

## RAK Ceramics

Monday, 10 May 2021

**Mohammad Haidar:** Hello, everyone, and welcome to the RAK Ceramics first quarter 2021 earnings conference call. And this is hosted by Arqaam Capital. With us today from RAK Ceramics, Mr Abdallah Massaad, the Group CEO, and Mr PK Chand, the Group CFO. I'll pass it on to Mr Abdallah. Please go ahead.

**Abdallah Massaad:** Thank you, Mohammad, and good afternoon, everyone. I'm Abdallah Massaad, CEO of RAK Ceramics. I would like to welcome you all to RAK Ceramics' first quarter of 2021 earning conference call and webcast. I sincerely hope that everyone on the call, along with families, are keeping safe and healthy.

During the first quarter of 2021, we continued to place great importance on safeguarding the wellbeing of all our colleagues, employees and families by implementing measures that reduce the spread of COVID-19 virus whilst protecting the financial health of the company.

With this in mind, I'm pleased to report that RAK Ceramics has posted a strong start in 2021, our most robust Q1 performance since 2016. Our operations continue to improve across all global markets and we have surpassed pre-pandemic level to a record level of revenue and profitability.

Our total revenue for the first quarter increased by 21.9% year-on-year to 722.8 million dirhams, driven by growth in all core markets. Our total gross profit margin for the first quarter reached an all-time high at 35%, driven by an increase in revenue, improved production efficiencies and the optimisation of production lines across all our five plants.

Reported net profits stand at 62.7 million dirhams, outperforming the pre-pandemic level of net profit compared to a Q1 2019 profit of 36.9 million dirhams. The first quarter 2021 net profit margin increased by 360 basis points year-on-year to 8.7%. Like-for-like net profit before impairment loss provision for receivables and strategic gains is also higher than pre-pandemic level, with an increase of 90.6% year-on-year to reach 69.2 million dirhams. Like-for-like net profit margin increased by 340 basis points to 9.6%.

Despite the pandemic, our liquidity positions remain at comfortable levels. We were able to increase our cash flow from operation activities from 109.6 million dirhams in March 2020 to 203.5 million dirhams in March 2021. Additionally, our net debt level decreased by 87.8 million dirhams to 1.14 billion dirhams compared to December 2020. Reflecting the strengths of the business, net debt to EBITDA also decreased from 3.25 times in December 2020 to 2.79 times in March 2021.

Please allow me to take you through our operations and financial highlights for the first quarter 2021. The total revenue increased by 21.9% year-on-year, reaching 722.8 million dirhams. Our quarter-on-quarter revenue is stable, with an increase of 0.4%. The tiles revenue increased by 32% year-on-year and 6.5% quarter-on-quarter to reach 520 million dirhams, driven by all core markets.

Our sanitary ware revenue has also increased by 20.7% year-on-year, slightly down from quarter-on-quarter, driven by all markets except the UAE and Saudi. Tableware revenue continued to suffer due to the impact of COVID-19 in the HoReCa business and airline sector, resulting in a decrease of 20% year-on-year and 4.4% quarter-on-quarter, to reach 41 million dirhams.

## RAK Ceramics

Monday, 10 May 2021

Our total gross profit margin in the first quarter 2021 increased by 230 basis points year-on-year and 60 basis points quarter-on-quarter, to reach an all-time high of 35%. Tiles gross profit margin increased by 560 basis points year-on-year at an all-time high of 35.5%. Our sanitary ware margin has decreased by 70 basis points year-on-year to 36.1% on change in product mix. Tableware margin remained lower at 30.2% due to lower productivity and revenue.

Our net profit after minority was 60.7 million dirhams compared to 25.7 million dirhams in Q1 2020, with a margin increase of 410 basis points year-on-year to 8.5%. Our EBITDA increased by 32.5% year-on-year to 126.1 million dirhams, with a margin of 17.4% compared to 16.1% in the first quarter 2020.

Now I would like to turn to slide six on our key major highlights. In the UAE, despite the impact of COVID-19, workforce was not reduced and production reached the highest level in five years due to increase in demand from Saudi Arabia. Our UAE and market revenue in the first quarter 2020 was higher by 2.1% year-on-year at 163 million dirhams, mainly driven by wholesale and retail business.

The project channel is slowly recovering, with quarter-on-quarter revenue increased by 8.7%. We have continued to supply to major developers or projects such as Emaar, Sobha, Nshama, Azizi and many other projects.

In Saudi Arabia, the company strategy continues to yield results. The imposition of anti-dumping duty on tiles from India and China in the Kingdom initially led to an increase in demand for our product. Capitalising on the demand, we invested in differentiated tiles and new showrooms, developing significant brand equity in the market. We are now the go-to provider of premium ceramics products in the Kingdom.

Our revenue increased by 78.5% year-on-year and 24.8% quarter-on-quarter to reach 163.3 million dirhams. The major contributor to sales growth came from our wholesale and retail business. Retail sales grew by 35% quarter-on-quarter, supported by new showrooms in Riyadh in the first quarter 2021.

In Europe, the business surpassed pre-pandemic levels of operation. Revenue increased by 22.7% year-on-year and 1.2% quarter-on-quarter to reach 100.2 million dirhams. We were able to increase the customer base in Central Europe and the UK by differentiating ourselves from competitors and providing superior product management.

In India, we have taken short-term and long-term initiatives to streamline the business and increase viability, including team restructuring, strengthening sales strategy, production cost optimisation, sales and administration setup rationalisation.

2021 started with positive business sentiments in the real estate sector, which led to an increased demand and steady growth in revenue in the first quarter 2021. However, the recent surge in cases due to the second wave of COVID-19 has led to lockdowns in some states, resulting in restrictions in the logistics movement. We anticipate the revenue and profitability impact on the second quarter 21 if the situation does not improve.

In Bangladesh, production is running at optimum capacity. We introduced new products for rural and urban segments of the market, improving brand visibility. This has led to an increase in market share. In Bangladesh, we are the only world-renown ceramics brand. We are taking initiatives to improve brand visibility by opening new flagships and exclusive showrooms in Dhaka.

## RAK Ceramics

Monday, 10 May 2021

In the first quarter 2021, revenue increased by 18.9% year-on-year, 275 million dirhams. The government has imposed partial lockdowns due to the second wave of COVID-19, effective 14th April 2021. We anticipate revenue and profitability impact on the second quarter 2021 if the situation does not improve.

In March 2021, we entered into agreements to sell the assets of the China unit and therefore the assets have been classified as held for sale on 31st March 2021. No impairment loss has been recognised as the carrying value of assets is lower than fair value.

Cost saving measures were continued to limit discretionary expenses, resulting in savings on fixed SG&A expenses in Q1 2021 of 13 million dirhams compared to the first quarter 2021. Variable expenses, mainly freight, increased by 31.6 million dirhams year-on-year, in line with improved sales quantity to Saudi Arabia and Europe. The freight rates have also increased due to the virus.

Our tableware business showed early signs of recovery in the fourth quarter 2020, but the series of lockdowns and restrictions across the globe due to the second wave of COVID-19 have adversely impacted both the HoReCa and airline industry, which is the life of our business. Revenue decreased by 20% year-on-year to 41 million dirhams in the first quarter 2021.

Our faucets revenue increased by 10.1% year-on-year to 38.5 million dirhams in the first quarter 2021, mainly driven by the Middle East and the African and Asian markets. Thank you for listening. I will now hand over to PK Chand, our CFO, to brief you on the segment highlights and provide you with a more in-depth analysis of the financials.

**PK Chand:** Thank you, Mr Abdallah. Good afternoon, everyone, and thank you for joining us. Mr Abdallah has already briefly summarised quarter one 2021's performance, financial highlights and regional performance. I will take you through the segmental highlights with details on revenue, profitability and the balance sheet. We will start from slide six.

First quarter of 2021 was strong due to favourable business sentiment in all our core business units, excluding tableware. Total revenue increased by 21.9% year-on-year to 722.8 million dirhams, and also, it increased by 0.4% quarter-on-quarter.

There was a robust performance in the tiles segment with a revenue increase of 32.0% year-on-year and 6.5% quarter-on-quarter at 520.2 million dirhams, driven by all markets. Sanitary ware revenue is also increased by 20.7% year-on-year, driven by all markets except UAE and Saudi Arabia, to 138.1 million dirhams.

The tableware business continued to suffer due to COVID-19's restrictions in the hospitality and airline sectors, which resulted in revenue decrease of 20% year-on-year and 4.4% quarter-on-quarter to 41.1 million dirhams. Revenue from other businesses also decreased by 29.2% year-on-year to 23.4 million, mainly due to lower sales in the ceramic raw material trading business.

Of the total revenue in the first quarter of 2021, tiles revenue contributed 72%, sanitary ware 19.1%, tableware 5.7%, and others 3.2%. Therefore, the main growth is driving purely from core business, which is 96.8% of our total

## RAK Ceramics

Monday, 10 May 2021

revenue. Total gross profit in the first quarter of 2021 increased by 230 basis points year-on-year and 60 basis points quarter-on-quarter to reach an all-time high of 35%, supported by a higher tiles margin.

The tiles margin is higher by 560 basis points year-on-year and 70 basis points quarter-on-quarter to reach an all-time high of 35.5%, driven by an increase in revenue, improved production efficiencies and the optimisation of production lines across all our tile plants. The sanitary ware margin was stable at 36.1% year-on-year. The tableware margin decreased by 230 basis points quarter-on-quarter to 30.2% due to a lower revenue and lower production.

On the cash front, capital expenditure for the first quarter of 2021 was 16.3 million dirhams compared to 27.6 million dirhams in the first quarter of last year. Capex for 2021 is expected to be in the range of 150 to 200 million dirhams. Now we turn onto the working capital cycle.

In absolute terms, overall working capital is decreased by 94 million dirhams to 1.28 billion dirhams quarter-on-quarter due to reduction in inventories by 48 million dirhams and increased payables by 31 million due to higher purchases. In terms of number of days, inventory days decreased from 246 days to 225 days quarter-on-quarter due to decreased inventory. Trade receivables days is also decreased from 125 days to 123 days quarter-on-quarter.

Overall working capital days have also decreased quarter-on-quarter from 228 days to 193 days. We continue to take measures to manage our liquidity. Now I will turn back to Mr Abdallah for final comments on the remaining quarters of 2021 priorities before we answer your questions.

**Abdallah Massaad:** Thank you, PK. While 2020 was a challenging year for the business, however, the early implementation of measures to manage the impact of the pandemic has led to an accelerated recovery beginning as early as third quarter 2020. Today, we are in a strong growth position, surpassing pre-pandemic levels of operation, with the gross profit margin reaching an all-time high.

Our production levels are at the highest they have been since 2016 on the back of increased demand across our key markets. We will capitalise on this demand by continuing to build our brand equity and positioning RAK Ceramics as a global provider of premium ceramic lifestyle solutions.

Revenue continues to recover across all markets. However, we expect revenue to be impacted by the second wave of COVID-19 lockdowns in India and Bangladesh. The health and safety of our employees will remain a priority as we manage our business in that market.

Looking ahead for the remainder of 2021, our priority will be to invest in brand equity, continue to grow our business in Saudi, Europe and our core market and protect our market share in the UAE and Bangladesh. Thank you for your time. Now I would like to hand the call over to the Operator and open the line for questions.

**Operator:** Thank you. As a reminder, ladies and gentlemen, if you do wish to ask any questions on today's call, please press star followed by one on your telephone keypad. For those of you who've joined us online today, there is a request to speak flag icon button at the bottom of your screen.

## RAK Ceramics

Monday, 10 May 2021

Please note that your lines will be opened, and to make sure that you're not muted locally. And for those of you who feel that your question has already been answered or no longer wish to ask a question, please press star followed by two. We do have one question on the line from Sameer Kattiparambil of EFG-Hermes. Your line is open. Please go ahead.

**Sameer Kattiparambil:** Thanks, gentlemen, for your time and for the presentation, and congratulations for the great set of results. I have a couple of questions, first on your interest costs. Despite your debt having declined by almost 20% year-on-year, your interest cost has been increased from 23 million to 29 million. What led to that increase? That's the first part.

And the second part is on your transportation cost which has been increased. It's almost doubled year-on-year. And which factor leads to that transportation cost and/or why? I know the overall freight charge has been increased over the last three, four quarters. And what percentage of that is going to sustain and what could come down on that front? So yes, these are the two main questions. Thank you.

**PK Chand:** Thank you, Sameer. So your first question relates to the finance cost. If you go to page 15 on schedule nine where we have given the details of finance cost, the net finance cost in the last quarter was 17.8 million. And this year, it is 17.4 million. So there is no increase as such.

**Sameer Kattiparambil:** Yes. You are right, the net cost. But the interest cost itself has increased from 23 million...

**PK Chand:** No. So what happened is because...

**Sameer Kattiparambil:** To 29 million.

**PK Chand:** Yes, Sameer. Yes, Sameer. So the strategy we had adopted was to maintain liquidity. And therefore, even the short-term loans were drawn. So there was not actually utilisation. And therefore, the money was remaining in the fixed deposit account or lying in the current account. And therefore, on one side, we were incurring the cost. But on the other side, there was not, to that extent, income. So that is why you will see the cost has increased. But if you see the net cost, it is almost the same.

**Sameer Kattiparambil:** Yes, understood.

**PK Chand:** What was your second...?

**Abdallah Massaad:** On the transportation cost, actually, it is blended here, Sameer. Because, one, the volume increased. And the volume, if you see, to Saudi increased by 78%. And the transportation cost in this case would increase because we are delivering to the market. So, one, there is an increase in the transportation cost itself. The logistics, the supply chain is an issue which the world starts facing after the opening of markets. But this is one. But the main is the volume increase where it increased the transportation cost with it.

## RAK Ceramics

Monday, 10 May 2021

**Sameer Kattiparambil:** Understood, Abdallah. One follow-up question on the interest cost side. Since your liquidity position has improved significantly, is there any chance that we can expect your debt to significantly come down over the next couple of quarters? That's one part. And another question is on your capex. The UAE and Bangladesh production facilities are a big utilisation. So any plans to put further growth capex in these two production facilities?

**Abdallah Massaad:** Sameer, thank you for your question. To be honest, yes, in these two facilities, we are studying to increase our capacity. In the UAE, we are utilising today 98% our size. And if you see from the pandemic till now, our inventory is down almost by 10%. We sold whatever we produced plus a reduction in inventories.

We are, yes, studying to increase around 4.5 million square metres in the UAE within the next year. And Bangladesh, we are working. Our problem is that we don't want to... Our land is not enough in Bangladesh. So to improve or to add capacity, we need to lose production for some time.

Therefore, we are studying if we can find an industrial land. Because without going into any other opportunity which we as a management, as well, the board, is supporting, we feel that after all the stabilisation in business, we should look at growth. At least the entities which are doing very well, we need to improve the supply.

**Sameer Kattiparambil:** Yes, (overtalking).

**Abdallah Massaad:** I believe your other question, Sameer, was if you expect a reduction, a severe reduction in loans. Let us see. I believe the loan will be improved, the cash flow of the company improved. We have to see. We are cautiously positive, looking at what will happen, what will be on the second wave. Even though, worldwide, it looks positive, Europe will reopen, UAE and Saudi doing well, but India and Bangladesh are severely impacted during these months. Let us see how things go.

**Sameer Kattiparambil:** Yes, thank you very much, Abdallah and PK, for your answers. Really appreciate it.

**Abdallah Massaad:** Thank you, Sameer.

**Operator:** Thank you. Thank you. Our next question comes from Harshjit Oza of International Securities. Your line is open. Please go ahead.

**Harshjit Oza:** Hello, everyone. Congrats for the results. I have one question. You have mentioned that in the first quarter of 2021, there is no significant impact on the financial position except for the tableware division because of the COVID situation. Now, I want to know, in India, how is the situation? And what kind of risk do you see, given the rapid rise of infection rate, especially after the first quarter period? And what could be the worst-case scenario? Thank you.

**Abdallah Massaad:** Thank you for your question. First, as I mentioned, is safeguarding the wellbeing of our colleagues, staff and the whole Indian and Bangladesh population and the whole world, yes. First, our concern, we pray that situation becomes better and we don't lose a lot of people during this second wave.

## RAK Ceramics

Monday, 10 May 2021

Look, honestly, till now, we cannot assess what will be the scenario. The good news is that all our export is happening or the majority of our export is happening from the UAE plant, which we don't have or we don't foresee any problems specifically with the COVID cases, the vaccination in the UAE. So from here, we don't see a risk.

So the risks which we have in Bangladesh, even during the lockdown, we were able to supply because the business is not closed completely. It is impacted but not severely impacted. In India, till last week, it was not severely impacted for the business because yes, the cases are high, yes, many states closed, but we are trying to minimise the impact. There will be some impact but on a consolidated basis, it will not be severe on us.

**Harshjit Oza:** Thank you. This is helpful.

**Abdallah Massaad:** Thank you.

**Operator:** Thank you. As a reminder, ladies and gentlemen, if you do have any further questions, that's star followed by one on your telephone keypad or the request to speak flag icon at the bottom of your screen. We have a question from Zeeshan Bagwan of Abu Dhabi Capital Group. Your line is open. Please go ahead.

**Zeeshan Bagwan:** Hello. Thank you for taking my question. I have two questions. Firstly, we wanted to get some more understanding on the growth that we are seeing in your Saudi business. So how do you see the run rate for the Saudi business into 2021? Even that you already are operating at full utilisation from your UAE plant, so the 158 million of tile revenues which we saw in Saudi, will it remain at these levels over the next few quarters?

**Abdallah Massaad:** Okay, thank you. You will ask the second question, or answer you then you ask the second?

**Zeeshan Bagwan:** Yes, okay. So, my second question was on your gross margins. So this quarter, we have witnessed significant improvement in your gross margins, particularly on the tiles side, while sanitary has seen some pressure. So could you help us understand more what is leading to this differential in gross margin performance between the two segments?

**Abdallah Massaad:** Okay, thank you. As we mentioned many times on the Saudi, we were expecting a good improvement, specifically after the anti-dumping implemented last year in Saudi. So for us, and what we explained several times, our strategy is we are not competing with local markets as such.

We differentiated our products, different sizes, different typology, and we supported the concepts which we are trying as premium product by opening really nice, differentiated showrooms across the Kingdom. And we are continuing with this strategy, and we've set up nice wholesale and shop-in-shop concepts. You will see the growth should be maintained. Yes, it will not be always growth of 78, but this level is a good level, plus or minus.

Maybe during the second quarter, we'll have maybe slightly some challenges in the logistics. You know that Saudi Arabia also stopped the entrance of trailers which are more than 20 years, and the logistics fleet available in the UAE is quite old. But this will adjust. We are sending by containers and we can see that slowly, this is improving. So I do

**RAK Ceramics****Monday, 10 May 2021**

see that the business will remain healthy unless something major happened. But from a market perception and our position, if nothing macro happens, this should be maintained.

In terms of gross profit margin, first in tiles and sanitary ware, yes, as you said, tiles reached the maximum, which honestly, if you see the last five years, it's improved by 1,250 basis points, the gross profit margin of tiles. The sanitary ware, I'll tell you, the capacity utilisation is around 87, 86%. The main problem is availability of casters, of trained employees, with the complication of new items.

It will improve in sanitary ware, the margin going forward. It is a transition where we invested actually in new technology with the high pressure casting. But still, in the sanitary ware industry, you still need expertise. And therefore, this will improve. And the overall gross profit margin is healthy and it is sustainable.

**Zeeshan Bagwan:** Okay. Just a follow up over here. So you said for the tiles business, we have seen margins reaching highest levels in the last five years. So will these levels be sustainable for the remainder of 2021?

**Abdallah Massaad:** We are hoping this. This is our focus, yes. We are working hard to sustain it, maintain it. In the end, we do our best. And in the market, supply-demand is a major factor. But we will try our best to maintain and improve whatever level we reach.

**Zeeshan Bagwan:** Okay. And there's just one more follow-up. So have you taken any price increases in your tile or sanitary ware segment in the first quarter? Sorry, I'm not able to hear you.

**Abdallah Massaad:** Oh, prices. Prices. Look, as I told you, the whole challenge of the whole world today is inflation, is the logistics costs, is material costs. And it is not only on us, on everybody. So, basically, we're trying our best. You cannot overnight. We are an industry. We have contracts. We cannot immediately pass it to the end user. But yes, slight increase is happening. And it is a process which will continue, yes.

**Zeeshan Bagwan:** Okay. And one last question, if I may. So Saudi, if I look at your sequential revenue improvement, last quarter, we did 125 million in revenues. This quarter, we have done 160. So is this entirely driven by volumes, or it's a mixture of pricing also?

**Abdallah Massaad:** It is mainly volume.

**Zeeshan Bagwan:** Okay. And you expect volumes to continue to increase for Saudi Arabia?

**Abdallah Massaad:** Not to increase but at least this is somehow a good level, yes. Because our capacity, also you need to look at our capacity. During, if we look at the last six months, we sold whatever we produced plus we reduced almost 3 million square metres from inventory. So this is a sustainable level, hopefully, unless any macro, any logistic impact, any new rules or regulations. This we have to take into consideration.

**Zeeshan Bagwan:** Okay. Thank you for the answers.

**Abdallah Massaad:** Thank you.

## RAK Ceramics

Monday, 10 May 2021

**Operator:** Thank you. Again, for any further questions, that's star followed by one or the request to speak flag icon on your screen. We have another follow-up question from Zeeshan. Your line is reopened. Please go ahead.

**Zeeshan Bagwan:** Okay. Yes, I just had a follow-up question. So, in Saudi Arabia, could you help us understand in terms of how are RAK Ceramics' product prices versus competitors? And if they are at a premium, what is the average price premium that RAK Ceramics charges on its products?

**Abdallah Massaad:** Look, it is very difficult to answer your question because we have 6,000 SKUs and positions. So what I can tell you, yes, we are positioned as a premium product. We are not compared apple to apple as we have many products differentiated in terms of category, typology, as well as sizes. So I can tell you it's a premium but the differentiation from others is very difficult to answer. Because we have many suppliers, so which one to compare?

**Zeeshan Bagwan:** Okay, thank you.

**Abdallah Massaad:** Welcome.

**Operator:** Thank you. Again, that is star one or the request to speak button. We also have a follow-up question from Sameer of EFG. Your line is open. Please go ahead.

**Sameer Kattiparambil:** Thank you. I have a question on your Saudi expansion plan. Any further update on that front? Because you are waiting for the other location for some time now.

**Abdallah Massaad:** Look, Sameer, we are still waiting. Hopefully, things will improve after Eid. Some approvals came. But still, the final approval is not yet given till now.

**Sameer Kattiparambil:** Okay, understood. And any other market you would look into in case that didn't come through? Any new market you would like to enter?

**Abdallah Massaad:** Any other market we're looking at?

**Sameer Kattiparambil:** Or is it...?

**Abdallah Massaad:** Look, Sameer, we're always thirsty to find markets. We all know that we are working on the growth strategy. And from a market perspective, if you see, and after the value creation plan and after our focus, you can see that it is very clear, our core market and how we look at the profitability of the margin on the quality of business we are doing.

We are glad that the whole business now is doing well, for sure, our tableware business. Hopefully, in the second half of this year onward, with the opening of tourism in Europe which is a very good market for us, this should improve or at least start the recovery process in this business. We are, yes, studying, working, and whenever anything materialises, we will let you know. But we are working hard on the growth strategy.

## RAK Ceramics

Monday, 10 May 2021

**Sameer Kattiparambil:** Thank you. And one last question from my side. How do you see the exports now coming from India to the GCC market? Have you seen a further decline or things have stabilised from that market? India and China mainly.

**Abdallah Massaad:** Sameer, if we go into the implementation side, I can tell you that it is Saudi only who implemented fully the anti-dumping. On almost all the other countries, it is not fully implemented. So the exports to Saudi for sure has shown a decline, while for other markets it's still there.

**Sameer Kattiparambil:** Okay, understood. Thanks a lot, Abdallah, for that answer.

**Abdallah Massaad:** Thank you, Sameer.

**Operator:** Thank you. Again, for any further questions, that's star one or the request to speak button. We currently have no further questions on the line.

**Mohammad Haidar:** Mr Abdallah, do you have any final remarks?

**Abdallah Massaad:** Thank you very much. Please stay safe.

**Mohammad Haidar:** Thank you, Mr Abdallah and PK Chand. Thank you, everyone, for joining. And everyone, (unclear).