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.

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



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