CHATHAFOODS

Chatha Foods Limited

(Formerly Known as Chatha Foods Private Limited)

Regd. Office: 272, Mota Singh Nagar Jalandhar Punjab, Pin code -144001, Phone No. 0181-4616381

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To | Date: 11.07.2024

BSE Limited
Phiroze Jeejeebhoy Towers
Dalal Street, Mumbai-400001
Maharashtra, India
(Scrip Code: 544151)

Subject: Transcript of Earning Conference Call pertaining to Financial Results 2024

Dear Sir,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, regarding an Earnings Call organised by the Company, to discuss the Audited Financial Results of the Company for the half year and year ended 2024, scheduled on Monday, July 08, 2024 at 15:30 hours (IST).

In this regard, a transcript of the aforesaid Earnings Call is attached herewith. Further, the said transcript shall also be available on the website of the Company.

Request you to take the above information on record.

Thanking you.

Yours truly,
For **CHATHA FOODS LIMITED**

Priyanka Oberoi
Digitally signed by Priyanka Oberoi
Date: 2024.07.11 11:56:29 +05'30'

PRIYANKA OBEROI
COMPANY SECRETARY & COMPLIANCE OFFICER

“Chatha Foods Limited

HY & FY Ended 2024 Earnings Conference Call”

July 08, 2024

MANAGEMENT: **MR. PARAMJIT SINGH CHATHA– CHAIRMAN AND MANAGING DIRECTOR**

MR. KULBEER WALIA – CHIEF ACCOUNTS OFFICER

MR. VISHAL SINGH SIRMAURIA– CHIEF FINANCIAL OFFICER

MS. PRIYANKA OBEROI – COMPANY SECRETARY AND COMPLIANCE OFFICER

Moderator: Ladies and gentlemen, good day and welcome to Chatha Foods Limited Half Year and Financial Year Ended 2024 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 this conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Ms. Priyanka Oberoi, Company Secretary and Compliance Officer. Thank you and over to you, ma'am.

Priyanka Oberoi: Thank you, Neerav. Welcome to all our participants around the world. It's a pleasure to welcome you all to the Half Year and the Year Ended 2024 Financial Year Conference Call. From the management team, we have with us Mr. Paramjit Singh Chatha, Chairman and Managing Director, Mr. Kulbeer Walia, Chief Accounts Officer and Mr. Vishal Singh, Chief Financial Officer. We will begin the call with a brief opening remark from the management team and then we will open the floor for the question and answer session.

I would now like to request Mr. Vishal Singh, CFO of the company, their perspective on the performance of the company. Thanks and over to you, Vishal.

Vishal Singh: Thank you, Priyanka. Good afternoon, everyone. I am pleased to present you the financial performance of the company for the year ended 31st March 2024. So, our balance sheet position has improved and shows total assets reaching INR83.51 crores comprising of INR52.04 crores of current assets and INR31.46 crores of non-current assets. And total liabilities of INR83.51 crores comprising of shareholder funds of INR57.76 crores and INR25.74 crores of current and non-current liabilities. We have improved on our current ratio and it is currently at 2.6x.

Our debt equity ratio has also improved 2.4x in the current financial year against 0.49x in the last financial year. Our ROE and ROCE has also improved to 21.02% and 14.30% simultaneously against 11.95% and 13.43% in the last financial year. In our profitability, our total revenue for the period was INR133.83 crores with a contribution of 90% from the non-vegetarian products and remaining 10% from the vegetarian and plant-based products.

So, our revenue has increased by almost 12% as compared to the last financial year. And the growth was primarily driven by an increase in the value chain from the existing customer as well as addition of the new customers. The operating expenses for this period were at INR121.62 crores and the operating profit margin stood at INR12.21 crores which is 9.2% and it is an increase of 72.25% over last year's operating profit which was INR7.09 crores.

And the contributing factors for this increase were, one, the supply chain disruption in raw material and packaging material over the last few years have settled down and we were able to source RM and PM at better prices. Second, the introduction of new customers and products at better terms. And third, this increase in revenue has also helped us to get the benefit of economies of scale contributing to the better profits of the company.

So, for this period, our net profit was INR6.16 crores representing an increase of almost 150% from the past financial year. And our cash flows from the operations for this period were INR12.18 crores and the cash generated from operating activities post working capital changes and taxes was INR3.51 crores. Our cash flow from investing activities was INR24.61 crores.

It comprises capital expenditure of INR1.63 crores directed towards purchase of machinery for the support of existing business and introduction of new products. And second, bank deposits of INR23.01 crores and interest receives of INR3.27 crores. And our cash flow from financing activities were INR26.06 crores which comprises of INR33.39 crores of proceeds from the IPO and payment of INR7.33 crores towards our borrowings and share ratio expenses. So, our cash and cash equivalent for this period was INR5.05 crores.

Thank you. That's all on the financial performance of the company from my side. So, we can move to the question-and-answer session.

Moderator: Thank you very much. We will now begin the question-and-answer session. The first question is from Gaurav from Techsellence Research. Please go ahead.

Gaurav: Thank you for the opportunity. So, my first question is what would be the maximum annual capacity of the new veg plant? And given the land that is available, what would be the maximum possible capacity in that area if you see large demand? Also, the non-veg unit -- I mean, your veg unit is moving to the new capacity. So, the non-veg unit will also have a larger capacity. So, over there also, what would be the maximum capacity? So, if you could just explain that.

Paramjit Singh Chatha: Gaurav, thank you for the question. And the veg unit capacity, the maximum capacity as of now, what is designed on the new land we have, which is around four acres. So, we are looking at a capacity of 14,000 to 15,000 metric tons annual at full capacity, operating on 16 hours. And we will still have -- this is -- we are looking at almost 45,000 square feet construction for this kind of capacity.

Plus, we will -- for further growth, once these capacities are saturated. So, we will have another 25,000 square feet to further enhance the capacities on the new unit. On the existing unit, we have a capacity of around 450 metric tons per month. With the veg unit moving out, it's not a very substantial, large veg unit what we have now as of now. It's a small 6,000 square feet veg unit. So, yes, we will look at an additional 70 tons to 75 tons per month of capacity coming in for the non-veg unit as well.

Gaurav: Thank you. My second question is, what is the process of getting onboard a big QSR? I mean, how much time does it take? And could you just explain me the process? What are the checks that they do?

Paramjit Singh Chatha: Gaurav, when we look at, see, we are working with two kind of customers. One is when we're working with a large QSR. We're working with a Taco Bell or a Burger King or a Subway or a Domino's. The normal checklist is like we get registered with them as vendors, which is obviously we have to meet all their financial, statutory compliances also. They have to see the financial strength of the company because the large companies are having a huge growth in the coming years.

Then we have to get into a food safety audit with them. I'm talking of a new QSR when we are listing the new QSR. So, the primary focus for them to do is a food safety audit. So, once the food safety audit is done, that's the time we get registered as vendors. We have to meet the food safety requirements as per their international food safety compliances. After that, the product development process starts.

Now, the product development process could last anything from one to three months before the product is approved. So, it could be a very quick approval from their side because the product is -- benchmark is both quality, taste and the pricing of the product because they already have a benchmark pricing on a product which they want to launch in the market.

So once the product approval is done, then it would take another one month for them to do store trials, small store trials, consumer trials. They have to train their teams on the product, how to use the product. So a process would take anything from one to four months depending on customer to customer.

Gaurav: Thank you so much, sir. Just a final question. So when you expand, what are the major machines that get added? In one of the previous con-calls, you had mentioned that refrigeration is one of the bottlenecks. So could you just explain for veg and non-veg, how is the machine procured or what are the types of machines that are used?

Paramjit Singh Chatha: So in the previous con-call, I would have been talking of spiral freezers because our veg unit is small. So we don't have spiral freezers. But in the new veg unit, our 60% capacity is going to come from flatbread line. We are talking of products like naan, tortillas, malabari paratha and then we are coming out with a very innovative product which I won't disclose now, which is a flatbread. It has been rated as one of the most popular flatbread in the world.

So that's going to comprise of almost 60% of the capacity. Then we are going to come up with ready-to-eat products which will both be in retort and frozen format. So when we say retort, we are talking of something like what Tasty Bites does for exports with rice. So that's what we are targeting. And then we will have the frozen to flatbread line which we are already doing in the existing unit. So we are talking of products like veg patties, veg savory snacks, whatever.

But in the new plant, it's going to be a much larger line. And when we talk of refrigeration, for all these lines, we are coming up with spiral freezers. So when we talk of spiral freezers, so everything, the product gets frozen online. The product comes out of cooking, goes to the spiral freezer and comes out at minus 18 and we pack it. So that's the kind of setup we are going to have.

Gaurav: Understood, sir. Thank you for the answers. I will wait in queue.

Paramjit Singh Chatha: Pleasure talking to you, Gaurav.

Moderator: Thank you very much. Next question is from the line of [Vinayak Pawar 0:11:30], individual investor. Please go ahead.

Vinayak Pawar: Good afternoon, everyone. Thank you for the opportunity. My first question is, what is the revenue and profitability guidelines for the financial year '24-'25?

Paramjit Singh Chatha: Sorry Vinayak, your voice is echoing a little. Can you please repeat your question?

Vinayak Pawar: Yes, revenue and profitability guidelines for the financial year '24-'25?

Paramjit Singh Chatha: So on revenue, we are looking at a 15% to 20% growth in revenue for '24-'25. And profitability also should be an improvement of around 10% on the PAT, Vinayak.

Vinayak Pawar: Okay. My another question is, what is the capacity of new plant for the veg segment?

Paramjit Singh Chatha: The capacity will be around 14,000 to 15,000 metric tons annually for the new plant.

Vinayak Pawar: Okay. My another question is, any plan for retail business penetration?

Paramjit Singh Chatha: We are not planning to do it in our existing non-veg business, Vinayakji. But yes, we are coming up with some very innovative products in the new unit. And we are definitely, I won't say for sure, but we are definitely working on -- we are coming largely into the flatbread business in the new plant.

When we say flatbread, we are looking at products like naan, tortillas. And over a period of time, we see a demand growing for these products. With the newer generation coming in, with people not cooking at home, people looking at these ready-to-eat options with the younger generation coming in. So we are definitely looking at the idea to go B2C in a very small way to begin with, and then slowly expand our footprint in the B2C business with the bread line, with the bread products.

Vinayak Pawar: My another question is, what is the status of export plant of Middle East countries, namely Saudi Arabia and UAE?

Paramjit Singh Chatha: For the new plant, we are definitely looking at exports, Vinayakji. So that's one of the major areas we will focus on. So even in our financials, what we are planning for the next three years ahead, we are looking at budgets to participate in, the Gulf food fairs and other fairs, the trade fairs too. It's going to be a very big focus for us on the exports. This new plant with such a high capacity is designed and meant to have a very strong focus on exports as well. And not only the Middle East, we would be targeting US and the European markets also.

Vinayak Pawar: Okay. My another question is, what is the margin bifurcation for non-veg segment and veg segment as on date? And what is going to be in the coming future?

Paramjit Singh Chatha: The margin segment of veg and non-veg is almost the same as of now. But within the new plant, we see a substantial growth in the margin. We've done our research and we've started doing trials. We've done our research on the flatbed margin perspective, what our competitors are doing. We've done surveys and analysis on that. So there's a substantial growth in margin when we're looking at the flatbed business.

Vinayak Pawar: My last question is, sir, what is the projected revenue for the -- projected revenue and net profit combined both the existing facilities? And the upcoming plan say next three years, what's the new plan operation for next year?

Paramjit Singh Chatha: Vinayakji, by '27, we are projecting to double our revenue. More than double our revenue. And we're looking at a healthy 25% to 30% growth in the net profit as well in terms of percentage.

Vinayak Pawar: Thank you, sir.

Moderator: Thank you very much. Next question is from the line of Neil Bahal from Negen Capital. Please go ahead.

Neil Bahal: Hi, Mr. Chatha. How are you doing?

Paramjit Singh Chatha: I'm good, Neil. How are you?

Neil Bahal: I'm good, very nice. So I'd just like to ask you, the new plant for which we are beginning our work should be operational by what timeline in your estimate?

Paramjit Singh Chatha: Neil, we are very, very, very sure that the plant should be commissioned by March '25.

Neil Bahal: So this projection that you gave of about 20% of revenue growth is coming from an existing facility?

Paramjit Singh Chatha: It's totally from the existing facility. So the new plant should be up and going in March. We should give it another three, four months for the trials and the trials on the machines and get the lines in place. Maybe another couple of months to start presenting the, calling the customers to the plant, develop products for them. So we're taking a six-month gap after the plant is commissioned. And so we're looking at a six-month revenue coming in from that plant.

Neil Bahal: Yes. So next year, basically you're getting six clean months.

Paramjit Singh Chatha: Six clean months, yes.

Neil Bahal: And if your capacity is going up meaningfully, how much would your capacity go up by exactly from current capacity to when the new plant is operational?

Paramjit Singh Chatha: Sorry, I didn't understand. Are we talking about the new unit?

Neil Bahal: Yes. Your capacity will go up by how much once your new facility comes up?

Paramjit Singh Chatha: Neil, by '27, we plan to touch almost 50% of the installed capacity in the new plant.

Neil Bahal: No, I meant to say right now you are -- in your existing capacity you are at about 7,000 metric tons, am I right?

Paramjit Singh Chatha: Yes.

Neil Bahal: So with this new capacity that you put on board, you're getting up to 15,000 metric tons approximately?

Paramjit Singh Chatha: 15,000 metric tons, Yes.

Neil Bahal: Right. And all of this will be ready by March, right?

Paramjit Singh Chatha: By March, yes.

Neil Bahal: Right. And in the first, you said it'll take about a quarter or so to do the testing, trials, all those things. And you'll get 16 months. What kind of a utilization will happen of your new capacity?

Paramjit Singh Chatha: The first year, that's what I'm saying. The first year should be around 30%-35%. Second year, we're targeting around 65%. Okay. So 25%-26% is around 30-35% because it'll take a little bit of time for us to get the customers on board, start delivering the products. So we're not looking at a very large capacity utilization. So it'll be a 30%-35% utilization. And then next year, yes, we'll be targeting almost 60%-65% capacity utilization.

Neil Bahal: And this new expansion is largely in vegetarian products?

Paramjit Singh Chatha: Totally. Totally vegetarian.

Neil Bahal: And you said in the call earlier that the margins are significantly higher. So what is the kind of a margin differential that you see in the new plant versus your existing plant of non-veg?

Paramjit Singh Chatha: When we talk of operating margin, we see a good difference of around 13%-14% on the operating profit in the new plant.

Neil Bahal: 13%-14% points?

Paramjit Singh Chatha: 13%-14% increase from the existing operating gross profits.

Neil Bahal: So in terms of a PAT profile, I think your current PAT profile is, PAT margin is like 5%-6%. So this would end up being what kind of a PAT margin?

Paramjit Singh Chatha: Neil, if I'm not wrong, by 2028-2029, we should double the PAT.

Neil Bahal: In terms of margin?

Paramjit Singh Chatha: In terms of margin, yes.

Neil Bahal: So like a 10%-11% PAT margin? Yes.

Paramjit Singh Chatha: Exactly.

Neil Bahal: Exactly. Yes. Okay. So it's basically significantly higher margin than our current…

Paramjit Singh Chatha: It's significantly. So it's 2-1-1. What we see is the margins are significantly higher in this, the grain and the bread trade. The margins are significantly higher. And then we're looking at the export market as well, where the margins are definitely much better than, selling it in the Indian QSR, where you're always hard-pressed for margins. So exports have a much better margin.

Neil Bahal: So sir, if we are counting this existing plant and the new plant, it is 15,000 metric tons basically, what would be the peak revenue capacity of both these plants? Whenever you achieve maximum utilization levels at that maximum number, what could be the revenue number that we can achieve as a company?

Paramjit Singh Chatha: It'll be three times, three times plus of our 24 revenue.

Neil Bahal: That 24 revenue, if memory serves right, about INR140-INR150 crores?

Paramjit Singh Chatha: 24 was 133.

Neil Bahal: 133. 3x of 133. So something like INR400 crores approximately is the maximum revenue.

Paramjit Singh Chatha: Yes.

Neil Bahal: With like a 10%-11% kind of a PAT number is what we can achieve at that point.

Paramjit Singh Chatha: Yes.

Neil Bahal: Yes. And sir, then if that's the case and if this happens in the next three years, when can we go for the next round of capacity expansion? At what point do you think it'll be right for the company to do that?

Paramjit Singh Chatha: Well Neil, I think for chicken, the way things are moving now, we might have to look at a capacity expansion in 26.

Neil Bahal: Next year?

Paramjit Singh Chatha: Next to next year. 24-25, 25-26, we will need a capacity expansion in chicken with the way the trend is going on now.

Neil Bahal: And for the bakery and vegetarian kind of items, when would you like to go for the capacity expansion there?

Paramjit Singh Chatha: I think in the year 28-29. And capacity expansions Neil, could come in earlier, because we're going in with a lot of varied products. We have developed some very, I won't, because the product is still to be launched, so I will not talk about the product or the customer we are supplying it to because it's a very large customer.

And we have developed a very, very innovative product, which is as a bakery product, as a dessert bakery product. It's going to be launched on the 22nd of, this month, July. So if these kind of products we are able to develop, we might have to go into for some additional expansions even earlier if these kind of products take off in the veg section.

Neil Bahal: Exactly. Exactly. I'm pretty sure you must be having a sense of how the industry is shaping up. Where do you think we have the maximum, as a sector, would you like to grow further more or less in the vegetarian segment around the bakery side itself? Or do you think some other areas where we will grow beyond? So this is the first level of expansion I understood, which you just mentioned. What do you think the company can achieve over time? Keep on expanding in the bakery segment, you think?

Paramjit Singh Chatha: We'll keep on expanding in the bakery and the chicken section. Bakery is huge. I still feel we have a long way to go in bakery in India. We have a long way to go in bakery in India. At an industrial level. Bakery at a small level, at a store level is okay. But bakery really has to go a long way at the industrial level. And there's so much you can do in bakery.

Neil Bahal: And this is largely around breads, largely?

Paramjit Singh Chatha: No we are starting as breads. But like I said, what we've developed, one of our large customers goes much beyond bread. Goes in as a dessert. As a frozen dessert. So it could move from breads to frozen desserts also.

Neil Bahal: All right. And also other things like tortilla and stuff like that.

Paramjit Singh Chatha: That is all covered in bread, sir yes.

Neil Bahal: Wonderful. So this is all I wanted to know as to how the company's future may look beyond our existing expansion plan that we have in mind. So you're saying that there is far more room to expand further. I mean, the industry is big enough for us to keep on expanding as we keep going on higher utilization levels.

Paramjit Singh Chatha: Yes.

Neil Bahal: Okay. Wonderful. That's all from my side, sir. Thank you.

Paramjit Singh Chatha: Thank you so much.

Moderator: Thank you, Next question is from Nirvana Laha from Badrinath Family Office. Please go ahead.

Nirvana Laha: Thanks. So my first question is around the strategy for our new veg line. So I've heard you talk about multiple things like the bakery and there's, vegetables itself. Then there's, our own brand sales versus large QSR that we're already doing. But we also talked about independent QSRs as this is the small QSR chain. And then you've talked about exports also.

So basically on these two, three dimensions, if you can help us understand what is your strategy with the new veg line of 15,000 metrics and capacity, like bakery versus vegetables and then on these different customer segments and then exports, like what percentage of supply or capacity are you targeting for which segment? And what is your priority?

Paramjit Singh Chatha: Sir our priority to begin with, when we talk of a bakery line, bakery line is something which, I mean, when we talk of breads also, it's kind of a bakery product only. So when we talk about the customer base yes, exports is one customer, is one segment. Large QSR is another segment.

Small QSR, standalone. I won't say standalone, but yes, small QSR. Small QSR, casual dining restaurants, flight kitchens, they're all another segment what we're looking at. And then we are looking at the own brand sales also in the domestic market. So strategy sir, mainly for the large QSR, there is a huge demand for breads, certain kinds of breads which we are developing, which we propose to start producing. So there already is a huge demand. We are already in dialogue with customers.

We have already started product development. So we are already very deeply rooted with all the large QSR. We know what's the demand. We know what's going to be the future demand. We're already in discussion with them. So it is going to be the same strategy as what we have for chicken, including them with products or designing or developing products for them as per their requirement. For exports, it's not going to be our own brand sales. For exports, it will mainly be a white label kind of a business we want to do.

We have no plans as of now to go into our own brand sales for exports. So it will mainly be contacting the large overseas retail hypermarkets for the private label. It will be participating in fairs, the large fairs like Anuga, like Gulfood or other fairs all over the world to be able to do white label for large customers. And for the small QSR our sales team is already in place. Our distribution network we're already expanding.

We are getting inputs, data, pricing structures, requirements from our sales team how it works. So by the time we hit the new plant I think we should be present in at least 60 to 70 cities with distributors for the large and the small QSR. For the B2C for our own brand, we are still toying with the idea. We are still trying to understand the market.

We are definitely interested in going into the B2C market for the flatbread product because in the coming times we do see a lot of demand growing in this segment. It is already there at a very nascent stage, but over a period of time we see a huge demand coming in for these flatbread products because cooking at home in metro cities, even in a city like Chandigarh is really diminishing.

Domestic health availability is decreasing. Domestic health cost is growing. The delivery pattern is becoming very popular. So that is how we plan to do it, if I am able to answer your question.

Nirvana Laha: Right got it. So you mentioned that 15,000 ton capacity and about 60% utilization is what you are looking at in two years by FY26?

Paramjit Singh Chatha: FY26-27. So 24-25, 25-26, yes.

Nirvana Laha: Yes. So FY26 is what you said like last year will be around 35%. Second year you are hoping to reach around 60%.

Paramjit Singh Chatha: Yes.

Nirvana Laha: So if I look at current veg realizations that is about INR220 a kilo. So if I put that number on a 15,000 ton and 60% utilization that is about 200 crores. So is this number accurate or because of bakery is that number changing now?

Paramjit Singh Chatha: Your voice is echoing a little. I mean some things I am not able to make out.

Nirvana Laha: Audible now?

Paramjit Singh Chatha: You are audible sir, but your voice echoes a little. Some part of your questions I am missing.

Moderator: Nirvana can you speak through the hand set?

Nirvana Laha: Sir my question was you said on a 15,000 ton capacity and 60% capacity utilization if I basically apply your current realizations in the veg segment which is around INR220 a kilo, so the total revenue from the new plant seems to be around INR200 crores. Is that assumption correct or because you are introducing bakery, are those numbers changing?

Paramjit Singh Chatha: The numbers are changing sir. The per unit sale, so the per unit sale on the bread is going to be much lower. The per kg sale it's going to be much lower then we are going into the ready to eat section where we are already in dialogue with a few customers for retort rice to the US that is also much lower. So these numbers are averaging between INR90 to INR115 per kg.

Nirvana Laha: Okay and so on an average…

Paramjit Singh Chatha: INR221 is yes that business will also be there, but then there is a substantial amount of business which is coming in as INR95 to INR115 like a naan would be like INR135, a tortilla would be like INR90 a kg. So we are ranging in that also and that is quite a large. We are looking at 50%, 60% capacity coming in from these breads.

Nirvana Laha: Got it. And the remaining would be from the existing INR220 per kilo kind of vegetable product?

Paramjit Singh Chatha: It would be slightly lower again there, but when we are looking at INR220, we are looking at a lot of plant based products also what we were doing like the ones we were supplying to Blue Tribe and Shakahari, but sadly their volumes are not growing and once we put up a large frozen to fryer line, so we will go in for products like aloo patty with Burger King or some other customers. So I mean that ratio will also come down slightly.

Nirvana Laha: Got it. So can you help me with what the average realization will be for this 15,000 tons plant around like 120, 125?

Paramjit Singh Chatha: It will be slightly more than that sir.

Nirvana Laha: Okay. And what kind of margins are you expecting to make on this plant? So currently your overall margins, EBITDA margins are around 9%. So will the margins be higher here?

Paramjit Singh Chatha: Substantially higher sir because one it's going to be a very large volume-based production instead of a batch production what we're doing in the chicken line now. So it's going to be a line volume-based production. We are very sure we will be lower on manpower utilization as well as compared to a chicken plant, a non-veg plant.

\ And secondly as per our industry surveys we have done competition analysis and what is selling in the market now. The margins are way higher than what we are doing as of now in chicken. So the margins in the bread line are substantially higher than what we are doing now. So even if we do a prize war even then the margins are substantially higher.

Nirvana Laha: Okay. So just to get an idea would they be like 15% compared to the 9% we do right now?

Paramjit Singh Chatha: Close to that, sir, yes.

Nirvana Laha: Okay. Got it. And sir we recently basically we were doing some industry research and we found out that one of your largest customers in the pizza segment, they have actually gone in-house in their meat sourcing in South India. So they have actually replaced the vendor and they are now doing it in-house. So how do you see that from your existing business perspective?

Is that something that the industry or that particular customer is moving towards and therefore is also a threat for us in the North?

Paramjit Singh Chatha: Sir that has been I don't know when they declared it, but they have done it from the last financial year. I mean it's been almost 7 months to 8 months or maybe 9 months they have been producing some of the products from their Bangalore unit, but simultaneously the volumes are also growing.

The North and the East business plus a lot of other products for which they don't have the capability are still with us and they will remain with us plus we are also simultaneously developing a lot of new products. So this was setting up the facility was before they set up or in the process of setting up, it was very openly discussed with us. The business strategy was very openly discussed with us. So I don't see it as a yes our business might not grow with Domino's or our existing customer, but the business will sustain it will sustain. It will be a sustainable business.

Nirvana Laha: Okay got it. And final question sir from my side. So what we have understood at the industry is that in terms of say topping suppliers or finished product suppliers like Chatha, there are two kinds of vendors. One who are able to be very agile and sort of serve whatever the NPD team of the QSR is designing. We are able to collaborate with them and deliver that product.

And the second is a company which is innovating on its own on new SKUs and maybe bringing those to QSRs or selling them under their own brand. So from whatever we have understood, Chatha's DNA seems to be on the former side where we prefer the QSR to innovate and we are very good at execution?

So, do you feel that that needs to change for us to grow going forward? And are we therefore taking any steps in building our own NPD team? What kind of, hiring are we doing there? And in the new plant, are we going to sort of see more NPD here?

Paramjit Singh Chatha: In our new plant, it's going to be more of the latter, sir. It's going to be more. Even now we have shifted gears. Even now we have started innovating on products. We will in another month, month and a half time, we have developed some very innovative products for a few of our customers. We will disclose that once those products are successfully launched.

So, in own brands that nobody QSR doesn't buy in the brands. So, maybe like even we supply. So it's mainly manufactured by Chatha Foods. It's an institutional pack. Companies like McCain's who are world leaders who are very large. Obviously, yes, they do supply products, which they don't really, develop for customers and we call them the picking up off the shelf products.

But majority of the companies, if what I'm aware, majority of the business from all the vendors is designed on the way the NPD team because it is not when the NPD team is working in QSR. It is not only developing a product. It's got a lot to do with what marketing wants, what price marketing wants to sell up.

So, it is even the QSR is coming back a long way from consumer preference to consumer price preference to product development and then to better get developed. So, it is primarily going to stay this way. But yes, in the new plant, we would be looking at, developing a lot of new products and showcasing them to QSR. Because as of now in chicken, it's just one raw material we have. There is not much scope of showcasing. I hope you understand.

Nirvana Laha: Yes, sure.

Paramjit Singh Chatha: But when we go into the vegetarian segment, your source of raw material changes the kind of products you can showcase is much larger. You can go from dairy products to dessert products to bakery products. So in chicken there is a limitation on showcasing because your primary raw material remains just the same.

Nirvana Laha: And the final question from my side we decided to go into vegetarian just a years or so back and now in a big way it seems like. So was funds the only constraint and therefore we were waiting for this kind of an IPO to happen before we ventured? Or was there any other reason that we did not venture into vegetarian food?

Paramjit Singh Chatha: No, sir. We did not see, we did not venture into it before because we wanted to but then we were, shaping up very well on a chicken business before COVID hit us. And we would have gone into this, which it was always on our mind, we would have gone into it earlier. But then COVID came on, business dropped and so we thought that it's better to start out with a small facility, do test markets, see how the customer responds, one.

Secondly, the major interest, sir, was exports. So we set up the wedge unit. We spoke to customers, but exporting just one line of products does not work. Like we just had the side snacks or the finger food option with us as of now. Once we thought we'll do export, we did a lot of research.

Breads came in as a winner for exports. Retort rice came in as a winner. So, the thought was always there, but we just wanted to go slowly into it. And, before we go into a large investment.

Nirvana Laha: Thank you so much for your patience answer. I'll get back on the queue.

Paramjit Singh Chatha: Thank you so much.

Moderator: Thank you. Next question is from Pawan Kumar from Shade Capital. Please go ahead. Pawan Kumar, may I request you to run me to the line and get you the question, please. Pawan Kumar, if you can hear us. We do not respond. We move on to the next participant. Next question is from the line of Agastya Dave from CAO Capital. Please go ahead.

Agastya Dave: Thank you very much. You've answered most of the questions. I just had one question on what happens to your fixed cost after this expansion. You mentioned that productivity, the labor productivity would be much higher. Is there, I mean, could you quantify that? Your capacities are going up massively, so the current employee base, which is around INR12.5 crores, how does that grow?

Paramjit Singh Chatha: What I was saying was that in chicken, in our current business of non-vegetarian, so we are moving into more, this industry in India is more of a batch process, kind of a production. So, when the more mass production. So now we are going into more line production, sir, where the most of the production is automize and it's a line production. Less involvement of manpower.

Agastya Dave: But, sir, your wage bill from INR12.5 crores, does it go to INR50 crores? Or does it go to INR30 crores? Or does it go to INR25 crores? I mean, how much do you need to add? You still need people, right? Because it's a brand new plant?

Paramjit Singh Chatha: Sorry, sir, I didn't get a question. From INR4 crores?

Agastya Dave: So as of now, you are doing INR12.5 crores in employee costs. So you are adding such a huge capacity, you are tripling your capacity, right, in terms of share volumes. But I understand that the new capacity will be much more automated in nature. So, I'm just trying to understand the fixed costs. How do they move? Will you need to double your employee strength or a 50% increase would be more than enough? What happens to your employee costs? Because that's a substantial cost, right?

Paramjit Singh Chatha: If you look at the labor, I think it will be close to a 50% increase in the manpower. Not more than that.

Agastya Dave: At full utilization, sir?

Paramjit Singh Chatha: At full utilization, yes.

Agastya Dave: Okay. Sir, my second question, I'm not very familiar with your company because obviously you're very recently listed and I don't have all the past financials. Based on what I could get from the DRHP, I was just wondering, how do you tolerate the volatility in chicken prices? What's your arrangement with your clients?

Paramjit Singh Chatha: The volatility in chicken prices?

Agastya Dave: Yes.

Paramjit Singh Chatha: We are normally on majority of our sourcing, we are working on annual prices. Majority of our sourcing. Like 70% of our chicken purchase is done on annual pricing. Our pricing with customers is also annual. So, we just left with 20%, 30% purchase on chicken, which we normally do on a monthly basis.

So, it is all hedged. Our pricing is always hedged. So, we are not buying on a daily basis of live chicken -- or the way the live market goes. So our purchase is most of the times, or majority of our purchase is done on annual basis.

Agastya Dave: So, historically have you ever had the issue with the, I mean, do you get squeezed on either side? For example, if the chicken prices are striking, but you have an annual pricing agreement with your customers, so they will say come after 1 year. Is there a lag in passing on the prices?

Paramjit Singh Chatha: There have been a few incidents where our customers have fully supported us. If we can, I mean, it's very simple, if we can genuinely, the chicken market is a public news. Everybody tracks it, everybody can track it. It's available on apps, it's available everywhere. So, there have been incidents where our customers have wholeheartedly supported us.

But yes, I mean, the pricing, it has to be justifiable that this price is going to sustain for the next 5 months, 6 months. Otherwise, chicken prices, volatility on a weekly basis or a daily basis is something we cannot go to them every day or every week or every month for a price change.

But yes, if whenever, if some maize prices or Soya prices have gone up or the DOC prices or there's some disruption in the supply chain, some disease coming in the hatcheries and where we have been able to convince them that the chicken prices are going to remain like this 4-5 months. So there has been an arrangement for that. But till the time the prices are high, we will give you the support and the prices come back, we will come back to the original price. So these incidents have happened.

Agastya Dave: Right. So, on the capex side, the DRHP had mentioned around INR30 crores for the new facility. So I was again wondering, it was also talking about approximately 29 metric tons per day capacity for the new plant. So this one seems to be slightly bigger than that. So are you revising the capital expenditure?

Paramjit Singh Chatha: Yes, we are slightly revising the capital expenditure and using our own internal accruals and bank finance to fund it.

Agastya Dave: So would it be closer to INR40 crores?

Paramjit Singh Chatha: It would be close to INR38 crores.

Agastya Dave: Okay. Not Much.

Paramjit Singh Chatha: Not much. I mean, we wanted to increase the capacities. We are talking to our customers where the demand is quite high. One. And secondly, we've had a customer come in. In the earlier project, retorted rice. The boiled rice at shells table boiled rice was not in the picture.

But we had a customary form clause who has a huge demand for boiled rice. It is something what other people also do in India. So that is one line which we have added which is a substantial increase in the volume also.

Agastya Dave: And so when you set up a new plant, how fungible is it? I mean, are there very highly specialized equipment that you go for? I guess the refrigeration unit would be more or less the same. There will be common utilities. But what percentage of the machine is extremely specialized?

Paramjit Singh Chatha: This time everything is special. The utilities are common. The utilities are -- So this time, to be very honest, it's very special for us because we're moving from a chicken unit to a tea bread lines. But yes, all these lines are very... I wouldn't say very special and very unique but different for us and slightly different from a batch process to a continuous belt process or a continuous line kind of a process.

But nothing really what the world is not using or others are not using in India. Utilities are common, yes. The refrigeration from what we have now what we call as a blast freezing process, we are moving into the spiral freezing or the IQF process.

Agastya Dave: And just to ensure that I got the timelines right, you will finish, you are starting the plant now, the construction is starting now, you will finish by March?

Paramjit Singh Chatha: Yes.

Agastya Dave: Six months of testing plus getting approvals. So we are approaching like September of next year?

Paramjit Singh Chatha: Yes.

Agastya Dave: CY '25. Then you get six months of FY '26 when the production is like initially starting. Then '27 you get around 65%?

Paramjit Singh Chatha: Yes.

Agastya Dave: And before that you will be going by the trends, you may have to go for another round of expansion in the non-wage unit?

Paramjit Singh Chatha: Yes. As the trend is on the demand, we might have to increase our chicken capacities.

Agastya Dave: Would you go for a similar scale of APC from 5,500-15,000 tons or would it be slightly smaller?

Paramjit Singh Chatha: It's too early to predict that.

Agastya Dave: I got it. Thank you very much. All the best.

Moderator: Thank you. Next follow-up question is from line of Gaurav from Excellence Research. Please go ahead.

Gaurav: I had a question. In case there is some chicken related disease, epidemic disease, flu and all, what is the general strategy for you?

Paramjit Singh Chatha: If there is a widespread pandemic like we had COVID in chicken, there is nothing much you can do about it. But regional flus do keep coming and going. I think region based flus, bird flus where we called them or influenza, avian influenza. It keeps coming and going every year. It is almost coming a region-based. It becomes PAN India kind of a pandemic so I don't think we can have any backups for that.

Gaurav: Thank you.

Moderator: Thank you. Next follow-up question is from the line of Nirvana Laha from Badrinath Family Office. Please go ahead.

Nirvana Laha: Thank you for the opportunity. If I look at your history from March 2019-March 2022, for these four years, our revenues actually de-grew and then sort of remained flat for four years and then for the last two years we've been seen good growth. If you can tell us what happened during those four years and why are we seeing growth again?

Paramjit Singh Chatha: It was COVID. These were the COVID years.

Nirvana Laha: Okay. So, even though de-growth from March 2019-2020, we de- grew a little bit. That was pre-COVID. Any particular reason for that or that is normal in this business to grow year-on-year?

Paramjit Singh Chatha: To grow year-on-year?

Nirvana Laha: I meant, even before COVID, in March 2019, our revenues were about INR90 crores. In March 2020, we were around INR85 crores. So, we were flattish even in that year. So, that was pre-COVID. Nothing special happened in that year even not just type of normal business?

Paramjit Singh Chatha: So, there was nothing special. I'm not able to recall that period to be honest what was the reason? If I could think about it and go back to why it happened, I can get in touch with you and explain that. But as of now I don't have the right reason for it. It's almost been six years on that. After that, it was purely COVID. During COVID, practically all the QSRs were shut down. It took a long time for them to recover.

Nirvana Laha: I missed one answer you gave to a previous participant, who was asking that our capacity is becoming 3x. How is fixed cost going to go up? I missed the answer to that.

Paramjit Singh Chatha: The fixed cost is not going to go up substantially. We were talking about the labor cost there. The answer was that the labor cost will go by 50%-60%. I won't say the labor cost, I would say the labor demand. If we have 100 people now, it could be 50, 60 people for the new plant because our plant is mostly automatic. Labor cost is slightly difficult to say because the minimum labor wage keeps changing. The manpower requirement is what we're talking about.

Nirvana Laha: At peak capacity for the new plant, the incremental demand will only be 50%, 60%. In terms of depreciation front so this INR38 crores, if it's possible for you to give us an idea of how many years the capitalization will be depreciated?

Paramjit Singh Chatha: Mr. Walia, are you there? Can you answer that question, please?

Kulbeer Walia: Yes sir. So it would be normally on the 15 years and building would be for 30 years. The plant and machinery, it is 15 years and for building, it is 30 years.

Nirvana Laha: Okay. And how much of the INR38 crores is building?

Kulbeer Walia: Building is around INR6.5 crores.

Nirvana Laha: And all the rest is plant and machinery?

Kulbeer Walia: No, it's INR4.5 crores is land and the rest is machinery and some utilities also.

Paramjit Singh Chatha: Plant, machinery, and utilities. So basically plant, machinery and we're supporting utilities. The boilers, the generators.

Nirvana Laha: Got it, sir. Thank you so much and I wish you all the very best.

Paramjit Singh Chatha: Thank you.

Moderator: Thank you. Next follow-up question is from Dharmil Shah an individual investor. Please go ahead.

Dharmil Shah: Hi. Thank you for this opportunity. More on the customer concentration.

Moderator: Can you speak through the handset, please?

Dharmil Shah: Yes. So my question is more on customer concentration. If we look at your almost 75% to 80% is from two customers. From a risk management perspective, I mean, how do we try to discuss customer concentration? Because much of our performance would be dependent upon how their performance would be.

Paramjit Singh Chatha: So you're absolutely right. But next year you will see and even now the customer concentration is much widespread now. We have acquired new customers. We have acquired new businesses. So the customer concentration is not up to 80% now. There's a lot of reduction in that percentage.

Dharmil Shah: Okay. Any, I mean, 3 to 4 years down the line, how much is the top two customers would come down to around?

Paramjit Singh Chatha: They are down by almost by as of now, as I speak on today they are down by almost 20%.

Dharmil Shah: Okay. Got it. Another follow-up question. Usually the QSR industry is growing very fast but there is a very high attrition within the industry as well. So even if we onboard our new customers and how do we get those would be our long-lasting relationships?

Paramjit Singh Chatha: Sir to be very honest, all our relationships have been very long lasting. All our relationships have been very long-lasting.

Dharmil Shah: Okay. Got it. And just a follow-up question from one of the previous participants. How does the pricing work with our top two customers? Is it annually?

Paramjit Singh Chatha: Yes, it is annually.

Dharmil Shah: Good. And what would be our wallet share with these two customers broadly?

Paramjit Singh Chatha: Sorry sir, what would be?

Dharmil Shah: What would -- how much would the Chatha Foods account for their meat procurement?

Paramjit Singh Chatha: Sir, I really wouldn't be sure but I think with Subway, we would -- we should be at above 80%, with Domino's we should be close to 65%.

Dharmil Shah: Got it. And the remaining 35% and 20% for both the companies, is that in-house processing or are there any companies?

Paramjit Singh Chatha: No sir, you see Domino's is in-house they recently started it but as you would know that these companies all the customers are very large customers spreading at a very fast pace, growing at a very fast pace, large number of stores, large number of customer base, that is something I totally agree with our customers and these companies that a single vendor dependency is not good for them to have. So obviously they have to do their risk management, which is very well understood by us.

Dharmil Shah: Okay. So just to -- if you can name a few of them, are there any companies in India which are similar of your size or maybe?

Paramjit Singh Chatha: So there are companies, there is Darshan Foods, there is Vista, they're much larger, Venky's is much larger than us CP is much larger than us in terms of companies as well. So there are much larger companies than us. Darshan Foods is our size, Republic of Chicken is our size.

Dharmil Shah: Okay.

Moderator: Next question is from the line of Pawan Kumar from Shade Capital. Please go ahead. Pawan, your voice is breaking, can you speak for the handset please?

Pawan Kumar: Yes, can you give some sense of your export market, like what sort of targets you have maybe some color on this maybe next 2, 3 years, what sort of positive revenue will be getting from export market?

Paramjit Singh Chatha: Sir, I can't comment on that. I really can't comment on that as of now. The plant has to come up the product has to come up, so it's a little difficult for me to comment on it as of now, sir.

Pawan Kumar: And when we'll start seeing like this order showing up maybe this year like what is the timeline for this?

Paramjit Singh Chatha: No, sir, this year the plant only will come up. By next year, March the new plant only will come up. So then after that we're looking at a good six-month timeline once the plant is commissioned. We'll have to do trials, we'll have to run the products on the line, we'll have to standardize the products. So we are looking at by after September next year, sir.

Pawan Kumar: Okay. And secondly, for this plant-based meat products, can you give some color what sort of market scenario you are looking into, what's the opportunity in this particular segment?

Paramjit Singh Chatha: So plant-based meat products in India are not taking off. But exports, yes there is a demand coming in. Some of our customers also whom we are supplying to are exporting. So the European market is growing not at a very fast pace as it was expected to grow in 2021 or '19, 2'0 or before that.

But the market is definitely growing in the European markets and the England markets. So we plan to target that market once a new facility comes up. But if we talk about it in India there is not a very huge demand coming in. It is quite a low demand coming in as of now.

Pawan Kumar: Okay, sir, these are my questions. Thank you and all the best.

Moderator: Thank you very much. As there are no further questions, I will now hand the conference back to Ms. Priyanka Oberoi for closing comments.

Priyanka Oberoi: Thank you all for joining us today. As we conclude this conference call making the financial year result 2024. I would like to take a minute on behalf of Chatha Foods to express my gratitude to each of you for your active participation in insightful contribution throughout our discussion today. We are always grateful for the continued support and trust for our investors, our clients and our team members. Together, we have the strength to overcome the challenges and seize the opportunity in the months ahead. Thank you all for your ongoing dedication and unwavering support. Let us make this conference a productive session setting the stage for the strong finish to the financial year 2024. Over to you, Neerav.

Moderator: Thank you very much. On behalf of Chatha Foods Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.

Paramjit Singh Chatha: Thank you Neerav.

Moderator: Thank you.