

## ICRA Lanka assigns issuer rating of [SL]BBB+ with Stable outlook for Brown & Company PLC;

Dec 15, 2021

Instrument	Current Rated Amount (LKR Mn)	Rating Action
Issuer Rating	N/A	[SL]BBB+ with Stable outlook; assigned

### Rating action

ICRA Lanka Limited has assigned the issuer rating of [SL]BBB+ (pronounced S L triple B plus) with Stable outlook for Brown & Company PLC ("BRWN" / "the Group").

### Rationale

ICRA Lanka has taken a consolidated view of BRWN given the operational and financial linkages between the Group entities. The rating also draws comfort from the support extended by the Group's parent, LOLC Holdings PLC (rated [SL]A with Stable outlook), which is one of the largest conglomerates in Sri Lanka. ICRA Lanka expects the LOLC group to continue its support for BRWN to fund the sizable capex plans of the Group over the short to medium term.

The rating takes into consideration the strong market position of BRWN in some of the core trading segments it operates, namely agriculture equipment and auto motive batteries. The group's revenue growth of 45% in FY21 was mainly driven by the growth in the trading segment, which is represented by BRWN at a standalone level. The Group's diversified interests in segments such as plantations, leisure, construction and real-estate are represented by its flagship subsidiary Browns Investments PLC. ICRA Lanka notes that these investments into diversified segments are largely driven by the ultimate parent LOLC, where it uses Browns Invesments as an investment vehicle.

However, the rating is affected by the stretched capitalization and coverage indicators of the Group at a consolidated level. ICRA Lanka notes that, over the last 4 - 5 years, the Group has embarked on sizable capex investments in segments such as leisure and plantation, and these projects are debt funded to a larger extent. In addition, the challenging macro-conditions that prevailed during the period has delayed the cashflow generation of some of these new investments. ICRA Lanka also notes the sizeable capex plans in line for the Group, mostly relating to the flagship investment in the Port City project. However, ICRA Lanka expects the support from the parent entity LOLC to be forthcoming, in meeting the funding and liquidity requirements of BRWN.

### Outlook: Stable

The Stable Outlook reflects the strong market position and parent support for the Group. The outlook could be revised to Negative in case of further deterioration of the capitalization, coverage and profitability indicators of the group and a lower than expected level of support from the ultimate parent LOLC. The outlook could be revised to Positive in case of an improvement in the capitalization profile of the group, via external fundraising or asset disposals. Also, a significant improvement in the earnings profile of the group could also result in a Positive outlook for the group.

## Key rating drivers

### Credit strengths

**Strong parentage with a track record of timely financial support:** BRWN is a 83% owned subsidiary of LOLC PLC, which is one of the largest conglomerates in Sri Lanka. LOLC Group's core business activity is non-banking financial services while the non-financial services cluster of the LOLC Group is represented by Brown & Co PLC and its flagship subsidiary Browns Investments PLC. LOLC Group is the largest NBFII operator in Sri Lanka while the group has significant presence outside the country, extending to regional markets such as Cambodia, Myanmar, Pakistan, Indonesia, and Africa. LOLC has demonstrated a strong track record of providing timely capital support to BRWN in financing its Capex projects. In addition to financial support, BRWN benefits from operational support from LOLC, in terms of shared services and central treasury.

**Well-established core trading segment:** The trading segment, represented by the Brown & Co PLC (stand-alone) accounts for ~63% of the group's revenue. BRWN is one of the largest trading companies in the country with a significant market presence and 117 brand names operating within the group. The Company is the dominant market leader in the vehicle battery (70% market share) sector and tractors segment (47% market share) in Sri Lanka, and is the agent for world's leading brands such as EXIDE batteries, TAFE and Massey Ferguson tractors. ICRA Lanka notes that the core trading operation of the group remains resilient (45% revenue growth in FY21), despite the challenging macro environment, characterized by import restrictions and the pandemic.

### Credit Challenges

**Increased debt levels and weak coverage and capitalization indicators:** The Group debt levels have increased significantly over the past 5 years from LKR 15 Bn in FY17 to LKR 60 Bn in 1HFY22. Bulk of the total debt comprises of long-term debt while short term debt is largely correlated with working capital requirement of the core trading operation. The sharp accumulation of debt is attributable to sizable capex projects undertaken by the group, mainly in sectors such as leisure and plantations. The coverage indicators of the group remain weak with an interest cover of 0.68 times as in FY21 (-0.07 times in FY20), the same was reported as 1.02 times as in Sep-21. Group leverage also remains high at 7.04 times as in Sep-21, vis-à-vis 14.87 times in FY21, and -92.38 times as in FY20. ICRA Lanka expects the capitalization profile and the coverage indicators of the group to remain stretched over the short to medium term, due to sizable capex plans that are in the pipe-line.

**Sizeable capex plans to continue into the future:** Sizeable capex plans are in pipeline for the group, mainly under Browns Investments, mainly in sectors such as leisure and real-estate. The flagship Capex project of the group is the Port city project, where Browns Investments has signed-up as the anchor investor for the Port City project of Sri Lanka. The group is taking part in 3 investment projects in the port city; commercial and residential project, the marina project and the marina hotel project. Sizeable capex plans are also in line for the leisure and plantation segments. The funding for these investments is expected to be in the form of intercompany borrowings, bank loans, and fresh equity raisings.

**Weak earnings profile:** The group reported a net loss of LKR 3,344Mn in FY2021, vis-à-vis a net loss of LKR 1,515Mn in FY2020. The losses are largely attributable to the leisure and plantation sectors of the group, as these segments were affected by the adverse macro environment that prevailed. However, ICRA Lanka expects the group losses to narrow, going forward as the leisure sector is expected to recover from the pandemic, while, some of the new hotel properties are expected to become operational during the next year.

Also, the group's plantation sector is expected to benefit from the recent crop replanting exercises carried out.

**Analytical approach:** For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.  
**Links to applicable criteria:** <https://www.icralanka.com/issuer-rating-methodology/>

## About the Group:

Brown & Company PLC is a diversified conglomerate and one of the largest trading companies in Sri Lanka with 117 brand names operating within the group. The Company was first established in 1875 with a small mechanical engineering workshop and has consistently utilized inorganic growth strategies to expand its business. Brown & Company PLC is a 83% owned subsidiary of LOLC Holdings PLC. Since the acquisition of the Company by LOLC, the Company has been used as the vehicle to hold all the non-financial businesses/investments of the group, thus becoming a diversified conglomerate on its own. At stand-alone level, Brown & Company PLC is primarily engaging in trading operations, where the company is a dominant player in product segments such as agriculture heavy machinery, auto motive batteries and vet pharmaceuticals. At a consolidated level, the group operates in diverse sectors mainly within the paradigm of Trading and Manufacturing operations. The Group's performance is mainly driven by these two segments. The Group recorded a revenue of LKR 29Bn for the FY21 and an EBIT of LKR 3Bn.

## Key Consolidated financial indicators

LKR Mn	FY18	FY19	FY20	FY21	1HFY22
Operating Income	22,157	21,372	20,612	29,950	22,041
OPBDITA	3,132	1,086	-358	3,782	4,244
PAT	1,937	3	-1,515	-3,344	-1,835
ROCE (%)	10.7%	6.4%	5.0%	2.2%	3.3%
Total Debt	17,948	26,069	33,042	56,227	59,768
Networth	16,791	22,232	26,653	32,473	46,616
Gearing (x)	0.53	0.61	0.45	0.68	0.62
OPBDITA/Interest & Finance Charges(x)	1.05	0.28	-0.07	0.68	1.02
Total Debt/OPBDITA (x)	5.73	24.00	-92.38	14.87	7.04

## Rating history for last three years: Brown and Company PLC

Instrument	Amount Rated (LKR Mn)	Current Rating (FY2021) Dec-21	Chronology of Rating History for the past 3 years		
			Rating in FY2020	Rating in FY2019	Rating in FY2018
Issuer rating	N/A	[SL]BBB+ (Stable)	N/A	N/A	N/A



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#### CORPORATE OFFICE

Level 10, East Tower, World Trade Center, Colombo 01, Sri Lanka  
Tel: +94 11 4339907; Fax: +94 11 2333307  
Email: [info@icralanka.com](mailto:info@icralanka.com); Website: [www.icralanka.com](http://www.icralanka.com)

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## Analysts

Gangulee Weerakoon  
+94-774781591  
[gangulee@icralanka.com](mailto:gangulee@icralanka.com)

Nithya Debaddi  
+91-9908912213  
[nithya.debaddi@icraindia.com](mailto:nithya.debaddi@icraindia.com)

## Contacts

W Don Barnabas  
Managing Director/CEO  
+94-773417517  
[wdbarnabas@icralanka.com](mailto:wdbarnabas@icralanka.com)

Rasanga Weliwatte  
Head of Financial Sector Ratings  
+94-773553564  
[rasanga@icralanka.com](mailto:rasanga@icralanka.com)

Lalinda Sugathadasa  
Head of Research &  
Business Development  
+94-774781343  
[lalinda@icralanka.com](mailto:lalinda@icralanka.com)

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