



## Case Study—Investment Alternatives

### KEYWORDS

Portfolio management, investment alternatives, Financial Planning

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**ABSTRACT** *This case (in dialogue form) is designed to familiarize the students with the concept of portfolio management and to enable them to understand the available investment alternatives in India. Raju Gupta, a Manager (Marketing) at Shipping Yard, Mumbai got a heavy sales incentive. He is in dilemma where to invest the money.*

Raju Gupta was standing in the balcony of his flat in Mumbai when he saw a hoarding stating 'Save early for maximum benefits'.

#### Something clicks to his mind.

He asked his wife Sangeeta, "Sangeeta, I forgot to tell you something. Yesterday I got my sales incentive for the year Rs.3 lakhs. What should we do with the money? Investments, Savings or holiday?"

Sangeeta replied (with spark in her eyes), "We already have saving bank account and some fixed deposits. Isn't it enough? Do you think still we need to save more? Why not to plan a holiday?"

Raju, "Come here and see". Raju showed her hoarding. Sangeeta thought for a while and then said, "Stock markets are volatile. You are not even sure of getting your principle amount back. Every day there are news regarding debt crises, credit crises, cash crunch, business and bank failures. In this scenario who would go forward for investing money? I don't think so?"

Raju, "Markets are correcting and sooner or later there would be positive sentiments. I think it's a right time to invest in market."

Sangeeta, "Why not to go for gold for our daughters?"

Raju, "Gold is just a hard investment. It doesn't give any returns. Already it is at the highest level."

Sangeeta, "I have never seen gold coming down in my entire life. When we got married in the year 1999 it was Rs.4000/- today it is Rs.26, 500/-. I wonder at the time of marriage of our daughters what would be the price of gold. I am afraid whether we will be in a position to buy at that time."

Raju was not convinced. He stood there silently observing the same hoarding.

Sangeeta, "Property is also a wonderful option. You know the price of this flat. When we came here in the year 2002 the price was around Rs.16 lakhs and we never thought of buying it. Today when we actually want to buy, it is out of our reach. The landlord has quoted Rs.2 crores."

Raju, "We never know when the bubble of property would burst. I understand that the demand for land would increase in future and supply is limited and price would go higher and higher. But there are many stories like the recent one in Gurgaon where applicants were not allotted plots even after payment of the entire amount. People are refusing to lend their lands to real estate builders."

Sangeeta, "So we are left with one option of fixed deposits. The current rate of interest of 9% is also very attractive. "

Raju, "OK I will go to bank today."

It was 9.00 a.m. in the morning and Raju left for the office. On the way he found lot many hoardings for alternative investments promising high returns. He reached office at 9:30 a.m. when his mobile rang.

Caller, "Good morning Sir, This is Ria from BCDF bank. Can I take few minutes of yours to let you know about our latest investment plans?"

Raju (replied enthusiastically), "Sure, I would like to know about investment alternatives"

Ria, "Sir, we have alternatives like mutual funds, SIPs, MIPs, Gold investments etc. May I send one representative to meet you?"

Raju, "Sure, send him after 6.00 p.m."

At 6:00 p.m. Rohit Sharma, Personal banker, BCDF Bank, came to meet Raju at his residence.

Rohit, "Thanks for giving time Mr. Raju. Let me know the basic details about you to enable me to understand about your requirements"

Raju, "I am 37 years old and working as Manager (Marketing) at Shipping Yard, Mumbai. I am married and have 2 daughters, 8 years and 4 years old respectively. My monthly salary is Rs.75, 000 p.m. My wife is also working and her salary is Rs.25, 000/- p.m."

Rohit, "Thank you Sir, May I know your debt obligations"

Raju, "At present there is no debt obligation."

Rohit, "May I know your monthly expenditure"

Raju, "Around Rs. 35,000/- per month for household expenses and Rs.7000/- rent of the flat."

Rohit, "What is the time horizon for making investments, your return expectations, your future plans?"

Raju, "I want to make investments for 10-12 years, till the time my daughters enter into professional education. Regarding expected returns, I want that it should be more than the market returns. But I am not ready to take the risk of principal amount. In future I would like to buy a house for my family, 2-3 foreign trips, my retirement funding is also very

important.”

Rohit (after making certain calculations, annexure-2 and 3), “Thank you Sir, first of all let me tell you about the HLV score. As per HLV (see annexure-1) calculator the value of your life comes to Rs. 2, 04, 00,000/-. This means that the insurance plan should be such as to give the cover of Rs. 2, 04, 00,000/- or the saving plus insurance should be equaling to this much amount. So I will suggest that you should go for life insurance cover at the earliest.”

Raju, “I have a life cover of Rs.25, 00,000/- for which I pay monthly premium of Rs.8000/-.”

Rohit, “That’s wonderful Sir, but as per your HLV score you need to go for additional insurance cover. Now-a-days there are very good term plans like Kotak e-term plan. Secondly, to take the advantage of stock market returns you should opt for mutual funds/SIPs. Thirdly, since you have surplus I would suggest you should also plan to buy a house property.”

Raju, “I have seen 2BHK flat near New Mumbai, adjoining Belapur. It would cost me around Rs.30 lakhs. But presently I don’t have Rs.30 lakhs with me.”

Rohit, “Sir, do you have any surplus money with you, say 2-3 lakhs.”

Raju, “Yes, I have.”

Rohit, “Great Sir, then you can easily afford a house. You have surplus money with you to make the down payment. I would suggest you to opt for house property loan. You can avail tax benefits on interest u/s 24 and principal amount u/s 80C of IT Act 1961. By shifting to your own house you can also save the rent of Rs. 7, 000/- per month.

Raju, “What would be the EMI?”

Rohit, “The EMI for Rs.30, 00,000/- house property loan for 20 years would be Rs.35, 000/- per month approximately.”

Rohit suggested Raju the following portfolio:

Alternatives	Scheme	Minimum Investment (per month)	Duration	Rate of Interest p.a.
Birla Sun Life Frontline Equity Fund - Plan A - Growth	Large Cap-SIP	4000/-	10 years	14.9
DSP BlackRock Top 100 Equity Fund-Growth	Large Cap-SIP	5000/-	10 years	9.2
Birla Sun Life Mid Cap SIP	Mid-Cap SIP	3000/-	10 years	17.2
Gold ETF	Gold	3000/-	10 years	21%

**Annexure-2  
Fact Sheet**

Scheme Name	NAV	1 Year	2 Years	3 Years	Since Inception
Large Caps					
Birla Sun Life Frontline Equity Fund - Plan A - Growth	85.3	7.6	49.3	11.5	28.5
Birla Sun Life Frontline Equity Fund - Plan B - Growth	12.50	4.8	--	--	15.8
Birla Sun Life Top 100 Fund - Growth	21.8	8.6	42.4	8.5	15.6
Daiwa Industry Leaders Fund - Growth	11.4	9.2	--	--	8.9
DSP BlackRock Top 100 Equity Fund - Growth	97.9	9.2	41.9	11.1	32.9
Edelweiss D.G.E Top 100 Fund - Plan A - Growth	13.5	4.4	--	--	17.9
Edelweiss D.G.E Top 100 Fund - Plan B - Growth	13.5	4.6	--	--	18.2
Edelweiss D.G.E Top 100 Fund - Plan C - Growth	13.6	4.7	--	--	18.3

Life insurance-Kotak e term	Life insurance	3000/-	Life time	1.5 crores cover
Proposed EMI of house worth Rs.30 lakhs	House Property	35000/-	20 years	
Health insurance premium (for Rs.10,00,000 cover)	Health Insurance	1000/-	-	-

Raju felt satisfied with the plan.

**Questions:**

1. Do you think the portfolio constructed by Rohit was a right option for Raju? Evaluate on the basis of nature of Raju as an investor?
2. What according to you should be the right portfolio?
3. Do you think Raju would be in a position to his children education and marriage?
4. Evaluate the risk and returns of the available investment alternatives in India.

**Annexure-1  
HLV calculator**

HLV stands for Human Life Value. The calculator helps to calculate the total income that a person expect to earn over his/her remainder working life, expressed in ‘present’ Rupee terms life i.e. how much money should he/she keep aside or insure to meet current standard of living. The calculator also takes into account certain life stages i.e. children’s education, their marriage, medical expenditure and my day to day living costs.

Your Age (in Years)	37
<b>Amount (INR)</b>	
Annual Gross Income	900000
Less: Personal expense including taxes [Annual] *	480000
<b>Amount used for family</b>	420000
<b>HLV factor as per age</b>	20
<b>Gross Human Life Value</b>	8400000
Less: Liquid assets **	500000
Less: Existing life insurance (sum assured only)	2500000
Add: Current liabilities #	0
Add: Money value of dreams for rest of life ##	15000000
<b>HUMAN LIFE VALUE</b>	20400000

\* This is the money you spend on yourself & towards taxation  
 \*\* Anything that can be converted into cash in the next 7 days can be termed as a liquid asset e.g. Cash, FD, Bank Savings, MFs, Shares etc  
 # This is the amount outstanding against you.  
 ## This would be the cost or value of your dreams & aspirations related to  
 -- Your child’s education  
 -- Child’s marriage  
 -- Holiday planning  
 -- Retirement planning  
 -- Asset/Wealth creation like owning house, car etc

Edelweiss Nifty Enhancer fund - Plan A - Growth	12.9	11.0	--	--	17.2
Edelweiss Nifty Enhancer fund - Plan B - Growth	12.7	10.3	--	--	14.7
Franklin India Bluechip - Growth	209.0	10.3	50.6	12.2	19.2
ICICI Prudential Focused Bluechip Equity Fund - Ret -	16.0	14.9	53.3	--	18.2
Indices					
S&P Nifty	5531.5	7.6	42.6	5.2	
BSE Sensex	18439.5	7.4	45.0	5.4	
BSE100	9593.0	5.2	47.0	4.7	
ELSS					
Axis Tax Saver Fund - Growth	11.9	12.4	--	--	15.3
Baroda Pioneer ELSS 96	23.5	-1.1	40.5	0.3	5.9
Bharti AXA Tax Advantage Fund - Eco - Growth	21.5	-5.3	50.5	--	45.5
Bharti AXA Tax Advantage Fund - Reg - Growth	21.4	-5.5	50.2	--	45.1
Birla Sun Life Tax Plan - Growth	13.3	5.9	43.2	2.9	6.6
Birla Sun Life Tax Relief 96 - Growth	10.7	0.0	51.2	3.2	2.2
BNP Paribas Tax Advantage Plan - Growth	13.0	1.2	38.7	-2.2	5.1
ETF					
Bank BeES	1093.7	19.2	72.9	15.5	24.0
Gold BeES	2040.1	24.5	15.7	16.1	21.1
Hang Seng BeES	1374.8	10.9	--	--	10.8
HDFC Gold ETF	2084.5	--	--	--	15.8
ICICI Prudential Gold ETF	2101.7	--	--	--	11.1
MIPs					
LIC MIP - Cumulative	32.4	3.6	10.2	5.8	9.4
Peerless Income Plus Fund - Growth	10.3	--	--	--	2.8
PRINCIPAL M I P - Growth	21.1	3.1	10.8	6.7	8.8
PRINCIPAL M I P Plus - Growth	18.3	2.3	13.3	7.3	8.8
Reliance MIP - Growth	21.3	6.2	17.2	14.3	11.1
Religare MIP - Growth	10.3	--	--	--	3.4
Hybrid					
Baroda Pioneer Balance Fund - Growth	28.5	11.4	33.2	1.8	15.0
Birla Sun Life 95 - Growth	301.0	10.5	44.7	13.2	23.6
Birla Sun Life Freedom Fund - Growth	31.5	-2.4	13.1	1.6	10.5
Canara Robeco Balance - Growth	58.5	8.6	42.3	11.0	10.5
Canara Robeco Monthly Income Plan - Growth	29.1	6.8	14.1	10.4	4.6

**Annexure-3****Monthly Income and Expenditure sheet of Raju**

Income	(Rs.)	Expenditure	(Rs.)
Salary Self	75,000	Household Expenditure	35,000
Salary Spouse	25,000	Rent	7,000
		Insurance Premium (old insurance)	8,000
		Proposed Insurance Premium	3,000
		Investments in SIPs	15,000
		Saving Account (for contingency)	3,000
		Health Insurance Premium	1,000
		Proposed EMI (leading to the saving of the rent of Rs.7000/-)	35,000