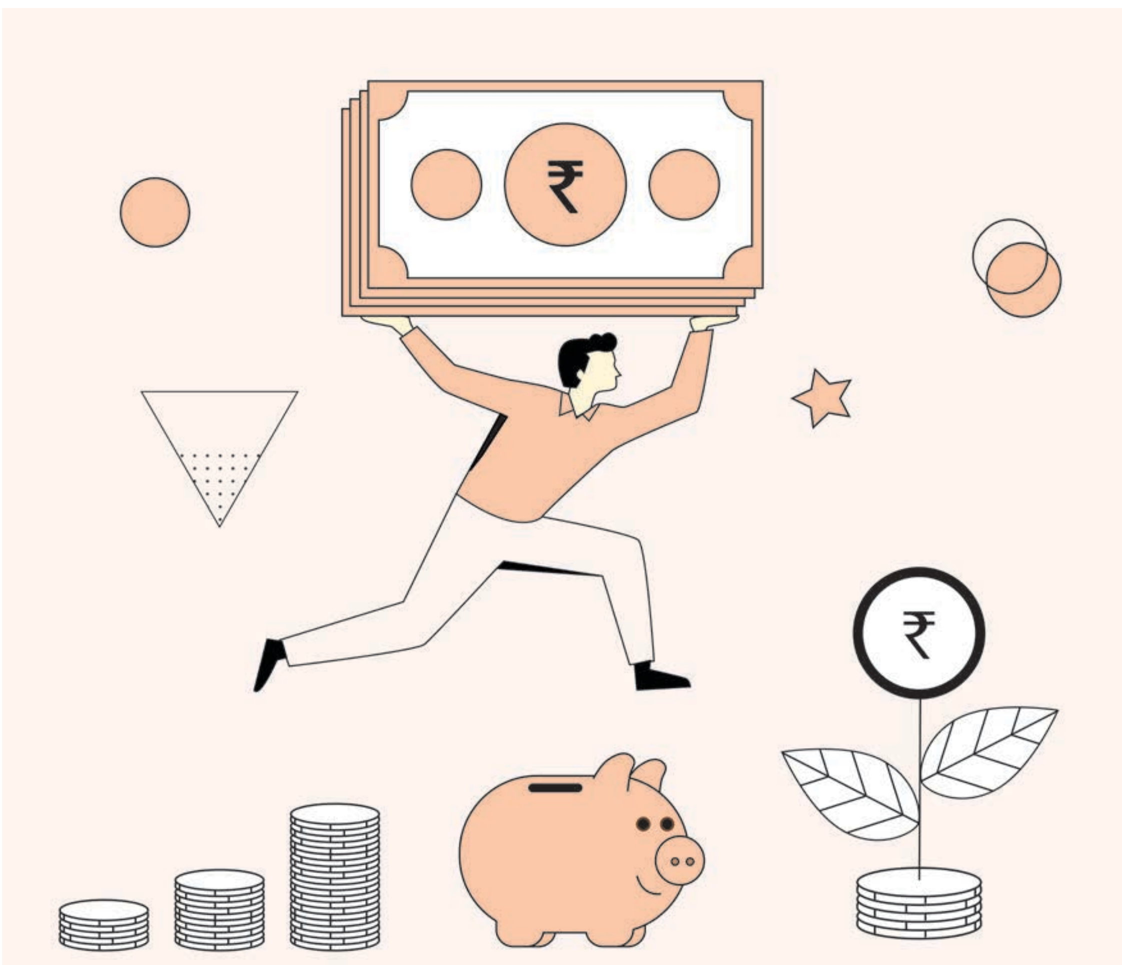
Value Research

HOW TO BECOME A CROREPATI



Contents

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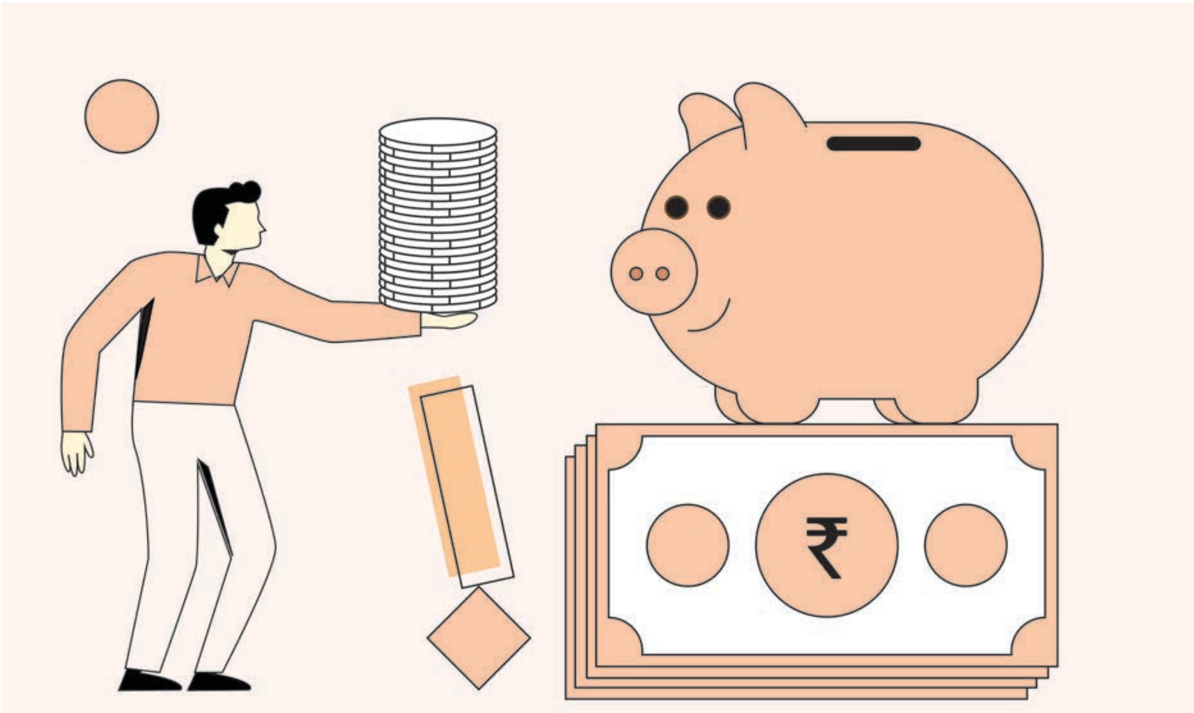


How to do magic with your savings

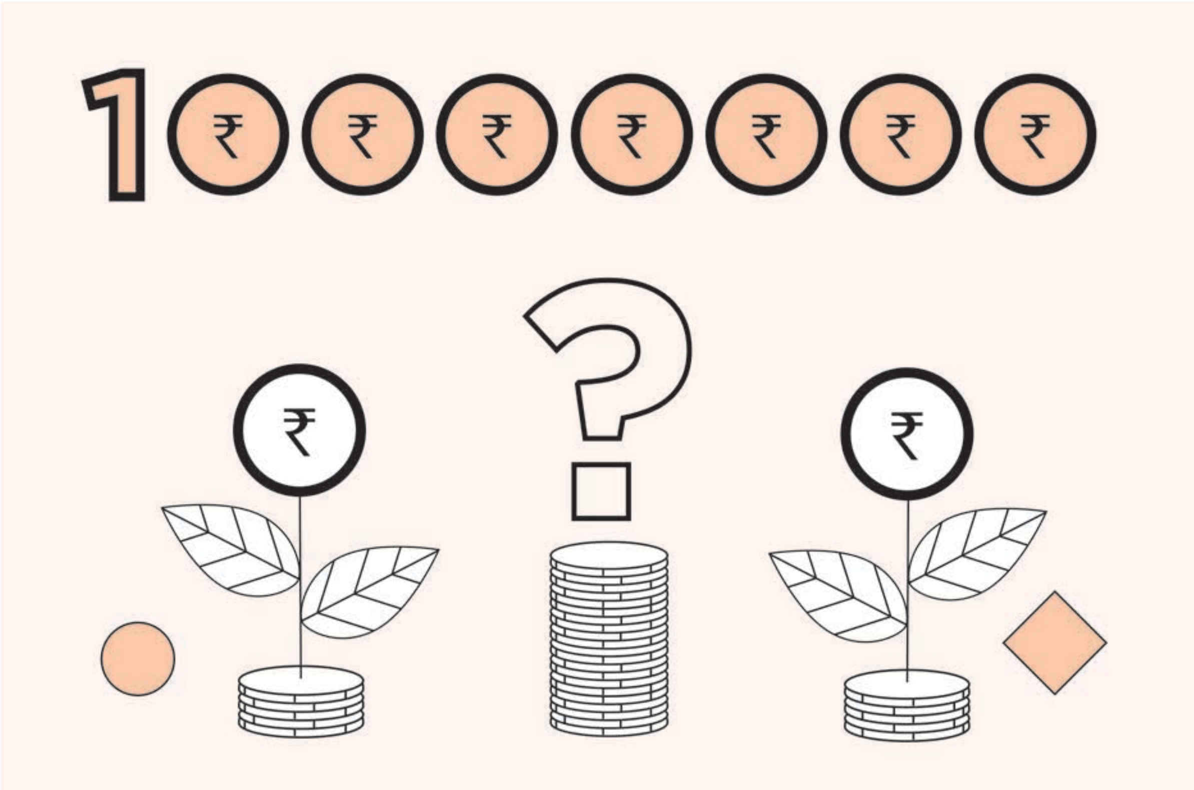
Starting small and being regular can mean magic for your savings.

For all but the top one percent of Indians, one crore rupees is a big amount of money. The tag is justified. Most of us are barely able to save a few thousand rupees a month if we try really hard. It seems a little fantastic to imagine that these small savings could add up to ₹1 crore.

However, the fact is that they can. They can do it only if the saver starts early, chooses the right kind of investments, and, just as importantly, avoids the wrong kind of investments. However, the title of this report is a little misleading. What one crore is today, it's not going to be ten or twenty years from now.

You must have seen old Bollywood movies from the sixties or seventies, in which fabulously rich people would be referred to as 'Crorepatis'. In 'Sholay', released in 1975, the 'sarkar' had put a prize of 'pachchas hajjar' (₹50,000) on Gabbar Singh's head. That sounds like a ridiculously tiny amount of money today.

And so it will be in the future. If you think that it would be nice to have rupees One Crore when you retire, it's more likely that you will need three or four times that amount. However, such sums of money are well within reach if you invest properly. To learn how, read the rest of this report.



Why ₹1 crore?

Even though converting savings of a few thousand rupees a month into one crore rupees looks like a difficult task, starting early and having the right approach will make it achievable.

It looks like a huge problem--you manage to save barely a few thousand rupees every month, and yet when you retire—or even before that—you will need a crore of rupees to secure your future. Can thousands become crores? Can savings and investments do such magic?

Yes, they can. If you follow some simple rules, then ten thousand can become crores.

The main ingredients are:

- Time
- Choosing investments that can deliver real, sustained returns.

To get enough time, start now

Young people are often given this simple advice by their elders: start saving some portion of your income. Unfortunately, most of the time these golden words fall on deaf ears. When you are young, it's difficult to imagine what life would be 30-35 years later. There is also tremendous peer pressure to own the latest smartphone, wear fashionable

SOME EXPENSES ARE RISING FASTER THAN OVERALL INFLATION

Many of these expenses are part of the critical financial goals of most investors

EXPENSE	WHAT IT COST IN 2002	WHAT IT COSTS NOW (2022)	WHAT IT MIGHT COST IN FUTURE (2032)
SCHOOL FEES/MONTH (PUBLIC SCHOOL IN METRO)	₹2,200	₹9,000	₹19,700
HIGHER EDUCATION (ENGINEERING DEGREE)	₹3-4 lakh	₹10-15 lakh	₹16-20 lakh
DOCTOR'S CONSULTATION CHARGES (PER VISIT)	₹200	₹900	₹1,900
1 LITRE OF PETROL	₹30	₹95	₹170

Note: Above figures are indicative. Actual figures may vary.

brands and drive the latest cars. It's not surprising then that EMIs become more important than SIPs in the first few years of a person's career. Even so, saving is essential if you want to live your later years in comfort and free of financial worries.

If a 30-year old spends around ₹30,000 a month on basic living expenses, even a low 6% inflation will take his monthly expenses to ₹1.72 lakh by the time he retires at 60 (see graphic).

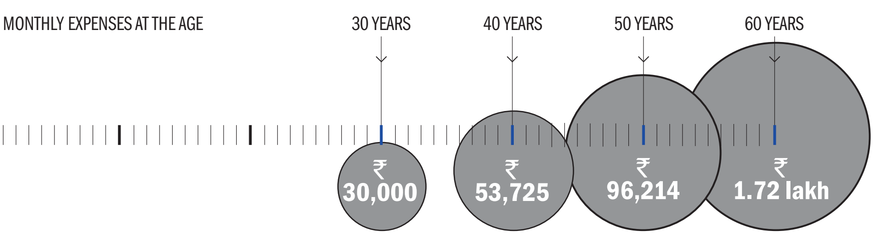
This rise in the cost of living is imperceptible to many because it happens silently and gradually. It also doesn't pinch too much because incomes usually rise faster than the 6-7% rise in inflation. But you will start feeling the heat after you stop working and every day becomes a Sunday. Your income will be stagnant in retirement, but your expenses will keep rising with every passing day.

Worse, some expenses such as medical care, which may be a fraction of your current expenses, will account for a bigger chunk of your monthly budget as you grow older. It is estimated that in the later years, healthcare accounts for almost a fifth of a person's total expenses. Unlike discretionary expenses that can be avoided, healthcare is a non-negotiable expense that will have to be borne no matter what.

As our earlier calculation shows, a 30-year old who spends ₹30,000 a month today will need ₹1.72 lakh a month to sustain the same lifestyle in retirement. And this figure will continue to rise because inflation won't cease after he stops earning. The scary part is that healthcare costs are rising significantly faster at 12-15% compared to the 6-7% increase in the overall inflation basket. When expenses overtake the income generated by the retirement nest egg, they start nibbling into the corpus.

WHY YOU NEED TO START SAVING WITHOUT DELAY

Even a low 6% inflation will cause expenses to shoot up dramatically

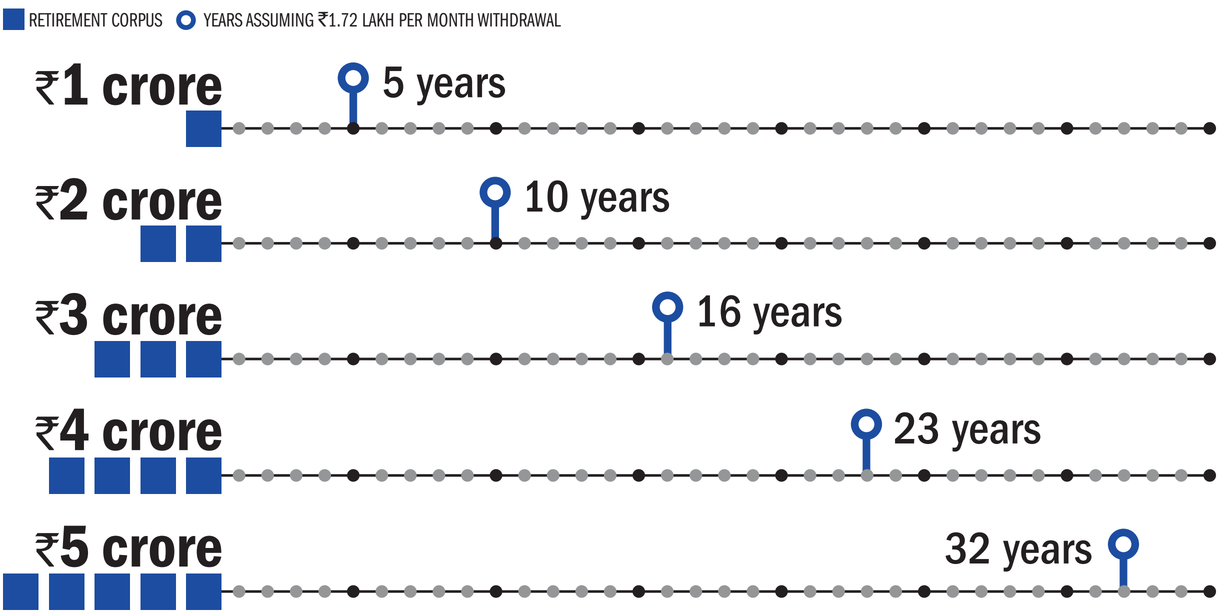


You'll actually need more

By the time you retire, ₹1 crore won't be enough...

GIVEN RISING PRICES, HOW MUCH WILL YOU ACTUALLY NEED IN RETIREMENT?

Assuming that inflation is a modest 6% and the retirement corpus earns 8% per annum, here is how those expenses will use up the savings:



Source: Value Research

Note: Withdrawals are inflation adjusted and will rise by 6% every year

There's no way but equity

Equity may look risky over short periods, but over ten, twenty or thirty years, it's the only way to earn enough for a comfortable future.

While regular investments are important, it is equally important to invest in the right type of asset in order to actually reach your financial goals. It's clear from the calculations above that the main enemy you have to fight against is rising prices. Unfortunately, the weapon that most Indians bring to this fight is not adequate. We tend to use fixed income options like PPF (Public Provident Fund) for retirement savings. Unfortunately, these earn very little over and above inflation. In fact, there are many periods when these deposits actually grow slower than the pace at which prices are rising. For example, you deposit ₹10,000 in PPF and some years later, it has grown to ₹15,000. However, by that time, things that used to cost ₹10,000 earlier also cost ₹15,000. What have you gained? Well, you are better off than having kept it as cash, or having kept money in a savings bank account. However, you have not GAINED anything.

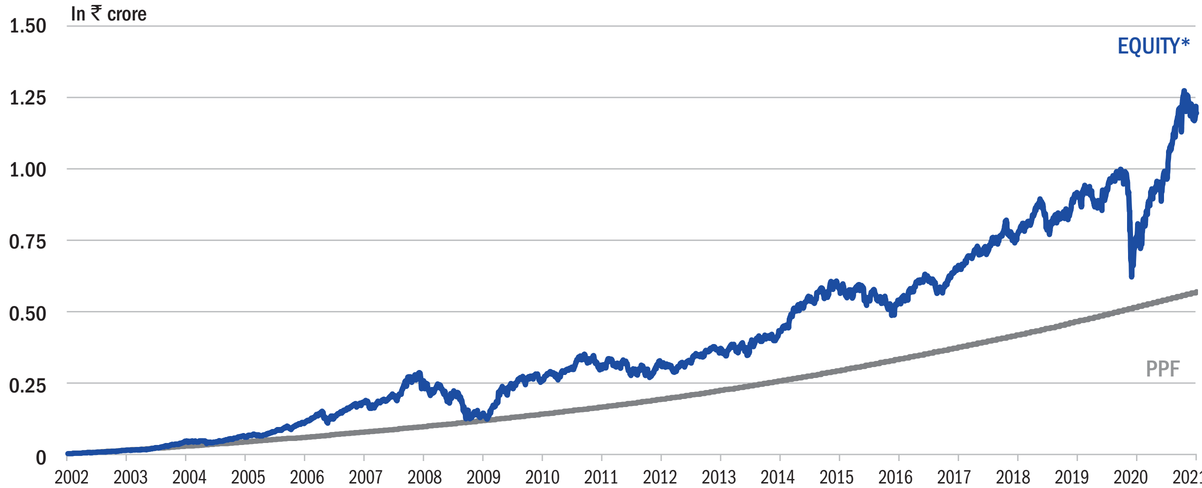
INVEST RIGHT, RETIRE RICH

In 20 years, an average equity investor's corpus is much bigger than that of a PPF investor

Value of ₹10,000 SIP started	Principal investment	Value of PPF investment	Value of Investment in the Sensex*	Additional returns of equity investor
20 YEARS AGO Figures in ₹ lakh	24	59.2	144	84.8

PPF VS EQUITY

Growth of a monthly SIP of ₹10,000 over the last 20 years



Source: Value Research

*Based on the return of the Sensex Total Return Index

From a retirement perspective, you are poorer!

So is there a solution? Fortunately, there is. The solution is equity, that is, stocks. The only reason people hesitate before using equity is that they think it's very risky. Culturally, Indians appear to like low-risk, fixed-income investment options such as PPF and bank deposits.

And yet, this is not universally true. There is a huge number of Indians who invest in equity, and get high, inflation beating returns out of them. Over the past 20 years, ₹1 lakh in PPF would have grown to ₹5 lakh. The same amount invested in the Sensex would have grown to as much as ₹24.21 lakh! In terms of the risks from inflation and meeting future expenses, a investment in equity tends to reduce them over the long term. A lower return fixed income investment such as the PPF will paraxodically leave you more exposed to these risks over such time periods. Why are you missing out on this opportunity? Most likely, because you haven't found the right guidance for investing in equity mutual funds, and have heard a lot about "equity-is risky" propaganda. It is time to see through the noise.

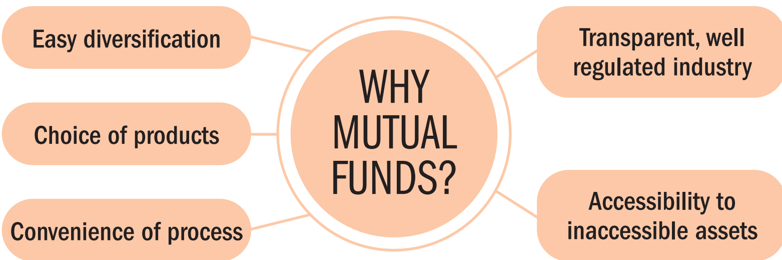
> Over the past 20 years, ₹1 lakh in PPF would have grown to ₹5 lakh. The same amount invested in the Sensex would have grown to as much as ₹24.21 lakh!

Why mutual funds?

Unless you are willing to devote a lot of time and effort to research, the best way to invest in equity is through equity mutual funds.

Different cars suit different drivers. Those driving on country roads prefer the ruggedness of SUVs whilst city dwellers prefer the convenience of sedans. The answer is quite the same for investors - certain types of investors are better suited to mutual funds whilst others may do better with stocks. Stock investing requires greater time from the investor and more application of mind than fund investing.

A mutual fund is a financial intermediary, set up with the goal of professionally managing money pooled from a large number of investors. By pooling money together in a mutual fund, investors can enjoy economies of scale. Instead of each investor trying to undertake his or her own investment research, a team of professionals can do so for them together. Mutual funds are run by mutual fund companies, also known as Asset Management Companies (AMCs). Each AMC operates a



number of funds suited to different types of investment needs.

For the individual investor who doesn't have much time to study and research investments himself, mutual funds are one of the best options for reaping the benefits of different types of investments with minimum effort and at a low entry point. In most funds, it is possible to start investing with as little as a thousand rupees or even less. Also, unlike many other investments, mutual fund investments are highly 'liquid'. 'Liquid' means an investment can generally be withdrawn without any delay. There are many more advantages to making your investments through mutual funds.

Easy diversification

One of the basics of safe investing is to spread your money across different investments. Mutual funds are an easy way to do this. Each mutual fund spreads money across a large number of investments.

Choice

There are mutual funds available for every kind of return and risk level and suitable for every kind of time horizon. No matter what kind of investment you want, there's likely to be a variety of funds that suit you.

Convenience

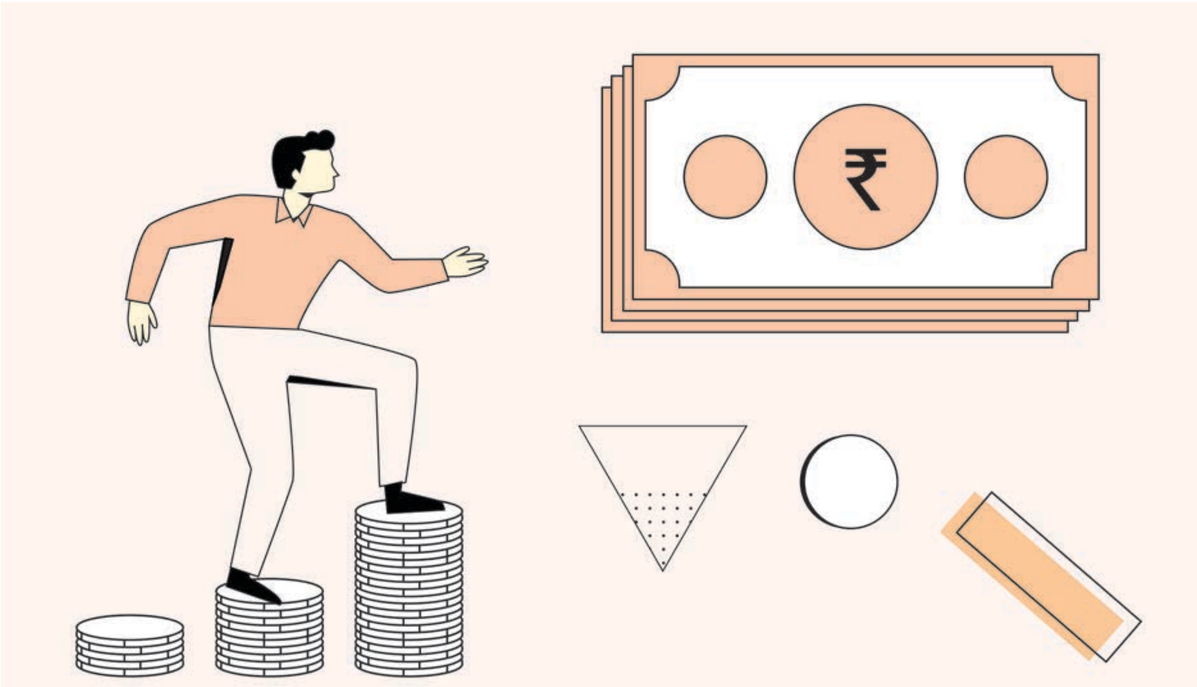
You can easily invest as well as withdraw from mutual funds in any amount. Investments can be made by filling up a simple form or even online with a direct debit from your bank account. Similarly, redemptions can be made directly to your bank account and take no more than three working days. If you wish to buy enough shares to have a diversified set, you will need a lot of money to do so. However, through a mutual fund, you can invest in a diversified set of stocks for as little as a few thousand rupees. And what's more, you can invest more, (or redeem) in small batches.

Transparent, well-regulated industry

Mutual funds are obligated by law to release comprehensive data about their operations and investments. All funds release NAVs (Net Asset Value) daily and most release their complete portfolio every month. The SEBI (Securities and Exchange Board of India) regulates the fund industry very tightly and is constantly refining the applicable rules to protect investors better.

Providing access to inaccessible assets

There are many investments you can conveniently make only through a mutual fund. For example, the stocks of foreign companies. For most of us, it would be prohibitively complex to open brokerage accounts and buy shares in different countries. However, you can do so easily by investing in an international fund.

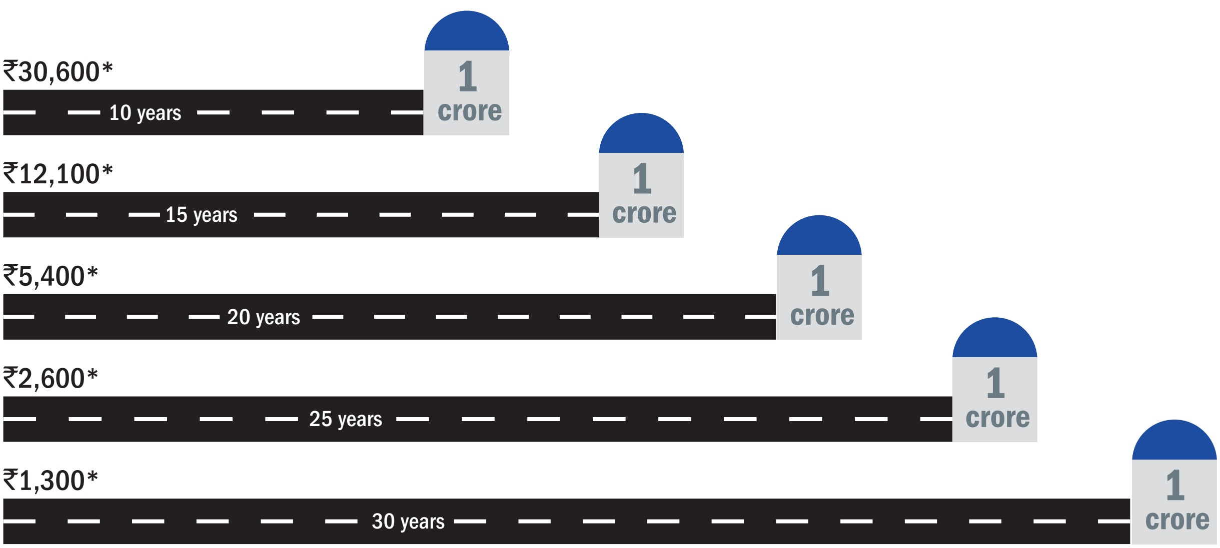


What's the plan?

A simple, step-by-step guide to bring your ₹1 crore dream to life

BECOME A CROREPATI

Here's what you need to invest per month to achieve your goal in the below mentioned time periods



*Increase investment amount by 10% per year

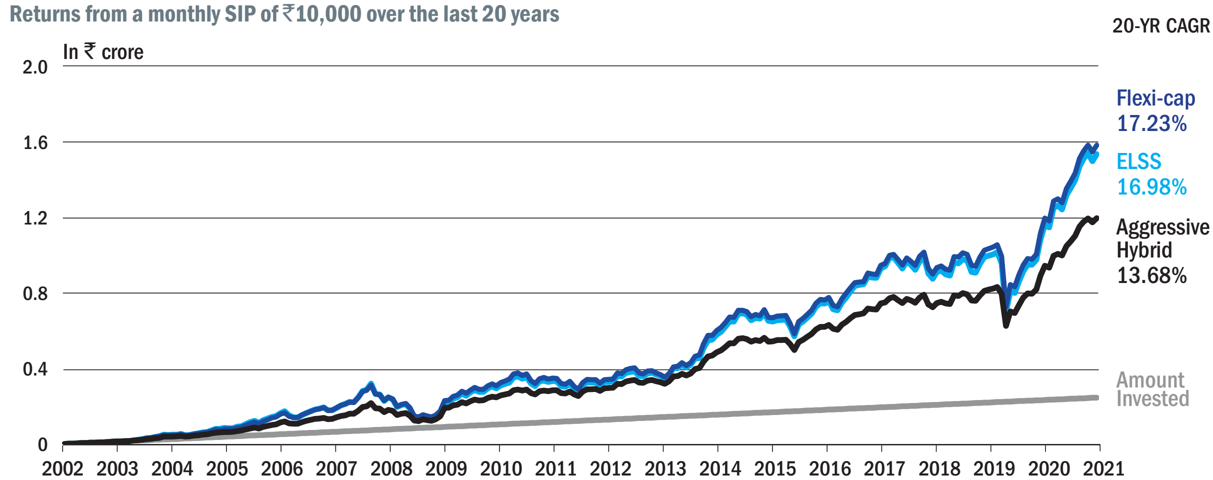
Source: Value Research

Calculations assume compounded annual return of 12%

An apple a day keeps the doctor away. Atleast ₹1,300 a month is your apple for achieving financial health. With higher savings invested regularly every month, you improve your financial health dramatically.

WEALTH CREATORS

Returns from a monthly SIP of ₹10,000 over the last 20 years



Source: Value Research

> Our ₹1 crore plan assumes a conservative 12% rate of return. The actual 20 year returns of the fund categories have been higher at 17.23%,16.98% and 13.68%. In short, you could potentially achieve your ₹1 crore goal, even faster.

Pick 3 good funds

If you are a first-time investor, go for balanced funds. The stability of their debt portion can save you the stress that you may experience every time the stock market falls.

If you have prior experience of equity investing and also need to save taxes, choose tax-planning (or ELSS, as they are popularly known) funds. If you have enough surplus over and above needed for tax savings, you can go for equity multi-cap funds.

Create a monthly SIP

Start investing regularly in your chosen funds. You can put that on auto-pilot by creating monthly SIPs (Systematic Investment Plans). You should consider increasing your investment amount every year as your income level increases.

Review annually

Review your investments annually to make any changes. If a fund has underperformed its benchmark, take a hard look at the reasons for the underperformance and the likelihood of their persistence before deciding your future course of action. If you decide to exit from a particular fund after your analysis, it's important to not to do so in a hurry. You must consider the tax implications and exit charges and weigh these against the benefits of redemption or switching.

> Review your investments annually. Before deciding to switch or redeem any investments consider the tax and exit load implications of doing so.

Don't get swayed

Putting the first three steps into action is easy, the difficult bit is staying the course.

Equity markets, and in turn, your funds are bound to be volatile and witness sharp declines. Your interests would be best served by not worrying too much about them or believing in the doomsday predictions that you hear aplenty during such times. Here is our simple advice for all times - DO NOT stop your SIPs or redeem your money on account of market swings.

Welcome to the crorepati club!

If you follow this simple plan, there is nothing much else you need to do. Just sit back and watch your wealth grow. And by the way, don't forget to order the cake. Becoming a crorepati will surely call for a celebration!

The high cost of even a small delay

Starting early is extremely important. The difference between starting at the age of 25 and the age of 35 can be huge.

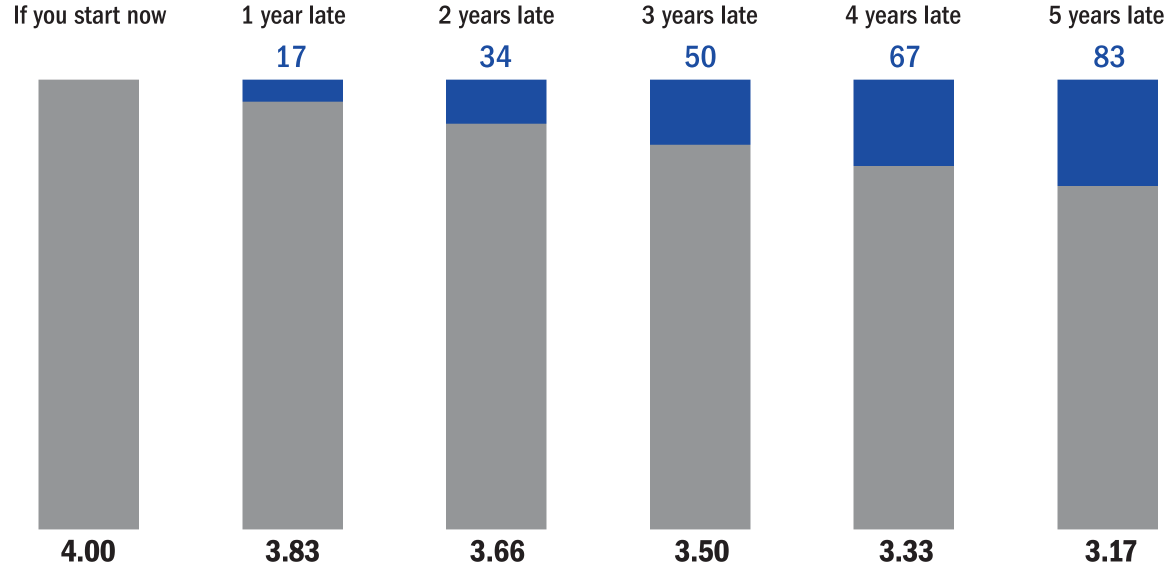
If you start putting ₹5,000 into a scheme that earns 12% returns, in 30 years it would grow to ₹1.54 crore. But of course, as time goes by, you will earn more. So you must increase the investment too. If you increase the investment by a modest 10% every year, the corpus will be a huge ₹4 crore.

However, a delayed start can cost you heavily. What you save in the first five years of your career will account for almost 21% of your retirement corpus at 60. This is based on the assumption that the amount saved will increase by 10% every year. So, even though you will be saving more in the later years, what you put away in the first few years is critical. Miss these golden years of saving and your corpus will be smaller by the same proportion.

CAN YOU AFFORD TO START LATE?

Delaying the start by five years could result in a ₹1 crore smaller corpus

Your corpus in 2050 (in ₹ crore) Your corpus is smaller by (in ₹ Lakh)



Assumptions used in above calculation: Monthly investment of ₹5,000 started in 2020, Amount raised by 10% every year, Investment earns 12% compounded annual returns

Source: Value Research

Takeaways

- **Even though converting savings of a few** thousand rupees a month into one crore rupees looks like a difficult task, starting early and having the right approach make it doable.
- **Starting early is extremely important. The** difference between starting at the age of 25 and the age of 35 can be huge.
- **While calculating what they will need in the far** future, savers often ignore the effect of inflation. You must start early, especially because you are likely to need much more than your estimates.
- **Equity may look risky over short periods, but** over ten, twenty or thirty years, it's the only way to earn enough for a comfortable future.
- **Unless you are willing to devote a lot of time** and effort to research, the best way to invest in equity is to through equity mutual funds.

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