

Chatha Foods Limited

(Formerly Known as Chatha Foods Private Limited)

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To

Date: 24.10.2024

BSE Limited

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

Subject: Transcript of Analyst/ Institutional Investors meeting

Dear Sir/Madam,

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 Monday, October 21, 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%20Investor%20Meeting%20-%20\(October%2021,2024\).pdf](https://cfpl.net.in/documents/Analyst%20Investor%20Meeting%20-%20(October%2021,2024).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

October 21, 2024



MANAGEMENT: CHATHA FOODS LIMITED

- MR. PARAMJIT SINGH CHATHA (CHAIRMAN AND MANAGING DIRECTOR)
- MR. VISHAL SINGH SIRMAURIA (CHIEF FINANCIAL OFFICER)

PARTICIPANT: DHYANA CAPITAL

- MR. ABHIMANYU SANGHI
- NAVNEETH JAIKRISHNA

Abhimanyu Sanghi: Sir, thank you for taking out time. Maybe I can start by giving you a quick introduction about us and then we can go from there.

Paramjit Singh Chatha: Yes, sure.

Abhimanyu Sanghi: Sir, I run Dhyana Capital. We are a Delhi based investment firm and invest in Indian public companies with a very long-time horizon. We are a bit more than 3 years old, and our primary focus is small cap companies. So, Sagar from Alacrity, who I believe is also on the call now. He has been very kind to introduce us to your company and mentioned you also have some fundraising plan in the pipeline. So, we would love to learn more from you about the business future strategy. You have obviously put out a lot of material out there, which we have reviewed. We are happy to answer any questions you have about us and then we can proceed.

Paramjit Singh Chatha: It is okay Abhimanyu. I have no questions. Sagar has already updated me about everything, so we can take it further.

Abhimanyu Sanghi: Sir, overall would be helpful to get some background from you on business, where are you today and in terms of future plans, how are you thinking about it for the next 3-5 years? And then I am getting into more specific questions only because there is a lot of material out there, you have shared the earnings call transcripts of the previous calls and so on. So, I don't want to repeat, a lot of this stuff that is there.

Paramjit Singh Chatha: Abhimanyu, as you know, we are into the Frozen Ready to Eat Chicken segment and we have the suppliers to quite a number of large and medium QSRs as of now. So, in terms of revenue, we closed the revenue of Rs. 133 crores last financial year and we declared a PAT of round about Rs. 6,16,00,000 on the PAT last year. We went through the fundraising around through the SME IPO and the proceeds of that IPO are going into building up another facility which is very close to our existing facility, like within a range of 1 kilometer and that facility is to produce vegetarian products, also mainly for the existing new QSR customers and for exports. The new unit is going to produce around 14,000 metric tons, the product mix is, we are going to do flat breads like variety of tortillas, variety of Parathas, some very innovative Parathas as well. We will be producing some base sauces and gravies, which are becoming a big trend in the fine dine restaurants and the CDR restaurants, even the QSR industry is looking at those sauces and gravies, should only say sauces and gravies unlike Cremica or Mayo based sauces, so this will be something different as maybe let us say we call them biryani base or we have, just to give you an idea red gravy base or white gravy base, number of Chinese sauces which can be easily used by restaurants, by QSR, by anybody else to overcome the challenge everybody is facing on skilled manpower, kitchen sizes, number of SKUs to be produced, retention of chefs, retention of skilled manpower. So, that is the area we are playing around. This unit should be up and going by March '23. It will be commissioned by March '25. We should be in production by July '25. In the meanwhile, we have also signed a JV with the Allana Group. The discussion on this JV was going on from the last 7-8 months and couple of week back, we have signed the JV with them to produce value added, ready to cook and ready to eat meat products and chicken products. So, that is the broad review, Abhimanyu.

Abhimanyu Sanghi: Got it, sir. And sir, in this new capacity, so we plan to supply it to our existing QSR base, or we also plan to do our own brand of Parathas for export market?

Paramjit Singh Chatha: No, as of now, there are no plans to own brand D2C sales. As of now we have no plans. So, the new capacity is going to be mainly focused on QSR, CDR, our existing business of supplying to QSR, CDR's of all levels.

And plus, we will also be doing exports and exports when we are looking at exports, again, we are not looking at our own brand exports. We are looking to do it through white labels, merchant exporters, do white labels for importers in other countries. So, that is the broad sales we wanted to begin with.

Abhimanyu Sanghi: Sir, if you look at overall your gross margins, historically they have moved between say around 20%-23% to as high as 30%. So, how should one think about gross margins and how much fluctuation there is in our meat business when you are procuring from vendors?

Paramjit Singh Chatha: Gross margins, I think barring the COVID times, I think they are quite, Vishal is also there. We are quite consistent between 27% and 30% now. Yes, we did have volatility during the COVID and the post COVID time because there was a lot of uncertainty in the poultry sector. Farmers who are not willing to put in the birds because during the first wave they lost the total crop, they just had to dump it somehow. Then it revived a little, a second wave came. They revived a little, third phase came. There was hardly any crop in terms of live birds in the industry. So, there was huge volatility there. And then there was a volatility in our raw material prices because we import certain ingredients in terms of our soy proteins, in terms of some extenders we use and packaging film. So, if you can recall that time, container prices shot up, there was unavailability of containers. So, that was a big like jumble going on at that time, but as of now, I think we are quite stable between 27% and 30% Vishal, if I am correct.

Vishal Singh Sirmauria: Yes, correct, sir. And Abhimanyu sir, just to add on, we work on the annual pricing with all our vendors. So, mainly chicken that is also on the annual pricing. So, that is how we manage this.

Paramjit Singh Chatha: Not just chicken Abhimanyu, barring oil and vegetables, all the raw materials are annual price based.

Vishal Singh Sirmauria: Yes, buying the commodities, so rest, everything is on an annual basis.

Abhimanyu Sanghi: That is quite helpful, sir. And how will the margin structure work in the new capacity that you are putting up for breads? How do you envisage the margins there?

Paramjit Singh Chatha: Margins will be better, and we think the margins will be better. We have done research. We have deep dived into the flatbread industry. We have done comparative pricings. We have worked out our own recipes. So, overall if you look at it, I can't comment on the bread as a commodity, what we eat at home. But when we look at flatbreads like tortillas or Malabar Paratha business or we look at other companies, the larger companies and then if we look at the buying prices of customers and we work backwards on our recipes, so margins are comparatively much better here. That is one. Secondly, in our current business Abhimanyu, India is not a very large consumer of poultry as compared to the rest of the world. I wouldn't make it to share them top. I am not sure about now, but like 5-6 years back we had data where we were not even amongst the top 20 poultry consuming countries in the world. So, volumes are not high, we have not been able to go into very much of order, although our plant is all very, we buy machines from the top suppliers in the world, but we are still like a batch process, you understand? So, we are more into batch processing than line processing. So, batch processing involves manpower, so still, I would say comparatively labor intensive, but the new lines we are coming up with, we can call them more of flatbreads is last consumption. A very small amount of that we can bring for commodity type products. So, those lines we are setting up are all very high-capacity line productions, so involvement of manpower is also going to be like less than half than what we are doing. So, we will be like almost tripling our production capacities and we will be reducing our manpower to less than half. So, that is

where again the margin pressure will be much lesser. So, we will be able to book more some better margins there.

Abhimanyu Sanghi: And there, so what is at full capacity utilization, what will be a turnover in the new plant?

Paramjit Singh Chatha: Abhimanyu, it should be between Rs. 175-Rs. 200 crores on the product mix. So, we are looking at an average pricing of Rs. 135-Rs. 240 on the product mix.

Abhimanyu Sanghi: On their side where are we in terms of customer development? Do we already have some tie ups or commitments from customers or are we in the process of doing business development there?

Paramjit Singh Chatha: Abhimanyu, we have had discussions, there are no commitments as of now because commitments will only come up when the plant is ready. When we talk of the QSR business, one of the core things of any customer onboarding us is audit. So, food safety audit is a must. The commitments will come in once the plant has been set up, but yes, we have had discussions with all the customers to use these products. We have told them we are coming up the plant. We have shared some details with them of what all we are going to produce. And yes, everybody is quite upbeat and excited about it.

Abhimanyu Sanghi: Got it and where sir, we are looking to substitute external vendors or do companies do this enough right now and we are going to substitute them like how are we thinking about the market? How is the market today?

Paramjit Singh Chatha: It is going to be getting a market share from other vendors, Abhimanyu. As of now, these products are not being done.

Abhimanyu Sanghi: Sir, which has the large, organized players who supply to QSR for these products?

Paramjit Singh Chatha: Some of the largest is signature foods.

Abhimanyu Sanghi: Navneeth, any questions from your side, I will pause here.

Navneeth Jaikrishna: Sir, just wanted to understand our recipes. So, the products that we manufacture especially for the QSR, is it that the products that we develop or is it developed with those companies, so how does that process work?

Paramjit Singh Chatha: Works both ways. So, there are some products we develop, we showcase, they like it, they are onboarded and simultaneously their NPD teams also develop products which are obviously approved in their system by their other concerning departments and then we commercialize those products.

Navneeth Jaikrishna: And sir, as I understand quite a bit of a revenue flows in both from Domino's and also Subway and so could we understand maybe what is our concentration with them and even for them, how much of their product do they take from us? How much are they dependent on us?

Paramjit Singh Chatha: Navneeth, first of all, yes, there was a dependency. There still is a dependency. Obviously, we are the most present vendor from like Subway, we are the vendor from the last 20 years since they were one store. It has been a beautiful relationship. Domino's also, we have been working since 2007. As of now, we would be doing like 50%-60% odd business of the total chicken requirement for Domino's. And we would be doing around

80%, I think 70%-80% for Subway. But as of now, that customer mix is slightly different now. Taco Bell was onboarded by us. We are 100% supplies to Taco Bell, both for vegetarian and non-vegetarian products. We really work together with Taco Bell to build all the products, so Taco Bell business is growing, their own business is growing. I think that is the one company which has a good future in the coming times because they are slightly different to the customer. Now, the products are slightly different to them other than the burgers and the pizzas. And from the last two years of working with them, I can see their numbers growing, although they are not very bullish on opening stores, they are still focusing on their same store growth, which is a very good thing to do, but yes, we can see the business growing with us. Chinese Wok is another customer of ours which is moving at a very beautiful rate. Their business is also substantial now. Vishal, any other customers are missing?

Vishal Singh Sirmauria: Sir, it is the Third Wave, Burger King, we have also.

Paramjit Singh Chatha: Yes. So, Burger King also we have onboarded, although we are not a patty company. So, we really can't offer the core patties to Burger King because we don't have the large patty lines, which are required to supply to a McDonald's or a Burger King. We have onboarded Third Wave Coffee. We have onboarded Tim Horton's will start. We have onboarded Blue Tokai. We are in touch with coffee beans and tea leaves. So, we have onboarded a lot of new customers in the last one year. So, that customer mix is quite different from what you would see in your numbers. As of now it is quite different.

Navneeth Jaikrishna: So, how does this customer acquisition process work, so how is it that we approach them, what are the processes involved just to understand that you are?

Paramjit Singh Chatha: Some prove to us, but the large ones, normally we reach out to them. But yes, sometimes we are lucky they also reach out to us. I won't hesitate to say that we have built a reputation for ourselves over the last 25 years as suppliers to QSR. Our vegetarian plant, although the one which we have now is relatively low capacity, but yes, the strength to supply vegetarian and the protein products to customers is really giving us the edge. So, we also keep approaching new customers. Customers also keep approaching us. So, mix keeps on going such of that. Also just to update Navneeth, we have also signed NDA with the KFC. So, we are doing quite an interesting project with KFC also. I hope it I mean it should fall through, it might take some time, but yes we are doing a very interesting project with KFC also. We signed the NDA, non-disclosure agreement with them, with the YUM Group.

Navneeth Jaikrishna: So, that is very impressive, especially how the customer mix has changed. So, how long does this journey takes like for we onboard the customer, like the audit process, all of those processes to actually translate to the first order, is it quite immediate? Is there like a recipe development process?

Paramjit Singh Chatha: No, Navneeth, it is not immediate. It takes time. Depending from company to company, it could take anywhere between a month to 6 months because all the time, the plant safety audits have to be done and then recipes have to be developed and then once the recipes are developed, there is a lot of, see the QSRs, all the QSRs are working very systematic now which is, I really appreciate that. So, there are a lot of product specifications, cut- sheets which go in to and for on the specifications until we reach to a common ground on what specifications can actually work in mass production versus to kitchen trials at their end. So, it normally between a month to 6 months sometimes it is closed within a month, month and a half sometimes it takes as long as 6 months also because if this is an existing product, it is quite quick, but if there is a new product to be launched

all the companies prefer to go to one store trials from 1 store trials to like 10 store trials and then they gradually scale up to a pan India launch also takes time because they really want to understand how the customer is liking the new concept, the new product, the new flavors, so it does take time.

Navneeth Jaikrishna: And sir, what about our current capacity? So, what is the current utilization like and of course we are expanding with the flatbreads division like you said, but what is the current capacity with our non-vegetarian products?

Paramjit Singh Chatha: Overall, we are at almost at 85% capacity in a week.

Navneeth Jaikrishna: So, we are almost, would that be the peak capacity, sir, for?

Paramjit Singh Chatha: I would say that is the peak capacity, yes, but we plan to expand, Navneeth. So, once the new plant comes in which is in March, we will be shifting the existing vegetarian lines to the new plant. So, we plan to expand our Chicken facility by another 7,000-8,000 square feet and build up the capacities. As of now, both these plants are joining, although they are very separate plants, but it is a common wall with a separate entrance, separate everything. But yes, it is a common wall. So, once this vegetarian plant moves out to the new facility, so that was the idea, we will expand our existing chicken capacities as well. So, it should expand by another 150 odd tons, which translates into like, so yes, another 6-7 tons per day. So, as of now, we are doing around 16 to 17 tons, then I think we should go up to plus 20 tons per day.

Navneeth Jaikrishna: And sir, what sort of order visibility like at the beginning of the year, do we have with these customers, will they give us the number at the beginning of the year that this is what product that they want or is it like a periodic thing within the.....

Paramjit Singh Chatha: It is a quarterly thing, Navneeth. Quarterly thing, the way the QSR industry works, they keep promoting products, they keep on having those, they call them those buy one get one offers, they keep doing limited time offers. So, although they plan their annual sales, the marketing team does play an essential role in all this. So, for them to predict a number on products is slightly difficult because they keep running the promotions. The volume on the product mix does vary quarter to quarter, so all projections are given to us on a quarterly basis.

Navneeth Jaikrishna: Understood, Abhimanyu, please continue.

Abhimanyu Sanghi: Sir, so overall, how much CAPEX like do we plan to do across the new capacity and then expansion of the chicken facility?

Paramjit Singh Chatha: See the new facility, Abhimanyu is the CAPEX of around Rs. 42-Rs. 44 crores. Chicken capacity will not need any major CAPEX because we just shorten space, we have the equipment. So, increment in the chicken capacity will not require any CAPEX. It will be minor, Rs. 50 lakh, below Rs. 1 crore or something, but nothing major in the chicken because we have the equipment with us, all we need is space. So, space is what we will generate once the veg facility moves up.

Abhimanyu Sanghi: And sir, so where does KFC procure their raw material today? Do they do it in house or do they have like other vendors right now?

- Paramjit Singh Chatha:** No, Abhimanyu, KFC concept is totally different. KFC produces raw chicken from all these slaughtering units, so they buy from every, because their demands are huge, they have vendors in South, they have vendors in West, East, North. So, KFC buys raw chicken and then the whole process that is the KFC USB. So, everything happens in the store. We are working on some interesting project with them which I cannot disclose now.
- Abhimanyu Sanghi:** And sir, what about McDonald's, because that is one big customer who we don't have access right now?
- Paramjit Singh Chatha:** Abhimanyu, like I mentioned before, we are really not into the Patty business as of now. See supplying patties to McDonald's, or supplying patties to Burger King is a very different ball game itself. It is a projects in itself because their patty demands are very large, and you need to have a totally and setting up the good patty line for the life of McDonald's and Burger King. The line itself would cost around Rs. 10-Rs. 14 crores and space. So, in the vegetarian segment, we are vegetarian we are putting up a large patty line with the Spiral Freezer. So, that is the time on the vegetarian part we will try and pitch to them.
- Abhimanyu Sanghi:** And sir, in this Rs. 42-Rs. 44 crores CAPEX that you mentioned for the new plant how much of it is plant and machinery versus say building etc.?
- Vishal Singh Sirmauria:** It would be Rs. 30 crores towards plant and machinery.
- Abhimanyu Sanghi:** And do we have like domestic suppliers for plant and machinery or these are like imported machines?
- Paramjit Singh Chatha:** It is all imported, Abhimanyu. All the major equipment, all the major like our tortilla line is imported. Our Paratha lines are imported. Our spiral freezers are imported. So, lot of I think 80% of the equipment, so basically all the utilities what we call them as utilities like the generators, like the boilers or the other supporting equipments is Indian, but the main lines, main equipments is all imported. India, nobody is making them. They don't make it in India. We won't have suppliers in India.
- Abhimanyu Sanghi:** So, sir, overall fair to say that if we look at the business 3-4 years out, then you will be updating the new capacity? It should get to Rs. 175-Rs. 200 crores kind of topline in our base case and then what kind of the growth rate we should expect in the current business?
- Paramjit Singh Chatha:** Sorry, I didn't get the question, Abhimanyu, current business means the chicken business?
- Abhimanyu Sanghi:** Yes, the chicken business.
- Paramjit Singh Chatha:** Abhimanyu, as of now, on our existing what we do exactly what we do now, we are looking at anything between the 10% and 15% growth in the existing chicken business, but there are things happening, like I said, we are doing something very interesting with KFC. There is something we are trying to do with, we are trying to diversify from our existing product portfolio to newer product portfolios in chicken also. If that all falls into place, we could be looking at a much larger growth. Otherwise, what we do now, the products we do now, we are looking at a 10% to 12% growth, but we are targeting to do a much bigger growth. We are trying to make things fall in place which hopefully I should be able to disclose maybe in a month's time, so thinks the growth rate will be much quicker than that.

- Abhimanyu Sanghi:** And sir, what are the typical payment terms with the likes of Domino's and Subway and how many days do they pay us typically?
- Paramjit Singh Chatha:** Abhimanyu, it is all 30 to 45 days with all QSRs.
- Abhimanyu Sanghi:** Sir, I think this gives us a fair idea of the business. As I mentioned, I think there is a lot that you have shared in terms of target as well.
- Paramjit Singh Chatha:** Basically, what we are targeting is with the new JV, we are targeting to maybe grow our revenue by 28. We want to grow our revenue to approximately close to 3x of what we are doing now by 28. And we are looking to improve our PAT by quite a substantial amount. We would like to grow our PAT by at least 5x-6x. That is what we think we will do.
- Abhimanyu Sanghi:** Can you share a bit more about the JV, sir, like what are we planning to supply to them? What are the contours of the JV?
- Paramjit Singh Chatha:** JV, Abhimanyu, is with Allana, if you are aware of that group.
- Abhimanyu Sanghi:** Yes.
- Paramjit Singh Chatha:** They are into multiple products now. Maybe we know Allana, even I knew Allana not the way I know them now, but yes they are into multiple businesses now. They are a lot into the B2C business in the Middle East. They do confectionery, bakery, cosmetics, oil. So, what we are going to do for them is we are going to produce the value-added products for them for meat and chicken in their brand and then they want to export it to all the countries they have the bases in. So, the investment is going to be around another Rs. 40 crores for which we are doing the fundraise. It is a 70-30 JV, a mix of 1:1 and that takes 50. And so we are raising around Rs. 14 crores for this project, which we want to have it up and going at the earliest. So, we will basically convert the protein into value added products. That is something we have been doing for the last 25 years into the likes of meatballs, sausages, Shawarma, Salami, sliced meats, kebabs and pack it in their brand and then they will export it. So, it is 100% buyback from their side.
- Abhimanyu Sanghi:** This will be a separate plant that you will put up altogether?
- Paramjit Singh Chatha:** Yes, this will be a separate plant. This will be a two piece separate plant.
- Abhimanyu Sanghi:** And what is the timeline for that? I think end of 25 is what you mentioned?
- Paramjit Singh Chatha:** End of 25 is what we are targeting, but see the earlier we do the quicker the revenue, the faster the revenue starts coming in. We have set that outer limit for ourselves because in this, the agreement with the Allana is to set up the plant in one of so, otherwise if it was to start from scratch, this investment would have been much larger, buying the land and buying the building. So, we will be doing it in one of the Allana facilities on a soft lease.
- Abhimanyu Sanghi:** Sorry. Come again, sir.

- Paramjit Singh Chatha:** This plant will come up in one of the existing Allana facilities and they will give it to us on a soft lease to set up the units. So, that is where the CAPEX is quite low. Otherwise, this CAPEX would have been much larger.
- Abhimanyu Sanghi:** And sir, how will the economics work in this plant? Revenue and margins?
- Paramjit Singh Chatha:** Revenue in this plant, revenue is 6000 metric tons annual. And so we think it will be an average price of between Rs. 325 and Rs. 350 a KG. So, that should be the revenue on peak capacities and margins again have been discussed, margins will be better than our existing business.
- Abhimanyu Sanghi:** Got it. So, roughly, Rs. 200 crore kind of revenue?
- Paramjit Singh Chatha:** Roughly, Rs. 200 crore of revenue. So, that is what I said Abhimanyu that by 28, we plan to like we should be doing 12%-15% increase from our last year revenue in existing business and by 28 we want to triple this revenue.
- Abhimanyu Sanghi:** And sir, is there any sunset clause in this or it is a perpetual agreement with Allana?
- Paramjit Singh Chatha:** Sunset clause means.
- Abhimanyu Sanghi:** As in this is like this is a perpetual agreement to supply them using the plant that you will put up, so you will hold like direct equity in the plant and then?
- Paramjit Singh Chatha:** Yes.
- Abhimanyu Sanghi:** So, they are funding the land, and you are funding the machinery. Is that a fair understanding or?
- Paramjit Singh Chatha:** No, we are not funding the land. The land building will be given to us on a lease basis, on a lease at an arm's length, not very nominal lease price. So, they will be putting in 30% equity, we will be putting in 70% equity.
- Abhimanyu Sanghi:** And I also saw that they owned some equity in your listed company, so is that as part of the JV or that is separately?
- Paramjit Singh Chatha:** No, see Abhimanyu, when we were coming out with the IPO, they wanted to come in as an anchor, but somehow, they approached us very late, they approached us late because the anchor book was already closed. So, these shares they got post the IPO they bought the shares.
- Abhimanyu Sanghi:** Understood.
- Paramjit Singh Chatha:** So, that is when the discussion about JV also started and then they wanted to come in as an anchor in the existing IPO also, but somehow by the time they approached us, our anchor book was already closed.
- Abhimanyu Sanghi:** Perfect. So, thank you for sharing these plans as well. Navneeth, any other questions from your side.
- Navneeth Jaikrishna:** No, I think most of the questions are covered. Thank you, sir.

Abhimanyu Sanghi: So, we will do more work in our end, then we will reach out to you or Vishal through Sagar if there is anything else.

Paramjit Singh Chatha: Any other questions, Sagar can share my number and any other queries I am most, you can ask me anything. I will be available for any other questions you have.

Abhimanyu Sanghi: We will be in touch. Thank you so much for your time. Thanks, Vishal. Thanks Sagar.