Monthly Letter

February 2025

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

We were -13.9% vs -0.45% for the NIFTY50 TRI in January. Persistent and intense selling by FPIs, combined with no signs of a recovery from the slowdown in urban demand as well as private sector capital investment, both of which were expected to recover in quarter three of this fiscal year, pushed the broader market over a cliff, as valuations suddenly seemed just too pricey. FPIs managed to turn a positive spiral into a negative one with the sheer force of their selling. In this fall the cyclical sectors bore the brunt and at some point, the selling became indiscriminate, as collateral damage kicked in. However, most of the excesses in the system have been cleared out. As sanity returns and the earnings season separates the wheat from the chaff, that is the businesses that are still able to execute and deliver, we believe many of our holdings will recover meaningfully.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	9.6%	9.1%
3 Years	12.0%	18.2%
5 Years	15.8%	27.0%
Since Inception (1-Mar-12)	13.5%	24.1%

***Figures are annualised, are as of 31st January 2025, 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 believe this is a deep correction, and possibly the culmination of the four months of fall that started in September 2024, and not the beginning of a new bear market. This remains a buy on the dips market, especially given the levels we are now at. The India story remains the same and post the Union Budget of 2025, it has strengthened, as the Budget for the first time ever had nothing negative, and in fact, has many positives, especially in the context of how other countries the world over are managing their finances. Indeed, we can feel proud of the path of fiscal rectitude and the control over non-productive expenditure this budget has taken, while simultaneously addressing the slowdown in urban demand with the munificent cut in personal income taxes. While the ongoing slowdown is of concern, especially given the global situation with the volatility the Trump administration is unleashing. However, with a projected growth of 6.5% in GDP in fiscal 2025-26, and with a government attuned to and ready to respond to the on-ground happenings, we remain upbeat about the multitude of opportunities that our market offers and see the glass as half full.

While we feel most of the price correction has taken place, we may be in for a time-wise correction wherein the market consolidates, especially if the global news flows continue to remain negative. However, once the bulk of the fall in the rupee concludes, we see FPIs returning in droves as this remains the best managed and fastest growing large economy in the world today. Where we have erred is that in hindsight, we did not take our exits when our gains were significant, and did not believe that the correction could be as deep as transpired once it got triggered. We are reassessing our processes to build in stronger guardrails to try and capture gains better going forward.

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In the context of the current drawdown, we want to bring to your attention the option of taking our 'payout 'stream, wherein we return, on a quarterly basis up to 1/3rd of the profits realised in the previous quarter. This allows you to pay taxes as well as enjoy the gains in the context of our core tenet, 'Invest Well, Celebrate Life'. We say this because it is better to take some money off the table as it is generated, as we can never properly predict when the next deep correction or bear market may be around the corner. To give further context to how well this works, let me give you actual data from the last 5 years of a portfolio that is in this mode. This Rs 203 lakh portfolio from September 2020, has received a total payout of Rs 153 lakhs (75% plus in total of opening corpus) in the last 5 years and is post payout valued at Rs 329 lakhs (~162% of opening corpus) in January 2025, These are actual figures. We have made a payout in 15 profitable quarters out of 19 quarters gone by. Thus, when a fall like the one we witnessed in January happens, the bulk of the gains are already realized. In fact, it is at times like these that we can ask the client to re-introduce a part of the amount paid out, back into the portfolio. If corrections, like the one we are in currently, make you uncomfortable, please consider this option. We have been paying out profits since 2012, and in the process, many accounts of this vintage have been returned capital many times over.

I would also like to add, that we are trend followers. We want to run ideas in the portfolio for as long as possible till we feel the trend is over. Sometimes, we overstay and this results in experiencing a month like January. Maybe we need to get better at leaving the party a little earlier. However, we do not believe the structural mother-trend is over, but that it is a mid-course correction and a reality check. Yes, there is much that still needs to happen and to be done, but the deep change that will carry us from where we are to where we can be as a nation is in progress, and we should continue to let it unfold as co-actors.

Thank you for your faith in us.

RC

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