

Chatha Foods Limited

(Formerly Known as Chatha Foods Private Limited)

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To

Date: 31.07.2024

BSE Limited

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

Subject: Transcript of Analyst/ Institutional Investors meeting

Dear Sir,

Pursuant to Regulation 30 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, We enclose transcript of meeting with Analyst/Institutional Investors which was held on Saturday, July 27, 2024.

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

<https://cfpl.net.in/documents/Analyst-Institutional%20Investor%20Meeting%20-Jul27-2024.pdf>

Request you to take the above information on record.

Thanking you.

Yours truly,
For CHATHA FOODS LIMITED

PRIYANKA OBEROI
COMPANY SECRETARY & COMPLIANCE OFFICER



Chatha Foods Limited

Analyst/ Institutional Investor Meeting

July 27, 2024

MANAGEMENT: **MR. PARAMJIT SINGH CHATHA – CHAIRMAN AND MANAGING DIRECTOR**
MR. VISHAL SINGH – CHIEF FINANCIAL OFFICER
MR. KULBEER WALIA- CHIEF ACCOUNTS OFFICER

- Rahul:** Paramjit sir, just if you can give a rundown on the company before we go into Q&A.
- Paramjit Singh Chatha:** Yes Sure. So Manish, as of now, this company was incorporated in 1998 and we are mainly into the frozen chicken, ready-to-eat value-added products. So the core of the strength of a business or the focus of a business is purely on the B2B sector, mainly the QSRs, the CDRs, the back-end kitchens of the industry. We are not into the B2C model. That's the core of our business. As of now, we are working with almost all the major companies like; we are working with Domino's. We are working with Domino's from the last -- almost 17 years. Subway, we are working from the last 20 years. We are working with Cafe Coffee Day, Burger King, Taco Bell, Chili's, Blue Tokai, Third Wave Coffee. So some of these companies are new to our portfolio.
- So in 2022, we also got into the plant-based value-added products, which we call them as mock meats, which we are still doing, but it didn't take off very well as expected. So as of now, we're doing mock meats for most of the brands like Continental Coffee. We're doing it for Blue Tribe.
- We're doing it for, I forgot the company's name, Gravis. So four, five customers, we're doing private labels for them, plus we also ventured into the vegetarian products as well, simultaneously with the plant-based mock meats. So now we are supplying the vegetarian products to Subway and Taco Bell as of now as our customers. So that's a broad view of what we do.
- Manish:** So effectively, is there a particular sub-segment in the food area where you specialize in, or this is across the grid? Like what I'm trying to think is, there is RK Foodland, which does multiple parts for, let's say, someone like McDonald's?
- Paramjit Singh Chatha:** RK Foodland, Manish, what I know is, they manage the logistics. So what we do is we give them ready-to-use chicken and vegetarian products, which are used on the pizzas and the sandwiches as sides. That's what we do.
- Manish:** And when you say ready-to-use chicken, so how does the value chain work? Because in my understanding, let's say for a KFC, I don't think KFC is a customer, but for KFC, Venky's make the chicken, then the chicken comes to the DC and from the DC it goes to the store?
- Paramjit Singh Chatha:** Yes. So KFC is one QSR which buys raw chicken, and everything is done in the store. The marination and the breading is done in the store. But for the others, like what we do, the raw chicken comes to us, we don't slaughter, we don't buy whole birds also. So we buy boneless cuts, depending on the recipe, we buy chicken breast, we buy boneless chicken thigh, we buy chicken wings. And then they go through a process as per the customer's requirement, where they are marinated or they are coated, fried or they are fermented, cooked, and then sliced, diced or as whole cooked, packed, frozen and then it is shipped to the DCs or the commissaries of the customers. And the logistics is taken care of by the customers themselves.
- Manish:** Okay, so the logistics is taken care of by both inward and outward.
- Paramjit Singh Chatha:** No, inward is managed by us, outward is totally managed by the customers.
- Manish:** Okay. So effectively, how does Domino's think about it? Because Domino's also has a large commissary, right?

- Paramjit Singh Chatha:** So all the material goes to the commissaries, Manish. From the commissaries is where they make their desserts, they make the Choco lava cake there, they make the pizza balls there, the pizza dough or some of the bakery items is what they do. So all the supplies, like let's say the cartons, the vegetables, our product or any other product, they all go to the commissaries. From the commissaries, they are plugged together as a final delivery to the stores.
- Manish:** Why can't they take care of this led, which you all are doing, if they're doing all the work and they have commissaries across the length and breadth of India? Just trying to understand from a client point of view, why do they not take this function internal versus doing it external with you guys?
- Paramjit Singh Chatha:** Commissaries is a very different operation, Manish. So commissaries is basically where they do the dough. What we do is a very large process in itself, and I don't think a commissary can take care of this process.
- Manish:** Okay, so this function would be external for all the clients, is that how it is?
- Paramjit Singh Chatha:** The chicken part, the ready-to-eat chicken part? Yes, it's external.
- Manish:** It's external?
- Paramjit Singh Chatha:** Yes.
- Manish:** And let's say, just trying to understand, so if you have partnered with Domino's for the last 15 odd years, and Subway for the last 20 years, how many such vendors would they have on a pan-India basis?
- Paramjit Singh Chatha:** Manish, Domino's would be having 3-4 vendors. We are doing like 60-65% of the business. Subway would have -- I'm just talking about these two, they would have around, I think they have 3 vendors, but we do 80% of the business.
- Manish:** Okay, so effectively you have a significant wallet share in terms of the customers, but if I have to look at it, when I look at your revenues, let's say when I look at last year revenues -- in my view, chicken or non-veg for them would have been a larger portion. Let's say Domino's does roughly INR5000 crores in sales and let's say 30% of that is non-veg, and in non-veg largely...
- Paramjit Singh Chatha:** No, it's not 30%, Manish. It's much lesser. It's only 30-35 grams on a pizza, on a non-veg pizza. So if you're buying a medium pizza, it's maybe -- so it's only 30-35 grams of topping on a pizza.
- Manish:** Okay, so effectively then for these two clients, at least you are core to their business operations.
- Paramjit Singh Chatha:** Yes, we are.
- Manish:** Would they be doing the 3-1Q plans with you?
- Paramjit Singh Chatha:** Sorry, Manish, can you repeat it again, please?
- Manish:** Would they do the 3-1Q plans with you? Let's say 3-year, 1-year and quarterly plans with you. Where you would have visibility for the next 3 years, 1 year and quarterly?
- Paramjit Singh Chatha:** No, Manish, I didn't get your question. Do they share their plans with us?

- Manish:** Yes, so generally with core vendors, they do a 3-1Q plan to my understanding, wherein you get visibility of their three years, one year and quarterly so that you can plan your capacity accordingly.
- Paramjit Singh Chatha:** Yes, we do. So see, they don't share any volume plans with us, but yes, they do keep updating us on the number of stores that are going to open every year. Plus see, there are a lot of changes which keep happening in the products. They keep launching new products, they will do some LTOs, they will discontinue some products. So that's an ongoing process with the restaurants. They always have to keep the customer excited, so there's always something new happening. So it's a little dynamic, but yes, quarterly and annual store opening plans do come to us.
- Manish:** And who are the other 2-3 vendors? You mentioned Domino's has 3-4 and Subway has 3 vendors. Who are the other 2-3?
- Paramjit Singh Chatha:** I think Domino's works with Meatzza, a company in Gurgaon. They also work with someone in South, I forgot the company's name in Bangalore. Subway works with us and Shanthi Feeds as of now.
- Manish:** Okay, so as a strategy, what is the strategy? You want to get more share of this client, or you want to add more clients?
- Paramjit Singh Chatha:** No, we will add more clients. We will add more clients, Manish. From a QSR's perspective, the way they think, and they work, they will not shift the total volume to one vendor. That's a policy as a risk mitigation policy they work on. So the total volume will not come to one vendor. So we keep adding new clients. Like I said, we recently added Blue Tokoi and Third Wave Coffee. We are in the process of adding Tim Hortons. Last year, he has become a very large customer as Wok express. So we keep adding more and more customers into the portfolio. That's our focus.
- Manish:** But would you as a manufacturer, because you are playing in the B2B side of things, you would want large scalable clients to be your customers, right? And when I think about the QSR space, there are 4 or 5 large chains. One is the Devyani Group or the KFC and the Pizza Hut Group?
- Paramjit Singh Chatha:** No, there are a lot of other local chains also which are growing at a very fast pace, Manish. We have customers as Burger Singh growing at a very exponential rate. We have Nik Bakers as a customer doing very well. We have Wok express adding 50-60 stores every year. So there are customers who have been small, but over a couple of years they have grown big. So it's not that we are just focused on these 3 large QSR chains.
- Manish:** So let's say if I look at it, last year you did roughly INR135-150 crores odd crore sales. And let's say 45% of that was Domino's. Roughly INR65-70 crores was Domino's. At this size and scale of Domino's and you having 60% wallet share, you can scale it to let's say INR65-70 crores. I am just trying to think through, let's say if you need another Domino's size equivalent, shouldn't a McDonald's or a Yum! Brand be a client? Have you tried that in the past?
- Paramjit Singh Chatha:** Manish, somebody like McDonald's is not what we do. First of all, like I said Burger King we are already working. KFC is a very different model. They deal mainly in raw chicken and the raw chicken is what they handle in the stores. So they will primarily go to the slaughterhouses. McDonald's and Burger King are patty companies. We are not doing patties as of now because doing patties to their requirement and to their quality is a totally different setup in itself, which is a very large setup by itself. It will need a very large amount of investment and a separate plant by itself.
- So these are the 2 or 3 companies which we are not approaching. Burger King we are doing but we are not doing the patties for them. We are doing the sides for them which does not require that large capex and the large plant we have to set up for patties.

- Manish:** So the hindrance is let's say the machine which is required for that?
- Paramjit Singh Chatha:** It's not a machine. It's for making the patties to their demand and to their quality is a whole new setup in itself.
- Manish:** Okay. And you have a unit only, one unit right now, right?
- Paramjit Singh Chatha:** Yes, we only have one unit.
- Manish:** So does this process require you to have multiple units at multiple locations to get more share or operating at one location does the job?
- Paramjit Singh Chatha:** As of now it does the job, Manish.
- Manish:** But would you say let's say larger vendors have multiple locations across the grid?
- Paramjit Singh Chatha:** No, none of them has. Everybody is one plant as of now.
- Manish:** So from a plant you get more economies of scale. Is that how it is?
- Paramjit Singh Chatha:** See, going to other regions the volumes have to justify. If we go to other region like we are supplying Pan India to everyone. So going to another region is just going to, you know, the share of this plant going to another plant, the other regional plant. So as of now I don't think that's what we would like to do.
- Manish:** So how do you grow, let's say, if I have to think about it today, if you have to grow, let's say, 2-3x times from today, what would that lead to and what can be the underlying growth of the business?
- Paramjit Singh Chatha:** So Manish, that's the reason we are setting up a new plant. That's the reason we are raising this money through an IPO. So we are -- with this new plant, obviously chicken we'll keep pushing. But with the new plant coming up, so that plant is primarily going to be a vegetarian plant. Again, catering to the needs of the QSR in a very diversified manner. We're going to do flatbreads there.
- Malabari paratha, tortillas is a very huge demand in the Indian QSR, which we're going to do. Frozen to fried, veg products, like we said, we don't have, you know, a large burger line as of now. So we're going to put up a large burger patty line there and try and pitch it to the patty companies.
- Plus, we plan to do a lot of exports in that unit because chicken as of now, we can't export as countries of import are not happy with our primary production. Plus, chicken from India is expensive as compared to Brazil, Thailand, France or the other countries. So chicken does not make much sense to export. So that's the reason the new plant is coming up. So it's a much-diversified portfolio to the QSR and a much diversified -- and a very diversified customer base and business.
- Manish:** Why do you say chicken doesn't make sense to export?
- Paramjit Singh Chatha:** Like I told you, Manish, chicken, a lot of countries of import do not approve of our primary production. That's the farm level production. We always have, you know, we don't meet the antibiotic standards. We don't meet the pesticide standards. We keep running into occasional bird flu incidents. So there are a lot of things which we don't meet their demand at a primary level. Plus, Middle East is one area where you can export, but then India as a poultry processor is not so competitive on the price.

- Manish:** So effectively, then you have to give an underlying in the chicken space. What I hear or understand is, in terms of larger clients you already have a fray. And that is why you are expanding to other product lines because let's look at two customers, KFC and McDonald's either they don't make economic sense because you have to set up line or their process is very different?
- Paramjit Singh Chatha:** Yes.
- Manish:** Yes. So effectively, just if I have to look at the base business, I'll come to the vegetarian part in a bit. So in my understanding, generally in this business, you know, the conversion, you look at spreads and the conversions are generally fixed and if there is any efficiency that also has to be passed on to the consumer. Is that a fair understanding?
- Paramjit Singh Chatha:** No, I didn't. You'll have to phrase the question again, Manish.
- Manish:** So generally, let's say a client like Domino's considers, let's say all the vendors like converters. And the converters get a spread -- fixed spread that let's say for product is INR100, you'll get a INR5 spread on that product. And if there is any efficiency because of size, scale volume?
- Paramjit Singh Chatha:** No, no, no, there's nothing like that. There's nothing like that.
- Manish:** So how does pricing work?
- Paramjit Singh Chatha:** Pricing is decided by us. We share an open book costing with them. We share our conversion costs, margins, cost of raw material with them and that's how it works. So it's not that, you know, if efficiencies or scale comes in and we have to pass margins to them on the scale. No, there's no policy like that.
- Manish:** So let's say what are the typical spreads for Domino's in terms of, let's say, do you look at percentage margin? You look at absolute spreads?
- Paramjit Singh Chatha:** Vishal, we work on a percentage margin? Absolute spreads is something I'm not aware of, Manish. I don't understand that term, but it's a percentage margin.
- Manish:** And what are the margins like, gross margins for this product?
- Paramjit Singh Chatha:** Vital, can you please come up with the gross margins?
- Vishal Singh:** Yeah, right, sir. So, Manish, it is close to 20% gross margin for Jubilant like customer.
- Manish:** And would that be right? So then let's say if you are at 20% margin, I guess you said the other company's name was Meatzza. Would they also operate at a similar margin in Jubilant?
- Paramjit Singh Chatha:** I wouldn't know, Manish. I wouldn't know their efficiencies. I wouldn't know how they work. And I would not be aware of that.
- Manish:** What I'm trying to understand is that does the pricing change with scale? Because when you are 60% margin and I'm assuming Domino's have two other vendors, they would have, let's say, 20-20% share. Would they have a lower margin compared to you in terms of just pricing, just gross margin?
- Paramjit Singh Chatha:** I wouldn't be aware of that, Manish.

Manish: Okay. And same would be the case in Subway. The margins would be somewhere in that 20% band?

Paramjit Singh Chatha: Vishal?

Vishal Singh: Yes.

Manish: So, effectively, when I think about it with size and scale and you being core to them across cycles, gross margin should be 20% and if you get efficiencies on your employee and other expenses, that can be retained by you. So your EBITDA margins can be higher?

Paramjit Singh Chatha: Yes. Economies of scale, EBITDA margins will definitely be higher.

Manish: That's how it is. But your gross margins are in this 19-21% band. That is how one should think about it, right?

Vishal Singh: So for this large QSR, you are right. It is in 20-22% bracket. And for the small QSR of the new customers that we are adding, the new chain that we are adding, so we are trying to work with them on a 25-26% kind of gross.

Manish: Okay. Yes. And would that be the right understanding, sir? Are the smaller QSR growing at a faster clip than the larger ones or it's the other way around?

Paramjit Singh Chatha: No, some of them are growing at an equal pace, Manish. They are growing at an equal pace as the other larger QSRs.

Manish: Okay. And per unit, like you said that a non-veg pizza would have 20-25 grams.

Paramjit Singh Chatha: 30-35 grams.

Manish: 30-35 grams, sorry. Is there any other product which has higher grammage per unit of product sold or pizza is the highest?

Paramjit Singh Chatha: No, it varies, Manish. We really wouldn't know much in detail about all the products. So it varies. We are like from a CDR to a QSR to sides. So it varies. There's a lot of variance in what each company does on each product.

Manish: Okay. And when you define capacity, do you define capacity in tonnage or how is that? Or is there a conversion loss and stuff like that?

Paramjit Singh Chatha: No, capacity is defined in tonnage.

Manish: Tonnage. And so what sort of utilization were you running in 24 at?

Paramjit Singh Chatha: Vishal?

Vishal Singh: It is at 65-66%.

Manish: And what is the peak utilization one can do in this business?

Paramjit Singh Chatha: We can go up to around, see, we are running on a one extended shift now. We plan to run in 2-8 hours. So when I say an extended shift is around 12 hours. And we plan to run it to 8 plus 8 hours now. So in terms of tonnage, I wouldn't say percentage, but in terms of tonnage, we can do 18 tons per day.

- Manish:** Okay. On 16 hours utilization?
- Paramjit Singh Chatha:** Yes.
- Manish:** And when you say 65% was the utilization for the full year, the capacity is designed for peak utilization, right? So there'll be those days on December 31st and let's say some of those days where the utilization would be let's say north of 80-85%, right?
- Paramjit Singh Chatha:** Yes. The facility is designed on peak utilization.
- Manish:** So effectively, a 70-75% utilization is a good number?
- Paramjit Singh Chatha:** Yes.
- Manish:** So the shift from a 12 hour to a 16 hour is this -- so it's effectively you and units can run 16 hours. Is that how it is? Because I thought when I had visited one of the facilities of RK and they also do, the chicken patty line for McDonald's, that runs around the clock. 7 days a week?
- Paramjit Singh Chatha:** A patty line can, Manish. A patty line can run 20 hours, but a process like ours, 16 hours is the max we would like to run. Because, we are into multiple products, we are into multiple kind of lines. So we need a downtime to, you know, clean, sanitize the plant. So we need to give those 8 hours to our maintenance team to open, clean the machines. We need to give time to our cleaning crew to clean, sanitize the plant, sanitize the machines, sanitize the trays. So that's a policy we want to work on.
- Manish:** So effectively then, from this existing facility, if I just think about just the chicken part of the business, you can do what, like a INR175 crores in revenue?
- Paramjit Singh Chatha:** A little more than that, Manish.
- Manish:** Okay. And let's say 20-22% for the larger clients and 25% for the other smaller clients, a blended margin in the range of 23-25% gross margin. Is that how one should think about it?
- Paramjit Singh Chatha:** Vishal, you've done the numbers?
- Vishal Singh:** Yeah, correct, Manish.
- Manish:** And would that be a right understanding when you look at EBITDA margins? Given the existing facility will give you more sales, this EBITDA margin should be in the 10-12% band?
- Vishal Singh:** Correct, Manish.
- Paramjit Singh Chatha:** Yes. Correct. Correct, Manish. Should be.
- Manish:** Okay. And how much did it cost to set up the unit, sir?
- Paramjit Singh Chatha:** So this unit, Manish was, you know, the investments were spread over the years. So, Vishal, you can please explain what is the gross investment we've done in this?

Vishal Singh: Yeah. So, Manish as of now, our gross block is close to INR59 crores for this plan.

Manish: Okay. And you depreciated in what, 10 years?

Vishal Singh: Yes. So, we depreciated in a straight-line method machines, it is basically on 15 years period. And as of now, we are on close to INR30 crores net asset...

Manish: And generally, what is the working capital cycle like in this business, sir? Do the customers -- you source it directly from the farmers, I believe, or the growers?

Paramjit Singh Chatha: No, we don't source it from the farmers or the growers, Manish. We source it from the slaughtering units, the processing plants.

Manish: So, the processing plants, what is the working capital cycle like?

Paramjit Singh Chatha: Vishal, please explain that.

Vishal Singh: Yeah. So, Manish, it is close to 15 days for the net working capital cycle.

Manish: So, this plus inventory plus payment done by the clients. Is that how it is?

Vishal Singh: Yeah. Correct. Correct, Manish.

Manish: Okay. And can this be optimized, or this is a very good number?

Vishal Singh: We believe it is a good number, Manish.

Manish: Okay. So, effectively, you can do INR175 crores sales on this plant with an 11% EBITDA and you spend about INR50 crores for setting up the plant. Right?

Vishal Singh: Correct.

Manish: So, let's say that EBIT at this plant can be max INR16 crores. And the capital employed for this plant will be roughly about INR65 crores. The capex plus the working capital. So, the pre-tax ROCE for this plant will be in the 20% to 25% bracket. Is that how one should think about?

Vishal Singh: Yes, Manish. You can do your numbers accordingly based on the given facts and figures.

Manish: Do the companies underwrite any of the capex?

Paramjit Singh Chatha: The buyers?

Manish: Yes. Let's say Domino's or any of the other vendors.

Paramjit Singh Chatha: No, they don't. No, they don't because the capex is utilized for multiple products and multiple customers.

Manish: Okay. So, effectively, for the chicken unit and you can't do a chicken and a vegetarian at one unit, correct, you need to set up another unit because of the...

Paramjit Singh Chatha: No, you cannot.

Manish: You cannot, right? So, that is why you are setting up another unit.

Paramjit Singh Chatha: Yes.

Manish: So, if I hear you just on the chicken part, right now doing about INR130-135 crores sales, this unit can do somewhere in that INR175-200 crores sales and the margin in this unit can be 10-12% with a 30 days working capital involvement?

Paramjit Singh Chatha: Yes.

Manish: This utilization to INR175-200 crores, how much time would it take to ramp this up? Let's say from this INR130-135 crores?

Paramjit Singh Chatha: I think this year and the next year, two years, Manish.

Vishal Singh: By FY26.

Paramjit Singh Chatha: Yes.

Manish: So, about 20% all sort of growth for this business.

Paramjit Singh Chatha: Yes.

Manish: Yeah. And have you already started looking for another plant for the chicken?

Paramjit Singh Chatha: No not as of now, Manish. As of now, we are focusing on the new vegetarian plant we are setting up.

Manish: And why so, sir? Because generally, the plant setup takes about 6-9 months, right?

Paramjit Singh Chatha: Yes.

Manish: So, as in probably three, six, nine months down the line. If the demand is good, then you should look about setting up...

Paramjit Singh Chatha: See, it's already in our thoughts, Manish. But as of now, it's not concrete. It's there in our thoughts. It's there in our plans. We're thinking about it.

Manish: Just what is the fray in the vegetarian side? You said you're making -- you're going to make two or three products. Just how do you decide which...

Paramjit Singh Chatha: Not two or three products, Manish. We are doing flatbreads. So, in flatbreads, we're doing around four types of different flatbreads. Then we are doing the frozen to fry, the patty line. Then we are doing the ready-to-eat sauces, gravies, and ready-to-eat retorted rice. So, these are the three different lines which we are going to set up.

Manish: What was the last product, sir?

Vishal Singh: We said flatbread, you said frozen to fry, patty.

Paramjit Singh Chatha: Yeah, then we're setting up a ready-to-eat line where we will do ready-to-eat products for export. We will do some kind of base sauces and gravies for the Indian QSR and for export. And then we have customers who are already in touch with us for retorted rice. It's what we call the -- like what MTR used to do, shelf-stable rice. You have them in a retort pack and it's there on the shelf for 12 months.

Manish: So, effectively, if I hear you, you are largely going the similar way like Bectors does?

Paramjit Singh Chatha: Bectors is not into the frozen to fry line as of now, largely. Bectors is not into flatbreads.

Manish: They are into flatbreads, right? Flatbreads, I thought they are into flatbreads.

Paramjit Singh Chatha: No, they're mainly into buns. They must have started or planning to start flatbreads. I've not seen them do it. I've not seen them available in the market.

Manish: Yeah. And so here, how much is the capex which you are planning for this?

Paramjit Singh Chatha: It's around INR40 crores, Manish.

Manish: And what is the timeline for the new plant?

Paramjit Singh Chatha: We should be up and going in March. Construction is going to start next week.

Manish: Okay. Yeah. So, March '25 rolling and what is the peak sales one can do from this plant?

Paramjit Singh Chatha: Vishal, we've done the numbers. Do you remember them?

Vishal Singh: Yes, sir. Manish, can you please repeat? What is the peak sale?

Paramjit Singh Chatha: Peak sale we can do from the new unit, Vishal.

Vishal Singh: Right, sir. It is just a second.

Paramjit Singh Chatha: There's a lot of different products, Manish. We worked on it. Let him pull out the numbers.

Manish: Sure. So, I'm just trying to understand. Is this an export opportunity incrementally or this is more to the existing customer itself?

Paramjit Singh Chatha: It's going to be -- we're going to push it for both, Manish. Existing customers will not be, I would say, the major share. They will be a substantial share, but not a major share. It will be more focused on the export as well.

Vishal Singh: Yeah. So, the capacity would be around 16,000 metric tons and the revenue would be approximately 200 cr. to 210 cr.

Manish: And this is at, let's say, again, a 16-hour working facility, something like that?

Vishal Singh: Yeah, correct.

Manish: So, when you said major share is exports, what is the route to market? Are you going to get new clients or are you going to go B2C?

- Paramjit Singh Chatha:** We're not going to go B2C, Manish. It will be new clients. So, it will be private label. It will be mainly private label or contract manufacturing. Initially, for the first two to three years, there's no focus on B2C. We'll see how it progresses. B2C could be something we will think of. But as of now, the revenue or the model we will start working on will be more of institutional sales, white label sales, contract manufacturing.
- Manish:** Are we doing any of these products or do we have a commitment for this right now? Are we just sourcing clients right now?
- Paramjit Singh Chatha:** We have commitments for the ready-to-eat side. We have started soft dialogues with our customers in India, which is the QSR for the flatbreads. For export of breads, as of now, we will have to search for customers. So, we're in the product development stage as of now.
- Manish:** And generally, the process is that after you set up a plant, the QC gets done. All this takes another six, nine months, right?
- Paramjit Singh Chatha:** It should take six months, Manish.
- Manish:** So, any productive sales from this unit will come up only in the second half next year?
- Paramjit Singh Chatha:** Yes, that's how we planned it.
- Manish:** Okay and how much time do you think this plant can -- at what utilization does this plant breakeven, first of all?
- Paramjit Singh Chatha:** Vishal, are you there?
- Vishal Singh:** So, Manish, it would be around close to 45% capacity.
- Manish:** Okay, so that takes another 12 months from there. Would that be a right understanding? Let's say FY25 and let's say some part of FY26? You would have to incur losses, would that be a right understanding, sir?
- Paramjit Singh Chatha:** Manish, let's see. Some of the lines like our frozen to fryer lines will be a very quick take-off, will be a very quick start-up. The rice part will be a quick start-off. The breads will be slightly delayed. So, it's a kind of a jumble kind of a number at the moment. So, different lines -- yes, Vishal.
- Vishal Singh:** Yeah, so Manish, we would be incurring the expenses as we start producing on different lines.
- Manish:** Okay, so effectively you will set up the line, but the staff and all will come up only when the sales throughput is there, is what you're trying to say?
- Paramjit Singh Chatha:** Yes, so what we're trying to say is that, like the frozen to fryer line is something which we're already doing and we're already doing trials. We're already in dialogue with our customers for that. So, once the capacity comes in, so it will be a much quicker turnaround time. For the ready-to-eat segment, like I was speaking of the shelf-stable rice, will be a very quick turnaround. The other lines might take some time for the turnaround.
- Manish:** So, this frozen to fryer, that is going for Burger King or who is this product for?
- Paramjit Singh Chatha:** At the moment, we're doing it for Subway. We're doing it for Taco Bell and then we are in dialogue with other customers as well for this.

- Manish:** Okay, so the underlying understanding is with Subway right now, that when we set up a new line, at least give us the opportunity to explore that business.
- Paramjit Singh Chatha:** No, we're already doing it. We're already doing it with Subway. We're already doing it with Taco Bell in our small vegetarian plant, which we have. So, that business will shift to the new plant. Plus, we are in dialogue with a lot of other customers also, because as of now, the plant is small. The vegetarian plant is small. We are very aggressive on it because of space and capacity constraints.
- Manish:** And for Subway right now, who is supplying this product to them? How many vendors are there?
- Paramjit Singh Chatha:** The vegetarian, I am not aware. I'm really not aware. We are supplying two products to them. The rest, they are sourcing it from different vendors.
- Manish:** So, effectively, is there consolidation of vendors happening? Is this product more customer feedback driven or is it more internal driven?
- Paramjit Singh Chatha:** Which product, Manish?
- Manish:** Let's say, the frozen to fryer expanding of capacity, is that more customer saying that, you know, why don't you set up another line? I can give you more business because I want to consolidate my vendors or is it more internal driven that you think that, you know, you can get?
- Paramjit Singh Chatha:** No, it's more internal driven. It's more internal driven and internal driven on soft dialogues with the existing and the other customers as well.
- Manish:** So, effectively, this is the next area of growth that you will diversify your product line. Is there a threshold in terms of client concentration also, sir? That you do want to have share of X percentage with a particular client?
- Paramjit Singh Chatha:** Obviously, you always want to spread your customer base, Manish. That's how it should be.
- Manish:** Because today's Domino's is like 40-45%. Is that number significantly higher or that is how you can grow, that you have your core 2-3 customers, then only you can grow? Is that how one should think about? I am just trying to think about...
- Paramjit Singh Chatha:** No. So, even this year, when you see our numbers for '24-'25, the other customer percentage will be higher.
- Manish:** Okay. And this business, sir, initially was started by you itself and for Subway itself. Is that how the business genesis works?
- Paramjit Singh Chatha:** No. It was not started for Subway. We started in 1998. Subway came into India in 2003.
- Manish:** Okay. So, what was the genesis of the business? How did you come about this opportunity?
- Paramjit Singh Chatha:** Manish, there was a thought to get into business. We are an agriculture background family. So, there was a thought to come into business and the thought was to come into food. So, we hired a company from Switzerland as a consultant. They had their office in Delhi, obviously. So, there were a lot of other lines offered to us. So, this was something which suited our hunger for the kind of capital we had at that time. And this is something we thought would be interesting to

do. So, we started off with this. We started off with a lot of hotel sales initially. We were doing the hotel sales till 2006-2007. After that, we stopped doing the hotel sales and we focused more on QSR.

Manish: And you are from the promoter family. Are you the only person involved or are there multiple people?

Paramjit Singh Chatha: My nephew is there.

Manish: Okay. Do you have kids? Are they in the part of the business?

Paramjit Singh Chatha: No, not yet. My son is 19 years old. He is still studying.

Manish: Okay. So, just in the same context, do you have any other businesses or is there any other thing which takes your time?

Paramjit Singh Chatha: No, there is no other business. This is the only business I do.

Manish: Okay. Just two or three more questions. So, if I had to think about you from a context, let's say three to four years out, the way I should think about it is, let's say this new vegetarian plant, along with the existing capacity, doing somewhere like 300 to 400 crores in sales with, let's say, 10% to 12% EBITDA margin. That is how one should think about it, let's say about the company three to four years out, right? Or is there a medium-term aspiration other than this?

Paramjit Singh Chatha: No, that is how I should think about it. We will try and improve on the EBITDA margins as we come up with economies of scale. As of now, we think we should do better. I won't say the percentage, I won't say how much, but we should do better on the margins because the bread business is slightly better on the gross margin as compared to the chicken business.

Manish: Okay. And just trying to understand from a market construct point of view, not related to you, but let's say, when I look at the broader demand environment, the demand environment, let's say yesterday or day before yesterday, McDonald's reported the numbers, which was very tapered. And that's been the case for the last six quarters now. So, are you seeing the demand to be really, wary or is it largely market share gain or loss? How do you read the entire demand situation?

Paramjit Singh Chatha: As of now, the way I see the market, when I talk to customers, I won't talk about how the larger players are reporting the numbers, but as we talk to the customers we are growing with, there seems to be a substantial growth in the demand in the coming times.

Manish: Because even if you look at Domino's, the Domino's L2L has been largely flattish for the last so many quarters, right?

Paramjit Singh Chatha: Yes, it is.

Manish: And your growth, let's say 45% of business is from them.

Paramjit Singh Chatha: That's what I'm saying, Manish. It'll be a different scenario this year because there's a lot of focus going on to other customers as well. And those customers are growing at a very fast pace and the demand is bound to grow.

Manish: If I had to think about burgers as a category, you said you cater to a Burger Singh and a Burger King.

Paramjit Singh Chatha: Yes

- Manish:** How different are they in their terms of product?
- Paramjit Singh Chatha:** They're almost the same, Manish. So, Burger King, we are not supplying the burgers. Like I said, Burger King, we're just supplying the sides. And so we don't have the capacities or the bandwidth to meet their demand, which is very, very large. So, if you look at the product line, Burger Singh and Burger King, the portfolio is almost the same. They all have their own recipes. The portfolio is almost the same.
- Manish:** Okay. How big is your R&D team, sir?
- Paramjit Singh Chatha:** Sir, we have five people in R&D, and we have 14 people on our production and quality assurance team.
- Manish:** So, do you suggest them a particular new product or it's largely them suggesting you that we need to tinker with sauces or any of these products for the core product?
- Paramjit Singh Chatha:** So, Manish, R&D keeps working the year round, they work 365 days. So, R&D is done for what the customers tell us to do, like what they want for the market, which we work jointly with them. R&D is what we want to offer in the market, different kind of product, different kind of ranges. We recently launched a very innovative product as a 'choco empanada' for one of our customers. So, we keep our R&D team independently. So, yes, obviously, they discuss with me, but on their own level also, they independently keep developing products. We discuss our annual R&D structure, the products we want to develop. So, we work for our own innovative products, what we want to give in the market, plus we work hand-to-hand with the product development team from our customers. That's how it works.
- Manish:** Okay. From a strategy perspective, if I hear you right, it's just doubling down on vegetarian for the next 18-24 months. Is that the right way to it? And you have to figure out the go-to market for the export markets still?
- Paramjit Singh Chatha:** Yes.
- Manish:** So, in terms of team bandwidth, are you largely there or you need to add more people in the sales team? How big is the sales team right now?
- Paramjit Singh Chatha:** We don't have a very big sales team. Because see, we are catering mainly to the QSR. That's our target. So, we don't have a very large sales team. So, we have five or six people on our team. And the focus is purely to work with the QSR business. For the smaller QSR business, we have started a small partnership with Zomato. So, we'll try and grow on that also.
- Manish:** Sorry, what is this partnership with Zomato?
- Paramjit Singh Chatha:** Hyperpure wings products to QSR, so, that is where we started a small partnership with them for the small QSR business and we want to grow that partnership with them.
- Manish:** And when you do the export market, you would need more salespeople, right? Or that's not the case?
- Paramjit Singh Chatha:** We'll need to hire a couple of good people for exports, yes.
- Manish:** Okay. And just two more questions. One is in terms of, is there any subsidy which you get for setting up a unit now?
- Paramjit Singh Chatha:** Walia ji, can you answer that?

- Kulbeer Walia:** Yes, we will be getting a subsidy from Punjab under investment policy with regard to the investment FCI, Fixed Capital Investment, it is 10 times of that. And that will be given in the shape of GST reimbursement, if there is any output payable on the products within Punjab. And then we have procured land. What is the stamp duty on land that will be exempted and 10% of the electricity bill, which is charged as electricity duty, will be exempted. And we have already filed the papers with the Punjab investment firm.
- Manish:** How much is this entire benefit quantum is?
- Kulbeer Walia:** This is yet to be calculated, but it would be, if you say, 30 crores, it should be around 40-45 crores.
- Manish:** And this is over how much period, sir?
- Kulbeer Walia:** 10 years.
- Manish:** So effectively the Capex of the plant will be taken out from this itself. If I don't take the time value of money.
- Paramjit Singh Chatha:** Hopefully, yes, sir.
- Manish:** Do you also get an export subsidy?
- Kulbeer Walia:** No.
- Manish:** Because I thought for marketing of products in export.
- Kulbeer Walia:** That's to the tune of 10 lakh rupees only, I suppose. And if you go to APEDA or any export council, then it might be to the extent of 40 lakhs.
- Paramjit Singh Chatha:** We haven't explored that with APEDA.
- Manish:** Is there any other lines which you want to set up? You want to accelerate growth or, are you happy with the rate of growth which you are working at? I'm just trying to understand, let's say, from a 150 crores company, rather than going to a 300-400 in, let's say 3-4 years, do you want to accelerate growth by doing an inorganic or, setting up another line and taking the growth faster? Is that in the thought process?
- Paramjit Singh Chatha:** Manish, we are very bullish about it. The new unit we are setting up, we are quite bullish on the sales. So the building we are setting up is for certain lines. We have left space to double the capacity. So we think we will be able to double the growth on some lines. So, yes, we are quite aggressive on that.
- Manish:** Okay. Inorganic is not the thought process?
- Paramjit Singh Chatha:** Not yet Manish.
- Manish:** Okay. And let's say from a capability point of view, can you get into any other lines of business in terms of contract manufacturing or something related to QSR products is only the prey?
- Paramjit Singh Chatha:** No, it's not related to QSR, Manish, it's mainly related to food. The kind of segment we are sticking to, that's where we want to focus on.

Manish: Is there any larger part of the strategy which I missed in the discussion, which I should be aware of?

Paramjit Singh Chatha: No, I think we've covered everything, Manish.

Manish: Then I'm good. Rahul, if you have anything or else I'm good.

Rahul: So, thank you, Paramjit. Thank you, Manish. Thank you, Vishal and everyone for taking time out.

Rahul: Manish, if you have any other questions, you can reach out to me.

Manish: Thank you so much for doing the call on a Saturday.

Rahul: Thank you, sir. Thank you, Paramjit, sir. Thank you for this.

Paramjit Singh Chatha: Manish, I hope I've been able to satisfy you on all your queries.

Manish: This is really useful. Let me do more work. And then I'll touch base to either Rahul or Vishal to understand more on the numeric. And whenever I'm next in that part of the city, I'd probably like to come down and see the unit.

Paramjit Singh Chatha: Most welcome. We would love to have you over there.

Manish: In case you're in Bombay, we'd be happy to meet you in person, sir.

Paramjit Singh Chatha: Any numbers you want, Kulbir and Vishal are always there. Rahul, you can just give them a call and ask for any figures you want.

Rahul: Definitely, sir. All right. Thank you so much.

Paramjit Singh Chatha: Thank you.