

# Sectoral and thematic fund inflows fall over 69% in September. Is investor appetite cooling?

By Surbhi Khanna, Published on: October 13, 2025.



Inflows into sectoral and thematic mutual funds declined by around 69% to Rs 1,220 crore in the month of September. Market experts say that the fall was driven by exits and profit booking rather than lower new investments.

“Inflows into sectoral and thematic mutual funds saw a sharp 69% MoM decline in September but interestingly, overall fund mobilisation rose marginally by 2.2% to Rs 11,167 crore, but redemptions spiked 41% to Rs 9,947 crore, suggesting that the fall was driven by exits and profit-booking

rather than lower new investments,” Vishal Dhawan, Founder & CEO at Plan Ahead Wealth Advisors shared with ETMutualFunds.

Dhawan further mentions that the 41% surge in redemptions points to widespread profit-taking and repositioning ahead of potential macro uncertainties such as high U.S. bond yields, FPI selling, and high valuations in many sectors and themes.

Another expert pointed out that lower collections from ongoing NFOs, coupled with a sharp jump in redemptions, were key drivers behind the decline. The expert also cited heavy outflows from pharma funds following the U.S. administration’s 100% tariff on Chinese imports as a contributing factor.

“The decline in the inflows into sectoral funds have been partly due to lower collection in the ongoing NFOs in the month of September and mainly due to increased redemptions from these funds. As compared to August, September saw a jump in redemptions by 40% in these funds. This might be due to redemption in Pharma sector funds because of imposition of high tariffs by the US,” Pallav Agarwal, Certified Financial Planner, Bhava Services LLP told ETMutualFunds.

In September, sectoral and thematic mutual funds saw inflows of Rs 1,220 crore, a steep drop from Rs 3,893 crore recorded in August. So far in 2025, inflows in this category have risen month-on-month only in April, May, and July.

In February, inflows declined 37% compared to January, while March saw the lowest inflow of just Rs 170 crore — a 97% plunge from February levels. April witnessed a sharp rebound, with inflows surging 1,076%, followed by a moderation in June, where inflows fell 77% from May. In July, flows jumped again, rising 1,882%, before slipping 59% in August and another 69% in September.

Post seeing this inflow trend in the nine months of 2025 so far, should investors view this correction in inflows as a sign to reduce exposure or as a potential buying opportunity? In response to this, Agarwal says that inflows or outflows just reflect the sentiments of the investors and their reaction to the news, and these numbers should not influence their investment decisions. If they find a sector or a theme fundamentally attractive for the future, they should invest or vice versa.

On the other hand, Dhawan recommends that for long-term investors, these phases of muted inflows are quite normal and sectoral and thematic funds tend to move in cycles, and such patches of underperformance are temporary. So, those with a 7-10 year investment horizon can use this period to stay patient or even add selectively to high-conviction themes at more reasonable valuations, Dhawan said.

“For investors who may have heavy allocations to sectoral funds, this is a good time to review portfolios and ensure such holdings haven’t exceeded the recommended 10% allocation. Some sectors that have seen large gains could warrant trimming to maintain balance and reduce concentration risk,” Dhawan added.

According to a monthly note by AMFI, despite volatility amid foreign institutional investor outflows from the equity market and mixed cues from US-India trade developments, domestic investor sentiment remained strong. The market gained support from the recent GST rate cuts and the US Fed rate reduction.

Finance Minister Nirmala Sitharaman introduced GST 2.0 through key decisions at the 56th GST Council meeting, giving a major revamp to India’s indirect tax system. The Finance Minister on September 3 announced

the restructuring of the goods and services tax (GST), collapsing four slabs into two rates of 5% and 18%, while maintaining a 40% levy on luxury and sin goods.

The GST for FMCG has been slashed to 5% post the announcement. The revised rates are effective from September 22, 2025.

After the rollout of GST 2.0, certain sectoral and thematic funds were expected to benefit. However, given the recent trends in inflows, there has been growing concern that these funds are now becoming riskier due to their concentrated bets amid uncertain market conditions.

The CEO of Plan Ahead Wealth Advisor firmly says that yes, sectoral and thematic funds are indeed riskier in the current market environment, primarily because they involve concentrated bets on a single sector or theme, making them more sensitive to short-term volatility and macro events and when overall market sentiment weakens, these funds tend to see sharper drawdowns compared to diversified equity funds.

Dhawan said that the Banking and Financial Services sector looks attractive once again, after lagging in the previous rally due to concerns over the credit–deposit growth gap, softening margins, and asset quality issues. These challenges are now easing.

“However, sectoral funds carry concentrated risks and are best suited only for seasoned investors and should be looked at from a 7-10 year investment horizon perspective. We do not recommend allocating more than 5% - 10% of one’s total mutual fund portfolio (AUM) to any single sectoral fund,” he recommended.

Contrary to concerns, Agarwal believes consumption-focused funds remain attractive over the long term. However, he acknowledges that these funds carry higher risk due to their dependence on a single sector or theme.

There were 284 sectoral and thematic funds in the mentioned period, of which 169 gave positive returns and 114 gave negative returns. DSP World Mining Overseas Equity Omni FoF posted the highest return of around 13.15% in September. HDFC Defence Fund, the only actively managed fund based on the defence sector, gave a 3.14% return. Motilal Oswal Business Cycle Fund lost the most of around 4.79% in September.

Agarwal recommends that SIPs should always be preferred over lumpsum investments for wealth creation in the long term, and lumpsum investments can be done when valuations of a sector are very reasonable as compared to the underlying fundamentals of the sector. “Investors may also deploy money in sectoral or thematic funds through short-term STPs from liquid funds over a period of 6 months to 1 year.”

Echoing similar recommendations, Dhawan says that given the current volatility and the sharp moderation in sectoral and thematic inflows, investors may prefer to invest through SIPs. “Since sectoral performance tends to be cyclical, staggered investing allows investors to participate across phases of the market rather than locking in money at potentially elevated levels. Investors should combine SIPs with periodic portfolio reviews to ensure that sectoral allocations stay within the recommended 5%–10% limit and that the chosen themes align with their long-term financial goals,” he recommended.

One should always invest based on their risk appetite, investment horizon, and goals.