

Monthly Letter

March 2025



Invest well. Celebrate life.

We were -13.5% for February vs -5.8% for the NIFTY50 TRI. The one-way fall that began in January continued unabated, with new negative developments coming into force during the month. FPI selling, which has been the main factor driving this fall since October 2024, became even more pronounced following the release of DeepSeek. As a result of this technological breakthrough from China, the rotation of funds from India to China accelerated further. FPIs concluded that China was presently more investable than India, as it had proved its technological capabilities and was a much cheaper market. This, along with the continuing policy uncertainty from the Trump administration, the earnings downgrades in Q3, and expensive valuations, all came together to create one of the sharpest corrections in the last many years. It has been a perfect storm. As of date, we have moved to approximately 22% cash in the portfolio; at this point, it would appear that the market is likely to remain under pressure until the factors mentioned above begin to ease up.

Returns*	Prodigy Growth Strategy	NIFTY 50 TRI
1 Year	-6.3%	1.9%
3 Years	15.9%	10.9%
5 Years	23.2%	16.0%
Since Inception (1-Mar-12)	22.5%	12.9%

*Figures are annualised, are as of 28th February 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.

While global factors have been the main reason behind the fall in our market, the weakness in both, government expenditure and consumption demand have also played a role in hurting investor sentiment. We believe the India growth story has been pushed back by a few quarters but remains intact. There are signs of a demand pick up in quarter three of this fiscal year based on high-frequency indicators like GST collections, air traffic volumes, steel and auto sales data, and GDP growth improving to 6.5% in Q3 from 5.6% in Q2. This recovery is expected to continue into Q4 as Government spending is also reviving. The income tax benefits dispensed in the Union Budget will come into play from April onwards, and will play a role in improving demand momentum in the coming months. The RBI also cut interest rates in the last Monetary Policy after a period of five years, as inflation data has been consistently positive. The RBI is also taking policy measures to pump liquidity into the financial system to help stimulate credit demand. It recently also cut risk weightages for improving lending to NBFCs. All these factors may take time to feed into corporate earnings, which is the most important factor that will help the market to revive. India's fiscal prudence and control over government borrowings and solid GDP growth rates, stand out in a world where these factors have been on the wane for many years. FPIs, whose percentage holding in Indian stocks is now at a 13-year low of 17%, should have a diminishing impact on our market. However, we must accept that the issues that FPIs contend with reduce the attractiveness of our market, of late, the rupee depreciation over the last couple of months is another reason for FPIs to stay away and they will likely

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do so until stability emerges in our exchange rate. All things considered, India remains one of the most attractive large markets in the longer term, and once our valuations return to a level where the risk-reward is favourable FPI buying should re-emerge (the 1-year forward price-earnings ratio of the NIFTY50, has now regressed to its long-term average of 18x forward, indicating that valuation comfort is emerging).

As the US proceeds to levy a 25% tariff on Mexico and Canada, and an additional 10% on China, the US market itself is beginning to show signs of jitters, pricing in the potentially higher inflation readings in the months to come, driven by Trump's tariffs and immigration policies. Higher tariffs will most likely prove to be a 'lose-lose' situation for all. This can result in a slowdown in the US economy as well as inflation spiking, creating a classic stagflation scenario. This would mean higher interest rates from the US Fed for longer. Given the US market's lofty valuation at the moment, this factor leads one to believe that a notable correction in the US market somewhere in 2025 is a real possibility. China has also staked a global claim as a real centre of innovation, at a significantly lower cost, with its success in EVs, Artificial Intelligence and now Biotech. The political and economic actions of the US towards its oldest and strongest allies, along with overtures towards Russia, are reshaping the world order and making the world more unstable. Thus, there are more and more moving parts coming into the equation on a daily basis, and making predictions on how things will play out is exceptionally tough.

Having sold the holdings that we were not comfortable with post Q3 earnings season, we now plan to hold onto what we have. Cash will be re-deployed only when we feel the storm has indeed passed. At a minimum, FPI selling needs to abate. Bottom fishing is not really our style, and beyond a point is a dangerous thing to do. We have weathered many such situations over the 20 years we have run Prodigy, and this will also be one from which we emerge wiser and stronger.

Thank you for your faith in us.

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