

Cipla Quality Chemical Industries Limited H1 FY22 Interim Results Announcement

The Directors of Cipla Quality Chemical Industries Limited ("CiplaQCIL" or "the Company") present the unaudited summary interim financial statements for the six months ended 30 September 2021.

Summary Statement of Profit or Loss and Comprehensive Income

	6 months to 30 Sep 2021 (Unaudited) US\$'000	6 months to 30 Sep 2020 (Unaudited) US\$'000
Revenue	124,319,438	122,579,323
Cost of sales	(95,334,510)	(112,187,798)
Gross profit	28,984,928	10,391,525
Other income	63,685	120,226
Impairment allowance on financial assets	1,997,353	(9,399,882)
General and administrative expenses	(24,012,218)	(20,625,220)
Operating profit/(loss)	7,033,748	(19,513,351)
Finance costs and finance income - net	(1,546,839)	(1,778,464)
Profit/(loss) before tax	5,486,909	(21,291,815)
Income tax (charge)/credit	(2,676,597)	4,950,781
Profit/(loss) for the period	2,810,312	(16,341,034)
Other comprehensive income	-	-
Total comprehensive income/(loss) for the year	2,810,312	(16,341,034)
Basic and diluted profit/(loss) per share	0.69	(4.00)

Summary Statement of Financial Position

	At 30 Sep 2021 (Unaudited) US\$'000	At 31 Mar 2021 (Audited) US\$'000
ASSETS		
NON-CURRENT ASSETS		
Property, plant, equipment and right-of-use assets	63,787,764	62,695,252
Capital work-in-progress	3,627,744	7,194,385
Intangible assets	1,573,492	1,226,370
Deferred tax asset	10,812,461	11,180,841
	79,801,461	82,296,848
CURRENT ASSETS		
Inventories	82,424,181	68,808,084
Trade and other receivables	65,338,367	65,197,093
Current tax receivable	-	859,240
Cash in hand and at bank	10,904,794	9,064,768
	158,667,342	143,929,185
TOTAL ASSETS	238,468,803	226,226,033
EQUITY AND LIABILITIES		
EQUITY		
Issued capital	45,648,865	45,648,865
Other reserves	2,275,000	2,275,000
Retained earnings	90,565,411	87,755,099
	138,489,276	135,678,964
NON-CURRENT LIABILITIES		
Term loan	23,408,000	24,472,000
Lease liabilities	200,060	248,453
	23,608,060	24,720,453
CURRENT LIABILITIES		
Term loan	6,745,000	8,740,000
Lease liabilities	155,907	217,316
Current tax payable	1,272,429	-
Trade and other payables	43,416,209	55,441,065
Bank overdraft	24,781,922	1,428,235
	76,371,467	65,826,616
TOTAL EQUITY AND LIABILITIES	238,468,803	226,226,033

Summary Statement of Changes in Equity

	Issued capital US\$'000	Capital reserves US\$'000	Retained earnings US\$'000	Total US\$'000
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
6 months ended 30 September 2021				
At 1 April 2021	45,648,865	2,275,000	87,755,099	135,678,964
Profit for the period	-	-	2,810,312	2,810,312
At 30 September 2021	45,648,865	2,275,000	90,565,411	138,489,276

Bargain purchase related 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 in FY 21.

Summary Statement of Cash Flows

	6 months ended 30 Sep 2021 (Unaudited) US\$'000	6 months ended 30 Sep 2020 (Unaudited) US\$'000
OPERATING ACTIVITIES		
Profit/(loss) before tax	5,486,909	(21,291,815)
Adjustment for:		
Impairment allowance	(1,997,353)	9,364,085
Depreciation	4,376,599	3,764,065
Amortisation	208,845	144,851
Consultancy costs	-	1,644,274
Provision for obsolete inventories	6,104,546	(2,587,418)
Gain on disposal of property and equipment	-	(33,898)
Interest expense	795,732	1,895,317
	14,975,278	(7,100,539)
Less: Interest paid	(804,554)	(1,895,317)
Tax paid	(58,737)	-
Changes in working capital		
- in inventories	(19,720,644)	(6,359,678)
- in trade and other receivables	1,622,924	2,312,675
- in trade and other payables	(11,512,620)	8,711,087
Net cash used in operating activities	(15,498,353)	(4,331,772)
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	(943,711)	(2,044,882)
Additions to capital work-in-progress	(958,759)	(1,378,774)
Purchase of intangible assets	(555,968)	(35,155)
Net cash used in investing activities	(2,458,438)	(8,143,094)
FINANCING ACTIVITIES		
Repayment of term loan	(3,443,750)	-
Payment of lease liabilities	(113,121)	(147,766)
Net cash flows used in financing activities	(3,556,871)	(147,766)
Net change in cash and cash equivalents	(21,513,662)	(12,622,632)
Cash and cash equivalents at start of period	7,636,533	(42,999,347)
Cash and cash equivalents at end of period	(13,877,129)	(55,621,979)

Basis of preparation

The interim condensed financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim summary 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 2021.

Operational Performance

It is more than a year since the COVID-19 pandemic disrupted our lives and tested us in many ways. Management and staff continue to work with passion to deliver lifesaving medicines to patients. The support from the health workers and our customers during the pandemic is greatly appreciated.

Update on key priority areas

Growth

The private market business segment that commenced last year continued to deliver encouraging growth and margins. The product offering in this segment is being expanded to respond to Ugandan patients' demands in line with our purpose of 'Caring for Life'.

Expansion into new markets continued. We received new orders for DRC which will be serviced in Q3 FY22. Furthermore, we received approval of our first line treatment, TLD, in Kenya.

As published earlier, the Board of Directors approved an entry into the oncology space in response to the growing demand for cancer and sickle cell anemia medicines in Uganda. The Company will construct a new factory focused on oncology products targeting both the Uganda and African markets. Management is progressing with the relevant activities aimed at having the facility commissioned.

Profitability

Despite the increased pension costs and market development costs after entry into the private market space, management are pleased to report the return to profitability and the significant improvement in performance compared to H1 FY21. Management expects to sustain this performance in H2 FY22.

Efficiencies

We continue to work towards recovering the outstanding dues from GoZ and during H1 FY22 we received US\$2.5 billion. We do not have a firm commitment as to when the entire balance will be settled but the GoZ continues to recognize the outstanding dues and we continue to work with them to receive the unpaid balance.

A big portion of local sales are contractual, predictable and are subject to minimum credit risk. Payments for the local sales are effected within 30 to 60 days. Sales to new customers are made after receipt of confirmed letters of credit or advance payments.

The Company maintained near normal operations during the second COVID-19 lockdown. Provision of transport to workers and rigorous COVID-19 safety procedures enabled the Company to achieve a greater than 95% staff attendance. 68% of our staff have received their first dose of the vaccine and 43% are fully vaccinated.

The factory capacity utilization exceeded 80% and we are proud to report that our On-Time-in-Full (OTIF) was 100%.

Portfolio expansion

Activities to expand the locally manufactured product portfolio continued in H1 FY22. Technology transfer of Azithromycin 500mg was completed, and the product will be launched in Q3 FY22. Technology transfer of two other products; Q-T1B (for prophylaxis of TB) and Cipladon+ (for pain management) will be completed in Q3 FY22.

Governance and compliance

As part of our commitment to governance and compliance with regulations, the Company concluded a quality and compliance audit by the ZAZIBONA, thereby retaining approval of the Company's products in these South African countries.

In line with sustainability objectives, initiatives to reduce water consumption yielded a 4% reduction compared to H1 FY21. Solid waste reduced by 15% while liquid waste reduced by 58% after implementing manufacturing excellence initiatives.

The health and safety of staff remains our top priority. During H1 FY22, we had no fatality and no lost time injury (LTI).

Financial Performance

Revenues remained stable at US\$124.3 billion compared to US\$122.6 billion in H1 FY21.

Local sales increased by 47.6% from US\$52.7 billion in H1 FY21 to US\$77.7 billion in H1 FY22 due to a faster draw down of confirmed local contracts. Exports declined by 33.4% from

US\$69.9 billion H1 FY21 to US\$46.6 billion due to the non-recurrence of emergency orders received at the peak of the COVID-19 pandemic in H1 FY21.

Gross margins increased from 8.5% in H1 FY21 to 23.3% partly due to a change in product mix and reduced input costs after successful negotiation with key suppliers.

Impairment allowance on financial assets

In H1 FY22, the Company collected US\$2.5 billion from the GoZ. In line with IFRS 9, this resulted in a net release in our provision of US\$1.9 billion (as the full GoZ amount has been fully provided for in prior years) after providing for some potential risks on existing receivables.

General and administrative costs increased by 17% from US\$20.6 billion in H1 FY21 to US\$24.0 billion in FY22.

12% of the increase was due to new retirement contracts between the founding directors and the Company concluded at the beginning of FY22. Costs associated with expanding into the private market contributed 2% of the increase with the balance being associated with depreciation and amortisation resulting from capitalisation of items in Capital Work in Progress.

Finance costs reduced by 12.9% from US\$1.7 billion in H1 FY21 to US\$1.5 billion due to better management of overdraft facilities and reduced interest rates.

Total comprehensive income/(loss) improved by US\$19.1 billion from a loss of US\$16.3 billion in H1 FY21 to a profit of US\$2.8 billion.

Cash flow

Net cash used in operating activities increased from a deficit of US\$4.3 billion in H1 FY21 to a deficit of US\$15.5 billion partly due to increase in stock holding to support continuous manufacturing and reduce risk of global supply chain disruption. Furthermore, overdue amounts to key suppliers were reduced by approximately US\$12.4 billion. The impact of these transactions was reduced by improved profitability, collections from customers and lower financing costs.

Net cash used in investing activities reduced from US\$8.1 billion to US\$2.5 billion after completion of acquisition of the human pharmaceutical business from QCL and equipping the new quality control laboratory in FY21.

The increase in the overdraft position at end of H1 FY22 was for a short period to manage payables. At the time of this report, the overdraft position had reversed. The liquidity position is monitored daily to manage commitments and optimize financing costs. Term loans are mainly used to fund capital expenditure while overdrafts are used for working capital management.

Abbreviations

CiplaQCIL	Cipla Quality Chemical Industries Limited
COVID-19	Coronavirus disease
DRC	Democratic Republic of the Congo
FY21	Financial year ending 31 March 2021
FY22	Financial year ending 31 March 2022
GoZ	Government of the Republic of Zambia
H1	Period between 1 April to 30 September
H2	Period between 1 October to 31 March
Q3	Period between 1 October to 31 December
QCL	Quality Chemicals Limited
TB	Tuberculosis disease
TLD	Tenofovir-Lamivudine-Dolutegravir
ZAZIBONA	Grouping of countries including Zambia, Zimbabwe, Botswana Namibia and South Africa

A copy of the summary unaudited financial statements can be obtained from CiplaQCIL's registrars; M/s Uganda Securities Exchange Nominees Ltd located at 4th Floor, Block A, UAP Nakawa Business Park, Plot 3-4 New Port Bell Road and website: www.ciplaqcil.co.ug

The summary interim financial statements were approved by the Board of Directors on 8th November 2021.

Emmanuel Katongole
Chairman, Board of Directors

Ajay Kumar Pal
Chief Executive Officer