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Transcript

RAK Ceramics Q2 2022 earnings call and webcast

Wednesday, 03 August 2022

Mohamed Haider: Hello, everyone, and welcome to the RAK Ceramics Second Quarter 2022 Earnings Call and Webcast. This is Mohamed Haider from Arqaam Capital, and we are joined today from RAK Ceramics by Mr Abdallah Massaad, Group CEO, and Mr PK Chand, Group CFO. Over to you, Abdallah.

Abdallah Massaad: Thank you, Mohamed, and good afternoon, everyone. Welcome to RAK Ceramics Second Quarter and Half-Year 2022 Earnings Conference Call and Webcast. I'm pleased to report that RAK Ceramics posted a remarkably strong performance in the second quarter of 2022, recording an all-time high quarterly top line and posing a positive and sustainable impact on both operational and financial KPIs, despite current market dynamics.

Truly unprecedented environment we are operating in, from increasingly high inflation rate to soaring energy prices, unstable forex market and continuous supply chain challenges, all contributing to market volatility and economic uncertainty, raising further fears of a global recession.

Despite increased operating challenges, we were successfully able to navigate through with neither disruption in business, nor interruption in production, yet even more so, emerging with growth and scale and solidified profitability, led by key operational initiatives that are realised in the second quarter 2022.

We remain focused on reinforcing the brand image and perception as a premium ceramics lifestyle solution provider and elevating customers' experience by inaugurating our first design hub based in London and participating in exhibitions, such as Milano's Salone del Mobile and accelerating digital adoption. We continue to strengthen our retail presence across core markets by opening new showrooms and refurbishing existing ones.

To preserve market share and offset increase in production costs, we applied adjustment to selling prices and mix, while also increasing efficiencies, production capabilities and capacity utilisation to protect our margins, in addition to optimising supply chain operations. In terms of liquidity, we were able to maintain an adequate position, despite consolidation activity, keeping us comfortably in line with our dividend commitment, without undermining growth potential.

Our revised dividend policy approved in the last quarter stipulates a payback strategy to shareholders of a total of 60 fils per share over the next three years, 2022 through 2024. As such, the Board have approved an interim distribution of 10 fils per share for the first half 2022.

Our performance was also supported by key strategic initiatives, enabling the company to maintain growth momentum and unlock further long-term value to its shareholders.

Q2 milestones included the conclusion of KLUDI Group acquisition, launch of RAK Porcelain minority position buyout and approval of RAK Ceramics Bangladesh expansion projects.

In quarterly numbers, total revenue for Q2 2022 increased by 32.3% year on year and 18.4% quarter on quarter, reaching AED 927 million, driven by growth in tiles, sanitaryware and tableware. Following faucets business consolidation, revenue contribution from KLUDI Group for June 2022 amounted AED 50.4 million, given that transaction was completed on 31st May 2022.

Our total gross profit margin for the second quarter 2022 improved by 0.3% year on year, reaching 38.4%, despite the imposition of 12% custom duty in Saudi Arabia. Increase in GP margin was recorded mainly on the back of improved production efficiency and production lines optimisation across all our plants in UAE, India and Bangladesh.

Our EBITDA stood at AED 164.3 million, compared to AED 129.9 million last year. Freight costs weighed in on margins, which decreased by 0.8% year on year, reaching 17.7%.

Our reported net profit stood at AED 102.2 million in the second quarter 2022, versus AED 94.9 million in second quarter 2021, mainly due to higher revenue and gross profit margin in the second quarter.

Net profit after minority in the second quarter 2022 was 91.2 million, compared to 87.8 million last year. Like-for-like net profit increased to AED 102.6 million, compared to AED 72.8 million last year after the exclusion of one-off gain of 1.9 million during this quarter and of AED 22.1 million in Q2 2021. A like-for-like net profit margin remains stable at 11.1%.

As a performance snapshot on the first half of 2022, total revenue decreased by 20.1% year on year, reaching AED 1.71 billion, versus the first half year 2021.

Total gross profit margin increased by 1.2% year on year, standing at 37.8% for the first half 2022.

Total EBITDA increased to AED 294 million, compared to AED 256 million in the first half last year. Reported net profit increased to AED 171.9 million in the first half 2022, compared to AED 157.6 million in the first half 2021.

Our net profit after minority slightly decreased to AED 147.8 million this year.

Like for like, net profit increased to AED 173.4 million, compared to AED 136.3 million in the first half of this year.

Moving on to a deeper view of our second quarter 2022 business strategy updates, the UAE market recorded robust performance, driven by wholesale and retail business, supported by growing construction demands and a resilient real estate market, in addition to increase in selling price and uplift in the brand's retail presence.

In the second quarter 2022, we saw a pickup in our ecommerce sales, and we anticipate a further increase to be recorded, following the introduction of KLUDI products in the second half 2022.

In Saudi Arabia, the company strategy continues to yield a result, despite their position of 12% custom duties. Quarter-on-quarter growth rebounded significantly, following disruption felt in the first half 2022, due to delays in border clearance. We are continuously increasing our focus on growing our presence in Saudi Arabia, most recently in 2022 by securing mega projects and expanding our retail footprint.

European markets posted rigid growth in top line, driven by a strengthened brand positioning across the region, diluted, however, on the bottom line, due to the recorded surge in freight rates. Despite increased transportation challenges and the economic uncertainty, we continue to position ourselves as a trusted and reliable ceramic solution provider. We have taken a commercial call to protect and preserve our market share in Europe, absorbing any impact recorded on profitability. As such, we continue to invest in increasing our footprint, most recently with the inauguration of our first design hub, and hope to tap into the UK ecommerce market in the second half 2022.

Our operation in India recorded strong performance year on year, supported by increasing dealer network presence and expanding retail presence.

In Bangladesh, our operation recorded a growth in top line year on year. However, higher energy costs and currency devaluation weighed in on the bottom line.

The tableware business posted significant improvement in performance, following introduction of new range of products and the increase in selling price. Production has been increased to meet demand, and further capacity expansion is under study to drive further growth.

In terms of strategic milestones, on 31st May of 2022, we have successfully concluded the 100% acquisition of KLUDI Group, including the 49% of KLUDI RAK in the UAE, following the satisfaction of all the condition precedents included in the SPA. We are closely working on a 100-day integration plan to ensure seamless integration in the business.

In the second quarter 2022, we have initiated the process of minority position buyout for RAK Porcelain, completing, today, 40% acquisition, of which, 37% were acquired as of 30th June 2022, and an additional 3% stake was added in July 2022, following an all-cash proposal share to all minority shareholders. As of today, our position in RAK Porcelain stands at 90%, and we are looking to add further stake acquisitions, which are currently in process and under negotiation. We are confident of RAK Porcelain upward growth trajectory going forward, and we aim to fund and support the growth of a promising and striving division, building on our company's financial soundness and strategic direction.

In June 2022, we have approved RAK Ceramics Bangladesh's growth plan to expand production capacity through greenfield projects, increasing Tiles capacity to add 4.8 million square metres per year and setting up of a faucet plant with production capacity of 400,000 pieces annually.

Concerning recent economic development, global manufacturing players continue to face challenges, weighing on input cost and profitability, moreover, in some instances, affecting course of business. RAK Ceramics was capable to withstand current market dynamics, as well as record growth in top line and increase in profitability. Surge in inflation, energy price hikes and freight cost increase are mainly the key challenges our business faced in second quarter 2022, not to mention the impact of the custom duty in Saudi Arabia. Most recently, market volatility, increased uncertainty and sluggish consumer demand have weighed in on major currencies, raising further worry of the global recession. We remain focused to identifying rising risk and to actively working towards mitigating their impact, in order to avoid any disruption in business and to maintain our position as a reliable ceramics solution provider. The future still remains uncertain and unstable. However, the company remains adamant to navigate through challenges and emerge stronger by always thinking forward and being one step ahead. I will now hand the call over to Mr PK, our CFO.

PK Chand: Thank you, Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already briefed, summarised operational highlights, regional performance and strategy update for the second quarter of 2022. I will take you through the financial highlights with details on revenue, gross profit margin and the balance sheet. Let us start from slide 14, second quarter and H1 2022 financial highlights.

RAK Ceramics has delivered a strong performance during the second quarter of 2022, despite increased global uncertainties. Total revenue in the second quarter of 2022 increased by 32.3% year on year and 18.4% quarter on quarter to AED 927 million. KLUDI Group consolidation, effective 1st June 2022 added AED 50.4 million in the second quarter 2022 revenue. On like-for-like basis, revenue increase is 25.1% year on year.

In the first half of 2022, revenue increase is 20.1% year on year, at AED 1.71 billion. Tiles revenue is higher by 25.9% year on year, at AED 595.1 million in the second quarter 2022, driven by both increase in volumes and selling price to partially offset increase in production cost. In the first half of 2022, sales revenue is higher by 11.9% year on year, at AED 1.11 billion. Sanitaryware revenue is higher by 7.5% year on year at AED 146.3 million in the second quarter 2022, driven mainly by increase in selling price. In the first half of 22, it is higher by 10.3% year on year at AED 301.2 million.

Tableware revenue increased by 60.0% year on year at AED 89.2 million in the second quarter 2022. And in the first half 2022, it increased by 70.3% year on year at AED 165 million, following market recovery post-pandemic. Faucets revenue is AED 56 million in the second quarter 2022, out of which, KLUDI Group revenue, following consolidation in June 22, is AED 50.4 million.

Revenue from other units increased by 25.1% year on year in the first half of 2022 to AED 70 million, driven by mainly increase in our ceramic raw materials trading business.

Now, let me go through the market performance in the second quarter and first half of 2022 for the tiles and sanitaryware segments. In UAE market, revenue in the second quarter 2022 increased by 24.5% year on year at AED 176 million, and in the first half of 2022, it increased by 11.7% to AED 340 million, supported by wholesale and retail business. In Saudi Arabia, the revenue in the second quarter 2022 increased by 25.6% year on year at AED 184 million, mainly driven by project and retail business, while it remained stable year on year in the first half of 2022 at AED 307 million. Wholesale business got impacted by 29.5% year on year, on account of implementation of 12% custom duty, effective 1st July 21.

In India, there is a strong performance recorded in the second quarter of this year, on the back of increasing dealers network footprint in nine additional districts and supported by price adjustments to offset the increased input and energy cost. Revenue increased by 55.4% year on year at AED 109.6 million. In H1 2022, revenue increase is 25.3% year on year at AED 209 million.

In Europe, revenue in the second quarter increased by 1.8% year on year and 42.4% quarter on quarter to AED 116.7 million, following strengthening brand positioning across region. In the first half of 2022, revenue increase is 5% year on year at AED 225.7 million, despite growth in top line, high shipping costs and currency devaluation weighed in on bottom-line performance.

Bangladesh markets recorded a strong growth in the second quarter of this year with revenue increase of 11.3% year on year to AED 74 million. In the first half of this year, the revenue increase is 12.7% year on year at AED 159.5 million, supported by minor price adjustments to partially offset the increased input and energy cost.

The total gross profit margin in the second quarter of this year increased by 30 basis points year on year and by 150 basis points quarter on quarter to 38.4%. In the first half of this year, the total gross profit margin increase is 120 basis points on year at 37.8%. The tiles margin increased by 40 basis points year on year and 480 basis points quarter on quarter to 40.1%. In the first half of 2022, GP margin increased by 30 basis points year on year at 37.9%, due to imposition of Saudi customs duty. Without customs duty, tiles' gross profit margin works out to 40.1% in the first half of 2022. The sanitaryware margin increased by 40 basis points year on year to 36.8% in H1 2022, supported by price adjustments. Tableware margin improved by 15.4% year on year to 49.9% in the first half of this year, due to increased revenue and productivity.

Reported net profit is AED 102.2 million in the second quarter of this year, compared to net profit of AED 94.9 million in the last year. Last year profit also included net gain of AED 22.9 million on sale of China assets and provision for leased hotel. During this quarter, there is net one-off gain of AED 1.9 million, which is after considering gain on KLUDI Group acquisition accounting of AED 32.4 million, extraordinary provision for receivables of AED 27.6 million and impairment of some old plant and machinery, amounting to AED 2.9 million. In the first half of 2022, the net profit is AED 171.9 million, compared to AED 157.6 million, due to higher revenue and better gross profit margins. Net profit margin is 10.1% in the first half of this year, compared to 11.1% in last year.

The like-for-like net profit, that is excluding net one-off gains and hyperinflation impact is higher, at AED 173.4 million in the first half of this year, compared to AED 136.3 million in the last year. The margin is 10.1%, compared to 9.6% in the last year. The EBITDA is at AED 164.3 million in the second quarter of this year, compared to AED 129.9 million in the last year.

EBITDA in the first half of this year is AED 294 million, compared to AED 256 million in the last year. Margin is lower by 80 basis points year on year at 17.2%, mainly due to higher freight costs.

Now we turn onto the balance sheet highlights on slide 19. Overall working capital cycle decreased from 166 days in the first quarter 2022 to 155 days in the second quarter 2022. In absolute terms, working capital increased by AED 192 million quarter on quarter to AED 1.45 billion in Q2 2022, mainly due to addition of AED 106.5 million from KLUDI Group consolidation. On like-for-like basis, working capital cycle is at 160 days.

Inventory days reduced from 215 days to 205 days quarter on quarter. Trade receivable days increased from 88 days to 91 days quarter on quarter, following increase in top line, mostly related to UAE and KSA market. Trade payables increased from 62 days in the first quarter 2022 to 67 days in the second quarter of this year. Net debt increased quarter on quarter by AED 351 million to AED 1.32 billion in June 22, following AED 149 million for KLUDI Group acquisitions, costs and net debt acquired on acquisitions, and also an investment of AED 203.5 million for acquisition of minority stake in RAK Porcelain.

Net debt to EBITDA increased from 1.93 times to 2.37 times, quarter on quarter. We were also successful in maintaining an adequate liquidity position in the second quarter of this year, and in spite of consolidation activities, enabling companies to comfortably lease payout commitments. Capital expenditures for the first half have been low at 59.5 million. We revised our capital expenditure estimate for 2022, from AED 300/350 million to 250 million in 2022.

The next slide shows the share price movement of RAK Ceramics, which has increased from AED 2.28 to 2.867 in the last 12 months and trading at P/E multiple of 11.6 times on LTM basis. If we see the comparative chart of RAK Ceramics versus FTSE ADX, we have outperformed, yet in line with market trend in last 12 months.

The Board has approved to distribute semi-annual cash dividend of 10 fils per share, representing AED 99.4 million to be paid to the shareholders, registered at the close of business day of 12th August 2022.

The revised dividend policy, as approved by the shareholders, is to place a minimum dividend payout of 20 fils per share for the year 2022, to be paid on a semi-annual basis and also provides for a commitment to pay a minimum dividend of 60 fils per share over the next three years, that is 2022 to 2024. Now I would like to turn back to Mr Abdallah for his final comments on 2022 priorities before we answer your questions.

Abdallah Massaad: Thank you, PK. It is, without a doubt, our best quarter to date. And this is in terms of top line, yet even profitability. We are pleased of our achievement amid current rising challenges, knowing that such growth is based on solid operational fundamentals.

Going forward, we constantly aim to strengthen RAK Ceramics position as being a premium ceramics lifestyle solution provider. To reiterate, our priorities for 2022, we continue to align our strategy to the objectives laid out, focusing on protecting and growing our market share, expanding our production capabilities and differentiation and differentiating our brand with the use of technology and in terms of offering while operating efficiently and sustainably.

Finally, we prioritised our short-term initiative, revisiting them post every accomplishment and establishing alignment with our objectives. From ensuring seamless consolidation of core businesses and advancing on expansionary fronts, to increasing digital adoption and solidifying brand positioning, we continue to invest our effort to lay the ground for future organic and inorganic growth, while still building business resilience and operating in a more sustainable manner.

We remain cautiously optimistic about the future, and we are confident that we are in a good position to overcome current macroeconomic headwinds and mitigate any future risks faced, given our strong foundation. We continue to see increased demand and appetite for our products, even from core markets with increased volatility, which fuels our drive to pursue even further product innovations and brand development.

For the medium to long term, we hope to see immediate positive impact on bottom line with future easing and stability in the market and continue to be forward-looking in our operation to generate sustainable growth and long-term value to our shareholders. Thank you for your time. Now I would like to hand over the call to the operator and open the line for questions.

Operator: Thank you. If you'd like to ask a question and have joined us on the telephone lines, please star followed by one on your telephone keypad now.

Alternatively, if you have joined online, you can submit a written question via the Q&A chat box at the top of your screen. And our first question comes from the line of Anoop Fernandes from CICO. Anoop, if you, please, unmute locally, and proceed with your question.

Anoop Fernandes: Yes, good afternoon, Gentlemen, and congrats on a great quarter and the acquisitions. I have a couple of questions. The first is on KLUDI. You've mentioned that the revenue for this quarter was 50-odd million. Could you, please, give us a sense of what the EBITDA was from KLUDI? And in general, over the course of the year, what sort of revenue, gross margin and EBITDA can we expect from this business? That's the first question.

And, secondly, regarding your acquisition itself, you've given the total acquisition value, but could you give us what the value of the 49% stake in KLUDI RAK was?

Abdallah Massaad: If I'll start first, PK, you can, please, elaborate. One, and in the last, so we acquired the 100%, plus the 49. So, the valuation was all included. So, we paid for the 100% of KLUDI Germany, Austria and Hungary, plus the 49%. So, we did not valuate them in a separate manner. In terms of top line, yes, because earlier, we were not consolidating, even KLUDI RAK, so now it will be a consolidation of the whole group. PK, if you can elaborate on the EBITDA and…?

PK Chand: Yes. As far as KLUDI working is concerned, we already hold 51% in KLUDI RAK, which is the main profitable entity. The KLUDI European entities are not that profitable, so to answer your first question, as far as June is concerned, the EBITDA coming from this KLUDI acquisition, the extra EBITDA, is around AED 1.5 million only, and in 2022, we expect about AED 15 to 20 million of additional EBITDA from this acquisition.

So, as Mr Abdallah had explained during his initial remarks, we are working for a lot of synergy, which will take some time, but this will actually come, maybe in the year 2023 or in 24, where we will get the real benefit of this acquisition. So, that is as far as the KLUDI acquisition is concerned, yes.

Anoop Fernandes: Yes, so what sort of gross profit margins can we build in this? should we assume that at par with your tiles or sanitaryware business or higher than that, or is it substantially lower than that level? Just [Unclear].

PK Chand: From KLUDI, including the KLUDI RAK, as well as the European entities, the gross profit margin could be in the range of 25%.

Anoop Fernandes: Okay, 25%. That's fine. Yes, okay, the next question is, regarding the 27 million impairment under other receivables, could you, please, give us a sense of what these other receivables are? So, you have a cumulative impairment, I think, of about 35 million. Out of it, 7 million is related to trade receivables, and the remaining 27.5, I think, is some other receivables.

PK Chand: Yes, so if you go through in detail our financials, where and we have detailed that we had an entity in Sudan and, which we had disposed of, if you go to page number 16, comment number 15, there we have mentioned, in view of the uncertainties, particularly in the Sudan market, therefore, the management has been aggressive to take the provision, even though we are confident of the full recovery.

But because of the political situation in Sudan, we decided to take this provision.

Anoop Fernandes: Okay. Lastly, regarding your Bangladesh expansion, are you confident of the availability of gas there? Because, lately, there has been a lot of buzz around energy shortages there. Of course, over the long term, these things might not last, but we are getting into an expansion at a point where these issues are quite prominent. So, what are your views on that?

And plus, even gas issues at your KLUDI operations, maybe in Europe. A lot is happening in Germany right now. Plus, even in India, I guess, lately, there has been some sort of rationing from GAIL, so are your operations there facing any issues because of this?

Abdallah Massaad: PK, if I start with the answering. So, from your question, uncertainty in energy, as you said, in Bangladesh, as of today, we do not see, really, an issue for some time. It was some maintenance, less pressure, but overall, it is fine. They increased the prices by 12%. This, today, is still cheap in Bangladesh, vis-à-vis other countries, to be honest.

Now, India, again, in Samalkot, we have gas. The prices there have increased. In Morbi or in Gujarat, where they asked everyone to reduce almost 20% the consumption, but still we are receiving and operating.

In UAE, we don’t have a problem. In Germany, with the faucets, we don’t use, honestly, a big amount of gas. It’s a little only on the electroplating, and this can be done by LPG. A very minor quantity remains. Energy there is electricity. So, also in KLUDI, when we did the acquisition, we initiated immediately an expansion, as we mentioned, for 400,000 pieces, almost doubling the capacity in the Ras Al Khaimah plant as a contingency plan for us.

So, overall, and this, what I mentioned, that if we remain cautiously optimistic… There are many challenges. We are always following what is happening, and for all of you, every day, last night, I believe, all of us, we did not sleep well, looking what will happen. But the good news, that if you see our performance for the last few quarters, was sustainable, and a really strong performance. We have a very focused team looking at the macro environment and focusing on our efficiency and whatever we can do from a micro perspective.

Anoop Fernandes: Okay, understood. Thank you very much.

Abdallah Massaad: Thank you.

PK Chand: There is a question from one attendee. He doesn’t want his name to announced. The question is, how comfortable are you in RAK’s ability to sustain Q2 level of sales? What type of seasonality is anticipated going forward?

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Abdallah Massaad: Look, for us, I mention again that we are cautiously optimistic. We are doing our best. We are very well-focused on our market. We do not perceive any shortages, hopefully, in raw materials and space and energy, producing, focusing, working hard on our brand and visibility from increasing on retail outlet to ecommerce, to the project activities, to the differentiation. So, honestly, we are optimistic that whatever we will be able to deliver, we will, for sure, deliver it.

Operator: And our next question comes from the line of Sameer Kattiparambil from the EFG Hermes. Sameer, your line is now open. Please go ahead.

Sameer Kattiparambil: Thank you, Abdallah and PK for the presentation. I have a few questions on your Saudi operation. So, you were expecting some favourable announcement, in terms of the DCC customs duty. Any update on that?

Abdallah Massaad: Sameer, until now, honestly, the last one year, we are working on submitting all documents requested, but until now, we did not get any exemption, and not only us. No one can now get any exemption.

Sameer Kattiparambil: Oh, okay, understood. And on your Saudi expansion, this time, I didn't find any update from your side, so did you drop the plan, or is it still under consideration?

Abdallah Massaad: Sameer, we already announced today that… Maybe you're right, we did not mention it in the early call. We already signed a conditional agreement with [unclear] with the Royal Commission, allocating the land.

We got the land allocation, and honestly, with the plan we have in place, that we will take this year for finalising all the licences and the factory machineries and so on, and we will take another… After two years, we will be producing, as the gas will be available in the first quarter of 2025.

Sameer Kattiparambil: Okay, that's great news. Congratulations. It's been a long time, right?

Abdallah Massaad: Thank you, Sameer. Yes, it's a long time, but… Yes.

Sameer Kattiparambil: Yes, understood. So, one last question from my side. Your India operation has grown by 55% last quarter. So, how much of that is volume-driven and price-driven? Also, there were some reports that the Morbi ceramic cluster is planning for a total shutdown this month, due to high inflation and inventory levels. So, could you give some view on what's the operational scenario in India, how tough the market is?

Abdallah Massaad: Look, Sameer, I'll start with the first one. Look, the Indian market is big, and you have a lot of supplies. I know that, yes, it was announced for the Morbi cluster to shut down for one month to reduce the piled-up inventory. And the inventory is coming for many reasons, from the supply chain, the increase in freight, and so it is challenging for almost all the manufacturers around the world. Meanwhile, our market share, even though we have a good position, well-positioned in the Indian market, but our market share is small.

That's why we're trying to go to more districts, more presence, and try to gain more market share. So, if you see, also in India, the last two years, it's consistently, every quarter, we are posting a good positive momentum from a top line and bottom line, and I'm pretty sure that this will continue. In regard of what is the increase, we increased the prices, but the prices, PK, you have the percentage, but it is not 50%, so maybe driven by volume?

PK Chand: Yes, so the volume has gone up by around 35%, and the prices have gone up by around 15%.

Sameer Kattiparambil: Okay, great. Thank you so much. And one final question maybe, if I may. How do you see the Saudi market demand sustaining? So, you mentioned that you have seen a big rebound after the first quarter weakness, so how sustainable is that market right now? And how is the demand you are seeing, going forward?

Abdallah Massaad: Look, as you see, Sameer, Saudi is a big market, and we opened, newly, three showrooms between Riyadh and Jeddah, are very, very, very nice, well-positioned. We are, as I mentioned, and this is what we tried to do in the last few years, to position ourselves as, a reliable supplier, from a quality perspective and the delivery momentum. The first quarter this year, we had an issue in reducing, or not… Availability of the trucks or the transportation vehicles.

I do believe that, supported by the Vision 2030, there is a strong demand in the real estate, and the market is in favourable dynamics, and we are well-positioned. So, I do believe that we, the market, will continue to be robust, and our position and market share will allow us to sustain this revenue.

Sameer Kattiparambil: Thank you so much, Abdallah, and wish you all the best.

Abdallah Massaad: Thank you, Sameer.

Operator: Our next question comes from the line of Naveed Ahmed from GRB Capital. Naveed, your line is now open. Please, go ahead.

Naveed Ahmed: Hello. Good afternoon, and thank you so much for the call, and congratulations on a great set of numbers. I have two questions. My first question is, if we look at the overall revenues, they're up 20% for the first six months, compared to the same period last year. If we were to break up this revenue increase, in terms of volume versus prices, what would that look like?

Abdallah Massaad: Look, PK, you'll have the number, but mainly, the increase, it's coming from increase in prices.

Naveed Ahmed: Would it be possible to give us a rough idea, in which markets you implemented it and what is the average increase that was done?

Abdallah Massaad: Prices increased everywhere, so with the increase in logistic cost, with the increase in all the inflation markets, as I said, and this is where we benefitted, people, they were willing to pay higher price, but they get to material one, and with our position, again and again, I repeated to position ourselves as a reliable supplier, we were able to command the premium.

And I don't have the number with me. PK, for sure, you will have it. Please, elaborate more, but it is mainly driven by the price increase in all markets.

PK Chand: Yes, it's absolutely correct, what Mr Abdallah said. So, as far as UAE market is concerned, the volume is almost the same in the first half of this year. Saudi Arabia, in fact, the volume is lower, compared to the last year, mainly because of the first quarter in this year. And Indian volume has gone up by about 8%. Europe volume has gone up by about 10%, and increase in prices there in almost every market.

Naveed Ahmed: Okay, that's very clear. Thank you so much. My second question is on the overall debt levels. So, we have seen an increase, in light of the acquisitions that you've made, but over the next couple of years, especially since you talked about the Saudi expansion as well, where do you see the overall debt levels heading in the next couple of years?

Abdallah Massaad: We have also discussed on this matter. As far as the Board is concerned, the Board is comfortable for net debt/EBITDA level up to 3.5, and we will ensure that we are well within these limits. So, that's the maximum level. I will say that we can go up to that level, but we will try not to reach even 3.5 level.

Naveed Ahmed: Okay, thank you so much.

Operator: As a reminder, if you'd like to ask a question today and have joined us on the telephone lines, please press star followed by one on your telephone keypad now. Alternatively, if you have joined online, you can submit a written question via the Q&A box at the top of your screen. Our next question is a follow-up question from Anoop Fernandes from CICO. Your line is now open. Please, go ahead.

Anoop Fernandes: Yes, my question has been answered. Thank you.

PK Chand: Now there is, again, one question, which we have received, on what percentage of your bottom line comes from the UAE? What update do you have on the implementation of corporate income tax in the UAE? Will it start in 2024? Will the rate be 9% or 15% to begin with? Approximately what percentage of the revenue increase seen in the first half 22 is driven by price increase? And so, Sir, what I will do is, I will answer the rest of the questions. Then you can take up the bottom line from the UAE.

As far as the corporate income tax is concerned, the information that we have is the same information that you have. So, it is likely to start from June 2023, but since our year-end starts in January, therefore, for us, it'll be applicable for the financial year 2024, and we will have to, first, pay the tax in the year 2025. Now, whether it'll be 9% or 15%, only 9% has been announced so far, but we also feel that, since we are a multinational company, we may be obliged to pay 15%, but there is no clarity so far on this.

And now, what percentage of revenue increase seen in H1 22 is driven by price increase?

Just, we answered this question, so there is no further information required. Now, your first question here was, what percentage of your bottom line comes from the UAE? Since UAE constitutes about 70% of our business, so obviously, the profit also is coming from there only.

Abdallah Massaad: But here we are talking about the UAE operation, not as an end market.

PK Chand: Yes. Then there is one question, which has come. Going ahead, which geographical market do you see major growth coming? What sustainable gross margins can be expected, going forward?

Abdallah Massaad: Again, PK, for this, you see, our focus is clear, as, first, our core market, starting from the UAE, India, Bangladesh, the Saudi market in specific, European market and the Gulf market. So, these are the focus markets and where the growth might come. In terms of the gross profit margin, again, if you see our result and you go back into many quarters, now you can see that we are in continuous improvement in our gross profit margin, and we reach to be at the higher level.

Again, what we said, in these days, many changes, many challenges, but we are adamant, in order to sustain, improve and create value for our shareholders.

Operator: And as one final reminder for today, if you would like to ask a question and have joined us on the telephone line, please press star followed by one on your telephone keypad now. And alternatively, if you have joined us online, you can submit a written question via the Q&A chat box at the top of your screen. We have a follow-up question from Sameer from EFG Hermes. Sameer, your line is now open. Please, go ahead.

Sameer Kattiparambil: Thanks again. One last question. Do you have any update on your land asset?

Abdallah Massaad: Sameer, at the moment… No, Sameer, we don't have any update for the moment.

Sameer Kattiparambil: Okay, understood. Thank you so much.

Operator: And there are no further questions, so I'll hand back to the Management team for any closing remarks.

Abdallah Massaad: Thank you very much. Thank you for your time.

Mohamed Haider: Thank you, Abdallah, and thank you, PK Chand.

PK Chand: ` Thank you very much.

Mohamed Haider: And thank you, everyone, for joining.

Abdallah Massaad: Thanks.

PK Chand: Thank you.