**Mohamad Haidar** Hello, everyone, and welcome to the RAK Ceramics Second Quarter and First Half of 2023 Earnings Call and Webcast. This is Mohamad Haidar 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, Mr Abdallah.

**Abdallah Massaad** Thank you, Mohamad, and good afternoon, everyone. As all of us are aware, the demand cycle for our industry has been affected by recessionary fears and increased interest rates, impacting real estate projects and renovations. Having said this, we are fortunate to be located in a region which is doing well and better positioned, with several upcoming real estate projects compared to other peers.

Despite facing the continued macro challenges, starting from fall in demand, price competition with the new factories especially in Saudi Arabia, we continued to invest in building our brand perception, and that is reflected in our sales prices, which have increased, allowing us to maintain margins. We also continued to focus on improving efficiencies and working on differentiated product offerings, new showrooms to position ourselves as a preferred solution provider and a reliable supplier.

Our revenue saw a drop of 6% from last year, reaching AED 872 million, and consequently, our net profit dropped by 26.5% from last year, reaching AED 75.1 million. Our tile segment business encountered challenges in several regions, with rising competition, liquidity constraint and the economic uncertainties affecting growth in markets like Saudi Arabia, India and Bangladesh. We foresee a shift in global trend and customer preferences, and accordingly, we continued to convert our capacities from the conventional ceramic tiles into porcelain tiles.

The sanitaryware and faucets segment encountered its share of difficulties, with inflation and higher interest costs impacting household savings and delaying crucial renovation and development projects in the UK, Bangladesh and India. Our tableware division continued to grow by delivering robust performance, particularly in the European market.

Let us now take you through a more comprehensive update on our business performance, region by region. In the UAE, we faced rising competition and pricing pressure due to increased imports with waivers on anti-dumping, and custom duties, as well as lowered rates from India, China and all over the world. Despite these hurdles, I am pleased to share that our revenue and gross margin witnessed growth, primarily fuelled by an increase in project channel sales.

In Saudi Arabia, we witnessed a decline in revenue due to intensified competition from local manufacturer and the new ceramics plants backed by Chinese investors, which impacted our wholesale business and the overall demand in Saudi market, which put a lot of pressure on reducing prices in the market.

While we were able to sustain our gross margin by focusing on differentiated product and the premium segment, we must brace ourselves from the challenges ahead. Meanwhile, we are prepared. We have already opened our showrooms, premium showrooms, in Saudi, and we have our project team. Our product is sold in the projects where as of today we have differentiated ourselves and we are considered to be a reliable supplier.

In Europe, particularly in the UK, the combination of recessionary fears, currency devaluation and rising interest cost affected consumer spending capacity, leading to a downturn in our operations. Despite these adverse conditions, our revenue growth in Germany and Italy remained strong. Also, the realisation of freight charges allows us to effectively reduce the impact on margins. However, an overall decline was largely attributed to the impact on the sanitaryware business.

We continued to see success in the other Middle East markets, specifically Bahrain, Kuwait, Oman, where we saw exceptional growth driven by project and wholesale channels. We are committed to further strengthening our brand position in these markets and leveraging the opportunity they offer.

In India, our revenue was affected due to rising interest rates and buyers’ liquidity creating obstacles for new real estate projects. In Bangladesh, the constant fluctuation in gas supply put considerable pressure on productivity and quality, leading to difficulties in maintaining revenue level.

In Bangladesh during this year also, the government increased the prices from $3.1 to more than $7 per MMBtu. It was difficult, in the US Dollar availability, to open LCEs. But as you know, we already acquired the land, and we are working on our expansion in Bangladesh. And we are pleased to say that for the renovation we are doing in the existing plant, we secured all the foreign currency and opened LCEs, and our renovation project is in place.

Despite these challenges, we are committed in turning these obstacles into opportunities. In the UAE, we are working towards cost optimisation measures, and we continue to enhance our brand presence. We very soon plan to launch our tableware retail outlet in the UAE.

In Saudi Arabia, with the increased competition from local manufacturers impacting our wholesale business, we continue to invest in differentiated products and brand enhancement through new showrooms and dealer network to make a difference.

In Europe, we continue to leverage on freight optimisation to safeguard margins, whereas in India, we are strategically expanding our dealer network to strengthen our revenue, as well as we already took a decision in order to put up new capacity and invest in new machineries in order to produce bigger sizes and differentiated sizes, also converting one line of ceramics to porcelain tiles. In Bangladesh, we are working on enhancing our production efficiencies to combat gas price fluctuation.

Our focus remains on innovation, upgrading and modernising our product footprint in India, Bangladesh and the UAE. Regarding our two greenfield projects, we continued to make progress in setting up a faucets plant in Bangladesh, and we are in constant discussion with the Ministry of Industry in Saudi Arabia to resolve the challenge around the Gaza location. I will now hand over to PK Chand, our CFO. Please, PK.

**PK Chand** Thank you, Abdallah. Good evening, everyone, and thank you for joining us. Mr Abdallah has already briefed on operational highlights, key markets and a strategy update for the second quarter of this year. I will take you through the financial highlights, with details on revenue, gross profit margin and the balance sheet items.

We will start from slide 12. We encountered several challenges in the form of volatile market conditions across most of our core markets, excluding the UAE, higher interest rates impacting real estate project development and renovation plans, which has negatively impacted our revenue in the second quarter of 2023 by 5.9% year to year at AED 872 million.

H1 2023 revenue is higher by 2.6% at AED 1.75 billion, mainly due to additional revenue of AED 165 million from Kludi Group consolidation. You are aware that Kludi Group consolidation started from June 2022. Excluding Kludi Group, revenue is lower by 7.3% year on year.

Tiles and sanitaryware revenue is lower by 14.9% year on year at AED 631 million in the second quarter of this year, and in the first half of this year, it declined by 9.3% year on year at AED 1.28 billion. Revenue has been impacted across all markets, except UAE, Middle East, Germany and Italy.

Growth in the UAE is largely driven by project and wholesale channels. Reduction in revenue in other markets are primarily attributable to recessionary fears and higher interest costs, which are affecting household savings and causing a deferment in major house renovation and development projects.

Tableware revenue increased by 3% year on year at AED 92 million in the second quarter of this year and 14.9% year on year in the first half of this year, driven by introduction of differentiated products. Faucets revenue is AED 117 million in the second quarter of this year and AED 228 million in the first half of 2023. Revenue from other units decreased to AED 56 million in the first half of this year, mainly due to a decrease in our ceramic raw material trading business.

Now let me go through slide 15 onward, covering the end market performance in the second quarter and the first half of 2023 for the tiles and sanitaryware segments. In UAE market, revenue in the second quarter of 2023 increased by 18.2% year on year to reach AED 194.4 million, driven by project channel business attributed to the rising real estate market growth in the UAE. In the first half of 2023, revenue grew by 21.3% year on year to AED 384.3 million.

In Saudi Arabia, revenue in the second quarter of 2023 witnessed a significant decline year on year to AED 85.5 million due to intensified competition from local manufacturers and new ceramics plants, backed by Chinese investors, which impacted our wholesale and retail channels. Sales from project channel continues to grow. Our focus remains on offering premium products, securing major projects and expanding the retail footprint. In the first half of this year, revenue decreased by 33.1% year on year to AED 205.5 million.

In India, revenue in the second quarter of this year decreased by 21.8% year on year to AED 85.7 million due to rising interest rates and tight liquidity. Heavy rainfall and floods during the quarter in some regions further caused delay in projects, thus impacting our sales. Our first half 2023 revenue decreased by 15.5% year on year at AED 176.7 million.

In Europe, revenue in the second quarter of 2023 decreased by 6% year on year to AED 109.7 million, and in the first half, it decreased by 8.4% to AED 206.8 million due to ongoing economic challenges in the region, mainly in the UK market, which continues to face recessionary fears, currency devaluation and rising interest cost, that impacting consumer spending capacity, while revenue in Germany and Italy has shown resilience. However, we remain confident about our growth prospects in Europe, given the declining inflation and the reduction in freight rates.

In the Bangladesh market, revenue in the second quarter of this year decreased by 17.1% year on year to AED 61.4 million, while in local currency, it remained stable, with marginal increase of 0.3% year on year. In the first half of this year, revenue decreased by 17.9% at AED 131 million, while in local currency, it remained stable year on year, with marginal growth of 0.2% year on year.

The constant fluctuations in gas supply put considerable pressure on productivity and quality, leading to difficulties in maintaining revenue levels. Despite the challenges, we continue to expand our showroom network and focus on market penetration and product differentiation.

In the Middle East, excluding the UAE and Saudi markets, markets have shown growth potential, mainly from Bahrain, Kuwait and Oman. Revenue in the second quarter of this year increased by 10.6% year on year at AED 43.7 million. In the first half, the revenue increased by 4.3% year on year to AED 79 million. We continue to focus on strengthening our brand position in these markets.

Now we will turn to slide 16. The total gross profit margin decreased by 110 basis points year on year to 37.3% for the second quarter of this year and remained stable at 37.6% year on year in the first half of 2023, driven by higher margins in tiles and sanitaryware segments through a combination of increased prices, improved production efficiencies and shift in our product mix.

Tiles’ margin in the second quarter of 2023 decreased by 100 basis points compared to last year at 39.1%, mainly due to change in product mix. In the first half of this year, gross profit margins increased by 110 basis points, at 39%. Sanitaryware’s margin remains stable year on year at 34.9% in the second quarter of this year, despite lower revenue. In the first half, gross profit margin decreased by 140 basis points, at 35.4%, due to lower revenue and lower productivity.

Tableware’s margin increased by 20 basis points year on year to 51% in the second quarter, following top line increase and change in the product mix. Noting that Kludi Group consolidation was effective on 1 June 2022, faucets’ margin remained stable at 25.1% as of the second quarter of this year compared to 25.2% in the second quarter of last year.

Reported net profit is AED 75.1 million in the second quarter of this year compared to AED 102.2 million in the last year, mainly due to lower revenue and margins. Net profit margin is 8.6% for the second quarter of this year compared to 11% in last year. In the first half of this year, the net profit is AED 155.2 million compared to AED 171.9 million in the last year. Net profit margin is 8.8% compared to 10.1% in last year.

EBITDA at AED 155.3 million in the second quarter of this year is as compared to AED 164.2 million in last year. EBITDA margin is 17.8% compared to 17.7% in last year. And in the first half of this year, the EBITDA is AED 312.4 million compared to AED 294 million in last year. EBITDA margin improved to 17.8% compared to 17.2% in last year.

Now we turn to balance sheet highlights on slide 18. Overall, working capital cycle increased from 156 days in the first quarter of this year to 163 days in the second quarter of this year. In absolute terms, working capital increased by AED 48 million to AED 1.57 billion in the second quarter of this year, mainly due to increase in receivables and inventory.

Inventory days increased from 191 days to 199 days quarter on quarter, mainly due to lower revenue. Trade receivable days increased from 88 days to 90 days quarter on quarter, mainly due to Eid holidays. Trade payable increased from 52 days in the first quarter of this year to 61 days in the second quarter of this year.

Net debt has increased by AED 148 million to AED 1.45 billion in June 2023 compared to AED 1.30 billion in December 2022, mainly due to payment of dividend of AED 112.2 million and increase in working capital. Net debt to EBITDA increased to 2.44 times in the second quarter of this year versus 2.26 times in December 2022. We continued to maintain an adequate liquidity position during the quarter. Capital expenditure during the first half of this year is AED 93.5 million. Capex guidance for our full year of 2023 is at AED 250 million to AED 300 million.

Slide 20 shows the share price movement during the last 12 months. The shares are currently trading at a P/E multiple of 9.7 times. The board approved to distribute a semi-annual cash dividend of 10 fils per share, representing AED 99.4 million to be paid to the shareholders.

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

**Abdallah Massaad** Thank you, PK. As we close the second quarter of 2023, we acknowledge the challenges that lie ahead, and we continue to work towards our long-term strategy by positioning ourselves as a global preferred supplier, which will help us increase our market share.

The economic landscape remains uncertain, and our markets continue to be vulnerable to external pressures. To navigate these challenges, we plan to optimise operation and tackle rising risk. Moreover, sustainability will be at the heart of our strategy as we continue to promote long-term value and growth for all stakeholders.

As we venture into the third quarter of 2023, our priorities stand strong and align with our objectives. Digitalisation will be at the core of our growth strategy, while an extensive retail presence will help us solidify our position. We continue to work towards transforming Kludi into a global high-end faucets and sanitaryware brand. Thank you for your time. Now, I would like to hand over the call to the Operator, and open the line to questions.

**Operator** Thank you. As a reminder, if you’d like to ask a question today, please dial into the call using the details to the left of the slides, and press star followed by one on your telephone keypad to enter the queue. Participants are to limit themselves to one question and one follow-up per person. That’s star one to ask a question today. And our first question comes from Sameer Kattiparambil from EFG Hermes. Sameer, your line is open. Please go ahead.

**Sameer Kattiparambil** Thank you, gentlemen, for the call, and congratulations on a great set of numbers. My first question is on the Saudi market. So what kind of pricing pressure have you witnessed in the last quarter? Was there any dip in the overall tiles demand in the market? And how long do you expect the competition scenario in Saudi to sustain? I think the current competition against your Saudi greenfield production plant is.

**Abdallah Massaad** Sameer, first, thank you for your question. Look, no doubt that Saudi, for multiple reasons, affected the overall market. It started from the increase in interest rates, which reduced the liquidity in the market. One, we see a little bit a liquidity issue in the real estate sector.

And second, the demand is still there, because the market is big, but two new factories started producing which are backed by Chinese investors, big volumes and very low prices. So they started with the market stuff already, so that’s only reducing the prices, which affected not only us, everyone in the market.

For us, fortunately, as we are differentiated in terms of product and our showroom and our quality, we continue to sell to the projects. But the wholesale projects, where some products which we were selling almost at SAR 20, it was dumped at SAR 11 or SAR 10. So therefore…

**Sameer Kattiparambil** Wow.

**Abdallah Massaad** We did not go into the price war. We kept our position, and we are still selling. But for sure, the volume… Wholesalers, which they bought, and every day, the prices are going down. So they get sceptical in buying, where they don’t know tomorrow where they will reach. And the main competition started when the second factory started to produce, so the first factory started competing with the second. So it’s a matter of dumping for a period.

Till how long it takes, honestly, no one knows. As of today, since the prices came down, a lot of factories, including us also, are focusing on shifting from ceramics to porcelain tiles. Fortunately, we have capacity of porcelain tiles, and we are supplying. So till the mega projects start, then the volume will be bigger than the capacity at some time where this will offset the competition. But in the next quarter or two, I will see the competition, severe competition, especially in prices, will continue.

**Sameer Kattiparambil** Thank you. So my last leg of the question was, in the current scenario, does your Saudi greenfield production plant…? Would it be feasible?

**Abdallah Massaad** Look, for us, it will always be feasible, because we have today opened our really nice showroom, big showroom, we have a good set-up, and in order to sustain our position, the Saudi local content and the Saudi products will always be required in the projects. And in order to maintain our market share in the projects, we need to have the Saudi production, yes.

**PK Chand** And Sameer, just to add to what Mr Abdallah said, in fact, we have to incur the logistics cost. We have to pay 12% custom duty when we export from UAE market. So therefore, it always makes sense to have a manufacturing set-up in Saudi.

**Sameer Kattiparambil** Yes. No, that’s very clear. So one last question from my side. So your UAE operation has been quite strong for the last couple of quarters. So how sustainable will that operation be going forward, especially given there is competition from the low-cost producers like India and China, simply because they are no more able to sell to the Saudi market? So will they start dumping at even lower prices to UAE? And will that then further…?

**Abdallah Massaad** Sameer, if you see, in the UAE, we are fortunate since long time, since we started, that there is no protection. It was for a very small period when they applied the anti-dumping, but this anti-dumping has been removed, and a lot of agreements with many countries started, with free trade agreements.

For us, we are facing, and we said that, a lot of dumping and a lot of price war and competition. But to be honest with you, the projects and our reputation and availability, services and quality are remarkable, and with mega projects and the projects that we got, we are in a very healthy scenario. I see our pending orders doing well, and our projects and the sales in the projects, despite all the competition, is up by 20%.

So I do not see any risk on short term of… Competition will be there for sure. That’s why we are also working to be efficient more and more. We have also taken a big showroom, 12,000 square feet in Sheikh Zayed, another one, which will be started opening. We are opening another showroom in Dubai Mall for retail. We started an online business. So I believe we are doing everything possible in order to strengthen even and increase our market share in the local market.

**Sameer Kattiparambil** Thank you. Thank you, again, Abdallah and PK, for your answers.

**Abdallah Massaad** Thank you, Sameer.

**Operator** As a reminder, if you’d like to ask a question today, please press star followed by one on your telephone keypad. If you’ve joined us online, dial-in details can be found to the left of the slides. We have questions from Mohamad Haidar from Arqaam Capital. Mohamad, over to you.

**Mohamad Haidar** Thank you, Abdallah and PK. Most of my questions were already answered. Just one question on the land in Ras Al Khaimah. Do you have an update on how discussions are progressing regarding the monetisation of this asset?

**Abdallah Massaad** Honestly, Mohamad, we don’t have any update. The only thing which we mentioned last time, that fortunately, the region is booming, and a lot of projects get declared around us. And I believe the prices of the real estate in Ras Al Khaimah is booming these days. So this is good news. To be honest, we don’t have any update on any transaction at this moment.

**Mohamad Haidar** Understood, Abdallah. Thank you very much.

**Abdallah Massaad** Thank you.

**Operator** As a final reminder, that’s star one on your telephone keypad to ask a question. We have a follow-up from Sameer Kattiparambil from EFG Hermes. Sameer, your line is open. Please go ahead.

**Sameer Kattiparambil** Thank you. One final question from me on Bangladesh, the gas shortage. So is that going to normalise? Then the prices, the gas prices have already been increased or more than doubled. Are you able to pass on the additional gas costs to consumers?

**Abdallah Massaad** Thank you, Sameer. Look, as you mentioned, after the price increase, the gas supply is better. We still have some days where some pressure is reducing. But in general, it is much better than earlier days. Regarding the prices, yes, we are increasing, and we are not able to pass everything. That’s why we’re still profitable despite whatever, all the challenges in Bangladesh, but our profit margin reduced, because we are not able to pass all the prices. But slowly, slowly, everything is adjusted, and most of the increases, we’ll be able to pass it on that.

**Sameer Kattiparambil** Okay, that’s very clear. Thank you so much.

**Abdallah Massaad** Thank you.

**Operator** I can confirm that we have no further questions, so I’ll hand the call back to the management team for any concluding remarks.

**Abdallah Massaad** Thank you very much. Thank you for your support, as always.

**PK Chand** Thank you very much.

**Mohamad Haidar** Thanks, Abdallah, and thank you, everyone, for joining today, and thank you, Adam, for hosting the call. We look forward to having you with us, everyone, next quarter.