



Date: September 14, 2018

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

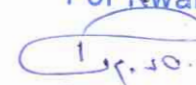
This is to inform you that the meeting of Board of Directors of Kwality Limited held on Friday, September 14, 2018 at its registered office at KDIL House, F-82, Shivaji Place, Rajouri Garden, New Delhi-110027 is concluded at 12.30 P.M and the following matters were discussed:

1. The Board of Directors discussed and approved the Unaudited Financial Results for the quarter and ended as at 30th June, 2018.
2. The Board of Directors discussed and approved the Limited Review Report given by the Statutory Auditors for the quarter ended as at 30th June, 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

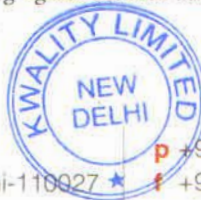
Statement of Unaudited Standalone Financial Results for the Quarter ended 30 June 2018

(INR in Lakhs)

S.No.	Particulars	Quarter ended			Year ended
		30 June 2018	31 March 2018	30 June 2017	31 March 2018
		Unaudited	Audited*	Unaudited	Audited
1	Income from operations				
	(a) Revenue from operations	1,26,248.31	1,70,895.71	1,57,198.40	6,72,487.64
	(b) Other income	330.62	893.38	120.32	1,300.95
	Total income	1,26,578.93	1,71,789.09	1,57,318.72	6,73,788.59
2	Expenses				
	(a) Cost of materials consumed	98,614.30	1,34,191.98	1,29,972.24	5,19,066.04
	(b) Purchases of stock-in-trade	3,975.61	16,487.58	9,324.75	66,224.95
	(c) Change in inventories of finished goods, stock in trade and work-in-progress	7,621.19	(974.45)	1,223.49	11,878.86
	(d) Employee benefits expense	1,697.59	1,812.66	983.26	5,794.13
	(e) Finance costs	5,802.07	7,606.03	4,978.42	23,318.30
	(f) Depreciation and amortisation	2,748.89	3,289.84	2,378.99	12,555.96
	(g) Excise duty	-	-	2.31	2.31
	(h) Other expenses	5,700.52	5,701.82	4,832.72	20,536.61
	Total expenses	1,26,160.17	1,68,115.46	1,53,696.18	6,59,377.16
3	Profit before tax (1-2)	418.76	3,673.63	3,622.54	14,411.43
4	Tax expense:				
	(a) Current tax	562.37	2,217.91	974.97	6,372.62
	(b) Deferred tax	(247.88)	1,326.56	(140.07)	927.71
	Total tax expenses	314.49	3,544.47	834.90	7,300.33
5	Net profit for the period after tax (3-4)	104.27	129.16	2,787.64	7,111.10
6	Other comprehensive income				
	(a) Items that will not be reclassified to profit and loss	(1.50)	(32.85)	(0.65)	(34.81)
	(b) Income tax relating to items that will not be reclassified to profit and loss	0.53	11.37	0.23	12.05
	Total other comprehensive income	(0.97)	(21.48)	(0.42)	(22.76)
7	Total comprehensive income (5+6)	103.30	107.68	2,787.22	7,088.34
8	Earning per share of INR 1 each				
	(a) Basic (INR)	0.04	0.05	1.17	2.97
	(b) Diluted (INR)	0.04	0.04	1.17	2.96
9	Paid-up equity share capital (face value of INR 1 per equity share)	2,413.54	2,413.54	2,378.89	2,413.54
10	Other equity	-	-	-	1,09,211.24

* The figures for the quarter ended 31 March 2018 are the balancing figures between audited figures in respect of the full financial year and year to date unaudited figures upto the quarter ended 31 December 2017.

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For Kwality Limited

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CIN L74899DL1992PLC255519

Notes to the unaudited standalone result for the quarter ended 30 June 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 meeting held on 14 September 2018. The statutory auditors of the Company have carried out limited review for the quarter ended 30 June 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 no separate disclosures pertaining to attributable revenue, profits, assets, liabilities and capital employed are given.
- 3 The Company is currently facing an issue of receivables management. This started when Company could not service its customers with the required goods due to liquidity crunch, a situation that emerged primarily towards the end of the quarter triggered due to non disbursement of sanctioned working capital from banking partners. This impacted Company's plans to monetise its investment already made on setting up of a new facility dedicated for high margin value added products. Above series of events triggered reconciliation issues with the concerned parties in the areas of schemes, discounts and quality etc. Further, considering significant delays in recovery of receivable balances, the consortium of banks has proposed forensic audit and also the Company has *suo moto* initiated a forensic audit to check the sanity and ability of the parties to pay thereby enable fast monetisation and to inter alia, cover (i) trade receivable, (ii) control environment, (iii) use of funds, (iv) related party transactions, (v) selection of parties and the necessary business and accounting decisions will be taken post the outcome of the audits.
- 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) its operation of the 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 in third quarter based on business situation and trigger necessary actions including rationalisation of advances, quantum of deductions and any provisions if required.
- 6 Estimated contingent liabilities as on 30 June 2018 is INR 26,642.64 lakhs (INR 25,366.83 lakhs as on 31 March 2018).
- 7 The Company has in past couple of years invested in development of new manufacturing facility for production of 'Value Added Products' at 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 during the quarter received notice dated 4 June 2018 under section 226(3) of Income Tax Act, 1961 on attachment of bank accounts by tax authorities. Further, the Company received assessment orders under section 276C(2) dated 29 June 2018 and 277 dated 2 July 2018 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.
- 8 Trade payables include foreign currency balances outstanding amounting to INR 268.58 lakhs for more than six months from the date of goods receipt note (GRN). Similarly, trade receivables include foreign currency balances amounting to INR 12,089.79 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.

For Kwality Limited
Managing Director


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Notes to the unaudited standalone result for the quarter ended 30 June 2018

- 9 As part of strategic transformation from a leading B2B player towards building a strong consumer business, the Company had done requisite investments in a new facility dedicated to high margin value added products. Post operationalising the new unit in 2017 the next step was to monetise the same for which banking partners assessed INR 27,500 lakhs (sanctioned INR 21,800 lakhs) as working capital. However, disbursement of the same got delayed repeatedly leading to liquidity crunch and finally resulted in business slow down. Latter snowballed into poor collection from trade receivables thereby further aggravating the issue. While the Company has worked out a multi pronged strategy including capital infusion through QIP and cost optimisation, the revival plan aims to bring the business to normalcy, however any unplanned extended execution delay may impact operations.
- 10 The Company has appointed few new distributors during the quarter which include Vardhman Foods and Beverages, Bharti Dairy & Agro Farms, Kwalita Foods Industries, Jagat Agro Industries, J.P. Enterprises etc. with no return back arrangement. The Company has no related party relationship with such distributors hence, is not considered as related party for compliance and disclosure.
- 11 During the quarter, few of the Company's lenders have sold the shares of Sanjay Dhingra, Managing Director amounting to INR 5,414.01 lakhs (150.26 lakhs shares) pledged with them till 30 June 2018. Accordingly, 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.
- 12 In the Board meeting held on 11 July 2018, Sidhant Gupta (Director) has tendered his resignation and same has been accepted by the Board from immediate effect.
- 13 As explained in note 9 due to other business critical priority, the Company is in the process of complying the fixed deposit requirement relating to the Debenture Redemption Reserve.
- 14 During the quarter, the Company could not make timely payment of principal and interest on borrowings amounting to INR 6,073.98 lakhs (INR 8,697.40 lakhs as on the date of Board Meeting where this unaudited standalone result for the quarter ended 30 June 2018 has been approved) due to tight cash flow.
- 15 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.
- 16 According to Schedule III of the Companies Act 2013, sales for the period upto 30 June 2017 and earlier periods in these financial results are inclusive of excise duty. Consequent to applicability of Goods and Service Tax (GST) w.e.f. 1 July 2017, sales are net of GST in accordance with the requirement of IND AS-18 "Revenue" refer 2(g) in above result.
- 17 The figures for the previous periods have been regrouped/ rearranged wherever necessary.

Place: New Delhi
Date: 14 September 2018

By Order of the Board
For Kwalita Limited

Sanjay Dhingra Director
(Managing Director)

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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 ended 30 June 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 conclusion on the Statement.

5. Basis for Qualified Conclusion

- a) Significant delays in monetisation of trade receivables has caused strain on the working capital of the Company. The Management is currently in the process of assessing requisite provision for doubtful debts/ adjustments (if any). The consortium of banks has proposed forensic audit primarily on trade receivables. Management has also *suo moto* initiated an independent forensic audit to check the sanity and ability of the parties to pay. In the absence of Management's assessment and pending outcome of the forensic audits as specified in note 3 to the Statement, 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 18,548.10 lakhs includes income tax payable for earlier years amounting to INR 17,929.09 lakhs which is not paid by the Company. Further, income tax authorities have vide notice under Section 226(3) dated 4 June 2018 directed some of Company's bankers to pay to the tax authorities forthwith any amount held for the Company upto the amount of arrears to be deposited with the tax authorities directly. Tax Authorities have also issued Orders under Section 276C(2) and Section 277 of the Income Tax Act, 1961 (the 'Income Tax Act') dated 29 June 2018 and 2 July 2018 respectively w.r.t. assessment year 2016-2017 and 2017-2018 for launching of prosecution against the Company and one of the directors of the Company. 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 7 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 amounting to INR 20,488.89 lakhs 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, advances amounting to INR 10,042.33 lakhs 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) As per Rule 18 of Companies (Share Capital and Debentures) Rules, 2014 prescribed under Section 71 of the Companies Act, 2013, every Company is required to create a Debenture Redemption Reserve on or before the 30th April each year and accordingly invest or deposit, as the case may be, a sum which shall not be less than fifteen percent, of the amount of its debentures maturing during the year ending on 31 March 2019. Accordingly, the Company was required to invest INR 333 lakhs as at 30 April 2018 which is not complied with by the Company. Such non-compliance as stated above may result in fines and penalties. We are unable to comment on the consequential impact, if any (refer note 13 to the Statement).
- f) Note 8 to the Statement regarding foreign currency receivables amounting to INR 12,089.79 lakhs and payable amounting to INR 268.58 lakhs over the respective time limit prescribed under the Foreign Exchange Management Act (FEMA), 1999. Settlement of such receivables and payables may need approval from regulatory authorities. Pending outcome of such approval, we are unable to comment on its impact on 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 recognised 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 9 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, significant delays in collection from trade receivables/ recoveries from other debit balances and attachment of bank accounts by income tax authorities, 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. Management is confident of bringing in capital through Qualified Institutional Placement/ borrowings in near short term accordingly, in view of the above, Statement of the Company have been prepared on a 'going concern basis'.

Our opinion is not qualified in respect of this matter.

Emphasis of Matter

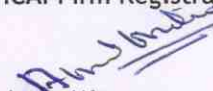
8. We draw attention to:

- a) Note 7 of the Statement regarding income tax search under section 132 of Income Tax Act was conducted on 22 August 2017. Subsequently, Company has received notices u/s 148 and 153A of Income Tax Act. Since the assessment proceedings have not started, 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.

Our report is not qualified in respect of this matter.

9. The Statement of the Company for the quarter ended 30 June 2017, was reviewed by another auditor whose report dated 11 August 2017 expressed an unmodified review conclusion on those Statement.

For MSKA & Associates
Chartered Accountants
ICAI Firm Registration No.105047W


Amit Mitra
Partner
Membership No.: 094518

Place: Delhi
Date: 14 September 2018

