BANL6674 - Group A

Anthony - Supply Chain Manager
Vishnu - Logistics Manager
Khushi - Financial Analyst
Sameer - Warehouse Manager
Lokesh - Purchasing Manager

Color Paints' strategic plan for international expansion centers on establishing a modern warehouse in Port Said, Egypt, to serve European, African, and Middle Eastern markets more effectively. The decision to locate the warehouse in Port Said is based on its strategic positioning along the Suez Canal, which provides direct access to major shipping lanes and reduces transit times. The facility will initially be 3,000 square meters, with the design accommodating future expansion to 5,000 square meters.

The financial plan for this expansion is based on a 5-year forecast that integrates steady revenue growth, margin improvements, and enhanced inventory turnover. Starting from a base revenue of approximately US$3.38 million in 2024, we project a 10% annual growth rate for the first three years and an accelerated 15% growth in Years 4 and 5. Concurrently, gross margins are expected to improve gradually from 48.5% to 55% as a result of operational efficiencies and cost-saving measures achieved through automation and improved supply chain practices.

A crucial component of the plan is the US$1.5 million investment in automation. This investment is intended to modernize our logistics processes and improve inventory management by increasing inventory turnover. Based on historical data, our current turnover is approximately 2.4. With the implementation of new systems, we target an ambitious improvement to 5 by Year 5. This enhancement will not only lower the average inventory—freeing up working capital—but also accelerate order fulfillment and service levels.

Operating expenses are expected to decline as a percentage of revenue over time, reflecting the cost efficiencies achieved by modernizing operations. These combined improvements are forecast to transition the project from negative net operating cash flows in the early years to positive cash flows by Year 4, ensuring the sustainability o
the expansion. Enhanced inventory management, driven by improved turnover, also contributes to better working capital management and a more responsive supply chain.

In summary, our plan is designed to boost revenue by leveraging improved market access, enhance margins through operational efficiencies, and achieve a leaner inventory model that supports robust cash flow. The strategy is both ambitious and grounded in realistic assumptions supported by industry benchmarks. This comprehensive plan sets ColorPaint on a clear path to international expansion, aligning our financial and operational targets with the overarching goal of sustainable growth and competitive advantage in a rapidly evolving global market.

—---

Location Decision

Our decision to establish the new warehouse in Port Said is driven by a combination of strategic location advantages and favorable cost factors. Port Said's position along the Suez Canal offers unparalleled access to European, African, and Middle Eastern markets, reducing transit times and increasing overall supply chain responsiveness. In addition, industrial rental rates in Port Said are significantly lower compared to many Western markets. Based on our research, we expect rental rates to average around US$2.50 per square meter per month. For a facility with an initial footprint of 3,000 square meters, this translates to a monthly rent of approximately US$7,500 and an annual cost near US$90,000. Such cost levels not only help contain our fixed operating expenses but also leave room in our budget for further investments in automation and operational enhancements.

The physical layout and storage capacity of the warehouse were also carefully considered. Modern warehouse design typically allocates around 60% of the total area to effective storage space once aisles, loading docks, and operational areas are accounted for. In a 3,000-square-meter warehouse, this means about 1,800 square meters would be available for pallet storage. Given that a standard pallet generally occupies roughly 1 square meter of floor space, the facility could theoretically accommodate around 1,800 pallets on a single level. With high-bay racking systems allowing stacking of pallets in three levels, the potential storage capacity increases to about 5,400 pallet positions. Our forecasted inventory requirements, which are derived from current COGS and improved turnover targets, suggest that even at peak, we would need to store between 400 and 700 pallets. This capacity leaves ample room not only for current operations but also for future growth, especially considering that the warehouse is designed to be scalable up to 5,000 square meters. As business volumes increase, we can either optimize our racking configuration further or expand the facility without the need for an entirely new location.

The strategic location, combined with the favorable rental costs and ample storage capacity, forms the backbone of our logistics expansion plan. The cost-effective environment in Egypt, enhanced by lower labor and utility expenses, further strengthens the financial rationale behind our decision. This integrated approach allows us to significantly improve inventory turnover and working capital efficiency while positioning ColorPaint for sustainable expansion across multiple international markets. With these factors in place, we are confident that the new Port Said warehouse will provide the necessary infrastructure to support our growth objectives and meet the evolving demands of our customer base.

—---

Financial Analysis

This report details the financial factors and assumptions underpinning our 5-year expansion plan for Color Paints new warehouse in Port Said. The analysis integrates current financial data, growth assumptions, and operational efficiency targets to support robust cash flow and improved working capital management.

The starting point is our base year, 2024, with a revenue of approximately US$3.38 million and an observed inventory turnover of about 2.4×. Our plan assumes a revenue growth of 10% annually for the first three years and 15% for Years 4 and 5. Concurrently, we project a gradual improvement in gross margins from 48.5% in 2024 to 55% by Year 4 and maintained in Year 5. These improvements are driven by enhanced operational efficiencies and cost reductions achieved through modernizing our logistics.

Cost of goods sold (COGS) is derived from the revenue and the gross margin; for example, in 2024, with a 48.5% margin, COGS approximates US$1.74 million. The plan calls for progressively higher inventory turnover targets, moving from 2.4× in 2024 to 5× by Year 5. As average inventory is calculated by dividing COGS by the turnover ratio, we estimate an average inventory of approximately US$726,000 in 2024, declining to around US$536,000 by Year 5. This reduction in average inventory reflects a more efficient supply chain and improved working capital utilization.

A critical component of the plan is a US$1.5 million investment in automation for the new 3,000-square-meter warehouse in Port Said, designed to be scalable up to 5,000 square meters. This investment will be depreciated on a straight-line basis over 7 years (roughly US$214,286 per year). Financing is achieved through an Egyptian SME loan at 8% interest over 7 years, resulting in an annual loan payment of approximately US$288,000. With the extension of the loan term from 5 to 7 years, the financing burden is considerably reduced, improving net operating cash flows in the earlier years.

Operating expenses, modeled as a percentage of revenue, are assumed to decrease over time—from 50% in Year 1 down to 45% by Years 4 and 5—owing to improved process efficiencies and cost reductions from the automated operations. EBITDA is projected to grow gradually as revenue increases and efficiency gains take hold, though initial years may still reflect negative net operating cash flow after accounting for depreciation and loan payments. Under the revised plan, our forecast indicates net operating cash flow remains negative in Years 1 and 2, turns near break-even in Year 3, and becomes positive by Year 4, with modest positive cash flow by Year 5.

The key factors driving these results include improved inventory management through higher turnover (targeting 5× by Year 5), accelerated revenue growth due to enhanced market access and reduced lead times, and lower annual financing costs thanks to extended loan terms. Further efficiency improvements in order processing and cost control measures may help achieve positive cash flow even earlier. This internal report serves as a basis for addressing questions during the finance stage and ensuring that every assumption is transparent and supported by industry benchmarks.