

# TCCL Performance for Q1 FY23 signals a Faltering Market

## Quarterly Financial Review

Tokyo Cement Group (Tokyo Cement) reported its financial performance for the first quarter ending on 30th June 2022, with a turnover of Rs. 16,307 million reflecting a year-on-year growth of 53%. The Group recorded a profit of Rs. 535 million, reflecting a marginal Profit After Tax ratio of 3.3%. Profitability was primarily hampered by increases in raw material prices and the exchange loss on imports.

Despite turnover growth, Tokyo Cement's sales volumes slumped primarily due to raw material shortfalls and the ongoing fuel crisis which has impeded distribution and shutdown work sites. The cost of sales shows an increase of 24% in the accounts. However, it does not include the significant exchange loss impact that considerably tightens the margins. Furthermore, AWPLR rose from 5.65% to 21.12% year-on-year, which increased the cost of financing raw material imports. This exchange loss and interest rate hike is reflected under finance expenses as a 2,180% increase, thereby erasing any gains in the GP margin. Whilst distribution costs reduced overall in comparative quarters, that can be largely attributed to reduced volumes. However, the distribution cost per unit increased considerably due to the scarcity and pricing of fuel.

Over the course of the quarter, cement prices were adjusted to reflect the increases in raw material prices, production and operational costs, that was further compounded upon by the steep currency depreciation. The cement prices were increased from Rs. 2,350/- to Rs. 3,000/- reflective of the new VAT rate, transport expenses, and the rupee depreciating from Rs. 299/- to Rs. 367/- to the USD.

## The Economic Environment

Delays in establishing Letters of Credit due to foreign exchange illiquidity caused critical shortages, and sharp price hikes in all essential items and basic commodities. Acute shortages of fuel from the end of March resulted in days-long queues at all fuel stations, and severely hampered public and private transportation. Fuel prices were increased three times during the quarter resulting in sharp hikes in transportation and related service charges. Island-wide power cuts that lasted 13 hours a day, caused extensive disruptions to daily life as well as the operation of factories and businesses.

Inflation during the quarter ran rampant due to a confluence of events, including but not limited to, currency depreciation, scarcity of goods, hampered agricultural yields, rising distribution costs, and lowered productivity. The year-on-year inflation which was recorded at 45.3% in May 2022, reached a record high 58.9% in June, and the cost of food was recorded to have risen by more than 80% year-on-year amidst the financial crisis.

Amidst the political turmoil and the financial crisis, Sri Lanka announced the first ever foreign debt default of its history in May 2022 citing insufficient foreign reserves. The AWPLR was increased from 9.71% to 21.12% within the course of the quarter. Furthermore, VAT rate was increased from 8% to 12% with effect from the 1<sup>st</sup> of June.

Construction activities were stalled due to shortages and sharp price hikes across all materials and services. Unable to buy fuel, workers and construction related service suppliers were unable to reach worksites, leading to idle labour and machinery. The situation compelled consumers to pause construction or postpone new projects.

## Outlook

The Country's economy is expected to undergo critical reforms in the short to medium term. Whilst awaiting the IMF staff level agreement, wide-ranging structural reforms alongside tight fiscal policies are being implemented by the Central Bank of Sri Lanka (CBSL). As part of this, further interest rate adjustments are expected to be introduced by the CBSL with the aim of curbing inflation. The Social Security Contribution Levy is expected to come in to effect in the second quarter.

Tokyo Cement has taken many proactive measures to minimise the impact of economic downturn on the Group's performance. Anticipating a challenging environment, the Group has reforecasted demand, rescheduled sourcing and production plans, and adjusted cashflows accordingly. The Group has deployed drastic cost saving measures, streamlined operations, and postponed capital expenditure. While the short to medium term economic landscape remains uncertain, Tokyo Cement has a proven track record of resilience and resurgence, and is committed to rebuilding the nation, stronger than ever before.

-end-