Press Release
Colombo, 11th August 2023

Tokyo Cement Group's FY24 Q1 Performance Signals Stable Market Momentum

Quarterly Financial Review

Tokyo Cement Group (Tokyo Cement) reported its financial performance for the first quarter ending 30th June 2023, with a turnover of Rs. 12.02 billion reflecting a year-on-year decline of 26%.

Contraction in turnover can be attributed to a minor drop in volumes and a reduction in the price of a 50kg cement bag. In the corresponding period of the previous year, the price of a 50kg cement bag was increased from Rs. 2,350/- to Rs. 3,000/-, whilst in the quarter under review the price of a 50kg cement bag was reduced from Rs. 2,750/- to Rs. 2,600/-. As of this article, the price of a 50kg cement bag has been further reduced to Rs. 2,300/- as the Group continues to pass on any raw material price reductions or exchange gains to the consumer.

The Group recorded a Profit After Tax (PAT) of Rs. 865.1 million for Q1 FY 2023/24, compared to a PAT of Rs. 534.8 million in the corresponding period of FY 2022/23. This year-on-year increase in profits can be mainly attributed to the fact that there was no exchange loss in the quarter under review as a result of the Rupee appreciation, whereas a Rs. 3.18 billion exchange loss was incurred in Q1 FY 2022/23.

Whilst interest rates have increased overall in the corresponding quarters, the removal of exchange loss allows a positive impact on the reported Finance Expenses. Meanwhile, the introduction of the Social Security Contribution Levy (SSCL) and salary adjustments were the main contributors to the substantial increase in Administrative Expenses during the quarter under review.

The Economic Environment

Over the course of last year, the high volatility of the foreign exchange market posed the greatest threat to the business environment. However, the fiscal controls deployed by the Central Bank of Sri Lanka (CBSL) have started to yield results, whereby the Sri Lankan Rupee appreciated by 22.9% against the US Dollar during the year up to 31st May 2023. In Q1 FY 2022/23 the Rupee depreciated to a peak of Rs. 398/- to the USD, whilst in Q1 FY 2023/24 the Rupee appreciated to a year-on-year low of Rs. 298/- to the USD. This currency appreciation allowed for a reduction in the costs of imported goods. A decrease in global raw material costs, and freight rates resulted in a further cost benefit that was passed on to the consumer via price reductions across a wide range of commodities.

Even though commodity prices reduced consecutively during the quarter, the higher-than-expected interest environment prevented a tangible impact being made on overall prices of goods and services. The rate of inflation as measured by the year-on-year change in the Colombo Consumer Price Index (CCPI, 2021=100) decreased consecutively from 50.3% in March 2023 to 35.3% in April and to 25.2% in May 2023.

Consequently, the CBSL started to systematically relax some of the fiscal restrictions that were put in place to curb forex exposure, indicating the slow yet steady recovery of the national economy. To further encourage domestic cash circulation the CBSL announced a reduction of the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) by 250 basis points to 13% and 14%, respectively in June 2023.

All markets operated with relative cautiousness whilst consumer demand remained subdued due to limitations in disposable income, and high lending rates prohibiting borrowing for construction. Indicative of this market skepticism, the construction industry continued to remain stagnant, with the cement industry estimated to have utilised approximately a third of its overall installed capacity.

Whilst being able to attract substantial FDI between January to March of 2023, the country was able to secure a USD 350 million from the Asian Development Bank and USD 700 million from the World Bank, for budgetary and welfare support. These essential financial stimuli are expected to stabilise the economy further whilst Sri Lanka continues to engage in negotiations with both bilateral and private creditors on debt restructuring.

Outlook

The economy is anticipated to gain positive traction with the interest rates trending downwards, thus encouraging borrowing to expand domestic cashflow. The resulting invigoration of economic activity is expected to accelerate demand in the construction industry. This is to be further bolstered by the removal of import restrictions imposed on several housing and construction-related products from the beginning of the second quarter. The combined effect allows for greater price reductions and will encourage construction projects that were halted due to cost constraints and non-availability of materials. Gradual recovery of the construction industry, however, is largely dependent on the recommencement of government backed projects expected later in the year. Whilst an overall quarter-on-quarter demand reduction is recorded, there is a considerable boost in demand from May 2023 onwards compared to last year, indicating a shift in momentum.

Meanwhile, the Group resumed the upgradation of one of its cement grinding mills that would increase overall cement production capacity from 3.1 million MT to 4 million MT per annum. The upgrade includes deployment of the latest technologies in the grinding facility that would increase efficiencies, thereby reducing production costs. In addition to improving productivity, this will update the Group's local manufacturing process to stay abreast with global standards in quality and sustainability.

Whilst taking a conservative outlook for the short to medium term, Tokyo Cement remains optimistic of slow but steady growth in the wake of improving economic fundamentals. The Group will continue the stringent cost control measures already in place to weather the impact of the economic downturn. With the stabilisation of the currency, the slowdown of inflation and reduction in interest rates, as signalled by the CBSL, the Group is cautiously hopeful of a recovery in the coming years. The Tokyo Cement Group remains agile to the changes in the environment and stands ready to be an active participant in the country's efforts to reignite the economy.

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