Monthly Letter

November 2023

Invest well. Celebrate life.

We were -0.4% for October vs -2.7% for the NIFTY50 TRI. On a one-year rolling basis we are +41.5% vs +7.0 for the NIFTY50 TRI (all returns based on SEBI-based TWRR basis). The month of October was a very volatile month induced by factors which include the rising strength of the US dollar, and the uncomfortably high yield on the US 10-year T-bill but primarily by the sudden outbreak of war in the Middle East. With this context, we feel our portfolio has done well, primarily because our holdings have delivered on the anticipated earnings growth and retain visibility of the same notwithstanding the geopolitical developments. Of course, if the conflagration escalates from here, which now appears unlikely, and crude prices reflect a sentiment that it probably will not, then we will have to rethink our positioning. This development has added yet another new dimension to global complexities that have come to define the era we are living in; from COVID-19 to the Ukraine war; to rampant inflation and rate hikes; and now to this.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	7.0%	41.5%
3 Years	19.3%	30.1%
5 Years	14.3%	24.1%
Since Inception (1-Mar-12)	12.8%	24.4%

*Figures are annualised, are as of 31st October 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 TWRR method.

While we have a large allocation collectively to small-cap scrips, to us they are each a business and a cash flow stream to be evaluated and understood, rather than one broad group or sector, called 'small cap'. Risk management here is critical indeed, especially in terms of liquidity which on the way up is completely different than on the way down. Thus, we put special emphasis on keeping each position within a pre-defined limit, determined by the liquidity of the scrip, and prefer to stay 'underbought' in it, no matter how positive we feel about it otherwise. We also plan to distribute a higher percentage of gains every quarter, while we hold this positioning, to mitigate the risk of unexpected drawdowns. Volatility, the most commonly defined way to look at risk in modern finance, is not the way we look at risk. We believe that what Warren Buffet said about risk is correct, which is not understanding what you own and the probability of permanent capital loss.

Through all the news flows and geopolitical developments, the 'India story' remains intact. In fact, if anything, India's neutral geopolitical stance is increasingly helping it to be seen as the best place to invest in over the coming decade. As long as we continue to do what is right to attract foreign capital, most corrections, like the one we are experiencing currently, will be sharp, swift and an opportunity for money waiting on the sidelines to enter. The high-frequency economic indicators like Auto sales, GST collections, etc, remain robust and even the RBI Governor in a recent interaction mentioned that Q2 GDP growth is likely to surprise on the upside. Domestic flows into capital markets remain resilient in the face of the recent market correction and adverse news flows, which is signalling the new confidence Indians have in their own market for the first time. The ongoing earnings season has been largely better than expected and this should see earnings upgrades for the market, and help it recover.

The biggest risk to the market is the outcome of the Union Elections in 2024. This is a tail risk; one with a very small probability of occurrence, but with a disproportionate impact. While nothing at this point in time would suggest anything other than the incumbent government being re-elected, yet we should be alive to and accept the possibility of an unexpected outcome, however small that possibility may be, because that would be the best way to bet on this event. While some believe the upcoming state-level elections may be a harbinger of some sort, we believe that the Indian electorate is now quite mature in being able to separate the issues to vote on a state versus a central election. The possible election towards the end of 2024, of Donald Trump as US President, with his protectionist agenda, would be the next thing to worry about, but the event is still some time away.

On the positive side, inflation does appear to be stabilising globally, and interest rates in the US may not harden more than expected. This is helping interest rates in the US to soften from the elevated levels of 5% that had been breached after more than a decade and helping sentiment towards equity markets to improve.

To sum up, we should be ready for volatility, but stay invested for the long term. It’s probably never been a better time than now to be an investor in India.

Thank you for being on this journey with us.

RC

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