Monthly Letter

August 2024

We were +2.3% in July vs +4.0% for the NIFTY50 TRI. Given the sharp rise our stocks experienced in June, post the Union budget, the valuations in many of our holdings have become overextended in the near term and thus the muted performance. Since inception in 2012, Rs 1 invested with us has returned Rs 17.5, vs Rs 5.5 in the NIFTY50 TRI.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	27.8%	49.3%
3 Years	17.9%	23.8%
5 Years	18.9%	33.2%
Since Inception (1-Mar-12)	14.5%	25.9%

*Figures are annualised, are as of 31st July 2024, and are not verified by SEBI. The portfolio returns are post-fixed and performance fees. In line with SEBI guidelines, all the portfolio and benchmark returns are calculated using the TWRR method.

We see a period of consolidation for our portfolio in the coming months as earnings backfill the valuations. For most of our holdings, we believe that the long-term story is intact, and thus we would hold through any near-term correction, which we anticipate in the coming months.

The current earnings season has been more muted than we expected, as the impact of the Union elections, spread over two months, caused widespread disruption in businesses across industries, due to labour shortages (people returning home to vote), and a lack of fresh orders from the Government sectors. The severe heat waves across the country also dampened consumer footfalls, which resulted in weak off-take. However, with the Union Budget also now behind us, and the bountiful monsoon in most parts of the country (a few states are affected adversely by a spatial inadequacy), we see these factors reversing and a catch-up happening in the coming quarters. On the whole, we believe, that this blip in quarter one will be recouped from quarter two onwards and full-year forecasts will be met.

The developments on the election front in July, in the US, were significant. With Biden being forced to withdraw, and Kamala Harris becoming the Democrat's new candidate, the outlook on the US Presidential election has changed; from a certainty of a Trump victory (all the more with the sympathy wave, post-assassination attempt) to a more balanced battle for the White House. This changes many things and could be viewed as a positive development, for those of us sitting outside the US. However, the events in the Middle East over the past few days, most notably the assassination of a leader of Hamas in Iran, have heightened the risk of a conflagration and created a risk-off sentiment across markets globally. Once again, the world waits with bated breath and hopes that the situation will not escalate into an all-out conflict there.

The most recent jobs report in the US came in well below expectations, and is likely to result in an almost certain shift in interest rate policy by the US Fed, from neutral to dovish (a monetary policy stance that favours lower

interest rates), driven by growing fears of a hard landing for the US economy. The Street is now betting on a cut by the US Fed of at least half a percent by calendar year-end. Normally, this rate cut would have engendered a rally in the markets, but the jobs report was so weak, and this coupled with very weak demand commentary by some large corporates, signalled that the US economy was seeing a sharp slowdown. This overshadowed the almost certain policy shift, and caused the richly valued US market to sell-off. The sell-off was exacerbated by the change in interest rate policy by the Bank of Japan, which caused a 'carry trade' reversal. Thus, all put together, the global macro, at this point in time is very negative. The Japanese Nikkei closed down 12% on 5th August, the largest single-day drop since 1987. The bigger worry is that the world is going to struggle for growth in the coming years, held down by all the over-leveraging in the developed world over the past decade, and the structural fall in growth in China.

FPIs, who were strong buyers in July, appear to have turned aggressive sellers over the past few days. However, over the last few years, the selling by FPIs has been absorbed by domestic investors, both retail and institutional. The percentage of FPI holding in Indian equities is now at a twelve-year low, at around 17.4%, thus lessening their impact on our market. This trend is likely to continue as domestic SIP flows into mutual funds remain strong, increasing the share of domestic institutional investors. The gap between the holdings of foreign versus domestic institutional investors is now less than 2%, from over 10% approximately a decade ago. The less the FPI holdings, the more resilient our market.

While India is an oasis of fiscal rectitude and growth in the global milieu, our run-up over the past few years has made us a richly valued market. One may say that this is justified in the long term, given our growth and fiscal discipline, but in the near term, we are going to correct in sympathy with global markets. Let us be ready for this. We believe that India will be the first market to recover once the global macro improves, and with that, our holdings will also do well, given the strong growth profile of every stock we own. This correction will be an opportunity for money waiting on the sidelines to enter.

Warm regards.

RC

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301-302, Mittal Avenue, Nagindas Master Road, Kala Ghoda, Fort, Mumbai – 400 001. India Tel: +91 22 22875801