

September 9, 2014 2:07 pm

Kenya's ARM Cement comes through a mix of fortunes

By Katrina Manson Author alerts



Industry view: Pradeep Paunrana at ARM Cement's factory in Athi River, a town outside Nairobi

When HJ Paunrana applied for a job at a cement factory in Kenya at the age of 30, he was turned away. He had left school at 13 and did not have the necessary high-school diploma. “From that day he didn’t want to work for anyone else, and cement became his dream,” says Pradeep Paunrana of his late father.

Nearly 50 years later, 55-year-old Mr Paunrana is managing director of ARM Cement, the business his father went on to create that is now listed on Kenya’s stock exchange, with a market capitalisation of \$500m. It produces more cement than any of its rivals in the region – 2.6m tonnes annually, outpacing the 2.5m tonnes produced in east Africa by global leader [Lafarge](#). With a 51 per cent personal stake in the company, Mr Paunrana is one of Kenya’s richest men.

Along the way, ARM Cement has expanded from nothing in a tough, competitive market. But it has faced several crises – what Mr Paunrana describes as “doomsday” moments – and it is only in the past decade that it has really grown.

The story began when HJ bought a plot of land with a limestone deposit not far from Nairobi in 1974, but it was not until 1996 that the company produced its first bag of cement. In the interim, the small business produced fertiliser, animal feeds and other limestone-dependent products, including glass, ceramics and plastics.

Thanks to that fledgling business, however, Mr Paunrana was educated to the hilt: he was not going to have the same experience as his father. When he returned to Kenya aged 24 in 1984, he was armed with an MBA from Stern School of Business at New York University, big ambitions and fresh from a \$40,000-a-year job designing and marketing software.

ARM’s annual turnover was 4m Kenyan shillings (\$45,000 in today’s money). HJ could not afford to match his son’s salary. “I told my dad: ‘This is such a small business.’ My father says: ‘In that case, here’s the key, you take over and show me what you can do.’” His father also handed over all his back copies of *Industrial Minerals*, a trade magazine: “That’s all you’re going to read for the next week,” his father said.

He set out to expand and to add value, but time and again raising capital for a small, untested business outranked by rivals proved the biggest hurdle. Each new piece of machinery bought was considered a great victory. “We were working with short-term bank loans, hire-purchase type financing – it was convenient because we could raise the money on the assets themselves without much security,” says Mr Paunrana, speaking over lunch at the Capital Club, a new private members’ club for Kenya’s business elite in Nairobi.

Friends and extended family were crucial: they held 75 per cent of the business from the start, with immediate family holding the other

25 per cent. Even the bank manager became a personal friend after being impressed with the thoroughness and vision of Mr Paunrana's paperwork. Faced with a request for a \$1.6m loan for a marble-cutting plant from Italy, the bank manager – Alan Pickering – told Mr Paunrana that he had never made so big a loan decision so quickly. On his retirement from banking, Mr Pickering became the company's chairman, and offered to help raise enough investment – \$10m – to go into cement. But no new bank would bite. Friends and family came to the rescue once again, eventually putting together \$4m. Mr Pickering even gave £150,000 from his own pension. It was then that the banks started coughing up.

If Mr Paunrana had the formal business skills, he found he still had plenty to learn from his father's experience, including the art of a hard bargain. His father found a UK cement plant that had gone out of business in the UK's mid-1990s recession, and called up Mr Paunrana to fly in with the company cheque book. When Mr Paunrana told the site manager they wanted to relocate the Leighton Buzzard cement factory piece by piece to Kenya, his father quickly interjected. "Ignore this young man," said HJ. "We want it for scrap – now, how much will you pay us to take it away?"

The two men secured the plant at a knockdown price – the copper cabling was worth what they paid for the entire plant, says Mr Paunrana – and eventually reconstituted it as a 200-tonnes-a-day cement factory (down from 1,600-tonnes-a-day in the UK). It contributed less than 7 per cent to Kenya's entire annual cement production. "But it was the beginning of the growth of the company," says Mr Paunrana.

Still hungry for capital and needing to pay back loans, the company became one of the first family-owned businesses to list in Kenya. The timing, in 1997, could not have been worse. The listing took place the same week that paramilitaries tear-gassed protesters seeking greater freedoms in the then authoritarian single-party state. The shilling lost 10 per cent by lunchtime on the first day of the roadshow and many feared Kenya was headed for meltdown. "Nobody turned up to the roadshow in Mombasa – no one," he says. By the time it reached Nairobi, stockbrokers advised him to cancel the listing. But an ever-ambitious Mr Paunrana, who had already started spending money he did not have on expansion, went ahead: "I had no choice but to raise the money."

A dramatic evening ensued. A downtown curfew meant business people were unable to go home, and he estimates that 300 instead of 100 invitees turned up "for a drink and a samosa at the Hilton".

To the astonishment of the audience and horror of his financial backers, says Mr Paunrana, he tore up his speech and gave an address – weeping in the middle – that urged people to back the IPO and not to fear riots he believed could deliver the country from authoritarianism. "I was very emotional. I said what's happening on the street is a good thing, we must not be afraid of it, we need to demand our rights. And cement investment is a long-term investment – people should back the IPO as a sign we believe in our country and our future."

Ultimately, it was heavily oversubscribed. But fresh Kenyan misfortunes soon affected the company so badly that Mr Paunrana was forced to try to sell it. Heavy rains the following year washed away crops, roads and bridges, doubling the cost of transport; terror attacks struck the capital, arresting growth; economic crisis in Thailand saw ships loaded with cement dock in Kenya, trying to offload stock for a 10th of the price for which ARM could produce it. "We were dead; it felt like everything that could possibly go wrong went wrong," he says.

In line with the collapse in Kenya's stock exchange, shares in the company halved. "It was such a horrible time; facing our friends who we'd pushed to give us loans, buy our shares."

ARM was rescued by a loan from rival Lafarge, which it converted into a shareholding. But when Mr Paunrana begged it to buy the whole cement business, saying that would at least knock one of its competitors out of the market, he says one Lafarge manager said: "We don't need to buy you out, you will die a natural death."

The relationship degenerated into boardroom spats but ARM survived. With the introduction of multi-party democracy in Kenya and the return of foreign investment in 2003, cement boomed and the company began expanding – putting up a new plant every two years, and eventually outstripping Lafarge's production.

Lafarge's Kenya subsidiary Bamburi sold the entirety of its 14 per cent ARM shareholding by 2010 after ARM voted Bamburi's representative off its board. ARM now has plans to double annual production to 5m tonnes in the next few years.

"That comment made me really mad and of course then I wanted to remain in the cement business," says Mr Paunrana. "It wasn't

An index made of strong stuff

While the east Africa region is growing at an impressive 6 per cent a year, cement consumption is growing much faster, at 14 per cent annually. There is plenty of room for more growth: Kenya's per capita cement consumption will pass 100kg this year, and still lags a long way behind heavy guzzlers such as Egypt, at 554kg in 2012.

Mr Paunrana says demand comes from rural families building their homes bit by bit, but he also expects a new rush in demand once big-ticket infrastructure projects start.

The cement market is competitive: it already includes Lafarge, east African Portland Cement, and Africa's richest man, Aliko Dangote, wants to build a \$400m cement factory in Kenya too.

Cement consumption is a good proxy for the expansion of the economy and rise of the middle class, says Mr Paunrana. Every time the tea sector pays harvest dividends to farmers, his sales increase.

strategic insight but it was entirely due to circumstances – the improving economy catapulted us.”

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