

PSU Bank ETFs gain up to 45% since last Budget. Is it time to book profits or stay invested?

By Surbhi Khanna, Published on: Jan 21, 2026



PSU Bank ETFs have delivered strong returns of up to 45% since the last Union Budget announced on February 1, 2025, catching the attention of investors. Market experts recommend that existing investors may stay invested or trim allocation for rebalancing but exiting entirely may not be necessary if allocations fit the long-term objectives.

Vishal Dhawan, Founder & CEO, Plan Ahead Wealth Advisors shared with ETMutualFunds that the prudent approach for investors with short-term or tactical allocations is booking partial profits.

However, for long-term investors, staying invested with moderated expectations can still make sense if the allocation fits long-term portfolio objectives as PSU banks are no longer a turnaround story but a steady growth story, though future returns are likely to be more earnings-driven and less valuation-led, Dhawan further said.

Another expert, Manish Srivastava, Executive Director, Anand Rathi Wealth Limited shared with ETMutualFunds that investors who are already invested can continue to stay invested, as the improvement in earnings, loan quality, and growth indicates this is not a short-term rally.

“However, fresh exposure through sectoral funds or ETFs should be avoided due to their cyclical nature, with diversified equity mutual funds offering a more balanced long-term approach,” Srivastava said.

There are six ETFs based on the PSU Bank sector who have marked their presence in the said period. Among these six funds, DSP Nifty PSU Bank ETF gave 45.18% return since the last budget announced in 2025, and became the top performer in the said category.

Mirae Asset Nifty PSU Bank ETF and HDFC Nifty PSU Bank ETF gave 45.16% and 44.93% returns respectively in the mentioned time period, followed by ICICI Pru Nifty PSU Bank ETF which gave 44.83% return.

Nippon India ETF Nifty PSU Bank BeES and Kotak Nifty PSU Bank ETF gave 44.69% and 44.67% returns respectively since the last budget.

What factors drove this rally of PSU Bank ETFs since the last budget?

According to Srivastava, this rally is attributed to genuine improvements in business performance, rather than short-term market speculation, sharp improvement in asset quality with bad loans declining significantly and balance sheets becoming much stronger which was visible from the data that PSU banks together reported profits of Rs 1.78 lakh crore in FY25, marking a 26% increase over the previous year.

Dhawan attributed the rally to a combination of improving fundamentals and policy-led confidence. He said that PSU banks have reported multi-year highs in profitability, aided by lower NPAs, stronger recoveries, and stable credit growth in the mid-teens as per RBI data and return on assets and equity for leading PSU banks have steadily improved, while capital adequacy remains comfortable after years of balance-sheet repair.

According to a report by ETMarkets, Public sector banks emerged as the standout performers in 2025, with the Nifty PSU Bank Index surging over 26%, significantly outpacing the Nifty50, which gained just

9.5% in the same period. Analysts then attribute this outperformance to improving balance sheets and robust quarterly results.

According to data by ACE MF, the six funds who have marked their presence in the market since the last budget have a PE of 9.09 times and PBV of 1.34 times respectively.

So, how should investors assess valuations in PSU Bank ETFs after such sharp gains and should they make fresh investments now?

Dhawan said that after the sharp rally, valuation comfort in PSU Bank ETFs has clearly reduced and needs closer scrutiny and on an absolute basis, the PSU banking basket is now trading broadly in the 1.4–1.5x price-to-book range, compared with sub-1x levels seen a few years ago.

“While there is a structural improvement, valuations are now closer to long-term averages rather than at very low valuations. PSU banks are no longer cheap, they are not overvalued either, provided earnings momentum sustains.”

On fresh investments, Dhawan said that a lumpsum approach may carry timing risk after a strong rally. Investors should consider staggered allocations or SIPs, especially if the intent is long-term participation in the PSU banking recovery.

Having a similar opinion that despite the sharp rally, PSU banks continue to appear reasonably valued when assessed against their improved fundamentals, Srivastava said that investors should avoid investing in sectoral funds due to their cyclical performance and the focus should be on building a balanced portfolio with diversified mutual funds for long term wealth creation.

In an earlier report, with the Union Budget 2026 around the corner, experts highlighted five sectors which are expected to remain in focus in the budget; one sector was the PSU sector. Dhawan said that the impact of Budget 2026 on PSUs will hinge on three factors - the government's capex-led growth strategy, clarity on disinvestment and privatisation, and strong PSU dividend flows and sustained CPSE capex may provide support to yield-oriented names, though excessively high payouts may limit reinvestment flexibility.

Mentioning about PSU sector oriented banks, Dhawan said that PSU banks will continue to be driven more by credit growth, liquidity, and interest-rate dynamics than by direct Budget measures.

The next important thing to know is what role do government reforms or divestment plans have on PSU Bank ETFs performance? Srivastava said that government reforms have been a key driver of the PSU banking turnaround and are central to the sector's long-term performance, plans around “Consolidation 2.0” aim to merge smaller banks with stronger ones, creating more efficient and competitive institutions and there is also discussion around raising foreign investment limits from 20% to 49%, which could attract global capital and expertise.

Some initiatives like Jan Dhan Yojana have improved governance, transparency, and competitiveness, while also enhancing stock liquidity, they signal a shift in government intent from control to long-term value creation, which has fundamentally improved investor confidence in the sector.

While mentioning government reforms and divestment plans as primary catalysts for “value unlocking” in PSU Bank ETFs, Dhawan said that while reforms and divestment are not short-term triggers, they create a supportive structural backdrop that has materially improved the long-term investment case for PSU Bank ETFs.

Two funds - Nippon India ETF Nifty PSU Bank BeES and Kotak Nifty PSU Bank ETF - have completed five years of existence in the market and gave 36.28% and 36.30% CAGR's respectively. In the last three years, these schemes gave a CAGR of 28.74% and 28.75% respectively.

Way ahead for PSU Bank ETFs and expectation in Budget 2026

Commenting on the outlook, Dhawan said that the outlook for PSU Bank ETFs remains stable but more measured after the sharp rally and balance sheets are stronger, credit growth remains healthy in the low-to-mid teens, and asset quality is well under control, which supports steady earnings growth.

“For the upcoming Budget 2026, key expectations include a clear roadmap for merging smaller PSU banks to create 3-4 "global-sized" entities like SBI, and a revised dividend mandate that could see banks distributing a higher share of their profits”

Additionally, any policy measures to bridge the deposit-growth gap or fresh incentives for infrastructure-linked corporate credit would act as immediate triggers, Dhawan said.

Believing budget 2026 to be an important catalyst for PSU banks, Srivastava said that expectations include faster progress on privatization of select banks, which historically has unlocked shareholder value, and a clearer roadmap for building large, globally competitive banking institutions and potential changes to voting rights and ownership structures could further improve foreign investor participation.

“Continued government spending on infrastructure is likely to support credit growth, benefiting PSU banks directly. Stable interest rates should help sustain profitability, while improved risk management frameworks may keep asset quality under control. That said, investors should remain mindful of risks, including policy delays, macroeconomic volatility and valuation during periods of market rallies,” he further said.

One should always consider their risk appetite, investment horizon and goals before making any investment decision.