

M/S VITA FOAM (T) LIMITED

FEASIBILITY STUDY ON

**THE CONSTRUCTION OF
MANUFACTURING FACILITIES AT
PLOT 21, 'BLOCK' INDUSTRIAL AREA,
IYUNGA INDUSTRIAL AREA, MBEYA
CITY, MBEYA REGION**

**FOR MATTRESSES AND VARIOUS
ALLIED BEDDING PRODUCTS**

**M/S VITA FOAM (T) LTD.,
P.O. BOX 5686
DAR ES SALAAM**

1.0 EXECUTIVE SUMMARY

1.1. INTRODUCTION

This report has been prepared for M/S VITA FOAM (T) LTD a locally registered company under Cap 212 in Dar es Salaam. The project has been engaged in the business of manufacturing **PU Foam for Mattress and furniture and allied Bedding products** for many years.

M/S VITA FOAM (T) LTD Authorized share capital is Tshs. 10,000,000,000. The shareholding pattern of the shareholders is indicated in the table below

S.No.	Name of Shareholder	% Holding	nationality
1.	Mr. Suraj Chandaliya	64.81%	Tanzanian
2.	Mrs. Alka Chandalia	3.50%	Tanzanian
3.	Mr. Prateek Chandaliya	31.67%	Indian
4.	Mrs Nikita Chandaliya	0.02%	Indian

1.2 THE PROJECT

M/S VITA FOAM (T) LTD has now embarked on implementing its fourth manufacturing facility for foam mattresses and allied products to be installed at Plot no 21, Block Industrial Area, Iyunga, Mbeya City, Mbeya Region, Tanzania.

The crux is to exploit the rich experience and market coverage gathered during last two decade and above, keeping in view the current market trends in the foam mattresses and allied products industry, M/S VITA FOAM (T) LTD has decided to construct a new factory at the

aforementioned region. The company's new plant would adopt the current best technology available. The aim of the promoters is to attain a wide geographical reach and making its manufactured products near to the market by saving on logistic cost and making the products available at most competitive prices.

The project will cater the markets of several regions namely Mbeya, Iringa, Njombe, Tabora, Kigoma, Songwe, Rukwa, Katavi, Ruvuma, Singida and other southern regions of Tanzania, covering a population spread of circa 20 million people.

The strategic location of Mbeya will give us an added advantage to exploit export markets of the products into Zambia, Malawi and Democratic Republic of Congo.

The project envisages installing manufacturing facilities for foam mattresses and foam for furniture industries mainly sofa market and allied products such as pillows, comforters and alike.

The processing capacity envisaged for this project is to the tune 3600 Metric tons of PU Foam. Starting with a capacity utilization of 65% in the first year the overall production will stabilize at 90% from the 3rd year of operations. The project cost has been estimated at USD 2,500,000. The initial working capital, plant and Machinery cost is to the tune of USD 1,000,000.

The promoter has the required technical and marketing strength to see through the project and make it a success story. The only requirement is availability of adequate timely funds.

1.3 THE MARKET

Tanzania offers a huge market potential for the products such as foam mattresses and allied products. M/S VITA FOAM (T) LTD has been exposed to foam mattresses and allied products industry for a number of years and through research and experience and hence knows about the way the industry behaves. The foam mattresses and allied products industry has been increasing and some of the products are imported.

1.4 ESTIMATED FINANCIAL AND DEVELOPMENT BENEFITS

1.4.1 INVESTMENT COST

The project envisages an investment of USD 2,500,000 million including USD 300,000 by way of initial working capital. This will be needed to purchase raw material, packing material and for meeting the day-to-day expenses of the business until normalization.

1.4.2 EMPLOYMENT

The money spent will result into employment of various individuals within the country in direct as well as in indirect manner. During the implementation period, it is expected to employ 100 people directly and will generate and support more than 1000 people for various entrepreneurship and linkage industries.

1.4.3 SOCIAL & ECONOMIC DEVELOPMENT

Apart from employment generation, the project shall also contribute towards the finances of local bodies by contributing towards, different levies like PAY. Skills and Development Levy City Service Levy, VAT and Corporate Tax.

The above mentioned are direct development benefits of the envisaged project. However, there will be considerable advantages coming out to the society out of such project. It will also provide impetus to better standard of living among the residents of the country and as such the project shall contribute positively to nations economic development.

1.5 CONCLUSION

The conclusion, based on above brief is to go ahead as envisaged and establish the contemplated manufacturing facilities as early as possible. The immediate and long-term benefits of the project are quite attractive from every aspect.

- The entrepreneurs will earn profit, the workers will secure employment, the government will benefit out of the taxes and levies, the national economy will benefit out of increased supply, there will be saving of scarce foreign exchange as the output on this project will prove to be import substitute. Forex earning from exports.
- Latest technology, technical, managerial and marketing expertise will come on this country. The project will also lead to overall growth of the economy.

On careful evaluation of such factor, it is a very obvious conclusion that the project is technically, commercially and financially feasible and viable. It is therefore recommended to consider this project, as feasible and all concerned authorities should accord all required support in completing the setting up of this project.

2.0 THE PROJECT CONCEPT

The project contemplates augmentation of the expansion of manufacturing facilities for foam mattresses and allied 3600 metric tons per annum. The capacity utilization has been worked out at 65% in initial years products. The Project envisages an installed production capacity of thereafter. It is expected that the capacity utilization of nearly 90% will be maintained thereafter.

Following factors have been deemed to be instrumental in conceiving of this project.

- a) The promoters are experienced business people with vast experience. The promoters have been in business since 1998 in this line their knowledge and exposure related to this market and industry is quite authentic and up to date.
- b) Tanzania foam mattresses and allied products market has huge potential and the demand supply gap is quite huge due to geographical constraints and logistical challenges. Such situation ensures very less marketing efforts for quality products. The project will cater to 20 million people and make available the products as a competitive price thus mitigating logistical bottlenecks.
- c) Tanzania is perceived as one of most stable countries in the East African belt and therefore it has been thought more proper to expand the base in Tanzania rather than any other country in the African continent.
- d) The promoters are already in this business since several years. With an endeavor to be the best and the leader in the industry, use the most modern technology, semi-automate the production and run business as efficiently as possible, the promoters have envisaged this project.

2.2. It is estimated that various raw materials will be required. Raw material inventory is estimated to be stocked for 120 days. In order to run the machineries, electricity, diesel, lubricants and

machinery spares will be required and these are easily available locally, manpower except for technical expert is available locally.

- 2.3.** The project envisages employment on a permanent basis for nearly 100 Tanzanians once the capacity utilization touches 85%. Casual laborers will also be hired from time to time to meet the market demands.

2.4. FINANCING

The promoters of this project intend to use equity and loan financing.

2.5. DEMAND FOR MATTRESSES AND FOAM FURNITURE INDUSTRY AND ALLIED PRODUCTS

- 2.6.** The demand for foam mattresses and allied products is huge that bulk of the output will be sold in Tanzania market and that makes the distribution of goods an easy task. The company will sell the products through its existing market network and will ensure proper stockyard within the factory premises, to keep adequate stocks of finished products. The Company will also open up new export channels in neighbouring emerging markets being well positioned geographically.

2.6. BRIEF PROFILE OF THE PROMOTERS

The construction of the factory is sponsored by M/S VITA FOAM (T) LTD Shareholders. It is very apparent that the promoters are well qualified and experienced in field of their business of foam mattresses and allied products. The promoters are quite capable of seeing through the project and can take up the responsibility of making the project another success story.

3.0 THE MARKET

The overall Population in Tanzania depends on the product produced by this type of factories. The BEDDING industry has contributed a lot to GDP. The industry estimates indicate that this share of manufacturing Sector in the GDP of the Nation is going to increase at faster rate in the years to come.

The increase in growth and contribution of the sector to GDP was contributed to the strengthening of manufacturing industries and increased the strengthening of manufacturing industries and increased production of manufactured goods after rehabilitating of many parastatal companies.

As stated in the executive summary there is tremendous demand within Tanzania for the products envisaged by the project. M/S VITA FOAM (T) LTD is quite aware of high requirements and has geared up for required expertise.

There is considerable demand supply gap that is being filled up by several factories of foam mattresses and allied products. The demand such as purchasing power of the consumer choice and proper marketing the company has made plans to establish authorized dealers and own company outlets in main cities of Tanzania and then make the products aggressively through its delivery fleet and outlets.

The company will improve its existing set up to accommodate the new expansion programme to be the most effective channel for marketing the product and operate a product mix. Since Management has adequate exposure in their areas no major challenge is envisaged as far as marketing of the foam mattresses and allied products is concerned. The challenge in front of this is to produce cost effectively and distribute and keep the pricing structure as affordable as possible to the end consumer.

In immediate plans the company is not very eager to export the products as its own study indicates tremendous demand on domestic front. The company intends to export to EAC and SADC countries in the near future.

4.0 MANPOWER ESTIMATES

The project will create jobs for nearly 100 individuals. However during the setting-up stage the need for labor will be higher. As a known fact, the economy of the country is one the up-rise and the population are increasing as well. Moreover, it seems apparent that the demand for foam mattresses and allied products is going to increase steadily over the years.

The break-up expected for total employment of 100 Individuals including the expatriates is as under: -

Skilled	20
Semi-Skilled Staff	20

2.	Plant and Machinery	1,000,000
6.	Furniture and Fitting	10,000
3.	Vehicles	170,000
4.	Pre-operational & Contingency	20,000
5.	Initial Working Capital	300,000
	TOTAL	2,500,000

6.2.2. FINANCING OF THE PROJECT

Table 8: Financing of Project

S.No.	Item	USD
01	Equity share Capital	1,000,000
02	Loan	1,500,000
03	Total	2,500,000

Land:

The company has already acquired land which is fenced already and ready to erect the building. This is situated on Plot no. 21, Iyunga Industrial area, Mbeya City.

7.0 MACHINERY & EQUIPMENTS

As far as plant and machinery is concerned, these will be part of additional machineries available with the company and partly will be acquired new and imported. The total cost of all machineries and other ancillary equipment as listed hereunder will be to the tune of USD 1,000,000. The machinery will have an annual installed production capacity of 3600 metric ton per annum.

8.0 COST AND REVENUE ESTIMATES

8.1 ASSUMPTIONS:

- The project will have an effective life of 10 years
- The project will start its commercial operation from the March 2024
- The project will start its operations at 65% of capacity in the first year and increasing at a steady to attain 90% of the capacity utilization from the year 2026 onwards.
- It has been estimated that price will remain constant throughout the period of the project. 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.

- Supply of power, water, raw material and other inputs has been assumed to be available without any major interruptions.
- Availability of adequate skilled and semi-skilled labor in the country has been assumed.

8.2 COST ESTIMATES:

The basic raw material for this project in Tons has been considered at a price of 70% of the revenue. Manpower cost has been actually worked out and production related labor cost has been taken according to the capacity utilization, whereas the administrative manpower cost has been taken on the basis of period.

8.3 REVENUE ESTIMATES

The project envisages production and sale of foam mattresses and allied products and a marginal contribution by sale of the by-products. There is a demand in the domestic market for the product and is envisaged to grow in the near future.

Table 10: Production

Year	Capacity Utilization in %	Annual Production including by-product (Tons)
1	65	2400
2	80	2800
3	90	3600

After taking cognizance of above capacity utilizations and the selling price estimates the annual turnover for year 1 to year 3 are as under: -

Table 11: Projected Sales Turnovers

Year ended – 31 st December	Turnover USD
1.	10,000,000

2.	12,000,000
3.	18,000,000

8.4. 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.

Moreover, the company is expected to generate cash from operations in the first year, which is quite encouraging. The estimates indicate that the company will not look back thereafter, and would earn considerable profits in the later years.

Assumed to be constant. It has been further assumed that any changes in the costs will be offset by equivalent increase in the selling price of the product.

8.5. PROJECTED CASHFLOW STATEMENT

The appended projected cash flow statement shows that the initial funding will be Equity Share Capital. The cash flow statement also reveals that over a period of three years the total inflow from operations will increase.

8.6. PROJECT WORKING CAPITAL ESTIMATES

Despite the fact that the manufacturing process is not very long, raw Material stock has been estimated at 90 days' requirement, finished goods of 7 days and WIP of 4 days, with debtors, level estimated at 30 days.

The creditors are assumed at 120 days.

8.7. PROJECTED DEPRECIATION SCHEDULE

Depreciation has been taken as per the provisions of Income Tax Law. It has been estimated on Straight-line method.

Table 12: Rate of depreciation

S.NO.	Item	Depreciation Rate
1.	Land and Factory Shed	5.00%
2.	Plant & Machinery	12.50%
3.	Vehicles	25.00%

9.0. PROJECT DEVELOPMENT BENEFITS

- a) The project envisages an investment of USD 2.5 million. This investment will result into bringing in plant and machinery and will thus increase the productive capacity in the country. This will help the country in increasing the share of industrial output in its GDP, which is as of date very low.
- b) The project envisages employment of 100 employees and equal number of casuals as per the requirement will be employed.
- c) The employment generation stated in point b) above will have cascading impact on the overall economy in a positive manner.
- d) 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.

10. CONCLUSION AND RECOMMENDATION

The above study of the project reveals that the project is technically, commercially and economically feasible, viable and is desirable for country's economy. Since it still results 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, creation of many other ancillary industries and businesses etc the project is desirable socially also.

In light of anticipated financial, social and development benefits the project qualifies for positive recommendation for immediate implementation. Since the promoters are confident of arranging the required funds and of establishing the project within the committed time frame the conclusion is to recommend to all concerned authorities to accord utmost support to this project so as to enable the country to realize the benefits as perceived in this report.

VITA FOAM LIMITED

CAPITAL COST SUMMARY

S.No.	Item	USD
1.	Land and Building	1,000,000
2.	Plant and Machinery	1,000,000
6.	Furniture and Fitting	10,000
3.	Vehicles	170,000
4.	Pre-operational & Contingency	20,000
5.	Initial Working Capital	300,000
	TOTAL	2,500,000

VITA FOAM LIMITED

PROJECTED PROFIT AND LOSS ACCOUNTS

US \$000

YEAR	1	2	3	4	5	6	7	8	9	10
Sales Revenue	10,000	12,000	16,200	18,000	18,000	18,000	18,000	18,000	18,000	18,000
Less: Cost of Sales	6,000	7,200	9,720	10,800	10,800	10,800	10,800	10,800	10,800	10,800
Contribution Margin	4,000	4,800	6,480	7,200	7,200	7,200	7,200	7,200	7,200	7,200
Less Depreciation	209	209	209	209	209	209	209	209	209	209
Profit Before Tax	3,791	4,591	6,271	6,991	6,991	6,991	6,991	6,991	6,991	6,991
Taxable 30%	1,137	1,377	1,881	2,097	2,097	2,097	2,097	2,097	2,097	2,097
Net Profit	2654	3,214	4,390	4,894	4,894	4,894	4,894	4,894	4,894	4,894
Revenue Reserves	2,654	5,868	10,258	15,152	20,046	24,940	29,834	34,728	39,622	44,516

VITA FOAM LIMITED

PROJECTED CASHFLOW

US \$ 000

YEAR	0	1	2	3	4	5	6	7	8	9	10
INFLOWS											
Share Capital	2,000										
Depreciation		209	209	209	209	209	209	209	209	209	209
Net Profit		2654	3,214	4,390	4,894	4,894	4,894	4,894	4,894	4,894	4,894
TOTAL INFLOW	2,000	2,863	3,423	4,599	5,103	5,103	5,103	5,103	5,103	5,103	5,103
OUTFLOWS											
Investments	2,000										
Taxation		1,137	1,377	1,881	2,097	2,097	2,097	2,097	2,097	2,097	2,097
Repayments											
TOTAL OUTFLOW	2,000	1,137	1,377	1,881	2,097	2,097	2,097	2,097	2,097	2,097	2,097
NET CASHFLOW	-	1,726	2,046	2,718	3,006	3,006	3,006	3,006	3,006	3,006	3,006
CUMULATIVE CASHFLOW		1,726	3,772	6,490	9,496	12,502	15,508	18,514	21,520	24,526	27,532