Operator: Ladies and gentlemen, welcome to RAK Ceramics third quarter 2017 results conference call, hosted by Arqaam Capital. I will now hand over to your host, Mr. Mohamad Haidar. Sir, please go ahead.

Mohamad: Good afternoon, and welcome to RAK Ceramics third quarter 2017 earnings conference call hosted by Arqaam Capital. This is Mohamad Haidar from Arqaam Capital Research and RAK Ceramics Management Team, Mr. Abdallah Massaad, CEO, and Mr. PK Chand, CFO join me today. I will now hand over the call to Mr. Abdallah. Please, go ahead.

Abdallah: Thank you, Mohamad. Good evening everyone and welcome to our third quarter 2017 results conference call and webcast. I am Abdallah Massaad, CEO of RAK Ceramics. And I will walk you through the key business update.

I am glad to report that the third quarter of current year has also consecutively shown positive and promising results. Various strategic decisions taken have proved fruitful. We started this year with clear strategy, optimized our production, focus on…how to get the best product out of our machine. How to utilize the most of our machine and differentiate our self from others, focus on the UAE market, focus on selling sanitaryware, which we have, better margins. Make sure that the, expansion we made in Bangladesh gets absorbed in the market and push sales in India. And we can see that our focus on the UAE market have resulted growth in revenue by 17.7% year-on-year on this quarter and 11.8% year-to-date. Higher sanitaryware revenue by 8.5% year-to-date year-on-year with better contribution. Push sales in India and Bangladesh to increase revenue in India 3.6% year-to-date. And in Bangladesh, which I mentioned, which we have this year 24.5% year-to-date growth from the expansion, which we had last year. Optimize production, better efficiency and keeping manufacturing costs and overheads under control resulted in, overall, good performance. As a result of above focused areas, our blended gross profit margin increased by 240 basis points to 32.1% year-to-date.

And now we go to slide four. The UAE market continued strong growth led by robust project sales. We continue strengthening our project sales team. As mentioned earlier we have in place specification team where this year we won major projects in UAE and we have find the major corporate sales agreement with a lot of developers. Also, the distributor and the retail sales performed better. In Saudi Arabia, the competition in ceramic tiles still tough. You know, the market is tough but we gained momentum in porcelain tiles. Earlier sales of porcelain tiles was mainly driven by project segment. Inspite of holding the major projects by Saudi Government, we are still able to increase the sales of porcelain tiles through the wholesale and retail segments. Therefore, Saudi Arabia has continued to show steady recovery.

We have completed acquisition of one of our Saudi joint ventures in October 2017, which is Arak in Jeddah. And another acquisition is underway. This will consolidate the operations in the Kingdom, integrate operations with head office, and open up new channels and customers in one of the focused markets. It will drive efficiency through back-office synergies, infrastructure consolidation, and a more focused sales and marketing setup. In MENA, revenue continued to be under pressure due the macro and political situation. If we go to product efficiencies, we worked hard to moderinise & optimize of older plants which we we started producing some 25 years back. We worked hardly this year, to improve efficiency. We already got the machinery suppliers and consultants in place with our team assessing that how we can utilize and how we can update and upgrade in order to control and to minimize our cost of production.

Going from there, in Bangladesh, the revenue increased by 35.2% year-on-year and 4.8% quarter-on-quarter, following last year's capacity expansion and initiatives taken to push sales by organizing dealers meet and offering incentive schemes. Gross profit margins in tiles were also high, at 36.2%. While sanitaryware gross profit margin remained stable at 44.8%. Bangladesh entity is listed in Dhaka stock exchange with a market capitalization of approximately $245 million dollars. We mentioned that several times before, that we are highly valued in Bangladesh with the valuation we have at the group level. Moreover, we are always saying that we can monetize some of this valuation. In third quarter we sold 3.5% of shares from presently owned 68.13% in Bangladesh at 21.7 P/E multiple to monetize valuation and partially fund India joint venture acquisition. The Board strategy is to maintain a control of RAK Bangladesh subsidiary and will decide on further partial exit on case-by-case basis. In India, as mentioned several time in our earlier earnings call. We have plans to acquire 51% equity stake in three manufacturing facilities. One will be a vitrified plant and two ceramic plants in Morbi. We have acquired 51% stake in one ceramic tile manufacturing facility in Morbi, Gujarat, having three million square meters annual capacity. We are evaluating to expand. This factory produces mainly wall tiles/ceramic wall tiles, where we do not have this production on our existing plants in the south, we are studying now the expansion for another three million square meters. However, we will enhance. Now, we can produce up to 30-by-60. Whereas the new expansion will be able to produce the whole range of wall tiles where we reach up to 30-by-100.

In addition, we are evaluating and discussing with parties for another acquisition of four million square meters. Acquisition of Greenfield projects, to produce big slabs in India. Where, as we mentioned several times that we should maintain our differentiation factor. Earlier, we started with the biggest tiles available at that time. Now, we are also in with the success we had in UAE with the big slabs of 120-by-240 and it is very much differentiating factor from competitors. We are studying to acquire a joint venture plant producing to produce these big slabs in India. This acquisition in Greenfield will give us another 10 million square meter in India, additional to what we have now, which is eight million square meter. The revenue from India continued to recover. It is, year-on-year, it is 17.8%. And quarter-on-quarter, its 12.6%, showing further opportunity of growth. In SG&A, focus on savings continue with stringent control across the group. Net finance costs have also decreased despite higher labor, mainly due to better forex management. To improve profitability we continued reliance on core operations and product portfolio optimization with more value added products. We are glad to report that EBITDA margin during the quarter has been five years high, at 21.1%. Net debt to EBITDA multiple has improved to three times on the 30th of September, from 3.6 times on 30th of June 2017.

In page five, now, I will take you through the key financial highlights. Core revenues grew to 644 million dirham, an increase of 14.1% year-on-year from strong growth in UAE, Saudi Arabia, India, Bangladesh in the tableware business. However, it remained stable quarter-on-quarter. The total revenue grew to 705 million dirham, an increase of 9.2% year-on-year, mainly from core business. Non-core business decreased to the lowest since many years to 24.2% year-on-year at 61.7 million, which is in line with our strategy to divest non-core operations and delivering on the value creation plan. We have also to mention that the revenue out of the core business…until now is 91.2%. The Core Gross Profit margin increased to 32.7%. It is up by 300 basis points year-on-year. Total EBITDA increased to 149 million dirham with a margin increase of 21.1% up by 560 basis points year-on-year, a five-year high. EBITDA, from core operations, increased to 129.2 million dirham with an increased margin of 20.1% up by 820 basis points year-on-year. Our reported net profit increased to 84.7 million dirham with a margin of 12%, up by 365% year-on-year. Margins improved by 920 basis points to 12% year-on-year. Core Net profit increased to 73.1 million dirham with an increased margin of 11.4%. Our like-for-like net profit, excluding provision, increased to 87.0 million dirham, an increase of 117% year-on-year with margins of 12.3%. For further information and details given on financials, I will now…turn the call to PK Chand, our CFO.

PK: Thank you, Abdallah. Abdallah has already given the details of the key financial highlights. Now, I will take you through some details. On slide six, we have given the details of the revenue. Despite micro and political land escapes, our total revenue for the third quarter 2017 has grown to 705 million, an increase of 9.2% year-on-year. The increase is mainly from better performance in tiles, sanitaryware and tableware segments. Core revenue grew to 644 million, compared to third quarter ’16. An increase of 14.1% year-on-year, driven by strong growth in UAE, Saudi, India, Bangladesh and tableware. Tiles revenue grew by 11% year-on-year, to 467 million. Sanitaryware revenue grew by 16.6% to 121 million and tableware revenue grew by 39% to 56 million, mainly due to consolidation of Resto Fair, effective first of January 2017. Non-core revenue decreased by 24.2% to 62 million, compared to third quarter ’16, in line with our strategy creation plan.

In slide seven, we have shown the recent performance in tiles and sanitaryware. UAE the company’s largest market grew strong in tiles, up by 17.2% year-on-year. Sanitaryware revenue also grew by 19.4% year-on-year. Growth in UAE market is led by robust project sales. Quarter-on-quarter tiles revenue decreased by 9.6%. And sanitaryware is flat due to EID holidays & seasonality trend. As far as Saudi Arabia is concerned, it has shown a strong performance. Tiles revenue increased by 51% year-on-year and sanitaryware increased by 30% year-on-year. Increase is mainly driven by wholesale & retail sale, while project sales remained slow. Quarter-on-quarter also has shown steady performance with tiles revenue increasing by 2.1% and while the sanitaryware decreased by 16.1%. The steady progress signals continuation of a slow market recovery that was started earlier this year. Bangladesh delivered strong tiles growth this year/this quarter and maintained high margins following last year’s capacity expansions with tiles revenue increasing by 46.9% year-on-year and 1.3% quarter-on-quarter. Sanitaryware revenue increased by 17.1%. And on quarter-on-quarter, it increased by 12.3%. India continues to recover with a steady performance in third quarter. Tiles revenue grew by 20.2% year-on-year and 12.2% quarter-on-quarter. Sanitaryware revenue was lower due to continued shut down of sanitaryware plant because of higher inventories. Lastly, tiles revenue underperformed in Europe by 16% year-on-year and -13.6% quarter-on-quarter due to competitive pressure, as informed by Abdallah. However, revenue form sanitaryware increased by 25% year-on-year and decreased by 3.5% quarter-on-quarter.

On slide eight, you can see, to improve profitability we continued reliance on core operations. In third quarter of 2017, the core revenue contributed 91.2% to the total revenue against 87.4% in third quarter of 2016, with major contribution from tiles segment at 66.2%. Now we turn to gross profit margin slide. We continued to show positive momentum in gross margin improvements for the third consecutive quarter of 2017 and reporting gross margins/core gross margins of 32.7%, up by 300 basis points compared to last year. Total Gross Margins were 31.5%, higher by 200 basis points year-on-year. Tiles gross margins increased to 28.4%, the highest third quarter results since 2014. Improvements were driven, mainly, by improved production efficiencies across all tiles plants. Sanitaryware margins remained stable as pressure on average selling price continued due to weak Euro and Pound against dollar. As far as Tableware is concerned, margins declined due to consolidation of Resto Fair, effective first of January. Resto Fair is engaged in distribution of supplies & equipment for the HoReCa industry and Impact on net profits in this quarter is 1.5 million dirhams.

On the slide 10 shows the summarized financial highlights with details of performance on core operations. These have already been briefed. On the Cash front, the CAPEX has been relatively light in the third quarter, at 21 million. However, the Capex is targeted to be 265 million. That means the commitment by the company is expected to be 265 million -- 132 million for maintenance and 133 million for growth. Actual expenditure or advances could be in the range of 125 to 135 million. This growth investment will go towards co-generation projects, larger scales and hydraulic presses for the UAE operations with remainder on setting up own warehouse for distribution of tableware in Europe, which we currently rent. As far as net debt is concerned, it fell on absolute basis by 7.5% quarter-on-quarter to 1.54 billion. And net debt to EBITDA has reduced to three times. We expect to finish the year around three times of net debt to EBITDA.

In slide 11, we have shown the quarterly core net profit trend & return on equity since last four years. It can be clearly seen, that strategy to exit non-core assets & non-performance operations has helped lighten the balance sheet, increase margins, and enhance returns for shareholders. In slide 12, we have shown the Operating Cycle. On this slide, it can be seen that operating cycle has slightly reduced due to decrease in inventory days from 223 days in second quarter to 217 days in the third quarter. However, receivable days remained stable quarter-to-quarter at 122 days, even though there is continued pressure on collection from GCC market. We continued to make further progress on working capital management during the year. Tiles inventory in UAE has decreased by 2.2 million square meters during nine months of this year. Overall, finished inventory is lower by 1.4 mill square meters. Now I will turn back to Mr. Abdallah for final comments before we answer the questions.

Abdallah: Thank you, PK. Now, I will update you on the focus areas and initiatives identified in the beginning of the year. How we did perform in the first nine months, 2017, and where do we currently stand? In UAE, as we already mentioned.

We continue to grow our market share. Where we get the highest contribution in this market, our focus is on project channel penetration and enhanced retail channels. We have signed corporate deals with some of the top developers for the long-term supply. And a flagship new showroom in Sheikh Zayed road, in Dubai, will be open before the end of this year.

In India, I have mentioned before about our acquisition and expansion plans. We, also on the other front, we changed the office which we mentioned it before. We have presently a 2,700 square meter office in Mumbai, India. We added another 49 salespeople across all areas. And looking for opportunity to expand our distribution network.

In Iran, our second line of production has been put in operation in October 2017, to ramp up operational production capacity to approximately 60%. And new ranges of products are being sampled.

Saudi joint venture as mentioned earlier, we already acquired one Joint venture out of two.

As for as the product differentiation this year, we continued to launch new collections. This year, we launched 41 new tile collections - 17 porcelain, 17 ceramic and 7 Maximus in Cersaie fair. In Sanitaryware, we launched collections for rimless, shower trays and furniture to expand portfolio offering. In Tableware, we launched the “Karbon” collection. In tableware today, we present in more than 20,000 five-star hotels around the world.

After launching RAK Ceramics’ new corporate identity last year, we have extended the campaign to Bangladesh in first quarter. We have also completed branding for dealer showrooms in India and in UAE. We executed the campaign to Saudi Arabia. To improve operation efficiency and working capital we are evaluating warehousing and logistic optimization options in UAE. To bring the cost efficiency, we started last year with one co-generation plant. It showed very promising results and payback is very quick. We already ordered two co-generation plants. And the cost of these co-generation would be 57 million dirham. The benefit of this investment is expected to accrue from fourth quarter of 2018. Overhead costs control and productivity initiatives would continue. Lastly, to improve revenue and strengthen wholesale verticals, we are enhancing the relationship with dealers and increase dealer’s network. We continue to add to our new dealers in international & local network. This quarter we added, as mentioned quite a good number in India and in African region. As you can see, we continue making good progress on our 2017 priorities. We are privileged to be in a strong financial position and we are confident to achieve the goals.

With this, I would like to turn the call over to the operator and open the line to questions. Thank you, once again.

Operator: Thank you. Ladies and gentlemen, we will now start Q&A session. 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. Ladies and gentlemen, I would like to remind you if you have any question, please press zero-one on your telephone keypad. Thank you for holding. Ladies and gentlemen, I would like to remind you if you have any question, please press zero-one on your telephone keypad. Thank you for holding. Our first question comes from Mr. Vijay, Gulf Baader Capital Markets. Please, go ahead.

Vijay: Good evening, all. And, first of all congrats on your good set of numbers. Actually, my question is on the cost in the Saudi JV. So what kind of benefits we are going to see? And the second thing is on the raw material costs. You have mentioned that during what you have seen at the end of a decline. So is it sustainable? And any kind of contact in that, for the purchase of this raw materials? And third would be the, in India, you said you are going totally three plants. What would be the total acquisition cost for that? Thank you.

PK: Vijay, thank you for your question. As the Saudi JVs are concerned, you know, Mr. Abdallah already mentioned that the main benefit is going to come from the integration. This will consolidate the operations in the Kingdom, integrate operations with head office and open up new channels and customers in one of the Core markets and break current reliance on a handful of customers. And we see a lot of value in that. As far as your raw material, cost question is concerned. Yes, it is true that we saved some amount on raw material but it is not actually raw material cost has gone down. It is the improved formulations, which has helped us to reduce some cost without affecting the qualities of our finished goods product. Your third question was relating to the India acquisition. On all the three India acquisitions to which Mr. Abdallah has mentioned, we estimate that the total investment from our side will be about seven to eight million dollars. Out of that, one has already been done. And we invested about 1.5 million dollars. Does that answer your question?

Vijay: Yeah, fine. And on the Iran contribution, how it is progressing?

PK: As far, as is concerned, I will not say that it has…it is still…breakeven/sustain has not yet come. So with the second line in operation, which Mr. Abdallah mentioned, it has already started in October. We hope that, soon, the plant will break even. Then, we will start earning some money.

Vijay: Thank you. Thanks for answering.

Operator: Our next question comes from Sameer Kattiparambil, EFG Hermes. Sir, please, go ahead.

Sameer: All right, thanks, gentlemen, for the time and the presentation. I have a couple of follow-up up questions, what Vijay has asked. Since, you know, Trump administration statement on Iran is not very positive and how would you see this to impact your investment plan in Iran? And my second question is on your core generation investment. Could you just elaborate on that? It was not very clear for me, how much your total investment plan and so far, how much you invested or how much you are planning to invest? And how it is going to forcefully give back your financials? Thank you.

PK: What your first question on Iran? Can you please repeat?

Sameer: Yeah. Like, Trump administration statement on Iran is not very positive, recently. So how would you see this to impact your investment plans?

PK: Okay. Understood. You're talking from sanctioned point of view. We are fully aware of the situation. We are very closely monitoring and that is why, you know, in fact, the second line, we could have started that, here. But we took a conscious call to slightly postpone it. You are right. That, yes, we have to be very careful as far as our Iran operations are concerned. But as on date, we have no other option but to keep a close watch. But the management is fully aware of this situation and will take appropriate call at an appropriate time. Yeah. As far as core generation is concerned, see, last time, when we made an investment, the payback period was between three to four years. And the investment for which we have already ordered is out about 57 billion dirham. And the payback period is going to be around three years.

Sameer: Thank you.

Operator: Our following question comes from Jahar Nandi, Oman Holding. Please, go ahead.

Jahar: Good evening. Thank you for your presentation. I have one question on impairment, provision and write off. In 2016, the company had taken a write off provision in totality, 185 million on which, on third quarter, you reported only 35 million. Now, in the quarter year, as also to third quarter, you have to hide it only 33 million/34 million. Now, my question is, is there any, you know, you have a plan of taking any limiting process so that, you know, there could be…some more provision may come?

PK: See, it appears that you did not attend our last years call when we had taken the big provision in the fourth quarter of 2016. That was coming out of legacy issues. And as far as the finished goods inventory provisions are concerned, that came out of a small loss. But we started in this year, every quarter, we do that exercise instead of waiting for all years to come. So we have already started that exercise that at the end every quarter, we ascertain what is the quantum of a small for which if we have to take provision that is considered quarter-on-quarter basis. So the SAP system already calculates automatically any of these provisions. And that is why, if you see, as compared to last year, 185 million. This year, we are provided only around 33 million. So we do not expect any major provisions in times to come.

Jahar: That is thing, you know. Current year, you have provided up to third quarter, 34 million. And in the same period last year, it was 35 million only.

PK: Okay. Okay. I will explain to you. In the second quarter of this year…actually, there was an extraordinary gain on sale of RAK warehousing leasing. That gain was about 58 million dirhams. And we had a construction project for that to be where the Board is…we decided to take a provision of 23 million. That is also coming out of the legacy issues. And since there was extraordinary gain…on a continuing basis, we decided to take that provision. So that was one-time provision, again, taken in the second quarter. But in every quarter that provision is not going to come. So this 33 includes 23 million on account of that that.

Jahar: Okay. Okay. Thank you. Thank you for the explanation. So you don't estimate any kind of a surprise in the fourth quarter. That's all, thank you.

PK: Oh, you would love to have a surprise! No, there will not be any surprises in 4th Quarter

Operator: Our next question comes from Mohamad Haidar, Arqaam Capital. Please, go ahead.

Mohamad: I have a question on the seasonal debt and revenues versus last quarter. And namely in the UAE, what's the main reason behind that? Is in on the back, on lower retail sales or lower wholesale sales? And question two, please, on CAPEX. So far, we have seen 55 million dirhams invested on property plants and equipment in the first nine months. What should we expect in Q4? And does the company still uphold the full-year CAPEX figure? Thank you.

PK: Thank you for your question. In the first quarter, you know, we had EID holidays and the summer impact. But if we take it, it is mainly little retail sales. The remaining, the wholesale was higher and the project was higher so it's an impact only on EID holidays. With regard to the CAPEX…you're right, that, yes, the actual spending this year has been low because we took time to analyze as Mr. Abdallah has mentioned that, we appointed a few consultants and looking in-house options and looking what is the best way to reduce cost? What is the way to modernize our plants? And that study has taken a little more time than what we expected, so in this quarter…that is the current quarter, we hope that something will be decided and the order will be placed. So that is what I mentioned. That as far as the commitment concerned, the company is likely to make the commitment of 265 million dirhams while the actual expenditure…that means what we have spent until the third quarter and quarter we are likely to incur byway of advance in likely to be in the range of 125 million to 135 million.

Mohamad: Perfect. Thank you very much. Very useful.

Operator: Our following question comes from Divye Arora, ADS Securities. Please, go ahead.

Divye: Hi. I have a few questions. The first one is linked to inventory. So what we have seen is that the inventory days, when we compare against the history, they continue to need to remain high, around more than 200 days, right? I think, historically, you were in the range of 150 to 120 days. So when can we expect to normalize? Will it take one or two more years? And the second thing is linked to the receivables. Is it normal to see the receivables at, you know, 110-115 days going forward? Or, there is a scope of this going down? And, also, you addressed the question on the inventory provisioning. How about receivable provisioning? Because last year, in the fourth quarter you took big provision, even on receivables. So can we expect on the side of receivables this year? Yeah?

PK: Please, go on.

Divye: Yeah. You can answer this and then I can ask other questions later.

PK: Okay. As far as inventory holding days are concerned. You are right they are 200 days. I cannot say that this is the norm. And, therefore, as Mr. Abdallah mentioned in his speech that the company took the decision to optimize the production. That means that we are ensuring that whatever is our sales, production is lower than that. So, that, we are monitoring very closely. But, still, we cannot expect that the inventory levels will come down to the desired levels very soon. So, yes, I will feel it may take another year or two years. As far as receivables are concerned, 100 days? Yes, in this part of the world, it is slightly on the higher side. If we compare the industry standards, our area, we are an export-based company. And, you know, when we export, you have time to the product reaching the market. And therefore, the 110 days, it is high. But, if you are in export business, you have to give this credit. And substantial reduction? In the current scenario, I do not see a substantial reduction.

Divye: But can we expect any further provisioning in the fourth quarter? Because your long-term receivables have increased, slightly?

PK: No, provisions…I do not think that we will have to take any provisions because whatever were the legacy issues, all have been provided. So there will be, no…apart from normal provisions, which we might have to take, there will be no extraordinary provisions.

Divye: When you talk about the legacy issue, you were also mentioning taking around 23 million in the second quarter of 2017. Was that linked to receivables?

PK: Yes. Yes, that was linked to receivables from a construction project.

Divye: Okay. That's fine. So my second question is linked to the situation in Europe. We are seeing the declining revenue trends over there. So what's happening? What is it planning to revive the European business?

PK: Look, in Europe, we don't have a manufacturing base. And as I said this year, basically, we decided to focus on the market where our margin is higher. And last year, you can see, the euro was down and a lot of…while the oil price reduced in Europe, we are at the same level. So the prices, which getting solved in the market, it is very competitive. And the decision to move our warehouse from Germany to Italy has proven that the German clients like to have a close or a company, which have a commitment in servicing the market. Therefore, the decline happened in tiles in Germany. So within this year, we get back our old Agents and we signed an agent agreement and we started stocking in Germany. We met all the major clients. And this will see a reviving by next year in Europe.

Divye: Okay. And regarding the dividends, could you give us a sense of…can we expect you to pay the similar amount as last year, given the CAPEX is low and the acquisitions?

PK: You know, so we don't give a guidance on dividend. But this year, our result is good. You can see that our net debt to EBITDA is down to three times. And, also, in our policy, it is mentioned that the dividend will be, minimum, 60% of our net profit.

Divye: Okay. Thank you. Just to follow-up on the inventory. When you were talking about that, you expect the inventory days to be, you know, similar and not go down. What is the reason behind this high inventory? Is it because it was produced during the last three/four quarters?

Abdallah: Look, it's not three/four quarters. It is activation of stuff or production during the year. As we have number of SKUs, so we started producing. And, you know, for projects, you produce but you don't deliver the full quantities. Some remaining quantities remain idle So to be honest, as PK said, we will show decline. In future. You can see, this year, we produced less than what we sold. We sold more two million square meters more than what we produced in UAE. And this trend will continue. And we'll make sure that within the next two years, our stock level/inventory stock level will be in a good situation.

Divye: Okay. Thank you.

Abdallah: You're welcome.

Operator: Our next question comes from Joe Francis, Bahrain National Holding. Sir, please, go ahead.

Joe: Hi. Thank you for taking my question. My question is regarding the performance rebate. Despite having strong revenue growth, the performance rebate for quarter three has come down compared to quarter three 2016. What is the reason for that?

PK: Actually, that is because of the lower quantity sale and…see, the question is, how the amount comes? The amount is based on the contracts we have with individual customers. And this year, as mentioned, we have focused more on UAE sales, where there is no performance rebate, being paid or wherever it is being paid it is minimum.

Abdallah: As PK is explaining. When we sell into many countries, we sell through agents. And when you sell through agents, you pay commission to the agents. So while the sales in the UAE grow. In UAE, we have our strengths. We have almost 200 people working for the UAE operations. We have our own showrooms and selling directly, so we don't have to pay.

Joe: Okay.

Abdallah: Okay?

Joe: Yeah. Okay. Thanks.

Abdallah: Welcome.

Operator: We have no other question at this time. Ladies and gentlemen, I would like to remind you if you have any further questions, please press zero-one on your telephone keypad. Thank you for holding. We have a follow-up question from Divye Arora, ADS Securities. Please, go ahead.

Divye: Hi. As there were no other questions in the queue, so I just want to follow-up with a couple of things. So you were mentioning about legacy receivables. Could you give a sense of how big are these receivables on your books, right now?

PK: No. No. That is all finished what we mentioned was that when we took large provision in the fourth quarter, there was certain, you know, old items. So far, we decided to clean our books and that is how all that has gone. And even in this year, the 23 million, though there are chances of recovery but since we had some extraordinary gain in the second quarter on sale of RAK warehousing leasing, we decided to be on the conservative side. And, therefore, we took that provision.

Divye: Okay. Regarding your capacity utilization. I am just trying to look at Bangladesh because you have seen very good growth in the tiles revenue, around 47% year-on-year. So I just want to know, how much more scope is left for you to grow? If the market is growing by say 6%-7%, can you continue to grow by the similar amount for the next two years, without investing much money. Do you have the access, capacity, whatever over there?

PK: To be honest, we are utilizing the capacity in Bangladesh. And we are waiting to stabilize. And in the board of Bangladesh, we are discussing further option in acquiring land or acquiring how to grow the capacity in Bangladesh. If you see that out of the total standard or utilization of the plant, we are utilizing almost 94% of the installed capacity.

Divye: Okay. And how about the UAE right now? Where is the utilization rate?

PK: In the UAE, we are at 80%, as we discussed during the beginning of the year. We have very old plans in the UAE, where the cost of production is high and the gas consumption high. By focusing on improving margins, we move the production to the newer plants, which is more efficient. And by this move, we were able to reduce the costs and improve efficiencies in production indicating the higher margin.

Divye: So when you are saying 80% utilization, do you take into account here, in the denominator, the old plants, also? Or this utilization is based on only the new plants?

Abdallah: No, we take care about the installed capacity for the standard size and if we run continuously. So it is the utilization of capacity of all the factory capacity is from installed capacity.

Divye: Okay. Just the last thing on…you were saying that you have major projects this year. So can we get a sense of, these project are into the residential segments or these are in the, you know, retail segment or commercial segments? And, typically, you are playing in which particular segments. If it is residential, are you going are you mainly in the mid-end of the business or you're also toward the high-end?

Abdallah: Honestly, we have live projects with major developers like Emaar, Azizi, Damac and many other projects. In the retail, as mentioned, we have renovated all the showrooms available and will be opening showroom in Sheikh Zayed Road Dubai and wholesale we're growing so the major contracts and the project segment.

Divye: Okay. Fine. Thank you. Okay.

Operator: We have a follow-up question from Sameer Kattiparambil, EFG Hermes. Please, go ahead.

Sameer: Hi. I have a couple of questions on, like is there any further known core asset divestment plans in the coming quarters? And how you're planning your CAPEX spending? Is it from accruals or debt? How are you planning forward?

PK: See, as far as non-core divestment is concerned, in the coming quarter, apart from maybe one or two small units, which are very, very insignificant, we do not foresee anything that will be solely in this quarter. So, practically, in fact, you know, as far as the non-core assets are concerned, now the balance that we have is, obviously, the big plot of land, which all of you are aware. And apart from that, there is only small things, maybe some apartments. So there is no significant asset, which is lying on our balance sheet. As far as the investment for acquisitions in India is concerned, as Mr. Abdallah mentioned, the total investment is going to be around eight million, seven to eight million dollars, which is not a big amount. And he mentioned that, you know, we sold some shares in RAK Bangladesh, to monetize the good valuation. And that money is going to be used for in the acquisitions.

Sameer: Okay. Thank you.

Operator: We have a question from Mohammed Al-Alwan, Al Rajhi Alpha. Please, go ahead.

Mohammed: Yes. Hi, guys. Thanks for the presentation. I have a couple of questions. First, my question is about the company strategy and the growth. If you look to the financial number for the last couple of quarters and years, we see that the return on invested capital for the company is below its cost capital. So when you have such situation, usually, growth hurts the shareholders' value, unless the company is in the process of…which I understand is in the process of getting rid of a lot of non-core assets to reduce its capital base. This is one. So my question is, why the company want to grow if the return on capital is not really that attractive, overall? My second question is, on the inventory level, I see that the days in inventory keeps increasing from 150 days to, now, recent quarter is 200-plus. I understand that you mentioned that being an exports market is a factor but I would like to understand more. Because this sounds like a phenomena over a longer be it summer, rather than just a recent development. And the final thing is regarding the receivables. I understand as per your discussion, you have written most of the legacy issue. But I see some pick up in the receivable, again. And then, the note in the financial statement, it is written that this receivable is belonging to one of the subsidiaries sold and it's backed by guarantees or checks. Can you explain what the story, here is? Thank you.

PK: Your first question is on return on capital. So, see, if you see our margin, you are right. The margin is not that great. But it's, still, the company has to grow and whatever non-core assets we sold…and, you know, because if we continue our production only in UAE, that is not nearer to the market, it may happen that we become uncompetitive. And, therefore, we need to grow at near the market. And that only will give us edge over our competitors. As far as inventory, levels are concerned, yes. As Mr. Abdallah says, this inventory is not that, you know, in 2016 the sales was quite low compared to what we produced. And because of that, the inventory buildup was there. Actually, the inventory levels went up in 2015 and '16, where the production was higher, compared to the sales. As far as the receivables are concerned, can you repeat your question again?

Mohammed: When you started to see some pick up in receivable, again, now, in the nine months, 2017?

PK: No, those receivables, if you see, yes, you are right. Some receivables have gone up, due to more sales in UAE market. Some receivables have gone up in India and that is an impact of imposition of GST as well. So in the third quarter, we acquired one of the ceramic tile manufacturing unit in Morbi, but from this acquisition it not a big trigger but that amount has also been added to our receivables. As far as related parties are concerned, the receivables have gone up because we've sold RAK warehousing leasing. And, as agreed, the payment is going to come in some time so, obviously, full payment has not been received. To that extent, the receivable has gone up.

Mohammed: So just to correctly understand. What you're saying is that the management is not focused on creating shareholders value, it's focused on maintaining growth within the market? Is this correct?

PK: How do you get this impression?

Mohammed: I'm getting this impression because as I mentioned, if you look to the return on capital over from like 2007 until now, it's consistently below the cost of capital and below like, when I compare it to Saudi Ceramic in Saudi, you're below Saudi Ceramic also return on capital. So typically, when you have a business that's not generating its cost of capital, it's better off not growing and returning money to the shareholders.

Abdallah: Allow me. You mentioned that Saudi Ceramics as we mentioned, that we sale to international markets. We are the only branded product out of the region. If you can see, a lot of local players, and we could have taken this route of being a local player in one region and our margin would have been higher. But we were always saying that we are balanced in risk. And, look, as you mentioned, some players in Saudi or in one region, when the region gets affected, you will dilute the shareholders' value. For us, this is not only growing the market, it is how to get a sustainable good business. Our net margin is 12% as I believe. In this industry, international, we are among the highest. If you look at the players only in India or a player only in Saudi or Oman and you will say that our margin is lower than them, but we should know that we are international player, not a local regional player.

Where we get, you know, our strategy is proven to be right, where we get immune to any kind of scams. Whereas same as 2008 past it, and the same last year and we overcome it. So I do agree with you. If you look at only the margin from one perspective. Whereas, as an international, if you go to the main players, go to the top five in the ceramics. And you can see our margin is within the highest in these companies.

Mohammed: Well, generally, for me, margin is not the issue that I'm talking about. I understand that some company chooses to fill a low margin and they turn their capital faster. That's why I look at the total return on capital because to capture all the valid drivers. But my point is, being a global player and all these nice things should translate for me, in two things -- higher free cash flow and higher return on capital. And what I see is that, over many years, these things are not really there, except maybe the last two quarters where we start to see some improvement on the return on capital…

Abdallah: And this is good. Within the value creation plan we mention that, you know, we want to exit the nonperforming asset, we want to exit the non-core, we even sold Sudan, we closed China. We added capacity where the margins are high, in order to create value for our shareholders out of the value creation plan, which was shared during end of 2014. Now, we are already executed 90% and this value creation plan, which creates value to our shareholders.

Mohammed: Okay. And maybe the differences in margin due to the differences in asset-based between you and the competitors. Because when I look to the average age of your plant is much higher than the industry average, which shows why you are having a low margin and higher turnover versus the peers. So going back to the question being asked before, what is your sustainable level of maintenance CAPEX? Because I understand, the last nine months have been very low on CAPEX. Could we look at depreciation as a proxy, or should we really look at a different number over a sustainable number?

PK: As far as our maintenance, CAPEX is concerned, that ranged around 100 to 125 million, yearly.

Mohammed: Okay. Thank you very much, guys.

PK: Thank you.

Operator: Our last question comes from Anoop Fernandes, Sico Bahrain. Please, go ahead.

Anoop: Yes. Good afternoon, gentlemen and congrats on a great quarter. Just two quick questions from my side. You've mentioned that the capacity addition in India will be 10 million square meters. I think the capacity right now is eight and we're operating at about 11.5 square meters you know, after including the third-party production. So once these acquisitions are complete, what will be your production capacity? What number should we assume as the product capacity for the company? And, secondly, you've mentioned three million square meter expansion on the asset that you have just acquired. Do you have a gas allocation for that?

PK: Anoop, two things. When we add the 10 million, our full capacity in India next year will be 18 million square meters by end of next year. And, yes, we have allocation in the factory.

Anoop: Okay. And what about the outsourced? I mean, currently, you'll outsource quite a bit, 30%-50% of…your utilization rate is about 150%. So how much of that third-party production will be reduced and replaced with this new capacity?

PK: So this is the plan, which is to be able to control our production. Therefore, look, we are trying. We are adding dealers, we are adding salespeople. Meanwhile, we are planning to focus on selling our capacity and whatever excess we will be flexible to outsource from outside.

Anoop: Okay. So the outsourcing will stay as-is? That will not change?

PK: No, it will certainly reduce. It is not that it will be an additional all the 10 million will not be an additional, so whatever we are doing outsourcing today, some will continue. Some will be accepted to our own joint ventures.

Anoop: Okay. Thank you. Thank you very much.

Operator: We have no further questions. Dear speakers, back to you for the conclusion.

Mohamad: Thank you, Mr. Abdallah and Mr. PK Chand for your presentation. Thanks, everyone, for attending. You may now hang up.

PK: Thank you.

Operator: This concludes today's conference call. Thank you for your participation. You may now disconnect.