

Case Study – Business Owner

Mr. Murthy (52 years old) is the MD of a legal outsourcing company – Marathon Solutions, based out of Bangalore. The company has a total of 70 employees across functions and an annual revenue run-rate of ~Rs. 60crs. The clients are primarily based out of the US. Mr. Murthy owns 55% in the company - 35% is controlled by his brother who is the Chief Operating Officer and the remaining 10% is owned by employees of the company.

Family of Mr. Murthy

Mrs. Ritu -his wife is an interior designer. She is 48 years old. They have one daughter Neha (26 years old) and one son Rahul (19 years old). Neha is married and settled in Kolkata. Rahul is currently studying in SY B.Com – he intends to pursue an international MBA in 4 years time.

Personal Portfolio

Equity - 18crs: The direct equity portfolio had a total of 73 stocks with a current market value of 12crs. The stocks have been added to his portfolio over a period of time and are diversified across sectors and market capitalization. The total mutual fund investment corpus is Rs. 4.5crs which has been invested in a total of 13 schemes primarily in NFOs and closed ended schemes. The current value of the same is Rs 3.8crs. Rs 2 crs was invested in a mid-cap PMS managed by a local brokerage house. The money was invested in 2 tranches of 1cr each in 2005 and 07. The current value of the same is Rs. 2.1crs.

Debt - 1.2crs: There is a total of 45L lying in various bank fixed deposits across tenures. The average maturity of the same is ~3 years. Besides this, the total PPF contribution across the family holders is 70L. The family also owns 8L in NSCs.

Real Estate – 7crs: The primary residence in Bangalore is worth Rs. 4crs in market value. There is a loan outstanding of Rs. 1cr against it with an EMI of Rs. 150,000 per month. Besides, Mr. Murthy owns a flat in Mumbai valued at Rs.3crs and a plot of land near Delhi worth 1cr.

Private Equity : Mr. Murthy has a commitment of Rs. 1cr to a private equity fund. Out of this a total of Rs.25L has been drawn down and a further 25L drawdown is expected this year.

Cash: The current savings bank account balance is Rs. 35L

Recommendations

Personal Portfolio

1. KARVY Private Wealth helped to outline the key financial goals of the family which included building a retirement corpus for Mr. Murthy, a education fund for Rahul and a gift of Rs. 50L to Neha when she turns 30.
2. The current portfolio was heavily skewed toward equity (70%) and real estate (25%). KPW recommended increasing the debt component of the portfolio in line with building up an retirement corpus for Mr. Murthy. The target asset allocation at the end of the financial year was as follows:-

Equity	: 45%
Debt	: 30%

Real Estate : 25%
Gold : 5%

3. KPW analyzed the MF portfolio and recommended divesting 6 out of the 13 mutual fund schemes which had been underperforming the markets. The surplus cash from this was used to build up the debt component of the portfolio through purchase of NABARD and PFC bonds. Part of the money was invested in 3 year bank fixed deposits as well.
4. The number of stocks in the current direct equity portfolio was too high resulting in poor decision making on the portfolio and underperformance to the market. The top 6 stocks made up over 55% of the portfolio. We divided the portfolio into a “Core” and a “Satellite” portfolio. The “core” included 12 large cap stocks and comprised 70% of the total portfolio. The other 30% was designated as the “Satellite” portfolio and comprised of 8 stocks. The stocks in this segment were mostly midcap and small cap in nature. No more than 5% of the portfolio was invested in one stock and the exposure of any sector was maintained below 20%. The remaining stocks were sold.
5. The PMS fund had been underperforming the mid-cap index by over 8% since inception. KPW recommended exiting the same once the lock in for the same was completed. The proceeds were to be recommended in debt instruments.
6. The current housing loan was with a leading private bank at a floating rate of 12%. KPW analyzed the current loan rates in the market and recommended switching the loan to a PSU bank which provided the loan at a floating rate of 10.5%. 20L of the surplus cash was used to prepay part of the housing loan as well.
7. The financial goals with respect to the children were well managed for. The commitment to the private-equity fund would be made from internal accruals through the year.

Corporate Portfolio

1. FX Hedging

Almost all the revenues (~90%) of the company were USD denominated whereas the costs were mostly INR in nature (~60%). The company policy was to remit USD back to India on an ad-hoc manner using spot rates in the currency market. As a result the reported revenues of the company had been extremely volatile.

KARVY Private Wealth designed a FX hedging strategy for the company based on the payments expected from the clients and the costs to be incurred in the foreign country. This ensured the currency risk was managed better for a majority of the remittances to be made for the current financial year.

The execution of the entire strategy was carried out by KPW using a combination of currency futures available on the exchanges for shorter dated exposure (<3 months) and forward contracts with a PSU bank for contracts with a longer dated tenure.

2. Managing Liquid Cash Effectively

The surplus cash lying with the company (on an average~ 40L) was being invested in a single liquid fund floated by the Royal Fund Manager. On analysis by KPW, we found the following issues with the current investment in the liquid fund:-

- Lack of diversification
- Mismatch in tenure of requirements of funds and investment horizon
- Additional risk given the high exposure to real estate and NBFCs

KPW recommended the following steps to address the issue:-

- Broaden the range of investments chosen
- Increase number of liquid funds to diversify risk. These funds were chosen on the basis of the current portfolio, past returns, track record of the fund manager and the stability of the fund house in managing debt schemes.
- Minimize credit risk across the investments

The following portfolio was recommended by KPW:-

	Percentage Allocation	Time Horizon
Liquid Funds	40%	<3 months
FMP/FDs – 12 months	25%	12 months
Structured Products with Capital Protection	10%	18-24 months
Corporate Bonds	25%	3 years