

The Complete Beginner's Guide to Starting Your First SIP in India

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India's mutual fund industry crossed **₹82 lakh crore in assets under management** at the close of 2025. Monthly SIP contributions touched an all-time high of over ₹31,000 crore in December 2025, with nearly 10.45 crore active SIP accounts by February 2026 (Source: AMFI). For anyone beginning their investment journey in 2026, a Systematic Investment Plan remains one of the most accessible and structured ways to build long-term wealth.

This guide covers everything — what a SIP is, fund selection, tax implications, the common pitfalls, and the data that makes the case for starting early.

What Is a SIP?

A Systematic Investment Plan (SIP) is a method of investing a fixed amount in a mutual fund scheme at regular intervals — typically monthly. Each investment purchases mutual fund units at the prevailing NAV (Net Asset Value) on the date of investment. Over time, you accumulate units across different market conditions — some months more, some months fewer — depending on where the market stands.

A SIP is not a mutual fund in itself. It is the investment mechanism. You choose the mutual fund scheme; the SIP is how you invest in it. Once registered, the SIP deducts automatically from your bank account on the scheduled date — no manual action required each month.

A SIP can be started with as little as ₹500 per month. Under AMFI's Chhoti SIP initiative, certain schemes now allow investments of ₹250 per month — designed specifically to bring first-time investors from Tier 2 and Tier 3 cities into the mutual fund ecosystem.

The SIP Story in Numbers

The chart below shows how annual SIP inflows have grown over the past decade. From ₹43,921 crore in FY 2016–17, total annual inflows reached an estimated **₹3.17 lakh crore in FY 2025–26** — a 7x increase in less than ten years. Only once in this period — FY 2020–21, the COVID year — did collections dip before resuming their upward trajectory.

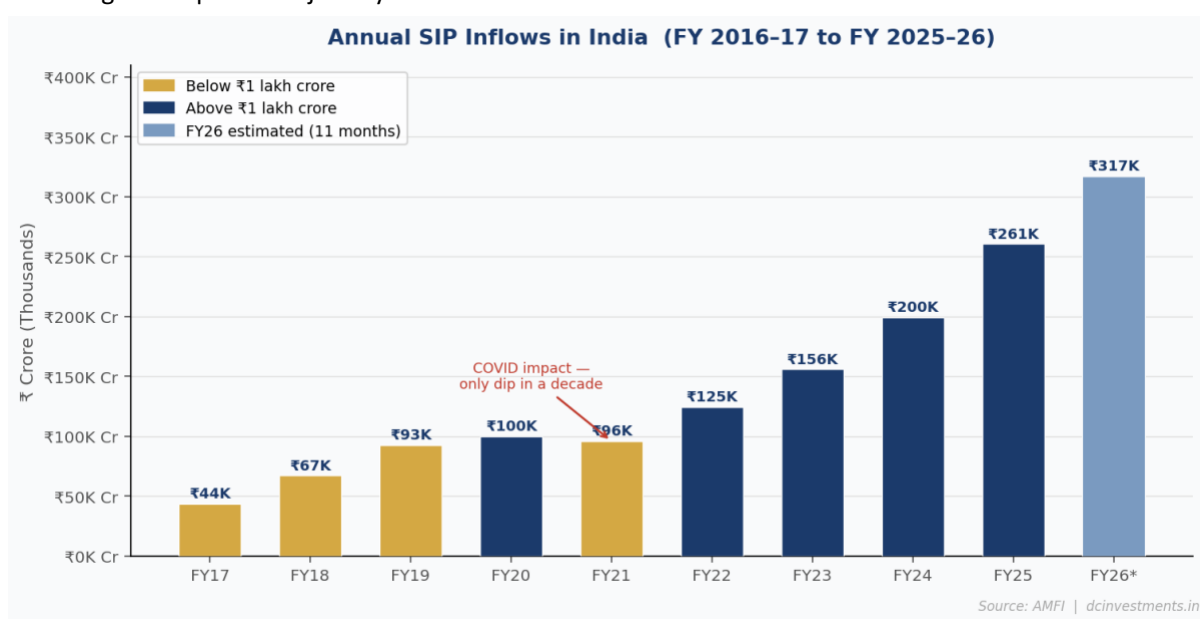


Chart 1: Annual SIP Inflows, India (FY 2016–17 to FY 2025–26*) | Source: AMFI | *FY26 estimated

The milestones within that journey are equally striking:

Metric	FY 2018–19	Feb 2026
Monthly SIP Inflow	₹7,724 Cr/month	₹29,845 Cr/month
Annual SIP Inflows	₹92,693 Cr	₹3,17,000 Cr (est.)
SIP AUM	₹2,43,000 Cr	₹16,64,085 Cr
Active SIP Accounts	2.62 crore	10.45 crore

Source: AMFI Monthly Notes | Figures as at February 2026

Why SIPs Work for Beginners

Three structural advantages make SIPs well-suited for investors starting:

1. Discipline without effort. Once set up, the SIP deducts automatically from your bank account. You invest without needing to time the market or make a monthly decision.
2. Rupee Cost Averaging. By investing the same amount each month regardless of NAV, you naturally buy more units when prices are lower and fewer when prices are higher. This systematically lowers your average cost per unit over time — and is most powerful during corrections.
3. Accessibility and flexibility. SIPs can be started, stepped up, paused, or stopped without penalty. There is no minimum commitment beyond the scheme's own requirement.

The Most Powerful Variable: Time

The single biggest factor in SIP wealth creation is not the amount invested each month — it is how long the SIP runs. Compounding transforms modest monthly contributions into significant long-term wealth, but only when given enough time to work.

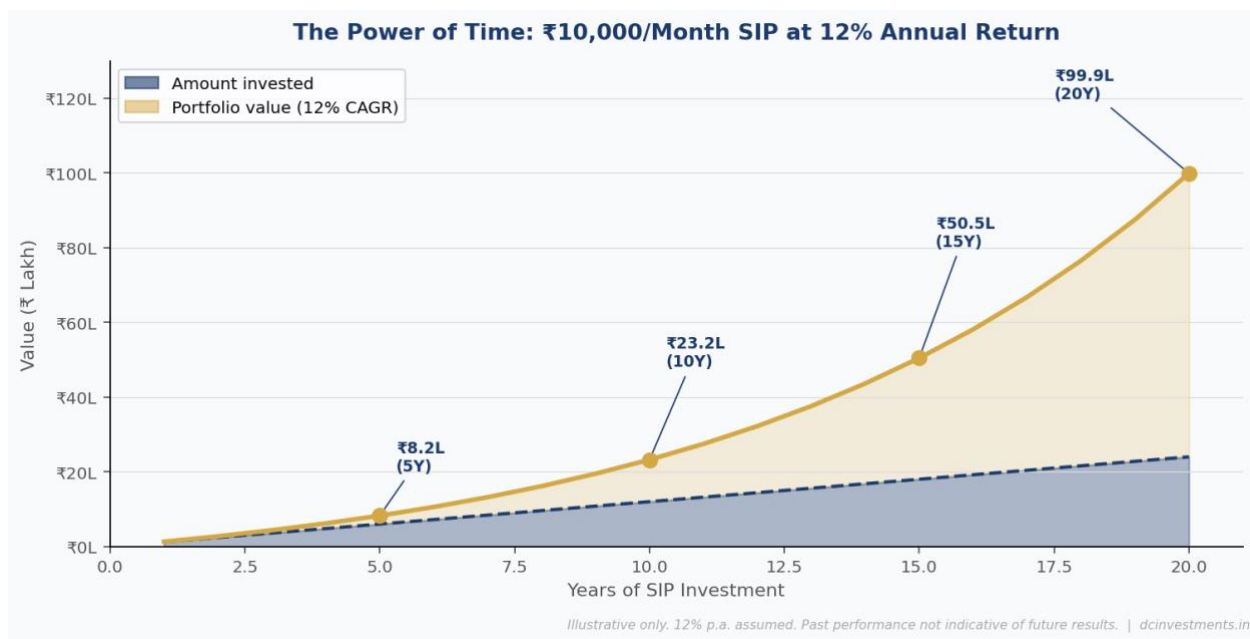


Chart 2: ₹10,000/month SIP at 12% annual return | Illustrative only — not a promise of returns

At 20 years, the same ₹10,000 monthly investment (total outflow: ₹24 lakh) grows to approximately ₹1 crore — with the final five years adding more corpus than the first ten combined. This is the mathematics of compounding: the later years are disproportionately productive, which is why starting early matters far more than starting with a large amount.

A Step-Up SIP — where you increase the monthly amount by 10–15% annually in line with income growth — accelerates this further. The difference between a flat ₹10,000 SIP and one increased by 10% annually, over 20 years, is approximately ₹1.5–2 crore of additional corpus.

Markets Are Volatile. Long-Term Investors Are Not.

The Nifty 50 has delivered approximately 13% CAGR over the past 20 years. But the annual return data tells a different story year by year — one of wide swings, corrections, and recoveries. The chart below makes that visible:

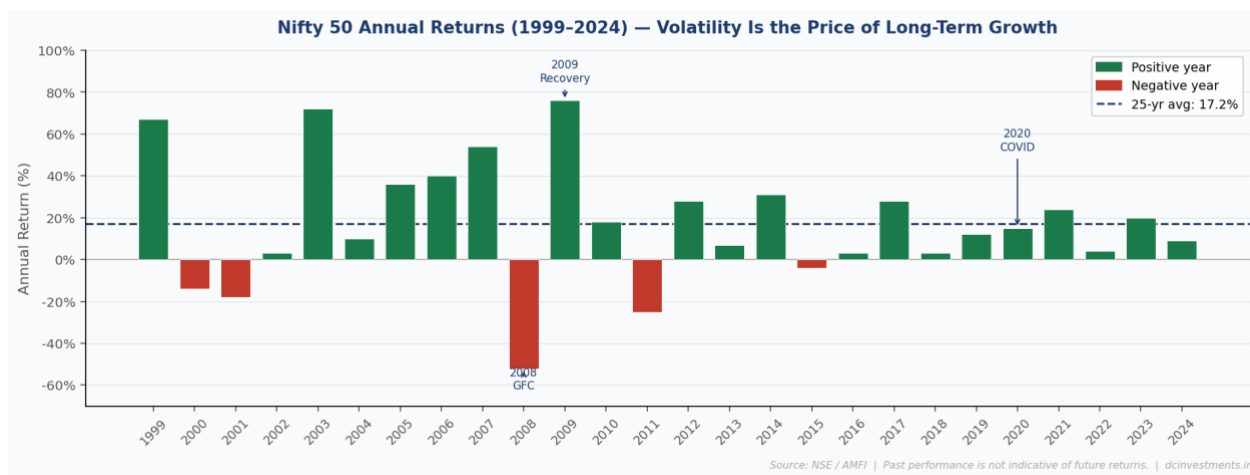


Chart 3: Nifty 50 Annual Returns 1999–2024 | Source: NSE / AMFI | Past performance not indicative of future returns

Thirteen negative years since 1999 — each followed by recovery. The investor who stayed invested through the 2008 collapse (–52%) and held through 2009 (+76%) experienced the full return of the cycle. The one who exited in 2008 locked in the loss.

For SIP investors, the rolling return data is even more instructive:

Horizon	Min CAGR	Max CAGR	Avg CAGR	Negative Periods
3 Years	-15.5%	+41.2%	~11.5%	Yes (several)
5 Years	-3.7%	+35.4%	~12.5%	Rare
7 Years	0.0%	+24.5%	~11.2%	Zero
10 Years	+1.8%	+22.4%	~11.3%	Zero
15 Years	+7.3%	+18.6%	~12.1%	Zero
20 Years	+10.0%	+15.0%	~11.1%	Zero

Source: NSE Indices / bmsmoney.com | Rolling returns calculated across all periods from 1991 to 2026 | Past performance is not indicative of future returns

The key finding: at seven years and beyond, the Nifty 50 has never delivered a negative CAGR across any rolling window in its 35-year history. The longer the horizon, the narrower the range of outcomes — and the more reliably the market has rewarded patience.

Types of Mutual Funds for SIP Investors

Not all mutual funds suit all investors or all goals. A practical overview of the main categories:

Equity Funds

Invest primarily in stocks listed on Indian exchanges. Appropriate for goals with a five-year or longer horizon. Higher short-term risk; stronger potential for long-term real returns above inflation.

- ▶ **Large Cap Funds** Invest in the top 100 companies by market cap. Lower volatility within equity; suitable as core holdings.
- ▶ **Mid Cap Funds** Companies ranked 101–250 by market cap. Higher growth potential, higher short-term swings.
- ▶ **Flexi Cap Funds** Fund manager allocates dynamically across large, mid, and small cap. A single, diversified starting point for many first-time investors.
- ▶ **ELSS (Equity Linked Savings Scheme)** 3-year lock-in. Eligible for Section 80C deduction up to ₹1.5 lakh under the Old Tax Regime.

Debt Funds

Invest in bonds, government securities, and fixed-income instruments. Lower risk; appropriate for goals within one to three years. Important note: for units purchased on or after 1 April 2023, all gains are taxed at the investor's applicable slab rate regardless of holding period.

Hybrid Funds

Invest in a mix of equity and debt. Balanced Advantage Funds (Dynamic Asset Allocation) manage equity exposure based on market valuations — a practical choice for investors who want equity returns with a built-in buffer against sharp corrections.

For most first-time investors, a large-cap or flexi-cap equity fund offers a clear, uncomplicated entry point. The right category depends on your goal, time horizon, and how you would respond to a 20–30% portfolio decline — not on which fund had the highest return last year.

Four Questions to Answer Before You Select a Fund

A clear answer to each of these questions does more to protect your investment than any fund selection tool:

- ▶ **What is the goal?** Retirement, children's education, a property purchase, or an emergency reserve? The goal determines the time horizon and the fund category.
- ▶ **What is the time horizon?** Under 3 years — debt or hybrid. 3–7 years — balanced hybrid or large cap. 7 years and above — diversified equity.
- ▶ **What is your real risk tolerance?** Not the theoretical kind — the kind that holds during a 25% correction. If a sharp fall would trigger a SIP pause, a more conservative allocation may be more appropriate.

- ▶ **How much can you invest consistently?** Begin with an amount that requires no sacrifice. Consistency over years outweighs a higher amount you cannot sustain.

A financial goal with a specific rupee target, a clear timeline, and a realistic SIP amount is more useful than a vague intention to 'invest for the long term'. Specificity is what turns intention into a plan.

Tax Implications — What You Need to Know

For SIP investors, each instalment has its own holding period. On redemption, the FIFO (First In, First Out) rule applies — the earliest units purchased are redeemed first. This means a partial redemption may generate both short-term and long-term capital gains across different instalments.

Fund Type	Holding Period	Tax Rate (FY 2025–26)
Equity (≥65% equity)	< 12 months (STCG)	20% — Section 111A
Equity (≥65% equity)	> 12 months (LTCG)	12.5% above ₹1.25L — Section 112A
ELSS	> 36 months (mandatory lock-in)	12.5% above ₹1.25L + 80C deduction*
Debt (purchased after Apr 2023)	Any holding period	Taxed at income slab rate

**ELSS Section 80C deduction available only under the Old Tax Regime. Source: Finance (No. 2) Act, 2024. Consult a qualified tax professional for your specific tax position.*

Five Mistakes First-Time SIP Investors Make

Common Mistake	Why It Costs You
Stopping SIPs when markets fall	Eliminates Rupee Cost Averaging precisely when it works hardest — when units are cheapest
Selecting funds based on recent returns	Past performance does not guarantee future results; fund consistency matters more than peak years
Over-diversifying across too many funds	8+ funds rarely adds protection; it adds tracking complexity without meaningful diversification
Choosing IDCW (dividend) plans for wealth goals	Growth plans are more tax-efficient; IDCW payouts are taxed at slab rate in the year of receipt
Not reviewing the portfolio annually	Goals evolve, risk profiles shift, fund performance changes — annual reviews maintain alignment

On the first mistake: when markets fall, each SIP instalment buys more units for the same amount. This is Rupee Cost Averaging at work — the mechanism that lowers your average cost per unit over time. Stopping a SIP during a correction eliminates this advantage at precisely the moment it is most powerful. The investor who pauses locks in fewer accumulated units; the one who continues buys more at depressed prices and participates fully in the eventual recovery.

A Practical Starting Framework

For most first-time investors, a simple portfolio outperforms a complex one. An illustrative structure to consider:

- ▶ **One large-cap or flexi-cap equity fund**, Core long-term equity allocation
- ▶ **One ELSS fund**, if you are on the Old Tax Regime with unused Section 80C headroom
- ▶ **One short-duration debt fund or liquid fund** for goals within 1–2 years, or as an emergency reserve

Review annually — not more. Increase SIP amounts by 10–15% each year as income grows. The temptation to react to short-term market moves is the primary source of underperformance for individual investors.

Starting a SIP does not require a large corpus, deep market knowledge, or perfect timing. What it requires is a clear goal, a realistic time horizon, and the consistency to remain invested through market cycles. The data from a decade of SIP growth in India confirms what long-term investors have understood for decades: discipline and time are the two most reliable ingredients in wealth creation.

ABOUT THE AUTHOR

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