Tropix U ltd deals in manufacturing of paint and has been serving the market within Kampala for over ten years. The management of the company has recently agreed to set up another manufacturing plant in the eastern part of the country to facilitate the timely delivery of products in the region.

The cost of the plant setup is estimated to include; land valued at UGX 100M, factory machines valued at UGX 500M and building estimated to cost UGX 250M. the factory machines are to be imported from Germany, attracting transportation cost amounting to UGX 50M, installation and testing costing UGX 25M, insurance valued at UGX 35M, while import duty is estimated to cost UGX 45M.

The building is to be depreciated at a rate of 5% on straight line basis while the factory machines attract a depreciation rate of 20% per annum.

The management of Tropix U Ltd estimates that the plant set up will require an additional working capital amounting to UGX 75M. the government is offering a 25% tax waiver on import duties on factory machines while the consultant hired to make the project estimates was paid UGX 15M.

The plant is expected to operate for a period of five years after which, it will be disposed to a local investor in the area at a giveaway price of UGX 350M and this will include land, factory machines and the building. The company expects to recover 75% its operating working capital in its terminal year. The company pays corporation tax of 30% p.a. The company’s cost of capital on long term investments is 12% while its pay back period on projects is 4 years.

The following are the estimated earnings before depreciation and tax to be generated from the new plant.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Years | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 |
| EDBT | 550M | 650M | 800M | 750M | 600M |

Evaluate the project’s viability using Net Present value, Payback period and Profitability index.