

MARCH 29, 2022

QUALITY FOAM LIMITED

BUSINESS PLAN FOR EXPANSION /REHABILITATION MATTRESS FOAM FACTORY

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1.0 BACKGROUND

Quality Foam Limited incorporated in 1991 manufactures and sell polyurethane foam mattresses, cushions, pillows and other materials. It is now located on Plot 43, Mikocheni Light Industries. This plot was developed in 1999 and 2000 when the factory buildings were constructed and the initial machinery were installed under the first TIC Investment Certificate of 1999 – No 040380 issued on 31 Dec 1999, nearly 20 years ago. An expansion program was proposed and for which an extension of TIC Investment Certificate No. 0222931 dated 9 January 2017 was availed and for which TShs 12 billion has been invested. The buildings and the machinery invested in 1999 / 2000 have since become old and many requiring replacements and for which it is proposed that TShs 2 billion be invested. These rehabilitation and replacement are essentials if the factory is required to have the same production rate.

The factory also provides direct employment to about 150 people with more than 1,000 indirectly in the form of transportation, warehousing and trading. The government last year in 2021 earned through this venture a total of TShs 14.6 billion.

2.0 PROJECT PROMOTERS

The project will be managed and Quality Foam Limited a local company which is owned by Tanzanians with the following share distribution.

i). Hassan R. Manji Walli.	Tanzanian	20% shares
ii). Hessein R. Manji Walli	Tanzanian	20%shares
iii). Mohamed A.R Manji Walli	Tanzanian	20%shares
iv). Mohamed. R Manji Wall	Tanzanian	20%shares
v). Rizwan. R Manji Walli..	Tanzanian	20%shares

3.0. PRESENT PRODUCTION CAPACITY, SALES AND TAX REVENUE

The factory can produce about 6,200 tons of foam annually. However recently due to Covid 19 and old machinery, the factory was able to produce 5,300 tons of foam in 2021. In 2021 the gross sales revenue was about TShs 57 billion, and total tax paid and collected for the government was TShs 14.6 billion.

The factory also provides direct employment to about 150 people with more than 1,000 indirectly in the form of transportation, warehousing and trading.

The employment we provide, the government tax revenue we collect and our product that is aimed at improving health and standard of living makes our factory an important industry for the Tanzanians and the government, and we are appreciate full of the support we always receive from Tanzania Investment Centre and other government agencies.

4.0. NEED FOR REHABILITATION

The firm has two foam production line, an old one installed in 1999/2000 and a recent one installed in 2014/2016. The older foam production line and some other accessories now need replacement being nearly 20 years old. Also the buildings constructed in 1999/2000 need rehabilitation. If the rehabilitation is not effected, the production of foam will definitely reduce and so will the company revenue and the government taxes.

5.0. CAPITAL INVESTMENTS TO DATE – 2014 TO 2021

Following investments in TShs have been made in two phases:

Items	2014 - 2016	2017 – 2021	Total
Land & Buildings	750,000,000	Nil	750,000,000
Plant & Machinery	9,427,204,000	1,043,817,000	10,471,021,000
Motor Vehicles	274,627,000	252,734,000	527,361,000
Office Furniture & Equipment	16,133,000	273,445,000	289,578,000
Computers	6,935,000	23,949,000	30,880,000
Total	10,474,899,000	1,593,945,000	12,068,840,000

6.0. FUTURE INVESTMENTS

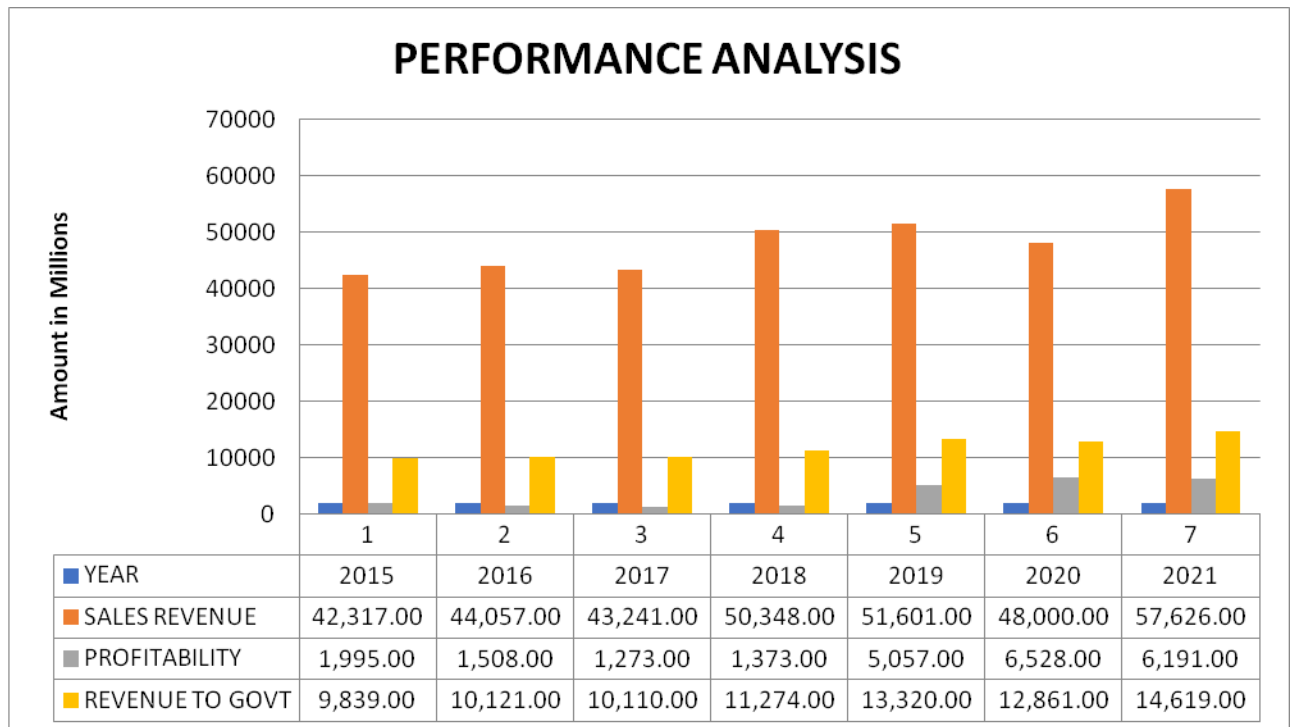
The Company must invest in the rehabilitation of buildings and replace old machinery as follows, which we plan to implement in year 2022/2023:

SI No.	Particulars	Amount in Tsh.
1	Building Structure Including Construction/Installation	700,000,000.00
2	Plant and Machinery including Errection	4,200,000,000.00
3	Other Assets	100,000,000.00
	Total	5,000,000,000.00

A total of TShs 5.0 billion is expected to be invested in this essential rehabilitation.

7.0. CURRENT AND FUTURE FINANCIAL STATUS

Historic (2015 to 2021) financial records are presented below.



Profitability implies gross profit before tax.

For future financial forecast for 10 years, following criteria and conditions apply at present prices:

- For investment, retained earnings are used and no loans are taken.
- As the plant is already operating at 100% capacity, the production, the sales, the input costs and expenses and the net profit shall remain constant of the 10 years at present prices.
- The details are as follows:
 - Sales TShs 58,000,000,000/- annually – excluding VAT
 - Expenses TShs 51,000,000,000/- annually
 - Gross Profit before tax – TShs 7,000,000,000/ plus - annually
 - Corporate Tax – TShs 2,100,000,000/- plus
 - Net Profit after tax – TShs 4,900,000,000/- plus

8.0. FINANCIAL ANALYSIS

Projected Income Statement '000'					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	TSH	TSH	TSH	TSH	TSH
SALES	57,000,000	58,000,000	59,800,000	60,517,600	61,243,811
COST OF SALES	43,181,321	43,635,152	44,091,483	44,620,580	45,156,027
GROSS MARGIN	13,818,679	14,364,848	15,708,517	15,897,020	16,087,784
OPERATING COSTS					
Advertising	670,000	737,000	810,700	820,428	830,274
Automotive	232,000	255,200	280,720	284,089	287,498
Bank charges	61,400	67,540	74,294	75,186	76,088
Business taxes	804,622	885,084	973,593	985,276	997,099
Casual wages	319,000	350,900	385,990	390,622	395,309
Depreciation	875,000	875,000	875,000	885,500	896,126
Dues, licenses and fees	125,000	137,500	151,250	153,065	154,902
Insurance	808,000	888,800	977,680	989,412	1,001,285
Interest on long-term debt	-	-	-	-	-
Management salaries	-	-	-	-	-
Misellaneous expenses	316,000	347,600	382,360	386,948	391,592
Office costs	145,000	159,500	175,450	177,555	179,686
Postage	13,000	14,300	15,730	15,919	16,110
Professional fees	218,000	239,800	263,780	266,945	270,149
Property taxes	180,000	198,000	217,800	220,414	223,059
Repairs and maintenance	426,000	468,600	515,460	521,646	527,905
Rent	36,000	39,600	43,560	44,083	44,612
Salaries and benefits	244,860	249,757	254,752	257,809	260,903
Telephone	26,200	28,820	31,702	32,082	32,467
Utilities	1,245,000	1,369,500	1,506,450	1,524,527	1,542,822
	6,745,082	7,312,501	7,936,271	8,031,506	8,127,884
INCOME BEFORE TAXES	7,073,597	7,052,347	7,772,246	7,865,513	7,959,900
INCOME TAXES	(2,122,079)	(2,115,704)	(2,331,674)	(2,359,654)	(2,387,970)
NET INCOME	4,951,518	4,936,643	5,440,573	5,505,859	5,571,930

The financial performance in terms of Internal Rate of Return IRR and Net Present Value NPV (at 12% discount rate) for this investment is calculated below for the annual positive net cashflow.

The IRR is in excess of 100% (being 225%) because the cash flow remains positive during the 10 years appraisal. The NPV is about TShs 20.9billion – positive and very high. These financial performance indicators demonstrate that the investment in rehabilitation works is financially healthy.

PROJECTED BALANCE SHEET						
For Five Years Ending						
	Opening	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	\$	\$	\$	\$	\$	\$
ASSETS						
CURRENT						
Cash	100,000	7,753,863	13,560,016	20,061,563	22,468,951	25,165,225
Accounts receivable	-	2,375,000	2,416,667	2,491,667	2,790,667	3,125,547
Inventory	-	-	-	-	-	-
Other assets	-	-	-	-	-	-
Total	100,000	10,128,863	15,976,683	22,553,230	25,259,617	28,290,771
CAPITAL ASSETS						
Land	-	-	-	-	-	-
Building	700,000	700,000	700,000	700,000	784,000	878,080
Equipment	-	-	-	-	-	-
Furniture and fixtures	-	-	-	-	-	-
Leasehold improvements	-	-	-	-	-	-
Computer equipment	4,200,000	4,200,000	4,200,000	4,200,000	4,704,000	5,268,480
Automotive equipment	-	-	-	-	-	-
Other	-	-	-	-	-	-
	4,900,000	4,900,000	4,900,000	4,900,000	5,488,000	6,146,560
Accumulated depreciation	-	(875,000)	(1,750,000)	(2,625,000)	(2,940,000)	(3,292,800)
	4,900,000	4,025,000	3,150,000	2,275,000	2,548,000	2,853,760
Total	5,000,000	14,153,863	19,126,683	24,828,230	27,807,617	31,144,531
LIABILITIES						
CURRENT						
Accounts payable	-	2,080,267	2,122,819	2,167,823	2,427,962	2,719,317
Income taxes payable	-	2,122,079	2,115,704	2,331,674	2,611,475	2,924,852
Current portion of long-term	-	-	-	-	-	-
Total	-	4,202,346	4,238,523	4,499,497	5,039,437	5,644,169
LONG-TERM DEBT						
Long-term loan	-	-	-	-	-	-
Less current portion	-	-	-	-	-	-
Total	-	4,202,346	4,238,523	4,499,497	5,039,437	5,644,169
OWNER'S EQUITY						
Cash	4,500,000	4,500,000	4,500,000	4,500,000	5,040,000	5,644,800
Contributed asset value	500,000	500,000	500,000	500,000	560,000	627,200
Accumulated earnings	-	4,951,518	9,888,160	15,328,733	17,168,181	19,228,362
	5,000,000	9,951,518	14,888,160	20,328,733	22,768,181	25,500,362
Total	5,000,000	14,153,863	19,126,683	24,828,230	27,807,617	31,144,531

PROJECTED STATEMENT OF CASH FLOWS					
For Five Years Ending					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
	\$	\$	\$	\$	\$
CASH PROVIDED BY THE FOLLOWING ACTIVITIES					
OPERATING					
Net earnings	4,951,518	4,936,643	5,440,573	6,093,441.24	6,824,654.19
Depreciation	875,000	875,000	875,000	980,000.00	1,097,600.00
	5,826,518	5,811,643	6,315,573	7,073,441.24	7,922,254.19
Changes in working capital accounts				-	-
Accounts receivable	(2,375,000)	(41,667)	(75,000)	(84,000.00)	(94,080.00)
Inventory	-	-	-	-	-
Other assets	-	-	-	-	-
Accounts payable	2,080,267	42,552	45,004	50,404.67	56,453.23
Income taxes payable	2,122,079	(6,375)	215,970	241,886.36	270,912.72
Total	7,653,863	5,806,153	6,501,547	7,281,732.27	8,155,540.14
FINANCING					
Repayment of long-term loan	-	-	-	-	-
CHANGE IN CASH	7,653,863	5,806,153	6,501,547	7,281,732.27	8,155,540.14
CASH, BEGINNING OF YEAR	100,000	7,753,863	13,560,016	15,187,218	17,009,685
CASH, END OF YEAR	7,753,863	13,560,016	20,061,563	22,468,951	25,165,225

9.0. CONCLUSION

Following conclusions are drawn:

- 1) The buildings and part of the plant are about 20 years old and therefore require rehabilitation and replacement.
- 2) The present sales, profit and taxes paid / collected are healthy. About TShs 14.6 billion annually collected and paid to the government as taxes. The factory employs about 150 people.
- 3) If rehabilitation is not carried out – the negative impact due to reduced production is reduction in government revenue and employment.
- 4) The investment in rehabilitation will ensure factory sustainability in its financial performance.