

HORMUUD GENERAL TRADING COMPANY LTD

PROPOSED PROJECT

FOR

MANUFACTURING OF GARMENTS

NOVEMBER 2020

**PREPARED BY;
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1.0 EXECUTIVE SUMMARY

The Company

Hormuud General Trading Company Limited is a limited liability company, registered in Tanzania under Certificate of incorporation No.86311 of the 6th day of October 2011. There are Four shareholders, three are Kenyans namely Abdi Ali Farah, Abdurrahman Yusuf Mohamed and Jama Ibrahim Mohamed and the other is a Somali namely Faisal Farah Mohamed.

The company intends to establish manufacturing facility for quality ready-made garments, which will be sold to clients and distributors on the international and domestic markets. M/S Hormuud General Trading Company Limited goal is to become one of the leading ready-made garment manufacturing companies in Tanzania and will make sure that every garment that leaves the factory can favorably compete with the best brands in the industry.

1.2 THE PROJECT

M/S Hormuud General Trading Company Limited intends to manufacture all types of ready-made clothing for children, teenager, women and men and will be made from many different fabrics and yarns. The Garments will include work wear and uniform, leisure wear, sportswear, suits, pants, dresses, ladies' suits, blouse, blazers, jackets, cardigans, pullovers, coats, sports jackets, skirts, shirts , ties, jeans, shorts, T-shirts, polo shirts, sports shirts, tracksuits, bathing shorts, bathing suits, etc.) The company intends to produce 300 pieces per day in 8hrs shift.

Hormuud General Trading Company Limited products will be of high quality garments for both the high – end customers and for low-income earners. The aim of the company is to become one of the people’s choices wherever their clothes are put up for sale.

1.3 The Equipment

The equipment to be purchased includes Sewing machines, Knitting machines, double needle bar machinery, Braiding machines, Stitch machines, Shirt printing machine, Buttonhole making machine, Button stitching machine, Pressing machine, Garment washing machine, Dryer machine, Embroidery machine, Extractor machine, over lock machines and ironing machines. The company will build a state-of-the-art factory and will install machines that will produce the quality garments.

1.4 The Market

1.4.1 The world Market

Worldwide, the textile sector has increased tremendously. The trends have shown that the developing countries overtook the industrialized countries in their share of the textile export and now account for 70% of the world clothing export. Textile and Clothing trade among World Trade Organization (WTO) members is governed by the Agreement on Textiles and Clothing (ATC), which came into force with the WTO Agreement on 1 January 1995. This agreement stipulates that alongside the progressive application of General Agreement on Tariffs and Trade (GATT) rules, there will be a progressive phasing out of quotas in the EU, US and Canada. The 10 – year period ended on 1 January 2005, the ATC had since expired and

all quotas had been abolished. Therefore, in 2005, all WTO members had unrestricted access to the European, American and Canadian markets. The industry as of now is responsible for the employment of over 11.6 million people.

1.4.2 Tanzania Market

The competitiveness of Tanzania in this sector is mainly due to benefits provided under the AGOA and Cotonou Schemes, untapped opportunities within the domestic market, good labor productivity and Governmental restrictions on the import of used clothing and production of good quality raw cotton.

The textiles industries were major employers and contributor to GDP. It employed about 25% of the working force and contributed 25% of GDP in manufacturing sector (SAILIN LTD (TIB 1996) in the past years .Though the textile industries were able to satisfy the market but it could not meet the demand of some types of clothes i.e. suits and suiting materials and other specific dress materials. This was due to the lack of technology of producing them.

Tanzania textile sector has largely affected by the importation of cheaper garments, which became rampant thus affecting negatively the growth of garments locally made in Tanzania. It has also been characterized by local initiatives of producing clothes emerged (batik and tie and dye) but with a poor quality and also expensive to the extent that not everybody could afford. It was at that time the second hand clothes became important and its status was raised.

1.5 The Investment cost

The project cost is estimated at **US\$ 1.090 m** of which will be contributed by the sponsors.

<i>Land & Building</i>	<i>200,000</i>
<i>Machinery & equipment</i>	<i>450,000</i>
<i>Vehicles</i>	<i>120,000</i>
<i>Furniture & Fixtures and office equipment's</i>	<i>50,000</i>
<i>Others</i>	<i>100,000</i>
<i>Pre-operational expenses</i>	<i>20,000</i>
<i>Add: initial Working Capital</i>	<i>150,000</i>
GRAND TOTAL	1,090,000

Investment Financing

US\$

	Foreign	Total
Equity	1,090,000	1,090,000
Total	1,090,000	1,090,000

2.0 INTRODUCTION

2.1 Background Information

Hormuud General Trading Company Limited is a limited liability company, registered in Tanzania under Certificate of incorporation No.86311 of the 6th day of October. The shareholders are also the only directors of the Company as shown below;

NAME AND ADDRESS OF SHAREHOLDERS	NATIONALITY	SHAREHOLDING STRUCTURE	Percentage (%)
Jama Ibrahim Mohamed	Kenyan	250	25
Abdi Ali Farah	Kenyan	250	25
Faisal Farah Mahmud	Somali	250	25
Abdurrahman Yusuf Mohamed	Kenyan	250	25
Un-allotted	Tanzanian	3000	75

The registered capital of the Company is Tshs 400,000,000 (divided into 4000 shares of T.Shs. 100,000/= each. The above shareholders are qualified apparel manufacturers with vast experiences. They will jointly contribute equity to finance purchase of machinery, equipment and working capital. There are well-established and experienced with sound technical, financial and managerial aspects on modern apparel industry.

2.2. Company Vision Statement

Our vision is to establish a ready-made garment manufacturing for the foreign and local market.

2.3 Mission Statement

Hormuud General Trading Company Limited is a profit making company, dedicated to provide quality clothing to the Tanzanian market and to export garments from Tanzania. The company intends to produce its own brands to capture a portion of the domestic market. Their mission is to build a ready-made garment manufacturing company that will design and mass – produce high quality ready-made garments for male, female, young adults and children.

2.4 Project Description

Hormuud General Trading Company Limited will develop sustainable high volume, garment-manufacturing factory in Tanzania. It will plan, design, implement and operate presently a profit center for the manufacture of textile garments. The company intends to produce 300 pieces per day in 8hrs shift. The strategy is to target both export and domestic market and to invest heavily in terms of machinery equipment, working capital, management and workforce training.

2.5 Products

The main products to be manufactured by Hormuud General Trading Company Limited factory are women, men and children's clothes. Hormuud General Trading Company Limited products can be characterized as "mass production goods". The textiles used for this production process are of medium quality.

3.0 STRATEGY AND IMPLEMENTATION PLAN

The company will start with the choosing of type of machineries and what type of technology to be used in the apparel manufacturing facility. In garment manufacturing processes, it involves processes like – sample development, pattern making, fabric inspection, fabric spreading, fabric cutting, garment stitching, garment checking, garment pressing, repair work, garment folding, and packing. In all these processes a different set of machines are used. Majority of machines are stitching machines.

3.1 Production Processing

i) Product designing and pattern making

For the pattern making of the sample products, the company will use software. CAD (computer-aided design). There are other components of the CAD systems – pattern grading, Marker planning, Nesting, Pattern digitization. With the help of CAD software, you can estimate fabric requirement accurately and improve the garment fit.

ii) Fabric Testing and Fabric Inspection

In garment manufacturing, fabric plays an important role in the garment quality and product valuation as well as customer demand. The company intends to purchase the right quality fabric, will set up in-house fabric testing, and will install basic fabric testing equipment – like;

- Fabric GSM testing machine,
- weighing scale,
- Meter scale,
- Fabric inspection (visual inspection machine).
- Color cabinet
- Fiber content
- Sample washing machine and Tumble drier
- Fabric handing equipment in the fabric store

iii) Cutting Table

For any apparel manufacturing facility, cutting tables for fabric layering are over important. A wide and long table depending on the marker length and maximum fabric width to be used will be installed.

iv) Fabric Spreading Machines

The company will consider installing manual fabric-spreading Machines and in future, if they want to scale up business and improve cutting room productivity and reduce cutting room work force, automatic spreading machines will be considered.

v) Cutting Room Machines and Equipment

Various types of cutting machines are available for fabric cutting. The cutting machines, which are required, are;

- straight knife cutting machine
- plies round knife cutting machine
- band knife cutting machine
- A fusing machine,
- Ply number machine,

- Piping cutting machine (automatic rib cutting machine)
- Racks for storing cutting
- Trolley for moving cutting from bundle section to sewing lines

vi) Heat transfer printer

Heat transfer printer is used for printed labels and logo

vii) Sewing machines

Sewing machines are the heart of the garment manufacturing factories. Different types of sewing machines will be bought for making the garment products. The right mix of sewing machines will be selected. The following is the list of sewing machines to be used

- **Single Needle Lock Stitch** (three different types of SNLS machines are used depending on the operation. Normal lockstitch machine, with under bed trimmer and equipped with edge cutter)
 - *Feed off the Arm*
 - *Single needle chain stitch machine*
 - *Multi-needle chain stitch machine (e.g. Kansai Special)*
 - *Over lock sewing machines*
 - *Flat lock machines* – Flatbed and cylinder bed types
 - *Double-needle lockstitch machine*
 - *Button holing machine*
 - *Button Sewing machine*
 - *Zigzag sewing machine*
 - *Snap button-attaching machine*

Viii) Sewing Room Equipment

Sewing room equipment are material handling systems, sewing machine attachment and guides, WIP storing crate or bins, and material transportation equipment.

xi) Finishing Machines and Various Equipment

Finishing room activities involve garment checking, repair defective garment, stain removing, mending, thread cutting, thread removing, garment pressing and folding the garment. For these processes, various types of finishing equipment to be installed are as follows:

- *Garment Pressing Equipment* - Vacuum table and Steam iron for pressing garments,
- *Garment Checking Tables,*
- *Spotting Gun Etc.*
- *Thread Trimmers*
- *Like bulk pressing,*
- *Tunnel finishing etc.*

x) Garment Packing

Garment folding is normally done manually. However, garment-folding template will be purchased. In the garment packing stage, hang tags must be attached to the garments using tag gun machine. For kids' garment, one of compliance parameter is needle detector machine. will be purchased. So that all garments must be passed under needle detector machines.

xi) Office Equipment's

- *Computer and laptops*
- *Printers*
- *Photo copier machine*
- There will be a showroom for displaying your designs, and hence r racks and hanger and dress forms will be purchased

4.0 INDUSTRY AND MARKET ANALYSIS

4.1 The Global Ready-Made Garment

The global textile market was valued at USD 961.5 billion in 2019 and is estimated to grow up to at the percentage of 4.3% from 2020 to 2027 due to the increased demand of apparel especially in the developing countries such as china, India, Mexico and Bangladesh .The industry is responsible for the employment of over 11.6 million people. In the late 80s developing countries overtook industrialized countries in their share of T&C exports, and now account for 50% of world exports of textile and 70% of clothing. This difference is explained by the fact that the clothing industry is more labor intensive than textile, thus labor –abundant developing countries have a comparative advantage in clothing.

Textiles and clothing trade among World Trade Organization (WTO) members is governed by the Agreement on Textiles and Clothing (ATC), which came into force with the WTO Agreement on 1 January 1995. This agreement stipulates that alongside the progressive application of General Agreement on Tariffs and Trade rules, there will be a progressive phasing out of quotas in the EU, US and Canada .These quotas were inherited from the Multi fiber Arrangements (MFA). After a 10-year period ending on 1 January 2005, the ATC has expired and all quotas abolished. Therefore, beginning 2005, all WTO members have unrestricted access to the European, American, and Canadian markets.

(Source: Commission of European Communities)

TEXTILE INDUSTRY IN TANZANIA

Tanzania's textile sector has passed through various stages since independence to date, from a period where most of the textile industries were owned by the government to the period where private companies are the main owners. Since independence Tanzania has invested heavily in textile industry so that it could satisfy the demand of the market in terms of clothes and cotton growing in Tanzania. According to the Ministry of Industry and Trade 2004 report on Status of Textile Industries in Tanzania, 50 textile industries were established by the year 2002 by the government and private companies. However, 23 (46%) of the established industries are operating. The industries are involved in dyeing, spinning, weaving, printing kanga and Kitenge, bed sheets, garments, knitting woven blankets and socks.

Tanzanian textile and apparel manufacturing has an opportunity to become competitive compared to countries in the region and on the international level. The main reasons are:

- Sound political environment
- The existence of AGOA and Cotonou agreements
- Untapped opportunities within the domestic market.
- Low wages in comparison with other regions
- Good productivity of labor
- Well trained and experienced work force due to the existence of past textiles industries
- Acceptable quality products
- The production of good quality raw cotton in Tanzania

- Access to port, which facilitate easier import of raw materials and export of finished goods.

4.2.1 Reasons for the limited presence of Apparel companies in Tanzania

I) Low consumption of Locally Produced Garments

The main reasons for the limited presence of Tanzanian companies on the domestic market of apparel products are the low purchasing power of the population and the very low prices of the clothing imported, mainly from China, Vietnam and India. Also The impact of products from china has tremendous effect in the Tanzania textile industries products. Most of Tanzanians prefer cheap, though of poor quality garments imported from abroad, to locally produced goods due to price consideration.

ii) Dumping Prices of Used Imported Products

A serious problem for the Tanzanian Textile segment is the import of used apparel from the USA and other parts of the globe of which the prices of these goods are considerably lower than prices of the very limited locally produced garments. The importation of cheaper garments became rampant thus affecting negatively the growth of garments locally made in Tanzania. Although there was local initiatives of producing clothes (batik and tie and dye) but there were of poor quality and also expensive to the extent that not everybody could afford. It is at that time that the second hand clothes became important and its status was raised.

iii) Economic Characteristics of the Industry

Cut –Make – Trim

Tanzania has the capability to provide- full package production. Apart from sewing textiles into garments for the international and domestic markets, Tanzanian companies have the added advantage of potentially being supported by an integrated textile industry, allowing further costing advantages to the garments manufacturers of the region as a whole. Thus, fueling added economic development and industrial upgrade.

5.0 MARKET ANALYSIS

5.1 Market Trends

In recent time, the clothing industry relies more on mass-market sales for them to make the kind of income that will sustain the business. The mass market takes care of a wide range of customers that cuts across both the rich and the poor. Most of the new clothing lines that are trying to catch up with the market ensure that they produce ready-to-wear clothes using trends set by leading fashion labels. What they do is that they try to see the direction of the trend as established by renowned fashion brands before producing their own versions of the original look by making use of cheaper fabrics and simpler production processes, which can easily be done by machines. They can comfortably sell such product at a cheaper price to the masses who cannot afford to buy the original, which is often way too expensive.

Clothes manufacturers now leverage on the runway – fashion expo to promote and attract market for their products. Any fashion designer who is

recognized in Paris, Milan, New York City, or London can comfortably become a global recognized fashion label.

Small start-up garment manufacturing companies leverage on small markets such as companies, churches, schools, organized groups and sport fans to sell their clothes. This group of people can order large quantities of customized clothes for special purposes.

5.2 Target Market

Our target market will be from group of people and all those who reside in the locations where we intend to sell ready – made apparels. The company will start operation in Tanzania with a single factory and later build factories in neighboring countries such as DRC Congo, Kenya and Burundi/Rwanda. clothes is going to be designed to penetrate in the East African countries, and SADC and COMESA countries market If possible it will also penetrate the world’s clothing industry.

The company will also sell the ready – made garments In the local market which will include the armed forces, manufacturing industry, all companies, schools , government institutions, parastatals hospitals, security companies, banks, hotels, car rental companies.

5.3 Competitive Advantage

The company is aware of the competition and is prepared to compete favorably with other garment manufacturing companies and with other part of the world. The local company has the competitive advantages with respect to importing companies from China, India and others in terms of their proximity to the Tanzanian market, short delivery time, and flexibility

of the volume of orders i.e. able to produce both small and big quantity of a certain product line. Its intention of development of its own brand and the financial potential for making products lines at its own cost and risk, together with professional management of the supply chain will enable Hormuud General Trading Company Limited to gain access to the domestic market.

The latest machines and equipment to be purchased will also count towards competitive advantage especially when it comes to competing with other clothes manufacturing companies within the same category. The quality of every apparel that comes out of a production line must be certified before they are released to the market.

Lastly, the company intends to make sure its employees will be well taken care of, and their welfare package will be among the best within company category in the industry, meaning that employees will be more than willing to build the business with the company and help deliver set goals and achieve all objectives. There will be good working conditions and commissions to freelance sales agents that we will recruit from time to time.

6.0 SALES AND MARKETING STRATEGY

The company intends to adopt the following sales and marketing approach to win customers over:

- Introduce clothing label by sending introductory letters to schools, Corporate organizations, political parties, groups, and other establishments.
- Attend fashion expos in most parts of the world
- Advertise clothing label in newspapers, TV and radio stations
- Canvass celebrities to wear and help promote clothing label
- List company business on yellow pages ads
- Leverage on the internet to promote business (Social media such as blogs, podcasts, photo and video sharing sites also.
 - Engage in direct marketing
- Leverage on word of mouth marketing (referrals)

6.2 Pricing

The prices will be affordable and at the same time competitive with what is obtainable in the global ready – made garments manufacturing industry.

7.0 MANPOWER ESTIMATES

The project will create permanent jobs for nearly 100 individuals. The break-up expected for total employment of 100 Individuals including the expatriates is as under: -

Skilled	10
Semi-Skilled Staff	20
Un-Skilled Staff	<u>70</u>
	<u>100</u>

Skilled staff will cater to the positions of ED. Head, Assistants, Marketing Manager, General Manager and Commercial cum Financial Manager.

Semi-Skilled staff will consist of shift Supervisor, Fitters, Electrician, Laboratory Attendant, Technical Assistants, Stores Personnel, Finance and Accounts Assistant and Marketing Assistant. Un-Skilled labor consists of tailors, packers, dirt receiving helpers, etc.

8.0 PROJECT IMPLEMENTATION SCHEDULE

The project will take nearly 3 years to become fully operational

9.0 INVESTMENT AND FINANCING

9.1 ASSUMPTIONS;

- Prices used are those prevailing in October 2020 any price increase of inputs is expected to be compensated by a proportionate rise in the selling price.
- The company intends to produce 300 pieces per day in eight hrs. shift
- The project implementation period is 3 years. The first year will be from January 2021
- The project will start its operations at 60% of capacity in the first year and increasing at a steady to attain 100% of the capacity utilization from the year 2025 onwards.
- It has been also assumed that any increase in prices of input will be compensated by proportionate increase in the selling price of the finished product.
- Projections have been assumed that the life of the project is nearly 10 years.
- Availability of adequate skilled and semi-skilled labor in the country has been assumed.

INVESTMENT COST

<i>Land & Building</i>	<i>200,000</i>
<i>Machinery & equipment</i>	<i>450,000</i>
<i>Vehicles</i>	<i>120,000</i>
<i>Furniture & Fixtures and office equipment's</i>	<i>50,000</i>
<i>Others</i>	<i>100,000</i>
<i>Pre-operational expenses</i>	<i>20,000</i>
<i>Add: initial Working Capital</i>	<i>150,000</i>
GRAND TOTAL	1,090,000

9.3 PROJECT FINANCING

The project's fixed cost will be financed by equity by the two shareholders while their local bankers will finance working capital requirements

US\$

	Foreign	Total
Equity	1,090,000	1,090,000
Total	1,090,000	1,090,000

9.4 MACHINERY & EQUIPMENTS/VEHICLES/ WORKING CAPITAL

As far as plant and machinery is concerned, they will be imported from abroad. The total cost of all machineries and other ancillary equipment as listed hereunder will be to the tune of USD 0.450m. In order to support large scale of operations, the company will need vehicles, which will consist of trucks 3.5 ton trucks, two Nissan Pick-Ups and one 4x4 Car. The Aggregate cost of these vehicles is estimated to be about USD 0.120 million. The Initial Working Capital has been estimated at USD 0.150 million and the components thereof are assumed as explained in this paragraph. Operation costs have been assumed to be 65% of the total revenue.

10.0 FINACIAL PROJECTIONS

The projections for the revenue are based on management forecast as well as already agreed order. Materials are planned at a level of approximately 65% of the sales value of the products. Depreciation of machinery is based Straight-line (SL) basis. The expected profit after tax amounts to US\$0.260 Million in the first year

10.1 PROJECTED PROFITABILITY STATEMENT

As can be seen from the appended projections of profitability for the project, the company estimated to make a healthy profit from the first year of operation.

10.2 PROJECTED CASHFLOW STATEMENT

The cash flow statement also reveals that over a period of five years the total inflow from operations will increase.

11.0 PROJECT DEVELOPMENT BENEFITS

- The project envisages an investment of USD 1.090 Million. This investment will result into bringing in plant and machinery.
- The project envisages employment of 100 permanent basis and equal number of casuals as per the requirement will be employed.
- Along with machines, there will be inflow of foreign technology. This will help the country in updating the State of the Art technology within the country especially in the textile industry.

12 .0 CONCLUSION AND RECOMMENDATION

The above study reveals that the project is technically, commercially and economically feasible, viable and is desirable for country's economy. The project undertaking will result into many social benefits like employment generation, related development in society, inflow of foreign exchange, inflow of foreign technology, strengthening of manufacturing base within the country, inflow of technical and managerial expertise and creation of many other ancillary industries and businesses etc. In light of anticipated financial, social and development benefits, the project qualifies for positive recommendation for immediate implementation.