



Kwality

A large, dynamic splash of white milk or cream against a solid red background, forming a circular shape around the central text.

ANNUAL REPORT 2018



India enjoys dual distinction – it is both the world's largest milk producer and the world's largest milk consumer, with world's largest dairy herd, comprised of water buffalo and indigenous and crossbred cattle. India is attaining its past glory and is once again becoming DOODH KA SAGAR.

Kwality Limited is contributing considerable transformation of Indian Dairy System by application of scientific production techniques. Since Milk has become part of the food basket in the Indian economy, the demand for dairy products in India is growing significantly, driven by more consumers, higher incomes and greater interest in nutrition, we have much to contribute.

We are gearing up to tap and capture the market Consumption of processed and packaged dairy products, revamping itself to emerge as a best-in-class consumer-Dairy in India with rigorous International Standards and also contributing for alleviating the poverty and unemployment especially in the rural areas in the rain-fed and drought-prone regions.

We are tuning our extended strategies to procure milk directly from Milk Producers to reduce dependency on the unorganised sector of milkmen and vendors, who currently handles around 65-70% of the national milk production. This way Kwality Limited is dedicated and contributing its due share in National Dairying Programme, reducing role of the unorganized sector - who specializes in selling sub-standard, unpasteurised milk more often than not adulterated with harmful chemicals.

We, being an organized Indian Dairy, are exploring to manufacture of new varieties of traditional Indian milk based sweets in near future, which are presently restricted to certain areas only but can go national.

KWALITY LIMITED - A FUTURE FULL OF PROMISES AND FULFILMENT

PROTEIN KI SHAKTI
» ZINDAGI NON STOP »



Corporate Information

Board of Directors

Dr. Rattan Sagar Khanna
(Chairman)

Mr. Sanjay Dhingra
(Managing Director)

Mr. Manjit Dahiya
(Executive Director)

Dr. Kuldeep Sharma
(Executive Director)

Ms. Swati Chaturvedi
(Women Independent Director)

Mr. Akhilesh Kumar Mishra
(Non-Executive Independent Director)

Registered & Corporate Office

KDIL House, F-82,
Shivaji Place, Rajouri Garden,
New Delhi – 110027

CIN : L74899DL1992PLC255519

Registrars & Transfer Agents

Beetal Financial & Computer Services (P) Ltd.
Beetal House, 3rd Floor, 99 Madangir,
Behind Local Shopping Centre,
Near Dada Harsukhdas Mandir,
New Delhi – 110062

Chief Financial Officer

Mr. Satish Kumar Gupta

Company Secretary

Mr. Pradeep K. Srivastava

Statutory Auditors

M/s. MSKA & Associates

Secretarial Auditors

M/s Mukun Vivek & Co.

Internal Auditor

M/s B. Rattan & Associates

Plant Locations:

Village Softa, Tesil & Distt. Palwal, Faridabad, Haryana-121004

Village Mumrejpur, Dibai, Bulandsaher, Uttar Pradesh.

Village Kumarherha, NH-73, Saharanpur, Uttar Pradesh.

Bakra Mandi, Ajmer, Rajasthan,

Village: Ram Nagar, Hardoi Road, Sitapur, Uttar Pradesh

Village: Jarar, Tehsil: Bah, District: Agra, Uttar Pradesh

Listing Detail

BSE Limited
National Stock Exchange of India Limited

Depositories Detail

National Securities Depository Limited
Central Depository Securities (India) Limited

Bankers

Andhra Bank
Allahabad Bank
Bank of Baroda
Bank of India
Canara Bank
Central Bank of India
Corporation Bank
Dhanlaxmi Bank
IDBI Bank Ltd
Syndicate Bank

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COMPANY AT A GLANCE:

Kwality Limited, a public limited company, was incorporated on August 21, 1992, under the Companies Act, 1956 with the name **Kwality Dairy (India) Limited**. The name of the Company was later on changed to **Kwality Limited**. The Equity Shares are listed on BSE and NSE.

Presently the Company is having owned & leased six milk processing units in UP, Haryana & Rajasthan with 29 fully operating milk chilling centres. The Softa manufacturing plant at Palwal (Haryana) is a state of Art plant, equipped with all modern techniques, dedicated primarily to the production and manufacture of value added Dairy Products. The Company is having 4.3 Mn Litres/day Milk Handling Capacity across six plants. Our most modern Plant at Softa has a milk handling capacity of approx. 9 lakh litres per day for the production of **various value added Dairy Products** which **includes Flavoured Milk, UHT Milk & Cream among others**. **Recently, the Company has launched new products like Flavoured Milk and Thandai.**

Kwality Limited believes that Customer satisfaction is supreme, who is rightfully entitled for Quality Dairy Products. In furtherance thereto, the Kwality Limited is simultaneously increasing the direct procurement of milk from farmers, which forms the maximum part of the total milk purchased by the Company while residual being sourced from third party aggregators, who are strictly complying with quality standards fixed by Kwality Limited, which are alike to International Standards, to ensure Dairy Products of International standards.



OUR VISION AND MISSION

OUR VISION IS TO BECOME A GLOBAL LEADER IN DAIRY FOOD BUSINESS AND
TO BE CONNECTED TO MILLIONS OF HEARTS.

We are committed to achieve our Mission by manufacturing Consumer safe Products of
High International Quality Standards with continuous improvements through Research &
Developments at competitive rates.

PRODUCT PORTFOLIO



Chairman's Message

Dr. Rattan Sagar Khanna
Chairman



Dear Shareholders,

World over, dairy is serving over 7 billion consumers, providing livelihoods for approximately 1 billion people. Reformist Policies of Government of India has strengthened the progress path of the Dairies in India. Over the past decade, India has seen a substantial rise in per capita income and purchasing power parity and more accessible Dairy market.

Indians are becoming more health and product conscious, embracing milk-based products for health related matters. The increasing preference for value-added milk products has also fueled demand for milk production. Aging population in India view milk as a vital protein source and approximately 29% of the India's 1.2B population is vegetarian, makes milk and milk-based products highly sought-after sources of protein.

As the world leader in milk production, India's imports are minimal. In 2017-18, India exported 39,556.55 MT of Dairy products worth an estimated **Rs. 94,202.38** Lakh to major export destinations namely Bangladesh, Pakistan, UAE, Singapore and Nepal. India's share in the global milk trade has historically been low, due to limited quantity available for exports, after accounting for domestic demand; regular bans on export of high-volume products like milk powder by the Government and uncompetitive pricing of Indian Dairy products in global markets.

According to the latest statistics published by the United Nations Food and Agriculture Organization (FAO), per capita milk consumption has reached 85 kg or 2.2 times the 1980 level, indicating forward growth going. The Indian Government has predicted that milk consumption in FY 2023 (April 2023-March 2024) will be 1.7 times higher than the FY 2015.

Indian Dairy farming is manifested in low productivity. An International comparison based on FAO statistics shows that milk production per head of cattle per day amounts to 27.8 kg in the United States and 22.5 kg in Japan (2014), compared with just 4.0 kg for a Dairy cow and 5.2 kg for a buffalo in India. Longer term growth in the country's milk production sector will depend largely on herd restructuring. To keep pace with future growth in demand, the Indian Dairy Industry needs to improve productivity on priority. Productivity improvement measures under National Action Plan for Dairy Development include the introduction of exotic cows, cross breeding and the improvement of nutrition and hygiene of folk. The Plan aims to increase daily output per cow to 7.1 kg by FY 2023.

Between December 2016 and December 2017, international price of SMP slumped by 20% and now stands at 1800 US\$ per ton from a high of 2850 US\$ per ton in March 2016. The comparative price of AMF fell by 10% and now stands at 3485 US\$ per Ton. The prices have reached a low level equilibrium, lowest compared to past many years. The slump in international prices is essentially due to reduction in imports by few major consuming countries in the world. China, the world's biggest Dairy importer, imported 40% less this year. The traditional large importer, Russia, reduced imports by 30%. Reduction in World trade of Dairy commodities had a cascading effect on the major exporting countries, leading to reduction in producer prices of milk. Reports indicate that in New Zealand, milk prices paid to their milk producers declined by 40% during past 2 years and in EU milk prices to the producers fell by 25% during the above period. Many countries and Governments are devising innovative ways to handle the crisis. Indian Government has also accelerated steps to provide Rs. 8,000 Crore (US\$ 1.2 Billion) budgetary supports during financial year 2018-19, to improve dairies and economy of Milk Producers and to adopt modern technologies for improving quality of Milk and Milk Products.

The Company has evolved massive infrastructure to encompass systems and processes, designed to safely transport and sustain Dairy products and to create better market linkages. This trend is indicative of the tremendous future opportunity for our Company.

The company has transparent strategy, a strong vision, robust values and a team of experienced employees. We are progressing systematically to achieve our Goals by sticking to our strategy and continuing to invest for modernisation of our plants as also our existing leading brands. Our devout readiness to proactively reshape our business to cope with new challenges will definitely result in sustained growth and long-term value creation for everyone associated with the Company.

Kwality takes quality and food safety very seriously all along the supply chain. Every product has to pass very stringent quality standards before being released for the market. The reality is that At Kwality we treasure this trust always and every time.

Our Success lies in having our strong bonds with the Milk Producers, Our Employees, Dealers, Distributors, Ultimate Consumers and finally the Investors. This role foundation is writing success stories for Kwality Limited in short span and shall continue to write new success stories in future to grow further in Dairy Sector. We will continue our whole hearted support for social upliftment initiatives for Milk Producers, affirmation for checks on adverse environmental impacts, modernization of Units and Employees safety, apart from continuous support to Milk Producers by providing affordable Animal feed and veterinary services.

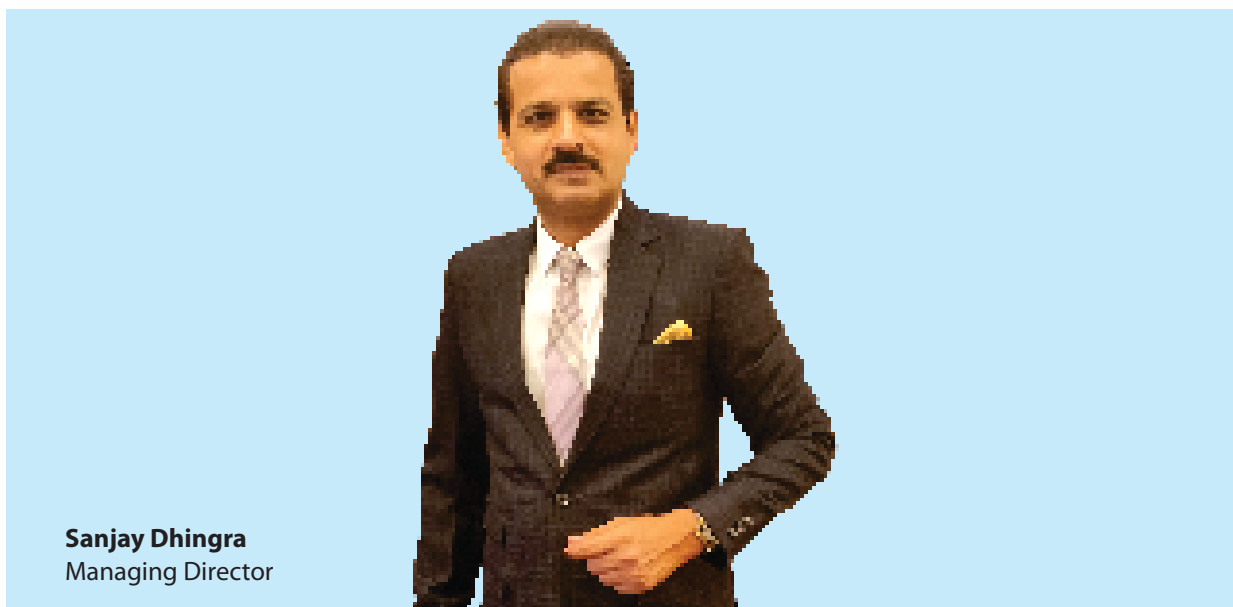
We are confident to continue our success journey with transition in our business mix and business sustainability. I thank all my Stakeholders, who always stood by us not only in journey of value creation but also in hard times of crisis.

Sincerely,

Dr. RATTAN SAGAR KHANNA

Chairman

Review By The Managing Director



Sanjay Dhingra
Managing Director

Dear Shareholders,

Kwaliti Limited is not just a Dairy Company but a Corporate entity with integrated business model and strong R&D capabilities, having a strong backend of milk procurement process, strong bonding relations with grass root level Milk Producers and armed with pioneering Dairy products of Commendable quality emerging ahead of any competition.

It is fast emerging largest Private Sector Dairy of India, developing Dairy products through innovation, with International standards in India. With cutting-edge technology, the Company is expanding its geographic presence and adding to its existing Products range, emphasizing for health and nutrients, transforming rapidly towards B2C business by successfully executing corporate strategies.

The year gone by had been extremely challenging for the Company. During the year under report, your Company attained consolidated growth of 6.49% due to initiatives contribution of all Stakeholders and blessings of esteem Customers. The business of Company has attained new heights touching Rs. 73326 mn. The Company achieved growth 14.83% of EBITDA from Rs. 4673 mn in FY 2016-17 to Rs.5366 mn in FY 2017-18. On the front of Profits, there is marginal dent, which is resultant of some external constraints beyond control. This happens in general during transition period of an Institution, which will be overcome in current financial year with immense support from our valued Stakeholders.

The Dairy scenario, in the year under report, remained different compared to past many years. India is no exception, events in other countries affected our country too. There has been a global meltdown in the agricultural commodity prices during the year including milk. As per FAO annual food price indices, Dairy price index has slumped in 2017 over 2016, highest among all agricultural commodity prices. The Food Price index has declined by 19%. This had an adverse impact upon our Export business and also on the performance of our Dubai based fully owned Subsidiary.

You are aware that between December 2016 and December 2017, international price of SMP slumped by 20% and now stands at 1800 USD per ton from a high of 2850 USD per ton in March 2016. The comparative price of AMF fell by 10% and now stands at 3485 USD per Ton. The prices have reached a low level symmetry, lowest compared to past many years. The slump in international prices is basically resultant of high reduction in imports by few major consuming countries in the world. China, the world's biggest Dairy importer, imported 40% less this year. The traditional large importer, Russia, reduced imports by 30%. Reduction in World trade of Dairy commodities had a cascading effect on the major exporting countries, leading to reduction in producer prices of milk. Reports indicate that in New Zealand, milk prices paid to their milk producers declined by 40% during past 2 years and in EU milk prices fell by 25% during the said period. This decrease in demand for Dairy products, coupled with continued production growth between 2015 and 2017 in key export markets, resulted in total output of milk increasing in Australia (4%), the European Union (2%), New Zealand (5%) and the United States (1%). This International trend had also impacted upon your Company, but we are confident to emerge as a stronger Dairy Company very shortly.

Your Company is presently tied up with temporary financial crunch, due to delay in release/ disbursement of enhanced working Capital by a few of the Consortium Member Banks, though modernised plant is fully functional. The situation has further been aggravated due to blocking of a part of already sanctioned working Capital by a few of the Consortium Members, which hindered day to day working of the Company. The financial constraints are further fuelled by default/ delay in repayment by Company's Debtors. Thus, paucity of working funds is prime reason affecting performance of the Company. This is a fleeting stage being faced by the Company and Company Management is devoutly committed to have holistic approach to come out of this phase and take the Company to new heights of success.

Tackling challenges, managing risks and controls are an integral part of the business planning of the Company. Challenges and risks ahead have been identified by the Company across all key functional levels – both strategic and operational, which commenced from Milk Procurement, Processing and Quality control to the ultimate point of sale. The ironic mix experience of both Management and Operations Teams of Kwaliti Limited foresee emerging inland and foreign trends and to cope with product requirements and to grab challenges and frame short-term and long-term strategies for constant growth.

As an initial measure, to stabilize existing financial crisis, the Company has already initiated warranted processes for bringing funds shortly in the system.

The Management is of the opinion that broad strategies for quality and safe Dairy Products may play vital role in capitalizing the future opportunities in market. The mounting demands for different Dairy Products have mammoth Scope of expanding the range of value-added new Dairy Products.

Empowering consumers is our first moto. We strongly focus on understanding the changing lifestyles, the sprouting needs and changes in dietary preferences to develop our products suiting to Customers. Future success of Company lies in Customer centric approach only. Kwaliti assure that at all stages of the manufacturing, it ensures that only those products go out for sale to Consumers which are safe, nutritious and of high quality as the 'Kwaliti' name itself connotes the 'Guarantee of Quality'.

The wellbeing of the community from where we draw our raw materials is significant for us. Their Prosperity and happiness are our dreams at the heart. Management approach to business is to create Shared Value - prosperity for the Milk Producers, while delivering long term shareholder value. In this furtherance and for their benefits, the Company has entered into MOUs with a few of the Consortium member Banks for arranging hassle free Cheapest Loans to village women and Farm Less Farmers without margin money, Guarantee and Collaterals etc. This is in view to increase direct procurement of milk having less dependency upon Intermediaries. In addition to above, the Company is also arranging Cheap Loans through IDBI Bank for establishment of chain of Milk Chilling Centres and purchase of Milk Vans to genuine constituents, having long association with the Company.

Indian market is complex blending with its traditional knowledge and values with new modernity and demands a very resourceful multifaceted supply chain configuration. The product portfolio of your Company needs to be supported by augmented innovation and makeover to stay relevant to the emergent distinguished needs of the consumers.

Company's emphasis on uprightness, reliability and transparency has translated into the fundamental bond of Trust amongst its wholesome Customers with its unique state-of-the-art manufacturing facilities, efficient supply chain, sales automation coupled with extensive reach and reportage in its target markets, is the foundation of our intense relationships with Customers. The core of Kwaliti is its vision to provide its Customers with both taste and nutrition and we are able to achieve this because of intensive Research and technology developments for years together to tackle this challenge. We have engaged internationally reputed consultancy firm 'Ernest & Young' to support Company's endeavor to ensure that warranted transformation is applied seamlessly. At a time when the external outlook does not appear promising, it is important that all stakeholders work together to safeguard the interests both of domestic Milk Producers and the Company.

The Management at Kwaliti solemnly affirm its sole commitment to serve not only India but globally with your extended hands of cooperation, as hitherto.

I conclude by thanking our work force who contributes hard at all level in achieving business goals. I also thank for innumerable support and cooperation extended by Stakeholders, Bankers and Lenders of the Company.

Sincerely yours,
SANJAY DHINGRA
Managing Director