

EXPRESS CLINIC



NAME: RAHUL SHARMA, 26

RESIDES IN: PUNE

PROFESSION: INCIDENT MANAGER WITH MNC

NET ANNUAL INCOME
(₹ 7.45 LAKH)

STATUS & GOALS

RAHUL HAS A BASIC IDEA OF FINANCIAL PLANNING AND IS CONCERNED ABOUT RETIREMENT CORPUS AND EMERGENCY FUND. BUT AS HE IS THE ONLY EARNING MEMBER IN THE FAMILY WITH SIX DEPENDENTS, WHICH INCLUDES HIS PARENTS, GRANDPARENTS AND A YOUNGER BROTHER, HE IS WORRIED ABOUT HIS FINANCIAL LIFE AND LOOKING FOR A ROAD MAP TO PLAN HIS FUTURE.

NEEDED

A financial plan that will force him to save and provide good returns for future goals and retirement.

MONTHLY INCOME (Post Tax)

₹ 62,083

TOTAL EXPENSES

₹ 58,400

NET MONTHLY SURPLUS
₹ 3,683

GOALS

IN ORDER OF PRIORITY

RETIREMENT PLANNING (2037)
(Inflation 7% and Life expectancy 80 years)

MONTHLY EXPENSE
₹ 1 lakh

FUTURE VALUE (2037)
₹ 5.80 lakh

CORPUS REQUIRED
₹ 14.81 crore

CURRENT INVESTMENTS

SAVINGS BANK BALANCE - ₹ 50,000

FINDINGS

EMERGENCY FUND

He has an idea about what emergency fund is but still does not have enough money in his bank account.

INSURANCE PLANNING

He seems to be adequately insured with Life Insurance but for health insurance he is totally dependent on employer provided cover.

ZERO INVESTMENT

He does not have any product with investment point of view, except one LIC endowment policy.

INCOME GROWTH

He expects his income to grow by 10 per cent.

LOANS

His personal loan EMIs will finish in May 2012 and his home loan EMIs will continue for next 12 years.

OBSERVATIONS

He took a very wise decision by purchasing a Term Insurance plan with ₹ 1 crore of sum assured in this young age which has made his dependents financially secure. But on the health insurance part, dependence on employer provided insurance is risky. He also needs to work on savings front as he does not have enough savings right now and neither is he doing any regular investment.

RECOMMENDATIONS

EMERGENCY FUND: Maintain ₹ 1.75 lakh in savings account, as emergency fund to cope with any kind of emergency.

Express Tip: Keep at least 3-6 months of expenses in ready to use form for emergency fund depending on age and health profile. More than six months of expenses lying in saving bank accounts is treated as idle money which will hamper long term growth of overall portfolio

HEALTH INSURANCE

Buy a personal health insurance cover of at least ₹ 5 lakh for each family member, over and above the employer provided cover. To start with you can go for floater policy for you and your wife but going forward convert the floater policy to individual one. Buy separate insurance cover for your parents.

Express Tip: One should never remain dependent on the employer for insurance cover. It is always better to maintain one's own insurance policy. This will also help in keeping a separate funding where employer insurance remains short.

LIFE INSURANCE

There is nothing to be purchased on life insurance front. And even for investment do not buy

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INVESTMENT STRATEGY

Hike in small savings return a sweet pill

Interest rate hike is a good news, but the devil lies in the details says Ritu Kant Ojha

If you had planned for your future corpus thinking that your Public Provident Fund (PPF) and other small savings options would give almost fixed returns, be ready to make fresh calculations. From December 1, the small savings returns would become market-linked, aligned with the G-Sec rates (government securities). To address the issue of asset-liability mismatch in the National Small Savings Fund (NSSF), the central government has moved towards making returns from small savings instruments benchmarked against the government securities of similar maturities.

Being market linked, the rate of return would come down whenever there is a downward revision of interest rates, making it difficult for you to work towards a long term financial goal, like building retirement corpus, through instruments like PPF.

WHY MARKET LINKED

The Thirteenth Finance Commission in its report had recommended that all aspects of the design and administration of the NSSF be examined with the aim of bringing transparency, market linked rates and other much needed reforms to the scheme. As a follow-up to this recommendation, the central government had constituted a "Committee on Comprehensive Review of NSSF" on

July 8, 2010, headed by Shyamala Gopinath, the then deputy governor, Reserve Bank of India.

The asset-liability gap in the National Small Savings Fund (NSSF) has reached an alarming level of ₹ 36,932.38 crore. Over the years, due to the loss on the income and expenditure account, there has been an excess of liabilities compared to assets built over the years, the committee had reported.

"If the asset-liability mismatch is allowed to continue, it will create an unsustainable fiscal burden on the government," Rajiv Kumar, member of the Committee and secretary general, FICCI had earlier said on the release of the report.

Based on the review report and recommendations made by various departments, states/UTs and agent associations, government arrived at following decisions:

NEW RATE OF RETURNS

Instrument	Current Rate (%)	Proposed Rate (%)
Savings Deposit	3.5	4
5 year Time Deposit	7.5	8.3
5 year RD	7.5	8
5 year SCSS	9	9
5 year MIS	8	8.2
5 year NSC	8	8.4
10 year NSC	New	8.7
PPF	8	8.6

aligned with G-Sec rates of similar maturity, with a spread of 25 basis points (bps) with two exceptions. The spread on 10 year NSC (the new instrument) will be 50 bps and on senior citizens savings scheme (SCSS) 100 bps. The interest rates for every financial year will be notified before 1st April of that year.

● The 5 per cent bonus on maturity of MIS will be discontinued.

NO FIXED RETURN ON PPF

PPF forms an integral part of the long term planning, especially of the middle and the lower middle income groups. The return on PPF has been increased to 8.6 per cent for this year. However, going forward there would be no fixed return element attached to it.

Traditionally the future projections for PPF corpus, a product with 15 year maturity period, revolved around an approximate annual compounding return of 8 per cent. Most people use their provident fund for purposes such as children's marriage, higher education, or buying a house. "It will be difficult to project future income based on PPF returns. Annual adjustments depending on the prevalent PPF rate would have to be made to arrive at the right amount", says Kiran Telang, a Mumbai based financial planner.

"PPF rate of 8.6 per cent is non-taxable and a boon for investors looking to build their retirement corpus through debt allocation. 8.6 per cent non-taxable is equal to 12.30 per cent for investor in 30 per cent tax bracket or

10.75 per cent for investor with 20 per cent tax bracket. Investors should utilise complete limit of ₹ 1 lakh", suggests Neeraj Chauhan, a financial planner.

UNATTRACTIVE RETURNS

In the unbanked rural and semi-urban areas, post office savings are immensely popular and are trusted due to the sovereign guarantee it carries.

However, experts feel that with changing times small savings instruments are no longer as attractive as they used to be. With banks offering 4-6 per cent return on savings accounts, company fixed deposits giving 9.5-10 per cent returns, and secured non-convertible debentures about 12-13 per cent, the options for the investors are plenty.

Before taking any investment decision do account for inflation, currently hovering around 9-10 per cent. For example, if the average inflation for the next 10 years remains at 8 per cent and the return from 10 year NSC is 8.7 per cent then the real return would be only 0.7 per cent. "For any long term goal, a judicious mix of debt and equity is required which would at least give 3 to 4 per cent higher return than average inflation", suggests Suresh Sadagopan, CEO, Ladder7 Financial Advisories.

With "fixed return" gone, investors would do well to evaluate other options. While at this point the increase in small savings rates of may look attractive, it may well prove to be a sweet pill in the longer term. ♦

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RATIONALISATION OF SCHEMES

● The maturity period for Monthly Income Scheme (MIS) and National Savings Certificate (NSC) will be reduced from 6 years to 5 years.

● A new NSC instrument, with maturity period of 10 years, would be introduced.

● Kisan Vikas Patras (KVPs) will be discontinued.

● The annual ceiling on investment under PPF will be increased from ₹ 70,000 to ₹ 1 lakh.

● Interest on loans obtained from PPF will be increased to 2 per cent p.a. from existing 1 per cent p.a.

NEW INTEREST RATES

● Interest on post office savings account increased from 3.5 per cent to 4 per cent p.a.

● The rate of interest on small savings schemes will be

TAKING WINGS



Prakash Mundhra

Sacred Moments

ABOUT ME	
Name	Prakash Mundhra
Age	31
Hometown	Mumbai
Family background	Textile Business
More than 1 company? No	
Education	MBA from Symbiosis Centre for Management and HRD-2006
Graduated from	Sydenham College, Mumbai
Former employer	Started my company directly after passing out from SCMHRD
Former designation	NA
Area of responsibility	NA
Favorite book/movie	The Goal by Eliyahu Godratt, Good to Great by Jim Collins

Company Name	: Sacred Moments
Founded in	: 2006
Headquartered in	: Mumbai
Company website	: www.blessingzonline.com
Industry	: Corporate Gifting / Exports
Stage of the company	: Scaling up

NUMBER CRUNCHING

	2010	2011
No. of employees	: 0-5	: 5-10
No. of customers	: 80-100	: Over 150
Turnover	: Under ₹ 2 crore	: Approx ₹ 2-3 crore
Profits	: ₹ 1-3 lakh	: ₹ 1-3 lakh
Initial funding	: Family members	
Primary source of additional funding	: Prizes from business plan competitions	
Primary source of additional funding	: Family	
Raised institutional capital?	: No	

National Entrepreneurship Network, a non-profit organisation that supports high-potential entrepreneurs, contributes to this weekly feature

MY GAMEPLAN

SACRED Moments pioneered the concept of customised puja kits for every religious festival under the brand name 'Blessingz' in the year 2006. Our puja kits have all the non-perishable items along with a manual, in a beautifully designed box. We also make Holy Namaz kit, Feng Shui kit and Vahan Puja kit. Our major clients are corporates who look for alternative options to sweets/dry fruits for gifts/promotions during festivals. We have a workshop in Thane, where we manufacture over 25 lakh pieces of clay diyas in around 500 designs and export it mainly to US, UK, Australia, South Africa and Mauritius. We source the best quality puja products from across India and pack it in a manner which helps families perform puja on their own.

The best advice I got...

"You should be wary of competition, but worry from copycats should not deter you from experimenting with your new idea. First put your 100 per cent into making your idea a success," said my uncle when I was in a dilemma to start or not. Looking back, at times I feel that the rich experience in a business makes one a better consultant for startups than an MBA degree.

The defining moment...

When we got repeat orders from our

clients for the Diwali Puja Kit in 2007.

What keeps me awake at night...

Cost-effective ways to acquire new clients has been one of the biggest challenge for my business, which has a low profit margin as well as growth limitation on turnover. Besides our effort to reach clients in tier-III cities, expanding our product portfolio after critical assessment of our synergies associated with it in terms of production/distribution would be very critical.

I thought I would give up...

I have never thought of giving up, but there was a phase when I was at a crossroads and could not decide which path to take. I opted to wait and watch for some clues that could give me the right direction. I didn't make a single sale in those three months, got my acts together with the clues I got and finally made a conscious decision to take a path of my choice. By God's blessings, I never had to look back thereafter

My word of advice for others...

Think of business ideas that are workable, rather than dream of lofty business ideas that remain only on paper. Small businesses have to move out of their routine tasks by delegating work and take time out for business networking and their development. ♦