



ACCESS TO QUALITY AFFORDABLE MEDICINES

2020-21 Interim Financial Results

**Cipla Quality Chemical Industries Limited
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The Directors of Cipla Quality Chemical Industries Limited ("CiplaQCIL" or "the Company") present the unaudited condensed interim financial statements for the six months ended 30th September 2020.

Condensed Statement of Comprehensive Income

	6 months to 30 Sep 2020 (Unaudited) US\$'s 000	6 months to 30 Sep 2019 (Unaudited) US\$'s 000
Revenue	122,579,323	76,742,244
Cost of sales	(112,187,798)	(61,354,428)
Gross profit	10,391,525	15,387,816
Other income	120,226	16,008
Impairment allowance on financial assets	(9,399,882)	(11,358,995)
General and administrative expenses	(20,625,220)	(17,649,305)
Operating loss	(19,513,351)	(13,604,476)
Finance costs and finance income - net	(1,778,464)	(1,716,410)
Loss before tax	(21,291,815)	(15,320,886)
Income tax credit	4,950,781	833,361
Loss for the period	(16,341,034)	(14,487,525)
Basic loss per share	(4.00)	(3.97)

Condensed Statement of Financial Position

	At 30 Sep 2020 (Unaudited) US\$'s 000	At 31 Mar 2020 (Audited) US\$'s 000
ASSETS		
NON-CURRENT ASSETS		
Property, plant, equipment and right-of-use assets	63,495,618	54,189,768
Capital work-in-progress	8,030,434	19,279,748
Intangible assets	1,248,379	1,358,075
Deferred tax asset	15,452,765	10,501,984
	88,227,196	85,329,575
CURRENT ASSETS		
Inventories	81,972,049	70,725,283
Trade and other receivables	79,889,227	87,577,601
Current tax receivable	758,584	758,584
Cash in hand and at bank	426,970	4,075,600
	163,046,830	163,137,068
TOTAL ASSETS	251,274,026	248,466,643
EQUITY AND LIABILITIES		
EQUITY		
Issued capital	45,648,865	45,648,865
Other reserves	4,025,581	2,275,000
Retained earnings	80,972,497	97,313,531
	130,646,943	145,237,396
NON-CURRENT LIABILITIES		
Lease liabilities	488,627	406,695
CURRENT LIABILITIES		
Lease liabilities	101,245	289,725
Trade and other payables	63,988,262	55,457,880
Bank overdraft	56,048,949	47,074,947
	120,138,456	102,822,552
TOTAL EQUITY AND LIABILITIES	251,274,026	248,466,643

Abbreviations

ACT	Artemisinin-based combination therapies, the recommended therapy by the WHO for non-complicated malaria
AAV	Antiretroviral medications that are used for the treatment of HIV/AIDS
COVID-19	Coronavirus disease
FY	Financial Year
GoZ	Government of Zambia
H1	Half year ended 30 September 2020
H2	Half year ended 31 March 2021
IFRS9	International Financial Reporting Standards regarding Financial Instruments
NOA	National Drug Authority
TLD	Tenofovir - Lamivudine - Dolutegravir
US\$	Ugandan Shillings
USD	United States Dollar
WHO	World Health Organization
The current period	Six-months period ended 30 September 2020
The previous period	SUI months period ended 30 September 2019

Condensed Statement of Cash Flows

	6 months ended 30 Sep 2020 (Unaudited) US\$'s 000	6 months ended 30 Sep 2019 (Unaudited) US\$'s 000
OPERATING ACTIVITIES		
Loss before tax	(21,291,815)	(15,320,886)
Adjustment for:		
Impairment allowance	9,364,085	11,358,995
Depreciation	3,764,065	2,721,482
Amortisation	144,851	235,565
Consultancy costs	1,644,274	-
Provision for obsolete inventories	(2,587,418)	1,423,506
Gain on disposal of property and equipment	(33,898)	-
Interest expense	1,895,317	1,981,493
	(7,100,539)	2,400,155
Less: Interest paid	(1,895,317)	(1,981,493)
Tax paid	-	(758,584)
Changes in working capital		
- in inventories	(6,359,678)	7,804,907
- in trade and other receivables	2,312,675	14,916,585
- in trade and other payables	8,711,087	(21,693,734)
Net cash generated from operating activities	(4,331,772)	687,836
INVESTING ACTIVITIES		
Acquisition of QCL human business	(4,718,181)	-
Proceeds from sale of property, plant and equipment	33,898	-
Purchase of property, plant and equipment	(2,044,882)	-
Additions to capital work-in-progress	(1,378,774)	(6,503,276)
Purchase of intangible assets	(35,155)	-
Net cash used in investing activities	(8,143,094)	(6,503,276)
FINANCING ACTIVITIES		
Payment of lease liabilities	(147,766)	-
Net cash flows used in financing activities	(147,766)	-
Net change in cash and cash equivalents	(12,622,632)	(5,815,440)
Cash and cash equivalents at start of period	(42,999,347)	(51,204,549)
Cash and cash equivalents at end of period	(55,621,979)	(57,019,989)

Condensed Statement of Changes in Equity

	Issued capital US\$'s 000	Capital reserves US\$'s 000	Retained earnings US\$'s 000	Total US\$'s 000
6 months ended 30 September 2019				
At 1 April 2019	45,648,865	2,275,000	120,386,394	168,310,259
Loss for the period	-	-	(14,487,525)	(14,487,525)
At 30 September 2019	45,648,865	2,275,000	105,898,869	153,822,734
6 months ended 30 September 2020				
At 1 April 2020	45,648,865	2,275,000	97,313,531	145,237,396
Loss for the period	-	-	(16,341,034)	(16,341,034)
Bargain purchase	-	1,750,581	-	1,750,581
At 30 September 2020	45,648,865	4,025,581	80,972,497	130,646,943

Bargain purchase relates to excess of the fair value of net assets acquired over consideration paid when the Company acquired human drug trading business of Quality Chemicals Limited. This was a strategic business acquisition aimed at gaining entry into the lucrative local pharmaceutical sales market segment.

Basis of Preparation

The interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed financial statements do not include all the information and disclosures required in audited annual financial statements and should be read in conjunction with the Company's annual audited financial statements for the year ended 31 March 2020.



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 Securities Exchange. The Company focuses primarily on the production of quality WHO pre-qualified first-line treatments for HIV/AIDS and Malaria. The Company 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 NDA, Uganda in January 2019.

Developments during H1

The Company maintained near normal operations and output during the COVID-19 lockdown period. Provision of accommodation for key workers, company transport and rigorous COVID-19 preventative regimes enabled the Company to maintain a greater than 98% attendance record and increase output to meet additional demand. Deliveries to National Medical Stores and all key customers continued on schedule and uninterrupted.

The Company's ability to continue in near normal operations during lockdown enabled it to take advantage of business opportunities presented by the COVID-19 challenge. Whilst Uganda is guaranteed security of supply of life saving ARV's and malaria treatments through local manufacture this is not the case in other countries. The Company's ability to maintain and indeed scale up production during lockdown enabled it to deliver a USD 6.5 million TLD order to Botswana (one million packs) which was facing supply challenges from its normal ARV suppliers. The Company delivered the order in full in less than two months. During lockdown, the Company continued to deliver essential lifesaving ARV's and ACT's overland to Southern African Countries such as Malawi, Zambia and Zimbabwe and by air to South Africa, Nigeria and Botswana amongst others. H1 exports at USD 18.9 million represented 58% of sales.

The Company exported ARV's worth USD 7 million to South Africa, USD 6.5 million to Botswana and ACT's worth USD 1 million each to Malawi and Kenya. Furthermore, the Company exported ACT's to Nigeria and Rwanda for the first time.

The Company has regulatory approvals in 15 African markets and made new applications to the Democratic Republic of Congo and Madagascar. CiplaQCIL received WHO Pre-Qualification approval in September 2020 for its first line ARV, TLD.

Whilst the Company continues to engage productively with the Government of Zambia ("GoZ"), no payments were received during H1. Consequently, the Company made an additional and final impairment allowance of USD 2.6 million in line with the requirements of IFRS 9. The GoZ has reiterated its intent to clear the outstanding receivables as soon as possible. Any reduction and/or clearance of the outstanding balances from GoZ will result in a reversal of the impairment allowance in H2 to that extent.

Operations

In H1, significant focus was directed towards making the manufacturing operations leaner and more efficient. This was largely achieved on four major fronts:

- Organisational restructuring
COVID-19 has compelled businesses to look at organisational reimagining. In H1, we had significant focus on 3 areas:
 - a) Structural simplification
 - b) Process simplification
 - c) Digital solutions
- Significant reduction in the cost of manufacturing.
- Operational resilience
Management strengthened front and back end operations to ensure

serviceability and patient access to the lifesaving medicines manufactured by CiplaQCIL. During the COVID-19 lockdown capacity utilization was more than 90%, volume supplied grew by over 10% compared to previous period with an impressive staff attendance of greater than 98%.

- Strengthening of collaborative stakeholder partnerships was achieved through:
 - a) strong engagement with suppliers to maintain optimal operations; and
 - b) maintaining momentum for on-time and in-full delivery of orders to customers.

Financial results

Revenue grew by 59.7% from US\$ 76.7 billion in the previous period to US\$ 122.6 billion. Normal manufacturing sales grew by 34.9% from US\$ 76.7 billion in the previous period to US\$ 103.5 billion due to new customers in the export segment while lower margin contract manufacturing and raw material sales rose to US\$ 19.1 billion. There was no contract manufacturing and raw material sales in the previous period.

Gross margins reduced to 8.5% in the current period from 20.1% in the previous period mainly due to increased production costs resulting from higher cost of raw materials. The increase in cost of raw materials was mainly due to international supply shortages during the COVID-19 lockdowns of suppliers' countries. Gross margins were further affected by differences in the sales product mix in the two periods.

General and administrative expenses increased by 16.9% to US\$ 20.6 billion in the current period mainly due to additional costs to manage staff safety risks associated with the COVID-19. The impact of the additional costs was partly offset by savings on international travel expenditure. Following the revision of plans for factory expansion, consultancy costs of US\$ 1.6 billion previously deferred, were expensed in the current period.

Impairment allowance on financial assets mainly comprised an allowance made for receivables from Government of Zambia (GoZ). The Company has a receivable from GoZ of US\$ 42.9 billion which was fully impaired after recording an additional impairment allowance of US\$ 9.1 billion in the current period. GoZ continues to acknowledge this obligation to the Company and has reiterated its intent to clear the outstanding receivables as soon as possible. Negotiations have, however, taken longer than expected leading to a directors' decision to impair the debt fully.

Cash flow from operating activities in the current period was a deficit of US\$ 4.3 billion reducing from a surplus of US\$ 0.7 billion in the previous period. This resulted from an increase in stockholding and the operating loss incurred in the period. The impact was partly reduced by improved collections from customers and additional credit received from suppliers.

The condensed interim financial statements were approved by the Board of Directors on 12th November 2020.

Emmanuel Katongole
Executive Chairman

Nevin Bradford
Chief Executive Officer