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MUTUAL FUNDS • THEMATIC FUNDS

TIME TO SHIFT GEARS?

THERE HAS BEEN A SHIFT IN INVESTORS' SENTIMENT AWAY FROM SECTORAL AND THEMATIC FUNDS. IS THE CHANGE HERE TO STAY?

BY **RAHUL OBEROI**

ILLUSTRATION BY **RAHUL SHARMA**

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TRENDS DICTATE MANY aspects of our lives. Nowhere is this more visible than in the fast-moving world of investing. Take sectoral funds. In FY25 (till February), net inflows into these funds soared more than 200%. Thematic or sectoral funds—equity schemes investing in specific sectors of the economy—received net inflows of ₹1.46 lakh crore between April 2024 and February 2025 as against ₹46,138 crore in FY24. What fuelled this growth? Some attribute it to government-backed initiatives such as production-linked incentive (PLI) schemes, Make in India push and initiatives towards 'Viksit Bharat'. After all, among the most sought-after funds were those investing in public sector undertakings (PSUs) and manufacturing/defence companies.

But the reversal has been real swift too. Monthly data indicates that after falling 41% to ₹9,017 crore in January, net inflows into sectoral and thematic funds declined nearly 37% to ₹5,712 crore in February. Money managers say the reasons for the dip are reduction in new fund offers (NFOs) and heightened market volatility. This raises an important question: Will sectoral funds continue to attract inflows, or is it time for investors to shift strategy and explore alternatives in underperformers like large-cap funds?

Deepak Ramaraju, Senior Fund Manager of asset management company Shriram AMC, says one must wait and watch. "Investors should exercise caution given the cyclical nature [of these funds], be selective and monitor macroeconomic trends and sector-specific developments. Diversification and a keen awareness of market trends will be essential," he says.

Meanwhile, sectoral and thematic funds saw new fund offers (NFOs) of ₹73,593 crore during April 2024-February 2025 compared to ₹1 lakh crore raised by the mutual fund industry from overall NFOs during this period.

Gaurav Misra, Head-Equity, Mirae Asset Investment Managers (India), says themes such as manufacturing, innovation, and energy accounted for 55% of the funds raised. Going forward, investor participation may slow down as many adopt a 'wait and watch' approach amid market uncertainty.

Chandraprakash Padiyar, Senior Fund Manager, Tata Asset Management, says 2025 started on a different note as momentum was subdued. "We believe the next few years could be favourable for bottom-up stock selection and, hence, sectoral or thematic investing may not be advisable. Diversified funds would be a better choice," he says.

A DEEP DIVE

Mutual funds that invest in PSUs, which delivered 32% annualised return in three years till March 21, 2025, have underperformed other major categories in the past year. On average, PSU mutual funds have gained 4.23% in the past 12 months till date, as per data available with financial services company Value Research. Data shows that funds from the sector showed that Aditya Birla Sun Life PSU Equity declined 0.42%, while Quant PSU and ICICI Pru PSU Equity funds rose 1.57% and 5.27%, respectively. On the other hand, CPSE ETF and SBI PSU Fund gained 10.29% and 8.28%, respectively.

"PSU stocks on an average have had a great run since Covid. Some PSU companies, especially in defence, delivered high earnings growth, leading to a large

WHAT'S UP

- Thematic or sectoral funds received net inflows of ₹1.46 lakh crore from April 2024 to February 2025 as against ₹46,138 crore in FY24
- Money managers say this is due to a reduction in new fund offers (NFOs) and heightened market volatility
- Sectoral and thematic funds saw NFOs of ₹73,593 crore during April 2024-February 2025 compared to ₹1 lakh crore raised by the mutual fund industry from NFOs
- PSU funds, which delivered the most 32% annualised return in three years till March 21, 2025, have underperformed other major categories in the past year
- Technology funds rose 4.92% in the past 12 months, while banking and consumption-related funds rose 9% and 10%, respectively

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rerating of valuations. Oil and gas PSUs, however, have not delivered strong earnings consistently," says Padiyar. He advises investors to focus on the PSU space and says risk-reward is favourable for banking and oil and gas companies. Energy-related mutual funds witnessed an average gain of 4.53% last year. Ramaraju agrees. "PSUs, in the past one year, underperformed due to profit-booking after a strong multi-year rally. Concerns over valuation sustainability, and a lack of fresh growth triggers in the recent Budget, triggered the fall. Sectors like PSU banks, defence, and infrastructure, which led the previous upcycle, have seen some correction."

Looking ahead, Ramaraju says while the long-term PSU structural story remains intact, driven by government reforms, improved fundamentals and strong order books and balance sheets, the near-term performance could remain range-bound due to elevated valuations and uncertainties.

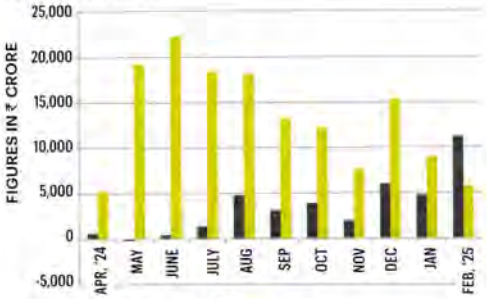
On the other hand, with a one-year average return of 20.85% till March 21, 2025, pharma-related funds outpaced other major equity categories. HDFC Pharma and Healthcare fund gained the most (36.47%). It was followed by WhiteOak Capital Pharma and Healthcare (up 35.54%) and SBI Healthcare Opportunities (up 26.6%). Padiyar credits this to less pricing pressure in the US market over the past 12-24 months. "Historically, every Indian company wanted to become big in the US market, leading to overcrowding and high pricing pressure, which in turn forced many to rethink their new molecule filing strategy. This consolidation has benefited the sector," he says.

Technology funds have gained 4.92% in the past 12 months, while banking and consumption-related funds have returned 9% and 10%, respectively. Misra of Mirae Asset Investment Managers (India) says the technology sector was supported by a sequential improvement in growth. He says while the outlook for the sector has been improving, a cloud of uncertainty has arisen because of the potential impact of US tariffs.

Commenting on the banking sector,

CAUTIOUS MODE ON

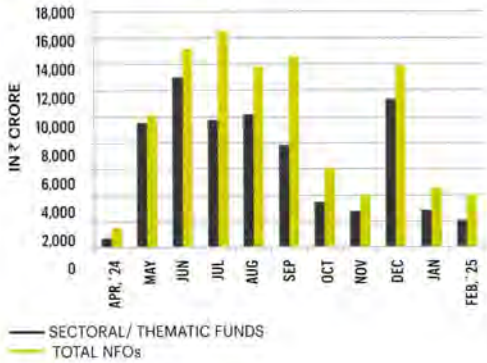
- **Inflows into sectoral/thematic funds have slowed in the past two months**
- **Still, net inflows jumped more than 200% in FY25 till February**



SOURCE AMFI

NEW FUNDS IN TOWN

- **The launch of new fund offers supported net inflows into sectoral and thematic funds**



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₹73,593 CRORE

AMOUNT RAISED BY SECTORAL OR THEMATIC NFOs DURING APRIL 2024-FEBRUARY 2025 AS AGAINST TOTAL NFOs OF ₹1 LAKH CRORE

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"The next few years could be favourable for bottom-up stock selection and, hence, thematic investing may not be advisable. Diversified funds would be a better choice"

CHANDRAPRAKASH PADIYAR
SENIOR FUND MANAGER,
TATA ASSET MANAGEMENT

"Investors should persist with flexicap funds. The flexibility to toggle across market caps and sectors can be used appropriately by the fund manager"

GAURAV MISRA
HEAD-EQUITY, MIRAE ASSET INVESTMENT MANAGERS (INDIA)

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Padiyar of Tata Asset Management says, "The banking sector underwent a period of consolidation between 2009 and 2021. Post clean-up, it is sitting on strong balance sheets in terms of provision coverage and return ratios." Infrastructure funds have gained 7.2% in the past year. The Union Budget 2025-26 reinforced the government's commitment to infrastructure development. However, a cautious and diligent approach is required to balance risk and reward while capturing growth, he adds.

BEYOND SECTORS

Investors have shifted focus from sectoral funds to large-cap funds. Net inflows surged to ₹21,008 crore in FY25 (till February), compared to an outflow of ₹613 crore in the previous financial year. Meanwhile, mid-cap funds attracted inflows of ₹37,970 crore during April-February, up from ₹22,226 crore in FY24. Small-cap funds, on the other hand, received inflows of ₹37,581 crore against ₹40,189 crore in FY24. Net inflows in large and mid-cap categories jumped 68% to ₹37,590 crore (during April 2024-February 2025) compared to ₹22,415 crore in FY24.

"Continued selling by FPIs has led to a moderation in valuation of large caps compared to their five-year median multiple, whereas mid caps and small caps are still trading at elevated levels. There is a strong case for investing in large caps," says Viraj Gandhi, CEO of brokerage firm Samco Mutual Fund.

Another market watcher, Achin Goel, PMS Fund Manager from Bonanza Group, says, "Mid- and small-cap spaces are looking attractive; however, investors should remain cautious and keep largecaps on the radar."

FLEXI, MULTI, VALUE FUNDS

Inflows into flexi-cap funds rose 180% to ₹43,965 crore in FY25 till February compared with ₹15,502 crore in FY24. In general, flexi-cap funds give investor the liberty to participate in the full spectrum of listed equities—large to micro and across sectors/themes. Misra of Mirae Asset Investment Managers (India) asks investors to be persistent with flexi-cap funds. "Investors should stay with flexicap funds. The flexibility to toggle across market caps and sectors can be used appropriately by the fund manager," he adds. Multi-cap funds witnessed 72% growth in net inflows at ₹39,529 crore in the ongoing financial year till February 2025 compared with an inflow of ₹22,958 crore in FY24. On the other hand, net inflows in multi-asset allocation funds stood at ₹33,116 crore in FY25.

In general, multi-cap funds, value funds, and multi-asset allocation funds serve distinct needs. Multi cap funds provide diversification across large, mid, and small-cap stocks, offering a balance between stability and growth. Value funds focus on strong companies that may be undervalued. Multi-asset allocation funds add an extra layer of diversification by investing across asset classes. For now, investors should tread with caution and align choices with their risk appetite, investment horizon, and financial goals. BT

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