

# Following corruption allegations, the fall of India's Adani group continues

Nick Beams  
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In the month since the publication of explosive accusations about its financial operations, the India-based Adani group of companies has been undergoing a not-so-slow train wreck.

The combined market value of the group's shares fell to below \$100 billion earlier this week, bringing to \$135 billion the loss of market capitalisation since the US-based Hindenburg Research published a report on January 24 alleging widespread accounting fraud and stock manipulation.

The group's founder, Gautum Adani, at one stage ranked the third richest man in the world, has close connections with Indian Prime Minister Narendra Modi.

Adani has denied the allegations and wrapped himself in the Indian flag, claiming they were an attempt to take down the country. But his protestations and efforts to provide assurances to the markets that the financial position of his group is sound have not halted the slide.

The Hindenburg allegations, which it said were the result of a two-year investigation, claimed that the Adani Group was "pulling the largest con game in corporate history." The increase in the group's share values over the past three years of more than \$100 billion was "largely through stock price appreciation in the group's seven listed companies" which spiked an average 819 percent in that period.

Despite its name, Hindenburg's investigation was not disinterested academic research. It is well known as a shorting investor. Shorting involves borrowing shares in a firm and selling them in the expectation the price will fall, then buying them back at the lower price, returning them to the lender and profiting from the transaction.

While there are restrictions on such activities in India,

Hindenburg seems to have found a way to short Adani stock, according to a report in the *Financial Times*. The founder of Hindenburg, Nathan Anderson, has not indicated how he organised his bet against the Adani group saying only that he had taken a short position "through US-traded bonds and non-Indian-traded derivative instruments."

But the withdrawal of money goes well beyond the activities of Hindenburg. Adani suffered a significant blow when the ratings agency Moody's cut its outlook on four companies in the group from "stable" to "negative" while leaving ratings unchanged.

Moody's said its decision was the result of "the significant and rapid decline in the market equity values of the Adani Group" following the release of the Hindenburg report.

Like many corporate giants, Adani has sought to advance an ESG (environment, social governance) program to capture funds from so-called ethical investment.

Norway's largest pension fund, KLP, recently dumped its entire holding of shares in Adani's Green Energy on the basis that it may have been financing polluting activities. In particular the Carmichael coal mine project in central Queensland, Australia, has been the subject of intense opposition on environmental grounds.

Bloomberg reported that a public filing on February 10 "made clear that Adani is using stock from its Green companies as collateral in a credit facility that's helping to finance the Carmichael coal mine."

The money invested in the Adani green companies is not directly involved. But to the extent that it raises their share values it increases the value of the collateral used to finance other, polluting projects and thereby lowers the cost of loans to finance them.

KLP has banned investment in coal. According to its head of responsible investing, Kiran Aziz, any indirect financing of the Carmichael project would be a “breach of our commitments.”

The withdrawal of money could be extended. According to Bloomberg, there are more than 500 funds in the European Union which are registered as “promoting” ESG goals and which hold Adani stocks either directly or indirectly.

According to the Hindenburg report, the notion that the operations of the Adani companies were in some way separate from each other was a fiction. It noted that “Adani Group companies are intricately linked and dependent upon one another” and that none of the entities “are isolated from the performance, failure, of the other group companies.”

Announcing the withdrawal of money by KLP, which manages funds of around \$75 billion, Aziz said: “Adani’s corporate structure created an unacceptably high risk that ‘clean’ investment could be siphoned off towards coal mining.”

But this reaction could well be taken with a large grain of salt because the complex and interconnected structure of the Adani group was well known before the Hindenburg report.

The intimate connection between the Adani group and the Modi government means that its possible demise will have significant political consequences. While the ruling Bharatiya Janata Party has declared it has “nothing to hide,” Modi has remained silent.

Others, however, are questioning whether Modi will be able to ride out the storm.

Speaking at the recent Munich Security Conference, multi-billionaire George Soros, who made his fortune as a hedge fund manager, said: “Modi and business tycoon Adani are close allies; their fate is intertwined.”

Soros said that Adani had tried to raise funds in the stock market but had failed.

“Adani is accused of stock manipulation and his stock collapsed like a house of cards. Modi is silent on the subject, but he will have to answer questions from foreign investors and in parliament.”

He claimed the Adani demise would weaken Modi’s stranglehold on the federal government, open the way for much needed institutional reforms and even bring about a “democratic revival in India.”

What Soros means by a “democratic revival” is not

an end to the domination of the Indian economy by corporate and financial giants. He wants a weakening of the control exercised by Modi over economy and finance which has been used for the benefit of “insiders” such as Adani. This would open the way for other sections of finance capital, for which Soros speaks, to benefit from the plunder of the country’s resources and the exploitation of its labour.



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