

V.J. MISTRY & COMPANY LIMITED

FEASIBILITY STUDY

FOR THE

CONSTRUCTION OF THE WAREHOUSING

June 2020

1. INTRODUCTION

1.1 BACKGROUND

This study covers the intention of V.J. Mistry & Company Limited to construct warehouses for rent and their own use. Basically, the activities will be geared towards the building of warehouses for rent which will be equipped with up to-date equipment. The total built up area is estimated to be 2799 sq. meters. The serviced warehouses for rent will be supported by well-constructed car park facilities.

The project promoters V.J. Mistry & Company Limited have vast experience in the setting up/operating multi projects especially in the sector of manufacturing and commercial buildings.

2.0 SUMMARY AND RECOMMENDATION

2.1 INTRODUCTION

The report accounts for the financial and techno- economic analysis on the setting up and operating a modern fully-fledged construction complex to be based in Dar -es-Salaam. V.J. Mistry & Company Limited is a sponsor of this project. The company through its shareholder/ directors has several years of experience in initiating/running different types of projects.

2.2 MARKETING AND COMPLEX CAPACITY

Dar es salaam which remains the country's commercial and industrial town and is experiencing an increased inflow of commercial activities, factors that influence demand for warehouses in urban center. In Dar es Salaam a well-organized facility found in prime locations are unable to cater to the growing business population and efforts are now directed towards construction of modern warehousing facilities to keep pace with the economic activities' expulsions. The target market for V.J. Mistry & Company Limited serviced warehouses for rent is up traders, companies, Public and private businessmen.

2.3 LOCATIONS AND SITE

The warehouses complex will be established in phases. The first units will be set up in block U plot 37 Temeke Service Trade, Temeke, Dar-es-salaam.

2.4. COMPLEX LAYOUT

The layout proposed is the one deemed appropriate for the roles of warehouses.

2.5 MANPOWER AND TRAINING PROGRAM

Estimated manpower according to the proposed level set up has been estimated at 20 people. This again has been derived taking into account the types of activities that are intended to be undertaken. However, when the project is in full swing more people will be recruited.

2.6 IMPLEMENTATION SCHEDULE

It is estimated that the project will take about 36 months to completion once the decision for implementation has been reached.

2.7 INVESTMENT STRUCTURE

The total initial investment in fixed assets and working capital is estimated at USD **2,200,000**. The breakdown of which are as follows:

INVESTMENT STRUCTURE

ITEM	US\$
Fixed Asset	
Civil Works	1,000,000
Machinery and Equipment	600,000
Vehicles	200,000
Furniture and Fittings	50,000
Pre-Operational Expenses	50,000
Others	100,000
Sub total	2,000,000
Initial working capital	200,000
GRAND TOTAL	2,200,000

2.8 FINANCING PATTERN

The total initial investment of US \$ **2,200,000** will be financed from the funds generated within the group companies

SOURCE	US \$
Fixed Assets	
Long term Loan (70%)	1,540,000
Equity (30%)	660,000
	2,200,000

2.9 ECONOMIC ADVANTAGES

On the basis of the above account, the analysis has overwhelming advantages to the economic activities in the country and proved that the project is financially sound and techno-economically viable.

It is hereby recommended that the project be implemented.

3.0 MARKET ANALYSIS

The proposed project will involve warehouses development in Dar es Salaam. The company will establish extensive network which will comprise of dedicated and shared warehousing and distribution operations, to enable the company to fulfil its commitments and deliver the products safely.

The warehouses which will comprise of modern packaging and warehousing techniques and an advanced distribution system, will also help to automate processes, so that the deliveries will reach customers in perfect time, every time.

The company intends to be efficiency driven and will provide multiple client facilities which will enable the company to create turnkey warehousing solutions to help intended clients to exceed their customer's expectations. The warehouse will be Close proximity to major ports, rail ramps and highways and will be expected to be flexible, scalable, reliable and cost effective.

3.2 CURRENT SUPPLY

The supply of warehouses for leasing is affected by three main factors namely availability of surveyed plots, availability of masons and lack of a well development real warehouses industry in Tanzania. Since land is national property, the Government controls the delivery system of urban plots. However, due to limited resources, the Ministry of Lands and Human Settlements Development can supply only limited no plots per annum for the Dar es Salaam city.

Most of the plots are allocated without development of infrastructure and utilities making newly surveyed plots long and cumbersome process. It is also very difficult to obtain building permits from the city authorities. Consequently, the number of permits applied for as well as the number issued is very low.

The local business community is also unable to implement large warehouses projects for leasing or outright sale due to the absence of finance institutions at a time when interest rate for loans from existing commercial banks are exorbitantly high.

V.J. Mistry & Company Limited is a very serious and organized real estate developer in Dar es Salaam or for that matter in the country he will be able to cope with the marketing challenges

3.3 RENT RATES

Rent rates for modern and warehouses/Dar es Salaam city depend among others on the location and quality of the house. Based on the current rent rates and the level of competition and given that the proposed building complex will be of high quality we recommend rent of US \$5 Per square meter per month. The US\$7 per square meter per month will be mainly air-conditioned warehouses.

3.4 SITE AND LOCATION

M/S V.J. Mistry & Company Limited contemplates construction of modern warehouses for rent in prime areas. The first units will be set up in block U plot 37 Temeke Service Trade, Temeke Dar-es-salaam.

This plot will accommodate warehouses for rent of the proposed project of the commercial warehouses undertaking.

3.5 ACCESSIBILITY OF THE SITE

The envisaged project site will easily accessible, as note above it can easily be reached through the tarmac road and it can take about 20 minutes from the city center to the area by car during time when the traffic is not heavy.

3.6 AUXILIARY SERVICES REQUIREMENT

Power Supply System

- **Main Power Supply**

An independent transformer will be provided to cater for the whole complex

- **Emergency Power Supply**

A standby generator will be provided to supply the essential loads in the event of TANESCO power failure

- State of the art accessories will be specified to supply power to various appliances.

- **Power Distribution**

Power distribution through the state will be via underground cables installed with TANESCO requirements.

- **Fire Protection**

It is proposed to provide fire detection and firefighting system with automatic and manual detection devices, alarm and communication system. There will also be firefighting system equipment's such as portable extinguishers, hose reels, wet and dry rises and automatic sprinkler system.

- **Air conditioning & Ventilation**

An individual/separate air conditioning system mainly split units and window type is proposed for the complex. Proper ventilation system will be provided throughout the year.

- **Security**

Security will be of prime importance. Surveillance cameras and access control will protect both tenants and customers alike.

3.7 Access Entrance

Wide inlet/entrance will be provided so as to facilitate smooth passenger of the tenants with their vehicles.

3.8 A Parking Space for the Complex

The complex will be provided with a parking space adequate to accommodate not less than 15 vehicles at any given time. This level space is anticipated to be adequate for purpose in question.

4.0. CONSTRUCTION WORKS

4.1. THE PROPOSED WAREHOUSES FOR RENT

Proposed warehouses for rent complex must be properly designed and the layout should conform to the specific standards to ensure the anticipated comfort.

4.2 ENVIRONMENTAL CONSIDERATIONS

The design of warehouses complex will be carried out with maximum consideration of environmental impact assessment. The building will be designed to receive maximum natural ventilation and light. Mechanical ventilation should be an alternative only in the absence of natural one. However, both cases should be considered according to the varying/changing climate.

Another area where the environmental impact has to be considered is at the project surroundings whereby the already grown trees should be retained and included in the landscaping as part of the species of trees to be proposed by the architects.

Also, environmental consideration shall be given priority during landscaping so that maximum presentation of soil erosion is observed.

4.3 Security System

It is recommended that an independent security company provide the security of the complex. This system is very popular for high-rise building owners in the country at present

5.0. DESIGN CONCEPT AND FACILITIES

The proposed warehouses for rent will be either to be consider a block type built of concrete bricks or readymade panels. There will also be a provision of car park area. The layout will be appropriately set to facilitate the setting up concrete passage lanes.

5.1 EXTERNAL WORKS

The plot is expected to be landscaped with earth excavation. 1st class contractor shall undertake construction of the building. All finishes will be of both locally available and imported materials.

5.2 MACHINERY/EQUIPMENT

These will be in the form of air conditioners ceiling fans, warehouse facilities equipment refrigerators so as to make the building fully furnished with the appropriate enmities

5.3 FURNITURE AND FITTINGS

These will comprise of sofa sets, office chairs and tables, curtains etc. Such furbishing with proper interior finishing touches will make the warehouses for rent assume an acceptable international standard.

6 .0 MANPOWER REQUIREMENTS AND ORGANISATION

6.1. MANAGEMENT

The success of a venture of this kind depends on the competence of the personnel recruited of manage. It is assumed that relevant personnel with requisite skills shall be available within the country. There will be a need of recruiting expatriates in some key positions.

It is envisaged that the proposed manpower structure would give an effective control of the activities. Board of Directors will manage the warehouses. This board will operate through the project director who would be the Chief Executive of the warehouse's operations.

In Order to streamline the warehouses operations, it is proposed to engage two key figures; Operational officer and the Project Accountant. These two along with the Project Manager will form the central operational core that will ensure the success of the project.

7.0 MANPOWER REQUIREMENTS

7.1 Manpower Requirements

Based on the proposed organization structure the project will initially employ a total of 10 persons. However, it is anticipated that by the time the project attains maturity the envisaged employees will be in the region of 20 people.

7.2 Recruitment

All new staff would be recruited at least one month before the and warehouses operations are commenced

8.0. IMPLEMENTATION SCHEDULE

Both local and external factors have been taken into account when drawing out the proposed schedule of implementation. Factors such as finalization of civil works, survey, acquisition of machinery and equipment, recruitment of qualified personnel and other factors has been looked into.

I. Construction of the Building

This undertaking will require a period of 12 months to completion.

II. Machinery/Equipment/Vehicle/Furniture Ordering

Timely ordering will have to be executed to match the rate of development of the warehouses.

III. Plot Development Undertakings

These will comprise of activities such as plot clearing. The carrying out construction of drainage channels etc. they will take 1 month to complete.

IV. Construction of Building/related civil Works

The construction of buildings for the various purposes. These will take 10 months

V. Leasing Advertisement Efforts

These will be carrying out when 85 percent of civil works are completed. This is intended to facilitate prompt acquisition of potential customers.

Vi. Installation of Machinery/Equipment/Furniture

Once the buildings are constructed and then will follow the installation of machinery/equipment/furniture and fittings upon arrival at the project site.

Vii. Commercial Renting

On completion of the building/fitting of equipment/furniture then the warehouses for rent will be leased without further delay.

9.0. INVESTMENT AND FINANCING

9.1. ASSUMPTIONS

- The project construction time is assumed to be three years.
- The economic life of the project is 10 year
- The currency exchange rate of Tshs. 2300/- to one US\$ has been adopted
- Re-investment in vehicles shall be done after every four years the rental charge will be an average price of us\$5 per square meter per month

9.2. INVESTMENT STRUCTURE

The total initial investment in fixed assets is estimated at US\$ **2,200,000** whose breakdown of which is as follows

ITEM	US\$
Fixed Asset	
Civil Works	1,000,000
Machinery and Equipment	600,000
Vehicles	200,000
Furniture and Fittings	50,000
Pre-Operational Expenses	50,000
Others	100,000
Sub total	2,000,000
Initial working capital	200,000
GRAND TOTAL	2,200,000

9.2.1. Civil Works

The ultimate building to house the project is estimated at a cost of US\$ **1,000,000**

9.2.2. Machinery and Equipment

Machinery /Equipment needs for the processing unit are estimated at cost of US\$ **600,000**

9.2.3. Vehicles

These are estimated at US \$**200,000**

9.2.4. Furniture & Fittings

These are estimated at US\$ **50,000**

9.2.5. Pre-operational

These are estimated at us\$ **50,000**

9.2.6. The initial Working Capital

It is envisaged that for the project to take off the initial working capital could be at the level of US \$ 200,000.

9.3. RE-INVESTMENT

There shall be need for re-investment in vehicles after every four years i.e. in year 4 and year 8.

9.4. FINANCING PATTERN

The total initial investment of US\$ **2,200,000** shall be financed as follows

SOURCE	US \$
Fixed Assets	
Long term Loan (70%)	1,540,000
Equity (30%)	660,000
	2,200,000

10.0. OPERATION COSTS

10.1. ASSUMPTIONS

The prices of inputs are assumed to remain constant over the ten years period because under rising inflation the prices and services will rise including those of outputs hence having the profit margin unchanged. The operation costs have been estimated to be 65% of the total revenue.

10.2 Operating Expenses

The cost items to be handled by the landlord include general maintenance of the and warehouses for rent, insurance of building against fire etc. salaries and wages, electricity and water, security, management fees and other general administrative responsibilities.

10.2.1. Repairs and Maintenance

General repairs and maintenance costs for building and civil works vehicle and equipment are going to be undertaken by the land lord

10.2.2. Energy and Water

Electricity for general lighting/security will be used

10.2.3 Salaries and Wages

A total of 10 people will be employed to cater for the overall administrative, financial, security and cleaning functions of the complex.

10.2.4 Depreciation

Depreciation rates have been calculated as follows:

Land, Building and Civil Works	4% Straight line
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Total depreciation charges in year one is US\$0.40m

10.2.5 Tax

Corporation tax is charged at 30% on profits before tax. Tax in year two is estimated at US\$**23.80 M** rising to US\$ **35.6M** in year 3

11.0. FINANCIAL AND ECONOMIC ANALYSIS

11.1. ASSUMPTION

- The prices of inputs and outputs are assumed to remain constant over the life of the project i.e. 10 years
- However, in case of changes in the costs of inputs, to maintain the desired profit margin the prices of the outputs will be accordingly adjusted
- The assumed capacity utilization levels are at 70%, 80%, 90% and 100% for years 1-3 and onwards to year 10 respectively. This is assumed for only phase 1 and warehouses for rent
- The rental charge will be an average price of US\$ 5 per square meter per month.

11.2. INCOME

The project's income at full capacity utilization is estimated to average at US\$ **0.167M** as presented in the income statement.

11.3. PROJECTED CASH FLOWS

The project has a positive net cash flow from year of operation to the tenth year.

11.5 FINANCIAL REVIEW

The Financial review of the project demonstrates that: -

The project is profitable

The liquidity position of the project is sound and that it should be able to meet its loan commitment easily;

12.0. CONCLUSION AND RECOMMENDATIONS

Analysis of the viability of the V.J. Mistry & Company Limited project aimed at establishing modern Warehousing and that the proposal is financially viable and commercially attractive. From a national point of view, the timely implementation of the project will lead to following economic benefits: -

- The project will contribute towards the establishment of high-class warehousing facilities in Dar es Salaam;
- Efficient operation of the project will increase foreign exchange earning capacity;
- V.J. Mistry & Company Limited will provide indirect employment; and
- The government will earn substantial revenue from the operation of the project in the form of value added tax.

Strong sponsors promote the project with the ability to manage all the activities efficiently. The short implementation period combined with the envisaged financial returns makes the proposal highly attractive and ideal for supporting. This study recommends timely implementation of the proposal.