

Seat No.: _____

Enrolment No. _____

GUJARAT TECHNOLOGICAL UNIVERSITY
MBA – SEMESTER 3 – EXAMINATION – SUMMER 2019

Subject Code: 3539286

Date: 06/05/ 2019

Subject Name: Management of Financial Planning

Time: 02:30 AM to 05:30 PM

Total Marks: 70

Instructions:

1. Attempt all questions.
2. Make suitable assumptions wherever necessary.
3. Figures to the right indicate full marks.

- Q.1** Write explanation of following terms with Practical examples. **14**
- (a) Risk (b) Power of Attorney
(c) ETFs (d) Derivatives,
(e) Portfolio (f) VRS
(g) Mutual funds
- Q.2** (a) Explain the meaning of financial planning and also elaborate the financial planning process giving an example. **07**
- (b) “A personal balance sheet is an effective scorecard for measuring financial progress”. Explain detail. **07**
- OR**
- (b) Saurabh is pursuing MBA course from a management institute. Define the stages of career planning and advancement for him as being fresher in job market. **07**
- Q.3** (a) Why it is advisable to know about the investment avenues? Explain different types of investment alternative. **07**
- (b) What is Will? What are Objectives of will? Explain characteristics of creating a valid. **07**
- OR**
- Q.3** (a) What are the various kinds of Mutual Funds available? Mention their classification and also explain which kind of investors would invest in which kind of Mutual Funds. **07**
- (b) Prepare financial goals and activities list for various life situations. **07**
- Q.4** (a) Explain risk return trade off. What are the major types of risk associated with Investment? **07**
- (b) Mr. Akash Shah is 40 years old working as Assistant manager in MNC, having portfolio of Rs.30 lakhs invested in some limited number of stocks in capital market. With the use of Asset allocation model suggest some investment planning to Mr. Akash Shah and also give valid reason for choosing particular investment. **07**
- OR**
- Q.4** (a) Suppose you are an advisor in the investment firm, which factor would be taken by you for the choice of investments. **07**
- (b) What is retirement plans? Explain Various retirement schemes. **07**

Q.5 CASE STUDY:

Ram is 30, has recently got married to Sapna who is 27, and they are planning to have first child in 3 years. He lives in a comfortable although small apartment of his own, in a building where the society bills are very high due to major maintenance.

Ram's Financials:

His current annual income is Rs. 10.80 lakhs, that is Rs. 90,000 per month after taxes. His family household monthly expenses are roughly Rs. 50,000 (including building maintenance expenses of Rs. 15,000 per month). He invests Rs. 35,000 per month, and saves Rs. 5,000 per month. He expects his salary to grow at 10% per year. Sapna is a home maker and hence is not earning. He had a family medical insurance that covers Sapna and himself, for which he pays Rs. 12,000 per year. His company does not provide medical insurance. He has no other insurance. His accumulated EPF is Rs. 40,000 and he invests Rs. 780 per month into his EPF, which his employer matches.

Ram's Assets and Liabilities:

Ram has no liabilities. He has a PPF account where he invests Rs. 70,000 per year and wants to continue doing so. The current value in the account is Rs. 11 lakhs. Ram has equity mutual funds worth approximately Rs. 4.50 lakhs, and direct equity of Rs. 1.50 lakhs. He has liquid funds worth Rs. 75,000. Thus totally by the age of 30, Ram has accumulated Rs. 18.50 lakhs across debt, equity and liquid funds. He has no gold exposure. His residential home is worth Rs. 2 crore so his total net worth is Rs. 2.18 crore, distributed as follows:

Ram's Life Goals

1. Ram wants to shift in a better building. He will need to sell his current home and also spend an additional Rs. 50 lakhs to move into a Rs. 2.50 crore apartment. This is something that Ram does not want to compromise on. He plans on taking a Rs. 50 lakh home loan but doesn't know if this is the best option for him, as he also wants to save for his retirement. He would like to do this immediately.
2. Ram wants to buy a new small car, worth say Rs. 4 lakhs. He doesn't mind a second hand car. He can sell his existing vehicle and will get Rs. 1 lakh sale value.
3. Ram wants to provide medical contingency corpus of Rs. 5 lakhs within 4 years.
4. They are planning a child in 3 years, They want to spend Rs. 20 lakhs in today's terms on the child's higher education, to be achieved when the child turns 18.
5. Ram would like to retire at the age of 60. His post retirement life expenses will be Rs. 35,000 per month.

Ram's brother Shyam has been trying to convince that a large home loan right now is not a good idea, as with a Rs. 50 lakh home loan, the EMI will be Rs. 50,000 per month for 20 years. This means that for the next 2-3 years Ram will have to stop all other investments and only pay his EMI and his household expenses. Instead, he recommends Ram to invest in a much smaller property as an investment, with a Rs. 20 lakh home loan, and give it out on rent. When the property appreciates in value, he can sell it, repay his home loan, and will have made a tidy profit on the sale.

Questions:

- (a) Are Ram's priorities in order? Should he first plan for his retirement and then worry about moving to a better building? Or should Ram take the home loan? **07**
- (b) How do you assess Shyam's advice on Ram's financial plan? **07**
- OR**
- (a) How should Ram structure his finances to achieve his life goals? **07**
- (b) Ram has very broad knowledge of insurance and wants to take a ULIP with his wife as the nominee. He wants to know if this is a good idea, and how much premium should he invest per year. **07**
