

# Auto sector funds top 3-month average returns among all domestic MFs: Should you book profit or stay?

By Surbhi Khanna, Published on: November 03, 2025.



Auto sector mutual funds have been among the best performers, delivering strong double-digit average returns of around 10.49% in the past three months — second only to international funds, which gained 10.86%. Experts attribute the rally to rising incomes, tax reliefs, festive demand, and new model launches.

Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors, shared with ETMutualFunds three factors that have fueled the rally in the sector. This includes rising disposable incomes and India's still-low vehicle penetration compared to developed markets, which created a strong demand base.

"Secondly, the recent tax relief measures, along with festive-season demand and rural recovery in two-wheelers, tractors, and small cars, have further boosted sales. And lastly, automakers are also launching new models and premium SUVs/EVs, driving higher realisations. Meanwhile, robust deal activity and fresh investments across OEMs, components, and the EV ecosystem have reinforced investor confidence," Dhawan adds.

Auto-focused mutual funds have benefited from gains in both leading manufacturers and ancillary players, reflecting a broad-based sectoral uptrend, Dhawan added.

Manish Kothari, CEO & Co-Founder of ZFunds, shares a similar view. He told ETMutualFunds that the strong returns of auto-focused mutual funds are driven by festive-season demand recovery and new product launches, especially in EVs, which are becoming more affordable after the recent GST cuts.

Among actively managed schemes, seven funds track the auto and transportation sector. UTI Transportation & Logistics Fund delivered the highest three-month return at around 11.42%, while Kotak Transportation & Logistics Fund logged the lowest at 9%. The SBI Automotive Opportunities Fund is the only one focused solely on the auto sector, while the others invest across transportation and logistics themes.

With these strong returns, is it too late to enter the segment? Kothari advises investors to take a long-term view of at least five years, suggesting that "diversified thematic funds that capture multiple growth drivers within the auto industry" may offer sustained benefits as rising per capita income supports future consumption.

Vishal Dhawan agreed that it isn't too late but cautions that the risk-reward profile has shifted, recommending a staggered entry through SIPs instead of lump-sum investments.

According to a report by Motilal Oswal Financial Services, mutual funds stepped up their investments in the automobile sector amid the GST relief and festive season in September and October. The Automobile's weight climbed for the second consecutive month to a 10-month high in August.

The allocation reached 8.5% indicating a surge of 50 basis points on month on month basis and a drop of 10 basis points on a yearly basis, the report added.

The report further highlighted that the allocation in the BSE 200 index was 8% and some fund houses such as Aditya Birla Sun Life Mutual Fund, Axis Mutual Fund, Canara Robeco Mutual Fund, DSP Mutual Fund, ICICI Prudential Mutual Fund, Mirae Asset Mutual Fund, Sundaram Mutual Fund and UTI Mutual Fund holds more than 8% in the automobile sector. Whereas some fund houses, such as HDFC Mutual Fund and PPFAS Mutual Fund, hold more than 11% in the automobile sector.

In September, the report by Motilal Oswal Financial Services showed that mutual funds showed interest in NBFCs, PSU Banks, Metals, Automobiles, Capital Goods, Oil & Gas, Utilities, and Real Estate, leading to a month-on-month (MoM) rise in their weights.

Post private banks, the other sectors that gained mutual funds interest in September were Automobiles (8.7%), Technology (7.5%), and Healthcare (7.4%).

**Post witnessing two months of sectoral allocation by mutual funds and observing an increase in exposure in the sector, what factors are driving mutual funds to increase exposure to the auto sector?**

Dhawan believes that after several years where consumption / FMCG / “defensive” sectors dominated, managers may be looking for overweight positions in sectors showing a clear near-term turnaround.

“GST cuts are seen as a boost for automakers, especially in the small vehicle segment, improving sales and margins. Rising demand for tractors, two-wheelers, and small cars signals an early recovery, drawing fund managers’ interest. Themes like EV transition, localisation, and exports are also driving optimism, supported by near-term triggers such as tax benefits and festive demand,” Dhawan added.

On the other hand, Kothari believes that mutual funds have increased their exposure to the auto sector over the past two months due to improving fundamentals and earnings.

“Robust demand, reflected in strong order books for passenger vehicles and premium EV two-wheelers, is boosting confidence. Policy support for EVs, vehicle scrappage initiatives, and recent GST cuts have made vehicles more affordable, further driving sales during the festive season and supporting long-term growth,” Kothari added.

There are 10 passive funds tracking the auto sector, including index funds, ETFs, and FoFs, which delivered an average three-month return of 10.27%. Among them, Nippon India Nifty Auto ETF led with a 13.59% gain, while ICICI Pru Nifty EV & New Age Automotive ETF FoF recorded the lowest return at 6.96%.

**As even passive funds have offered over 10% average return in the same period, should investors consider booking profits in auto-themed mutual funds, given the recent rally?**

According to Kothari, investors with a five-year horizon should stay invested in auto-themed mutual funds, as the sector remains well-positioned for long-term growth. Despite the recent rally and possible near-term consolidation, the structural drivers remain strong.

Dhawan added that investors who entered early and booked meaningful gains may consider partial profit-taking to lock in returns and rebalance exposure in this cyclical sector. Trimming positions can also help maintain portfolio diversification, he advised.

If your investment horizon is three to five years rather than six to twelve months, staying invested may still make sense, as exiting completely could mean missing the next leg of the cycle. However, investors should closely track key risk indicators such as quarterly earnings, sales trends, commodity costs, supply-chain pressures, EV policy changes, and interest rates, Dhawan advised.

So far in the current calendar year, auto and transportation-based funds have delivered an average return of around 14.37%. Looking ahead, while Kothari suggests maintaining a long-term perspective, Dhawan believes the sector’s next phase of performance will depend on earnings momentum over the coming quarters.

The auto sector remains strong, supported by premiumisation, new model launches, and the EV–hybrid transition. Near-term sentiment is buoyed by GST relief, rural recovery, and festive demand. However, rising costs, supply constraints, and high valuations could cap further upside, prompting Dhawan to advise a selective, quality-focused investment approach to manage risks effectively.