Monthly Letter

October 2021

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were +0.7% for the month of September 2021 versus +2.5% for the NIFTY50 and +3.4% for the S&P NIFTY500. Given the substantial run-up in our holdings in the preceding months, a consolidation phase may have set in for our holdings, which is not surprising. Sectors which were highly affected by the pandemic are the ones that are now rallying as the fears of a third wave recede and vaccination levels rise. To us, the more important statistic is what our long-term return, post fees, has been since March 2012, wherein our portfolios have gone up 9.6x versus 3.3x for the NIFTY50 (CAGR 26.2% vs 13.1% for the NIFTY50). This is a validation for us that our process of 'Reverse Research' works well through diverse market phases. For those who have opted in for a quarterly pay-out, we have returned 5% of corpus for a second consecutive quarter.

The question we get asked almost twice a day at the moment is whether or not our market is going to crash. This is natural given the rising bond yields in the US due to the high inflation levels, Fed action on tapering bond-buying, elevated commodity and freight levels on one side and the Evergrande debacle on the other (which may portend to a slowdown in China), alongside all of this there is a substantial rally that we have already witnessed. The Indian market has been one of the best performing markets globally this year and the worry is how this outperformance is likely to sustain. In our view, these factors are likely to create volatility and consolidation at the current index levels, but we are unlikely to see what can be termed as a crash. We should be ready for a period of low returns if these factors cause a big correction in global markets, but in our view, India is a 'buy on the dips' market, and a deeper correction will be cushioned by fresh global and domestic inflows. Worries also extend to RBI paring liquidity domestically as the economic recovery has now gathered sufficient strength.

Indeed, the concerns about the sustainability of the market in this milieu are real, especially as the rally has resulted in our valuations reaching levels that appear stretched. However, notwithstanding the above concerns, we believe that our market remains one in which we can still see double-digit returns over the coming years if we have the stomach to ride out the volatility ahead. The returns are likely to be better than other investment avenues available to us. However, to realise the same, one will need to keep expectations realistic and necessarily be invested for the long term (minimum 3 to 5 years).

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India may have entered a new growth phase in the post-pandemic era. We see signs of a positive spiral having set in. We have said in many of our earlier monthly letters that the cumulative benefit of past and recent structural reforms should now propel our economy into a higher growth trajectory. In the past, the benefits were truncated due to various scams and now most recently, the pandemic. Furthermore, at a global level, India's attractiveness has been enhanced by the recent developments in China, the new PLI Government schemes, as well as certain Government actions to improve India's image for foreign investors. We are witnessing sustained foreign fund inflows, in both debt and equity, notwithstanding the expectations of the impending US Fed tightening ahead. Domestic investors appear to be ready to provide growth capital to the economy, a big shift from the past. The domestic capex cycle is seeing early signs of recovery as post-pandemic demand is quite robust. These factors give us reason to believe that the market may correct but not crash and that we are in a 'buy on the dips' phase as new money waits on the sidelines to enter.

Many things may go wrong in the above scenario (as has in the past), but we need to see things as they appear at the moment and tackle new inputs, good and bad, as they transpire. One of the reasons we have done well is that we have managed to participate in businesses that are benefiting from the structural changes engendered by the pandemic (such as the acceleration of digitisation) as well as from disruptive change (such as the shift to EVs). We believe many more such opportunities will appear going forward (as one did with the listing of Zomato), and therefore we remain optimistic about the future of our markets, along with the availability of new opportunities to profit from. We believe one should thus remain invested for the long term, through the volatility ahead.

Thank you for your support always.

RC

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