

G.M & COMPANY TANZANIA LIMITED

KWA/MZN/1555 - TUARI ROAD – KAWE

P. O. BOX 7788

DAR ES SALAAM

TANZANIA

Feasibility Study Report

On

**CONSTRUCTION OF MODERN LIQUID STORAGE FACILITIES FOR
PETROLEUM PRODUCTS**

In

LO. NO. 10639 - MIKINDANI AREA - MTWARA TOWNSHIP

Presented by:

M/s G.M & COMPANY TANZANIA LIMITED,

DAR ES SALAAM

G.M & COMPANY TANZANIA LIMITED

Index

S/No	Subject
1.	Introduction
2.	Company Details
3.	The Project
4.	Project Location & Inputs
5.	The Market & Demand
6.	Promoters & Management
7	Manpower
8	Cost of the Project & Means of Finance
9	Project Implementation Schedule
10.	Project Financials
11.	Social & Development Benefits
12.	Conclusion & Recommendations

0.1 Introduction

The following report has been prepared for M/S G.M & COMPANY TANZANIA LIMITED, hereinafter referred to as G.M. G.M has undertaken a project to extends its business horizon into the Business of importation and distribution of petroleum and liquid products, distributors within the country and all neighboring countries, dealing in oil depots, coal, coke, patent, oil distributor promotion by opening of small oil shops, also marketing and selling goods and merchandise to be manufactured by the company and general agents in retail and other forms of distribution of commercial basis for consumable and non-consumable goods of all types and dealers in kerosene, oils and all related fuels as stockiest, wholesale and pack transport to all parts of the country. The promoters are Tanzanians and are well experienced in the envisaged line of business.

This study aims at assessing the commercial viability and operational feasibility of the project to be undertaken by G.M. The data has been complied by the promoters' own research and study done in Tanzania and treated as the first hand information. Also all financials been carried out on the basis of market and cost information provided by the promoters of the project.

This report has additionally focused upon the social and related economic benefits (net) that will come as a result to the nation and has given adequate weight age for the same in the conclusion & recommendation paragraph.

02. Company Details:

Registration:

M/s G.M & COMPANY TANZANIA LIMITED is registered with the Registrar of Companies in TANZANIA, as a limited liability company. The Authorized share capital of the company is same as the paid-up share capital.

Object Clause:

“To carry on the business of petroleum and petroleum products wholesale and dealers of liquid in bulk and in retail, sale and use of petroleum products within the national boundaries and outside its borders, opening and maintenance of the existing oil depots as well as mining all kind of minerals, and oil business promotions., stockiest packers and carriers of goods, merchandise and personal property, Other object clauses include the business of liquid transportation and bulk liquid storage, stuff and distribute to other gas stations to be general importers of bulky crude oil and refined liquid products, including all kinds of lubricants and related nature of produce.

Besides the above facts, the company envisages to **CONSTRUCTION OF MODERN LIQUID STORAGE FACILITIES FOR PETROLEUM PRODUCTS** to cater for the above mentioned, and some small depots in its branch depots.

Promoters/Shareholders & Directors:

The Shareholders of G.M are as under:

Name of the Share Holder	Nationality	No. of Shares Held	% Holding
Mr. G.M KESSI	Tanzanian	50	50%
Mrs. B.J KESSI	Tanzanian	50	50%

Location of the Factory:

The site for the Depots will be in LO. NO. 10639 - MIKINDANI AREA - MTWARA TOWNSHIP. Since the project is concerned with liquid storage, the company will deal with business of distributing the products in all neighboring countries, such as Congo, Burundi, Rwanda, Uganda, Zambia as well, also it will deal in general trading, merchants supplier of general goods, dealers in spares of all types for machinery of all types and all allied oil products nature of.

01. The Project:

As stated in the on introduction paragraph above, the project is “to process good quality liquid products out of relatively inferior quality of kerosene, oils and all related fuels, by utilizing local inputs to its maximum and thereby contribute towards the manufacturing sector of the economy and create wealth and employment resulting into a positive growth impact on the entire economy”.

The basic purpose of the entire project is to add value to the abundantly available opportunities which have either not been adequately exploited. The project will create more wealth for the nation and shall endeavor to bring in more prosperity and economic independence.

Why is G.M interested in venturing into this area? Its because they are confident about the modern technology and distribution process. G.M is sure to process high quality liquid products out of the so considered inferior quality products.

The role of this project is to ensure that it will replace to very large extent liquid storage and lubricant, which are being imported as on date to be used by various government and private agencies, like the railways, Transport Corporation of Tanzania and other transport operators and end users. The liquid products in different kinds will be mainly locally consumed and some

exported to neighboring countries, which are landlocked, e.g. Rwanda, Burundi, Malawi, and Zambia, which will bring in valuable foreign exchange for the country.

The project will create nearly 1,500 employment opportunities directly and more than that indirectly. Apart from adding to the wealth of the nation, it shall also increase the purchasing power of the community thereby leading to an overall increase in demand for other consumer products, which shall in turn lead to better economy conditions.

Since the project cost is to be borne by the promoter's own funds and partly from Financial Institution, there will be inflow of previous foreign exchange. Since the output of the project is in the nature of import substitution, it will restrict the outflow of foreign exchange. In other words, the project shall prove to be very much beneficial from foreign trade point of view.

The project will bring in machinery and plant and equipments from outside the country and eventually train the local population in the running of the plant. The project will thus contribute towards the manufacturing sector of the economy.

02. Project Location & Inputs: -

Since the project is related to business of importation and exportation of liquid storage products, marketing and selling goods etc., which is an outcome of specialized processes carried out on liquid products, the project location preferably has to be near to the harbor. A part from the very fact that the project requires lot of liquid transport related issues also dictate the location of such projects as being nearer to the source of raw materials.

The promoters reportedly carried out a survey of various provinces TANZANIA where such project could be established with minimal obstacles. Their study led them to Mtwara Region, which is very close to Harbor. It also has advantages in terms of availability of adequate local manpower, power and new roads constructions they are just underway within Mtwara as a part of rebuilding the Nation. Besides this it is easily approachable and relatively better infrastructure and also being quite near to the main market.

Promoters have been assured about adequate supply of power and water, by local authorities.

That is required for the successful running of the business. Power requirement has been estimated at 1,100 h.p. With 24 hours running.

0.5 **THE MARKET & DEMAND: -**

The country Tanzania, has been enjoying a steady economic growth for last more than 20 years and that has resulted into spurt of demand for quality products. The demand has been more pronounced in the basic necessity sector. Transportation and construction sector have also shown impressive growth. The products of G.M form the basis for transport industry. It is used in all stages of transportation.

As on date, as revealed by the survey carried out by promoters, more than 90% of the demand for liquid products is being serviced through imports. Besides due to imports (which are costlier), it is felt that the real demand is not being exhibited. The promoters are confident that all their produce will meet with ready market.

From marketing angle, apart from the points noted above, this project enjoyed a distinct advantage. There are certain international standards in which the dimensions are available for warehousing and liquid storages, however G.M envisaged supplying liquid products in various types, which can suit the requirements of local populace. This strategy shall provide the project with an additional marketing edge compared to imports, the first edge being lower prices. G.M believes that creation of non-standard size shall not only make it more viable/profitable but will in long run also ensure maximum utilization of available resources.

G.M promoters firmly believe that they will not encounter any major hurdle in marketing their stocks. Some time will definitely be

required as the product boast of being import substitute and the products are not meant for direct consumption. However, in long run G.M promoters and management are very much sure about the successful operation of the project.

The per capital consumption of liquid products in Tanzania is one of the lowest in the world and the growing economy and changes in international situation it is very likely that the demand for warehousing and liquid products shall grow in geometric proportions. G.M seeks to initiate its activities on the promise of such calculations.

06. Promoters & Management: -

The importance of well-experienced promoters and professional management can never be over estimated for successful implementation of the any project. It is said that well – informed promoter and professional management can make even a not so viable project otherwise and vice-a-versa.

This shows the level of interest and seriousness the promoters have towards this project. In a way such commitment itself can be considered as an important edge compared to the existing units.

07. Manpower: -

Although the project of warehousing and liquid storage will require quite a number of automatic machines, lot of manpower especially at lower end shall be required to carry out preparatory processes as well as for quick movement of liquid within the warehouse premises.

G.M estimated that total manpower required will nearly be 1,500.

G.M will hire number of expatriates to oversee the operations and the rest will be local workers. Workers will be guided and trained by the local technical experts to run machines. Organization hierarchy shall be as under: -

a. Top level

Chairman cum Managing Director

General Manager

b. Middle Level

Warehousing Manager

Chief Engineer

Finance Manager

Sales Manager

Depot managers

c. **Lower Level**

Warehousing Supervisors

Personnel and Administrative Officer

Accounts Officer.

Sales Executive Officer

Pumps attendants

Security guards.

G.M will keep on promoting local staff as much as possible to ensure better employment opportunities to the local populace. However, it shall always ensure that efficiency of the unit is kept intact.

G.M will run simultaneously a small in-house training house, where the experts will provide training to the new recruits before they are put on the jobs for on-job training.

G.M believes that a motivated and skilled manpower can for sure bring in immense benefits to the industry and can ensure peaceful co-existence of all concerned.

08. Cost of the Project & Means of Finance: -

A. Cost of the Project: -

Sr. NO.	Details	USD.
1	Land & Building/Warehousing	1,150,000
2.	Plant & Machinery& Equipments	4,700,000
3.	Furniture, Computers & Fixtures	80,000
4.	Vehicles	1,250,000
5.	Pre-operating Costs	70,000
6.	Initial working capital	200,000
7.	Others	50,000
	Total Cost of the Project	7,500,000

B. Means of Finance: -

Sr. NO.	Details	USD.
1	Equity Funds	7,500,000/=
2	Foreign Loans	
	Total Means of finance	7,500,000/=

The total cost of the project has been estimated at **USD. 7,500,000/=**. As can be seen from the above chart, majority of the expenses involved will be on plant and machinery and Equipments. Besides considerable money will be required in the starting up of the unit which has been grouped under the head pre-operating and initial working capital costs.

It is estimated that Phase I will be implemented within a span of three months and the second and the final phase will be completed within a span of nearly 21 months from the date of the completion of the first phase.

Building will be a simple structure based on pillars with sidewalls open to facilitate future expansions. The height of the warehouse shed will be 75 feet, and for liquid storage tanks and all depots will be of international accepted standards. A small training house and a rest room for the workers will also be constructed.

Office furniture will be bare minimum and so will be computers. Telephone lines; fax line and Internet line will be kept handy at the factory to ensure speedy and cheap communication.

Pre-operating costs will take care of the preliminary expenses, initial survey and travel costs including accommodation charges, professional charges for preparation of reports etc and shall also cover for the initial joining costs of various key personnel till the real operations commence.

Initial working capital includes the money required to bring in enough quantity of liquids, spend for the revenue expenses for the process carried out on them and the financing of other revenue costs till the time money starts flowing back from the debtors for the goods sold to them on credit.

The promoters of G.M are in possession of required finances and are committed to put in the same as and when required.

0.9. Project Implementation Schedule: -

As stated in the earlier paragraphs the entire project will be implemented in two phases within a period of two years. The first phase is expected to be completed within a span of nearly two to three months and the next phase is expected to be completed in another 1 year and 9 months.

The second phase implementation will begin immediately after one year and it is expected that within a span of another nine months' major expansion as envisaged will be completed. Improvements will be introduced in the next phase based on the experiences of the first phase.

10. Project Financials: -

10.1.1 Assumptions

- a) Required labor force will be available
- b) Required permits will be granted within the limited time schedule to ensure implementation as per schedule.
- c) The first phase will be operational within a span of three months.
- d) The second phase will have taken nearly 21 months to complete after the start of first year and will increase the capacity to 600,000 cubic gallons per day.
- e) Total investment will be USD. 7,500,000/=
- f) The project will have own finance and from financial institution.
- g) Land will be available on and as when required.
- h) Import duty exemption and deferment of VAT will be available on import of plant and machinery.

11.01 Projected Five Years Profitability Statements

From the enclosed projected profitability statement, the company will not earn profits in the first year where the operations are to run only for six months; however, there will be cash- profits.

The company will attain a turnover of US \$ 100,000 in first six months; will go up to US \$. 126,600 in the next years and from third year of operation will remain steady at US \$ 150,000.

The profits will start coming from the 2nd year of operations. From the year 4 and onwards the annual profits will be in the range of US \$ 50,000 and above. The project enjoys a payback period of 5 years.

The company will be earning gross profit @ 4% and net profit of nearly 2.5%. For a very large project, like this a net profit of 2% is quite reasonable. Government will earn lot of revenues due to such high turnover.

Selling costs have been assumed at 2% of the sales and other overheads have been assumed not to cross US \$ 50,000 a month including manpower costs.

Depreciation has been provided as per the prevailing income tax rates. Further full depreciation has been provided on assets purchased during the year. Separate schedules are attached with this report for calculation of depreciation.

11.03 Projected Five Years Balance Sheet

The enclosed balance sheet shows very sound positions of the company. The current assets ratio is in excess of 1.2 from the beginning and by the year 5 it reaches 2.

Inventory will be maintained only for a period of one week. The reason being the plant is going to be located in the close proximity of liquid products.

Since majority of sales will be done inside Tanzania, vide advance TT or L.C debtors are not expected to be on the higher side. However, for demotic sales on month credit has been considered.

Creditors will be outstanding for a period of 15 days and suppliers of services will be paid within 30 days.

11.04 Projected Five Years Funds Flow Statements: -

As can be seen from the appended projected funds flow statement the company will be financed by the promoter's own funds and a loan from the bank.

Profits will be ploughed in to the business. Once the operations are steadied from the year 2006, the annual contribution of operational profits shall be ton the tune of US \$ 190,000/=

Depending on the surplus available, promoters loan will be re-paid. As can be seen the company shall be in a position to commence repayment of promoters' loan by the year 2008.

11.05 Projected Five Years Taxation Schedule: -

The company will enjoy tax incentives as per the governing laws of the country. It will have taxable profits only from the year 2006 and will then onwards contribute to the exchequer in excess of US \$ 150,000/= in the first year and then onwards in excess of US \$ 340,000/= The company may reduce its tax burden by investing or expanding its operations and in either case the country benefits.

12. Social & Development Benefits: -

In other words, the promoters of the project are fully conscious of the negative impact of liquid products and allied products have already provided rooms for a mechanism whereby the same can be reversed.

◆ Employment creation

As has been observed earlier this project will provide direct employment opportunities to more than 500 locals inclusive of skilled, semi- skilled.

This direct employment of more than 500 individuals will generate indirect employment for more than 1,000 individuals. In nutshell it can be concluded that this project will have a very positive impact on the level of employment in the country and will be welcome change.

◆ **Transfer of technology**

This project being a liquid storage project will usher in the country technology. Although the technology is simple the advantages to the country are quite significant. The country will get the advantage of value addition due to such incoming technology. Further the country can reduce its dependence on imports for the finished products manufactured by this project. Local employees will get on-the-job training from the local experts (expatriate) employed and in long run will improve the technical competence of the local population.

◆ **Inflow of foreign exchange**

Majority of the output will be exported out of the country. This will have two positive effects on the foreign exchange reserves of the country. IN the first place the imports of the output will be reduced which will enable the country to save on the outgo of foreign currency and secondly the output produced will be exported which will bring in the country foreign currency.

Thus this project will provide positive impact on the foreign currency reserves of the country.

◆ ***Transportation cost lowered.***

As the liquid storage and allied products will be available within the country at a cheaper price the country will benefit from lower cost of transportation.

◆ ***Contribution to the exchequer.***

This project will contribute substantially to the society in general and to the exchequer in particular. As has been observed the total turnover at 100% utilization will be in the range of US \$ 40 million. This will result into VAT outflow of substantial amounts. Besides the company will be contributing tremendously in terms of PAYE and NSSF. In addition, the company will also be contributing in terms of corporate taxation from the year 2022 onwards.

◆ ***Positive impact on the nation's economy.***

This project will have overall positive impact on the society. It will not only save the precious foreign currency reserves of the country by producing import substitute products, and by exporting the final product, but will also generate direct

employment to more than 500 individuals and will provide means of livelihood to more than 1,000 individuals. The cascading positive impact on the society will be too great. This project will lead to creation of national wealth. Its contribution to the exchequer will also be quite significant in terms of NSSF, PAYE, VAT and direct taxation apart from skills and development levy.

Its location is one more advantage. Since it is located at Mara region, which is not fully developed, will get more opportunities to commercially expand and develop. This project will thus result into regional development. This project will thus have held the government to further its own objective of promoting regional development.

13. Conclusion & Recommendation: -

The foregoing write-up indicates following benefits to the country, which in turn pleads for immediate acceptance of this project as a feasible project.

- ◆ The country will get a liquid storage facility unit, which will add to its scarce liquid storage facility and warehouse base. As on date the country's manufacturing base is very low with contribution of 9% to the GDP and thereby making the economy pre-dominantly agriculture oriented.

- ◆ The project will bring in modern technology in the relevant field and will ensure training or development of skilled labor force in the country. The labor force will get on -job training and will thus make them more and more competent.
- ◆ All products envisaged to be processed are basically import substitute and will therefore save the scarce foreign currency for the country. Apart from that the country will save in terms of lowering of cost of manufacture and lower construction and transportation cost which will again lead to lower cost of other manufactured items.
- ◆ The project when implemented in full over a period of 3 years will ensure that there will be a direct flow of foreign currency in the country to the tune of US \$ 2,000,000/= which is considerable by any standard.
- ◆ The project will lead to regional development besides Mtwara, this advantage has many other advantages running parallel. There will be tremendous boost to the economic development in the region. It will arrest migration of individuals and will also alleviate the problem of congestion and concentration of working force in Mtwara.
- ◆ It will generate employment to 500, locals at the expiry of 3 years. Further this direct employment generation will lead to creation of employment opportunities of nearly 1000 individuals indirectly.

- ◆ It will provide cascading positive impact on the economic situation in all above regions.
- ◆ This will ensure that the project will negate and negative impact on environment if any in long run.

We therefore recommend that this project be supported in totality, as it will be in favor of the nation on a whole.