



Investment of Loan Against Property (Lap) Amount in Mutual Fund: A Profitability Analysis Based on Supposition

Dr. Ashish K. Desai

Head of the Department, Accountancy, D. R. Patel & R. B. Patel Commerce College, Bharthana (Vesu)

ABSTRACT

This research is carried out for those loan buyers who want to take risk and earn profit by investing in mutual fund after the tenure of loan completion. Investment pattern of lap amount in mutual fund may be one time or by Systematic Investment Plan (SIP). For this supposition based analysis, it has been assumed that lap interest rate remains 11.50 %. Rate of return on mutual fund is considered at 11%, 12%, 13% and 14% which is at minimum risk level. These percentages are assumed on the bases of past 15 years' record of top ten mutual funds return. 15 years tenure is considered for the study. From the analysis, it has been concluded that the investment of lap amount in mutual fund remains profitable after the tenure of loan completion. It has been found that one time investment in mutual funds remains more profitable than the SIP.

KEYWORDS

Loan Against Property (LAP), Systematic Investment Plan (SIP), Mutual Fund

1. Introduction

In present scenario, it is very easy to get a loan. There are different types of loan like Auto Loans Personal Loans Home Loans / Mortgages Commercial Vehicles Finance Retail Business Banking Credit Cards Loans against Gold 2-Wheeler / Consumer Durable Loans Construction Equipment Finance Loans against Securities Agri and Tractor loans Education Loans, loan against property (LAP) etc. But the person takes a loan at the time of requirement. He/she never thinks to take a loan to gain profit by investment. If the person takes a loan and makes investment by a systematic calculation, he/she can easily take the profit. One of the best options to invest the money is to invest in mutual fund. It is the long term investment process. Loan amount should be invested in different mutual funds by different pattern. One option is to invest amount in different mutual fund scheme for one time. And another option is to invest a surplus amount by Systematic Investment Plan (SIP) in mutual funds. SIP works on the principle of regular investments. It allows investing in a mutual fund by making smaller periodic investments (monthly or quarterly) in place of one-time.

2. Review of Literature

A salaried person prefers mutual funds to invest the savings. Objective of the scheme, past performance of a research team, services provided by the company etc. are the most important factors consider before investing in the mutual fund (R Vijayalakshmi and R Jayasathya, 2009). Majority of the respondents save money as bank deposits for the safety of an unpredictable future (C. Sathiyamoorthy and K. Krishnamurthy, 2015). Most of the investors relied on past performance of the mutual funds while making investment in that mutual fund. Prospectus/newsletters are the most important source used by the investors while making investment followed by brokers and sub-brokers. Majority of investors have used absolute return on the mutual fund scheme as the basis for evaluating their performance (Rajesh Kumar and Nitin Goel, 2014). Funds reputation, withdrawal facilities, brand name, sponsor's past performance in terms of risk and return varies among the investor's of different age group and investor's different occupation group (Avani Shah and Narayan Baser, 2012).

3. Problem Statement

A common man always considers any type of loan as a headache because of a large amount as an instalment for a long term. But, if the loan amount will be invested in mutual fund for the long term, it will become profitable. A statement under the study is to analyze how to make profit from LAP amount by investment in mutual fund?

4. Significance of the Study

This research focuses on the investment of lap amount in mutual fund. The results will be useful to loan buyer to make a systematic plan. If loan buyer will take lap, the bank will get more business. So it will be also significant for the bank.

5. Objective of the Study

- To study how to get profit from by the investment of loan against property amount in mutual fund.
- To study more profitable investment pattern in mutual fund.

6. Hypothesis

H₀: Investment of loan against property amount in mutual fund is not profitable.

H₁: Investment of loan against property amount in mutual fund is not profitable.

7. Limitations of the Study

- This research is based on the assumption of minimum 11.00 % rate of return on mutual fund.
- This research is based on the assumption 11.50 % interest rate (As per nationalize and private banks as on September, 2015) on loan against property.
- The risk factor regarding rate of return on mutual fund does not considered in this study.
- Inflation rate is not considered.

8. Research Methodology

This study is based on the assumption. For the calculation, average 11%, 12%, 13% and 14 % rate of return is considered. These rates are assumed on the bases of general rate of return of mutual funds for last 15 years. The actual rate of return is greater than these rates but the researcher considers lower rate of return at minimum level of risk. As the maximum tenure for lap is 15 years, it is considered for the study.

9. Analysis

9.1 Scenario of Loan Amount

This research is based on the assumption. For the study, it is assumed that the lap interest rate is 11.50 %. Require amount of home loan is Rs. 10,00,000. Loan tenure is 15 years. In this situation, the scenario after 15 years will be as follows;

Table No. 1.1 Surplus Amount of Required Home Loan

Particular	Rs.
Total Principal Amount	10,00,000
Instalment per Month	11,682

Total Interest Amount @ 11.50 % per year	11,02,742
Total Payment Amount	21,02,742

Interpretation

From the table no. 1.2, it has been found that the interest for twenty years remains Rs. 11,02,742 on principal amount Rs. 10,00,000 which is 110.27 %.

9.2 About Investment Pattern for Surplus Amount of Required Home Loan

9.2.1 One Time Investment

If the LAP amount Rs. 10,00,000 will be invested for one time in the different scheme of mutual fund with the assumption of 11 %, 12 %, 13 % and 14 % rate of return after 15 years, the scenario will be as follows;

Table No. 1.2 Return and Profit by one-time investment

Particular	Rs. @ 11%	Rs. @ 12%	Rs. @ 13%	Rs. @ 14%
Investment Amount	10,00,000	10,00,000	10,00,000	10,00,000
Maturity Amount (Assumption) - A	51,67,989	59,95,802	69,55,368	80,67,508
Total Payment -B	21,02,742	21,02,742	21,02,742	21,02,742
Profit/Loss = A - B	30,65,247	38,93,060	48,52,626	59,64,766

Interpretation

From the table no. 1.3, it has been found that the loan buyer will get Rs. 51,67,989 (516.80% on principal amount) at 11% on hand after 15 years whereas this amount will remain Rs. 80,67,508 (806.75% on principal amount) at the rate of 14%. It remains Rs. 59,95,802 and 69,55,368 at 12% and 13% respectively. It has been found that at every level of rate of return, the profit will obtain after 15 years. At 11% rate of return, the profit will be Rs. 30,65,247 which is 306.52% on principal amount. Whereas it remains Rs. 59,64,766 at 14% rate of return which is 596.48% on principal amount. It means that lap amount which is invested for one time in mutual fund will remain profitable after the tenure of home loan completion.

9.2.2 Investment by Systematic Investment Plan (SIP)

If lap amount Rs. 10,00,00 will be invested by SIP of Rs. 5,500 around (Rs. 10,00,000 ÷ 15 years ÷ 12 months) for 15 years in the different scheme of mutual fund with the assumption of 11 %, 12 %, 13 % and 14 % rate of return for 15 years, the situation will be different. Here, it is assumed that whole amount (10,00,000) is kept in the savings account. It is not invested elsewhere. SIP is made from the same account. The return of savings account is considered at 4% interest rate per year. The scenario will be as follows;

Table No. 1.3 Return and Profit on Investment by Systematic Investment Plan (SIP)

Particular	Rs. @ 11%	Rs. @ 12%	Rs. @ 13%	Rs. @ 14%
Investment Amount (2015)	10,00,000	10,00,000	10,00,000	10,00,000
Maturity Amount (Assumption) - A	25,75,397	28,35,128	31,25,802	34,51,370
4% Interest plus principal Amount from savings Account after 15 years (*Annexure)-B	4,26,524	4,26,524	4,26,524	4,26,524

Total Maturity Amount - A + B = C	30,01,921	32,61,652	35,52,326	38,77,894
Total Payment (2015) - D	21,02,742	21,02,742	21,02,742	21,02,742
Benefit = C - D	8,99,179	11,58,910	14,49,584	17,75,152

Interpretation

From the table no. 1.6, it has been found that the lap buyer will get Rs. 30,01,921 at 11% on hand after 15 years whereas this amount will remain Rs. 38,77,894 at the rate of 14%. It has been found that at every level of rate of return, the profit will obtain after 15 years. At 11% rate of return, the profit will be Rs. 8,99,179 which is 89.92% on principal amount. Whereas it remains Rs. 17,75,152 at 14% rate of return which is 177.51% on principal amount. It means that LAP amount which invested by SIP will also be profitable after the tenure of time.

10. Conclusion and Suggestion

From the analysis of supposition data, it has been concluded that lap amount which is invested for one time in mutual fund will remain more profitable than the investment by sip after tenure of loan completion. It has been found that lap buyer will get an unbelievable amount on hand worth Rs. 51,67,989, Rs. 59,95,802, Rs. 69,55,368 and Rs. 80,67,508 at 11%, 12%, 13% and 14% rate of return respectively. The reason behind this amount is that there is a reducing interest rate on loan. On the other hand, the rate of return on mutual fund is compounded. It implies that the loan amount will be decreased year by year whereas the investment amount in mutual fund will be increased year by year. The person who wants to take risk should go for the lap. But the main condition is that he/she has to invest this amount in mutual and not to spend.

*** Annexure**

Table No. 1.4 Calculation of 4% Interest plus principal amount from savings account after 15 years

Year (1)	Opening Balance (2)	Investment* (3)	Difference (4) = (2) - (3)	Interest (5) = (4) × (4%)	Closing Balance (6) = (4) + (5)
01	1000000	66000	934000	37360	971360
02	971360	66000	905360	36214	941574
03	941574	66000	875574	35023	910597
04	910597	66000	844597	33784	878381
05	878381	66000	812381	32495	844877
06	844877	66000	778877	31155	810032
07	810032	66000	744032	29761	773793
08	773793	66000	707793	28312	736105
09	736105	66000	670105	26804	696909
10	696909	66000	630909	25236	656145
11	656145	66000	590145	23606	613751
12	613751	66000	547751	21910	569661
13	569661	66000	503661	20146	523807
14	523807	66000	457807	18312	476120
15	476120	66000	410120	16405	426524

*Rs. 5500 × 12 months

References:

- C. Sathiyamoorthy and K. Krishnamurthy (2015). Investment Pattern and Awareness of Salaried Class Investors in Tiruvannamalai District of Tamilnadu, *Asia Pacific Journal of Research*. 1(26):75-83.
- Vyas Ravi (2012). Mutual Fund Investor's Behaviour and Perception in Indore City, *Journal of Arts, Science & Commerce*. 3(1):67-75.
- R Vijayalakshmi and R Jayasathya (2009). A Study on the Factors Influencing the Selection of Mutual Fund Company, *Journal of Contemporary Research in Management*. 145-153.
- Rajesh Kumar and Nitin Goel (2014). Factors Affecting Perception of Investors Towards Mutual Funds *International Journal of Research and Development - A Management Review (IJRDMR)*. 3(4):27-32.
- Vipin Kumar and Preeti Bansal (2014). A Study on Investors' Behavior towards Mutual Funds in Rohtak, Haryana. *International Journal of Engineering and Management Research*. 4(1):224-228.
- Avani Shah and Narayan Baser (2012). Mutual Fund: Behavioural Finance's Perspective. *Asia Pacific Journal of Marketing & Management Review*. 1(2):34-44.