Tokyo Cement Group shows slow and steady recovery in Q4 results

## Financial Review

Tokyo Cement Group (Tokyo Cement) reported its financial performance for the 4th quarter ended 31st March 2023, with a turnover of Rs. 14.09 billion reflecting a year-on-year decline of 13%.

The Group recorded a profit of Rs.723 million for Q4 FY2022/23, compared to a loss of Rs. 2.44 billion for the corresponding period in 2022. The aforementioned loss was the result of a Rs. 4.82 billion exchange loss, due to rapid currency depreciation in March 2022.

Group turnover for the 12 months ending on the 31st of March 2023 was Rs. 56.48 billion reflecting a year-on-year growth of 8%. The Group recorded a Profit After Tax (PAT) of Rs. 4.99 billion for the 12 months, whilst absorbing Rs. 3.56 billion in exchange losses for the year.

Finance expenses amounted to Rs. 5.22 billion for the financial year, due to the substantial increase in interest rates and exchange rates. An average interest rate of 30% was incurred across short-term borrowings to finance the raw material imports on Letters of Credit. Further, the newly enacted 30% corporate income tax rate had a significant impact on the financial performance of the Group, at an expense of Rs. 1.77 billion.

## The Environment

A decrease in global raw material prices and freight costs since Q3 FY2022/23 eased some of the pressures on local cement manufacturing business, which was passed on to the consumer in the form of price reductions. As of this article the price of a 50kg bag of cement has been reduced by Rs. 600, to a Maximum Retail Price of Rs. 2,600/-.

Local distribution costs remained significantly higher because of fuel price volatility and fuel quotas restricting the logistics operations of the dealers and distributors. Even though the fuel prices had consecutive downward revisions in January and February, transportation costs continued to remain at the same high levels as in previous quarters of the financial year.

The Rupee marginally appreciated against the US Dollar towards the end of the quarter, the benefit of which should reduce raw material import expenses thereby reducing the cost of cement production in the following quarter. However, high interest rates on import demand loans still indirectly impact the cost of goods sold.

With most government and private sector construction projects being suspended due to the economic crisis, the construction industry shrunk significantly. Price hikes across all commodities pushed operational costs upwards, thereby halting larger commercial and infrastructure projects at the beginning of the new calendar year. This caused a notable reduction in bulk cement consumption.

Rising cost of goods coupled with high interest rates discouraged the financing of new domestic sector construction projects. The newly enacted personal income tax formula heightened the pressures on the disposable income of the middle to upper income earners who make up a larger portion of the consumer base of the construction industry. These factors combined in the domestic sector contributed further to the overall market contraction.

## Outlook

The prices of most commodities were revised downwards on consecutive months of the quarter, reflecting the price drops in the global markets. The recorded inflation rate decreased continually since the beginning of the calendar year, mainly due to the high base effect of last year. However, these reductions failed to make a significant impact on the overall cost of living as the price of most consumer goods remained high, whilst the notable increase in electricity tariffs annulled the possibility of a boost in disposable income.

The turbulence in the domestic market reflected the country’s fiscal position as the Government engaged in negotiations to restore national debt sustainability. With the majority of international creditors providing positive assurances to restructure outstanding loans, the first tranche of the International Monetary Fund approved Extended Fund Facility for Sri Lanka was received in March.

Interest rates and exchange rates are expected to achieve some form of stability in the upcoming months. The government has made commitments to settle the outstanding dues to contractors in the form of bonds, which should allow them to resume some of their operations. The Company expects to slow down the current rate of market contraction by working closely with its distribution network, and incentivizing purchasing through the reduction of cement prices in line with cost reductions. Tokyo Cement will continue to deploy strict cost containment measures to safeguard the positive financial momentum whilst continuing to fulfil its stakeholder commitments through its vast value creation process.

--