BV investments ltd is into the manufacture and recycling of plastics. As part of its growth strategy, the company plans to import modern machinery to increase production and boost revenues. The equipment is worth UGX 500M. The other costs relation to this modern equipment include; transportation, import duty, insurance and installation amounting to UGX 1M, UGX 1.5M, UGX 5M, UGX 2M. The company will require land on which the project will be located estimated to cost UGX 100M. Due to the nature of investment, the government is offering a 20% tax waiver on import duties, contributing UGX 25M towards the acquisition of land and has also promised to buy the equipment as scrap at the end of its useful life for a total sum of UGX 75M. Consultancy fees and market research costs for the project of 8.5M and UGX 2M respectively have already been incurred by the company.

The company expects to have an increase of UGX 35M in net working capital to be able to kickstart the project and 75% of this is expected to be recovered at the end of the project. The project life is expected to be 5 years. The company also plans to use one of its existing machines that was earmarked for immediate disposal at a market value of UGX 45M in the new project. The company’s policy is to depreciate all its equipment at 15% on reducing balance method depreciation.

With the arrival of the modern equipment, the company expects its sales volume to increase by UGX 300M each year during the project life, variable cost, and operating expenses are expected to increase by UGX 24M and UGX 45M respectively during the years of operation while the company is also expected to experience a reduction in the cost of repair by UGX 2M arising from the acquisition of the new equipment. The company plans to secure additional funds for the project from ABSA bank and will be expected to pay annual interest amounting to UGX 6M. Assuming the company’s required rate of return is at 12% and its required payback period set at three years on all its investment projects.

Required;

Determine the viability of the project using the Net Present Value and the Pay back period techniques if the company is in a 30% tax rate bracket and advise the firm accordingly.