go ahead.

Girish Gupta: Sir, I am a very, very long-term shareholder for your Company and I remember two years back what you had said in your AGM that we have to change our orbit.

Ashok Atluri: Yes, Girish, I remember you. Thank you so much. I'm very, very grateful to you for holding the share for so long. I'm really grateful. Please go ahead with your question.

Girish Gupta: And even though you remember in the last phone call, I also asked about whether we change our orbit. You say you will see. So, what your answer now today?

Ashok Atluri: Okay. So, we have changed the orbit, right or do you feel we are on the same orbit?

Girish Gupta: We are in the same orbit and we can expect that we will change our orbit.

Ashok Atluri: Very frankly because we are so excited by the kind of things we are actually we think that this is just the beginning and we think there is going to be lot of demand for what we are doing.



And at this point in time, we think that the growth has just started. We do expect that we'll be changing orbit maybe in a couple of years from this to a different level altogether.

Girish Gupta: Okay, Sir. This is from my side. And another thing I will ask in the AGM.

Ashok Atluri: Okay, sure. I look forward seeing you at the AGM.

Girish Gupta: Sir, my humble request, please do the AGM by audio-video mode. It goes in all over India.

Ashok Atluri: No. Actually, today we had a discussion and because I like to see people on video and all that, you know how our AGMs are, they're very open and very interactive. But I have requested you to let us see how we are able to do. I think face-to-face interaction is better. But noted Girish, we will see that we'll do it video this time.

Moderator: Thank you, Sir. The next question is from the line of Shireen, an individual investor. Please go ahead.

Shireen: Hello, Mr. Atluri, thank you very much for the great results. My question is the market size for anti-drones, last time you mentioned about \$2 billion. Is that opportunity size increased or what's your take, Sir?

Ashok Atluri: You know that's the minimum size, Shireen. I think it's going to only be much, much larger than that. But we are not really as we are talking to lot of people and we are getting an estimate that the market size is going to increase tremendously much more than that and that was the Indian market size which I was referring to. And when we add up the stock market and all that that's probably a \$10 billion market at least. And so we expect that at some point in time we want lot of improvements to be done in the R&D and developing the product, so that we can increase the scope of sales to other countries also. So, it's a huge market, growing market and people who can -- who are actually delivering system working system will be having their hands full. So, yes, I think the market size is only increasing from what we are estimating.

Shireen: Thank you sir.

Moderator: Thank you. The next question is from the line of Smita Mohta from Kredent InfoEdge. Please go ahead.

Smita Mohta: Thank you, Sir for allowing me to speak. First of all, congratulations for a great set of numbers and it's heartening to listen that the EBITDA margins will be sustainable. However, there are two, three questions which I wanted to ask. One is that you have reported that you have filed patent 110 and you have received 27 so far. So, how many patents do you have listed till date? And how many do you feel you will be receiving within this financial year, Sir?

Ashok Atluri: Yes, we have filed about 110, 27 have been granted. And I think the rest of the patents will be granted. India takes a little longer time that US and Europe grants within two, two and a half years, so they are little faster. And Smita, the second half of your question can you come again?

Smita Mohta: So, I wanted to know Sir that patent till date, how many have you received in which you feel that you will be the outstanding part compared to the other competitors?

Ashok Atluri: So, Smita what we do is whenever we develop some technology, we look whether this is patentable or not. Actually, focus on the technology and we build some kind of awareness in the team to see whether it is patentable or not then we have a serious patent team that looks at that, does some prior search, etc., and then they come to a conclusion that needs to be taken care. So, once we patent this, what happens is we go to the customer and we say this is patented. And typically, it's a big plus for them because then they can place order on even if they typically there is a requirement of three vendors should be there.

But when we show this patent, they put the patent into the file and they say, listen, there are no other people because the thing is patented. So, that helps us get the orders very quickly in single vendor situation also and our margins are also protected. So, it's definitely a kind of heavy competitive advantage that the patent -- IP that we have generated, we also assert our rights that we have created this IP. And by having this patent mentality of protecting our IP has helped us in getting lot of orders against our competition.

Smita Mohta: Okay got it sir, second of all, you have reported that 59.39% is your export orders for this quarter. So, I just wanted to ask one question that since you say that your orders are to be completed over 18 months, so how much of it is your fixed order and how much of it can you change within 18 months?

Ashok Atluri: Sorry, what will change within 18 months? The order is fixed.

Smita Mohta: I was asking about the price, Sir. How many of it are fixed price orders and how much of it can be changed like they are not fixed price orders because of maybe currency situation or -.

Ashok Atluri: No, they're absolutely fixed price orders. All of them are fixed price orders. They're in dollars. If Indian rupee becomes stronger then probably we will lose in foreign exchange. But if Indian rupee becomes weak, we'll probably gain. But I think it's a dollar-based price.

Smita Mohta: Okay. Third of all sir, about how are you connected to this Agnipath Pravesh Yojana, Sir?

Ashok Atluri: So, Smita, there is a required you know, what government has taken a call of limited years of service they want to hire some people. And you know then they don't want to keep them forever on it because of for various reasons. So, they just want to use them. And for this they want it because they're only there for a limited period of time. I think five years they wanted even the training period to be shrunk so that their period of service is much higher. This is what Agniveer and Agnipath Yojana is. So, what they wanted is to shrink this training period, they wanted some way to convict the training in a shorter period but without compromising on quality. So, they found that the training can be done in a short period of time using simulators and that has helped and accelerated the procurement of simulators from the armed forces. That's what Agnipath and Agniveer are all about.

Smita Mohta: Got it. Sir, currently according to your domestic and export order ratio, do you think you will focus more on the export book going ahead?

Ashok Atluri: So, very frankly we will be focusing a lot on exports. There is no doubt about that. But I think Indian market is going to be very, very strong in the coming few years. So, we will be I think equally focused on both the opportunities, both the domestic where we have a lot of demand coming up and there is a lot of requirement. And then we know where exports will be definitely a market that we will be focusing on especially where the government has good relations with those countries, we will be focusing and doing exports also because actually the government is mandating that we should -- I mean mandating in the sense in a friendly way, they are saying listen, we have been importers forever.

Now, let's become exporters and become a defense hub. So, we are completely aligned with the vision of the government and we are trying to push for exports also. But to your question, yes, we are focused on both things. And what are we focused more? I think we are more opportunistic in the sense that wherever the opportunity will come will go after that. But currently, I feel domestic is going to be big but export will also be a reasonable pie of the whole market.

Smita Mohta: So, regarding your manufacturing part, I just wanted to know that what is your capacity utilization currently on your manufacturing of anti-drone systems?

Ashok Atluri: So, we are fully using the manufacturing capacity as of now Smita. But just to give you a background, what we do is we actually do the final integration at our premises. The actual manufacturing is outsourced to about 80 vendors that we have. So, what we do is and they have reasonably spare capacity to take our expansion. And again, the manufacturing path is

reasonably I mean to say there is a lot of capacity in Hyderabad where people we can give a damn that of course we can go to Bangalore or Pune where these capabilities are really deep and much, much better than as I would say. We are very good at making a prototype, developing a product, creating the IP but the manufacturing part, think of Apple, Apple does all the innovation in US and they get it manufactured in maybe India or China or Taiwan. So, that's what we do. We don't want to do that path which others can do better. What we do is create great products, great simulators, great anti-drone system and then try to find vendors who can manufacture it for us. So, I don't think manufacturing will ever be a bottleneck for us but this is how we are addressing it. We are going and getting new vendors since our additional existing vendors will not have spare capacity.

Smita Mohta: Okay. Got it Sir. Sir, so as you said that simulator market and anti-drone market is increasing continuously. So, would you want to give a number for say our next four, five years, what kind of revenue growth or profitability growth are you looking at on a CAGR basis?

Ashok Atluri: No, I don't know how to give that number Smita to you because internally what we are discussing is almost obscene, so I don't want to share that with you. But it's going to be very good. They're very good numbers and we expect you know, it's a fantastic place to be now, especially if you have developed that IP yourself and the customer likes your products, they endorse it. So, it's going to be very good and the growth is going to be very, very good. So, I will not give the number on that but just be assured that we actually feel it's going to be fantastic three, four years coming four years. We can see it's going to be really good.

Smita Mohta: Wow! That's great, Sir. So, do you think that the other quarters and the next year would also inculcate the FY '23 growth itself or better than that?

Ashok Atluri: I think we already have this year for this is going to be about three times the last year's growth. And next year it's going to be definitely much more double the size of the current year and we expect more orders to come. And I think the next couple of years are already taken care of in that and there will be huge growth and we expect very good growth in the third and fourth year also as per our calculation. But the current year and the next year are given, so we are not worried about that much.

Smita Mohta: Okay. So, Sir, we are hearing that the agriculture sector is also using drones. So, is the Agri sector also utilizing your anti-drone system for any reason?

Ashok Atluri: No, they don't. So, the anti-drone system is not used in agriculture at all. I mean, unless there is a very high-profile farmer who may be attacked, he may need an anti-drone system to protect himself against something. But anti-drone system is not used. The drones are used, of course, agriculture, that's a huge focus by the Government of India. But we generally anti-drone systems are used where the drones may come and damage something like it could be a refinery, it could be the border crossing and throwing drugs or weapons across. So, these are specific uses where misuse of drones can be prevented because these drones -- the anti-drone systems can through radio signals bring the thing down or just shoot it and just destroy them through weapons. So, that's where the anti-drone systems are used.

Smita Mohta: So, are you seeing corporate orders other than the government orders, Sir?

Ashok Atluri: So, we have got the work, corporate order but our focus is mostly on the defense but there are users otherwise. But again, we identify ourselves as the full supply chain and the supply chain is completely aligned for the armed forces. But there are those cases where people may say we want to protect this refinery, we want to protect this nuclear installation or something, which we will do it, but the whole setup, the marketing setup is not aligned to that. The marketing setup is aligned to the defense forces in India and worldwide. When I say defense, I would include the police forces also. But through these corporate if they come and they ask we are kind of responding to that but we are not really focused on that market.

Smita Mohta: Okay, Great, that's all from my side sir, Congratulation again on the numbers and hope for the best.



Moderator: Thank you. The next question is from the line of Sarjeet Yadav, Mount Intra Finance. Please go ahead.

Sarjeet Yadav: Sir, outstanding numbers. Now, firstly about 10 to 12 RSPs are there in the domain and most of them are from the fast-track procedures. So, how do you see the competition there? How much percentage of these orders are you likely to get?

Ashok Atluri: So, I don't know where you got the 10 to 12 RSP number, but anyway, so I'll tell you about anti-drone systems. So, simulators and anti-drone systems are the two things that we deal in. And anti-drone systems, we have seen that there is barely anybody who has invested in R&D could create their own product. With the exception of Bharat Electronics, there is nobody who has invested the money to which is required to make their own systems. Most of the people are just getting from outside and trying to push it onto the Indian Armed forces. And that is actually being observed and they're not being liked by the Indian forces because they say listen, we know that it's a highly evolving field, the threats keep evolving, the drones keep evolving and we need somebody who has owned the IP in India and can make software level changes and hardware level changes at the design level to tackle these threats, this package is evolving threats.

But just imagine if you buy from a foreign guy and there is a new thing that has not been detected, what are you going to do? They're going to charge like hey, they would ask so much of money that it may really cripple the procurement process because there is lot of things to be done before you can buy. But for us, as Indian companies, the moment they say, listen, this is the new threat we sit with them and we try to evolve the new algorithm and incorporate into the system. And most of the times we don't care about the cost or something like that. So, yes, we think that -- so what is happening in this RSP sales? A lot of people are coming by the end. And at the end of it, there are one or two people standing and you're typically one is there in most of cases. So, yes, we expect in the RSPs that we are there that they're not well, but they're much lesser than that three or four of them. We expect that we may be winning most of the orders.

Sarjeet Yadav: So, my question specifically was regarding the simulators. So, there are large numbers of simulators which are in demand for RSP and you seem to have almost all of those products which are there, they are not as added. So, you reply regarding the counter as the anti-drone system. Anything about the competition in the simulators market?

Ashok Atluri: So, simulators, we don't have much competitions in the simulator market. Again, the reason is that there are investment in the simulator market is very little and there are some generic simulators like driving simulators, etcetera, which are used in the civilian market and domestic and the armed forces market. We have some competition there. But very specialized products like tank simulators or air defense simulator, etc., we don't have any competition. So, yes, in some we will give simulators, there will be some competition and we will try to maybe we'll win, we'll lose some. But overall, in the army simulators, I think we stand a very good chance of winning the significant part of that business.

Sarjeet Yadav: Sir, Last question. What percentage of an order as a ballpark figure in the simulator can be the AMC going forward?

Ashok Atluri: So, let us say that if you are doing whatever orders are coming from the army, they're typically going for annual machine contract. 100% of army orders going but sometimes the police are little lacks because what happens in state police is they get the funds from center for the procurement of the equipment but for military, they have to give their own funds. And what happens in maintenance is that they don't have the funds and typically maintenance is that's it. But in the army in almost all the cases they go for annual maintenance contracts and we expect that typically what you can do is whatever we have executed to the armed forces, you multiply it with around 8% to 10% value and that will be the size of the thing. Suppose if you execute about INR 800 crores of orders, you expect going two years or three years of warranty period expires, you will get INR 80 crores of business from them or nearly INR 70 crores of business from them.



Sarjeet Yadav: Thanks you sir and all the best.

Moderator: Thank you. The next question is from the line of Ankur Kumar from Alpha Capital. Please go ahead, Sir.

Ankur Kumar: Hello Sir, Congratulation on very good set of numbers. One question is as in order book has gone up substantially and you have talked about it, but in terms of guidance in the last quarter, you were saying that we could do INR 400 crore this year and 35% margin. But now you're saying three years of last year is, did I hear it right, Sir?

Ashok Atluri: Yes.

Ankur Kumar: So, like maybe INR 600 crore plus this year. And on top of that you're saying next year would be double of this.

Ashok Atluri: Okay, fine. Maybe about, yes, I would say increase, we need about INR 160 crores or something. So, that would be about INR 450 crores, INR 480 crores kind of turnover we are expecting this year.

Ankur Kumar: And next year would be double of that.

Ashok Atluri: Yes, that's our expectation based on the orders. But you will be able to judge it Ankur based on the order book position that we have we have that we'll have to execute it within the next 18 months. So, we expect the next two quarters to be very heavy in the situation. So, yes, next year is also going to be very, very good growth in terms of percentage also, yes.

Ankur Kumar: Got it sir, the EBITDA margin increase is understandable because there is an operating leverage but our gross margin has also gone up. So, can you comment on that please?

Ashok Atluri: So, you're depending on which is a product combination. Some products have a very, very huge gross profit margin, some have less gross profit margin. So, product mix will dictate what is the margin that we have. So, if you are feeling growth in gross profit margin that is basically because of the product mix in which the below material is little less than what would be for the other product.

Ankur Kumar: So, on our INR 1000 crore order, what is the gross margin on that, Sir?

Ashok Atluri: We should be able to maintain this kind of margin that we have or maybe a little less than that. But I think we should be able to maintain that. Again, to your question, one thing we do get -- the one benefit we get is the large scale when we acquire on a large scale, we get some pricing benefits also because economies of scale kick in. So, we do get some pricing benefit, so the market may increase a bit, but overall, we expect them to remain the same or maybe a little less also in a given -- if the inflation goes through the roof for another COVID or Ukraine war starts, you really don't know. But otherwise, I think these are maintainable margins.

Ankur Kumar: And Sir, could you comment please on the subsidy subsidiary part because I see console was much higher last year compared to the standalone numbers.

Ashok Atluri: So, what has happened is that they have executed whatever orders they had from others and other customers and they are now fully focused on our execution only. And that's why the consolidated subsidiary, especially the anti-drone subsidiary which was all the transfer was to the Zen only so that because of the set of the consolidation thing that was eliminated. And very frankly, I expect that the way we have developed the product significantly in the sense that the IP that we have created very few people will be actually having that kind of technology and they develop for us, they sell it only to us. If they have developed for someone else, they do sell it to others. So, with this kind of investment and the fast development, I think they will be especially for anti-drone systems.



If the subsidiaries developed something else and some that we sell to some other customers that will be additional turnover, which may happen in the next couple of years. But as of now, because anti-drone system is completely developed for Zen and Zen is the main customer. One part, they have developed some other component for other anti-drone system but that's technologically little behind. So, I don't think there is much demand for that. So, therefore, whatever Zen have invested in the subsidiaries or extraordinary R&D that we are only absorb, we are only buying from them the whole sector.

Ankur Kumar: Got it sir. Thank you

Moderator: Thank you. The next question is from the line of Disha Jain, an individual investor. Please go ahead.

Disha Jain: My question was regarding the order book that you have the execution of it because as you mentioned about INR 1000 crores as of now, we are getting more orders in September and probably an obscene hopefully obscene order book in the coming year. Considering how fast the environment is changing the different products and services that we have, do you see any challenges in the delivery aspect apart from obviously talent acquisition, different geographies, different product, any such challenges you foresee?

Ashok Atluri: As I explained earlier we have the supply chain that is capable of scaling themselves up and wherever Hyderabad doesn't work, we are flexible to go to Bangalore and Pune and all that. So, based on our assessment that this execution should timely happen and we don't see much challenges. And again, what I want to keep in mind is when I say that my growth is, when I say INR 100 crores, what I am saying is the hardware component of that is about INR 25 crores to INR 30 crores. And that is distributed among many people and that the final, we don't do that part also. When it comes to us, we just integrate the whole thing. But again, you're right that we have the process and procedures and QA system, jigs, tools, etc., in place to ensure that the work being done is being monitored on a continued basis and the final delivery of the product to the customer happens. So, yes, we are geared up for delivery of these products and we hope to do it in a timely manner.

Moderator: Thank you. We take the next question from the line of Mr. Vignesh Iyer from Sequent Investments. Please go ahead, Sir.

Vignesh Iyer: **Congratulations and good set of numbers and thank you for the opportunity.** I just when you said the market size for this could be around INR 15,000 crores in coming years. And also, you're targeting a good chunk of revenue in FY '24 followed by FY '25. Just to get an understanding of things if you are almost running at optimum utilization, I do understand that you've got some part where you can outsource it but still the amount of revenue will be recognized. Next few years we would need a bigger set of bright even manufacturing facilities to execute such a large set of projects. So, I just want to have a better understanding on how, would we be doing any sort of CAPEX or anything in the coming times? I mean, we also have cash on books.

Ashok Atluri: As I explained earlier, we are setting up the process and recruiting other people to execute the order timely execute orders and we expect to be able to execute order sometime. For CAPEX, what we think is the CAPEX is going to be minimal if there is going to be any CAPEX. Again, why am I saying that because all the manufacturing is happening outside, we are just getting it into our premises for the final integration, testing and putting in the software and making working for QA purposes. Otherwise, most of the work we want to get it done outside because we think there are a lot of capable organizations that can look at the full workshops, manufacturing that are outside. So, what is the minimal CAPEX that I'm talking about? Do we have enough space to have so many players?

We have an 8.5-acre plot and there is a lot of land available. So, even if you say, suppose we want to build something, you can easily build there, the facilities can be built. You don't have to buy land for that, that would be the most expensive part. And the second thing is that even if some machinery has to be bought or some jigs, tools have to be created for quality purposes there could be again some CAPEX will be involved there. But I don't think there is going to



be huge CAPEX, that's the advantage of a software dominant bomb, which you have that we don't really have to do lot of manufacturing capacity expansion. So, that way we think we are lucky that we are in Hyderabad and there is so much spare capacity available in and around that we don't have to really invest in this money and you know again very fairly, very frankly we think that we are not good at that. If Apple were to become Foxconn, then what will Foxconn do? So, again, I wouldn't really want to become a Foxconn, I want to remain an Apple.

Vignesh Iyer: Sir, right. Sir, but then if we look at the perspective of more software side of it, would we be in need of more skilled manpower recruitment or maybe give more bonus or salary for the existing staff? So, would we see some employee expenses going up in the near future?

Ashok Atluri: So, one thing is that the whole Company has been built on the back. Typically, the 80:20 rule, the Pareto Rule applies here. Few of the employees are extraordinarily important for any organization and those organizations have stuck with us for a long time. And very frankly, they were getting only a fraction of what they were getting in the AMC or anything like that. But then their thinking is, what am I going to do working in an Amazon warehouse where it's underuse of their capacity. So, these guys have worked there. They have found soul filling activities where they're creating something for the armed forces, they're serving the country in a way. So, they have customers. So, it's actually out of June, we just never ask your money, so you creating ESOP plan and ESOP many of these key employees.

So, we don't think that part of the guys will be going wherever by leaving the Company. Those are very, very committed to the country rather than the Company. So, we think they will continue. But as we expand and we get into more products and more areas, we may be having the concern. And of course, now we have started being a little aggressive in paying the salaries even the strong financial position we are in. But I don't think it will be so high that will start damaging because our growth is also so much that we can easily afford paying more salaries to the existing and potentials recruit in the Company.

Moderator: Thank you. The next question is from the line of Rajesh Gupta from SBICAP Securities. Please go ahead, Sir.

Rajesh Gupta: Sir. I have a few questions. One is regarding your margin. The current quarter margin is quite on a higher side. I presume that 35% to 40% kind of EBITDA margin that you said earlier was sustainable but this quarter was quite different from what you said earlier. So, when you say the margin is sustainable at this level, you mean to say that 50% EBITDA margin will be sustainable going ahead.

Ashok Atluri: No. I feel much lower. I would say around 40% or something like that.

Rajesh Gupta: Around 40%. And Sir, since you said that there are few orders which are going to be a high margin going forward. So, the net margin had you earlier about 25%. So, what kind of net margin you see going ahead?

Ashok Atluri: So, we are hoping that 25%, we will be able to maintain 25% net margins.

Rajesh Gupta: Okay. And Sir, regarding your market size, you said simulator market size is INR 15,000 crore rupees. Sir, this market size is domestic in nature or it also includes the overall export plus domestic both.

Ashok Atluri: No, this is an estimate that we have based on the discussion with for the Indian Armed Forces especially for the products that we have. It's not for the. For example, I've not considered flight simulators in this, it's totally for the addressable markets for Zen products. If the government goes on full-fledged given the benefits and what we have seen and the simulation frameworks, if the government implements 100% what the demand is then that that size is about INR 15,000 crores. Only for Zen products, not for the export market or for non-Zen related simulators. They are not included.

Rajesh Gupta: Okay. So, earlier it was close to INR 8000 crore rupees, now it has enhanced to?



Ashok Atluri: Yes, it has increased now. Two, three things. One is that the escalation has been revised. The second is the number of products that Zen has increased. And there is more demand coming up as we see in other areas also from the products that we are potentially developing.

Rajesh Gupta: Okay. And Sir, regarding your anti-drone market size \$2 billion, it is domestic market or it basically also includes some elements?

Ashok Atluri: Domestic market.

Rajesh Gupta: Okay. And Sir, are you looking for any kinds of inorganic opportunity going ahead because you have good cash on the books, so any thought on that?

Ashok Atluri: Very frankly Rajesh, we have been looking at inorganic or acquisitions all throughout our 30 years. Only thing we have found one or two good or good such options in the 30 years. So, it is just because I have money on my balance sheet, I will not but go and buy something because I have money on my balance sheet in a case that where I cannot use the money, I'll just give it back to the shareholders. But we think that at this point in time, there is a huge opportunity available and we are looking at inorganic acquisitions also little more aggressively and because I think we should find a good fit. Again, I'm not going to go into some acquisition, which will increase my earnings or something like that. As we will go into acquisition that makes sense it fits properly using simulation. I need to know the market. I need to know who am I going to selling to. I don't want to acquire clothes retailer just because my earnings will increase. So, there are two things.

One is it should be a good fit and it should be IP expectation. It's again, what I believe is if I just buy some Company which has some product which may be bought by them, it is just earnings acquisition. But we are talking about sustained earning power where we buy it and there is a required sustained demand for that product over the next 15 - 20 years and these guys own the IP and they can keep evolving the product. So, that kind of the companies are not many in the market and so we are looking at those kind of companies and they should be at reasonable price. If a Company that make INR 1 crore, they're expecting INR 100 crores of acquisition price then doesn't make sense to us. So, they should be reasonable and because we have this is shareholder's money is our money, so we are a little careful with that. But yes, we are looking at inorganic acquisition also, but there should be a good fit with the existing products and strategy.

Rajesh Gupta: Understood. Sir, one final question regarding your export order. So, I guess that your export order is closer to INR 340.00, right, Sir?

Ashok Atluri: Yes, approximately, yes.

Rajesh Gupta: Thanks you sir, that's all from my end.

Moderator: Thank you. The next question is from the line of Mr. Harsh M from KRIIS PMS. Please go ahead, Sir.

Harsh M: I Want to just understand what is the risk do we foresee if at all for these orders a long time say to achieve the guidance because I think just asking questions because I've been tracking the Company for long and always whatever you have committed you over delivered. But just trying to understand if there could be some risk as we have been with scaling now. So, any risk on your mind which you would be careful of right now?

Ashok Atluri: So, actually I'm worried about only one thing. If China does the blockade of Taiwan then we are in trouble, we will not be able to include our orders. But apart from that, we are reasonably comfortable and we are also looking how do we derisk ourselves from a Taiwan blockade kind of situation. I don't know how much you know about Taiwan but Taiwan makes 37% of the world's microprocessors and if they go down the whole world stops. But unfortunately, the reality is you never know how China will behave and that is the risk that Zen Technologies faces. That's a significant risk that we face. And so, we will have to derisk ourselves from that.



But one thing good about Zen is Zen is all the products are designed in-house and we can work around that. That's what happened in COVID and Ukraine war. When Ukraine war came everything disappeared. All the chips disappeared. We have to rewrite the software for the new chips. Whatever were available, we bought some samples and then we went to the market to buy the things. The samples disappeared from the market. We had to redesign the product four times. As IP owners, we can do that so that the thing is there. But the fact is if Taiwan blockade happened, it may impact our ability to deliver significantly.

Harsh M: And any new product in the pipeline like you just mentioned during the call. So, anything like apart from, say, anti-drone as we're looking at some very different vertical in near future.

Ashok Atluri: No. We are not looking at any different vertical at this point in time. We are going to look at only getting deeper into electronic warfare and simulation. Simulation in the sense we are very focused on army simulation, can we get into Navy or Air Force kind of things. Those are things we are looking at. So, yes, if you get a new product, again, it's really challenging to get into a completely new segment, which we don't know. But if we go into something like from simulation to anti-drone system, if you go into something else again, the product, the acquisition will be very strategic in the sense that these guys should own the IP, we understand the market but it will be for the defense market. We don't know here the market unfortunately. Somebody said will you go to corporate? We don't know that market at all. We are completely aligned to the defense force of market both in India and abroad. If we acquire something that has deep capability and we can invest and make them focus on certain things. We will do it but it will be again fully aligned with what we have. You have a very deep understanding of what acquisitions will work. So, it has to go through those parameters, those filters, those keys finally to make it to our table for acquisition.

Harsh M: Thank you so much and best of luck

Moderator: Thank you. The next question is from the line of Ajay Surya from Niveshaay. Please go ahead, Sir.

Ajay Surya: Sir, my first question is, can you just give me the breakup of the \$1000 crore order book on how much is it from export and how much is from domestic and simultaneously, how much is it from anti-drone and how much is from the simulator side of business?

Ashok Atluri: So, offhand, I'll tell you export will be about INR 340 crores, that's the order that we have and INR 660 crores will be domestic. And I think between the INR 1000 crores, it's about I would say INR 400 crores is anti-drone systems and INR 600 are simulators. But I think we'll give the exact figures in some time it will be published, so you'll know it. But this is approximate figures I can tell offhand, yes.

Ajay Surya: Okay, Sir. And Sir, what has been our win rate in the recent order pipeline like as now currently INR 1000 crore of order book in our hands? So, what has been our win rate in the last three, four months of the order inflow or the order pipeline which the market has grown up?

Ashok Atluri: I didn't understand. What do you mean the run rate?

Ajay Surya: Win rate. Sir, suppose for our INR 1000 crore simulator order book, three of the people are participating, so what has been the win rate for Zen Technologies as you can throw some light on that?

Ashok Atluri: Actually okay, how many orders have you lost and how many we have won? Okay.

Ajay Surya: Yes.

Ashok Atluri: Yes, that in success. I think I would say maybe about 80% success, must be much higher than that but 80% has been our success rate I would say.



Ajay Surya: That's very great, Sir. And, Sir, my last question was like currently we are participating in how much of the order pipeline as of now?

Ashok Atluri: About INR 500 crores, between INR 400 crores to INR 500 crores, yes.

Ajay Surya: Noted Sir. Thank you.

Moderator: The next question is from the line of Mr. Swaminathan from Indrapurush Consultancy. Please go ahead.

Swaminathan: Good evening Mr. Atluri, Great set of Numbers. My only question though you've answered it partially, you have INR 275 crores of cash. Would you consider giving a higher dividend this year to shareholders and also distributing on a quarterly basis because you are going to be the biggest beneficiary, but retail investors like me who have been with you for over 15 years also deserve a share of the pie. What would be your thought on that?

Ashok Atluri: So, Mr. Swaminathan my thinking is this that if the Company cannot deploy these funds in a way that will increase the shareholder wealth, we will give it back to as dividend. Because you are a long-term shareholder, I think in terms of doing business in a very, very focused manner, we have delivered our votes and but we are very, very open to giving it as dividend, which we're not able to deploy into some growth areas. There is no point keeping the money in fixed deposits for a long period of time. But in a couple of years, we are not able to deploy, we will give it back to the shareholders.

Swaminathan: But will you revise your current dividend policy at the moment or you'll wait for some time before doing that?

Ashok Atluri: We will discuss it internally Swaminathan. I got your point. as a small shareholder dividend is a big thing and I mean, you said, by the way, Zen actually praise small shareholders and we really love small shareholders because they really, really are the reason that Zen has survived for so long because you have been very faithful and I meet them in all the AGMs. So, yes, we have fully occupied and people question will we revise the thing? Yes, we will revise. We will look at the payout policy and try to come out with something better in the next couple of quarters.

Moderator: We take the next question from the line of Smita Mohta from Credit InfoEdge. Please go ahead.

Swaminathan: Thank you so much

Smita Mohta: Yes, just the last question, Sir. I wanted to understand that due to security reasons do you think some products of yours can face bottleneck for exports?

Ashok Atluri: Yes, we can face bottleneck for exports. The thing is the bottleneck is basically Indian government is pushing us to export. So, one of the points is the no objection certificate that Government of India issues, in fact, because they are pushing us then all of different certificate is issued. And so that is not there but if the government at some point says, listen, you cannot supply to this country which have earlier permitted but that becomes a bottleneck for me.

Smita Mohta: So, have you faced Sir, these kinds of bottlenecks from the government?

Ashok Atluri: No. Our problem is the other side. They're saying why are you exporting less, export more. So, as of now it is the other pressure we are having from them that we are not performing well even though you shareholders are happy, the government is not happy with us.

Smita Mohta: Okay. And Sir, any PLI scheme benefits that you are getting from the government?

Ashok Atluri: So, Smita, the PLI scheme is only for drones. Anti-drone system, they haven't introduced even though we have been saying listen PLI scheme for anti-drone systems are required because that is one field in each India can become absolute number one in the world. So, by giving



this PLI scheme there will be more participation and more push towards developing this technology indigenously. So, the government is considering at this point in time. But as of now, there is no PLI for anti-drone systems.

Smita Mohta: Okay. Thank you, Sir. I hope you get a PLI scheme from the government. This will help the investors a lot in your Company. And thank you again for a very great set of numbers, Sir. Thank you.

Ashok Atluri: Thank you Smita. Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for the day. I would now like to hand the conference over to the management for closing comments.

Ashok Atluri: Yes, I mean, thank you so much Seema for hosting this. And I think again, the great set of questions I just want to tell as a parting thing as a parting statement, I want to say Zen is focused on two things as of now simulators and anti-drone systems. I remember I think luck has played a great role and through extraordinary circumstances we have reached a place in the sense that there is a perfect storm would be a very negative word. I don't know what is the positive word for that but we have come to a stage where the government policies like Make in India, Atmanirbharta, positive list by IDDM, sustainability efforts and simulation framework.

Everything is actually kind of gathering towards I think it's all the best wishes and what we call sincere wishes of the shareholders that your complete situation where we are actually seeing so many orders coming forth in the future and we are ready to take those, embrace those orders and future developments and we see tremendous amount of growth in the next couple of years in the demand. So, I would say that this it's a great time to be running a business in India and business especially, which is dedicated to the Indian Armed Forces and use really high technology products like simulators. So, thank you so much for being patient. I know Girish and all those people they have been for decades they have been shareholders for Zen and I'm so happy these are the kind of shareholders that we really love. And we expect that the party has just started and we expect great things to happen in the coming years. Thank you so much.

Moderator: Thank you, Sir. On behalf of Zen Technologies Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.