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## Kwality continues on its downward spiral

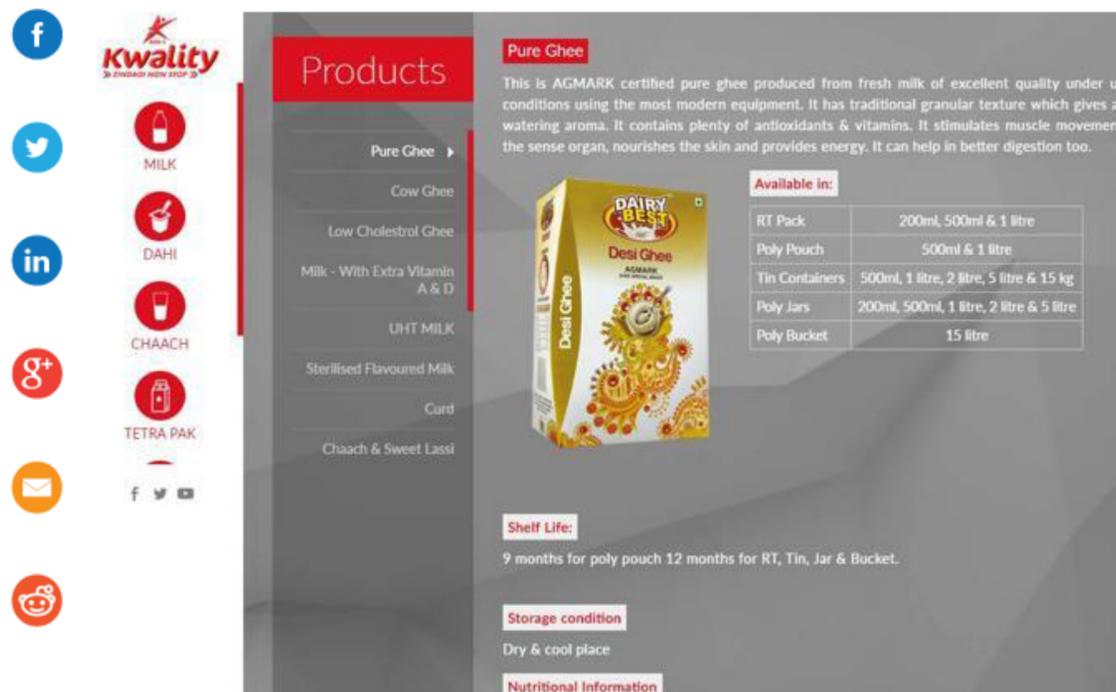
The ratings firm Brickwork Ratings has downgraded dairy major Kwality's long-term and short term rating of bank loan facilities to D from triple B minus on Thursday

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✉ Swaraj Singh Dhanjal

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Dairy major Kwality Ltd continues on a downward spiral with the latest blow coming from ratings firm **Brickwork Ratings** downgrading its long-term rating and short term rating of bank loan facilities to D from triple B minus on Thursday.

The ratings downgrade comes as “the situation has suddenly turned worse,” said the rating agency. “The accounts have turned irregular and many banks have classified their credit facilities as substandard,” it explained.

Over the past year, the company known for its products like ghee, milk powder, dairy whitener, milk, chach, paneer and cheese under the brand name of Dairy Best, has been facing liquidity issues as its share prices kept hitting a new low on an almost daily basis causing investors and lenders to invoke their shares. Moreover, given the negative sentiments, the promoters have not been able to bring in fresh capital, further restricting its cash flow cycle, said the report.

Moreover, some banks have also received an income-tax attachment order due to the Kolkata-headquartered company delaying and/or defaulting in meeting statutory commitments. This has further restricted its ability to pass on credits with lending banks which have received the order, resulting in a build-up of overdrawings, the **Brickwork Ratings** report said.

“The NCDs (non-convertible debentures) are also not being serviced on time as per investor feedback, and hence, the ratings are downgraded to ‘D’,” said the Report. D, is the lowest rating by the firm and instruments with this rating are in default or expected to be in default soon.

“I can’t say anything right now. I will come back to you in a months time with appropriate information,” a company spokesperson told Mint when asked about its plans and the ratings downgrade.

In the last three months, Kwality’s stock had hit a new 52-week low almost every other day to close at Rs 21.05 on Friday. Its market cap is down to Rs 508.05 crore from Rs 2879.80 crore a year ago on the Bombay Stock Exchange.

As of March 2018, the company had a debt of Rs 1637.51 crore, according to financial data provider Capital Line. Its interest outgo at Rs 233.18 crore accounted for 43.46% of its total operating profit of Rs 536.60 crore. Its debt equity ratio has improved over the years to 1.32 in FY18 from 3.69 in FY12.

However, the company has delayed releasing its first quarter results. In FY18, the company’s revenues had improved as it had implemented a new unit in February 2017 increasing its production capacities. However, its profitability continued to decline. During FY18, the net profit of the company stood at Rs 71 crore, down from Rs 164 crore a year ago. Revenues grew to Rs 6,724 crore in FY18 from Rs 6,131 crore a year ago.

Meanwhile, the last quarter has seen quite a few investments and exits I’m India’s dairy sector from multinationals. During the quarter, India’s largest listed consumer packaged goods company by sales Hindustan Unilever Ltd bought the frozen dessert business of Karnataka-based Vijaykant Dairy and Food Products under the Aditya Milk brand; Newzealand’s Fonterra Co-operative Group Ltd signed a joint venture with Future Group, trying their luck for the third time in India. On the flip side, French multinational Groupe Danone exited the dairy space in India and Parag Milk Foods bought out its dairy processing plant operations in North India.

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