Monthly Letter

May 2021

prodigy INVESTMENT MANAGEMENT

Invest well. Celebrate life.

For the month of April, we were +5.5% vs -0.4% for the NIFTY. On a twelve-month rolling basis, we were +77.4% vs +48.4% for the NIFTY. Since 2012, we are +24% CAGR vs +11.5% CAGR for the NIFTY.

Returns*	**NIFTY**	**Prodigy Growth Strategy**	**NIFTY 500**
1 Month	-0.4%	5.5%	0.4%
1 Year	48.4%	77.4%	54.3%
5 Years	13.1%	21.8%	13.2%
Since Inception (1-Mar-12)	11.5%	24.0%	12.2%

*All figures except 1-month returns are annualised, are as of 30th April 2021 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 Time-Weighted Rate of Return method for our Discretionary PMS which commenced from 1st March 2012.

While markets have been resilient in spite of the second wave, the real concern however, remains the rapid spread of the second wave of Covid-19 (one state after the other) due to the incredibly infectious Indian mutant strain.

As the virus rages through our country, and with our healthcare system creaking, we can only pray that things will get better soon. The lack of sufficient medical infrastructure and oxygen has resulted in the most terrible scenes of patients dying. Indeed, it has been the worst period for India in living memory. No one is untouched by the unfolding tragedy and in a sense discussing markets and returns at this point in time, when such a huge section of our fellow countrymen are reeling under the crisis, feels a little less important.

In our last letter, we had discussed that the ability to roll out the vaccination program posthaste, would be critical to containing the spread. This would have imparted confidence to the country and to all types of investors, especially given how other countries with a strong vaccination program have emerged out of the crisis. Currently, the vaccination program is progressing significantly slower than necessary, and it is only now that various measures are being instituted to get the program to where it should have been months ago. This will be critical to prevent any third wave in the latter part of 2021. Along with this, it should help in imparting confidence that the economic recovery after the second wave would be more sustainable.

The robust economic recovery witnessed till early March, has been stymied by the new lockdowns and loss of confidence due to the Covid tsunami. GST collections for the month of April hit a new high of INR1.41 trillion, a growth of 14% MoM (we cannot compare YoY figures due to last year's lockdown), indicating that the economy had recovered well. How quickly this wave can be contained will determine how fast the economy can get back on the growth track. This time markets are unlikely to correct as they did during the first wave as the lockdowns are not as harsh or synchronous, and market participants have a seasoned understanding as to how things may pan out post the peak of this wave.

Maharashtra, which was the first to experience the second wave, now appears to have passed its peak after 5 to 6 weeks of the same, and if that is the time frame in which the wave peaks, then other badly affected states could also peak out the same way. This would indicate a passing of the peak by the end of May to mid-June. This holds out hope for investors that markets could recover once there is a sense that the worst is behind us.

World markets have been extremely buoyant in recent months, especially the US markets on the back of their strong economic recovery and spending programs. However, the possible hardening of rates in the US continues to be the main bugbear. Given the stupendous rise of the US markets, this can engender a reasonably large correction. Reversion to the mean is a reality for them. This can bring in a lot of volatility for us as well. However, we also believe that emerging markets are due for a period of outperformance vs the developed markets in the years ahead, which should help us emerge from this possible volatility and continue our upward path.

We have managed to outperform due to our defensive stance from early in the second wave. Furthermore, our focus on the broader market has helped. We believe economy-sensitive stocks will recover as each state passes through its own peak and confidence returns with Covid numbers gradually reducing. We will revisit allocating to this space (economy-sensitive stocks) as this happens. Our significant allocations at the moment are to Technology and Digital Businesses and, to an extent, Pharmaceuticals. Notwithstanding the current situation, we steadfastly believe that our market is in a strong secular uptrend. The current problems could delay the rally but not deny it. And therefore, we believe one may take the current volatility as an opportunity to add to one's corpus, with a long-term horizon in mind. Many of the new listings over the last two years have given us a chance to participate in businesses that are new-age and did not exist a decade ago. A big part of our return has come from our investing here, for example, in the likes of Affle, IndiaMart and Route Mobile. We continue to see a pipeline of opportunity here, and we are enjoying the challenge of understanding these new-age sectors and participating in the same.

We hope you and your family are all safe in these turbulent times.

Best wishes and warm regards.

RC

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