

**USAWA OFFICIAL COMPANY
LIMITED**

Feasibility Report

For

**Set Up of Manufacturing Unit for
Paints**

By;

USAWA OFFICIAL COMPANY LIMITED

P O Box 913

Dar es Salaam

Executive Summary

1 Introduction

This study is done with an objective of preparing a Feasibility Report for M/s USAWA OFFICIAL COMPANY LIMITED, of Dar es Salaam for setting up high quality sewing facility in Dar es Salaam, Tanzania.

The scope of services for the proposal feasibility report for development of manufacturing unit for the production of sewing facilities in Dar es Salaam include: Market assessment, Development program, land and civil works, project implementation schedule, project cost, financial projections, and conclusion & recommendations.

The overall approach comprised a combination of secondary and primary research. A multi-disciplinary team of appropriate personnel with experience in techno economic studies and market research were deployed for undertaking this assignment.

The assignment commenced with a planning for the primary and secondary research. Initially, our team interacted with USAWA OFFICIAL COMPANY LIMITED officials to understand the requirements of the study.

Later, the team continuously interacted with USAWA OFFICIAL COMPANY LIMITED for their inputs on the plan of the unit, machinery, the constructing cost, project cost, financing etc.

The data obtained from the secondary and primary research has been analyzed and incorporated in the report. A worksheet model has been prepared for feasibility calculations.

The report is prepared on the basis of best of the information provided by the various stakeholders and associations/agencies. The information in the report should not be claimed and be used as evidence for any purpose.

2 Demographic Indicators & Development – Tanzania

Tanzania has been showing an appreciate growth in the past few years. The development taking place in the country has been in pace with the other developing nations. The GDP in real terms grew by 8.1 % in 2016, compared to 6.7 % in 2015. Over the years the construction has shown a decent increase.

Since the country started to implement economic and institutional reforms, there has been a steady increase of Foreign Direct Investment (FDI) inflows in the economy. Tanzania is among top three recipients of foreign direct investments (FDI) in non-oil producing African countries after South Africa and Ethiopia. Inflows of FDI have risen from US \$ 463.40 million in 2015 to US \$ 12.50 million in 2017.

3 Genesis & Details of the Project

The project involves set up of manufacturing unit of Paints at Dar es Salaam

M/s. USAWA OFFICIAL COMPANY LIMITED of Dar es Salaam, was incorporated on the 5th July, 2022 as private limited liability company under the Companies Ordinance (Cap 212 of the Laws of Tanzania).

The day to day activities would be managed by an individual appointed for the said purpose. It is expected that a significant number of people will be employed, during the construction of the commercial complex and about 12 local citizens would be employed permanently, including the security guards, once it becomes operational.

5 Project Cost and Means of Finance

The development cost of the entire project has been estimated to be around US \$ 0.51 million. The major factors contributing towards the cost of the project is the cost of machinery and motor vehicles running cost.

The table below indicates the detailed cost of project:

Table 1: Cost of Project

PARTICULAR	AMOUNTS USD
Land and Buildings	62,000.00
Plant & Machines	140,000.00
Motor Vehicles	49,000.00
Furniture & Fixtures	20,000.00
Pre Expenses	30,000.00
Working Capital	200,000
TOTAL	510,000

Considering the size of this project, and also keeping in mind the 3 months of implementation period, the contingencies working capital have been estimated at US\$ 200,000/-

The finance for the project is already arranged for by the promoters. The table below indicated in details the manner in which the investment is going to be arranged:

Table 2: Means of Finance

NO.	MEANS OF FINANCE	TOTAL
1	Equity	210,000
2	Director's Loan	300,000
	TOTAL	0.51

7 Financial Projections

Details of financial projections are attached as appendices to this report. However, in brief the annexed project financials show that the project will be one with a full proof financing scheme.

For the purpose of calculations and projections the following assumptions were made:

1. Long term loan is availed @ 8% per annum
2. The repayment of the loan would start very second year in installments of US\$ 86,667/- per annum.

The detailed calculations of the projected financial are given in the annexure. The Net Present Value for the project comes out to be US\$ 1,109,296/= and the IRR is reasonably good at 19%. Pay Back for the project is estimated to be around 4.59 years.

The next annexure indicates the calculation for the Break Even Analysis and the Margin of Safety. It must be noticed that the average Return on Investment for the five years is more than 22%, which is a very good sign for the investors.

As far as DSCR is concerned we can see that for the coming years it is expected to be more than 1 which means that the company can repay the loan from its current profits only and not require to repay from its accumulated resources.

8 Development Value

The Project's development value to the country is as under:-

The project will generate employment to several people both during the development and after completion. It has been estimated that directly or indirectly this project will provide employment to nearly 12 individuals including the security guards.

Government will also earn revenue in terms of various levies on the Company associated with the operation of the complex. Further as indicated in the financial projections the total contribution for five years by way of income-tax itself will be to the tune of about US\$ 378,910. Last but not the least, the manufacturing units are always considered to be a national property and will therefore add to the national wealth.

It may be mentioned here that total investment of US\$ 0.51 million will play a good part in boosting the local economy. Considering all relevant factors it is being recommended that the grant of 0% import duty and VAT deferment on capital goods and deemed capital goods is granted to this project not only to make the project viable but also to catalyse other development benefits that may accrue to the country on acceptance of this project.

1.1 Approach and methodology

Approach

The overall approach comprised a combination of secondary and primary research. A multi-disciplinary team of appropriate personnel with experience in techno economic studies and market research were deployed for undertaking this assignment.

Methodology.

The assignment commenced with a detailed planning for the primary and secondary research. Initially, our team interacted with USAWA OFFICIAL COMPANY LIMITED officials to understand the requirements of the study. Later, the team continuously interacted with USAWA OFFICIAL COMPANY LIMITED for their inputs on the plan of the commercial complex, the material that would be used, the construction cost, project cost, financing etc.

➤ Secondary Research

A detailed desk research was undertaken to gain a fair understanding of the sewing industry, its trends, market size, best practices etc. The sources from which the secondary data was collected included in-house database, internet, and various periodicals. The secondary research was used for planning the primary research for the study and identifying the data to be collected by way of primary research. A detailed desk research was undertaken to gain a fair understanding of the sewing industry, its trends, market size, best practice etc. The sources from which the secondary data was collected included in-house database, internet, and various periodicals. The secondary research was used for planning the primary research for the study and identifying the data to be collected by way of Primary research.

➤ Primary Research

Interview guidelines were developed for the compilation of the necessary information by way of interview.

2. Demographic Indicators and Development – Tanzania.

2.1 Tanzania – The Developing Economy

In the African continent Tanzania is among the fastest developing economies. Tanzania has clinched the top slot in the improvement index as published by the Centre for International Development at Harvard University.

The report titled “The Africa Competitiveness Report 2016/2017” ranks Tanzania as first on improvement index. Investors in Tanzania are highly optimistic of the future of the economy.

Low inflation, a reasonable stable currency, friendly government and peaceful country are what most of the international company chiefs quoted as being economic driving force.

Tanzania has been showing an appreciable growth in the past few years. The development taking place in the country has been in pace with the other developing nations.

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3. Genesis & Details of the Project

3.1 Introduction

The project involves setting up high quality sewing facility at Dar es Salaam.

Tanzania is growing commercially and is being viewed positively by outside world. The tourists are becoming more and more interested in viewing the national parks

and hidden beauties. Tanzania depends largely on the performance of its agricultural sector for its social and economic development. Like many developing countries it is the agricultural sector that constitutes the major source of national food reserves and, at the same time is an engine for generating foreign exchange and raw materials for basic industries.

However, present economic reforms taking place in the country have started to show that other sectors of the economy like – general engineering and fabrication, tourism, general trade and commerce in non-tradition products, are becoming increasingly important sectors of the economy, especially considering their potential for generating foreign exchange earnings.

As a consequence it is imperative that the need for more and more facilities will be felt and the fact is that there is shortage of such facilities in Dar es Salaam which is the financial capital of the Country.

It is therefore inferred that such project should be undertaken. It is confirm that USAWA OFFICIAL COMPANY LIMITED has the required expertise for the Project.

With ready market, availability of proven management expertise and availability of funding to the extent needed, the success of the project is guaranteed.

3.4 Location

The site is to be developed at Dar es Salaam. This place is well served with the necessary utility facilities, including the neatness of the area from different waste to be produced.

3.5 Day to day management.

The management of the company has the required expertise in-house. The day to day activities would be managed by an individual appointed for the said purpose.

3.6 Employment

It is expected that a significant number of people will be employed, during the construction of the commercial complex and about 12 local citizens would be employed permanently, including the security guards.

3.7 Strategies

In order to achieve the objectives it is planned to implement the following strategies;

- Establish an effective preventive maintenance programme of the equipment, which will ensure sustainable equipment availability for operation.
- Establish a quality assurance and control system that will ensure provision of quality products and services.
- Conduct regular evaluations of production and servicing processes to ensure optimum costs of products and services.
- Devise and implement productivity improvement measures
- Develop and implement an effective marketing policy
- Develop and implement an advertising and promotion programme
- Establish effective financial and resources management.

3.8 Market

Recent reforms taking place in the economy indicate that there is an increase in demand for local customers who import modern dresses from abroad while the facility will produce the same. The following are some of the factors that have contributed to such an increase in demand for these products in the country:-

- Increased level of rehabilitation and expansion of people shifted to town area and increase of employed people who generally purchase ready made clothes..
- Rise in people's standard of living and a change in people's consumption patterns;
- General improvement in the national economy, especially the balance of payments which has made it possible for the Government to achieve greater capability to import critical products into the country;
- Increased general level of investments in industrial activities which are the major users of industrial inputs;
- Increase transit trade between Tanzania and its neighbours especially – Uganda, Rwanda, Burundi, Malawi, Zambia and the Democratic Republic of Congo.

These factors have lead to increased demand for general engineering activities for products in the country. Furthermore, these factors have created the impetus for increased inflow of investment capital by foreign and local private investors who now have decided to venture in the importation and industrial raw materials.

The reforms which are now being introduced in this sector aim at influencing the inflow of and increased supply of both capita goods and other industrial productions and their distribution in the country and beyond and national borders.

4. Project Cost and Means of Finance

4.1 Cost of Project

The development cost of the entire project has been estimated to be around US\$ 0.51 million. The major factors contributing towards the cost of the project is the cost of machinery and cost of equipments.

The table below indicates the detailed cost of project.

Cost of Project

PARTICULAR	AMOUNTS USD
Land and Buildings	62,000.00
Plant & Machines	140,000.00
Motor Vehicles	49,000.00
Furniture & Fixtures	20,000.00
Pre Expenses	30,000.00
Working Capital	200,000
TOTAL	510,000

Considering the size of this project, and also keeping in mind the 3 months of implementation period, the working capital have been estimated at US\$ 200,000/-

Stock of Consumables has been considered at 1.5 months, and Debtors at 1 months.

On the other hand, 40 days credit has been considered form creditors.

5. Financial Projections

Details of financial projections are attached as appendices to this report. However, in brief the annexed project financials show that the project will be one with a full proof financing scheme.

The financing is so prudently designed that the smooth cash flow position is guaranteed throughout the gestation period.

6. Developmental Values

The project's development value to the country is as under:-

1. The project will generate employment to several people both during the construction and after completion. It has been estimated that directly or indirectly this project will provide employment to nearly 12 individuals including the security guards.
2. Government will also earn revenue in terms of various levies on the Company associated with the operation of the complex. Further r as indicated in the financial projections the total contribution for five years by way of income-tax and withholding tax will be to the tune of about US\$ 78,910.
3. The project will also contribute directly and indirectly in the generation of foreign exchange.

4. Last but not least, the manufacturing units are always considered to be a national property and will therefore add to the national wealth.

7. Conclusions & Recommendations

The economic impact from implementing and operating it is also positive.

Since the project is technically feasible, financially and economically viable, socially and from nation's point of view desirable a fast implementation thereof is recommended. It is important that there are no cost overruns so as to enable the realization of the benefits as outlined above.

It may be mentioned here that total investment of US\$ 0.51 million will play a good part in boosting the local economy.

Considering all relevant factors it is being recommended that the grant of 0% import duty & VAT deferments on capital goods and deemed capital goods is granted to this project not only to make the project viable but also to catalyze other development benefits that may accrue to the country on acceptance of this project.

FINANCIAL PROJECTIONS

OPERATING COST

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Motor Vehicle running expens	36,000	36,400	36,800	37,200	37,600
Salaries and Wages	69,000	75,900	83,490	91,839	101,023
Administrative Overhead Costs	30,000	33,000	36,300	39,930	43,923
Utility Costs	52,000	57,200	62,920	69,212	76,133
Interest on Loan	0	0	0	0	0
Communication Exepnses	13,000	14,300	15,730	17,303	19,033
Total Costs	200,000	216,800	235,240	255,484	277,712

INVESTMENT BREAKDOWN

PARTICULAR	AMOUNTS USD
Land and Buildings	62,000.00
Plant & Machines	140,000.00
Motor Vehicles	49,000.00
Furniture & Fixtures	20,000.00
Pre Expenses	30,000.00
Working Capital	200,000
TOTAL	510,000

FIXED ASSETS SCHEDULE

NAME OF ASSETS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Land and Buildings	62,000	58,900	55,800	52,700	49,600
Plant & Machines	140,000	112,000	84,000	56,000	28,000
Motor Vehicle	49,000	44,000	39,000	34,000	29,000
Furniture & Fixtures	20,000	17,500	40,000	35,000	30,000
Total	271,000	232,400	218,800	177,700	136,600
Depreciation	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Land and Buildings	3,100	3,100	3,100	3,100	3,100
Plant & Machines	28,000	28,000	28,000	28,000	28,000
Motor Vehicles	5,000	5,000	5,000	5,000	5,000
Furniture & Fixtures	2,500	2,500	2,500	2,500	2,500
ANNUAL DEPRECIATION	38,600	38,600	38,600	38,600	38,600
CLOSING FIXED ASSETS	232,400	193,800	180,200	139,100	98,000

PROJECT BALANCE SHEET

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Fixed Assets	271,000	232,400	218,800	177,700	136,600
Long term Assets					
Depreciation	38,600	38,600	38,600	38,600	38,600
Total long term assets	232,400	193,800	180,200	139,100	98,000
Current Assets					
Cash	406,100	684,700	979,050	1,292,735	1,625,723
Account Receivable	105,000	110,250	216,535	421,763	527,628
Inventory	214,710	376,383	438,469	402,292	467,493
Total Current Assets	230,000	230,000	230,000	230,000	230,000
Total Assets	462,400	423,800	410,200	369,100	328,000
Current Liabilities					
Accounts Payable	84,000	88,200	92,610	97,241	102,103
Other Current Liabilities	70,000	73,500	77,175	81,034	85,085
Subtotal Current Liabilities	154,000	1,616,700	169,785	178,274	187,188
Long term Liabilities					
Long term Liabilities	1,820,000	1,820,000	1,820,000	1,820,000	1,820,000
Total Liabilities	232,400	193,800	180,200	139,100	98,000
Net Assets	820,810	877,633	951,268	1,044,516	1,157,656
Capital and Reserves					
Owners Contribution	780,000	780,000	780,000	780,000	780,000
Retained Earning	40,810	97,633	171,268	264,516	377,656
Total Capital	462,400	423,800	410,200	369,100	328,000

PROJECTED INCOME STATEMENT

	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Sales Revenue	219,631	285,520	371,176	482,529	627,288
Cost of Sales	21,963	21,963	21,963	21,963	21,963
Gross Profit	197,668	263,557	349,213	460,566	605,325
Operating Expenses					
Administrative Overhead					
Costs	9,000	9,090	9,181	9,273	9,365
Motor Vehicle running Expenses	3,000	3,030	3,060	3,091	3,122
Salaries and Wages	2,000	2,020	2,040	2,061	2,081
Depreciation	6,100	6,161	6,223	6,285	6,348
Marketing Costs	6,175	6,237	6,299	6,362	6,426
Utility Costs	2,500	2,525	2,550	2,576	2,602
Insurance	10,500	10,605	10,711	10,818	10,926
Interest on Loan	6,000	6,060	6,121	6,182	6,244
Communication	8,200	8,282	8,365	8,448	8,533
Total Expenses	55,225	43,657	44,094	44,535	44,980
Profit before Tax	142,443	219,900	305,119	416,031	560,345
Tax (30%)	42,733	153,930	213,584	291,222	392,241
Profit After Tax	99,710	65,970	91,536	124,809	168,103