CiplaQCi
ACCESS TO QUALITY AFFORDABLE MEDICINES

Cipla Quality Chemical Industries Limited 2019-20 Financial Results

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The Directors of Cipla Quality Chemical Industries Limited ("CiplaQCIL" or "the Company") present the condensed financial statements for the twelve months ended 31 March 2020.

Independent auditor's report to members of Cipla Quality Chemical Industries Limited

Opinion

The condensed financial statements, which comprise the statement of financial position as at 31 March 2020, the condensed statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended and related notes, are derived from the audited financial statements of Cipla Quality Chemical Industries Limited ("the Company") for the year ended 31 March 2020.

In our opinion, the condensed financial statements are consistent, in all material respects, with the audited financial statements of the Company for the year ended 31 March 2020 on the basis described in the Basis of preparation section of the condensed financial statements.

Condensed financial statements

The condensed financial statements do not contain all the disclosures as required by International Financial Reporting Standards (IFRS) and the Companies Act, 2012. Reading the condensed financial statements and the auditors' report thereon, therefore, is not a substitute for reading the audited financial statement and the auditor's report thereon.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the audited financial statements in our report dated 11 June 2020. That report also includes the communication of Key Audit Matters. Key Audit Matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements for the year ended 31 March 2020.

Responsibilities of management for the condensed financial statements

The Directors are responsible for the preparation of the condensed financial statements as described in basis of preparation section of the condensed financial statements.

Auditor's responsibilities for the audit of the condensed financial statements

Our responsibility is to express an opinion on whether the condensed financial statements are consistent in all material aspects, with the audited financial statements based on our procedures which were conducted in accordance with International Standard on Auditing (ISA) 810 (Revised), Engagements to Report on Summary Financial Statements.

Grant Thornton
Certified Public Accountants
11 June 2020
Kampala, Uganda

Condensed Statement of Comprehensive Income

	2020 USh s '000	2019 UShs '000
Revenue	192,681,692	195,136,338
Cost of sales	(155,736,503)	(141,646,451)
Gross profit	**36,945,189**	**53,489,887**
Other income	38,507	187,538
Impairment allowance on financial assets	(32,169,969)	(3,041,727)
General and administrative expenses	(36,617,171)	(40,923,582)
Operating (loss)/profit	**(31,803,444)**	**9,712,116**
Finance costs and finance income - net	(3,928,097)	(2,584,096)
(Loss)/profit before tax	**(35,731,541)**	**7,128,020**
Income tax credit/(expense)	12,658,678	(342,287)
(Loss)/profit for the year	**(23,072,863)**	**6,785,733**
Other comprehensive income	-	-
Total comprehensive (loss)/income for the year	**(23,072,863)**	**6,785,733**
Basic and diluted (loss)/earnings per share	**(6.32)**	**1.86**

Condensed Statement of Financial Position

	2020 UShs '000	2019 UShs '000
ASSETS		
NON-CURRENT ASSETS		
Property, plant, equipment and right-of-use assets	54,189,768	27,859,821
Capital work-in-progress	19,279,748	33,550,933
Leasehold property	-	2,776,233
Intangible assets	1,358,075	1,738,132
Deferred tax asset	10,501,984	-
	85,329,575	65,925,119
CURRENT ASSETS		
Inventories	70,725,283	81,221,162
Trade and other receivables	87,577,600	140,037,976
Current tax receivable	758,584	-
Cash in hand and at bank	4,075,600	714,329
	163,137,067	221,973,467
TOTAL ASSETS	**248,466,642**	**287,898,586**
EQUITY AND LIABILITIES		
EQUITY		
Issued capital	45,648,865	45,648,865
Capital grant	2,275,000	2,275,000
Retained earnings	97,313,531	120,386,394
	145,237,396	168,310,259
NON-CURRENT LIABILITIES		
Deferred tax liability	-	2,156,694
Lease liabilities	406,695	-
	406,695	2,156,694
CURRENT LIABILITIES		
Lease liabilities	289,725	-
Trade and other payables	55,457,879	65,512,755
Bank overdraft	47,074,947	51,918,878
	102,822,551	117,431,633
TOTAL EQUITY AND LIABILITIES	**248,466,642**	**287,898,586**

Condensed Statement of Cash Flows

	2020 UShs '000	2019 UShs '000
OPERATING ACTIVITIES		
(Loss)/profit before tax	(35,731,541)	7,128,020
Adjustment for:		
Impairment allowance	32,169,969	3,041,727
Depreciation	6,393,020	4,878,464
Amortisation	429,368	231,612
Provision for obsolete inventories	1,307,036	533,731
Gain on disposal of property and equipment	(2,730)	(128,768)
Interest expense	3,960,507	1,253,973
Interest income	-	(9,601)
	8,525,629	**16,929,158**
Less: Interest paid	(3,960,507)	(1,253,973)
Tax paid	(758,584)	-
Changes in working capital		
- in inventories	9,188,843	(44,536,725)
- in trade and other receivables	20,290,407	(50,480,440)
- in trade and other payables	(10,054,876)	29,919,024
Net cash generated from operating activities	**23,230,912**	**(49,422,956)**
INVESTING ACTIVITIES		
Proceeds from sale of property, plant and equipment	2,730	128,768
Purchase of property, plant and equipment	(3,535,093)	-
Additions to capital work-in-progress	(11,311,254)	(12,250,490)
Purchase of intangible assets	(49,311)	(187,693)
Interest received	-	38,983
Maturity of placements with financial institutions	-	11,049,000
Net cash used in investing activities	**(14,892,928)**	**(1,221,432)**
FINANCING ACTIVITIES		
Dividend paid	-	(11,117,996)
Payment of lease liabilities	(132,782)	-
Net cash flows used in financing activities	**(132,782)**	**(11,117,996)**
Net change in cash and cash equivalents	8,205,202	(61,762,384)
Cash and cash equivalents at start of year	(51,204,549)	10,557,835
Cash and cash equivalents at end of year	**(42,999,347)**	**(51,204,549)**

FY 2019-20

Condensed Statement of Changes in Equity

	Issued capital UShs '000	Capital grant UShs '000	Proposed dividends UShs '000	Retained earnings UShs '000	Total UShs '000
At 31 March 2018 - as previously reported	45,648,865	2,275,000	-	126,165,384	174,089,249
Impact of adoption of IFRS 9	-	-	-	(2,066,753)	(2,066,753)
Deferred tax on adoption of IFRS 9	-	-	-	620,026	620,026
At 1 April 2018 - restated	**45,648,865**	**2,275,000**	**-**	**124,718,657**	**172,642,522**
Profit for the year	-	-	-	6,785,733	6,785,733
Proposed dividend	-	-	11,117,996	(11,117,996)	-
Dividend paid	-	-	(11,117,996)	-	(11,117,996)
At 31 March 2019	**45,648,865**	**2,275,000**	**-**	**120,386,394**	**168,310,259**
At 1 April 2019	45,648,865	2,275,000	-	120,386,394	168,310,259
Loss for the year	-	-	-	(23,072,863)	(23,072,863)
At 31 March 2020	**45,648,865**	**2,275,000**	**-**	**97,313,531**	**145,237,396**

Basis of preparation

The condensed financial statements of the Company for the year ended 31 March 2020 were prepared in accordance with the criteria established by management under which the Company discloses the condensed statements of financial position, comprehensive income, cash flows and changes in equity. The condensed financial statements are derived from the audited financial statements of the Company which are prepared in accordance with International Finance Reporting Standards (IFRS) and in a manner required by the Companies Act, 2012.

Abbreviations

ARV:	Antiretroviral medications that are used for the t reatment of HIV/AIDS
ECOWAS:	Economic Community of West African States
FY:	Financial Year
GMP:	Good Manufacturing Practices
GOU:	Government of Uganda
GOZ:	Government of Zambia
IFRS9:	International Financial Reporting Standards regarding Financial Instruments
NDA:	National Drug Authority
PMI:	President's Malaria Initiative
SAHPRA:	South African Health Products Regulatory Authority
TEE:	Tenofovir- Emtricitabine-Efavirenz
TLD:	Tenofovir- Lamivudine-Ootutegravir
UShs:	Ugandan Shillings
USD:	United States Dollar
WHO:	World Health Organization

About the Company

CiplaQCIL is a pharmaceutical manufacturer based in Kampala, Uganda whose manufacturing facility was commissioned in 2009. In September 2018, CiplaQCIL became the first publicly listed pharmaceutical company in East Africa following successful Initial Public Offering on the Uganda Stock Exchange. The Company focuses primarily on the production of quality WHO pre-qualified first-line treatments for HIV/AIDS and Malaria. It also manufactures the two first-line WHO-recommended therapies for Hepatitis B. CiplaQCIL obtained regulatory approval for the new first line triple combination ARV therapy for males, tenofovir lamivudine dolutegravir, from National Drug Authority (NDA), Uganda in January 2019.

Developments during the year

In the second half of this year, CiplaQCIL completed its UShs 8 billion quality control laboratory at its Luzira site. This new laboratory incorporating analytical machinery will provide sufficient quality testing capacity to enable the Company meet its ambitious growth targets. The space vacated by the old laboratory will be utilised to enhance manufacturing capacity.

During the year, the Company received a renewal of its World Health Organization Good Manufacturing Practices (WHO GMP) qualification for a further three years. This is the fourth time this WHO GMP qualification has been renewed. In addition to its WHO GMP qualification, the Company received GMP approval from Zazibona (the grouping of nine Southern African countries) and SAPHRA, the South African regulatory body. SAPHRA also approved two ARV's, Tenofovir, Emtricitabine, Efavirenz (TEE) and Tenofovir, Lamivudine, Dolutegravir(TLD)for supply to South Africa. TEE is one of the leading ARV's prescribed in Southern Africa. As elsewhere, TLD will be phased in as the first line ARV therapy in South Africa. Forty-five regulatory filings were made during the year in the fifteen Countries of the ECOWAS regional grouping in West Africa. At year end, the Company had product regulatory approvals in 15 African markets: five in East Africa, two in West Africa and eight in Southern Africa.

The Company has made an additional impairment allowance in line with the requirement of IFRS 9, to that announced in the H1 results. The impairment relates to the length of time taken to collect receivables from the Government of Zambia (GOZ). The Board, with the help of the Government of Uganda (GOU), has engaged the GOZ to expedite the settlement of the outstanding balance. The GOZ has confirmed its intent to settle these receivables as soon as possible. Furthermore, management is also exploring other avenues to recover these funds. Any reduction in outstanding balances from GOZ will result in a reversal of the impairment allowance to that extent.

The cessation of orders supplied to GOZ combined with the impairment allowance for the delayed payments are the principal factors which have resulted in the Company recording a loss for the FY 2019-20.

Management sought to minimise the reduction in GOZ related revenue by increasing donor funded sales of malaria products. To a certain extent this was successful with Global Fund sales increasing significantly to USD 16.4 million from USD 2.6 million in the prior year. The first ever sales were made to the President's Malaria Initiative (PMI), the first time the Company has supplied United States Aid funded orders. PMI funded business is anticipated to be a contributor to sales growth in the financial year 2020-21. However, whilst donor funded business increased substantially it could not fully make up for the decline in GOZ business.

Operations

In FY 2019-20 significant initiatives were implemented to support the Company's "Africa for Africa" ambition.

- Expansion of manufacturing capacity through the installation of new production machinery and the operationalising of three working shifts schedule.
- Expansion of the Company's regulatory footprint, particularly in Western and Southern Africa.
- Expansion and diversification of the customer base to new countries and partners such as PMI.
- Technology manufacturing transfer of new key products such as TEE.

Financial results

Revenue
Local sales increased by 18% in FY 2019-20 due to increased orders from international health organisations for delivery in Uganda. Reduction in export sales by 53% resulted mainly from suspension of sales to GOZ due to delayed payments for previous deliveries.

The benefit of the increase in local sales reduced the impact of ceasing sales to the GOZ. This resulted in sales closing at UShs 193 billion (2019: UShs 195 billion).

Gross profit reduced from 27% in FY 2018-19 to 19% in FY 2019-20 mainly due to change in product mix in the new orders received after suspension of sales to GOZ and increase in orders from international health organizations. The margins were further affected by increased competition in some of the product ranges, which in turn, put pressure on pricing to remain competitive.

Impairment allowance on financial assets increased by UShs 29 billion from UShs 3 billion (FY 2018-19) to UShs 32 billion (FY 2019-20) due to the continued delay in receiving payments from GOZ.

General and administrative expenses reduced by UShs 4 billion or 11% mainly due to the one-off share listing expenses, reduction in legal expenses and reduction in rental costs resulting from commissioning of Company owned warehouse.

Finance costs increased due to additional utilisation of the short-term borrowing facility to cover the working capital gap created by long outstanding amounts from GOZ.

(Loss)/profit before tax
The Company recorded a loss of UShs 36 billion in FY 2019-20 compared to a profit of UShs 7 billion in FY 2018-19 mainly due to the additional impairment allowance, drop in gross margins and increase in interest on overdraft.

Cash flows from operations increased to UShs 23 billion from a deficit of UShs 49 billion in FY 2018-19 partly due to improved collections from customers. Payments to suppliers increased due to increased purchases of stock in the previous year to manage risks associated with dependence on imports from China. The UShs 15 billion used in investing activities was mainly to facilitate the completion of the CiplaQCIL Quality Control laboratory. The overall increase in cash and cash equivalents in FY 2019-20 was UShs 8 billion.

Dividend

The directors do not recommend payment of a dividend for the financial year ended 31 March 2020 (2019: Nil).

Message from the Directors

The above condensed financial statements are derived from the Company's financial statements which were audited by Grant Thornton Certified Public Accountants, who issued an unqualified opinion. A copy of the audited financial statements can be obtained from CiplaQCIL's Registrar; M/s Uganda Securities Exchange Nominees Ltd located at Plot 3-4 New Port Bell Road, UAP Nakawa Business Park, Block A, 4th Floor.

The financial statements can also be viewed on our website:
www.ciplaqcil.co.ug

The financial statements were approved by the Board of Directors on 10 June 2020.

Emmanuel Katongole
Executive Chairman

Nevin Bradford
Chief Executive Officer