# Monthly Letter

August 2023

prodigy INVESTMENT MANAGEMENT

*Invest well. Celebrate life.*

We were +8.4% in July vs +3.0% for the NIFTY50 TRI. Strong FPI inflows persisted through July and amounted to over Rs 46k crores for the month (total inflow of over Rs 120k crores for the calendar year 2023 to date), which has been the primary reason for this rally. The earnings for the first quarter of fiscal 2024, for most of our holdings so far, have been ahead of expectations, which is why we have outperformed the market by a significant margin. This is reflective of our correct portfolio positioning, in choosing a higher proportion of mid and small caps over large caps.

| Returns* | NIFTY 50 TRI | Prodigy Growth Strategy |
|---|---|---|
| 1 Year | 16.3% | 35.8% |
| 3 Years | 22.7% | 33.5% |
| 5 Years | 13.0% | 19.3% |
| Since Inception (1-Mar-12) | 13.4% | 24.0% |

***Figures are annualised, are as of 31st July 2023, 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.**

The robustness of the high-frequency indicators for the Indian economy continues to inspire confidence in the growth impulse we are experiencing at the moment (GST collections, Auto sales data, PMI indicators, Railway freight data, credit demand, etc). Earnings commentary for quarter one of fiscal 2024, from a wide range of companies we are invested in, suggests that the outlook has never been better and that it is sustainable. Domestic facing businesses, especially those in the economy-sensitive sectors like capital goods and infrastructure, are doing better than those with higher international exposure like technology, which are suffering due to the slow-down being experienced in the Western world. Margin expansion has been a major driver of earnings growth this quarter, on the back of lower commodity prices. The fear of a poor monsoon season has receded with the exceptionally strong July rains, apart from a few pockets of the country still remaining in deficit.

We believe that, as there are significant foreign funds waiting on the sidelines for a correction in the Indian market to make an entry into it, we are likely to witness only shallow corrections in this rally, and markets that will slowly grind higher as the year progresses. As the interest rate cycle rolls over from up to down in the coming months, on the back of benign inflation data, our market should see a further strengthening of investor interest.

The ‘India Story’ appears to be gaining recognition from more and more international brokerages, which are highlighting the factors driving our secular growth. These factors include - a strong fiscal position, favourable demographics, and major reforms for the past many years. Given that China's growth rate appears to be plateauing on a secular basis, after decades of strong growth; correspondingly, India’s position seems all the more attractive.

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World markets are trading close to their all-time highs, as the expectation is that the US interest rate hike cycle is coming to an end, with inflation having softened meaningfully. Notwithstanding the recent and surprising downgrade of the US sovereign credit rating by Fitch from AAA to AA+, which has caused US rates to spike in the near term and the dollar index to strengthen, we believe that world markets will be reasonably positive in the period ahead. Negative geopolitical surprises could be the joker in the pack.

In our view, one should allocate the maximum amount one can to equities, as this up move is likely to be stronger and longer than any we have witnessed to date.

Thank you for your support,

RC



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