Monthly Letter

December 2023

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were up 11.6% in November vs 5.6% for the NIFTY50 TRI. On a rolling twelve-month basis, we were +56.7% vs +8.5% for the NIFTY50 TRI (all returns based on SEBI-mandated TWRR basis). November gains were aided by a significant recovery in the US markets (Dow Jones and Nasdaq up 11% to 13% since the last week of October with inflation data softening meaningfully in the US), and the reversal of FPI flows into India from negative to positive. The strong earnings growth in Q2FY24 and the softening of crude oil prices has also helped. Continuing positive data from high-frequency indicators along with a robust festive season demand for most sectors of the economy has fueled the bullish investor sentiment further.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	8.5%	56.7%
3 Years	17.2%	32.6%
5 Years	14.5%	27.1%
Since Inception (1-Mar-12)	13.3%	25.4%

***Figures are annualised, are as of 30th November 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 significant 'ahead of expectation' performance by the BJP in the state elections of Rajasthan, Madhya Pradesh and Chhattisgarh, has given a sense of inevitability of a BJP win in the Union elections, which are just six months away. The fears of a surprise result not favouring the incumbent party have largely dissipated. It is evident that the electoral winds are blowing strongly in favour of the BJP and are unlikely to change direction in the near future. This provides a sense of continuity to the reform and economic agenda that has propelled the market over the last few years. The sectors that have gained the most from recent structural policy changes, such as infrastructure, capital goods, power, and manufacturing (with the plethora of PLI schemes), should continue to find favour with investors. The wins in these states will also strengthen the BJP's position in the Rajya Sabha next year, and enable them to pass legislation more easily.

Foreign Portfolio Investor (FPIs) share of investment in Indian equities, post all the selling they have done over the past few years, now stands at a decadal low of 16%, down from levels of 21%+ a few years ago. Ever since FPIs were allowed access to the Indian markets in the early 1990s, they have always been the prime movers of our market, in either direction. However, this time we find their selling has been absorbed fully by domestic investors, and notwithstanding this selling, our markets are trading at historic highs. This augurs extremely positively for us, as we are already witnessing in November what can happen when both FPIs, as well as domestic investors, turn buyers. With the interest rate cycle in the US expected to start reversing by the middle of next year, and the US dollar expected to stabilise, we see FPIs turning into structural buyers of Indian equities once again, which should provide an additional tailwind to the market. FPIs have pumped in over Rs. 14,000 cr into our debt market last month, a sign of what is to come ahead of India's inclusion into the JP Morgan Global Bond Index from April next year. We strongly believe that there are a significant number of 'fence-sitter' FPIs who are waiting for valuations to somehow become more attractive so that they can enter our market; who will be forced to 'throw in the towel' and buy in the coming period.

The festive season demand this year has been extremely robust. Even a sector like two-wheelers, which has been subdued for many years, recorded a robust 21% growth over the last festive season, suggesting that demand even at the lower end is now returning. Signs of a revival in rural demand are also there, which all in all, suggests that the stress in the lower levels of society may be finally easing, helped by the softening of inflation levels.

So, it does appear to be 'all green lights' for investing in India. However, we cannot lose sight of the global situation. While inflation in the US easing up is a big positive, the slowdown in China continues to be of concern. The meeting between Joe Biden and Xi last month can be seen as a temporary positive for US-China tensions, however, elections in many important geographies like Taiwan and South America and most importantly the US, will keep changing equations and challenging any equilibrium in geopolitics. We view the likely re-election of Donald Trump, toward the end of next year, as one of the significant risks for the entire world and thus for investors.

However, for now, one should play the structural India story to the maximum extent one can with a multiyear horizon, possibly with a decadal horizon. Where we might be at the end of that period, and the wealth that we may see created, may well be a 'once in a lifetime' opportunity. We continue to find wonderful businesses to invest in, which keeps us completely engaged in what we love doing most.

Thank you for your faith in us.

RC

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