

Date: December 14, 2018

BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400001 Fax No.: 022-22721919	National Stock Exchange of India Limited Exchange Plaza, Plot No. C/1, G Block, Bandra- Kurla Complex Bandra (E), Mumbai – 400051 Fax No.: 022-26598120
Ref.: Kwality Limited (KWALITYLTD/ INE775B01025)	Ref.: Kwality Limited (KWALITYLTD/ INE775B01025)

Subject: Outcome of the Board Meeting of Kwality Limited

Dear Sir/Madam,

This is to inform you that the meeting of Board of Directors of Kwality Limited held on Friday, December 14, 2018 at its registered office at KDIL House, F-82, Shivaji Place, Rajouri Garden, New Delhi-110027 is concluded at 05:15 P.M and the following matters were discussed:

1. The Board of Directors discussed and approved the Unaudited Financial Results for the quarter and half year ended as at 30th September, 2018.
2. The Board of Directors discussed and approved the Statement of Assets and Liabilities for the quarter and half year ended as at 30th September, 2018.
3. The Board of Directors discussed and approved the Limited Review Report given by the Statutory Auditors for the quarter and half year ended as at 30th September, 2018.

Kindly take the above information on your record in compliance to SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015.

Thanking You,
For Kwality Limited



Company Secretary & Compliance Officer

Pradeep K. Srivastava
(Company Secretary & Compliance Officer)



Kwality Limited

CIN : L74899DL1992PLC255519

Registered office : KDIL House, F-82, Shivaji Place, Rajouri Garden, New Delhi - 110027

Statement of Unaudited Standalone Financial Results for the Quarter and half year ended 30 September 2018

Sr.No	Particulars	Quarter ended			Half Yearly ended		(INR in Lakhs)
		30-Sep-18	30-Jun-18	30-Sep-17	30-Sep-18	30-Sep-17	Year ended
		Unaudited*	Unaudited	Unaudited	Unaudited	Unaudited	Audited
1	Income from operations						
	(a) Revenue from operations	35,112.00	1,26,248.31	1,67,066.47	1,61,360.31	3,24,264.87	6,72,487.64
	(b) Other income	71.67	330.62	264.29	402.29	384.61	1,300.95
	Total income	35,183.67	1,26,578.93	1,67,330.76	1,61,762.60	3,24,649.48	6,73,788.59
2	Expenses						
	(a) Cost of materials consumed	25,684.66	98,614.30	1,23,920.63	1,24,298.96	2,53,892.87	5,19,066.04
	(b) Purchases of stock-in-trade	-	3,975.61	21,857.30	3,975.61	31,182.05	66,224.95
	(c) Change in inventories of finished goods, stock in trade and work -in-progress	4,994.46	7,621.19	3,283.08	12,615.65	4,506.57	11,878.86
	(d) Employee benefits expense	1,379.97	1,697.59	1,122.67	3,077.56	2,105.93	5,794.13
	(e) Finance costs	6,218.87	5,802.07	5,113.89	12,020.94	10,092.31	23,318.30
	(f) Depreciation and amortisation ,	3,434.26	2,748.89	3,431.74	6,183.15	5,810.73	12,555.96
	(g) Excise duty	-	-	-	-	2.31	2.31
	(h) Other expenses	89,595.97	5,700.52	5,178.15	95,296.49	10,010.87	20,536.61
	Total expenses	1,31,308.19	1,26,160.17	1,63,907.46	2,57,468.36	3,17,603.64	6,59,377.16
3	Profit before tax (1-2)	(96,124.52)	418.76	3,423.30	(95,705.76)	7,045.84	14,411.43
4	Tax expense:						
	(a) Current tax	(562.37)	562.37	1,321.98	-	2,296.95	6,372.62
	(b) Deferred tax	(492.93)	(247.88)	0.91	(740.81)	(139.16)	927.71
	Total tax expenses	(1,055.30)	314.49	1,322.89	(740.81)	2,157.79	7,300.33
5	Net profit for the period after tax (3-4)	(95,069.22)	104.27	2,100.41	(94,964.95)	4,888.05	7,111.10
6	Other comprehensive income						
	(a) Items that will not be reclassified to profit and loss	(1.51)	(1.50)	(0.66)	(3.01)	(1.31)	(34.81)
	(b) Income tax relating to items that will not be reclassified to profit and loss	0.52	0.53	0.22	1.05	0.45	12.05
	Total other comprehensive income	(0.99)	(0.97)	(0.44)	(1.96)	(0.86)	(22.76)
7	Total comprehensive income (5+6)	(95,070.21)	103.30	2,099.97	(94,966.91)	4,887.19	7,088.34
8	Earning per share of INR 1 each						
	(a) Basic (INR)	(39.39)	0.04	0.87	(39.35)	2.04	2.97
	(b) Diluted (INR)	(39.39)	0.04	0.85	(39.35)	2.02	2.96
9	Paid-up equity share capital (face value of INR 1 per equity share)	2,413.54	2,413.54	2,379.59	2,413.54	2,379.59	2,413.54
10	Other equity	-	-	-	-	-	1,09,211.24

* The figures for the quarter ended 30 September 2018 are the balancing figures between unaudited figures for the quarter ended 30 June 2018 and Six month period ended 30 September 2018.



Kwality Limited

Statement of Assets and Liabilities

(INR in Lakhs)

Particulars	As at 30 September 2018	As at 31 March 2018
	(Unaudited)	(Audited)
ASSETS		
Non-Current Assets		
Property, plant and equipment	44,571.20	45,869.38
Capital work-in-progress	662.15	5,627.64
Other intangible assets	113.45	131.04
Financial assets		
Investments	1,918.62	1,918.41
Loans	160.72	79.29
Other financial assets	163.03	139.77
Deferred tax assets (net)	648.87	-
Other non-current assets	30.24	13,878.87
Total Non-Current Assets	48,268.28	67,644.40
Current Assets		
Inventories	6,506.42	21,013.23
Financial Assets		
Trade receivables	1,59,470.50	1,70,081.33
Cash and cash equivalents	42.46	6,234.48
Other bank balances	161.20	1,853.20
Loans	30.89	48.36
Other financial assets	675.36	670.97
Other current assets	33,291.59	51,843.48
Total Current Assets	2,00,178.42	2,51,745.05
Total Assets	2,48,446.70	3,19,389.45
EQUITY AND LIABILITIES		
Equity		
Equity share capital	2,413.54	2,413.54
Other equity	15,544.76	1,09,211.24
Total Equity	17,958.30	1,11,624.78
Liabilities		
Non-Current Liabilities		
Financial liabilities		
Borrowings	42,951.30	46,549.98
Other financial liabilities	18.26	350.72
Other non-current liabilities	482.02	482.02
Provisions	384.58	413.91
Deferred tax liabilities (net)	-	92.99
Total Non-Current liabilities	43,836.16	47,889.62
Current Liabilities		
Financial liabilities		
Borrowings	1,15,236.24	1,04,897.40
Trade payables	17,778.84	13,029.24
Other financial liabilities	33,771.53	23,045.26
Other current liabilities	1,316.78	875.07
Provisions	98.99	98.99
Current tax liabilities (net)	18,449.86	17,929.09
Total Current Liabilities	1,86,652.24	1,59,875.05
Total Equity and Liabilities	2,48,446.70	3,19,389.45

By Order of the Board
For Kwality Limited

Managing Director
Sanjay Dhingra
(Managing Director)



Notes to the unaudited standalone result for the quarter and Half Year ended 30 September 2018

- 1 The above results have been reviewed by the Audit Committee and approved by the Board of Directors of the Company at their respective meetings held on 14 December 2018. The statutory auditors of the Company have carried out limited review for the quarter and half year ended 30 September 2018.
- 2 In accordance with the requirements of the IND AS-108 "Operating Segments", the Company's business consists of one reportable business segment i.e., "Manufacturing and Processing of Milk and Milk Products", hence separate disclosures pertaining to attributable revenue, profits, assets, liabilities and capital employed are not required.
- 3 The Company is currently facing an issue of working capital management (including receivable management) due to non disbursement of sanctioned working capital limits from banking partners and other factors. This lead to non supplying of required quantity of good/ material to existing customers , a situation that emerged primarily towards the end of the quarter of 30 June 2018. The same resulted in reconciliation issues with the concerned parties in the areas of schemes/ discounts, quality of goods etc. and delay in reliazation of receivables. In order to have a realistic assessment of realisable debtors, the Company has initiated a structured engagement with their debtors and based on detailed assessment, the Company has issued credit notes amounting to INR 76,084.61 lakhs towards settlement of pending disputed schemes for the period FY 16, FY 17 and FY 18. Also, Company has written off debtor(s) to the tune of INR 10,251.16 lakhs. The same has been included as part of Other Expenses. Also, the consortium of banks has initiated a forensic Audit in the operations of the Company, which is in process. The management is currently in the process of assessing any further requisite provision for doubtful debts/ adjustments, if any based on audit(s) and internal assessment.
- 4 As part of overall strategy to focus on high margin B2C business and in view of consistent recession in the global market, the Company has decided to discontinue (in a phased manner) the operation of its wholly owned subsidiary "Kwality Dairy Products FZE" which was more of an opportunity based business.
While the decision is expected to optimise the earnings on a long-term horizon however, it has a short-term impact of delay in the collections from the parties to whom Company is no longer supplying the goods. The Company is currently assessing the impact, as on reporting date and any impact emerging post completion of engagement with the parties will be accounted for in the Company's books of accounts.
- 5 To drive quality milk procurement, which is the most essential building block of dairy business, the Company had in prior years enabled its partners with capital advances so that they can buy AMCU (Automated Milk Collection Units) a pre-requisite for milk quality assurance. The Company subsequently in October 2017 agreed with the partners to adjust such advances against purchase payments over a period of 3 years. However, in view of current business slowdown the Company will reassess the arrangement based on business situation and trigger necessary actions including rationalisation of advances, quantum of deductions and any provisions if required.
- 6 With the issuance of credit notes towards settlement of long pending dispute of scheme(s) (as detailed in point 3 above), the Company has incurred losses as on 30 September 2018. Delay in release of working capital by the consortium of banks and other factors led to a liquidity crunch, thus the Company is unable to meet its financial obligations in full including repayment of various loans and unpaid interest and to fund various obligations pertaining to operations including unpaid creditors/ overdue creditors and working capital requirements for maximizing capacity utilization. This finally resulted into steep decline in sales in the quarter ending 30 September 2018. The Account has been classified as Non Performing Asset (NPA) by lenders of the Company. Certain lenders have sent notices/ letters recalling their loans given and called upon to pay entire dues . Two of the lender/ creditor has filed petitions before National Company Law Tribunal, Delhi Bench to initiate corporate insolvency process under the Insolvency and Bankruptcy Code, 2016. The matter is subjudice. These circumstances indicate that there exists material uncertainty about the Company's ability to continue as a going concern.
The management is working on multi pronged strategy including cost rationalisation etc. Considering the strength of Company's brand, future outlook assessed by the management, business plan, procurement network and vast experience of promoter in Dairy Industry, the Company is confident to continue as a going concern. The financial statements have accordingly been prepared on going concern basis.
- 7 Due to resignation tendered by Company's Statutory Auditors in November' 2018, the Board of Directors of the Company filled the casual vacancy so caused by appointing M/s B. Rattan & Associates, Chartered Accountants. The Company has already initiated statutory compliances, seeking approval of its Shareholders within stipulated period of time, and voting on the issue through e-ballot process has been initiated, which is yet to be concluded.
- 8 Trade payables include foreign currency balances outstanding amounting to INR 268.70 lakhs for more than six months from the date of goods receipt note (GRN). Similarly, trade receivables include foreign currency balances amounting to INR 13,829.48 lakhs which is pending for collection for more than nine months from the date of invoices. The Company believes that there will be no significant penalty on account of foreign exchange payable and receivable delay.



Notes to the unaudited standalone result for the quarter and Half Year ended 30 September 2018

- 9 During the quarter, few of the Company's lenders have sold the shares of Mr. Sanjay Dhingra, Managing Director amounting to INR 7,942.91 lakhs (No. of Share 302.37 lakhs) pledged with them till 30 September 2018. The amount adjusted by lender by way of sale of shares, has been classified as unsecured loan from Director. The unsecured loan amount does not carry any interest.
- 10 The Company has in past couple of years invested in development of new manufacturing facility for production of 'Value Added Products' at Plant Softa (Palwal). In view of the said expansion and to part fund the working capital requirements, there have been delays in payment of Income-tax. The Company has received notice under section 226(3) of Income Tax Act, 1961 on attachment of bank accounts by tax authorities. Further, the Company also received notices under section 276C(2) for assessment years 2016-17 and 2017-18 for prosecution due to non- payment of such taxes. The amounts are fully provided in the books of accounts. At this stage no penalty has been imposed by department, therefore it is not possible to predict the outcome in near future. Further assessment proceedings under Section 132 have been initiated, the Company currently is not in a position to evaluate the consequential impact, if any, of possible tax adjustments.
- 11 The Company, in ordinary course of business, issued Non-Convertible Debenture worth INR 10,000.00 lakhs. Company could not comply with requirements of Debenture Redemption Reserve under the Act due to inadequate Cash Flow.
- 12 Figures of borrowings, interest, other charges and bank balances of Banks and Financial Institutions have been accounted on the basis of information available with the Company and its understanding of sanction letters/ agreements. The variation, if any, will be accounted as and when the information received/ matter is settled.
- 13 Effective from 1 April 2018, the Company has adopted IND AS 115 using cumulative effect method and the comparative information is not restated. The adoption of the standard did not have any material impact on the result of the Company.
- 14 The figures for the previous periods have been regrouped/ rearranged wherever necessary.

Place: New Delhi
Date: 14 December 2018



By Order of the Board
For Kwaliti Limited

Sanjay Dhingra
(Managing Director)



Limited Review Report

**Review Report to
The Board of Directors
Kwality Limited**

1. We have reviewed the accompanying statement of standalone financial results of Kwality Limited ('the Company') for the quarter & half year ended 30 September, 2018 ('the Statement'), being submitted by the Company pursuant to the requirements of Regulation 33 of the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015 as modified by Circular No. CIR/CFD/FAC/62/2016 dated 5 July 2016 (Listing Regulations).
2. This Statement, which is the responsibility of the Company's Management and has been approved by the Board of Directors, has been prepared in accordance with Ind AS 34 'Interim Financial Reporting', prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other recognised accounting practices and policies generally accepted in India. Our responsibility is to issue a report on the Statement based on our review.
3. We conducted our review in accordance with the Standard on Review Engagement (SRE) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Institute of Chartered Accountants of India. This standard requires that we plan and perform the review to obtain moderate assurance as to whether the Statement is free of material misstatement. A review is limited primarily to inquiries of Company personnel and analytical procedures applied to financial data and thus provide less assurance than an audit. We have not performed an audit and accordingly, we do not express an audit opinion.

4. Qualified Conclusion

Except, as indicated in the Basis for Qualified Conclusion paragraph 5 below, we believe that the evidence obtained by us, is sufficient and appropriate to provide a basis for our qualified conclusion on the Statement.

5. Basis for Qualified Conclusion:

- a) Significant delays in monetization of trade receivables has caused strain on the working capital of the Company. The consortium of banks has initiated a forensic Audit in the operations of the Company, which is in process. The Company has already issued credit notes amounting to INR 76,084.61 lakhs and written off debtor(s) to the tune of INR 10,251.16 lakhs during the quarter ended 30 September 2018 towards settlement of pending disputed schemes/ discounts, quality of goods etc. for the period FY 16, FY 17 and FY 18 (*refer note 3 of the statement*). The management is currently in the process of assessing any further requisite provision for doubtful debts/ adjustments (*if any*). Pending outcome of the forensic audit and in the absence of management's further assessment, we are unable to conclude on the impact, if any of the same on the statement, the cash flows and operations of the Company.





- b) Tax payable (including interest thereon) amounting to INR 18,449.86 lakhs include income tax payable for earlier years amounting to INR 17,929.09 lakhs which is not paid by the Company. The Company has received notice under section 226(3) of Income Tax Act, 1961 on attachment of bank accounts by the tax authorities. Further, Company also received notices under Section 276C (2) and Section 277 of the Income Tax Act, 1961 w.r.t. Assessment year 2016-2017 and 2017-2018 for prosecution due to non-payment of such taxes. The amounts along with interest have been fully provided for in the books of account of the Company. Owing to pending settlement of such tax cases and prosecution thereon, we are unable to comment on the impact on the Statement of the Company (refer note 10 to the Statement).
- c) The management of the Company has with effect from 11 July 2018, decided to discontinue operation of its wholly owned subsidiary 'Kwality Dairy Products FZE', Dubai (the 'Subsidiary') in a phased manner. As the management is still evaluating the impact on the investment in the said subsidiary amounting to INR 1,902.75 lakhs and corporate guarantee given on behalf of the subsidiary, we are unable to comment on the impact of such assessment on the carrying value of investment and the additional liability that may arise on account of such closure (refer note 4 to the statement).
- d) As per the terms of agreement with certain suppliers, certain advances are required to be settled from future purchases made till 30 September 2020. However, considering slowdown in the Company's operations, Management is assessing the recoverability of such advances. In absence of such assessment, we are unable to comment on recoverability of carrying value of such advances (refer note 5 to the statement).
- e) The Company has not complied with the requirement of creation of Debenture Redemption Reserve as required under Rule 18 of Companies (Share Capital and Debentures) Rules, 2014 prescribed under Section 71 of the Companies Act, 2013 of INR 333.00 lakh as at 30 April 2018. Such non-compliance as stated above may result in fines and penalties, the impact of which is not currently ascertainable. We are unable to comment on the consequential impact, if any, of such non-compliance (refer note 11 to the statement).
- f) The foreign currency receivables amounting to INR 13,829.48 lakhs and payable amounting to INR 268.70 lakhs are unrecovered/unpaid over the respective time limit prescribed under Foreign Exchange Management Act (FEMA), 1999, whose settlement may require written approval from the regulatory authorities. Therefore, we are unable to comment its impact on the Statement pending such approval (refer note 8 to the statement).
6. Based on our review conducted as above, subject to the effects of our observations given in paragraph 5 above, nothing has come to our attention that causes us to believe that the accompanying Statement which are prepared in accordance with Ind AS 34, prescribed under Section 133 of the Companies Act, 2013 read with relevant rules issued thereunder and other recognized accounting practices and policies has not disclosed the information required to be disclosed in terms of the Listing Regulations including the manner in which it is to be disclosed, or that it contains any material misstatement.





7. Material Uncertainty Related to Going Concern

We draw attention to Note 3 & 6 to the statement which states that the functioning of the Company indicates existence of material uncertainty due to liquidity crunch represented by inability to pay current dues of loans and borrowing, incurrence of losses due to issuance of credit notes towards settlement of long pending dispute of scheme, steep decline in sales, significant delays in collection from trade receivables and classification of account(s) as Non Performing Asset (NPA) by lenders of the Company, may cast a significant doubt about the Company's ability to continue to function as a going concern entity. Further going concern will depend on company's ability to borrow, bring in capital and monetisation of its financial assets in near future.

Also, KKR India Financial Services Limited and American Express, has filed petitions before National Company Law Tribunal, Delhi Bench to initiate corporate insolvency process under the Insolvency and Bankruptcy Code, 2016. The matter is subjudice at present.

However, the Statement of the Company has been prepared on a 'going concern basis' as the management is confident to continue as going concern.

Our opinion is not qualified in respect of this matter.

Emphasis of Matter

8. We draw attention to:

Income-tax search under section 132 of Income-tax Act, 1961 (the 'Act') was conducted on 22 August 2017. Subsequently, Company has received notices u/s 148 and 153A of the Act. Since the assessment proceedings have not completed, the Company currently is not in a position to evaluate the consequential impact, if any, of possible tax adjustments. We are unable to conclude on the effects of such legal proceedings against the Company and its directors, and its impact of the cash flows and operations of the Company (refer note 10 to the statement).

Our report is not qualified in respect of these matters.

9. The Statement of the Company for the quarter & half year ended 30 September 2017, was reviewed by another auditor whose report dated 14 November 2017 expressed an unmodified review conclusion on those Statement.

For **B Rattan & Associates**
Chartered Accountants
ICAI Firm Registration No: 011798N


B.K. Karn

Partner

Membership No.: 094790

Place: Delhi

Date: 14 December 2018

