



Lanka Rating Agency

Rating Report

Brown & Company PLC - Guaranteed Redeemable Debentures - LKR 02Bn (Maturity 2027)

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Rating History

| Dissemination Date | Long Term Rating | Outlook | Action | Rating Watch |
|--------------------|------------------|---------|---------|--------------|
| 18-Nov-2024 | A | 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 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.

The Debt Instrument Rating reflects the unconditional and irrevocable Corporate Guarantee provided by LOLC Holdings PLC in favor of the Trustee for the benefit of the Debenture Holders, guaranteeing both interest and principal payments for up to two Interest Periods. 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 rating depends on the LOLC Holdings rating as well as continued support from them. Any change in the rating of LOLC Holdings will impact the rating of Debenture.

Disclosure

| | |
|------------------------------|---|
| Name of Rated Entity | Brown & Company PLC - Guaranteed Redeemable Debentures - LKR 02Bn (Maturity 2027) |
| Type of Relationship | Solicited |
| Purpose of the Rating | Debt Instrument Rating |
| Applicable Criteria | Methodology Debt Instrument Rating(Aug-24) |
| Related Research | Sector Study Holding Company(Mar-24) |
| Rating Analysts | Nilum Liyana Arachchi nilum@lra.com.lk +94 114 500099 |



Issuer Profile

Profile 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. 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 LOLC Holdings PLC ("LOLC Holdings") owns ~83.42% of the Company's shares, while the general public holds ~15.66% as of FY24. 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. The Company, under the leadership of Mr. Ishara Nanayakkara, has consistently set industry benchmarks, showcasing a commitment to diversification across various sectors. 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 The Company's Board comprises 07 members: four non-executive and three executive directors, with two independent directors. 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. 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. 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 BRWN has a divisional organizational structure. All Chief Operating Officers (COOs) and Heads of Departments (HODs) report to the Group Chief Executive Officer (CEO). 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. 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. 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.

Business Risk 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. 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. 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 Cash flow from operating activities remained strong and stood at LKR~7,670m in FY24 (3MFY25: LKR~5,006). However, funding cost increased to LKR ~10,316m in FY24 as compared to LKR~8,685m in FY23 (3MFY25: LKR~2,267m). 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 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). 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.

Instrument Rating Considerations

About The Instrument BRWN has issued LKR 2Bn, Listed Rated Guaranteed Senior Redeemable Debentures each worth LKR 100/- in March 2022. The Debentures have a tenure of 5 years. Type A Debenture coupons were paid Annually at the fixed rate of 15.50% p.a. (AER – 15.50%) and Type B Debenture coupons were paid quarterly at a fixed rate of 15.42% p.a. (AER – 16.33%).

Relative Seniority/Subordination Of Instrument The claims of the Debenture Holders shall, rank after all the claims of secured creditors, but Pari Passu to the claims of unsecured creditors of the Company and shall rank in priority to and over any subordinated debt of the Company and the ordinary and preference shareholders of the Company.

Credit Enhancement LOLC Holdings has provided an unconditional and irrevocable Corporate Guarantee in favor of the Trustee for the benefit of the Debenture Holders, guaranteeing both interest and principal payments for up to two Interest Periods.



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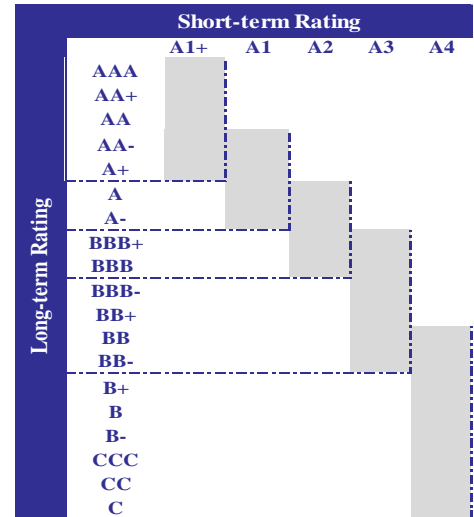
| Brown & Company PLC Holding Company | LKR mln | | LKR mln | | LKR mln | | LKR mln | |
|---|----------------|----------------|-----------------|---------------|---------|--------|---------|--------|
| | Jun-24 | Mar-24 | Mar-23 | Mar-22 | Mar-23 | Mar-22 | Mar-23 | Mar-22 |
| | 3M | 12M | 12M | 12M | 12M | 12M | 12M | 12M |
| | Management | Audited | Audited | Audited | | | | |
| A BALANCE SHEET | | | | | | | | |
| 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 | | | | |
| 5 Total Assets | 84,960 | 84,570 | 80,724 | 62,850 | | | | |
| 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 | | | | |
| 10 Net Assets | 25,634 | 26,762 | 31,009 | 32,679 | | | | |
| 11 Shareholders' Equity | 25,633 | 26,762 | 31,009 | 32,679 | | | | |
| B INCOME STATEMENT | | | | | | | | |
| 1 Total Investment Income | 590 | 2,384 | 5,400 | 2,020 | | | | |
| a Cost of Investments | (2,267) | (10,316) | (8,685) | (2,042) | | | | |
| 2 Net Investment Income | (1,677) | (7,932) | (3,285) | (21) | | | | |
| a Other Income | 2 | 38 | 46 | 80 | | | | |
| b Operating Expenses | (738) | (2,962) | (2,748) | (2,425) | | | | |
| 4 Profit or (Loss) before Interest and Tax | (1,129) | (6,320) | (278) | 2,172 | | | | |
| a Taxation | - | 2,073 | (1,152) | (378) | | | | |
| 6 Net Income Or (Loss) | (1,129) | (4,247) | (1,430) | 1,794 | | | | |
| C CASH FLOW STATEMENT | | | | | | | | |
| 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) | | | | |
| 1 Net Cash (Used in) or Available From Investing Activities | (89) | (2,040) | (12,996) | (627) | | | | |
| 2 Net increase (decrease) in long term borrowings | 343 | (1,302) | (1,123) | 1,777 | | | | |
| 3 Net Cash (Used in) or Available From Financing Activities | 5,070 | (5,331) | 17,085 | 3,705 | | | | |
| 4 Net Cash generated or (Used) during the period | (25) | 298 | (2,011) | 2,120 | | | | |
| D RATIO ANALYSIS | | | | | | | | |
| 1 Performance | | | | | | | | |
| 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% | | | | |
| 2 Coverages | | | | | | | | |
| 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 | | | | |
| 3 Capital Structure (Total Debt/Total Debt+Equity) | | | | | | | | |
| 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 | Highest credit quality. Lowest expectation of credit risk. Indicate exceptionally strong capacity for timely payment of financial commitments |
| AA+ | |
| AA | Very high credit quality. 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 | High credit quality. 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 | Good credit quality. 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 | Moderate risk. 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 | High credit risk. 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 | Very high credit risk. 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

| Nature of Instrument | Size of Issue (LKR) | Tenor | Security | Quantum of Security | Nature of Assets | Trustee | Book Value of Assets as at 9MFY24 (LKR) |
|--|-------------------------------|---------|--------------------------------|---------------------|----------------------------------|---------|---|
| LISTED RATED GUARANTEED SENIOR REDEEMABLE FIVE YEAR (2022/2027) DEBENTURES | TWO BILLION - 2,000,000,000/- | 5 Years | Guaranteed by LOLC Holding PLC | LKR 6,550,000,000 | Guarantee from LOLC Holdings PLC | HNB | |

| | |
|-----------------------|-------------------------------------|
| Name of Issuer | Brown & Company PLC |
| Allotment Date | 31st March 2022 |
| Maturity | 31st March 2027 |
| Coupon Basis | Type A: Annually, Type B: Quarterly |
| Repayment | Bullet |
| Option | |

Brown & Company PLC

| Due Date Principal | Opening Principal | | Principal Repayment | Coupon Due Date | Fixed Rate | Coupon | | Principal Outstanding | |
|--------------------|-------------------|---------------|---------------------|-----------------|------------|--------------|-----|-----------------------|---------------|
| | LKR | | | | | YYYY-MM-DD | LKR | | |
| Type A | | | | | | Fixed | | | |
| 3/31/2027 | 67,300,000 | | | 31-Mar-23 | 15.50% | | | | 67,300,000 |
| | 67,300,000 | | | 31-Mar-24 | 15.50% | | | | 67,300,000 |
| | 67,300,000 | | | 31-Mar-25 | 15.50% | | | | 67,300,000 |
| | 67,300,000 | | | 31-Mar-26 | | | | | 67,300,000 |
| | 67,300,000 | 67,300,000.00 | | 31-Mar-27 | 15.50% | | | | - |
| Type B | | | | | | Fixed | | | |
| 3/31/2027 | 1,932,700,000 | | | 30-Jun-22 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Sep-22 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Dec-22 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Mar-23 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Jun-23 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Sep-23 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Dec-23 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Mar-24 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Jun-24 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Sep-24 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Dec-24 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Mar-25 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Jun-25 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Sep-25 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Dec-25 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Mar-26 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Jun-26 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 30-Sep-26 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | | | 31-Dec-26 | 15.42% | | | | 1,932,700,000 |
| | 1,932,700,000 | 1,932,700,000 | | 31-Mar-27 | 15.42% | | | | - |