Monthly Letter

August 2021

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were +7.3% in July vs + 0.3% for the NIFTY50 and +1.4% for the NIFTY500. On a 12-month rolling basis our returns are +87.5% versus +42.3 for the NIFTY50 and +51.2% for the NIFTY500 (all returns based on SEBI mandated TWRR method). Our process of staying aligned to market leadership has been key to our performance. The challenge is ensuring that we maintain acceptable risk levels, as most of the stocks leading the market are from the mid and small-cap space, where adequate level of liquidity is an issue.

The regulatory crackdown in July by the ruling Chinese party on its internet and education sectors resulted in a meltdown in many Chinese stocks (MSCI China was down approximately 14% in July), and a huge erosion in value for many global institutional investors (already global investors have been nursing huge losses from the fallout of the Ant Financial and Didi Chuxing debacles). While this is a near-term negative for all emerging markets, as was witnessed in the selling by FPIs in July in India, it is a long-term positive for the Indian market. We believe it will cement the diversion of investor interest away from China and towards India. Ever since China's anti-trust campaign began last year, starting with the Ant Financial IPO rollback, global investors have been getting increasingly concerned with regards to China. The new assertion of socialist intent by the ruling communist party is likely to accelerate this trend. The huge institutional investor interest in the Zomato IPO may be a harbinger of the shift in foreign investor interest towards India's still small, but fast-developing internet sector.

Fortunately, the second wave of Covid has continued to recede in most Indian states. As the country continues to unlock, all high-frequency indicators point to a resurgence of economic activity in July, which had been stymied by the second wave. Most businesses report that in July they are already functioning at pre-second wave levels. The belief in the Industry is that, should there be no third wave, economic growth will rebound very strongly from quarter three of this fiscal.

A new trend we are witnessing is that of the Indian markets doing well on the back of domestic investor flows rather than on FPI inflows. Notwithstanding the selling by FPIs in July, the market is holding up well and the undertone is positively bullish; this could indicate that our dependence on foreign funds to drive our market may be reducing. The record opening of new investor accounts with brokerages over the last year is an indication of a structural shift of investor interest, especially that of young savers and investors from tier 2 and tier 3 cities in India, towards equities as an asset class. This augurs well, as the share of equities in the domestic savings basket has been abysmally low and such a shift could go a long way in helping accelerate capital formation in India.

We remain positive on our market. We see the current uptrend continuing, and believe equities will remain the best option for superior returns in India in the coming years. Of course, the caveat is; the pandemic doesn't pull any new surprise punches.

Thank you for your support.

RC

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