



## Hindenburg Report vs Adani Group

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### ABSTRACT

Hindenburg a research agency that is known to be famous for gaslighting the inner workings within a corporate with the help many takes a shot position with the help of the investors who were deemed to get the research information before it gets published and as soon as the news broke out as Hindenburg published the report on Adani saying “How worlds 3rd richest man is pulling biggest finical scam of the century” the 15-page report has some serious allegations against Adani and it impacted the overall financial structure of not only Adani but India as a whole.

### *Objective:*

To investigate and analyse the impact of Hindenburg’s published report on Adani Corp in order to gain a comprehensive understanding and provide valuable insights of its impact not just on Adani but on Indian Market and a retail investor as a whole.

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### INTRODUCTION

Adani is a large Indian multinational conglomerate company with its headquarters in Ahmedabad, Gujarat, Gautam Adani launched the corporation in 1988, and it has since developed into one of India's largest commercial companies with extensive interests in several sectors, including energy, infrastructure, logistics, agribusiness, real estate, and military.

One of the biggest private thermal power providers in India, Adani's energy sector has expanded into renewable energy sources like solar and wind power. India's ports, airports, and highways have all been developed by the company's infrastructure business. The logistics branch of Adani is in charge of overseeing all business activities, including shipping and warehousing.

Due to its engagement in initiatives like the Carmichael coal mine in Australia, which has drawn resistance from environmental organizations due to worries about its effects on the Great Barrier Reef and climate change, the group has come under fire and controversy. Also, the business has been accused of violating the environment and human rights as a result of its operations.

Adani has continued to grow and expand its economic interests both domestically and internationally despite these challenges, and the Indian corporate sector regards it as a significant player.

An independent investment research company Known as “Hindenburg Research” focuses on forensic financial analysis and investigative reporting. The company is renowned for its critical and frequently contentious reports on publicly traded firms that it posts on its website and social media. When Hindenburg Research released a report in 2018 criticizing the Chinese firm Luckin Coffee for falsely misrepresenting its sales figures, the company attracted considerable media attention. The Securities and Exchange Commission (SEC) inquiry and Luckin Coffee's delisting from the NASDAQ stock exchange were both outcomes of the study.

Since that time, Hindenburg Research has released research on a variety of different businesses, including the producer of electric and hydrogen-powered automobiles Nikola Company, and the supplier of health insurance Clover Health Investments. These reports have generated a lot of debate and occasionally have caused the stock price of the target firm to drop significantly. Although Hindenburg Research has come under fire for its aggressive strategy and for perhaps making money when the stock prices of the firms it targets fall, the company insists that its findings are founded on in-depth study and analysis of publicly available data. The company adds that safeguarding investors from deceptive or dishonest corporate behaviour is its main objective.

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### Methodology

Hindenburg Research formulated a researcher of 300+ pages citing many questions to Adani Group to over its alleged fundings to

Hindenburg Research published report on Jan. 24 right before Adani Enterprises FPO, squaring off an 86 Billions \$ from the market's domestically listed stocks and sell-off in its bonds listed overseas.

Hindenburg Research makes money by short selling the stocks of companies it has investigated and found to be overvalued or fraudulent. (Shorting of shares involves borrowing shares of a company, selling them at the market price or subsequently buying them back at a lower price and giving back the stock to the original seller in order to profit from the difference of the buying price and selling price.)

If Hindenburg Research's investigative reporting causes a company's stock price to fall, the firm could potentially profit from its short positions.

Before the report gets public Hindenburg Took a short position on Adani with the funded by various other investors who gets the input of the research beforehand by the Hindenburg itself and due to foreign exchange rate and various others factors restricting them not to short Adani shares directly from foreign land with the heavy funding its placed short position on the Adani bonds, and published the research right before Adani FPO.

With the report getting public it raised questions like revolving money within the shell companies and situated in Tax havens and raised points on debts amount of the company. Adani, who was the third-richest man in the world until last week, is now ranked number 15 on the Forbes rich list as a result of the collapse in the value of the Adani group's equities.

Questions asked by the Hindenburg on the Adani Group's Includes:

- Adani Power auditor affiliated to EY, took an opposite negative stance on supporting the valuations of the investments and loans. saying there is no way to support the total value of 56.75 billion rupees in debt and investment took by Adani Power. Where did the auditor find differences with Adani Power's investment and loan valuation?
- Adani was part of the infamous Dimond scandal investigation by government agencies (2004-2006) regarding the Adani exports ltd exports that were 3 times more than the total exports in comparison to all the other 34 organization in the industries combined. Why was Adani scrutinized by the agencies over the surge in the exports?
- Adani receives constant investments from Some shell companies situated in Moretisous to revolve the amount and to buy back its own shares creating a positive sentiment in the market about the company hence pumping up the company's share price.
- According to recent right-to-information requests, SEBI is investigating Adani's ownership of foreign funds in shares and providing updates on the status of that investigation. However, the information that has so far been made public in connection with any investigations is privileged.
- New Leaina is a Cyprus-based company that holds 95% of the value of its portfolio in shares of every Adani listed company. Amicorp is the entity's operator. Where did New Leaina get the money for its investments in Adani?
- In 2019, Adani Green Energy did two offerings for sale that were important in ensure ring its public shareholders were over the 25 % listing threshold requirement. What proportion of these OFS agreements, if any, were put up for sale to international buyers, such as those from Mauritius and Cyprus, as stated previously in the report?
- Adani decided against using a big, well-known broker and instead hired Monarch Net Worth Capital, a small company that had previously been suspended and fined by SEBI on accusations of market manipulation, to manage the offerings.
- Earlier SEBI has also investigated and penalized more than 70 firms and individuals, including Adani promoters, for stock manipulation of Adani between 1999 to 2005.
- SEBI ruled that Adani promoters helped Ketan Parekh manipulate the shares of Adani Exports, which is now called Adani Enterprises. The decision showed that 14 Adani private companies gave shares to entities that Parekh controlled How can Adani account for the organised and methodical manipulation of its share price that was carried out by one of India's most Infamous and convicted stock market scammer?
- Ketan Parekh continues to work on deals with his former clients, including Adani, according to people close to him. How extensive was and is the link between Parekh and the Adani Group, including any connections either party may have had with Vinod Adani?
- In 2021 Times of India's journalist Suchita Dalal indicated the shell company structure within one organization without naming any corporate house whatsoever, still the only conglomerate to take the maximum hit was the Adani group where share hit a lower circuit for a few weeks after Dalal's tweet.
- In order to minimise potential conflicts of interest and accounting irregularities, investors generally favour clean, straightforward corporate structures. In the fiscal year 2022, the seven major listed companies owned by Adani had a combined 578 subsidiaries and 6,025 distinct related-party transactions. alone, per BSE disclosures. Why did Adani choose a corporate structure that is so complicated and related to other companies?
- Adani Enterprises has had 5 chief financial officers in the past 8 years, which is a major cautionary sign that may indicate possible accounting issues. Why is it so difficult for Adani Enterprises to keep the top financial position's incumbent? What were the reasons for the numerous number of resignations and terminations of prior CFOs.

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### *Aftermath*

For a brief time, Adani group stocks tumbled by about 55 % as was predicted by Hindenburg data most of the stocks and as the report published Credit Suisse is a global financial services company that provides a range of financial services to clients worldwide, including banking, asset management, and investment banking services. As a financial services provider, Credit Suisse relies on credit ratings to evaluate the creditworthiness of potential clients and to make informed investment decisions

Credit Suisse bank dropped the credit rating of Adani bonds and those who are already holding these bonds will have to pay about 40% - 60% of the interest on the payback earlier these bonds were AAA rated and after the report went public these bonds were listed in the latter category. As Hindenburg and its clients being foreign companies/individuals couldn't invest directly in the Indian stock market they bet against the bonds offered by Adani as its value dropped after the AAA rating seeped away.

Adani Answers were more of a Hit and miss mostly highlighting the points in public knowledge and more were released as a 400-page answer to the Hindenburg.

### *Analysis: Who's Right Who's Wrong?*

Hindenburg's claim is like they've drawn the conclusion first and go into analysis that suits them Concluding too quickly and without sufficient evidence can be a major problem, and unfortunately, Hindenburg tends to do this with ease. They may jump to conclusions based on incomplete or biased information, leading to inaccurate or unfair judgments. Additionally, drawing conclusions without careful consideration can lead to missed opportunities and poor decision-making in business and research settings. It's crucial to maintain objectivity and critical thinking skills to avoid making hasty or inaccurate conclusions that can harm individuals or organizations.

For example, Hindenburg isn't covered by any analyst in comparison to similar-sized companies. And raising points like Adani has young accounts to audit their funds. Although some points are somewhat like the exponential growth of the company and party Transactions.

However, people claim Adani's growth is also because of its investments in various infrastructures in India over the period Adani has received contracts of airports operations for the next 50 years and all these contracts' bids were placed by Adani backed by debts based on Adani's share value.

### *Impact on the Retail Market and Investors*

The report triggered heavy selling of Adani shares in a large value their price value decreased and the retail investor portfolio took a significant drop in its value, this resulted in a mass panic sell until incurring a lower circuit within an intraday, the Indian stock index i.e., Nifty 50 was already very volatile since last year and Adani group nose dive added fuel to the fire hence most of other companies stocks also depleted 10 to 15% of its value however other than Adani stocks all other companies stock rose back further from its drop price within a week and Nifty 50 started to go above staidly however Adani stocks such as Adani enterprise, Adani Green and Adani transmission are still down by over 50% since their all-time high. Therefore, if the retail investor who was very much inclined onto the Adani group portfolio at the start of this year would be seeing their portfolio at a significant loss but many new investors came in after the drop and publishing of the Research so that they can buy those shares at a low or discounted price and making a quick and heavy profit.

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## **Findings**

The solid US market and unpredictable Indian market contrast:

Before the release of the report Indian market was in turmoil due to various factors like Ukraine Russia war and recession in the west however after the report got public Indian market showed volatility and has been doing so ever since in comparison to the US Nasdaq which is now stable and bullish on the trend

According to many investment experts this is due to Adani shares being volatile which is strongly impacting the Indian index and constantly floating between the resistance and support line while many other factors impacting the market people sentiments towards Adani might be the result of sluggish and volatile market in comparison to other factors and since, SEBI is still looking into the matter so its safe to say this Volatility might continue for a few more months and as US market trends up the Nifty might make up for it by replicating the trend in coming time.

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## **Conclusion**

The Hindenburg report on Adani Group is a timely reminder of the urgent need for businesses to prioritize sustainability, ethics, and social responsibility. The report raises serious concerns about the environmental impact and financial and operational practices of Adani Group, highlighting the need for increased scrutiny and regulation of businesses to ensure they are operating in the best interests of all stakeholders.

As investors, we have a responsibility to carefully assess the risks associated with our investments, including the social and environmental impact of the companies in which we invest. We must make informed decisions based on a company's track record in sustainability and ethical practices. Similarly, regulators have a responsibility to closely examine the issues raised in the report and take appropriate action to address any shortcomings in existing regulatory frameworks.

In conclusion, the Hindenburg report emphasizes the need for a fundamental shift in how we approach business and its relationship with society and the environment. Businesses must prioritize sustainability and social responsibility in all aspects of their operations, and regulators and investors must work together to ensure that they are held accountable for any practices that fall short of these standards. Only by doing so can we build a more sustainable and just world for future generations.

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