Monthly Letter

September 2023

Prodigy Investment Management

Invest well. Celebrate life.

We were +9.1% in August vs -2.3% for the NIFTY50 TRI. This is our widest outperformance ever in any given month. We are happy that our investment processes have once again delivered a stellar outcome; a vindication of our 'Reverse Research' methodology. In this rally we have been holding over forty positions; significantly higher than our usual level of diversification, in order to mitigate risk to the maximum extent possible, given that the rally has been largely in the mid and small-cap space. Having delivered these numbers on such a diversified portfolio is satisfying for us, as it means our stock selection has been better than good. We focus on controlling what we can through our processes and letting outcomes occur as they will.

Returns*	NIFTY50 TRI	Prodigy Growth Strategy
1 Year	9.5%	43.7%
3 Years	20.6%	35.0%
5 Years	11.8%	20.6%
Since Inception (1-Mar-12)	13.1%	24.8%

***Figures are annualised, are as of 31st August 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 some headwinds have built up over the month of August, we find that the bull grip on the market has not weakened. If anything, we see sectors that have been relatively dormant, like automobiles, technology and financials, beginning to participate in the rally. Auto despatch numbers for August showed good growth year on year, indicating that the festive season is likely to witness buoyancy in consumer demand. The fact that large economy-sensitive sectors are showing positive momentum suggests that the rally has legs to sustain going forward.

The most significant headwind is the extreme paucity of rains in August, which have tipped the scales for this monsoon season into deficit; from being in excess in July, thus leading to the belief that a weakening of rural consumer demand may now be ahead of us. This has also led to the belief that inflationary pressures may build up once again in food grain prices, as the sowing season has been impacted. All eyes are on September rains now, with the hope that some recovery may occur in these last few weeks of the season, which could reduce this impact. The mitigating factor here is that groundwater levels have built up over the past many years due to abundant monsoon seasons, reservoirs are full, and irrigation levels have also improved meaningfully over the years, which has been reducing farmer dependence on the monsoons over time. Good buffer grain stocks are also a positive.

The US rate hike cycle continues to cast its shadow on world markets. August witnessed the rise of rates in the US, which crimped FPI inflows to Rs 12k cr, after many months of inflows of over ~Rs 40k cr. Though the signs of a 'soft landing' for the US economy appear to be improving, the Fed narrative of holding interest rates 'higher for longer', will keep investors wary of committing to risky assets like emerging markets, however, our markets have done exceedingly well despite this overhang. This is a testament to the growing influence of domestic investor participation.

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Every month we discuss the ebb and flow of FPI funds. However, a larger and more important trend is getting lost in this. This is the structural trend of domestic savings getting increasingly allocated to equity markets, which over time has been diluting the impact of FPI flows in the overall picture. The explosive growth in demat accounts over the last few years (40 million accounts in 2020, to 120 million accounts today), the surge in average daily retail trade volumes (9x in the last 3 years), the sustained strong growth in monthly SIP levels (Rs 3k cr per month in 2016 to Rs 15k cr per month today); all point to this significant trend. India has been chronically short of investment capital to grow, which is why the dependence on FPI and FDI flows has been so high. However, as domestic savings get increasingly diverted into equity assets, India may actually move towards becoming capital surplus in the decades ahead. This will not only result in a structural fall in interest rates, but also result in currency stability, which will help sustain high market valuations. The implications are huge.

As we now start to move into the Union Election year, we expect this factor to support the rally, as the expectation as of now is the continuity of the incumbent government. This will be a watershed event, as always. All we can say is ‘watch this space’ for more discussions in the coming months.

Markets will continue to ‘climb the wall of worry’ which has been the case throughout this year, and headwinds will be duly absorbed, as have all the others. The foundation of this rally is extremely solid, we need to sit through corrections and events that may test our conviction, so that we can ride it with a multi-year horizon.

Thank you for being on this journey with us,

RC

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