RAK Ceramics Q4 & FY 2021 Earnings call

Monday, 07 February 2022

Mohamad Haidar:

Hello, everyone and welcome to the RAK Ceramics fourth quarter and full year 2021, Earnings Call. This is Mohamad Haidar from our Arqaam Capital from RAK Ceramics, we have Mr. Abdallah group CEO and Mr. PK Chand, group CFO. Over to you, Abdallah.

Abdallah Massad:

Thank you Mohamad and good evening, everyone. I sincerely hope that everyone on the call, along with families, are keeping safe and healthy.

I'm pleased to report that our fourth quarter and full year 2021 results exceeded our expectations, and we continue to deliver strong financial performance in 2021.

With revenue and profitability surpassing pre-pandemic levels, despite challenges created by the imposing of custom duty of 12% in Saudi Arabia and the significant increase in input prices, logistic costs due to the global shortage of containers.

Our business saw a positive momentum toward a gradual return to normality, with the resumption of economic activities and trade.

We strengthen our brand positioning, as a global provider of premium ceramics lifestyle solutions, by exhibiting at many international events, and by sponsoring several high profile architectural and interior design awards.

The strengths of our brand has enabled us to partner with several award-winning designers, including world-renowned fashion designers, [inaudible]. These partnerships have produced some of our most unique and innovative product to date.

In the first quarter of the year, we reported a significant revenue increase, marked a five year high. Following that, we reported three consecutive quarters of positive of revenue growth, and reported a healthy net profit of 283.9 million dirham for the full year 2021.

Our total EBITDA also increased by 32.7%, reaching 501 million dirham during the full year 2021, driven mainly by the strong growth trajectory of our core business.

Our total revenue for the fourth quarter 2021 increased by 4.5% year on year, and increased by 9.9% quarter on quarter, reaching 752 million dirham, and surpassed pre-pandemic levels, increasing by 9.9% to Q4 2019.

Driven by strong growth trajectory in the UAE, India and Bangladesh markets, also rebound in tableware business. Our total gross profit margin for the year of 2021 increased by 4.1%, reaching 36.2%, driven by improved production efficiencies and the optimization of production line across all our plants.

Production capacity utilization for ties was optimized to match the demand during the quarter. We continue to reduce production costs by optimizing the production line, to increase productivity and the first choice of production.

The UAE and market revenue in the fourth quarter 2021 was higher by 19.5%, quarter on quarter, supported by growth in wholesale and retail business, while it is lower by 7%, year on year, reaching 157 million dirham. In full year revenue, decreased by 3.1% year on year, reaching 595 million dirham.

In Saudi Arabia, the company strategy continued to yield results. The imposition of a 12% customer duty, effective from first July 2021, reduced demand initially, impacting our sales during the quarter.

We have already submitted duly-certified regulatory documents, to comply with the requirement, like value additions in the UAE and a minimum threshold of local employment, in the organization with Saudi authorities in October 2021 and we are awaiting for grant of duty exemption.

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 an opening of three new showrooms, two in Riyadh and one in Medina. In 2022, there are plans to up another three showrooms.

Our Saudi Arabia revenue decreased by 19.9%, year on year and by 17.8%, quarter on quarter, to reach 105 million dirham, during to reduced demand.

In the full year of 2021, our revenue increased by 26.7%, reaching 544 million dirham.

In Europe, performance was impacted by higher shipping freight rates, owing to global container shortages. Resulting revenue decreased by 16.4%, quarter on quarter and 17.2%, year on year, reaching 82 million dirham.

In full year 2021, the revenue increased by 17%, year on year, to reach 395 million dirham. Compared to the full year 2019, revenue increased by 20.2%.

Our relentless focus on providing world class product management, has resulted an increased customer base, which saw an overall increase of revenue in 2021.

A new showroom in London will be opened in the third quarter 2022. In India, operations marked a strong turnaround, with our business surpassing pre-pandemic level.

This was underpinned by positive business sentiments, as reflected in improved profitability, despite significant higher fuel cost and third wave of COVID-19.

Revenue grew by 32.9%, year on year and by 12.5%, quarter and quarter, to reach 117 million dirham.

In the full year of 2021, revenue increased by 61%, year on year, to reach 389 million Dirham and higher by 42.6%, compared to full years 2019, surpassing pre-pandemic levels.

Our engine operations continue to post positive results for the last five quarters. Our focus is on introduction of innovative products, to drive better margin and improve geographical expansion of dealer network by covering more districts.

In Bangladesh, the company demonstrated resilience and reported strong year on year growth, supported by differentiated product for premium segment, with revenue increased by 26.3%, quarter on quarter and by 6.2%, year on year, to reach 86 million dirham.

For the full year 2021, our revenue increased by 30%, year on year, reaching 295 million dirham.

As RAK Ceramics Bangladesh share price increased from 27 to 61 Bangladesh [inaudible], in the last one year. It is trading at a PE multiple of 26 times.

In Middle East, revenue increased by 48%, year on year, reaching 129 million dirham in the full year 2021, considering that the last year's revenue was substantially impacted due to the pandemic.

Our tableware performance witnessed a rebound to pre-pandemic levels and we have increased production to meet the growing market demand.

During the quarter, we posted robust growth and profitability, despite continued supply chain disruption and higher shipping freight costs.

Tableware revenue in the fourth quarter 2021 increased by 33%, quarter on quarter and by 109%, year on year, reaching around 90 million dirham.

Compared to the third quarter 2019, our revenue increased by 15.2%. In full year of 2021, revenue is higher by 73%, year on year, reaching 254 million dirham.

Our fastest revenue increased by 17%, year on year, in full year of 2021, reaching 166 million dirham, driven by all market.

Despite the continued pandemic, our liquidity position remain at a comfortable level. Our working capital days decreased from 180 days to 175 days.

During the quarter, our net debt to EBITDA, remain at a very stable low, at 1.94 times, quarter on quarter in December 2021. In December 2020, our net debt to EBITDA was 3.25 times.

Cash dividend of 20 fills per share has been proposed by the board of director for the year 2021. Out of which, 10 fills per share were already paid in October 2021. As an interim dividend, the board of directors has approved an amendment to the company's dividend policy. The new policy stipulates, a minimum dividend payout of 20 fills annually for the full year 2022 to be paid on a semi-annual basis and also provides for a commitment to pay a minimum dividend of 60 fills over the next three years from 2022 to 2024.

The revised dividend policy will be subject to factors such as business outlook, capital requirement for growth opportunities, expansion plan, optimal leverage level, and the healthy cash reserves in addition to regulatory approvals, the revised dividend policy will be presented to the shareholders for approval in the next annual general meeting.

Now please allow me to take you through our financial highlight for the fourth quarter of 2021. Total revenue increased by 4.5% year on year reaching 752 million dirham quarter on quarter revenue increased by 9.9% supported by India, Bangladesh, Middle East markets and tableware business.

Tides revenue remains stable year and year at 490 million dirham while quarter and quarter revenue increased by 4.3%. Our sanitary wear revenue is lowered by 10% year on year reaching 131 million dirham due to reduce revenue from Europe markets on account of significantly higher shipping freight rates. Our tableware revenue improved quarter and quarter by 33% by 109% year on year to reach 90 million dirham in the fourth quarter 2021. As the market situation across our core market is gradually approved.

Total gross profit margin in the fourth quarter 2021 margin is decreased by 80 basis point year on year reaching 33.6% and quarter on quarter decreased by 460 basis point, mainly need to increase in input prices, including freight and considering 12% custom duty in Saudi Arabia. As part of our cogs, amounting of 12.5 million dirham.

Total gross profit margin decreased by 1.6% year on year reaching 38.11 in fourth quarter 2021 sanitary rear margin on the fourth quarter 2021 decreased 11.3% year on year reaching 27.4 due to significant increase in raw material and freight costs. Our tableware margins improved quarter on quarter by 5.5% reaching 50.1%. And by 17.6% year near due to increase in revenue and productivity.

Our like for like net profit is also higher than pre-pandemic level increasing 46.1% compared to the fourth quarter, 2019 and 5.1% year on year to reach 81.4 million dirham like for like net profit margin is stable year on year at 10.8%. Reported net profit stand at 62.9 million dirham outperforming pre-pandemic level of a net profit compared to the fourth quarter of 2019, which was the profit was 49.4 million dirham.

And the fourth quarter 2021 net profit margin was 9.3% net profit after minority in the fourth quarter 2021 was 45.2 million dirham compared to 59.3% in the fourth quarter 2020 excluding permit losses in last year margin in the fourth quarter, 2021 is 6% compared to a margin of 8.2% in the fourth quarter 2020. Our EBITDA is at 122 million dirham compared to 137 million dirham on the fourth quarter 2020. Our margin is 16.2% compared to 19.1% in the fourth quarter 2020. Our net debt level is stable quarter on quarter at 971 million dirham in December 2021. Thank you for listening. And I will now hand over to Mr. PK Chand our CFO.

PK Chand:

Thank you, Mr. Abdul good evening everyone. And thank you for joining us. Mr. Abdul has already briefed summarized to financial performance, financial highlights and regional performance for the fourth quarter of 2021. I will take you through the full year of 2021 results and segmental highlights with details on revenue profitability and the balance sheet.

We will start from slide seven. Total revenue increased by 21.8% year on year 2.86 billion dirhams, full year 2021 revenue has surpassed. The pre-pandemic levels increasing by 11.1% compared to the full year of 2019. Tiles revenue increased by 21.3% year on year to 1.95 billion dirham driven by all markets accept UAE market. Sanitary revenue also increased by 17.5% year on year to 543 million dirhams driven by all markets except Saudi market.

Tableware revenue improved year on year by 73%. And by 33% quarter and quarter to reach 254 million dirhams as the market situations across all our core markets is gradually improving. Total gross profit margin in full year of 2021 increased by 4.2% year on year to reach an all time high of 36.2%. Tiles gross profit margin increased by 5.2% year on year to reach an all time high of 36.6%.

Last year margins were impacted due to plant set downs, sanitary wear margin for full year of 2021 decreased by 1% year on year to 33.8% due to increase the raw materials and freight costs. Tableware margin improved by 1.6% year on year to 42.7% due to increased revenue and profit productivity. Net profit after minority was 246.5 million after considering gain on sale of China assets amounting to 50.1 million dirhams and right off of excess lease learned recognized in earlier years, for the hotel amounting to 27 million dirhams.

The net one off gain were recorded during the second quarter of the year and it was 22.9 million dirham. The margin is 8.6% in full year of 2021, compared to 8.2% in the last year. The reported net profit is 283.9 million dirhams in the full year of 2021 compared to a net profit of 110.1 million dirhams excluding one of impairment losses of 236.2 million dirhams in the last year.

Margin is 9.9% in full year of 21 compared to 4.7% in the last year, like for like net profit before impairment losses gain on sale of China assets and right off of excess lease rent recognized in earlier years increased by 150.8 million dirhams year on year to 298.1 million dirhams with a margin increase of 4.2% on year to 10.4% mainly due to higher revenue and gross profit margins.

EBITDA is 501.3 million dirhams compared to 378 million dirham in the full year of 2020. The margin is 17.5% compared to 16.1% in the full year of last year. Net debt decreased from 1.23 billion in December 2020 to 971 million dirhams in December 2021 due to higher cash profits and receipt of proceeds amounting to 69.6 millions from sale of China assets. Net debt to EBITDA decreased from 3.25 times in December 2020 to 1.94 times in December 2021 in September 21 net debt to EBITDA was 1.89 times.

And since then in October, we paid dividend of 10% as interim dividend. On the cash front capital expenditure for 2021 was lower at 91.3 million compared to 110.5 million in 2020. CapEx for 2022 is expected to be in the range of 300 to 400 million dirhams. As informed cash dividend of 20 fills per share has been proposed by the board of directors for the year 2021. Out of which 10 fills per share have already been paid in October to 21 as interim dividend.

Further, the board has recommended revision in the dividend policy as already briefed by Mr. Abdul. Now we turn on the working capital cycle in absolute terms, overall working capital decreased by 32 million dirham to 1.29 billion quarter on quarter due to decrease in trade receivables. In terms of days, it decreased from 180 days in September 21 to 175 days in December 2021, mainly due to decrease in trade receivable days.

Inventory days remained stable quarter and quarter at 217 days trade receivable days decreased from high two days in the third quarter of 2021 to 94 days in the fourth quarter, 2021 due to decrease in trade receivables. Trade payable days also decreased from 69 days to 62 days, quarter and quarter, we continue to take measures to manage our liquidity.

The next slide shows the share price movement of RAK Ceramics, which has increased from 1.62 dirhams to 3.01 dirham in last 12 months and trading at P multiple of 11.49 times. Now we turn to slide 17, where you can see that our Bangladesh entity listed on Dhaka Stock Exchange. The share price has significantly improved from 26 Dhaka to 61

Dhaka per share an increase of 135% in last 12 months. The market cap of our Bangladesh entity is around 308 million dollars, which contribute nearly 37.8% to the group market capitalization while the revenue of Bangladesh entity is around 10.5% to the group revenue. Now I will like to turn it back to Mr. Abdallah for final comments on 2022 priorities before we answer your questions.

Abdallah Massad:

Thank you, PK. Despite the challenges, our business for positive momentum and a gradual return, toward normality with economic activity and trade resumption. Our priority for 2022 is to protect our market share and further strengthen brand perception in our core market with a sustained investment in brand initiatives, such as a new showroom retail outlet store and launching our e-commerce platform.

Despite rising input cost and supply chain disruption, we aim sustain our current operation cost by enhancing our plans in the UAE, India and Bangladesh initiating the Greenfield project in Saudi Arabia and increasing selling prices to offset the increased freight cost in Europe. We are committed to increasing efficiency while reducing our environmental impact and protecting the health and wellbeing of our employees. We will continue to evaluate the ongoing situation as a potential for new COVID 19 variant remain. Thank you for your time. Now, I would like to hand over the call to the operator and open the line for question. Thank you.

Operator:

Thank you. If you'd like to ask a question, please press star followed by one on your telephone keypad now. To withdraw your question, please press star followed by two. And if you joined us online, please click the flag icon on your web browser. We kindly ask that you submit one question and one follow up only. And if you have any further questions, please register again and re-enter the queue. Our first question today comes from [phonetic] your line is open. Hi [phonetic] your line is open.

Mohamed Ahmed Omar:

Hello? Can you hear me?

Abdallah Massad:

Yes.

Mohamed Ahmed Omar:

Yes. Well, thank you very much for the call and congratulations of the results. Can you give us a little bit more details on the performance in Saudi Arabia? Was the decline driven mainly because of demand or was it more competition? I mean do you think that competitors got more market share from you during this quarter? Thank you.

Abdallah Massad:

Thank you Aziz, I expected during any implementation of new regulation, always in Saudi it will drag the demand. For us, two things, first, we already, you see, we had a great three quarters and strategically we wanted to not to flood with the market. The market, is a question between supply and demand. And on purpose, we did not push much during the quarter as the demand locally was low due to changes in building permits in Saudi, but we do not see any negativity going forward and we don't see any loss of our market share in the segment where we are playing.

Mohamed Ahmed Omar:

All right. Thank you very much.

Abdallah Massad:

Thank you.

Operator:

Our next question today comes from Vijay Harpalani of Altea Group. Your line is open Vijay, please go ahead.

Vijay Harpalani:

Thank you and good afternoon everyone. And thanks for the call. Got one question with reference to taxation. So they recently announced taxation policy in the UAE, which comes into effect by mid of next year. What is the impact? I mean, since RAK Ceramics generates vast majority of revenue outside the UAE, what some thoughts on the potential tax impact would be really helpful and I'll perhaps wait for my next questions. Thank you.

PK Chand:

See, as far as the 9% corporate taxes concerned, it has been introduced for the companies effective for which the financial year starts after 1st of July 2023. In our case, since the financial year starts on 1st of January, therefore for the operations of 2024, we will be liable to pay tax on in the year 2025. So that is going to be the situation. Now, there is a global international tax also, and there is a UAE corporate tax, so we will have to actually assess. So the main profitability is coming from UAE. So obviously 9% tax is applicable on that amount.

Vijay Harpalani:

Thank you.

Operator:

Our next question today comes from Adil Rashid of Daman Investments. Please go ahead.

Adil Rashid:

Hi, thank you for the call. My question is regarding the revenue growth, could you break it down in terms of the impact by price and by volume.

PK Chand:

See, as far as the price and volume we share it with analyst, but publicly it is not disclosed.

Adil Rashid:

Okay, fine. Then can I sort of ask another question regarding the freight costs? Have you been able to pass this onto the end consumer fully or partly?

Abdallah Massad:

Look, for sure It was too early, especially, our biggest market is Europe and we could not pass it during last year, but some we pass it fully and some partially starting 1st of January 2022.

Adil Rashid:

All right. Okay, thank you.

Abdallah Massad:

Welcome.

Operator:

Our next question comes from Anoop Fernandes of SICO. Your line is open.

Anoop Fernandes:

Yeah. Hi, good afternoon, gents. Just one question on your Bangladesh business, you highlighted that the share price is up and yeah, it is, I think almost at a three year high. Also we see a big drain from minority leakages in your consolidated financial I'm assuming this comes from Bangladesh. Okay, what is really happening in the Bangladesh operations? What has really changed in the last, this quarter in the past year, where there is such a big turn around in the share price, as well as [unclear]

Abdallah Massad:

As you can see our improvement in our gross profit margin or over the group. So as RAK Ceramics, we started a program of rebranding on differentiating ourself from the competitor to move from a commodity to a solution provider. And we've done also in our production process, lot of improvement from, from energy consumption to efficiencies to... We tried our R and D department have a lot of ideas, which we implemented in the UAE and it was successful.

So last year we roll out all these initiatives in India and in Bangladesh. And from there, despite in Bangladesh, we had lockdown during the first quarter, but with the innovative product, with efficiency and manufacturing, with the ability to move fast and with the supply chain in term of raw material availability.

So it was a good year all over the group. And specifically in Bangladesh, we were able to differentiate ourself from the competition, and that's why we, in the three quarter, we were able to sell even more than the pre-pandemic. And I believe it was also appreciated by not only our clients or all the stakeholders, including investors in the market.

Anoop Fernandes:

Okay, just to follow up on the same thing, in the fourth quarter, there was a big increase in the minority interest. This comes from Bangladesh, right? Almost entirely

Abdallah Massad:

It come from Bangladesh, as well as the Iraq porcelain and our Iraq porcelain business, which historically was one of the best performing division. And during the pandemic, it is directly related to the [unclear] industry. And last year it was the restart and specifically after the first quarter this year and the impact came on the third and fourth quarter. And there RAK Ceramics own 50% and you have a 50% minority where the business show a very big turnaround.

Anoop Fernandes:

Okay. Understood, thank you.

Abdallah Massad:

Thank you.

Operator:

The next question comes from Mohamed Ahmed Omar, please go ahead.

Mohamed Ahmed Omar:

Hi, good evening. First of all, I would like to thank you for the nice result for this year, and I hope and shall like to keep going through this for next year. My questions regarding the selling and distribution cost for comparing between 2020 and 2021. I noticed that the, we spend the company spend around 409 million for selling and distribution in 2020, but in also 2021 is raised up around 573 million. It's around 32% raising up. I would like to know what the reason of this big percentage raising during one year.

Abdallah Massad:

Yeah, because thank you very much for your question and comments. Look it is higher sale and with higher sale, you have that freight included in the selling cost. So it's a higher freight on increased volume. Plus the increase in freight, which was enormous during... The main challenge, which was in 2021, which would continue in 2022 is the supply chain disruption and specifically the container costs. So, this is why the volume mix of volume increase as well as the freight increase.

Mohamed Ahmed Omar:

And I would like to know as you said, the supply chain, how much the shipment is costing like a margin cost from the products. If you can tell me.

Abdallah Massad:

Look, it is market by market, as Iraq ceramics, fortunately, or unfortunately, we are very diverse. If you look going to UAE is different than going to Saudi, which good, at least in Saudi it is stable by trailers, trucks, it didn't increase while a container to Europe, which was costing us 1,200 Euro today is costing us 5,600 Euro.

So going into even the sales, we have a selling, which is the X factory to most of the market. While for our distribution centers in the UK, in Germany in Italy, it is we have to consider the freight included. So therefore it varies. But we had said that we have paid almost more than 50 million dirham extra in freight cost, coming from a price increase.

Mohamed Ahmed Omar:

As a percentage of, can you have know how much as a percentage?

Abdallah Massad:

I don't know if we have it, if we don't have it, we will send it to you. Our team will work it out and send it to you.

Mohamed Ahmed Omar:

Thank you so much. Thank you. Thank you so much.

Abdallah Massad:

Thank you.

Operator:

Thank you. As a reminder, if you'd like to ask a question, please press star followed by one on your telephone keypad or click the flag icon if you joined online. We have a follow up question from Adil Rashid of Daman Investments. Your line is open again.

Adil Rashid:

Hi, thank you for taking my call again. My question, sorry. Regarding your capacity, do you have access capacity at the moment? And if so, how much can you utilize without incurring further CapEx?

Abdallah Massad:

Look in term of capacity. We can say that almost 90% of our capacity was utilized during the year. Meanwhile, we already declared that we are increasing one line in the UAE, which will be already by end of the year. And we are adding 250,000 pieces of sanitary wear, which will be ready gradually from the second quarter to the third quarter, during this year in UAE.

Also, we are investing in upgrading the machineries, which will allow us to have extra capacity in Bangladesh. So I believe that what we see as a demand and the capacity we have will be able to match, and we are working on several initiatives to grow and growth around us, which for the time being, we have another 10% extra capacity, which we can... Depends on the production typology. So when we say 90% of the capacity to utilize, we can have more efficiency, depends on the typology, which we produce.

Adil Rashid:

Okay. And just to follow up on that, are you guiding for a certain amount of CapEx for this year?

Abdallah Massad:

We already mentioned, PK mentioned that our CapEx during the year will be between 300 to 400 million. The variant is that, we are monitoring on... We are still in the pandemic and we failed as you see very well the last two years, we are monitoring on a day by day, how what's happening on the supply chain and accordingly will be the spending. So that's why it is between 300 to 400 million dirham.

Adil Rashid:

All right. Thank you so much. Thank you.

Abdallah Massad:

Thank you.

Operator:

The next follow up comes from Vijay Harpalani of Altea group. Please go ahead.

Vijay Harpalani:

Thank you for taking my follow up question. So I'm not sure if you disclose margin data by geography.

Abdallah Massad:

Okay. We don't give it, is too detailed.

Vijay Harpalani:

[unclear] India, Bangladesh, and maybe some direction would be helpful in that case. I mean, you talked about-

Abdallah Massad:

But we are going... If you see our margin is improving day by day, and I believe during 2021, our margin was the highest in the last 10 years. And what I can tell you that we will continue working on improving our margins.

Vijay Harpalani:

But do you think current levels are sustainable? Or [unclear]

Abdallah Massad:

We are thinking on how to improve the current margins. As I said, our investment the last few years and branding and positioning and differentiation and efficiencies in manufacturing combined should help us and sustain and improve our margin going forward.

Vijay Harpalani:

Thanks a lot. Last question. If I may on dividend policy, what drove that change in the dividend policy? If you could please elaborate on that.

Abdallah Massad:

So if you see that we are already having a guidance of paying 60%, at least from our net profit. And if you see the last year, the board recommended and the general assembly approved paying of semiannual, which were already paid last year and the board recommended for the general assembly to approve at least to pay 20 fills in 2022. As well as combined for the next three years 22, 23 and 24 to be at least 60 fills. For sure subject to anything macro happened. But this is how the board recommended for the general outcome.

Vijay Harpalani:

This will be a cash pay out right?

Abdallah Massad:

It's a cash. Yeah, it's a cash.

Vijay Harpalani:

All right, thanks a lot.

Abdallah Massad:

And on your question and what was the percentage of rate to the revenue? I've got the details now. So in 2020, it was 8.5% in 21, it was overall 10.8%. While in the fourth quarter where we felt the maximum hike in the freight weights, it was 12.6%.

Operator:

Thank you. And our next follow comes from Dean hit of EFG Hermes. Please go ahead.

Dina Hicham:

Good afternoon, everyone. And thank you for taking my question. I have a question, Bangladesh, there were reports on Bangladesh that is facing an acute gas shortage over the past few weeks. Did it impacted your operation and what your view on the situation, any chance it would spill over to gas price increase in Bangladesh. Thank you.

Abdallah Massad:

Thank you for your question. But to be honest, our team on the ground didn't inform us of any disruption in gas supply, and we did see any changes there.

PK Chand:

No so far the increase has not yet been announced, but yes, the team is foreseeing that yes, there will be some, a price increase.

Abdallah Massad:

But no shortage in this.

PK Chand:

No shortage. So far, no shortage has been reported.

Dina Hicham:

Okay. Thank you much.

Operator:

Thank you. As a final reminder, if you'd like to ask a question, it's star followed by one on the telephone or the web browser, if you joined online. We have no other questions, the queue. So I'll hand back to the management.

Mohamad Haidar:

Thank you, Abdul. I have a question, on CapEx how much of the three to 400 million is going to be maintenance next year, or this year?

Abdallah Massad:

Look, the maintenance cost. If you saw the last two years, we are spending a hundred million. Normally we were standing, it'll be like 200 million at CapEx as a maintenance, sorry and upgradation. And we have the remaining in CapEx.

Mohamad Haidar:

Understood. And just one more on Q4 margins, they were a bit lower than the full year margins for gross margins. Are these going to be the levels for 2022 or-

Abdallah Massad:

No Mohamad what I said that the increase in freight came into the fourth quarter, whereas we were not able to increase our prices for a commitment earlier than the hike and logistic cost. Starting first January 2022, we already implemented a hike and prices to cover at least a big portion of the increase in transportation cost.

Mohamad Haidar:

Thank you very much.

Abdallah Massad:

Yeah, Muhamad.

Operator:

We have some more questions in the queue now. The first question comes from a Adil Rashid of Demand Investments. Please go ahead.

Adil Rashid:

Hi, just to follow up on the natural gas cost, could you provide some clarity on how is it priced across different geographies? I understand some of it is hedge, right? So could you just explain how the contracts are set?

Abdallah Massad:

Look in term of gas price for us, we do not see any risk in the gas, our contract, which we buy here, we buy from Raggard, which is blended of a fixed trade it for a portion and a portion linked to the brand. So honestly, the portion which is fixed is like a natural hedging. Reducing the impact on the increase. We would have an increase, but not severe or a major increase. This is in the UAE and in India, we already saw increase in gas prices, but it is for all the manufacturing, which they pass it on the increase in prices. And that's why if in Bangladesh, the price increase, this will lead to an increase in prices by us and the other manufacturers.

Adil Rashid:

All right. Thank you.

Operator:

And our final question is another follow up from Dina Hicham of EFG Hermes.

Dina Hicham:

Thank you. I just have a final follow up question. Were there any capacity expansion going in the UAEE for retires and sanitary wear as were discussing about 4 million square meter capacity additions in the UAE? I think last year?

Abdallah Massad:

Yes. We started by increasing, we have a big capacity here. So we were adding approximately 4 million square meter or of tiles capacity and 250,000 pieces of sanitary wear in the UAE. Which will come by end, The tiles will come by say end of this year and the sanitary wear will come approximately on the third quarter of this year.

Dina Hicham:

Great. Thank you so much.

Abdallah Massad:

Sure.

Operator:

Again, as a final reminder, it's star one to ask a question or the flag icon on your web browser. There are no further questions.

Mohamad Haidar:

Thank you everyone for joining Mr. Abdul, Mr. PK, thank you for your time as always. And we hope we have you all this quarter with us.

Abdallah Massad:

Thank you very much. Believing. Thank you.