

SAVUTU HARDWARE

BUSINESS PLAN

FOR

TRANSPORTATION PROJECT

1.0. EXECUTIVE SUMMARY.

SAVUTU HARDWARE is a sole proprietor company registered in the country under The Business Names (Registration) Act (Cap 213) and bears Certificate of Registration No. 244961 issued on 30th August 2012.

The project promoters are well-established businesses in Tanzania engaged in hardware business and they see a very bright future in the transport sector.

This document has been prepared to serve as a business plan for SAVUTU HARDWARE for their transport project. The implementation of this project will comprise of the following activities:-

- The purchase of 120 trucks is to be done in phases,
- The construction of a modern workshop and office
- The purchase of 2 cranes
- The purchase of 5 pick up
- The purchase of 2 Hardtop
- The purchase of 2 break down
- The purchase of 1 set of CCTV
- The purchase of 1 generator
- Equipping the company with relevant facilities

The proposed project comprising the purchase of **120 trucks** is estimated to cost about **US\$5,211,000**

1.1 THE PROJECT PROMOTERS

The project is being promoted by THOMAS SAVUTU MSOFE T/A SAVUTU HARDWAR an entrepreneur with a diverse professional and business backgrounds

Name	Nationality
THOMAS SAVUTU MSOFE T/A SAVUTU HARDWARE	Tanzania

1.2 Location.

The project head office will be located in the unsurveyed area of Majengo, Leveolosi Ward, Arusha district, Arusha region

1.3 Targeted Markets.

The targeted markets of the project are the neighboring landlocked countries of Tanzania and to a small extent the hinterland of Tanzania. The neighboring countries that are the target of this project are specifically DRC, Malawi, Zambia, Burundi, Rwanda, and Uganda, including some hinterland parts of Tanzania.

It is given this that, despite poor road infrastructure linking these countries **SAVUTU HARDWARE has** resolved to invest in the transport sector so as to provide a solution that would lead to stimulating the said intraregional trade. The project is expected to offer a challenge to the business community to enhance intraregional trade between Tanzania and these countries.

2 PROJECT DETAILS

2.1 INTRODUCTION

Tanzania is the largest country in East Africa that is geographically strategically located among her neighbors. Because of the above-mentioned factor, the country's transportation system is also used to serve landlocked neighbors, i.e. countries of Uganda, Rwanda, Burundi, Eastern D. R. of Congo, Northern parts of Zambia, Malawi, and some northern parts of Mozambique.

The transport sector plays a critical role in the social and economic development of a country. Transport provides links between centers of production and those of consumption, markets, in the economic sectors such as agriculture, industry mining and tourism. It facilitates the flow of goods and people along the import/export corridors that link the coastal ports and landlocked countries. Transport equally provides access to employment, health, education, recreation and other services. Therefore, one is rightly justified to conclude that "without a good transportation system the development of a country is impossible. What roads and railways are to a country's development is like what the blood system is to the human body

It is quite gratifying to note that the Government of Tanzania realizes the role of the transport sector for its economic and social development, and as a result, has developed a Transport Sector Programme that will be very instrumental in improving the business and investment environment in the transport sector.

It is alleged that poor transport and communication infrastructure are the major causes of low levels of intraregional trade in Eastern Africa. It is given

this that, despite this poor infrastructure, **SAVUTU HARDWARE**. Has resolved to assist in providing a solution to stimulate the said intraregional trade.

In summary, we can say that **SAVUTU HARDWARE** has major objectives the following:-

- To promote trade between Tanzania and her neighbors
- To procure foreign currency for the country in the course of its business transactions.
- To provide extra employment to more people in the sector.

3.0 THE PROJECT

The project's objective is to have a fleet of vehicles a total of **120 trucks** each with a trailer. The trucks will be sourced mostly UK. The trucks, together with their trailers will be procured in phases.

This study is based on the **120 trucks**. It has been estimated that in full-scale operations the **120 trucks** are expected to meet at least **3000 trips** annually, their destinations being Tanzania's landlocked neighboring countries of Malawi, Zambia, Burundi, Rwanda the Democratic Republic of Congo, etc.

3.1 PROJECT SPONSORS

SAVUTU HARDWARE is a sole proprietor business.

4.0 INVESTMENT AND FINANCING US\$ 5,211,000

For the project to be a reality a total investment amounting to **US\$5,211,000** the summary is found in the schedule.

SAVUTU HARDWARE COST STRUCTURE

PARTICULAR	US\$
Land and Buildings	400,000.00
Machinery & Equipment	500,000.00
Motor Vehicles	3,500,000.00
Furniture & Fixtures	2,000.00
Pre exp	5,000.00
Others	4,000.00
Working Capital	800,000.0
TOTAL	5,211,000.00

(i) Land and Building: US\$ 400,000,

The project is going to construct project buildings, including services garage on its plot at the cost of US\$150,000, out of which:-

- US\$100,000 will be for the acquisition and development of project premises
- US\$200,000 for construction of a motor service workshop and project offices.
- US\$25,000 for fencing the project site. This is important for the overall security of the project assets.
- US\$ 50,000 for the construction of two residential blocks for workers' accommodation.

(ii) Machinery and Equipment: US\$500,000

Some US\$ 500,000 is anticipated to be spent on the purchase of various garage machinery and equipment. The equipment for the mechanical workshop will include things like a diesel pump, lathe and panel beating and spray facilities, and tire retreating plants.

Also to be included in the purchase of a welding and grinding machine, compressors, mobile and stationary, iron sheet folding machine, generator, and other general tools and equipment

(iii) Motor Vehicles: US\$3,500,000

The project will need **120 vehicles** at an estimated cost of **US\$3,500,000**. These vehicles will be used in overhauling various types of goods and products on behalf of several customers located in the

landlocked neighboring countries of Malawi, Zambia, Burundi, Rwanda, the Democratic Republic of Congo, and even Uganda.

Internally the project anticipates making trips to several regional centers spread throughout the country. However, when required to do so, these trips will be also made to any internal destination provided they have the rightful road condition

(iv) Office Furniture and Equipment: US\$ 2,000

This investment cost item has been estimated to cost US\$ 2,000. It will consist of office tables, chairs, telephone, fax, machines, file cabinets, sofa chairs etc.

(v) Pre-Operational Expenses: US\$ 5,000

These will come to about US\$10,000 and they cover things like company registration, and expenses spent by **SAVUTU HARDWARE** in exploring the viability of the project, especially the market/client identification exercise done in those countries targeted to be served. This Pre-operational cost item also covers the architectural designs of project buildings and other engineering services. Also included under this item are issues like consultancy fees, legal fees, and recruitment and training costs of personnel.

(vi) Initial Working Capital: US\$ 800,000

Calculations as well as assumptions for working capital requirements are as shown in the working capital schedule.

4.1 FINANCING PATTERN

The financing pattern being considered is that involving the purchasing of **50 trucks** and their trailers. The project will be financed both by equity and loan. Equity contribution will constitute US\$2,711,000, while the remaining US\$2,000,000 will be in the form of a loan.

The loan will be negotiated and acquired from one of the domestic financial institutions. The project sponsors expect to procure this loan on the following terms and conditions:-

Loan Amount: **US\$ 2,500,000**

Interest Rate: **8% annually**

5.0 TECHNICAL ASPECTS

5.1 Location

The proposed project offices will be established in the unsurveyed area of Majengo, Leveolosi Ward, Arusha district, Arusha region

5.2 Sources of Technology

All the project's trucks will be procured from the U.K., Sweden, China, and Turkey. The envisaged trucks will be either Scania trucks with trailers.

5.3 IMPLEMENTATION

Project implementation is expected to be relatively very short once TIC approval is received. Currently, the supplier of the trucks has already been identified and supply is awaiting instructions from the project promoters. In

this respect, delivery can be done in less than 18 months once we finalize financing sources.

6.0 MANPOWER AND ORGANIZATION STRUCTURE

The project will be managed by a Board of Directors of **SAVUTU HARDWARE**. The Board, like all other boards, is responsible for the formulation and supervision of company policies and guidelines. The project's day-to-day operations will be under the supervision of the Managing Director.

The project's employee requirement is estimated to be **120** people in number, as shown below:-

As can be seen above the Company handsomely remunerates its workers. To ensure the timely delivery of consignments and provision of goods service to customers, Management will provide on-the-job training in the field of motor vehicle maintenance and will provide bonuses and other incentives as a means of instilling and boosting employee work morale.

6.1 ORGANIZATION STRUCTURE

The project's operations will be managed through the Board of Directors, while the day-to-day activities of the project will be supervised by the Managing Director. Assisted by Finance & Administration Director and Director of Technical & Operations

7.0 PROJECT OPERATING COSTS

To realize its intended objective the project will have to meet the operating costs estimated to be 75% of total revenue.

8.0 MARKET AND MARKETING

The project's earmarked clientele is in the landlocked neighboring countries of Malawi, Zambia, the Democratic Republic of Congo, Burundi, Rwanda, and even Uganda. Management has already explored these markets and is confident it can conduct profitable business with them.

The project management plans for all vehicles several trips per month. The number of trips and the cost of the trip are determined by both the trip's destination and the nature of the road involved. All in all, a total of **1,500 trips** will be made. Each truck will transport a minimum of **28 tons** per trip. Thus, a total of **42,000 tons** of various goods and products will be overhauled between Tanzania and her neighbors.

The routes are priced according to distance and the status of the road in question. It has however been conservatively assumed that all foreign destinations will have a flat rate charge of US \$ 4000 per trip.

9.0 REVENUE ASSUMPTIONS

- 50 trucks each make three return trips per month. Each trip will cost **US \$ 4000**, therefore for 150 trips/month. Each truck is expected to make 3 trips internally per month.

The number of trips assumed here is just a conservative estimate. With the expected improvement of the roads and in general, operations coupled with the driver's gaining experience in long-distance travel, the number of trips per truck will be raised. This will have a tremendous impact on the Company's

expenditure and earnings. However, this scenario is not the subject of the current study.

10.0 FINANCIAL ASPECTS OF THE PROJECT

(i) Projected Profit and Loss Statement

The schedule below shows the projected income for the 8 years. The position depicted is that the project earns profit throughout its life. Accumulated after-tax profits grow from. **US\$892,210** to **US\$7,809,094** in the 8th year

SAVUTU HARDWARE PROJECTED INCOME & EXPENDITURE STATEMENT

US\$

	1	2	3	4	5	6	7	8
Revenue	6,000,000	6,300,000	6,615,000	6,945,750	7,293,038	7,657,689	8,040,574	8,442,603
Operating Expenses:	4,500,000	4,725,000	4,961,250	5,209,313	5,469,778	5,743,267	6,030,430	6,331,952
Profit before Depreciation & Interest	1,500,000	1,575,000	1,653,750	1,736,438	1,823,259	1,914,422	2,010,143	2,110,651
Interest	200,000	160,000	120,000	80,000	40,000	-		
Depreciation	363,200	363,200	363,200	363,200	363,200	363,200	363,200	363,200
Gross Profit	936,800	1,051,800	1,170,550	1,293,238	1,420,059	1,551,222	1,646,943	1,747,451
Tax (30%)	281,040	315,540	351,165	387,971	426,018	465,367	494,083	524,235
Profit After Tax	655,760	736,260	819,385	905,266	994,042	1,085,856	1,152,860	1,223,215
Accumulated Profit	892,210	1,628,470	2,447,855	3,353,121	4,347,163	5,433,018	6,585,879	7,809,094

(ii) Projected Cash Flows

The project's cash flows are shown in schedule vii. They depict a good liquid position right from the first year. Cash accumulation builds up from **US\$ 1,218,960** in the first year to **US\$ 7,975,768** at the end of the 8th year of the project's operations based on 120 trucks.

SAVUTU HARDWARE PROJECTED CASH FLOW

SOURCES:		1	2	3	4	5	6	7	8
Profit before interest and depreciation	-	1,500,000	1,575,000	1,653,750	1,736,438	1,823,259	1,914,422	2,010,143	2,110,651
Equity	2,711,000								
Loan	2,500,000								
Total Sources	5,211,000	1,500,000	1,575,000	1,653,750	1,736,438	1,823,259	1,914,422	2,010,143	2,110,651
Applications:									
Capital expenditure	4,402,000	-	-	-	-	-			
working Capital & Others	809,000								
Cash	-	1,218,960	1,259,460	1,302,585	1,348,467	1,397,241	1,449,055		
Tax	-	281,040	315,540	351,165	387,971	426,018	465,367	494,083	524,235
Sub total	5,211,000	1,500,000	1,575,000	1,653,750	1,736,438	1,823,259	1,914,422	494,083	524,235
Total applications	5,211,000	1,500,000	1,575,000	1,653,750	1,736,438	1,823,259	1,914,422	494,083	524,235
Accumulated cash		1,218,960	2,478,420	3,781,005	5,129,472	6,526,713	7,975,768	7,975,768	7,975,768

(iii) Projected Balance Sheet

The project's owners' equity grew from US\$ **2,711,000** in the first year to **US\$ 10,520,094** at the end of the 8th year of the project's operations based on the 50 trucks

SAVUTU HARDWARE PROJECTED BALANCE SHEET US \$

Fixed Assets	-	1	2	3	4	5	6	7	8
Opening balance	-	4,402,000	4,038,800	3,675,600	3,312,400	2,949,200	2,586,000	2,222,800	1,859,600
Total Long-term Assets	-	4,402,000	4,038,800	3,675,600	3,312,400	2,949,200	2,586,000	2,222,800	1,859,600
Less depreciation	-	363,200	363,200	363,200	363,200	363,200	363,200	363,200	363,200
Closing balance	-	4,038,800	3,675,600	3,312,400	2,949,200	2,586,000	2,222,800	1,859,600	1,496,400
Working capital	809,000	809,000	809,000	809,000	809,000	809,000	809,000	809,000	809,000
Accumulated cash	-	1,218,960	2,478,420	3,781,005	5,129,472	6,526,713	7,975,768	7,975,768	7,975,768
Total assets	809,000	6,066,760	6,963,020	7,902,405	8,887,672	9,921,713	11,007,568	10,644,368	10,281,168
Financed by									
Equity	2,711,000	2,711,000	2,711,000	2,711,000	2,711,000	2,711,000	2,711,000	2,711,000	2,711,000
Accumulated profit	-	892,210	1,628,470	2,447,855	3,353,121	4,347,163	5,433,018	6,585,879	7,809,094
Total equity	2,711,000	3,603,210	4,339,470	5,158,855	6,064,121	7,058,163	8,144,018	9,296,879	10,520,094
Long term loan	-	2,500,000	2,000,000	1,500,000	1,000,000	500,000	-		
Total debts	-	2,500,000	2,000,000	1,500,000	1,000,000	500,000	-		
Total equity and debts	2,711,000	6,103,210	6,339,470	6,658,855	7,064,121	7,558,163	8,144,018	9,296,879	10,520,094

(iv) Payback Period

Total investment is **US\$ 5,211,000** cash accumulation in year 3 is **US\$10,007,704** which is more than the initial investment by **US\$5,000**. The project payback Period is within three years, for and half months only.

The project has a relatively short payback period. It is remarkably impressive for a project whose investment is as big as **US\$ 6,515,568** recovered within 6 years.

SAVUTU HARDWAREPAYBACK PERIOD: US\$

Year	Profit After Tax	Depreciation	Total Cash Flow	Accumulated Cash Flow
1	655,760	363,200	1,018,960	158,760
2	736,260	363,200	1,099,460	1,258,220
3	819,385	363,200	1,182,585	2,440,805
4	905,266	363,200	1,268,466	3,709,271
5	994,042	363,200	1,357,242	5,066,513
6	1,085,856	363,200	1,449,056	6,515,568

11.0 ECONOMIC ASPECTS OF THE PROJECTS

Besides the financial/monetary returns to the owners, there are other benefits to be derived for the whole country viz.

(i) Employment Opportunities

Employment and poverty reduction are among the major concerns of the Central and Local Government authorities. It is gratifying to note that **SAVUTU HARDWARE** is going to provide additional employment to **120** people. This is a significant contribution coming from local investors.

(ii) Revenue to the Government

The Project is expected to pay a substantial annual amount in the form of corporation tax during the project's eight years covered under our project review.

(iii) Foreign Exchange Earning

Since the project's clientele is mostly towards neighboring countries the project will thus earn foreign currency for the United Republic of Tanzania. Out of all project expected cargo overhauling transactions will be settled in foreign currencies

12.0 CONCLUSION AND RECOMMENDATION

12.1 Conclusion

- (i) The project is profitable and contributes to government revenue by way of taxes.
- (ii) The project has a sound after-tax internal rate of return
- (iii) The project employs **120** people all of whom are national Tanzanians.
- (iv) The project is an encouraging sign to prove that we have investors who have confidence in this country. Tanzania so much so that they are ready to invest such large sums of investment despite the odds of the sector in question.

13.0 RECOMMENDATION

After the foregoing economic and financial evaluation of the project, we strongly recommend that this project be implemented and be given all the support required by all the concerned Government Ministries and Agencies, including the Tanzania Revenue Authority, TRA, and the Tanzania Investment

Centre – (TIC). The project deserves this support because of its viability, since it is technical feasible, economically viable and socially acceptable.

