

Case Study – Corporate Professional

Vishal: Senior Executive earning Rs. 40 lakh a year

Amrita: Marketing consultant earning ~Rs. 25 lakh a year – not fulltime in nature

Daughter Nidhi: 8 years old

Existing assets

- Own house: Rs. 80 lakh in market value; loan outstanding of Rs. 40 lakh against it with an EMI of Rs. 55,000 per month – entirely in Vishal’s name owing to the salaried job.
- Plot of land purchased from Amrita’s savings in joint name: Cost value Rs. 7 lakh, worth Rs. 11 lakh now
- PPF: Rs. 8 lakh in Vishal’s name, Rs. 9 lakh in Amrita’s name and Rs. 3 lakh in Nidhi’s name
- EPF: Rs. 7 lakh in Vishal’s name
- FDs: Rs. 15 lakh held jointly earning 8%
- Insurance
 - Rs. 20 lakh for Vishal through a combination of policies and another Rs. 60 lakh from his employer
 - Rs. 35 lakh for Amrita.
 - Surrender value of insurance policies: Rs. 12 lakh across Vishal and Amrita. Payout of Rs. 40 lakh expected in 10 years’ time; annual insurance linked investments are Rs. 1 lakh.
- Health cover as provided by Vishal’s employer – Rs. 3 lakh floating cover for the family
- Equity holdings
 - Mutual funds: Rs. 4 lakh, not actively managed – total of 13 schemes including some NFOs and closed ended schemes
 - Equity stocks: Amrita’s demat has stocks worth Rs. 3 lakh which she manages semi-actively (12 stocks)
- Other investments:
 - A real estate fund they bought in joint name two years back – at cost value of Rs. 10 lakh
- Current bank balance is Rs. 7 lakh – not invested anywhere owing to lack of suitable opportunities.

Milestones

- Related to Nidhi – education in 10 years from now at Rs. 20 lakh in today’s rupees; higher education in 14 years from now at Rs. 40 lakh in today’s rupees; marriage in 17 years from now at Rs. 30 lakh in today’s rupees and finally a gift of Rs. 50 lakh (if possible) in 18 years from now
- Amrita is thinking of bolstering her consulting practice by hiring a couple of associates and taking up a fulltime office. This would entail a spend of Rs. 8 lakh over the period of a year.

- Vishal and Amrita are thinking of buying a new car for Rs. 11 lakh. They are thinking about taking a loan for the same.
- Vishal has been using his bonus to retire the home loan which had become quite costly in last year. He plans to do the same this year as well. The estimated bonus amount is Rs. 8 lakh.

Portfolio view and shuffle - Investment portfolio

- Total real estate: Rs. 21 lakh
- Equity: Rs. 11 lakh (including Rs. 4 lakh from insurance surrender value)
- Debt: Rs. 50 lakh (including Rs. 8 lakh from insurance surrender value)
- Cash: Rs. 7 lakh
- Total: Rs. 89 lakh

Following observations/recommendations emerge

- The portfolio is quite skewed towards debt – owing to the investments in PPF, EPF, insurance policies and FDs. Of these only the FDs are semi-liquid and the insurance policies can be altered with some costs. The others are unalterable.
- Hence we suggest that the Fixed Deposits be invested in other assets such as equity and alternate investments.
- The cash balance is sufficient but should be redirected into liquid funds to maximize the returns from cash holdings without sacrificing liquidity
- The real estate allocation is sufficient. It need not be altered. The alternative assets can be chosen from PE funds, commodities or international investments.
- Within the equity allocation, mutual funds portfolio should be evaluated and restructured as needed. The equity stock portfolio can remain as it is currently – though it can be managed more actively
- Some of the incremental equity allocation can be done through structured products which will ensure protection from near term downside

Risk management observations

- Vishal's total cover is barely adequate. Also it is subject to his continued employment with the present employer (or the new employer providing similar cover). Vishal should take Rs. 50 lakh of term insurance
- Amrita's life cover is sufficient.
- The family should take additional medical insurance to build the policy history – irrespective of the employer. The family should also add critical illness cover since it is missing in the current set-up
- The family should insure their home and belongings.

- Amrita can think about professional indemnity cover depending on her client profile

Milestones

- Vishal and Amrita need to start keeping aside Rs. 25,000 for their daughter's education and marriage. They should use two different policies for education and marriage and invest the same in child plans with moderate risk profile
- For the Nidhi gift fund, they can invest Rs. 10,000/- in equity linked child plan with aggressive risk profile.
- Amrita's business venture can be comfortably financed by the savings currently with the family. However a careful business planning and cashflow based evaluation is called for to justify the investment in light of its payoffs
- The car can be purchased as well. However, it would not make sense to retire a low cost loan (home loan) and take on a high cost loan (car loan). Hence the bonus should be used for the down payment of the car rather than home loan retirement. While thinking about prepayment in future, the car loan should take precedence since it is higher cost and one without tax benefits.
- In general the risk taking ability of the family is moderate to high. They need not retire their home loan that aggressively. Instead they can use the funds to build long term assets – with at least 10% rate of return in neutral markets.