

Quality Foam Limited

Manufacturers of foam mattresses and other foam products



REF: QFL/TIC/069/2024

Executive Director,
Tanzania Investment Centre,
P. o. Box 938,
DAR ES SALAAM



30 September 2024

RE: **REVIEW OF NEW PROJECT INVESTMENT CERTIFICATE NO. 022492193**
PROJECT NO. 202492193

Thank you for issuing the above titled Investment Certificate for our new project Foam Mattress Manufacturing and associated processes at Farm No 1350 Mwanambaya - Kisarawe and Plot No 73 Block D Saein Zogowale – Kibaha Pwani.

The project requires an investment of US \$ 16,500,000 that includes land acquisition, land and 45,000 sqm factory buildings development, foaming plant, foam finishing machinery, racking system, power supply system and trucks. Executive Summary attached for easy reference.

The project will rely fully on retained earnings from the existing operations of our factory at Mikocheni. We do not intend to take any loans. This will enable early costs recovery. As the project itself is large and thus the investment also, for this reason, the implementation will be as follows :

July to Dec 2024	- Land Acquisition - \$1,045,000 - ongoing
Jan 2024 - Jun 2026	- Buildings 15,000 sqm - \$2,250,000
Jul 2026 - Dec 2028	- Buildings 15,000 sqm - \$2,250,000
Jan 2029 – Jun 2030	- Buildings 15,000 sqm - \$2,250,000
Jun 2030 – Jul 2031	- Foaming Plant & Machinery with Accessories - \$4,320,000
Jun 2030 – Jul 2031	- Racking System - \$3,600,000
Jun 2030 – Jul 2031	- Vehicles etc - \$785,000
Total	- US \$ 16,500,000

The Investment Certificate you have issued however shows the implementation period as 3 years to 13 September 2027. We strongly believe this cannot be achieved, based on the funding from our retained earnings and the size of land development required.

We request you to amend the implementation period to be 14 September 2024 to 15 July 2031 and the Operative Date 16 July 2031. We have reviewed the Tanzania Investment Act 2022 for guidance, and we believe that the law does not restrict TIC to accord us the above.

Your past investments certificates are very beneficial and they are one of the main reasons for our growth that today are employing 223 people and the government revenue in 2023 was TShs 15 Billion/- in taxes.

We sincerely hope that our request will be granted.

Thanking you.

Yours sincerely

Head of office
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FACTORY

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EXECUTIVE SUMMARY

Background - Quality Foam Ltd (QFL) has been manufacturing foam mattresses since its establishment in 1991 in Tanzania and the present production at their only plant in Mikocheni is 5,400 tons/year having increased 7% annually in the last 10 years. The plot is saturated, and the congestion is limiting increase in production, New players therefore have entered the market and thus reducing QFL’s market share which at present stands at 25% between 11 mattress manufacturers and 4 of which have been established recently. The current 2023 annual sales is TShs 69.2 Billion and the revenue to government in the form of corporate taxes and VAT is about TShs 15.0 Billion.

Objectives - The objective of the investment is therefore to remove the constraint of increasing production at the present Mikocheni Plant due to congestion by acquiring and developing two new plots at Saeni – Kibaha and Mwanmbaya – Temeke and installing a second foaming line and having storage for raw materials and finished goods.

QFL has accumulated retained earnings that can be used as equity for this new investment and no loans will be necessary if the investment is spread over several phases.

Investment Plan - The investment plan is summarized as follows :

- a) Land - acquire and secure – at Kibaha and Kisemvule - \$1,045,000
- b) Phased Building Development comprising pre-engineered steel structure including utilities :

2024/26 - 15,000 sqm @ \$150 = \$2,250,000

2026/28 - 15,000 sqm @ \$150 = \$2,250,000

2028/30 - 15,000 sqm @ \$150 = \$2,250,000

Total Buildings - \$6,750,000

- c) Plant & Machinery with Accessories - \$4,320,000
- d) Racking System - \$3,600,000

Sub-Total = \$15,715,000

Add Contingencies 5% - \$785,000 (Vehicles \$200,000, Furniture & Fittings \$100,000, Pre-expenses \$100,000 and Others \$385,000)

Total - \$16,500,000 (Local - \$5,000,000 (30%) and Foreign - \$11,500,000 (70%))

Benefits - The investment will have following benefits :

With And Without Project Scenario

	PARAMETER	WITHOUT PROJECT	WITH PROJECT	INCREMENTAL INCREASE
1	Nrs of Production / week	6	12	6
2	Nrs of production / year	300	600	300
3	Production duration minutes daily	110	250	140
4	Length of foam daily	500 m	1500 m	1000 m
5	Nrs of Blocks daily	405	1220	815
6	Annual Foam Produced for Sale	5,400 tons	16,400 tons	10,900
7	Average Manufacturing cost	\$3.90 / kg	\$3.70 / kg	Saving \$0.20/kg
8	Average Sale Price	\$4.63 / kg	\$4.63 / kg	-
9	Investment	Nil	\$16,500,000	\$16,500,000
10	Sales Revenue @ \$4.63 per kg	\$25,000,000	\$75,000,000	\$50,000,000
11	Annual taxes paid to Government	TShs 15.0 billion	TShs 45.0 billion	TShs 30.0 billion
12	Profit before tax	18.7%	25.1%	+6.4%

Implementation Plan - The works will be carried out in phases.

- Phase 1 (2024-25) – Land Acquisition, Fence wall and Levelling - \$1,127,000
- Phase 2 (2024-26) - Building 1 - \$2,362,000
- Phase 3 (2026-28) - Building 2 - \$2,362,000
- Phase 4 (2028-30) – Building 3, Foaming Plant, Racking System - \$10,678,000

The total Investment to be made will be about \$ 16,500,000.

ACTIVITIES - PERIOD	2024	2025	2026	2027	2028	2029	2030	2031
NEW ADDITIONAL INVESTMENT								
KISEMVULE PLOT – STORAGE & LOGISITCS								
AQUIRE LAND								
PHASE 1 BUILDINGS								
PHASE 2 BUILDINGS								
PHASE 3 BUILDINGS								
KIBAHA PLOT – FOAM & MATTRESS EXPANSION								
AQUIRE LAND								
BOUNDARY WALL + EARTHWORK / LEVELLING								
EXTERNAL WORK, UTILITIES, FIRE FIGHT								
PHASE 1 – BUILDINGS								
PHASE 2 – BUILDINGS								
PHASE 3 – BUILDINGS								
PLANT & MACHINERY								
RACKING SYSTEM								

Operative Date – The Operative Date is July 2031 when operations can begin.

Environmental Issues – Upon issue of the TIC Certificate, a detailed EIA Study will be submitted to NEMC fulfilling their requirement. All negative impacts related to this project can be mitigated. Foaming Industry is a dry industry and has no liquid trade waste and the solid waste resulting from cut foam pieces are rebounded to make orthopedic mattresses.

Employment – Additional 240 people will be employed. 6 staffs will have to be foreign for which work permit will be availed. Indirect employment is estimated to be about 5,000.

Financial Analysis

Year 2024 to Year 2030 – Implementation showing cash outlay of US \$ 16,500,000. Year 2031 to Year 2040 shows production and sales increasing gradually at 8.5% annually and the profit margin assumed is 25.1%.

Profit & Loss - The incremental Profit & Loss are summarized below :

Year	2031	2040
Sales	\$15,045,000	\$31,352,000
Net Profit after tax	\$3,450,000	\$4,710,000
VAT 18%	\$2,930,000	\$5,870,000
Corporate Tax	\$876,000	\$1,646,000
Total Taxes	\$3,806,000	\$7,516,000

The government revenue in form of corporate tax and VAT 18% is significant increasing from US \$ 3.8 million in 2031 to US \$ 7.5 million in 2040.

Project Incremental Cash Flow - There is always surplus and never deficit. During implementation, the surplus increases from \$0.3 million in Year 2025 to \$5.3 million in Year 2040, accumulating to US \$ 52.4 million.

Discounted Cashflow Analysis - The discounted cash flow analysis yields an Internal Rate of Return of 22.49% which is much higher than the cost of capital 12% and the real terms interest rate of 6% and inflation of 2%.

Sensitivity Analysis summarized below :

Parameters	IRR	Comments
Profit 25.1% Annual Growth 8.5%	22.49%	Estimated
Profit 25.1% Annual Growth 5%	21.59%	Growth Reduced – Variable Costs
Profit 5.55% Annual Growth 5%	12.01%	Break-even with Cost of Capital

The IRR therefore is not sensitive to volume of sales because of the direct variable manufacturing cost having a higher proportion.

For the break-even IRR of 12% (cost of capital), the profit margin has to go down to 5.55%. This will never be the case. This demonstrates that the investment is robust and viable.

Economic Benefits – include the employment this investment creates and the increase in government revenue from US \$ 3.8 million in 2031 to US \$ 7.5 million in 2040.



THE UNITED REPUBLIC OF TANZANIA

022492193

Certificate of Incentives

(Section 19 of the Tanzania Investment Act, 2022)

No: 202492193

This is to certify that

QUALITY FOAM LIMITED

of address

P.O.BOX 21129

DAR-ES-SALAAM

has been granted a Certificate of Incentives to invest in a new investment project known as

FOAM MATTRESSES

Which is located at

FARM NO. 1350 MWANAMBAYA - KISARAWA, AND PLOT NO. 73 BLOCK 'D' SAENI ZOGOWALE

KIBAHA-PWANI

Further particulars required by Section 19 of the Tanzania Investment Act are set out overleaf

Executive Director

**Tanzania Investment Centre
P.O.Box 938 , Dar-es-salaam**

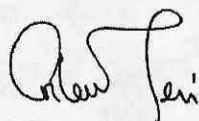
Dated: **14 September, 2024**



This Certificate is issued in accordance with the provision of Section 19 of the Tanzania Investment Act, 2022 and subject to the conditions prescribed under item 14 and 15 hereafter:-

1	Shareholders	Nationality	Shareholding (%)
	<i>Rizwan Ramzanali Manji Walli</i>	<i>Tanzania</i>	<i>20</i>
	<i>Muhammad Abbas Ramzanali Manji</i>	<i>Tanzania</i>	<i>20</i>
	<i>Huseinali Ramzanali Manji</i>	<i>Tanzania</i>	<i>20</i>
	<i>Mohamed Ramzanali Manji</i>	<i>Tanzania</i>	<i>20</i>
	<i>Hassan Ramzanali Manji Walli</i>	<i>Tanzania</i>	<i>20</i>
2	Proposed Activities: <i>To Establish and Operate a Project for Manufacturing Foam Mattresses and related products</i>		
3	Sector Manufacturing	Sub Sector Foam Mattress	
4	Investment Cost	Foreign (M\$) 0	Local (M\$) 16.5 Total (M\$) 16.5
5	Project Financing	Equity (M\$) 16.5	Loan (M\$) 0 Total (M\$) 16.5
6	Source, terms and conditions of loan		
7	Assets to be Invested	Foreign (M\$)	Local (M\$) Total (M\$)
	Capital items:	0	16.5 16.5
8	Technology Agreement	None	
9	Date of TIC Registration	14 September, 2024	
10	Implementation period	14 September, 2024 - 13 September, 2027	
11	Operative date	13 September, 2027 15 July 2031	
12	Investment Incentive Grade : As defined in part III Section 22(1), (2) and Section 23 of the Tanzania Investment Act, 2022		
	(i) Applicable Import Duty	EAC Customs Management Act. 2004 and VAT Act. 2014	
	(ii) Applicable with-holding Tax	As per Income Tax Act. 2004 (as amended)	
	(iii) Eligibility of Capital Allowances	As per Income Tax Act. 2004 (as amended)	
13	Protection of Investment , Arbitration and Transfer of Foreign Currency as defined in part IV and V Section 28, 29 and 33 of the Act.		
14	Conditions attached to this Certificate of Incentives		
	(i) Date of Commencement of investment has to be notified to the Centre		
	(ii) Certificate not to be transferred , assigned or amended		
	(iii) Failure to commence implementation within two years invalidates Certificate		
	(iv) Failure to operate investment must be notified to the Centre		
	(v) Changes in shareholding, project activities and level of invested capital must be notified to the Centre		
15	Additional conditions attached to Certificate		

Signed



Executive Director