NFO Insight: Is Edelweiss Consumption Fund the right fit for your portfolio?

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Edelweiss Mutual Fund's new fund offer (NFO) Edelweiss Consumption Fund is open for subscription and will close on February 14. The fund is an open-ended equity scheme following the consumption theme.

The fund seeks to generate long-term capital appreciation by investing predominantly in equity and equity-related securities with a focus on companies engaged in consumption and consumption-related sectors or allied sector.

The scheme will be managed by Dhruv Bhatia, Trideep Bhattacharya and Amit Vora. It will be benchmarked against NIFTY India Consumption TRI. The minimum investment amount is Rs 100 and in multiples of Re 1 thereafter.

An exit load of 1% of the applicable NAV will be there, if the units are redeemed /switched out on or before 90 days from the date of allotment. If the units are redeemed /switched out after 90 days from the date of allotment, the exit load will be nil.

Edelweiss Mutual Fund's take on fund launch

"Ranked among the top two consumer markets worldwide, India's consumption story is poised for exponential growth. Driven by rising disposable incomes, urbanization, digitalization, easy credit, and a youthful demographic dividend, consumer businesses are set to thrive. The Edelweiss Consumption Fund aims to capitalize on this multi-decade opportunity. The launch is also timely, as stock prices have corrected meaningfully, presenting a good entry point for long-term investors," said Radhika Gupta MD & CEO, Edelweiss Mutual Fund.

The Edelweiss Consumption Fund seeks to cater to investors looking for opportunities in India's consumption-driven growth story by investing in core, emerging, and cyclical businesses. Taking a diversified approach to investing across various consumption sub-sectors such as FMCG, consumer staples, consumer durables, education, healthcare, etc. The fund aims to provide long-term wealth-creation opportunities for investors, said the release.

The stock selection approach at the 'Edelweiss Consumption Fund' is agnostic in its investment style, focusing on businesses that can be classified as quality leaders, growth champions, and value picks.

The fund will leverage India's diverse consumption landscape, picking and investing in businesses that meet its selection criteria. The fund's sectoral and thematic exposure will be aligned with India's economic resilience and evolving consumer preferences, making it a promising investment avenue. The scheme is suitable for investors seeking to diversify their portfolios with an equity investment option focused on India's consumption theme.

Should you take exposure in this?

Experts typically ask investors to avoid investing in NFOs unless they offer something unique. The uniqueness could be that the scheme is offering an investment option that is not available in the market or offering something extra to an existing option. Otherwise, the experts 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 offering.

According to the experts, the investors who are comfortable with the cyclical nature of the and believe in the long-term potential of consumption can adopt a staggered approach through SIPs or STPs.

“Entry and timing will be important, as the consumption theme is cyclical. Compared to diversified funds, sectoral and thematic funds need to be monitored more actively at an industry performance level, since they may be underperforming at times during the economic cycle. Investors who firmly believe in the long-term potential of consumption while being comfortable with its cyclical nature can adopt a staggered approach for investment through SIPs that would help in managing the entry point and minimizing the risk of volatility,” recommended Rajesh Minocha, a Certified Financial Planner (CFP) and founder of Financial Radiance.

“There are multiple schemes in this category that have good track records . Investors may want to consider allocations to schemes that have a long track record in this space through a SIP/STP if they are comfortable with sectoral / thematic exposures. There may be some impetus to consumption in light of the slowdown in the Union Budget as well, to allay concerns around a slowdown in urban consumption,” recommended Vishal Dhawan, CEO, Plan Ahead Wealth Advisors, a wealth management firm in Mumbai.

Around 12 existing schemes in the category have completed five years of existence in the market and all schemes gave double-digit returns in the same period. Nippon India Consumption Fund offered the highest return of around 21.27% in the last five years, followed by SBI Consumption Opportunities Fund who gave 20.11% return in the said period.

UTI India Consumer Fund and ICICI Prudential FMCG Fund delivered 14.16% and 12.77% returns respectively in the last five years.

With the other options available in the same category having a long track record and this new fund launching, experts believe that this theme has multiple components and investors who are wanting to invest in consumption theme will have to buy on a long-term basis considering the shift towards premiumisation may continue and the long-term prospects for India under consumption theme are looking strong.

“The theme has multiple components wherein many sub sectors like consumer staples and consumer durables continue to quote at a premium to long term averages, and also have a lower earnings growth outlook. Whilst some of the allied sectors may be more reasonably priced, we believe investors wanting to participate in the consumption theme will have to buy on a long term basis considering the shift towards premiumisation may continue,” said Dhawan.

According to Minocha, the long-term prospects for India under the consumption theme are looking strong. One of the key reasons for this is the changing expenditure trends of the mid-age group (40-55 years). They tend to spend on premium brands, be it in automobiles, smartphones, perfumes, or travel. This trend is expected to sustain with the ageing of this group, and with the younger generation also tagging along with a high-end consumption culture, the full benefit of this theme is going to be felt in the foreseeable future. Additionally, there is support from the Government through measures like cuts in corporate taxes, incentives under PLI schemes, and infrastructure development.

“Despite that, consumption is naturally cyclical and goes through these cycles together with economic trends, making it attractive to long-term investors. Those who are in and out of it for the immediate fad should be careful. The Indian consumption boom will continue, and investors will have to put a check on their optimism with allocation caution. A diversified long-term attitude remains the best way to gain exposure to this theme and hedge against risks,” he further added.

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