Tokyo Cement Group off to an optimistic start in FY24/25 Q1

Quarterly Financial Review

Tokyo Cement Group (Tokyo Cement) reported a turnover of Rs. 11,665 Mn (a 3% decline over the same period of the previous year) and a Profit After Tax (PAT) of Rs. 707 Mn (a 18% decline over the same period of the previous year) for the 1st quarter ended 30th June 2024. The decline in turnover compared to the previous year despite recording an increase in sales volume is due to the reduction in prices in the corresponding quarters.

Passing on the benefit of cost reductions to consumers, the cement industry announced two downward price revisions which brought the Maximum Retail Price (MRP) of a 50Kg bag of cement to Rs.2,250/-.

The Economic Environment

The calendar year started off with a positive economic outlook with the country's year-on-year GDP for the first quarter of 2024 reporting a 5.3% growth.

The Rupee appreciating against the US Dollar facilitated reductions in the cost of imported raw materials, which in turn allowed for the price of cement and other building materials to be revised accordingly. The downward trend in policy interest rates throughout this calendar year, with the Standing Deposit Facility Rate (SDFR) and Standing Lending Facility Rate (SLFR) at 8.5% and 9.5% respectively, has encouraged investors to pursue fixed-term loans for construction projects.

Noteworthy tariff reductions in fuel, energy and utility services were implemented during the quarter. All of these factors allowed for a boost in purchasing power and investor confidence to a greater extent, thus stimulating steady economic growth.

Heavy rains from mid-May continued through June in most parts of the country, disrupting daily life, that included school closures, transportation service breakdowns, power outages, and hindered construction activities. Despite the inclement weather conditions cement consumption grew when compared to the same period last year.

The Government's settlement of Rs. 200 Bn from the outstanding payments owed to state sector contractors eased cashflow issues faced by the industry, allowing for consistent purchasing of raw materials. This was reflected in the Sri Lanka Purchasing Managers' Index for Construction Industry, which recorded 54.5 in May and 59.5 in June 2024, indicating a consecutive increase in total construction activities.

Outlook

Building on successful negotiations with the bilateral creditors, the government anticipates achieving similar debt relief from commercial creditors to support its steady economic recovery efforts. Furthermore, the government has committed to resume infrastructure projects worth an additional Rs. 55 Bn, which will contribute to boost sectoral growth. The downward trending policy interest rates are expected to further facilitate the commencement of new or paused projects, both retail and commercial. Historically, there has been a trend of accelerating construction projects in the lead-up to elections. The Company expects this trend to continue, driven by increased individual purchasing power and a stable economic environment, leading to sustained demand growth.

Whilst maintaining its conservative outlook for the short to medium term, Tokyo Cement remains optimistic of stabilisation of the country's economic fundamentals as the year progresses. The Group will maintain the stringent cost control measures already in place to protect the interests of its stakeholders. The Tokyo Cement Group remains agile to the changes in the business environment and stands ready to be an active participant in the country's efforts to reignite the economy.