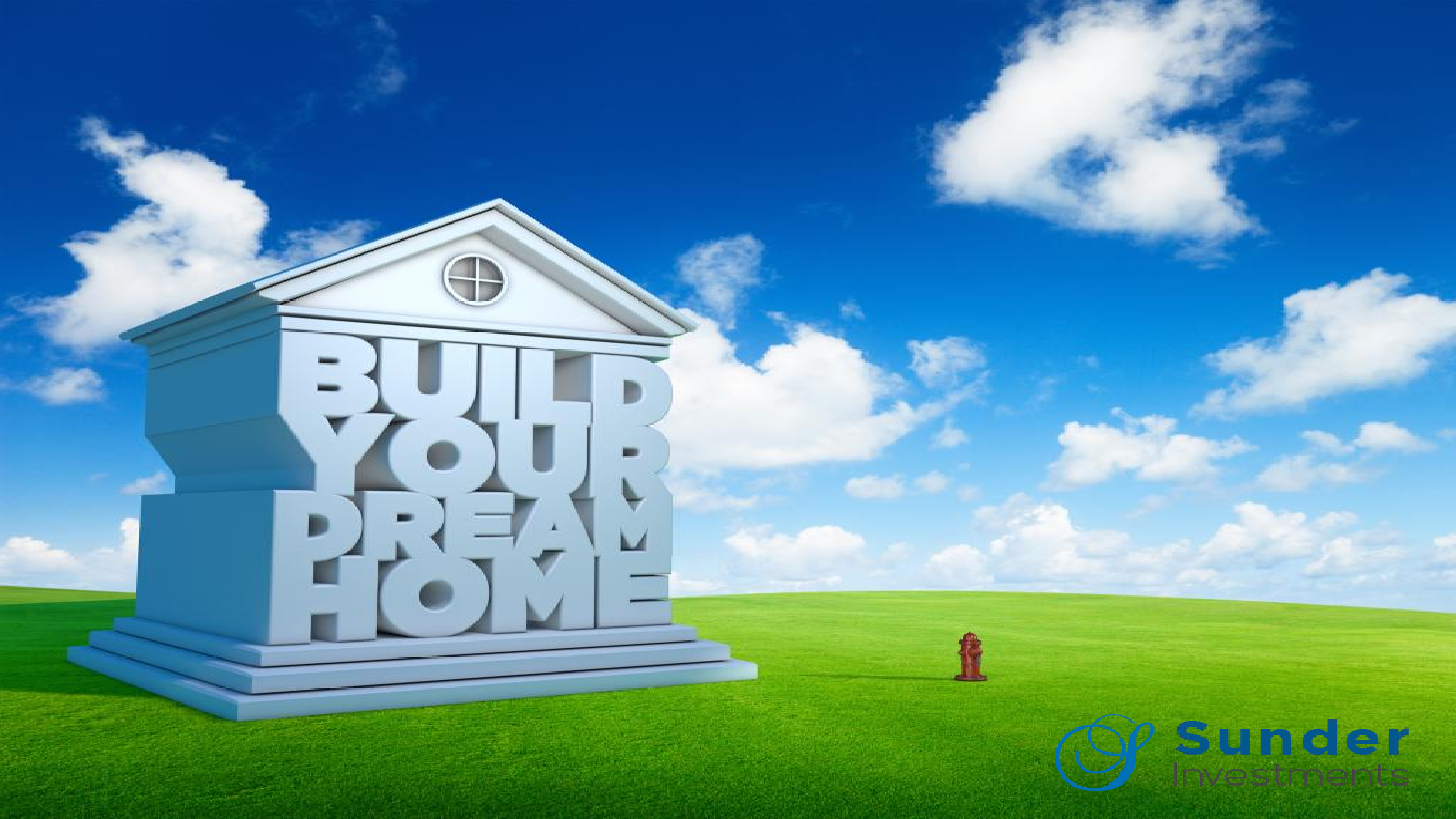
BUILD
YOUR
DREAM
HOME
Sunder
Investments

How a SIP works more for you than an EMI

Buying a house means long-term commitment by way of EMI. The EMI amount is not small by any means, either. But that has never been a deterrent for most of us. We are willing to take a 15-year loan and pay our huge EMIs diligently, and ensure that we never miss a payment.

But this same discipline, this same giving of good sums, this same long-term horizon is not present when it comes to our mutual fund investments. Here, we hesitate to commit a fixed sum. We are under-invested, content to put in small sums of just Rs. 1,000 or Rs. 2,000 a month, even while we commit over ten times of this to our EMIs.

So, what if we compare a house investment with a mutual fund investment? If, instead of paying your EMI, you had been investing in mutual funds, what would you have ended up with?

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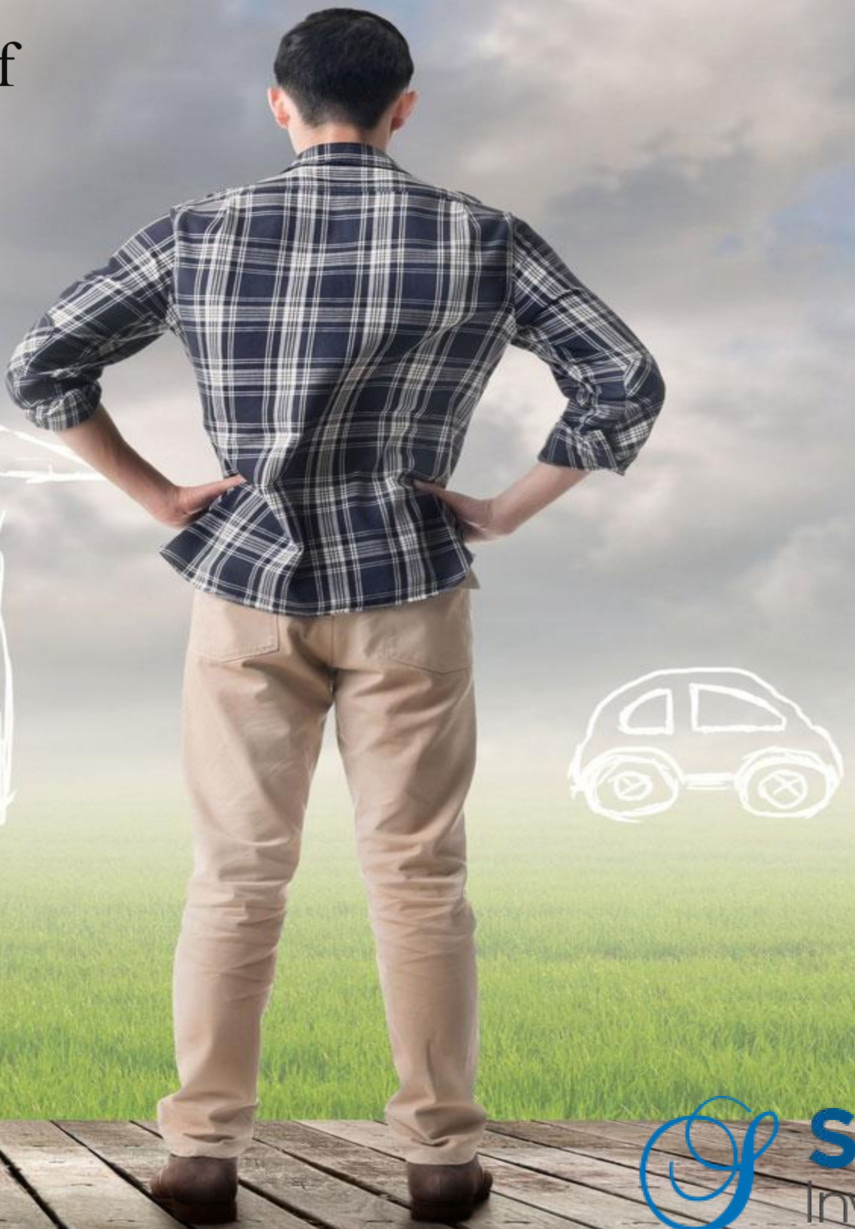
Costs of a house

Let us assume you planned to buy a house for Rs. 37.5 lakh. This is a reasonable price to assume for a middle class person to buy a house in the city. It also makes for easier calculations and presentations of down-payment and loan component.

Typically, banks ask you to put in 20 per cent of the cost as down-payment which comes from your own savings. For our house, this works out to Rs. 7.5 lakh, and the remaining Rs. 30 lakh is taken as a home loan. Assuming a reasonable interest rate of 10 per cent and a loan tenure of 15 years, the EMI for this loan works out to Rs. 32,238. Then, you have registration costs of the property, which is an average of 20 per cent, though individual states have different rates. Registration adds a further Rs. 7.5 lakh to the cost. The total of the loan payments over the 15-year period is actually Rs. 58 lakh. That brings the total cost of the house to a whopping Rs. 73 lakh (down-payment + loan + registration).

Now let's see what happens if you commit this EMI amount to mutual funds through an SIP. You will have to pay rent as you don't have a house. A rent of Rs. 10,000 a month is a fair assumption for a house of Rs. 37 lakh.

So that gives you Rs. 22,238 to invest in a good equity fund with a long-term track record. We assume that the increase in your rent will be taken care of by salary hikes. This apart, there is also the Rs. 7.5 lakh each for the down-payment and registration cost, both of which came from your savings. Let's say you put that into a balanced fund for proper asset allocation.



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How the returns fare

Look at the table now. We have different scenarios on appreciation in property prices. We took data on mutual fund performance for the past fifteen years (assuming also that you bought the house 15 years ago). Take the best-case scenario of your property growing 10 times in 15 years and compare it with Portfolio II. You will see that mutual funds still delivered Rs. 53 lakh more. However, the chances of a 10-fold jump in property over a 15-year period are low. In order to beat mutual funds, your house should have appreciated by at least 12 times. And if a 10 time appreciation is hard, a 12 time rise is even more remote.

So had you patiently allowed you money to grow over these 15 years, your mutual funds would have fetched you better returns.

FOR HOME	
Cost structure	
Down payment for home loan	Rs. 7.5 lakh
Registration cost	Rs. 7.5 lakh
Total EMIs for loan period (principal and interest)	Rs. 58 lakh
Total cost of buying a house	Rs. 73 lakh
Value and returns	
Scenario I	
After 15 years, assuming an appreciation of 4 times	Rs. 1.56 crore
Yield	7.9%
Scenario II	
After 15 years, assuming an appreciation of 10 times	Rs. 3.75 crore
Yield	16.5%

Assumptions
EMI start date at 1 Jan 2001, loan period for 15 years
Amount of EMI is Rs. 32,238, for a loan of Rs. 30 lakh, at 10% interest rate

FOR MUTUAL FUND	
Portfolio I - Franklin India Bluechip & HDFC Balanced	
Cost structure	-
Total SIP investment in Franklin India Bluechip*	Rs. 40.25 lakh
One-time investment in HDFC Balanced	Rs. 15 lakh
Total investment cost	Rs. 55.25 lakh
Value and returns	.
Value of investment after 15 years	Rs. 3.71 crore
Yield	18.3%
Portfolio II - HDFC Equity & Tata Balanced	
Cost structure	-
Total SIP investment in HDFC Equity*	Rs. 40.25 lakh
One-time investment in Tata Balanced	Rs. 15 lakh
Total investment cost	Rs. 55.25 lakh
Value and returns	-
Value of investment after 15 years	Rs. 4.28 crore
Yield	19.6%

Assumptions:
**Monthly SIP amount of Rs. 22,238, start date at January 1, 2001, for 15 years*
One time investment the equivalent of down payment and registration costs

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Clearly, the SIP had delivered much higher, and that too with a lower investment amount every month (Rs. 10,000 lesser than your EMI as a result of rent).

So, what about this?

- One, if you showed the patience and ability to commit high sums for a long period of time, like you do with your EMI, you would be able to build a far superior corpus for your long-term goals.
- Two, you need not be in a hurry to take a loan and buy a house in your initial years of high saving.

Happy investing!

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