Company: **RAK Ceramics**

Conference Title: **Q3 2015 Results**

Presenters: **Abdallah Massaad, PK Chand**

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Operator: Good day and welcome to the RAK Ceramics Third Quarter 2015 Results Conference Call. Today's conference is being recorded. At this time I'd like to turn the conference over to Mohamad Haidar. Please go ahead.

Mohamad Haidar: Good afternoon ladies and gentlemen and welcome to RAK Ceramics Q3 2015 Earnings Conference Call hosted by Arqaam Capital. With us now from RAK Ceramics Abdallah Massaad, Chief Executive Officer; PK Chand, Chief Financial Officer; and Philippe Habeichi, Head of Investor Relations.

I will turn the call now to Abdallah Massaad. Please go ahead.

Abdallah Massaad: Good afternoon everyone and welcome to our Q3 Results Conference Call and Webcast. I will walk you through our operational highlights and review the segment performance. If we start on the first page, we will try to go through to all the financial key aspects during this quarter. Overall we had a good quarter. We are satisfied despite the continuous challenging macro environment, political and economic conditions starting from a weak euro this year, the oil price which is down having pressure on the government spending, the Yemen conflict despite all our earnings per share and net profits rose by 43.1% led by margin gains. Our sales were more or less flat, in fact during this quarter we consolidated tableware into our revenue which helped us offset our lower contribution of China which was down the operation during this year, as you are aware it was a loss-making entity which we decided to stop the production and try to set up; Iran where we are currently we are not producing so it gave us flat sales. Our blended gross profits during this quarter was up by 14%. If we see our margin which this year for the first year since two years we have a gross margin of 26.9%, in fact the sanitaryware we can has reduced but still has a healthy margin at 44.8%, in fact during this quarter we have sold different…our product mix was different and therefore the realisation was lower. Our non-core margins rose by 1,310 basis points during this year to 29 and this again when we started we said we will reduce or shut down our non-performing and exiting the non-core operations starting with a focus of exiting the non-profitable and therefore the gross profit has increased during this period.

Our EBITDA was up when we see it here by more than 11% where we reached AED 171.8 million. Our EBITDA margin again rose by 230 basis points year on year to 21.9%. Again we have the negative contribution still from China and Iran. If we exclude it our EBITDA would have reached more than AED 180 million during this quarter.

Going into again our earnings per share which grew by 43% during this year and our adjusted profit grew by 10.9% which reached AED 90.7 million if only we adjust the hyperinflation impact. Going into the revenue which if we look at it overall we can see that the sales decreased by 1.9% but if we see we had an extremely good quarter where the sales in our two major markets, the UAE and Saudi grew significantly, UAE continued to grow during this year and this quarter we have a 3.5% increase but the significant gain from Saudi where we have this quarter a 32.1% increase and if we record we already started our restructuring in Saudi and we after the bad 2014 years which we had after the labour issue by the end of 2013 where our sales reduced and we lost market share where we started actively to invest in our regional offices to be able to support our distribution network, strengthen the distribution network and work on B2B specifics especially in the governmental and the national projects which this quarter we can see the fruit of these efforts and in UAE also we are keeping our commitment to develop the market and during this quarter we have specified our products in several projects. We have a shortfall actually weakness in other markets. Also we can see that in the rest of GCC again we grew 2.7%. On the remaining market we have a pressure which is coming from euro, from the conflict of Yemen and disturbance in Asia and Morocco and Mozambique, but we will work out to bypass this.

Going into our margins where as mentioned earlier that during this quarter it is our best month in terms of gross profits where we can see the trend is growing and it is basically we are growing our gross profit in all our production units and it’s basically coming from our result on value creation plan initiative mainly on procurement savings where we have a centralised procurement centre identifying alternative sources of raw materials where we don't compromise on quality but can help us in increasing margins which paid off.

Going into the sanitaryware revenue, despite that this is showing that our revenue declined by 2.6% but we have a super performance month in UAE and again where we grew during this quarter more than 18%, UAE is our best market in terms of margin. We can see the impact mainly came…this negative growth came from India and again allow me to spare some minutes to explain, I already explained that during last year we had a technical problem where we faced a batch of nine months production where it was under fire and when it had gone to the market we had some quality issues, so what we did, we already dealt with the problem in terms of financial implications but still now to regain the market confidence it's taking time and we are with the strong brand we have in India, we will be able to overcome it but it will take us one or two quarters in order to stabilise the scenario.

Going into our sanitaryware margin, yes, it is showing that it declined from 47.4% to 44.8%, but the 44.8% in fact is a good margin where we are happy with the margin there. It was…we fell, a bit part of our sales in Europe and the UK and there was a sharp decline in currency in Q4 and continuous during this year had this impact where we started seeing even an increase in prices to adjust the margin which we lost, but looking at the long term we are taking measurements not to lose, we want to gain market share, especially in Europe it's very important for us with our plan to increase our capacity. Again the impact from the margins in India.

A brief on our tableware operation, if we see our revenue is almost stable with an AED 36 million revenue, I have to highlight here that more than 50% of our sales goes to Europe and therefore a great job has been done there to be able to stabilise the revenue at this level. Going into our margins again we can see that our margin is declining but still on the 48.4% it's still we are confident that this level will be stabilising on the 50 plus margin and it depends again from the top line which we are doing and again we already gained projects in Saudi Airlines this year and by applying smaller pieces we'll have different margins, but the volume at least will be there.

As we mentioned that our gross profit is increasing and therefore it is basically supported by a major initiative which is the procurement. We are highlighting the saving and we can see that during this quarter our savings crossed AED 15 million and it is for sure when we substitute material, we will start using on a smaller scale where on the end it will increase and therefore we are able out of this saving and other efficiencies, I have to highlight that we have better efficiencies in the plant. Our first choice during this year is more than 91%, efficiencies on refinancing where for sure our CFO during his presentation, he will highlight it.

Going to our non-core where in the non-core we can see that our revenue again is declining which is understandable and we know very well that our focus on reducing and stepping out everything from non-performing core, while in terms of profitability this year we have regained the margin and mainly it is coming from Al Hamra Construction Company where we explained earlier that we have a rough grading division with a secured contract with the government which we are doing remarkably good. We have Electro RAK which a group of electromechanical companies where we restructure a company during this year and we were able to turn around the company from a loss-making to be profitable. The plan is during the next quarter to continue executing on exiting non-required or non-performed non-core and even with the performing ones to find the solution to realise value out of it.

Now allow me to turn it over to our CFO PK Chand for an overview of the financials.

PK Chand: Thank you Abdallah. On this slide we give the details of the EBITDA calculations and Abdallah has also already mentioned that EBITDA for this quarter has already surged by…margin is 21.9% and it has increased by 11.3% from 154 million to 172 million and it is also pertinent to note that quarter after quarter the EBITDA is increasing, in Q3 2014 it was 154 million which has increased to 172 million, so quarter by quarter it is increasing. If you exclude Iran and China, then the EBITDA increased from 155 million to 180 million which is up by 15%.

The next slide gives you the details of the net profit position and as Abdallah already mentioned, the net profit has increased by 43% in this quarter and by more than 10% in the nine months position. Adjusted net profit is also higher.

On the balance sheet highlights, on the capex in this year we have spent 206 million which is in line with our budget and 2014 we have spent 282 million while in other areas you will see that we've spent in the region of 100-130 million and that was mainly for maintenance of the plants, but in 2014 we spent money on expansion and 2015 we continued spending on the expansion as well as for some of the upgrading of our plants, so spending has been higher. As far as our net debt to EBITDA is concerned it is at a very comfortable level at 2.6. We have taken several measures during the year to reduce the cost of financing and our long term loans have been refinanced at lower costs as well as with a higher liquidity profile which is reflected in the balance sheet, and we have also converted $100 million of short-term loans to long term loans and therefore there is a saving of 3.8 million in the interest cost. The overall cost of debt is 2.45% versus 3% in Q4 2014. It is also important to inform that we have taken all measures to become a shariah-compliant company. All the benchmarks and guidelines which are required to become a shariah-compliant company have been met by us and now we are applying through the shariah board to confirm that we are a shariah-compliant company which will impact the overall investor base of the company.

As far as working capital is concerned the receivable numbers of days, it is slightly better at 108 days compared to 117 days in the last quarter so even though it is slightly on the higher side but we have taken effectively stress including credit controls to bring down the number of days further, inventory continues to be at a higher level which is around 185-190 days level. We are taking effectively steps how to reduce this and in times to come we are quite hopeful that this level will also come down. Trade payables continues to be around 75 days and we are still working with our distributors on solutions to convert outstanding receivables to equity or find automated solutions, so we are working on this and we hope to have results in the next year.

Now I will turn over to Mr. Abdallah for his concluding remarks.

Abdallah Massaad: Thank you PK. To conclude we are still optimistic of a better performance in the second half of 2015. We expect to continue the same momentum especially in the region where we can offset the impact from the euro in Europe and North Africa countries and the conflicted area in our region. In sanitaryware we expect the volume again to recover. UAE will be stable and India, we are growing and gaining confidence again. In India as we are aware we already announced that now we own fully the plant. We already accepted the resignation of our CEO and we are searching to form a stronger management team to be able to take the Indian operation to the next level where we are confident today India is the third largest ceramics market and with a growth perspective where we can capitalise on our brand perception and advantage we have as the only international or multinational company based in India. In our capacity expansion we already declared earlier that during Q4 we will be able to commission our expansion in Bangladesh, in fact this will happen, the production will start in Q1 2016 and in UAE also in the first quarter our sanitaryware expansion of more than 20% will commission in the first quarter in terms of assets, sale update. In China as you already know we shut down the production, trying to sell. We will put more effort to enhance this. In Sudan we are confident before the end of the year that all the sales will be closed. In Bangladesh as you are aware all the non-core, non-profitable business especially lately our board in Bangladesh approved to conclude the sales of RAK Paint and bringing as we will fully acquire the power plant and security which we fully used for our production facilities. In terms of order book we are at a very comfortable level. Still now we don't have a major exposure in terms of receivables from government projects. We continue to develop our presence. We started with our regional office in Saudi one year back and faced off now. We announced that earlier we are restructuring Europe and we are doing a regional office fully owned by us in Europe. We announced that we also opened a regional office to cover Asia from Singapore this quarter and we are working to open a regional office in the States to cover America.

In terms of value creation plans you can see that since we started almost 1½ years back we already executed a lot and you can if you follow us you can see the execution already happened. We are putting all our effort on our rebranding exercise which we will be able to close or at least to start the execution during the buyout of this quarter. We will be able to finish the Europe restructuring and working hard on the second phase of sanitaryware expansion.

Thank you very much.

Mohamad Haidar: Operator, we'll open it up to Q&A.

Operator: Thank you. If you would like to ask a question at this time please press the star or asterisk key followed by the digit 1 on your telephone. Please ensure that the mute function on your telephone is switched off to allow your signal to reach our equipment. If you find that your question has already been answered you may remove yourself from the queue by pressing *2. Again please press *1 to ask a question. We will pause for just a moment to allow everyone to signal.

As a reminder please press *1 to ask a question. We will now take our first question from Roman Fuzaylov from Prince Street Capital. Please go ahead, your line is open.

Roman Fuzaylov: Hi guys, thank you very much for the presentation. I had two quick questions. The first, looking at the balance sheet it looked like the related party receivable line increased. I was just wondering if you could explain what that was about and what the plan is to collect on that receivable? The second question was about Iran. You noted in the presentation that Iran, the plant now is offline. I was wondering if you had any comments about when that plant might come back online and what the plans are in Iran now that you've fully bought out the company and are in charge of 100% of that business? Thank you.

Abdallah Massaad: Starting with Iran, you know that when we started again in Iran, we started before the sanctions started and after the sanctions we were very careful and our partner who was having 20%, he was running the factory. In fact we forced him to close the production and we now fully own the factory. The factory, today we don't want to as such on Iran build sanctions will get lifted and for sure we appointed a general manager from here, we sent to Iran, we assessed our assets which are high class machinery. We highlighted what do we require to restart the production which is a minor investment of $2 million. The minute we can operate and we will be able in a very limited time to go full fledge and to have the benefit of first mover. In terms of receivables I will pass to PK.

PK Chand: As far as receivables are concerned, it is on the high side because as Abdallah mentioned there have been higher sales in the Saudi market and Saudi we have got joint ventures, so the outstanding from them has increased and that is one of the reasons. The other reason is which has been consolidated which was not there in the last year and therefore took a receivable which has also increased and there is an outstanding from the last quarter which has a project and which is about AED 125 million and a major part of this money is likely to be received by the end of this year and some money will also be received in 2016, so we are fully alive to the situation and we are closely working, so this outstanding is in our remit and we hope to take appropriate actions in time to come.

Roman Fuzaylov: Can I ask, the receivable to the Saudi joint venture which is your distributor, are you able to track the sales of those distributors to their final customers? Why are they having trouble paying?

Abdallah Massaad: When we sell to the joint venture, we have a credit limit or at least a period where they have to pay, so when we increase the sales, the outstanding amount would increase but the outstanding amount in days has reduced.

Roman Fuzaylov: Sorry, you cut out when you started answering the question.

Abdallah Massaad: When we sell…we have payment terms, so when you sell a higher amount, you will have a higher outstanding, so it's a number of days which is controlled but the amount is increased.

Roman Fuzaylov: So you're saying this is an ordinary course of business?

Abdallah Massaad: Yes.

Roman Fuzaylov: So you don't expect that the Saudi entity will have any trouble honouring those receivables?

Abdallah Massaad: We are closely monitoring as PK said and we are very controlling to not have any issue in the receivable side.

Roman Fuzaylov: Ok, thank you.

Abdallah Massaad: Thank you.

Operator: We will now take our next question from Jose Paul from United Securities. Please go ahead, your line is open.

Jose Paul: Hello, congrats on the good set of numbers. I have a quick question about the Sudan sale. Is it almost close to being completed and what are the implications on the income statement and balance sheet because of that? That's my first question. Second question: following up on the Saudi line of questioning, there was a sudden jump…why was this? Is it because of your new setup or just an influx of new orders in Saudi? Thirdly you mentioned about credit control, what do you mean by that? Historically you had a little bit of trouble with receivables, so what steps are you talking about when you mention credit control? Thank you.

Abdallah Massaad: Let me start with the Sudan phase. Yes, we are hopeful, pretty sure that we'll be closing the sales before the end of this year. We will see there will be some implications we already took initially when we saw an AED 48 million impact which was in the second quarter of 2015. The second question in Saudi, it's a matter of markets where during this period we developed more than 800 different designs and products to differentiate ourselves in the market and it spread in the whole segment. This is one second. We won several projects and we strengthened the existing distribution network which we have. So it's a matter of historically we were selling in Saudi more than 20 million per square metre which were going down last year where we are hopeful this year to come back with more than 20 million square metres market for us.

PK Chand: As far as the credit control is concerned we have several initiatives. One is to convert the open sales to the secured sales and then we are reviewing each party's credit limit which is in line with what has been their average sales for the past few years and then what is their number of days credit and then switching the credit limit. Obviously it is not that easy a process, it is taking time but we have initiated the process. Each credit limit request is being scrutinised in detail and then only additional credit limit is being given, so from all partners we are examining what should be the credit limit of the particular party and we are very, very closely monitoring it so we are hopeful that with such monitoring and converting the open sales to the secured sales, the outstanding should come down gradually.

Jose Paul: Further on Saudi, do you think the growth seen in Saudi and UAE, is it sustainable for the next few quarters or is it going to get worse, just the macro conditions are not favourable at the moment?

Abdallah Massaad: We are doing all efforts in UAE and Saudi by appointing people, strengthening our team. You know in the UAE we appointed head of project sales and head of retail sales. In Saudi as mentioned our regional offices was attracting talented, professional people to follow, so we do have the confidence that our brand is very strong, we are very well-known with our quality and innovation and we are trying to always be a trend setter in the region and I'm confident that we have good prospects and we don't feel really pressure during this period.

Jose Paul: One final question, India, do you feel you've turned the corner after all the problems you had in the last year or so? How far along are you with the search for new management? Is it almost done or have you just started?

Abdallah Massaad: In India during this year as you can see now at least we bought the minority shares, we own it 100%. The search already started. We are in the final stage of selecting the CEO and as I mentioned we have the issue of quality in sanitaryware which I feel we need to do the same effort which we are doing now for the next two quarters, which we will be able to come back, you know our brand is strong and we have an advantage in a growing market. It's a difficult period but I feel we have to give us another quarter to two, then the result will start to show.

Jose Paul: Sorry to trouble you, just one final question regarding your contracting business. When is the last quarter you're going to…when is the contract going to end regarding this segment and do you think that you're going to keep it rolling, expecting any new contracts or you're not focusing on that, you are closing on the business? Can you shed some light on that?

Abdallah Massaad: Yes. So our existing contract will end by first quarter 2017 so the full 2016 we have a template and for sure we are working closely with the contracting management to search other opportunities.

Jose Paul: A similar line of revenues or it will be lower?

Abdallah Massaad: You know it's a rough grading where you have a volatility, the sales contract, so one quarter will be plus or minus, it depends on the delivered, but it is with the same momentum.

Jose Paul: Thank you. Thank you so much for answering our questions, it was very informative and once again congrats on the excellent set of numbers. Thank you all.

Abdallah Massaad: Thank you.

PK Chand: Thanks.

Operator: As a reminder to ask a question please press *1. We will now take our next question from Dana Al Ghanim. Please go ahead, your line is open.

Abdullah: Hi, this is Abdullah. I heard you saying that part of your receivables will be converted into equity in other companies – is that correct? If yes could you please tell us how much of your receivable belongs to that and what are like the potential businesses that you pass off? Thank you.

PK Chand: The observation which I made was in relation to our joint venture and that was particularly with reference to our joint venture in Europe, so where as Abdallah has already mentioned we are studying the whole European release strategy and how to do this complete restructuring – that may happen. What we said was that it may have been that we convert part of the receivable to equity. We are also looking at various options and depending on the most cost effective and tax effective model only, we will take a view. So it is in the process and we hope to complete this in the next few months when obviously depending on the final outcome whether to convert part of the receivable to the equity or any other option – we will take a final call.

Abdullah: Thank you.

Operator: We will now take our next question from Maya Bou Kheir from Schroders. Please go ahead, your line is open.

Maya Bou Kheir: Yes, hi, good afternoon gentlemen. I have one question, maybe two. In terms of…obviously the sales, the growth outlook has changed. You have the weaker euro and the weaker macro. You mentioned opening regional offices in places like Asia and the US. Can you please give us…what is the collective advantage that you believe you have there? Can you compete with…I'm thinking LatAm producers who have currency advantage there in the US? What kind of competitive advantage do you have there?

Abdallah Massaad: Maya, welcome, you can ask as many questions as you want. Starting from here, today we are distributing in 160 countries and you know part of the value creation plan which we already started 1½ years is to strengthen our brand perception and to focus on B2B and to increase our presence on B2B specification plays a big role. Meanwhile specification, even projects which are happening in the region, it comes through European architects or designers or from Hong Kong, from Asia, from the US, so the decision is to make regional offices where we will be closer to our markets. Second, you know like the example of H&M or Starbucks going to these specifications, so it's a matter of taking the range which we have, taking…you mentioned Lamosa or Mohawk is strong in the US – I do agree with you. Taking the Maximus we produce, the range which we do 8,000 different products, in 90% we don't have a competitive advantage but the 10% will have a special, specific products where we'll have a competitive advantage, specifically today we are receiving orders from Europe, from all the world on the Maximus product which is 1.3m x 3m where in the whole world there is less than more or less there has been ten produced worldwide. So again we cannot move with which competitive advantage then lets us select the easiest way, so for sure the volume will continue from our focused core market but we need to for the visibility of the brand and also to mitigate any risks that might happen, so we need to develop other markets to keep it balanced.

Maya Bou Kheir: That's fair enough. Just another question, on the sanitaryware, Europe as you mentioned is a very important market in sanitaryware. With an upcoming expansion and capacity, do you think you would consider dropping prices to be able to compete? For now have you been dropping prices or it's just been currency impact?

Abdallah Massaad: Actually we are trying to increase our prices. I don't know why we should reduce our prices. All our focus is to build our brand, to strengthen our brand perception and therefore we are spending and putting effort on the rebranding exercise. Europe as you said is an interesting an important market for us. The drop in prices is euro weakness, so we are selling there in euro, in pounds. That's why it reflected initially in the first two quarters lower realisation where we are increasing again the prices. In Europe…

Maya Bou Kheir: I meant the euro weakness has eroded your competitiveness relative to the European brands in Europe, so I'm just trying to think if you would move for a price reduction in order to regain that competitiveness.

Abdallah Massaad: We look at that, agreed, but what we are doing there, we are selling in euros so we are not selling in dollars in Europe or in pounds we are selling in the UK. In the company today, we are taking some risks. We are not growing short term so we cannot play with the currency. We are taking a longer term view. Where in the company today we are naturally hedged, we buy in euros raw material and we sell in euros, so we are taking this risk and therefore we are accepting that our margin slighted reduced but we want to increase market share especially preparing ourselves like what you mentioned for the further expansion which will come.

Maya Bou Kheir: Ok, thank you very much.

Abdallah Massaad: Thank you.

Operator: As a reminder to ask a question please press *1. We will now take our next question from Taher Safieddine from Citigroup. Please go ahead, your line is open.

Taher Safieddine: Good afternoon gentlemen, this is Taher from Citigroup. My question is on the outlook. Specifically if we talk about Saudi, we all know the macro environment is getting challenging and fears about budget cuts and slowdown in the construction activity. You had a very strong quarter in Q3 but in general are you seeing any softness in terms of the market? How do you put your product against maybe the local production like Saudi Ceramics in terms of pricing and quality? This is my first question. The second question is in the UAE. Do you still believe that the macro outlook is positive? Are you seeing more projects, your order book is healthy in the UAE despite what's happening with oil prices and some rumours that the government is slashing back some projects?

Abdallah Massaad: In Saudi as you said in 2013 where the market in Saudi was less than 200 million square metres overall, we were selling 24 million square metres, so today the market despite everything has crossed 225 million and we are going down below our original sales volume. So despite that, for sure the market especially in the government projects which is a big project, not all the projects have stopped will have pressure, but we feel that we can with our differentiated offers from Saudi Ceramics where we have a very wide range specifically in the vitrified tiles porcelain which Saudi Ceramics produces mainly ceramics and few porcelain with different sizes and also we feel that we have a competitive advantage which can keep us with our traditional market share and maintain approximately 10% market share from Saudi. Going into the UAE, in the UAE I cannot tell you that the project is in the same momentum, but look, whatever project started to use tiles and sanitaryware, it needs a year from the starting dates. So I don't perceive from now to the few quarters any impacts and therefore what we are doing to mitigate this risk of less big projects is investing in new showrooms and having a specification team following the retail chains and different distribution channels where we are confident that we will be able to maintain the run rate of the volume and value which we are exacting today.

Taher Safieddine: Alright, thank you very much.

Operator: As a reminder to ask a question please press *1. We will now take a next question from Christophe Clube from Pioneer Investments. Please go ahead, your line is open.

Christophe Clube: Good evening gentlemen, I have a couple of questions, the first of which is related to your receivables again. How much of those receivables are kind of owed to the construction company because construction companies have quite a large amount of receivables? The second one is if you could speak a little bit more broadly about your strategy going forwards in India, I know you've spoken a bit about it already but I'd like to know a little bit about how you plan to expand there and grow your market share?

PK Chand: Construction companies, there's no receivable.

Christophe Clube: Al Hamra has no receivables?

PK Chand: That is not significant and that is on a rotation basis, so there is no point of counter message.

Christophe Clube: Ok, ok.

Abdallah Massaad: In India, we already said several times that our plan today is in the south and to cover the whole of India from the south, strategically it is very difficult with the transportation costs to reach the north and the western part, so therefore going forward our strategy now after buying the minority shares is to strengthen the management team and to have a team which will allow us really to expand our capacity, to have another base in the western, northern of India where we will be able at that time to cover the region with lower costs, so the southern capacity will take care about the south requirements and the new facility will take care about the northern, western demands and we will expand on marketing and we believe we will be able to grow our market share in the premium segment which we are today.

Christophe Clube: Ok, thank you very much.

Mohamad Haidar: Operator, in the interests of time we'll probably just need to take two more questions and then we'll need to wrap it up, ok?

Operator: Ok, no problem. We will now take our next question from Jude Tashkandi from HSBC. Please go ahead, your line is open.

Jude Tashkandi: Hello, good afternoon gentlemen. Thank you for your time and congratulations on the good set of results. My question is regarding currency. You seem to be worried about it and I was wondering if you would consider hedging or any derivatives to offset an impact from the euro or North African currency depreciations?

PK Chand: As far as the hedging of the euro is concerned recently we did a detailed study and after obtaining our exact exposure and also the planned purchases and sales, we are of the opinion that we are naturally hedged and we don't need to hedge euros. That is the first conclusion we arrived at. Then we also looked at our LIBOR, whether we should hedge the LIBOR or not. For the time being we came to this conclusion that we should not hedge LIBOR but obviously this is a dynamic situation and we are closely monitoring this situation and at an appropriate time we will take appropriate action.

Jude Tashkandi: Ok, thank you.

Operator: We will now take our next question from Mehdi Kaoukabi from Duet Group. Please go ahead.

Mehdi Kaoukabi: Hello, thank you for hosting the call. I just have actually a few quick questions. The first one relates to the price of energy, you mentioned that your energy price basically increased. If you could just pinpoint maybe to which markets it increased in? Is it India or UAE? The second question has to do with your working capital cycle. We've spoken about receivables already. My question has to do more with inventory. Does the level I'm looking at, the normalised level that one should expect for an industry like yours? Finally the last question, just actually a quick one on the EBITDA. Actually I'm looking at the statement actually here and EBITDA decreased year on year, I'm not sure of what number you are looking at? Thank you very much.

Abdallah Massaad: Thank you. First the energy increase, it happened in the UAE and you know we have a contract which is coming from two sources and it happened that the sources which had a higher rate, we got more percentage and this was we did as a management to mitigate this increase we saved on procurement and other costs which offset the increase of energy. Taking into consideration that we are not subsidised in any way in energy vis-à-vis all other competitors or peers in the region which are highly subsidised, so we don't have any subsidies, we are leaving subsidies from the government. In terms of working capital our inventory, our plan is to reduce our inventory. If you look to our peers again you will see that we are into the plus or minus, the same level but internally we have a target during next year to reduce the inventory.

PK Chand: As far as EBITDA is concerned, what you mentioned was that it is decreasing. It's not decreasing. If you see the slide that is already available, it is increasing quarter after quarter and the last year total EBITDA was 584. We have already touched AED 58 million this year in the nine months and we are quite hopeful that we will cross the last year's numbers. Margin is more than 21%.

Mehdi Kaoukabi: Ok, thank you. Just a quick follow-up maybe on the energy. I understand that you pay market price but it seems to me that energy prices have been decreasing a bit. You are saying that you pay more, how is your pricing I guess formula for gas? How does it work basically because it seems like you have an increase in costs while energy prices are dropping, so if I could just get more clarity on that? Thank you very much.

Abdallah Massaad: From the source that we get gas we don't disclose prices. We have two sources. One source locally and one source coming from Dolphin, so for the time being the Dolphin deal is a spot deal which has a high rate where you are right that the trend in energy prices is down and naturally we should expect that this should reduce, so therefore the hike came from the percentage of Dolphin which we are getting more than the local source.

Mehdi Kaoukabi: Ok. Thank you very much.

Abdallah Massaad: Thank you.

Operator: That will conclude today's question and answer session. I would now like to turn the call back to your host for any additional or closing remarks.

Mohamad Haidar: Operator, I think there's one more question in the queue. Let's take the final question.

Operator: As a reminder to ask a question please press *1. We will now take our question from Jagdish Bathija from Lazard Asset Management. Please go ahead, your line is open.

Jagdish Bathija: Hi, this is Jagdish from Lazard Asset Management. Congratulations on a very good set of numbers. I just had one question with regards to…you said in India you're planning to, either you're planning to expand in the west or the northern region. I would like to know whether this would be organic or would you be into acquiring something? Secondly would these operation expansions be funded by any kind of stake sale in your majority owned Bangladesh operations? Thank you.

Abdallah Massaad: Good question. For sure we will be open while studying growing capacity on any acquisition opportunities and by spending on the selling of shares in Bangladesh, we already executed during last quarter some sales which we accounted profit in our balance sheet that does not go into the P&L by AED 600,000. We'll explore this option.

Jagdish Bathija: Perfect, thank you.

PK Chand: Thank you.

Operator: There are no further questions at this time.

Abdallah Massaad: Thank you very much. Thank you operator, thank you Mohamad, thank you for everybody.

Mohamad Haidar: Thank you everyone. That concludes today's conference. We do appreciate everyone's participation. Please have a great day. Thank you.

Operator: That will conclude today's conference call. Thank you for your participation ladies and gentlemen, you may now disconnect.