**Mohamad Haidar** Hello, everyone, and welcome to the RAK Ceramics third quarter 2021 earnings conference call. This is Mohamad Haidar, from Arqaam Capital and, from RAK Ceramics, we are joined by Mr Abdallah Massaad, Group CEO, and Mr PK Chand, Group CFO. Over to you, Abdallah.

**Abdallah Massaad** Thank you, Mohamad, and good evening everyone one. I’m Abdallah Massaad, CEO of RAK Ceramics. I would like to welcome you to the RAK Ceramics first quarter and nine months of 2021 earnings conference call and webcast. I sincerely hope that everyone on the call, along with families, are keeping safe and healthy.

I’m pleased to report that RAK Ceramics continued to deliver strong financial performance in the third quarter 2021, with revenue and profitability surpassing pre-pandemic levels despite challenges created by the imposition of customs duty of 12% in Saudi Arabia and a significant increase in logistics costs due to the global shortage of containers.

The total revenue for the third quarter increased by 9.4% year-on-year, reaching AED 684.8 million and increasing by 9.6% compared to the third quarter 2019, driven by strong growth trajectory in core business.

Our total gross profit margin for the third quarter increased by 7.1%, reaching 38.2%, driven by improved production efficiencies and the optimisation of production lines across all our plants.

The production capacity utilisation for tiles was optimised to match the demand during the quarter. We continue to reduce production costs by optimising the production line to increase productivity and first choice of production. The UAE and market revenue in the third quarter 2021 was lower by 10.7% year-on-year and lower by 8.4% quarter-on-quarter to reach AED 131.6 million due to lower project and retail sales.

There has been moderate growth in the construction industry since the beginning of the current year and we believe this will continue in the fourth quarter and next year with the increase in the real estate demand.

In the UAE, anti-dumping duty ranged from 23.5% to 106% on imported tiles from India and China and has been effective from 6th July 2021, which positively reflects the demand for our products.

In Saudi Arabia, the company strategy continued to yield results. The imposition of 12% customer duty, effective from 1st July 2021, reduced demand, impacting our sales. We have already submitted duly-certified regulatory documents to comply with the requirements like value additions in the UAE and a minimum threshold of local employment in the organisation with Saudi authorities and awaiting for a grant of exemption of duty.

Our products have been approved by Ministry of Housing projects and supplies have started in the third quarter 2021. We were able to strengthen our position as a premium provider with the announcement of three new showrooms, two in Riyadh and one in Madinah, which are expected to open later this year.

In 2022, there are plans to open another three showrooms. Saudi Arabia decreased by 7.4% year-on-year and by 13.9% quarter-on-quarter to reach AED 127.5 million due to reduced demand. In the first nine months of 2021, revenue increased 47.1% reaching AED 439 million.

In Europe, performance was impacted by higher shipping freight rates due to the global container shortage. Resulting revenue decreased by 14.4% quarter-on-quarter, while it is higher 7.2% year-on-year at AED 98.1 million. In nine months, 2021 revenue increased by 24%, reaching AED 313 million. Compared to pre-pandemic, it was higher by 31.2% year-on-year. During this year, we participated in the Cersaie fair in Italy in the last week of September and showcased all our novelties.

In India, operations marked a strong turnaround, with business passing pre-pandemic level. This was underpinned by positive business sentiments as reflected in improved profitability despite significantly higher fuel costs.

Revenue grew by 56.8% year-on-year and by 48.2% quarter-on-quarter, reaching AED 104.5 million. In nine months, revenue increased by 77% year-on-year, reaching AED 271.3 million and higher by 30.2% compared to nine months 2019. Our Indian operation continued to post positive results for the last four quarters.

In Bangladesh, the government-imposed intermittent lockdowns from April to August 2021 resulted in temporary suspension of production lines. However, the company demonstrated resilience and reported strong year-on-year growth. Revenue grew by 10% year-on-year and by 2.4% quarter-on-quarter to reach AED 68.1 million. For the first nine months of 2021, revenue increased by 43.4% year-on-year to AED 209.5 million.

Our tableware performance across core markets improved and we have increased production to meet demand. However, performance was impacted due to higher shipping freight costs on account of a global shortage of containers.

Our tableware revenue in the third quarter 2021 increased by 21.2% quarter-on-quarter and 116% year-on-year, reaching AED 67.6 million. In nine months of 2021, revenue is higher by 58.1% year-on-year to reach AED 164.5 million. Our faucets revenue increased by 18.8% year-on-year in the nine months, reaching 119 million, driven by all markets.

Despite the continued pandemic, our liquidity position remains at a comfortable level. We increased our cash flow from operating activities from AED 288.4 million in September 2020, to AED 388 million in September 2021. Our working capital days are slightly increased from 176 days to 179 days during the quarter.

Our net debt to EBITDA improved from 2.04x to 1.89x during the quarter. The current interim cash dividend of 10 fils per share, amounting to AED 99.4 million, has been paid on 21st October 2021.

Now, please allow me to take you through our financial highlights for the third quarter. Total revenue increased by 9.5% year-on-year and by 2.3% quarter-on-quarter. Tiles revenue increased by 7% year-on-year, reaching AED 469.6 million, driven by markets such as Middle East, India, Bangladesh and quarter-on-quarter revenue remained stable.

Our sanitaryware revenue is also increased by 11% year-on-year, reaching AED 134.2 million and quarter-on-quarter revenue decreased by 3.9% due to reduced revenue from Europe and Bangladesh.

Our tableware revenue improved quarter-on-quarter by 21.2% and by 116.2% year-on-year, reaching AED 67.6 million in the third quarter 2021 as the market situation across all our core markets has gradually improved.

Our total gross profit margin in the third quarter increased by 7.1% year-on-year and remains at the same level of 38.2% this quarter. Our tiles gross profit margin increased by 7% year-on-year, reaching 38.1%. Our sanitaryware margin in the first quarter increased by 1%, reaching 35%. Our tableware margin improved quarter-on-quarter by 7% to reach 44.7% and by 8.4% year-on-year due to increased revenue and productivity.

Reported net profit stands at AED 63.4 million, outperforming the pre-pandemic level of net profit compared to a third quarter 2019 profit of AED 45.5 million and AED 34 million in the third quarter 2020. Our third quarter 2021 net profit margin increased by 3.8% year-on-year, reaching 9.3%. Our like-for-like net profit is also higher than pre-pandemic level, increasing 42.4% compared to the third quarter 2019, to reach AED 70 million.

Like-for-like net profit margin increased by 2.7%, reaching 10.2%. Our net profit after minority in the third quarter 2021 was AED 52.8 million compared to AED 33.1 million in the third quarter 2020. The margin in the third quarter 2021 is 7.7% compared to a margin of 5.3% in the third quarter 2020.

Our EDITDA is at AED 123.2 million compared to AED 104.4 million in the third quarter 2020. Margin is 18% compared to 16.7% in the third quarter 2020. Net debt level decreased by AED 38 million, reaching AED 979 million compared to June 2021. Thank you for listening. I will now hand over to PK Chand, our CFO.

**PK Chand** Thank you, Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already briefly summarised performance, financial highlights and regional performance for the third quarter of 2021. I will take you through the nine months of 2021 results and segmental highlights with details on revenue, profitability and the value chain.

We will start with slide seven, which shows financial highlights for nine months of 2021. Total revenue increased by 29.4% year-on-year to AED 2.11 billion. Revenue for nine months of 2021 has surpassed the pre-pandemic level, increasing by 11.6% compared to nine months of 2019.

Tiles revenue increased by 30.4% year-on-year to AED 1.46 billion, driven by all core markets. Sanitaryware revenue is also increased by 30.3% year-on-year to AED 412 million, driven by all markets except the Saudi market.

Tableware revenue improved year-on-year by 116.2% and by 21.2% quarter-on-quarter, to reach AED 164.5 million, as the market situation across all our core markets is gradually improving.

The total gross profit margin in nine months of this year increased by 6.1% year-on-year to reach and all-time high of 37.1%. Tiles gross profit margin increased by 7.8% year-on-year to reach an all-time high of 37.7%. Last year, margins were impacted due to plant shutdowns.

Sanitaryware margin in nine months of 2021 increased by 2.8% year-on-year to 35.9%. Tableware margin also improved quarter-on-quarter by 7% to reach 44.7%, while it is lower by 6.0% year-on-year due to lower productivity.

Net profit after minority was AED 201.3 million after considering gain on the sale of China assets amounting to AED 50.1 million and the write-off of excess lease rent recognised in earlier years for hotels, amounting to AED 27.2 million. These one-off gains of AED 22.9 million was recognised during the second quarter of this year.

The margin is 9.5% in nine months of 2021, compared to 2.9% in last year. The reported net profit is AED 221 million in nine months of this year compared to a net profit of AED 44.5 million in the last year. Margin is 10.5% in nine months of this year, compared to 2.7% last year.

Like-for-like net profit, that is before impairment losses and one-off net gains, increased by AED 146.9 million year-on-year to AED 216.7 million with a margin increase of 6% year-on-year to 10.3%, mainly due to higher revenue and gross profit margins.

EDITDA is at AED 379.2 million, compared to AED 240.1 million in the nine months of last year. The margin is 18% compared to 14.7% in nine months of last year. Net debt decreased from AED 1.23 billion in December 2020 to AED 979 million in September ’21, due to higher cash profits and receipt of proceeds from sale of China assets.

Net debt to EBITDA decreased from 3.2x in December 2020 to 1.89x in September 2021. In September 2020, net debt to EBITDA was 3.80x. On the cash front, capital expenditure for nine months of 2021 has been lower at AED 59.2 million compared to AED 76.4 million in the nine months of 2020. Capex for 2021 is expected to be in the range of AED 100 million based on the orders placed. Interim cash of 10 fils has already been paid on October 21st.

Now, we turn to the working capital cycle. In absolute terms, overall working capital increased by AED 41 million to AED 1.33 billion quarter-on-quarter, mainly due to increased inventories. In terms of number of days, it has slightly increased from 176 days in June ’21 to 180 days in September.

Inventory days increased from 212 days to 217 days quarter-on-quarter. Trade receivable days decreased from 106 days in second quarter ’21 to 102 days in the third quarter ’21. Trade payable days have also increased from 64 days to 69 days quarter-on-quarter.

We continue to take measures to manage our liquidity. Now, I will turn back to Mr Abdallah for his final comments on the fourth quarter of 2021 priorities before we answer your questions.

**Abdallah Massaad** Thank you, PK. We have reported strong financial and operational results in the third quarter 2021, despite the impact of global supply chain disruptions resulting in significantly increased freight costs our ability to navigate these challenges has helped us to deliver sustained growth. Further, we are validating our commitments to deliver shareholders’ value.

We are positive about the next quarter, although much would depend on the demand picking up, along with global economic recovery. We are monitoring the disruption to the global supply chain too and we are hopeful that, with the vaccination programme, the recovery of the world economy will continue.

Looking ahead for the remainder of 2021, we will continue to focus on improving operations efficiencies across our markets, optimise the production lines to sustain margins, protect our market share and increase export profitability.

With construction projects being put on hold in the UAE, we are focusing on the retail renovation market. Thank you for your time. Now, I would like to hand over the call to the operation and open the line to questions.

**Operator** Thank you. If you’d like to ask a question, please press \* followed by 1 on your telephone keypad now. To withdraw your question, please press \* followed by 2 and if you’ve joined us online, please click the flag icon.

When preparing to ask your question, please ensure your device is unmuted locally. Our first question today comes from Sameer Kattiparambil, of EFG Hermes. Your line is open. Please, go ahead.

**Sameer Kattiparambil** Thank you, gentlemen, for the presentation and for the call. I have a couple of questions. First, you mentioned that there is AED 21 million of additional freight costs but I just want to understand what percentage of the total has come from increased tile trade.

**Abdallah Massaad** Hi, Sameer. Thank you for your question. Actually, if you see, the total freight costs increased more but the impact of the increase in freight cost is AED 21 million.

**PK Chand** Sameer, on account of higher activity, additional quantity which has been handled, that we have eliminated only on account of higher freight rates. That has cost AED 21 million.

**Sameer Kattiparambil** Understood. My second question is what was the total customs duty you paid in the third quarter with respect to the Saudi customs duty?

**Abdallah Massaad** Sameer, what we paid is AED 5.6 million as additional customs duties. Correct, PK?

**PK Chand** Which has been charged to the P&L account because let us take a scenario that we paid some customer duty on some stock which remained in inventory as on 30th September, so obviously that has been inventorised. So, the amount which has been charged to the P&L account of the third quarter is AED 5.6 million.

**Sameer Kattiparambil** Got it. Did you get any chance to pass this additional expense to the customers or did you just put it as an additional expense?

**Abdallah Massaad** You got it, Sameer, that our margin continued to improve. It is a blending. Today, the market worldwide prices are increasing, commodities are increasing, freight is increasing, our raw materials.

So, wherever we have chance, if the market is ready for it, we are passing and some we are also investing in the long-term. Now, we cannot only charge it all as a short-term increase.

**Sameer Kattiparambil** Again, one final question from my side. How are the construction activities in the Kingdom? Is it back to normal post the slowdown due to the new building code?

**Abdallah Massaad** Look, Sameer, I forgot to tell you that in the end we are hopeful that this custom, we will able to get the exemption because according to the requirement of the authorities, we already did all what we have to do and we submitted all what we have to do and we submitted our attested documents to get the waiver. So, we are hopeful that this will not remain as additional expenses. This is related to the previous question.

In terms of activities, there are activities. It is picking up again. As I said, it was a bit slower from the availability of manpower to execute on the building permit as well as also a season of travelling at that time. Things are improving. I do believe that by the start of next year things will come back to normal.

**Sameer Kattiparambil** Thank you. Thanks a lot, Abdallah and PK.

**Abdallah Massaad** Thank you.

**Operator** Thank you. The next question today comes from Anoop Fernandes. Anoop, your line is open. Please, go ahead.

**Anoop Fernandes** Hi. Good afternoon. Thanks for the opportunity and congrats on another great quarter. My first question is on the volumes. If I look at the UAE tiles and sanitaryware volumes, both are substantially higher than the pre-2020 run rate, especially the UAE. I think the volume run rate in the first and the second quarter was almost 57% higher than what it used to be.

So, what is driving these higher operating rates? Is it inventory liquidation or are you actually producing more tiles or is it because you are producing slightly lower grade tiles which require less machine time, so you have more out there because there is also a decline in the average price per square metre in the UAE market? Any colour on that would be appreciated.

**Abdallah Massaad** I believe PK will give us more colour here but if we look at the UAE end market, we are down. If you look at the UAE operation, mainly it is coming from increased sales in Saudi, from increased sales in Europe, from increased sales in Middle East where it is showing an increase in volume.

**Anoop Fernandes** But, are you producing much over capacity? Almost 120% of capacity? That’s what the numbers show.

**Abdallah Massaad** No. We cannot got more than 100% of capacity, so the maximum we went is 97% but I’m trying to see on what page you are looking, in which report.

**Anoop Fernandes** It is from your quarterly release. If I look at the historical run rate of volumes from UAE, it used to be in the range of 15-16 million square metres and that has gone up to something like 23-24.

**Abdallah Massaad** Yes. This is mainly the sales which grew in Saudi Arabia. If you see our sales, which today, in terms of volume, the sales to Saudi, it happened to be that biggest market in terms of volume for us. In 2019, it was not at the same level. If you see, from a volume perspective, out of the UAE it has grown in Saudi Arabia as well Europe and the exports, not the UAE end market yet.

**Anoop Fernandes** So, this level of volume will continue? Should we assume that this 23-24 million square metres per quarter in UAE?

**Abdallah Massaad** I did not see the 24 million, where it is coming. We did not reach 24 million square metres in the quarter in UAE. Could you confirm it?

**Anoop Fernandes** Maybe we can take this offline then.

**Abdallah Massaad** Yes. Whatever you want.

**Anoop Fernandes** The second question is on your gross margins. 38% is probably one of the highest ever but as it trickles down to the EBITDA level, your EBITDA margins haven’t really moved much in the past three quarters. They are broadly similar, close to 16%, and a lot of it is eaten up because of higher freight costs.

Now, freight costs have fallen substantially in the recent past, so are you seeing that impact trickle down to your business, as well, because in the China-US route I think there has been a substantial fall.

The next part of this question is that if freight rates fall substantially and say you’ll have this impact, will it trickle down to your gross margins, as well, in the sense that I’m assuming that some of your revenue gets marked up by the cost of freight as well. So, is this 38% of gross margin sustainable or do we see this margin normalising towards the 35% level when this whole container issue normalises in future?

**Abdallah Massaad** Look, for let me answer on a part and PK, maybe he will support me on the others. What you said, has the logistics costs or the freight substantially gone down? Honestly speaking, we did not see it yet, as least on the route which is the most important for us, which is from here to Europe.

So, we did not see a substantial reduction yet. Although, we can see more availability earlier, it was not even in the third quarter, the matter of only the freight, it is the availability.

In terms of what if the freight will come down and make sure the freight is not affecting us only in the material costs but also is affecting us on the raw material which we are importing.

Where the gross profits will lead, it is a function of cost and also of the market. We can see a lot of development. Also, during this quarter we saw a support from an increase in energy costs for our European peers, from India and China, which also supported the increase in prices.

It is premature for us to say if this margin will remain. As we said, with these challenges and the changes every day in the parameters, we are doing our best, focusing on what we have to do and how to adapt according to any changes and we’re acting.

So, what we can promise is not a percentage. It is that we will do our best in order to maintain our margin and create value for shareholders, which is always in our mind. I don’t know, PK, if you want to add anything.

**PK Chand** Just to add, as far as EBITDA is concerned, it is a mixture of the selling price, the cost the production, and the freight cost. To take a hypothetical scenario, if the freight cost comes down while the sale price and the cost doesn’t change, obviously the EBITDA is going to increase.

But, what is going to happen is very difficult to guess. If the freight cost comes down, it is possible that the selling price will also come down slightly. So, it is a mix of all these elements.

**Anoop Fernandes** Thank you.

**Abdallah Massaad** Thank you.

**Operator** Thank you. The next question today comes from Albert Momdjian. Please, go ahead.

**Albert Momdjian** Thank you very much. Gentlemen, thank you very much and congratulations again on a stellar performance. I think you’ve been doing pretty well in your refocusing and restructuring, which is very, very positive. So, well done on this.

Two questions that are on the minds of a lot of leaders these days, obviously you mentioned one of them, which is the freight cost. What is your view, because we’re hearing different views from different people across different industries?

Some of them are stating that by Q1 next year things will ease and we’re going to go back to normal. What do you think has led to this situation because obviously this is impacting everyone, not only your industry?

Second question, you’ve touched upon it, which is very interesting, which is the refurbishing of existing properties in the UAE and obviously we’re seeing a lot of that happening with a totally new number of foreign expats coming to the UAE from Europe. Are you benefitting from this or not because we’re seeing on the real estate side, a major uptick and the price of real estate has gone up significantly?

**Abdallah Massaad** Thank you for your question. If you allow me, I believe on the second quarter this year we came and we said that the freight to Saudi has increased due to a decision of stopping the trucks which are more than 20 years to go to Saudi. The rate which was an average of 3,000 has gone to 5,500. Now, the rate came back at the same level of what it was at the beginning of the year.

So, we couldn’t have a view of how long it will take but we thought, for sure, it’s a matter of demand of supply and the price has gone up 60-70% because of this reason and in three months it was stabilised.

The global disruption today is not only a sector and I believe, personally, that this will not continue forever, no doubt. I cannot say it will be on the first quarter or the second quarter but today we started to see availability.

As we said, a slight improvement in some sectors and probably we can see that next year it will improve. What will be the ratio and the timeframe of this improvement? Honestly, let us keep it to more professional views.

In refurbishment, in the UAE, as we said it very straight, that all of us we heard that the government direction is to hold all new projects in order to reduce the inventory of real estate available and this, for sure, will affect the demand on the project side.

That’s why we invested in our retail. We are investing in e-commerce. We are targeting the products, what we have to be able to benefit from the refurbishing. The refurbishing, yes, we can see a demand coming from the refurbishing business which is going on.

**Albert Momdjian** Thank you. Thank you very much.

**Abdallah Massaad** Thank you.

**Operator** Thank you. We have received a question via the chat from Yawar Saeed, and the first question is which market has resulted in revenue growth in the Middle East, except UAE and KSA segment?

Secondly, where do you expect your gross operating margin to normalise? Can you update us on the possible factory set-up in KSA? Lastly, can you please provide information about gas connection in KSA?

**Abdallah Massaad** Sorry, I couldn’t follow one-by-one but in terms of market, the Middle East is the overall market. There is no one market improvement. It is the whole market because we do focus when the freight issue came into the picture, when the non-availability of containers was there.

So, as a reaction, we put more focus and more direction to increase our sales on the market, which was not impacted much in the freight costs, which he Middle East was a sector where it was not impacted, so put more focus and we gave more allocation to this market which improved. If you allow me, the second question?

**PK Chand**  Do you expect your gross operating margin to normalise?

**Abdallah Massaad** As a number, we already said it is a factor of cost of market, of competition, of logistic costs. What we’re trying to do, and you see the improvement which has happened, we are working very hard to control our costs, to improve our efficiency, to differentiate our product, to do whatever possible in order to obtain the maximum margin, where it is very difficult to give a number, where we cannot estimate exactly what is the percentage but we are improving and you can see the improvement quarter-on-quarter with a sustainable view on this.

**PK Chand**  Third question is on the Saudi new project.

**Abdallah Massaad** The Saudi new project, we are in the latest stage. We can say that we are on the latest stage. We are assessing the location and the products. I hope that soon we will give an update with a positive development.

**PK Chand** And, asking about the gas connection, also.

**Abdallah Massaad** I wish I answered the questions.

**Operator** Thank you. Our next question is back on the phone lines, from Adil Rashid. Your line is open. Hi, Adil. Your line is now open. Unfortunately, we’re not receiving any audio from their line.

As a reminder, if you’d like to ask a question, please press \* followed by 1 on your telephone keypad or please press the flag icon. We’ve had a follow-up question from Sameer Kattiparambil, of EFG Hermes. Your line is open.

**Sameer Kattiparambil** One final question from my side. How do you see the gas price scenario in the international market and the oil price is also increasing? So, how is it going to impact your gas prices in your India and Bangladesh market and also in the UAE?

**Abdallah Massaad** Sameer, if you look at the last week, the market was stabilising a bit, it was going down. Honestly, it is too difficult to give a view on what will be the oil price or the gas price.

Yes, you are right that the gas price in India, we saw that it increased. In UAE, as you said, we have entered a contract where partially we have a fixed price and partially it is floated. It affected us but not as bad as others and we remain at the same level of last year.

We were fortunate, actually, to have part of our gas consumption, it is at a fixed price which is much lower than the average of today. We can see it stable and hopefully in the next 1.5-2.0 years, we will see stabilisation at a lower price from gas coming from UAE, which will be fixed at a lower price than what we are paying today. In Bangladesh, it is still fixed. We did not get an impact, but we can see a lot of increase in gas prices for our peers in India and in Europe.

**Sameer Kattiparambil** Got you, Abdallah. One final question. Did you notice any price changes in the UAE market post the ADD implementation?

**Abdallah Massaad** Honestly, as we said in the beginning, the market was flooded with material. We can see that improvement in prices, especially in the wholesale, which we’ve begun. We start to see improvement in selling prices.

**Sameer Kattiparambil** Thank you. Thanks a lot, Abdallah.

**Operator** Thank you. Our next question comes from Jagadishwar Pasunoori, of NBK Capital. Your line is open.

**Jagadishwar Pasunoori** Thanks for taking my question. I’m not sure if you have addressed this one but let me ask you anyway. Is there any anti-dumping duty imposed in the UAE and is it helpful for the industry and also in terms of how the pricing implementation has been impacted?

**Abdallah Massaad** If f I heard you properly, we mentioned that there was an implementation starting 6th July in UAE on anti-dumping on products coming from China and India, starting from 23.5% to 106% in order to reduce the dumping, not only in UAE but it started earlier in Saudi and in the GCC. I am not sure if this is what you were asking.

**Jagadishwar Pasunoori** How did the realisations go up for you in UAE or even the volumes, what percentage?

**Abdallah Massaad** Look, this is what we discussed in our last call and also my last answer to the previous question is that we said in UAE a lot of materials were dumped earlier and we do think that till the end of the year this material will be liquidating. For us, we started now seeing improvement in selling prices which will support our margin and volume going forward.

**Jagadishwar Pasunoori** So, it will still impact a little bit in the fourth quarter of this year, is my understanding. I am correct, then?

**Abdallah Massaad** Look, we are hopeful. In these days we have to follow month-by-month, quarter-by-quarter but a positive impact will come and this is what we are expecting.

**Jagadishwar Pasunoori** Thanks a lot and good luck.

**Abdallah Massaad** Thank you.

**Operator** Thank you. Adil Rashid has registered a question from Daman Invest. Your line is open.

**Adil Rashid** Hi. A couple of questions from my end. Could you talk about, first, the competitive landscape in Saudi and what are you seeing there? Secondly, could you talk about the 12% customs duty? What’s the update? Do you see that being reversed? Can you provide some more clarity on that? Lastly, you had guided for capex of AED 150-170 million for the year. Do you still see that guidance being met? Thank you.

**Abdallah Massaad** I will start answering. As you said, Saudi is a big market consuming. There are also factories in place and we, as RAK Ceramics, historically it is one of our biggest markets. We are well-positioned and we differentiated ourself with the different products and positioning in order to differentiate ourself from the price game.

The market, normally in Saudi, passes through some stages. The stage which we had during the last quarter was from COVID closing. We are all facing availability of manpower, also in the real estate or in the construction activities where I believe this will improve and already started improving from the lockdown which happened, especially in Bangladesh, India and Asia.

The second is the building permit changing requirements which also impacted, initially, the construction. I do believe that, starting the next year, the demand will pick up. It’s a very promising market linked to the vision of 2030 and the construction activities which are expecting to grow further.

On the 12%, which we mentioned starting 1st July 2021, 12% was implemented as a customer but also the requirement was to have any manufacturing facility in the UAE to have at least 65% mix of, 45% minimum, value-added as well as 20% localisation or local employment.

We, as RAK Ceramics, we have as a value-added around 65% alone, which reduces the requirement of local workers to 10%, which both we comply and we submitted our file to the authorities in Saudi and we are waiting hopefully the waiver. I believe these are the questions.

**PK Chand** Third was capex.

**Abdallah Massaad** PK, go.

**PK Chand** As far as capex is concerned, what has really happened is because of the shortage of containers and all this. The delivery is also much delayed. Therefore, our current guidance will be that we will spend about AED 100 million in this year. So, that is the scenario.

**Adil Rashid** All right. Thank you.

**Operator** Thank you very much. As a final reminder, if you’d like to ask a question, please press \* followed by 1 on your telephone keypad or please click the flag icon. We have no further questions in the queue, so I will hand back to the management team.

**Mohamad Haidar** Abdallah, I have one final question. Hypothetically speaking, let’s say next year RAK Ceramics sells roughly AED 600 million Saudi and you don’t get the exemption on the duties, so the impact on net profits would be roughly AED 70 million, so it is simple math, 12% multiplied by the revenues, and the impact will be felt on bottom line?

**Abdallah Massaad** Look, no, because what we show is our sales in UAE and the custom is on the imports. So, it will not be charged at 12% on the AED 600 million. We are showing end-to-end market. We have to deduct the gross profit margin, which is in Saudi, so the 12% will be less than the amount you mentioned.

Second, it will not be charged through the P&L because also we will then have to play with the product mix and the realisation as you mentioned in the previous question on the refurbishing.

Also, we are trying. We launched now a collaboration with Elie Saab, which we had our first show last week in Design Week. So, all what we are trying to launch, we launched in Cersaie, what we mentioned, a collaboration with Patrick Norguet on having new sets of sanitaryware. So, all our effort is also in differentiating and being able to adapt and to upgrade the position where we are.

**Mohamad Haidar** Thank you, Abdallah. Very clear. Back to you for any final remarks.

**Abdallah Massaad** Thank you. Thank you very much. As you see, we are doing our best. We will continue to do our best and, hopefully, we will be able to give better results going forward. Thank you.

**Mohamad Haidar** Thank you, Abdallah and PK Chand and thank you, everyone, for joining.