Tokyo Cement Posts Steady FY26/27 Q1 Performance Amid Gradual Market Recovery

Quarterly Financial Review

Tokyo Cement Group (Tokyo Cement) reported a turnover of Rs. 15,836 million and a Profit After Tax (PAT) of Rs. 635 million for the 1st Quarter ended 30th June 2026, compared to a turnover of Rs. 12,544 million and a PAT of Rs. 668 million, in the same period last year.

The increase in turnover reflects the gradual growth in volume driven by the commencement of new construction projects. However, profitability remained under pressure due to elevated raw material, insurance, and freight costs arising from the ongoing geopolitical tensions in the Middle East.

The Economic Environment

The Financial Year commenced amid heightened geopolitical uncertainty, with the Iran conflict posing significant pressure on the Sri Lankan economy through elevated fuel and energy prices, supply chain disruptions, and higher freight and insurance costs. Export income remained constrained by weaker global demand and rising shipping costs, while tourism earnings declined due to higher airfares and flight disruptions. The cumulative impact raised import costs, contributing to an average depreciation of approximately 7% in the Sri Lankan Rupee against the US Dollar during the period, while exerting pressure on the progress made in economic growth, fiscal performance, and reserve accumulation. Domestic inflation edged up slightly due to higher energy and food prices but was projected to moderate toward the target in the near term. Nevertheless, steady forex inflows from merchandise exports, port and logistics services, and non-Middle East remittances helped cushion the economy against external shocks.

Against this backdrop, the cement industry announced a revision to the Maximum Retail Price (MRP) of cement in mid-April, reflecting sustained increases in raw material, freight, insurance, and fuel costs. The industry had absorbed these cost escalations since the onset of the Iran conflict prior to implementing the price adjustment.

In May, the Central Bank increased the Overnight Policy Rate (OPR) by 100 basis points from 7.75% to 8.75%, with the intention of managing inflation expectations and impact of surging global petroleum costs. This led to a moderation of credit growth and import demand over the period. The combination of rising inflation and continued uncertainty contributed to more cautious investment decisions by both private developers and individual investors in the real estate and construction sectors. These pressures were compounded by supply constraints arising from shortages of petrochemical-based raw materials.

Cement consumption declined in April, reflecting the seasonal slowdown associated with the Sinhala and Tamil New Year holidays. However, the gradual resumption of regional infrastructure projects, particularly in the roads and highways sector, supported a recovery in demand for cement and concrete during the latter part of the quarter.

Outlook

Despite prevailing macroeconomic volatility, the construction sector outlook remains cautiously optimistic, supported by improving investment sentiment. Sectoral growth is expected to be driven by the commencement and continued execution of Government-funded infrastructure projects, including those carried forward from last year’s capital expenditure budget commitments. These project outlays are expected to be supplemented by allocations under the 2026 Budget. The rollout of these large-scale developments is expected to stimulate economic activity and strengthen construction demand.

Further momentum is anticipated from externally funded development initiatives, including the Asian Development Bank-supported Post-Ditwah Cyclone Renovation and Livelihood Assistance Project, which encompasses the rehabilitation of transport and irrigation infrastructure, housing reconstruction, and livelihood restoration. Government of India-funded affordable housing programmes benefiting over 1,550 families across the Northern, Southern and plantation regions, together with private sector investments under the Colombo Port City development, are expected to provide additional impetus to the sector. Collectively, these initiatives are anticipated to position the construction industry for a return to double-digit growth.

Nevertheless, significant downside risks remain to the country’s fiscal progress. Sustaining reform momentum and macroeconomic stability may become increasingly challenging amid geopolitical volatility linked to the Iran conflict, particularly through higher energy prices. Although higher fuel import costs and weaker tourism could widen the trade deficit, resilient workers' remittances should support external stability. Rising fiscal pressures may constrain the Government's ability to accelerate planned capital expenditure, potentially delaying the pace of anticipated recovery in the construction sector.

Tokyo Cement maintains a conservative short- to medium-term outlook, while remaining confident in the country’s economic fundamentals. With an enhanced production capacity of 4 Mn MT, which is yet to be fully utilised, the Group is well positioned to capitalise on future industry growth. Tokyo Cement will continue to exercise strict cost discipline, safeguard stakeholder interests, and play an active role in supporting the country’s construction-led economic recovery.