

Press Release

Tokyo Cement Group Announces FY22 Q2 Results

Colombo, 2nd November 2021:

Quarterly Financial Review

Tokyo Cement Group (Tokyo Cement) reported its results for the second quarter ended 30th September 2021, with a turnover of Rs. 11,885 Mn reflecting a Year-on-Year growth of 4%, compared to Rs. 11,413 Mn during the same period last year.

Overall, Tokyo Cement's sales volumes have reduced by 3% compared to the second quarter last year, due to the shortages and delays in the supply chain of raw materials.

The Group recorded Rs. 173 Mn profit before tax for the second quarter against Rs. 2,277 Mn for the same period last year, whilst recording a profit after tax of Rs. 132 Mn as against Rs. 2,104 Mn during the same period last year.

This sharp decline in profitability was a result of increasing raw material price, currency depreciation and exploding freight costs that significantly increased the cost of production. In addition, all other overhead costs increased throughout the financial year further impacting the bottom line.

Even though Tokyo Cement was operating at maximum capacity, a shortage in cement supply was experienced in the market during this period. The Maximum Retail Price imposed on cement prevented free market forces from freely adjusting to keep up with the volatility of macro-economic conditions. These matters and other outlining reasons were brought to the attention of the Consumer Affairs Authority.

The Environment

In order to curb the spread of the pandemic, a countrywide lockdown was declared from 20th August till 1st October, slowing down most local economic activity for forty-two days.

Throughout the quarter as mentioned above, shortages and delays in imported raw materials persisted due to intermittent operational shutdowns of supplier facilities and ports, a scarcity of vessels, and other supply chain challenges arising out of the pandemic. The fuel price increase and unavailability of vessels escalated inbound freight rates by over 300% within a very short period. Further, considerable delays occurred in opening LCs with the banks, wherein a process that typically happened on the same day now takes several weeks.

The cost of clinker continued to increase in line with coal prices, as demand outstripped supply. The value of the Sri Lankan rupee depreciated when compared to the same period last year, compounding upon sharp price hikes of imported raw materials including clinker and paper for bags.

Due to heightened fiscal barriers, cement importers drastically cut down or completely halted importation thus resulting in a market shortage. To compensate the market gap, Tokyo Cement increased efficiencies to maximize the installed local production capacity to fulfill the demand.

Market Review

Towards the end of the quarter a cement shortage occurred in the market due to multiple reasons beyond the control of the manufacturers. Pandemic related travel restrictions and nonavailability of transportation hindered customers from collecting finished goods from factories and warehouses, further slowing down market movement. Retailers were hesitant to hold stocks for longer periods due to lockdowns, while the overall economic conditions deterred them from blocking their cashflow on cement that had a MRP with very low margins compared to other construction materials.

To remedy this situation the Government decisively removed the MRP with effect from the 11th of October 2021. Accordingly, the industry announced the new selling price of a 50Kg cement bag at Rs. 1,098.

Tokyo Cement welcomes the prudent decision by The Finance Ministry to remove the MRP on Cement, which will help mitigate losses incurred by manufacturers in the current economic environment and ensure an uninterrupted supply to the market. This will also allow the healthy adjustment of free market mechanics to safeguard thousands of jobs and vast chain of SMEs dependent on the healthy performance and business continuity of the cement manufacturing industry.

Outlook

Continuous increases in global coal and oil prices, in addition to freight costs are expected to escalate the cost of raw materials further. Tokyo Cement expects the delays experienced in importing raw materials will ease out with the slow yet steady expansion of the local economy and, is confident of maintaining local production levels at the highest possible capacities to ensure an uninterrupted supply.

To avoid a shortage in the market, Tokyo Cement intends to supplement local production with importation of finished cement until additional local production capacity comes online. On that note, encouraging local manufacturers to maximize existing installed production capacity, thereby reducing a dependency on imports, will contribute significantly to reduce unnecessary outflow of foreign exchange.

The company will be laying the foundation for the new factory expansion in early November, to increase the manufacturing capacity by further 1 million Metric Tons by early 2023.

The expansion of the Tokyo Cement Colombo Terminal slated to be operational in the upcoming quarter, will increase the Company's bulk importation, packaging, and distribution capacity to over 1 million Metric Tons.

The Tokyo Cement Group is optimistic of the future and anticipates the local and global economic environment to stabilize as the pandemic situation comes under control across the world.

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