Year 0 1 2 3 4 NPV

Initial Outflow        -4,00,000

Residual Value                1,00,000

Capital (outflow)/Inflow        -4,00,000                1,00,000

﻿Annual Saving at current $        90,000  90,000  90,000    90,000

Infloation factor=1\*(1+3%)^n        1.0300  1.0609  1.0927    1.1255

Annual Saving         92,700   95,481  98,345   1,01,296

Free Cash Flow        -4,00,000      92,700   95,481  98,345   2,01,296

Discount Rate=1/(1+7%)^n             1.0000       0.9346   0.8734  0.8163    0.7629

Disc. Free Cash Flow        -4,00,000     86,636   83,397  80,279   1,53,568   3,879

Assumption :tax rate is not given we assume tax rate is zero

Conclusion: Since NPV is $3,879 which is >0, so project should be accepted

Year 0 1 2 3 4 NPV

Initial Outflow        -4,00,000

Residual Value                1,00,000

Capital