

Synchronise your investments with your income levels and challenging goals

Make higher savings through a rule-based approach

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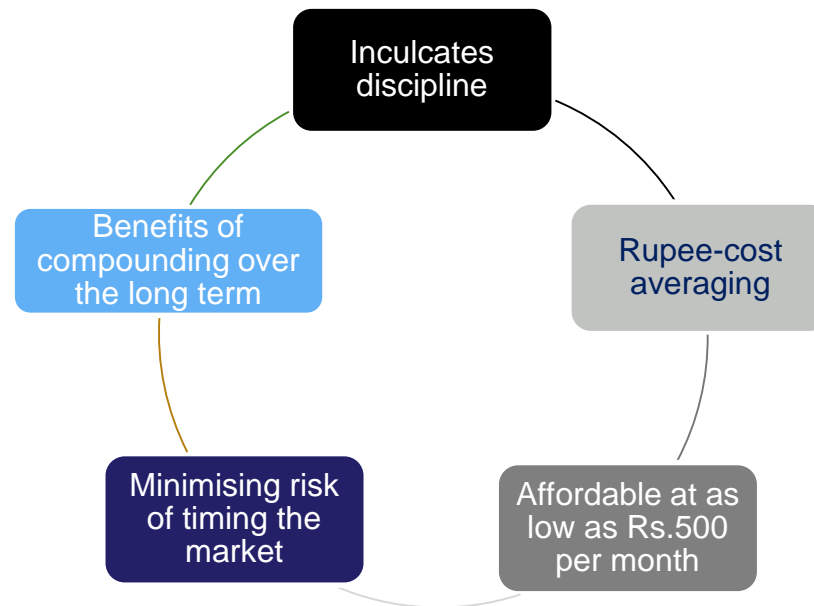
SIP – an efficient medium of investment

SIP

- Systematic investment plans (SIPs) have emerged as a powerful and popular tool for investors to meet their financial goals.
- The mechanism of SIP builds on the inspirational quote “little drops of water make a might ocean”. By investing small amounts in a regular, systematic manner, investors can achieve their goals.

Example

- For instance, an SIP of Rs 5,000 per month over a 25 year period at CAGR of 15%^ can generate investor a corpus of nearly Rs.1.38Cr ^



^ For illustration purpose only, CAGR of 15% assumed for the above calculation which is 15 year daily rolling average returns of the S&P BSE Sensex since 1979 till December 2019, Actual rate of return may vary basis the market performance

Past performance may or may not sustain in the future and does not guarantee or assure future returns

SIP – but might not be an effective medium of investment always

Mismatch between increased income and challenging goal?

- SIPs have proven to be a beneficial investment avenue in a linear scenario of income and goals.
- In case of a wide gap between increment in income and required SIP for a difficult/big goal, SIP is not an effective medium of investment
- In such scenarios, what should the investor do? Abort the goal, reduce the goal amount, or increase the horizon?

What is the solution?

- The answer is none of the above. Instead, the investor can use the **Step-up** feature available within SIPs to achieve the challenging goals, while aligning with their increased income stream.




What is a Step-up SIP?

Step-up SIP is a feature that allows investors to increase their instalments automatically by a fixed amount at pre-determined intervals. Most mutual funds offer the facility to automatically increase SIP amount in multiples of ~ Rs.500 monthly, quarterly, half-yearly or annually.

The step-up is determined in a way that investor's marginal propensity to save is increasing, and this is one of the key to wealth creation in the long run.

Case study (1/2)

- ◆ Rahul has two key financial goals: first, to fund his two kids' higher studies, expected to cost Rs.10 Lakh and Rs.20 Lakh, respectively, after 7 and 12 years.
- ◆ He also needs to fund his sunset years, for which he needs to save Rs.5 Crore in over 20 years to ensure a good lifestyle for himself and his wife.
- ◆ He has received his annual increment which will increase his monthly income going forward.
- ◆ The following table shows the monthly SIP value needed to meet his goals.

Goal	Investment horizon	Goal Value	Monthly SIP value~	Surplus available
 First kid's higher studies	7 years	Rs. 10 lakh	Rs.7,000	Yes
 Second kid's higher studies	12 years	Rs. 20 lakh	Rs.5,000	Yes
 Retirement	20 years	Rs. 5 cr	Rs.33,000	No

- ◆ While Rahul has the funds to invest on a monthly SIP for his kids' education, he believes that the increased income cannot support the additional SIP required for this retirement goal.
- ◆ In such a scenario, Step-up SIP can be highly effective. Rahul can achieve his retirement goal by starting with a smaller monthly amount, in-line with increased income of Rs.10,000, and grow it by Rs.5,000 on an annual basis.

Case study (2/2)

- ◆ Through Step-up SIP, Rahul will be able to achieve his retirement goal, as against when he maintains the regular SIP amount.

2039	Rs. 10000 p.m.	Rs. 1.31 Cr
2035	Rs. 10000 p.m.	Rs. 70.5 L
2032	Rs. 10000 p.m.	Rs. 42.2 L
2028	Rs. 10000 p.m.	Rs. 21.2 L
2025	Rs. 10000 p.m.	Rs. 11 L
2021	Rs. 10000 p.m.	Rs. 2.6 L
YEAR 2019	Rs. 10000 p.m.	Rs. 1.3 L
	Regular SIP investment	Value of investment at the end of year

Regular SIP

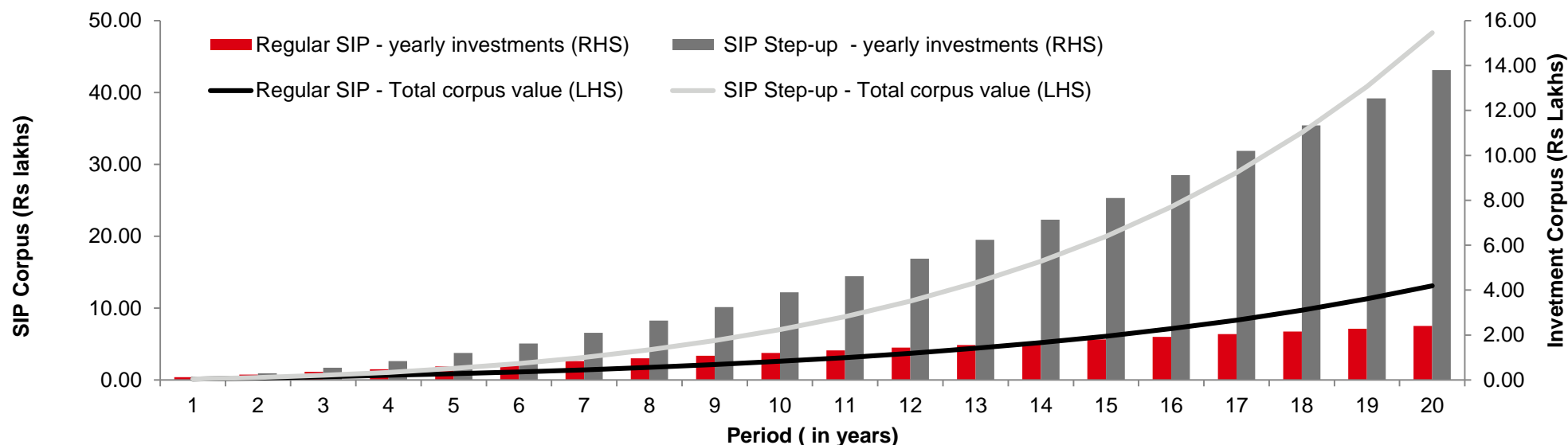
2039	Rs. 105000 p.m.	~Rs. 5.0 Cr
2035	Rs. 85000 p.m.	Rs. 2.4 Cr
2032	Rs. 70000 p.m.	Rs. 1.3 Cr
2028	Rs. 50000 p.m.	Rs. 54.4 L
2025	Rs. 35000 p.m.	Rs. 22.8 L
2021	Rs. 15000 p.m.	Rs. 3.3 L
YEAR 2019	Rs. 10000 p.m.	Rs. 1.4 L
	Step-up SIP investment	Value of investment at the end of year

Step-up SIP

Calculation based on a SIP growth rate of 15%, which is 15 year daily rolling average returns of the S&P BSE Sensex since 1979 till December 2019, ~ Approximation to the nearest thousand, For illustration purpose only, Past performance may or may not sustain in the future and does not guarantee or assure future returns

Step-up SIP can accentuate benefits of compounding

- ◆ Step-up SIP builds wealth faster due to the power of compounding, which builds further on additional investments over a period of time.
- ◆ Let us look at this with the help of another hypothetical case study of two sisters Anjali and Priya
- ◆ Anjali started a regular SIP of Rs. 1,000 p.m. for 20 years with an annualised growth rate of 15%, growing her total investment of Rs. 2.40 lakh to Rs.13 lakh.
- ◆ Priya stepped-up her regular SIP with only Rs. 500 per month, and her investment of Rs. 13.80 lakh grew to nearly Rs. 49 lakh during the same period.



Calculation based on a SIP growth rate of 15%, which is 15 year daily rolling average returns of the S&P BSE Sensex since 1979 till December 2019
For illustration purpose only, Past performance may or may not sustain in the future and does not guarantee or assure future returns

Step-up SIP also helps tide over unfavourable market phases

- ◆ Systematic investments help investors ward off risks that arise from timing the market, and smoothen returns over the long term.
- ◆ An analysis of investments done before the financial crisis of 2008 till date has shown that Step-up SIP investments have been able to generate higher returns than lump sum and regular SIP.
- ◆ Monthly regular SIP of Rs.1,000 totaling to Rs. 1.44 lakhs would have grown to Rs. 2.70 lakh, whereas in case of Step-up SIP with an increment of just Rs.500 per year would see his investments of Rs. 5.40 lakh grow to Rs. 8.82 lakh during the same period.
- ◆ Thus despite, the markets going topsy-turvy, an investor can benefit by investing systematically and also enhance his wealth creation by topping investments at regular intervals.

Period of investment	SIP*			Step-up SIP ^			Nifty 50 returns (CAGR)
	Investment	Investment Value	Returns (XIRR)	Investment	Investment Value	Returns (XIRR)	
Jan-08 to Dec-19	Rs. 144000	Rs. 270000	10.37%	Rs. 540000	Rs. 882774	10.45%	5.86%

* Considers Rs.1,000 of SIP investment in Nifty 50 index on the first day of every month from January 2008 to December 2019

^Starts with Rs.1,000 of investment and increased on an annual basis by Rs 500 per month

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Step-up SIP helps increase savings in tandem with income

- ◆ Annual rise in salary is the most welcomed and motivating factor in one's earning life.
- ◆ But many times the rise in income is not utilised in savings / investment, which can be detrimental to the wealth-building process.
- ◆ The table below depicts how the Step-up SIP helps investors build more investments compared to the regular SIP.

	Regular SIP		Step-up SIP			
Year	Monthly SIP amount (Rs.)	Total SIP value in the year (Rs.)	Monthly SIP amount (Rs.)	Top-up amount (Rs.)	Monthly SIP amount including top-up (Rs.)	Total SIP value in the year (Rs.)
1	1000	12000	1000	-	1000	12000
2	1000	12000	1000	1000	2000	24000
3	1000	12000	2000	1000	3000	36000
4	1000	12000	3000	1000	4000	48000
5	1000	12000	4000	1000	5000	60000
6	1000	12000	5000	1000	6000	72000
Total		72000				252000

Why should investors look at Step-up SIP?

It is affordable

- Investors with initial low surplus for investment can use the Step-up SIP facility to gradually invest more to achieve goals.

It helps achieve goals faster

- With incremental investing, wealth grows faster with the help of compounding, thereby helping investors to attain goals faster.

It is convenient

- Helps investors avoid the paper work associated with increasing SIP contribution during the tenure.

It is low on maintenance

- Reduces the necessity for creating and tracking multiple SIPs in the same scheme.

To summarise

Increase wealth generation capacity

- Step-up SIP provides investors with an option to increase their wealth generation capability while also providing an opportunity to achieve goals that might seem unachievable in the current financial life-stage.

Allows inclusion of future income rise

- Increase investments with the step-up based on the predicted rise in surplus income.

Rationalise the Step-up

- Investors should however rationalise on the top-up based on the predicted rise in surplus income.
- For instance, if unexpected events or expenses like job loss, arrival of new born in the family, etc. takes place after starting Step-Up SIP, it may raise difficulty level for an investor to continue with the committed investments.

Goal planning

- Incremental investing allows investor to start with less and increase investments in future as their income grows. Such Step-up investments can help achieve difficult financial goals with proper planning.

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