



# Adani Group: A Fact Check

Corporate Governance Research  
Proxy Advisory Services  
Corporate Governance Scores  
Stakeholders' Education



## DISCLAIMER & DILEMMA

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*First, a few words of caution:*

- 1. This report is neither an attempt to adjudicate nor an attempt to pronounce the Adani group as guilty or give any clean chit.*
- 2. SES is neither competent nor willing to adjudicate over the recent saga.*
- 3. This report is also not to be construed as an advice to invest, remain invested or sell Adani stocks. All such decisions must be taken by investors using their own wisdom or advice of their investment advisor.*
- 4. This report is solely based on the contents of Hindenburg Report, Adani's response, articles in media and information in public domain.*
- 5. This report is an independent, non-conflicted piece of opinion of writer. Neither SES nor writer has received any consideration for the report and will not receive anything in future.*

### SES DILEMMA

In ordinary course, SES does not carry out any analysis of any group based on its financial position, nor comments on any report released by any interested party, where conflict of interest is visible.

Initially, in August 2022, when Creditsights released its report on Adani group's 'deeply overleveraged' situation and caused a stir, SES did review its past reports on Adani listed companies, to confirm, whether there was any such overleverage or danger because of unsustainable debt. SES's back of the envelope calculations at the time did not show any such cause for concern. All this was based on audited financial statements released by group companies for their September 2022 quarter results. Following its policy, SES did not release any report, however, to satisfy itself, SES did interact with Adani group for clarification. Later, Creditsights retracted part of their report. The matter rested there.

The recent report of Hindenburg (*hereinafter* 'HB'), once again, has caused a storm in the market. SES was in a dilemma, whether to carry out further research or to forget it. SES team had detailed internal discussions as to what is the role of SES and what is its responsibility to the financial market. It was unanimously decided that SES owed a duty to investors to bring out facts as responsibly as possible and its independent view. Hence, it was decided to bring out a report to sift the noise from the facts. SES resolve to publish this report was reinforced when SES saw news items such as:

- LIC losing a fortune in Adani
- Indian Banking sector facing losses of Rs. 80,000 Cr in Adani
- Political parties also jumping in with their allegations, suggestions etc.
- Many YouTube influencers jumping in with their two cents and propagating a lot of 'Gyan' (intelligent discourse) on the issue

All this was based on their assumption that the 'Hindenburg Report' (*hereinafter* 'HBR') is **GOSPEL TRUTH**.

**Through this report, SES attempts to peel the onion that is the Hindenburg Research Report on Adani.**



## ISSUES RAISED IN HBR & A SUMMARY OF SES ANALYSIS:

**HBR** has raised a large number of issues. Since this Report is not a rebuttal of **HBR** but an analysis, hence, SES has bucketed the information / issues raised in **HBR** as under along with a brief summary of SES view based on its independent analysis.

- **The Debt Situation of Adani Group Companies: SES Analysis**

Any analysis based on numbers alone as they are seen in financial statements, is prone to serious risk of misjudgment. What is behind the numbers is extremely important. In opinion of SES, what is hidden behind numbers is more important than the numbers itself. Therefore, SES in its analysis, has done a deep dive into numbers to arrive at its opinion. In addition, SES has also taken into consideration growth achieved as well as potential growth as also stability of business to understand the group's debt situation. ([Read More](#))

- **The Issue of Promoter Pledge: Benign Pledge Vs. Toxic Pledge**

**HBR** has also flagged concern on pledge of promoter shares, and stated that in case of share price fall (which it wishes to earn profit from fall in share prices), there would be additional margin call. It has also stated that hidden promoter shareholding might also been pledged thus under reporting actual pledge. It is here that SES has analyzed the nature of the pledge to study whether HB's allegations hold any weight or not. ([Read More](#))

- **LIC's Apparent Loss**

A lot of hue and cry has been made, mainly by politicians and journalists, that LIC has lost money, blaming LIC Management for loss to policy holders. A question must be asked to all such people, do they really understand how LIC takes investment decisions? ([Read More](#))

- **The Hindenburg Report: A tale of Half-Truths**

Credibility is a function of degree of absence of motive. Here, SES tries to answer the question that seems to be on everyone's mind – How credible are HBR's allegations? ([Read More](#))

- **The Issue on Promoter Ownership Structure & Shareholding Pattern**

On ownership structure and promoter ownership, allegations are mainly two: Maze of companies owning various businesses and concentrated ownership of few Institutional Investors. SES is of the opinion that all the data has been in public domain for long and even this issue has been raised in past, therefore **HBR** has not brought about any earthshaking event which could lead investors to turn away. If any investor is turning away today because of such issue being revisited, that investor has failed in its fiduciary duty as also in its stewardship role. ([Read More](#))

- **Allegation of Money Laundering via obscured Beneficial Owners**

This is a job for regulators, law enforcement agencies and the Government. SES can only say it is a grey area and unless made crystal clear either by Adanis themselves or the Government agencies, this governance overhang or negative perception will remain. ([Read More](#))



- **Market Capitalization and Price Manipulation**

In case of Adani, it is no doubt that the rise in market cap is much faster compared to peers as also index. Can one pin blame to Adani for this? Only, if there is proof of market manipulation. Which must be rejected at the outset, as SEBI has an extremely efficient surveillance system and it is not possible that in so many years, the system has failed to generate any trigger. ([Read More](#))

- **Disclosure Deficiency**

SES is of the opinion that evolution of disclosure regime in India in last two decades is similar to evolution of human beings from a tailed creature to one without tail (a la Darwin). **HBR** has failed to elaborate as to which disclosures were not made and what was the regulation. Disclosures on Related party Transactions (RPTs) today are not what it used to be prior to 2014 and more so post 2020, changes in RPT disclosures requirements by SEBI. ([Read More](#))

- **Credit rating agencies - Can one rely on them?**

Change in credit ratings or decision to put on watch Adani Stocks post **HBR**, is quite surprising and poses a big question, as to efficacy of their methodology as also ability to analyse situation? Same applies to investment bankers? Is there any thing that **HBR** has stated, that was not in public domain? Would a knee jerk reaction to **HBR**, improves their credibility? How come overnight, a bond which was worthy of being taken as security, became worthless? Did assets evaporate overnight? Did they do proper analysis while recommending? Questions are many, but answers very few. ([Read More](#))

- **Is HBR a challenge to Indian Regulatory System?**

SES is of the view that none of the regulatory systems have failed. Most of the problems or allegations arise because many are not clear about role of regulators and factual position, simply because they believe **HBR** to be a gospel truth. ([Read More](#))

- **Who is hurting investors most?**

Is the fall in Adani group shares due to **HBR** and its content? Or do the investors believe all that is written in **HBR**? Certainly not. The fall was accentuated by every one chipping in and offering their two cents worth advice. Youtube became a sea of knowledge about alleged wrong doings of Adani group, as if the valve of all such youtube videos was released by **HBR**. ([Read More](#))

- **Should there be adversarial relationship between businesses and the Government?**

Imagine, if any Indian minister or government official would have thanked any foreign government or global company the way US president thanked Air India for such a large order of planes and for supporting million jobs, we would have front page headlines and prime time news in media channels and 'twitterati' asking for CBI probe for kickbacks etc. ([Read More](#))

### **Concluding Thoughts**

*"Just like sunlight, transparency is the best disinfectant"*

In addition to the response to Hindenburg, who is not a stakeholder, Adani must care for its stakeholders (investors and lenders) and address all areas of concern. **An independent third party confirmation of its accounts would go a long way in establishing and restoring credibility.**



## THE DEBT SITUATION AT ADANI GROUP COMPANIES: SES ANALYSIS

In order to carry out unbiased rational research, it is of utmost importance to spell out principles of evaluation and hypothesis. SES raises following questions and gives answers as well, as per its own belief. However, every reader may have his or her own view absolutely different from SES view. Yet, here, the idea is to raise relevant questions in order to shake popular myths.

### Is Debt on balance sheet a sin?

Post various bankruptcies, NPAs of banks and the risk of promoters losing control and being branded as defaulters, in a sense, debt has been deemed akin to a sort of sin that must be avoided at all costs. Can this view sustain? Certainly not. However, on the positive side, cases of promoters losing their companies through bankruptcy proceedings have made promoters extremely cautious. And gone are the days, when banks used to nurture NPA accounts as their own offspring. The welcome change post the new bankruptcy law, is rational behavior on the part of both borrowers and equally strong and prompt action of lenders at the first sign of problem. In nutshell, the new bankruptcy law is a boon for lenders and investors and a deterrent for borrowers to overstretch.

### Entrepreneur & Risk capital:

Business has to have a mix of financial resources to operate and a healthy mix of debt and equity is recommended. Financial leverage is a two-edged sword, on one hand, if the going is good, high leverage brings windfall gains, on the other hand, if the tide turns the other way, bankruptcy comes faster than what one could think. Therefore, prudence is what is needed in deciding on financial leverage. What is the ideal leverage? There can never be a fixed formula or number, as it depends on a multitude of factors. Yet there are various benchmarks being used by lenders. As far as SES is concerned, it evaluates each company based on various ratios connected with liquidity and debt servicing. In the Report, each Adani group company is analyzed on each ratio. However, SES is of the opinion that since risk capital available with entrepreneurs is scarce and limited, debt capital is extremely important for boosting economic development and entrepreneurship. If lenders play their role perfectly in a timely manner, it can create a win-win situation for all stakeholders, yet one cannot rule out failures and default altogether.

### Group Risk Vs Company Risk

Are these the same? Or is the Group risk the sum total or some multiple of individual company risk? Is there any fixed formula? Or can there be any group wise risk concept? If yes, what and how to calculate group risk? SES is of the view that the concept of group risk must be evaluated on two basic parameters; group risk in financial terms and group risk in management or bandwidth terms. The Report analyses this aspects as well.

### Are Lending Banks at Risk?

*'Banks will sink'. 'Public money in PSU / Private banks is lost'*. Such statements make one wonder, as to whether those making these statements really understand how the banks lend money? Is the market price or market capitalization the benchmark for banks' lending? Any banker worth its salt will know that banks lend money with an eye on cash flow from the project to service its loans. Charge over assets and pledge of shares are secondary consideration to morally bind the borrower as also a fall back provision.



Banks take into account Debt/Equity Ratio, Debt Service Coverage Ratio (DSCR) and the pay-back period. And security cover as a fall back.

Any banker would know that credit appraisal techniques vastly differ from industry to industry. Any industry which is volatile will always require a higher DSCR and pay back period would be shorter. Whereas any infrastructure or utility company will have a much lower DSCR, a long gestation and payback period, due to lower volatility and a long life of project. No banker will ever require a road project pay back to be same as pay back for consumer goods.

It is in this back drop, one finds that with the exception of Adani Wilmar, Cement companies and trading, all other Adani companies are infrastructure and utilities, where payback period runs into decades. And that makes it impossible for Adani to run away like Nirav Modi and other fugitives as Adani can't take away ports & airports in suitcases.

### Can one apply Group Debt Concept to Adani?

SES is of the view, that as far as debt is concerned, unless the group companies are interconnected in terms of shareholding, as also through intercompany transactions in form of loans/ advances, revenue dependence as also cross holding, group concept should not be applied as far as Debt is concerned as each company is a separate legal entity, without any umbilical chord attached with the exception of the fact that ultimate beneficial holder is one.

Looking at the group structure of Adani, SES is of the view that group debt concept concern may be overstated since each business appears to be independently resilient to muster required cashflows to service debt. With the exception that reputation loss will impact all companies, though in unequal measure on case by case basis.

### Can Numbers Alone Determine Risk?

Any analysis based on numbers alone as they are seen in financial statements, is prone to serious risk of misjudgment. What is behind the numbers is extremely important. In opinion of SES, what is hidden behind numbers is more important than the numbers itself. Therefore, SES in its analysis, has done a deep dive into numbers to arrive at its opinion. In addition, SES has also taken into consideration growth achieved as well as potential growth as also stability of business. While examining past numbers, special attention has been put on any exceptional positive or negative factors, like COVID related disruptions.

It is in this background each of the Adani listed company is analyzed on these parameters.

### Adani Ports:

Adani port with 25+% of India's capacity with integrated logistics operation is not a small player. As on 30<sup>th</sup> September 2022, it had shareholders' funds of Rs. 43,294 Crore and total borrowings of Rs. 47,000 crore with cash/ cash equivalent of Rs. 11,300 crores. Thus, Net Debt being Rs. 35,700 crores. With Debt equity of less than 1, which infrastructure company in utility space operates at D/E ratio of less than 1? Further, its interest expenses in Q2 were only Rs. 630 Crores (reduced to Rs. 540 Cr in Dec 2022) , against which its EBITDA was Rs. 3,300 Crore, giving interest coverage of more than 5:1. If someone was to say Adani Port is overleveraged then, either banks have to shut shops as there would be no borrower. Further, as on September 2022, its debt was 87% through Bonds and only 12% from banks. Further, as on 30<sup>th</sup> September 2022, total assets were close to Rs. 1,00,000 Crore against which borrowings were less than



Rs. 45,000 Crore, giving more than 2:1 Assets Coverage Ratio, indicating that even at 50% discount to assets value, banks are comfortable. Cash balances are sufficient to take care of debt servicing till FY 24.

**SES Conclusion:** Adequate cash flow to service debts, banks have comfortable asset to debt ratio. Further book value of assets considerably lower than replacement cost, mainly account of depreciation as also on account of inflation. Additionally, almost all assets are strategically located, hence considerable entry barrier. SES is of view that banks are adequately protected, having first right over security.

#### **Adani Power:**

Adani Power with about 13 GW capacity is one of the largest coal based Power Producers after NTPC in India. As on September 2022, it had equity of Rs. 24,202 Cr., including unsecured perpetual instruments. It had total debt of Rs.45,000 crores approx., as on 30<sup>th</sup> September 2022, with free cash of Rs 2,000 cr Approx., making a net debt of Rs. 43,000 Cr approx., thus giving debt equity of close to 1.90:1, higher than Adani Port, but comparable to NTPC. It had interest coverage ratio of approx. 3:1. Its borrowings were mainly from Banks. It has huge amount of funds locked in receivables due to litigation, which has resulted in higher debt (borrowings). Since in most cases, based on order of Hon'ble Supreme Court, various state governments have released, 50% amount, chances of receivables turning into cash are a bit more certain. However, risk remains. Still looking into cash generation, despite higher coal costs, there does not appear to be any cause of concern, unless Supreme Court reverses its order post final hearing or its plant load factor (PLF) falls. In case PLF improves, its cash generation will improve while outgo on interest will remain same. On the whole, Adani Power is not as comfortable as Adani Ports is concerned, both in its debt/liquidity and performance factors are concerned, yet there is no cause of alarm.

**SES Conclusion:** As of now the Company is able to service its debts and its cash flows will improve once it is able to realize all disputed amounts of receivables (which are already adjudicated in its favor by various courts). Its asset coverage ratio was more than 1.75, indicating that even if assets were to be liquidated at around 40% discount to market value, yet banks are safe. In addition, all the assets are having depreciation over a period of time additionally cost of setting power plant has gone up, although on thumb rule basis, a MW capacity replacement cost is Rs 10 Crore, taking conservative value of Rs 8 Cr/ MW, 13 GW capacity will cost Rs Rs.1,08,000 Crore, which is more than two times the book value of operating plants. Once again, safety factor of two times in assets value. Thus, overall very comfortable position for banks. If it improves PLF and realizes receivables, it will be in very strong position given the power demand.

#### **Adani Wilmar:**

This is a JV with 49% equity by Wilmar and 51% by AEL (Adani Enterprises Ltd.). It is a debt free company with free cash balance, making a net negative debt. Consistently profit making and a large FMCG company. Since there is no long term debt, banks are adequately secured for their working capital with Rs 8,000 Cr+ net-worth.

#### **Ambuja & ACC Cement:**

On consolidated basis, these companies do not have any long-term debt. On the other hand, the consolidated entity has close to Rs 11,000 crore as Cash/ cash equivalents + Financial assets. The companies together have close to 68 MT capacity. Ultratech and Dalmia have announced greenfield plants, both, at a back of the envelope cost basis of Rs 600 Crore / MT. At this rate, the replacement cost of these plants come to about Rs 40,000 Cr plus, not accounting for 86 ready mix plants the companies



are having. The book value of plants as per December 2022 was Rs 22,000 Crore including good will ( Rs. 14,000 Crore without Goodwill). This easily gives a cushion of 100% in terms of fixed assets value itself. Company has net-worth of Rs 30,000 crores+. With undervalued fixed assets, its real net-worth is considerably more.

#### **Adani Transmission:**

With operations in 13 states with close to 20,000 ckm (Circuit KM) transmission lines (almost 8% of National Capacity) with distribution and power supply rights to Mumbai and 12 Million+ customers, ATL is a formidable player. With Rs. 33,000 Cr. debt as at end September 2022 and NW of Rs.11,000 Crore, it has a debt equity ratio of 3:1. Looking in isolation, it might appear to be high. However, considering that it is a power utility and rates are regulated, revenue stream is almost fixed, giving greater visibility for consistent cash flow. Further, most of the assets have concession period of 25+ years, indicating it has 25+ years to repay its loans. SES is unable to calculate replacement cost, however it is sufficient to say that replacing Mumbai distribution system will cost a fortune. Therefore, on assets replacement cost basis there is sufficient cushion. In investors presentation December 2022 Results (page43/54) various projects under execution are listed along with cost. It clearly indicates that unlike cement plant or power plant a single benchmark cannot be adopted for per ckm cost. Yet, even if one assumes base cost of Rs 2 Cr/ ckm (ignoring outliers) transmission assets alone are Rs 40,000 cr., and add to this Mumbai and Mundhra distribution business, a considerable cushion is available to lenders. Distribution contributes to almost 33% EBITDA. Cash Balances are sufficient to take care of debt repayment till 2026.

**SES Conclusion:** Although it may appear that Debt Equity is high, yet looking into nature of business with 25+ year concession period with tariffs fixed and ROA fixed, stability of revenue is almost certain. In all such cases lenders lend for a long repayment period. Further replacement cost of transmission lines as almost twice the book value and Mumbai distribution business is lucrative. Hence, SES does not see any cause of worry. While in case of power plant, one can have a choice as also functioning is based on PLF, in transmission business consumers as well as power plants do not have choice, therefore all such businesses are near monopoly.

#### **Adani Total Gas:**

A JV with Total Energies SE, with both Adani and Total holding equal share. Main business is City Gas Supply and Gas stations/ EV charging stations. As on 30<sup>th</sup> September 2022, borrowings were around Rs. 1,100 Crore, with Equity/ NW of Rs 2,686 crore, giving a comfortable Debt Equity ratio. With close to Rs 170+ Crore cash generation/ quarter and Rs.400 Crore cash balance it is in quite comfortable position as of now to service its debt. Since it is a utility business, revenue stream is more or less stable, thus cash generation is also quite stable. Its existing cash is sufficient to meet debt service obligations till September 2023 and with existing run rate, it will add another Rs 600 Cr. cash to take care of debt repayment till 2024. And another 6 months cash generation will be able to service full debt.

**SES Conclusion:** Very low debt, current cash and next 12 months cash generation will repay entire debt.

#### **Adani Green Energy:**

With capacity of close to 7.3 GW (to rise to 8+ GW by Marc 23), AGEL is a formidable player in renewable/ green energy segment. As on 30<sup>th</sup> September 2022, the Company had NW of Rs 6,800 Cr., borrowings of Rs. 51,000 crore and Asset base of Rs. 62,000 Crore. On face of it, it appears that among all the companies



in Adani group, this has highest leverage. Cash and cash balance+ financial assets were Rs. 5,200 crores. Its total debt repayment till FY 25 is Rs 13,500 cr. With cash of Rs.5,200 crores in hand, it needs to generate about Rs. 8,300 Crore in next two and half years. A debt of Rs. 11,700 crore is repayable in 2025. Therefore, till FY 24 it is in pretty good situation. However, it has generated cash (PAT+Depreciation) of Rs. 1,380 Cr in 9 months. However, it had a Forex loss of Rs. 865 Cr till 9 months, a non-cash expense. Thus, making cash generated at Rs 2,250 Cr. With same rate of cash generation yearly, cash generation will be around Rs. 3,000 crore, with this rate by 2025, it will add cash of Rs 9,000 crore. Thus, making a total of Rs 14,200 Crores available to pay a total debt of Rs 13,500 cr. It appears that it will be a touch and go situation. Not necessarily, as with gradual repayment interest cost will come down, adding to cash. Additionally, cash generation will increase as more capacity gets added.

The Company already has 7.3 GW capacity and is in process of adding another 12+ GW capacity thus making capacity of 20+ GW. Since by 2025, additional capacity will also become operational, cash generation will also improve. Therefore, as far as debt servicing is concerned, there does not appear to be any concern.

The Company has access to 2 lac acres land resources with potential of 40GW capacity by 2030. With 100% PPA signed with fixed tariffs, its revenue visibility is quite certain.

**SES Conclusion:** The Company is a formidable player in Green Energy field in India, with 7+ GW operational and scheduled to increase to 20+ GW in near future (say by 2025). **It is the most leveraged company in Adani Group.** Which in normal course, given PPA as well as fixed tariff with no risk of raw material prices going up, would give a very high visibility of revenue as also cash flow. Since green energy finance is becoming easy to obtain and liberal repayment terms, the Company should not face any problem. However, with recent negative news, it appears that the open arms of lenders may not remain that open. It will take some time for arms to open again. This may put slight pressure on expansion plan. However, as the mission of the Company is aligned with National Mission of green energy given visibility of cash flow, the Company may still get all the financing required.

#### **Adani Enterprises:**

This, being an incubation center for most businesses, is a diversified entity in the Adani Group. As on 30<sup>th</sup> September 2022, it had a NW of Rs 36,000+ Crore, total debt of Rs. 40,000 Crore. Giving a debt equity ratio of 1.2: 2, which is a very comfortable ratio given that it is into infrastructure as also nurturing new businesses. In December quarter, it generated free cash (PAT+ non-cash expenses) of Rs. 1,330 Crore, in 9 months ending Dec 2022, it generated free cash of Rs 3,200 crore after a Forex loss of close to Rs. 500 crores (again a non-cash expense). It had cash at end December of Rs. 5,000+ crore. Its debt repayments till 2029 are Rs. 17,000 crores (Rs 15,000 Crore by end 2026). Assuming same rate of cash generation, by 2026 it would generate around Rs. 12,000 crore additional cash and would have no problems in meeting its repayment liability. While it might appear that there is a fine balance between repayment obligations and cash generation, additional cash which will accrue on account of savings in interest post repayments, have not been accounted, giving necessary cushion.

Till September 2022, it had added a gross block of around Rs. 12,000 crore and had capital work in progress of Rs 15,000 Crore. All these will add to cash flows, which are not accounted although repayment liability has been considered.



The Company has following main operations

- Airports- leading airport owner and service provider in India with 25+% overall capacity, with iconic Mumbai Airport. Total Seven operational airports+ Navi Mumbai
- Road Infrastructure-14 projects, 5000 Lane Kms
- Adani New Industries Ltd - Solar Module etc.
- Adani Wilamar JV with Wilamar
- Data Centre- a JV with EdgeConnex - To be India's largest data center infrastructure. 6 large data center in various stage of construction. Target 1 GW capacity
- Mining - Coal
- Green Hydrogen Projects

As far as businesses are concerned the portfolio is extremely strong with leadership position in most of the areas it operates.

**SES Conclusion:** As on date, there is no liquidity issues, as long as GDP of India is growing. Because of leadership position as also the fact that it operates in utility sector as also nurturing new businesses, given the past execution track record the Company, is in a formidable position business wise. However, to implement its existing business expansion plan, it will need capital. Given the negative environment created, capital raising could be an issue or cost would increase.

### **THE ISSUE OF PROMOTER PLEDGE: BENIGN PLEDGE VS. TOXIC PLEDGE**

**HBR** has also flagged concern on pledge of promoter shares, and stated that in case of share price fall (which it wishes to earn profit from fall in share prices), there would be additional margin call. It has also stated that hidden promoter shareholding might also been pledged thus under reporting actual pledge. It is on this account SES wishes to rubbish findings of **HBR** on many counts:

- *Firstly*, maximum reported pledge by any of Adani company is 25% of promoter holding in Adani power, where promoters hold close to 75%. Thus, giving a margin of safety of about 4 times. (even at 1/4<sup>th</sup> Price promoter equity is sufficient). And one does not know at what price the pledge was created, as pledge was created in past when prices were low?
- Second highest pledge is in Adani Ports at 17% of promoter equity with promoter holding close to 63%. Here again margin of safety is 6 times.
- **HBR** has not correctly given pledge data of ACC and Ambuja. As per disclosure, there is no pledge but encumbrance in form of **non-disposal undertaking**, which is very different from pledge. However, it is in this case, probably the Group is stretched and may face margin call.
- Further, SES defines pledge in two categories - Benign Pledge and Toxic Pledge. Benign pledge is where to support the borrowing of Company, promoters pledge their own shares and the money is used by the company itself. This shows commitment and confidence of the promoter and skin in the game. Toxic pledge is one where shares are pledged and funds used for personal use or outside use. Such pledge reduces skin in the game and give disproportionate voting power termed as 'Empty Voting'. In case of Adani Power pledge is benign pledge as it is to support its borrowing. Similarly in case of Adani Ports, pledge is to guarantee non fund based facility to Adani Power a group company. This pledge once again is not for personal use of promoters. Therefore, a positive sign as far as investors are concerned. Other pledges are too insignificant.



- Lastly, fear of undisclosed promoter shareholding having been pledged is not only hypothetical but an attempt to create a fear. Since that shareholding is not shown as promoter, what happens to that, even if pledged and invoked by lender, is not at all material to promoter stake, even if entirely lost.
- As reported in a news item – ‘Promoters’ share pledge increases to 1.61%, pledged value reaches Rs 2.2 lakh crore’ ([Link](#)), the report also revealed that 87 companies within the BSE 500 had their promoters pledge a portion of their holdings during the December quarter. The total value of shares pledged by promoters amounted to Rs 2.2 lakh crore during the December quarter, which represented roughly 0.83 percent of the BSE 500 Index’s total market capitalization. The promoters of Suzlon Energy pledged the third-highest number of shares at 80.8 percent, with GMR Airports coming in fourth at 67.2 percent and Sundaram Clayton in fifth at 63.5 percent. The estimated value of the pledged holdings of the Suzlon, GMR Airports, and Sundaram Clayton promoters were Rs 1,470 crore, Rs 9,490 crore, and Rs 4,790 crore, respectively.
- SES fails to understand as to how pledge of shares became so material as to cause crash

### LIC’S APPARENT LOSS:

A lot of hue and cry has been made, mainly by politicians and journalists, that LIC has lost money, blaming LIC Management for loss to policy holders. A question must be asked to all such people, do they really understand how LIC takes investment decisions?

LIC does not behave like a day trader. LIC times and spreads its purchases as also sales. Except in case of primary issuance, its investments are spread out in small tranches, else impact cost (movement in price due to large volumes) disturbs its investment planning as also cost. LIC, unlike day traders or even Mutual funds, does not calculate NAV on daily basis to shuffle portfolios. While LIC has made a statement to the effect that it is still sitting on a profit from Adani investments, suffice to say that if LIC was to indulge in panic selling, it would not only lose money in Adani, but elsewhere as well, as the Company’s share price would fall from any such action.

In August 2016, LIC held about 15 Crore shares in Tata Motors and price was about Rs. 537 and its stake was valued at Rs 8,500 Crore.

In March 2020, it held 14.50 Crore shares in tata Motors and the price fell to Rs. 63 and the stake value came down to Rs. 900 Crore, down by almost 85%, losing about Rs. 7,600 Crore.

Did anyone at the time say LIC will sink?

Today its stake in Tata Motors is 17.32 Crore shares valued at Rs. 7,700 Crore, still lower than what it was in 2016, despite buying additional 2.80 Crore shares.

Similarly, LIC holds around 190 Crore shares in ITC. On 1<sup>st</sup> June 2017, ITC share price was Rs. 325 and the stake was valued at Rs. 61,750 Crores. It came down to Rs. 30,000 Crores in April 2020, a (notional) loss of Rs. 31,750 Crores in one single investment. Did LIC sink?

In SBI, LIC holds 77 crore shares. Did it sell when SBI was quoting at Rs. 20,000 per share during Harshad Mehta time? (at that time, SBI had a Rs. 100 face value. Had it sold at that time, LIC would have been



poorer by Rs. 26,000 Crores? But some people may still argue that LIC lost as it did not sell when price was Rs 20,000. Ignoring adjustments due to face value.

One has to understand that LIC is not a small mutual fund, its AUM (Assets Under Management) are in excess of Rs. 42,00,000 Crores, almost equal to entire MF industry AUM. Policy holders of LIC must be thankful that LIC Management is not as mercurial as those castigating it, the Management understand their duty to policy holders and are not playing to the gallery.

It is quite ironical that a section of the society is ready to believe what HB has written, although HB is not subjected to Indian law, but not ready to believe heads of public institutions such as LIC and SBI, who are, in fact, subject to Indian law.

## HINDENBURG REPORT: A TALE OF HALF TRUTHS

### The Question of Credibility of 'HB' & 'HBR'

The first question that SES needs to answer for itself is - *Whether SES is rubbishing the HBR?* The answer to this is **No** - for the simple reason that most of the issues listed there are facts (or rather half facts), which have been there in public domain for long. In simple terms, it is mostly a compilation of facts already available in public domain, with few additional facts and **HB's** own insinuations, opinions and analysis.

As per SES ethical standard "*credibility is a function of degree of absence of motive*". It is here that **HBR** fails to pass SES benchmark of credibility, as **HB** aims to make money post release of **HBR**, having short sold.

Before we go any further, it is important to understand how **HB** operates:

#### **Operations**

Hindenburg Research prepares its investigation report on a target company in six or more months by going through its public records and internal corporate documents, as well as talking to its employees. **The report is then circulated to Hindenburg's limited partners, who, together with Hindenburg, take a short position in the target company. Hindenburg takes profits if the target company's share price declines.**

### Short Position and Timing

**HB** has been transparent in stating that it has a short position and made its intention clear as that it wants to benefit from the short. However, in addition to the short position, it has timed the release of **HBR** on the eve of Adani Enterprise Ltd's FPO opening and Budget Session of Parliament. The obvious aim was to cause maximum panic and hurt investors and the Adani Group and benefit from it.

It is amply clear that **HB** had a clear-cut motive to create panic, cause losses and hurt the FPO. Therefore, **HB's** insinuations and inferences mixed with long known facts - actually muddies the waters by appearing to present that only its own version is in-fact the truth and there can be no other version apart from it.

It is here that SES takes serious exception when already known facts are mixed with insinuations to suddenly transform them into accusations such as 'money laundering' and 'fraud'. Such accusations are indeed serious offences and can only be made when someone has undeniable proof to back them up. In absence of any such proof, the timing of the report instead clearly indicates that it was released for the



sole purpose of helping it make profits via its short position. From such a perspective, SES is of the view that the report (especially the accusations and insinuations) must be taken with a pinch of salt.

#### Short position of HB and Indian law:

**HB** has stated that it along with a group of investors has created a short position in Adani stocks. It is not clear as to whether the Short Position is created in the Indian Market or outside. If it is in the Indian market, it must be in accordance with Indian Laws and would have been subjected to risk mechanism system of concerned exchange as also would have been disclosed. If it is outside India, it is a matter of concern as Indian laws would not apply and **HB** will not be answerable to SEBI in India. This is ironical as well as dangerous. Ironical, because while **HB** wants Adani to comply with all laws, it has conveniently avoided to be subject to Indian laws. Dangerous, because despite robust systems in India, the markets in India can be subjected to such impacts and possible abuse causing loss to Indian investors and in case reports are found to be malafide, law may not be able to hold report makers liable.

#### Half-Truths:

Without commenting on the merits of allegations in **HBR**, SES finds that **HBR** has at many places been economical with truth and has selectively chosen to give only one part of the event, probably with an intent to cause an injury which might not be as severe if other part of the event was given alongside. It is on this issue that SES finds **HBR** to be malicious and intended to cause maximum damage. For example, point related to arrest of Mr. Rajesh Adani and DRI case in 2005, **HBR** fails to mention that the case went upto Supreme court and the DRI case was dismissed. Thus, taking sting out of the event. By not revealing the case dismissal by Hon'ble SC, **HB** has attempted to mislead investors (although covered itself by various disclaimers). Similarly, in the case of Adani Export order by SEBI, **HBR** fails to state that the allegations were settled with SEBI in accordance with law. While SES is not appreciative of a settlement scheme, yet it recognizes that it is as per law. **HBR**, by disclosing only the SEBI order, but not disclosing the subsequent closure by SEBI and Hon'ble SAT under settlement scheme, once again has given only half-truth.

#### HB and US Law:

Various reports (especially on youtube) are claiming that **HB** is not a registered entity with US Securities Market Regulator SEC and it has been banned / subject to various investigations.

- It appears to be true that **HB** is not a registered entity with SEC USA
- However, it is not true that **HB** has been banned or under investigation by **US SEC**. Although some news items suggest that **SEC** may be examining some trade data of various entities and **HB** could be one amongst many. Yet it would be wrong to conclude that **HB** is under investigation.

#### HB and US courts:

SES could lay hands on a few cases concerning **HB**, which were decided in US courts. In one, **HB** was successful and in the second, it failed (as seen in details).

#### CASE NO. 1

**SUPREME COURT OF THE STATE OF NEW YORK COUNTY OF NEW YORK:**

**COMMERCIAL DIVISION PART 49 -----) ( YANGTZE RIVER PORT AND LOGISTICS LIMITED, Plaintiff, -**



**Against**

**HINDENBURG RESEARCH, NATHAN ANDERSON, CLARITYSPRING SECURITIES, LLC, CLARITYSPRING INC., and JOHN DOES NOS. 1 through 15, said names being fictitious and unknown, Defendants.** ----- }{ **O. PETER SHERWOOD, J.:**

*Common Law Fraud (Fifth Cause of Action) To plead common law fraud, a plaintiff must prove "a misrepresentation or a material omission of fact which was false and known to be false by defendant, made for the purpose of inducing the other party to rely upon it, justifiable reliance of the other party on misrepresentation or material omission and injury" (Lama Holding Co. v Smith Barney, 88 NY2d 413, 421 [1996]; Kaufman v Cohen, 307 AD2d 113, 119 [1st Dept 2003].*

*Plaintiff has failed to allege that Hindenburg made false statements with the intent to have Yangtze rely on them. Plaintiff also fails to allege any action that it took in reliance on defendants' alleged misrepresentations. In fact, the amended complaint alleges the complete opposite claiming that "Yangtze's shareholders did not reasonably rely on these misrepresentations and omissions" (amended complaint, if 112). Although plaintiff alleges that the amended complaint contains a typo and that the shareholders did, in fact, reasonably rely on defendants' representations, plaintiff fails to allege any specific conduct to that effect. Instead, plaintiff argues that its reliance is derived from the reliance of its shareholders on defendants' statements, which caused them to "sell their shares as a result" (see opposition memorandum at 20). The court rejects this argument, as plaintiff has failed to allege any particular stock sales that its shareholders made in reliance on defendants' statements (see Terra Sec. Asa Konkursbo v Citigroup, Inc., 740 F Supp 2d 441, 448-451 [SD NY 2010]). Indeed, some of Yangtze's main shareholders still own their shares, as manifested by the Shareholders' Action filed against defendants. Accordingly, the fraud cause of action is dismissed.*

**SES Analysis:**

Although the fraud case against **HB** was dismissed, the important points of decision are noteworthy:

- *Although plaintiff alleges that the amended complaint contains a typo and that the shareholders did, in fact, reasonably rely on defendants' representations, plaintiff fails to allege any specific conduct to that effect. Instead, plaintiff argues that its reliance is derived from the reliance of its shareholders on defendants' statements, which caused them to "sell their shares as a result"*

Mapping this statement with outcome of **HBR** in India, it is extremely easy to establish a 'Cause and Effect' relationship:

1. Entire political system has believed **HBR** as gospel truth
2. Market price has fallen
3. Global credit rating agencies downgraded Adani stocks/ companies
4. Tenders and Partnerships concerning Adani were cancelled / put on hold
5. Banks have stopped lending / refinancing
6. Investors have sold in panic

Does this mean: If a case is brought against **HB** in US courts, will it be successful? SES has no answer, as SES is not an expert in US Law. Further, SES is not aware of many facts which are covered in **HBR**. Yet SES



is of the opinion that **HBR** is not gospel truth. When it picks up one news item and sensationalizes it and does not give the complete story, SES is of the opinion that it becomes misleading. For example, **HBR** states that Mr. Rajesh Adani was arrested in 2005 by DRI. However, it fails to state that the highest court of country, i.e. Hon'ble Supreme Court of India, closed the case and exonerated Mr. Rajesh Adani. SES is of the opinion that if both ends of news were given, it would have lost its sting, therefore, in order to cause damage and sting only half truth was disclosed. SES feels that it amounts to misleading information and may be covered under fraudulent behavior.

- *To plead common law fraud, a plaintiff must prove "a misrepresentation or a material omission of fact which was false and known to be false by defendant, made for the purpose of inducing the other party to rely upon it, justifiable reliance of the other party on misrepresentation or material omission and injury"*

### SES Observations

- 'Whether half-truths fit under misrepresentation or material omission?' is a subject matter fit to pick brains of a legal luminary. However, SES feels that it has all the ingredients of misrepresentation, yet SES will not stick its neck out.
- Did this half truth have an impact? Very difficult to say. Out of the multiple allegations (true/ half true/ untrue as claimed by Adani Group), one simply cannot pick out an allegation and say that - 'This allegation was the one which led people to sell'. The panic is the result of **HBR**.

### CASE NO. 2

#### UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF NEW YORK

#### IN RE IDEANOMICS, INC. SECURITIES LITIGATION

#### MEMORANDUM DECISION & ORDER 20 Civ. 4944 (GBD)

GEORGE B. DANIELS, District Judge:

Dated: New York, New York March 15, 2022

Link: [Click Here](#)

**(SES is of the opinion that this case is relevant in case a class action suit is brought by investors against HB)**

*Plaintiff brings this federal securities class action on behalf of all investors (the "Class") who purchased or otherwise acquired Ideanomics' common stock between March 16, 2020 and June 25, 2020, inclusive (the "Class Period").*

#### *C. Investment Firm Reports*

*On June 25, 2020, J Capital Research Limited ("J Capital") issued a report and Hindenberg Research ("Hindenberg") issue a series of tweets regarding Ideanomics. (Am. Comp! 1 117, 119.) Both investment firms had taken short positions on Ideanomics' stock.*



*(Id.) The tweets also reported that Hindenberg's investigators had visited the site of the "supposed MEG sales center ... The facility is actually operated by almost 100 sales groups. None of those we spoke with heard of [Ideanomics] or MEG. We spoke to the main office (in a recorded conversation) and they confirmed the same." (Id., r 120; Kostolampros Ex. 10.)*

*A district court must first review a plaintiffs complaint to identify allegations that, "because they are no more than conclusions, are not entitled to the assumption of truth."*

**SES Observation:** HBR conclusions cannot be considered as truth.

*a complaint alleging securities fraud must "state with particularity the circumstances constituting fraud." Fed. R. Civ. P. 9(b). In particular, "the plaintiff must(!) specify the statements that the plaintiff contends were fraudulent,*

*plaintiff to "(1) specify each statement alleged to have been misleading [and] the reason or reasons why the statement is misleading; and (2) state with particularity facts giving rise to a strong inference that the defendant acted with the required state of mind."*

*c. Section 10(b) of the Securities Exchange Act of 1934 and Corresponding Rule 10b-5(b). Section 10(b) of the Exchange Act makes it unlawful to "use or employ, in connection with the purchase or sale of any security ... any manipulative or deceptive device or contrivance in contravention of such rules and regulations as the [SEC] may prescribe," Under Rule 10b-5(b), it is unlawful for any person to "make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made ... not misleading." To prevail on a Section 10(b) and Rule 10b-5 claim, Plaintiff must allege "(1) a material misrepresentation or omission by the defendant; (2) scienter; (3) a connection between the misrepresentation or omission and the purchase or sale of a security; (4) reliance upon the misrepresentation or omission; (5) economic loss; and (6) loss causation." *Id.* The materiality requirement requires a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information made available.*

*"An allegedly material misstatement must have been false at the time that it was made." "The literal truth of an isolated statement is insufficient; the proper inquiry requires an examination of defendants' representations, taken together and in context." Statements of literal truth "can become, through their context and manner of presentation, devices which mislead investors."*

**SES Observation:** This clearly establishes that half-truths can be misleading.

*"Falsity" is any "untrue statement of a material fact." 15 U.S.C. § 78u-4(b)(1). It also occurs when a defendant "omitted to state a material fact necessary in order to make the statements made, in light of the circumstances in which they were made, not misleading." *Id.* "Often, a statement will not mislead even if it is incomplete or does not include all relevant facts." *Brody v. Transitional Hosps. Corp.*, 280 F.3d 997, 1006 (9th Cir. 2002). Instead "a statement is misleading if it would give a reasonable investor the impression of a state of affairs that differs in a material way from the one that actually exists." *Berson v. Applied Signal Tech., Inc.*, 527 F.3d 982, 985 (9th Cir. 2008) (internal citation and quotation marks omitted).*



**SES Observations:** In the above case, a class action suit was brought by Plaintiffs (Probably **HB** was one as its name and its tweets form part of case documents). Plaintiffs lost the case. As direct link between statements of Defendant given to investors and investors decision was not established. However in HBR/ HB case reaction of HBR is for all to see.

### CASE NO. 3

UNITED STATES DISTRICT COURT SOUTHERN DISTRICT OF NEW YORK

IN RE DRAFTKINGS INC. SECURITIES LITIGATION This Document Relates to All Actions

21 Civ. 5739 (PAE) OPINION & ORDER

<https://www.dandodiary.com/2023/01/articles/securities-litigation/spac-related-securities-suit-dismissals-could-be-significant-for-other-cases/>

*In a January 10, 2023, opinion ([here](#)), Southern District of New York Judge Paul A. Engelmayer granted the defendants' motions to dismiss. In doing so, Judge Engelmayer noted that "a global deficiency spanning [the plaintiff's complaint's] theories of fraud." The plaintiff's allegations concerning the SBTech's business practices "are virtually entirely based on the Hindenberg Report, **which in turn was largely based on unsourced or anonymously sourced allegations.**" Judge Engelmayer said that the "threadbare sourcing and the conclusory quality" of the lawsuit's allegations "are ultimately fatal."*

*In reviewing the complaint's allegations based on the short-seller report, Judge Engelmayer noted two specific ways in which the complaint's reliance on the Hindenberg Research report was "problematic." The first is that, given the short seller's economic incentive, a short seller's allegations "must be considered with caution." Second, the Hindenberg report itself is based on unidentified and unspecified confidential sources; allegations based on confidential sources must meet certain standards to corroborate their reliability – standards that Judge Engelmayer said had not been met here. To the contrary, after reviewing the anonymous sources quoted in the report, Judge Engelmayer say that the statements "suffer from all the indicia of unreliability that have led courts often not to credit attributions to unnamed sources in short-seller reports."*

**SES Observation:** The Court observes that **HB's** Report in the matter (being adjudicated) must be read with caution.

### **HB and Indian Courts:**

Indian Sessions Court Blocks Publishing of Hindenburg Short Report in India ([Link](#))

July 07, 2022 09:37 ET | Source: **Ebix, Inc.**

*JOHNS CREEK, Ga., July 07, 2022 (GLOBE NEWSWIRE) -- Ebix, Inc. (NASDAQ: EBIX), (the "Company") a leading international supplier of On-Demand software and E-commerce services to the insurance, financial, travel, healthcare and e-learning industries today announced that the Delhi Court has blocked the publishing of the Hindenburg Report in India, with immediate effect. Further, the Court, vide its Order, has directed Google LLC and Twitter, Inc to take down relevant URLs (as specified in the Order) from the Indian domain pertaining to the Hindenburg Report.*



*EbixCash had filed a suit before the Tis Hazari Court, Delhi against Hindenburg and its founders, Google LLC, Twitter Inc. along with other parties (“Defendants”), for permanent, prohibitory and mandatory injunction along with defamation and damages in relation to the Hindenburg Report. While providing a detailed rebuttal with proof to the Court, the Company provided the Court with audit reports from India’s financial regulatory body and two independent auditors, for the last 3 years.*

*The Court by its order dated July 5, 2022 restrained the Defendants from publishing the Hindenburg Report till the final disposal of the Suit. While Hindenberg chose not to be present at the hearings, Google LLC and Twitter, Inc were represented by their respective counsels at the hearing.*

## THE ISSUE ON PROMOTER OWNERSHIP STRUCTURE & SHAREHOLDING PATTERN

On ownership structure and promoter ownership, allegations are mainly two:

- Maze of companies owning various businesses
- Concentrated ownership of few Institutional Investors (mainly FIIs)

As regards the ‘maze of companies’ issue is concerned, SES has mainly two observations:

- It is not only Adani, but all big companies have hundreds of companies either in ownership chain upwards or downwards. All big companies have this issue. Even a PSU like ONGC has hundreds of entities. SES is of the opinion that this is result of complex taxation laws and various other restrictions. Since there is no law which restricts number of subsidiaries or parents, one cannot hold Adani or for that matter of any other company guilty of any wrong doing, till one can lay hands at definite irrefutable information backed by documents.
- The other issue relates to archaic law, which does not allow acquisition finance by banks. As a result, promoters/ companies resort to complex opaque structures. Indian Banks’ inability to lend, results in gain for foreign banks and NBFC. Leading to layers of ownership structure. It is high time RBI relooks at this restrictive practice, which has outlived its utility. SES is of the opinion capital needs of businesses are like water, which finds its own way and causes leakages and seepages all over. Same thing happens with capital needed by businesses, leading to inefficiency as also lack of competitive edge. One could have argued against acquisition finance till about a decade back, but not anymore, as banks’ risks have considerably reduced by having a central credit repository as also new bankruptcy law, which is a potent law against defaulters. This would lead to transparency and investors as well as banks would be able to frown upon companies who will still resort to opaque structures.

**On concentrated ownership**, SES is of the opinion that all the data has been in public domain for long and even this issue has been raised in past, therefore **HBR** has not brought about any earthshaking event which could lead investors to turn away. If any investor is turning away today because of such issue being revisited, that investor has failed in its fiduciary duty as also in its stewardship role. And biggest failure is of Credit Rating Agencies, which are racing to redefine Adani Group/ Companies risk profile. An apt question to ask, do these companies provide rating based on future or past events? Or are these ratings mere sentiment meter readings of existing perception? Was any of the issue brought out by **HBR** hidden from them? It exposes the weakness of the credit rating agencies, their product, reliability as also



credibility. Suddenly, a lender, after seeing a downgrade has to either provide for loss or exit or take some action.

SES has worked out the movement in Shareholding Structure in last 3 years for the group companies as below:

### 1. Adani Power

Shareholding Pattern	31-12-2022		31-12-2019	
	No. of Investors	% shareholding	No. of Investors	% shareholding
<b>Promoters</b>	<b>10</b>	<b>74.97</b>	<b>10</b>	<b>74.97</b>
<b>Public</b>		<b>25.03</b>		<b>25.03</b>
DII	12	0	14	2.81
FII+FPI	389	12.88	139	18.25
Retail	1,480,000	6.72	280,000	3.35
Others		5.43		0.69
<b>&gt;1% shareholding</b>				
APMS		1.29		
OPAL				5.53
CRESTA				1.22
ELARA				3.03

#### SES Observations:

- OPAL, Cresta & Elara no longer >1% shareholder, retail increased from 3.35% to 6.72%
- Presently, 389 FPIs are holding 12.88% against 139 holding 18.25% in 2019, indicating holding concentration reduced and became diversified.
- Have all shareholders lost? Only those who may have bought between 2020 till now, may have lost, but Retail had about 3.35% (2.8 lac investors) in 2019 and now have 6.72% (14.80 lac investors), a jump of 3.37%. and six times in numbers. Was retail induced to buy or stopped from selling? Certainly not, but price behavior of share might have attracted retail? Was price manipulated? One must see price movement of Tata Power, JSW Energy and Adani Power to decide. However, those 3.35% holders have seen their value increase from low of Rs. 26 in 2020 to high of Rs. 432 in 2022-23 and currently at Rs.140+
- Incidentally, retail increased their equity in 2020 and as on 31<sup>st</sup> December 2020 it held around 5.39% equity. Indicates that low priced induced them to buy but high price did not temp them to sell as well. Market price as on December 2020 was about Rs. 43. Retail (at least 5.39 % of total 6.72% are sitting on profit and had opportunity to sell at a high of Rs.432. Probably some might have sold. Idea behind this analysis is to explain that Equity investment carries risk and unless any loss (notional or real) is directly a result of market manipulation attributable to promoter, one cannot blame promoters for loss of any investor, be it retail and institutional.
- Further Retail had about 7.92% in December 2021, when price was nearly Rs 100. Indicating some exited when the price jumped.



## 2. Adani Ports

Shareholding Pattern	31-12-2022		31-12-2019	
	No. of Investors	% shareholding	No. of Investors	% shareholding
<b>Promoters</b>	<b>9</b>	<b>65.13</b>	<b>9</b>	<b>62.46</b>
<b>Public</b>		<b>34.87</b>		<b>37.54</b>
DII	85	14.48	56	15.51
FII+FPI	531	13.77	558	18.72
Retail	710,000	4.11	243000	2.16
Others		2.51		1.18
<b>&gt;1% shareholding</b>				
CAMAS INV		1.22		1.30
DANDU CORP SER		1.23		
LIC		9.14		11.66
EUROPACIFIC				2.77

### SES Observations:

- 85 DIIs and 531 FIIs hold stock as on December 2022.
- LIC decreased their holding and made profit on exit. Yet even if they would have held on, they would have made additional profit as price is still higher than what it was in 2019. Can one question each and every investment and divestment decision of LIC or for that matter any investor? Are we changing the rules of equity investment? Are we saying equity should be risk free and only one way up return?

## 3. Adani Enterprises

Shareholding Pattern	31-12-2022		31-12-2019	
	No. of Investors	% shareholding	No. of Investors	% shareholding
<b>Promoters</b>	<b>9</b>	<b>72.64</b>	<b>9</b>	<b>74.92</b>
Public		27.36		25.08
DII	62	5.45	14	2.09
FII+FPI	460	15.39	138	19.44
Retail	243000	2.09	76000	2.18
Others		4.44		1.37
<b>&gt;1% shareholding</b>				
LIC		4.23		
NOMURA		1.08		1.16
LTS		1.69		1.54
ELARA		1.600		4.41
GREEN ENT		3.53		
CRESTA				2.86
APMS				2.12
ALBULA				1.90
VESPERA				1.73

### SES Observations:

- Holding structure changed in last three years, LIC, Nomura and Green entered the list of >1%



- Retail marginally increased, and those 2.09 % holding are sitting on more than 10 times profit even after decline.

#### 4. Adani Transmission

Shareholding Pattern	31-12-2022		31-12-2019	
	No. of Investors	% shareholding	No. of Investors	% shareholding
<b>Promoters</b>		<b>74.19</b>		<b>74.92</b>
<b>Public</b>		<b>25.81</b>		<b>25.08</b>
DII	31	3.77	8	2.46
FII+FPI	453	19.52	133	20.82
Retail	148,000	1.08	38,405	1.42
Others		1.44		0.38
<b>&gt;1% shareholding</b>				
LIC		3.65		2.42
APMS		1.86		1.56
LTS		1.63		1.58
CRESTA		1.60		3.92
ELARA		3.62		4.62
ASIA INV CORP		1.56		1.47
GREEN		1.48		
ALBULA				2.57

#### SES Observations:

- Retail shareholding reduced
- LIC shareholding increased
- FII & FPI ownership diversified with 453 shareholders compared to 133, although marginal reduction in % shareholding
- Retail concentration has reduced

#### 5. Adani Total Gas

Shareholding Pattern	31-12-2022		31-12-2019	
	No. of Investors	% shareholding	No. of Investors	% shareholding
<b>Promoters</b>		<b>74.8</b>		<b>74.8</b>
Adani	5	37.4	5	37.4
TOTAL	4	37.4	4	37.4
<b>Public</b>		<b>25.2</b>		<b>25.2</b>
DII	32	6.09		0.01
FII+FPI	597	17.25	75	21.21
Retail	131,000	1.60	84,000	2.85
Others		0.26		1.13
<b>&gt;1% shareholding</b>				
LIC		5.96		
ELARA		1.62		4.80
APMS		2.72		2.43
CRESTA				3.60



LTS				1.62
ALBULA				2.92
VESPERA				1.89

**SES Observations:**

- FII & FPI holding decreased in % terms yet number of investors increased from 75 to 597, indicating diversified ownership only 3 shareholders > 1% including LIC as against 6 in 2019
- Retail came down in % terms but number increased.

**6. Adani Green**

Shareholding Pattern	31-12-2022		31-12-2019	
	No. of Investors	% shareholding	No. of Investors	% shareholding
<b>Promoters</b>				
Adani		60.75		74.92
<b>Public</b>		<b>25.08</b>		<b>25.08</b>
DII	32	1.4	6	0.3
FII+FPI	612	15.14		20.8
Retail	320,000	1.44	83,000	2.07
Others	588	21.27		1.91
<b>&gt;1% shareholding</b>				
TOTAL		16.32		
GREEN		1.26		
ACME		3.55		

**SES Observations:**

- Retail reduced although investors increased
- Total & Green energy became a major shareholder
- FPI investment became more diversified and less concentrated. The only company where promoter equity came down.

**ALLEGATION OF MONEY LAUNDERING VIA OBSCURED BENEFICIAL OWNERS:**

This is one area which SES will steer clear of making any observation and comment as SES is incapable of either rubbishing the allegation or supporting the allegation. In fact, probably majority of investors would not be able to make their opinion on this issue.

There are allegations regarding hidden UBOs (Ultimate beneficial Owners) and concentrated ownership of FIIs. In fact, allegation is that FIIs are front for promoters. SES does not know the truth and cannot say anything For or Against. This is a job for regulators, law enforcement agencies and the Government. SES can only say it is a grey area and unless made crystal clear either by Adanis themselves or the Government agencies, this governance overhang or negative perception will remain. But the important point is: The investors were aware of this for as long as Adani stock has been listed, why has it become important only after **HBR**? SES has no answer, except that in all probability **HBR** objective was this only. As far as question of camouflaged shareholding is concerned it is for SEBI to find out, although from risk perspective, if the allegation is true, it has both positive and negative outcome. As on one hand, promoters equity goes up



and skin in the game increases, on the other hand, it increases governance risk. The other repercussions of violations securities laws would also be an overall drag on the group companies.

## MARKET CAPITALIZATION AND PRICE MANIPULATION:

This is an area where SES does not express any opinion in normal course, as price and market cap are a function of million known and million unknown factors. In case of Adani, it is no doubt that rise in market cap is much faster compared to peers as also index. Can one pin blame to Adani for this? Only, if there is proof of market manipulation. Which must be rejected at the outset, as SEBI has an extremely efficient surveillance system and it is not possible that in so many years, the system has failed to generate any trigger. And even if one agrees for this allegation, is it possible to continuously prop up and support a combined market cap > 10 lac Crore? That too, without being caught. Such a presumption, will be amounting to undermine capability of SEBI, which cannot be the case.

Since March 2020, shares of power companies like JSW energy, Adani Power and Tata Power have multiplied by 10 times or more, do we say that all prices are manipulated or we agree that there is a change in sectoral outlook and performance?

Similarly, Ports, Airports and infrastructure sector has seen a change in fortune, hence heightened interest. As rightly pointed out in his column in Times of India, former CEA Prof Krishnamurthy Subramanian has said that irrational exuberance of investors leading to market cap catapulting many a times is result of paradigm shift, as has been observed in India mainly on three factors, shift in focus towards infrastructure building, India growing better than many world powers, shifting of production base of many products to India and India successfully coming out of COVID problems. If there was irrational exuberance of investors, should promoters bring prices down by selling their shares? What negative message will go to market? And what will be gained? And is it a case that there were no takers of these shares at their value prevailing before **HBR**? Adanis' were successful in placing their equity in international market at current prices prevailing then to marquee investors, who were government authorities? Can one claim that they were also acting for unnamed investors?

Having said that, SES would maintain that it cannot say whether market cap is justified or not, as it is investors perspective of future and is not based on current factors alone. And everyone has a different way of looking at future.

## CONCLUDING THOUGHTS:

### Disclosures deficiency

**HBR** has made allegations that Adanis have not made disclosures as required under law. Adani says it has made all disclosures as may be required. Is **HB** well versed with disclosure requirements under Indian law? Have they kept track with changes in disclosure regime in last two decades? SES is of the opinion that evolution of disclosure regime in India in last two decades is similar to evolution of human beings from a tailed creature to one without tail (a la Darwin). **HBR** has failed to elaborate as to which disclosures were not made and what was the regulation. Disclosures on Related party Transactions (RPTs) today are not what it used to be prior to 2014 and more so post 2020, changes in RPT disclosures requirements by SEBI. **HBR** cannot evaluate past disclosures of Adani or for that matter any one with current disclosure norms.



Therefore, unless **HBR** details each and every violation mapped with the then prevailing regulations, its allegations have no credibility and cannot be digested by any rational person.

### **Credit rating agencies - Can one rely on them?**

Change in credit ratings or decision to put on watch Adani Stocks post **HBR**, is quite surprising and poses a big question, as to efficacy of their methodology as also ability to analyse situation? Same applies to investment bankers? Is there any thing that **HBR** has stated, that was not in public domain? Would a knee jerk reaction to **HBR**, improves their credibility? How come overnight, a bond which was worthy of being taken as security, became worthless? Did assets evaporate overnight? Did they do proper analysis while recommending? Questions are many, but answers very few.

### **Is HBR a challenge to Indian Regulatory System:**

There is a class of society which believes that Indian Regulators have been found wanting. They are asking for blood of the regulators (RBI & SEBI & IRDAI) for their failures. Whereas the fact is, that in this particular case, SES is of the view that none of the regulatory systems have failed. Most of the problems or allegations arise because many are not clear about role of regulators and factual position, simply because they believe **HBR** to be a gospel truth. First, as examined above, banks are in safe position. That establishes that banks would have done their due diligence, and gone are the days that banks have any discretion in classifying any unsatisfactory account as satisfactory. The pressure is from two ends, one banks monitor it daily and act, secondly even the listed company has to disclose any default quarterly. Therefore, at the most any default can be hidden for maximum three months, and if it is found that either company failed to disclose or banks failed in classifying, punishment is almost instantaneous. And why the entire banking system would dance to the tune of Adanis?

As Regards IRDAI, as discussed earlier as also clarified by LIC, all its investments are as per policy and well within prudential exposure norms. Do we mean to say that LIC must, on each day, make profit from its investments? That means that index should not fall else LIC investment team will lose its job?

As regards SEBI, the fact that despite share prices falling rapidly, trading remains smooth, settlements happened with no default, establishes robustness of Indian markets and efficacy of its risk management system, which is almost instantaneous and probably better than the best any where in the world. Anyone alleging that SEBI failed to curb price rise of Adani shares, probably is unaware that controlling prices is not the job of SEBI and it cannot do that. It has various protective measures in place which it applies through stock exchanges on continuous basis. In fact, SEBI has a policy of "Buyers Beware" and professes that stock investing has its own risks.

The problem is and that many are not able to understand as to whether SEBI has any means to check such short selling. As far as any short selling within domain of SEBI is concerned, there is a well-established procedure, limits, disclosure as well as risk monitoring and managing system. The issue is that short position was created outside jurisdiction of SEBI in a non-transparent manner in securities which are not traded in India. The only way **HBR** could have made money was by making stocks fall, and was successful thanks to indirect support received from unexpected quarters who joined the war as if they are also beneficiary of short selling, which is not the case.



**Who is hurting investors most? HBR? Certainly not.**

Is the fall in Adani group shares due to **HBR** and its content? Or do the investors believe all that is written in **HBR**? Certainly not. The fall was accentuated by every one chipping in and offering their two cents worth advice. Youtube became a sea of knowledge about alleged wrong doings of Adani group, as if the valve of all such youtube videos was released by **HBR**.

The biggest hurt to investors is being caused by those, who are shouting most and shedding tears for investors. It is their protests and voices which has caused the fall to multiply. In normal course, nothing much would have happened as **HBR** contains mostly what was in public domain. Those protesting have forgotten one important point. Not all investors of Adani come from a political party. They are Indians from all walks of society, from all regions and religions and from diversified political views. The noise has hurt all stakeholders regardless of political class. However, it is an area reserved for politicians, since SES does not understand basics of politics, it is better to leave the question open to answer by political parties and their stakeholders.

**Should there be an adversarial relationship between business and government?**

Should governments not support businesses? Can they bring desired development without private businesses growing? Is this possible in a free non-controlled economy?

While it is absolutely clear that there should not be any “quid pro quo” between the business and government as it hits the basics of governance, yet should government not support business in a transparent manner? Why it is that any positive statement about any entrepreneur is seen as a sign of corruption? How can jobs be created if you shun business and entrepreneurs?

Are we realizing that by raising questions on each and everything, and in the process slowing down growth, are we not hurting our stakeholders, especially vulnerable people who have no jobs. If because of irrational ‘hulabaloo’ over **HBR**, the investment climate in the country suffers and we go back by few years, it is not only Adani, but many others will feel its pinch. Banks which are comfortable today will face issues. Not only job opportunities will be killed but we will have to shed a bit more tears, for common man as it will be exposed to more inflation and problems.

However, this in no way mean that we take any lenient approach to any wrong doing. We must build a healthy environment. Imagine, if any Indian minister or government official would have thanked any foreign government or global company the way US president thanked Air India for such a large order of planes and for supporting million jobs, we would have front page headlines and prime time news in media channels and ‘twitterati’ asking for CBI probe for kickbacks etc.

We must mature and should be able to separate wheat from chaff.

That being said: *“Just like sunlight, transparency is the best disinfectant”*

In addition to the response to Hindenburg, who is not a stakeholder, Adani must care for its stakeholders (investors and lenders) and address all areas of concern.

**An independent third party confirmation of its accounts would go a long way in establishing and restoring credibility.**



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## **DISCLOSURES**

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- SES owns 1-2 (one-two) shares in each Adani listed company; J N Gupta owns 2,000 shares of Adani Ports and SES has no material financial relationship with any Adani companies.
- SES office receives power supply through ADANI Power as one of the million consumers.

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