The Adani-Hindenburg Saga

Why in news?

Stocks of Adani Group tumbled recently after Hindenburg Research has highlighted financial irregularities in the company.

What is Hindenburg Research?

> *Along with developing more than 3,100 miles of the country's road network, Adani Group is the largest private operator of India's sea and airports, controlling 33% of Indian air cargo traffic and 24% of its shipping capacity.*

- Hindenburg Research is an investment research firm that focuses on analysing accounting irregularities, undisclosed transactions, illegal business or financial reporting practices among others.
- It alleged that Gautam Adani, founder and chairman of the Adani group, has added over $100 billion to his net worth over the last three years, largely through **stock manipulation** and **fraud**.
- The research firm has raised concerns about its **substantial debt**.
- Hindenburg alleged that Adani used **offshore shells** for money laundering and siphoned from listed companies.
- Hindenburg revealed about short positions in Adani companies through bonds and non-Indian-traded derivative instruments.
- As per India's tax and SEBI laws, short selling of domestic stocks outside the country's jurisdiction is illegal unless they are listed on any exchange.
- While Adani bonds are listed on the US exchange, Hindenburg's reference to the '**non-Indian-traded derivatives'** raised the alarm for Indian regulators.

> *Short selling or shorting is a trading strategy based on the expectation that the price of the security will fall.*
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> *In short selling, the trader usually does not own the securities he sells, but merely borrows them.*

What happened aftermath the Hindenburg report?

- The group's stocks and Mr. Adani's personal wealth have taken a plunge after the report.
- The Adani Group has been facing a crisis of confidence as the stocks of most of its

companies have been on the fall.
- Once ranked No. 2 among the world's wealthiest, he has tumbled to No. 21 on the **Bloomberg Billionaires Index**.
- Adani Enterprises decided to call off its Rs 20,000 crore follow-on public offer and return the money that it had collected from investors.

> *An FPO is a process wherein a company that is already publicly listed in the stock market issues additional shares to investors.*
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> *It is made by the company after an Initial Public Offering (IPO).*

- Morgan Stanley Capital International (MSCI), a global index provider for financial markets, announced that it will reduce the free float designations for four Adani Group companies in multiple indices.

> *Free float refers to the proportion of the total outstanding shares of a publicly listed company that is readily available for trading in the market.*
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> *Generally speaking, shares held by promoters and large institutional investors are normally not freely traded in the market.*

What are the impacts this episode on the economy?

- **Capital flow** - MSCI's decision will adversely affect the amount of capital flowing into the Adani stocks as many passive investors invest in the indices that are constructed by bodies such as the MSCI.
- **India's index drop** - Goldman Sachs believes that India's weight in the MSCI's emerging markets index itself could drop by 20-30 basis points following the resultant reduction in weight of Adani stocks.
- **Hit on banks** - The turmoil has not only hammered Adani Group shares but is also hitting banks that have given loans to the companies including the State Bank of India.
- **Investor confidence** - The Adani-related headlines are generating a high level of negative attention, which could dampen investor appetite for Indian stocks.
- **Raising capital** - All this can adversely affect the group's efforts to raise capital from investors, whether it is in the form of equity or debt offerings.
- **Scarcity of shares** - The Indian-listed entities faces scarcity of shares for short sellers to borrow, and they are therefore more expensive.
- **India's growth** - If the slide in asset prices continues and further shakes investor confidence in Adani's empire, that would be a setback for India's growth story at a pivotal time.

References

1. The Hindu|Adani Group stocks, What is Hindenburg Research
2. The Hindu|What made MSCI act on Adani stocks?
3. Economic Times| Adani’s crisis shakes investors’ faith in India

