MASTERMIND TOBACCO (TANZANIA) LIMITED

BUSINESS PLAN ON TOBACCO PROCESSING

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EXECUTIVE SUMMARY

1.1 Introduction

MASTERMIND TOBACCO (TANZANIA) LIMITED is privately owned companies incorporated for establishing different activities including tobacco processing and cigarette production other related products. The company buys green tobacco leaf from farmers (AMCOS) and in turn sells processed leaf tobacco to International Buyers A modern factory will be buying tobacco leaves and factory will process it, pack and sell to the market.

1.2 The Project

The promoters of this project through **MASTERMIND TOBACCO (TANZANIA) LIMITED** decided to invest on tobacco processing factory. This has come with these circumstances:

A: Self-assessment in order to understand their capabilities strengths, limitations and preferences of undertaking such a project.
B: Explored possible and suitable opportunities based on environment, current business scene, technology change and linkage related ideas.
C: Assessed the market potentiality available
D: Identified viable project location
E: Considers finances mobilization to suit the project requirement
G: Re assessed their managerial strengths and is in the process of pooling up human resources from local and foreign sources.

MTTL purchases green leaf tobacco from Tanzanian farmers before processing the tobacco at a local processing facility. MTTL sells processed leaf tobacco that meets international standards produced using local expertise.
Tanzanian tobacco has cut for itself a niche in the global tobacco market. This is because the quality of the crop has improved considerably over the years from filler tobacco to semi flavour tobacco.

MTTL has a competitive edge in the Tanzania tobacco market. On the supply side MTTL enjoys good support from Farmers and Government and works closely with key stakeholders. On the marketing side the recent global consolidations have given rise to the need of small to medium size leaf merchants in the global marketplace. Efficiencies that come with new and small operations also add to the competitive edge.

1.3 The Project Location

The Project will be located in Kerege, Pwani Region. The location is well served by all the necessary infrastructures and environmental requirements and hence well suited to the nature of the envisaged project.

1.4 The Market

Recent reforms taking place in economy indicate that there is a continuous increase in demand for oil products in the local market and in the international market. There is also growth of oil waste which ends up affecting the environment. This has brought about a concern in the market. It is the idea of this project to focus on the external market especially the Asia countries which are in high demand of oil finished products and semi-finished products. The Asia market is also growing as well as demand.

1.5 Project Cost and Financing Plan

The total cost of the project is estimated as US Dollars 50,000,000
The following is the summary of the capital investment cost estimated.

INVESTMENT BREAKDOWN			
PARTICULAR			**AMOUNTS USD**
Land and Buildings			2,476,000.00
Plant & Machines			21,000,000.00
Motor Vehicles			3,600,000.00
Furniture & Fixtures			36,000.00
Pre Expenses			2,100,000.00
Working Capital			20,788,000
TOTAL			**50,000,000**

1.6 Financing

The project's cost will be fully financed by shareholder's foreign equity contribution by Usd 50m

1.7 Financial Indicators

The following are some of the financial analysis highlights:

1.7.1 Profitability

Profitability after tax over the years in US $ is as scheduled

1.7.2 Liquidity

The projected net cash flow over the year shows a health position and demonstrates the ability of the company to meet financial commitments as they fall due. The drop in cash flow is due to the fact that the company will repay the Bank loan of 444,000 annually

The Summary thereof in US $ is as in statement

1.7.3 Payback period

The Investment recoups itself in 5 years

1.8 Social and Economic Impact

The proposed project will result into the following social and economic impacts:

1.8.1 Increased availability of quality products alongside competitive prices of these products will result in increased healthy competition among all trading and manufacturing companies

1.8.2 The proposed project of the fleet of trucks investment in this sector will provide employment for about 1500 people.

1.8.3 The proposed project will have appositive impact on the environment as it expects to use oil wastes as inputs or raw material to produce good quality oil products.

1.8.4 The Government and other agencies will benefit from various taxes, fees and commissions that will be paid to the Treasury

1.9 Conclusion and Recommendations

The Executive Summary highlights indicate that the proposed project will be financially and economically viable. The project will generate significantly to the social and economic benefit by way of increasing the provision of quality cigarette's and Cigar's. It is recommended that the project be accorded the required institutional and financial support to pave the way for its expeditious establishment and development.

2.0 THE PROJECT

MASTERMIND TOBACCO (TANZANIA) LIMITED have invested on oil after taking the following into consideration

A. Self-assessment in order to understand their capabilities strengths, limitations and preferences of undertaking such a project
B. Explored possible and suitable opportunities based on environment, current business scene, technology change an linkage related ideas.
C. Assessed the market potentiality available
D. Identified viable project location
E. Considers finances mobilization to suit the project requirement
F. Re assessed their managerial strengths and is in the process of pooling up human resources from local and foreign sources.

MTTL deals in leaf tobacco that cigarette manufacturers use in the manufacture of cigarettes. It purchases, processes, and sells FCV and DFC tobacco type.

Tanzania tobacco has cut for itself a niche in the global tobacco market. Over the years international cigarette manufacturers have incorporated Tanzania tobacco as a blend component in their leading cigarette brands. This position has been attained after several years of consistent supply of tobacco in both volume and quality.

Production Cycle

The tobacco production cycle (agricultural and industrial phases) evolves through the following stages:

Tobacco growers' contract: These are entered into between the months of May and August each season and form the basic element of the relationship between MTTL and growers. As tobacco growers are small-scale farmers, they lack the financial resources necessary for tobacco production. Using the purchase contract entered with MTTL the growers secure financing from local commercial banks. In the finance agreement, MTTL undertakes to pay the farmers through an account held with the lending bank.

Raw materials to tobacco growers: This phase consist of the purchase of the adequate tobacco inputs so that growers can proceed with crop planting. 13 Primary Societies contracted to MTTL belong to Chunya Tobacco Cooperative Union (CHUTCU), 16 belong to Lake Tanganyika Tobacco Growers Cooperative Union (LATCU) and 14 belong to Songea Namtumbo Agricultural Marketing Cooperative Union (SONAMCU).

Sowing and field transplantation: Tobacco is not seeded directly into the soil. Therefore, it is necessary to form seedlings that are transplanted to the soil when planting conditions are right (in the occurrence of first rainfalls).

Harvest and curing: Harvest consists of "picking" tobacco leaves when they reach the right harvesting point. Since quality is an important factor in tobacco processing and cigarette manufacturing, tobacco must be harvested under right conditions. In addition, the correct process of harvesting tobacco leaves is an important factor in maintaining their quality. Tobacco curing involves subjecting the harvested leaves to controlled but varying temperatures and humidity over a specific period in specially constructed curing barns. The main source heat in the curing barn is wood fuel and now Biomass briquettes.

Tobacco purchase/ procurement: Consists of acquiring green tobacco from contracted growers. This takes place in market centres registered with Tanzania Tobacco Board (TTB). Prior to bringing tobacco to the market, tobacco is graded and baled at TTB registered grading and baling centres under the supervision of primary society leadership. Growers then transfer bales from the grading and baling centres to the closest market centre. At market centres bales are weighed and scrutinized again for mixing and Non-Tobacco Related Material (NTRM) contamination. Bales that pass this final scrutiny are laid down for marketing. The sale of the tobacco is done when a TTB classifier assigns a national grade to tobacco bale presented for sale on the market day. MTTL pays the grower a price corresponding to the grade assigned. Both grower and buyer can dispute grade assigned to a bale. When this occurs, TTB classifier returns to arbitrate on the dispute.

Minimum Indicative Tobacco Grade Prices: These are negotiated at the Tanzania Tobacco Council, a statutory stakeholder's forum. Once the prices have been negotiated and agreed they are registered with the Tanzania Tobacco Board (TTB) and become legally binding. Of course, a tobacco buyer can offer contracted farmers prices above the minimum indicative prices. These prices are normally discussed before the commencement of the season, that is, between August and September each season.

Tobacco processing: Consists of transforming green tobacco into processed dry and packed tobacco.

Tobacco processing generates the following: lamina (main product) and stems and scraps (by-products).

Marketing and Sales: Consists of the interaction between MTTL and its global clients so that Premium can sell its products according to the clients' different demands and needs.

Shipment: Shipments are done according to client orders.

3.2 Source of technology & Capacity

The machines will be Import from China. The annual production capacity will be 2 million pieces annually. The pieces will be of various designs as per production schedules and demand.

3.3 Other inputs

These will include cars necessary for administration purpose and distribution:

- Civil works will include renovation of the existing workshop in and office buildings at the project site on the premises owned by the shareholders at Kerege Pwani.
  The site has the entire necessary infrastructure required for the business, including a workshop
- Importation of office equipment namely, telephones, facsimile machines, personal computers and air conditioners at company's head office.
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3.4 The Project time table

The plant should be in fully operational with two production lines and a diversified product range by August of the year 2025

3.5 Sales revenue forecast and direct& indirect cost estimates

3.5.1 Sales Forecast

First year operation is schedules to begin July 2024 after completion of machinery installation and pre-production activites .The sales generation will be as of

3.5.2 OPERATING COSTS

Since the production will be done for the last quarter in the first operating year the cost will be less to being with and will substantially rise to reflect normal production in the following years

3.6 Environmental Aspects

Generally, Tanzania has environmental regulations governing the operation of garages and workshops. Nevertheless each operator takes basic precautions to ensure that during operations and in case of an accidental spillage or fire, damage to environment is limited to the minimum possible level. The company has taken into consideration environmental aspect in the factory and will put all necessary required facilities.

3.0 CAPITAL INVESTMENT AND FINANCING PLAN

4.1 Investment Plan

The total capital investment of the project is Usd 50,000,000.The promoters will contribute Usd 50 million. The capital investment breakdown is as indicated below:

INVESTMENT BREAKDOWN			
PARTICULAR			**AMOUNTS USD**
Land and Buildings			2,476,000.00
Plant & Machines			21,000,000.00
Motor Vehicles			3,600,000.00
Furniture & Fixtures			36,000.00
Pre Expenses			2,100,000.00
Working Capital			20,788,000
TOTAL			**50,000,000**

4.2 Financing Plan

It is estimated that a total of US$ 2,890,000 will required price to the first year of the project to acquire the various assets as shown in the Table above

The bulk of the capital cost will be raised by the company itself through equity contribution. The other major source of funding will be internally generated revenue from operations which will be ploughed back.

Taking into account acceptable financial rations will be financed through the following sources of finance:

Financing Source USD

Equity	50,000,000
Total	50,000,000

Interest rates for the loan are assumed to be at 8% with a grace period of 5 years and will be paid back in the fifth year of operation.

4.0 MARKET AND MARKETING ASPECTS

5.1 General Overview

There is a wide market for cigarettes in Tanzania and even the huge market for export. Likewise, there is external market and the demand is increasing .Hence, it can be expected that the sponsors would not face marketing and operational problems in managing the proposed project

The existing market is supplied by importation of the products from overseas .Based on the nature of the products and its users; the company's product has a good market in Tanzania.

The ports of Dar es Salaam have undergone major rehabilitation, modernization and expansion so as not only to be able to complete with South Africa ports in handling of the cargo and this will substantially enhance cargo handling in all phases of the project. The port would also provide the proposed freight haulage project necessary condition for its soft establishment and expansion of its future operations.

MASTERMIND TOBACCO (TANZANIA) LIMITED will endeavor to achieve the projected sales for both domestic and transits business in the neighboring eastern Africa countries and Asia

5.2 Key Success Factors

Following are Key Success Factors of the manufacturing industry:

- Financial Resources
- Working Capital
- Use of Technology
- Proper logistics to meet demand

The importance of having huge funds to finance the use of latest technology which will yield a quality product which is important in project success operation. Further with a quality product there must be proper delivery of the product to the customers to meet their demand. All this depends on financial resources which the owner has to achieve desired result.

5.3 **Long Term Relationships**

Established transport firms enjoy the advantage of long- term relationships with corporate clients. Such corporate firms include among others, armies, huge mining companies using thermal power, etc, clearing and forwarding companies, just to mention a few. Again the proposed project would use its Synergy of its relation with parent companies in securing huge cargo.

However, it should be clearly understood that as time changes some industry forces have tended to re- modify these key success factors, Hence, generally it is the ability of a transport company to design and implement its business strategies that may suit building of a company's success in this sector.

5.0 MANAGEMENT AND ORGANIZATION STRUCTURE

6.1 **Management**

The Company policy is to have adequate manpower to manage its operations efficiently. **MASTERMIND TOBACCO (TANZANIA) LIMITED** believes in keeping on board only the very essential manpower strength, to develop them into highly motivated and sincere company team for the best and efficient operations of the company.

The company will have a team of qualified and experienced functional managers in the areas of Operations/Marketing, Workshop Operations and Finance & Administration. Other senior and middle level staff will be available for the startup and subsequent operations of the company. The personnel will be qualified, well-seasoned and most possessing considerable industrial experience.

6.2 **Management Policy**

The day to day operations will be managed by the General Manager, to be assisted by the Operations Manager who will be the overall in charge of the fleet, a Sales & Marketing Manager whose major responsibility will be marketing and a Finance & Administrative Manager who will manage finance and administrative issues. The Company's fleet pool will therefore be professionally managed.

6.3 **Organization Structure**

Once the company has well established the market its organizational structure will have to change sp as to give it a corporate structure of tobacco processing Company. Therefore, the shareholders will have to embark on a meticulous manpower planning and recruitment, which will be preceded by a manpower consultant's report.

It is proposed that the company's operations then be headed by the General Manager under whom there will be functional managers, that is : Personnel & Administration Manager, Sales & Marketing Manager, Finance & Administration manager, and Production manager.

The Marketing Manager will be responsible for both the countrywide and regional wide sales and marketing for the service .The job responsibilities will include market planning and development, sales promotion and sales co-ordination.

6.0 FINANCIAL ANALYSIS

7.1 **Financial Viability**

The analysis of the proposed **MASTERMIND TOBACCO (TANZANIA) LIMITED** transport project shows that the project can generate a fairly good profit and that it generates sufficient cash to meet its financial obligations

7.**2** **Fundamental Assumptions:**

The preparation of the financial projections took into account the following main assumptions:

7.2.1 The operation period under which the viability of the project is being evaluated is 5 years

7.2.2 The capital of the proposed project is US$ 50M

7.2.3 All the calculations throughout the economic lifetime of the project are constant with September 2024 being the base date.

7.2.4 The projected operational costs are shown

7.2.5 Capital Expenditure has been assumed to be incurred for a period of 1 year

7.2.6 The financial plan is for the shareholders to finance the project form own sources by ploughing back profits

7.3 **Working Capital Requirements**

Ideally, working capital requirements are directed by the volume and business tempo

7.4 Projected Profitability

The projected profit and loss account is shown in the *Financial Analysis Schedule*. On the basis of the operating assumptions and cost the proposed investment is expected to be profitable throughout the project period of five years. The after tax profits (US$)are as scheduled.

7.5 Cash Flow Projection

The liquidity performance of the project is shown in the Financial Analysis Schedules. The projections take into account the assumed sources and applications of funds over the planned period and show the ability of the project to meet financial obligations and capital expenditure requirements.

Cash flow on the 5 the year will be used to pay back the loan and this reflects the small balance at the end of the year but the activities will be performed as usual

7.6 Financial Review

The financial review of the proposed **MASTERMIND TOBACCO (TANZANIA) LIMITED** shows that:

7.6.1 The project is profitable

7.6.2 The liquidity position is sound and that is should be able to meet its financial commitments without any undue difficulty.

7.6.3 The operations are financially viable

7.7 Development Aspects

The following are the major economic and social benefits, which will be generated by the proposed project.

7.7.1 Revenue to the government Treasury and other organs in the form of taxes, fees and levies.

7.7.2 Increase in employment opportunities

7.7.3 Savings/earnings of foreign exchange because of the project's active engagement in the transit trade

7.7.4 Facilitate in increased improvement and availability of the freight Haulage services especially in the transportation of raw materials, crops, building, materials and finished products to and form markets.

With the liberalization of the economy in fully swing the resultant industrial growth is expected to push up the demand for the transportation of industrial and consumer goods services considerably.

7.0 CONCLUSION AND RECOMMENDATIONS

The foregoing discussion highlights on the social, economic and financial dimensions which the envisaged project is set to generate in this country. The brief financial analysis indicates that the project will be financially viable. Therefore, it is strongly recommended that the sponsors, **MASTERMIND TOBACCO (TANZANIA) LIMITED** be availed with the required institutional assistance so as to enable them establish the propose project.

FINANCIAL PROJECTIONS

PROJECTED INCOME STATEMENT					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Sales Revenue	67,500,000	81,000,000	97,200,000	116,640,000	139,968,000
Cost of Sales	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000
Gross Profit	**54,000,000**	**67,500,000**	**83,700,000**	**103,140,000**	**126,468,000**
Operating Expenses					
Administrative Overhead					
Costs	9,000,000	9,090,000	9,180,900	9,272,709	9,365,436
Motor Vehicle running	130,000	131,300	132,613	133,939	135,279
Salaries and Wages	10,600,000	10,706,000	10,813,060	10,921,191	11,030,403
Depreciation	4,357,100	4,400,671	4,444,678	4,489,124	4,534,016
Utility Costs	14,000	14,140	14,281	14,424	14,568
Insurance	1,250,000	1,262,500	1,275,125	1,287,876	1,300,755
Interest on Loan	444,000	448,440	452,924	457,454	462,028
Total Expenses	**16,665,100**	**16,831,751**	**17,000,069**	**17,170,069**	**17,341,770**
Profit before Tax	**37,334,900**	**50,668,249**	**66,699,931**	**85,969,931**	**109,126,230**
Tax (30%)	11,200,470	15,200,475	20,009,979	25,790,979	32,737,869
Profit After Tax	**26,134,430**	**35,467,774**	**46,689,952**	**60,178,952**	**76,388,361**

PROJECTED BALANCE SHEET					
	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5
Fixed Assets	27,112,000	22,754,900	18,434,600	14,100,800	9,767,000
Long term Assets					
Depreciation	4,357,100	4,333,300	4,333,300	4,333,300	4,333,300
Total long termassets	**22,754,900**	**18,421,600**	**14,101,300**	**9,767,500**	**5,433,700**
Current Assets					
Cash	3,528,730	4,058,040	2,632,581	4,941,437	7,570,679
Account Receivable	20,788,000	23,906,200	27,492,130	31,615,950	36,358,342
Inventory	0	0	0	0	0
Total Current Assets	**24,316,730**	**27,964,240**	**30,124,711**	**36,557,387**	**43,929,021**
Total Assets	**47,071,630**	**46,385,840**	**44,226,011**	**46,324,887**	**49,362,721**
Curent Liabilities					
Accounts Payable	5,197,000	5,976,550	6,873,033	7,903,987	9,089,585
Other Current Liablit	3,500	4,025	4,629	5,323	6,122
Subtotal Current Liabi	**5,200,500**	**5,980,575**	**6,877,661**	**7,909,310**	**9,095,707**
Long term Liabilties					
Long term Liabilitie	0	0	0	0	0
Total Liabiities	**5,200,500**	**5,980,575**	**6,877,661**	**7,909,310**	**9,095,707**
Captil and Reserves					
Owners Contribution	50,000,000	81,334,930	148,917,709	237,953,097	352,731,311
Retained Earning	**26,134,430**	**61,602,204**	**82,157,726**	**106,868,904**	**136,567,313**
Total Capital	**81,334,930**	**148,917,709**	**237,953,097**	**352,731,311**	**498,394,331**

OTHER OPERATING COST						
Other Operations Cost		**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**
Motor Vehicle running expens		130,000	141,700	154,453	168,354	183,506
Salaries and Wages		10,600,000	11,660,000	12,826,000	14,108,600	15,519,460
Adminitrative Overhead Costs		9,000,000	9,900,000	10,890,000	11,979,000	13,176,900
Utility Costs		14,000	15,400	16,940	18,634	20,497
Interest on Loan		444,000	399,600	359,640	323,676	291,308
Communication Exepnses		600,000	660,000	726,000	798,600	878,460
Total Costs		**20,788,000**	**22,776,700**	**24,973,033**	**27,396,864**	**30,070,131**

FIXED ASSETS SCHEDULE						
NAME OF ASSETS		**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**
Land and Buildings		2,476,000	2,352,200	2,228,400	2,104,600	1,980,800
Plant & Machines		21,000,000	16,800,000	12,600,000	8,400,000	4,200,000
Motor Vehicle		3,600,000	3,571,200	3,566,200	3,561,200	3,556,200
Furniture & Fixtures		36,000	31,500	40,000	35,000	30,000
Total		**27,112,000**	**22,754,900**	**18,434,600**	**14,100,800**	**9,767,000**
Depreciation		**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**
Land and Buildings		123,800	123,800	123,800	123,800	123,800
Plant & Machines		4,200,000	4,200,000	4,200,000	4,200,000	4,200,000
Motor Vehicles		28,800	5,000	5,000	5,000	5,000
Furniture &Fixtures		4,500	4,500	4,500	4,500	4,500
ANNUAL DEPRECIATION		**4,357,100**	**4,333,300**	**4,333,300**	**4,333,300**	**4,333,300**
CLOSING FIXED ASSETS		**22,754,900**	**18,421,600**	**14,101,300**	**9,767,500**	**5,433,700**

YEAR	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**
INFLOW					
EQUITY	50,000,000.00	-	-	-	-
DEPRECIATION	4,357,100.00	4,333,300.00	4,333,300.00	4,333,300.00	4,333,300.00
PRETAX PROFIT	37,334,900.00	50,668,249.00	66,699,931.49	85,969,930.80	109,126,230.11
TOTAL INFLOW	91,692,000.00	55,001,549.00	71,033,231.49	90,303,230.80	113,459,530.11
OUT FLOW;					
INVESTMENT	50,000,000.00	-	-	-	-
CORP. TAX 30%	11,200,470.00	15,200,474.70	20,009,979.45	25,790,979.24	32,737,869.03
TOTAL OUTFLOW	61,200,470.00	15,200,474.70	20,009,979.45	25,790,979.24	32,737,869.03
NET	30,491,530.00	39,801,074.30	51,023,252.04	64,512,251.56	80,721,661.08
CUMMULATIVE	30,491,530.00	70,292,604.30	121,315,856.34	185,828,107.91	266,549,768.99

RETURN ON INVESTMENT (ROI)					
YEAR	**YEAR 1**	**YEAR 2**	**YEAR 3**	**YEAR 4**	**YEAR 5**
PROFIT AFTER TAX	26,134,430	35,467,774	46,689,952	60,178,952	76,388,361
EQUITY	50,000,000	10,000,000,000	10,000,000,000	10,000,000,000	10,000,000,000
% RATE OF RETURN	52.27%	0.35%	0.47%	0.60%	0.76%