

Monthly Letter

February 2023



Invest well. Celebrate life.

We were -1.1% for January versus -2.4% for the Nifty 50. As one is aware, the latter part of the month of January was overtaken by the developments of Hindenburg's report on the Adani group, which added to the elevated volatility the month was already witnessing. In this milieu, we believe our portfolio did reasonably well relative to the market.

Returns*	NIFTY50	Prodigy Growth Strategy
1 Year	1.9%	-9.5%
3 Years	13.9%	21.9%
5 Years	9.9%	12.5%
Since Inception (1-Mar-12)	11.4%	22.1%

*Figures are annualised, are as of 31st January 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 Time-Weighted Rate of Return method.

We have never invested in any of the multitudes of listed entities of the Adani group. We might even add that we have never been mildly tempted to do so, notwithstanding the fact that the scrips of this group have performed especially well over the last few years. We also don't think that this is anything special, as all of the more thinking sections of the market knew all along that there were just too many red flags and serious questions that remained unanswered about the group and the modus operandi surrounding its meteoric rise. While the precipitous drop in the price of the shares of this group did initially cause a huge fall across the banking sector, which has a lending exposure to them, we believe that going forward the destiny of the market (and India!) and this group will increasingly diverge.

The Union Budget for the financial year 2023-24, delivered on 1st February, was good on more than a few counts and has set up the economy for sustained growth in the years ahead. Especially interesting was the lack of populist give-aways in a pre-election year (good control on allocation to subsidies and revenue expenditure); the fiscal discipline as reflected in the deficit of 5.9%, which should keep government borrowing in control and help crowd in private investment; the thrust on capital expenditure, with allocation here rising by a third over the previous year, with a special focus on railways and roads (which should create a multiplier effect for further investments from the private sector and help ignite the animal spirits in the economy). Most importantly one would believe that the Budget math, was set up in an 'under promise and over deliver' intent, which made it extremely credible. From our perspective, the finance minister did not change the capital gains structure for equity investing, which was a big relief. Also, the cut in effective direct tax rates creates an important tailwind for consumption, which has been flagging.

Monthly Letter

February 2023



Invest well. Celebrate life.

The current earnings season largely confirms the continuing strength of the economy. While a few spaces like consumer products and two-wheelers have seen some drop in demand, post-festive season due to a sluggish rural economy and high inflation; we believe this will reverse going forward, as inflation appears to have peaked, and thus interest rates too should ease up as the year progresses. The cooling in commodity prices is finally reflected in improving margins, as the high-cost inventory pass-through has largely transpired in Q2 and early Q3. The significant correction in international freight rates has also provided an impetus to margins.

Overall, the earnings declared so far corroborate the strong tailwinds in domestic facing businesses, especially in industrial and capital goods sectors. As mentioned earlier, the topping out of inflation and interest rates augurs well for the demand side as well as for margins from the supply side.

We had mentioned in our earlier Monthly Letter that with China opening up and with their valuations at rock bottom versus our valuations, there was a high possibility that FPIs would rotate funds out from India towards China. This is what transpired in January, and was one of the main reasons for India's underperformance relative to other markets. This is still the factor at play in February, with even further outflows arising from the Adani debacle. We need to watch for when this subsides to see a revival in our market.

We remain steadfastly upbeat on the opportunity available to equity investors in India. While the near term may be a bit cloudy, we believe the medium to long term is bright. Already a lot of excesses have been squeezed out of the market and falling inflation is a big positive. We are finding a slew of new opportunities and are participating to the extent liquidity allows us to in individual stocks. Thus, you may find the number of holdings has risen in the portfolio. This is because we will always buy only as much as we can easily exit, and thus we rather take small allocations in good ideas, than miss out completely. Also, this allows us to manage risk better.

We feel confident about the year ahead, and happy to work hard at doing well for you!

Warm regards

RC

Disclaimer: This report is for the personal information of the authorized recipient and does not constitute 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, Nagindas Master Road, Kala Ghoda, Fort, Mumbai – 400 001. India Tel: +91 22 22875801