Tokyo Cement’s Long-Term Play: Strategy, Scale, and Sustainability


S R Gnanam, Managing Director, Tokyo Cement.

At a time when Sri Lanka’s construction sector is cautiously emerging from one of its most challenging cycles, Tokyo Cement Group finds itself at a critical intersection of opportunity and pressure. Under robust leadership, the company has delivered strong top-line growth, outpacing industry expansion and consolidating its position as a market leader. Yet, this growth has come amid tightening margins, reflecting deeper structural realities within the cement industry –oversupply, intense price competition, and rising input costs driven by global volatility. Against a landscape where macroeconomic stabilization has begun to restore a measure of confidence across Sri Lanka's economy, Tokyo Cement's strategy reveals a long-term, deeply integrated approach – investing in capacity expansion, reconfiguring logistics through coastal shipping, increasing reliance on local raw materials, and committing fully to renewable energy. These moves are not merely operational adjustments but signal a broader attempt to future-proof the business while contributing to national industrial resilience. Speaking with Business Today, S R Gnanam, Managing Director, offers a clear assessment of the industry's current dynamics, the quality of recent growth, and the path to sustainable profitability. He also outlines the policy, investment, and demand-side shifts required to unlock the next phase of Sri Lanka's construction-led economic recovery.

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Tokyo Cement reported strong turnover growth driven by volume expansion, yet profitability declined. How would you characterize the quality of this growth, and what does it signal about the current state of the cement industry?

During the first nine months of the financial year 2025/26, Tokyo Cement delivered strong top-line growth with volumes rising 25 percent, outpacing the industry growth of 17 percent. This translates into a 33 percent market share, indicating effective execution of our market strategies and competitive positioning.

However, profitability contracted despite turnover growth, due to increasingly fierce price competition in an oversupplied market, combined with rising raw material and production costs, resulting in compressed margins. Additionally, the capitalization of the Trincomalee Capacity Expansion Projects and the new vessel resulted in increased depreciation and interest expenses being charged to the P&L, which impacted profitability in the financial year 2025/26.

It has been noted that macroeconomic stabilization has restored some confidence. What tangible shifts have you observed in demand patterns

over the past year? Macroeconomic stabilization driven by policy consistency, currency stability, and a predictable lending rate environment has restored confidence across the value chain. This enabled more disciplined, forward-looking decisions in pricing and market strategy.

On the demand side, stable material costs and an attractive borrowing environment have encouraged developers and contractors to move forward with construction investments. As a result, the real estate sector is demonstrating measured, sustainable growth, with demand patterns shifting toward steady project execution and improved planning visibility. This has positioned the construction industry to respond confidently to rising demand across residential, hospitality, and commercial segments, while anticipated infrastructure development is expected to bridge the remaining demand gap and support continued sector momentum.

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With profitability impacted by pricing adjustments, raw material costs, and currency depreciation, which of these pressures remains most significant today?

During the period under review, the impact of year-on-year currency depreciation moderated, reducing its relative pressure on profitability. However, rising raw material prices and elevated freight costs became the more significant headwinds, particularly in a highly price-sensitive market, where material manufacturers are compelled to absorb increases in external costs. In the current context, these pressures have intensified further amid heightened geopolitical volatility, which has disrupted supply chains and driven sharp increases in freight rates. As a result, input cost inflation, especially in raw materials and logistics, now represents the most significant and persistent challenge, exerting considerable strain on margins across the local value-adding manufacturing sector.

To what extent do you expect margins to recover as volumes continue to grow and recent investments begin to yield returns?

Margin recovery is closely linked to volume expansion and improved capacity utilization. National cement consumption in 2025 was 5.3 million metric tons against an industry installed capacity of 10.7 million metric tons, indicating nearly 50 percent underutilization. As demand continues to grow, this excess capacity provides a clear pathway for operational cost improvements, allowing fixed costs to be spread over higher volumes. Further, if the Standards Institute was to approve new internationally accepted cement standards, it would increase the use of locally value-added raw materials, thereby reducing forex exposure and potentially reducing cost volatility.

How are you managing cost efficiencies across production, logistics, and energy consumption in a price-sensitive market?

We are driving cost efficiencies through a combination of supply chain discipline, operational upgrades, and energy independence.

In production, long-term supplier partnerships support more stable and predictable raw material pricing, while automation and process enhancements have reduced downtime and improved output efficiency.

In logistics, we have optimized redistribution by strengthening our island-wide depot network, enabling more efficient logistics management. Most importantly, we recently invested in a bulk transport vessel to enable coastal shipping from the Trincomalee factory to the Tokyo Cement Terminal inside the Colombo Port. This has significantly improved our operational efficiency while reducing reliance on road transport, an important advantage amid rising fuel costs.

From an energy perspective, we are 100 percent energy independent, using renewable sources for our entire local manufacturing process, eliminating our dependence on fossil fuels. Our Mahiyangana power plant supplies renewable electricity exclusively to the national grid, generated from dendro and solar sources, further strengthening our commitment to operational sustainability.

How does expansion in Trincomalee and the subsequent rise in production capacity to four million metric tons position Tokyo Cement relative to future demand recovery?

Our long-term expansion plans are anchored in industry projections and rigorous market analysis. While current demand remains subdued, we view this as cyclical rather than structural, given the pace of recent macroeconomic stabilization. This is reflected in the growth in the number of new local manufacturers from two to four, further signaling a medium-term demand recovery. The industry is operating at around 50 percent of installed capacity, yet already meets over 86 percent of local demand, highlighting significant headroom for growth.

As infrastructure development accelerates alongside broader economic growth, we expect meaningful demand growth, enabling better capacity utilization. This positions us strongly to capture future growth, improve operating efficiencies, and support the industry’s transition towards its full potential in value generation for the local economy.

> Our first-mover advantage in introducing new cement categories, concrete mix designs, and dry mortar solutions has allowed us to set industry benchmarks, from tile adhesives and waterproofers to plastering systems.

How will the acquisition of a vessel for coastal shipments reshape your

logistics model and cost structure?

The acquisition of our bulk transport vessel marks a strategic shift in our logistics model, strengthening cost efficiency and supply reliability. In a high fuel-cost environment, coastal shipping provides a clear competitive advantage, particularly in serving the Western Province, while enabling better utilization of our depot network.

By moving away from diesel-intensive road transport to marine logistics using marine gas oil (MGO), we significantly reduce distribution costs and exposure to fuel shortages, queues, and price volatility. This enhances planning visibility and operational resilience in an otherwise uncertain environment.

Importantly, this also improves customer convenience. Coastal transport allows customers to collect goods from depots closer to Colombo, rather than relying solely on long-haul transport from Trincomalee. As cost and supply pressures persist across the energy and transport sectors, this investment is expected to deliver increasing value in the quarters ahead.

How has the increased use of locally sourced raw materials impacted cost structures, supply chain resilience, and sustainability goals?

By relying more on domestic inputs, we are better insulated from supply disruptions and price volatility driven by geopolitical uncertainties. This approach also reduces our exposure to foreign exchange fluctuations, particularly in the context of local currency depreciation, thereby improving cost stability as a local manufacturer.

From a sustainability perspective, the shift toward locally sourced cementitious materials aligns with global trends in greener construction. It enables us to reduce the clinker content in cement, significantly lowering our carbon footprint.

Collectively, these efforts enhance operational resilience while advancing our commitment to a more environmentally responsible future.

With sustainability being a core pillar for Tokyo Cement, what measurable progress have you made in reducing your environmental footprint?

Sustainability has long been central to Tokyo Cement's operations, with measurable progress across production, logistics, and environmental stewardship. We operate on 100 percent renewable energy and upcycle locally sourced fly ash, positioning us among Sri Lanka's greenest cement manufacturers. Our flagship brand, TOKYO SUPER, is accredited as a GREEN® Cement by both the Ceylon Institute of Builders and the Green Building Council of Sri Lanka.

We also led the market transition from OPC to lower-carbon BHC, significantly reducing the carbon intensity of cement and concrete locally. Our value-added product range, tile adhesives, waterproofers, mortars, and plastering solutions have further improved efficiency by reducing material wastage, construction time, and overall resource use. In logistics, shifting from road to coastal shipping has helped lower carbon dioxide emissions.

Beyond operations, our environmental initiatives focus on ecosystem restoration and community impact. These include coral reef rehabilitation, mangrove reforestation, and large-scale tree planting using native species propagated at our own nurseries. Through our renewable energy initiatives, we also support rural livelihoods by sourcing dendro biomass from local farmers.

Over the past decade, these efforts have delivered tangible results, including the planting of over 100,000 mangroves and more than ten million Gliricidia trees, contributing meaningfully to our long-term sustainability goals.

> Additionally, the government's acceleration of major infrastructure investments in highways, road networks, irrigation, energy, and local infrastructure will be key to boosting the industry momentum.

How important is R&D and in-house engineering capability in maintaining your competitive advantage?

R&D and in-house engineering are central to maintaining our leadership in quality and innovation. At Tokyo Cement, we continuously enhance performance across our cement, concrete, and dry mortar products to meet evolving standards. Our first-mover advantage in introducing new cement categories, concrete mix designs, and dry mortar solutions has allowed us to set industry benchmarks, from tile adhesives and waterproofers to plastering systems.

This capability is anchored by our Construction Research Center (CRC), the country's only ISO 17025-accredited laboratory for testing cement, concrete, and cement-based products. The CRC underpins product innovation, re-engineers existing solutions, and ensures consistent quality across all factory outputs. Equally important is our in-house engineering expertise. Our teams have consistently solved complex technical challenges by extending machine capabilities and optimizing design lifecycles, improving both efficiency and reliability. Together, these capabilities ensure we don't just meet industry standards, we define them.

The construction sector has been described as entering a "pre-development phase." What indicators give you confidence that a sustained recovery is imminent?

The sustained recovery in the construction sector is indicated by several key factors. There is a clear uptick in demand for financing across both individual housing and large-scale commercial real estate developers and contractors, driven by improving macroeconomic stability and more investment-friendly policy frameworks.

Additionally, rising foreign direct investment (FDI) in housing and commercial construction projects signals renewed investor confidence. Multilateral agencies such as the Asian Development Bank (ADB) and World Bank have also expanded funding allocations, with a stronger focus on housing and infrastructure development. Importantly, the government's commitment to fast-tracking previously stalled projects by reinitiating tendering and procurement processes further reinforces this positive outlook. Collectively, these trends point to a sector transitioning from a pre-development phase towards a more sustained and broad-based recovery.

With ongoing global conflicts and geopolitical uncertainty, how exposed is Tokyo Cement to disruptions in raw material sourcing and freight costs?

Tokyo Cement has a broad global supplier network spanning multiple regions, allowing us to maintain our resilience against major shocks to our supply chain. And we maintain close, continuous communication with all partners to ensure their operations remain stable and are not directly affected by ongoing volatility, thereby safeguarding the continuity of raw material sourcing.

That said, the widespread nature of current conflicts has significantly disrupted freight routes, creating logistical challenges beyond supplier control. This has resulted in longer lead times and a marked increase in freight and insurance costs.

While these external pressures are unavoidable, our diversified sourcing strategy and proactive supplier engagement have so far helped mitigate risks effectively, ensuring that any disruptions are managed with minimal impact on our market.

You’ve highlighted the need for investor-friendly policy reforms. What specific policy measures would most effectively accelerate the construction sector’s recovery?

Policy consistency across political administrations is critical, particularly for manufacturing-linked investments that require long-term certainty. Without it, capital-intensive sectors cannot commit with confidence.

Equally important are structural reforms to improve the ease of doing business. Simplifying tax administration, reducing judicial delays, and streamlining regulatory processes would address long-standing bottlenecks. Fast-tracking project approvals can further reduce lead times and unlock stalled investments. Digitization and integration across government institutions would enhance transparency, coordination, and efficiency, creating a more predictable operating environment for investors.

At the same time, policy must support domestic production. Competing alongside large-scale economies such as India and China requires a degree of strategic protection. The cement industry illustrates this well: local capacity grew from around five million metric tons to 10.7 million metric tons raising domestic supply from under 50 percent to approximately 87 percent of demand, supported in part by measures such as CESS. Yet, competition remains intense even at this scale.

Ultimately, policy must not only attract investment, but sustain it. A balanced approach anchored in consistency, ease of doing business, and targeted support for local industry will be key to long-term sector growth.

As the market transitions toward recovery, what are the biggest risks that could delay or derail this momentum?

The primary risks are external and macroeconomic. Escalating geopolitical tensions could trigger a global slowdown, disrupting trade flows and constraining access to critical resources such as fuel, energy, fertilizer, and medicine, driving up costs across sectors. Domestically, any weakening of policy discipline (particularly around current account stability) could quickly reverse recent gains. A decline in foreign exchange inflows from tourism, exports, or worker remittances would place renewed pressure on the economy. If not carefully managed, these risks could delay recovery and destabilize broader economic momentum.

What is your outlook for the cement industry over the next two to three years?

We anticipate steady growth in the sector, fueled by latent demand for national development across housing, hospitality, commercial, and infrastructure projects. This positive outlook is backed by the robust performance of key fiscal indicators over the last five to six quarters, flagged by low interest rates, a stable currency, and subdued inflation. Continuation of this momentum over the medium- to long-term will provide a supportive backdrop for sustained economic growth, which is essential for the sector's growth.

Additionally, the government's acceleration of major infrastructure investments in highways, road networks, irrigation, energy, and local infrastructure will be key to boosting the industry momentum.