CiplaQCi

ACCESS TO QUALITY AFFORDABLE MEDICINES

End Year Results 2018/2019

The Directors of Cipla Quality Chemical Industries Limited (CiplaQCIL or CQCIL) are pleased to present the audited financial statements for the twelve months ended 31 March 2019. These have been audited by Ernst & Young, CiplaQCIL's independent auditors.

FY 2018 / 2019

Condensed Statement of Comprehensive Income

	31 March 2019 Ushs	31 March 2018 Ushs
Revenue from contracts with customers	195,136,338,342	227,315,026,586
Cost of sales	(125,544,798,927)	(130,931,677,275)
Gross profit	**69,591,539,415**	**96,383,349,311**
Other income	197,138,936	165,436,810
Net foreign exchange (losses)/gains	(1,339,724,099)	1,176,439,594
	68,448,954,252	**97,725,225,715**
Expected credit losses on financial instruments	(3,041,727,215)	(204,259,180)
Administration expenses	(23,689,206,308)	(17,065,653,734)
Staff expenses	(27,682,424,771)	(29,146,895,139)
Other operating expenses	(543,526,839)	(685,076,228)
Operating profit before depreciation and amortisation	**13,492,069,119**	**50,623,341,434**
Finance costs - interest on overdraft	(1,253,973,426)	
Amortisation and depreciation	(5,110,075,906)	(6,629,854,984)
Profit before tax	**7,128,019,787**	**43,993,486,450**
Income tax (expense) / credit	(342,286,961)	633,751,980
Profit for the year	**6,785,732,826**	**44,627,238,430**
Other comprehensive income, net of tax		
Total comprehensive income for the year, net of tax	**6,785,732,826**	**44,627,238,430**
Basic and diluted earnings per share	**1.86**	**12.22**

Condensed Statement of Financial Position

	31 March 2019 Ushs	31 March 2018 Ushs
ASSETS		
NON-CURRENT ASSETS		
Property, plant and equipment	27,859,819,704	31,298,534,645
Capital work-in-progress	33,550,933,420	24,153,027,590
Leasehold land	2,776,233,050	2,776,233,050
Intangible assets	1,738,132,750	369,216,970
	65,925,118,924	58,597,012,255
CURRENT ASSETS		
Inventories	81,221,162,838	37,218,169,221
Trade and other receivables	139,701,011,585	91,844,847,136
Fixed deposit		11,078,381,594
Cash and bank balances	714,328,859	10,557,834,535
	221,636,503,282	150,699,232,486
TOTAL ASSETS	**287,561,622,206**	**209,296,244,741**
EQUITY AND LIABILITIES		
EQUITY		
Issued capital	45,648,865,000	45,648,865,000
Capital contribution	2,275,000,000	2,275,000,000
Retained earnings	120,386,394,115	126,165,384,148
	168,310,259,115	174,089,249,148
NON-CURRENT LIABILITIES		
Deferred income tax liability	2,156,694,148	2,434,433,138
CURRENT LIABILITIES		
Bank overdraft	51,918,877,981	
Trade and other payables	65,175,790,962	32,772,562,455
	117,094,668,943	32,772,562,455
TOTAL EQUITY AND LIABILITIES	**287,561,622,206**	**209,296,244,741**

Abbreviations

ACT	*Artemisinin-based combination therapies, the recommended therapy by the WHO for non-complicated malaria*
ARV	*Antiretroviral medications that are used for the treatment of HIV/AIDS*
EBITDA	*Earnings before interest, taxation, depreciation and amortisation*
GOU	*Government of Uganda*
GOZ	*Government of Zambia*
H1; H2	*First Half Year; Second Half Year*
IFRS 9	*International Financial Reporting Standards regarding Financial Instruments - Effective 1 January 2018*
MHZ	*Ministry of Health, Zambia*
NMS	*National Medical Stores*
USHS	*Ugandan Shillings*
USA	*United States of America*
WHO	*World Health Organization*

Condensed Statement of Cash Flows

	31 March 2019 Ushs	31 March 2018 Ushs
OPERATING ACTIVITIES		
Profit before tax	7,128,019,787	43,993,486,450
Adjustment for:		
Unrealised foreign exchange (gains)/losses on bank balances and fixed deposits	(56,646,845)	132,586,905
Provision for bad debts	3,041,727,215	204,259,180
Depreciation	4,878,463,863	6,089,691,406
Amortisation of intangible assets	231,612,043	540,163,578
Asset write off		221,213,795
Stock write off	(63,797,787)	(740,990,655)
Provision for obsolete inventories	597,528,562	63,797,787
(Gain)/loss on disposal of property and equipment	(128,767,785)	86,507,039
Interest income	(9,600,894)	(87,902,710)
Finance costs	1,253,973,426	
Cash flows before working capital changes	**16,872,511,585**	**50,502,812,775**
Increase in inventories	(44,536,724,392)	(8,308,299,442)
Increase in trade and other receivables	(52,964,644,834)	(3,687,851,915)
Increase in trade and other payables	32,403,228,507	7,589,535,555
Cash flows (used in) / generated from operations	(48,225,629,134)	46,096,196,973
Interest received	38,982,488	58,521,116
Interest paid on bank overdraft	(1,253,973,426)	
Net cash flows (used in) / generated from operating activities	**(49,440,620,072)**	**46,154,718,089**
INVESTING ACTIVITIES		
Fixed deposit held	11,049,000,000	(10,905,000,000)
Purchase of property, plant & equipment		(1,430,357,821)
Investment in capital work in progress	(12,250,489,981)	(25,887,347,416)
Purchase of intangible assets	(187,692,594)	(38,359,800)
Proceeds from disposal of property and equipment	128,767,785	10,148,304
Net cash flows used in investing activities	**(1,260,414,790)**	**(38,250,916,733)**
FINANCING ACTIVITIES		
Dividends paid	(11,117,995,640)	(10,892,825,976)
Net cash flows used in financing activities	**(11,117,995,640)**	**(10,892,825,976)**
Net decrease in cash and cash equivalents	(61,819,030,502)	(2,989,024,620)
Effect of exchange rate movements on cash and cash equivalents	56,646,845	(276,586,905)
Cash and cash equivalents at start of year	10,557,834,535	13,823,446,060
Cash and cash equivalents at end of year	**(51,204,549,122)**	**10,557,834,535**

Condensed Statement of Changes in Equity

	Issued capital Ushs	Capital contribution Ushs	Retained earnings Ushs	Proposed dividends Ushs	Total Ushs
At 1 April 2017	45,648,865,000	2,275,000,000	92,430,971,694		140,354,836,694
Total comprehensive income for the year			44,627,238,430		44,627,238,430
Proposed dividends			(10,892,825,976)	10,892,825,976	
Dividends paid				(10,892,825,976)	(10,892,825,976)
At 31 March 2018	**45,648,865,000**	**2,275,000,000**	**126,165,384,148**		**174,089,249,148**
At 1 April 2018	45,648,865,000	2,275,000,000	126,165,384,148		174,089,249,148
Impact of adoption of IFRS 9			(2,066,753,170)		(2,066,753,170)
Deferred tax on adoption of IFRS 9 (note 12 (a))			620,025,951		620,025,951
Revised opening balance:	**45,648,865,000**	**2,275,000,000**	**124,718,656,929**		**172,642,521,929**
Total comprehensive income for the year			6,785,732,826		6,785,732,826
Proposed dividends			(11,117,995,640)	11,117,995,640	
Dividends paid				(11,117,995,640)	(11,117,995,640)
At 31 March 2019	**45,648,865,000**	**2,275,000,000**	**120,386,394,115**		**168,310,259,115**

CiplaQCIL

CiplaQCIL is a state-of-the-art pharmaceutical manufacturer based in Kampala, Uganda whose manufacturing facility was commissioned in 2009. In September 2018 CQCIL became the first publicly listed pharmaceutical company in East Africa following its successful Initial Public Offering on the Uganda Stock Exchange.

The Company focuses primarily on the production of high 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. CQCIL obtained regulatory approval for the new first line triple combination ARV therapy for males, tenofovir lamivudine dolutegravir, from NDA Uganda in January 2019. Additional regulatory approvals are anticipated in the next Quarter. CQCIL is one of the first companies to manufacture this new ARV on the African continent.

In the first half of this year, CiplaQCIL completed its Ushs 12 billion, 4,500 pallet storage facility, distribution centre and warehouse that will enable the consolidation of several existing facilities and will provide ample warehousing to support future growth. In addition, CQCIL completed a significant capacity enhancement project that has increased its monthly output capacity by 30% to approximately 130 million tablets per month.

In addition to its WHO pre-qualification, CQCIL has been approved by national regulatory bodies across Africa, including Uganda, Kenya, Rwanda, Tanzania, Namibia, Ivory Coast, Zambia, Zimbabwe, Malawi, Mozambique, Ghana, Ethiopia, Angola and South Sudan.

Significant headwinds were faced in the last financial year. The decline in the Global Fund (GF) business was mainly due to the re-direction of funds from cure (medicines) to prevention. In addition, and across the funded markets, the increased competitiveness lead to price drops in both ARVs and Anti-Malarials. The base has been reset and companies are forced to find efficiencies to offset this impact. This, coupled with supply and pricing challenges out of China due to changing Environmental legislation, put margins under pressure in FY19.

The margin challenges highlighted the need for a strategic relationship to secure the supply of the Active Pharmaceutical Ingredients (API) at competitive prices. This remains a key focus area for the business in the current year.

To address the decline in the GF business CQCIL operationalized its long-term supply agreement for the supply of life saving, quality, affordable medicines with the Republic of Zambia. This, in addition to its agreement with the GoU and the supply contract with the GF, enabled CQCIL to supply more than 30 million malaria treatments across Africa as well as ARV's to more than 500,000 patients living with HIV in Uganda and Zambia.

We are extremely proud to announce that we recently secured the first ever tender award by the USA President's Malaria Initiative (PMI) for WHO Prequalified antimalarials to an Africa based manufacturer. This has been a work in progress over the past four years and shows the trust placed in our world class manufacturing facility.

First orders have been received and delivery should commence in the next 2 months in accordance with the requirements set out by PMI. CQCIL is strategically placed to maximize this opportunity due to the in-market presence, cost advantage due to lower freight charges versus non-African based manufacturers and our heightened ability to respond quickly to orders.

The Company is committed to achieving the vision of the African Union's Pharmaceutical Manufacturing Plan for Africa and the East African Community's Pharmaceutical Manufacturing Plan of Action.

Financial Results

Revenue: Despite achieving growth of 46% from our non-Global Fund related business vs FY18, the overall company revenue declined 14.2% from Ushs 227.3 billion to Ushs 195.1 billion. The PMI award referenced above is one example of how we are constantly in search of alternative revenue streams and product opportunities to future proof our business. Based on the current trend in Q1 we can expect some recovery in the GF business in FY20.

Gross Margin decreased by Ushs 26.8 billion to Ushs 69.6 billion largely due to the reduction in revenue. The gross margin percentage reduced by 6.7% to 35.7% which was due to a change in product mix and pressure in tender prices as expected.

Operational Costs increased by Ushs 7.9 billion. Additional Expenditure related mainly to the increased marketing and sales costs, the once-off IPO related (Ushs 2.5 billion) cost and adjustments based on IFRS 9.

Profit for the year decreased to Ushs 6.8 billion, compared to Ushs 44.6 billion in the prior year, largely due to the reduction in revenue and drop in gross margin percentage as explained above.

Cash Flows during the year also came under pressure and decreased by Ushs 59.3 billion. This was largely attributable to an increase in inventory to de-risk supplies out of China, an increase in receivables, investments in capex as well as the dividend payment. Post the end of the reporting period, receivables of Ushs 24.8 billion have been received, significantly improving this position.

Dividends: The Board has resolved not to pay an annual dividend at this time in order to invest in the business for growth, capex, working capital and a potential acquisition.

Potential Acquisition: The Board is investigating a small acquisition opportunity that will further support growth initiatives and diversification of our revenue sources. Further announcements will be made as appropriate.

Message from the Directors

A copy of the annual 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 were approved by the Board of Directors on 21 May 2019 on behalf of the Board by:

Emmanuel Katongole
Executive Chairman

Nevin Bradford
Chief Executive Officer