Should you buy a car at the start of your career?

Many of us dream of owning a car. But buying and maintaining your first car can be a daunting affair given the price rise, increase in interest rates, and fuel prices and other costs related to maintaining a car.

The scale of the expense can make shopping for a vehicle stressful – especially for younger, first-time buyers who tend to have less-established credit histories and lower savings. Consider these factors before you commit to buying a car.

Do the math

Cars may be a necessity for many people. But owning a car with a loan can strain your budget. It can lock you to a car for six or even seven years. For instance, to buy a car that costs Rs 12 lakh today, you need Rs 1.2-1.8 lakh for a down payment. The tenure of a car loan tenure tends to be for 3-5 years.

For a Rs 10 lakh loan (assuming you already made Rs 2 lakh down payment) at 9% for a four-year loan, the monthly EMI would be Rs 24,885. The total interest would be about Rs 2 lakh over four years. This is the extra amount you pay over and above the original Rs 12 lakh car cost.

Amortization Schedule

Year	Opening Balance	Interest paid during the year		
1	₹10,00,000	₹81,176	₹2,17,445	₹7,82,555
2	₹7,82,555	₹60,778	₹2,37,843	₹5,44,712
3	₹5,44,712	₹38,466	₹2,60,154	₹2,84,558
4	₹2,84,558	₹14,062	₹2,84,558	₹0

- Principal Amt: Rs. 10,00,000
- Interest Amt: Rs 1,94,482
- Total Amt Payable: Rs. 11, 94, 482

Not being prepared before buying a car can lead to a purchase you'll later regret. So you should set your budget first. Here's how you can plan for it.

Stability in finances and employment

Car is a depreciating asset. The moment you drive your new car out from the showroom, it's value goes down by 10%. By the end of first year, the value is almost down by 30%. Buying a car entails paying EMI, down payment, interest, car insurance, timely service and maintenance costs and fuel expenses. Make sure that you are financially stable to get a loan and service the EMIs in a timely manner.

Do you have a stable job?

If you have just begun your career, chances are that your employment is not steady or permanent. In such a scenario, purchasing a car on loan may not be a great option. If you miss out on timely payments, it can dent your credit score. Thus, renting a car may be a better option until you are on a solid footing when it comes to your finances.

How to fund your car

In the long-term, you should understand the impact of a car loan on your other goals. Unfortunately, car is not an asset and its value depreciates over time. Alternatively, first-time car buyers upgrading from two-wheelers or public transportation could consider a used car which could make economic sense.

Rather than taking a loan, you can consider investing through Systematic Investment Plans (SIP) to save for your dream car within a time frame set by you. For buying a car which costs Rs 10 lakh today, you will have start an SIP of around Rs 27,266 per month for three years to accumulate Rs 11.57 lakh, factoring in 5% inflation.

We hope this information would help you understand the nuances of insurance products better.