Speaker 1: Ladies and gentlemen, welcome to RAK Ceramics First Quarter 2020 Results Conference Call. I will now hand you over to Mohamad Haidar from Arqaam Capital. Sir, please go ahead.

Mohamad Haidar: Good afternoon, everyone and welcome to the RAK Ceramics First Quarter 2020 Earnings Call and Webcast. This is hosted by Arqaam Capital. I hope everyone is keeping safe. This is Mohamad Haidar from Arqaam Capital Research and we are joined by Mr. Abdallah Massaad, Group CEO and Mr. PK Chand, Group CFO. Without any delay, I will now hand over the call for Mr. Abdallah, please go ahead.

Abdallah Massaad: Thank you, Mohamad and good evening everyone. I'm Abdallah Massaad, CEO for RAK Ceramics and I would like to welcome you all to the RAK Ceramics First Quarter 2020 Earnings Conference Call and Webcast. The current pandemic has impacted all of us, and I sincerely hope that everyone on the call, along with their families, are keeping safe and healthy. As far as RAK Ceramics is concerned, we have been proactive in implementing a raft of measures designed to mitigate the impact of COVID-19.

 At the end of March 2020, we completely shut down all production in India and Bangladesh in line with the government's guidelines and significantly reduced our production in the UAE. To limit the impact of lockdowns across all our markets, we have launched various alternative sales channel in markets where retail operations are closed.

 In addition to this, our website now includes a virtual reality showroom experience, which allows customers to view and interact with our product virtually. We have also taken measures to manage our liquidity, reduce discretionary expenses, and all non-essential capex plan are currently on hold.

 Going forward, we are constantly evaluating the situation and our contingency plans are in place and are being continually updated to reflect the evolving situation. We have built a strong foundation and I'm confident this will help us navigate the current challenging environment and enable us to deliver the value to our shareholders in the long term.

 Now, allow me to take you through our operational and financial highlights for the first quarter of 2020. Total revenue remains stable at 593 million dirhams. This represented a decrease of 2.7% when compared to the same period in 2019. This decrease was mainly due to lower sanitary ware sales and tableware revenue.

 However, on constant currency basis, Q1 2020 revenue decrease is only by 1.9% year on year. Tiles revenue also remains stable at 394 million dirham. Sanitary ware revenue decreased by 7.3% to 114 million dirham. Tableware revenue decreased by 14.7% to 51 million dirham. The decrease in tableware was due to a significant slowdown in the airline and hospitality sectors across all our major market as a result of the COVID-19 pandemic.

 We continued our improvement in efficiency by increasing our first choice production in all locations. This resulted in an increase in tiles margin by 330 basis points to 29.9% year on year. We are well positioned to take advantage of the imposing of anti-dumping duty on tiles from India and China. From 6th, June 2020 anti-dumping duty on Chinese products will range from 23.5% to 76%. And from India, it will range from 17.6% to 106% in the GCC.

 In term of performance across our market, we are pleased to report that total revenue in Saudi Arabia increased significantly when compared to the same period in 2019. This increase was driven by an increase of 80% in tiles revenue.

 Custom duty rates on building material in Saudi have increased from 5% to 15% effective 10th, June 2020, which will be beneficial for us and all GCC manufacturer. Our operation in Saudi Arabia has followed our UAE business model, which is proven very effective. We remain optimistic for a long-term growth in Saudi Arabia beyond the COVID-19 economic recovery and the growth in the kingdom is likely to offset any slowdown elsewhere in the region.

 We have positioned ourselves as a premium product supplier in Saudi Arabia with many differentiated products compared to local manufacturers. Last year, we opened two show rooms in Riyadh and we have planned to open a further three showrooms in the kingdom.

 In the UAE, market revenue was lower by 11.6% at 159.5 million dirham. However, we continue to be the market leader and the decrease revenue was not a result of reduced market share. To further increase our retail showroom phase footprint in the UAE, we have recently launched a national wide promotion initiative for selected product. We have also opened a new showroom in Fujairah and our second showroom in Abu Dhabi is in operation.

 In the Middle East, revenue increased by 5.4% to 21 million dirham year on year.

In India, exports increased from 7.5 million dirham last year to 17.5 million in the first quarter of 2020. I'm pleased to report that our strategy to establish our Indian operation as a hub to serve export market has been well implemented. Domestic revenue in the first quarter of 2020 reduced by 21.6% to 57.7 million dirham due to the impact of COVID-19 toward the second half of March 2020.

 In Europe, our operational performance continue to improve with a higher gross profit margin. We are implementing initiatives to build on the current strength of our relationship and to increase the number of customers in Central Europe. Total revenue was stable at 81.6 million dirham which represented a decrease of only 1.5% when compared to the same period in 2019.

 In the first quarter 2020, we continue to invest in product development and innovation to further strengthen our brand position. I'm pleased to report that this year have been able to go ahead and participate in KBB in the UK and Revistar in Brazil which are the most important exhibitions in the area, where launched innovation new series of translucent labs and a unique concept in sanitary ware developed by a renowned designer.

 In Bangladesh, revenue in local currency was stable year on year at 63 million dirham, despite the impact of COVID-19 towards the second half of March 2020. In August last year, we have also witnessed an increase in gas prices by 38% for industry and 44% for the captive power, which has impacted our gross profit margin. To maintain our market shares, push sales and strengthen our relationships with the dealer, we continue to offer a high attractive incentive to our dealers.

 We also focused on enhancing our brand through advertising campaign and promotion across full range of media channel to support these activities. A new showroom is also scheduled to open in Dhaka.

 In Africa, revenue in the first quarter 2020 decreased by 11.8% year on year to 17.1 million dirham.

Our Tableware business has been severely impacted by COVID-19 due to slowed down in the airline and hospitality sector across all our major market. As a result, tableware revenue decreased by 14.7% compared to the same period of last year. However, going forward, we have excellent series in place and stock level to meet market demand post pandemic. To support this, we are currently working on a number of loyalty program offer to kickstart phase.

 This year, we also participated in the Ambiente Exhibition in Frankfurt and we successfully launched our RAK stone collection.

The primary focus for our faucet business has been to grow market share in our export market. To support this, we will be launching a range of new products using many new and innovative finishes. We will also be supporting our distributor network by improving product awareness and training.

 Now, I would like to take you through the main financial highlights for the first quarter 2020. We deliver satisfactory result in Q1 2020, considering the COVID-19 pandemic began, to impact our business from the end of January. Though, the revenue was stable at 593 million dirham, a decrease of 2.7% when compared to the same period in 2019, mainly due to lower sanitary ware and tableware revenue.

 On currency rate of first quarter of 2019, the revenue decreased by 1.9% year on year. Total gross profit margin increased by 110 basis points to 32.7% and was driven by an increase in tiles gross profit margin of 330 basis point to 29.9% on improved efficiency. Reported net profit decreased by 18.1% year on year to 30.2 million dirham with a margin decrease of 100 basis points year on year to 5.1% net profit after the minority decreased by 11.5% year on year to 25.7 million dirham with a margin of 4.3%.

 Like for Like net profit excluding provision and extra ordinary gains decreased by 4.9% to 36.3 million dirham with a margin of 6.1%. Total EBITDA decreased by 3.6% year on year to 95.2 million dirham with a margin decrease of 20 basis points year on year to 16.1%.

 Thank you for listening. I will now hand over to PK Chand, our CFO, to brief you on segment highlights and provide you with more in-depth analysis on the financial.

PK Chand: Thank you, Mr. Abdallah. Good evening everyone and thank you for joining us. Mr. Abdallah has already briefed summarized financial highlights and regional performance for the first quarter of 2020. I will take you through the segmental highlights with details on revenue, profitability, and the balance sheet. Let us start on slide nine.

 Reported total revenue for the first quarter of 2020 is lower by 2.7% year on year to 593 million dirhams. Tiles revenue remained stable at 394 million dirhams supported by strong growth in Saudi Arabia and Middle East markets. Sanitary ware revenue decreased by 7.3% year on year to 114 million dirhams due to decrease in revenue in all markets except Middle East and European market. Tableware revenue decreased by 14.7% year on year to 51.3 million dirhams. This reduction was due to significant slowdown in the airline and hospitality sectors in all major markets as a result of COVID-19 pandemic.

 Revenue from other businesses increased by 7% year on year to 33 million supported by ceramic raw material trading and paints business. Of the total revenue in the first quarter of 2020, tiles contributed 66.4%, sanitary ware 19.3%, and tableware 8.6% while others contributed 5.7%. Total gross profit margin increased by 110 basis points year on year to 32.7% in the first quarter of 2020. Tiles margin increased by 330 basis points to 29.9% driven by continued cost reductions and improved operational efficiencies by leveraging automation. Sanitary ware margins decreased by 170 basis point to 36.8% and tableware margins decreased by 320 basis points to 48.3% due to lower revenue and change in product mix.

 Slide 11 summarizes financial highlights with details of performance on operations. Total EBITDA decreased by 3.6% to 95.2 million year on year with margin decrease of 20 basis points to 16.1%. Reported net profit decreased to 30.2 million dirhams with margin of 5.1% compared to 36.9 million dirham in the same period of last year, mainly due to decreased revenue and investments in upgraded branding and showrooms as well as higher freight costs.

 Like for Like net profit, that is excluding provisions and extraordinary gain, decreased by 4.9% year on year to 36.3 million with margin of 6.1%. Net profit after minority decreased to 25.7 million dirhams with margin of 4.3% compared to 29 million dirhams in the first quarter of last year. Net debt increased from 1.37 billion in December '19 to 1.49 billion in end of March '20 due to dividend payments of 168 million dirhams. Net debt to EBITDA increased from 2.85 times in December '19 to 3.10 times in March '20.

 On the cash front, capital expenditure in the first quarter of 2020 was 27.6 million compared to 67.5 million in the same period of last year. The effect for 2020 is expected to be in the range of 100 to 125 million dirhams as we are placing non-essential capex plans on hold. Now, we turn to operating cycle.

 Working capital and working capital days remained stable, reflecting the strength of the business. Inventory days increased from 258 days, as at the end of 2019, to 261 days, mainly due to decreased revenue. Trade receivable days remain stable at 119 days. Trade payable days have increased from 67 days to 70 days.

 Now, I will turn back to Mr. Abdallah for final comments on remaining quarters of 2020 and priorities before we answer your questions.

Abdallah Massaad: Thank you, PK. The nature of our business is closely linked to the construction and the hospitality sector, which were obviously affected by the pandemic. Also, although we expect the situation to impact our performance in the next few months, we are confident that given our stable results in Q1, our strong foundation and a sound business model, we will be able to face this unprecedented challenge and move forward.

 We will continue to focus on our priority and our focus market to deliver the good results. As I have said to manage the impact of COVID-19, we have implemented many cost efficiency measures across all our operations while prioritizing the health and safety of our workforce.

 We have also taken measures to ensure our liquidity is managed and to mitigate the closure of retail channel by launching alternative options. Our contingency plans are in place and are being constantly updated to reflect the evolving situation. RAK Ceramics has built a strong foundation, which will help the business to navigate the current challenging environment and enable us to deliver value to our shareholders in the long term.

 Thank you for listening and for your time. Now, I would like to hand the call over to the operator and open the line to questions. Thanks again.

Speaker 1: Thank you. Ladies and gentlemen, if you wish to ask a question, please press zero one on your telephone keypad. Thank you for holding until we have our first question. As a reminder, ladies and gentlemen, if you wish to ask a question, please press zero one on telephone keypad. Our first question comes from Samir from EFG. Please, go ahead.

Samir: Hi. Thank you guys for your presentation. I have a couple of quick questions. First, with the current market scenario, what is the risk that the large amount of the receivables might not get paid? Then second is on, you mentioned about the VAT in Saudi in raise of that in Saudi and how is the debts going to be credit positive for the region and producers? The third one is about, what will be your renewed capex plan after the reduction [on non-essential capex? Thank you.

Abdallah Massaad...: Thank you, Samir for your question. Samir, if you start first by the receivables, we have a good system from the beginning on the credit facilities and the payment. Honestly speaking, we do not perceive any major hit to come from this side. So we are in touch with all the clients and we don't see a risk coming from there.

 On the VAT, Samir, it's happening because Saudi also announced increasing of customs duty and the anti-dumping. So there is an anti-dumping and increasing in customer duty and also a VAT increasing from 5% to 15 %. When there is a VAT to be implemented also on top of the custom, then the costs increase, the VAT on a higher cost will be higher than the normal price.

 So we see that all these measurements in Saudi will help the local and the GCC manufacturers, which we are exempted from customs duty and the anti-dumping will give us a boost. And if you see before the implementation of the anti-dumping and all these measures, our sales in tiles increased by 80% and our strategy in having a project department opening our retail outlets and rebranding in the Saudi, plus the differentiation in sizes and product portfolio, helped us to gain market share, as for sure, we feel that this will continue to see the benefits.

 In term of the capex PK mentioned that we already reduced our non-essential capex and any expansion which can delay or any capex expenditure which can be delayed to the next year we already done it to maintain our liquidity, which is the most important focus, we focus now. And capex will go down to 100 to 125 million. PK, how much our capex will change?

PK Chand: Should be around a 100 to 125 million, sir.

Samir: So thank you, that's it-

Abdallah Massaad...: I hope that we are-

Samir: Yeah, thanks a lot. Just to follow up on this, the capex was around 225 million, in your earlier plan?

PK Chand: Yes, that's what we were expecting in the beginning of the year.

Samir: Okay. And one more follow up on the receivable side, are you planning for any kind of putting any solution going forward? Although, you know that there is no risk, but to be more including, any such provisions

PK Chand: No, so we will start some ... Samir, you must be knowing that effective 1st, January 2018, the provisions are being made based on IFRS 9. So it is now on expected credit model. So this time we became more stringent and whatever provisions we thought, to the best of our information, we have already taken. And obviously, in the coming quarters or so there will be slight increase, but not significant risk is involved. That is what we're more cautious

Samir: Got you. Thank you.

Speaker 1: Thank you. Our next question comes from [Yusin SiSCO 00:26:33]. Please, go ahead.

Yusin Kasico: Yeah. Hi, this is [inaudible 00:26:38] from SICO Asset Management. Thank you for the presentation. My first question is, as you mentioned that there will be anti-dumping duty from India and Chinese imports. So there is a range, from China it is, I think ... If I remember correctly from 17 %to 95% and from India from 23% to some 100% plus. So my question is, a bulk of imports which comes to the region, to the Saudi Arabia. So these imports will fetch how much duty? How did duty will be decided? Will it depend on the producer from which producer it is coming, because the region is very big.

Abdallah Massaad...: Here, if you look what they took a few factories, when you say the range is very big, there are four factories only in India which gets the 17.6%. Then a good number, which comes at 43% and the majority is 106%. So they look at the factory imported, at which prices, and an average price, they took them into the buckets of 17.6. % So mainly they took the factory, which they were, not dumpings. So they have a good quality and high prices in term of faith.

Yusin Kasico: Okay. So the bulk will be in the higher category, you mean to say? The bulk of the import?

Abdallah Massaad...: Yes.

Yusin Kasico: So that is also to 100% from India?

Abdallah Massaad...: It is 23.5% the minimum in China to 76%. And in India, 17.6% the minimum and 106% is the maximum.

Yusin Kasico: Okay. And the custom duty, which has been increased from 5% to 15%, it will be on top of the anti-dumping duty, right?

Abdallah Massaad...: This is what gives other than India and China. So there are also import coming from Spain, from Italy, from Brazil, from all the world. So they took India and China as anti-dumping, but the custom duty will be in all. Means it should be on top of this for India and China, yes.

Yusin Kasico: Yeah. So India and China will be doubly impacted their imports, I mean, custom duty and anti-dumping duty both, right?

Abdallah Massaad...: Yes. Custom, yes. I'm not expert on this, but this is the logic, yes.

Yusin Kasico: Thank you. Thank you so much.

Abdallah Massaad...: Thank you.

Speaker 1: Ladies and gentlemen, if you wish to ask a question, please press zero one on your telephone keypad. We have another question from Divya [Rora 00:29:57] from [inaudible 00:29:57], please go ahead.

Divya Rora: Hi, thank you for the call. The first question is, in the second quarter, when the lockdowns were there in the month of April and May in the UAE, also in Saudi, can you just give us some sense of the construction activity, in the last three months, last couple of months, April and May? What impact did you see? We lost the sales to the projects because of the delays, consistent delays, and all that. That's number one.

 Given a lot of oversupplies in the hospitality and also in the real estate sector in the UAE, if you pick up any of the report from Zillow or anybody else, they're talking about 30,000 to 40,000 units coming up in the next two years. We know that the economy is facing tough situation and there could be more job losses.

 So there might be a case that the developers might even stop future projects. I'm talking about the Annual Fund Launches, or even if a project is being launched, and it's like 10%, 15%, that might be stopped. Let us know, what do you see as an outlook this year and also, let's say over the next couple of years? That's the first question.

Abdallah Massaad...: You gave me a question which everybody is looking forward about the future. But I can tell you there is no doubt, when there is a lockdown in Saudi, the borders are closed. Initially, in UAE, only 30% of the worker could work. I can tell you that April and May, no doubt, are difficult months for all companies, and for sure was also for us. We tried our maximum because the market was not in our hand.

 What was good for us that we already opened our retail network. So it was easier for us to launch the virtual showroom. We launch hotline, even though our showrooms were closed so we're able to sell on a hotline, in touch with our clients. Whenever we were able to supply, we were supplying. So I can tell you that in these two markets, we were affected, but we continued to sell. So it was not a complete stop.

Divya Rora: Sorry, can we expect 25%, 30% reduction in the sales in the last two months?

Abdallah Massaad...: Let us see June, because June is a very important month for us because what happened with us in April, to be honest with you, we're able to sell much because the borders, say in Saudi, closed and they re-opened it for a time where we were able to send some materials. Then it has been closed in May. Now, it is open again. We found a way. We loaded by container and reached, and we had like switching and interacts loadings from Saudi place. We pay a little more high, but now we have a lot of trucks, which passing every day. Now, you see the curfew is off. Today, you can work up to 50% in the project. So we see going to be a good month of June.

 Now, as I told you, without going to the figures honestly, in April and May, but for sure, the sales was down. And also, India and Bangladesh were closed completely ... Oh, not completely, but April was totally, then May, gradually. Now, it is open in Bangladesh, in Europe also, the market is open. So as I said, it will be tough for a small period.

 A company like us having good foundation, we continued to invest in differentiating products. This impact will be severe on a weak company, where on the end will get benefit, because a developer who continue and he wants his materials, he would like to take it from a strong supplier, retail, it's the same. It is impacted in the short-term. But I'm not pessimistic on the long-term now. Hopefully, the way it is going, we can see, coming back to normal, despite that the second quarter, no doubt will have impact.

Divya Rora: But how about the outlook of these sectors. Let's say you can come back and the borders are open and the developers are buying from you. But how about the outlook in general? So the existing project, let's say, will continue. They should be have stated from the last two, three years, but new projects-

Abdallah Massaad...: Yeah, but that is why we have the retail. So I'll tell you. You see in Europe today, government are paying part of the construction activities to boost the economy. You see that even in UAE, we saw some projects to be funded by governments for housing projects. The outlook of the construction itself is not great, but retail will continue, refurbishment will continue. They will be in the short-term some impact, but on the end we will gain more market shares.

 So the bad outlook with the anti-dumping, with the increase on custom duties, and the weakening of importers, this will give us a good advantage to gain more market shares.

Divya Rora: So you are talking about retail that even you can still sell, because retails will continue with the refurbishment. What is your dependency on the projects and the retail, if you have to break it down?

Abdallah Massaad...: We are selling ... You are telling UAE or the whole world?

Divya Rora: Let us say UAE, and then in general, in the whole world.

Abdallah Massaad...: Yeah, say in Saudi, we are more into wholesale than a project pre-phases. So our business is mainly in the wholesale and retail. In UAE, around 40% of our phase go to projects. Then almost 50% go to project, 50% go to wholesale and retails.

Divya Rora: Then you were saying that, obviously, Saudi would be positively impacted. But what I think is that in Saudi, you don't compete in the lower-end segment, because you always say that RAK Ceramics is more differentiated. So are there any players from India or China where you know which were competing against you in the same segment, and now they will have to face higher tariffs?

Abdallah Massaad...: The typology of product, which is produced today in Saudi, they are concentrated on volume products. We also produce this. We don't say, "Only we are into higher end," but what we did, we produced a bigger sizes, which get imported from abroad. These big sizes we will be able to replace these players.

Divya Rora: Okay. But will they impact with significant on you? What do you think about the price increase now? How much volume can you bring in from this market? What price can go up?

Abdallah Massaad...: I will tell you. If you look at the first quarter 2019, our sales and the first quarter of 2020 our sales in Saudi. So with the strategy of differentiating sizes, yes, we are not into the commodities. But we are a premium affordable. So when you are going to buy this product as a marble, instead of our slabs, our slabs is getting advantage, going to have ... When you are into retail or wholesale, or even a project, today, everybody wants to differentiate his product, his projects too.

 So by differentiating paying premium, but affordable premium, and it is working. So I do believe that we'll have a good chance to increase our market share and to benefit out what's happening in Saudi, as well as also in the whole GCC.

Divya Rora: My question is what can be the impact on the prices over the UAE? Do you expect 20% to 25% growth in the prices, in the market in general?

Abdallah Massaad...: Oh, no. This is a lot. But if you take an increase in prices from 5% to 10%, this is already good. It will come directly to your bottom line.

Divya Rora: Okay. Also, I think there might be a lot of players in Saudi itself, which might've closed down. They may also come back, because of this anti-dumping duty. So you think it will be easy to get market share of those players, which were not operating for the last few weeks, they will-

Abdallah Massaad...: Yeah, this is what I told you because we invested. Always, if you see our strategy is to invest in a new technology, which differentiates us from others. We're opening a beautiful showroom. I will urge you all in the call to go and see our virtual showroom. You will see what I'm talking about always and a differentiating product.

 So we are tying up with the designers, with the renown designers. We have a very attractive product mix. Therefore, I agree with you that today, what the kingdom import is 100 million square meters. So I'm not saying that we are going to eat all these, even for us, even 10%. Only the premium 10% is what we are targeting on top of what we're selling, which will make the difference for us.

 So this is our strategy. We are not into the volume. We are more into the value. But value, it does not mean only the luxury. So it's an affordable premium. So you'll have a good product, good quality, reliable, and affordable.

Divya Rora: So basically, the price increases will be seen in the lower-end market, where let us say Saudi Ceramics place. But in your market, you're already at a bit higher-end, and you're already differentiating. You already have your space out there. So you will not see that much impact on the prices, but you may gain more volume.

Abdallah Massaad...: I did not say, you said that. However, when you have a Saudi Ceramics today sell at 10, and I am selling at 12 dirhams. If Saudi Ceramics tomorrow will sell at 11 dirhams, I can sell at 13 dirhams. So the choice, whatever the local market will increase their price, people will be happy even in their reduction and offer to pay us more premium. So the difference in prices, for sure, we will be able to command even when the offer is less, we can command a better premium, a more premium also.

Divya Rora: So basically, in general, on the price side, at the market level, you do not expect more than 5% to 10% change in the prices, despite this anti-dumping-

Abdallah Massaad...: Yes.

Divya Rora: Okay. All right. You expect any negotiations with, let's say, the developers given the market conditions may be bad right now, everybody is trying to save their cost. They expect pressure on your prices, they might come to you and ask you for a discount of 5%, 10% on tiles, on sanitary. Is it already happening?

Abdallah Massaad...: Honestly, I do not expect ... For sure, everyone will try as we are trying also to reduce our costs, because we are doing everything possible to reduce our costs, and everybody will do it. So for us, we are very focused. That's why you said, we have many scenarios. On the end, we are not there only to sell and buy. We are there to make value and to create value for our shareholders.

 To be honest with you, the anti-dumping also will help us in increasing our prices, because yeah, developer wants to reduce, but what will be his alternative?

Divya Rora: Okay. In terms of costs, so you mentioned about the cost. Because everybody now is focusing on the cost, given the outlook, it was big. What are your plans? You've already focused on the cost over the last couple of years. You have the product down. That's what helps your margins in a bad market. So what can you expect? Is there any target in terms of millions you've decided that, "I'm going to cut this much in the next six months to one year," given the next two years are going to be tough, especially in the UAE. Even in India, things will be tough-

Abdallah Massaad...: Yeah. Started in India we are reducing, in Bangladesh the same, in UAE, across the border, we are working. But to be honest with you, like you, like me, if you would have called me yesterday, I would have told you ... or last week, the price of oil came down to the 20th. So we said, "We will save from gas," because gas energy is the highest cost.

 Now, I cannot maybe say it, because today it's touched 40. So there are lots of changes happening on a weekly basis. Yes, our biggest disadvantage in the region was our energy costs. To be honest, the last two or three months, it was ... We always pay the three-month average. So this coming two months, our average will be low from the gas, which is the highest in terms of costs.

Divya Rora: Okay. My last question is linked with the VAT. So we have seen the VAT in Saudi has an increase from 5% to 15%. Now, there could be a segment in Saudi. If you start to pass them on the VAT, they might downgrade to the lower level prices. So you think the segment you are playing in, if you try to pass on the VAT to your customers, did you see them in terms of elasticity, in terms of price raises, did you expect them to shift down the curve, and they don't go to an alternative supplier?

Abdallah Massaad...: It is very, very, binary thing. I don't see it happening, because the difference [crosstalk 00:46:49]-

Divya Rora: Then possibly, it is not all of it-

Abdallah Massaad...: Yes, I agree with you. But the difference when we are speaking on prices, say, we are selling 20 dirhams on grapple, and the local players will sell at 15. So it's a five. The 10% is half a dirham on a retail. If it is a 500 square meter, it is a 250 Riyal. So I see it if the difference was 110, there are a lot of difference. But we don't have ... Yes, as I said, we are affordable premium. You might tell me, "People might not buy the slabs," which we are selling at the 300 dirhams, and they will downgrade it to the product of 20, which we also have.

 So our range is big. Maybe they will not buy their premium. They will buy our entry level, but it does not mean they will go to another supplier.

Divya Rora: Okay. All right. Thank you.

Abdallah Massaad...: Okay. Thank you.

Speaker 1: We have a follow-up question from Samir from EFG Hermes Please, go ahead.

Samir: Thank you. I have one more question on your engine operation. Do you find any issue with the shortage of labor, and if there were some reposition in line in this last labor extradition from some of the industrial hubs. So how is your Indian operations affected recently?

Abdallah Massaad...: Samir, you are right. Yes, because in India, they divided the region into Red, Orange, and the Green. Even in the Green region like Gujarat, a few companies, very, very few companies were able to restart because of the immigrant labor. So in Gujarat, we did not get started, even though you can start reproducing. There were two issues. One is the labor and the second is the transportation in terms of raw materials and finished goods from state to state.

 But PK, you can go further. I believe now some easiness and the lockdown in India is happening.

PK Chand: Yeah. You are absolutely, right, sir. So under for this plant, Samalkot, I checked this point, the labors are all local laborer. So nobody is coming from UP or Bihar from where most of the migrant labors, they have gone back. Similar, is the case as far as our plant in Morbi is concerned.

 So from that angle, we are well positioned. We do not see a problem as far as labor is concerned. We are right now not starting the plant, mainly because of the region, that if we let us, say out of 100%, if we are able to work only with 50%, and then we have got the stock also. So we are trying to delay opening up the plant as much as we can to liquidate the stock.

Samir: Okay. Thank you. I have one more question on the natural gas price, which Abdallah just mentioned. Because in India you have seen a decline, they cut down the prices two times, one in October and one in April, this year. So how is that going to impact your financials? Are you expecting from your price reduction in UAE operation, that's why you're paying a very high price?

Abdallah Massaad...: PK?

PK Chand: Yeah. As far as our Indian operations are concerned, you are right that the prices of gas have come down. ONGC has reduced prices for gas in Samalkot. But it has not yet been reduced as far as our Morbi plants are concerned. Therefore, Samalkot has come in line, but Morbi still is on the higher side. As far as UAE is concerned, since the price of gas is linked to last three months, Brent price, so obviously, will come down going forward.

Samir: Okay. Thanks a lot. Thank you for that.

Abdallah Massaad...: Thank you, sir.

Speaker 1: Our next question comes from Mohammed [Talib 00:51:21], welcome. Please, go ahead.

Mohammed Talib: Yeah just my question about the impact of the anti-dumping duties. Would the price of those Indian products and Chinese products be the same, like the local market prices or still lower even after applying anti-dumping duty?

Abdallah Massaad...: Majority of them will be higher that is why they are implementing such heavy anti-dumping, because it was studies on the prices. And therefore some, factories got into the 106% custom or 76% from China. So this was not keep these products below the local manufacturer.

Mohammed Talib: Okay. How much those guys are present of total market share and the local market, like in the GCC?

Abdallah Massaad...: They have the highest. If you see, the highest import is coming from India and China, which I believe in the GCC, it is more than ... As I read, only to Saudi, it was like 100 million square meters.

Mohammed Talib: Okay. Some dealers in the market who bought Indians and Chinese products will start on both the sides before the application of the anti-dumping duties. How long do you think that the average inventory days that those guys hold for intervention-

Abdallah Massaad...: I will tell you, the shifting from China and India product; they started almost six months back. You see this anti-dumping is not from today. We are talking about since one and a half year. So a lot of custom check and it should be SASO, it should be the specification. So we already passed through several preconditions and checking from the authorities where ... I don't know exactly what is the stock level, but it will not last much.

 And even whoever he has some material, because the anti-dumping is for five year initially and the renewables. So we'll have to take advantage and they will stop the dumping and adjust the price according to the immediate effects.

Mohammed Talib: Okay. Thank you very much.

Speaker 1: We have another question from Yusin Kasico. Please, go ahead.

Yusin Kasico: Yeah. Hi. Thank you. I have two more questions. First one is on the inventories in the systems. So how are the inventory position across the board? India has exported a lot in four two and one two. Just a sense of inventories in the system. And as you also said in one of the replies that you are not keen to start the Gujarati facility as you still have stocks.

 The second question is on the debt profile. How much of your total borrowing is fixed? From the floating, how much it is hedged? Thank you.

PK Chand: as far as the inventories are concerned, what we mentioned is, there is no point in starting the plant with few workers and we wanted to utilize this time to reduce the inventory. It's not that the inventory is at a very high level. It's not that. That's not the point. We have to start the plant. So maybe in the third week or fourth week of June, we will start the plant.

 So this is just a temporary phenomenon that instead of incurring fixed costs and not producing full, we wanted to defer the production facility to start for a few weeks. So this is scenario as far as India and Morbi operations are concerned.

 As far as your question on the debt is concerned ... What is exactly your question? So yeah. Whether it is a fixed loan or a variable loan?

Yusin Kasico: How much of the total borrowing is on fixed and how much is floating?

PK Chand: Floating because we had hedged the libor. So practically, almost all the loans are hedged. So these are all fixed loans now.

Yusin Kasico: So everything is fixed?

PK Chand: Yeah, we had taken a call towards the end of 2019. So we had hedged all the loans. Therefore, because the spread is already fixed, it was only the question of LIBOR, which was variable. So LIBOR we had hedged in the fourth quarter of 2019.

Yusin Kasico: Okay. Just to follow up on inventories. Keeping aside Gujarat plant, how are the inventories in the system due to this lockdown? Because I'm sure that construction activity was not there. Most of the producers, we have, have been able to dispatch the product in the last two, three months. So how are the inventory with the system overall inventory?

PK Chand: Inventory in the system, what is it exactly you mean to say, I could not understand. Now, as far as we see, we have given in the presentation, the inventory accounts for 261 days. So that is given in the presentation, 261 days as on 31st of March '20. As on 31st December, it was 258 days. So it increased by three days in the month of March.

Yusin Kasico: So your production was still ongoing. So you were able to dispatch most of the products for the last two months?

PK Chand: No, what had happened was, far as the market's concerned we were producing, but because in the second half of March, our dispatchers got effected. Therefore, inventory slightly increased in the month of March. And that is why it increased from 219 days and 258 days to two 261 days.

Yusin Kasico: So what about April and May? Are you able to sell? Because you're still producing for the next two months, April and May. So are you able to sell in these two months?

PK Chand: I will explain you. As far as Indian operations and Bangladesh operations are concerned, our plants are not operating. So we have not produced, but we have been selling some quantity. So as far as India and Bangladesh is concerned, the inventory got reduced in these two months. As far as UAE is concerned, we optimize our production to match with demand. So there is no increase in inventory in these two months.

Yusin Kasico: Okay. Thank you.

Abdallah Massaad...: Thanks.

Speaker 1: We have no other questions. Today's speakers, back to you for the conclusion.

Mohamad Haidar: Thank you, operator. Thank you everyone for joining the call. Thank you, Mr. Abdallah. Thank you, Mr. PK. We look forward to having everyone with us next quarter. Please, stay safe.

Abdallah Massaad...: Thank you. Thank you very much. Thank you for joining us and please stay safe.

PK Chand: Thank you everyone.

Speaker 1: Ladies and gentlemen, this concludes today's conference call. Thank you all for the participation. You may now disconnect.