Monthly Letter

February 2024

Invest well. Celebrate life.

We were +2.92% in January 2024 vs +0.02% for the NIFTY50 TRI. On a rolling twelve-month basis, we were +67.4% vs +24.3% for the NIFTY50 TRI (all returns based on SEBI-mandated TWRR basis). The performance was impacted by a few earnings releases in our stocks for Q3FY24, which came in below expectations, for reasons ranging from delays in deal closures (in technology and export-oriented businesses) to the disruption in supply chains due to the escalation in the conflict around the Red Sea. FPIs also turned sellers to a significant extent (INR ~20k cr approximately in equities) as yields in the US hardened once again. Consequently, profit booking in the Indian market became the narrative, on concerns of relative valuations.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	24.3%	67.4%
3 Years	18.2%	32.1%
5 Years	16.3%	27.9%
Since Inception (1-Mar-12)	13.8%	25.4%

*Figures are annualised, are as of 31st January 2024, 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 Interim Budget presented on 1st February was completely devoid of freebies, reflecting the confidence of the incumbent ruling party in its political capital for the upcoming Union Election; most notably it is high on fiscal responsibility (fiscal glide path reinforced from 5.8% in FY 23-24 to 5.1% in FY 24-25 and further to 4.5% in FY 25-26). In an era where globally, fiscal responsibility has been jettisoned in the developed world, in favour of unbridled stimulus; India's stance on fiscal probity is remarkable. This is the most important aspect of the Budget. This allows all other good things to follow, such as crowding in of private investment, as the pressure on interest rates eases with lower government borrowing to fund its fiscal deficit. Lower interest rates once again would be the cornerstone for private consumption to rise and for equities to appear more attractive than other investment alternatives. The second aspect of the Interim Budget which was noteworthy was the Budget math; which seemed to suggest that the revenue growth assumptions were conservative and that there was scope for the same to exceed targets. Policy stability was another important aspect. The Budget thus stoked the feel-good sentiment already prevalent in the market. Possibly the only area that the Budget did not deliver on, was sufficient stimulus to boost consumption demand, by way of putting more disposable income into the hands of consumers.

The India story continues to strengthen. High-frequency indicators all suggest that the economy is growing, though the post-COVID strength has eased a bit as pent-up demand has played through. The rural economy remains the Achilles heel, and some green shoots of recovery are visible as per some management commentary in the latest quarter of earnings releases. FPI bond buying last month touched INR ~17k cr, offsetting the sales on the equities side. With the inclusion dates for Indian bonds into the J.P. Morgan global bond Index coming closer, this number is likely to strengthen. The focus on fiscal consolidation, as discussed above, is also likely to give this further impetus. We see the Indian rupee likely to reflect more stability on the back of this. All these aspects will keep our market in 'buy-on-the-dips' mode with ample domestic and global funds waiting for entry points to jump in. We see FPIs turning buyers in Indian equities once again after a brief hiatus, once yields in the US begin to soften again. Valuations while elevated, are not anywhere in 'bubble' territory, and we see the same sustaining should the Union elections go as anticipated. In fact, post-election, government spending will give a fresh fillip to the growth momentum.

There are a few performing sectors, such as PSUs and Realty, where we can see the rally but find it tough to participate as our history with these sectors keeps us concerned about governance issues. We have no edge here. We hope to make up for missing the same through our other investments. The apparent spread of tensions in the Middle East, as it appears to be transpiring, is the major concern at the moment, and predicting how it plays out would be guesswork.

Our view remains to stay invested through the volatility arising from geo-political issues, as this indeed appears to be an era of accelerated development for India. Keep expectations reasonable, as we have already seen portfolios double over the last few years; keep asset allocation as per your risk profile, and let the story unfold. Patience will be rewarded.

Warm regards.

RC

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