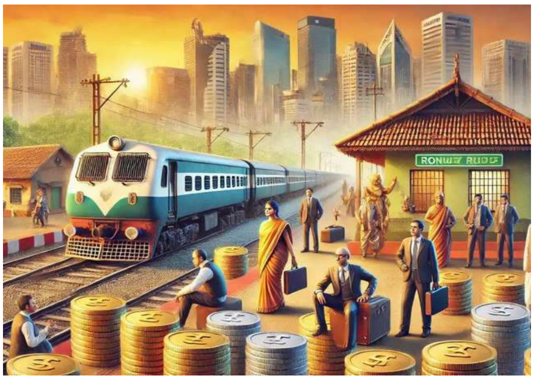
NFO Insight: Groww Nifty India Railways PSU Index Fund & ETF opens for subscription. Should you invest before budget?

Published on 16th January 2025, By Surbhi Khanna



Groww Nifty India Railways PSU Index Fund will focus on minimizing tracking error through portfolio rebalancing, considering changes in stock weights within the index and the incremental collections/redemptions from the scheme.

Groww Nifty India Railways PSU ETF will involve investing in a basket of securities forming part of the Nifty India Railways PSU Index in similar weight proportions. The strategy will focus on reducing tracking error through regular portfolio rebalancing, considering changes in stock weights within the Index and the incremental collections/redemptions in the scheme.

These schemes are suitable for investors seeking long-term capital appreciation and looking to invest in the equity and equity-related instruments of the Nifty India Railways PSU Index, according to the scheme information documents.

On one hand, Groww Nifty India Railways PSU Index Fund will allocate 95-100% to equity and equity-related securities of companies constituting the underlying Nifty India Railways PSU Index, and 0-5% to debt and money market instruments, units of debt schemes, or debt ETFs.

On the other hand, Groww Nifty India Railways PSU ETF will allocate 95-100% in constituents of the Nifty India Railways PSU Index and 0-5% in money market instruments, debt securities, or units of debt/liquid schemes of domestic mutual funds.

Why this fund now?

"Indian Railways is integral to India's infrastructure and economic progress, connecting communities and powering commerce across the country. The Groww Nifty India Railways PSU ETF is an opportunity for investors to engage with a sector that is pivotal to the nation's infrastructure and reflective of its economic momentum. This launch underscores our commitment to creating opportunities aligned with India's growth story," said Varun Gupta, CEO, Groww Mutual Fund.

Should you invest?

We typically ask investors to avoid investing in NFOs unless they offer something unique. The uniqueness could be that the scheme offering an investment option that is not available in the market or offering something extra to an existing option. Otherwise, we believe investors are better off with an existing scheme with a long performance record. This is because you have some historical data to base your investment decision. You don't have any data when it comes to new offerings.

Experts recommend that when there are too many NFOs available in the market, one should stay cautious and stick to basics.

"When there are too many NFOs in the market, investors should be cautious and stick to the basics. We have seen how PSU funds' performance declined last year after a good performance previously. Diversified funds are always preferred, more so, during volatile market times," commented Rajesh Minocha, a Certified Financial Planner (CFP) and founder of Financial Radiance.

Another expert recommends that as the recent rally in this space has led to higher valuations, one should wait for valuations to cool down before taking exposure in this scheme.

“India's railway sector is driven by government initiatives, infrastructure development, and rising traffic opportunities. The modernization and expansion of railways have poised for robust future sectoral growth. However, the recent rally in this space have led to higher valuations, which reduces the valuation comfort for further upside,” recommends Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

“On a trailing PE and PB basis also Nifty India Railways PSU are trading at higher valuations compared to Nifty 500. Considering these factors investors should wait for valuations to cool down before taking exposure in this scheme,” he added.

These new fund offers (NFOs) are first of its kind as there are no other existing active or passive schemes which are benchmarked against this index or are based on this theme or sector. Therefore, there is no long performance record for these funds to prove that focusing on a railway index can actually work.

Can budget be a trigger?

With the Budget approaching, and the government focusing on this sector many investors will rush to invest in these funds. However, the expert believes that there are funds based on broader themes, one should evaluate whether they need newness in their portfolio.

“Railway PSU index fund is a new type of fund, though there have been funds in the broader themes of infrastructure, like Central Public Sector Enterprises, and infrastructure and transport funds that would have included Railway stocks. Investors need to evaluate whether they need newness in their portfolio. In finance, sticking to the basics and, most of the time, just investing the "boring" way works better,” said Minocha.

The other expert shares the key focus of the budget on this sector which includes focus on high-speed trains, station upgrades, and eco-friendly initiatives while modernizing the Indian Railways network and expanding regional connectivity.

“Budget FY 2025 is expected to focus on high-speed trains, station upgrades, and eco-friendly initiatives while modernizing the Indian Railways network and expanding regional connectivity. The central government is also likely to increase capital expenditure allocation for the Railways in the upcoming Union Budget, prioritizing infrastructure growth for FY26,” said Dhawan.

“Key priorities could include capacity expansion, electrification, safety measures, increased use of technology, high-speed trains, new routes, station upgrades, and eco-friendly initiatives to reduce carbon emissions. The budget is also expected to allocate a good chunk to the rolling stock as the focus is more on modernizing and expanding the railway network, focus on AI for improved efficiency and safety, including predictive seat availability, maintenance, and automated linen inspection which could create more usage of technology in rail operations in FY26,” he further adds.

One should always choose a scheme based on their risk appetite, investment horizon, and goals.