Monthly Letter

December 2022

Invest well. Celebrate life.

We were +0.8% in November vs +4.2% for the Nifty 50 and +3.4% for the NSE 500 (longer-term returns in the table below). The current market rally is narrow in nature with approximately 15 index stocks making up the bulk of market gains. In these times, given our exposure to the broader market, we tend to lag the Nifty. However, we believe that our holdings will do well going forward, given that the businesses are in a growth mode, and the headwind of elevated raw material prices is moderating. A telling data point on the lack of retail participation in this rally is that this time around new opening of demat accounts is down as much as 40% versus the opening of demat accounts witnessed a year ago when the market hit these levels for the first time. This explains the narrow nature of the current up move, and while there are signs of the rally broadening in early December, unless this changes, the sustainability of this up move may come into question.

Returns*	NIFTY50	Prodigy Growth Strategy
1 Year	10.5%	-5.0%
3 Years	15.9%	25.3%
5 Years	12.9%	13.8%
Since Inception (1-Mar-12)	12.2%	22.5%

***Figures are annualised, are as of 30th November 2022, 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 Time-Weighted Rate of Return method.**

The worst of inflationary pressure witnessed through this calendar year, on business performance seems to be behind us now. Raw material and energy prices have been moderating over the last few months and in many cases, the correction has been substantial. Logistics costs, supply chain bottlenecks, and chip shortages that plagued many sectors have also eased up considerably. The fiscal year 2023 second-quarter earnings of corporate India have borne the worst of this pressure, as high-cost inventories worked their way through the profit and loss account. We see margins recovering over the second half of the year, which augers well for many stocks that we hold. Secondly, this should also mean that the interest rate hike cycle of both the US Fed as well the RBI may begin to level off in the months ahead and help rate-sensitive sectors (such as financials, auto, and real estate), as well as consumer demand, to recover. The recent strength of the US job market does not seem to have deterred the market from its belief that the Fed tightening cycle is likely to moderate.

As the February Union Budget for 2023/24 approaches, the narrative on rationalising the Capital Gains Tax structure for equity investments, and bringing the same more in line with that of other asset classes, has gained currency. Equity investments carry a lower tax rate and a shorter holding period (1 year) in order to be classified as long-term gains as compared to either debt (3 years) or real estate (2 years). The short-term tax rates are also lower versus other asset classes at 15% (without surcharge and cess), as compared to other asset classes. This was done in order to encourage retail participation in equity markets, which has been historically a very

Invest well. Celebrate life.

small part of the savings pie in India. Were this to transpire, it would be a strong negative for the performance of the market in 2023, especially if the change in holding period for classification as long-term gains were to be significantly increased, or if short-term gains were to be taxed at the maximum marginal rate (the maximum marginal rate itself is now very high at over 42% with cess and surcharge, as compared to 17% at the moment, for short term equity gains). Retail participation in equity markets, post covid, has seen a watershed change for the better and this would definitely dampen the trend. India remains a capital-scarce country, on the cusp of an economic take-off, and hopefully, this will be considered, before any changes are introduced. Pre-Budget we see the market turning hesitant out of fear of this narrative from the Government becoming a reality.

With our market at an all-time high, India has outperformed all other major world markets this year by a significant margin (Nifty is up 10% in CY2022 to date versus the Dow Jones -15% and Hang Seng -16.3%). This has made our market appear relatively expensive in terms of valuations as compared to other major markets (MSCI India valuations relative to EMs are currently at all-time highs). China on the other hand has seen a huge fall and appears cheap on all valuation parameters. With China rethinking its 'zero covid policy', this sets up a tactical trade for overseas investors, who may divert funds to China in the short run. This poses a risk to the current rally, given its narrow nature. While FPI flows into India have been robust in November, one needs to monitor the same going forward.

The 'India Story' that we keep alluding to in all our Monthly Letters continues to gain traction. Tax collections remain buoyant, which allows for fiscal consolidation to continue in the upcoming Union Budget. High-frequency economic indicators are all strong, except for exports, which indicates that the economy is on a strong wicket. Overseas recessionary headwinds are the biggest negative, and this may continue for some time still.

Thus we believe that the short term carries some risks and demands caution, however, we remain steadfastly upbeat on the long-term potential for our market.

Thank you for your support

RC

Disclaimer: This report is for the personal information of the authorized recipient and does not construe to be any advice to you. Prodigy Investment Management is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your information and should not be reproduced or redistributed to any other person in any form.

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