



Lanka Rating Agency

Rating Report

Table with 2 columns: Company Name (Brown & Company PLC) and Report Contents (1. Rating Analysis, 2. Financial Information, 3. Rating Scale, 4. Regulatory and Supplementary Disclosure)

Rating History table with 5 columns: Dissemination Date, Long Term Rating, Outlook, Action, Rating Watch. Row 1: 18-Nov-2024, BBB, Stable, Initial, -

Rating Rationale and Key Rating Drivers

Brown and Company PLC ("BRWN" or "the Company") is the part of Browns Group ("the Group"). The Group has diversified interests in Automotive and Hardware, Pharmaceuticals, Consumer and Industrial Engineering Solutions, Agriculture and Heavy Machinery, Agribusiness and Plantations, Leisure and Entertainment, and Construction sectors. The Rating reflects strong ownership structure of the Company (~83.42% owned by LOLC Holdings) and demonstrated support from the parent in shape of guarantees and intercompany loans. LOLC Group, a leading financial services company, has a diverse portfolio of investments in ~25 countries. LOLC Group's operating segments are clustered into financial and non-financial segments, with the financial segment possessing the higher share (~89.5%) in the Group's revenue. LOLC Holdings had consolidated assets of LKR~1,740bln and net income of LKR~21.8bln in FY24. The Company operates as both an operating and holding Company. It operates in various business Standard Business Units (SBUs) that have exhibited mixed performance. Agriculture, Pharma and certain manufacturing SBUs are performing well, while general trading, heavy machinery and power systems are struggling, posting sizeable losses in FY24. As holding company, BRWN's investments have yet to yield desired results. The Company has financed acquisitions through borrowings from parent and financial institutions. The high finance cost has led to losses and deteriorating coverage ratios in FY24 and 1QFY25. BRWN reported revenue of LKR ~23,030mln in FY24 (FY23: LKR ~22,341mln). The Company has reported losses of LKR 4,246mln in FY24 (FY23: LKR-1,430mln). Cash flow from operating activities remained strong and stood at LKR~7,670mln in FY24 (3MFY25: LKR-5,006). However, funding cost increased to LKR ~10,316mln in FY24 as compared to LKR~8,685mln in FY23 (3MFY25: LKR~2,267mln). Consequently, the interest coverage ratio deteriorated to ~0.2x in FY24 (FY23: ~0.4x), highlighting increased strain on the Company's ability to service its debt. The leverage ratio increased to ~45.8% in FY24 (FY23: ~43.8%) due to higher short-term borrowings, largely consisting of revolving related party loans. Payables to related parties surged by ~80% to LKR ~31,618mln in FY24, having ~61.9% share in total borrowing. The Company is incurring high finance cost on these borrowings. However, BRWN is planning to dispose off some of its assets to reduce the intercompany borrowings. Similarly, reduction in interest rates is expected to less the interest burden to an extent. Going forward, managing debt levels and liquidity present significant challenges to the Company's future prospects. The rating depends on the management's ability to reduce its borrowings, effectively manage interest on loans and turning around its struggling businesses/investments. Timely disposal of certain assets and utilization of proceeds to reduce debt levels is critical. Any substantial increase in borrowings and continuing losses in key businesses will considered negative for the rating. LOLC Holdings PLC's support would remain a significant rating factor.

Disclosure table with 2 columns: Field Name and Value. Fields include Name of Rated Entity, Type of Relationship, Purpose of the Rating, Applicable Criteria, Related Research, and Rating Analysts.



## Profile

**Background** Brown and Company PLC ("BRWN" or "the Company") is a publicly quoted company, domiciled in Sri Lanka. The Company is listed on the Diri Savi Board of the Colombo Stock Exchange (CSE). The Company manages a portfolio of investments consisting of a range of diverse business operations, which together constitute the "Browns Group", and provides function-based services to its subsidiaries, jointly controlled entities, and its associates.

**Structural Analysis** The Company's operations are mainly categorized under three Clusters: 1. Automotive and Hardware Cluster, 2. Pharmaceuticals, Consumer & Industrial Engineering Solutions Cluster, 3. Agriculture and Heavy Machinery Cluster.

## Ownership

**Ownership Structure** LOLC Holdings PLC ("LOLC Holdings") owns ~83.42% of the Company's shares, while the general public holds ~15.66% as of FY24.

**Stability** The ownership structure of the Company remains stable, with LOLC Holdings possessing the majority ownership interest, which is ultimately under the stewardship of Mr. Ishara Nanayakkara. He is the Executive Deputy Chairman of LOLC Holdings and the Executive Chairman of Browns Investments PLC. He has over 19 years of experience in the related industry.

**Business Acumen** The Company, under the leadership of Mr. Ishara Nanayakkara, has consistently set industry benchmarks, showcasing a commitment to diversification across various sectors.

**Financial Strength** The LOLC Group is the largest conglomerate in Sri Lanka in terms of its asset base. The Group has earned a profit after tax of LKR~21.8bn in FY24 (FY23: LKR~21.6bn). The Group has an asset base amounting to LKR~1,740bn (FY23: LKR~1,560bn) and investment in subsidiaries amounting to LKR~241bn (FY23: LKR~235bn) respectively as of FY24.

## Governance

**Board Structure** The Company's Board comprises 07 members: four non-executive and three executive directors, with two independent directors.

**Members' Profile** The Board, with a well-diversified background and relevant expertise of its members, is a key source of oversight and guidance for the management. Mr. Ishara Nanayakkara, a prominent entrepreneur with a strong business background, serves on the Board of LOLC Holdings PLC, providing oversight and guidance for management, backed by a well-diversified background.

**Board Effectiveness** The Board ensures the effectiveness of the Company operations through five Board Sub-Committees, namely the Audit Committee, Remuneration Committee, Related Party Transaction Review Committee, Business Operations Committee, and Management Committee. These Board Committees are each chaired by a non-executive director, focusing on specific areas of the Board's responsibilities.

**Transparency** M/S Deloitte is the external auditor of the Company. It has given an unqualified opinion on the financial statements for the year ended March 31, 2024.

## Management

**Organizational Structure** BRWN has a divisional organizational structure. All Chief Operating Officers (COOs) and Heads of Departments (HODs) report to the Group Chief Executive Officer (CEO).

**Management Team** BRWN is equipped with a well-experienced and qualified management team. Mr. Thamotharampillai Sanakan operates as the Group CEO. He joined the Browns Group in 2013. He counts for over 25 years of experience, where he has held many senior management positions in multiple industries.

**Management Effectiveness** The Management Committee plays a pivotal role in ensuring the effectiveness of the management practices, chaired by the Executive Chairman and the Senior Management. The Committee conducts monthly meetings to assess the performance of the Group Corporate, Divisions, and Departments against the established Annual Business Plans and Budgets.

**Control Environment** The Board has implemented a Risk Management Framework (ERM) to identify and address business risks, subject to quarterly reviews. Additionally, a thorough assessment of the Company's emerging and principal risks is conducted by the Board.

## Investment Strategy

**Investment Decision-Making** The Chairman, the Board of Directors, and the Management remain in line with the Business verticals, and they operate as the frontline to capture opportunities in the market. The Group Investment Committee, which operates at the LOLC Holdings PLC level, ultimately governs the investment policy of the Company.

**Investment Policy** The Company's investment policy considers two perspectives, which include investments in core business and strategic investments. The Brown & Company, Browns Investments, and international investment decisions are approved by the LOLC Investment Committee.

**Investment Committee Effectiveness** All the investment decisions are approved by this committee before submitting to the Brown and Company PLC Board of Directors. The investment committee evaluates the availability of funding for investments without compromising the funding for operations, cost of funding, or available alternative returns.

## Business Risk

**Diversification** The Company's Board oversees investments in its 3 Clusters with 15 Standard Business Units (SBUs) when it comes to its subsidiary investments, while the Group's investments are divided into seven (7) segments of Trading, Manufacturing & Construction, Plantation, Investment, Leisure, Real Estate and 'Others' segment.

**Portfolio Assessment** In terms of the Company's business SBUs, the Agriculture, Battery, Pharmaceutical, Tech, and Fertilizer SBUs registered profitability, while General Trading, Power Systems, Heavy Machinery, and Agri Solution divisions have been making net losses. The Company recorded a net loss of LKR~4.2bn in FY24 as compared to a net loss of LKR~1.6bn in FY23. At the Group level, all the segments, other than the Real Estate, have recorded losses in FY23 and FY24. The Company's consolidated bottom line closed at a net loss of LKR~8.5bn in FY24 and LKR~12.5bn in FY23.

**Income Assessment** The Company's revenue mainly stems from its trading business. Revenue for FY24 was recorded at LKR~23,030mn, while for FY23, it was recorded at LKR~22,341mn. The Company's Battery Division earned the highest income in FY24, clocking in at LKR~11,104mn as compared to LKR~10,607mn in FY23. The overall Group's top line stood at LKR~80.6bn in FY24, and LKR~72.7bn in FY23. The increase was majorly attributed to a growth in the revenue of the leisure segment by LKR~4.8bn to LKR~10.6bn in FY24 as compared to LKR~5.8bn in FY23. Moreover, Plantation segment revenue also increased by LKR~2.9bn to LKR~19.7bn in FY24 as compared to LKR~16.9bn in FY23.

## Financial Risk

**Coverages** Cash flow from operating activities remained strong and stood at LKR~7,670mn in FY24 (3MFY25: LKR~5,006). However, funding cost increased to LKR~10,316mn in FY24 as compared to LKR~8,685mn in FY23 (3MFY25: LKR~2,267mn). Consequently, the interest coverage ratio deteriorated to ~0.2x in FY24 (FY23: ~0.4x), highlighting increased strain on the Company's ability to service its debt.

**Capital Structure** The leverage ratio of the Company increased to ~45.8% in FY24 from ~43.8% in FY23 due to a significant increase in short-term borrowings. The Revolving Related Party loans constitute a major portion of short-term borrowings. Regardless of the rising debt levels, the stated capital remained strong at LKR~9,093mn. However, the total equity declined due to a reduction in the revenue reserves as a result of the reported losses (FY24: LKR~26,762mn, FY23: LKR~31,009mn). The Company has a significant amount of payables from related parties (FY24: LKR~31,618mn, FY23: LKR~17,550mn).

**Consolidated Position** The consolidated Leverage Ratio of the Browns Group slightly decreased to ~31.0% in FY24 as compared to ~33.2% in FY23. However, the Group's coverage ratio of Free Cash Flow from Operations (FCFO) to Finance Cost declined to ~0.2x in FY24 from ~0.3x in FY23. This ratio remained significantly low owed to persistent losses.



**Lanka Rating Agency**

Brown & Company PLC Holding Company	LKR mln		LKR mln		LKR mln		LKR mln	
	Jun-24	Mar-24	Mar-23	Mar-22	Mar-23	Mar-22	Mar-23	Mar-22
	3M	12M	12M	12M	12M	12M	12M	12M
	Management	Audited	Audited	Audited				
<b>A BALANCE SHEET</b>								
1 Investments	22,355	22,166	20,520	15,971				
2 Related Party Investments	48,171	47,234	44,745	31,444				
3 Non-Current Assets	3,692	3,658	3,884	3,640				
4 Current Assets	10,741	11,513	11,575	11,795				
<b>5 Total Assets</b>	<b>84,960</b>	<b>84,570</b>	<b>80,724</b>	<b>62,850</b>				
6 Current Liabilities	414	3,008	5,390	4,338				
7 Borrowings	22,400	22,591	24,145	21,567				
8 Related Party Exposure	35,855	31,618	17,551	2,955				
9 Non-Current Liabilities	658	591	2,629	1,311				
<b>10 Net Assets</b>	<b>25,634</b>	<b>26,762</b>	<b>31,009</b>	<b>32,679</b>				
<b>11 Shareholders' Equity</b>	<b>25,633</b>	<b>26,762</b>	<b>31,009</b>	<b>32,679</b>				
<b>B INCOME STATEMENT</b>								
1 Total Investment Income	590	2,384	5,400	2,020				
a Cost of Investments	(2,267)	(10,316)	(8,685)	(2,042)				
<b>2 Net Investment Income</b>	<b>(1,677)</b>	<b>(7,932)</b>	<b>(3,285)</b>	<b>(21)</b>				
a Other Income	2	38	46	80				
b Operating Expenses	(738)	(2,962)	(2,748)	(2,425)				
<b>4 Profit or (Loss) before Interest and Tax</b>	<b>(1,129)</b>	<b>(6,320)</b>	<b>(278)</b>	<b>2,172</b>				
a Taxation	-	2,073	(1,152)	(378)				
<b>6 Net Income Or (Loss)</b>	<b>(1,129)</b>	<b>(4,247)</b>	<b>(1,430)</b>	<b>1,794</b>				
<b>C CASH FLOW STATEMENT</b>								
a Total Cash Flow	678	2,226	3,655	2,348				
b Net Cash from Operating Activities before Working Capital Changes	(1,607)	(8,206)	(3,503)	890				
c Changes in Working Capital	(3,399)	15,876	(2,596)	(1,848)				
<b>1 Net Cash (Used in) or Available From Investing Activities</b>	<b>(89)</b>	<b>(2,040)</b>	<b>(12,996)</b>	<b>(627)</b>				
<b>2 Net increase (decrease) in long term borrowings</b>	<b>343</b>	<b>(1,302)</b>	<b>(1,123)</b>	<b>1,777</b>				
<b>3 Net Cash (Used in) or Available From Financing Activities</b>	<b>5,070</b>	<b>(5,331)</b>	<b>17,085</b>	<b>3,705</b>				
<b>4 Net Cash generated or (Used) during the period</b>	<b>(25)</b>	<b>298</b>	<b>(2,011)</b>	<b>2,120</b>				
<b>D RATIO ANALYSIS</b>								
<b>1 Performance</b>								
a Asset Concentration (Market Value of Largest Investment / Market Value of Equity Investments)	61.0%	58.9%	61.9%	81.6%				
b Core Investments / Market Value of Equity Investments	98.1%	98.0%	98.1%	98.0%				
c Marketable Investments / Total Investments at Market Value	2.5%	2.4%	1.6%	1.6%				
<b>2 Coverages</b>								
a TCF / Finance Cost	0.3	0.2	0.4	1.2				
b TCF / Finance Cost + CMLTB	0.2	0.2	0.3	0.4				
c Loan to Value (Funding / Market Value of Equity Investments)	0.3	0.4	0.4	0.4				
<b>3 Capital Structure (Total Debt/Total Debt+Equity)</b>								
a Leveraging [Funding / (Funding + Shareholders' Equity)]	46.6%	45.8%	43.8%	39.8%				
b (Funding + Off Balance Sheet Exposure) / Shareholders' Equity	87.4%	84.4%	77.9%	66.0%				

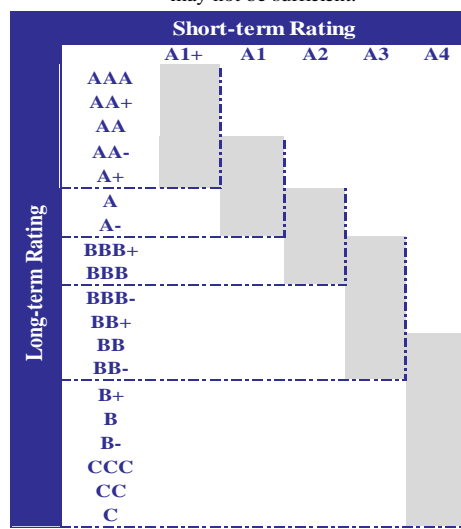


### Credit Rating

Credit rating reflects forward-looking opinion on credit worthiness of underlying entity or instrument; more specifically it covers relative ability to honor financial obligations. The primary factor being captured on the rating scale is relative likelihood of default.

Scale	Long-term Rating Definition
AAA	<b>Highest credit quality.</b> Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments
AA+	
AA	<b>Very high credit quality.</b> Very low expectation of credit risk. Indicate very strong capacity for timely payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
AA-	
A+	
A	<b>High credit quality.</b> Low expectation of credit risk. The capacity for timely payment of financial commitments is considered strong. This capacity may, nevertheless, be vulnerable to changes in circumstances or in economic conditions.
A-	
BBB+	
BBB	<b>Good credit quality.</b> Currently a low expectation of credit risk. The capacity for timely payment of financial commitments is considered adequate, but adverse changes in circumstances and in economic conditions are more likely to impair this capacity.
BBB-	
BB+	
BB	<b>Moderate risk.</b> Possibility of credit risk developing. There is a possibility of credit risk developing, particularly as a result of adverse economic or business changes over time; however, business or financial alternatives may be available to allow financial commitments to be met.
BB-	
B+	
B	<b>High credit risk.</b> A limited margin of safety remains against credit risk. Financial commitments are currently being met; however, capacity for continued payment is contingent upon a sustained, favorable business and economic environment.
B-	
CCC	
CC	<b>Very high credit risk.</b> Substantial credit risk “CCC” Default is a real possibility. Capacity for meeting financial commitments is solely reliant upon sustained, favorable business or economic developments. “CC” Rating indicates that default of some kind appears probable. “C” Ratings signal imminent default.
C	
D	Obligations are currently in default.

Scale	Short-term Rating Definition
A1+	The highest capacity for timely repayment.
A1	A strong capacity for timely repayment.
A2	A satisfactory capacity for timely repayment. This may be susceptible to adverse changes in business, economic, or financial conditions.
A3	An adequate capacity for timely repayment. Such capacity is susceptible to adverse changes in business, economic, or financial conditions.
A4	The capacity for timely repayment is more susceptible to adverse changes in business, economic, or financial conditions. Liquidity may not be sufficient.



\*The correlation shown is indicative and, in certain cases, may not hold.

**Outlook (Stable, Positive, Negative, Developing)** Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. ‘Stable’ outlook means a rating is not likely to change. ‘Positive’ means it may be raised. ‘Negative’ means it may be lowered. Where the trends have conflicting elements, the outlook may be described as ‘Developing’.

**Rating Watch** Alerts to the possibility of a rating change subsequent to, or, in anticipation of some material identifiable event with indeterminable rating implications. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating watch may accompany rating outlook of the respective opinion.

**Suspension** It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn** A rating is withdrawn on a) termination of rating mandate, b) the debt instrument is redeemed, c) the rating remains suspended for six months, d) the entity/issuer defaults., or/and e) PACRA finds it impractical to surveil the opinion due to lack of requisite information.

**Harmonization** A change in rating due to revision in applicable methodology or underlying scale.

**Surveillance.** Surveillance on a publicly disseminated rating opinion is carried out on an ongoing basis till it is formally suspended or withdrawn. A comprehensive surveillance of rating opinion is carried out at least once every six months. However, a rating opinion may be reviewed in the intervening period if it is necessitated by any material happening.

**Note.** This scale is applicable to the following methodology(s):  
 a) Broker Entity Rating  
 b) Corporate Rating  
 c) Debt Instrument Rating  
 d) Financial Institution Rating  
 e) Holding Company Rating  
 f) Independent Power Producer Rating  
 g) Microfinance Institution Rating  
 h) Non-Banking Finance Companies Rating

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## Regulatory and Supplementary Disclosure

(Rules applicable to Credit Rating Agencies, No. 19 of 2021 - issued on 15th March 2022)

### Rating Team Statements

(1) Credit Rating Agency means a body corporate engaged in the business of assessing and evaluating the credit-worthiness of any issuer or a specific issue of securities. <https://www.sec.gov.lk/credit-rating-agency/>

### Conflict of Interest

(2) i. LRA will disclose to the Commission all other business activities it is engaged in at the time of applying for its licence and inform the Commission in writing prior to engaging in any other business activity after obtaining a licence from the Commission. (Section 34 – Rules applicable to Credit Rating Agencies)

(2) ii. LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(2) iii. In the conduct of any such other business activity, the LRA will ensure that proper processes are in place to have a clear demarcation of the different functions pertaining to such businesses. (Section 36 – Rules applicable to Credit Rating Agencies)

### Restrictions

(3) (i) LRA will not be outsource any part of its work, which has a direct bearing on the function of rating. (Section 24 – Rules applicable to Credit Rating Agencies)

(3) (ii) LRA will enter into a written agreement with the party to whom any work is outsourced. Such agreement contains an undertaking from the party to whom any work is outsourced that they shall comply with the laws, rules, and directives that the LRA is bound to follow. (Section 25 – Rules applicable to Credit Rating Agencies)

(4) The LRA will not appoint any individual as a member of the rating committee who:

(a) has a business development function of the Credit Rating Agency; or

(b) who initiates or participates in discussions regarding fees or payments with any Client of the LRA. (Section 28 – Rules applicable to Credit Rating Agencies)

### Conduct of Business

(5) Prior to the commencement of a rating or during such process the LRA will not promise, assure or guarantee to a Client that a particular rating will be assigned. (Section 39 – Rules applicable to Credit Rating Agencies)

(6) LRA performs a rigorous and formal periodic review of all its methodologies. Such methodologies will be made available to the Commission for perusal, upon request. (Section 41 – Rules applicable to Credit Rating Agencies)

### Independence & Conflict of interest

(7) LRA receives compensation from the entity being rated or any third party for the rating services it offers. The receipt of this compensation has no influence on LRA's opinions or other analytical processes. In all instances, LRA is committed to preserving the objectivity, integrity, and independence of its ratings.

(8) LRA will not engage in any other business which in the view of the Commission creates a conflict of interest unless prior written approval of the Commission is obtained. (Section 35 – Rules applicable to Credit Rating Agencies)

(9) LRA will structure its rating teams and processes to promote continuity, consistency and avoid bias in the rating process. (Section 47 – Rules applicable to Credit Rating Agencies)

### Monitoring and review

(10) For purposes of transparency the LRA will publish sufficient information about an entity/security rated, frequency of default and whether a rating grade assigned has changed over time. The definitions and computation methods for the default rates stated in the default studies shall also be disclosed. (Section 44 – Rules applicable to Credit Rating Agencies)

LRA maintain the following records pertaining to Clients:

(a) all internal records to support its credit rating opinions;

(b) all particulars relating to Clients at its office which shall include the name and registered address and contact numbers of such Client, names and addresses of their directors as at the date of rating, its issued share capital and the nature of business; and

(c) a written record of all complaints received from Clients and action taken thereon by the LRA. (Section 48 – Rules applicable to Credit Rating Agencies)

(11) LRA maintains confidentiality of all non-public information entrusted to it by Clients at all times including such Client's identity and transactions carried out for such Client unless and to the extent such disclosure is required by law, or unless authorised by the Client to disclose such information. (Section 50 – Rules applicable to Credit Rating Agencies)

(12) LRA does not destroy, conceal or alter any records, property or books relating to the business of the Credit Rating Agency which are in its possession or under its control with the intention of defeating, preventing, delaying or obstructing the carrying out of any examination (Section 53 – Rules applicable to Credit Rating Agencies)

### Probability of Default

(13) LRA's Rating Scale reflects the expectation of credit risk. The highest rating has the lowest relative likelihood of default (i.e., probability).

### Proprietary Information

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