Monthly Letter

January 2025

Invest well. Celebrate life.

We were +3.9% in December vs -2.0% for the NIFTY50 TRI. For the calendar year ended 2024, we were +30.4% vs +10.1% for the NIFTY50 TRI. These outcomes are purely due to our focus on our process of 'Reverse Research' and risk management. In fact, we have had to let go of many wonderful ideas, simply because they did not fit into our framework of adequate liquidity from a risk management perspective or were just too difficult to execute an entry into, due to the same reason. Notwithstanding this, fortunately, the Indian market has a lot of opportunity for those of us who are bottom-up focused, and at the same time understand top-down factors, and accommodate for the same. We still see a lot of opportunity in unique and globally competitive businesses that have recently listed, due to the vibrancy of the IPO market over the past few years. We feel upbeat about the year ahead, albeit with a healthy dose of caution, given the many global uncertainties in the extant environment.

Returns*	Prodigy Growth Strategy	NIFTY50 TRI
1 Year	30.4%	10.1%
3 Years	23.3%	12.2%
5 Years	31.9%	15.5%
Since Inception (1-Mar-12)	25.7%	13.6%

***Figures are annualised, are as of 31st December 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 Indian rupee which had been reasonably steady for the last two years, till the Trump victory in November 2024, notwithstanding the heavy outflows from FII selling in the secondary market through 2024; saw an accelerated weakening towards the second half of December, ending at levels well over Rs. 85 to the USD. While the sustained selling in the public market by FIIs has contributed to the public market weakness in the last few months, FIIs have been major buyers in the primary market in the form of IPOs and QIPs (Qualified Institutional Placements). For the year 2024, FIIs sold equity worth Rs. 121,120cr and bought 121,637cr, meaning they were net buyers for the year, contrary to popular belief. Thus, while foreigners may baulk at the valuations in the listed space, one can infer that the long term India story still its retains its appeal abroad.

The US Fed's hawkish statements in mid-December, wherein it revised its inflation outlook for 2025 upwards, and hinted at fewer interest rate reductions in 2025, than the market had factored in, resulted in all markets falling sharply. This revised outlook of a tighter interest rate regime going forward saw the Dollar Index strengthening to two-year highs of 109, and all emerging market currencies taking a hit. This also resulted in a further withdrawal of foreign funds from emerging markets, including ours. A falling rupee is a very big negative for the Indian market and economy. It makes us look less attractive as an investment destination. The weakening rupee also feeds into inflation given the current account deficit and the need to import a bulk of our crude oil needs. Thus, until the currency stabilises, we

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see our market remaining under pressure. The strength of the US economy and a focus on the impending 'Trumponomic 'policies, which are inherently inflationary in nature, have driven the US Fed to take this stance.

The expectation is that the Indian economy will pick up after the weak quarter 2 growth data of 5.2%. However, the high-frequency data and commentary from the corporate sector is mixed, as to whether this is transpiring or not, so far. In our last Monthly Letter, we covered the factors that should help the recovery. We will see further evidence of whether or not this is happening in the quarter 3 earnings season which is starting now. We sense that the economic recovery may be delayed, but should recover on the back of renewed Government spending for the balance of this year. The RBI still believes that the economy will grow by around 6.7% for this fiscal year. Hopefully, this slowdown will also encourage the Government to push forward with a more aggressive reform agenda in the upcoming Union Budget in February.

There is an expectation that the underperforming segments of the market over the last few years are those which will perform the best in 2025. It appears logical, and every 'talking head 'on the business channels recommends the large caps and banking sector as the ones to invest in for this year. Indeed, on a relative basis, their valuations now appear attractive as these have not participated in market returns over the past few years. However, these are the very spaces where the FII holdings are the largest and as long as the FIIs remain sellers, these sectors will continue to underperform. We prefer to focus on unique high-growth businesses, which have an outlook robust enough to weather the headwinds the economy is facing. This is what has worked for us, and we see no reason to change the playbook as of now. We will flex when we need to, but not without adequate data that we should. We are aware we hold more positions than we have ever done in the past, however, this is what the current times demand as the opportunity is in the small and mid-cap space, and for the sake of risk management, we prefer smaller individual allocations that we can exit relatively easily, no matter how positive we are about them today. Stock liquidity ultimately determines the position size for us.

When we are asked how we see the year ahead, we prefer to say that we are upbeat, as mentioned earlier, but in the end, we will act as the moment demands, whatever that may be.

Thank you for your enduring support, and happy new year!

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