Introduction

The allegations over how the Adani group built up his corporate empire made by the Hindenburg Research exposed the nefarious manner in which the Corporate-Communal (*Hindutva*) nexus that has come to rule India since 2014 has been operating. Adani terming the allegations against how his corporate empire was built as an attack against the "Indian Nation", follows the Modi government's justification of banning the BBC documentaries by labelling them as "products of a colonial mindset". By implication both Modi and Adani categorize any exposure of their misdeeds as attack on the 'Indian Nation'. The Modi- Adani alliance which is the core of the Corporate-Communal (Hindutva) alliance is equated with the 'Indian Nation'! Crony capitalism is, thus, justified as being in the interest of the Indian nation. Any questions about how this crony capitalism is looting India's national assets, imposing unbearable miseries on the people by curtailing welfare expenditures (diverted for crony corporate profits), the suppression of all expression of dissent as 'enemies of the nation' leading to the imposition of full-scale authoritarian rule are all termed as 'anti-national'.

From this, it follows that there is no need for any enquiry into the acts of brazen misdeeds, acts of omission and commission on how this nexus and crony capitalism has been operating, including looting thousands of crores of rupees of people's hard-earned savings from nationalized financial institutions like State Bank of India or the Life Insurance Corporation. Modi government refused to constitute a Joint Parliamentary Committee or a Supreme Court monitored High-power enquiry into these allegations in the Parliament.

When Modi government assumed office in 2014, the Adani group had a market capitalization of $7.1 billion according to Forbes. This zoomed to a $ 200 billion by 2022. In the international ranking, Adani was at 609 in 2014 astronomically growing to become the world's second richest corporate by 2022. It operates seven public listed companies and 578 subsidiaries. According to global Energy Monitor, it is the largest developer of coal power plants in the world. It operates 8 airports and 13 sea ports in India and has substantial interests in sectors like coal mining, oil and gas exploration, gas distribution, transmission and distribution of electricity, civil construction and infrastructure, food storage, education, real estate, edible oil, international trade etc.

Over these years, Adani group received the most gracious of terms from the Modi government with the handing over of government land at throw away prices, environmental clearances adversely affecting climate impacts, disbursal of loans from nationalized banks and financial institutions, State help to acquire assets being operated by other corporates and State influence in foreign countries to acquire coal mines, ports etc.

Market regulators ignored the charges of insider trading, round tripping and manipulation which are legally debarred under stock market regulations apart from the operation of offshore funds.

Since the Hindenburg exposures, the Adani empire with a market value of $ 200 billion collapsed by less than half. An FPO (Follow-up Public Offering) had to be scrapped. Its dollar denominated bond offers had to be shelved. Many who had invested in Adani shares have been ruined as a result.

In this background it is necessary to try and understand how this Corporate-Communal nexus is operating and the manner in which the Indian state is grossly misused to promote such crony capitalism in order to meet the challenges and dangers ahead. This booklet is an effort in this direction.

Sitaram Yechury
General Secretary
CPI(M)

15 February, 2023

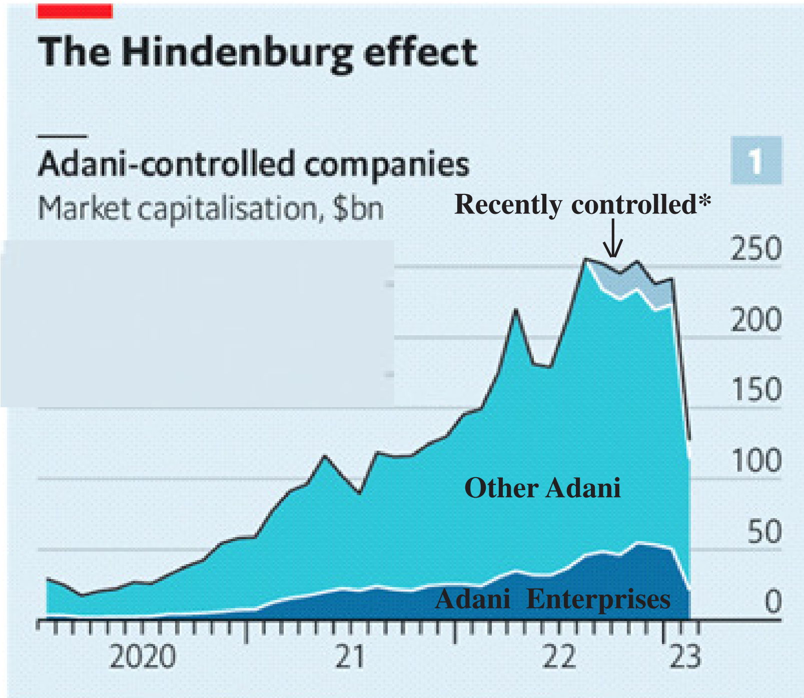
Adani's Balloon Running out of Gas

Adani's meteoric rise as a capitalist has been coupled with Modi's rise to power, first in Gujarat and from 2014 onwards, on a pan-Indian scale. The Hindenburg report—*How The World's 3rd Richest Man Is Pulling The Largest Con In Corporate History*—points out that the Adani Empire is based on huge sums of borrowed money; and that his high stock valuation is the result of stock manipulation by Mauritius-based entities linked to him and his family. The crime is not crony capitalism. It is when the acts of a specific capitalist or a group of capitalists threaten the state or endanger capitalism itself; that is when the capitalist class turns moral about crony capitalism.

Before we go into the details of the Hindenburg Report and the run thereafter on his shares, we need to recap the Adani Empire, and how, in the last three years, the share price of his flagship company Adani Enterprises Limited (AEL), *had risen by nearly 15 times.* As the Economist chart shows, in April 2021, the Adani Group crossed US$100 billion in market capitalization, and by April 2022, it crossed US$200 billion. It reached more than $ 250 billion before the laws of gravity and the Hindenburg Report caught up, leading to its precipitate fall. Even then, it still has a significant presence.

This rise in share price has been the result of stock price manipulation by entities that seem to be owned by his family or those close to him. It is this meteoric rise in share prices that made Gautam Adani, for a brief period, the Second Richest man in the world. Even after his net worth fell from $124 billion on 17 Jan to $61.3 billion as of 4 Feb, he remains among the thirty richest in the world.

After the publication of the Hindenburg Report, Adani Enterprises Ltd., his flagship company, has already lost more than 50% of its value in the stock exchange. As *Business Standard* observed



Economist: Feb.1st 2023

on February 2, 2023, "Adani group shares sank on Thursday...swelling the conglomerate's market losses to more than $100 billion and sparking worries about the potential systemic impact." This is apart from the political impact of Adani's fortunes sinking: Adani's past and present (and possibly, future), are so closely tied to Narendra Modi, from his days as CM of Gujarat to his becoming India's PM and the BJP's undisputed Number One.

Why should the capitalist class worry about the sinking of Adani's companies? What is the systemic impact on India that the financial commentators are talking about?

India Inc, meaning Indian capital, has raised a lot of money from the international market, as did Adani. The major driver of Adani's rise in the last few years has been borrowing from the international bond market. Adani pledged his shares to creditors as collateral in order to raise the money. With the rapid fall in his shares,

creditors are extremely worried about future payment from the Adani Empire and about the value of the collateral they hold. A number of banks abroad have stated that they will no longer take bonds as collateral for bank loans; this is another blow to Adani. If the financial market sours on the India story and believes it consists of Adani and his ilk, it will be that much harder for Indian businesses to raise capital abroad.

Adani's internal borrowings are from banks, insurance companies, mutual funds, etc., and the savings of the middle classes. With the Modi government's systematic steps to force us to hand over our savings directly to capitalists via stock markets or mutual funds—withdrawing savings schemes or lowering their interest rates—this trend has been accelerating. But with Adani's stock manipulation being exposed and his shares tanking, the possibility of large-scale transfer of people's savings to the stock market will not be easy. For the Indian capitalist class, this would mean that the Indian growth story, based on large-scale borrowings—externally and internally—could fall apart. Commenting on the Hindenburg Report, *Bloomberg* wrote, "The fallout from its almost 100-page report (*Hindenburg Report*) threatens to undermine investor confidence in India more broadly, and in the nation's regulatory framework." (*Adani's $108 Billion Crisis Shakes Investors' Faith in Indi*a, 3 February 2023). That is why the SEBI, the banks and even the Department of Revenue Intelligence have got into the act of probing Adani's shenanigans, even if these probes may largely be an eyewash. After all, the DRI investigations and orders have been either slowed or overturned, including the ones on the diamond trade, coal, and power plant equipment imports.

Before we get into Adani's current crisis and its impact on the Indian economy, let us see how Adani built his Empire, starting with his flagship company Adani Enterprises Ltd. This was set up in 1993 as Adani Exports Ltd, and later renamed as Adani Enterprise Limited in 2006. This is the "mother" company that funds its other companies, acts as the instrument of raising capital and keeps control of other group companies. We are not counting ACC, Ambuja Cement and NDTV here, as they are late acquisitions and have little to do with his Empire.

Adani's Early Years and His Diamond Trade

Before building the private Mundra Port and creating the Special Economic Zone (SEZ) there, Adani was primarily a trader. He started in the diamond trade in the '80s and set up his company in 1988, initially for trading in diamonds and later branching out into plastics and other goods. His initial fortune is from the diamond trade, in which his brothers Vinod Adani (also known as Vinod Shantilal Shah), Rajesh Adani, and his brother-in-law Samir Vora played major roles. The two Adani brothers and Samir Vora are identified as key figures in the Hindenburg Report, Vinod for his links in the United Arab Emirates and other off-shore havens for "hot" money, and Rajesh and Samir Vora for setting up and controlling the Mauritius entities that own parts of the Adani companies' stock.

Samir Vora is also the Executive Director in Adani Australia, which holds major investments in a coal mine, Carmichael mines and rail project, and controls a port, Abbot Point Terminal, in Australia.

It is the stock of these opaque Mauritius entities when combined with Gautam Adani's own shares in the Adani companies that take it over the 75% bar that SEBI has for promoter group holdings in a public limited company. What critics have maintained is that Adani uses these "benami" entities to inflate his stock price through circular trading, which lead to the skyrocketing value of his shares before its recent crash. It is how major stock market scams have happened in the past — the Harshad Mehta and Ketan Parekh scams being the most famous of the lot. In 1999, SEBI charged Ketan Parekh with stock manipulation of a set of companies, one of which was Adani Exports Ltd. SEBI investigated the sudden and artificial 165% rise of Adani shares, and banned 7 Adani companies for two years from trading in shares because of market manipulation.

So how did a diamond trader end up being one of the richest persons in the world? The start, according to the Department of Revenue Intelligence (DRI), lies in his fictitious trade in diamonds, in which rough diamonds were imported and re-exported, as shown in the graphic below in Hindenburg's report (based on DRI Order Dated 14.01.2013).

The DRI's case was simple. The government of India had provided incentives for exports, known as the Target Plus scheme, a

government export credit program that rewarded exporters by giving them tax credits. In just one of those years, 2004-2005, Adani Enterprises and its associated companies fraudulently claimed Rs. 680 crores in government export benefits (U.S. $151 million at the time). The difference in the price of the diamonds during this round tripping—Adani Enterprises to Adani Enterprises, as seen in the graphic below via intermediaries—could then be kept in Mauritius and other tax havens.

In today's terms, this may be a small amount for Adani but this was tax-free money salted away in various tax havens, which could and would be used for various other schemes. The route of inflating the value of goods, round-tripping of money, availing of tax "benefits" (read handouts), without actually producing goods, were all tricks which the Adani Empire would use in the future. As also the role of his immediate family: brothers Vinod Adani (or Vinod Shantilal Shah), Rajiv Adani and his brother-in-law Samir Vora. These were the three lynch-pins of his Empire abroad, involved in round-tripping of money and of share price manipulations. As Adani expanded his trading empire from diamonds to plastics, and then coal and other equipment, all these tricks, and tax havens like Dubai and Singapore, were used to artificially inflate the price of coal and equipment and fleece the Indian consumers.

Mundra Port and Modi's Gift of Land to Adani

Adani's first big capitalist enterprise — on which the major part of his Empire stands — is the Mundra Port and Special Economic Zone (MPSEZ). Though Adani received land in the Kutch district's Mundra block, first from Chief Minister Chimanbhai Patel in 1993, and later from Shankar Singh Waghela and Keshubhai Patel, they were not significant in terms of what Narendra Modi gave Adani from 2006-2012.

The total amount of land handed over to Adani in a series of such transfers was a humungous 15,946.32 acres or 65 sq km, nearly half the area of Vadodara. Adani is not only building an SEZ but an entire city. There is no other example in India of handing over the right to build an entire city to a single private capitalist.

The largest chunk of this land was given to Adani by Modi in

2005-06 at an average price of Rs. 14.50 per sq metre, far lower than any such transfers to any other business house. According to *Business Standard* (*Adani Group got land at cheapest rates in Modi's Gujarat*, Premal Balan & Kalpesh Damor, April 26, 2014) .”..there was no other instance of land being allotted at Rs 1 to Rs 32 per sq mt to any company or industrial group. Only educational or religious institutions were an exception.” The cost of the land handed over to Adani was also much lower than the market price, and completely bypassed the villagers, graziers, and fisherfolk, whose livelihoods were ruined. Village land and grazing land were taken over without following the procedure of consulting the villagers, and plants were set up without many of the necessary statutory clearances.

Good Bargain or Bonanza

A comparison of land given to some companies by the Gujarat govt.

Company	Area (acres)	Location	Rate (Rs./sq.mt.)	Period
APSEZ	15,946(6,456ha)	Mundra (non-agri arid land	1-32	2006-2008
Tata Motors	1,110	Sanand (industrial)	900	2008-2009
Ford India	460	Sanand (industrial)	1,110	2010-2011
Maruti Suzuki	700 (approx)	Hansal (GIDC land)	670	2011-2012

APSEZ : Adani Port and Special Economic Zone; GIDC: Gujarat Industrial Development Corporation [1 acre=4,046.86 sq.meters]

(April 26, 2014, Business Standard quoted above)

Adani and Mundra SEZ Violation of Environmental Clearance Conditions and Pollution Control Rules

Even when such clearances, such as environmental clearances were taken, Adani continued to violate their conditions. For example, Adani Power, set up in Mundra, is the second largest power plant in the country with 9 units and a total installed capacity of 4,620MW, 5 of them super-critical units of 660 MW size. If this is not enough, Tata has set up a 4,000 MW Mega power plant in Mundra. The consequence has been the utter devastation of the farm and grazing lands. According to the CAG Report (Performance Audit of Air

Pollution Control by Government of Gujarat, 2022), “Filling low-lying areas with fly ash requires prior approval of GPCB. The Adani Power (Mundra) Limited (APL) utilised 15.42 lakh MT fly ash for filling low-lying areas between 2014-15 and 2018-19 without the approval of GPCB and reported 100 per cent utilisation.” The discharge of fly and bottom ash in low-lying land, instead of 100% ash utilisation as committed, is in gross violation of environmental clearances, the basis for setting up of the plants.

Most Indian plants use indigenous coal in which sulphur content is low. Both Adani Power and Tata Power plants were set up based on the import of coal from Indonesia and other countries, all of which tend to have higher sulphur content. Therefore flue-gas desulphurisation (FGD) units are critical in reducing acid rain in the area. In Mundra, out of the 14 units (9 of Adani Power and 5 of Tata Power), only 3 have installed FGD units!

The report of the Sunita Narain Committee set up by the government confirmed the villagers' complaints. It said the Adani SEZ had violated a number of rules and regulations in the Mundra project, destroying mangroves, filling creeks and causing land and water degradation by dumping fly ash. Further, the Mundra plant uses seawater for cooling the turbine exhaust which is stored in a reservoir and pumped back into the sea. Unfortunately, neither the reservoir nor the pipelines/seawater channels are lined, causing saline water to contaminate the groundwater making it unfit for either drinking or agriculture. As a consequence, both agriculture and grazing lands have been destroyed ruining the people, while Adani and his Empire have minted billions out of Mundra.

Power Equipment and Coal Imports

The Maharashtra Eastern Grid Power Transmission Company Ltd (MEGPTCL) was responsible for power transmission in Maharashtra and a transmission utility. It operates with its price for electricity transmission being fixed by the Maharashtra regulator on a cost-plus basis as wheeling charges. Therefore, the higher the capital cost, the higher the wheeling charges that MEGPTCL can levy on the distribution companies, which will recover it from the consumers in Maharashtra. *The Guardian* in 2014 reported that Adani, as detailed by the Department of Revenue Intelligence (DRI), was to use wholly owned intermediaries who would jack up equipment prices by four to eight times while the equipment was still at sea. A one-time hike in the equipment cost, therefore, becomes a perpetual cash cow for the transmission company (or at least till the equipment life is over, which can be 30-40 years)!

MEGPTCL, the transmission company, is a wholly-owned subsidiary of Adani Enterprise Ltd (AEL). PMC Projects India Pvt Ltd was a contractor to MEGPTCL for supplying it with transmission equipment. PMC bought equipment from 4 suppliers in South Korea and China via Electrogen Infra FZE UAE. Electrogen Infra FZE (EIFZE) was an Adani shell company, and its parent is headquartered in Mauritius. The equipment was shipped directly from ports in South Korea and China to India, so the transactions between PMC and Electrogen Infra FZE, UAE, were only to inflate the prices and siphon off the huge difference in prices to Mauritius. It did not involve the suppliers but comprised, entirely, transactions between Adani entities. The sole purpose of the transaction was to inflate the price of the equipment by *400%-800%!* The difference between the actual prices paid and the prices charged to MEGPTCL (as per DRI documents) was to the tune of nearly *Rs. 1,500 crores*! A chart of the various Adani entities and the equipment suppliers in the transactions (based on DRI documents) is given below.

The Guardian reported on only one set of transactions. As Paranjoy Guha Thakurta detailed in an *EPW-The Wir*e article dated 14 May 2016, there were many more. According to DRI, the total amount was in the range of Rs. *6,000 crores*! The modus operandi was identical, with the Dubai-based entities playing the same role and siphoning the money into Mauritius accounts.

Adani has set up plants in 8 other locations apart from Mundra, with a power-generating capacity of 12,450 MW. As DRI documents show regarding his import of transmission equipment, Adani may have played a similar game with his power plant equipment imports as well. But as compliant governments have turned a blind eye to the over-invoicing of imports by Indian capitalists, this has not come under the scanner. This is what Indian big capital has always done.

The most well-known case of such over-invoicing of exports and inflating capital costs would be Enron's gas-based plant in Dabhol — if Enron had not sunk in the US for flagrant cooking of its books. Unfortunately for India, the sovereign guarantee given to Enron by the 16-day Vajpayee government in 1998 meant that we had to shell out a huge amount of money as compensation to GE, who took over Enron's liabilities and sued India abroad.

Adani is India's biggest importer of coal today. He started a major expansion of his coal trading activities after setting up the Mundra Port and his power plants. He also bought Indonesian mines to supply coal to his Mundra plant. Again, his coal empire did exactly what his transmission company did, as details from DRI investigations show. Paranjoy Guha Thakurta and Aman Malik, in their *EPW* article dated 2 April 2016, have detailed the Rs. *29,000 crore* due to over-invoicing coal imports.

What is the impact of inflating fuel or equipment costs on consumers? Coal costs are pass-through, meaning that the power plant is paid the full cost of fuel that it buys (or imports). Typically, fuel cost is 50 per cent of the energy cost, the other 50 per cent being other running costs and the cost of capital. Adani's importing fuel and showing a higher cost by using an Adani intermediary meant that for every unit of energy it sold, it realised an extra benefit ranging from Rs 0.50 to Rs 1.50. The long-term impact on the consumers for inflated equipment costs due to higher tariffs is much bigger than syphoning off the foreign exchange. The consumers have to pay for this – through higher electricity costs, till the capital cost is completely paid for, or over the next 15-20 years.

Recently, Bangladesh, which had recently signed an agreement with Adani power for electricity from its Godda Plant in Jharkhand, has questioned Adani's price of coal. Though the plant is in Jharkhand, the coal is from Australia and the landed price of Australian coal in Jharkhand is $400, far higher than $250 in Bangladesh. This would result in a much higher cost of electricity obtained from the Godda Plant than what Bangladesh can produce from its plants from the same Australian coal.

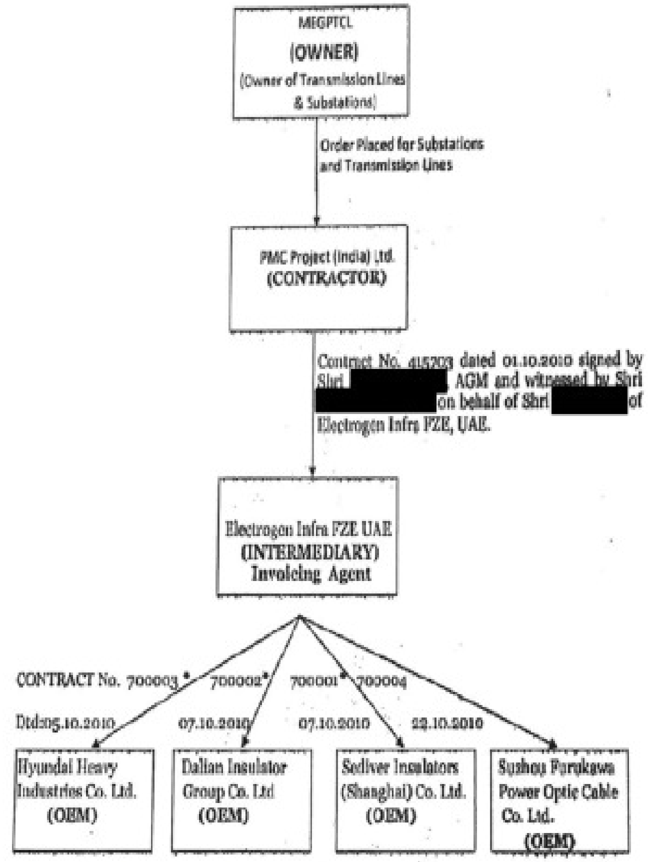
Adani Empire and The Hindenburg Report

What role do all of these Adani scams, from inflated capital costs of imported equipment and costs of imported coal, play in the larger story of the Adani Empire?

The details can and do fill pages—consider the *Hindenburg Report* with its 68 references, as well as the detailed exposures made by Paranjoy Guha Thakurta and his associates in leading journals like the EPW, and websites such as *The Wire* and *Newsclick*. How then do we understand the broad picture and why the Hindenburg report led to a virtual collapse of Adani's share price with his companies and Adani himself losing nearly half his wealth? After all, Adani's physical Empire is still huge: the Mundra port, the biggest container port in the country, the Mundra SEZ, a number of power plants, airports, sea ports, solar power plants, and coal mines in India and abroad. So why should his Empire be so vulnerable to a short-seller's report which explicitly states that he expects to profit from the drop in Adani's stock prices?

The answer is that Adani's Empire is highly "leveraged". This means that the huge investments that he is making are from money that his Empire has borrowed. If it had been raised through the expansion of stock, selling stocks to people, companies like the LIC, and mutual funds, then the stockholders would have taken a hit. In this case, much of his ongoing investments are from foreign bonds. It is these foreign bondholders who have invested heavily in Adani's Empire. With the steep fall in his share prices, it is unlikely that the bondholders will continue to invest large sums, particularly if he fails to meet the bond payments. So how does he finance his future expansion, without which many of his projects—ports, airports, solar plants, etc—may simply remain as stranded investments?

What will happen to LIC and the banks who have invested large sums in Adani, even if it is not a significant part of their corpus? It is still huge in terms of money: LIC has invested more than Rs. 30,000 crores in Adani which is not exactly chicken feed! The fact that this is a small amount in relation to its total corpus is not the issue. This is money that belongs neither to the LIC nor to the government; it belongs to the policyholders.



In the next section, we will take up the Hindenburg Report, and the consequences of the specific capitalist path of development that India is following. This is not simply crony capitalism, but Modi's crony capitalists looting the Indian state and its people.

Escape from Law

Time and again, some government investigative agencies have started investigating malfeasance but then nothing has come of it, with cases either strangely getting overturned or dismissed, or just buried in minutae. Some examples:

- The diamond trading scheme was investigated by the Directorate of Revenue Intelligence (DRI) and Customs. In 2013 the

Commissioner of Customs fined Adani Enterprises Rs.25 crore and oters in top management for smaller amounts. In 2015 the Customs, Excise and Service Tax Tribunal (CESTAT) overturned the ruling and exonerated everybody. The DRI did not appeal against this ruling till 2023!

- In 2014, DRI found that two Adani companies had grossly overvalued import price of power equipment and then illegally siphoned off money abroad. This jacked up cost would also have laid the ground for higher power tariffs being imposed. In 2017, a DRI official overturned the findings of the investigation and dropped all charges. Bizarrely, a different section of DRI launched an appeal against this ruling which was dismissed by CESTAT in 2022 and all charges dropped.
- In 2016, an investigation by DRI revealed that Adani companies and several others were involved in over-pricing of coal imported from Indonesia and subsequent siphoning off of money abroad. The Bombay High Court blocked DRI efforts to get information from overseas jurisdictions. The Supreme Court overturned this ruling and allowed overseas investigations. But responses are awaited.

Regulatory bodies too have shown a peculiar hesitation in investigating prima facie facts that indicate some irregularities, or at least risks. The most prominent example of this is the stock market regulator Securities Exchange Board of India (SEBI) which has not investigated the unusual rise in share prices or suspicions of effectively holding of more than 75% shares by family run firms. Despite knowing that the Adani Group was operating through offshore shell companies, and that various listed companies were target of DRI investigations, and reportable information (like related-party transactions, etc.) was possibly not reported, it did not investigate the Group.

Helping Hand to Adani Group

Modi government has eased all kinds of regulations and oversight to help big business in expanding its activities, which has benefitted the Adani Group like many others. But in some key matters, the government has facilitated Adani Group's growth specifically:

- In 2019, the Commerce Ministry amended rules that prohibit power plants from operating from within Special Economic Zones (SEZs) just weeks before the general elections. Through this method, Adani's power plant in Godda, Jharkhand became a standalone SEZ and thus got various exemptions and incentives, including the right to supply power outside the state and to determine tariffs on its own. The plant was set up to run on Indonesian coal and was to supply power to Bangladesh. This chage of rules is estimated to benefit the company by at least Rs.3.2 billion in clean energy cess.
- Over-riding objections from its own wings, the Modi government made changes in laws and rules in order to allow the Adani Group to bid and win control of six airports in India. There was no public consultation and Adani Group was allowed to bid depite it having no prior experience in running airports.
- An Adani Group company has been given rights to start open cast mining of coal in the middle of dense HansdeoArand forest of Chhattisgarh. This was done by the environment ministry despite the matter being contested in the Supreme Court. There have been various objections raised on this proposal and local tribal residents even alleged that their consent was forged.

BJP state governments have also been accused of helping Adani Group in privatising of electricity distribution (eg., Bangalore) and placing orders on Adani for electric meters (recently cancelled by UP state distribution companies).

Besides reeking of cronyism and thus tainting the much hyped 'Na khaunga, nakhanedoonga' slogan of Modi, there is a more important dimension to all this. The Modi government has been carrying out large scale infrastructure development through big corporate houses. It believes that this is the path for India's growth and development. Among the various big corporate houses that have lined up with the government to carry out this 'model' – and make super profits in the process – the name of Adani is the most prominent. It has grabbed the lion's share of such 'developmental work', from mining, power generation, to ports and airports, defence production and even warehouses (ffor grain) and consumer products like cooking oils etc. Proximity to the Modi government is well known and must have played a part in this. But as has now become clear, the whole empire is built on irregularities, too much debt and illegitimate practices involving off shore tax havens, family run shell enterprises. Was the Modi government unaware of all these shenanigans when everybody else knew, including the government's own investigation/ enforcement agencies? In which case this would be a collaboration that would tax everybody's imagination. Or is it the case that Adani was given a blank cheque to build India's infrastructure, by hook or by crook? In either case what happens when the plug is pulled and the Adani empire is unable to fulfil its commitment to complete and run all these ports and airports and grain silos and provide defence essentials? Has the Modi government pledged the country's future development to a sinking ship?

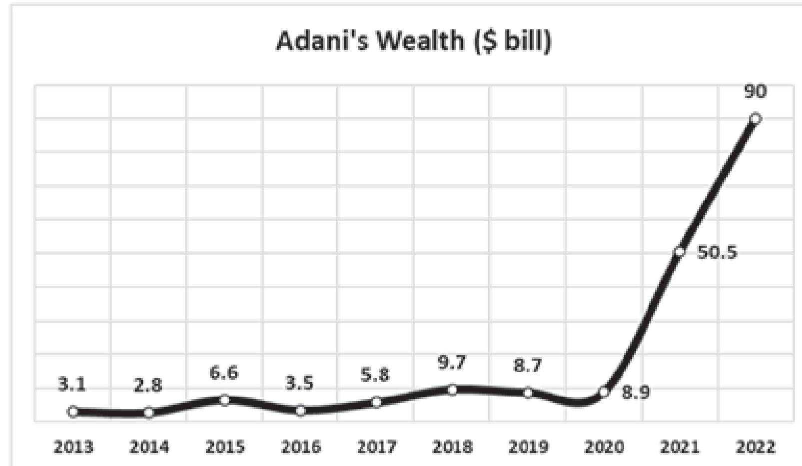
The Hindenburg Fallout

The Adani group of 10 listed companies have collectively lost about $120 billion of their market capitalisation values at the time of writing, after continued rout in the Indian stock market. The flagship company Adani Enterprises had lost as much as 54% of its value in eight trading sessions since the US based market research and short-selling specialist Hindenburg Research released its report on the activities of the Adani Group on 24 January 2023.

To understand what this Report says and why the Adani group is under siege after its publication, note must be taken of the fact that the Adani group's shares and hence market capitalisation (the value of all the shares in a company at the prevailing market price) skyrocketed during the past three years in an unheard-of performance. Over this period, the combined market capitalisation of the seven firms that bear the Adani name jumped from a little over $30 billion to over $218 billion, a 7-fold rise!

Remember, these were pandemic years when the people were devastated not only by Covid-19 but also recurring lockdowns and restrictions. Although across the world and in India, big business has generally reported astronomical profits during the pandemic, Adani group's performance stands out as breathtakingly exceptional. While government apologists and cronies were celebrating these results, increasing international scrutiny was drawn to this phenomenon as it was happening. Gautam Adani's personal wealth too, naturally,

jumped up in this golden period from $8.9 billion to $90 billion according to Forbes' Billionaire Index (See chart below). In fact, at one point in September last year, Forbes ranked him the second richest man in the world with a net worth of over $150 billion.



Although in India, there were murmurings among share brokers and market watchers, Adani group's clout and perhaps Gautam Adani's proximity to political power led most analysts and media experts to adopt a hands-off strategy. It was only because Adani's ambitions now extended beyond the country's borders, with stakes in an Australian coal mine, an Israeli harbour and offices abroad, that the group became part of global attention and scrutiny. This naturally attracted more probing and much more diligent digging into the way this group was flourishing. One outcome of this is the report by Hindenburg Research, which is a small US-based company that specialises in exposing corporate fraud and playing the stock market in order to profit from falling share prices ('short selling'). Many of Hindenburg's previous such exposes have ended up with regulators taking action against the firms investigated.

What the Hindenburg Research Report Says

The 98-page report, titled "Adani Group: How The World's 3rd Richest Man Is Pulling The Largest Con In Corporate History", details evidence of stock manipulation in Adani group companies in order to boost their share prices, use of secretive offshore shell companies to route funds, and of accounting irregularities. It also points out the laxity shown by the Modi government's law enforcement agencies towards palpable and reported violations of financial regulations by the Group. It concludes that the companies are financially precarious and dangerously "over-leveraged" (meaning their debt burden is unsustainable given their financial situation). The main findings of this report are summarised below.

Empire Built on Several Scams

The Hindenburg report gives details of a series of import-export scams in diamonds, iron ore, power equipment and coal, some of which have also been described earlier in this booklet. It is these that provided the foundation for Adani's empire. Investigation into these scams has been stonewalled by the government.

Steeped in Debt

Five out of the seven listed companies bearing the Adani name have more short-term (typically one-year) liabilities than their liquid assets. This denotes a precarious financial condition usually denoted by the term 'current ratio' of less than 1 ranging from 0.2 to 0.9. A ratio of more than 1 indicates that the assets are more than the liabilities while a ratio of less than 1 means liabilities outweigh assets.

The Chief Financial Officer (CFO) of Adani Group recently told CNBC-TV18 that the Group's total debt stood at $30 billion out of which $9 billion is to Indian banks. A report by global accounting firm CLSA, quoted in the same report, broke down the total Adani debt as: 38% bank debt (term loans, working capital and other facilities); 37% bonds/commercial papers; 11% financial institutions; and 12-13% inter-group lending.

Evading Regulations by Using Shell Companies

How did shares of Adani Group's listed companies reach such astronomical heights? The answer can be found in some of Hindenburg's revelations of how Adani companies managed their accounts to show a much better performance than actual. Stock market regulations stipulate that promoters (owners) can hold only up to 75% of shares in any listed company, with the rest 25% shares being available for public holding. This is to minimise the possibility of the promoters rigging the prices. Four of the Adani Group companies Adani Transmission, Adani Power, Adani Enterprises and Adani Total Gas have promoter holdings of between 70% and 75%. In each of these, offshore funds based in Mauritius, notorious for its opaque business practices, have holdings ranging from 3.3% to 10.3% that the report says should really be treated as belonging to the Adani Group itself. If these are added to the official holdings of the group, the 75% threshold would be crossed in each case. With 90% to 100% of each of these offshore funds' investments only in Adani stocks, they really seem to be funds controlled by the group and not genuine third-party entities. These funds seem to be just stock parking entities for the Adani Group companies to enable them to remain below the 75% threshold and avoid delisting.

The report also alleged that their investigations revealed "numerous undisclosed related-party transactions by both listed and private companies" which would be a violation of regulations. Under stock market regulations that govern listed companies, any transaction with a 'related party' i.e., a firm that has organisational links with the other, must be reported to the regulator through a disclosure filing. Hiding such transactions is illegal. The report claimed that it had unearthed facts on how "a Vinod Adani-controlled Mauritius entity with no signs of substantive operations lent INR 11.71 billion (U.S. $253 million at that time) to a private Adani entity which did not disclose it as being a related party loan".

Engineering Accounts by Using Offshore Shell Network

These devices give the Group illegitimate control and leverage for stock manipulation including "wash trading" in Adani stocks – buying and selling the same stock in intra-day trading to artificially boost the trading volume of the stock to fool lay investors into believing it is much in demand. The report alleges that these offshore firms are used to "engineer" the accounts of Adani group companies by boosting cash flow or profits, "cushioning capital balances in order to make listed companies appear more credit worthy" or simply to move funds around amongst various group companies.

The report alleges that the "offshore shell network" seems to be used for earnings manipulation. As an example, it cites a series of transactions where "assets were transferred from a subsidiary of listed Adani Enterprises to a private Singaporean entity controlled by Vinod Adani, without disclosure of the related party nature of these deals. Once on the books of the private entity, the assets were almost immediately impaired, likely helping the public entity to avoid a material write-down and negative impact to net income".

Suspect Antecedents of Key Management Personnel

Is it possible to carry out such largescale accounting shenanigans in a conglomerate the size of Adani's? What about auditors and the companies' own financial officers? The Hindenburg report says that the Group is characterised by family control over all key operations across the Group and weak accounting structures. The implication is that personnel were potentially complicit in everything.

The CEOs and MDs of some of these FIIs have been implicated in multi-billion dollar scams in the past, like the 1MDB scandal involving the Malaysian company charged with money laundering and fraud. One of them also has a close link with Ketan Parekh, the notorious stock market manipulator who has been banned from India's markets.

There is direct family control over most of these secretive offshore companies. Vinod Adani, elder brother of group Chairman Gautam Adani, controls 38 Mauritius based companies that appear to be pure shell companies with no evidence of any business operations or employees. They are registered at the same address, in several cases on the same day, and many have websites that are like cut-pastes of each other. The Adani group insists that Vinod Adani has no connection to them beyond being a shareholder. However, these companies controlled by him have moved billions of dollars into Adani group companies without disclosing them to the authorities as related-party transactions. These funds are then used to dress up the financials of the Adani companies to make them seem creditworthy and enable them to get debt against their stock. Gautam

Adani's younger brother, Rajesh Adani, and his brother-in-law Samir Vora are in top management positions in group companies and in offshore entities. Like Vinod Adani, both have in the past been charged by the authorities with serious fraud and arrested. Such a track record should have disqualified them from holding any responsible position. On the contrary, they have been elevated to the top.

Adani group companies have seen a rapid turnover of chief financial officers (CFOs), an indicator that there is something awry with the firm's accounting practices. Adani Enterprises, for instance, has had 5 CFOs in the last eight years. The independent auditors, mandated by law, for such a large corporate entity seem unbelievably small. For Adani Enterprises, the flagship of the Adani empire, and Adani Total Gas, it is a firm called Shah Dhandharia and Co, which has no website, just four partners and 11 employees. Two of the partners in this auditing firm who signed off on the financials of Adani companies were 23 and 24 years old, unthinkable for someone auditing such a large and a complex group.

A sense that something was rotten in the state of Adani group's companies was perhaps available with investors who were more risk-averse. Private equity funds have steered clear of holding stocks in several group companies knowing that they are artificially over-priced. No Indian mutual fund owns even 1% of the shares of Adani Enterprises, Adani Green Energy, Adani Total Gas or Adani Transmission.

Fire Fighting by Indian Corporates and State

The Hindenburg report, released on 24 January, caused a meltdown in Adani stocks whose ripples are now spreading far and wide. On 26 January, Adani Group denied the report's allegations calling them maliciously mischievous. A previously scheduled Follow-on Public Offering (FPO) of the group began on 27 January, offering new shares to the public. It received a very indifferent response from buyers, indicating that the Hindenburg report had found resonance. On 29 January, Adani Group released a 413 page 'rebuttal' of the Hindenburg report, calling it 'false' and 'misleading'. It also tried to take cover behind nationalism by saying that the report was an attack on India itself. Hindenburg dismissed the Adani rebuttal and claimed that Adani group had responded in generalities and deflections to only 62 of the 88 questions it had posed to them.

Corporate White Knights

By this time, panic was setting in in corporate boardrooms in India. There appeared to be a sense that Adani was too big to fail, which also connotes recognition of the fact that he is close to PM Narendra Modi, and hence has immense clout. On 31 January, the FPO closed with 1.12 times over subscription. The FPO was saved from utter failure by several Indian corporate entities buying up shares on offer on the last day, apart from the massive $400 million invested by the Abu Dhabi conglomerate IHC. Reports suggested that JSW Steel and Bharti Airtel were some of the corporate buyers that came to its rescue. While the floor price for the FPO was Rs 3,112 per share, the company's stock was selling for Rs 2,975 on the Bombay Stock Exchange that same day. Thus, anybody paying nearly Rs 140 more to buy the same stock makes no economic sense. Clearly, the corporate entities had other reasons to subscribe. Interestingly, the portion of shares reserved for retail individual investors received only 12% subscription while the portion reserved for employees of the Group got just 55%. That means that in both these categories, the shares largely went unsold, reflecting the scepticism of the common man in the companies' prospects.

The most fascinating nugget of information that appeared the next day courtesy Forbes, was that two of the companies that are named in the Hindenburg report as offshore entities associated with Adani group's stock parking and funds routing system were likely to have helped in buying up the shares. They were declared as underwriters to the FPO officially.

The FPO was cancelled on 1 February with Adani saying that it wanted to protect investors' interests, referring to the fact that share prices in the market were well below the prices at which FPO sales took place. This move added fuel to the panic, with the brutal rout continuing in the stock exchange. So much so that the stock regulator SEBI reportedly started an investigation into it and RBI was reported to have sought information from banks regarding extent of their

exposure to Adani debt.

There are international reverberations too: Credit Suisse and Citigroup, two global investment banks have said that they would no longer accept securities issued by the Adani Group as collateral against margin loans.

LIC and Public Sector Banks' Exposure

Life Insurance Corporation (LIC), the government owned insurance giant, declared that it had bought 5% of the $736 million anchor portion of the FPO offering, but it also declared that it would buy no more Adani shares. LIC already owns 4.23% of Adani Enterprises, besides having a 9.14% stake in Adani Ports and a 5.96% stake in Adani Total Gas, according to reports. On 30 January LIC had to issue a press statement declaring that the total market value of its Adani linked shares was Rs. 56,142 crores as on 27 January 2023, which was less than one percent of LIC's total assets under management at book value. However, since LIC reportedly lost about Rs.16,580 crore in the first five days of the stock market rout of Adani shares, concerns have been growing that it needs to be protected from any further erosion. LIC has 25 crore Indian policy holders and these are sustained by LIC's investments in stocks, among other avenues. SBI and its arms have also invested. SBI said on 3 February that it's total exposure to Adani Group stood at Rs. 27,000 crore. Once again, SBI money is really the money of millions of individual deposit holders. If the Adani group or some of its components implode, a lot of this public money would be lost. It is no coincidence that when the stock markets reacted to the Hindenburg report, it wasn't just the group companies that saw their stock prices in free fall, but banking stocks as well.

Full Independent Probe Needed

It is indicative of the seriousness of the ongoing Adani stock fall and related developments that Parliament proceedings were disrupted for two days as Opposition MPs demanded a full discussion and the setting up of a Joint Parliamentary Committee (JPC) to investigate the whole affair. Finance Minister Nirmala Sitharaman tried to douse the flames by saying that India's macroeconomic fundamentals and "economic image" has not been affected by the withdrawal of Adani FPO. Regarding accusations of stock market manipulation by Adani group, she asserted that the regulator SEBI has the "wherewithal" to ensure stability in markets. Earlier, Union Finance Secretary T V Somanathan had already declared that the whole thing was "a storm in a teacup" and "fluctuations come and go".

What this means is that the Modi government is playing down the issue and also indicating to its financial regulators that there is nothing to be done as of now. This is a dangerous if not callous attitude in the face of mounting evidence over the years that the Adani group may have committed illegalities and malfeasance. Although at present it is being said that State-run banks and LIC have limited exposure to the Adani Group, there is enough past experience to show that stock manipulations, offshore shell companies, round-tripping and too much debt is an incendiary combination that will more often than not lead to a collapse of the house of cards. Adani's much flaunted proximity to the Modi government and the Group's consequent involvement in key infrastructure projects ranging from ports, airports, warehouses, mining, power generation etc., means that the contagion from the ongoing share price collapse may lead to an escalating crisis in the group since it is resting on huge debt. Public money is involved, and so are key infrastructure components. Adani even has a defence The country can ill afford to play ducks and drakes in this scenario. It is rightly feared – and evident from the current tamping down - that the Modi government is trying to hush up the matter, including the fact that its financial regulators and enforcement agencies have been complicit in allowing the alleged violations and fraud to continue over the years.

Hence the CPI(M) reiterates its demands that the Adani Group's alleged violations, the causes of the present stock market turmoil and all related issues – including the role of financial regulators and enforcement agencies – should be investigated by a JPC.